
NORTH CAROLINA CRITICAL NEEDS BUDGET

FY 2025-26

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State of North Carolina
Office of the Governor

JOSH STEIN
Governor

March 9, 2026

The North Carolina Senate
The Honorable Phil Berger, President Pro Tempore
The Honorable Sydney Batch, Minority Leader

The North Carolina House of Representatives
The Honorable Destin Hall, Speaker
The Honorable Robert Reives, Minority Leader

Dear Mr. President, Mr. Speaker, Leaders, Members of the North Carolina General Assembly, and fellow North Carolinians,

The state has operated without a new budget since 2023. Across North Carolina, families, teachers, public safety and law enforcement officers, and communities are feeling the strain of a state government operating without an updated budget. We cannot wait until the next fiscal year to address the most pressing needs of our state. Without passing a comprehensive budget in two and a half years, this action is long overdue.

North Carolina succeeds when we invest in our people. But today, outdated funding is holding us back from a brighter future. With just a few months left in the fiscal year and no state budget in sight, we are placing communities at risk. The continued lack of a budget is driving disruptions to operations as agencies and universities scramble to cover costs and fulfill their statutory obligations with dwindling funding and limited continuing budget authority.

- Teachers and state employees are struggling to pay bills as inflation and increased benefit costs have functionally created pay cuts over the last two years.
- Underpaying law enforcement and public safety workers has led to understaffing and unsafe conditions that risk people's safety and hinder our ability to hire and keep the best and brightest.
- Underfunding Medicaid is jeopardizing medical care for over three million North Carolinians, including the elderly and people with disabilities.
- Agencies have been forced to delay maintenance, slow services, stall hiring, postpone modernization efforts, and delay payments to vendors. Without updated spending authority, agencies are left in limbo, hindering forward looking planning and the ability to invest in critical infrastructure and operational improvements.
- Lack of investment in affordable, accessible child care weakens working families and undermines our workforce. The waitlist of working parents struggling to find child care has grown as there have been 262 net closures of licensed child care programs since the last state budget was passed.

- Local governments rely on the state as a reliable partner and now face their own shortfalls and financial risks with state funding on hold. Counties and municipalities must pass their own budgets without any indication of what state funding will look like this year or next.

In short, critical services are being stretched beyond their limits. Agencies are taking actions normally reserved for economic recessions. North Carolina is struggling to meet the needs of its people.

In recent years North Carolina has achieved national recognition as a great place for business and a desirable place to live, attracting businesses and new residents who want to be part of a thriving state. The lack of a state budget threatens this reputation as we fall behind our neighboring states. North Carolina now ranks 49th nationally in starting salaries for state troopers and correctional officers and 43rd in teacher compensation. Our state has the eighth-worst nursing shortage in the U.S. and is projected to have the second worst nursing shortage nationally in a little more than a decade. These deficiencies threaten attracting the growth North Carolina has become accustomed to.

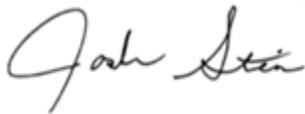
I am submitting to you critical funding needs that cannot wait until next fiscal year. I implore you to pass a critical needs budget to address these time-sensitive items. Together we can lead our state to the end of this fiscal year without destructive shortfalls and greater damage. These critical needs include:

- Funding the Medicaid Rebase to prevent cuts to services or provider payments.
- Increasing salaries for public safety and law enforcement employees and providing raises to teachers, instructions support staff, and state employees.
- Stabilizing operations and funding critical operations where lack of budgeted funds threatens safety or access to services.
- Restoring scholarships for children of wartime veterans.

Much has changed since 2023—the last time the state passed a full Appropriations Act. Persistent inflation has driven up the cost of almost everything, from raw materials to contracted services. The state added 326,000 new residents since the 2023 budget was passed. And the federal funding landscape has dramatically shifted for the worse.

Passing a state budget for the current year is the most immediate and impactful step we can take to improve the lives of the people of North Carolina. Let's give North Carolinians the stability they deserve.

Sincerely,

A handwritten signature in cursive script that reads "Josh Stein".

