

AGENDA 2014

A Candidate's Guide to Key Issues in
North Carolina Public Policy



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AGENDA 2014

Table of Contents

Introduction	3	Government Regulation	
		Renewable Energy Portfolio Standard	50
		The Map Act	52
Budget, Taxation, and the Economy		Quick Take in Eminent Domain	54
Tax Reform	4	Treatment of Juvenile Criminals	55
Economic Growth	6	Regulatory Reform	56
Highways and Interstates	8	Occupational Licensing	58
Federal Aid Dependency	10	ABC	60
State Revenue and Spending	12		
TABOR - State Spending Restraint	14	Health Care	
State Pensions and Other Benefit Plans	16	Medicaid Reform and ACOs	62
Film Incentives	18	Medicaid Expansion	64
		Health Insurance Exchanges	66
Education		CON Laws	68
Charter Schools	20	Mental Health	70
Child Care	22		
Childhood Health and Nutrition	24	North Carolina Fast Facts FY 2013-14	72
Class Size	26	Suggested Resources	73
Common Core State Standards	28		
Curricula	29		
Education and the Workforce	30		
Federal Education Policy	32		
Pre-kindergarten Education	34		
Education Spending	36		
School Choice	38		
Teaching Profession	40		
Testing and Accountability	42		
Virtual Schools	44		
Higher Education Policy	46		
North Carolina Education Lottery	48		

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About the John Locke Foundation

The John Locke Foundation is a nonprofit, nonpartisan policy institute based in Raleigh. Its mission is to develop and promote solutions to the state's most critical challenges. The Locke Foundation seeks to transform state and local government through the principles of competition, innovation, personal freedom, and personal responsibility in order to strike a better balance between the public sector and private institutions of family, faith, community, and enterprise.

To pursue these goals, the Locke Foundation operates a number of programs and services to provide information and observations to legislators, policymakers, business executives, citizen activists, civic and community leaders, and the news media. These services and programs include the foundation's monthly newspaper, *Carolina Journal*; its daily news service, *CarolinaJournal.com*; its weekly e-newsletter, *Carolina Journal Weekly Report*; its quarterly newsletter, *The Locke Letter*; and regular events, conferences, and research reports on important topics facing state and local governments.

The Foundation is a 501(c)(3) public charity, tax-exempt education foundation and is funded solely from voluntary contributions from individuals, corporations, and charitable foundations. It was founded in 1990. For more information, visit www.JohnLocke.org.

Introduction

Every two years since 1996, coinciding with North Carolina's races for the General Assembly, the John Locke Foundation has published a revised edition of *Agenda*, our public policy guide for candidates and voters. Typically as we enter the campaign season, candidates for public office in North Carolina are faced with a daunting task: to develop informed positions on dozens of public policy issues. In the pages of *Agenda 2014* we provide a concise and easily digestible guide covering a wide range of specific issues, from taxes and spending to energy policy and education.

In 1946 Henry Hazlitt wrote *Economics in One Lesson*, his now classic and timeless introduction to economics and economic policy. In writing the introduction to the 50th Anniversary Edition in 1996 (three years after Hazlitt's death), Steve Forbes noted, "every tenet of the new economics that Hazlitt dispels continues today to rear its head in one form or another." It is quite clear that this is true for questions of public policy in North Carolina. Indeed, there were problems and solutions noted in our first edition of *Agenda* back in 1996 that are still part of our discussion in 2014. We still have concerns about misplaced spending priorities and levels of spending that need to be reduced. Our state's regulatory burden needs to be reassessed. There are particular problems in the area of energy and electricity where requirements to generate electricity from expensive and inefficient sources are driving up rates and making life less affordable for the state's most vulnerable citizens.

While in 2013 the legislature made some great strides in reforming the tax code and cutting the overall tax burden for families across the income spectrum, there is still more to be done. The state's tax system still penalizes investment and entrepreneurship, albeit to a lesser extent than it did a year ago. Medicaid and the health care system are also in need of reform. In the area of education, with the expansion of charter schools and the introduction of a private school voucher plan, the possibilities for parental school choice have made significant advancements. But a great deal still needs to be accomplished, particularly in the areas of curriculum, testing policy, and student achievement.

The unifying principles of *Agenda 2014* are the same as they have always been. All of our analysis and policy proposals seek to advance individual liberty, personal responsibility, and a free market economy. Whether we are discussing school choice, economic growth, or health care reform, these are the concepts that have animated the John Locke Foundation's analysis since its founding in 1989. We firmly believe that policies that advance these goals are, happily, policies that will create employment opportunities, lower health care costs and improve access, reduce the costs of energy, and better educate our children. Both in the United States and internationally, it has been proven time and time again that liberty and prosperity go hand in hand.

Agenda 2014 is a joint effort of the research staff at the John Locke Foundation. Providing the analysis in each of their areas of expertise are Dr. Terry Stoops, Director of K-12 Education Studies; Jon Sanders, Director of Regulatory Studies; Katherine Restrepo, Health and Human Services Policy Analyst; and Sarah Curry, Director of Fiscal Policy Studies. On production editing the credit goes to Julie Gilstrap, Research Publications Coordinator. In addition, we'd like to thank Tyler Younts, Esq., for providing the entries in the area of legal policy, and Jenna Ashley Robinson and Jane Shaw from the John William Pope Center for Higher Education Policy for the entry on higher education.

Each of the entries in this volume is meant to be an introduction. For readers wanting more detailed analyses of the topics here, we offer several additional resources in a reference section at the end of this guide.

Dr. Roy Cordato
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Tax Reform

For many years it has been recognized that North Carolina's tax system has been in need of a major overhaul. The system has been a model of hodgepodge tax policy with high marginal rates on personal and corporate incomes and lots of exemptions carved out for the favored few. This has led to a tax system that penalizes investment, entrepreneurship, economic growth, and therefore job creation.

The process of reform began when the NC General Assembly passed a series of sweeping measures in 2013. In addition to implementing pro-growth reforms in the personal and corporate income taxes, legislators also incorporated an across-the-board tax cut that will benefit most households in all income groups. The deliberative process that led to these changes was thoughtful and, in large part, ignored the kind of special interest pleadings that typically plague such reform efforts.

Key Facts

- From the perspective of economic growth, the two most important reforms approved in 2013 were changes made to the personal and corporate income taxes.
- The new tax code jettisoned a three-bracket, progressive income tax that ranged from 6 to 7.75 percent and replaced it with a flat tax of 5.8 percent in 2014 and 5.75 percent in future years. The low flat rate helps to ameliorate the bias against income advancement that plagued the previous progressive rate structure.
- The corporate tax rate has been reduced from 6.9 percent, which was the highest in the Southeast, to 6 percent in the near term and 3 percent by 2017, assuming certain revenue targets are met. Principles of government transparency and economic growth both suggest that the corporate tax should eventually be completely abolished.
- Changes to the sales tax were less significant. Legislators maintained current rates and expanded the base to include some services. Keep in mind that the state sales tax was allowed to decline by a full percentage point, from 5.75 percent to 4.75 percent, in 2011.
- The reform measures may reduce revenues to the General Fund by about \$4.75 billion over five years, assuming the

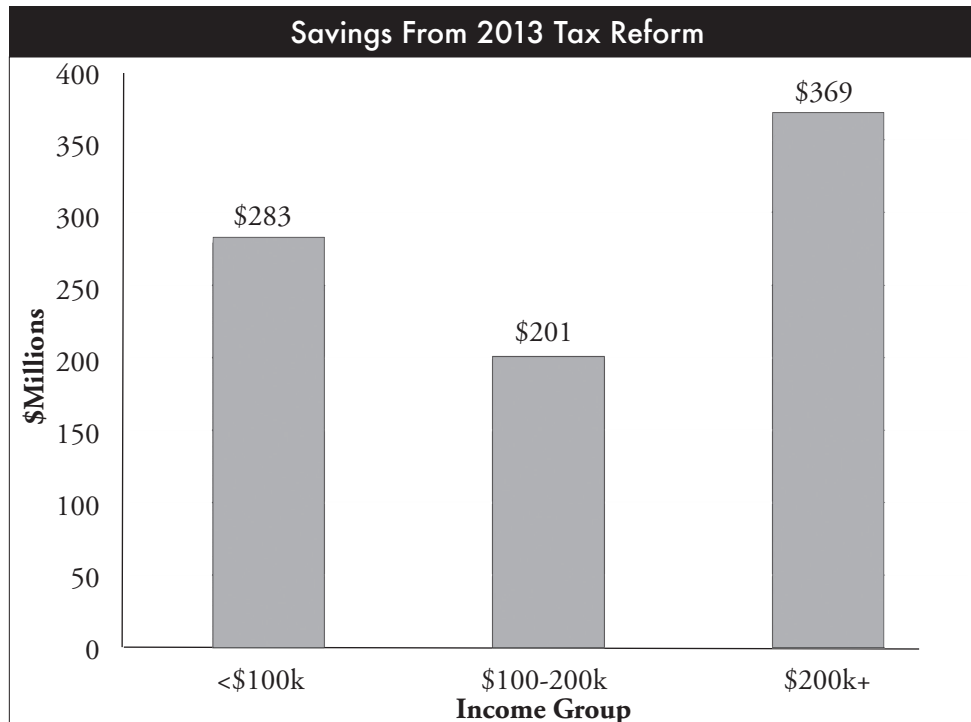
state meets certain revenue triggers and implements the plan fully. The economic benefit of reducing tax revenues is that it transfers resources from government to the private sector, enhancing the overall efficiency with which these resources are used.

- The average North Carolina household in every income category received a tax cut from the 2013 tax reform. In 2015 households earning less than \$25,000 are projected to save \$79 million due to the 2013 tax reform. Households earning less than \$50,000 will save more than \$147 million. Lower- to middle-income households earning less than \$100,000 will save about \$283 million.

Recommendations

1. North Carolina has made great strides in the area of tax reform, but more needs to be done. Future reform efforts need to focus on eliminating savings from the tax base, which will eliminate the bias against saving, investment, and entrepreneurship that still exists in the tax code. A good first step in this direction would be to **eliminate taxation on capital gains or at the very least create a capital gains differential in rates similar to capital gains treatment at the federal level.**
2. **In the long run, lawmakers should eliminate the double taxation of savings and investment returns by allowing taxpayers to deduct savings and investment from their taxable income.** Both the principal and the interest would be taxed when they were removed from savings and spent. This is similar to the way individual retirement accounts (IRAs) are treated under the tax code, except there would be no age limits or other restrictions on withdrawal.
3. **Lawmakers should increase the state's per child tax credit** for a similar reason — the money households spend rearing children is in part an investment in their future earnings potential.

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Comparison of Previous and New Tax Plan		
	Previous Law	New Plan
Personal Income		
Rate	6 percent > \$0 7 percent > \$12,750 7.75 percent > \$60,000	Flat 5.8 percent in 2014, 5.75 percent in 2015
Personal Exemption	All filers receive \$2,000 or \$2,500 depending on income	Married Filing Jointly - \$15,000 Head of Household - \$12,000 Single - \$7,500
Child Credit	\$100 per child for AGI < \$60,000	\$100 per child for AGI > \$40,000 \$125 per child for AGI < \$40,000
Corporate Income		
Rate	6.9 percent	6% in 2014, 5% in 2015, if revenues hit target then 4% in 2016 and 3% in 2017
Credits	Multiple Tax Credits	Eliminates most credits
Sales Tax		
Non-profit refund		Caps the sales tax refund allowed to non- profit entities at \$45m (state and local)
Broaden Base		Repeals sales tax holiday, bakery items, entertainment, some meals, newspapers, warranties, and service contracts
Other Tax Changes		
Mortgage & Property Tax Reimbursement	Unlimited	Cap at \$20,000
Gasoline Tax	No cap	Imposes cap on rate
Estate Tax		Removed

Economic Growth

For decades North Carolina has been pursuing what is called “economic development policy.” Indeed the Department of Commerce is completely dedicated to this concept. As is emphasized on the DOC website, “The NC Department of Commerce is the state’s leading economic-development agency, working with local, regional, national and international companies.” And how is this accomplished? According to the DOC, it is “dedicated to giving companies the assistance and resources necessary to meet their unique business needs.” Since these resources are not manna from heaven, what the DOC is in reality doing is using the state’s taxing authority to transfer resources from the vast majority of North Carolina taxpayers to businesses that the agency determines are worthy of its largesse.

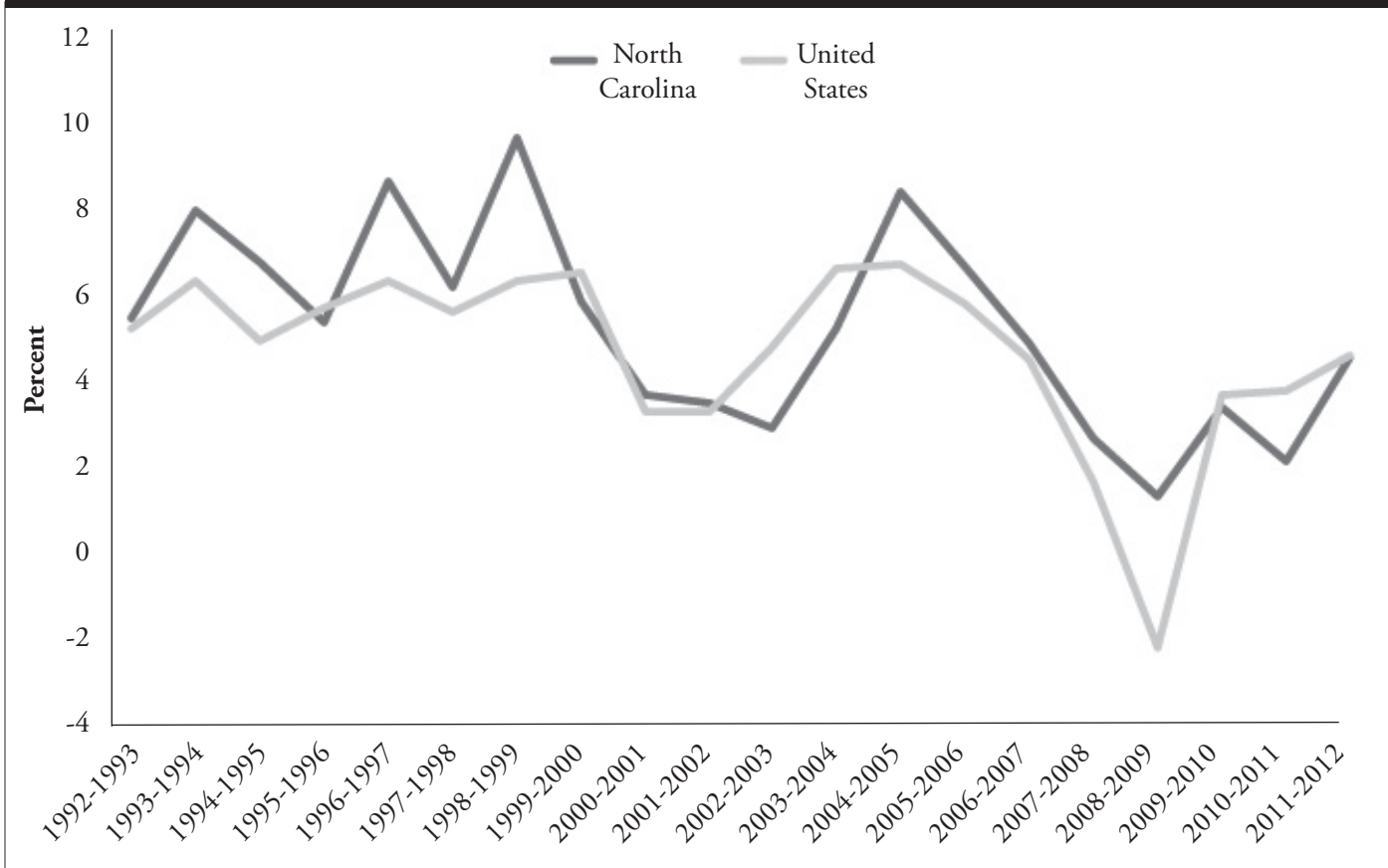
Economic development policy has come to mean the efforts by the state to pick winners and losers in the marketplace by using tax breaks and direct subsidies to promote specifically targeted businesses and industries. It is the essence of “crony capitalism.” On the DOC website, the agency boasts about the specific industries that it targets for special consideration. They include tourism, film (see page 18), sports development, telecommunications, biotechnologies, health care, and financial services. This is a model of state central planning of the economy, and it should be abandoned.

The term “economic development” should be jettisoned and replaced with “economic growth.” Unlike economic development policy, economic growth policy would not focus on one business, industry, or region of the state over another but, instead, would adopt policies to maximize economic growth rates (GDP) for the state as a whole. It is overall economic growth that creates employment opportunities and drives down unemployment rates. It is economic growth that creates real prosperity and lifts people out of poverty. A well-known saying is that a rising tide lifts all boats. Creating the conditions for economic growth will in turn create a rising tide. Targeting favored businesses and industries in the pursuit of economic development sloshes water around, lifting some and sinking others. Economic development and economic growth are at odds. By replacing the decisions of entrepreneurs and investors in private markets with the decisions of politicians and bureaucrats, resources are misallocated, inefficiencies are created, and the state’s economic growth potential is reduced.

Key Facts

- North Carolina’s economic development policies have led the state to create dozens of special tax breaks and subsidies for favored industries.
- The implicit belief behind economic development policy is that freely made decisions of entrepreneurs cannot be trusted. “Experts” in the state bureaucracy believe they can effectively decide what kinds of businesses and industries are right for the state and then centrally direct what would otherwise be private sector resources toward the chosen companies. By definition these resources are being transferred from other opportunities that market participants would have chosen.
- Economic growth policy would seek to remove government from the resource allocation picture entirely, creating an environment that encourages private sector entrepreneurship.
- True entrepreneurship, which is about spotting opportunities for profit in the market, is what lifts economies out of recessions and creates jobs.
- With the 2013 tax reform legislation, North Carolina has made some important strides in the right direction (see page 4).
- Changes to the state’s corporate income tax eliminated most of the special breaks targeted to promote favored investments as a trade-off for much lower rates. This was an important step in the right direction.
- North Carolina’s tax system still penalizes investment and entrepreneurship by double, and in some cases triple, taxing the economic returns to these activities, hindering economic growth.
- Business subsidies in pursuit of economic development might be most egregious at the local level with city and county governments in fierce competition with one another to attract particular investments. All of this activity is authorized by the Local Development Act of 1925.
- North Carolina’s energy policies harm economic growth by raising energy costs for businesses. Because energy is an input into all production activities, the policies raise the cost of doing business across the economic spectrum.

**Real GDP Growth of North Carolina and United States
FY 1992-93 to 2011-12**



Recommendations

- 1. Repeal all economic development policies that grant special favors to particular businesses or industries.** These policies include the One North Carolina Fund, JDIG (Job Development Investment Grants), and the Golden LEAF Foundation.
- 2. Repeal the Local Development Act of 1925** that authorizes local government entities to harm economic growth by pursuing economic development policies using property tax collections to subsidize favored businesses.
- 3. Eliminate tax biases against investment and entrepreneurship** by adopting a consumed income tax and/or abolishing taxation on capital gains (see page 4).
- 4. Pursue an energy policy that focuses on cost and reliability rather than renewable energy sources and conservation.** The legislature should start by repealing the state’s renewable portfolio standard contained in Senate Bill 3, including the sections that force customers to pay for nuclear plants that are unfinished and may never be finished (known as Construction Work in Progress - CWIP) and all special subsidies and tax breaks for renewable energy like wind and solar power and nuclear power.

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Highways and Interstates

It's no secret that North Carolina has the highest gasoline tax in the region. Nevertheless, states differ in how they fund their transportation systems, including varying levels of gas taxes, car taxes, tolls, other charges, and some proportions of property and sales taxes. All those considered, North Carolina's full transportation tax burden per person in 2010 (the most recent data) was below the national average — and below those of regional competitors Virginia and Florida.

North Carolina's road quality has been steadily improving in recent years and is now at or above the national average in some studies. Last year's reform of the state transportation funding formula to put greater weight on easing congestion, promoting economic growth, and improving highway safety promises to keep this improvement on an upward trajectory.

Key facts

- The average motorist in North Carolina paid \$240 in gas and car taxes in 2010 (the most recent year with data available), right at the national average of \$238.
- Unlike many other states, North Carolina does not have county road systems paid for by local property taxes. A few counties now use higher retail sales taxes to fund roads and other projects.
- The average transportation tax burden per resident (including gas and car taxes, tolls, other charges, and relevant proportions of property and sales taxes) in North Carolina was \$510 in 2010, compared with a national average of \$657.
- In 2013 Gov. Pat McCrory proposed, and the General Assembly passed, a new state transportation policy.
- The previous policy divided funding evenly among the state's 14 divisions and focused on building urban loops around major cities, improving select "intrastate highways," and paving dirt roads.
- The new policy allocates 40 percent of capital construction on a statewide basis, allocates another 30 percent regionally, and allows highway divisions to use the remaining 30 percent for smaller-scale local projects.
- Importantly, prioritization of projects is now made according to statistical data, balancing the expected cost of a project against its expected contribution to congestion relief, safety improvement, economic competitiveness, etc.

