

## Recognizing the State’s Talent

### Recommendation

Addresses the major issues facing the state workforce: employee recruitment and retention, a competitive marketplace for labor, and loss of purchasing power. All state employees and state-funded local employees are provided with a compensation increase as well as a one-time bonus payment. Retirees are provided with a nonrecurring cost-of-living adjustment. In addition, employees are provided additional annual leave days earlier in their career.

**Table 1: Allocation of Funds to Support State Employees**

	Recurring	Nonrecurring
<b>Employee Purchasing Power</b>		
Compensation Increases for Most State-supported Employees	\$251,867,000	
Increases for Teachers and School-based Administrators	\$348,152,000	
Master’s Pay for Educators	\$10,000,000	
<b>Sub Total</b>	<b>\$610,019,000</b>	
<b>Competitive Market for Labor</b>		
Enhanced Labor Market Adjustment Fund	\$195,809,000	
Position Fundshift Reserve	\$14,160,000	
<b>Sub Total</b>	<b>\$209,969,000</b>	
<b>Employee Retention</b>		
Retention Bonus		\$399,685,000
Annual Leave		
<b>Sub Total</b>		<b>\$399,685,000</b>
<b>Retiree Cost of Living Adjustment</b>		
		\$109,555,000
<b>Totals for Recurring and Nonrecurring</b>	<b>\$819,988,000</b>	<b>\$509,240,000</b>
<b>Grand Total</b>		<b>\$1,329,228,000</b>

### Statement of Need

North Carolina state government faces a highly 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 and decreasing purchasing power as prices outstrip legislative increases. 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.

- For calendar year 2023, the turnover rate for first year state employees was 32.8%. The total turnover rate for state agencies was 13.7%.
- The December 2023 average statewide vacancy rate was 22.6%, compared to a pre-pandemic vacancy rate of 12.5%.
- The cost of goods and services has increased by 5.6% on average each year for the past three years yet across-the board increases for a typical state employee have averaged 3.33% annually over the same period.<sup>1,2</sup>

<sup>1</sup> [Federal Reserve Bank of Minneapolis](#)

<sup>2</sup> [Fiscal Research Division’s Annotated Conference Committee Report 2023](#)

- The hiring rate, which describes the number of monthly hires as a percent of total employment, for state and local government employment was 1.8% in December 2023; the private sector hiring rate was 3.9%.<sup>3</sup>
- Nationally, 41% of state and local workers are considering changing jobs, retiring, or leaving the workforce.<sup>4</sup>
- As of November 2023, 8.3% of agency employees are eligible to retire with full, unreduced benefits. 25.7% of agency employees will be eligible to retire with full, unreduced benefits in 5 years. The median age of a North Carolina state government employee is 47, compared to 42 for employees in the national workforce.<sup>5</sup>

## Recommendation Detail

### Employee Purchasing Power

- **Compensation Increase for Most State-supported Employees:** Guarantees at least a 5% across-the-board increase for all state-funded employees. In addition to the 3% provided in SL 2023-134, most state employees receive an additional 2%, while employees paid on an experience-based salary schedule or with a salary set in law receive an additional 3%. 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).
- **Educator and School-Based Administrator Compensation Increase:** Adjusts the Teachers Salary Schedule to provide an 8.5% average total raise for all existing teachers, including the salary increase provided in SL 2023-134. Increases include state agency teachers who are paid in accordance with the teacher salary schedule. The proposed teacher salary schedule increases retention for veteran teachers by minimizing pay plateaus and makes starting pay the highest in the Southeast, increasing it to over \$47,500 (including state and local supplements). Assistant principal compensation is tied to the teacher salary schedule, and their salaries increase accordingly. Existing principals will receive a 6% total increase in FY 2024-25.
- **Educator Master's Pay:** Provides \$10 million for a 10% master's degree salary supplement for educators who have or obtain a master's degree in the subject they teach.

### Competitive Marketplace for Labor

- **Enhanced Labor Market Adjustment Reserve (ELMAR):** Addresses retention and other labor market needs by providing a reserve equal to 2% of General Fund net appropriation-supported and receipt-supported payroll. The inclusion of funds for receipt-supported positions provides flexibility to agencies to address labor market concerns across all positions regardless of funding source. Agencies may use these funds to address turnover, equity, and compression and to adjust salaries to better compete for and retain talent.
- **Position Fundshift Reserve:** Establishes a Position Fundshift Reserve to provide agency management with additional flexibility to manage funding sources for positions. Agencies may

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

<sup>4</sup> [Mission Square Research Institute](#)

<sup>5</sup> NC Office of State Human Resources, [Bureau of Labor Statistics](#)

use this reserve to fundshift a limited number of positions, in whole or in part, from receipts to net-appropriation support. Fundshifting positions will free up receipts, providing much needed availability for receipt-supported operations and required increases. For example, required compensation and benefit increases are often a significant challenge for agencies; many agencies have fees that are already at maximum statutory amounts and federal agencies typically do not increase grants to cover legislative increases. Thus, agencies often must hold receipt-supported positions vacant or curtail necessary operational spending to meet required increases, impacting agency efficiency and customer services. State agencies and the University of North Carolina (UNC) system both receive the position fundshift reserve.

### Employee Retention

- **Retention Bonuses:** Provides bonuses to net appropriation-supported state employees and state-funded local employees. These funds will be used to provide a \$1,500 bonus to employees making \$75,000 per year or less 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 2024 to employees continuously employed since July 1, 2024, and the second in April 2025 to employees continuously employed since October 1, 2024.
- **Annual Leave:** Increases annual leave days for employees earlier in their career to increase the appeal of state service and improve retention among employees with fewer years of service.

**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

### 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 a 9% total compensation increase over the biennium, helping to keep talent, recruit new applicants, and address declining purchasing power.
- Giving agencies flexible funds, via the ELMAR, 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.
- Improving retention by rewarding employees who remain with the state or a public school unit.
- Increasing pay for over 80,000 existing teachers by an average of 8.5%, including raises of 10% to 19.5% for those in their first nine years of teaching and more frequent raises for veteran educators.