Josh Stein
Governor

Governor Stein's Budget Recommendations for FY 2025-26 Critical Needs

| Item | FY 2025-26 R | FY 2025-26 NR | FY 2025-26 Total |
|---|-----------------------|----------------------|-----------------------|
| 1 General Fund Availability | 33,469,596,259 | 982,836,788 | 34,452,433,047 |
| 2 | | | |
| 3 Certified Budget | 32,037,774,855 | (118,989,989) | 31,918,784,866 |
| 4 | | | |
| 5 General Fund Recommendations | | | |
| 6 A1 Medicaid Rebase | 319,000,000 | | 319,000,000 |
| 7 A2 Teacher & Instructional Support Raise - 13% starting, 5.8% average | 397,000,000 | | 397,000,000 |
| 8 A3 Certified Public Safety & Law Enforcement Officer Raise - 10% | 99,111,000 | | 99,111,000 |
| 9 A4 Nurses and Other Health Care Personnel Raise - 10% | 28,380,000 | | 28,380,000 |
| 10 A5 All State Employees Raise - 2.5% | 240,963,000 | | 240,963,000 |
| 11 A6 Retirees Adjustment - 2.5% | | 99,000,000 | 99,000,000 |
| 12 A7 Child Care Investments | 20,000,000 | | 20,000,000 |
| 13 A8 Dept. of Adult Correction Critical Operating Needs | | 80,000,000 | 80,000,000 |
| 14 A9 UNC System Enrollment Growth Adjustment | 46,400,000 | | 46,400,000 |
| 15 A10 Statewide Utilities and Facilities Maintenance Critical Needs | 4,500,000 | | 4,500,000 |
| 16 A11 State Bureau of Investigation Critical Operating Needs | 2,500,000 | 1,200,000 | 3,700,000 |
| 17 A12 Scholarship for Children of Wartime Veterans | | 1,000,000 | 1,000,000 |
| 18 General Fund Adjustments Subtotal | 1,157,854,000 | 181,200,000 | 1,339,054,000 |
| 19 Total General Fund Recommendations | 33,195,628,855 | 62,210,011 | 33,257,838,866 |
| 20 Balance | 273,967,404 | 920,626,777 | 1,194,594,181 |
| 21 Reserve Recommendations | | | |
| 22 A13 Winter Storms for DPS and DHHS (SERDRF) | | 10,000,000 | 10,000,000 |
| 23 Reserves Adjustments Subtotal | - | 10,000,000 | 10,000,000 |
| 24 Highways Fund Recommendations | | | |
| 25 A14 Division of Motor Vehicles Receipt Correction / Critical Operating Needs | 13,100,000 | 8,500,000 | 21,600,000 |
| 26 Highway Fund Adjustments Subtotal | 13,100,000 | 8,500,000 | 21,600,000 |
| 27 Total Recommended Adjustments | 1,170,954,000 | 199,700,000 | 1,370,654,000 |

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Governor Stein's Budget Recommendations for FY 2025-26 Critical Needs

