

## Recognizing the State’s Talent

Ensures the state can attract and retain a quality workforce by addressing employee loss of purchasing power and creating a competitive marketplace for labor. Governor Stein’s Recommended Budget provides a compensation increase to all state employees and state-funded local employees, as well as a one-time cost-of-living adjustment to retirees. Table 1 outlines the funding for state employee and retiree compensation increases.

**Table 1: Allocation of Funds to Support State Employees, 2025-27 Fiscal Biennium**

Competitive Market for Labor	FY 2025-26		FY 2026-27	
	Recurring	Non-recurring	Recurring	Non-recurring
Most State-supported Employee Salary Increases	\$226,528,000		\$226,528,000	
Teacher and School-based Administrator Increases	384,624,000		\$726,141,000	
Master’s Pay for Educators	10,000,000		10,000,000	
Correctional Officer, Youth Counselor Increase	23,223,000		23,223,000	
Compression for Correctional Supervisors	2,266,000		2,266,000	
Law Enforcement Increases	\$5,094,000		\$5,094,000	
Non-Certified and Central Office Public School Employees Increase	\$18,974,000		\$18,974,000	
Nurse Salary Increase	1,057,000		1,057,000	
Labor Market Adjustment Fund	160,633,000		160,633,000	
\$1,000 Bonus for Most State Employees		\$169,823,000		
BLET Recruitment Bonus		15,500,000		
NC National Guard Recruitment & Retention Bonus		1,500,000		
<b>Sub Total</b>	<b>\$832,399,000</b>	<b>\$186,823,000</b>	<b>\$1,173,916,000</b>	<b>\$0</b>
<b>State Employee Benefits</b>				
State Health Plan	153,465,000		314,604,000	
Childcare Facilities		\$1,000,000		
Vacation Leave	Additional days		Additional days	
<b>Sub Total</b>	<b>\$153,465,000</b>	<b>\$1,000,000</b>	<b>\$314,604,000</b>	<b>\$0</b>
Retiree Cost of Living Adjustment		\$77,209,000		
<b>Totals for Recurring and Nonrecurring</b>	<b>\$985,864,000</b>	<b>\$265,032,000</b>	<b>\$1,488,520,000</b>	<b>\$0</b>
<b>Grand Total</b>	<b>\$1,250,896,000</b>		<b>\$1,488,520,000</b>	

### Statement of Need

North Carolina state government faces a very competitive job market, leading to high turnover and difficulty finding qualified candidates. A major challenge to hiring and retaining the state’s workforce is low wages. The state also has more employees reaching retirement age than ever before, further increasing the need to attract a younger workforce into joining government service.

- The December 2024 the average statewide vacancy rate was 20%. While down from a peak of 23.4% in December 2022, the vacancy rate is still higher than the pre-pandemic level of 12.7% in December 2019.

- The hiring rate, which describes the number of monthly hires as a percent of total employment, for state and local government employment was 1.7% in December 2024; the private sector hiring rate was 3.7%.<sup>1</sup>
- The starting salary for Correctional Officers in North Carolina is \$37,621, making it the third lowest starting salary for Correctional Officers across the US.
- Child care barriers contribute to 34% of mothers and 20% of fathers leaving the workforce,<sup>2</sup> costing the North Carolina economy \$3.5 billion each year.<sup>3</sup>

## Recommendation Detail

### Making State Employee Compensation More Competitive

The Governor’s Recommended Budget increases employee and retiree purchasing power by giving a 2% across-the-board raise for state employees and a 2% cost-of-living bonus to retirees. The increases will go to employees of state agencies, the University of North Carolina (UNC) system, state-funded local community college employees, and state-funded non-certified and central office personnel within public schools (teacher, state agency teacher, and school-based administrator increases are described below).

Governor Stein’s Recommended Budget updates the teacher salary schedule to make starting teacher pay the highest in the Southeast and to increase average pay by 10.6% by the second year of the biennium. This budget restores master’s degree salary supplements for educators who have or obtain a master’s degree in the subject they teach. School health personnel and assistant principals receive raises based on the teacher salary schedule, and existing principals will receive a 6% increase over the biennium.