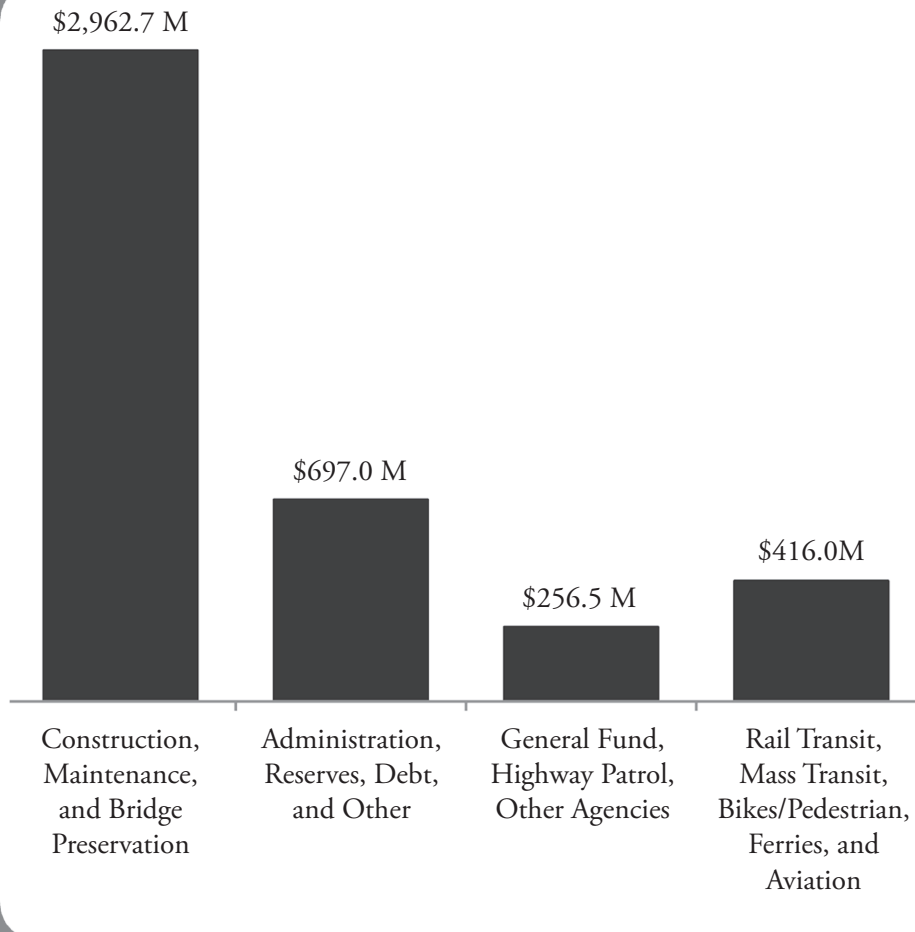
- State-level projects are completely data driven, regional projects give some weight to local project preferences, and district projects are equally weighted between statistical measures and local preferences.
- With data-driven project prioritization, North Carolinians should expect better, more efficient use of highway funds. A 2010 study by transportation expert David T. Hartgen found that through better prioritization of projects North Carolina could meet its highway needs without additional taxes.
- While the transfer between the Highway Trust Fund and the General Fund has been completed as of 2013-14, North Carolina continues to divert highway funds into other, non-highway expenditures. In 2013-14 this included \$171.3 million for rail services, \$116.2 million for public transportation, and \$40.8 million for bicycle and pedestrian projects.
- This diversion away from highway infrastructure expenditures also includes over \$200 million to the General Fund.
- Of that transfer of gas and car tax money to the General Fund, \$196.6 million goes to the Highway Patrol. The Highway Patrol offers many services not handled under the Department of Transportation. It is effectively a state police force and should be integrated with other law-enforcement programs within the General Fund.
- Putting those moneys toward the infrastructure on which the fuel and vehicles are used would yield around \$600 million more a year for new road construction, expansion, and safety enhancement efforts.

Recommendations

1. **Stop spending highway funds on non-highway, non-pavement expenditures.** Scarce highway dollars should not be used to subsidize alternative modes of transportation with political rather than public support.
2. **End the transfer of gas and car tax money to the General Fund and the Highway Patrol.** Highway funds should be spent on road construction, maintenance, bridges, etc., not on services the Highway Patrol offers not related to transportation.

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Uses of NC Department of Transportation Appropriations, 2013-14
Including Non-Highway, Non-Pavement Expenditures



Source of NC DOT Funds



Data Source: NC DOT.

Federal Aid Dependency

Every state in the nation relies on the federal government for some portion of its budget. Over the last decade, many states have developed a higher reliance on federal funds than they have had historically, and North Carolina is no exception. For the fiscal year ending June 30, 2013, North Carolina spent \$20.8 billion in federal grants, which is a 47 percent increase in inflation-adjusted dollars over the last 10 years.

Reliance on federal aid can cause lasting problems for state budgets and lawmakers. Federal funding incentives often cause the state to engage in programs or projects it might otherwise choose to avoid. After years of reliance on federal aid, North Carolina lawmakers find that federal edicts drive up the cost of government services. Even contractors who work with state agencies are vulnerable to these onerous federal requirements, which often increase the cost of their work to the state.

North Carolina has become too dependent on federal aid, which leaves the state vulnerable when Washington cuts federal funding to the state in the future. Whether it's due to sequester, shutdown, or unsustainable spending, North Carolina needs to reduce its dependence and develop a plan to operate when this funding goes away. The question is not if the federal aid will go away, but when.

Key Facts

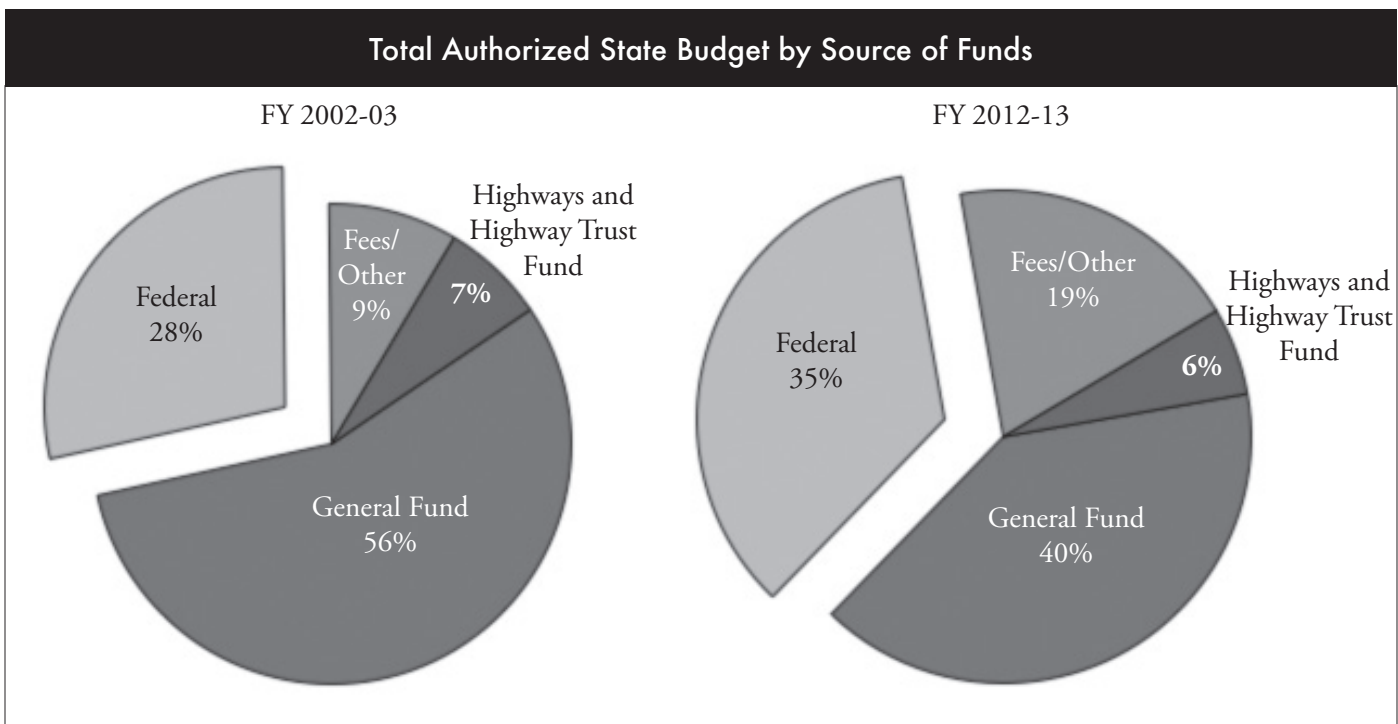
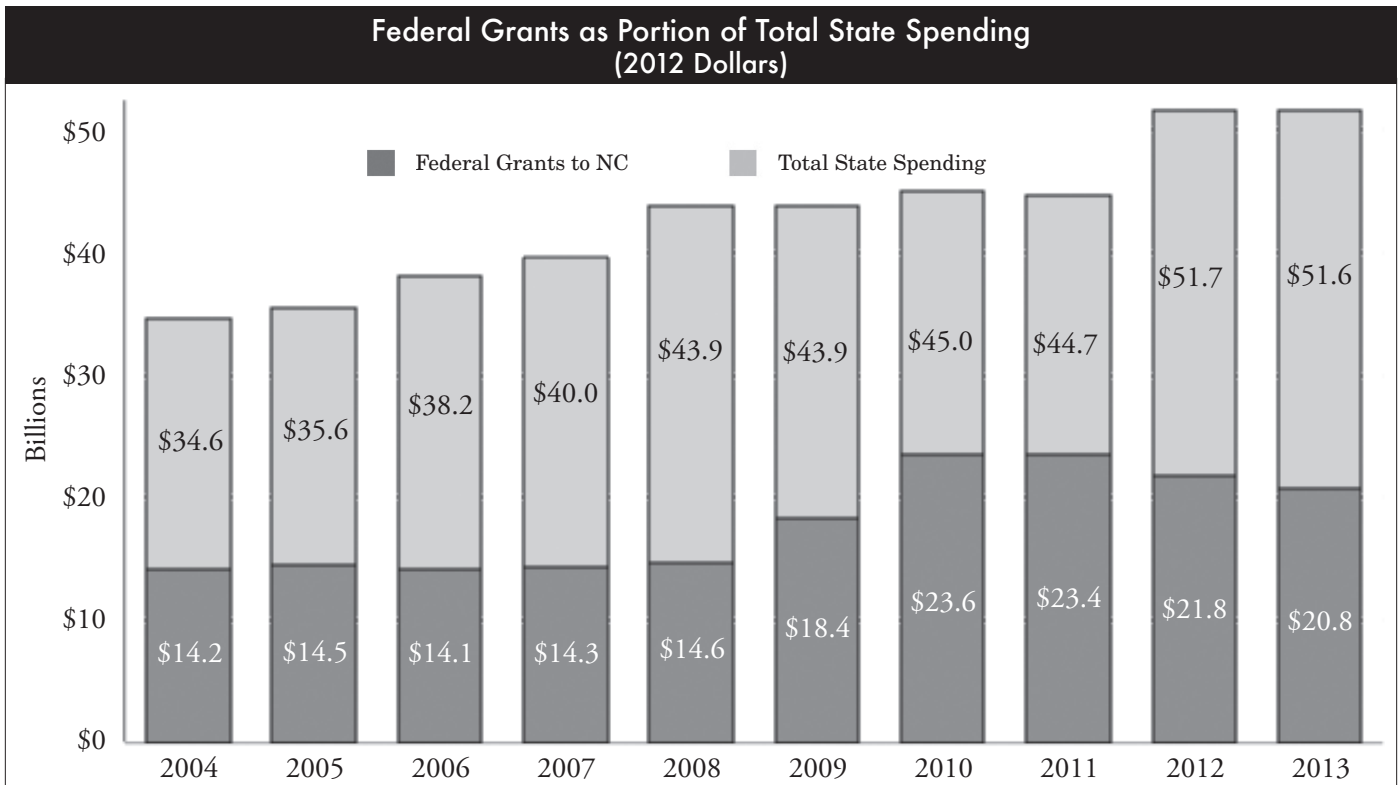
- “Free” federal money is not really free. Every tax dollar Washington sends to North Carolina is a dollar taken from taxpayers in North Carolina and the other states. Economists have found that federal subsidies to the states lead to higher state taxes and spending in the long run, because the federal “seed money” creates a demand for more government with current and future commitments.

- According to the most recent NC Auditor’s report, the state has received an average 42 percent of its total budget from the federal government over the last ten years, with the exception of 2010 and 2011, when the American Recovery and Reinvestment Act (the so-called “stimulus”) helped to boost federal funding to over 50 percent of the state’s total budget.
- In the 2012-13 fiscal year, federal funds made up 40 percent of the state’s total budget, more than \$20.8 billion, mostly in the areas of Medicaid, social services, education, and unemployment benefits.
- North Carolina has set a powerful precedent by not accepting the federal funding to expand Medicaid as well as rejecting the federal government’s extension of unemployment benefits. Both of these decisions will lower the state’s dependence on the federal government and should further reduce dependency on the federal government as Congress passes new legislation.

Recommendations

1. **Study and assess the risk of a significant reduction in the receipt of federal funds.** Also establish a process for making a revenue estimate of the amount of federal funds that the state expects to receive in the near future.
2. **Discuss methods of preparing for, and responding to, a significant reduction in the receipt of federal funds to North Carolina.**
3. **Implement measures to respond to a significant reduction in the receipt of federal funds** by the state, including a contingency plan and increasing the amount in the rainy day fund.

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State Revenue and Spending

The state must generate revenue to pay for government-provided goods and services. The main sources of revenue for North Carolina's government are the personal income tax and the sales tax, amounting to more than 80 percent of the state's tax revenue. The state's major spending priorities have been education and health and human services, with these two categories of expenditure making up 62 percent of last fiscal year's budget. Because the state constitution mandates a balanced budget, the tax burden is a function of spending levels. A lower tax burden depends ultimately on lower spending.

Few people object to paying taxes if the taxes are fairly assessed and the money is properly used. Taxes are the price citizens pay for government, so a reasonable tax burden can provide services that are of benefit to the citizens who consume them and pay for them through those taxes. However, problems arise when a complicated tax code creates targeted tax breaks for select citizens, thus creating an unfair tax assessment and uneven distribution of the state's resources. When writing legislation or creating policy around taxes, this needs to be in the forefront of lawmakers' thinking.

Most of the tax revenue collected is spent through the General Fund, which includes the majority of the state's operations. There are, though, some major components of the state's expenditure that are located outside the General Fund. In short, the General Fund amounts to around \$20 billion, while total state spending amounts to approximately \$51 billion. The major differences between these two budgets are highways and the highway trust fund, federal funding, and some debt service, which are all located outside the General Fund.

Key Facts

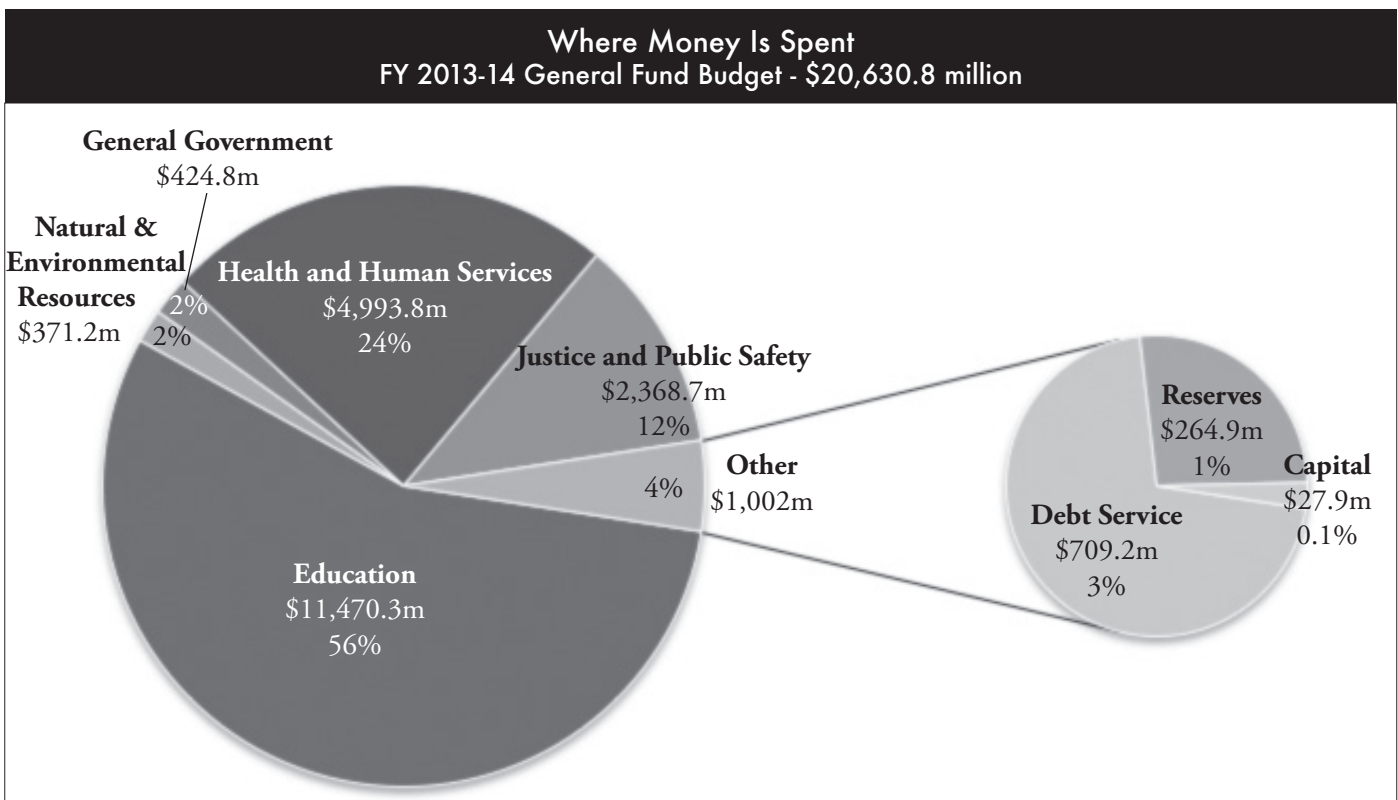
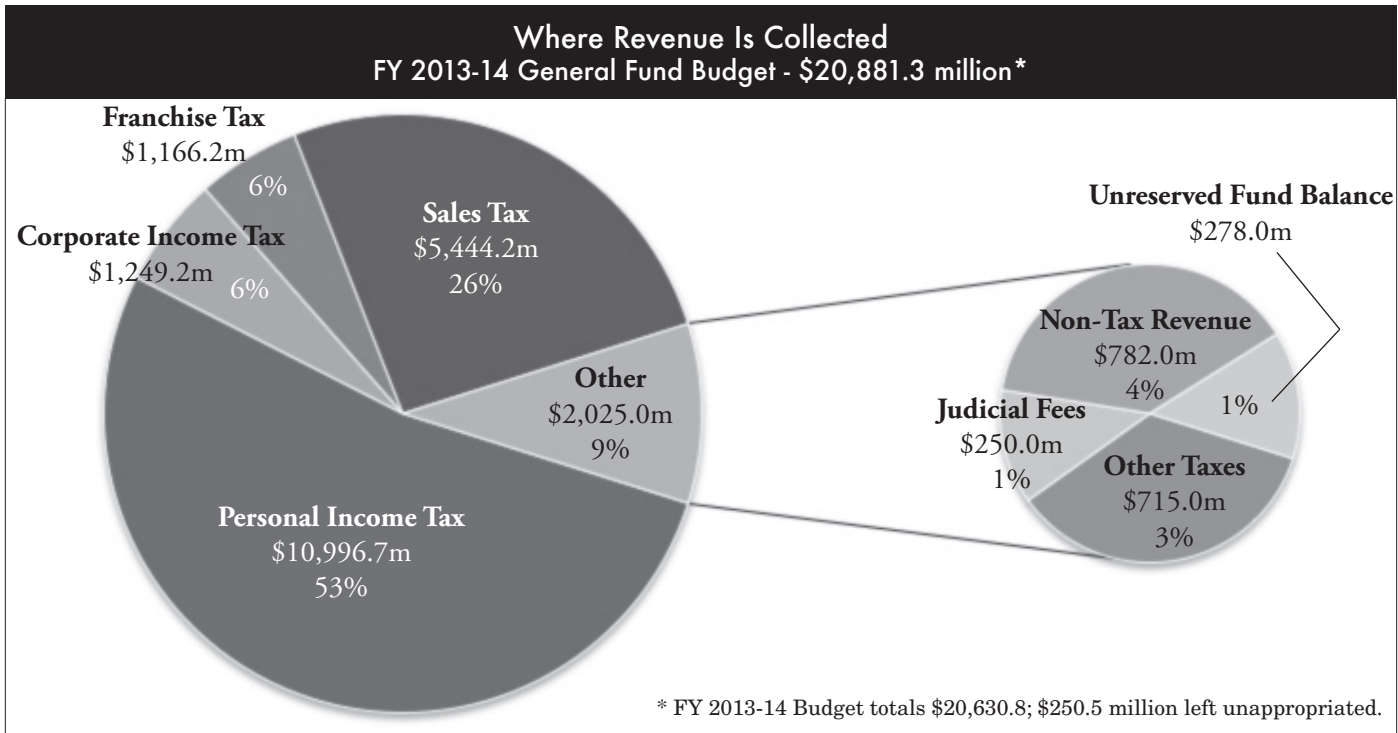
- Total tax revenue in the last fiscal year was more than \$19.4 billion, with 83 percent coming from personal income and sales taxes - 56 and 27 percent respectively. While the 2013 tax reform changed the rate, personal income tax will still be the largest source of revenue for the state.
- North Carolina's total state budget peaked in 2012, reaching more than \$51 billion in spending or \$5,348 per capita.

