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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/22/2007

SPONSOR Varela LAST UPDATED \_\_\_\_\_ HB 9

SHORT TITLE PUBLIC EMPLOYEE SALARY INCREASES SB \_\_\_\_\_

ANALYST Moser

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$183,444.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From:

NM Department of Corrections (NMDC)  
 NM Higher Education Department (NMHED)

#### No Responses Received From:

State Personnel Office

### SUMMARY

#### Synopsis of Bill

House Bill 9 appropriates one hundred eighty-three million four hundred forty-four thousand and fourteen dollars (\$183,444,014) from the general fund for the purpose of providing salary and benefit increases to public employees factoring in the employee's job performance and other factors such as compa-ratio. The salary increases apply to public school employees, faculty and staff at post-secondary educational institutions, executive classified employees, executive exempt employees, legislative permanent employees, judicial employees, district attorney employees and state police. The bill contains language that ties the increase to the employee's job performance. The bill ensures that employees whose salaries are funded from non-general fund appropriations will be covered by the same salary increase provisions in the bill. It also provides benefit increases for public and higher education employees and funds increasing the employer contribution to the educational retirement fund by three-fourths of a percent

## FISCAL IMPLICATIONS

The appropriation of \$183,444,014 contained in this bill is a recurring expense to the General Fund. Any unexpended or unencumbered balance remaining at the end of Fiscal Year 2008 shall revert to the appropriate fund. The amount in the bill is based upon consensus numbers reached with DFA regarding general fund costs for classified employees. There may be some question regarding the amounts specified for classification upgrades due to different methodologies utilized in compiling the data. The LFC staff and SPO are working to refine these numbers.

## SIGNIFICANT ISSUES

House Bill 9 establishes a linkage between job performance and pay allowing employees to be able to receive salary increases that are directly linked to their job performance. This would address inequities that exist when all employees receive the same salary increase regardless of how well they perform their job. The Hay Group established in its report to the LFC in the summer of 2006 that NM by moving away from recognizing job performance and pay was moving counter to the trend in the nation. This bill will begin the process to once again link pay with job performance and begin to provide a means to recognize and reward employees in a meaningful fashion.

This bill provides for the following salary and benefit increases:

1. An average **5 percent** increase for all employees of the judiciary based upon a plan as developed by the Administrative Office of the Courts (AOC). The executive proposed a three percent increase for employees that were not justices or magistrates.
2. A **5 percent** increase for district attorneys as compared to the 3 percent proposed by the executive.
3. An average **5 percent** (2 percent increase and an average 3 percent compa-ratio adjustment) for all district attorney permanent employees;
4. An average **5 percent** (2 percent increase and an average 3 percent compa-ratio adjustment) for all incumbents governed by the Personnel Act. The executive proposal is for a phased implementation with two percent being awarded in July 2007 and a compa-ratio adjustment being awarded in January 2008. This phased approach makes the FY08 effective value of these executive increases to be 2.9 percent.
5. An average **5 percent** increase for all executive exempt and legislative employees as compared to the executive's recommended 3 percent.
6. A **5 percent** increase for all commissioned officers of the Department of Public safety (state police, motor transportation and special investigative officers).
7. A **total compensation** increase of **5 percent** consisting of a **4.25 percent** increase for all executive exempt teachers and **all** public education employees and funding for statutory third tier increases. This is inclusive of the additional FY08 "employer" contribution of **.75 percent** to the educational retirement fund.
8. A **total compensation** increase of **5 percent** consisting of a **4.25 percent** increase for all **all** higher education employees. This is inclusive of the additional FY08 "employer" contribution of **.75 percent** to the educational retirement fund.
9. An additional **5 percent** increase for staff attorneys of the District Attorneys, state employees classified as attorneys within the office of the public defenders, correctional officers, juvenile correctional officers, librarians, librarian technicians, library assistants.

10. An additional 7 percent increase for state employees classified as probation and parole officers.

The AOC recommends that the language be modified to allow them to grant an average increase of 5 percent based upon their established matrix and past record with linking pay and performance.

Compa ratio adjustments, depending upon the plan of the particular agency, are scaled to provide higher level of adjustments for employees who are at the lower ends of a pay plan.

This bill is very similar with respect to the proposal provided by the executive with regard to state classified employees and facilitating their movement through the pay plan. The bill provides SPO authority to develop a plan for both the 2 percent midpoint increase and compa-ratio adjustment using employee job performance as a key element and HB 9 grants a higher increase for employees than negotiated by the executive. Analysis indicates that HB 9 places more money into employee's pockets sooner and yet still focuses on those employees whose compa-ratio is below the 85<sup>th</sup> percentile and significantly reduce compaction throughout the entire pay-plan.

The Legislature under PEBA retains the authority to appropriate funds as it deems to be in the best interests of the state. In this regard PEBA is quite clear that the executive may only recommend to the legislature compensation language negotiated with the unions and there is no obligation on the legislature's part to agree to that language. The Legislature is free to accept modify or reject what was negotiated regarding compensation. It is also important to note that House bill 9 specifically addresses only the funding for FY08.

## **PERFORMANCE IMPLICATIONS**

The SPO indicates that by working on only a few separate classifications, this bill does not fully support accelerated salary movement within an employee's pay band to reduce compaction at the bottom of the pay band impacting SPO's performance measure focusing on average employee pay targeted at 95% percent of the SPO Board approved comparator market. However, the classifications with few exceptions are the same as the executive proposed as part of the budget request. HB 9 was developed absent the data to establish the need for additional classes. The SPO and LFC staff should review these and if necessary amend the bill to include additional classes rather than eliminate those proposed in HB9.

## **ADMINISTRATIVE IMPLICATIONS**

The State Personnel Office indicates that it would provide human resources administration to ensure effective implementation of an approved pay package. The Human Capital Management team assigned to the SHARE office would be able to write an automated computer program to process salary increases.

## **TECHNICAL ISSUES**

The SPO indicates that it is unclear what employees in "budgeted positions" means in this bill. Typically, compensation increases are given to term and regular positions, however this language appears to allow temporary employees in budgeted positions to receive a salary increase. For

example, there are many budgeted temporary positions for employees who work in the PIT processing tax returns during tax season at the Taxation and Revenue Department.

It is unclear as to what the term “incumbents” means. The “Personnel Act (Chapter 10-9-1) defines an “employee” as a person in a position in the service that has completed his probationary period.

GM/mt