In addition to the 2% provided to all state employee, many of the state law enforcement officers, probation and parole officers, and nurses receive an additional 1%, for a total increase of 3% in FY 2025-26. Correctional officers and Youth Counselors receive an additional 4.5% for a total increase of 6.5% in FY 2025-26, bringing starting pay to over \$40,000. The Governor’s Recommended Budget also increases funds to address compression across correctional officer ranks.

The Governor’s Recommended Budget recognizes that every agency faces unique labor market challenge and, therefore, invests 2% of net-appropriation payroll in the Labor Market Adjustment Reserve (LMAR). Agencies may use these funds to address their specific needs across their portfolio of positions to alleviate turnover, equity, and compression issues and to adjust salaries to better compete for and retain talent. Those not eligible for LMAR, including law enforcement officers on a salary schedule, and non-certified and central office local education employees, get an additional 1% raise.

The budget provides a \$1,000 bonus for net appropriation and receipt-supported state employees paid from the General Fund. The bonus will be paid in October 2025 to eligible employees employed with the state as of September 30, 2025.

This budget also allows state and local law enforcement agencies to provide a \$5,000 sign-on bonus for newly graduated Basic Law Enforcement Training graduates, and a \$10,000 sign-on bonus for new out-of-state hires certified through the Criminal Justice Training Standards Division. These rewards will boost both state and local law enforcement recruitment to better protect communities.

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<sup>1</sup> [Bureau of Labor Statistics](#)

<sup>2</sup> [McKinsey & Company](#). “The childcare conundrum: How can companies ease working parents’ return to the office?”

<sup>3</sup> [Ready Nation](#). “\$122 Billion: The Growing, Annual Cost of the Infant-Toddler Child Care Crisis”

The budget funds bonuses for referrals and extension of service to the NC National Guard (NCNG). NCNG experienced a reduction of 35% in new member recruitment from 2012 to 2023. The retention rate has also dropped, from 85-86% historically to below 70% at the end of 2024. These bonuses will help the National Guard with the recruitment and retention of members.

### Maintaining and Improving State Benefits

The budget increases employer contributions to the State Health Plan by 5% in each year of the biennium.

This budget allocates \$1 million from the State Capital Infrastructure Fund (SCIF) to renovate up to five state buildings to house licensed child care centers. Once identified and renovated, the state will contract with child care providers to use the spaces to provide affordable child care to state employees.

Additionally, the budget grants extra days of vacation leave for all employees. The new annual leave structure provides the most additional vacation to those early on in their career, to incentivize them to continue working for the state and make the state more competitive with the private sector. Table 1 shows the updated leave structure.

**Table 1: Proposed Changes to Annual Leave**

Years of Total State Service	Current Days / Year	Proposed Days / Year
Less than 1 year	14	15
1 but less than 5 years	14	17
5 but less than 10 years	17	20
10 but less than 15 years	20	22
15 but less than 20 years	23	24
20 or more years	26	27

### Expected Impact

These proposals address the multifaceted problem of recruitment and retention of personnel in state government, helping deliver safe, effective, and efficient programs and services to North Carolinians. The proposed changes will support the state’s workforce by offering targeted increases in compensation and benefits. Expected impacts include:

- Providing over 320,000 employees with a minimum of 2% compensation increase in FY 2025-26, helping to keep talent, recruit new applicants, and address declining purchasing power.
- Giving agencies flexible funds, via the LMAR, to target compensation increases where they are most needed to help attract and retain employees. From July 1, 2022, through Feb 26, 2024, agencies awarded 19,494 LMARs to 17,596 people (out of 61,208 eligible). Among state agencies, 90% of LMAR recipients are still employed with their LMAR-awarding agency compared to 76% of non-recipients.
- Increasing pay for over 80,000 existing teachers by an average of 10.6% over the biennium, and make starting teacher pay the highest in the Southeast by FY 2026-27.