



SENATE BILL 1041: Public Workforce Modernization Act.

2025-2026 General Assembly

Analysis of: S.L. 2026-40

Date: August 24, 2026

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S.L. 2026-40 (Senate Bill 1041) does the following:

Part I. State Human Resources System

Part I repeals the current State Human Resources Act (SHRA) statutes (Chapter 126) and reenacts the SHRA as Chapter 126A to reorganize and clarify the SHRA to improve organization and readability. In addition, the act makes the following substantive changes in Part I:

- Classifications of employees:
 - Codifies classifications of employee appointment types for permanent employees (career, probationary, and permanent experiential) and non-permanent employees (temporary, time-limited, and non-permanent experiential).
 - Extends the current 12 month probationary period for career appointment by 6 months if a supervisor determines additional assessment is needed.
- Fees: Allows the Office of State Human Resources (OSHR) to charge fees to cover costs for statutorily required services that are receipt supported, administrative costs for JoinNC, and training and consultation services requested by a unit of local government.
- Reports: Consolidates various reports by OSHR into a single annual State of the State Workforce report.
- Compensation:
 - Provides authority for policies on compensation that include salaries, longevity and performance pay, bonuses, and awards to make State employment competitive and attractive, award employee performance, and provide similar rates of pay to similar positions.
 - Codifies session law establishing the minimum salary for full-time employment with the State at \$31,000.
- Hiring:
 - Clarifies the posting process for State positions.
 - Allows use of employee search firms, subject to certain restrictions.
 - Allows flexible hiring approaches to find the most qualified candidates, including using skills-based hiring or experiential learning programs.
 - Authorizes lateral transfers within agencies to fill vacant positions.
 - Clarifies the order of hiring priorities among various statutory hiring preferences.
 - Authorizes the Commission to establish policies to provide for hiring preferences for veterans, National Guard members, and spouses of active-duty troops in place of existing statutory requirements related to experience credit.
- Benefits:
 - Authorizes policies for paid bereavement leave.

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- Authorizes up to 12 weeks of parental leave (was 8 weeks for the birth mother and 4 weeks for the parent who did not give birth).
- Authorizes up to 13 paid holidays per year to account for the variability in the day of the week upon which New Year's Day falls.
- Authorizes at least 120 hours of vacation leave per year for full-time employees.
- Eliminates statutes related to paid leave for certain athletic competition, replacement of law enforcement officers on final sick leave, and sick leave for adverse reactions to vaccination.
- Streamlines statutes related to voluntary sick leave to remove caps on leave.
- Provides that vacation and sick leave is transferrable between all branches of State government.
- Just Cause, Disciplinary Actions, and Grievances:
 - Codifies five factors identified by State appellate courts that must be used in determining whether just cause exists for dismissal for unacceptable personal conduct.
 - Codifies standards to be used in assessing whether just cause exists for dismissal for unsatisfactory and grossly inefficient job performance.
 - Requires administrative law judges to use the preponderance of the evidence standard for appeals of final agency decisions from just cause disciplinary actions or dismissals.
 - Authorizes agencies to redeploy employees to a different position or set job duties without just cause or the employee's agreement.
 - Authorizes 120 days (instead of the current 90 days) for completion of the agency grievance procedure and OSHR review of filed grievances.
 - Authorizes the Office of Administrative Hearings to issue gatekeeping orders to prevent abuse of the grievance process.
- Reductions in Force: Allows reductions in force to be used to reorganize positions to better accomplish functions.
- Temporary employees:
 - Renames the Temporary Solutions Program for temporary employees as JoinNC.
 - Authorizes JoinNC to assist with recruiting employees (including permanent employees) for agencies using funds generated by the program.
- Personnel Records:
 - Removes age as a publicly available part of an employee's personnel record.
 - Allows personnel file information to be provided to a grievant during a grievance hearing to the extent necessary to adjudicate the grievance.

Part II. Legislative Human Resources System

Part II establishes an independent human resources program for legislative employees governed by the Legislative Services Commission (LSC). The LSC is responsible for establishing employment policies for legislative employees, including classification, compensation, benefits, leave, and hiring, including the use of E-verify. The LSC can also request OSHR assistance with programs, training, and benefits.

