

Modernizing Government Recommendation

Continues work to streamline government operations and improve residents' interactions with state government. Captures an estimated \$64 million in savings through three targeted actions and invests more than \$400 million to modernize aging IT systems, strengthen cybersecurity, and deliver faster, more reliable services to North Carolinians.

North Carolina faces rising service demands as the state continues to attract people and businesses, fiscal pressures from federal funding shifts and state tax policy changes, and ongoing needs to fund disaster recovery and preparedness. Structural inefficiencies — such as long-term vacancies, underutilized property, inefficient processes, and outdated technology — divert resources and detract from providing high-quality services. This budget recommends efficiencies across three areas to better deploy taxpayer dollars and invests in improvements to the security, accessibility, and efficiency of government services.

Item	Agency	FY 2026-27		
		Recurring	Nonrecurring	
Achieve Efficiencies				
1	Vacancy Reductions	Various	-\$8,640,000	
2	State Property Efficiencies	DOA		-\$25,000,000
3	State Procurement Efficiencies	Various	-\$10,000,000	-\$20,000,000
Subtotal – Achieve Efficiencies			-\$18,640,000	-\$45,000,000
Modernize IT				
4	Cybersecurity	DIT	\$39,250,000	\$5,000,000
5	Critical Systems Modernization	Various	\$86,728,825	\$231,312,786
Subtotal – Modernize IT			\$125,978,825	\$236,312,786
Support Operational Excellence and Talent Development				
7	DMV Improvements	DOT	\$18,613,793	\$9,513,813
8	User-Friendly and Secure Online Access	DIT	\$3,500,000	\$2,000,000
9	AI Initiatives	DIT	\$1,100,000	\$1,000,000
10	Performance Management Academy Fellows	OSBM	\$2,000,000	
11	Statewide Recruitment Teams	OSHR	\$1,627,758	\$36,000
Subtotal – Support Operational Excellence & Talent			\$26,841,551	\$12,549,813
Total			\$134,180,376	\$203,862,599
Grand Total			\$338,042,975	

Statement of Need

- As of February 2026, 311.5 positions have been vacant for three or more years, representing close to \$21 million in annual budgeted salaries from the General Fund. State agencies face operating shortfalls and often use the savings from keeping positions open to fund basic needs. Additionally, some positions are so underfunded they are exceedingly difficult to fill. Efficiencies can be had by using a thoughtful approach to eliminate long-term vacancies.
- The Department of Administration (DOA) oversees a vast portfolio of state government property that needs to be holistically analyzed to determine the appropriate mix and locations needed for state agencies to carry out their missions.
- Cycle times for procurement are significantly longer than for peer states based on preliminary analysis, with inconsistent templates and approvals forcing users to repeat tasks. Agencies are seeking standardization across general and IT procurement.
- Thoughtful actions around agency sourcing decisions and category management best practices are needed to drive down procurement costs and gain efficiency.
- Several components of the state's IT infrastructure are aging. Many are decades old and use outdated mainframe systems that are expensive to maintain, are no longer supported, or rely on outdated code, such as COBOL. It is difficult to hire employees who can work on these systems as these systems are no longer taught in schools and older workers retire.
- Cybersecurity attacks have increased rampantly over the past few years, with the Department of Information Technology (DIT), which provides cybersecurity to state, county, and municipal governments, reporting 10 billion attempts per month on the state's IT network. A cybersecurity breach can have major implications for government.
- In July 2025, a single cyberattack forced the city of St. Paul, Minnesota, to shut down its entire network. It cost \$18.2 million to recover from the incident and took two months to restore even 75% of the city's systems. North Carolina's population is 36 times larger and its workforce is 23 times larger than St. Paul's. A comparable attack here would be catastrophic. The investment in this budget is a fraction of what one breach might cost.
- In early 2025, the Division of Motor Vehicles (DMV) faced long wait times, outdated technology, inefficient processes, and frustrated customers and employees alike. New leadership, the hard work of DMV employees, and additional state investment have helped the division deliver significant improvements over the past year. For example, average customer wait times have fallen from 110 to 45 minutes.
- While overall state vacancies have fallen since the job market disruption of the pandemic, many agencies still struggle with high vacancy rates in critical positions. For example, the Department of Adult Correction has a 24.5% vacancy rate for correctional officer positions. Pay rates for nurses and law enforcement officers across state government rank among the lowest in the nation.
- A lack of funds needed to carry out program evaluations and deliver process and other productivity improvements means many areas of state government are missing opportunities to improve services for all North Carolinians. Using the latest evidence on what works and making

