

## Securing the State's Human Capital

### Recommendation

Addresses the major issues facing the state workforce: employee recruitment and retention, a competitive marketplace for labor, and loss in purchasing power. All state employees and state-funded local employees are provided with annual increases in each year of the biennium as well as a one-time bonus payment. Retirees are provided with both a recurring and a nonrecurring cost-of-living adjustment. In addition, employees are provided additional annual leave days earlier in their career and longevity pay is transitioned to retention pay to incentivize employees earlier in their careers to stay in state government public service.

Table 1: Allocation of Funds to Secure Our State's Human Capital

	FY 2023-24	FY 2024-25
Employee Salary Increases	\$1,231,835,000 R	\$2,038,552,000 R
Most State-supported Employees (5% or 6.5% / 3%)	\$536,445,000 R	\$849,649,000 R
Receipt-supported Employees (5% / 3%)	\$36,557,000 R	\$59,584,000 R
Educators and School-based Administrators (10% / 6%) <sup>1</sup>	\$648,833,000 R	\$1,119,319,000 R
Master's Pay for Educators	\$10,000,000 R	\$10,000,000 R
Competitive Marketplace for Labor	\$250,903,000 R	\$250,903,000 R
Enhanced Labor Market Adjustment Fund (3%)	\$250,903,000 R	\$250,903,000 R
Employee Retention	\$463,511,000 NR	
Retention Bonus (\$1,500 / \$1,000)	\$463,511,000 NR	
Retiree Cost of Living Adjustment	\$200,772,000	\$147,306,000
Recurring Increase (2%)	\$93,840,000 R	\$93,840,000 R
One-time Supplement (2% / 1%)	\$106,932,000 NR	\$53,466,000 NR
Sub Total	R \$1,576,578,000	\$2,383,295,000
	NR \$570,443,000	\$53,466,000
Grand Total	\$2,147,021,000	\$2,436,761,000

### Statement of Need

While much has returned to normal following the COVID-19 pandemic, private and public sector employers continue to face worker shortages. North Carolina state government faces a competitive job market, leading to high turnover and difficulty finding qualified candidates. Though inflation has moderated, the state's workforce continues to struggle with decreased purchasing power.

- In 2022, the turnover rate for state agencies was 16.8%.<sup>2</sup> Turnover for first year state employees exceeded 36%. The average vacancy rate at state agencies in December 2022 was 23.4%. In 2019, before the pandemic, turnover was 12.3% and the December vacancy rate was 12.5%. The vacancy rate for teachers at the start of the 2022-2023 school year was 5.89%.
- State employee salaries have not been keeping up with inflation since the end of the Great Recession in 2010. The average salary of most state employees has risen 20% since 2010, while

<sup>1</sup> Educators includes Teachers and Instructional Support Personnel

<sup>2</sup> Turnover defined as separating from a state agency for any reason, including retirement. Transfers between state agencies do not count toward turnover.

price levels measured by the Consumer Price Index (CPI) rose 38.3% during that time, noticeably eroding state employees' purchasing power.<sup>3,4</sup>

- The Consumer Price Index for the southern region of the US is up 6.9% over the past year.<sup>5</sup>
- The hiring rate, which describes the number of monthly hires as a percent of total employment, for state and local government was 1.9% in December 2022; the private sector rate was 4.4%.<sup>6</sup>
- A national survey released January 27, 2022, found that 52% of state and local workers were considering changing jobs, retiring, or leaving the workforce.<sup>7</sup>

## Recommendation Detail

### Employee Purchasing Power

- **Compensation Increase for Most State-supported Employees:** Funds a 5% across-the-board salary increase in FY 2023-24 and an additional 3% increase in FY 2024-25 for net appropriation-supported state employees and state-funded local employees. This includes 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 (teachers and principals increases are described below). In most cases, if employees' salaries are set in law, they are on a step plan, or are otherwise ineligible for Enhanced Labor Market Adjustment Reserve (ELMAR) funds, they will receive an additional 1.5% increase in FY 2023-24. This includes correctional officers, law enforcement officers, and public school central office and non-certified personnel.
- **Receipt-Supported Cost-of-Living Adjustment Reserve:** Provides 5% of receipt-supported General Fund salaries in FY 2023-24 and an additional 3% in FY 2024-25 to support increases for receipt-supported state employees, including employees of state agencies and the University of North Carolina (UNC) system. When compensation increases are authorized for net appropriation-supported employees, agencies must use receipts to give equivalent raises for receipt-supported employees, which is often burdensome to operations. These funds may be used to fundshift positions to net appropriation, freeing up receipts and allowing agencies to use those funds for increases to receipt-supported positions.
- **Educator and School-Based Administrator Compensation Increase:** Adjusts the teacher salary schedule to ensure all educators receive at least a 10% increase in the first year of the biennium and an additional 6% in the second year. Increases include state agency teachers who are paid in accordance with the teacher salary schedule. The proposed teacher salary schedule minimizes plateaus for veteran teachers and increases starting pay to \$46,000. Assistant principal compensation is tied to the teacher salary schedule: their salaries increase accordingly. Principals will receive a 10% increase in FY 2023-24 and 6% in FY 2024-25. The recommended FY 2023-25 teacher salary schedule is provided in Appendix 1 at the end of this summary.
- **Educator Master's Pay:** Provides \$10 million to reinstate master's pay for educators who have or obtain a relevant master's degree.

