



Knowledge Exchange Report

The Economic Impact of Overtime Pay for New York State Agriculture

New York State is considering legislation that would require agricultural employers to pay overtime to employees who work over 40 hours per week. This Farm Credit East Knowledge Exchange report reviews the impact that overtime pay could have on agricultural labor costs and farm income levels.

Context and Key Findings

New York agriculture is fortunate to have highly skilled farm workers that work side-by-side with farm owners every day. Labor related costs are a major component of the overall cost of production on many New York farms. The underlying issue for agriculture when faced with higher minimum wages and overtime pay is one of competitiveness. New York farmers compete in national and international markets and have limited power to increase their prices. The following are the key findings of this analysis:

- The increased labor costs resulting from the combination of a higher minimum wage and the imposition of overtime pay would impact the financial viability of many farms by significantly reducing net farm income.
- The increased minimum wage (\$12.50 in upstate New York) when fully implemented would result in additional labor costs of \$128.5 million.
- We estimate when combined with the minimum wage increase, overtime pay for agricultural employees in New York State would result in increased agricultural labor costs of \$455.2 million. New York farm businesses deal in global and national markets and are generally unable to pass costs to consumers.
- Although some farms may hire additional workers instead of paying existing workers overtime, given the current conditions in the agricultural labor market, we estimate at most 20 percent of the overtime hours will be paid to new workers.
- A fully implemented higher minimum wage and overtime requirement could result in New York State farm labor costs of \$1.226 billion in comparison to a baseline labor cost of \$771 million.¹

¹ 2012 Census of Agriculture for New York State, USDA

- While New York has in excess of 35,000 farms, approximately 10,000 farms actually employ workers and would be impacted by the higher labor cost. We estimate these 10,000 farms generate in excess of 80 percent of New York's gross farm income.
- Higher wage costs from overtime pay will drive up other costs, including payroll taxes and workers compensation. These additional costs are not projected in this analysis but would cause additional financial burdens on farms.
- The increase in labor costs resulting from the \$12.50 minimum wage and required overtime pay could reduce net farm income by 45.4 percent, see Figure 1.
- Based on this projection of reduced net farm income, we estimate a decline in gross farm sales of in excess of \$2.0 billion and a significant decline in agriculturally-related employment in New York State. This assumes no major improvement in overall farm profitability and that most other states do not adopt similar policies.

Background on Report Analysis

New York Agriculture Overview

Agriculture and the related food processing and input sectors are an important economic engine in New York, providing jobs and economic activity:²

- 7.2 million acres of land
- 35,537 total farms; 28 percent with labor expenses
- \$5.4 billion in total farm sales
- \$37 billion in economic impact for agriculture and related processing/inputs
- 156,066 jobs, including agriculture and related processing/inputs
- 1.7 percent of total New York State employment (agricultural and related processing)
- 10,345 farms employ 60,944 employees (full- and part-time)
- Total labor expense on farms is \$771,281,000 (hired and contracted labor)

Family Farms Make Up New York Agriculture

New York farms of varying sizes are predominantly family owned (98 percent).³ These farms often have relatively narrow margins and limited ability to influence prices for their products. In addition, the markets for many farm products are regional, national or global, and New York farmers are competing in most instances with producers who are not subject to a \$12.50 minimum wage and overtime pay.

Farms often have considerable capital investments and may not be able to make short-term production shifts. Given that farms are largely price takers, it is difficult, if not impossible, for farms to simply pass through higher costs for energy, feed or other expenses. Thus, farms are unlikely to be in a position to pass through higher labor costs.

Most full-time farm operations have some employees, even if they are limited to seasonal employees. Of the 35,000 farms in New York, only about 28 percent are estimated to have hired farm labor, yet these

² 2012 Census of Agriculture for New York State, USDA and *Northeast Economic Engine*, Farm Credit East, June 2015

³ 2012 Census of Agriculture for New York State, USDA - Includes incorporated farms owned by individuals or families

farms also generate more than 80 percent of the state’s gross farm income and 90 percent of the net income. Many of these farms are dependent on agriculture as their primary source of income.

New York’s mix of agriculture is labor intensive. The State produces a significant amount of fruit, vegetable, dairy, greenhouse and nursery products — farm sectors that are more labor intensive than the prevalent forms of agriculture in other regions.

Total farm labor costs in New York are \$771 million.⁴ For every \$100 of production sold, New York farmers paid \$14.20 to farm workers, compared to a US average of \$8.50. Thus New York agriculture is more sensitive to changes in labor costs than most major agricultural states, see Figure 2.

