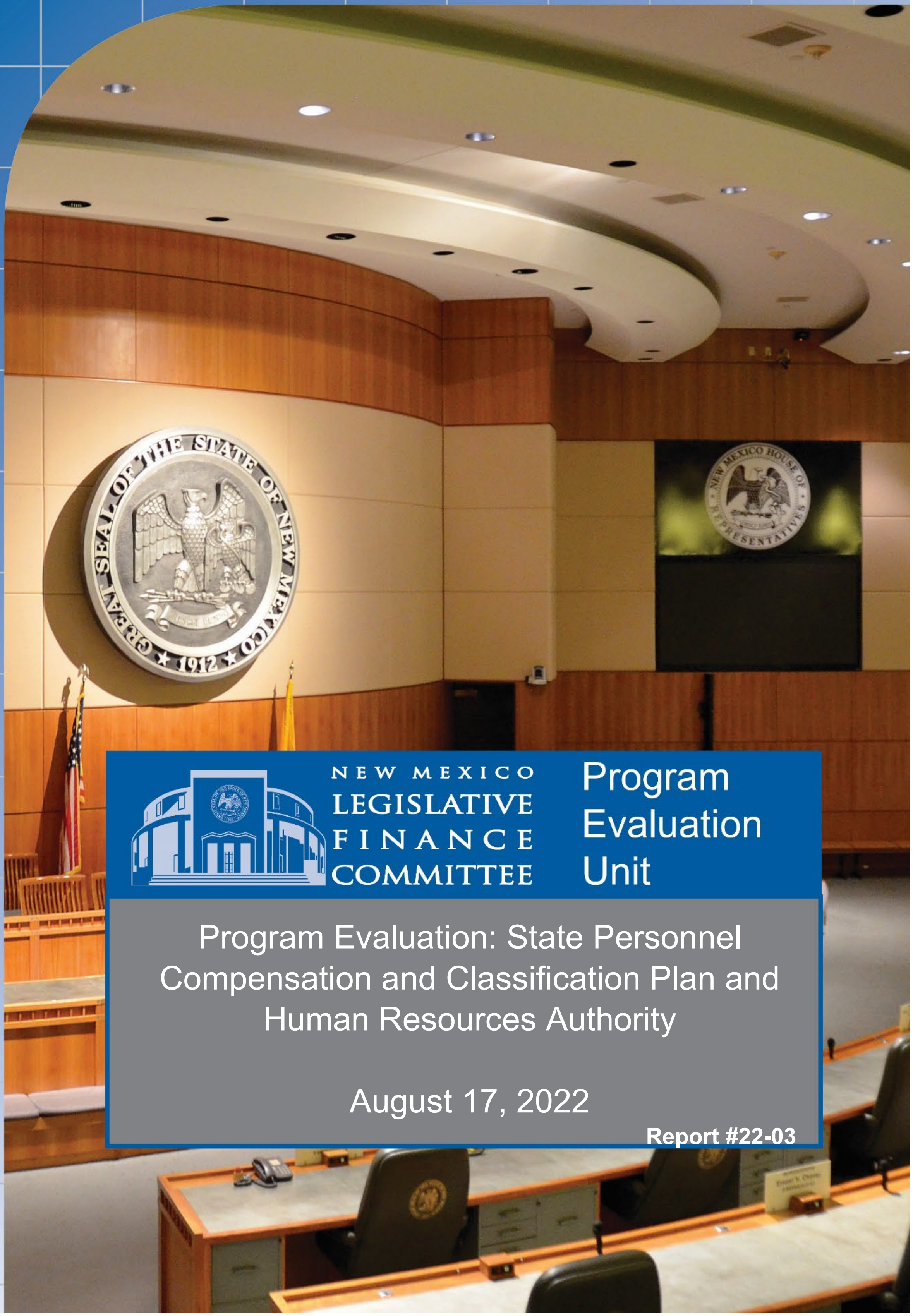

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Program Evaluation Unit

Program Evaluation: State Personnel Compensation and Classification Plan and Human Resources Authority

August 17, 2022

Report #22-03

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August 16, 2022

MS. Teresa Padilla, Director
State Personnel Office
2600 Cerrillos Road
Santa Fe, NM 87505-3258

Dear Director Padilla:

The Legislative Finance Committee (LFC) is pleased to transmit the evaluation, *State Personnel: Compensation, Classification, and HR Authority.* The program evaluation examined how compensation, classification and benefits packages impact the competitiveness of the state in attracting and retaining employees, how the State Personnel Office and agencies work to fill vacancies and retain employees, and opportunities to optimize the state personnel system and workforce planning. An exit conference was held with your staff on August 10, 2022 to discuss the contents of the report.

The report will be presented to the LFC on August 17, 2022. LFC would like plans to address the recommendations for the State Personnel Office within this report within 30 days of the hearing.

I believe this report addresses issues the LFC asked us to review and hope the office will benefit from our efforts. We very much appreciate the cooperation and assistance we received from you and your staff.

Sincerely,

David Abbey, Director

Cc: Representative Patricia A. Lundstrom, Chair, Legislative Finance Committee
Senator George K. Muñoz, Vice-Chair, Legislative Finance Committee
Mr. Matthew Garcia, Chief of Staff, Office of the Governor
Ms. Debbie Romero, Secretary, Department of Finance and Administration
Mr. Brian Colon, State Auditor

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Cumbersome Processes and Uneven Pay Raises Exacerbate Personnel Struggles

The ability of the state to hire and retain a stable, quality workforce is key to ensuring government can deliver services and benefits that keep us safe, healthy, and able to thrive. Without state employees, there is no state government. However, in past years the state has not been able to pay competitively and still struggles to recruit and retain employees, particularly in key health and safety positions.

Evaluation Objectives:

- *Examine how compensation, classification and benefits packages impact the competitiveness of the state in attracting and retaining employees:*
- *Identify how SPO and agencies work to fill vacancies and retain employees; and*
- *Examine opportunities to optimize the state personnel system and workforce planning.*

Post pandemic, the state is also now competing to fill vacancies from a shrinking labor pool. Fewer adults than ever in New Mexico are working or searching for work and there are more job openings in the state than there are unemployed people.

New Mexico's State Personnel Office (SPO) oversees the hiring, compensation, and retention of state employees, but the larger structure of New Mexico's human resources (HR) functions is splintered. Centralized approval authority for many HR activities is seated with SPO, but the majority of the HR personnel located within state agencies.

The result of this hybrid system, in which only some HR activities must be reviewed centrally, has been an underwhelming performance in key HR functions. For example, it takes agencies over nine weeks to hire for posted jobs. Cumbersome processes that involve agencies, SPO, and sometimes the Department of Finance and Administration (DFA) mean it takes over a month, on average, to process HR transactions like promotions and position changes. Further, inequitable distribution of recently legislated pay increases and proliferation of job classes means work requiring similar knowledge and skills is not always rewarded equally across agencies or job categories.

SPO's focus on reviewing and approving HR activities has bogged down what would otherwise be normal day-to-day HR activities. It has also kept SPO from playing a stronger leadership and strategic consulting role on personnel matters for the state. The result has been the uneven or nonexistent application of employee engagement and exit surveys, studies of workforce adequacy, and monitoring of ratios of managers to reporting employees (spans of control)—all activities common among other states' personnel offices.

The state can and should improve. Encouragingly, SPO and DFA have recently begun testing models to delegate HR authority back to select agencies and for select HR activities to speed hiring and other HR processes. Moving ahead, SPO should consider additional ways to allow agencies to be more nimble in their agency-specific HR activities and rethink their operations to reflect the original legislative intent of their office's creation: to provide policy guidance and quality control for agencies that can manage their own HR.

Key Findings

The executive's plan to distribute salary increases for FY23 is highly uneven and leaves some of the hardest-to-fill positions with the smallest raises.

After major reductions in job classifications over two decades ago, SPO now manages classifications for nearly 1,200 different positions.

Though SPO has the authority to approve or disapprove some HR activities, most of the HR workforce is concentrated in state agencies. The time it takes SPO to process requests from agencies has increased over the last five years, with some actions requiring approval by multiple different entities.

SPO recently delegated some HR authority to the Transportation and Environment departments, which resulted in some successes in accelerating hiring and other HR transaction times.

In focusing on HR transactions, SPO has forgone opportunities to play a higher, strategic role in improving state personnel management.

Key Recommendations

SPO should develop a more equitable way to distribute future legislated pay increases based on merit and filling critical, hard-to-staff positions.

SPO should rework lower pay bands into wider widths to ensure the equitable potential for in-pay-band increases and ensure the pay bands include employees with salaries currently above their authorized pay bands.

SPO should develop an action plan for reviewing all classifications annually per guidelines from the Society for Human Resource Management, deauthorize unused classifications, and adjust pay bands where necessary to eliminate the use of alternative pay bands.

SPO should consider further expanding the delegation of HR approvals, as it has to NMED, to other agencies with sufficient HR capacity.

SPO should provide agencies with guidance to conduct, analyze, and disseminate results of ongoing employee engagement and exit surveys.

SPO should consider implementing a mandatory systemwide telework policy to promote fairness across agencies and market it to potential employees as a benefit.

Agencies should use national and evidence-based benchmarks to determine staffing levels as the basis of FTE budget requests as opposed to only relying on vacancies.

The Legislature and executive should consider following best practices set by the Government Finance Officers Association to use the U.S. Bureau of Labor Statistics' Employment Cost Index to build cost-of-labor increases into salary budget requests.

BACKGROUND

The State Spends $2.3 Billion to Employ 22 Thousand Workers

State government is a significant employer in New Mexico, giving jobs to approximately 22 thousand people across the legislative, judicial, and executive branches of government. This equates to 2.6 percent of the total 848.4 thousand nonfarm jobs in the state. Of the $3.5 billion appropriated to state agencies[1] for FY23, $2.3 billion, or 66 percent, was for salaries and benefits for state government jobs. This includes $75.6 million for compensation increases in FY22 and FY23.

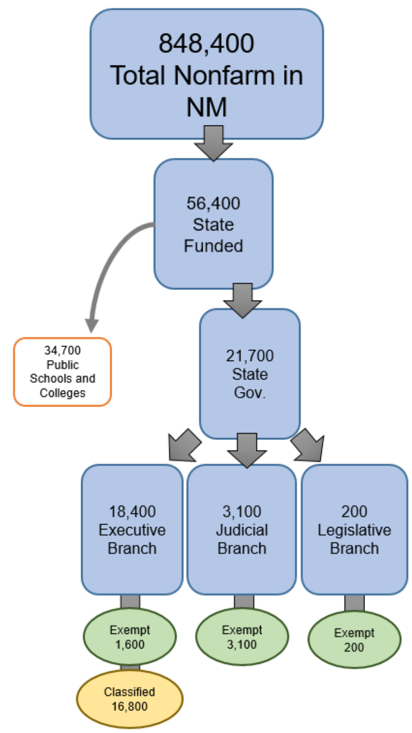
Aided by massive increases in state and federal revenues, New Mexico state government is set to take on more programming and infrastructure projects than ever before. However, high vacancy and low retention rates suggest that the state will likely struggle to find and keep the high-quality employees necessary to take on this new and expanded work.

Even before the pandemic, state agencies were carrying high vacancy rates. Post-pandemic, the Pew Charitable Trusts reported that New Mexico, along with 42 other states has more job openings than jobless people. In this tight employment market, governments in New Mexico have not been able to compete with the private sector for employees.

In state government, employees can be classified or exempt. Classified employees are covered by the laws in the State Personnel Act, and exempt employees are not. This evaluation is primarily focused on classified employees, which constitute the majority of executive branch employees—approximately 16.8 thousand (91 percent) in June 2022. According to the State Personnel Office (SPO), roughly 53 percent of classified employees are members of one of the two unions that have collective bargaining contracts with the state: American Federation of State, County, and Municipal Employees (AFSCME) and Communication Workers of America (CWA).

Employees in the governor's office and appointed members of boards and commissions are exempt, as are all judicial and legislative employees, including those in the Office of the Public Defender, employees of higher education institutions and public schools, elected officials, commissioned officers of the state police, incarcerated workers, and some temporary employees.

Figure 1. Jobs in New
(rounded to nearest 100 FTE)



Source: April 2022 WSD Labor Market Review and June 2022 SPO TOOL

[1] State agencies in this report do not include public school district or higher education institutes.

The state of New Mexico is competing to fill vacancies from a shrinking labor pool.

Table 1. Lowest U.S. Labor Force Participations Rates, June 2022

State	Rate
West Virginia	55.2%
Mississippi	55.5%
New Mexico	**56.9%**
Arkansas	57.0%
Alabama	57.2%
US Average	*62.9%*

Source: St. Louis FRED

The state of New Mexico is facing demographic challenges to filling an increasing number of vacant state positions. New Mexico is at full employment, like most of the nation, which means there are more job openings than unemployed people. Despite high unemployment rates, March 2022 Bureau of Labor Statistics data shows about 1.4 job openings in New Mexico for every unemployed person in the state. Furthermore, the state has regularly lost working-age people to outmigration and disengagement from the labor force.

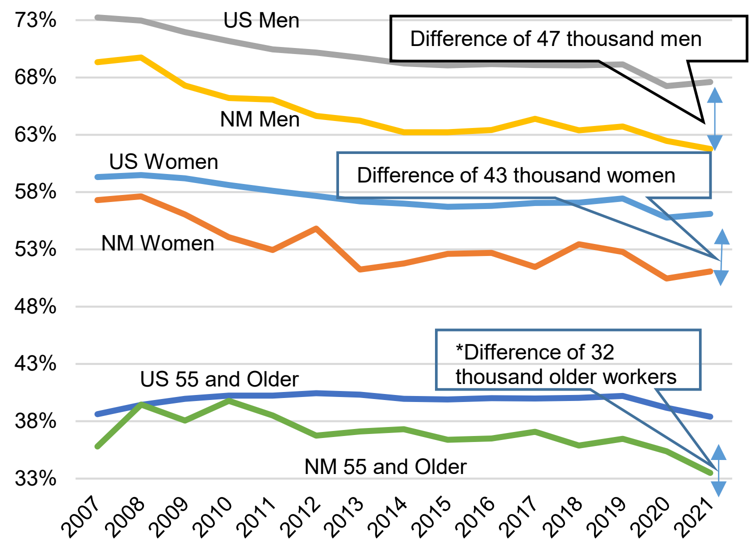
Further shrinking the pool of eligible workers, New Mexico's labor force participation rate—a measure of the civilian population 16 years and older who are working or actively looking for work—is the third lowest in the nation at 56.9 percent and 5 percent lower than the state's peak rate in 1994. A low labor force participation rate reflects a smaller labor pool, making it harder for employers to find workers.

Table 2. Labor Shortages in New Mexico and Surrounding Areas, March 2022

	Job Openings (in thousands)	Unemployed People (in thousands)	Job Openings per Unemployed Person
NM	69	50	1.37
AZ	247	117	2.12
CO	215	119	1.81
TX	985	635	1.55
US	1,549	5,950	1.94

Source: U.S. Bureau of Labor Statistics, JOLTS March 2022

Chart 1. U.S. and New Mexico Labor Force Participation for Select Groups



*includes overlap with men/women

Source: WSD, BLS, U.S. Census

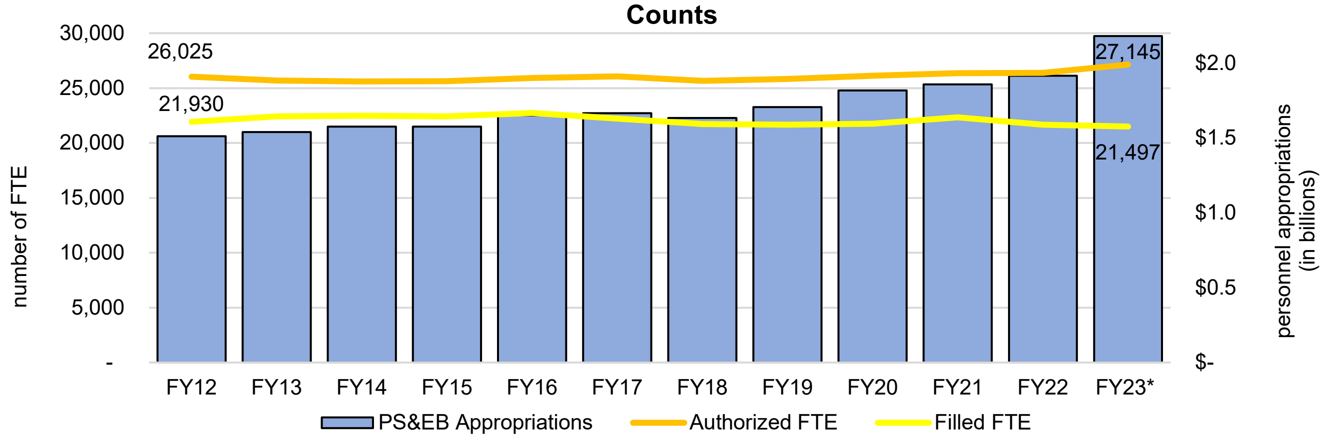
Finally, as noted in an April 2021 LFC Policy Spotlight on state population trends, over the last decade, more working-age people have left the state than moved in, though that may be changing in recent years. In its April 2022 Labor Market Review, the Department of Workforce Solutions found that from 2010 to 2020, approximately 274 thousand workers moved to New Mexico from another state, while 286 thousand left New Mexico to work elsewhere. This left the state with a net negative migration of about 12 thousand persons, of which 92.5 percent were of working age.

New Mexico state government has persistently high vacancy rates that grew in FY21 and FY22.

Authorized FTE in an agency's budget is not a proxy for staffing needs, meaning not all vacant positions have to be filled to meet an agency's workload and business needs in any given year. The Legislature funds some vacant positions and allows agencies to transfer vacancy savings out of the personal services and employee benefits categories and into contractual or other types of spending categories. Such vacancy savings can also provide flexibility to agencies to increase salaries.

