F I S C A L I M P A C T R E P O R T

SPONSOR: Sandoval DATE TYPED: 02/09/02 HB 190

SHORT TITLE: State & Educational Employee Salary Increases SB

ANALYST: Gonzales

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
	624.0		Millions	Recurring	GF

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to

SOURCES OF INFORMATION

LFC Files
Commission on Higher Education
General Services Department
State Personnel Office

SUMMARY

Synopsis of Bill

House Bill 190 appropriates $624.0 from the general fund to the Department of Finance and Administration for the purpose of raising the hourly salary for:

(1) state employees covered by the Personnel Act to $7.50 per hour for fiscal year 2003, and

(2) the same employees as well as state educational institution employees a salary increase to $8.50 per hour for fiscal year 2004, and

(3) $9.50 per hour for fiscal year 2005.

Additionally, this bill provides criteria for the State Personnel Office to determine annually a rate per hour for each fiscal year after 2005 adjusted for inflation based on the consumer price index. The salary increases required by this bill are to be effective the first full pay period after July 1, 2002.

Significant Issues

Approximately 684 classified employees would be affected by the provisions of this bill in FY03, approximately 2,463 employees that would be affected in FY04 and approximately an additional 4,196 classified employees that would be affected in FY05.

This bill also affects student workers (although not in educational institutions), state government interns, summer temporary workers and other temporary workers.

As drafted, there is adequate money appropriated to provide an increase for FY03; however, the bill does not address future fiscal appropriations or indicate that agencies must absorb the cost.

The State Personnel Office indicates that by FY05 the minimum wage provisions of this bill would encompass 36% of all state classified employees.

The Commission on Higher Education lists educational institutions employees the increases would apply to according to the bill: the six public universities, Northern New Mexico Community College and the three public schools. The bill would not apply to the employees of the seven statutory community colleges nor the eight two-year branches of universities.

PERFORMANCE IMPLICATIONS

Agencies should be able to increase productivity by filling vacancies due to the higher salaries.

FISCAL IMPLICATIONS

The appropriation of $624.0 contained in this bill is a recurring expense to the general fund. Additionally, other revenue sources used to pay for salaries and benefits for employees covered by the Personnel Act would be impacted. Agencies that operate from other state funds or have federal fund matching requirements may or may not have sufficient funding capacity to cover the minimum salary rate increases. Any unexpended or unencumbered balances appropriated from the general fund remaining at the end of fiscal year 2003 shall revert to the general fund. An appropriation is only provided for FY03; however, future fiscal year appropriations are not addressed unless agencies would be able to absorb the additional cost. Therefore, the Legislature annually will have to provide increased appropriations to fund the increasing hourly rate for the lowest paying state jobs. Funding for FY04 is projected to be an additional $3,282.7 in general fund and $8,358.6 in FY05. The additional cost each year is carried forward to the next year; therefore, the total additional general fund cost over current salaries in the first three years will be $16,796.0 and $12,265.3 for each year thereafter.

CHE did not provide a cost estimate of the number of employees or cost for those employees at the educational institutions that are affected by this bill.

ADMINISTRATIVE IMPLICATIONS

The State Personnel Office indicates affected agencies and SPO can implement the special salary adjustments. The Human Resources System team at the Information Systems Division of the General Services Department would have to write a basic program to increase the salaries of each affected employee, which should require minimal programming. Agency staff and SPO would have to process manually any additional personnel action clean-up work. The State Personnel Office reports it would be able to recalculate and adjust the minimum rate as described in the bill without additional staff.

TECHNICAL ISSUES

The bill should include a provision for appropriating funds from other sources to pay employees who are non-general fund supported.

OTHER SUBSTANTIVE ISSUES

The State Personnel Office included the following issues in its analysis:

- This bill does not take into account internal equity. The state uses the Hay Guide-Chart Method of Job Evaluation to determine the worth of jobs to the state. This will destroy the hierarchy of jobs and compact salaries at lower salary levels. **When fully implemented, 36% of the state employees would be at the new minimum salary of $9.50/hr.** This would mean “smaller” and “larger” size jobs would be paid the same rate. The same pay rate for different size jobs may cause morale problems.

- Available funds for state employees in future years would already be committed to this piece of legislation, therefore, less funding would be available for comprehensive system-wide programs such as Variable-Pay-for-Performance, funded structure adjustments, and various other state-wide initiatives.

- Available funds for state employees in future years would already be committed to this piece of legislation, therefore, a bulk of the funding (if available) would be focused on the lowest paid employees in the system rather than all employees in the system.

- Overtime costs will be much higher. All jobs below $7.50 per hour, and almost all jobs below $9.50 per hour are nonexempt under the Fair Labor Standards Act. This means any overtime hours worked must be paid at time and one-half for any hours worked over 40 within a workweek.

- This will require agencies to pay $2.35 per hour in the first year, and up to $4.35 in FY 2005, over the current federal minimum wage for all workers holding “smaller” jobs, student workers, state government interns, summer temporary workers and other temporary workers that could be hired for a much lower cost to the taxpayer.

- State programs with federal funding and matching of funds will be required to pay a higher pay rate which may have an impact on the future funding and even the existence of these programs.

- If revenues remain flat and employees have to pay the proposed increased wages, there would be little alternative to reducing the number of state employees.

The General Services Department also notes the following issues:

- The bill does not take into account the current methodology used to establish internal equity of jobs (the Hay Guide-Chart Method of Job Evaluation). The proposal does not take into account use of comparable market data to establish pay bands. The result would be salary compaction and morale issues in the state work force.

- HB 190 does not take into account the current classification and compensation system (Hay Guide-Chart Method of Job Evaluation) used to establish the internal and external worth of jobs in the classified service. This system was adopted by the executive and legislative branches to address inequities and to establish a fair and defensible system. This will destroy the hierarchy of jobs in the classified service and the established system. A similar system adopted by the judicial branch would also be impacted.

- HB 190 does not take into account the use of market data to compare and compensate employees for similar jobs. Establishing a minimum wage at $9.50 will force the state to pay more for jobs being performed by classified employees than private sector employers pay for similar work.

- If implemented, this proposal would create salary compaction between lesser tenured employees and those with more time and experience in the system, including line supervisors responsible for the work of those employees. The new minimum wage forces management to hire new employees at the same pay rate as much more experienced employees hence creating morale problems.

- HB 190 also establishes a constant denominator, the CPI-U ending in calendar year 2004, in the fraction used to determine future hourly pay rate adjustments. The CPI-U changes up or down and it is impossible to predicate what the CPI-U will do in future years. By establishing this constant denominator the state may be responsible for much higher pay rates than needed to pay for job worth.

JMG/sb