Minimum wage in New York State

Historically, New York agricultural wages have been significantly higher than the New York minimum wage. This analysis comes from the comparison of NY minimum wage and NY agricultural wage levels for the years 2005-2015. It is noteworthy that even as the New York minimum wage has increased five times over the last 11 years, hired agricultural workers’ wages have remained over 40 percent above New York minimum wage, on average, see Table 1.

Based on this analysis, we have projected the average wage rate for agricultural employees to be \$15.00 per hour when the higher minimum wage is fully phased in. While this level is only 17 percent above the minimum wage level, we believe that some wage compression is likely in the early years of a significantly higher minimum wage.

Year	NY Minimum Wage	NY Hired Ag Workers ⁵
2005	\$ 6.00	\$ 9.41
2006	\$ 6.75	\$ 10.05
2007	\$ 7.15	\$ 10.40
2008	\$ 7.15	\$ 10.59
2009	\$ 7.15	\$ 10.66
2010	\$ 7.25	\$ 10.50
2011	\$ 7.25	\$ 10.87
2012	\$ 7.25	\$ 11.25
2013	\$ 7.25	\$ 11.64
2014	\$ 8.00	\$ 12.04
2015	\$ 8.75	\$ 12.46

Table 1: Comparisons of NYS Minimum Wage Increase to NYS Hired Agricultural Workers, 2005-2015

Overtime Pay Scenario

This analysis is based on the following parameters:

- In excess of 40 hours in a seven day work week is considered overtime
- Overtime is 1.5 times wage rate
- A typical farm employee works 60 hours per week⁶
- We estimate 70 percent of full time and seasonal workers currently work overtime hours.
- We estimate 20 percent of the hours worked by employees currently working overtime hours will come from the hiring of additional workers

⁴ 2012 Census of Agriculture for New York State, USDA

⁵ USDA - NASS data available up to year 2010 for New York farm labor. Wages/hour for 2011-2015 are estimates. After 2010, USDA - NASS data available for Northeast Region 1, which includes both New York and New England, combined up to 2014. The estimated values in Table 1 are based on a 3.5% average increase year-over-year which closely tracks the USDA-NASS Northeast Region 1 values.

⁶ A 60 hour week estimates farm laborers work six, 10 hour days in a seven day week.

Although we assume 20 percent of the hours will be provided by new workers instead of paying existing workers overtime, we believe this is the upper limit of the number of overtime hours that can be replaced. Many farms have difficulty finding local workers and given the difficulties in using the H-2A program, and the fact that worker housing can be a limiting factor, we believe farm employers would be limited in how many additional workers they could hire in order to limit overtime expense.

Using the most recent report on NY farm labor cost, the 2012 Ag Census shows \$771 million. This overtime analysis projects farm labor costs could increase to \$899.8 million based on higher minimum wage and \$1.226 billion with the imposition of mandatory overtime and the higher minimum wage.

Impact on Farm Net Income

When considered on a net farm income basis, the implications of changes in labor costs become more apparent. Net income is the amount farm families have available to pay their own living expenses, repay debt and reinvest in new equipment, buildings and livestock.

Net Farm Income	Value (\$1,000)
New York State Total	\$ 1,001,868
Estimate of net farm income with \$12.50 minimum wage	\$ 873,321
Estimate of net farm income with \$12.50 minimum wage + overtime pay	\$ 546,717

Table 2: Estimated Net Income of Farms with Hired Labor

As noted previously, most farms in New York do not hire agricultural employees, so the burden of the increase will fall on the approximately 10,000 farms which have hired agricultural workers.

Summary

The full impact of the higher minimum wage approved in 2016 and overtime pay requirement on New York farmers could increase labor costs by \$455.2 million and reduce net farm income by 45.4 percent.

The greatest impact of this labor cost increase will be on New York’s labor intensive agriculture; dairy, fruit, vegetable, greenhouse and nursery sectors. The impact of a mandating overtime pay in New York and not in competing states may shift agriculture in two ways:

Labor intensive agriculture operations will shift to agricultural enterprises that are less labor intensive, such as fruit production shifting to grain production. Full-time farms will transition to part-time farms to avoid hiring labor or paying overtime to their employees. Overall, this will reduce the size of New York’s agricultural industry.

If we see a significant decline in production from labor intensive agricultural sectors, this could impact food processing and marketing businesses that are located in New York. While these businesses may seek raw product from other states, over time some of these businesses will look to relocate closer to major production areas.