the most of tools like evidence clearinghouses and AI would result in better programs, better service delivery, and potential savings.

Recommendation Detail

North Carolina must optimize existing resources to meet growing service demands. The following recommended efficiency actions will streamline operations and ensure taxpayer dollars are directed to high-impact priorities.

Modernizing government actions targets three key efficiency actions: eliminate positions vacant for three or more years to redirect salary savings to critical needs; dispose of underutilized state properties to generate revenue and reduce maintenance and repair costs; and streamline and modernize procurement processes to achieve value and reduce administrative costs. The proposed investments include improving the DMV experience; expanding and modernizing digital access to state government services; leveraging AI to achieve greater productivity and better, faster service delivery; building capacity in agencies to improve programs and processes; and transitioning outdated, end-of-life, and no-longer-supported systems to more reliable and efficient solutions.

Vacancy Reductions

This budget recommends abolishing positions that have been vacant for three or more years, with exceptions for critical roles in health, safety, and corrections. This action eliminates 106.8 FTEs and generates more than \$8.6 million in General Fund salary savings annually, allowing scarce state resources to be redirected to priority needs. This action will also reduce reliance on lapsed salary for operational costs and encourage state agencies to budget their operational needs to match actual costs. This will further promote transparency into the cost to run current programs and carry out mandated actions.

State Property Efficiencies

The Governor's Recommended Budget directs the Department of Administration (DOA) to sell underutilized properties, focusing on those not essential to agency missions. DOA will partner with other state agencies to identify underutilized state assets and execute sales as appropriate. Proceeds from sales – estimated at \$25 million in FY 2026-27 – will be placed in a negative reserve to offset expenditures. Selling underutilized properties will also reduce maintenance costs and lower liabilities. This budget further directs DOA to explore energy-efficiency measures in new construction (e.g., geothermal systems) to achieve additional long-term savings.

Procurement Efficiencies

This budget supports a statewide procurement efficiency initiative, consolidating fragmented purchasing and standardizing workflows. DOA and DIT are committed to partnering with agencies to simplify and standardize processes and maximize outcomes, not just compliance. This budget directs agencies to work with DOA and DIT on procurement improvements that are estimated to provide cost avoidance in the hundreds of millions and save at least \$40 million in budgeted funds in FY 2026-27. Following successful models from other states, agencies would share in the savings, with 75% directed back to a reserve, and 25% retained by agencies to improve budgets to actuals alignment or to invest in other

priority areas. Agency operating budgets have not been aligned to actuals in many years, leading many areas to being underbudgeted due to unfunded inflationary increases. Many agencies rely on lapsed salary to fully cover operational costs. Thus, true budgetary savings may be difficult to achieve where agencies do not have adequate budget to cover actual costs. OSBM will work with agencies to properly budget and account for any procurement savings to more closely align budget to actuals and by placing true savings in a reserve fund.

IT Modernization

The Governor's Recommended Budget invests more than \$362 million to replace aging legacy IT systems. These investments in new systems will increase efficiency, decrease costs, and allow agencies to take advantage of new technological features. It will also make it easier to recruit qualified candidates to work with these systems.