---

<sup>3</sup> [Bureau of Labor Statistics](#)

<sup>4</sup> Percentage pay for state employees in years with flat-rate bonuses derived by dividing by the average state employee salary in that year.

<sup>5</sup> [Bureau of Labor Statistics](#)

<sup>6</sup> [Bureau of Labor Statistics](#)

<sup>7</sup> [Mission Square Research Institute](#)

## Competitive Marketplace for Labor

- **Enhanced Labor Market Adjustment Reserve:** Provides 3% of both net-appropriation and receipt supported payroll for positions in the General Fund to allow agencies, including state agencies, the UNC system, and community colleges, to address specific labor market concerns unique to their staffing needs. Agencies can use these funds to address turnover, equity, and compression, and to adjust salaries to better compete for and retain talent.

## Employee Retention

- **Retention Bonuses:** Provides bonuses in FY 2023-24 to all state employees and state-funded local employees regardless of funding source. These funds will be used to provide a \$1,500 bonus to employees making less than \$75,000 per year and a \$1,000 bonus to all state employees making more than \$75,000 per year. The bonus will be paid in two equal installments, the first in October 2023 to employees continuously employed since July 1, 2023, and the second in April 2024 to employees continuously employed since October 1, 2023.
- **Annual Leave:** Increases annual leave days for employees earlier in their career.

Table 2: 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 but less than 25 years	26	26

- **Retention Pay:** Transitions longevity pay to retention pay and begins payments at two years of service instead of the current 10 years of service in recognition of high turnover rates in the first few years of service.

Table 3: Retention Pay Proposal

Years of Total State Service	Current Longevity Pay	Proposed Retention Pay
2 but less than 5 years	0%	1%
5 but less than 10 years	0%	1.5%
10 but less than 15 years	1.5%	2.0%
15 but less than 20 years	2.25%	2.5%
20 but less than 25 years	3.25%	3.5%
25 or more years	4.5%	4.5%

## Expected Impact

These proposals address the multifaceted problem of personnel recruitment and retention 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:

- Provide over 320,000 employees with a minimum of an 8% total compensation increase over the biennium, helping keep talent, recruit new applicants, and address declining purchasing power.

- Give agencies flexible ELMAR funds to target compensation increases where they are most needed. Agencies will be able to raise the wages of experienced staff to prevent the loss of valuable experience. They will also be able to raise the salary offerings of open positions to attract talent. As of October 30, 2022, 7,319 employees across 371 different job classifications received a salary increase from ELMAR funds granted in SL 2022-74.<sup>8</sup> More time is needed to accumulate enough data to monitor changes in hiring and retention trends due to ELMAR; based on available evidence from the wider research literature,<sup>9</sup> it is still expected that ELMAR adjustments will meaningfully increase hiring and retention.
- Increase retention by rewarding employees who remain with their current employer.
- Increase recruitment through higher starting salaries and retention of experienced educators by investing in veteran educator salaries and removing plateaus in the educator salary schedule.
- Improve ability to manage receipt-supported operations.

---

<sup>8</sup> NC OSHR (Oct 28, 2022), "Labor Market Adjustment Reserve" (report to the Fiscal Research Division).

<sup>9</sup> See e.g. Lakhani, Hyder (1988), "The Effect of Pay and Retention Bonuses on Quit Rates in the U.S. Army." *ILR Review* 41 (3): 430–38 (finding salary increases and bonuses decreased quit rates of both combat and noncombat soldiers); Wilson et al. (2010), "Police recruitment and retention for the new millennium." U.S. Department of Justice, Office of Community Oriented Policing Services; Glazerman et al. (2013), "Transfer incentives for high-performing teachers: Final results from a multisite experiment (NCEE 2014-4003)." National Center for Education Evaluation and Regional Assistance, Institute of Education Sciences, U.S. Department of Education, Washington, D.C (2013); Stolte & Myers (1995), "Reflections on recruitment and retention and the unit level." *Health Care Supervisor*, 13(3): 36-44.

## Appendix 1: Annual Statewide Teacher Salary Schedule Comparison

Years of Exp.	Current FY 2022-23	Recommended FY2023-24	Recommended FY2024-25
0	37,000	41,000	46,000
1	38,000	42,000	46,850
2	39,000	43,000	47,700
3	40,000	44,000	48,550
4	41,000	45,000	49,400
5	42,000	46,000	50,250
6	43,000	47,000	51,100
7	44,000	48,000	51,950
8	45,000	49,000	52,800
9	46,000	50,000	53,650
10	47,000	51,000	54,500
11	48,000	52,000	55,350
12	49,000	53,000	56,200
13	50,000	54,000	57,050
14	51,000	55,000	57,900
15	52,000	56,100	58,750
16	52,000	57,200	59,500
17	52,000	57,200	60,700
18	52,000	57,200	60,700
19	52,000	57,900	60,700
20	52,000	57,900	61,350
21	52,000	57,900	61,350
22	52,000	58,500	61,350
23	52,000	58,500	62,000
24	52,000	58,500	62,000
25	54,000	59,400	62,000
26	54,000	59,400	62,950
27	54,000	59,400	62,950
28	54,000	60,000	62,950
29	54,000	60,000	63,700
30+	54,000	60,000	63,700