



SIOUX FALLS AREA
CHAMBER OF COMMERCE
Progress is everyone's business

ISSUE BRIEF:

Minimum Wage

September 2014

Background

A group led by the South Dakota Democratic Party and labor organizations collected the required number of signatures to put the State's minimum wage on the November 4, 2014 General Election ballot as "Initiated Measure 18" (IM 18). Petitions for a statewide initiative require 15,855 valid signatures.

Currently, South Dakota's minimum wage is \$7.25 an hour, equal to the federal minimum. If IM 18 passes, it would raise this amount to \$8.50 an hour. For tipped employees, the current minimum wage is \$2.13 per hour and the measure would increase that to 50 percent of the minimum wage (\$4.25 per hour; wages and tips must equal the minimum wage). Youth under 20 years of age may be paid a minimum wage not less than \$4.25 an hour during the first 90 consecutive calendar days of employment and certain other exemptions exist if approved by the State Department of Labor. If enacted, the changes proposed by IM 18 would be effective beginning Jan. 1, 2015. (For Wages statutes, see SDCL 60-11.)

Another significant element of this proposal is that IM 18 would automatically index wage increases based on the change in the CPI for a 12 month period as measured in August of each year with the wage increase effective in January of the following year. (For example, a CPI increase of 2 percent calculated August 2015 would mean an automatic increase to \$8.65 beginning January, 1, 2016. It is rounded to the nearest 5 cents and cannot decrease even if the CPI decreases.) The tipped employees wage would follow at 50 percent of the minimum wage.

According to the U.S. Department of Labor Bureau of Labor Statistics, approximately 6,000 South Dakotans (2.4 percent) earn \$7.25 per hour. Another estimated 6,000 earn below the minimum wage. If IM 18 passes, it can be assumed that many currently earning \$8.50 per hour would see their wage increase relative to the hourly increase from \$7.25 to \$8.50. Approximately 8,000 South Dakota employees are tipped wage earners. As part of the Fair Labor Standards Act (FLSA), an employee subject to both the state and federal minimum wage laws is entitled to the higher minimum wage rate. Minimum wage regulation is enforced by the Wage and Hour Division of the U.S. Department of Labor.

The last time South Dakota increased the state's minimum wage was in 2009. SB 207, which passed during the 2007 legislative session, required an increase in 70-cent increments over a three-year period. In July 2007, it rose from \$5.15 to \$5.85; then to \$6.55 in July 2008; and finally to \$7.25 in July 2009. These statewide increases were in response to, and in lockstep with, the federal government's raising of the minimum wage in three steps to \$7.25 an hour by July 2009. The Sioux Falls Area Chamber of Commerce did not take a formal position on this issue at that time.

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At their June 2014 Board Meeting, the South Dakota Chamber of Commerce took a position to oppose Minimum Wage legislation. The South Dakota Retailers Association is leading a campaign to oppose the increase. They are joined by a number of other organizations including the Visitors Industry Alliance, Auto Dealers, Hotels and Motels, etc.

Twenty-one states have minimum wage rates higher than the Federal government; 20 states, including South Dakota, have minimum wage rates the same as the Federal government; five states have no minimum wage law and four states have minimum wage rates lower than the Federal government. In April 2014, Minnesota lawmakers approved legislation to increase the state's minimum wage to \$8.00 by August 2014 and indexed to \$9.50 by 2016. Although other states are also currently considering an increase to the minimum wage, if IM 18 is passed, South Dakota would have a higher minimum wage than all but five other states in the country.

Proponents of increasing the Minimum Wage have outlined the following rationale for passage of IM 18:

- Workers with more money will spend it on the things their families need everyday
- Promotes economic fairness.
- The current minimum wage is not keeping up with the rising cost of living.
- In many markets, prevailing wages are already above the minimum. Thus, there is no harm from the proposal.
- Indexing actually helps businesses by establishing more predictability and removes the contentious political debate of the issue.
- Workers' increased earnings would bring some above the economic threshold of several federal programs.

Opponents of increasing the Minimum Wage have outlined the following reasons to reject IM 18:

- The automatic indexing provides no opportunity for business to control wage costs in the future, which makes it difficult to grow business, hire new employees and increase benefits of current employees.
- In many markets, prevailing wages are already above the minimum. Thus, there is no need for IM 18 and we should let the marketplace determine wages not the government.
- This is just another government mandate designed to lead to more government mandates.
- This mandate will:
 - Lead to a reduction in employment (especially for youth), not a reduction in poverty
 - Adversely affect small business
 - Increase costs that will be passed down to consumers in terms of increased prices

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Note: Detailing “Proponents” and “Opponents” rationale is designed to provide the reader with an understanding of the opinions and talking points from each perspective. They are not intended to reflect any position of the Sioux Falls Area Chamber of Commerce.

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