New Mexico has an 18.6 percent (5,065 FTE) vacancy rate as of June 2022, including all FTE both classified and exempt at all agencies and branches of state government. In FY22, agencies had approximately 1,100 positions that were unfilled and funded versus approximately 4,000 that were unfilled without funding. Those funded but unfilled positions yielded $94.7 million in vacancy savings, or about 5 percent of all personnel appropriations for agencies in FY22.

Chart 2. Personal Services and Employee Benefits Category Appropriations and FTE Counts



Note: FY23 appropriations and authorized FTE are budgeted amounts. Filled FTE are as of June 2022.

Source: LFC Files

Vacancy rates for the state have hovered between 12 percent and 21 percent since FY12. Despite an ongoing inability to reduce vacancy rates, agencies requested funding for an additional 2,200 FTE for FY23 (762 were authorized). However, few agencies provided any plans to address ongoing vacancies through reclassification, targeted pay increases, or other measures.

The Legislature has not specified how many employees are authorized to work at each agency in the General Appropriations Act since 2014, instead allowing agencies to manage their own staffing levels. Agencies are required to request additional FTE or funding for vacant FTE as part of their annual appropriations request. However, the Department of Finance and Administration does not require agencies to report on how filling those vacancies would relate to workload distribution nor how it would alter the agency's span of control.

The Legislative Finance Committee has a unique PSCalc tool that allows the Legislature to control vacancy savings in high and low budget years. This is a different approach than how many other states fund vacant positions; many include vacant positions in the personnel base and apply an upfront deduction in the form of a turnover savings factor when budgeted positions go unfilled or remain under-filled.

Vacancy rates for some positions are much higher than the state average. While the average state vacancy rate in June 2022 was 18.7 percent, some categories of positions have much higher levels, including high-needs positions such as tax professionals, family assistance analysts that staff income support offices, child protective service workers, and probation and parole officers.

The LFC's PSCalc tool allows analysts to estimate the funded vacancy rate at an agency and show how many FTE could be funded by a set potential increase in an agency's personnel budget.

Table 3. Positions with over 50 Vacancies and Vacancy Rates above the average State Vacancy Rate of 18.7 Percent, June 2022

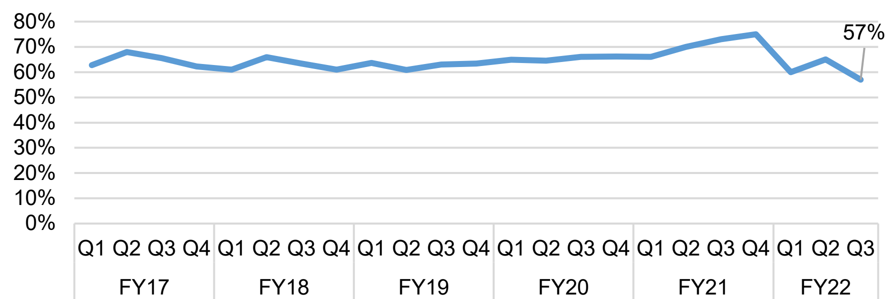
	Total Positions	Vacant Positions	% Vacant
Direct Care Health Aides	682	343	50%
Epidemiologists	131	53	40%
Behavioral Health Therapists	175	67	38%
Nurses - All Levels	742	245	33%
Health Educators	202	65	32%
Tax Professionals	260	79	30%
Family Assistance Analysts	893	268	30%
Correctional Officers	1,785	531	30%
Program Coordinators and Managers	478	126	26%
Child Protective Services Workers	649	171	26%
HR Professionals	389	101	26%
Social Workers	573	146	25%
Environmental Scientists	392	98	25%
Accountants and Auditors	556	136	24%
Attorneys	1,046	233	22%
Admins, Receptionists, Secretaries and Clerks	1,639	365	22%
Engineer Tech & Professionals	771	166	22%
Probation & Parole Officers	677	144	21%
Business, Policy, Financial, and Operations Analysts	1,744	342	20%

Source: June 2022 SPO Tool

Nearly half of all state employees leave within their first year, and turnover is higher than national benchmarks. In 2021, SPO reported 2,121 voluntary separations, or a 12 percent turnover rate—3 percent higher than the average government voluntary turnover rate of 9 percent reported by the Society for Human Resource Management.

This high turnover rate is driven by low first-year retention rates. Since FY17, the share of classified employees who make it through their first year of employment has averaged 64.7 percent. It reached a high point of 75 percent in the fourth quarter of FY21 (summer 2021) but has plummeted to a six-year low of 57 percent in the most recent quarter.

Chart 3. First Year Retention of Classified State Employees



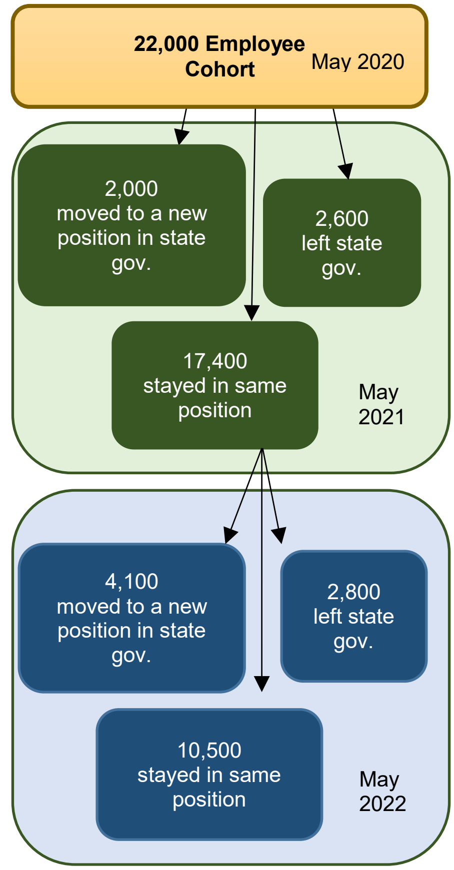
Source: Quarterly SPO Accountability in Government Act Reports

High turnover comes with costs. The U.S. Department of Labor estimates that it costs one-third of a new hire's annual salary to replace an employee. Agencies hire approximately 2,500 classified employees every year, and assuming a 65 percent first-year retention rate, the state is losing about 875 employees within their first year. Using the one-third salary metric and assuming an average annual salary of $52 thousand would mean the first-year turnover rate alone is costing the state $15.2 million a year in recruitment costs.

Less than 50 percent of a cohort of state employees stay in the same position after two years. Looking at a cohort of about 22 thousand state employees from May 2020 to May 2022, 79 percent of employees stayed in the same position after one year. Of the roughly 4,600 employees that were no longer in the same position after one year, about 57 percent, or 2,600, were no longer employed by the state. After two years, only 52 percent or 10,500 employees had remained in their same positions. Of the employees who were no longer in the same position, slightly more than half (53 percent) were no longer employed by the state in 2022. High mobility may be a positive indication that employees are promoted. There may not be a career path at smaller agencies so employees have to move to a different agency to advance. However, it may indicate that many state employees move positions for pay raises to the possible detriment of institutional stability.

Of the employees who changed positions between 2020 and 2021, 79 percent stayed in the same department. The departments with the most employee departures were the Children, Youth and Families Department, with 42 departures; Human Services Department, with 34 departures; Department of Health, with 33 departures; Department of Public Safety, with 23 departures; and the Corrections Department, with 21 departures.

Figure 2. State Employee Turnover from 2020 to 2022
(includes classified and exempt employees, numbers rounded to nearest 100)



Over two years, almost half of state employees change positions. Another quarter leave state government altogether.

Source: SPO Organizational Listing Reports

The State Personnel Office is the executive oversight agency for the state personnel system.

As specified in the New Mexico constitution, the Legislature is responsible for determining state appropriations, including allocating funding for state personnel. Funding for employee payroll and benefits for most state agencies is delineated by revenue source in the annual General Appropriation Act (GAA). The Legislature also grants varying levels of authority to individual agencies to request that some of their personnel funding be used for other purposes, such as in the case of vacancy savings.

While the Legislature determines the amount of funding available for state personnel, the State Personnel Office (SPO), the Department of Finance and Administration (DFA), and other agencies typically implement salary levels and authorize individual raises as in the case of vacancy savings. In some years, the GAA may also set minimum salaries or specific increases for certain job classes or across-the-board salary increases for all state employees.

Figure 3. State Personnel Roles and Authorities

Legislature	State Personnel Board	SPO	DFA	Agencies
• Appropriates funding for state personnel • May grant agencies authority to spend personnel funding on other purposes	• Approves pay plans and classifications as recommended by SPO • Hears appeals about dismissals, demotions, or suspensions • Hires SPO Director • Makes annual reports to governor on compensation	• Implements State Personnel Act and regulations • Maintains authority over personnel actions related to hiring, compensation and promotion • Manages classifications for over 1,000 different positions. • Establishes, maintains and publishes annual roster of state employees, detailing division, title, pay rate, and other pertinent data	• Approves in-pay-band adjustments, temporary salary increases, creation of new positions, and reclassifications	• Prepares paperwork and request approvals for HR actions requiring SPO and DFA review and approval

Source: LFC Files

The state's Personnel Act of 1961 (NMSA 1978, Section 10-9-2) established a system of personnel administration "based solely on qualification and ability which will provide greater economy and efficiency in the management of state affairs." According to SPO's Annual Classification Report, the merit system was established as an alternative to the "political spoils" system then in effect. The current classification system remains foundational to that end. The act established the State Personnel Board and state personnel director, both of which are administratively attached to the General Services Department. The board consists of five governor-appointed and Senate-confirmed members who serve in staggered terms. The act requires the State Personnel Board to promulgate rules that provide for a classification plan for all positions in the classified service.

The State Personnel Office's Vision

To motivate a creative and inclusive workforce supporting innovation and achievement while serving the state of New Mexico.

Mission

A trusted partner expertly leading the way in human resources practices and services that enhance the employee experience.

Values

- Balanced
- Respectful
- Innovative
- Resourceful
- Responsive
- Credible
- Engaged

SPO's stated vision is to create an inclusive workforce supporting innovation and achievement while serving the state of New Mexico. According to its FY22 third quarter report, the agency has adopted the following goals to accomplish its mission:

- Serve as the thought partner and leader in expertise, research, and data-driven knowledge in human resource management, policy design, and decision-making;
- Create effective human resources solutions that foster a productive, positive, and high-performing workforce that serves the communities of New Mexico;
- Provide timely, accurate, and responsive customer service that addresses the needs of our customers;
- Improve the effectiveness of state government through promoting diversity, equity, and inclusion in the workforce; and
- Promote, develop, and provide employee training and professional development as a critical element of their organizational success.

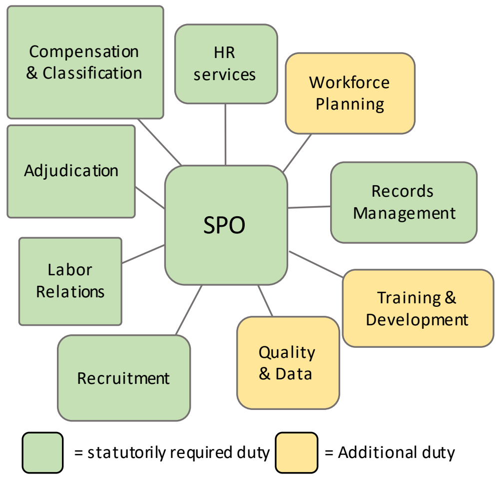
SPO's mission and vision are broad, but the agency today is focused on checking agency compliance with HR rules. This is reflected in SPO's staffing, wherein half (24) of SPO employees are dedicated to compensation and classification, workforce planning, recruitment, training, and human resources services. The remaining staff are administrative or dedicated to adjudication hearings, labor relations, and media. The focus department and offices at SPO for this evaluation are

Agencies that receive all HR Services from SPO

1. State Investment Council
2. Administrative Hearings Office
3. NM Medical Board
4. State Racing Commission
5. Office of African American Affairs
6. Department of Indian Affairs
7. Governor's Commission on Disabilities
8. Adult Parole Board
9. Crime Victims Reparation Commission
10. NM Education Trust Board
11. Higher Education Department

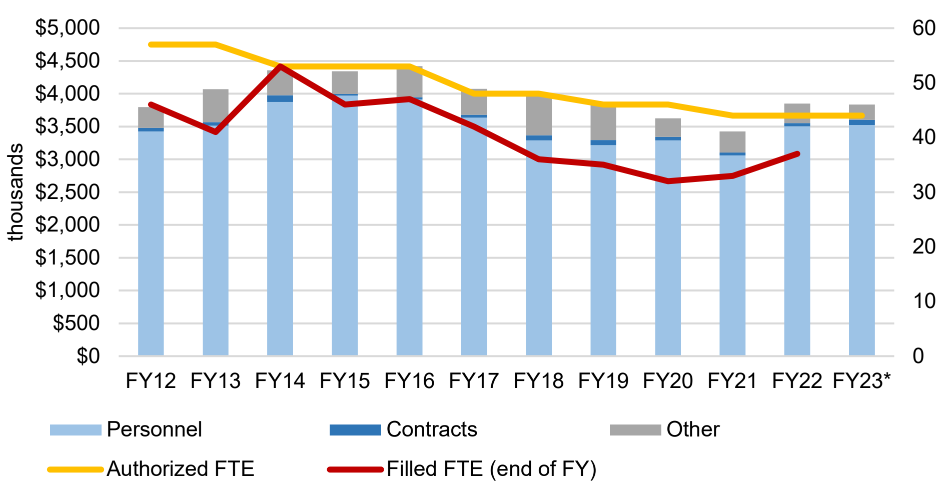
- **Compensation and Classification** (4 FTE, 2 vacant) performs compensation and classification studies to create new classifications, revises existing classifications to better align with agency structures, and develops competitive pay structures.
- **Recruitment** (3 FTE, 0 vacant) reviews agency requests to post for open positions.
- **Workforce Planning** (8 FTE, 2 vacant) is made up of analysts who are assigned a block of agencies to work with. Workforce Planning processes agency requests for personnel actions, such as promotions, in-pay-band and other salary increases, reclassifications, and position creation.
- **Human Resources Services** (5 FTE, 0 vacant) provides all HR services to 11 agencies that do not have in-house HR.
- **Training** (4 FTE, 0 vacant) develops and delivers training and professional development to state employees, including for HR professionals outside of SPO.

Figure 4. SPO responsibilities



Over the past decade, SPO's budget has remained relatively flat while FTE declined by more than 20 percent. SPO's authorized FTE decreased from 57 in FY12 to 44 in FY23 and the agency's vacancy rate has averaged 19 percent over that time span. Related, the agency has reverted a significant about of its budget in recent years. The office spent $3.85 million in FY12 and is budgeted to spend the same in FY23. Although the office has typically maintained high vacancy rates, the agency began FY23 37 of its 44 authorized positions filled. Before budget constraints caused by the Great Recession, the agency had 65 authorized positions.

Chart 4. SPO FTE and Funding Uses, FY12-FY23



Note: FY22 and FY23 uses are is budgeted while other years are actuals.

Source: Vol II, HB2, and SPO's June Organizational Listing Reports

Table 4. SPO General Fund Reversions

FY21	$585.9
FY20	$654.3
FY19	$519.2
FY18	$205.4

Source: FY23 and FY21 Volume III

New Mexico has alternately centralized and decentralized its HR functions and staffing in response to changing workforce and budgetary conditions. SPO is the lead executive HR agency but agencies also have their own HR staff. New Mexico has a hybrid system with SPO retaining oversight for personnel actions designated by rule or statute and agencies maintaining authority over other personnel actions related to employee performance evaluation, disciplinary action, and termination.

Figure 5. Approvals Needed by Agencies for Common HR Activities

Hiring and Recruitment	• SPO
Position Creation / Change	• SPO • DFA (sometimes)
Change in Salary	• SPO • DFA (sometimes)

Source: MAPs (FY22)

While agencies are allowed some discretion to hire as many or as few employees as they need, once they set their organizational chart and positions, they are limited by SPO and sometimes the Department of Finance and Administration (DFA) approval to alter those positions' classifications or the pay of the people filling those positions.

Statute directs the State Personnel Board, based on the recommendation of the SPO director, to set job classifications for each employee and a salary minimum and maximum for each classification—also called a pay band. SPO rules provide that the director can also recommend "alternative pay bands" for classifications to improve recruitment and retention, as long as those alternative pay bands are reviewed annually. Some human resources functions are also outlined in DFA's *Manual of Model Accounting Practices,* or MAPs, mandatory for all state entities regardless of the branch of government. Generally, MAPs states for classified positions, agencies must receive SPO approval to recruit and hire for an existing position, and both SPO and DFA approval is needed to either create or change a position, or change the salary or pay of an existing employee.[2]

SPO has taken several steps together with the Legislature to address hiring, compensation, and retention issues. These challenges are associated with long-standing labor shortages in hard-to-fill positions, high turnover, and adjusting to new work practices, such as telework, that continue after the pandemic. These initiatives include

- Classification studies of nine occupation-based job families—architecture; attorneys; corrections; engineer, surveyor, water resources, and engineering techs; general healthcare; information technology; peace officers; physicians; and social services.
- Temporarily delegated approval authority for certain HR actions to the Department of Transportation and Environment Department to reduce time to hire and allow the agencies more flexibility in compensation actions.
- Building a comprehensive legislative compensation package to bring all state employee wages up to $15 an hour and provide across-the-board increases to all employees in FY22.

Previous LFC reporting on the state's personnel system highlighted changing SPO roles, lagging compensation, and high vacancy rates.

Over the last 15 years, LFC staff have issued three reports, one focused on SPO itself and the other two focused on the hiring system. The first report issued in 2007 found SPO was inconsistent in its enforcement of policies, had decreased its functions, and had high agency turnover. The following two reports, issued in 2016 and 2019, both pointed out that pay for classified state employees was low and needed to be increased through targeted increases or cost-of-living adjustments. The 2016 report found that neighboring states had increased pay consistently within the last several years, while New Mexico

SPO's Salary Schedules

SPO oversees one general salary schedule and nine occupation-specific salary schedules.