| Agency | Recommended Adjustments | Recurring | Nonrecurring | Total |
|-----------|---|------------------------|--------------|------------------|
| | | FY 2025-26 | FY 2025-26 | FY 2025-26 |
| | General Fund | | | |
| A1 | DHHS Medicaid Rebase | | | |
| | Provides funds to cover the total recurring need to fully fund the state's Medicaid program in FY 2025-26. This amount accounts for the difference between the \$600M appropriated for the rebase and for contract costs to operate the state's managed care program in SL 2025-89 and the actual need estimated as of early March 2026. The total need reflects increased capitation rate adjustments resulting from rising health care inflation, higher demand for behavioral health services, new medications, decreases in federal investment, and additional federal requirements. This need amount assumes the \$18 million LME/MCO intergovernmental transfer occurs. Without this additional appropriation, the Division of Health Benefits (DHB) is expected to run out of funding before the end of the fiscal year. Attempts by DHB to mitigate the shortfall have been unsuccessful due to litigation. The Division also has a \$33M managed care oversight shortfall that they have covered through administrative and contract reductions. | Req. \$ 2,316,300,000 | | \$ 2,316,300,000 |
| | | Rec. \$ 1,997,300,000 | | \$ 1,997,300,000 |
| | | NetApp. \$ 319,000,000 | \$ - | \$ 319,000,000 |
| | Medicaid Contingency Reserve: Appropriates the Medicaid Contingency Reserve (current balance of \$500 million), which the General Assembly established to mitigate Medicaid budget shortfalls. The Reserve has safeguards established in GS 143C, which allow for its use only when a shortfall is verified by OSBM after receipts have been verified by the State Controller. | | | |
| A2 | DPI Teacher & Instructional Support Raise - 13% starting, 5.8% average | | | |
| | Updates the teacher salary schedule to raise starting teacher salaries from 11th to 4th among the 12 southeastern states. This funding increases starting teacher pay to at least \$49,518 including state and local supplements, a 13% increase, and provides a 5.8% average raise while reducing mid-career salary plateaus. This schedule also raises pay for experienced teachers, instructional support personnel, school psychologists, speech pathologists, and audiologists. Assistant principals and state agency teacher salaries are increased in accordance with the statewide teacher salary schedule. School principal pay will increase by 2.5% with this funding. Also, this funding supports recruitment and retention by restoring master's pay for over 1,000 teachers whose advanced degrees are in the subjects they teach. Corresponding special provisions provide additional details on these compensation increases. | Req. \$ 397,000,000 | | \$ 397,000,000 |
| | | Rec. | | |
| | | NetApp. \$ 397,000,000 | \$ - | \$ 397,000,000 |
| A3 | Multiple Certified Public Safety & Law Enforcement Officer Raise - 10% | | | |
| | Provides a significant increase for correctional officers, law enforcement officers, youth counselors, and probation and parole officers. Pay for officers in North Carolina is at or near the lowest in the Southeast, with starting pay for correctional officers and state troopers ranking 49th in the nation. Strengthening compensation will help agencies compete for qualified applicants, reduce turnover, and ensure safe, effective staffing levels across our facilities and communities. Probation and parole officers and juvenile court counselors will receive a 6.5% increase. | Req. \$ 99,111,000 | | \$ 99,111,000 |
| | | Rec. | | |
| | | NetApp. \$ 99,111,000 | \$ - | \$ 99,111,000 |
| A4 | Multiple Nurses and Other Health Care Personnel Raise - 10% | | | |
| | Provides a 10% increase for nurses and health care technicians across all state run facilities. Strengthening the frontline workforce will enhance behavioral health care by ensuring safer, more stable treatment environments, and timely access to critical and consistent care for individuals with complex behavioral health needs. This funding enables the Division of State Operated Health Facilities and the Department of Adult Correction to reduce reliance on higher cost contract staffing and address persistent workforce shortages, improving access to care. North Carolina currently has the eighth worst nursing shortage in the nation and is projected to rank second worst by 2038. | Req. \$ 28,380,000 | | \$ 28,380,000 |
| | | Rec. | | |
| | | NetApp. \$ 28,380,000 | \$ - | \$ 28,380,000 |