This budget invests \$44 million in securing the state's wider IT network, which includes county and municipal government digital assets. This funding implements a modern approach, centered on device-based security tools and digital identities for system users to protect technology assets and critical infrastructure and ensure secure data handling. The investment addresses security risks in the network, replaces end-of-life threat detection tools, adds vulnerability monitoring, provides 24/7 security coverage, and increases storage capacity to enable restoring a large number of files if needed.

DMV Operations

This budget invests in upgrading DMV systems and expanding online access to state services. This will reduce wait times, improve customer satisfaction, and support North Carolina's goal of delivering timely, accessible, and transparent government services.

This investment will increase DMV capacity to serve customers through new and expanded offices, offering additional weekday and Saturday hours, and more staff in growing parts of the state, complemented by online services where possible. These recommendations will make it easier for customers to find an available appointment and deliver shorter wait times when they get there, with the goal of driving wait time average down to just 15 minutes.

Increased salaries for frontline DMV staff, bringing their pay in line with salaries for similar roles, will help maintain the improvements in recruitment and retention the division has made over the past year. Investments in automated hearings and the TRaCS system for reporting road traffic accidents will reduce paperwork and increase efficiency. Additional staff in roles from compliance to process improvement will ensure DMV meets federal and financial integrity and reporting standards and provide the resources to deliver continued operational improvements.

Digital and AI Transformation

The budget accelerates state government's digital transformation by funding a modern constituent portal and upgraded online services that put residents just a click away from the programs and information they need. With a secure single sign-on, people will be able to move seamlessly across key

state services – from DMV transactions to unemployment insurance, tax filings, business licensing, and health and human services benefits – making their experience faster, simpler, and more reliable.

The budget also funds resources at DIT, including expert staff and AI licenses, to provide practical support to agencies looking to safely use AI to improve processes, reduce paperwork, and deliver a wide range of service and productivity improvements.

Talent Development

The Governor’s budget builds on the successful Performance Management Academy by establishing a Fellowship program to provide higher-level training and support to agencies. The Fellowship will support five to ten senior agency staff to lead focused efforts that bolster agencies’ abilities to manage programs, improve workflow efficiency, and respond to emerging issues.

The Governor’s budget creates a new Statewide Recruitment Team within the Office of State Human Resources to improve hiring outcomes across state government. Under the current decentralized model, agencies conduct recruitment independently, resulting in fragmented outreach and inconsistent hiring practices. The proposed centralized team would provide recruitment assistance, job-seeker services, career outreach, and policy and process improvements to support agencies statewide. These efforts will target hard-to-recruit positions first, such as law enforcement officers and nurses. Recent success in rapid hiring at the DMV provides a framework through which OSHR can support more agencies facing critical staff shortages.

Expected Impact

- Saves at least \$8.6 million from vacancy eliminations.
- Achieves at least \$40 million in procurement savings, with \$30 million going to the General Fund.
- Provides transparency into the true costs of running programs and service delivery.
- Reduces long-term capital commitments for repair and renovation for underutilized state property identified for disposition.
- Streamlines procurement workflows, improves agency experience, modernizes procurement tools, and strengthens the state’s ability to achieve best value.
- Reduces risk of cyberattacks, data breaches, and service outages, and avoids the related high costs of dealing with such events.
- Ensures the state performs mission critical tasks on reliable, supported IT infrastructure that is more responsive to changing policy and increasing user demand.
- Provides a centralized and user-friendly online access point for all state government services.
- Enhances public access and satisfaction with state government services.
- Reduces DMV wait times to 15 minutes on average and makes it easier for customers to get appointments at DMV locations.
- Increases agencies’ ability to address operational challenges by equipping senior staff with practical tools to improve performance, workflow, and service quality. Over time, this added

capacity should contribute to more consistent delivery of core services and measurable progress on priority objectives.

- Reduces vacancy rates and shortens hiring timelines, helping the state compete more effectively in the labor market.
- Increases state employee productivity and efficiency by safely incorporating AI technology.