The general salary schedule covers most employees (about 12 thousand of the 17 thousand classified positions)

The nine occupation groups and the number of permanent positions they cover are
Architecture (4)
Attorneys (372)
Corrections (1,443)
Engineers (973)
Information Technology (805)
Social Services (840)
General Healthcare (1,680)
Physicians (31)
Peace Officers (34)

According to SPO, the occupational groups were all formed since 2016 with tailored pay lines that allow more targeted, well-planned compensation adjustments to help ease market tensions and keep jobs in these sectors more competitive.

[2] In July 2022, SPO updated the approval process for many HR actions such that DFA approval is no longer needed, notably for incremental raises over 5 percent or under 15 percent. MAPs has not been updated to reflect these changes.

had not. The 2019 report found that while the personnel appropriations in the top 20 agencies had increased since FY12, staff vacancies had also increased. Additionally, fewer new hires were completing their probationary periods (meaning they were leaving state employment after less than one year). Furthermore, the use of alternative pay bands had increased, with 25 percent of state employees in an alternative pay band.

Table 5. Summary of Findings from Previous LFC Reports

Report Title (Year)	Key Findings
State Personnel Office - Enforcement of and Compliance With Statutes, Rules and Regulations (2007)	-Inconsistent enforcement of policies -Potential issues with using the procurement code -Decreased SPO functions with a high vacancy rate -Allegations of sexual harassment
LFC Hearing Brief (2016)	-Pay increases lagging neighboring states -Need for cost-of-living increases
LFC Hearing Brief (2019)	-Increases in personnel spending with continued high vacancy rates -Decrease in employees completing the probationary period -25 percent of employees in alternative pay bands

Source: LFC Files

The Executive's FY23 Pay Plan, Proliferation of Job Classifications, and Uneven Overtime Have led to Unequal Pay Across like Jobs

Providing adequate pay is necessary for successful recruitment and maximizing good employee retention. After many years of salaries that lagged the private sector and state competitors, the Legislature has newly prioritized significant recurring salary increases. However, an analysis of the executive's distribution of those salary increases reflects that some of the hardest-to-staff positions, like social workers and correctional officers, received the smallest increases. SPO's restructuring of the general salary schedule in response to these pay increases could also limit future merit pay for employees.

The executive's plan to distribute salary increases for FY23 is highly uneven and leaves some of the hardest-to-fill positions with the smallest raises.

Compa-Ratio – the ratio of an employee's actual pay to the mid-point of their position's pay band

In the 2022 session, the Legislature appropriated enough funding for a 3 percent across-the-board increase for all state employees in the fourth quarter of FY22 and then again for an additional 6.9 percent *average* increase in FY23. In essence, the Legislature had appropriated enough funding to allow agencies to bring their employees' salaries up nearly 10 percent between the beginning of FY22 and FY23. After the FY23 increases were applied, the Legislature provided enough funding to further increase any employees still making under $15 per hour to that level of pay. This only applied to 85 classified employees.

For FY23, the executive developed a two-pronged methodology for distributing the FY23 (6.9 percent) pay increases. First, the executive assumed exempt employees and employees in occupational pay bands had salaries correctly adjusted to the job market and targeted a smaller increase (4 percent) for those employees. For all other employees in the general salary schedule, raises were to be determined based on multipliers assigned first on compa-ratio and then on pay band.

Table 6. Executive's FY23 Pay Plan for General Salary Schedule Employees

Compa-Ratio Multipliers

0.8 or <	18%
0.89-0.92	16%
0.93-0.94	15%
0.95	13%
0.96	12%
0.97	11%
0.98	10%
0.99	9%
1-1.01	8%
1.02-1.03	6%
1.04-1.05	5%
1.06 or >	2.5%

THEN

Pay Band Multiplier

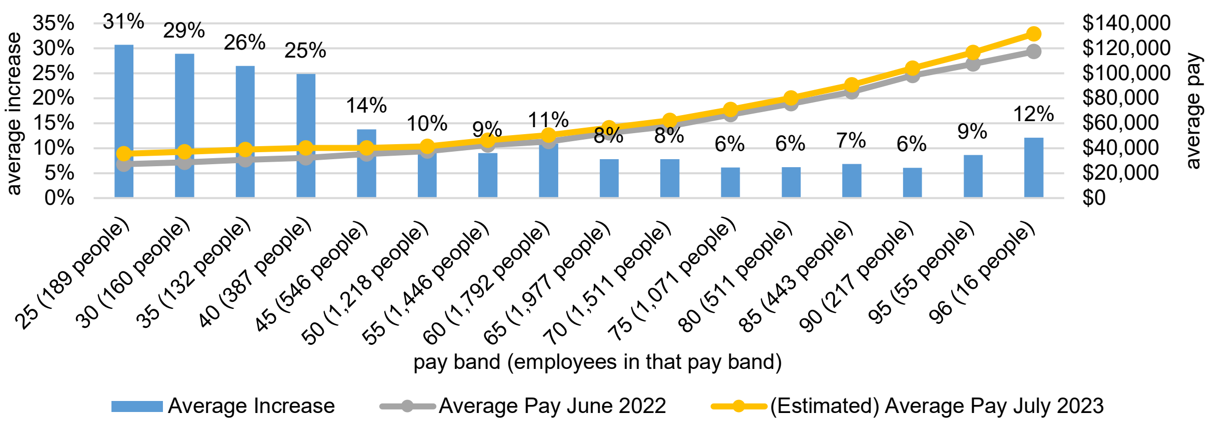
25	25%
30	22%
35	20%
40	18%
45	8%
50	3%
55	3%
60	2.5%
65	2%
>65	1.5%

Real Example: Employee in Pay Band 45 making 19.83/hour with a 1.28 compa-ratio

Compa-ratio Multiplier	$19.83	x	2.5%	=	$0.50	
Pay Band Multiplier	$19.83	x	8%	=	$1.59	
			Total Increase		$2.09	per hour
			New Hourly Pay		$21.92	(11% raise)

The result was people making less than $35 thousand at the end of FY22 generally received the biggest raises, about 28 percent or $8,200 annually. After that, the increases generally fell for employees making between $35 thousand and $105 thousand. However, employees at the very high end of the pay scale actually received larger pay raises than their colleagues in the middle of the pay scale. This is primarily because employees in the highest two pay bands (95 and 96) tended to have lower compa-ratios, closer to 1.0, than employees in the other pay bands who averaged closer to 1.1.

Chart 5. SPO Distributed the Largest Increases to Employees in the Lowest Quarter and Very Top Pay Bands in the General Salay Schedule in FY23



Source: SPO June 2022 Tool, SPO FY22 and FY23 Compensation Overview

Because of SPO's implementation of the compensation plan, employees on the lower ends of the general salary schedule received significant increases. In contrast, employees in occupational schedules received a flat 4 percent increase. As a result, people on the low end of the occupational schedules received much smaller percent increases, despite the fact that occupational-schedule roles often provide critical services directly to New Mexicans and are particularly hard to fill.

As several of the roles that require specific credentials on the low end of the occupational bands now make less than the entry-level roles on the general salary schedule, New Mexico may have created an incentive for employees in the occupational bands to seek roles in the general salary schedule, exacerbating shortages in hard-to-fill direct service roles that require specific certifications or qualifications. Table 7. below illustrates six real examples of office support workers and custodians that now make close to or even more than their colleagues in hard-to-staff protective services, nursing assistant, and correctional officer positions.

Examples of Jobs in Occupational Schedules

Nurses and Nursing Assistants

Correctional Officers

Child Protective Services Case Workers

Behavioral Health Therapists

IT Systems Administrators

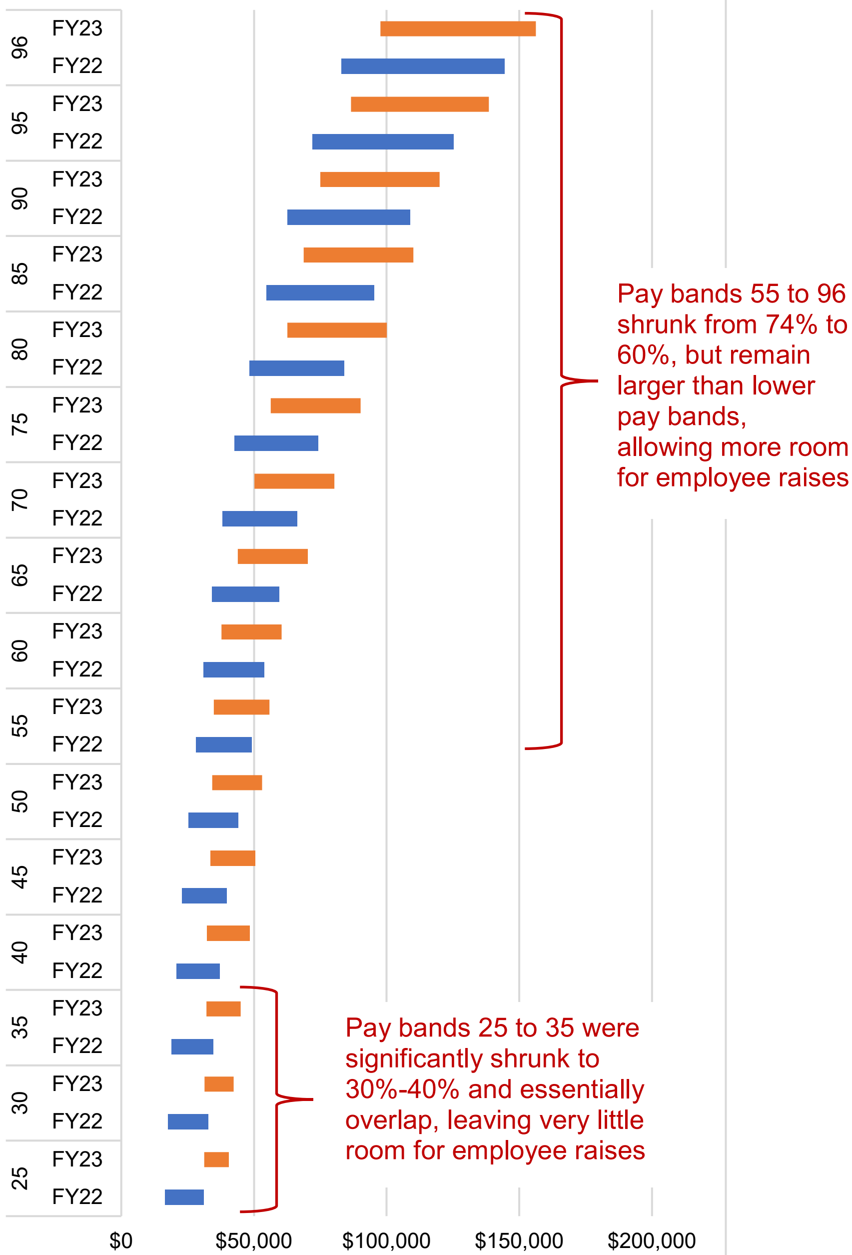
Table 7. General Salary Increases Compared with Occupational Salary Increases

Position	Salary Schedule	Department	Jun-22	Jul-22	% Change	$ Change
Administrative Asst. Supervisor	General	CYFD	$18.93	$20.96	11%	$2.03
CPS Permanency Case Worker	Social Services	CYFD	$18.89	$19.64	4%	$0.75
Custodian at Veteran's Home	General	DOH	$16.03	$20.53	28%	$4.51
Nursing Asst. at Veteran's Home	Healthcare	DOH	$15.90	$16.60	4%	$0.70
Office Clerk in Clayton	General	NMCD	$17.37	$21.01	21%	$3.64
Correctional Officer in Clayton	Corrections	NMCD	$20.60	$21.42	4%	$0.82

Source: LFC Analysis of SPO Data

By setting increases based on compa-ratio, the executive's FY23 pay plan creates disparities in salaries that may have been previously determined by merit or longevity. In an April 2022 brief, LFC staff pointed out several issues of pay inequities that would arise from the executive's FY23 pay plan. First were instances of "leapfrogging" that would occur under SPO's pay plan due to the basis of increases on compa-ratio. In effect, some employees who had high compa-ratios due to past promotions for performance or longevity would get less of a raise than their peer employees that were lower in the pay band; in some cases, the pay of those lower-band employees would supersede that of their higher-band colleagues. The second was an inequity of pay raises across agencies. This was driven by 1) some agencies having a large proportion of their employees on occupational salary schedules, and 2) other agencies had been more methodical over the years of raising pay when funding was available, driving up their employee's compa-ratios. See Appendix E. for a listing on agencies by highest and lowest pay raises.

Chart 6. SPO Pay Bands and Widths in FY22 (blue) and FY23 (orange)



Source: SPO May 19, 2022 memo to SPO Board

SPO's FY23 pay plan significantly shrunk the width of its pay bands, thereby limiting future in-pay-band raises to reward performance. For FY23, the State Personnel Board adopted, at SPO's recommendation, a new general salary schedule that was, in some bands, half as wide as it was the year before. In FY22, pay bands on the general salary schedule were between 89 and 74 percent wide (for a 74 percent wide pay band, the maximum rate of pay is 74 percent higher than the minimum.) This allowed flexibility for a manager to recommend meaningful percentage increases for performing employees and still keep that employee within their job's pay band. For FY23, however, SPO had to significantly shift the pay bands to accommodate the FY23 plan for raises and the new $15 per hour minimum wage. As a result, the midpoints of the new pay bands were shifted up between 12 percent and 51 percent, and the band width significantly shrunk to be only 30 percent to 60 percent wide. While those small band widths are not outside of industry standards, they do significantly limit how much of an in-pay-band salary any employee could ever get. Under the new FY23 general salary structure, with smaller pay bands at the bottom end of the schedule, the lowest paid employees will be the most restricted.

Though SPO assumes workers on occupational schedules have market-adjusted salaries, high vacancies and turnover in the corrections and social services occupational groups could indicate a need for targeted pay increases not provided by the FY23 pay plan. Employees in the physician, IT, attorney, and engineering occupational groups generally last longer in their positions, with tenures at or above that of employees in the general salary schedule and lower than average vacancy rates. However, employees in the social services and corrections occupational groups have both much lower average employee tenure (each around 2.5 years) and high vacancy rates. This indicates either pay or something else about the function of those jobs is likely not adequate to attract or retain employees. However, the executive's FY23 pay distribution plan only distributed the minimum, 4 percent increase to all employees in occupational groups, assuming that occupational salary schedules were already set to account for market differences for specific occupations.

Table 8. Average Tenure in an Employee's Current Position by Salary Schedule

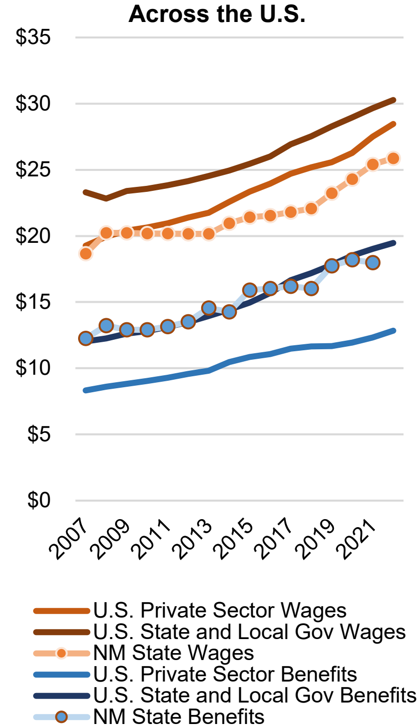
(April 2022, Full-Time Regular Employees Only)

	Average Tenure in Years	Positions	% vacant
Physicians	5.3	41	17%
IT	4.7	932	17%
Attorneys	3.4	364	19%
Engineer, Surveyor, Water Resources, Engineering Tech.	3.8	1,011	20%
General	**3.5**	**16,796**	**22%**
Social Services	2.5	827	22%
Corrections	2.4	1,481	29%
Architect	4.7	9	33%
General Health Care	4.5	1,779	37%

Source: Sunshine Portal, SPO Tool

Of note, employees in the general health care salary schedule tend to stay in their positions longer *and* have much higher vacancies. Of the 663 vacancies in the health care occupations, 295 are in "direct care" jobs, which are care aides in the state's long-term care hospitals, psychiatric and residential mental health facilities, and inpatient/outpatient rehabilitation facilities. Because most of these facilities are not filled to their capacity, the staffing numbers for these aides might not reflect actual needs in the facilities.

Chart 7. Wages for New Mexico State Employees are 14 Percent Less Than Wages for Workers in State and Local Governments Across the U.S.



Source: BLS Employer Costs for Employee Compensation and SPO Annual Compensation Reports

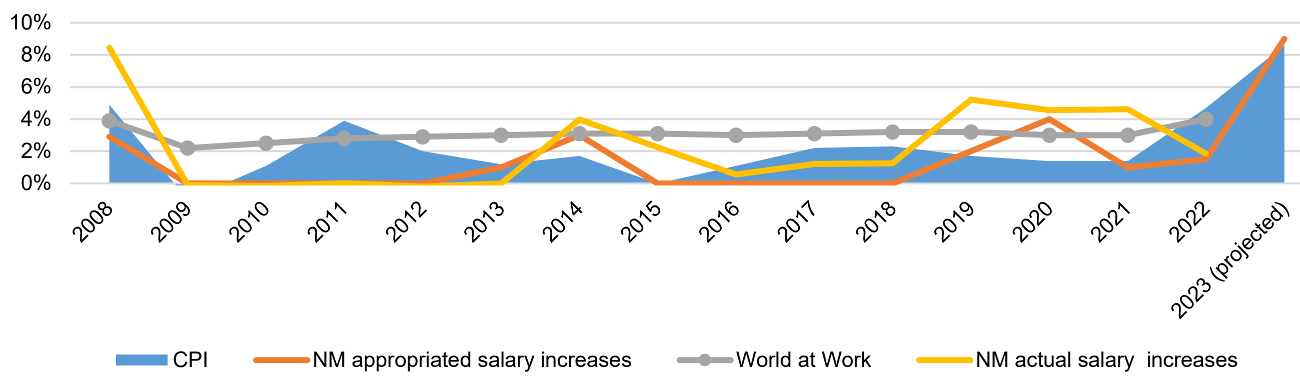
The state has not appropriated across-the-board salary increases for eight of the last 16 years, but agencies have used budget flexibility and overtime to improve pay.

