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FISCAL IMPACT REPORT

SPONSOR <u>Chandler</u>	LAST UPDATED _____
	ORIGINAL DATE <u>1/25/2023</u>
SHORT TITLE <u>State Employee Classification Study</u>	BILL <u>House Joint</u>
	NUMBER <u>Memorial 1</u>
	ANALYST <u>Fischer</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	\$1,200.0			\$1,200.0	Nonrecurring	General Fund
Total	1,200.0			\$1,200.0		

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent version of this legislation.

Relates to appropriation in the General Appropriation Act
 Duplicates Senate Joint Memorial 2

Sources of Information

LFC Files

Responses Received From
 New Mexico Attorney General (NMAG)
 Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of House Joint Memorial 1

House Joint Memorial 1 (HJM1) requests the Legislative Council Service (LCS) commission a study of employee compensation and classification systems and employee benefits across all three branches of state government. The memorial also requests LCS appoint a joint task force to support and monitor the study’s progress and report its findings and recommendations by December 1, 2024. Lastly, the memorial requests the three branches commit to act on the task force’s recommendations.

FISCAL IMPLICATIONS

The fiscal year 2024 LFC budget recommendation includes a \$1.2 million appropriation to the Legislative Finance Committee for a joint study with the Department of Finance and Administration, in consultation with appropriate stakeholders, on the State Personnel Act and the state’s system of classification and compensation.

SIGNIFICANT ISSUES

The study and task force called for in Senate Joint Memorial 2 would update a joint legislative-executive compensation and classification study from over two decades ago. Such an update and reevaluation of the state’s compensation and classification systems was a recommendation of a 2022 Legislative Finance Committee (LFC) Program Evaluation, “*State Personnel: Compensation, Classification, and HR Authority.*” The evaluation is available on the LFC website under the [Program Evaluation Unit Reports](#) tab.

In short, the evaluation found that in 2000, the State Personnel Office, in conjunction with the Legislative Finance Committee, undertook a major reform effort 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.

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 the 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.

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 a state government. For example, Colorado has a state government workforce of 28,491 and maintains approximately 600 job classifications across seven occupational groups.

As for compensation and benefits, the state is at full employment, like most of the nation, which means there are more job openings than unemployed people. The state has also regularly lost working-age people to outmigration and disengagement from the labor force. This, along with the state’s traditional pension benefit that may not be as attractive to a younger, more mobile workforce, indicates a need for a larger compensation, classification, and benefits study.