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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Roybal Caballero	**ORIGINAL DATE**	2/12/2025
SHORT TITLE	State Employee Salaries, Leave & Retention	**BILL NUMBER**	House Bill 264
		ANALYST	Fischer/Simon

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Additional Leave Accruals - GF		$16,987.9	$17,497.5	$34,485.4	Recurring	General Fund
Additional Leave Accruals – OSF and Federal		$13,026.1	$13,416.8	$26,442.9	Recurring	Other State and Federal Funds
DoIT Enterprise Services		$435.0	$290.0	$725.0	Recurring	General Fund and Other Funds
Total		$30,449	$31,204.3			

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

Conflicts with House Bill 11

Sources of Information

LFC Files

Agency Analysis Received From
Department of Finance and Administration (DFA)
State Personnel Office (SPO)
Department of Information Technology (DoIT)
New Mexico School for the Blind and Visually Impaired (NMSBVI)

SUMMARY

Synopsis of House Bill 264

House Bill 264 (HB264) sets a number of changes in how state employees are paid, their time-off benefits, and their ability to participate in remote work.

The bill sets in statute the $15 per hour minimum wage for state employees and employees of the constitutional higher education institutes and requires the minimum be adjusted upward annually per increases in the U.S. Bureau of Labor's consumer price index (CPI). Any decrease in the CPI would not result in a decrease in minimum salaries. Student employees at institutions of higher education are exempt from the $15 per hour pay floor.

The bill also sets in statute annual leave accrual rates for state employees with a per-pay-period accrual rate of:

- 4.62 hours for employees with fewer than three years of service;
- 5.54 hours for employees with between three and seven years of service;
- 6.46 hours employees with between seven and 15 years of service; and
- 7.39 hours for employees with 15 years or more of service.

The bill would also put in statute the 12 weeks of fully paid parental leave for state employees following the birth or adoption or upon gaining child custody. If both parents, including a domestic partner, are eligible employees, each parent or partner is eligible for paid parental leave.

The bill directs state agencies to implement a remote work program "to enhance recruitment and retention of a diverse workforce from rural areas of New Mexico." Remote work is limited to New Mexico residents at remote locations.

The bill notes that if any of the above provisions conflict with a current collective bargaining agreement, the provision does not apply.

The bill amends the Personnel Act, requiring the Personnel Board to make rules regarding (1) the allowance of part-time and alternative work schedules, holiday schedules, competitive leave accrual rates and paid parental leave, and (2) a plan to designate positions eligible for full-time remote work or part-time, or hybrid, remote work.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

Tying wage increases (but not decreases) for those earning minimum wage to the CPI, and not decreases, could create budgeting problems in years when the Legislature only has limited or no ability to increase agency recurring budgets (e.g., during economic or oil-and-gas-related downturns.) Since February 2020, the CPI has significantly increased, with a rise of over 21 percent. Automatic increases to the minimum wage could require agencies to prioritize increase at the bottom of pay bands, potentially leading to salary compaction within pay bands.

The bill would increase leave accruals for state employees in the classified system, from two weeks of annual leave to three weeks at the low end and from four weeks of annual leave to 4.8 weeks of annual leave at the high end. Larger annual leave accrual rates will impact the state's budget liability if an employee retires or quits with a large annual leave balance that must be paid out with a cap of 240 hours. Analysis from DFA calculates the additional cost of annual leave at $30 million per year, an amount unlikely budgeted by state agencies. The fiscal impact table is based on this analysis, as adjusted based on LFC's assumed share of personnel expenses from the general fund and other state and federal funds, currently 48.8 percent general fund. Amounts for FY27 are increased by 3 percent.

The table below illustrates the proposed changes in leave accruals for state employees in the classified service.