From FY04 to FY22, the consumer price index increased an average of 1.9 percent per year while actual salaries for state of New Mexico employees grew 2.2 percent. While salary increases have matched inflation *on average* over that time, there were many years where the budget provided for no across-the-board compensation increases for state employees, likely due to revenue restrictions and budget volatility. As a result, most increases that employees may have seen in their salaries over that period above inflation were the result of agencies using vacancy savings or other revenues to cover the cost of raises.

Wages for New Mexico state workers are close to that of the rest of the state but lag national averages in both the public and private sectors. At $25.40 an hour ($52,832 annually), the average salary for state of New Mexico employees in 2021 was slightly higher than that of the state as a whole, at $24.93. While pay increases have roughly averaged out to meet inflation, they have failed to bring wages in line with the national averages of either other state and local government employees or those of workers in the private sector. In 2021, New Mexico state employees had average wages 8 percent lower than average private sector wages in the U.S. and 14 percent lower than those of employees of local and state governments outside of New Mexico.

The state should be closer to approaching parity with other sectors after the Legislature appropriated enough recurring compensation money in the 2022 session to increase state employees' minimum wage to $15 and give employees an average 10 percent salary increase.

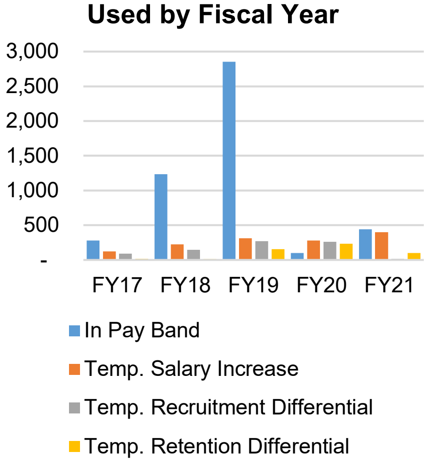
Chart 8. Consumer Price Index and Competitor Market Salary Increases Compared with New Mexico Actual and Legislative Increases, 2008-2023



Note: WorldatWork reports average salary increases from leading compensation industries. CPI is the consumer price index.

Pay increases have not been a regular part of the executive budget request in the past and are not part of the regular budget building process. Though the cost of labor continually increases with inflation, the state does not regularly consider increases in the employment cost index in agency or executive budget requests. Instead, budgeting for compensation increases has generally been ad hoc and occurred on the legislative side, contingent on available revenues. The Government Finance Officers Association recommends using the U.S. Bureau of Labor Statistics' employment cost index to forecast payroll needs when building budgets.

Chart 9. Pay Mechanisms Used by Fiscal Year



Source: SPO 2021 Annual Compensation Report

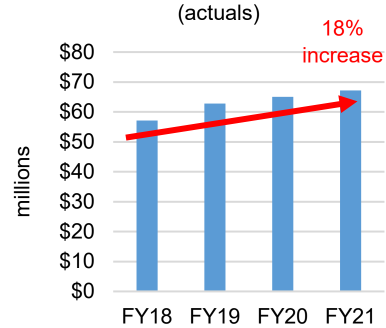
SPO and agencies use vacancy savings and other budget flexibility to give ad-hoc increases in years of no legislatively mandated pay increases. Agencies can issue salary increases through multiple mechanisms, though these have not been widely used in recent years. These raises are often performed ad hoc, with agencies rewarding individual employees. However, some agencies use excess personnel funding to provide for targeted pay increases for certain types of jobs. While ad hoc pay increases allow agencies to reward good performance and better retain employees, they are often done outside any compensation strategy designed to adapt to broader labor market conditions.

To increase wages for state workers, agencies can use temporary recruitment differentials, temporary retention differentials, temporary salary increases, and in-pay-band salary adjustments. Currently, all temporary pay changes need DFA and SPO approval, with the exception that in-pay-band increases only need SPO approval is they are below 5 percent or above 15 percent.

The recruitment and retention differentials are intended to help agencies find or keep workers for high-demand jobs, while temporary salary increases are intended for employees who temporarily take on additional responsibilities, increasing their value to the agency. In-pay-band adjustments can be used once a year for demonstrated performance, skill or competency development, or internal alignment. While agencies have these mechanisms to increase salaries, they were rarely used from FY17 through FY21. SPO and agencies can also change pay for a worker by assigning alternative pay bands to positions. These pay bands must be approved by the Personnel Board and reviewed annually. According to SPO's latest compensation report, alternative pay bands were originally designed to be used on an exception-only basis but had proliferated to cover over 25 percent of all classifications by the end of FY21.

Three agencies also provide a significant amount of overtime pay to their employees, and their spending on overtime has steadily increased since FY18. Using overtime is a way for agencies to quickly manage temporary workload increases or staff shortages without having to find temporary staff. However, some agencies consistently spend higher amounts on overtime than others. In FY21, state government paid out $67.2 million in overtime pay, or approximately 3 percent of the state's $1.9 billion in salary and benefits appropriations that year. That amount has increased approximately 18 percent or about $10.1 million since prepandemic levels in FY18. Sixty-five percent of overtime payments stem from just three departments—Corrections, Health, and Public Safety—each of which spent 9 percent of their personnel budget on overtime pay in FY21. These three agencies were also running between 21 and 30 percent vacancy rates as of June 2022.

Chart 10. State Government Overtime Pay
(actuals)



Source: SHARE

While SPO sets job classifications, agencies largely determine if an employee is eligible for overtime. Whether or not an employee is eligible for overtime pay is set forth under the federal Fair Labor Standards Act (FLSA) and New Mexico Administrative Code 1.7.4.14. Generally, the overtime provisions of the FLSA do not apply to "white collar" workers who are both (1) employed in an executive, administrative, professional or outside sales capacity, and (2) earn over $684 per week or $35,308 per year. Though SPO is responsible for setting job classifications and pay bands, SPO rules designates that it is agencies that are ultimately responsible for the evaluation of each employee's position and duties in order to determine their eligibility to receive overtime as set forth under FLSA. State Administrative Code further states that employees not covered or exempt from the overtime provisions of the FLSA may be compensated for overtime if an agency's policy permits.

Table 9. Agencies Responsible for the Most Overtime Pay in the State

	Amount Spent on Overtime, FY21 (in millions)	Portion of FY21 PSEB Spent on Overtime
Corrections Department	$15.3	9%
Department of Health	$21.8	9%
Department of Public Safety	$10.1	9%

Source: SHARE

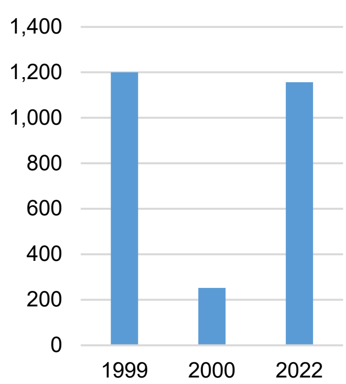
Consistent use of overtime can be a costly result of inadequate staffing but also a way to increase employee pay without going through the SPO approval process. In their resources to state HR professionals, the Society for Human Resource Management (SHRM) has noted surveys show most state employees are willing to work overtime, as long it is optional. Therefore, "employers that offer modest amounts of overtime will both satisfy a majority of their employees and improve their competitive position in the local labor market." While overtime pay can be a recruitment and retention tool, high levels of overtime can create an overtime-dependent workforce and potentially even impact safety, quality, and productivity.

In some cases, overtime can be the result of high vacancy rates and, therefore, inadequate staffing. LFC staff found this to be the case in a 2015 evaluation of the management of Department of Health facilities. Without more transparent planning from agencies, though, it is unclear if the high and consistent use of overtime at some agencies is the result of inadequate staffing or if it is, instead, a tool in which the agency can better compensate its employees. SHRM recommends entities consider hiring additional staff when average overtime exceeds 10 hours per week per employee, but may consider doing so even at lower levels because "even with low to moderate amounts of overtime (less than 10 hours a week), it is possible to create an overtime-dependent workforce."

SPO provides less information about overtime to the Legislature than it once did. In their FY22 quarterly Accountability in Government Act (AGA) reports, SPO has noted that "monitoring overtime and costs associated with it are integral in identifying needs and potential sectors of concern. These can include staffing issues, specialty profession shortages or other workload or absentee issues." In FY20, even though overtime was not an AGA performance measure at the time, SPO included quarterly reports on the total quarterly cost of overtime payments, the percent of employees receiving overtime, and the total and average per-employee overtime hours worked. Starting in FY21, however, SPO eliminated this information completely from its quarterly reports. In FY22, the cost of overtime pay was added as an AGA measure, but the agency never resumed reporting on the additional contextual overtime data.

After major reductions in job classifications over two decades ago, SPO now manages classifications for nearly 1,000 different positions.

Chart 11. After a Significant Consolidation Effort in 2000, SPO once again Oversees Nearly 1,200 Different State Job Classifications



Source: LFC Files

When benchmarked to market qualifications and compensation, classification can be a tool for recruiting and retaining employees in critical job sectors. New Mexico's hybrid system combines an older, established general salary schedule with newer, occupation-based families. The State Personnel Board reviews and approves it annually, together with changes proposed in SPO's Annual Classification Report.

Over time, SPO has taken divergent paths in managing classification (see Appendix D). In 2000, SPO undertook a major reclassification project called NM.HR.2001 that consolidated approximately 1,200 classifications into 252 classification groups and five manager categories all within 34 pay bands that were between 50 percent and 67 percent wide. The executive and the Legislature jointly sponsored this reform effort. See Appendix C. for a more detailed history of NM.HR.2001 and other past SPO reforms.

With approximately 16,800 authorized classified employees, the state today has almost as many classifications as it did before the NM.HR.2001 effort. SPO's classification system currently stands at 1,157 classifications with three levels for most classifications, 260 of which are occupationally based. This number is on the high end for state government. Colorado has a state government workforce of 28,491 and maintains approximately 600 job classifications across seven occupational groups.

In growing classifications, SPO may have created disparate pay bands for otherwise equally qualified workers. In its 2021 classification report, SPO reports the reduction of classifications during the NM.HR.2001 reform "eliminated numerous superfluous and overlapping classification titles, many of which were being used to enable the promotion or retention of just a single employee." That situation may be again emerging; 98 current classified jobs codes are associated with only one authorized position—meaning the job classification only applies to one person in the whole of state government. Another 116 classified codes only apply to two or three authorized positions.

One example of classification changes to support pay differentials for single employees is the museum publications director at the Cultural Affairs Department, a one-position managerial classification developed in 2014 that requires minimum qualifications of a Bachelor's degree and five years of experience. The museum publications director is in pay band 80 (salaries between $62,558 and $100,016.) All other managerial classifications that require a Bachelor's degree and five years of experience are in pay band 75 (salaries between $56,357 and $90,171), including a level 1 chief financial officer.

Classification creep is endemic in New Mexico's personnel system due to added occupational groups and classifications. In 2010, SPO added a supervisory level across most existing job families to, as SPO reports, "prevent perceived abuse" of the supervisory pay differential, or what is now called a temporary salary increase. Today, there are 134 supervisor positions. SPO has also simply added many new classifications—over 400 classifications in addition to the 134 supervisor positions—since 2001. In the June 2022 monthly organizational listing report provided by SPO, there were 862 classifications listed for the 16,800 authorized classified positions in state government, or approximately 19 positions for every job classification.

SPO only reviews a small fraction of existing classifications regularly and has not updated nearly half of classifications in the last decade.

The Society for Human Resource Management encourages regular review of job classifications. Most importantly, up-to-date job classification descriptions help with recruiting, performance management, and compensation. The society notes that failing to update classification descriptions can open the state up, as an employer, for grievances by employees. The society recommends that job descriptions be reviewed and updated once a year at a minimum.

SPO is not meeting that annual review benchmark. Of SPO's 987 different classifications listed on its website, the office has not revised 403 in the last decade (since 2012), and another 298 have not been updated in at least five years. SPO has been able to review 26 classifications in seven job families in 2022 to date. In 2021, SPO was able to review 35 existing classifications across 14 families, and in 2020, SPO only reviewed five classifications in three job families. Assuming the high point of reviewing 35 classifications a year, SPO would only be able to review classifications on average once every 28 years.

SPO also has almost one quarter (232 out of 987) of classifications that are not attached to any authorized positions, including some entire family classifications, such as

- Electronics specialist,
- Mining and geological specialist,
- Arbitrator, mediator, and conciliator,
- Postsecondary criminal justice and law enforcement teacher, and
- Construction and building inspector.

Recommendations

SPO should develop a more equitable way to distribute future legislated pay increases based on merit and filling critical, hard-to-staff positions.

SPO should rework lower pay bands into wider widths to ensure the equitable potential for in-pay-band increases and ensure the pay bands include employees with salaries currently above their authorized pay bands.

SPO should develop an action plan for reviewing all classifications annually per guidelines from the Society of Human Resource Management, deauthorize unused classifications, and adjust pay bands where necessary to eliminate the use of alternative pay bands.

SPO should consolidate classifications that only cover one person or position into broader classifications to avoid special treatment of individual employees.

SPO should add additional contextual information about overtime use to its quarterly Accountability in Government Act reporting, as it did prior to FY21. Agencies should use national and evidence-based benchmarks to determine staffing levels as the basis of their FTE budget requests as opposed to only relying on FTE vacancies.

Agencies should examine high turnover and hard-to-staff positions and come to the Legislature with a plan to improve hiring and retention with their appropriation request.

The Legislature and executive should consider following best practices set by the Government Finance Officers Association to use the U.S. Bureau of Labor Statistics' Employment Cost Index to build cost-of-labor increases into salary budget requests.

SPO and Agency Human Resource Responsibilities Should be Realigned

According to a 1963 Attorney General opinion, in creating the personnel system, the Legislature intended to balance the power of a state agency to adjust its personnel or reorganize for efficiency and effectiveness while creating a fair and equitable system of personnel administration.

Statute establishes a centralized personnel office, but New Mexico's HR capacity today is actually largely outside of SPO. The majority of the personnel system's HR professionals are in the agencies, primarily in the large agencies, and authority for the majority of personnel actions resides with the agencies. SPO reports that agencies retain authority over 90 percent of HR activities such as performance reviews, marketing for positions, and disciplinary actions, with SPO and DFA approval required for only 10 percent, including hiring, raises, and job changes.

However, the review and approval process for those 10 percent of activities has unnecessarily resulted in delayed hiring and promotions, which some agencies report has caused them to lose candidates to other agencies or the private sector.

Encouragingly, SPO and DFA have recently begun testing models to delegate HR authority back to select agencies and for select HR activities to speed hiring and other HR processes. Moving ahead, SPO should continue to find ways to allow agencies to be more nimble in their agency-specific HR activities and rethink its operations to reflect the original legislative intent in their office's creation: to provide policy guidance and quality control for agencies that can manage their own HR.

Table 10. Average Length of Time For SPO Actions from Receipt to Final Approval

Year	Length of Time (days)
FY17	4.7
FY18	14.9
FY19	17.5
FY20	14.3
FY21	34.2

Note: SPO reported that year-to-year differences were related to when DFA approval for actions occurred. According to SPO, "DFA approval was once a requirement before an action could be submitted to SPO. During another time, SPO and DFA reviewed action concurrently. The public health emergency and budget restraints to created their own exemptions to the tracking process. For FY22, DFA approval occurred after SPO approval."

Source: SPO

SPO's time to process agency requests has increased more than 600 percent in the last five years, with some actions needing approval by multiple entities. According to SPO's action logs that track all HR requests from agencies, the time from initial receipt of an item to its closure (final approval or SPO director approval) has increased from an average of five days in FY17 to an average of 34 days in FY21. The amount of time varies by agency and request type. Generally, reorganization, creation of a position, and reclassifications requests take longer to process than salary schedule changes or in-grade hires.

Over the last few years, the Department of Transportation (NMDOT) and Environment Department (NMED) had some of the longer times to have items completed (92 days for NMDOT and 39 days for NMED.) This may have been a consideration when SPO allowed these two agencies to process many of their HR requests without involving SPO in 2022.

Some HR actions that needed DFA approval had exceptionally long processing times, likely leading SPO and DFA to agree to remove DFA approval from some of those actions in July 2022. Until recently, many agency HR actions needed not only approval by SPO, but also by DFA. These actions included hiring, in-pay-band raises and other promotions, and temporary salary increases. Reporting by SPO showed that, in FY20 and FY21, DFA approval would add an average of 30 days to the approval process for those HR actions.

Georgia recently shifted to a more decentralized model for human resources allowing state agencies more control over hiring, establishing recruiting plans, and training programs. Georgia's Performance Audit Division recently released a review of the state's Department of Administrative Services Human Resources Administration (HRA). The report found despite the state's decentralized model, some human resources activities could benefit from an enterprise-wide approach such as examining market salary to compete with private sector employers, addressing workforce and succession planning, and addressing retention challenges among younger employees. The report also recommended HRA track detailed workforce metrics to prepare for the impact of generational challenges and the future of the state enterprise.

In response, SPO and DFA released a memorandum in July 2022 declaring DFA no longer needed to approve (1) new hires, (2) promotions resulting in a salary increase of less than 5 percent or more than 15 percent, (3) transfers resulting in a salary increase of more than 10 percent, (4) salary reductions of more than 15 percent, (5) salary schedule transfers, or (6) downgrade classifications for vacant positions. DFA will still approve some personnel transactions, such as in-band pay adjustments, temporary salary increases, the creation of new or double-fill positions, or reclassification of filled or upgraded classifications. See Appendix F. for the letter from SPO removing DFA approval. Given the long wait times for DFA approval, removing their sign-off on at least some of these day-to-day HR activities should allow agencies to be more nimble in supporting, retaining, and hiring workers.

Though SPO has approval authority over key HR activities, most of the HR workforce is actually concentrated in state agencies. As of June 2022, 40 agencies outside SPO had employed 241 of their own HR professionals. SPO also provides complete HR services for 11 smaller agencies and reports it may also take on the Secretary of State this summer. According to a Bloomberg HR benchmarking report, the right number of HR staff for an organization is 1.4 full-time HR staff per 100 employees. Between SPO and agency HR employees, the state has slightly less than that at approximately 1.25 HR professionals for every 100 employees.

