Key Hearing Issues

NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

May 14, 2024

Project Closeout: Study of State Personnel System

Devon Lane, Project Lead, Deloitte Consulting
Prepared By: Joseph Simon, LFC Analyst

Background

- During the 2023 legislative session, the Legislature appropriated $1.2 million to LFC for a study of the state personnel system and the state's system of compensation and classification. Since August, LFC staff have been working with staff of the Department of Finance and Administration, the State Personnel Office and Deloitte Consulting, the contractor hired to perform the study.

- The study was broken down into five different areas:
    o A review of New Mexico's Personnel Act (Section 10-9-1 NMSA 1978 *et. seq.*) and benchmarking the provisions of the law to those of other states;
    o A review of the state's recruitment, hiring, and classification process;
    o An analysis of the market competitiveness of state jobs and benefits, with reference to 10 comparator states;
    o An assessment of existing job classifications and recommendations for enhancements; and
    o An assessment of the current state of employee opinion with regard to state employment.

- The study came about due to a widespread belief that state agencies are unable to hire and retain staff at competitive salaries. Additionally, a 2022 evaluation from LFC noted bureaucratic roadblocks that make the state's personnel system more complex and difficult for agencies and prospective employees to navigate. The study made recommendations to both eliminate procedural hurdles in the HR process and to better align the pay bands for some jobs to better reflect the market.

- As part of the study, Deloitte benchmarked 225 of the 813 current job classifications, covering more than 11 thousand of the state's 17 thousand classified employees. For efficiency, staff generally selected classifications with a large number of employees. For classifications with multiple levels staff selected only a subset of those classifications.
    o For example, in the Engineering Technician classification there are five levels. Levels one, three, and five were benchmarked, with that data used to extrapolate for levels two and four.
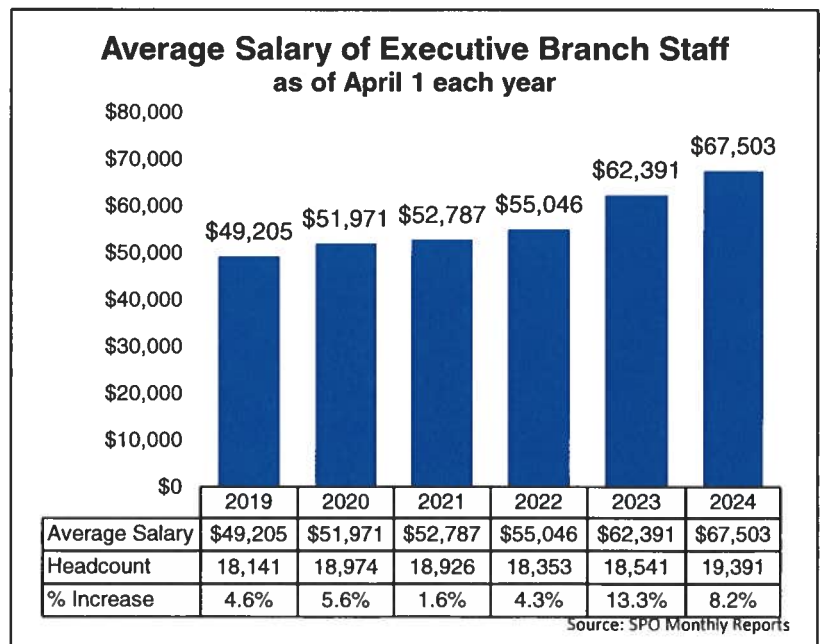
- o Additionally, due to the $15 per hour minimum wage, only a handful of classifications at lower pay bands were selected, even if there were large numbers of employees in those classifications.

- Market benchmarks used government jobs in 10 comparator states: Arizona, Colorado, Idaho, Montana, Nevada, Oklahoma, South Dakota, Texas, Utah, and Washington.

Key Findings: HR Processes, Classification and Employee Engagement

- Deloitte's report found recruitment methods used by New Mexico are outdated and could be improved by modernizing technology to include automation and analytic capabilities. The report also notes many HR transactions require cumbersome steps that often lead to bottlenecks in obtaining necessary approvals.

- Deloitte found many job descriptions are outdated, leading to a mismatch between actual job demands and documented responsibilities and job families are not fully aligned with leading practices. Additionally, classifications are inconsistently named and there is not a documented career track for many classifications.

- For employee engagement Deloitte found many employees stay with the state because they feel connected to the mission of their agency, but a lack of flexibility around remote and hybrid work may be driving turnover in some areas.

Key Findings: Compensation

- While fears of pay inadequacy was a major reason the study was commissioned, on average, compensation for benchmarked positions is 10.3 percent above the government average, but 4.7 percent below the general industry market.

- This finding may be somewhat surprising to many but may be partly due to recent significant pay increases for executive branch workers. To respond to a tight job market, agencies have needed to pay more to compete with other employers. The average salary of an executive branch worker is up more than 20 percent since FY22, despite legislative pay increases of 7 percent in FY23 and 6 percent in FY24.

Average Salary of Executive Branch Staff
as of April 1 each year

	2019	2020	2021	2022	2023	2024
Average Salary	$49,205	$51,971	$52,787	$55,046	$62,391	$67,503
Headcount	18,141	18,974	18,926	18,353	18,541	19,391
% Increase	4.6%	5.6%	1.6%	4.3%	13.3%	8.2%

Source: SPO Monthly Reports

- However, this average can mask significant differences based on job classifications. When benchmarking, Deloitte found significant differences among different job classifications. Of the 225 classifications, New Mexico currently pays below the median in 72; New Mexico pays above the market median in 153.

