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**Memo # 22-012**

**MEMORANDUM**

**TO:** The Agency Addressed

**FROM:** Chris Spencer, Director *CMS*  
Office of Policy and Budget

**SUBJECT:** Minimum Wage Compression Plans

**DATE:** September 9, 2021

Section 8 of the General Appropriations Act (GAA) for Fiscal Year 2021-2022, Chapter 2021-36, LOF, provides for a minimum wage pay increase to \$13 per hour for eligible state employees, effective July 1, 2021. Section 8 also directs state agencies to develop and submit plans that address salary compression as a result of the \$13 per hour minimum wage increase. Furthermore, sections 8 and 9 of the GAA require agencies to provide cost estimates and plans to implement a \$14 and \$15 per hour minimum wage increase and resulting salary compression. The below overview, instructions and enclosed attachments are designed to help agencies in the development of such cost estimates and compression plans.

**Due Dates and Authority**

Issue	Due Date Plan Submission	Due Date Implementation	Authority
<b>\$13 Wage Increase Compression Plan</b>	10/01/2021	12/01/2021	Ch. 2021-36, LOF, Section 8(1)(b)3.
<b>\$14 and \$15 Wage Increase Implementation Plan</b>	11/01/2021	NA	Ch. 2021-36, LOF, Section 8(1)(b)4.
<b>\$14 and \$15 Wage Compression Plan</b>	11/01/2021	NA	Ch. 2021-36, LOF, Section 8(1)(b)4.
<b>State Contracts Wage Increase Impact Plan</b>	12/01/2021	NA	Ch. 2021-36, LOF, Section 9

### **Plan Submission Requirements**

<b>Plan(s)</b>	<b>Minimum Requirements</b>
<b>All</b>	Submission to Governor, President of Senate, Speaker of the House of Representatives
<b>\$13 Wage Increase Compression Plan</b>	<ul style="list-style-type: none"> <li>• Describe approach for identifying and addressing compression issues;</li> <li>• Provide the following position information: <ul style="list-style-type: none"> <li>○ Position Number</li> <li>○ Class Code</li> <li>○ Organization Title</li> </ul> </li> <li>• Provide amount and fund source for proposed salary increases;</li> <li>• Identify existing resources for salary increases;</li> <li>• Provide budget amendment information, including Chapter 216 authority, for adjustments to existing agency budgetary resources.</li> </ul>
<b>\$14 and \$15 Wage Increase and Compression Plan</b>	<ul style="list-style-type: none"> <li>• Provide estimated cost for implementation of wage increases;</li> <li>• Provide estimated cost to address compression of pay plans;</li> <li>• Provide a list of potential reductions of Full-time Equivalent FTE (FTE) and Other Personal Service (OPS) positions as a result of implementing each minimum wage increase threshold;</li> <li>• Provide the following position information: <ul style="list-style-type: none"> <li>○ Position Number</li> <li>○ Class Code</li> <li>○ Organization Title</li> </ul> </li> <li>• Provide amount and fund source for proposed salary increases or reductions.</li> </ul>
<b>State Contracts Wage Increase Impact Plan</b>	<ul style="list-style-type: none"> <li>• Identify impacted state contracts;</li> <li>• Provide contract baseline amount compared to estimated cost increase;</li> <li>• Do not provide information for state term contracts that are under the purview of the Department of Management Services (DMS);</li> <li>• Provide the following for each contract identified: <ul style="list-style-type: none"> <li>○ Contract Number, Vendor Name, Description of Services, Contract amount, Number of Staff and impact, annual cost and fund source, administrative overhead costs</li> </ul> </li> <li>• Provide estimated increased annual cost, incrementally and cumulatively through calendar year 2026.</li> </ul>

## **Overview and Instructions**

The 2020 Constitutional Amendment: Section 24, Article X authorized a minimum wage increase until reaching \$15 per hour in September 2026. The 2021 Legislature provided funding to increase eligible state employees' wages to \$13 per hour beginning in Fiscal Year 2021-22 and has required the submission of salary compression plans.