Society for Human Resource Management (SHRM) HR Competencies

- Strategic Business Management
- Workforce Planning and Employment
- Human Resource Development
- Compensation and Benefits
- Risk Management
- Employee and Labor Relations
- HR Technology
- Global and International Human Resource Capabilities
- Talent Management
- Change Management

Ideally, HR competencies and roles are standardized across a decentralized system. SPO has begun a classification study to update the roles and competencies required to undertake strategic HR functions. The Society for Human Resource Management's (SHRM's) HR competency model includes nine categories of competencies and four career levels: early, mid, senior, and executive. SPO's new HR classification descriptions could mirror this progression to more strategic HR proficiency, not just transactional skills. In conjunction with New Mexico State University's Edge program, SPO is developing an in-house certification professional development program for HR personnel to address a critical shortage in HR talent and provide a career pipeline.

SPO has taken some promising initial steps to test delegating HR authority back to state agencies.

Likely propelled by high vacancy rates and long HR action processing times, in January 2022, SPO delegated authority to the Department of Transportation (NMDOT) and Environment Department (NMED) to approve certain personnel transactions, including in-band pay adjustments, without the need for SPO approval. SPO would still occasionally audit select transactions to ensure the department meets personnel rules (see Appendix F. for the delegation letters from SPO to the agencies.)

As a part of the delegation, NMDOT reported being able to approve a backlog of requests, which the department stated were needed to retain employees. Further, NMDOT authorized mid-year raises for 175 employees, with an average annualized raise of $6,220, for a total annualized cost of $1.1 million. However, the temporary delegation did not last long. SPO removed NMDOT's delegation authority without explanation in May (see Appendix F. for the letter removing the delegation).

NMED's delegated authority remains in place. Since then, the department has processed 63 personnel actions that would have otherwise needed SPO and DFA approval. Notably, NMED reports the time to fill new and vacant positions has been significantly reduced from over 200 days on average in FY22 before the delegation to as little as seven days after a mission-critical position became vacant. In that instance, NMED was able to "double fill" the position—they recruited for the position while the employee in the position completed their term—without having to seek DFA and SPO approval. Other examples reported by NMED:

- Within 30 days of the start of FY23, NMED created, advertised, and initiated interviews for 9 FTE for the newly created Climate Change Bureau (5 FTE) and Cannabis and Hemp Bureau (4 FTE). In previous fiscal years, it could take more than six months to staff positions created by the Legislature.
- NMED was able to retain a critical employee who had received an offer from one of the national labs by initiating a temporary promotion for taking on additional responsibilities.
- NMED was able to prioritize filling critical vacancies as needed by the department.
- NMED was able to initiate a departmentwide recruitment and retention effort with incentives such as voluntary duty station changes and personal days for referral by current employees of candidates who are hired, and extra personal days to the hire, and cash incentives to eligible retirees who provide 12 months' notice before retiring.

In focusing on HR transactions, SPO has forgone opportunities to play a strategic role in improving state personnel management.

SPO's role should reflect original legislative intent: providing policy guidance and quality control, ensuring equity and efficiency to agencies, which should have authority to manage HR programs. Under the current decentralized system, New Mexico state agencies conduct the bulk of recruitment and retention activities, such as outreach and marketing, interviewing and hiring, onboarding, performance reviews and incentives, and disciplinary and termination actions. The National Association of State Personnel Executives suggests large agencies with more than 300 employees should retain their own staff and authority for most HR functions to meet their complex talent needs and business goals.

Workforce adequacy planning: California, Texas, and Washington provide workforce planning tools and reports on their state personnel websites for agencies. California provides a worksheet for agencies as well as a road map for agencies to follow when establishing a workforce plan. Washington also provides a road map for agencies, while Texas has a manual that state agencies can use to determine their future workforce needs and ensure those needs can be met.

SPO and agencies should use benchmarks to determine staffing levels and budget needs. Centralized personnel offices can provide strategic services such as workforce adequacy planning. However, SPO does not have a statutory requirement to conduct such workforce adequacy planning or systemwide consulting and SPO staff provide limited advice and strategy consulting to agencies. This results in high variability in workforce adequacy planning across state government. Some agencies like the Children, Youth, and Families Department (CYFD) conduct comprehensive studies, while others do not examine workforce adequacy beyond reporting vacancy rates. SPO and agencies could be taking a more active role in workforce and budget planning to request personnel funding based on caseload needs, and not simply based on "positions on the books."

Best Practice: Workforce Adequacy and Budget Planning at the Children, Youth and Families Department

Ensuring adequate numbers of caseworkers are available to provide services for families involved within the child welfare system or to help those currently or previously incarcerated is essential to help improve outcomes and safety. Research highlights high caseloads for social workers within the child welfare system can lead to increased job stress, which, if not mitigated by job autonomy or other positive factors, can lead to burnout and turnover.

A 2020 LFC report found that CYFD regions with the highest caseloads had the highest rates of short-term placement in foster care and highlighted federal research showing staffing shortages has a detrimental effect on caseworker abilities to make well support and timely decisions regarding children's safety. The report also discussed how improved recruitment and retention strategies could likely improve the situation.

In response, in August 2022, CYFD released a comprehensive workforce development plan. The plan included an assessment of staffing needs based on caseload benchmarks across regions, as well as concrete strategies to reduce vacancies and turnover in the agency.

SPO does not systematically use information from employee interviews or surveys, leaving it to agencies to guess how to best reward and retain employees. Employee interviews or surveys are foundational to workforce planning and recruitment and retention efforts. Some states implement annual employee satisfaction surveys. However, New Mexico does not. By implementing these types of surveys, state leaders can understand which agencies are experiencing morale or leadership issues and work to adjust these specific practices. They can also look at statewide trends across agencies to determine if other factors need to be addressed. Washington, Vermont, and Oklahoma have implemented these surveys. Washington state also administers a systemwide voluntary exit survey before employees leave, with some common questions that allow comparing employees who leave with those who stay. The 2020 report on survey results indicated employees were switching departments but not leaving state government for local government or the private sector.

SPO does not systematically conduct or collect employee satisfaction data, although it has begun to administer exit surveys to all employees who leave. Having a consistent survey process for current employees and those who leave would provide SPO and the agencies with useful information about trends and morale for employees as a whole. The Workforce Institute recommends administering a variety of lifecycle surveys, administered at critical points during an employee's career. Without such surveys, determining what is working in the areas of recruitment and retention is impossible.

SPO notes in quarterly performance reports, "the need for a centralized data system to both capture and report on exit interviews or standardized questionnaires would be greatly beneficial in being able to pinpoint separation reasons and give agencies the tools to respond and reduce separations." The limitation to exit surveys is that they have low response rates and are often only answered by disgruntled employees.

SPO has begun to administer a standard exit survey. In 2020, SPO engaged Workforce Science Associates through a $60 thousand contract to design and administer a common community engagement survey to all agencies and create a dashboard to disseminate the results. According to Personnel Board meeting minutes, in November 2020, SPO sent exit surveys to all state employees leaving their current positions. Approximately $20 thousand was spent on the survey, which was administered once but not continued because of low participation. Since that time, SPO has begun to administer a new exit survey in which 207 departing employees have participated.

Some agencies administer their own employee surveys with varying results. The Children, Youth and Families Department's (CYFD) workforce development group creates employee exit surveys separate from SPO though response rates are low and the collected responses are difficult to quantify. CYFD has been surveying departing employees for roughly 15 years with the most current iteration developed roughly two years ago. CYFD indicates their surveys, separate from SPO surveys, are seldom completed and usually by employees who have a negative experience they want to share, which may tilt the data in a negative direction. CYFD indicates its department-specific surveys are able to be more detailed than SPO's surveys and indicated SPO's surveys are not particularly useful. CYFD does not necessarily use survey data to make changes to pay, classifications, or job functions, but if the survey responses specify an actionable problem, CYFD will act on the information.

NMED employees indicated above-average engagement in the agency in the third annual employee engagement survey. NMED administers employee engagement surveys annually and exit interviews. The agency recently started using SPO's exit survey. At 65.6 percent overall engagement (which represents the percentage of positive answers to the 88 survey questions), NMED employee engagement is higher than the 2020 baseline level of 61.9 percent and nearly twice the national average of 34 percent reported by a similar 2022 Gallup poll. Employees cited telework as a key benefit to working at the department and noted improvements in support of diversity (15 percent increase since 2020), promotions within the department (12 percent increase), and rewards for creativity and innovation (7 percent increase). They were less satisfied with their pay (8 percent decrease since 2020, with nearly 50 percent stating they were dissatisfied) and with preparation for potential security threats (6 percent decrease).

In response to findings from their employment engagement surveys, in June 2022, NMED announced a number of new retention and recruitment efforts, including working with employees who wanted to change their duty station, expanding their Albuquerque offices, and time off incentives for recruitment and referrals.

SPO has a limited advisory role to management on organizational structures and does not monitor "span-of-control." Based on June 2022 reporting from SHARE, on average, each supervisor or manager in a state executive agency oversees the work of 4.7 employees, lower than most benchmarks for span-of-control. While there are no hard-and-fast rules for optimal span-of-control levels at state agencies, some states regularly review their management structures and set span-of-control benchmarks. In 2016, North Carolina's General Assembly's program evaluation staff found their state's span-of-control to be 1 to 6.3, below their executive's recommended 1 to 8 ratio of managers to employees. The staff recommended that the state budget office conduct span-of-control studies every five years. In 2018, Wyoming's Administration and Information department did a similar study finding a 1 to 4.9 span-of-control and recommended that agencies requesting more positions explain the impact on the span-of-control and organizational layers in their statement of need to the Legislature. In 2017, the Governor of Pennsylvania issued a management directive stating that agency structures should be reviewed with the goal of becoming flatter and more streamlined and that the span-of-control should not be less than 1 to 5, except in unusual cases.

New Mexico's average span of control of 1 to 4.7 masks the 33 agencies where the span of control has dipped below 1 to 3. About half of these low-span-of-control agencies are small, with less than 20 FTE which could explain the low ratio of managers to employees. However, that still leaves 14 agencies with more than 20 FTE and fewer than three reporting employees for every manager—likely indicating these agencies are management heavy and might benefit from reorganization.

While gender wage disparities have decreased over the last decade, the 2021 New Mexico Fair and Equal Pay report published by SPO suggests gender pay disparities persist. In 2003, the Legislature passed House Bill 325, creating the Equal Pay Task Force to study the extent of gender-based disparities in the state's workforce. In 2009 Executive Order 2009-049 directed SPO to prepare an annual *Fair and Equal Pay Report.* The 2021 report issued by SPO reported 47 percent of pay bands showed no gender-based wage gaps, a 14 percent decrease for the gap reported in the 2009 baseline study. Of the 53 percent of pay bands with gender-based wage gaps, the majority were below the national average of an 18 percent gap. However, the report noted gender disparities may exist in promotion, noting some low pay bands only had female employees and some high pay bands were male only. The methodology used which averages across pay bands did not capture these differentials.

SPO has identified improving workplace diversity as a goal, but SPO does not systematically collect the racial and ethnic demographic data necessary to support such initiatives. The Equal Employment Opportunity Commission (EEOC) requires some federal agencies to systematically identify, examine, and remove barriers to equal participation at all levels of their workforce and report on such barriers annually. However, the federal Government Accountability Office (GAO) found that in 2020, while the overall proportion of racial and ethnic minorities in several federal agencies increased, representation among certain demographic groups decreased and some demographic groups experienced lower promotion rates. In response, the GAO recommended several federal agencies take steps to remove additional barriers, including conducting analyses of workforce data and employee group feedback. Similarly, the Colorado Department of Personnel and Administration provides guidance to state agencies to develop strategic plans to implement equitable hiring, compensation, and retention practices. The department is required to annually publish an annual report about the outcomes of these efforts. In contrast, New Mexico has reduced reporting about workforce diversity since 2020, removing data previously reported about hiring diversity previously shared in quarterly reports. In its June 2021 *Strategic Map*, SPO identified a "diverse workforce" among its five focus areas, with a high-level goal to "improve the effectiveness of state government through promoting diversity, equity, and inclusion in the workplace."

Table 11. Ethnic Groups in New Mexico Population Versus State New Hires, FY20

Ethnicity	Percent in Ethnic Group	Percent of New State Employee Hires
African American	3%	3%
American Indian	**11%**	**6%**
Asian	2%	1%
Caucasian	37%	31%
Hispanic	49%	52%
Not Specified	--	6%

Source: SPO Quarterly Report FY20 Q4, Census Quick Facts

Neither SPO nor the agencies systematically collect demographic data. This data is sometimes collected during the initial application process in a demographic data sheet attached to SHARE job postings. However, the application process does not require applicants to identify their race or ethnicity; disclosure is optional and, according to SPO, infrequent. SHARE is the state's primary recruitment and hiring tool but is used passively to advertise positions and accept and rank online applications rather than to recruit and hire a diverse workforce.

SPO does provide a simple breakdown of new hires by ethnicity in its annual *Classified Compensation Report*. It no longer reports this data quarterly. In the fourth quarter of FY20, Native Americans were slightly underrepresented among new hires compared with their presence in the general population. Otherwise, the workforce mirrors the demographics of the state.

Recommendations

SPO should continue to identify road blocks in the hiring process caused by the approval process (e.g., sign-off requirements from multiple entities for hiring actions) as they recently did by removing DFA from certain actions.

SPO should consider further expanding delegation of HR approvals, as it has to NMED, to other agencies with sufficient HR capacity.

SPO should develop goal ratios for human resources FTE to total employees for staffing at agencies.

SPO and DFA should provide guidance to agencies regarding span-of-control consistent with best practices of other states.

SPO should update HR competencies to reflect strategic HR proficiency and career progression per SHRM guidelines.

SPO should provide agencies with guidance to conduct, analyze, and disseminate results of ongoing employee engagement and exit surveys.

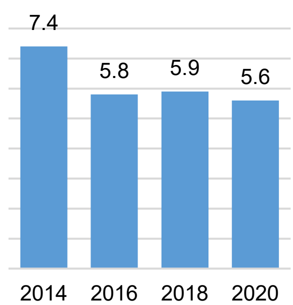
SPO should work with state agencies to collect demographic data on both new and existing employees to monitor equity in state employment.

More Could be Done to Make Benefits More Attractive to Younger Employees

With competition among employers higher than ever, the state may need to alter its benefits structure in order to attract and retain quality employees. Beyond pay, state health and retirement benefits comprise a large proportion of "total compensation." These benefits are generous, especially for people who spend most of their careers with the state. They are not always attractive nor optimal for younger or more mobile workers.

Most Americans will change employers several times over their careers, enabling healthy employee turnover, but the state's retirement system may encourage employees to stay longer than they otherwise would. The U.S. Bureau of Labor Statistics reports that recently retired Americans held between 12 and 13 jobs over their careers. That number could grow because the bureau also reports the median years of tenure with a state government employer for all Americans over age 25 decreased from 7.4 years in 2014 to 5.6 years in 2020. In 2005, the St. Louis Federal Reserve Bank posited that the general decrease in job tenure was due to declining amounts of earning premiums available to those who stayed in their jobs versus leaving for another, higher wage position.

Chart 12. Median Years of Tenure for all State Government Employees Across the U.S.



Source: U.S. Bureau of Labor Statistics, Employee Tenure Summary, September 2020

Following this increase in employment mobility, in 2017, the Pew Charitable Trusts released the results of a survey of younger state and local government employees, which revealed younger workers' top priority for their retirement plans as the ability to take savings with them when changing jobs. However, this top priority was followed closely by having a fixed, lifetime monthly benefit at retirement—something at odds with retirement funding mobility. Further, 60 percent of workers under 30 did not expect to work for their current employer until retirement, compared with 26 percent of workers aged 30 to 39. New Mexico's defined-benefit retirement plan through the Public Employees Retirement Association of New Mexico (PERA) provides a fixed, lifetime monthly benefit at retirement, but the earnings from the employee's PERA investments do not transfer in the same way that a 401(k) or other retirement benefits.

In New Mexico, PERA allows employees who are vested (currently set at five years) who terminate their employment with the state to recoup their employee contributions to the fund, along with a modest 2 percent interest. They do not get to retain any of the state employer match. The 2 percent interest rate is much lower than the returns on a typical 401(k) retirement plan—meaning employees who work for the state for a time somewhere between five years to before their retirement would likely forego a significant amount of compounding interest earnings by leaving the PERA system before retirement. This situation likely works to both incentivize employees to stay in a career in public service in New Mexico but may also create "golden handcuffs" where employees feel trapped in a job and unable to move to a new job or employer even if it would be otherwise beneficial to do so.

New Mexico's state employee pension system is most beneficial to employees who start in the public sector early in their career and do not leave. A 2015 Urban Institute report noted, "the central mission of the public pension system is to provide retirement income to government employees, yet most public plans provide little retirement security to government employees who do not spend a full career in public service. … Additionally, most public plans lock in mid-career employees—who might be more productive elsewhere—by providing lucrative benefits if they remain on the job for a certain number of years but few benefits otherwise."

Employees who separate earlier essentially lose money by participating in the state's mandatory PERA pension plan because they could have earned more by investing their contributions outside the plan. These employees, even those who serve for many years, are essentially subsidizing the large pensions long-tenured employees receive (see Appendix H. for examples.)

The 2015 Urban Institute report suggested a number of changes to state pension plans to keep from penalizing early career state workers. These included replacing the pension defined benefit plan with a cash balance plan, wherein the employee's defined retirement benefits are directly tied to the amount of salary they contribute to the fund and the time they leave it invested with the state cash benefit fund, and are decoupled from the number of years they work. Public sector employees in nine states have access to these types of cash balance or direct contribution plans. Three—Alaska, Michigan, and Oklahoma—have taken the broader measure of offering a defined contribution plan as their only option for new workers. Some states like Tennessee also offer a hybrid plan wherein a portion of an employee's salary is subject to the contribution rate for the traditional pension component, and the other portion of salary is subject to the contribution rate for the more traditional 401(k) or other defined contribution component.