- General Fund spending has decreased since 2009, but total state spending has increased. The shift of spending outside of the General Fund has created a lack of transparency in the state budget process.
- Federal spending continues to be a major part of North Carolina's total budget spending, amounting to more than 40 percent of total expenditures in 2012.
- Health and Human Services is the largest state agency expenditure in North Carolina's budget and has grown over 260 percent since 1980.
- Non-tax revenues amounted to only a little more than \$1 billion last fiscal year, or around 5.5 percent of total General Fund revenue.

Recommendations

- 1. Provide a five-year fiscal note with each budget.** In reviewing spending and taxes, legislators and citizens should see more than a single year's impact of the most important piece of fiscal legislation passed each year.
- 2. Set fiscal priorities each year.** Search the base budget for items or programs to cut if new spending is needed in other areas.
- 3. Eliminate existing and avoid future targeted tax exemptions, deductions, and other tax biases.** Tax breaks for select companies and higher taxes for certain activities complicate the tax code and feed wasteful lobbying. These special tax exceptions raise the tax burden while distorting economic decisions.
- 4. Pass a constitutional amendment to limit spending growth such as a Taxpayer Bill of Rights (TABOR).** Laws passed by the current legislature are not binding on future legislatures, and other attempts to instill discipline without the force of a constitutional amendment have been brushed aside.

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TABOR - State Spending Restraint

A Taxpayer Bill of Rights, better known as a TABOR, is an amendment to a state's constitution that limits the state's spending. A TABOR limits increases in General Fund spending to a rate of inflation and population growth, in addition to any voter approved changes each year. The overall goal of TABOR is to keep per capita spending constant while allowing for natural growth associated with population and inflation.

Polls reveal that a majority of North Carolinians support a cap on state spending using these parameters.

Our citizens recognize that, as the state continues to increase spending, the effectiveness of that spending is diminishing. North Carolina's balanced budget amendment was not intended to create a tax-and-spend state, but rather a fiscally responsible state that uses tax dollars wisely. During the last few decades, North Carolina has moved away from fiscal responsibility and has created a political culture where increasing taxes, with the intention to spend more, is an acceptable policy. Enacting a TABOR would stop this practice and bring fiscal responsibility back to North Carolina.

Key Facts

- North Carolina's per capita, inflation-adjusted General Fund spending was at a record high in 2008. Today, spending is nearly double what it was 30 years ago.
- Had state spending tracked inflation and population growth since 1993, as denoted in the figure on the opposite page, per capita expenditure would be \$1,759 in 2013. That is 20 percent less than the current level of \$2,113.
- Over the last 20 years, inflation and population growth have been relatively constant, while General Fund spending has not. The figure opposite shows the stable and constant rate of growth for both population and inflation, while the more erratic General Fund has had steep increases for reasons other than service needs associated with economic downturns.
- Budgetary oversight should expand to spending shifted outside the General Fund. While the state has limited

control over federal funds and federally mandated programs, the state has total control of the many trust funds that are not included in the General Fund. Total state spending is approximately \$51 billion, while General Fund spending is around \$20 billion.

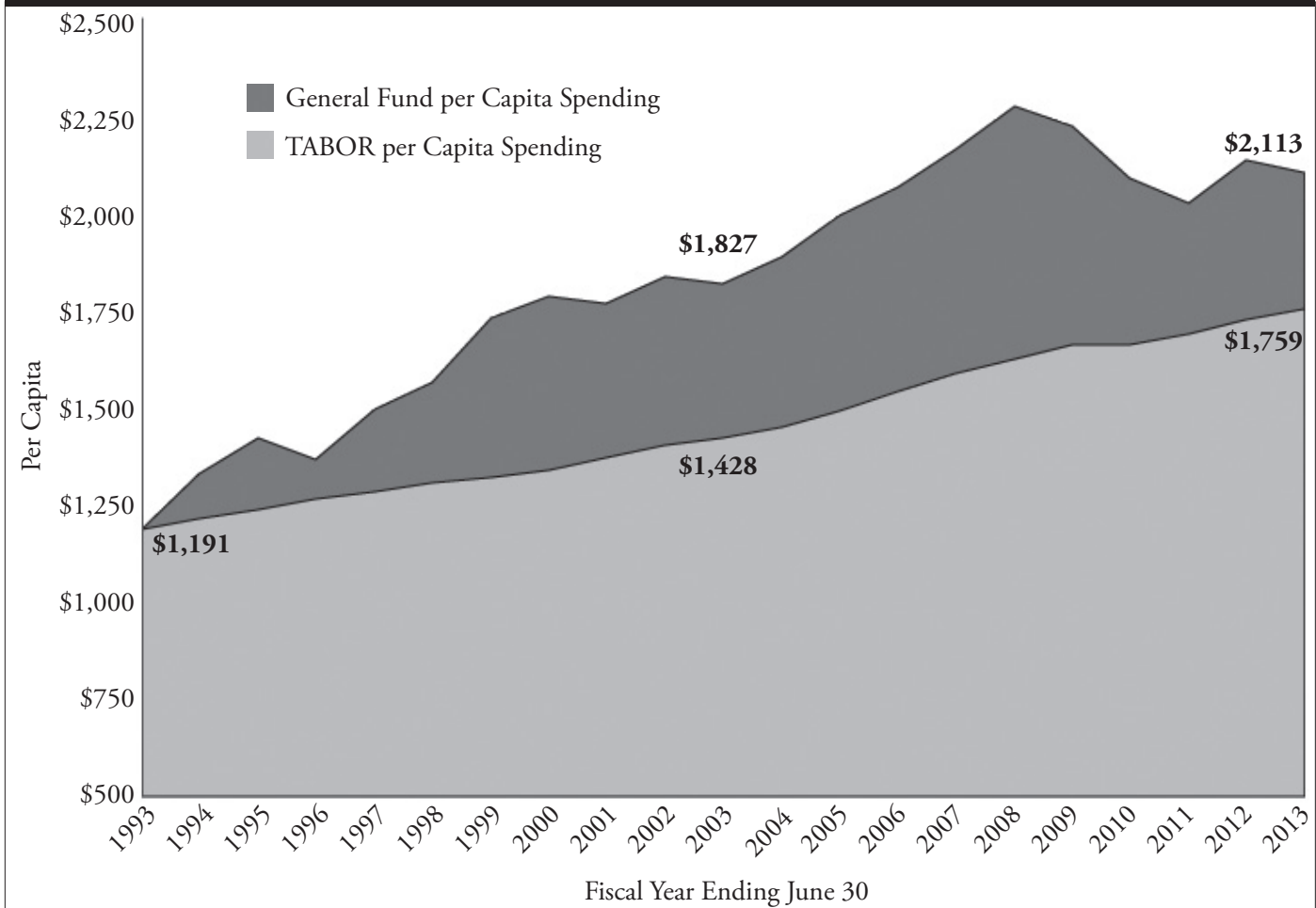
- Since 1980, North Carolina's population has grown an average of 1.7 percent and inflation has increased an average of 2.2 percent annually. Concurrently, the General Fund has grown an average of 5 percent per year.

Recommendations

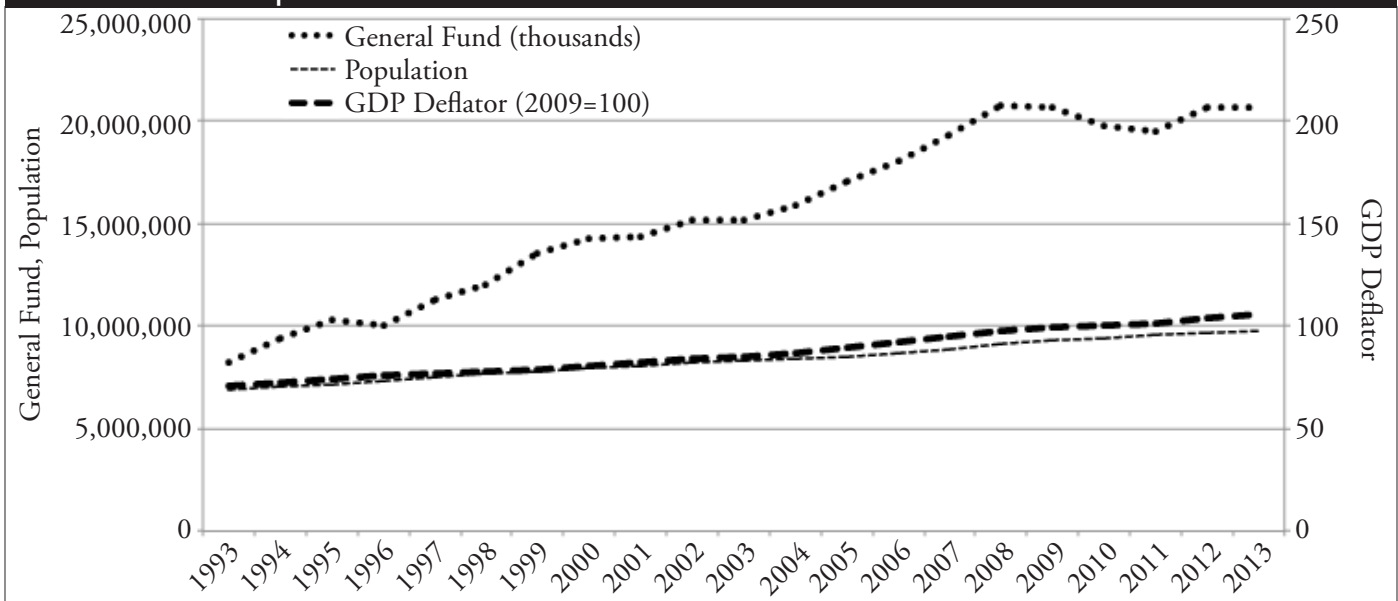
1. **Add a Taxpayer Bill of Rights (TABOR) amendment to the state constitution, limiting annual state spending growth to no more than the projected rates of inflation and population growth.** The amendment should allow spending growth to exceed the cap only if approved by public referendum. Such a spending cap would halt four decades of excessive government growth and better align the long-term interests of taxpayers to the short-term interests of politicians.
2. **The TABOR amendment should mandate that any revenues collected above the annual spending cap be deposited into a rainy day fund or returned to taxpayers.**
3. **The amendment should be written to avoid the ratchet down effect.** When there is a revenue shortfall, the TABOR should not set a lower limit for spending. In periods of revenue shortfall, the TABOR limit should be held constant until revenues recover and again exceed that limit. The rainy day fund or budget stabilization fund would be used to offset at least part of the revenue shortfall.
4. **The amendment should establish other constitutional constraints on fiscal policy,** such as a requirement that any state tax hikes receive supermajority approval from the state legislature.

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Growth in General Fund Budget per Capita: FY1993 to FY2013



Components of TABOR Show the Difference Between the Natural Slow Growth of Inflation and Population While the Uncontrolled General Fund Grew With No Restraint



State Pensions and Other Benefit Plans

The State of North Carolina is the largest employer in the state with nearly 325,000 full-time equivalent positions.

Like most large employers, the State offers its employees a benefits package that includes a retirement plan, health care coverage, and a number of non-monetary benefits. All told, the state adds several thousands of dollars in benefits to the base pay for each of its employees.

These benefits are liabilities, meaning that payment must be made using state tax dollars. Yet, these future payments are kept separate from the General Fund’s accounting ledger, thereby imposing a costly, unpredictable, and largely hidden burden on current and future taxpayers in North Carolina.

Key Facts

- Benefit plans are not considered “hard” liabilities because they are based upon estimates of costs the state will incur in the future and the payment timetable is uncertain.
- While the General Fund has a specific amount of debt capacity it can manage, pensions and benefit plans are not within that capacity. Because these liabilities are not part of the state’s debt capacity calculation, any unfunded obligations do not represent liabilities the same way debt service does. One such liability is the unfunded portion of retiree health care benefits, which totaled \$23.1 billion or \$2,347 per capita at the end of 2012.
- The State Employees’ Health Plan is receiving increased attention from rating agencies. If this unfunded amount remains high, it could have a negative impact on the state’s bond rating.
- The state has fully funded the annual required contribution for the Teachers’ and State Employees’ Retirement System for 71 of the last 72 years. It is currently funded at 94 percent and is considered by some rating agencies to be the third best-funded state retirement system in the country.
- The total unfunded liability for all benefit plans in North Carolina is more than \$27 billion or \$2,751 per capita.
- Pension and other employee benefit plans are not included in the government-wide financial statements, because the resources of those funds are not available to support the state’s own programs. They are reported as required supplementary information, which is listed after the basic financial statements, making it very difficult for the average citizen or lawmaker to find.

Recommendations

1. Pensions and other benefit plans do not impact the debt capacity of the General Fund, but can have a negative impact on the state’s bond ratings. **An actuarial annual required contribution is already in place for pension plans and should be established for the State Health Plan.** An annual appropriation needs to be established for both plans until they are at least 95 percent funded.
2. **Increase the transparency of the pension and other employee benefit plans.** The financial statements for these accounts need to be included in a convenient place, preferably an easily accessible website, and considered a priority when evaluating the state’s fiscal situation.
3. **Pension plans should move away from a defined benefit model and toward a defined contribution model.** The current defined benefit plans pay benefits based on a formula of the employee’s salary and duration of employment. If the plan does not have enough to pay this predetermined amount to retirees, the state must make up the difference by reducing spending elsewhere in the budget or raising taxes. A new defined contribution plan would set aside a certain percentage from each employee’s salary plus a matching contribution from the state. When employees reach retirement, they would receive the amount contributed plus any earnings made on the investment during their time of employment. The latter is much easier for budgeting purposes and also reduces the risk to taxpayers for future liabilities.

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	Unfunded Liability Amount (\$)	Level of Funding
Teachers/State Employees Ret Sys	3,718,445,000	94.2%
Consolidated Judicial Ret Sys	46,299,000	91.2%
Legislative Ret Sys	(5,564,000)	123.3%
Firemen/Rescue Squad Pension	64,932,000	83.9%
National Guard Pension	35,125,000	73.3%
Registers of Deeds Pension	(21,479,000)	191.3%
Local Gov’t Employees Ret Sys	43,546,000	99.8%
State Employees Health Plan	23,117,279,000	3.2%
Disability Income	70,525,000	86.0%

North Carolina Pension and Post Employment Plans*						
	Plan	Type of Plan	Membership	Total** Membership	Funding Method	NC's Contributions for FY 2013
Pensions	Teachers' and State Employees' Retirement System	Cost-sharing, multiple-employer, defined benefit plan	Employees of state agencies and institutions, Universities, Community Colleges, Local education agencies (LEAs) and other units	617,396	Member contributions of 6% of compensation, investment income and employer contribution established by legislation	\$521,192,000
	Consolidated Judicial Retirement System	Single-employer, defined benefit plan	Judges, District Attorneys, Public Defenders, and Clerks of Court	1,171	Member contributions of 6% of compensation, investment income and employer contributions	\$18,476,000
	Legislative Retirement System	Single-employer, defined benefit plan	Members of the General Assembly	533	Member contributions of 7% of compensation, investment income, and employer contributions	\$10,000
	Firemen's and Rescue Squad Workers' Pension Fund	Cost-sharing, defined benefit plan	Volunteer and Locally employed firemen and emergency medical personnel who elect membership	52,936	Contribution of \$10 monthly by member, investment income, and state appropriation	\$13,934,000
	NC National Guard Pension Fund	Single-employer, defined benefit plan	Members of the North Carolina National Guard	14,679	State appropriation and investment income	\$5,898,000
	Registers of Deeds' Supplemental Pension Fund	Cost-sharing, multiple-employer, defined benefit plan	Registers of Deeds who are retired from the Local Governmental Employees' Retirement System	194	Investment income and 1.5% of receipts collected by each County Commission	N/A
	Sheriffs' Supplemental Pension Fund	Defined Contribution Plan	Sheriffs who are retired from the Local Governmental Employees' Retirement System	93	Receipts collected by each county's Clerk of Superior Court and investment income	N/A
	Local Governmental Employees' Retirement System	Cost-sharing, multiple-employer, defined benefit plan	General employees and local law enforcement officers of participating local governmental entities	224,480	Employee contributions of 6% and employer contributions	"The state does not make any contributions. Local government's ARC is 7.22% of covered payroll for law enforcement; 6.74% for general employees and firemen"
Others	NC State Health Plan	Cost-sharing, defined benefit health care plan	Current and former employees of the State, University System, Community Colleges, Local education agencies (LEAs), some local governments, and other units	560,625	Employer contributions, investment income, legislatively mandated percentage of active employees' salaries	\$410,633,000
	Disability Income	Cost-sharing, multiple-employer, defined benefit plan	Eligible members of the Teachers' and State Employees' Retirement System who meet the medical criteria for short-term and long-term disability	333,478	Actuarially determined employer contributions that are established in the Budget bill by the General Assembly	\$34,090,000
* All data came from the Comprehensive Financial Report for the fiscal year ended June 30, 2013, Note 12: Retirement Plans and Note 14: Other Postemployment Benefits						
**This includes retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and active plan members.						

Film Incentives

The state first got involved in film incentives in 2005. Its original program was greatly increased after 2009 when the governor and state officials were embarrassed to be outbid by Georgia's revamped film incentive for the Miley Cyrus feature "The Last Song."

North Carolina's film tax credit program is currently slated to sunset at the end of 2014.

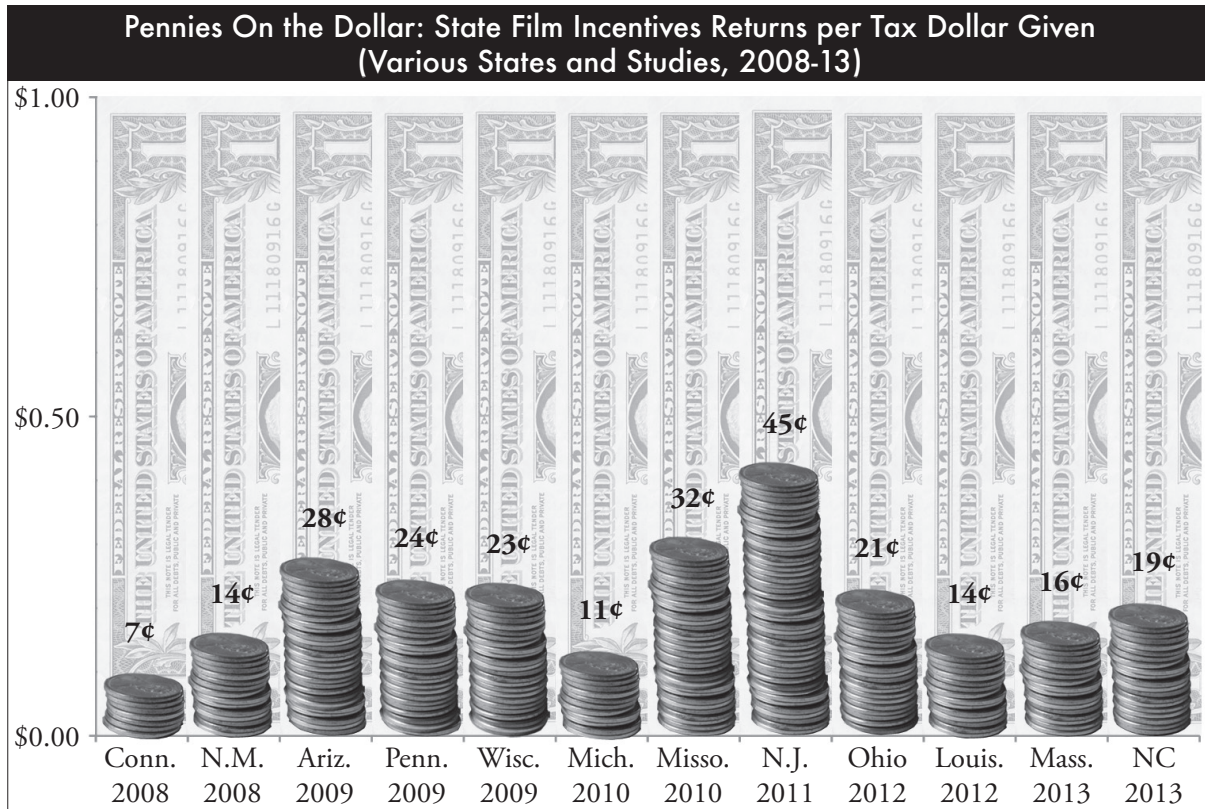
Key facts

- Before states and nations began film tax incentives programs, North Carolina — a right-to-work state with a pleasant climate and a range of natural features — was a popular off-Hollywood destination for film crews.
- From 2002 to 2009, the number of states with film incentives programs grew from four to 44.
- The key feature of North Carolina's program is a refundable income tax credit of 25 percent of qualifying production expenses (with the maximum credit being \$20 million), as long as the production company spends at least \$250,000 on production in the state.
- The refundability provision is likely unconstitutional because it is an open-ended draw on the state Treasury without appropriation by the General Assembly. A bill was introduced in 2013 to address that problem by allowing the credit to carry forward for up to five years, but the film industry lobbied hard against it, saying change would effectively gut the incentive.
- Unlike other economic incentive programs, the film tax credits don't require recipients to earn their credits gradually by fulfilling specific job-creation targets or other long-term promises.
- Those who benefit from the credits include state and local film offices, local studios, film crew workers, restaurants, hotels, hairdressers, carpenters, lumber yards, etc. Tourism is also said to be positively affected, but tourism effects are fickle, unpredictable, and small.
- The incentives' biggest beneficiaries are film production companies, *even if they don't produce in North Carolina*. North Carolina's incentives "bid" pressures other states to increase theirs, and vice-versa.
- There is no "right" amount of tax credits, because competing incentives packages offered by other states, as well as many other countries, are constantly in flux. Even if state leaders made the film tax credits permanent, the issue would not go away.
- Many states are beginning to question their film incentives programs, and some have suspended or even ended them. Several states have studied their film incentives and found them to return to state coffers mere pennies per dollar of revenue spent.
- A recent presentation by the NC Department of Commerce found a net "negative budgetary impact" of the film tax credits, with North Carolina getting a return of just over 19 cents per dollar tax credit given.
- In April 2014, an industry study conducted by Dr. Robert Handfield of NC State University generated incredible, positive numbers for the film tax credits: a net state and local impact of \$25.4 million and a return of \$1.42 per dollar tax credit. The Fiscal Research Division of the NC General Assembly, however, revealed it contained "a series of misunderstandings of the state's tax laws, invalid or overstated assumptions, and errors in accounting." After correcting for these, it found a net state and local loss of \$33.1 million (loss of 39 cents per dollar).
- The industry study made no accounting for the opportunity costs of the credits — a key flaw when evaluating a state policy designed to boost the overall economy. Focusing on the benefits to the recipient industry is only half the story.
- As of Spring 2014, over a quarter of U.S. states were not offering film incentives, having either ended, suspended, or never started programs.
- Economic incentives programs such as film tax credits exist because politicians and industry lobbyists know *lower taxes attract industry*. They are a relic of cronyism, carving out a more favorable tax environment just for politically favored "winner" industries — at the expense of the "losers" stuck in the higher-tax environment.

