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October 3, 2019

MEMORANDUM

TO: Legislative Finance Committee

FROM: LFC Subcommittee
Senator John Arthur Smith, Chairman
Representative Patricia A. Lundstrom, Vice Chairwoman
Senator Carlos R. Cisneros
Senator Steven P. Neville
Representative Roberto "Bobby" J. Gonzales
Representative Harry Garcia
Representative Rodolpho "Rudy" S. Martinez
Representative Candie G. Sweetser
Representative Randal S. Crowder

SUBJECT: LFC Subcommittee Report

LFC Subcommittee met on August 27, 2019.

Compensation and Controlling Benefit Costs. Pam Coleman, director of the State Personnel Office, said the office has successfully unwound the statewide human resources (HR) consolidation effort. Ms. Coleman said the consolidation was ineffective because many HR staff left their jobs instead of transferring to SPO. The consolidation fully ended in June.

Ms. Coleman said SPO's goal is to lower the statewide vacancy rate. The agency is working to improve retention and increase employment from outside the state system. Marketing government employment benefits might be an effective tool in recruitment. Implementing family and wellness programs, alternative work schedules, and educational leave may also help recruitment and retention. SPO is working with Department of Workforce Solutions to post more state jobs outside of SPO's website. Also, the agency is recruiting on social media platforms and hosting rapid hire events across the state.

SPO is developing a data analytics dashboard to determine trends in the state's workforce and is working to streamline personnel actions and revamp manager trainings. The healthcare pay study is almost complete.

LFC Analyst Connor Jorgensen said personnel funding has increased, but staffing levels have remained nearly unchanged, resulting in excess personnel funding throughout state government. Mr. Jorgensen said the low retention of new hires is contributing to stagnant staffing levels. The state loses 37 percent of new hires annually. Out of the seven states surveyed, only Wyoming offers a lower portion of its total compensation in salary. New Mexico is last in take-home pay, at 54.7 percent. LFC analysis suggests the reason for the low take-home pay is employee share of health insurance; state workers in New Mexico pay about \$1,000 more in health insurance than state workers in neighboring states.

Mr. Jorgensen said many agencies have given a number of salary increases that were not included in any pay plan. The increases were made possible through the use of the excess personnel funding already contained in agency budgets. Mr. Jorgensen said, while it is important to allow agencies to provide salary increases, the increases should be planned to ensure equitable and effective use of funds. The Department of Health gave a 23 percent increase to nurses, raising the average salary to \$81 thousand; nurses not employed by DOH average a salary of \$67 thousand in the state. Mr. Jorgensen said the salary differential is in part because employees must be paid a premium to work in rural areas, adding that determining the right rural wage premium would require additional study. Mr. Jorgensen said the salary increases may put DOH at a budget deficit.

Chairman Smith asked how LFC analysis compared New Mexico state employee compensation with other states given that New Mexico has two pension systems. Mr. Jorgensen said most states have separate pension systems for state employees and educators, so the comparison was valid.

Chairman Smith requested a geographic distribution of where vacancy and turnover rates are highest.

Risk Coverage/Group Benefits Rates. Ernestine Chavez, executive director of the New Mexico Public School Insurance Authority (NMPSIA), discussed the statutory authority of the agency and gave demographics of the number of districts and charter schools served, number of FTE, and composition of the board of directors. Ms. Chavez said NMPSIA's risk program covers \$26 billion in property value, of which \$17 billion is frame and stucco construction, which is highly flammable. Sixty percent of properties have little access to safety services, including fire response. Director Chavez said NMPSIA will be requesting a 9.5 percent budget increase for its risk program in FY21.

Ms. Chavez said the single greatest liability and cost driver facing NMPSIA is claims related to sexual molestation or inappropriate touching. The agency is working on programming to help school staff identify sexual predators. NMPSIA believes this training, combined with increased awareness, will help reduce claims by allowing school employees to prevent sexual abuse.

Ms. Chavez said NMPSIA is reducing copays for physical rehabilitation and autism treatment to match the copay required for primary care, as required by House Bill 81 and House Bill 322.