| Agency | Recommended Adjustments | Recurring | | Nonrecurring | | Total | |
|------------|--|------------|-------------|--------------|------------|------------|-------------|
| | | FY 2025-26 | | FY 2025-26 | | FY 2025-26 | |
| A5 | Statewide All State Employees - 2.5% | | | | | | |
| | Increases all state-funded employee salaries by 2.5%, excluding certified public safety officer, law enforcement officers, nurses, and other health care personnel who are receiving a different raise amount. This recommendation provides an additional \$1,095 for the average state employee. State employees have not had a raise since July 1, 2024, and state salaries have not kept up with inflation, which has gone up 3% over that same period. Recruitment and retention concerns persist across nearly all state agencies. The recent DAVE Act Long-Term Vacancies & Lapsed Salary Report quoted low compensation as the most common reason for the state's long-term vacancies. | Req. \$ | 240,963,000 | | | \$ | 240,963,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | 240,963,000 | \$ | - | \$ | 240,963,000 |
| A6 | Statewide Retirees Adjustment - 2.5% | | | | | | |
| | Provides retirees with a one-time adjustment of 2.5% (\$604 on average). Retirees have not had any adjustment since November 2023. During this time, inflation in the Southeast has gone up by 5.7%, with inflation on food and housing at close to 6% and 9%, respectively. | Req. | | \$ | 99,000,000 | \$ | 99,000,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | - | \$ | 99,000,000 | \$ | 99,000,000 |
| A7 | DHHS Child Care Investments | | | | | | |
| | Brings the child care subsidy rate to the 75th percentile of the 2023 market rate study for the last quarter of FY 2025-26. Since the state last passed a comprehensive budget, there have been 262 net closures of licensed child care programs in North Carolina. The number of children on the waitlist for child care subsidies has increased by over 4,700, almost 45%, in the last year. This funding will help keep tuition affordable for families but high enough to improve educator retention by paying them a living wage. The annualized need to increase the subsidy rate to the proposed level is \$80 million. | Req. \$ | 20,000,000 | | | \$ | 20,000,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | 20,000,000 | \$ | - | \$ | 20,000,000 |
| A8 | DAC Dept. of Adult Correction Critical Operating Needs | | | | | | |
| | Provides nonrecurring funding to cover a large operating shortfall at the Department of Adult Correction (DAC). Last fiscal year, DAC had to push over \$80 million in invoices into the current fiscal year. In the current fiscal year, the Department has already implemented several cost-cutting measures and has started making difficult decisions about vendor payment to drive down the shortfall. While this funding is nonrecurring, the Department will need recurring funding in FY 2026-27 to address operating deficits. The department has relied heavily on lapsed salary to subsidize operating costs, but this funding source has become inadequate given rising costs and increases in the incarcerated population. DAC's incarcerated population has grown by more than 1,200 in the past year. | Req. | | \$ | 80,000,000 | \$ | 80,000,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | - | \$ | 80,000,000 | \$ | 80,000,000 |
| A9 | UNC UNC System Enrollment Growth Adjustment | | | | | | |
| | Provides funds to the UNC Board of Governors to reflect the change in enrollment at the constituent institutions of the University of North Carolina. This funding reflects the 1.6% increase in total student credit hours across the UNC System in 2024. | Req. \$ | 46,400,000 | | | \$ | 46,400,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | 46,400,000 | \$ | - | \$ | 46,400,000 |
| A10 | DOA Statewide Utilities and Facilities Maintenance Critical Needs | | | | | | |
| | Addresses an operating shortfall in the Department of Administration (DOA) utilities and facilities maintenance budget. The shortfall is driven by significant increases in energy rates, inflation related cost growth for contracted services, loss of receipts, and higher material costs. DOA maintains more than 150 state owned buildings, and continued shortfalls would require further diversion of maintenance funds to cover basic utility expenses. DOA has undertaken several measures to reduce the size of the shortfall, including using more energy efficient lighting, replacing hundreds of feet of failed insulation in the state's steam distribution systems, and using native plants that use less water for landscaping. | Req. \$ | 4,500,000 | | | \$ | 4,500,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | 4,500,000 | \$ | - | \$ | 4,500,000 |

| Agency | Recommended Adjustments | Recurring | | Nonrecurring | | Total | |
|--|---|------------|-------------------------|--------------|--------------------|------------|----------------------|
| | | FY 2025-26 | | FY 2025-26 | | FY 2025-26 | |
| A11 SBI | State Bureau of Investigation Operating Needs Provides funding to address an operating shortfall at the State Bureau of Investigation (SBI). SBI has had a 21% increase in their caseload over the prior year, contributing to current year operating shortfalls in core functions, including costs for court-authorized surveillance data, contractor support, aircraft maintenance and fuel, and overtime pay needed for around-the clock investigations. Additional shortfalls are tied to temporary leases during SBI headquarters construction. This amount is still needed to cover the shortfall after SBI's actions to mitigate it, which include consolidating administrative functions, using lapsed salary, deferring replacement of vehicles, and limiting non-essential procurement. | Req. \$ | 2,500,000 | \$ | 1,200,000 | \$ | 3,700,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | 2,500,000 | \$ | 1,200,000 | \$ | 3,700,000 |
| A12 DMVA | Scholarship for Children of Wartime Veterans Ensures the full statutory amount of funding for scholarships in FY 2025-26 for students whose parents were injured or killed in service to their country. To address the shortfall, the Department of Military and Veterans Affairs (DMVA) has pro-rated current scholarships for spring 2026 semester, covering only 75% of the statutory amount. DMVA has worked with the NC State Education Assistance Authority (SEAA) to ensure the universities and colleges where these students are enrolled cover the shortfall so that the students do not feel the impact. DMVA has not awarded any new scholarships while it awaits increased recurring appropriations to cover demand. This funding only covers the gap in the current fiscal year for scholarships already awarded. SEAA currently estimates \$7 million needed in recurring appropriations for the next fiscal year. | Req. | | \$ | 1,000,000 | \$ | 1,000,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | - | \$ | 1,000,000 | \$ | 1,000,000 |
| General Fund Adjustments Subtotal | | | \$ 1,157,854,000 | \$ | 181,200,000 | \$ | 1,339,054,000 |
| Reserves | | | | | | | |
| A13 OSBM | Winter Storms for DPS and DHHS (SERDRF) Due to the extreme cold and snow and ice events, agencies are facing higher fuel and utility costs as well as expenses for salt and brine. Provides funding from the SERDRF for OSBM to administer to agencies experiencing a shortfall due to winter storms. | Req. | | \$ | 10,000,000 | \$ | 10,000,000 |
| | | Rec. | | | | | |
| | | NetApp. \$ | - | \$ | 10,000,000 | \$ | 10,000,000 |
| Reserves Adjustments Subtotal | | | \$ - | \$ | 10,000,000 | \$ | 10,000,000 |
| Highway Fund | | | | | | | |
| A14 DOT | Division of Motor Vehicles Receipt Correction and Critical Operating Needs Addresses a shortfall at the Division of Motor Vehicles (DMV). The 2023 Appropriations Act reduced the Highway Fund appropriation for DMV by \$24 million due to anticipated increased fee receipts related to credit card transactions. The fees have failed to come in at this level, leading to a nonrecurring shortfall of \$8.5 million, which was carried forward from FY 2024-25, and a recurring shortfall of \$13.1 million. The division does not have options to mitigate this shortfall given current pressures to improve service delivery. | Req. \$ | - | \$ | 8,500,000 | \$ | 8,500,000 |
| | | Rec. \$ | (13,100,000) | \$ | - | \$ | (13,100,000) |
| | | NetApp. \$ | 13,100,000 | \$ | 8,500,000 | \$ | 21,600,000 |
| Highway Fund Adjustments Subtotal | | | \$ 13,100,000 | \$ | 8,500,000 | \$ | 21,600,000 |
| Total Recommended Adjustments | | | \$ 1,170,954,000 | \$ | 199,700,000 | \$ | 1,370,654,000 |