Areas of compression within pay structures can occur over time as well as in response to pay range updates, in which there is little difference, or distance, between a lower pay grade and a higher pay grade (i.e., there is little difference in pay and earning potential of an employee and direct supervisor, or between new hires and long-term employees). Compression can lead to employees attaining salaries that are comparable or surpass those salaries of positions with higher qualifications or supervisory authority. To accommodate the authorized \$13 per hour minimum wage increase and the potential impact of the \$14 and \$15 per hour minimum wage increases, as well as the resulting compression, the Department of Management Services (DMS) provided adjustments to the pay grades in incremental "groups". The proposed adjustments may be used as a guide when considering compression plans. Further details are provided below under ***Implementation Cost Calculation***.

The below outlined attachments are provided to establish standards to ensure comparability and consistency across agencies in evaluating and submitting the required plans. Agencies are encouraged to provide additional back-up information, including trust fund analyses to demonstrate sufficient resources for any proposed adjustments, to help further explain and support the plan(s) submitted.

### **Compression Plan Overview – Attachment A:**

***Purpose and Guidelines:*** This form should provide an overview of the agency's approach and methodology to address salary compression resulting from implementation of the minimum wage increases. The overview should complement the more detailed information and analysis provided in attachments B and C outlined below. Agencies are to review and complete each section on the template as instructed on the form. A separate form is required for the \$13 per hour wage compression plan and the \$14 and \$15 per hour wage implementation/compression plans. Check the applicable box on the top of the form for the type of submission. Agencies should use their letter head to provide the information required on Attachment A.

### **Implementation Cost Calculation – Attachment B-1 through B-7:**

***Purpose and Guidelines:*** This template contains an excel workbook with seven (7) tabs that are designed to capture data that identifies and summarizes the fiscal impact of each plan. Tab B-1 of the template provides a summary of each cost estimate, including Salaries and Benefits appropriations, and projected expenditure data. Data in tabs B-2 through B-4 will need to be completed and are linked to the summary page tab B-1. As

mentioned, proposed adjustments by pay grade groups have been established to help agencies allocate pay for positions within these groups.

Tabs B-5 through B-7 are provided to allow agencies to compare the July 1, 2021 current pay grade minimums to the proposed compression adjustments by Group, Pay Plan and Pay Grade for Career Service (CS), Selected Exempt Service (SES) and Senior Management Service (SMS). This cross walk should help agencies in performing a more detailed position analysis for each group that is being considered for compression impact.

In the position analysis, agencies will need to consider vacant positions with salaries that fall below the new minimum salary of their assigned pay grade. Funding to bring positions up to the new minimum has been appropriated by the Legislature and is being distributed to agencies during the month of September 2021; therefore, there should be no adverse fiscal impact.

Priority should then be given to positions that are currently in Group 1 of the pay grade range which are the positions closest to the new minimum of \$27,040; next Group 2, then Group 3, and so on, as long as the resulting cost can be absorbed within existing agency resources for the salary compression of the \$13 per hour minimum wage.

For the \$14 and \$15 per hour minimum wage increases and resulting salary compression, tabs B-3 and B-4, respectively, agencies will need to **first determine the actual cost to increase employees to \$14 per hour and then \$15 per hour**. This translates to a minimum annualized salary per employee of \$29,120 for the \$14 per hour increase and \$31,200 for the \$15 per hour increase. Building on this increase, agencies will then need to determine salary compression in a manner similar to the \$13 per hour approach.

Other factors that should be considered by agencies when analyzing position and salary data are:

- Current salary levels, and other variables unique to each agency.
- Employee data to ensure fair compensation for the same level and type of work being performed, identifying areas of compression and/or resulting pay inequities.
- Salaries of newer employees against longer-term employees in the same types of positions.
- Salaries of employees compared against their direct supervisors and second-level supervisors.
- Current workforce to identify possible positions that may be reduced to offset the cost of future wage adjustments, and should assess ways to reduce costs without negatively affecting or limiting the services provided. *Note: This is a requirement for the \$14 and \$15 per hour minimum wage/compression plan.*



