



15. Salary Adjustments

Description of issue and how recommending the agency's request furthers the agency's mandates: AZSOS seeks a \$500,000 appropriation for salary adjustments to remain competitive within the market, retain talent and ensure fairness and compliance with wage standards. Offering competitive salaries directly aligns with the agency's mandate to maintain a highly skilled, motivated and productive workforce. This request will help attract top talent, improve retention and ensure that current employees are compensated fairly, especially in the context of inflation and cost-of-living increases. Specifically, the funds will be used for:

1. Salary increases: Raise pay across the board for all employees, as well as institute merit-based increases to reward high performers.
2. Market and equity adjustments: Address roles that are underpaid in comparison to the market and correct internal pay disparities.
3. Retention bonuses: Provide bonuses to employees in critical roles and long-term employees to incentivize retention.
4. Competitive offers: Use part of the budget to make competitive offers to new hires to attract top-tier talent.

Proposal: Appropriate \$500,000 from the state general fund in FY2026 and thereafter to implement salary adjustments that include across-the-board raises, merit-based raises and retention bonuses. This funding will right-size and ensure market competitiveness, address pay disparities and enhance employee satisfaction and productivity.

Alternatives considered and reasons for rejection: AZSOS considered and rejected two alternatives:

1. No salary adjustments: Without salary adjustments, the agency will lose top talent to competitors offering more competitive compensation. This will result in high turnover rates, leading to disruptions in productivity and increased recruitment costs. This option was rejected due to the significant risks it poses to long-term operational stability and workforce morale.
2. Selective salary adjustments: Providing adjustments only to critical roles was considered but ultimately rejected as it would create internal equity issues and lead to dissatisfaction among other employees. A more holistic approach ensures fairness and promotes overall employee morale.

Impact of not funding this fiscal year: If funding is not provided, the agency will face challenges in retaining its current workforce, leading to higher turnover rates and increased recruitment and training costs. Furthermore, without competitive salaries, the agency will struggle to attract top talent, which will hinder its ability to meet operational goals and strategic objectives. Employee morale may also decline, leading to lower productivity and higher absenteeism.

Statutory reference: N/A

Equipment to be purchased: N/A

Classification of new positions: N/A

Annualization: \$500,000