THE EXPECTATION GAP

What Local Government Employees Need from Compensation — and What They Are Getting

2026 Local Government Workforce Survey

May 2026

Executive Summary

Compensation systems are only as effective as the degree to which they meet employee expectations. This white paper examines the gap between how local government employees rate the importance of eight core compensation factors compared to how they rate their employer's performance on each factor. This short study presents a systematic importance-performance analysis that reveals where expectations are met, where they fall short, and how these gaps vary across organizational types.

The findings are not surprising. Every compensation factor shows a statistically significant gap between employees' importance ratings and their employer-identified performance ratings, with performance falling short of expectations in all eight cases. As for the full sample, employers are rated an average of 2.53 out of 5 on compensation performance, while employees rate the same factors as an average of 3.81 out of 5 in importance. That aggregate gap of –1.29 points represents a persistent, broad failure to meet workforce expectations regarding compensation.

The areas of most acute concern include Bonuses and Incentive Pay (gap = –1.87) and Annual Increases Exceeding Inflation (gap = –1.75). These are also among the highest importance factors, with 83–84 percent of employees rating annual increases and starting salaries as important or very important, while fewer than 25 percent rate employer performance on those same dimensions as good or excellent.

A critical structural finding emerges from comparing rank orders. Employees and employers have different compensation priorities. Annual increases exceeding inflation are the top-rated importance item, but the sixth-rated performance item. Bonuses and incentive pay rank fourth in importance but last in performance. This misalignment, in which organizations invest relatively more in dimensions employees value less, is a structural driver of dissatisfaction with compensation that cannot be resolved solely through salary adjustments.

Across organizational types, gaps are remarkably consistent in direction, though they vary in severity. School districts and counties carry slightly larger composite gaps than cities. The one factor showing a statistically significant org-type difference is certification and credential pay, with school district employees rating its importance significantly higher than other employer types, while performance ratings across all types remain poor. Special districts, while showing smaller gaps overall, represent a small sample and should be interpreted with appropriate caution.

Methodology

This analysis draws on data from 500 local government and public sector employees surveyed in May 2026. Respondents rated eight compensation factors on two separate dimensions: the importance of each factor to them personally, and their employer's performance on delivering each factor.

Importance was assessed using either a five-point Likert scale (Very Unimportant to Very Important) or an equivalent five-point impact scale (No Impact to Major Impact), depending on question framing. Performance was assessed on a five-point scale (Poor, Fair, Average, Good, Excellent). Both scales were scored on a 1–5 scale for analysis. The expectation gap is computed as Performance minus Importance, yielding negative values where employers fall short of employee expectations.

The eight compensation factors examined are: (1) Market-Responsive Starting Salary, (2) Annual Increases Exceeding Inflation, (3) Competitive Market Position, (4) Avoidance of Range Compression, (5) Avoidance of Rank Compression, (6) Pay Supplements, (7) Certification/Credential Pay, and (8) Bonuses/Incentive Pay. Definitions of these terms were provided to respondents to ensure they understood what was being asked, even if they were unfamiliar with these concepts previously. The statistical significance of the importance-performance gaps was assessed using Wilcoxon signed-rank tests. Organizational type differences were tested using Kruskal-Wallis H-tests with Mann-Whitney U pairwise comparisons (Bonferroni-corrected). Analyses by organizational type focus on four primary groups: School Districts (n=174), Cities/Municipalities (n=151), Counties (n=129), and Special Districts (n=13).

Section 1: Overall Importance-Performance Analysis

The Aggregate Gap: Uniform Shortfall Across All Eight Factors

The overall finding of this analysis is that no compensation factor meets employee expectations, as demonstrated in **Exhibit 1** below. Across all eight dimensions, performance ratings fall below importance ratings, with gaps ranging from –0.37 (Avoidance of Rank Compression) to -1.87 (Bonuses/Incentive Pay). All eight gaps are statistically significant at $p < 0.001$. This is not a localized failure in one area of compensation; it is a systemic pattern in which employee expectations consistently exceed organizational delivery.