  - At lower pay bands, the state's policy of maintaining a $15 per hour minimum wage for state workers likely led to a number of classifications being benchmarked above market. While only a small number of classifications had a market median under the current minimum wage, this policy likely has the effect of pushing pay above market at the lower end of the pay scale, with reduced effect as pay bands increase.

- After aligning job classifications to market, Deloitte made recommendations for a new salary schedule, assigning each of the 813 job classifications a pay band on the new schedule.
  - Because the state's current pay structure is largely in line with the market, most employees would not need salary increases to bring them into the proposed pay structure. There would be costs for some classifications the study found to be significantly below market.
  - Deloitte estimates the cost of implementing the new salary structure at $12.9 million in salary, or $16.6 million with additional benefits costs.

- The table below shows a crosswalk between current pay bands by job classification currently on the general salary schedule (the largest of the 11 salary schedules currently maintained by the state) and the proposed pay band in Deloitte's report.

Proposed Pay Bands for the Current General Salary Schedule

Current Pay Band

Proposed Pay Band	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	96
1	14	6	9	8	4	2		1								
2	1	4	3	9	12	11	4	1								
3		3	2	6	15	20	13	6	1	1						
4			1	1	4	8	20	17	4							
5				1	1	2	13	32	18	4						
6							2	7	23	10	1					
7					1		1	8	18	23	2	1				
8						1		3	7	21	13			1		
9					1		1		3	6	18	7				
10								1	1	7	7	12	5	1		
11									1		3	5	9	4		
12												2	3	5	4	
13											1	2	4	3	2	1
14												1		1	1	2

Numbers above the gray boxes are currently paid above market…

…while numbers below the gray boxes are currently paid below market.

Source: Deloitte, LFC Files

*Note: Shaded boxes indicate the general location of the current pay band versus the proposed pay band when compared by the salary midpoint. For example, the proposed pay band 2 has a midpoint of $41,250, close to current pay band 35 ($40,882) and 40 ($42,696).

- On the general schedule, 194 pay bands (35 percent) were placed in the pay band with a midpoint that is closest to the current pay band's midpoint, indicating the current salary schedule is roughly in line with the market. About 40 percent of classifications (220) were placed in a higher pay band, indicating the current pay band is below market, while 25 percent (135) were placed in lower pay bands, indicating they are currently above market.

- Different salary schedules display different patterns. For example, the engineering schedule, with 29 job classifications, three were placed in a comparable pay band, while 26 were placed in a higher pay band. No classifications were placed in a lower pay band.

Proposed Pay Bands for the Engineering Salary Schedule

Current Pay Band

Proposed Pay Band	EA	EB	EC	ED	EE	EF	EG	EH	EI	EJ	EK
1											
2											
3											
4	1										
5		1		1							
6											
7			1	2	1						
8				1	1						
9					2	1					
10				1	1						
11						1	5				
12								1	1		
13						1	1	1	1		
14									1		
15											
16										1	
17											
18											1
19											
20											

Source: Deloitte, LFC Files

*Note: Shaded boxes indicate the general location of the current pay band versus the proposed pay band when compared by the salary midpoint.

- Deloitte also recommends eliminating the 11 separate salary schedules currently used by the state, which has 109 different pay bands. Managing this system is difficult and Deloitte recommends a single, 20 pay band schedule with wider pay grades to enable future higher pay.

- Deloitte's report also includes recommendations related to the state's employee health benefits programs. The report finds New Mexico's plans to be expensive for the level of coverage. New Mexico does not currently have a high deductible health plan, which many other states utilize and currently offers a flat subsidy based on the employee's salary, while other employers vary subsidies by the level of coverage.

Key Performance Issues

The study relates to several key performance measures for the State Personnel Office. In its report, Deloitte noted the time it takes to hire vacant positions, a key SPO performance measure, and recommended several new procedures to lower the time-to-hire statistic. Additionally, modernizing the technology systems used to process HR transactions could help improve timeliness. However, even without this new technology, SPO has worked with agencies to reduce this metric, lowering the time from 69 days in FY22 to 58 days in the most recent quarter. Readjusting pay bands as recommended by the report would likely lower the average compa-ratio for classified employees, possibly below 100 percent, meaning agencies have more room to grant pay increases to retain experienced workers. This will likely increase the total cost of employee compensation, currently at $108.5 thousand (salary accounts for only about $66 thousand of this total).

State Personnel System Quarterly Performance Measures, Q3 FY24

Budget: $4,715.5 FTE: 44	FY22 Actual	FY23 Actual	FY24 Target	FY24 Q1	FY24 Q2	FY24 Q3	Rating
Average number of days to fill a position from the date of posting*	69	66	N/A	62	60	58	Y
Classified service vacancy rate*	22.8%	23.8%	N/A	23.7%	22.7%	22.1%	R
Percent of classified employees who successfully complete the probationary period*	61%	63%	N/A	62%	67%	65%	R
Average classified employee compa-ratio*	105%	98.7%	N/A	100%	100.7%	101.1%	G
Average classified service employee total compensation, in thousands*	NEW	$99.8	N/A	$106	$107.9	$108.5	
Program Rating	R	Y		Y	Y		Y

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