The downside of offering cash balance or other defined contribution plans is that they tend to cost the state because more contributions into a defined contribution plan means that fewer employees are paying into the pension plan, thereby increasing its unfunded liability. A 2018 LFC staff brief also noted that language in the state constitution providing that pension plan members acquire a "vested property right" after meeting minimum service requirements likely limits the state's ability to make pension benefit reforms unless driven by efforts to preserve the actuarial soundness of the pension fund.

The state's health plans are generally comparable in their offerings and premium costs to those of other major state employers.

However, other large employers offer health plan options that may be more attractive for higher-income or younger employees. Further, due to enhanced subsidies offered as part of the American Rescue Plan Act, many lower and middle-income employees could likely get a health plan through the state exchange for a similar or lower price if they were instead working for an employer that did not offer health coverage. Approximately 16 percent of all state employees opt out of state health plans, meaning they are likely electing to get health coverage through a spouse or some other means.

The state of New Mexico has cheaper healthcare plans than the U.S. average but requires a larger worker premium contribution for single coverage. Compared with the nation, the state of New Mexico offers health plans with total premiums that are substantially lower than the national average. This is likely driven by a lack of premium rate increases for state employees since 2019. While total premiums are low, the state sets its worker contributions of those premiums for single employees close to 50 percent, more than the national average. Worker contributions for family coverage, however, are close to the national average. This indicates that employers with single coverage are subsidizing those electing to cover their families. For employees earning over $60 thousand, the state share of the health premium decreases from 70 percent to 60 percent. At that point, the worker share of the premium exceeds the national average by $1,380 to $1,769, depending on the level of coverage.

Although total premiums for state health plans currently be lower, the amount currently collected by the General Services Department for employee health benefits is insufficient to cover the total cost. In FY22, employer and employee premiums fell short of costs by $72.8 million, or 21 percent. If premiums were to rise to cover this shortfall, the state's health plan costs would be above the national average for both single and family plans.

Table 12. State of New Mexico Annual Premium Contributions Compared to U.S. Averages

	U.S. Average (Kaiser Employer Health Benefits Survey, 2021)		% Worker Contribution	NM State for Mid Salary ($50,000 to $59,999)		% Worker Contribution	*Worker cost if premium was 20 percent more (for fund solvency)*
	Employer Contribution	Worker Contribution		Employer Contribution	Worker Contribution		
HMO Single	$6,754	$1,204	15%	$4,166	$1,785	30%	*$2,142*
HMO Family	$17,087	$5,254	24%	$12,290	$5,267	30%	*$6,320*
PPO Single	$6,702	$1,389	17%	$4,845	$2,076	30%	*$2,491*
PPO Family	$16,884	$6,428	28%	$14,294	$6,126	30%	*$7,351*

Source: Kaiser Family Foundation, State of New Mexico

Though worker contributions to health plan premiums are higher in New Mexico state government than the U.S. average, they are not necessarily higher than those offered by other major state employers. Appendix I. shows a rough comparison of health plan offerings from other New Mexico employers with primary care provider copays between $10 and $40 and deductibles between $300 and $750.

In some cases, low-salary employees may be paying more for their health insurance through the state than they would for a comparable plan through the state exchange. The Affordable Care Act provided subsidies for people up to 400 percent of the federal poverty line who needed to buy health insurance through their state exchanges because they did not have access to employer-based insurance. The American Rescue Plan Act (ARPA) newly extended eligibility for those subsidies to people with higher incomes. ARPA also increased the amount of financial assistance available to people with lower incomes who were already eligible for the subsidies. ARPA set the subsidy expansions through the end of calendar year 2022. As a result of the expanded subsidies, health care plans similar to the state's offerings are now available to low-income people without employer-based healthcare at prices much lower than what the state offers.

<u>Example 1: "Alice"</u>

- Alice lives in Santa Fe and is a tax examiner at the upper-middle end of pay band 65. She is 37 years old and has one child covered under her insurance plan.
- Alice makes $24.04 per hour, or $49,999 per year.
- Alice is enrolled in the state's most popular health plan, the Presbyterian HMO, and contributes $89.27 per paycheck or $178.54 per month.
- Through 2022, if Alice made the same salary from a job that did not offer health insurance, she would qualify for a $344 per month subsidy on the health exchange, which could get her a comparable Presbyterian health plan for only $25 per month.

- Alice could save $150 per month pre-tax if she could choose an exchange plan over the state of New Mexico plan.

Example 2: "Brian"

- Brian lives in Rio Rancho and is a customer services representative in the middle of pay band 45. He is 47 years old and is the only person insured under his plan.
- Brian makes $15.05 per hour, or $31,340 per year.
- Brian is enrolled in the state's most popular health plan, the Presbyterian HMO, and contributes $49.60 per paycheck or $99.20 per month for that plan.
- Through 2022, if Brian made the same salary from a job that did not offer health insurance, he would qualify for a $315 per month subsidy on the health exchange, which could get him a comparable Blue Cross health plan for only $47 per month.
- Brian could save $52 per month pre-tax if he could choose an exchange plan over the state of New Mexico plan.

People with job-based health coverage options do not qualify for health exchange subsidies. For lower-income state employees like Brian and Alice, simply opting out of the state coverage and purchasing a lower-cost exchange plan is not an option. Therefore, forcing them to accept a higher-premium health plan through the state may be a disincentive for continued employment.

Unlike the state, the federal government, and Sandia and Los Alamos National Laboratories offer high deductible health plans with a Health Savings Account. These plans may be attractive to younger, healthy employees as well as those with higher income and the ability to use a self-directed health savings account (HAS) effectively. A high deductible plan has a lower premium cost but also a higher deductible (meaning the employee pays for more of their healthcare items and services before the insurance plan pays). An HSA is an account where an employee directs funds from their paycheck pre-tax into the account, up to $3,650 a year for an individual or $7,300 for a family. An employer may also contribute to the HSA. HSA money can earn interest, be invested in stocks or mutual funds, and be spent (tax-free) on medical expenses. HSA money also rolls over year to year.

Teleworking options may be attractive to potential employees but SPO's telework policy is not mandatory, does not constitute a benefit, and allows for variation among agencies.

The Covid-19 pandemic significantly altered the operation of state government, including where employees work and how they interact with colleagues and the public. Since the March 2020 public health order, state government has largely moved to a teleworking model with differing telework policies among state agencies. Agencies report employees are generally satisfied with teleworking policies and productivity has not suffered. However, data supporting this is not readily available.

SPO issued a nonmandatory telework policy in June 2021, giving agencies broad latitude to allow employees to work remotely, potentially creating disparities in classifications across agencies. Job flexibility can be a competitive advantage, agencies with more lenient teleworking policies may have an advantage in hiring, and certain policies may incentivize employees moving to different agencies. For example, LFC staff interviewed Department of Transportation (NMDOT) and Human Services Department (HSD) human resources directors and obtained their nonmandatory telework policies dated October 21, 2021, and July 6, 2021, respectively. Both NMDOT and HSD may be somewhat unique in that a large number of their employees are not capable

Job flexibility can provide a competitive advantage: Even before the pandemic, the state of Tennessee implemented "alternative workplace solutions" in mid-2016 and found it resulted in benefits such as increased productivity and flexibility for employees, stronger recruitment and retention of top talent, better customer service for citizens, improved energy management, and reduced square footage and lower costs as a result. Tennessee employees can telecommute or go to a central location with a variety of seating options, such as standing desks, lounge areas, or conference rooms, as opposed to a traditional office. Approximately one year after implementation, the number of employees increased by roughly 4,000 and by year two, roughly 9,000.

of working from home because of the nature of their work, such as road maintenance and working one-on-one with the public. NMDOT indicated roughly 35 to 40 percent of their workforce would actually be capable of working from home. Sampled nonmandatory telework policies make clear teleworking is not a right, an entitlement, or a state benefit and is only appropriate for some employees in certain job classifications. Because of this, teleworking options are not currently used as a recruitment tool for state agencies.

Other states, recognizing the significant role remote work will play in an evolving workforce, now offer teleworking as a recruiting tool and offer remote work certificate programs to help prepare workers and employers to succeed in remote work settings. Colorado launched a remote work initiative through their Department of Labor and Employment, encouraging those interested in remote working and employers of remote workers to become certified in remote working. Two separate online certificate programs, one for workers and one for employers, offer courses on strategies for successful productivity, collaboration, and advancement within remote and hybrid work environments. Courses are $75, but some job seekers and students can be eligible for reduced pricing. California also offers its remote workers resources on teleworking, including a dedicated website with employee guidelines, tips for setting up a remote workspace, best practices, tips and etiquette for successfully teleworking, and technical guidance.

A snapshot of state employees in April 2022 shows 26 percent of state employees teleworked more than half-time, but the proportion of employees teleworking more than half-time varied widely by agency. Employee data is collected through SHARE and employees must indicate the number of hours worked away from their place of employment. The data shows that relatively few state employees telework most of the time, but frequent teleworking is not evenly distributed across agencies. Though data is collected on whether or not state employees are teleworking, the effect of teleworking policies on state employee retention and recruitment is not tracked.

Recommendations

SPO should work with PERA to investigate offering optional cash balance, deferred compensation, or hybrid plans to new employees instead of the traditional PERA pension.

SPO should consider implementing a mandatory systemwide telework policy to promote fairness across agencies and market it to potential employees as a benefit.

The General Services Department should investigate the feasibility of offering a high deductible health plan with a health savings account as a lower-cost option for younger employees.

NEW MEXICO
STATE PERSONNEL OFFICE

Michelle Lujan Grisham
Governor

L. Teresa Padilla
Director

August 15, 2022

Chair Lundstrom and Members of the Legislative Finance Committee

BY EMAIL: Michaela.Fischer@nmlegis.gov

Dear Chair Lundstrom and Members of the Legislative Finance Committee:

Attached is the State Personnel Office's response to the Legislative Finance Committee's August 12, 2022 draft State Personnel Office program evaluation.

Sincerely,

L. Teresa Padilla
Director

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STATE PERSONNEL OFFICE RESPONSE TO
LEGISLATIVE FINANCE COMMITTEE REPORT 22-03

NEW MEXICO
STATE PERSONNEL OFFICE

State Personnel Office Purpose

The purpose of the State Personnel Office is to support the State Personnel Board in overseeing the personnel system for the State of New Mexico classified service. Together, the State Personnel Office and its Director are the administrative arm of the State Personnel Board. The Personnel Act, NMSA 1978 10-9-12(A), establishes that it is the duty of the Director to supervise all administrative and technical personnel activities of the classified service. The State Personnel Board Rules, which effectuate the Personnel Act, lay out the responsibilities of the Director – and by extension the responsibilities of the State Personnel Office -- with greater specificity.

By statute and regulation, the State Personnel Office and its Director's overarching responsibilities include, without limitation:

Recruitment

- Establishing a means to effectively advertise and recruit for vacant positions within the classified service (1.7.5.9(A) NMAC), and
- Establishing job application procedures and recruitment criteria to guide the job application process (1.7.5.9(D), 1.7.5.10(A) NMAC).

Examinations

- Developing, approving, supervising, and establishing procedures to administer examinations of applicants and employees to measure knowledge, skills, and abilities necessary for successful job performance (1.7.5.11 NMAC),

Classification

- Developing, establishing, maintaining, and administering a classification plan for all positions throughout the classified service (1.7.3.7 NMAC, 1.7.3.8(A) NMAC),
- Assigning each position in the classified service to the classification that best represents the duties assigned by the employer and performed by the employee (1.7.3.9(A) NMAC),
- Performing and implementing classification studies (1.7.3.10 NMAC),
- Establishing, maintaining, and administering a pay plan for all positions throughout the classified service, including the pertinent factors that should be considered by managers when determining and justifying appropriate placement within a pay band (1.7.4.8(A) NMAC),

Compensation

- Conducting an annual compensation survey that includes total compensation and utilizes a comparison market of private and public entities within New Mexico, regional state government employers, and central, western, and southwestern state government employers (1.7.4.8(D) NMAC),
- Creating an annual compensation report that includes a summary of the status of the classified pay system and the results of the annual compensation survey (1.7.4.8(E) NMAC),

- Appointing a job evaluation committee and training the committee members in the job evaluation and measurement process to enable the application of the process to all newly created or revised classifications (1.7.4.9 NMAC),
- Converting the evaluation points awarded to a job by the job evaluation committee to the appropriate pay band (1.7.4.9(A)-(B) NMAC),
- Recommending to the State Personnel Board the assignment of alternative pay bands to address compensation related to recruitment and retention issues and annually recommending to the Board which alternative pay band assignments to continue or remove (1.7.4.10(A), (E) NMAC), and
- Developing and maintaining salary schedules for the classified service that consist of pay bands and adjusting the salary schedules to address external competitiveness of the service or other concerns (1.7.4.11(A), (C) NMAC).

Workforce Planning

- Approving certain compensation actions for classified service personnel (1.7.4.12, 1.7.4.13(A)-(B) NMAC),
- Approving limited personnel actions for classified service in connection with recruiting, including recruitment waivers, underfills, and doublefills (1.7.5.8(A)-(C) NMAC), and
- Strategize with agencies on appropriate organization and classification (1.7.3.9(A) NMAC).

Performance Appraisal

- Approving an appraisal form to document the performance and development of managers and employees, approving a course of study on employee performance appraisal for managers and supervisors to complete within 90 days of appointment as a supervisor, and reporting to the State Personnel Board each agency's record in conducting performance appraisals each calendar year (1.7.9.8(A), 1.7.9.9(A), 1.7.9.12 NMAC).

Training

- Establishing and maintaining a training and development work plan (1.7.1.15 NMAC).

Safety-Sensitive

- Maintaining a list of positions designated as safety-sensitive and presenting requests to the State Personnel Board for additions and deletions of safety-sensitive positions (1.7.8.9(B), (D) NMAC), and
- Identifying 10% of safety-sensitive positions for annual drug testing on a random-selection basis (1.7.8.11(E) NMAC).

Employee Complaints

- Hearing appeals of agencies' final decisions on internal employee complaints, when the complaint pertains to an interpretation of State Personnel Board Rule (1.7.6.13(D) NMAC).

Adjudication

- Hearing and making recommended decisions on appeals of employee discipline and separations without prejudice before the State Personnel Board (1.7.10.13 (F)(3)(e)-(f), 1.7.12.20 NMAC)

Settlement Agreements

- Approving settlement agreements between agencies and employees that implicate State Personnel Board Rules (1.7.1.13 NMAC).

Quality Assurance and Data Analytics

- Auditing the administrative and technical personnel activities of the state (1.7.1.8 NMAC).

Labor Relations

In addition, the State Personnel Office is the Governor's designee for purposes of negotiating and administering the collective bargaining agreements between the State of New Mexico's and its primary public unions, AFSCME and CWA, pursuant to the Public Employees Bargaining Act, NMSA 1978, Section 10-7E-1 et seq.

This list demonstrates the broad scope of responsibilities the State Personnel Office and its Director have in the administration of the classified service personnel system.

Legislative Finance Committee (LFC) Report 22-03 Misunderstands the Purpose and Work of the State Personnel Office

1. State Personnel Office Not Involved in Majority of Agency Human Resources Activities

Report 22-03 repeatedly states and bases much of its analysis on the mistaken assumption that the State Personnel Office is involved in and "bogs down" agencies' day-to-day human resources functions. This is simply not the case. The cumulative effect of the State Personnel Board Rules is that the State Personnel Office Director is required to approve approximately 10% of the agencies' personnel and compensation actions. The remaining 90% occurs wholly at the agency level.

For example, agencies do not need State Personnel Office approval and are entirely responsible for: hiring employees at entrance salaries below the principal contributor zone (below 115% compa-ratio), awarding promotional salary increases between 5% and 15%, imposing demotional salary reductions (15% maximum), granting first line supervisory pay allowances (20% maximum), approving salary increases upon transfer up to 10%, implementing non-demotional salary reductions up to 15%, and granting temporary promotional increases. 1.7.4.12 NMAC. The State Personnel Office is not involved in the vast majority of agencies' other day-to-day human resources activities such as creating job postings, generating and reviewing applicant lists, selecting applicants to interview, confirming applicants meet minimum qualifications, interviewing candidates, making hiring decisions, issuing offer letters, pre-selection drug screening, pre-selection background checks, verifying employment eligibility, drafting agency human resources policies, handling leave and overtime requests, responding to FMLA and ADA reasonable accommodation requests, administering Workers' Compensation benefits, imposing separations without prejudice, assisting with benefits enrollment and tax elections, running payroll, evaluating employee performance, implementing performance development plans, responding to employee complaints and grievances, random and reasonable suspicion drug testing, conducting investigations, imposing discipline, and handling resignations and retirements.

The only instances where the State Personnel Office is involved in ***all*** of the identified personnel actions, compensation actions, and other human resources activities is on behalf of its own employees and for its Human Resources Services agencies, which are agencies that are too small to warrant their own human resources divisions and instead ***pay*** the State Personnel Office to handle all of their human resources functions. (Payment occurs as reimbursement through the operating transfer process.)

2. <u>State Personnel Office Not Responsible for Delays in Agency Hiring</u>

LFC Report 22-03 also erroneously assumes and states that the State Personnel Office oversees the hiring process for the State of New Mexico classified service. But this is flatly wrong. The State Personnel Office is responsible for advertising and recruiting for vacant positions within the classified service, which takes only one or two days at most. 1.7.5.9(A) NMAC. Individual agencies are then responsible for the vast majority of the hiring process: creating job postings, generating and reviewing applicant lists, selecting applicants to interview, confirming selected applicants meet minimum qualifications, interviewing candidates, making hiring decisions, and issuing offer letters. Again, this is the case 90% of the time.

Only in the limited instances where an agency's hiring process is outside the norm – for example, when the proposed hiring salary is above 115% compa-ratio – is State Personnel Office and Department of Finance and Administration (DFA) approval required. Report 22-03 states that it takes agencies nine weeks to hire for posted jobs and points to the State Personnel Office as the cause of this protracted timeline. In fact, data shows that it takes the State Personnel Office and DFA 34 days, on average, to review their portion of the hiring process. And again, that is the case only the 10% of the time that hiring actions come to the State Personnel Office at all.