Exhibit 1
Importance-Performance Summary for Eight Compensation Factors, Sorted by Gap Magnitude

Compensation Factor	Importance (1–5)	Performance (1–5)	Gap	% Important or Very Imp.	% Good or Excellent	% Poor or Fair
Annual Increases > Inflation	4.25	2.50	–1.75	83.0%	24.0%	50.4%
Bonuses / Incentive Pay	3.85	1.99	–1.87	67.6%	13.8%	69.0%
Market-Responsive Starting Salary	4.10	2.90	–1.21	84.8%	32.4%	33.2%
Pay Supplements	3.73	2.26	–1.47	65.2%	20.6%	59.4%
Certification / Credential Pay	3.89	2.53	–1.36	72.2%	26.0%	49.6%
Competitive Market Position	3.74	2.70	–1.04	62.8%	27.0%	43.0%
Avoidance of Range Compression	3.61	2.66	–0.95	54.8%	24.6%	41.8%
Avoidance of Rank Compression	3.31	2.94	–0.37	43.4%	31.2%	30.2%

The rank ordering of importance and performance reveals a fundamental misalignment, as shown in **Exhibit 2**. Annual increases exceeding inflation is the most important factor to employees, and the sixth worst performing, according to employee perceptions. Bonuses and incentive pay rank fourth in importance and last in performance. By contrast, Avoidance of Rank Compression is the lowest-importance item and the best-performing. Employers are, in effect, investing relatively better in areas employees value less, while underperforming in the areas employees value most.

Exhibit 2
Rank Order of Employee Importance Ratings vs. Employer Performance Ratings

Rank	Importance Order	Performance Order
1st	Annual Increases > Inflation (4.25)	Avoidance of Rank Compression (2.94)
2nd	Market-Responsive Starting Salary (4.10)	Market-Responsive Starting Salary (2.90)
3rd	Certification / Credential Pay (3.89)	Competitive Market Position (2.70)
4th	Bonuses / Incentive Pay (3.85)	Avoidance of Range Compression (2.66)
5th	Competitive Market Position (3.74)	Certification / Credential Pay (2.53)
6th	Pay Supplements (3.73)	Annual Increases > Inflation (2.50)
7th	Avoidance of Range Compression (3.61)	Pay Supplements (2.26)
8th	Avoidance of Rank Compression (3.31)	Bonuses / Incentive Pay (1.99)

Factor-by-Factor Analysis

Bonuses and Incentive Pay: Largest Gap, Lowest Performance

Bonuses and incentive pay produce the largest expectation gap of any factor (–1.87) and the lowest absolute performance rating (mean 1.99/5.0, well below even Fair). Despite 67.6 percent of employees rating bonuses as Important or Very Important, 69.0 percent of employees rate their employer's performance as Poor or Fair on this dimension. Only 13.8 percent rate it Good or Excellent. The bonuses item is the only factor with a mean performance score below 2.0, placing the average employer response effectively at the Poor level. This represents the most acute single point of failure in the delivery of local government compensation.

Annual Increases Exceeding Inflation: Highest Importance, Persistent Underperformance

Annual increases exceeding inflation is the highest-importance compensation factor overall (mean 4.25/5.0), rated Important or Very Important by 83 percent of respondents. It is also one of the two worst performers: mean performance is 2.50, and 50.4 percent of employees rate their employer as Poor or Fair on delivering inflation-beating increases. This is a particularly significant failure because annual increases serve both financial and signaling functions; they communicate to employees whether the organization values their continued contributions. The consistent failure to meet this expectation likely compounds over time, converting temporary dissatisfaction into permanent disengagement.

Pay Supplements: High Gap, Often Invisible

Pay supplements, shift differentials, hazard pay, and specialty pay show a gap of -1.47, with 59.4 percent of performance ratings at the Poor/Fair level. Notably, these forms of compensation are often highly role-specific: employees who are eligible for them rate them as important and notice their absence acutely, while employees in roles without supplement eligibility may not rate performance as negatively. The aggregate performance rating of 2.26 suggests that even among those with access to supplements, delivery is perceived as weak.

Certification and Credential Pay: High Importance, Moderate Gap

Certification pay shows a gap of –1.36, with 72.2 percent of employees rating it as Important or Very Important. This factor also shows the only statistically significant difference among organizational types (as detailed in Section 2). With 49.6 percent of overall performance ratings Poor/Fair, certification pay represents an area where employer investment, though limited, varies by sector, making it a candidate for targeted improvement in organizations where credential-bearing roles are prevalent.

