Florida TaxWatch

LEGISLATOR RESOURCE

A PRIMER ON SALARY RATE FOR STATE EMPLOYEES

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WHAT IS SALARY RATE?

"Annual salary rate" ("salary rate") means the monetary compensation authorized to be paid for a position of employment on an annualized basis.[1] Fringe benefits (e.g., health insurance, retirement contributions, etc.) and other additives (e.g., competitive area differentials, etc.) are not included in the base salary rate associated with a position.

HOW IS SALARY RATE USED?

Salary rate is a tool used by the Legislature to better manage and control state employment positions and salaries. Rate annualizes agency personnel actions. Without the controls afforded by rate, the only limit on agency personnel actions would be the amount of salaries and benefits appropriated by the legislature.

This would allow agencies, late in the fiscal year, to upgrade positions and increase salaries when the overall impact on the agency budget is small and can easily be absorbed. However, this is costly overtime.

Because these salary increases are not automatically covered in the agency's budget for the next fiscal year, the agency would begin the next fiscal year with a salary deficit.

It is important to note that state agencies cannot exceed their approved annual salary rate for a given fiscal year.

HOW IS SALARY RATE DETERMINED?

To help the agencies prepare their Legislative Budget Request (LBR), the Executive Office of the Governor (EOG) provides each state agency with an approved annual salary rate for each budget entity that includes a salary appropriation.[2] The salary rate is based upon actual salaries and is consistent with the General Appropriations Act (or any special appropriations act).

DO AGENCIES HAVE FLEXIBILITY?

An agency may exceed its approved salary rate by as much as five percent at any point during the fiscal year; however, by the end of the fiscal year (June 30), the agency must have taken action to reduce its salary rate so that the total rate is within the agency's approved limit.

For newly established positions, an agency may request rate above the minimum salary rate for the applicable pay grade; however, justification for the additional salary must be provided.

Agencies are given the flexibility to transfer appropriations from one budget category or program to another (except for fixed capital outlay), not to exceed five percent of the approved budget or $250,000, whichever is greater. If, however, an agency exceeds its approved salary rate on June 30 of any given fiscal year, the agency loses this flexibility and may not make similar transfers during the next fiscal year.

Increases or decreases in an agency's approved salary rate can be approved by the Legislative Budget Commission (LBC), provided the increase or decrease is deemed necessary, in the state's best interest, and consistent with legislative policy and intent.

On July 1 of each new fiscal year, agencies start with a balance of salary rate and salaries. During the fiscal year,

1 Subsection 216.011(1)(a), Florida Statutes.

2 The Chief Justice of the Supreme Court furnishes the judicial branch an approved annual salary rate for each budget entity containing a salary appropriation.

agencies face several possible scenarios that disrupt that balance.

TIMING IS EVERYTHING

Personnel actions (e.g., position upgrades, pay raises, etc.) that have salary rate impacts and that are taken early in the fiscal year give the agency more time to bring salary rate into compliance with the agency's approved annual salary rate before the end of the fiscal year.

The rush to spend remaining appropriated funds near the end of the fiscal year is a well-known tactic in government circles at all levels. This practice, referred to as "fourth-quarter dumping," stems from concerns that agencies returning unspent funds at the end of the fiscal year will see their budgets reduced the following year by appropriations committees who think the money must not have been needed in the first place.

Agencies may be tempted to upgrade positions or increase salaries near the end of the fiscal year when funds are available and the impact on the agency's budget can be more readily and easily absorbed within the agency's total budget for that fiscal year. The agency's budget for the next fiscal year, however, is not automatically adjusted to reflect the annualized impacts of these personnel actions, so the agency will most likely start the next fiscal year with a salary deficit.

The most important thing to remember about salary rate is that state agencies cannot exceed their approved annual salary rate for a given fiscal year.

SCENARIO: ACROSS THE BOARD PAY RAISES

It is not uncommon during periods when the economy is robust and the state has sufficient funds for the legislature to appropriate salary increases for specified job classifications (e.g., corrections officers, teachers, etc.).

When this happens, rate adjustments may be authorized by the Executive Office of the Governor and approved by the Legislative Budget Commission within the fiscal year.

SCENARIO: POSITION BECOMES VACANT

When a filled position becomes vacant, the rate for that position defaults to the minimum of the pay grade. This frees up the excess salary rate, which makes available the following options:

1. The agency can fill the vacant position at the same salary as the previous incumbent, resulting in no net salary rate impact.
2. The agency can fill the vacant position at the minimum of the pay grade, or at a salary level below that of the previous incumbent, which frees up rate to be used elsewhere.
3. The agency can fill the vacant position at a salary level above that of the previous incumbent. This requires salary rate that has been freed up from some other personnel action or requires some action to reduce the agency's salary rate by the end of the fiscal year so that the rate is within the agency's approved limit.
4. The agency can downgrade the vacant position, which frees up even more salary rate.

The "best-case" scenario for freeing up salary rate happens when a long-tenured employee or an employee who is at or near the top of the pay grade vacates their position. This tends to free up the most salary rate.

SCENARIO: POSITION KEPT VACANT FOR LONG PERIODS

Positions that have been vacant for long periods of time (e.g., 90-180 days) raise the eyebrows of legislators, who naturally wonder if the position is all that necessary. If an agency has reason to believe the position may be eliminated, then the agency may consider downgrading or reclassifying the position so that, if eliminated, the position will have a lower rate level.

SCENARIO: OUTSIDE COMPETITION

During their tenure in state government, many employees develop subject matter expertise that has value in the private sector and to other government entities. This increases the risk of losing an otherwise talented and knowledgeable employee to outside competition.

Salary rate limits the extent to which an agency can match or exceed salary offers from outside competitors. An agency may have accumulated a sufficient rate surplus but may lack sufficient budget (salary and benefits) to match or exceed an outside offer. Likewise, an agency may have sufficient budget but may lack sufficient salary rate.

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Florida TaxWatch
106 N. Bronough St.
Tallahassee, FL 32301

o: 850.222.5052
f: 850.222.7476

Primary Author – **Bob Nave,** Senior Vice President of Research

Kayley Cox, Communications & Engagement Manager

Florida TaxWatch Research Institute, Inc.

www.floridataxwatch.org