3. <u>State Personnel Office Does Not Review Most Promotions or Position Changes</u>

LFC Report 22-03 inaccurately reports that it takes, on average, over a month for the State Personnel Office and other agencies to review and approve promotions and position changes. But this shows a misunderstanding of state processes. Most promotions and position changes do not require State Personnel Office review at all. Permanent promotional increases between 5% and 15%, all temporary promotional increases, and salary increases upon transfer up to 10% can be implemented at an agency's discretion. State Personnel Office approval is required only for the uncommon permanent promotional increase below 5% or above 15% and the salary increase upon transfer above 10%. This allows the State Personnel Office to review the agency's justification for unusual proposed salary changes, to maintain internal alignment within the agency, and to help ensure responsible use of taxpayer monies. Also importantly, it takes the State Personnel Office an average of only 11 days to complete its approval process on the limited promotions and position changes it sees. Any additional delays can be attributed to the time it takes for agencies to remedy problems with their paperwork and submit the required documentation.

Additional Misconceptions and Inaccuracies of Report 22-03

4. FY23 Legislative Pay Increase Was Successful

Contrary to the findings of LFC Report 22-03, the FY23 legislative pay increase was successful in what it set out to accomplish. It raised the minimum wage within the State of New Mexico classified service to $15 per hour and simultaneously avoided the compaction that would have been the result of a less thoughtful plan. The plan methodically applied graduated percentage increase multipliers based on both the pay band and compa-ratio of employee base salary. To ensure fairness, the FY23 pay increase plan also provided all State of New Mexico employees a salary increase of at least 4%.

5. Recent Trial Delegations of Line Authority Have Not Been Successful

LFC Report 22-03 repeatedly references the State Personnel Office's recent trial delegation of line authority to the Department of Transportation and the Environment Department as a way to improve "cumbersome" human resources processes and as a model that should be repeated with other state executive agencies. What Report 22-03 fails to report is that these delegations have not proven successful. Both agencies requested line authority in order to fill their vacancies more nimbly. In reality, however, between January 2022, when line authority was delegated, and May 2022, when the delegation expired, the vacancy rate at the Department of Transportation *increased* from 15.63% to 18.10%. Similarly, between January and July 2022, the vacancy rate at the Environment Department *increased* from 23.13% to 24.49%. Delegating line authority to these agencies did nothing to improve their vacancy rates.

State Personnel Office Innovation

Finally, although this information was provided to LFC Program Review personnel, LFC Report 22-03 does not recognize or report on the State Personnel Office's ongoing, creative efforts to improve recruitment, retention, and streamline human resources processes for the State. Those efforts include, without limitation:

Recruitment and Retention

1. Occupation-Based Salary Structures – The State Personnel Office continues to improve the competitiveness of New Mexico classified service jobs by performing classification studies and developing occupation-based classification families and salary schedules. To date, the State Personnel Office has implemented these occupation-based classification and salary structures in the areas of Architecture, Attorneys, Corrections, Engineers, Healthcare, Information Technology, Peace Officer, and Social Services. Each of these occupation-based classification families has a tailored pay line, which allows for targeted compensation adjustments to help ease market tensions and keep New Mexico's classified service jobs competitive in these critical job market sectors.

2. FY23 Pay Increase – The FY23 Pay Increase was unprecedented in the problems that it addressed at one time. Not only did it raise the State of New Mexico minimum wage to $15/hour, avoid compaction, and ensure at least a 4% increase for every classified employee, all of which positively affects retention, but the upward adjustment made in the general salary schedule helps with recruiting efforts by making State government a more competitive employer going forward.

3. NMSU Edge –The State Personnel Office is partnering with NMSU Edge to create a State of New Mexico Human Resources Certification Program that will quickly grow the pool of applicants who meet the minimum qualifications for State of New Mexico human resources positions. The classes comprising this Program will be offered in the 2023 Spring Session. Once the Human Resources Certification Program is established, the State Personnel Office and the Department of Finance and Administration will work with NMSU Edge to create a similar certification program to increase the pool of potential applicants for financial positions within the State of New Mexico.

4. Improved Use of Application Data – The State Personnel Office is currently working with the Department of Information Technology to develop a system to identify job applicants who have applied for specific types of positions, contact them with information about other, similar jobs within State of New Mexico government, and encourage them to apply.

5. State of New Mexico Exit Survey – In an effort to improve employee engagement and retention, the State Personnel Office worked with a committee of agency human resources managers to develop a uniform exit survey for all executive agencies. The State of New Mexico Exit Survey launched in late November 2021, and the State Personnel Office Quality Assurance and Data Analytics Team began relaying Survey responses to respective agency human resources managers in December 2021.

6. Access Perks – In an effort to bolster employee retention, in June 2022 the State Personnel Office implemented a new state employee benefit, Access Perks. Through Access Perks, at no additional cost to the employee, State of New Mexico employees can get deals and discounts at local and national restaurants, movie tickets, hotels, and more.

Streamlining Processes

1. Résumés – In March 2022, the State Personnel Office simplified the State of New Mexico on-line job application process by allowing applicants to attach their résumé to their application, rather than requiring them to enter the dates of employment and their job responsibilities for each separate piece of their work history.

2. Reduced Number of Actions Requiring Department of Finance and Administration Approval -- The State Personnel Office recently collaborated with DFA to significantly reduce the number of personnel and compensation transactions requiring both SPO and DFA approval. As of July 9, 2022, DFA approval is no longer required (and only SPO approval is required) for: hires in the principal contributor zone (115% compa-ratio and higher), permanent promotions of less than 5% or more than 15%, salaries upon transfer of more than 10%, non-demotional salary reductions of more than 15%, salary schedule to salary schedule transfers of more than 10%, and vacant position reclassifications downward or lateral. This has already resulted in faster turnaround times for hires and the identified actions.

3. Human Resources Training – The State Personnel Office Training Team developed and, in November 2021, launched a series of trainings for agency human resources staff on State Personnel Board Rules and efficient use of SPO's human resources business processes within those Rules, including how to best pursue personnel and compensation actions.

NEW MEXICO
STATE PERSONNEL OFFICE

4. Improved Agency Access to Data – In FY23, the State Personnel Office will begin issuing quarterly reports that aggregate agency data for review and feedback. This will create a direct channel for agencies and the State Personnel office to work together to identify and address challenges being faced at specific agencies.

In conclusion, LFC Report 22-03 seems to demonstrate a lack of full understanding of the purpose and work of the State Personnel Office. The State Personnel Office will take the LFC's recommendations into consideration and, as always, remains committed to reviewing its processes to support and improve the State of New Mexico personnel system.

APPENDICES

Appendix A: Evaluation Scope and Methodology

Evaluation Objectives.
- Examine how compensation, classification and benefits packages impact the competitiveness of the state in attracting and retaining employees;
- Identify how SPO and agencies work to fill vacancies and retain employees; and
- Examine opportunities to optimize the state personnel system and workforce planning.

Scope and Methodology.
- Reviewed:
  - Applicable laws and regulations.
  - Agency HR policies and procedures.
  - Relevant performance measures, SPO annual reports, Personnel Board meeting materials, and related documents.
  - Past LFC hearing materials related to SPO and personnel.
- Analyzed data from SPO and agencies to identify barriers to recruiting and retaining employees.
- Conducted site visits and interviewed SPO and agency HR staff.
- Attended State Personnel Board meetings.

Evaluation Team.
Micaela Fischer, Lead, Program Evaluation Manager
Nathan Eckberg, Esq., Program Evaluator
Sarah Dinces, Ph.D., Program Evaluator
Kathleen Gygi, Ph.D., Program Evaluator

Authority for Evaluation. LFC is authorized under the provisions of Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political subdivisions; the effects of laws on the proper functioning of these governmental units; and the policies of statutory responsibility, LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with state laws.

Exit Conferences. The contents of this report were discussed with the State Personnel Office Director and her staff on August 10, 2022.

Report Distribution. This report is intended for the information of the Office of the Governor, State Personnel Office, Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Jon R. Courtney Ph.D.
Deputy Director for Program Evaluation

Appendix B: SPO's FY22 Third Quarter Report Card

PERFORMANCE REPORT CARD
State Personnel Office
Third Quarter, Fiscal Year 2022

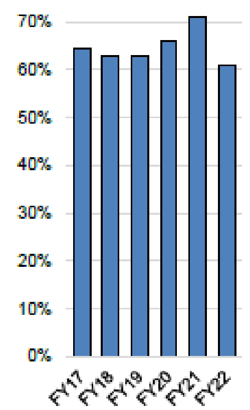
ACTION PLAN

Submitted by agency?	No
Timeline assigned?	No
Responsibility assigned?	No

The state continues to face challenges related to employee recruitment and retention. The State Personnel Office (SPO) reports the classified service vacancy rate is 22.6 percent, down slightly from the second quarter but still above prior year averages, and state agencies continue to take longer to fill vacant position, with time to fill averaging 69 days in the third quarter. SPO notes agencies have the responsibility to promptly complete the hiring process and delays at the agency level can lead to increases in the time to fill metric. While agencies share in the responsibility for lengthy hiring processes, SPO could develop an action plan to identify agencies that lag their peers, assign specific SPO staff to work with agencies to reduce long time to fill, and provide regular follow-up and support to help agencies not meeting targets improve internal procedures.

Once positions are filled, fewer employees are completing their probationary period, with only 57 percent completing in the third quarter, despite new hires being offered salaries above pay band midpoints. Finally, about half of state employees continue to work-from-home on a part time basis, however the state does not have a formal, statewide teleworking policy, allowing individual agencies to set policies. Evidence suggests current job seekers consider teleworking policies when choosing places to work; lack of permanent policies may harm competitiveness and lead to ad hoc policies more likely to impact agency service delivery.

New Employees Completing One Year Probation Period



Source: SPO

At SPO's request, a number of measures are classified as explanatory, meaning they do not have performance targets. However, ratings were given based, in part, on prior year performance.

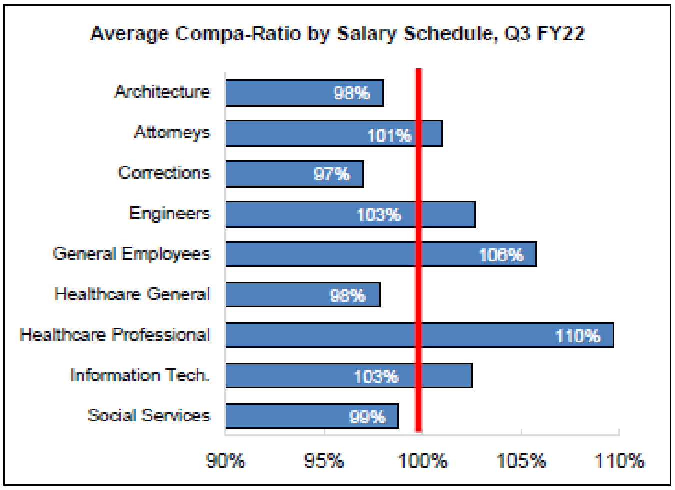
Budget: $3,875.9 **FTE:** 44	**FY20 Actual**	**FY21 Actual**	**FY22 Target**	**FY22 Q1**	**FY22 Q2**	**FY22 Q3**	**Rating**
Classified service vacancy rate	21%	19.9%	N/A*	22.3%	22.8%	22.6%	Y
Average days to fill a position from the date of posting	56	50.5	N/A*	72	70	69	R
Average state classified employee compa-ratio	103%	103.4%	100%	104.9%	104.1%	104.8%	R
Average state classified employee new-hire compa-ratio	100%	98.6%	N/A*	101.6%	102.6%	101.5%	R
New employees who complete their first year of state service	66%	71%	N/A*	60%	65%	57%	R
Classified employees voluntarily leaving state service	12%	13%	N/A*	5.5%	4.5%	5.5%	R
Classified employees involuntarily leaving state service	2%	1.6%	N/A*	0.4%	0.5%	0.4%	
Number of hires external to state government	NEW	1,996	N/A*	621	788	736	G
Program Rating	Y	Y					R

*Measure is classified as explanatory and does not have a target.

SPO's quarterly report does not include information on salary competitiveness or turnover by job type, but measures of compa-ratio, or salary divided by midpoint of salary range, continue pointing to salary inadequacy for some employees.

While compa-ratio for occupation-specific salary schedules are generally competitive, the average compa-ratio is 106 percent for employees on the general salary schedule and 110 percent for healthcare professionals.

For FY23, the General Appropriation Act of 2022 includes $57.6 million for salary increases for state employees. However, increases were not allocated to state agencies on a proportional basis. Instead, the executive pay plan prioritizes increases to employees on the general salary schedule, rather than for occupations with a specialized salary schedule. As a result, agencies with a higher share of employees on occupational salary schedules received smaller share of the amount appropriated for executive agency compensation increases.



Section 8 Salary Increase Allocations for Select Agencies

Agencies Highest Share of Occupational Schedule Employees

	Agency	Cost of 1% Salary Increase – GF	Total GF Allocated for FY23	Average Raise Funded by Allocation
55000	State Engineer	$162.9	$1,163.1	7.1%
36100	Dept. of Information Tech.	$4.7	$35.2	7.5%
77000	Corrections	$996.0	$8,691.6	8.7%
62400	Aging and Long Term Services	$97.9	$778.0	7.9%
34000	Administrative Hearings Office	$14.6	$107.6	7.3%

Agencies with Largest Percentage Increase from General Fund

		Cost of 1% Salary Increase – GF	Total GF Allocated for FY23	Average Raise Funded by Allocation
50800	New Mexico Livestock Board	$3.3	$55.0	16.6%
63000	Human Services Department	$307.9	$4,493.2	14.6%
36900	State Commission of Public Records	$20.4	$253.3	12.4%
63100	Workforce Solutions Department	$51.6	$632.2	12.3%
50500	Cultural Affairs Department	$196.9	$2,295.3	11.7%
	Total for Executive Agencies	**$6,270.4**	**$57,621.5**	**9.2%**

Source: LFC Analysis of DFA data

Note: The cost of a 1 percent increase is estimated from DFA allocations of the 3 percent across-the-board increase for FY22

Appendix C: Past NM SPO Reforms

In 2000, SPO undertook a major reform effort called NM.HR.2001 that decentralized HR authority, and reduced and broadened position classifications and pay bands with the intent of creating a fairer and more flexible personnel system. Aided by consultants (The Hay Group) and a policy advisory group that consisted of equal executive and legislative members, SPO proposed a series of reforms in 2000 to tackle problems of high vacancy and turnover rates, a proliferation of classifications, and inability of managers to reward employees through pay increases tied to annual performances. The result was the institution of flexibility for agencies to grant in-pay-band and temporary salary increases, a significant reduction in the number of pay bands and classifications, and an $11 million appropriation from the Legislature for agencies to provide merit-based increases. Since that time, both classifications and pay bands have again proliferated to the point that they are almost as numerous as they were before the 2001 reforms.

Importantly, NM.HR.2001 decentralized human resources management away from SPO and to agencies in an attempt to give more managerial flexibility to reward employee performance. While deemed an initial success, by 2006, the LFC had asked the Hay group to review the state's pay plans and implementation of NM.HR.2001. Hay found that the decentralized flexibility provided in NM.HR.2001 also needed SPO to provide an effective oversight and quality assurance function. However, according to Hay, SPO had become "focused more on control/policing instead of on process and outcomes improvement."

Finally, Hay found that SPO, at 65 FTE, was understaffed to be able to fully meet its mission, and at the same time, was duplicating efforts across government. Hay recommended the LFC and SPO work together to set goal ratios of human resources staff to total employees based on industry benchmarks.

In 2017 the state proposed consolidation of HR functions for all agencies, claiming this would lead to cost savings and efficiencies, however by 2019 the state reversed course. In a June 2016 presentation to the LFC, SPO reported a need for HR transformation in the state including agency HR functions being focused on transaction administration rather than strategy, HR staffing rations exceeding national benchmarks, prolonged processing times, duplication of efforts and processes, inconsistent HR training, and a lack of HR technology solutions. At the time, SPO enumerated 484 human resources professionals throughout state agencies, but set a target of only having 238, or approximately 1 HR professional for every 75 employees at 2016 employment levels.

By February 2017, Governor Martinez signed executive order 2017-002 mandating SPO "as the single, unified executive branch department with human resource consolidation authority to provide and oversee the state's classified human resource operations" and directing SPO to " centralize and consolidate within SPO all human resource functions, operations, and services provided by all executive state agencies, boards, and commissions under the authority of the chief executive." The recommended reorganization had 80 HR services FTE, 29 talent acquisition FTE, six compensation and classification FTE, 32 training FTE, 74 employee and labor relations FTE, and 17 quality assurance and data analytics FTE. However, this consolidation proved to be difficult to implement.

By 2018, SPO was only able to consolidate the HR functions of 37 general funded agencies. By then, SPO discovered that the HR functions of federal and other restricted-funded agencies could not be transferred because that would have required legislation to allow SPO to charge agencies a set rate for the management of HR functions in accordance with federal requirements of the federal Office of Management and Budget. Such legislation was introduced, but never passed.

By fall 2019, after a change in governor, the executive had mostly abandoned the statewide HR consolidation effort, with the SPO director reporting to the LFC that the "last HR professional had been returned to their agency on June 24, 2019." The SPO director in 2019 reported that the path for SPO moving past the failed consolidation effort would be to "help agencies excel rather than maintaining control."

The structure of the state's HR system essentially is the same as it was at the beginning of the century.