Market-Responsive Starting Salary: The Most Balanced Failure

Starting salary shows the highest absolute performance rating of any factor (2.90) and the second-highest importance (4.10), yielding a gap of –1.21. While still substantial, this gap is relatively smaller than others, suggesting that organizations invest somewhat more in starting salaries, likely due to external competitive pressure and the visibility of hiring rates, than in ongoing compensation mechanisms. Even so, only 32.4 percent rate starting salary performance as Good or Excellent, indicating significant room for improvement even in this relatively better-performing area.

Compression Avoidance: Lower Stakes, Better Relative Performance

Both range compression (gap = –0.95) and rank compression (gap = –0.37) show the smallest expectation gaps, and rank compression shows the best absolute performance score (2.94). This likely reflects both lower employee awareness of compression dynamics and, in some cases, genuine organizational effort on structural pay equity. That said, avoidance of range compression is rated Important or Very Important by 54.8 percent of employees, a majority, yet still receives Poor or Fair performance ratings from 41.8 percent. These are not trivial failures; they are simply less severe than the gaps in variable pay and inflation-responsive increases.

The Frustrated Expectation Population

Exhibit 3 captures a particularly actionable measure by comparing the proportion of employees who rate a factor as Important or Very Important and rate their employer as Poor or Fair at delivering it. These employees represent the most acute workforce risk. Their expectations are not abstract preferences but unmet needs that are likely to drive dissatisfaction, disengagement, and turnover.

Exhibit 3
'Frustrated Expectation' Population Results

Compensation Factor	% with High Importance & Low Performance	N (of 500)
Bonuses / Incentive Pay	44.0%	220
Annual Increases > Inflation	44.0%	220
Certification / Credential Pay	33.2%	166
Pay Supplements	35.4%	177
Competitive Market Position	28.6%	143
Market-Responsive Starting Salary	28.0%	140
Avoidance of Range Compression	21.6%	108
Avoidance of Rank Compression	13.2%	66

Bonuses and annual increases each generate frustrated expectations in 44 percent of the workforce, or 220 employees out of 500. Pay supplements produce frustrated expectations in 35.4 percent, and certification pay in 33.2 percent. These are not tail-end concerns affecting a fringe of the workforce; they are majority-relevant failures affecting between one-third and nearly half of all local government employees surveyed.

Section 2: Differences by Organizational Type

Across the four organizational types examined, including school districts, cities/municipalities, counties, and special districts, the direction of expectation gaps is universal: every type rates performance below importance on every factor (**see Exhibit 4**). The patterns of gap severity, however, show meaningful variation, and one factor, certification and credential pay, shows statistically significant differences in both importance ratings and performance ratings across organizational types.

Exhibit 4.
Composite Importance-Performance Scores and Gaps by Organizational Type

Employer Type	Mean Importance	Mean Performance	Composite Gap	N
School District	3.84	2.52	–1.32	174
City / Municipality	3.84	2.60	–1.24	151
County	3.81	2.48	–1.34	129
Special District	3.65	2.89	–0.77	13

The composite gap is broadly similar across school districts (–1.32), cities (–1.24), and counties (–1.34). The consistency of these gaps is itself a meaningful finding: compensation underperformance relative to employee expectations is not a problem concentrated in one sector; it is a structural feature of local government employment across all primary organizational types. Special districts show a notably smaller composite gap (–0.77), though the small sample size (n=13) limits confidence in the inference.

The Certification Pay Divergence

As shown in **Exhibit 5**, Certification and credential pay is the only factor that shows statistically significant differences across organizational types, in both importance ratings and performance ratings (KW p = 0.005 and p = 0.014, respectively). Pairwise testing reveals a consistent school district pattern: school district employees rate certification pay as significantly more important than city employees (p = 0.008) and county employees (p = 0.040), and school districts show better performance on this dimension than cities (p = 0.027), though school district performance is still only 2.75/5.0.