Annual Leave Accrual under Current SPO Rule

Hours per Pay Period	Hours per Year	Employee Tenure	Equivalent in Weeks	Count of Employees
3.08	80.1	> 3 years	2.0	5,453
3.69	95.9	3 to > 7	2.4	3,790
4.61	119.9	7 to > 11	3.0	2,628
5.54	144.0	11 to > 15	3.6	1,730
6.15	159.9	15 or more	4.0	4,152

Annual Leave Accrual under HB265

Hours per Pay Period	Hours per Year	Employee Tenure	Equivalent in Weeks	Count of Employees
4.62	120.1	> 3 years	3.0	5,453
5.54	144.0	3 to > 7	3.6	3,790
6.46	168.0	7 to > 15	4.2	4,358
7.39	192.1	15 or more	4.8	4,152

The State Personnel Office (SPO) notes the paid parental leave provisions of the bill are similar to existing paid parental family medical leave established in executive orders in 2019 and 2020. The major change in HB264's paid parental leave is that it removes the probationary period restriction in the amended executive order, making state employees eligible for paid parental leave on the first day of their employment. Additionally, the Department of Finance and Administration (DFA) notes the paid parental leave provisions could provide 12 weeks of paid leave for up to four employees, if both parents and their domestic partners are eligible state employees, potentially increasing the cost of the program.

The Department of Information Technology (DoIT) anticipates the bill's requirement to adopt remote work policies could have a fiscal impact on the agency. DoIT states ensuring agencies have the ability to monitor work systems during work hours could require 2 additional FTE, with a recurring cost of $290 thousand. Additionally, the agency anticipates some initial costs to support agencies as they build remote work functionality.

SIGNIFICANT ISSUES

In 2023, the Legislature provided appropriations in the General Appropriation Act adequate to bring all public school and state employees to a minimum $15 per hour salary. Data from the State Personnel Office (SPO) shows no state employees currently makes less than $15 an hour and the lowest pay band in the classified service starts at $15.69 per hour. Recently, LFC, DFA, and SPO have been collaborating on changes to the state's system of classification and employee pay bands to ensure the state's classified pay bands reflect the broader labor market. For this reason, this provision is not expected to have an immediate fiscal impact; however, that could change in the future if CPI grows more quickly than the broader labor market. Currently, the Personnel Board is empowered to set salary schedules, including the minimum of each pay band, which allows the board flexibility to adjust to annual market changes.

Regarding remote work, Deloitte, as part of a contracted review of the state's personnel system, recommended the state consider remote work policies to improve the competitiveness of the state within the broader job market. However, since that report was finalized, a number of major employers nationally have since limited or eliminated their remote work policies. SPO notes a number of valid concerns with the remote work provisions in HB264. Concerns include that remote work was being presented as an entitlement rather than a privilege for state employees. SPO also notes that requiring remote work would involve requirements for certain positions to have their physical workplaces inspected by management.

Analysis from SPO notes the bill both would create requirement for a remote work program and authorize the Personnel Board to enact rules regarding the eligibility of positions to remote work. The analysis notes the requirements included in Subsections B through E may be better determined by rule of the Personnel Board, rather than through legislation.

ADMINISTRATIVE IMPLICATIONS

Analysis from both SPO and DFA notes New Mexico regularly employs individuals who reside in another state and regularly commute from that state for work. Under HB264, those employees would be excluded from a remote work program.

SPO states additional leave accruals could create logistical problems for agencies. Currently, employees are not allowed to carry over more than 240 hours of leave into the next calendar year. Anecdotally, some agencies have reported this rule can lead to shortages of employees near the end of the calendar year, which could impact services for New Mexicans. SPO suggests agencies may need to hire additional employees to ensure sufficient service coverage, but this may not be possible based on agency budget constraints.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 129 would amend the same section of law as Section 5 of HB264. That bill would change the probationary period for classified state employees from one year to 180 days.

Analysis from DFA notes HB264 conflicts with House Bill 11 (HB11), which creates the Paid Family and Medical Leave Act and nothing in HB264 requires other forms of leave to run concurrently with the paid parental leave guaranteed by the bill, such as Paid Family Medical Leave proposed by House Bill 11. DFA notes:

> If HB11 and HB264 are enacted as written, the two leave programs could be used consecutively, with FMLA leave granting state employees 24 weeks of paid leave and an additional entitlement to another 12 weeks of unpaid leave (where annual or sick leave accruals could be used).

JWS/hg/sgs