Appendix D: Additional Information about Classification and Pay Bands

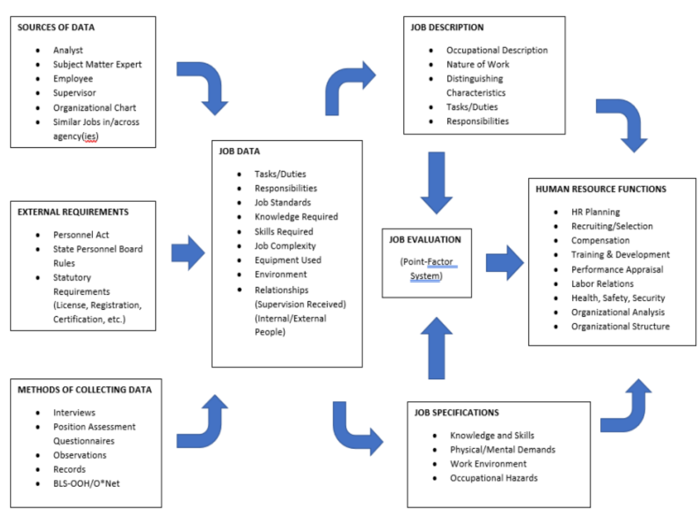
The state uses various occupational groups, classifications, and pay bands to differentiate jobs. SPO has currently authorized about 1,000 position classifications, each with their own pay band and grouped into either the general classification schedule or one of seven occupational groups. In its annual classification plan, SPO reports its classification philosophy is to provide a uniform and flexible classification system that meets the needs of its customers and allows state agencies to recruit, retain, and motivate a quality workforce to provide efficient and effective services to all New Mexicans. Further, SPOs classification objectives are to

- Systematically group jobs into occupationally and quantifiably distinct classifications based on similarities in duties, responsibilities, and requirements;
- Ensure positions are assigned to their appropriate classification;
- Be adaptable to change; and
- Establish a clear process for implementing classification studies.

Under SPO rules, classifications can change by (1) the SPO director revising existing classifications or deleting unused classifications, or (2) an agency can request a classification study. Starting in 2016, SPO undertook an effort to improve the competitiveness of classified service jobs in certain occupational sectors by performing studies to determine appropriate pay bands for those sectors. Those occupational groups are for Architects, Attorneys, Corrections, Engineers, Health Care, Physicians, Information Technology, and Social Services. At the time, the office had plans to also complete occupational groups for public safety, general administration, and trades and labor occupational groups, but those classification groups have yet to be completed.

The (re)classification process is shown below:

The Process of Job Analysis and Job Evaluation



Source: 2021 SPO Classification Plan

Appendix E: Agencies with the Smallest and Largest Compensation Increases From 2022 GAA

Section 8 Salary Increase Allocations: Agencies Highest Share of Occupational Schedule Employees

		General Fund			All Funds		
		Cost of 1% Salary Increase -- GF	Total GF Allocated for FY23	Average Raise Funded by Allocation	Cost of 1% Salary Increase -- All Funds	Budget Authority Received for FY23	Raise Funded by Increase in Budget Authority
55000	State Engineer	$162.9	$1,163.1	7.1%	$216.2	$1,556.8	7.2%
36100	Dept. of Information Tech.	$4.7	$35.2	7.5%	$126.3	$978.6	7.7%
77000	Corrections	$996.0	$8,691.6	8.7%	$1,140.8	$9,998.5	8.8%
62400	Aging and Long Term Services	$97.9	$778.0	7.9%	$135.5	$1,086.4	8.0%
34000	Administrative Hearings Office	$14.6	$107.6	7.3%	$16.3	$120.3	7.4%

Note: The cost of a 1 percent increase is estimated from DFA allocations of the 3 percent across-the-board increase for FY22

Source: LFC Analysis of DFA data

Section 8 Salary Increase Allocations: Agencies with Largest Percentage Increase from General Fund

		General Fund			All Funds		
		Cost of 1% Salary Increase -- GF	Total GF Allocated for FY23	Average Raise Funded by Allocation	Cost of 1% Salary Increase -- All Funds	Budget Authority Received for FY23	Raise Funded by Increase in Budget Authority
50800	New Mexico Livestock Board	$3.3	$55.0	16.6%	$39.8	$681.6	17.1%
63000	Human Services Department	$307.9	$4,493.2	14.6%	$933.6	$13,934.9	14.9%
36900	State Commission of Public Records	$20.4	$253.3	12.4%	$20.4	$253.3	12.4%
63100	Workforce Solutions Department	$51.6	$632.2	12.3%	$328.0	$4,134.6	12.6%
50500	Cultural Affairs Department	$196.9	$2,295.3	11.7%	$237.9	$2,789.4	11.7%
	Total for Executive Agencies	**$6,270.4**	**$57,621.5**	**9.2%**	**$12,677.7**	**$122,314.0**	**9.6%**

Note: The cost of a 1 percent increase is estimated from DFA allocations of the 3 percent across-the-board increase for FY22

Source: LFC Analysis of DFA data

Appendix F: Delegation Letters from SPO

New Mexico State Personnel Board
State Personnel Office

Michelle Lujan Grisham
Governor

Ricky Serna
Acting Director

State Personnel Board
Laura A. Liswood, Chair
David F. Cunningham, Vice Chair
Cristin M. Heyns-Bousliman, Member
Carol A. Parker, Member

January 14, 2022

Michael Sandoval
Cabinet Secretary
New Mexico Department of Transportation
1120 Cerrillos Road
Santa Fe, NM 87504-1149

Re: Delegation of Certain Line Authority

Dear Secretary Sandoval:

Pursuant to State Personnel Board (SPB) Rule 1.7.1.8(C) of the New Mexico Administrative Code (NMAC), I, Ricky Serna, Acting Director for the State Personnel Office, hereby delegate the line authority herein described to you (Delegee), on the following terms and conditions.

1. On the conditions set forth herein, you may review and execute, on my behalf, the following approvals:
    a. In Grade Hires (over 114.7% compa-ratio), 1.7.4.12(A) NMAC,
    b. In Pay Band Adjustments, 1.7.4.12(C) NMAC,
    c. Promotions (less than 5% or more than 15%), 1.7.4.12(D) NMAC,
    d. Transfers (more than 10%), 1.7.4.12(G) NMAC,
    e. Reductions (more than 15%), 1.7.4.12(I) NMAC,
    f. Temporary Salary Increases (up to 15%), 1.7.4.12(L) NMAC,
    g. Temporary Recruitment Differentials, 1.7.4.13(A) and 1.7.4.13(A)(2) NMAC,
    h. Temporary Retention Differentials, 1.7.4.13(B) and 1.7.4.13(B)(2) NMAC,
    i. Creation of positions, 1.7.3.9(A) NMAC,
    j. Reclassification of positions, 1.7.3.9(A) NMAC, and
    k. Doublefills, 1.7.5.8(C) NMAC.

2. This delegation is made pursuant to 1.7.1.8 NMAC, Approval Authority, and is subject thereto.

2600 Cerrillos Road, Santa Fe, New Mexico, 87505 (505) 476-7759

3. This delegation is effective January 14, 2022, and shall run until such time as it is either revoked by me or I no longer serve as State Personnel Office Acting Director. In the event that my service as State Personnel Office Acting Director terminates, this delegation letter is no longer effective and a new delegation letter and approval must be procured immediately.

4. This delegation is contingent upon the New Mexico Department of Transportation providing a weekly report to the State Personnel Office of all personnel transactions approved pursuant to this delegation. Weekly reports shall be submitted to the State Personnel Office beginning Wednesday, January 26, 2022, and every Wednesday thereafter. The State Personnel Office will utilize these weekly reports to audit the identified personnel actions and ensure their compliance with the SPB Rules.

5. As Acting Director, I will maintain administrative oversight and authority over this delegation.

6. The line authority delegated herein shall not be sub-delegated unless provided for specifically in this letter or a subsequent amendment in writing.

By signing this letter, both parties understand and agree to be bound by the Personnel Act, the SPB Rules, and all state and federal laws.

Ricky Serna
Acting Director, State Personnel Office

Acknowledged and agreed:

Michael Sandoval
Cabinet Secretary, New Mexico Department of Transportation
Delegee

cc: State Personnel Office Director File
State Personnel Office General Counsel

New Mexico State Personnel Board
State Personnel Office

Michelle Lujan Grisham
Governor

Ricky Serna
Acting Director

Teresa L. Padilla
Deputy Director

January 26, 2022

Stephanie Stringer
Deputy Cabinet Secretary - Operations
New Mexico Environment Department
Harold Runnels Building
1190 St. Francis Drive, Suite N4050
Santa Fe, NM 87505

Re: Delegation of Certain Line Authority

Dear Deputy Secretary Stringer:

Pursuant to State Personnel Board (SPB) Rule 1.7.1.8(C) of the New Mexico Administrative Code (NMAC), I, Ricky Serna, Acting Director for the State Personnel Office, hereby delegate the line authority herein described to you (Delegee), on the following terms and conditions.

1. On the conditions set forth herein, you may review and execute, on my behalf, the following approvals:
    a. In Grade Hires (over 114.7% compa-ratio), 1.7.4.12(A) NMAC,
    b. In Pay Band Adjustments, 1.7.4.12(C) NMAC,
    c. Promotions (less than 5% or more than 15%), 1.7.4.12(D) NMAC,
    d. Transfers (more than 10%), 1.7.4.12(G) NMAC,
    e. Reductions (more than 15%), 1.7.4.12(I) NMAC,
    f. Temporary Salary Increases (up to 15%), 1.7.4.12(L) NMAC,
    g. Temporary Recruitment Differentials, 1.7.4.13(A) and 1.7.4.13(A)(2) NMAC,
    h. Temporary Retention Differentials, 1.7.4.13(B) and 1.7.4.13(B)(2) NMAC,
    i. Creation of positions, 1.7.3.9(A) NMAC,
    j. Reclassification of positions, 1.7.3.9(A) NMAC, and
    k. Doublefills, 1.7.5.8(C) NMAC.

2. This delegation is made pursuant to 1.7.1.8 NMAC, Approval Authority, and is subject thereto.

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3. This delegation is effective January 26, 2022, and shall run until such time as it is either revoked by me or I no longer serve as State Personnel Office Acting Director. In the event that my service as State Personnel Office Acting Director terminates, this delegation letter is no longer effective and a new delegation letter and approval must be procured immediately.

4. This delegation is contingent upon the New Mexico Environment Department providing a weekly report to the State Personnel Office of all personnel transactions approved pursuant to this delegation. Weekly reports shall be submitted to the State Personnel Office beginning Wednesday, February 2, 2022, and every Wednesday thereafter. The State Personnel Office will utilize these weekly reports to audit the identified personnel actions and ensure their compliance with the SPB Rules.

5. As Acting Director, I will maintain administrative oversight and authority over this delegation.

6. The line authority delegated herein shall not be sub-delegated unless provided for specifically in this letter or a subsequent amendment in writing.

By signing this letter, both parties understand and agree to be bound by the Personnel Act, the SPB Rules, and all state and federal laws.

Ricky Serna
Acting Director, State Personnel Office

Acknowledged and agreed:

Stephanie Stringer
Deputy Cabinet Secretary, New Mexico Environment Department
Delegee

cc: State Personnel Office Director File
State Personnel Office General Counsel

New Mexico State Personnel Board

State Personnel Office

Michelle Lujan Grisham
Governor

Ricky Serna
Acting Director

L. Teresa Padilla
Deputy Director

May 12, 2022

Justin Reese
Acting Cabinet Secretary
New Mexico Department of Transportation
1120 Cerrillos Road
Santa Fe, NM 87504-1149

Re: Withdrawal of Line Authority

Dear Acting Secretary Reese:

Pursuant to State Personnel Board Rule 1.7.1.8(E), all line authority assigned to former Secretary Sandoval through the January 14, 2022 delegation letter is hereby withdrawn.

This means that, as of the date of this letter, all personnel actions for the New Mexico Department of Transportation will again require SPO and DFA approval as normally required by State Personnel Board Rule, including without limitation 1.7.3.9, 1.7.5.8, 1.7.4.12, and 1.7.4.13 NMAC.

Thank you for your participation in the line authority pilot program.

Ricky Serna
Acting Director, State Personnel Office

Acknowledged:

Justin Reese
Acting Cabinet Secretary, New Mexico Department of Transportation

cc: State Personnel Office Director File
State Personnel Office General Counsel

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New Mexico State Personnel Board

State Personnel Office

Michelle Lujan Grisham
Governor

Ricky A. Serna
Acting Director

L. Teresa Padilla
Deputy Director

General Memorandum 2022-003

To: Cabinet Secretaries, Agency Heads, and Human Resource Managers

From: Ricky Serna, Acting Director

Date: July 8, 2022

Subject: HR Transaction Approval Processes

Effective July 9, 2022:

This Memorandum repeals and replaces State Personnel Office General Memorandum 2021-002.

For the purpose of State Personnel Board Rule 1.7.4.12(A) NMAC, "principal contributor zone" is defined as 115% and above the midpoint of the pay band.

The following personnel and hiring actions shall require SPO approval only:

- In Grade Hires (in the principal contributor zone), 1.7.4.12(A) NMAC;
- Promotions (less than 5% or more than 15%), 1.7.4.12(D) NMAC;
- Transfers (more than 10%), 1.7.4.12(G) NMAC;
- Salary Upon Reduction (more than 15%), 1.7.4.12(I) NMAC;
- Salary Schedule to Salary Schedule Transfers (more than 10%)
- Vacant Position Reclassifications (Downgrade or Lateral), 1.7.3.9(A) NMAC

For the actions above, DFA may require specific agencies to submit actions for budgetary review. DFA will work with those agencies directly when necessary.

The following personnel actions shall require SPO and DFA approval:

- In Pay Band Adjustments, 1.7.4.12(C) NMAC;
- Temporary Salary Increases (up to 15%), 1.7.4.12(L) NMAC;
- Temporary Recruitment Differentials, 1.7.4.13(A) and 1.7.4.13(A)(2) NMAC;
- Temporary Retention Differentials, 1.7.4.13(B) and 1.7.4.13(B)(2) NMAC;
- Creation of positions, 1.7.3.9(A) NMAC; and
- Position Reclassifications (Upward or Filled), 1.7.3.9(A) NMAC.
- Doublefill, 1.7.5.8(C) NMAC

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Appendix G: Vacancies by Geography

Vacancies are roughly proportional to the location of most state positions. Though state employees are spread throughout 131 locations in the state, almost 70 percent of all positions are located in four cities – Santa Fe, Albuquerque, Las Cruces, and Las Vegas, but vacancies are not spread evenly among those locations nor throughout the rest of the state. Santa Fe is home to 34 percent of all state positions but 37 percent of all the vacancies. Las Vegas also has a slightly outsized number of vacancies compared to the number of positions stations there. Positions in Albuquerque and Las Cruces have slightly fewer vacancies.

Positions and Vacancies by Location, April 2022

	Total Positions	Vacant Positions	Percent of all Positions	Percent of all Vacancies
Santa Fe	2,173	8,564	34%	37%
Albuquerque	1,611	5,313	24%	23%
Las Cruces	274	958	6%	4%
Las Vegas	383	1,382	5%	6%
Los Lunas	190	810	3%	4%
Roswell	163	580	3%	3%

Source: SPO Tool

Appendix H: Examples of PERA scenarios for employees of different tenure.

Assume a 27-year-old employee begins their career after finishing graduate school and will earn between $69 thousand and $100 thousand over their careers, increasing 1 percent each working year. We assume the employee will retire as soon as possible and live to age 95. In scenario 1 below, that 27-year-old starts working for the state and never leaves. In scenario 3, the same employee comes to work for the state at age 37, after beginning their career elsewhere. In both cases, the net retirement benefits will far outweigh what the person may have available to them from working in the private sector.

However, in scenario 2, the 27-year-old works for the state for their first ten years, then leaves to work elsewhere. A combination of having to wait until age 65 to begin receiving PERA retirement benefits, and the relatively low salary our employee in scenario 2 earned at the beginning of their career means that they are actually worse off in terms of total retirement benefits than had they never worked for the state at all (scenario 5).

Table 9. Five Retirement Benefit Scenarios for a Hypothetical Employee

Assumptions: Begins career at age 27, earns between $69 thousand and $100 thousand over career, increasing 1 percent each working year. Employee will retire as soon as possible and live to age 95.

		1	2	3	4	5
		Stay working for state full career, retire as soon as eligible	Leave after 10 years, no withdrawal, assume same salary in private sector	Stay working for remainder of career, retire as soon as eligible	Leave after 10 years, no withdrawal, assume same salary in private sector	Whole career in private sector
Info	Age Begin Working for State	27	27	37	37	
	Retirement Age	57	65	61	65	65
	Years working for State	30	10	24	10	38
	Final Salary for State	$100,000	$76,495	$100,000	$84,499	
Retirement Benefits	Minus Portion of State Salary Contributed to PERA Fund	$243,109	$75,455	$209,533	$83,349	
	Plus PERA payments after retirement with 2% COLA after year two	$4,241,208	$851,672	$2,826,694	$904,067	
	Minus salary contributed to 401k from working elsewhere before retirement		$239,582	$101,155	$218,761	$303,012
	Plus returns from a 401k with 5% annual returns from working elsewhere before retirement		$1,338,463	$1,036,496	$1,707,020	$2,457,620
	Total Retirement Benefits	***$3,998,099***	***$1,875,098***	***$3,552,502***	***$2,308,977***	***$2,154,608***

Appendix I: Comparisons of Health Plan Offerings by Select New Mexico Employers

Comparison of Low-Deductible Health Plan Offerings by Select New Mexico Employers

		Employee Contribution Low			Employee Contribution Mid			Employee Contribution High		
Employer	Plan	Income Range	2-wk premium Single	2-wk premium Family	Income Range	2-wk premium Single	2-wk premium Family	Income Range	2-wk premium Single	2-wk premium Family
State	Pres HMO	> $50k	$50	$146	$50k to $59,999	$74	$219	<$60k	$99	$293
State	BCBS PPO	> $50k	$58	$170	$50k to $59,999	$87	$255	<$60k	$115	$340
LANL	BCBS PPO	> $40k	$67	$191	$40k to $80k	$72	$209	$80k to $120k	$78	$225
UNM	LoboHealth	>$35k to $49,999	$83	$241	<$50k	$111	$322			
UNM	Pres	>$35k to $49,999	$105	$307	<$50k	$140	$409			
Federal Gov.	Pres Strd. HMO	ALL	$90	$212	ALL	$90	$212	ALL	$90	$212
APS	Pres	>$39,500 to $49,999	$86	$231	<$45k	$114	$309			
NMPSIA	Pres High	$20k to $25k	$111	$322	$20k to $25k	$131	$368			

Source: LFC Files