Exhibit 5
Mean Employer Performance Ratings by Factor and Organizational Type

Compensation Factor	School	City	County	Special	KW p-value
Market-Resp. Starting Salary	2.78	3.00	2.85	3.00	0.435 ns
Annual Increases > Inflation	2.35	2.58	2.51	2.77	0.232 ns
Competitive Market Position	2.64	2.75	2.59	3.00	0.430 ns
Avoidance of Range Compression	2.59	2.78	2.51	2.85	0.275 ns
Avoidance of Rank Compression	2.98	2.95	2.85	3.08	0.568 ns
Pay Supplements	2.12	2.36	2.19	2.92	0.072 ns
Certification / Credential Pay	2.75	2.36	2.39	2.85	0.014 *
Bonuses / Incentive Pay	1.92	2.03	1.92	2.62	0.196 ns

This finding reflects occupational reality: educators and school-based professionals hold credentials, teaching licenses, certifications, and endorsements that are central to their professional identity and labor-market value. Among school district employees, 82.2% rate certification pay as Important or Very Important, compared with 66.2% in cities and 69.0% in counties **(see Exhibit 6** below). School districts appear to have made somewhat more investment in recognizing credentials, but even at their best, only 32.8% of school district employees rate the performance as Good or Excellent.

Exhibit 6
Certification/Credential Pay: importance and Performance Ratings by Organizational type.

Employer Type	% Rating Cert. Pay Important/Very Imp.	Mean Importance	Mean Performance	% Good/Excellent
School District	82.2%	4.08	2.75	32.8%
City / Municipality	66.2%	3.78	2.36	19.2%
County	69.0%	3.83	2.39	24.0%
Special District	69.2%	3.77	2.85	38.5%

School Districts: Deeper Gaps on Variable Pay

While school districts' composite gap is like other types, their performance ratings on variable pay mechanisms are particularly low. For bonuses and incentive pay, 72.4% of school district employees rate employer performance as Poor or Fair, the highest rate among groups. On pay supplements, 63.8% of school district employees give Poor or Fair ratings. These findings suggest that school districts, which already trail in base pay and benefits satisfaction, are also least able to compensate through supplemental pay mechanisms, thereby reducing their overall compensation competitiveness across multiple fronts.

Cities: Better on Starting Salaries, Weaker on Credential Pay

Cities show the highest performance ratings on market-responsive starting salaries (3.00) and competitive market position (2.75) among the three main employer types. This is consistent with cities' generally higher base pay satisfaction scores documented in earlier research in this series. However, cities rate lowest on certification pay performance (2.36), an area where, given their more diverse occupational composition, credentialed roles may receive less systematic recognition than in school settings. City employees also rate annual increases as Poor or Fair at 44.4%, somewhat better than school districts (55.7%) and counties (55.0%), but still indicating that more than two in five city employees see inflation-adjusted raises as a significant failure.

Counties: Consistent Mid-to-Low Performance Across Factors

Counties show the weakest performance ratings on several dimensions, including range compression avoidance (2.51), competitive market position (2.59), and annual increases (2.51), and produce the largest composite gap (–1.34) among the three main employer types. This finding is reinforced by companion analysis in this series showing that nearly half of county employees (49.6%) feel their pay is below market. The county profile suggests organizations that have not kept pace with labor market shifts on multiple fronts, creating compounding risk as employee expectations, shaped by awareness of alternative opportunities, continue to diverge from organizational delivery.

Special Districts: Smaller Gaps, Different Profile

Special districts show the smallest composite gap (–0.77) and the highest performance ratings on bonuses (2.62), pay supplements (2.92), and market-responsive salaries (3.00). This may reflect the operational nature of many special districts (water, fire, transit) where specialized roles, shift work, and hazard exposure create structural incentives to offer supplements and variable pay that other employer types lack. These findings should be treated as directional given the small sample (n=13), but they suggest a compensation profile that is relatively better calibrated to employee expectations, a pattern worth examining in more detail with a larger special district sample.

Section 3: Conclusions and Strategic Implications

Exhibit 7 summarizes the key findings from the analysis of the gap between perceived importance and organizational performance.

Conclusion 1: The Compensation Conversation Is Not About Dollars Alone

The importance-performance analysis reveals that the primary driver of the expectation gap is not simply a shortage of compensation dollars, it is a structural mismatch between what employees value and what organizations invest in. Annual increases and bonuses, the most acute failure points, are precisely the forms of compensation that signal to employees whether their ongoing contributions are recognized and valued. When organizations consistently fail to deliver inflation-beating increases or any meaningful variable pay, they are communicating, unintentionally but effectively, that employee performance and loyalty are not valued highly enough to warrant investment. This message compounds over time, eroding the trust and goodwill that sustains engagement during periods of financial constraint.