The General Assembly is required to be an equal opportunity employer and to maintain confidentiality of employee personnel records, subject to limited exceptions.

Part III. Judicial Human Resources System

Part III establishes an independent human resources program for judicial employees. The Director of the Administrative Office of the Courts is responsible for use of E-Verify to verify work authorization and establishment of leave policies for judicial employees. The Director can also request OSHR assistance with programs, training, and benefits.

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The judicial branch is required to be an equal opportunity employer, provide protections against compelled speech, provide protections for whistleblowers, and maintain confidentiality of employee personnel records, subject to limited exceptions.

Part IV. Conforming Changes

Part IV makes the necessary conforming changes to reflect the repeal of Chapter 126 and the enactment of Chapter 126A.

Part V. Clarifying and Transition Provisions

Part V provides for the transition from governance of the State human resources system under Chapter 126 to governance under Chapter 126A and requires OSHR and the Commission to take certain actions to facilitate the transition.

Section 5.1 provides that the provisions of Chapter 126 as they existed immediately prior to repeal continue to govern the following:

- Contested cases pending before the Commission or the Office of Administrative Hearings, including any pending judicial review of those cases, on the effective date of the act.
- Unresolved grievances, disciplinary actions, or appeals initiated under Chapter 126 prior to the effective date.
- Claims for back pay, reinstatement, or other relief arising from employment actions that occurred prior to the effective date.
- Rights to career State employee status vested under G.S. 126-1.1 prior to the effective date.
- Any cause of action arising under Chapter 126 accrued prior to the effective date.

It further provides:

- The extension of the probationary period authorized in the act and certain provisions related to time-limited appointments only apply to employees hired on or after the effective date.
- Employees designated as a confidential assistant or confidential secretary are automatically redesignated as an employee of a policymaker, and employees designated as an exempt warden are automatically redesignated as an exempt warden.

Section 5.2 provides that the new Chapter 126A applies in conflicts with the existing human resources administrative rules and requires the Commission to review those administrative rules and repeal any unnecessary rules.

Section 5.3 provides that decentralization agreements, delegation agreements, and memoranda of understanding between OSHR and any agency, department, or institution in effect on the effective date of the act remain in effect until modified or terminated by their terms or superseded by future agreements. It also provides that no action or proceeding brought by or against the Commission, OSHR, or the State pending on the effective date of the act is affected by the enactment of the act.

Section 5.4 requires OSHR to assess the State's classification and compensation system, identify opportunities for improvement, and report findings to the chairs of the Senate Appropriations/Base Budget Committee, the chairs of the House Appropriations Committee, the Joint Legislative Commission on Governmental Operations, and the Fiscal Research Division by October 1, 2027. After the initial report, OSHR is required to contemplate a pilot program on classification and compensation recommendations. OSHR is additionally required to incorporate trends and recommended findings from the assessment into the annual State of the State Workforce Report. The section further requires executive branch State agencies to annually report certain information pertaining to recruitment and retention challenges to OSHR upon request.

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Section 5.5 requires OSHR to submit a revised disciplinary policy containing an improved process for managing State employee performance and conduct to the Commission by December 1, 2026. The Commission is required to adopt a revised Disciplinary Action Policy by April 1, 2027.

The act will become effective October 1, 2026.

Section 11.13 of S.L. 2026-41 (Senate Bill 257) exempted certain employees of the Utilities Commission from provisions of the State Human Resources Act. Subsequently, Section 4.8(a) of S.L. 2026-42 (House Bill 56) repealed those changes.

Section 6.1 of S.L. 2026-42 amends G.S. 126A-15 as enacted by S.L. 2026-40 so that the definition of "Specialized Treasurer's Office employees" also includes designated employees under G.S. 135-6(g1) or G.S. 128-28(h1). The section will become effective October 1, 2026.

Section 8.3 of S.L. 2026-42 amends G.S. 126A-15(8)g as enacted by S.L. 2026-40 to exempt from Chapter 126A, except as to Articles 6 (Equal Employment and Compensation Opportunity; Assisting in Obtaining State Employment) and 7 (The Privacy of State Employee Personnel Records), University of North Carolina legal affairs professionals, health affairs professionals, and institutional development professionals. This section will become effective October 1, 2026.