**Position Detail Information – Attachment C:**

***Purpose and Guidelines:*** This information is required by the 2021-2022 GAA and will be supporting documentation for Attachment B. The worksheet contains instructions (tab 1); a summary (tab 2); and ten (10) tabs as follows:

1. FTE Compression of Pay Plan - \$13 per hour
2. OPS Compression of Pay Plan - \$13 per hour
3. FTE Minimum Wage Increase - \$14 per hour
4. OPS Minimum Wage Increase - \$14 per hour
5. FTE Compression of Pay Plan - \$14 per hour
6. OPS Compression of Pay Plan - \$14 per hour
7. FTE Minimum Wage Increase - \$15 per hour
8. OPS Minimum Wage Increase - \$15 per hour
9. FTE Compression of Pay Plan - \$15 per hour
10. OPS Compression of Pay Plan - \$15 per hour

**State Contracts – Attachment D:**

***Purpose and Guidelines:*** State Contracts, Attachment D, accommodates the requirements outlined in Section 9 of the 2021-2022 GAA. Agencies are to review and complete each section as instructed on the form. The worksheet contains the following four (4) tabs.

1. Single Contract Provider
2. Single Contract Provider Example
3. Multi Contract Provider
4. Multi Contract Provider Example

If you need additional information or have questions regarding the instructions, please contact the OPB analyst assigned to your agency.

CS/kst

cc: Policy Coordinators  
OPB Analysts

Attachments

### **Attachments at a Glance**

Attachment	Purpose/Short Description
<b>Attachment A – Compression Plan Overview</b>	Provide an overview of agency’s approach and methodology. This is the agency’s narrative in explaining their strategy. All numbers referenced in the overview should tie back to summary information provided in Attachments B and C.
<b>Attachment B – Implementation Cost Calculation: B-1 through B-7</b>	<p>Provide a summarized cost calculation template for each component of the plan.</p> <ul style="list-style-type: none"> <li>• B-1 Summary: Provide summarized cost data to address the \$13 per hour Minimum Wage Compression; \$14 and \$15 per hour Minimum Wage Increases <u>and</u> Compression.</li> <li>• B-2 \$13 Compression Costing (links to Summary B-1).</li> <li>• B-3 \$14 Compression Costing (links to Summary B-1).</li> <li>• B-4 \$15 Compression Costing (links to Summary B-1).</li> <li>• B-5 Career Service (CS) Pay Grades Comparison.</li> <li>• B-6 Selected Exempt Service (SES) Pay Grade Comparison.</li> <li>• B-7 Senior Management Service (SMS) Pay Grade Comparison.</li> </ul>

Attachment	Purpose/Short Description
<b>Attachment C – Position Detail Information</b>	<p>Provide position details, as required by proviso and to support the cost calculations in Attachment B.</p> <ul style="list-style-type: none"> <li>• Instructions (Tab 1)</li> <li>• Summary (Tab 2) – the FTE line totals should tie back to the B-1 Summary of Attachment B</li> <li>• \$13ph – (FTE) Compression Plan (Worksheet 1A - Tab 3)</li> <li>• \$13ph – (OPS) Compression Plan (Worksheet 1B – Tab 4)</li> <li>• \$14ph - (FTE) Minimum Wage Increase (Worksheet 2A – Tab 5)</li> <li>• \$14ph – (OPS) Minimum Wage Increases (Worksheet 2B – Tab 6)</li> <li>• \$14ph – (FTE) Compression Plan (Worksheet 2C – Tab 7)</li> <li>• \$14ph – (OPS) Compression Plan (Worksheet 2D – Tab 8)</li> <li>• \$15ph - (FTE) Minimum Wage Increase (Worksheet 3A – Tab 9)</li> <li>• \$15ph – (OPS) Minimum Wage Increases (Worksheet 3B – Tab 10)</li> <li>• \$15ph – (FTE) Compression Plan (Worksheet 3C – Tab 11)</li> <li>• \$15ph – (OPS) Compression Plan (Worksheet 3D – Tab 12)</li> </ul>
<b>Attachment D – State Contracts</b>	<p>Provide minimum wage and compression impact information on single and multi-contract providers as requested in the template.</p>