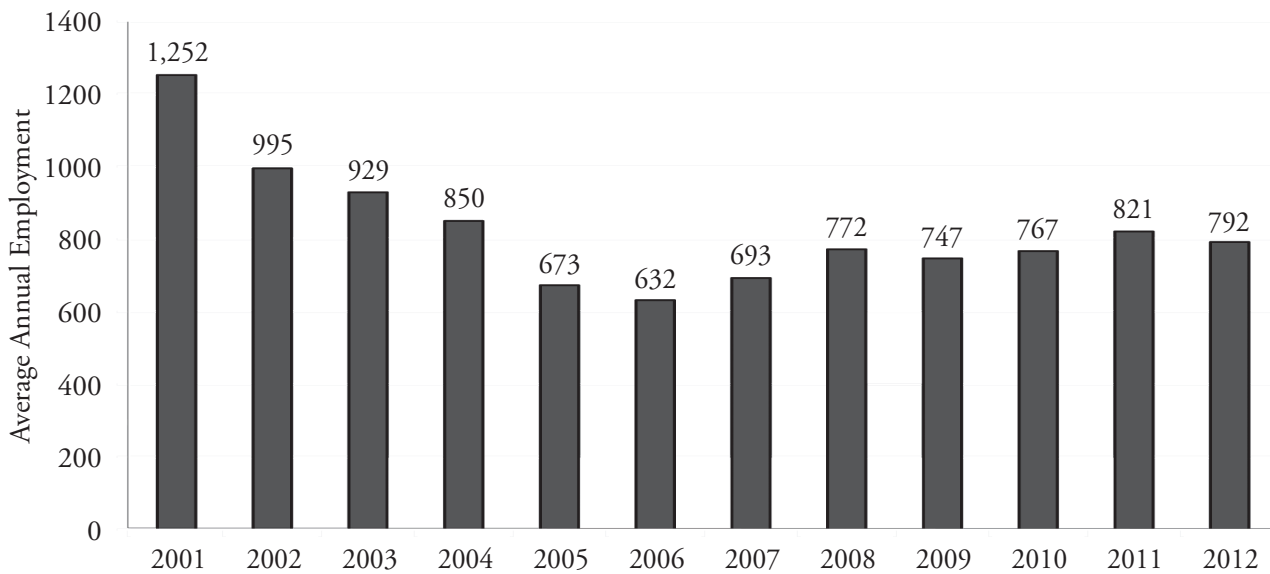
Recommendation

Let the film tax credits sunset as scheduled.

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NC Motion Picture and Video Production Employment, 2001-12



2002-09 Number of states with film incentives programs increased from four to 44 (does not include foreign countries adopting film incentives)

2010-13 Eight state film incentives programs suspended or ended; two more (NC & NJ) headed for sunset

2005-09 Original NC film tax credit: 15% expenses, refundable; at least \$250,000 spent in-state; open-ended subsidy; up to \$7.5 million per film

2010- Revised NC film tax credit: 25% expenses, refundable; at least \$250,000 spent in-state; open-ended subsidy; up to \$20 million per film

Data source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Series ID ENU27000105512110, accessed April 8, 2014

Charter Schools

Charter schools are tuition-free public schools that have more freedom than district-run public schools but are required to meet certain state regulations. For example, charter schools must participate in the accountability program, the ABCs of Public Education. In 1996, the NC General Assembly passed charter school legislation. Eighteen years later, charter schools are among the most popular and successful schools in the state.

Much of the growth in charter school enrollment can be attributed to recent revisions of the state's charter school statutes. In 2011, the NC General Assembly eliminated restrictions on growth that originated in the 1996 charter law. Lawmakers removed the 100-school cap and authorized charter school enrollment to grow by as much as 20 percent a year, up from the previous cap of 10 percent, which had led to long wait lists and few open seats.

The 2011 charter school legislation also created a new oversight group, the North Carolina Public Charter School Advisory Council. The purpose of the council is to review and recommend charter applications to the NC State Board of Education for approval. The council also assists the Office of Charter Schools in their ongoing effort to ensure that charters maintain high academic and operational standards. Two years later, the council was reconstituted and renamed the North Carolina Charter Schools Advisory Board.

In 2013, legislators also approved a bill that permits established charter schools to add one grade per year without approval from the NC State Board of Education. Additionally, revisions to the state's charter school statutes provided much-needed stability and relief for families with multiple children by virtually guaranteeing sibling admission. Finally, lawmakers reduced teacher certification requirements for charter schools, allowing them to hire more teachers based on qualifications rather than credentials.

Despite these positive changes, charter school applications continue to outnumber available seats. Unfortunately for families, there is no immediate relief in sight. It will take several years for new and existing charter schools to accommodate the pent-up demand created by 15 years of injudicious restrictions on charter school growth.

Key Facts

- As of the 2013-14 school year, enrollment in the state's 127 charter schools had grown to well over 53,000 students, an increase of 28 percent over the previous five years. Still,

charter school students represent only 3.6 percent of the total public school population in North Carolina.

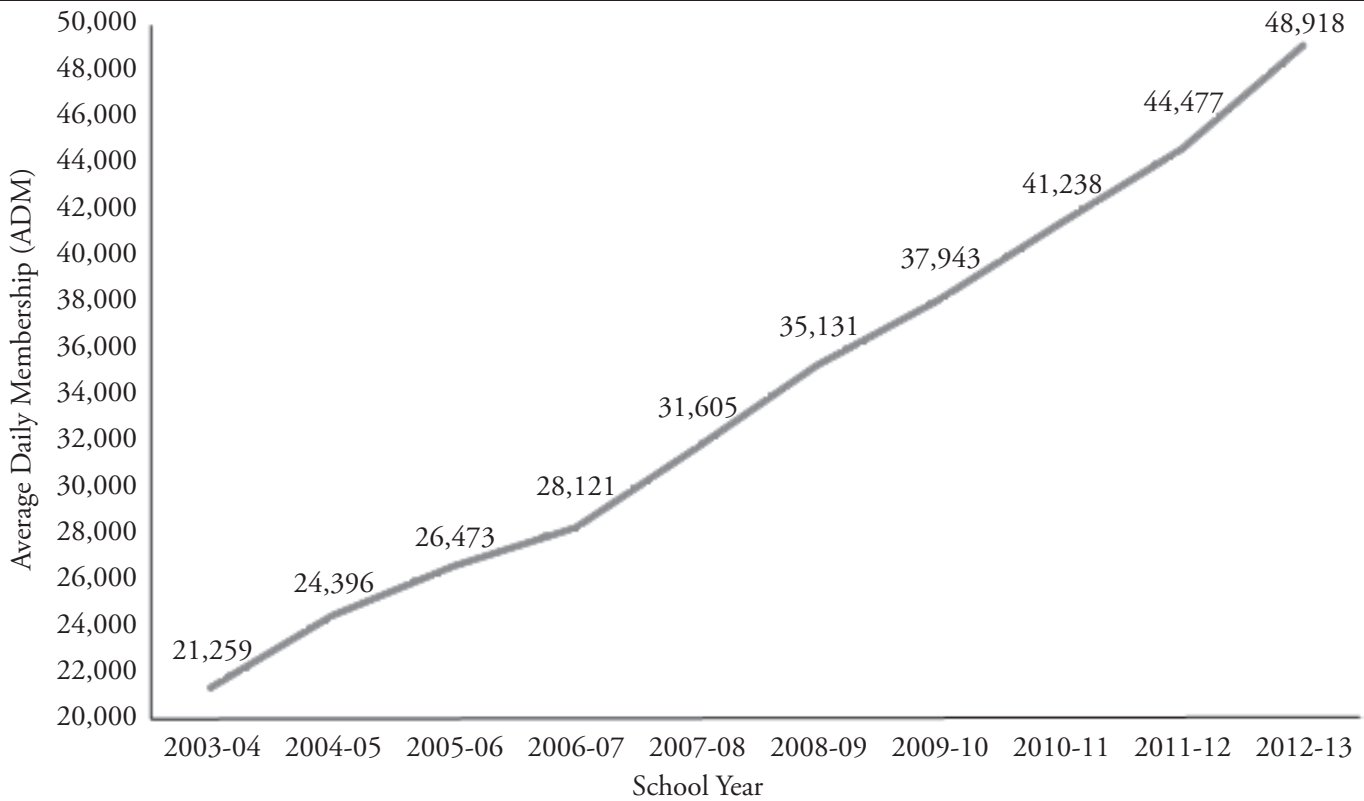
- Since the authorization of charter schools in 1996, 203 have been approved, 163 have opened, 37 have closed, and 11 charters were relinquished before opening. Closure is a form of accountability unique to charter schools.
- According to 2012-13 state test results, 85.1 percent of charters met or exceeded growth versus 71.4 percent of district schools. 39.7 percent of charter school students in grades 3-8 were proficient in math and reading, while only 32.0 percent of district school students earned proficiency.
- For charter schools, the average per-pupil expenditure in 2012-13 was \$8,014. The per-pupil district average was \$9,109. Much of this difference reflects the fact that charter schools do not receive capital funding.

Recommendations

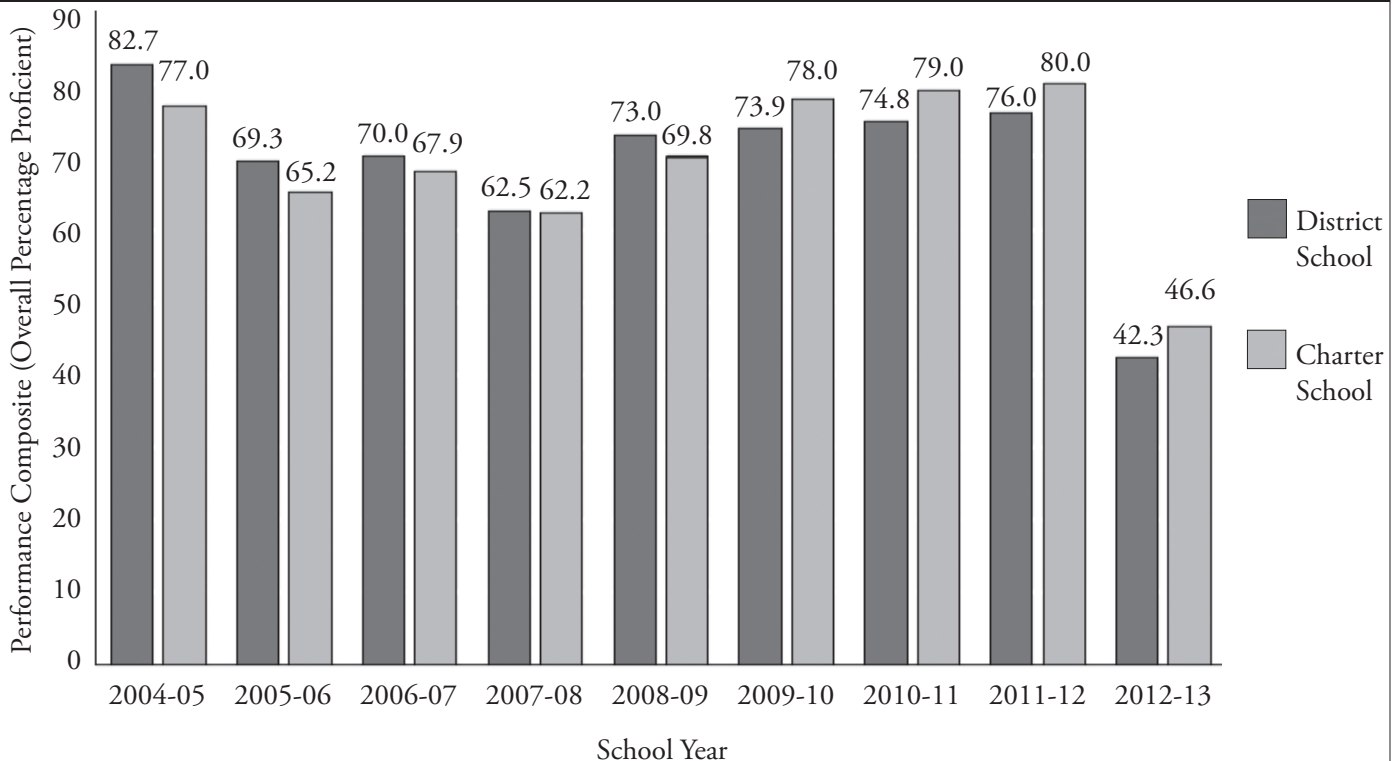
- 1. Legislators should eliminate regulations that require charter schools to employ a minimum percentage of certified teachers.** Charter schools should have the freedom to hire the most qualified applicants, not just those with state-approved credentials.
- 2. The State Board of Education should repeal any policy or regulation that sets student performance standards for charter, but not district, schools.** In other words, all public schools that administer state tests should be subject to the same rules.
- 3. The state should permit successful charter schools to replicate themselves.** Lawmakers should create a special review and approval process for innovative and successful charter schools.
- 4. Lawmakers should allow municipalities and counties to support the capital needs of charter schools within their jurisdictions.** Elected officials should be allowed to add capital funding for charter schools into their annual appropriations or when incurring debt for capital outlay.
- 5. The state should restructure the charter school funding system.** State law should prohibit the practice of routing charter school funding through school districts. Instead, all charter schools should receive their appropriation directly from its source, whenever possible.

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NC Charter Schools' Final Average Daily Membership (ADM)



Average Performance Composite, by School Type



Child Care

The Subsidized Child Care Program provides vouchers to eligible families for child care services offered in any number of settings – licensed child care centers, family child care homes, religious-sponsored programs, and informal arrangements such as care by a relative or care in the child’s home.

The Division of Child Development and Early Education of the Department of Health and Human Services (DHHS) oversees the Subsidized Child Care Program and evaluates the quality of all licensed child care centers and family child care homes in North Carolina. County social services departments actually administer the subsidy program. A third entity, the NC Child Care Commission, adopts regulations that ensure DHHS compliance with legislation passed by the NC General Assembly.

Key Facts

- The Subsidized Child Care Program is one of North Carolina’s longest running welfare programs. The state began operating its subsidy program in 1964.
- Much of the money for the program comes from two federal grants, the Child Care and Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF).
- To qualify, parents must meet both situational and financial criteria. Parents must be employed (or seeking employment) or enrolled in an education program. They may also qualify if their child has developmental needs or is receiving child protective and/or welfare services. About 85 percent of parents who receive a child care subsidy do so to support employment.
- Income eligibility depends on income and family size. Nearly 84 percent of parents receive a subsidy primarily due to income level.
- Families are required to contribute between 7 and 10 percent of gross income to the cost of child care.
- About one-fifth of the funding for the Subsidized Child Care Program comes from the North Carolina General Fund. Federal funding makes up the remainder. As of 2013, the total budget for child care subsidies was nearly \$350 million.

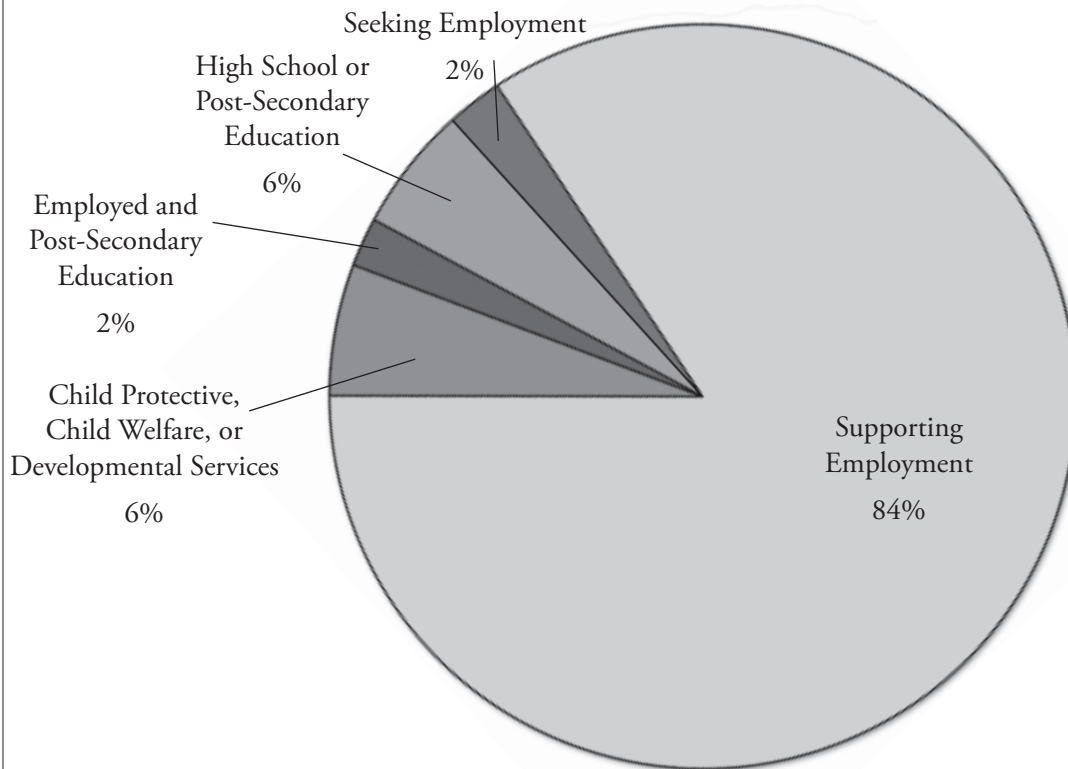
- As of August 2013, approximately 72,000 children received subsidized child care services from one of North Carolina’s nearly 4,800 regulated child care centers and over 2,600 regulated family child care homes. This represents nearly a third of the 247,000 children enrolled in regulated facilities throughout North Carolina. The average payment was \$412 per child.
- Approximately 92 percent of children whose parents receive a child care subsidy choose to send their children to child care centers.
- Over 36,000 children were on wait lists for the Subsidized Child Care Program as of August 2013. In general, wait lists reflect economic conditions and federal government funding levels.