| Provisions | | | | |
|------------|--|--|--|--|
|------------|--|--|--|--|

- | | |
|-----------|--|
| B1 | Teacher and Support Personnel Pay Provides the detail for the teacher and instructional support personnel pay increases including reinstating master's pay and matches the information provided in Appendix A. |
| B2 | Administrative Costs Required to Implement HR1 Medicaid Eligibility Changes Adjusts GS 108A-147.7 to increase the funding amounts that support Medicaid Expansion administration and authorizes the Division of Health Benefits to temporarily increase hospital assessments and intergovernmental transfers (IGT) to cover new administrative costs required to implement and support work requirements and six-month redeterminations that the state must implement by December 31, 2026. Statutory changes must occur by the fourth quarter of SFY 2025-26 to ensure that the assessment and IGT revenue is generated in the current fiscal year. |
| B3 | Unfreeze IOLTA Funding to Restore Civil Legal Aid Statewide Amend SL 2025-70 sec. 25 to reinstate the State Bar's authority to collect and disburse IOLTA earnings. This provision directs immediate release of frozen balances to allow the Bar to grant funds to organizations that support access to justice for low-income North Carolinians. |

Appendix A

Educator Compensation Highlights

Figure A1 shows the Governor’s Critical Needs salary schedule and Table A1 provides further detail. This schedule will:

| Policy Proposal | FY25-26 |
|--|-------------------|
| Raise starting teacher salaries from 11 th to 4 th in the Southeast. Starting teacher pay rises to at least \$49,518 including state and local supplements, a 13% increase. Reduce mid-career salary plateaus. Provide all existing teachers and instructional support personnel with 5.8% average and 2.5% minimum raises. | \$372.5M R |
| Raise Assistant Principal salaries according to the Teacher Salary Schedule. | \$7.5M R |
| Provide principals with 2.5% raises . | \$7.3M R |
| Restore master’s degree pay . | \$10.0M R |
| TOTAL EDUCATOR COMPENSATION INVESTMENT | \$397.3M R |

Figure A1: Teacher salaries (by years of experience)