*Farm Credit East
Knowledge Exchange program
860.741.4380
FarmCreditEast.com*

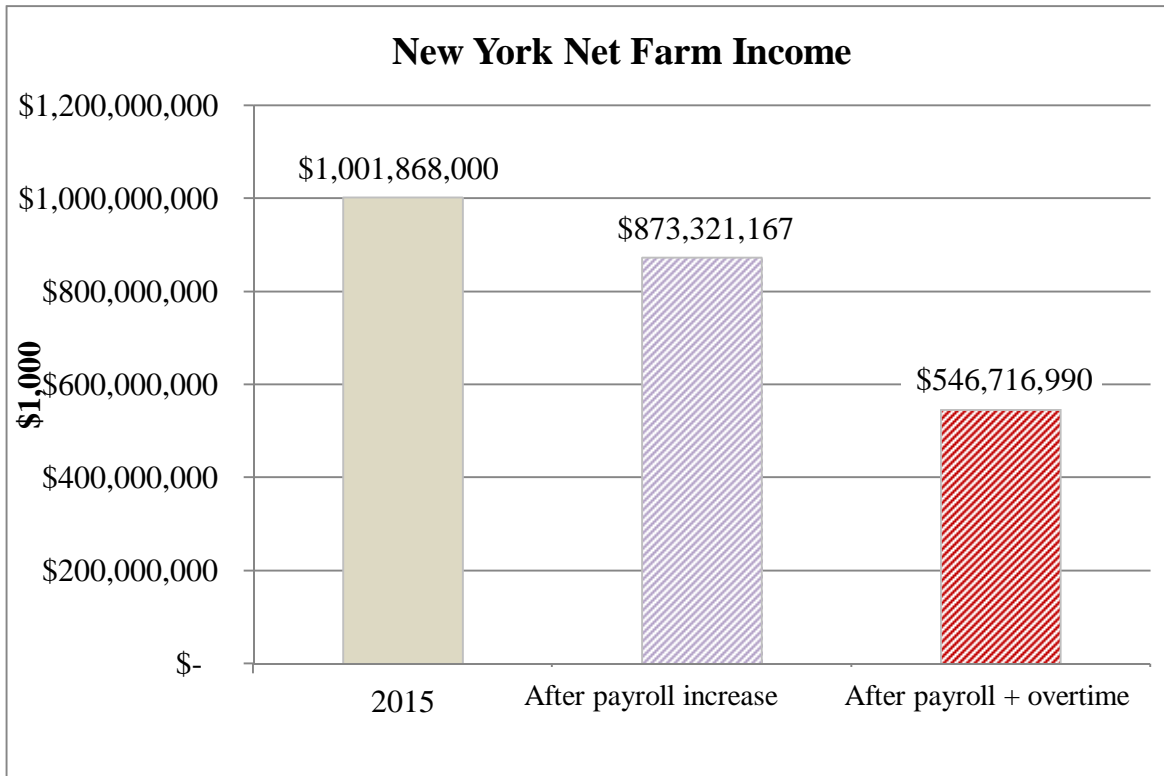


Figure 1: NYS Change in Net Farm Income

Ranking	Year	State	Sales of Ag Products	Total Labor Cost	Total Labor as % of Sales	# of Farms with Sales	# of Farms with Contract Labor	# of Farms with Hired Labor
1	2012	Hawaii	\$661,347,000	\$291,525,000	44.08%	7,000	1,066	1,977
2	2012	Massachusetts	\$492,211,000	\$185,285,000	37.64%	7,755	946	2,534
3	2012	Rhode Island	\$59,652,000	\$21,144,000	35.45%	1,243	119	394
4	2012	Alaska	\$58,925,000	\$20,365,000	34.56%	762	49	259
5	2012	Connecticut	\$550,620,000	\$183,077,000	33.25%	5,977	407	1,704
6	2012	New Hampshire	\$190,907,000	\$57,110,000	29.92%	4,391	334	1,167
7	2012	New Jersey	\$1,006,936,000	\$288,838,000	28.68%	9,071	565	2,704
8	2012	Florida	\$7,701,532,000	\$1,836,625,000	23.85%	47,740	7,234	13,291
9	2012	California	\$42,627,472,000	\$9,255,985,000	21.71%	77,857	25,067	33,955
10	2012	Washington	\$9,120,749,000	\$1,842,492,000	20.20%	37,249	3,669	11,746
11	2012	Oregon	\$4,883,674,000	\$984,607,000	20.16%	35,439	5,056	10,768
12	2012	Maine	\$763,062,000	\$150,426,000	19.71%	8,173	771	2,415
13	2012	Arizona	\$3,732,113,000	\$557,200,000	14.93%	20,005	1,808	4,851
14	2012	New York	\$5,415,125,000	\$771,281,000	14.24%	35,537	2,535	10,345
15	2012	Vermont	\$776,105,000	\$102,382,000	13.19%	7,338	716	2,293
16	2012	Nevada	\$764,144,000	\$91,988,000	12.04%	4,137	584	1,420
17	2012	New Mexico	\$2,550,147,000	\$289,362,000	11.35%	24,721	2,664	5,429
18	2012	Utah	\$1,816,147,000	\$191,436,000	10.54%	18,027	1,512	4,309
19	2012	Virginia	\$3,753,287,000	\$395,124,000	10.53%	46,030	3,920	12,718
20	2012	Pennsylvania	\$7,400,781,000	\$737,757,000	9.97%	59,309	3,159	14,954
21	2012	Michigan	\$8,678,050,000	\$816,392,000	9.41%	52,194	3,906	13,620
22	2012	Kentucky	\$5,067,334,000	\$453,692,000	8.95%	77,064	7,683	19,586
23	2012	Wyoming	\$1,689,416,000	\$150,110,000	8.89%	11,736	1,810	3,133
24	2012	South Carolina	\$3,040,069,000	\$265,417,000	8.73%	25,266	1,929	5,851