Recommendations

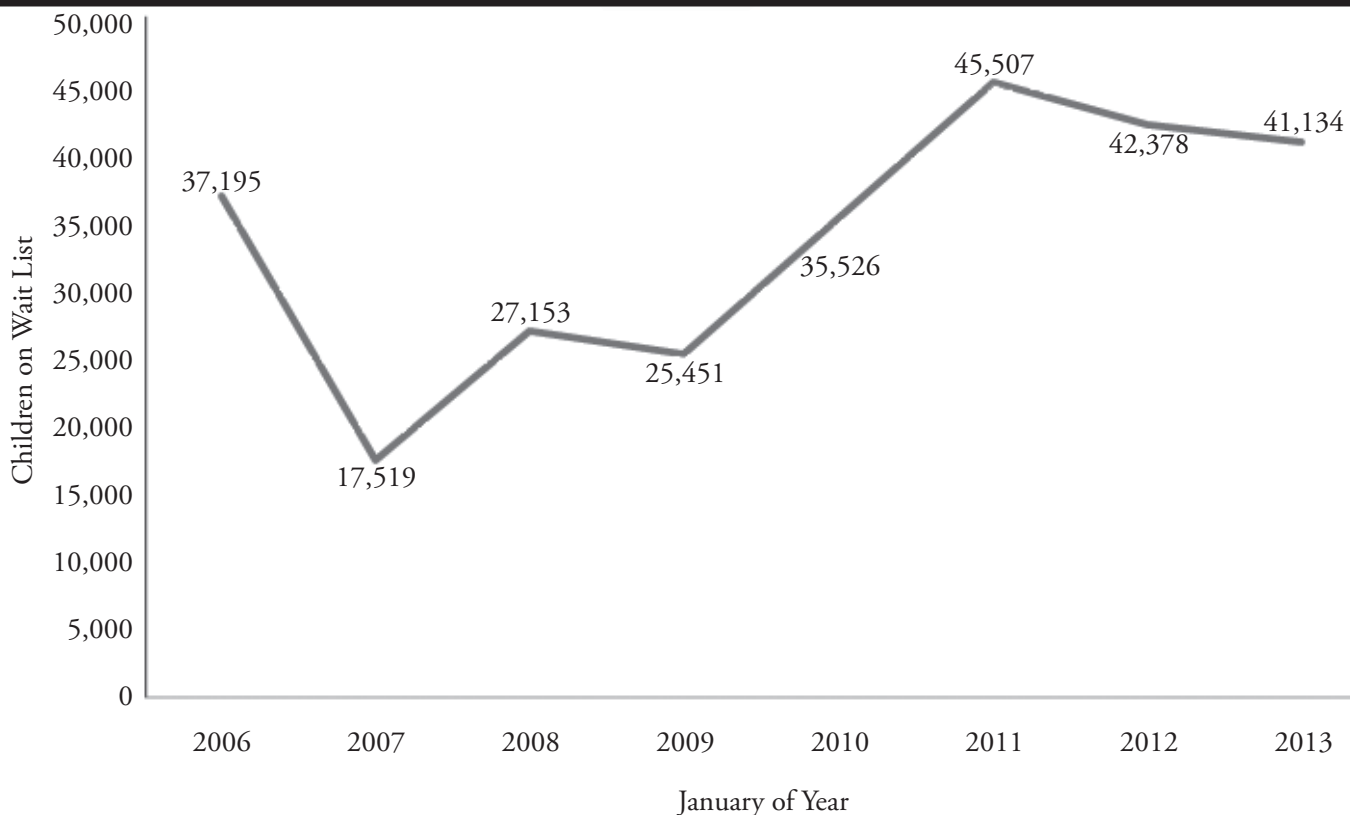
- 1. Child care subsidy programs should be eliminated in favor of a refundable tax credit for the families of preschool children.** In North Carolina, most preschoolers do not spend their days in centers or homes where paid staff care for them. Stay-at-home mothers, working mothers and fathers, relatives, and neighbors supply the vast majority of care provided to preschoolers, and on a non-paid basis. A refundable tax credit would provide a small measure of relief to these families.
- 2. Parents should also be able to make tax-deductible contributions into Education Savings Accounts for use in paying preschool expenses or accumulating assets for the future educational needs of their children.** Families are by far the most important providers of child care services. Education Savings Accounts would promote investment in the developmental and educational needs of children.
- 3. Policymakers should limit regulation of day-care operations to health and safety requirements only.** Parents should make their own decisions about the trade-offs between price and child-staff ratios or qualifications.

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Subsidized Child Care: Children Served (by Client Need)



Subsidized Child Care Wait List



Childhood Health and Nutrition

As childhood obesity rates continue to rise, the debate over the National School Lunch Program and the sale of junk food in and around public schools has intensified. While elected officials continue their well-intentioned efforts to promote healthy lifestyles, research suggests that new and stricter regulations will do little to make children healthier.

The Obama Administration spearheaded passage of the Healthy, Hunger-Free Kids Act of 2010. This initiative is designed to combat childhood obesity by changing the nutrition requirements of school lunches. A January 2014 Government Accountability Office (GAO) study suggests that the Healthy, Hunger-Free Kids Act improved the nutritional profile of school lunches but also produced a number of unintended consequences.

According to the GAO, the law multiplied costs, increased fruit and vegetable waste, created new menu planning problems, and decreased participation in the federal school lunch program. Because implementation of the program requirements is ongoing, the overall effect of the legislation on childhood health, if any, will not be known for some time.

Public health advocates also contend that schools can curb obesity by banning the sale of junk food and soda. Their more radical proposals include taxes on unhealthy foods and beverages and zoning regulations that prohibit certain businesses from operating near schools.

Over the last five years, however, empirical studies have reached a near consensus — stricter laws and regulations imposed by government officials do not reduce childhood obesity rates in any significant way. Why?

The consumption of unhealthy foods and drinks is inelastic. In other words, taxing or regulating certain food and beverage items will not necessarily reduce their consumption very much. Consumers, particularly children, may simply shift their consumption preferences to other unhealthy, non-taxed foods and drinks. This problem raises the difficulty of defining which foods and drinks should be subject to taxes and regulations by state and federal governments.

For example, public school students often respond to bans on soda by purchasing different kinds of sugary drinks, such as juices and sports drinks, from school vending machines. Even schools that ban all sugar-sweetened beverages from campus will not significantly reduce students' consumption of unhealthy drinks. Kids can (and will) simply bring them from home.

Key Facts

- A study from the January 2012 issue of *Sociology of Education* examined junk food consumption and weight changes in nearly 20,000 public middle school students. Penn State University researchers found that the percentage of overweight or obese students did not rise in concert with the increased availability of unhealthy foods and snacks. In fact, the percentage of overweight and obese students decreased slightly as the availability of junk food increased.
- In 2011, *The Archives of Pediatrics and Adolescent Medicine* published a study that sought to find a link between obesity and beverage consumption in schools. It concluded that soda bans in middle schools did not significantly reduce students' consumption of sugary drinks.
- Researchers have yet to establish a causal association between health outcomes and restaurant zoning restrictions. For example, a 2011 study published in *BMC Public Health* found no relationship between overweight or obese children and the proximity of fast food restaurants and supermarkets to their schools.
- A study in the September 2008 issue of the *American Journal of Preventative Medicine* hypothesized that there was a relationship between obesity-related eating behaviors and the presence of snack and soda machines in schools. To their surprise, they found little relationship between them.

Recommendations

1. **Federal, state, and local governments should not impose arbitrary taxes, regulations, or prohibitions on the consumption of certain foods and beverages.** We should remain dependent on parents and guardians to instill values of healthy and active lifestyles in children.
2. **Public schools should ensure that all children participate in health and physical education activities several times a week.** Additionally, public schools should invite all students to use sports and recreational facilities before school, after school, and on weekends.
3. **States should ask Congress to reassess changes to the federal school lunch program.** Lawmakers should try to find ways to mitigate the unintended consequences produced by the Healthy, Hunger-Free Kids Act of 2010.

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Underweight, Healthy Weight, Overweight, and Obese 2, 3, and 4-year-old Children, 2012

County	Under-weight	Healthy Weight	Over-weight	Obese	County	Under-weight	Healthy Weight	Over-weight	Obese
Alamance	3.6%	62.1%	16.8%	17.5%	Jones	5.4%	64.1%	15.6%	15.0%
Alexander	5.1%	65.5%	16.6%	12.8%	Lee	3.6%	67.2%	14.7%	14.5%
Alleghany	6.5%	61.1%	13.0%	19.4%	Lenoir	7.4%	66.3%	14.1%	12.1%
Anson	3.6%	58.9%	18.3%	19.2%	Lincoln	10.8%	68.7%	10.6%	9.9%
Ashe	7.4%	65.1%	14.0%	13.6%	Macon	3.6%	59.2%	16.7%	20.5%
Avery	9.3%	64.7%	14.3%	11.6%	Madison	7.2%	64.9%	12.2%	15.8%
Beaufort	4.3%	66.5%	14.4%	14.9%	Martin	6.6%	57.0%	16.2%	20.3%
Bertie	9.5%	64.3%	10.8%	15.4%	McDowell	4.6%	64.4%	14.8%	16.3%
Bladen	8.8%	60.4%	14.9%	15.9%	Mecklenburg	4.6%	62.6%	16.1%	16.7%
Brunswick	6.0%	62.1%	17.3%	14.6%	Mitchell	9.7%	62.9%	15.4%	12.0%
Buncombe	4.0%	66.1%	15.7%	14.1%	Montgomery	4.8%	64.5%	15.4%	15.4%
Burke	3.5%	66.1%	16.1%	14.3%	Moore	4.1%	65.1%	16.0%	14.7%
Cabarrus	13.5%	62.3%	12.0%	12.2%	Nash	6.0%	63.4%	14.3%	16.3%
Caldwell	4.0%	64.9%	18.2%	12.9%	New Hanover	5.4%	67.2%	14.9%	12.6%
Camden	10.7%	60.9%	11.5%	16.9%	Northampton	5.1%	60.9%	19.1%	14.8%
Carteret	4.6%	63.2%	15.5%	16.7%	Onslow	4.5%	68.5%	15.3%	11.7%
Caswell	6.6%	61.9%	17.3%	14.2%	Orange	7.2%	62.8%	15.5%	14.6%
Catawba	4.0%	63.1%	17.8%	15.1%	Pamlico	8.1%	64.0%	15.7%	12.2%
Chatham	4.2%	63.0%	15.9%	16.9%	Pasquotank	8.7%	62.1%	13.3%	15.9%
Cherokee	3.9%	67.1%	12.4%	16.7%	Pender	6.8%	60.7%	17.2%	15.4%
Chowan	10.2%	59.1%	13.6%	17.1%	Perquimans	8.7%	61.3%	13.3%	16.7%
Clay	2.6%	71.8%	13.8%	11.8%	Person	4.0%	64.7%	16.5%	14.7%
Cleveland	7.9%	68.0%	12.0%	12.1%	Pitt	5.6%	65.5%	13.9%	15.0%
Columbus	3.9%	63.2%	15.3%	17.6%	Polk	2.4%	63.1%	13.6%	20.9%
Craven	7.7%	63.8%	16.0%	12.5%	Randolph	4.7%	64.3%	15.2%	15.7%
Cumberland	10.4%	68.7%	11.2%	9.6%	Richmond	4.4%	69.7%	12.7%	13.1%
Currituck	9.0%	59.6%	13.8%	17.6%	Robeson	3.0%	58.4%	18.3%	20.3%
Dare	2.5%	60.0%	21.3%	16.2%	Rockingham	4.5%	67.3%	14.0%	14.1%
Davidson	3.6%	66.6%	16.3%	13.5%	Rowan	5.1%	66.8%	15.0%	13.1%
Davie	4.4%	69.6%	12.0%	14.0%	Rutherford	5.5%	65.6%	14.5%	14.5%
Duplin	7.6%	59.2%	14.9%	18.3%	Sampson	3.2%	60.0%	16.0%	20.9%
Durham	6.3%	62.2%	15.0%	16.5%	Scotland	5.9%	70.9%	10.4%	12.8%
Edgecombe	6.5%	68.7%	10.9%	13.9%	Stanly	3.9%	66.7%	16.1%	13.2%
Forsyth	4.0%	66.3%	16.0%	13.7%	Stokes	4.7%	63.5%	16.8%	15.0%
Franklin	19.9%	50.2%	15.3%	14.6%	Surry	13.2%	58.0%	13.0%	15.8%
Gaston	5.8%	67.9%	12.3%	14.0%	Swain	5.9%	66.3%	15.0%	12.8%
Gates	11.4%	56.9%	12.3%	19.4%	Transylvania	1.8%	64.1%	19.8%	14.3%
Graham	4.9%	56.7%	12.7%	25.7%	Tyrrell	8.5%	55.3%	13.2%	23.0%
Granville	4.7%	65.9%	13.7%	15.7%	Union	20.5%	54.7%	12.9%	11.9%
Greene	8.0%	59.4%	17.0%	15.6%	Vance	10.0%	66.8%	11.9%	11.3%
Guilford	4.7%	66.3%	14.7%	14.3%	Wake	7.3%	63.5%	14.7%	14.5%
Halifax	7.1%	63.1%	16.5%	13.4%	Warren	13.8%	60.7%	12.9%	12.6%
Harnett	7.2%	64.2%	15.4%	13.2%	Washington	8.3%	58.0%	14.8%	18.9%
Haywood	3.8%	64.8%	17.4%	14.0%	Watauga	5.1%	63.3%	15.9%	15.6%
Henderson	7.3%	64.7%	16.1%	11.9%	Wayne	5.4%	67.5%	13.6%	13.6%
Hertford	8.0%	61.8%	15.0%	15.2%	Wilkes	4.7%	57.9%	17.8%	19.7%
Hoke	6.4%	61.2%	14.3%	18.1%	Wilson	7.2%	62.0%	15.8%	15.0%
Hyde	7.0%	63.4%	15.5%	14.1%	Yadkin	10.3%	58.8%	16.9%	14.0%
Iredell	5.6%	63.8%	15.7%	14.9%	Yancey	8.6%	67.8%	12.6%	11.0%
Jackson	3.3%	69.6%	14.1%	13.1%	Statewide	6.4%	64.2%	14.9%	14.5%
Johnston	3.2%	63.5%	15.3%	18.1%					

Source: North Carolina Nutrition and Physical Activity Surveillance System (NC-NPASS)

Class Size

Support for reducing class size usually cuts across political and ideological divides, garnering accolades from legislators, policymakers, and parents alike. Nevertheless, the relationship between class size and student achievement has been the subject of scholarly debate for decades. While several large-scale studies suggest that students benefit from class size reductions, a number of high-quality studies conclude that smaller classes are not the “magic bullet” that many believe them to be.

But even if there was no dispute about the research, class size reduction initiatives are costly to implement and maintain. Research suggests that class sizes must be reduced to between 15 and 20 students (depending on the grade) to have any positive effect on learning. Reductions of this magnitude would require a massive outlay of funds for additional teachers and new facilities.

The Center for American Progress estimated that reducing class sizes by one-third would require hiring 50 percent more teachers. Based on average salary and teacher position data from the 2013-14 school year, state, federal, and local governments would have to add over \$2.6 billion to North Carolina’s education budget for teaching positions alone. Local governments would have to contribute billions more for new and expanded facilities.

Some have tried to find a middle ground by affirming class size requirements in grades where such mandates are more likely to have a positive effect on student performance. Toward this end, during the 2011 legislative session, lawmakers initiated a multi-year effort to reduce class sizes in grades K-3. These mandates require elementary schools to maintain a district-wide average of 21 students per class and maintain an individual class size maximum of 24 students for each of these grades.

Beyond third-grade, the NC General Assembly gave school districts maximum flexibility to establish class sizes in grades 4 through 12. Special education requirements and grant program mandates are the two notable exceptions. As in the past, North Carolina charter schools are not held to class size limits. There is no evidence that the absence of class size requirements harmed the typical middle, high, and charter school student.

Key Facts

- Recent studies of class sizes in North Carolina public schools suggest that there is little or no significant relationship

between small class sizes and student achievement. One research study also found that teachers’ perceptions about their class sizes were not tied to teacher job retention.

- Results from the 2012 North Carolina Teacher Working Conditions Survey indicate that most teachers are content with current class sizes. Sixty-two percent of the nearly 99,000 respondents to the survey agreed or strongly agreed that class sizes “are reasonable such that teachers have the time available to meet the needs of all students.” Twenty-nine percent of respondents disagreed, and nine percent strongly disagreed with that statement.
- According to the latest data from the National Center for Education Statistics, North Carolina’s average elementary class size was 18.8 students and average secondary class size was 25.8 students. Both were lower than the national average of 21.2 students and 26.8 students, respectively.
- The Organization for Economic Cooperation and Development reports that the average class size in United States public primary schools (20.3 students) was lower than the international average (21.3 students). Public secondary schools in the United States had an average class size (23.7 students) that was slightly higher than the international average (23.4 students). Overall, many top-performing nations had larger average class sizes than the United States.

Recommendations

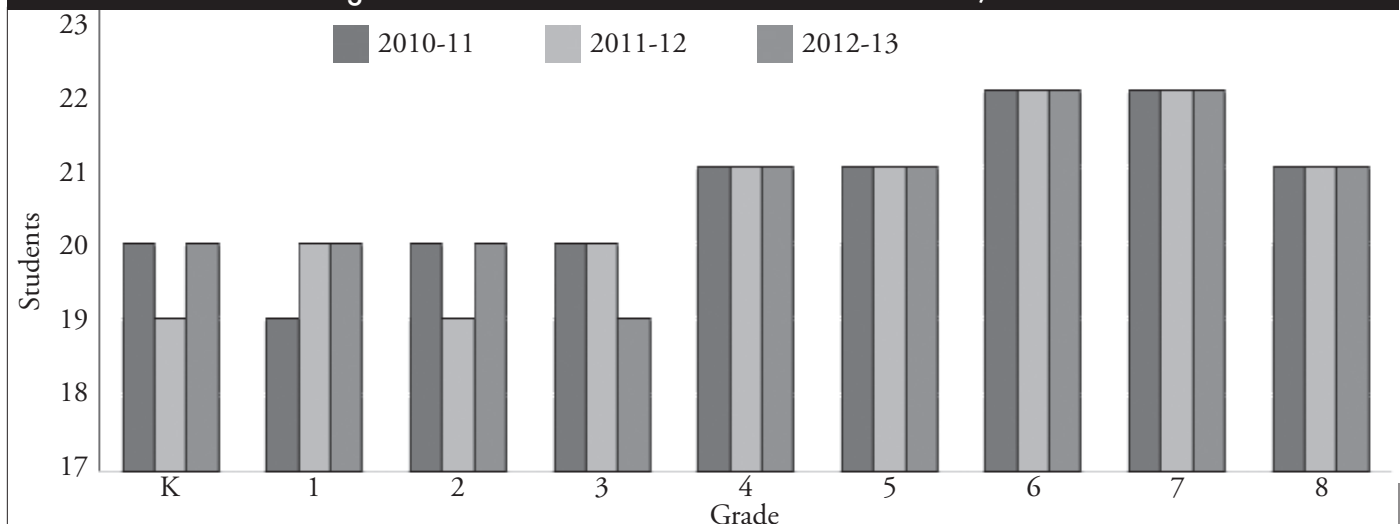
1. **State class size mandates should be eliminated across all grades.** School districts should have the authority to set class sizes for all grades and subjects according to their needs and available resources.
2. **Class size reduction initiatives should target only those students who struggle in larger classroom settings and would benefit from individualized instruction in state-mandated courses.** Clearly, class sizes affect students and teachers differently. Statewide requirements do not account for district- and school-based factors, including subject, grade, student exceptionality, and facilities, that are more appropriate criteria for establishing class sizes.

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Average Class Size for Teachers in Public Elementary and Secondary Schools, 2011-12

Jurisdiction	Elementary		Secondary		Jurisdiction	Elementary		Secondary	
	Size	Rank	Size	Rank		Size	Rank	Size	Rank
Alabama	19.2	15	27.4	32	Nevada	25.3	44	34.5	45
Alaska	18.3	8	18.7	1	New Hampshire	20.4	22	21.7	6
Arizona	24.1	41	27.7	35	New Jersey	18.5	9	23.9	15
Arkansas	20.4	22	25.4	21	New Mexico	19.8	17	23.7	12
California	25.0	43	32.0	44	New York	20.7	27	25.1	19
Colorado	22.8	34	29.1	39	North Carolina	18.8	11	25.8	23
Connecticut	19.6	16	22.0	7	North Dakota	17.8	5	19.2	2
Delaware	20.3	20	25.8	23	Ohio	21.3	31	26.7	27
Georgia	21.0	30	27.5	34	Oklahoma	20.7	27	23.7	12
Idaho	24.5	42	25.4	21	Oregon	26.4	45	30.0	42
Illinois	22.9	37	27.7	35	Pennsylvania	22.4	34	25.2	20
Indiana	21.4	32	27.3	31	South Carolina	19.1	14	26.0	25
Iowa	20.3	20	27.4	32	South Dakota	20.4	22	22.3	8
Kansas	20.4	22	24.6	18	Tennessee	17.7	4	26.9	29
Kentucky	23.3	38	26.6	26	Texas	18.2	7	26.9	29
Louisiana	19.0	13	23.4	10	Utah	27.4	46	31.5	43
Maine	17.6	3	19.9	5	Vermont	16.6	1	19.8	4
Massachusetts	19.9	18	24.5	17	Virginia	20.4	22	23.8	14
Michigan	23.8	40	28.9	38	Washington	23.7	39	29.7	40
Minnesota	22.8	34	29.9	41	West Virginia	18.7	10	24.0	16
Mississippi	21.6	33	22.8	9	Wisconsin	20.8	29	27.9	37
Missouri	20.2	19	26.8	28	Wyoming	17.0	2	19.6	3
Montana	18.9	12	21.7	6	United States	21.2	N/A	26.8	N/A
Nebraska	17.9	6	23.5	11	Source: National Center for Education Statistics				

Average Class Sizes in North Carolina Public Schools, 2010-2013



Common Core State Standards

Common Core State Standards are mathematics and English Language Arts standards for students in kindergarten through twelfth-grade developed by three Washington, D.C.-based organizations — the National Governors Association, the Council of Chief State School Officers, and Achieve, Inc. The Seattle, WA-based Bill and Melinda Gates Foundation also funded a significant portion of the project.