NMPSIA will likely increase medical premiums by 7.4 percent on average in FY21. The largest cost drivers are neoplasms, cancer, and diabetes. Medical costs are often higher in nonmetropolitan areas; only 15 percent of NMPSIA members live in a metropolitan area.

Clinton Nicely, director of Risk Management of the General Services Department (GSD), said the FY19 cost of defending the state in risk claims was \$11.2 million, up from \$10.1 million the year before. GSD will be paying \$3.4 million for excess property insurance and \$226.6 thousand for fine arts coverage.

Mr. Nicely said GSD is proposing a 3 percent medical insurance premium increase. GSD will be requesting a \$30.7 million supplemental appropriation to give the fund a positive balance and ensure the fund has one month's worth of program expenses in reserve. New Mexico employee contributions are approximately 15 percent higher than surrounding states.

Mark Tyndall, senior director of Employee Benefits at Albuquerque Public School (APS), said the school district will be requesting a 4.5 percent increase in health insurance rates. Mr. Tyndall said the largest cost driver is diabetes coverage, which APS is now covering at 100 percent. In 2020, APS will increase salary thresholds by \$5,000 to reflect increased teacher minimums. Increasing salary thresholds will increase the amount of the employer contribution while reducing the employee contribution. APS increased medical insurance premiums by an average of 1.9 percent per year between 2014 and 2020.

In response to Chairman Smith, Mr. Jorgensen said the three health insurance purchasing entities provide similar plans; however, the costs to employees vary dramatically. For example, GSD-plan-covered employees pay less than half the amount paid by teachers employed by a PSIA-affiliated employer. The total number of covered lives fell by 8 percent between FY16 and FY19, while costs on a per-member basis increased by 10.2 percent. Mr. Jorgensen said LFC staff is working with GSD to understand what portions, if any, of the \$30.7 million supplemental are recurring.

Representative Lundstrom asked what accounted for the difference in employee costs between PSIA and the other health plans. Mr. Jorgensen said statute requires a minimum benefit of 75 percent, but GSD provides an 80 percent employer contribution. Ms. Chavez added that school districts, not NMPSIA, set employer reimbursement rates and that schools may offer a rate up to 80 percent; school districts, however, do not have sufficient budget to pay for the increases.

In response to Representative Lundstrom, Ms. Chavez said she will provide the committee the alternative contribution schedules used by higher education institutions and charter schools, as well as school districts', which may cover a larger portion of employee health insurance costs.

Department of Information Technology Rates. Vincent Martinez, secretary of the Department of Information Technology (DoIT), briefed the subcommittee on the statutory requirements for the IT rate committee, IT rate committee members, agency services, federal requirements for a cost allocation plan, and FY21 IT rates.

DoIT rates are determined by the IT rate committee, comprising the director of State Personnel Office and cabinet secretaries of the Finance and Administration, Human, Transportation,

Tourism, General Services departments and DoIT. The rates and fee schedules are based on DoIT's cost allocation plan. While most rates are flat compared with FY20, radio service rates for FY21 are increasing about 23 percent, after DoIT decreased radio rates by 15 percent for FY20. DoIT estimates \$10.8 million in FY21 revenue collections from SHARE subscription fees, a \$270.7 thousand increase over FY20.

Secretary Martinez discussed the need to change the statute associated with the equipment replacement fund because technology models are changing from capital investment to an operational model. Statue reflects a capital investment model and it needs to be modified to cover different consumption models.

LFC Analyst Brenda Fresquez said DoIT has built up significant cash balances over the last three years. Cash balances increased from \$38.8 million in FY18 to \$54.5 million in FY20. Cash balances, are in part, driven by collection of revenue built into service rates for equipment replacement, as allowed by federal and state law. However, large IT assets are historically not paid for through equipment replacement funds but rather by general or federal funds. The 2019 legislature appropriated an additional \$30 million in general fund through the capital outlay process for DoIT statewide initiatives, including broadband, cybersecurity, and radio infrastructure.

Ms. Fresquez said the equipment replacement program provides a funding mechanism to replace aging equipment. The program has two funds: the enterprise equipment replacement fund and SHARE equipment replacement fund. Ms. Fresquez said DoIT has been is meeting its statutory requirement to have a plan for how to spend the funds.