The implication is that compensation reform conversations in local government must extend beyond total compensation benchmarking and into the structure of compensation delivery. An organization can be at or above market on total pay while still generating frustrated expectations if the form of that pay is concentrated in base salary and underweighted on the mechanisms, like annual increases, variable pay, and credentials recognition, that employees identify as most important.

Conclusion 2: The Inversion Must Be Addressed

The rank-order inversion documented in this analysis, where the most important factors to employees are among the worst-performing for employers, is not a coincidence or an artifact of measurement. It reflects genuine resource allocation patterns in public sector compensation: budgets are more readily committed to starting salaries (visible to the external recruiting market) than to annual increases (visible only to current employees); base pay is easier to justify than variable pay; and structural factors like compression receive less systematic attention than headline pay rates.

Correcting this inversion requires deliberate rebalancing. HR and budget leaders in local government should assess whether their compensation investment profile, the allocation of compensation dollars across base pay, annual adjustments, variable pay, supplements, and credential recognition, reflects what their workforce values most. The data presented here provides a clear employee-stated priority order: inflation-beating increases first, starting salaries second, certification and bonuses roughly tied for third and fourth. Organizations whose investment profile is inverted relative to this order are generating avoidable dissatisfaction at predictable scale.

Conclusion 3: Universal Failure Does Not Mean Uniform Strategy

The consistency of gaps across organizational types is an important finding, but it does not argue for a uniform solution. School districts face acute challenges in delivering variable pay on top of already documented base pay and benefits gaps. Their compensation challenge is both broader and deeper than other employer types, and solutions must address credential recognition and supplemental pay alongside base compensation reform. Counties face the most severe mismatch in ongoing pay mechanisms (annual increases, market position), which are the primary drivers of the market perception gap identified elsewhere in this research series. Cities, relatively better positioned in terms of market responsiveness, face a more targeted challenge regarding variable pay and credential recognition.

Each organizational type should conduct its own importance-performance analysis at the local level, using data as a benchmark, to identify where its specific workforce's expectations most diverge from local delivery. The aggregate findings establish the direction and magnitude of the challenge; the local analysis must establish the specific intervention priorities.

Conclusion 4: Variable Pay Is the Most Neglected Lever

The data makes clear that variable pay, bonuses, incentive pay, and supplements represent the most neglected lever in local government compensation. With a performance mean of 1.99 on bonuses and 2.26 on supplements, and with frustrated expectations affecting 35–44% of the workforce on these dimensions, these mechanisms are failing at scale. Yet variable pay is also one of the most flexible compensation tools available: it can be targeted to high-need roles, adjusted annually without creating permanent budget obligations, and structured to reward retention as well as performance.

Local governments that have historically avoided variable pay due to cultural resistance, union constraints, or perceived administrative complexity should revisit those barriers, considering the expectation gaps documented here. Even modest, carefully structured variable pay programs, like retention bonuses for hard-to-fill roles, credential recognition stipends, or inflation catch-up payments, could significantly reduce frustrated expectations without requiring wholesale compensation reform.

Exhibit 7
Summary of key findings from the importance-performance analysis.

Finding	Detail
All 8 factors show significant gaps	Performance < Importance for every factor; all $p < 0.001$
Largest gap: Bonuses/Incentive Pay	Gap = –1.87; 69% rate performance Poor/Fair; mean perf. 1.99/5
Highest importance: Annual Increases	Ranked #1 in importance (4.25/5); ranked #6 in performance (2.50/5)
Frustrated expectations peak at 44%	Annual increases AND bonuses each generate 44% frustrated workforce
Rank inversion is structural	The top two importance items are the bottom three performance items
Gaps consistent across org types	School, City, County composite gaps are all within 0.10 of each other
Certification pay: only sig. org diff	School districts rate it as of higher importance & better performance ($p<0.05$)
School districts are the worst on variable pay	72.4% Poor/Fair on bonuses; 63.8% Poor/Fair on supplements
Special districts perform relatively better	Composite gap –0.77 vs. –1.24 to –1.34 for other types (n=13, directional)