In June 2010, the NC State Board of Education formally adopted the standards, largely without input from the then Democrat-led state legislature, North Carolina educators, and the general public. North Carolina was one of the first states to adopt the standards and did so, in part, to improve our state's chances of obtaining one of the Obama Administration's Race to the Top grants.

Although the adoption of new standards had seldom been newsworthy in the past, a debate about the Common Core Standards intensified in 2012. Parents and concerned citizens began to speak out about detrimental changes in math and English instruction, unacknowledged costs of adoption, the lack of transparency, and the unwelcome involvement of the federal government.

In response, legislators passed a bill that requires the State Board of Education to obtain approval from the General Assembly for the adoption of any Common Core-based testing program. Additionally, members of the General Assembly convened a legislative research commission, the Committee on Common Core State Standards. Despite these recent developments, there is no indication that the state legislature will support an outright repeal of the standards, but some significant reform of the standards is expected.

Key Facts

- Forty-five states, the District of Columbia, Department of Defense Schools, and four U.S. territories have adopted Common Core standards for one or both subjects.
- Education researchers disagree on the quality of the Common Core State Standards. In general, they have been much more critical of the math than the English standards.
- A 2012 AccountabilityWorks report estimated that North Carolina public schools may spend as much as \$525 million over seven years, an average \$75 million per year, for professional development, textbooks and materials, and technology to implement Common Core. The Thomas B. Fordham Institute, which supports the Common Core State Standards Initiative, concluded that

full implementation might require the state to spend up to \$300 million. To date, the NC Department of Public Instruction has not released estimates of total expenditures.

- The federal government has bankrolled the development of Common Core tests. The Education Department will distribute \$360 million in grants to members of two state consortia, the Smarter Balanced Assessment Consortium (SBAC) and the Partnership for Assessment of Readiness for College and Careers (PARCC).

Recommendations

1. **The NC General Assembly should revise General Statutes to remove references to Common Core.** In 2011, state legislators added statutes to ensure that state law was consistent with the adoption of Common Core, but it is a brand, and state law should not compel North Carolinians to choose one brand over another.
2. **The NC Department of Public Instruction should be relieved of the responsibility of developing academic standards for the state's public schools.** The NC Department of Public Instruction readily admits that state-authored standards lacked the rigor of the Common Core Standards. As such, it makes little sense to entrust the agency with a task – development of rigorous, clear, and coherent standards – that they have failed to perform adequately in the past.
3. **Legislators should create two permanent commissions charged with raising the quality and rigor of state English Language Arts and mathematics standards, as well as curricula and assessments.** The goals of the commissions would be to 1) modify or replace the Common Core State Standards; 2) specify content that aligns with the standards; 3) recommend a valid, reliable, and cost-effective testing program; 4) provide ongoing review of the standards, curriculum, and tests throughout implementation.
4. **Any review of the Common Core State Standards should employ a large and diverse group of stakeholders,** including teachers, administrators, curriculum and content area experts, policy professionals, practitioners, parents, community leaders, school board members, state education officials, and state legislators.

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Curricula

Curricula are not standards; standards are not curricula.

In the debate over the Common Core State Standards, definitions of key terms, particularly “standards” and “curriculum,” vary considerably. For some, standards and curricula are one and the same. For others, standards are a framework by which curricular content is developed.

Although stakeholders may not settle on a definition, most education experts agree that it is important to make a clear distinction between the two concepts. In general, standards are broad goals. Curricula include specific course content. Arguably, the latter is just as important, perhaps even more so, as the former.

In fact, Tom Loveless of the Brookings Institution contends that the Common Core State Standards will have little or no effect on student achievement. His research shows that there is no apparent relationship between the quality or rigor of state standards and National Assessment of Educational Progress (NAEP) scores.

Loveless speculates that variations in the “implemented curriculum” – the content that teachers teach – and the “attained curriculum” – the content that students learn – has more bearing on student achievement than what standards alone provide – the “intended curriculum.” Standards reform is not enough to increase student performance. Standards are only successful when they are buttressed by content-rich curricula that serve as the baseline requirements for classroom instruction in all North Carolina public schools.

Prescribing basic curricular content for all classrooms has three major benefits. It provides a more equitable education environment, ensuring that all students, regardless of socioeconomic circumstances, are exposed to the same baseline content. It also allows the state to compensate for knowledge and skill deficiencies identified by institutions of higher education, private and public sector employers, and other stakeholders. Finally, it ensures that the other parts of the instructional process will not be undermined by whatever standards are used as a starting point.

Key Facts

- In 2012, 40 states, including North Carolina, provided curriculum guides for educators in English/language arts, and 41 states provided curriculum guides in mathematics.
- Currently, North Carolina provides curricular resources to teachers without mandating that they adopt any one

of them. For example, the NC Department of Public Instruction offers “unpacked” standards, LiveBinder resources, and a wiki page.

- While all states provide supplementary resources or guides that elaborate on standards in core subjects, few provide additional resources for at-risk or gifted and talented students. North Carolina is among a handful of states that offer resources and guides for teaching both groups.
- In North Carolina, mandating curricula is nothing new. State law already prescribes teaching of content in certain grades and course areas. For example, state law prescribes inclusion of a civic literacy curriculum during an American History I high school course. Health education, character education, and financial literacy are other content requirements outlined in the statute. The requirements to teach multiplication tables and cursive writing are two recent curriculum mandates passed into law.

Recommendations

1. **A standards, curriculum, and assessment commission should develop a rigorous state-developed curriculum.** The curriculum would use the revised Common Core State Standards (or another set of standards) for what they were originally intended to be – a very general outline of what we expect children to know in math and English at each grade level.
2. **Teachers should be prepared for changes to the curriculum.** The burden of implementing completely new curricula will fall on North Carolina’s teachers. They must be prepared to transform a catalog of new material into sound classroom instruction. Research suggests that, if done haphazardly, the transition will be challenging for teachers and disadvantageous for students.
3. **NC DPI should contract an independent entity to evaluate the quality of prescribed curricula.** At a minimum, these studies should answer three basic questions. First, are the new standards and curricula an improvement over discarded ones? Second, are the new curricula of equal or greater quality than the curricula of the highest performing states and nations? Third, is there a significant relationship between student performance and the new learning standards and curricula?

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Education and the Workforce

Do North Carolinians need four-year degrees to be successful? According to U.S. Bureau of Labor Statistics (BLS) projections, those who decide to enter the workforce without a four-year degree may have more employment opportunities than those with one.

BLS analysts predict that jobs requiring a high school diploma or less will abound in the next decade. Of the 30 occupations projected to have the largest growth in the number of jobs, only six require an associate's or bachelor's degree. Only two of those occupations, registered nurses and general and operations managers, are among the 20 occupations projected to add the most jobs through 2022.

Similarly, the NC Employment Security Commission projects that service industries, education and health services, professional and business services, and health care and social assistance will have the largest employment growth through 2020. The largest estimated declines will be in agriculture, apparel and furniture manufacturing, and textile mills.

Elected officials have taken notice.

In 2013, Governor Pat McCrory championed, and the NC General Assembly passed, legislation to increase access to career and technical education. Session Law 2013-1 directed the State Board of Education to develop career and college endorsements for high school diplomas, boost access to career and technical education teachers in public schools, and work with the State Board of Community Colleges to increase the number of students enrolling in career and technical education (CTE) in high-need employment areas.

A renewed focus on career and technical education is only a first step, but it is a welcome one for employers and citizens.

Key Facts

- The number of industry recognized credentials earned by North Carolina CTE students has risen sharply in recent years. During the 2010-11 school year, North Carolina students received nearly 25,000 career and technical education credentials. By 2012-13, that figure rose to over 104,000 credentials. Around 40 percent of the 2012-13 credentials were awarded for acquiring basic proficiency using Microsoft PowerPoint and Word.
- Selected career and technical education students in 12th-grade will complete the WorkKeys assessment. Scores will help students determine if they have the skills needed for particular jobs or professions. In addition, students who

meet WorkKeys standards can earn a National Career Readiness Certificate (NCRC) showing that they have met basic requirements for entry into a profession.

Recommendations

1. **Dispel the myth that all high school graduates should pursue college degrees.** If we did so, students who are ill prepared for college would not incur massive student loan debt, and taxpayers would not be compelled to subsidize their pursuit of four-year degrees. Employers would enjoy a larger, arguably better prepared, pool of candidates from which to hire. Most importantly, BLS projections suggest that these students would have plentiful employment opportunities for years to come.
2. **Starting in middle school, give public school students opportunities to pursue vocational or advanced training in preparation for a career after graduation.** CTE programs should start in middle school, when many students lose interest in the traditional academic setting. This would give students ample time to change CTE program areas, obtain advanced skills in multiple areas, or switch to a college-preparatory course of study.
3. **If high schools are to remain the primary pipeline for workers in high-demand fields, then we must ensure that our K-12 schools provide baseline skills and knowledge to all students.** All high school graduates should possess adequate literacy and computational skills, know basic facts about the world around them, and be able to use those facts to think, write, and speak critically and analytically.
4. **Expand school choice.** Increasing access to charter, private, and online schools would encourage entrepreneurs to develop specialized career and technical schools suitable for students in their communities.
5. **Community colleges and universities should continue to invest scarce resources in professional training and degree programs that correspond to the needs of our workforce.** While this does not preclude support for other academic disciplines, funding priorities should, in part, reflect the supply and demand for qualified workers in fields such as nursing, business management, accounting, teaching, and computer programming.

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U.S. Occupations With the Largest Numeric Projected Growth in Jobs, 2012-2022

Rank	Employment Matrix Title	Change, thousands	%	Typical Education Needed for Entry
1	Personal care aides	580.8	48.8	Less than high school
2	Registered nurses	526.8	19.4	Associate's degree
3	Retail salespersons	434.7	9.8	Less than high school
4	Home health aides	424.2	48.5	Less than high school
5	Combined food preparation and serving workers, including fast food	421.9	14.2	Less than high school
6	Nursing assistants	312.2	21.1	Postsecondary nondegree award
7	Secretaries and administrative assistants, except legal, medical, and executive	307.8	13.2	High school diploma or equivalent
8	Customer service representatives	298.7	12.6	High school diploma or equivalent
9	Janitors and cleaners, except maids and housekeeping cleaners	280	12.1	Less than high school
10	Construction laborers	259.8	24.3	Less than high school
11	General and operations managers	244.1	12.4	Bachelor's degree
12	Laborers and freight, stock, and material movers, hand	241.9	11	Less than high school
13	Carpenters	218.2	24.2	High school diploma or equivalent
14	Bookkeeping, accounting, auditing clerks	204.6	11.4	High school diploma or equivalent
15	Heavy and tractor-trailer truck drivers	192.6	11.3	Postsecondary nondegree award

NC Statewide Industry Projections, 2010-2020

Industry Title	2010 Estimated Employment	2020 Estimated Employment	Net Change 2010-20	Annual Growth Rate	Total Percentage Change
Services-Providing	3,210,690	3,647,340	436,650	1.3	13.6
Education and Health Services	892,940	1,042,320	149,380	1.6	16.7
Professional and Business Services	484,390	599,120	114,730	2.1	23.7
Health Care and Social Assistance	524,930	606,990	82,060	1.5	15.6
Educational Services	368,010	435,330	67,320	1.7	18.3
Administrative & Support and Waste Mgmt & Remediation Services	230,770	292,720	61,950	2.4	26.8
Administrative and Support Services	222,960	283,510	60,550	2.4	27.2
Trade, Transportation, and Utilities	733,870	787,910	54,040	0.7	7.4
Professional, Scientific, and Technical Services	180,350	226,860	46,510	2.3	25.8
Leisure and Hospitality	391,380	435,690	44,310	1.1	11.3
Electrical Equipment, Appliance, and Component Manufacturing	20,690	19,640	-1,050	-0.5	-5.1
Textile Product Mills	6,800	5,630	-1,170	-1.9	-17.2
Animal Production	7,950	6,500	-1,450	-2.0	-18.2
Crop Production	8,300	6,760	-1,540	-2.0	-18.6
Truck Transportation	38,620	36,820	-1,800	-0.5	-4.7
Natural Resources and Mining	26,360	23,540	-2,820	-1.1	-10.7
Agriculture, Forestry, Fishing and Hunting	23,380	19,930	-3,450	-1.6	-14.8
Apparel Manufacturing	11,890	8,390	-3,500	-3.4	-29.4
Furniture and Related Product Manufacturing	32,860	29,140	-3,720	-1.2	-11.3
Textile Mills	28,890	22,320	-6,570	-2.5	-22.7
Total All Industries	4,194,810	4,668,850	474,040	1.1	11.3

Federal Education Policy

Before passage of the Elementary and Secondary Education Act (ESEA) in 1965, the United States Congress generally adhered to the principle that the federal government had no authority to undertake functions and duties not enumerated in the U.S. Constitution. Because the power to fund or regulate public education is not expressly stated in the constitution, Congress relied on state and local governments to superintend the education of the citizenry. Consequently, many states, including North Carolina, included passages on public education in their laws and state constitutions.

Since the rise of federal activism in the 1960s, Congress has continued to enlarge the federal government's financial and regulatory role in public education. At no time before had this role been larger, or more controversial, than at the reauthorization of ESEA in 2001, also known as No Child Left Behind. Recently, Congress increased federal involvement even further through passage of the American Recovery and Reinvestment Act, the Education Jobs Fund, Race to the Top, and Race to the Top-District.

Federal officials have also proclaimed support for the Common Core State Standards. Shortly after the release of the standards, the U.S. Department of Education declared its intention to "support state implementation efforts."

Staying true to their promise, the U.S. Department of Education enticed states to adopt the Common Core by tying approval of the standards to the \$4.5 billion federal Race to the Top competition. Adoption of the Common Core increased a state's chances of obtaining a Race to the Top grant. Three months after the NC State Board of Education unanimously approved Common Core English and math standards, the state received a four-year, \$400 million Race to the Top grant. A portion of that grant was dedicated to constructing a statewide longitudinal data system.

Additionally, the Obama Administration bankrolled development of Common Core-aligned tests. They distributed \$360 million in grants to members of two state consortia, the Smarter Balanced Assessment Consortium (SBAC) and the Partnership for Assessment of Readiness for College and Careers (PARCC). Many state education agencies have indicated concerns over the cost, quality, and technology requirements of the tests.

The federal government's growing financial and ideological encroachment into public education, by Republicans and Democrats alike, invites the kind of centralization of public

schooling almost universally feared by the Founding Fathers and wisely resisted by subsequent generations of Americans.

Key Facts

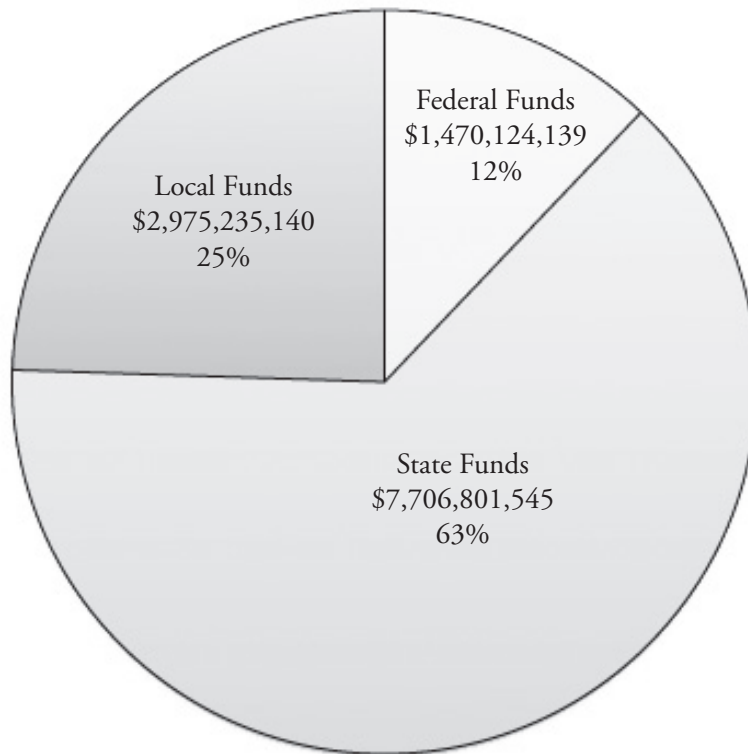
- Historically, federal funds supplemented state funding for special needs children (IDEA), low-income students (Title I), child nutrition (National School Lunch Program), and vocational education (Perkins). About 90 percent of all federal funds are earmarked for special needs children, low-income children, and child nutrition programs.
- In 2012, North Carolina received a No Child Left Behind waiver from the U.S. Department of Education. The waiver permitted the state to abandon the Adequate Yearly Progress (AYP) measure, which required 100 percent proficiency for all groups of students, in favor of a more lenient Annual Measurable Objectives (AMO) calculation.
- During the 2012-13 school year, federal funds accounted for 12 percent of North Carolina's public school operating expenditures and approximately 2 percent of the state's capital expenditures.
- During the 2013-14 school year, North Carolina school districts used federal funds to support 13,617 positions or 7.7 percent of all public school personnel in the state.

Recommendations

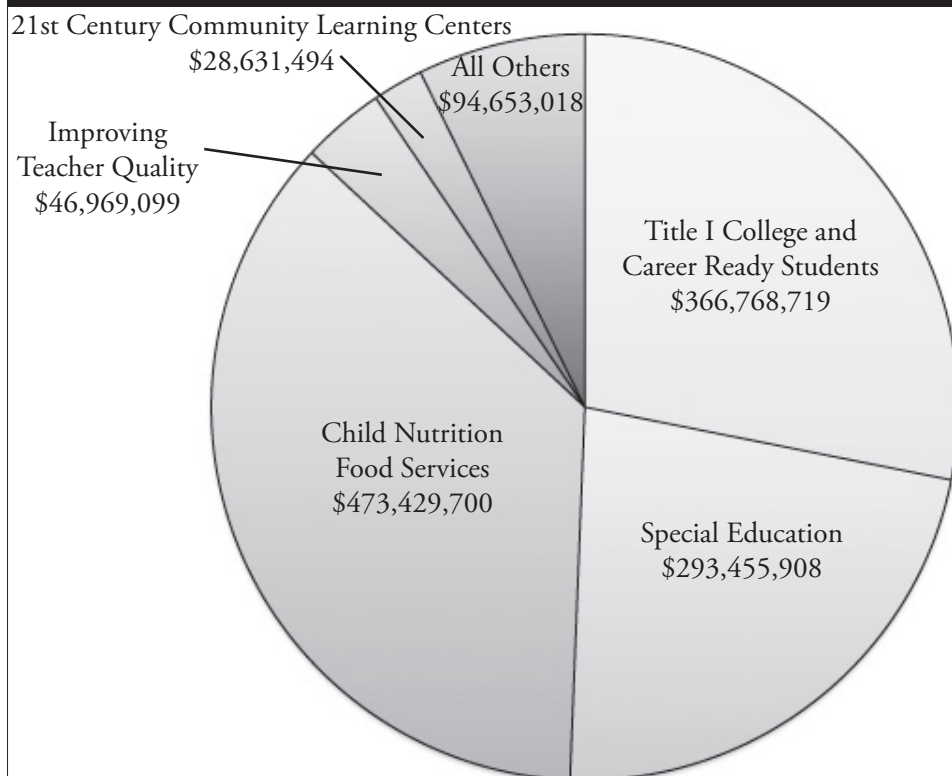
1. **Recognize there is no such thing as "free money" from the federal government. Ever.** No state has ever received federal education funding without strings attached.
2. **Acknowledge that federal funds do not appear out of thin air.** Current and future taxpayers, not elected officials and bureaucrats in Washington, bear the burden of repaying every dollar spent by the federal government.
3. **Refuse to accept any federal grant that imposes an extraordinary burden on school administrators or interferes with the duties and responsibilities of classroom teachers.** The first question that should be asked is, "Will these federal funds detract, in any way, from school supervision or classroom instruction?"
4. **Use federal funds prudently.** For example, school districts should reject invitations to use temporary federal grant dollars to fund permanent teaching positions.

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K-12 Public School Operating Expenditures, 2012-13



Federal K-12 Education Grant Funding, 2013-14



Pre-kindergarten Education

Taxpayer-funded pre-kindergarten education in the United States is a multi-billion dollar hodgepodge of state and federal programs.

The North Carolina Division of Child Development and Early Education of the Department of Health and Human Services (DHHS) oversees two large state programs — NC Pre-K and the Subsidized Child Care Program. NC Pre-K is a preschool program for at-risk four-year-olds. (See page 22.)