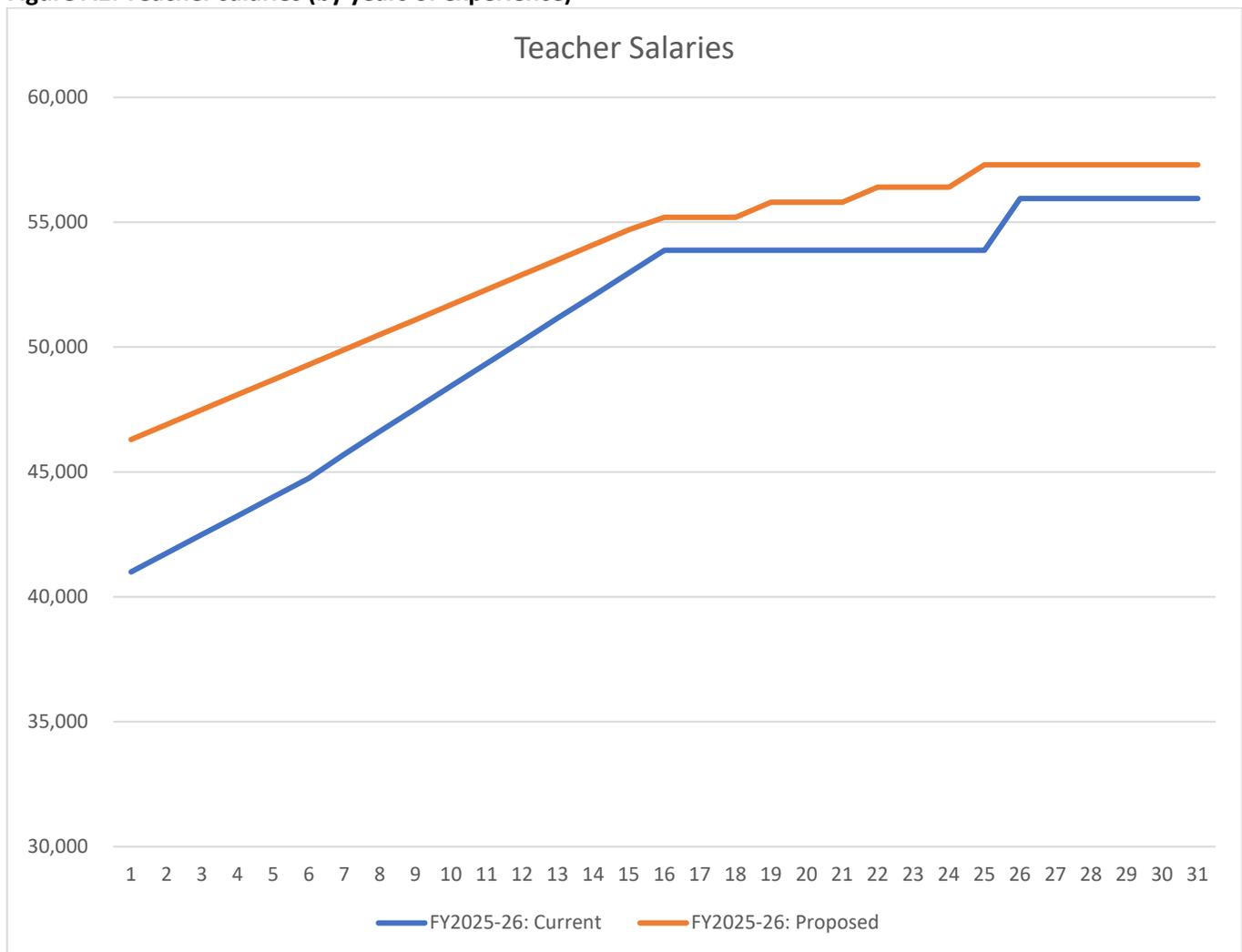


Table A1: Annual Statewide Teacher Salary Schedule Comparison

| Years of Experience | FY2025-26: Current | FY2025-26: Proposed |
|---------------------|--------------------|---------------------|
| 0 | 41,000 | 46,300 |
| 1 | 41,750 | 46,900 |
| 2 | 42,500 | 47,500 |
| 3 | 43,250 | 48,100 |
| 4 | 44,000 | 48,700 |
| 5 | 44,750 | 49,300 |
| 6 | 45,720 | 49,900 |
| 7 | 46,630 | 50,500 |
| 8 | 47,530 | 51,100 |
| 9 | 48,440 | 51,700 |
| 10 | 49,350 | 52,300 |
| 11 | 50,250 | 52,900 |
| 12 | 51,160 | 53,500 |
| 13 | 52,060 | 54,100 |
| 14 | 52,970 | 54,700 |
| 15 | 53,880 | 55,200 |
| 16 | 53,880 | 55,200 |
| 17 | 53,880 | 55,200 |
| 18 | 53,880 | 55,800 |
| 19 | 53,880 | 55,800 |
| 20 | 53,880 | 55,800 |
| 21 | 53,880 | 56,400 |
| 22 | 53,880 | 56,400 |
| 23 | 53,880 | 56,400 |
| 24 | 53,880 | 57,300 |
| 25+ | 55,950 | 57,300 |