25	2012	Maryland	\$2,271,397,000	\$195,555,000	8.61%	12,256	979	3,536
26	2012	Tennessee	\$3,611,037,000	\$306,407,000	8.49%	68,050	4,834	15,071
27	2012	Idaho	\$7,801,446,000	\$661,268,000	8.48%	24,816	3,089	7,862
28	2012	Wisconsin	\$11,744,476,000	\$920,230,000	7.84%	69,754	3,597	18,931
29	2012	Louisiana	\$3,809,401,000	\$290,205,000	7.62%	28,093	2,860	7,838
30	2012	Texas	\$25,375,581,000	\$1,906,647,000	7.51%	248,809	36,840	56,401
31	2012	North Carolina	\$12,588,142,000	\$914,091,000	7.26%	50,218	5,677	14,469
32	2012	Colorado	\$7,780,874,000	\$537,645,000	6.91%	36,180	4,738	9,059
33	2012	Montana	\$4,230,083,000	\$279,032,000	6.60%	28,008	3,084	7,322
34	2012	West Virginia	\$806,775,000	\$51,483,000	6.38%	21,489	996	3,452
35	2012	Georgia	\$9,255,125,000	\$540,032,000	5.83%	42,257	4,684	12,258
36	2012	Ohio	\$10,064,085,000	\$580,547,000	5.77%	75,462	4,315	17,035
37	2012	Oklahoma	\$7,129,584,000	\$372,780,000	5.23%	80,245	8,971	18,108
38	2012	Missouri	\$9,164,886,000	\$461,922,000	5.04%	99,171	7,575	20,702
39	2012	Mississippi	\$6,441,025,000	\$308,021,000	4.78%	38,076	3,373	10,581
40	2012	Alabama	\$5,571,173,000	\$259,359,000	4.66%	43,223	4,028	11,216
41	2012	Delaware	\$1,274,014,000	\$56,454,000	4.43%	2,451	247	898
42	2012	Indiana	\$11,210,818,000	\$487,409,000	4.35%	58,695	3,528	14,350
43	2012	Arkansas	\$9,775,758,000	\$391,891,000	4.01%	45,071	4,767	11,715
44	2012	Illinois	\$17,187,052,000	\$632,451,000	3.68%	75,087	3,796	20,222
45	2012	Minnesota	\$21,280,184,000	\$746,380,000	3.51%	74,542	4,418	22,595
46	2012	Kansas	\$18,460,564,000	\$597,923,000	3.24%	61,773	6,346	16,943
47	2012	South Dakota	\$10,170,227,000	\$301,623,000	2.97%	31,989	2,708	9,938
48	2012	North Dakota	\$10,950,680,000	\$314,312,000	2.87%	30,961	2,143	9,300
49	2012	Nebraska	\$23,068,756,000	\$629,564,000	2.73%	49,969	5,576	17,338
50	2012	Iowa	\$30,821,532,000	\$777,805,000	2.52%	88,637	6,634	27,906

Figure 2: Total labor cost as a percent of sales, 2012 Census of Agriculture