In addition, Smart Start is a public/private program that serves children from birth to five years old. The NC Partnership for Children and 77 Local Partnerships oversee the program, which has existed since 1993. Smart Start provides childcare subsidies, teacher training, health screenings, and support for families regardless of income.

North Carolina also has three federally funded pre-kindergarten programs — Preschool for Exceptional Children, Title I Preschool, and Head Start. Preschool for Exceptional Children is supported by state and federal funds and provides pre-kindergarten services for special needs children. Title I Preschool allows school districts to set aside a portion of their federal Title I funding to provide pre-kindergarten programs for at-risk four-year-olds.

Finally, the federal Head Start program is the largest and one of the oldest federal pre-kindergarten initiatives in North Carolina. Head Start provides education, health, and nutrition services to low-income children between the ages of 3 and 5. In a landmark 2012 study of Head Start outcomes, researchers concluded that, by third-grade, there was no significant difference between children who had been randomly assigned to a Head Start program and those who had not. This finding was consistent with previous studies that concluded that the initial advantages of preschool attendance begin to narrow or “fade out” by middle school.

Empirical evidence of “fade out” is directly at odds with the most prominent and appealing argument used by proponents of taxpayer-run preschool programs. They contend that state lawmakers have a choice. They can pay now for expanded preschool programs or pay later for the costs associated with educational remediation, crime, underemployment, and welfare.

On the surface, the “pay now or pay later” argument embodies the kind of reasonable, responsible, and compassionate public policy that appeals to elected officials on both sides of the aisle. But longitudinal studies, including

research conducted in North Carolina, suggest that taxpayers may have to pay now and later.

Clearly, state-run early childhood education programs provide lasting benefits for some, but that is not a good reason to provide taxpayer-funded preschool for all.

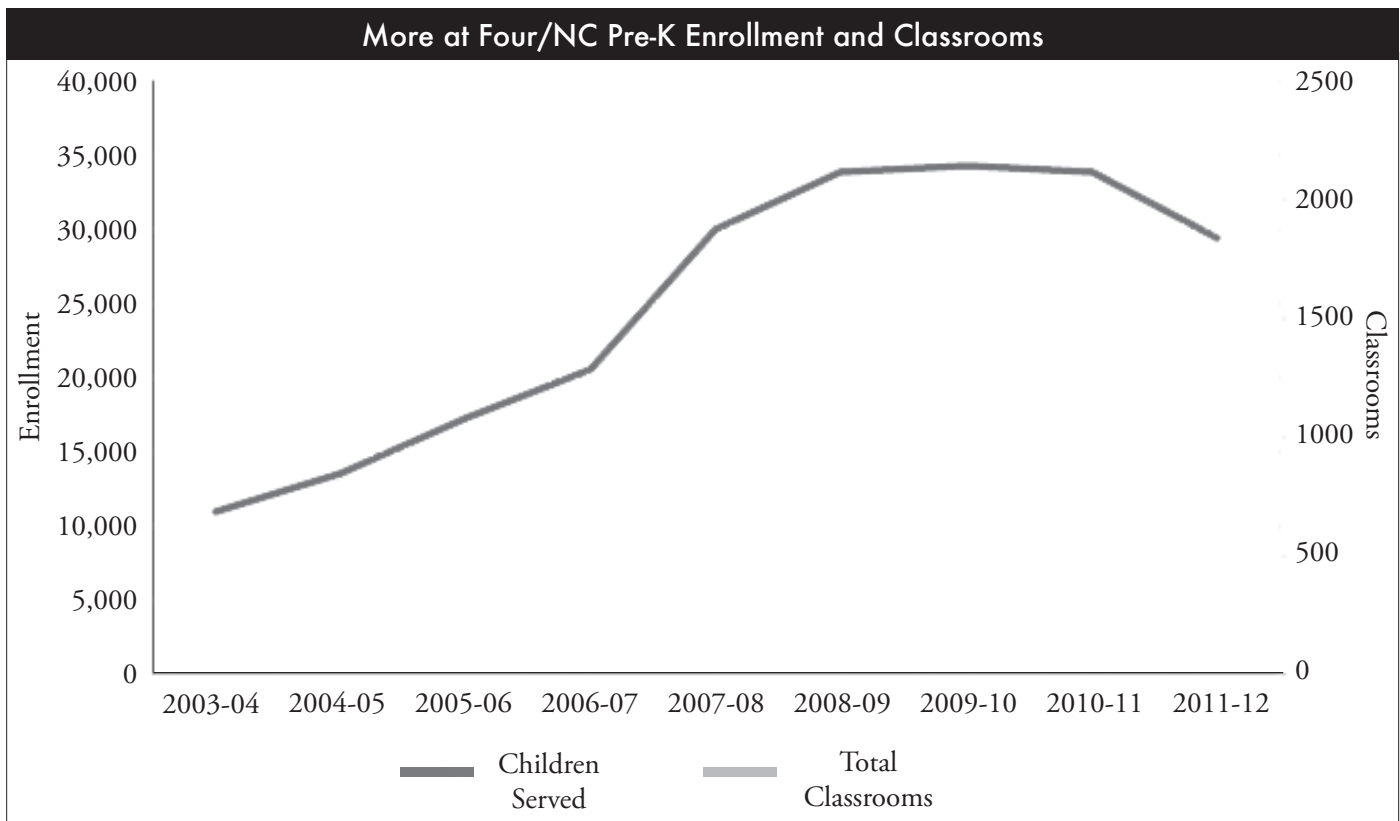
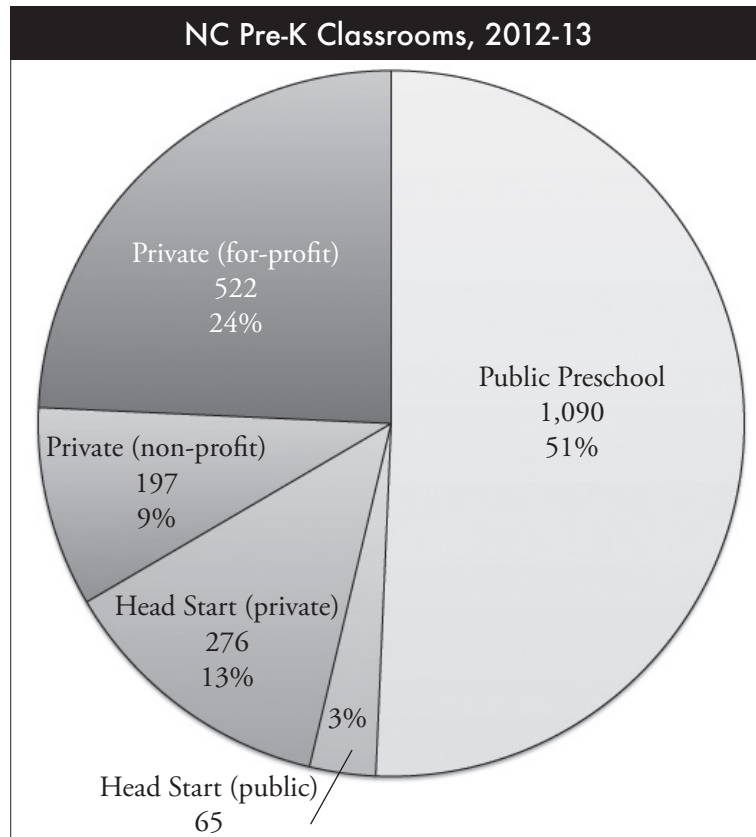
Key Facts

- During the 2013-2014 school year, NC Pre-K received over \$140 million in state and lottery funds and served 26,617 children in 1,175 public, private, and Head Start sites.
- Approximately 1 in 4 NC Pre-K classrooms operated in a for-profit site. Of the remaining classrooms, just over half were located in public preschools. Approximately 14 percent were in Head Start programs.
- Around 91 percent of NC Pre-K families have incomes that make their children eligible for free or reduced-price lunches (below 185 percent of the federal poverty line or \$43,568 for a family of four in 2013).

Recommendations

1. **All parents who use out-of-pocket dollars to save or pay for preschool expenses should be eligible to receive a state tax deduction.** Lawmakers should design a tax code that incentivizes investments in education. For a smaller subset of poor preschoolers who would not benefit from these tax changes, a carefully designed state intervention may be justified.
2. **NC Pre-K eligibility requirements should be narrowed to focus resources primarily on low-income children.** Pre-kindergarten programs provide lasting benefits to children from distressed households but few others. Narrowing the focus would ensure that NC Pre-K prioritizes the educational needs of North Carolina’s most vulnerable children.
3. **A qualified, independent research firm should conduct ongoing longitudinal evaluations of children whose families received subsidized preschool through Smart Start, NC Pre-K, or a combination of the two.** Taxpayers and policymakers should have access to research that evaluates multiple outcome measures for children who have been served by state-funded programs.

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Education Spending

In his book *Education Myths*, University of Arkansas professor Jay Greene points out that the inadequately funded school myth “is simultaneously the most widely held idea about education in America and the one that is most directly at odds with the available evidence.” Indeed, empirical research continues to affirm Greene’s claim.

In 2014, Andrew Coulson of the Cato Institute published a study that adjusted education spending for inflation and state-average SAT scores for participation rates and student demographics. He found that most states had massive increases in public school spending but virtually no change in student outcomes. North Carolina was no different. Despite doubling our state’s inflation-adjusted per pupil expenditure between 1972 and 2012, there was very little change in North Carolina’s adjusted SAT scores over time.

Conservatives and libertarians are not the only ones noting the lack of a consistent relationship between the two.

In 2011, Ulrich Boser, a senior fellow at the left-leaning Center for American Progress, made the case that decades of significant funding increases for our public schools had failed to produce long-term innovation or progress on measures of student performance. Boser concluded that public school systems needed to stop thinking of inputs and outcomes separately and embrace the concept that unifies them, namely educational productivity or “bang for the buck.”

It is counterproductive to focus solely on how much is spent. North Carolinians should ensure that public schools use taxpayer money in the most productive ways possible.

Key Facts

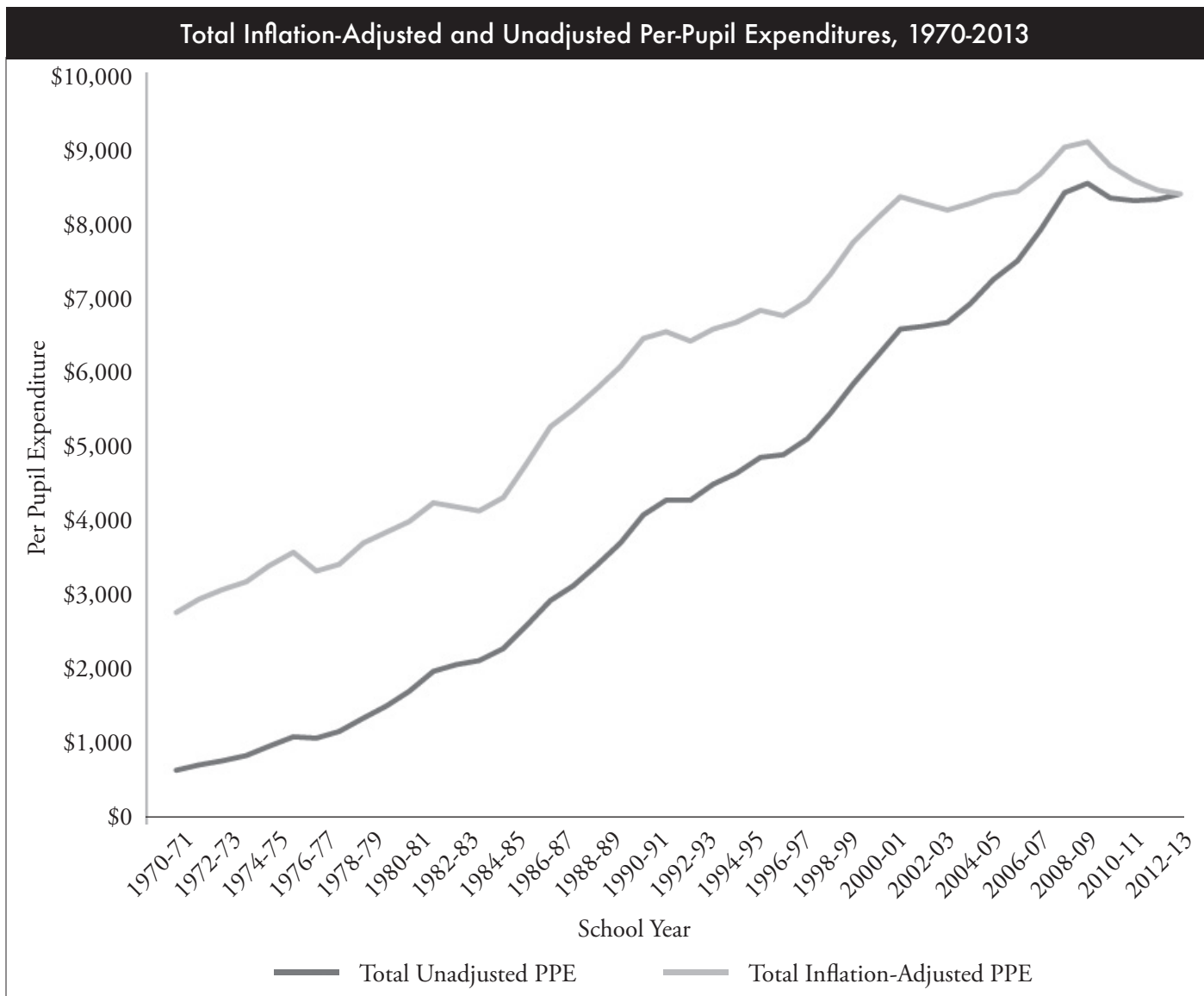
- North Carolina spent approximately \$8,500 per K-12 student in federal, state, and local operating funds in 2012. When average spending for buildings and other capital costs are included, the total cost of public education in our state exceeds \$9,100 per student.
- State funding is not distributed to all public school children equally. State and federal agencies allocate funds based on the needs, circumstances, and grade level of each student. During the 2013-2014 school year, for example, small, low-wealth school systems received \$11,223 in state funds for each special-needs elementary school student with limited English proficiency from a low-income family. Federal funding may add up to an additional \$5,495.89 per elementary student, depending on program eligibility.

- Over the last 10 years, state public school funding has increased by approximately 29 percent, from nearly \$6 billion in 2004 to \$7.7 billion in 2013.
- Although the Great Recession produced a three-year dip in local education spending, expenditures from local government sources increased by 32 percent since 2004.
- Federal funding to North Carolina public schools has increased during the same period thanks to significant increases in No Child Left Behind (Title I), special education (IDEA), and American Recovery & Reinvestment Act (stimulus) funding. In 2013, federal funding reached nearly \$3 billion, a 54 percent increase over 10 years.
- The state has contributed over \$2.1 billion for capital expenditures since 1996. School districts are responsible for financing their own capital programs and have spent almost \$12 billion during the same period. Taking all sources of revenue, school districts have spent over \$14.1 billion for school capital expenditures since 1996.

Recommendations

1. **Acknowledge that empirical studies find a weak relationship between education spending and student performance. Embrace “educational productivity.”** It’s not how much you spend, but how you spend it. Research suggests that expenditures on classroom instruction provide the most “bang for the buck.”
2. **Discontinue the confusing practice of allocating funds to each school district using various funding formulas, and utilize a block grant funding system.** Give school districts the freedom to allocate education funding according to unique needs and circumstances.
3. **Alternatively, change the way that North Carolina funds public education by attaching funding to the student.** Coupled with open enrollment for schools statewide, student-centered funding will ensure that schools of parents’ choosing receive funds necessary to educate each child — nothing more, nothing less.
4. **Require school districts to post budgets, check registers, contracts, and other public documents online.** In addition, districts should be required to report per-pupil expenditures by school and grade level.

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School Choice

In North Carolina, public education is a core fiscal responsibility of state and local government. In the words of the NC Supreme Court, the state constitution recognizes the right to a “sound, basic education” for each child.

But education need not and should not be delivered by government monopolies. A diverse array of pre-kindergarten, primary, secondary, and postsecondary schools benefit both those who utilize educational options and those who do not. No system for delivering goods and services functions well without providing a means for consumers to make their desires known and express their levels of satisfaction.

Nobody knows this better than parents who receive state funds to enroll their children in preschool programs or young adults who receive state and federal funds to attend private colleges or universities.

North Carolina’s pre-kindergarten and childcare programs are massive state-funded voucher programs. Of the 32,142 children participating in the NC Pre-K program during the 2012-13 school year, about one-third choose to attend a private facility. Even more impressive is that the state’s \$400 million subsidized childcare program provides funding for 75,000 children in thousands of private facilities and homes.

The federal government also directs hundreds of millions of dollars to students who attend private and proprietary postsecondary institutions in North Carolina. During the 2012-13 school year, the federal government originated \$825 million in direct loans to over 129,200 students enrolled in private and proprietary institutions of higher education in North Carolina. In addition to direct loans, federal government support encompasses a number of complementary programs, including Pell Grants, Federal Work-Study dollars, Perkins Loans, and Federal Supplemental Educational Opportunity Grants.

Regrettably, our system of “bookend” school choice leaves out most of the 1.5 million students who attend district schools. Unless provided a voucher, low- and middle-income children have few options. North Carolina families can forgo income to homeschool or redirect a significant portion of their incomes to pay private school tuition and fees. A few could be fortunate enough to gain entry to charter schools.

Key Facts

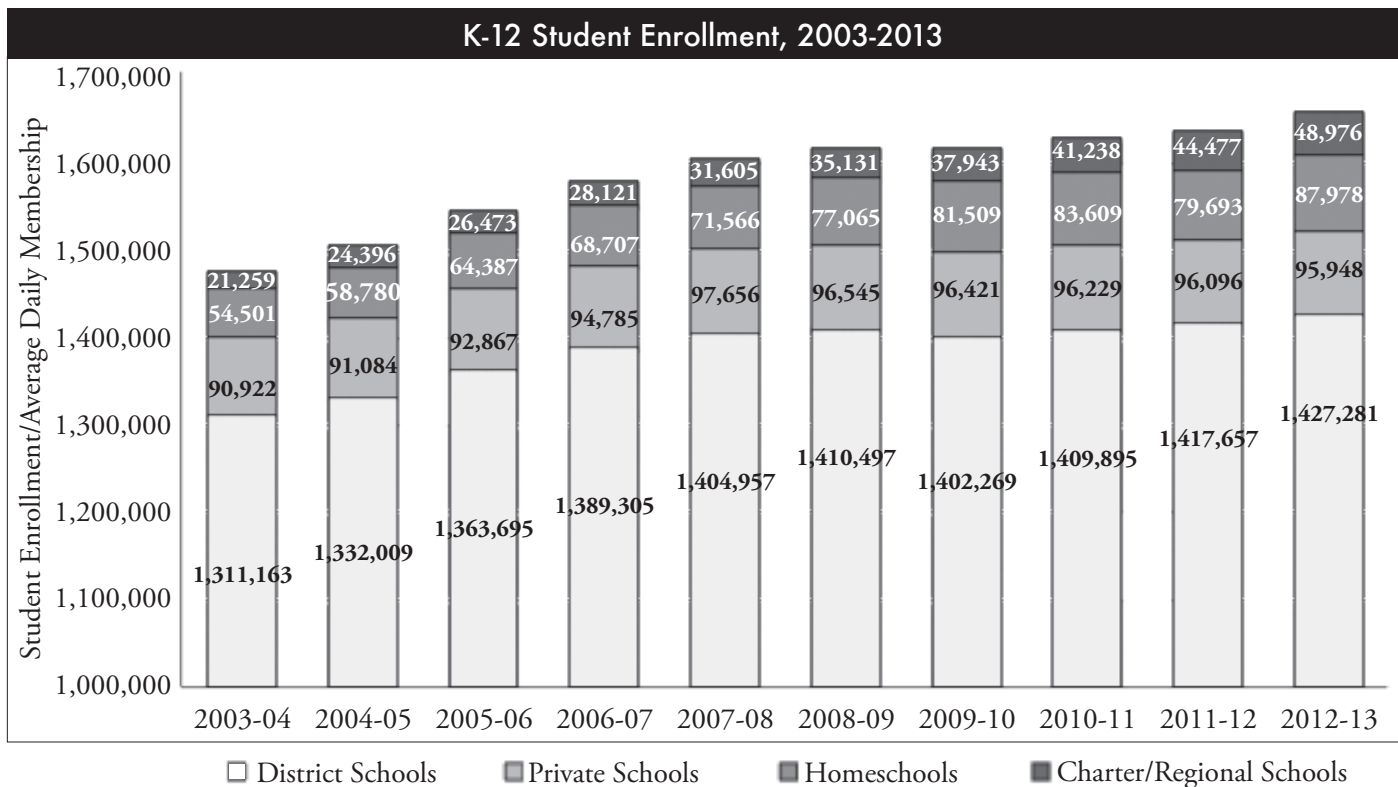
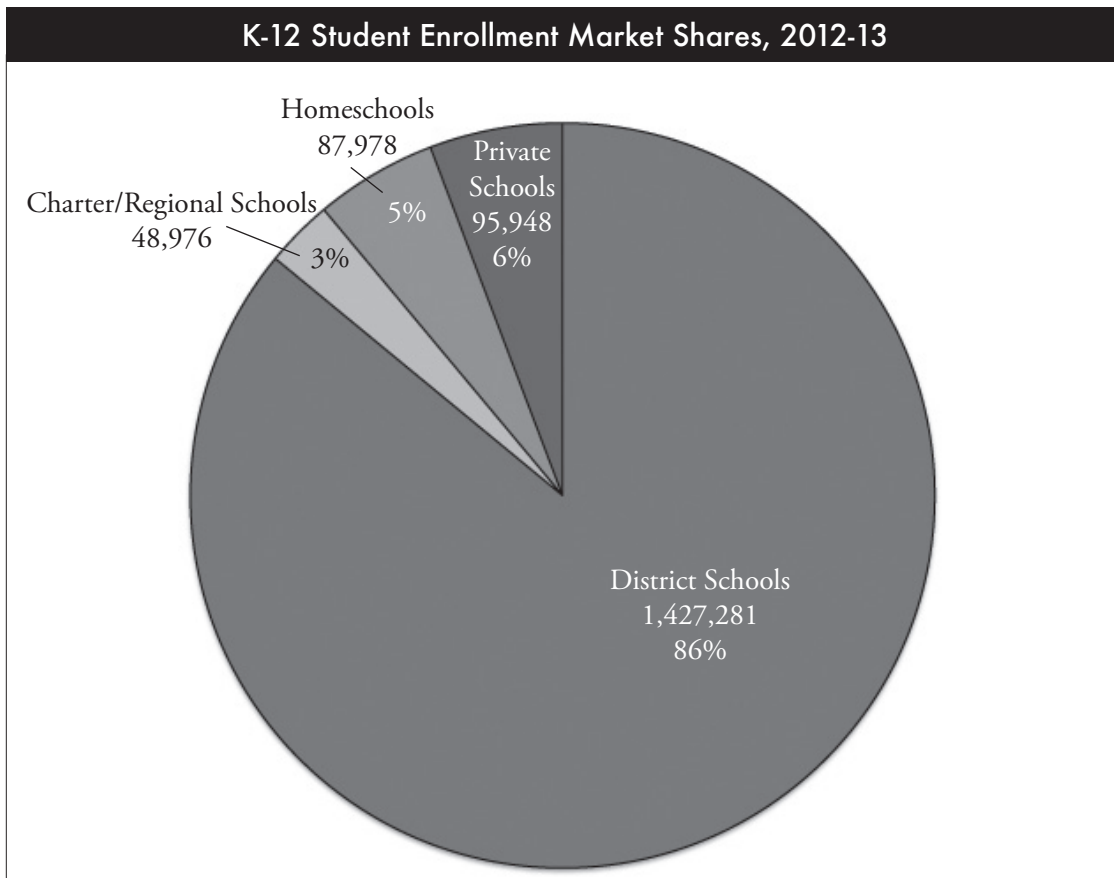
- Between 2003-04 and 2012-13, there was a 61 percent increase in the number of home school students. In 2012-13, 87,978 students were taught in 53,347 home schools.

- During the same period, there was a 5.2 percent increase in the number of private school students. In 2012-13, nearly 96,000 students enrolled in 698 private schools.
- In 2013, the General Assembly changed the state’s homeschool statute to affirm that homeschool parents determine the scope and sequence of academic instruction and permit them to incorporate additional sources of instruction, including online and cooperative schools.
- The NC General Assembly passed two voucher programs in 2013. The budget included a \$4,200 per year voucher for children in low-income households. In addition, legislators approved a \$6,000 per year voucher for special needs children. This program replaces the 2011 special needs tax credit program, which was one of the many tax credits eliminated as part of the tax reform package.

Recommendations

- 1. The state should increase funding for existing voucher programs to accommodate all eligible applicants.** In 2014, the Opportunity Scholarship Program received approximately 5,500 applications for 2,400 scholarships for low-income students. The popularity of the program suggests that, at their current level, the supply of scholarships will fail to meet annual demand.
- 2. At minimum, all low-income students should receive \$5,000 scholarships (or education savings accounts) funded by the state to attend the schools of their choice.** The state should place no additional regulatory burdens on private schools that accept these students.
- 3. All North Carolina families should be allowed to set up education savings accounts.** Families should be able to make annual tax-deductible deposits of up to \$5,000 per child and withdraw funds tax-free for educational expenses such as textbooks, educational materials, or tuition incurred from preschool through college.
- 4. School districts should make greater use of open enrollment and magnet schools, allowing parents to send their children to the public schools that best meet their needs.** District leaders should employ choice and competition to improve academic performance.

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Teaching Profession

No system of public education can thrive without a high-quality teacher workforce. The problem is that state education bureaucracies enforce rules and regulations that fail to distinguish excellent teachers from poor ones. A large body of research shows that certification status, advanced degrees, years of experience, and education school courses are unreliable indicators of teacher quality.

Despite these findings, the state continues to utilize an experience-based teacher salary schedule. In 2013, however, the NC General Assembly took a big step toward restructuring the system by eliminating the automatic salary supplement for incoming teachers with an advanced degree.

In addition, each school district will use the existing teacher evaluation system to award \$500 per year bonuses to the top 25 percent of public school teachers in each district. This is the first step toward a more comprehensive performance pay system for North Carolina teachers.

Lawmakers also began to move away from the antiquated career status, or teacher tenure, system by requiring school districts to offer one-, two-, and four-year contracts based partly on teachers' performance in the classroom. The state's evaluation system evaluates six areas – leadership, fairness, content knowledge, instructional abilities, self-evaluation, and student performance – on a five-category scale.

The education establishment will continue to pressure legislative leaders to roll back these and other education initiatives passed since 2011. Education advocacy groups demand a return to automatic pay supplements for advanced degrees, across-the-board pay increases sizable enough to reach the “national average” (as reported by the National Education Association), and lifetime job security through tenure. Doing so would revive a system that sacrificed professionalism and accountability at the altar of equality.

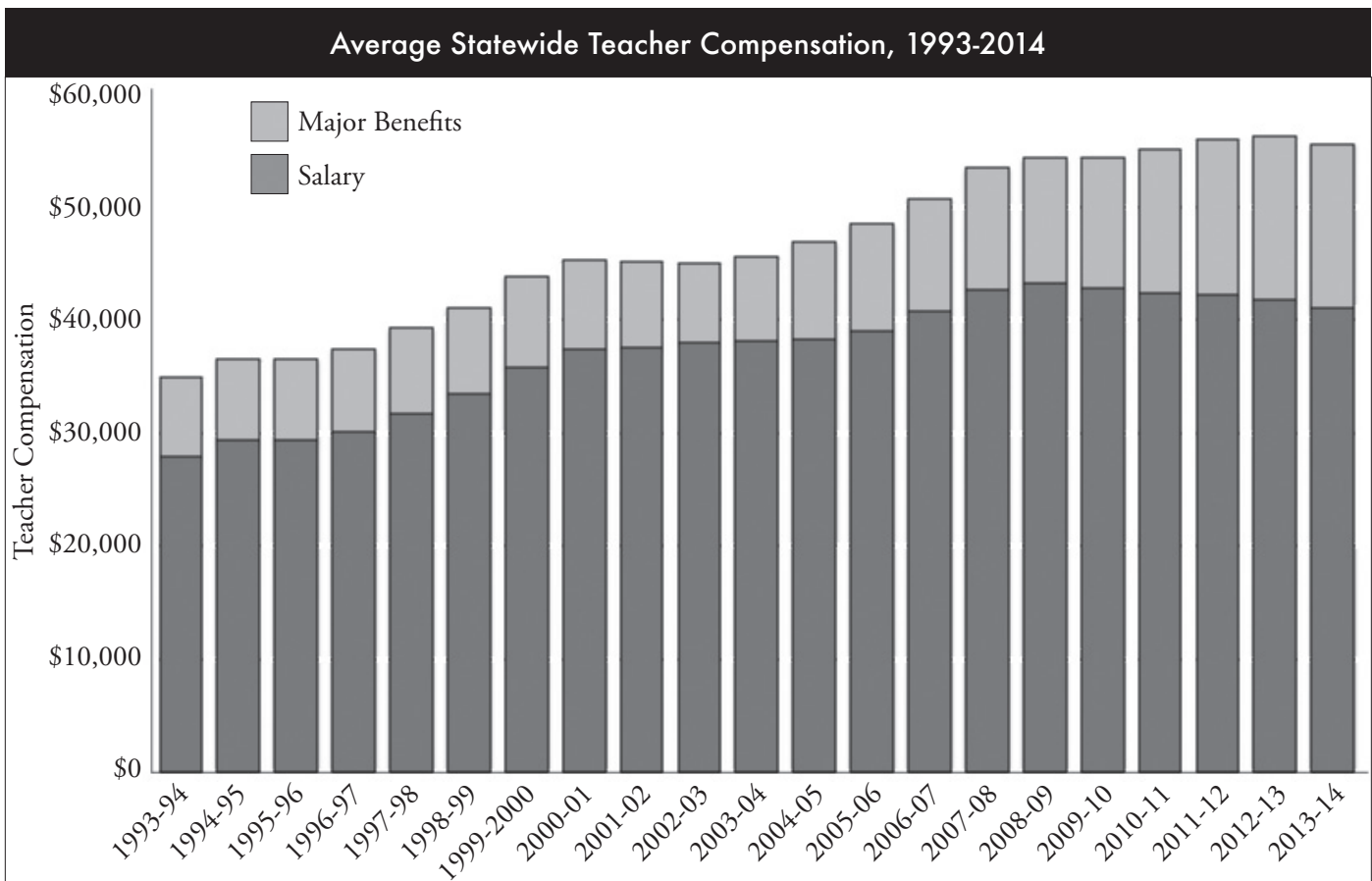
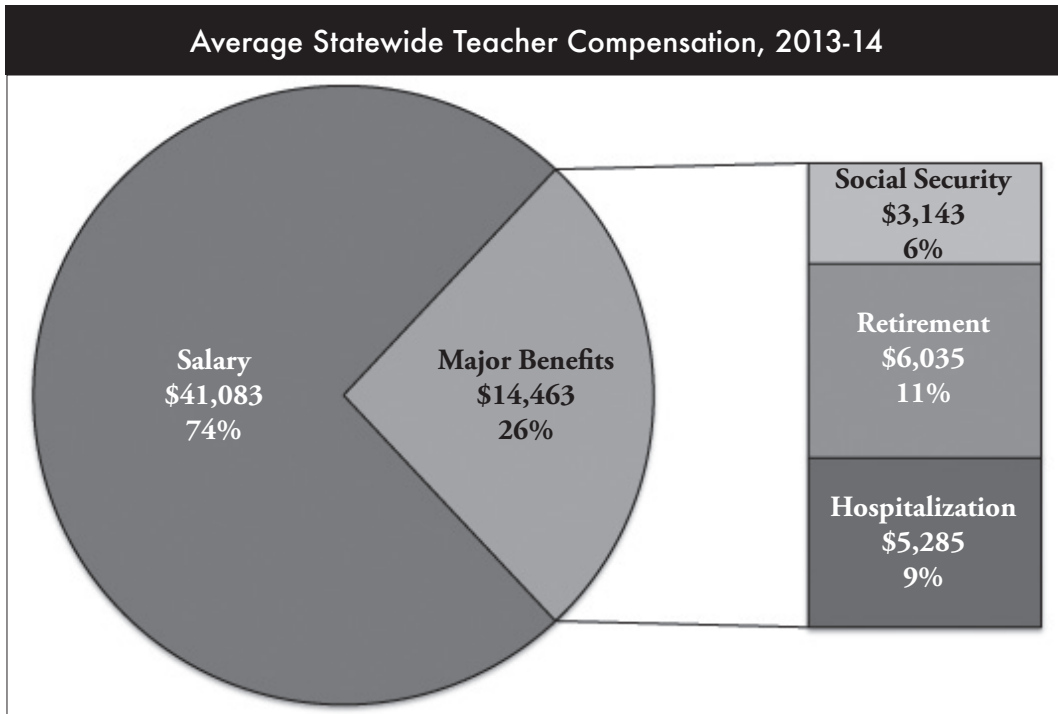
Key Facts

- During the 2012-13 school year, North Carolina public school districts employed over 99,500 teachers,
 - In 2012-13, about 96 percent of North Carolina's teachers were fully licensed by the state, and nearly one-third had an advanced degree.
 - Since 1993-1994, teacher pay has increased nearly 118 percent, outpacing increases of 54 percent in state employee salaries and 66 percent in the Consumer Price Index.
- According to the state salary schedule for 2013-2014, teachers on the typical 10-month contract had a base salary range of \$30,800 to \$68,050, with an average of \$40,189.
 - In addition to the base salary, many teachers receive a salary supplement from the local school district. The average salary supplement was nearly \$3,550 per teacher in 2013. Eight school districts provide no local salary supplement. Chapel Hill/Carrboro City Schools offered the largest average supplement at just over \$6,400 per teacher.
 - Matching benefits for teachers add 7.65 percent for Social Security, 14.69 percent for retirement, and \$5,285 for hospitalization to the 2013-2014 base salary. In total, the average teacher receives nearly \$14,500 in annual Social Security, retirement, and hospitalization benefits.

Recommendations

- 1. Broaden the teacher applicant pool by loosening or eliminating certification and licensure requirements.** Although the state puts a premium on licensure, advanced degrees, and National Board Certification (NBPTS), there is little evidence that these factors guarantee good teachers or raise student performance.
- 2. Improve the quality of education school graduates by raising program admissions standards, increasing subject-area course requirements, and providing rigorous instruction in research-based teaching methods.** If North Carolina Universities refuse to reform schools of education voluntarily, sweeping legislative action may be required.
- 3. Evaluate teachers using the most accurate and objective measures possible.** North Carolina's public schools calculate and record value-added scores for teachers in a computer system called EVAAS (Education Value Added Assessment System). Research suggests that value-added analysis is the most accurate tool available.
- 4. Implement a comprehensive merit and incentive pay system that will pay a portion of teachers' salaries based on the value that they add to their students' academic performance.** North Carolina's salary scale is based on years of experience and credentials, neither of which are sound indicators of teacher quality.

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Testing and Accountability

Since 1996, the NC Department of Public Instruction (DPI) has authored, field-tested, administered, and analyzed nearly all end-of-grade and end-of-course tests under the ABCs of Public Education accountability program. During that time, state tests were subject to countless modifications, deletions, and additions. Some of these changes were for the better, but most were for the worse.

Many teachers and parents remain incredulous about the ABCs of Public Education. In the 2012 Teacher Working Conditions Survey, just over half of nearly 91,000 teachers who responded believed that state-developed assessments accurately gauge students' understanding of state standards.

State education officials continue to disagree about next steps. The NC State Board of Education voted to allow the NC DPI to manage all aspects of the state testing program until 2016. At that point, state education officials will consider adopting English and math tests developed by one of the federally-funded Common Core testing consortia, the Smarter Balanced Assessment Consortium (SBAC).

Although the possible adoption of Common Core tests will get NC DPI out of the testing business, there is no evidence that these tests will be more reliable than those developed by the state in the past. Moreover, preliminary estimates indicate that the cost of SBAC tests will be twice as much as the current, state-managed testing program. In other words, SBAC appears to be more panache than panacea. There are better and more cost-effective choices available.

Key Facts

- Current statewide assessments include end-of-grade (EOG) and end-of-course (EOC) tests in English, math, and science. Final Exam tests, which were developed by the NC Department of Public Instruction to evaluate teacher performance, cover core subjects and grades that do not have a required EOG or EOC test.
- NC students take four tests developed by ACT, Inc. – EXPLORE, PLAN, the ACT, and the WorkKeys assessment for selected career and technical education students who are in twelfth-grade.
- North Carolina public schools also participate in the federal National Assessment of Educational Progress (NAEP). The rigorous NAEP tests are administered infrequently; a representative sample of students is tested in mathematics and reading every two years, while science, history, civics,

and geography tests are administered every four years. Because of the nature of the sample, NAEP cannot provide data on individual school districts, only states. In most cases, only fourth- and eighth-grade students are tested.

- In 2013, the NC General Assembly mandated that the state use test scores and other outcome measures to create a simple A-to-F performance grading system for all North Carolina public schools. Previous classifications of student performance were confusing to parents and the public.

Recommendations

1. **Adopt an independent, field-tested, and credible national test of student performance.** There are a number of norm-referenced tests available for students in grades K-12, including the Basic Achievement Skills Individual Screener (BASIS), Metropolitan Achievement Tests (MAT 8), and the Stanford Achievement Test Series, 10th Edition (Stanford 10).
2. **Set reading and math performance goals based on reputable national tests such as the National Assessment of Educational Progress (NAEP).** The state should set a goal of at least half of students showing proficiency and 90 percent testing at the “basic” level as defined by the NAEP.
3. **The NC Department of Public Instruction should sponsor a comprehensive study that attempts to discover the causes of the state’s dramatic increase in math achievement and relative stagnation of reading scores over the last decade.** Researchers should conduct a similar study to determine why the state’s graduation rate has been on the rise.
4. **The state should augment educational options for all families, curtailing dependence on standardized tests and other measures of student achievement.** School accountability comes in two forms. Either parents keep schools accountable by “voting with their feet,” or states compel public school districts to administer standardized tests. As educational options increase, the value and necessity of testing decreases. Likewise, as long as states such as North Carolina maintain stringent limitations on parental choice, test scores remain their primary method of keeping schools accountable for results.

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North Carolina Tests, 2013-14 School Year							
Subject	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grades 9-12
Reading	mCLASS, BOG, EOG	EOG	EOG	EOG	EOG	EOG	English I-IV
Math	EOG	EOG	EOG	EOG	EOG	EOG	Math I-III, Pre-Calculus, Discrete Math
Science	N/A	NC Final Exam	EOG	NC Final Exam	NC Final Exam	EOG	Biology, Earth/Environmental Science, Physical Science, Chemistry, Physics
Social Studies	N/A	NC Final Exam	NC Final Exam	NC Final Exam	NC Final Exam	NC Final Exam	World History, Civics and Economics, American History I, American History II
Multi-subject	N/A	N/A	N/A	N/A	N/A	EXPLORE	PLAN, ACT, WorkKeys

National Assessment of Educational Progress (NAEP) Average Scale Scores						
	Reading			Mathematics		
	Year	Grade 4	Grade 8	Year	Grade 4	Grade 8
National	2013	222	268	2013	242	285
North Carolina		222	265		245	286
National	2011	221	265	2011	241	284
North Carolina		221	263		245	286
National	2009	221	264	2009	240	283
North Carolina		219	260		244	284
National	2007	221	263	2007	240	281
North Carolina		218	259		242	284
National	2005	219	262	2005	238	279
North Carolina		217	258		241	282
National	2003	218	263	2003	235	278
North Carolina		221	262		242	281

Year	Jurisdiction	Average SAT Scores			Average ACT Scores				
		Reading	Math	Total	English	Math	Reading	Science	Composite
2013	National	496	514	1010	20.2	20.9	21.1	20.7	20.9
	North Carolina	495	506	1001	17.1	19.6	18.8	18.7	18.7
2012	National	496	514	1010	20.5	21.1	21.3	20.9	21.1
	North Carolina	491	506	997	21.0	22.3	22.2	21.4	21.9
2011	National	497	514	1011	20.6	21.1	21.3	20.9	21.2
	North Carolina	493	508	1001	21.2	22.4	22.2	21.4	21.9
2010	National	500	515	1015	20.5	21.0	21.3	20.9	21.0
	North Carolina	495	509	1004	21.1	22.3	22.2	21.6	21.9
2009	National	501	515	1016	20.6	21.0	21.4	20.9	21.1
	North Carolina	495	511	1006	20.9	22.0	21.9	21.1	21.6
2008	National	502	515	1017	20.6	21.0	21.4	20.8	21.1
	North Carolina	496	511	1007	20.5	21.8	21.7	20.8	21.3

Virtual Schools

In general, a virtual school is an Internet-based learning environment that allows students to participate in a class using a computer rather than being present in a classroom. Students can access all class materials, including lectures, notes, assignments, and handouts, through the Internet. Students can also access audio and video content not available to those in traditional classrooms. Certified teachers offer one-on-one communication with the student, and they often recruit experts in the subject area to engage with virtual school students through interactive lectures and online chats.

Virtual schools come in many shapes and sizes. A virtual school may be operated by a state entity, a non-profit organization, or a for-profit company. Some offer full-time programs, while others provide a part-time or “blended” approach. They are also subject to any number of performance standards and regulations, including teacher certification requirements, grade-level restrictions, enrollment caps, defined course offerings, and student-to-teacher ratio guidelines. Funding mechanisms vary significantly, as well.

Despite those differences, the one element common to all virtual schools is choice. Online and blended programs do not exist to simply repackage the status quo. Rather, they deliver a genuine alternative for children whose needs are not met by the traditional instructional or institutional model of public schooling. This has made virtual schooling a target for those who have incentives to maintain the status quo.

In North Carolina, state education officials have thwarted good faith efforts to open a virtual charter school that would compete with the state-run North Carolina Virtual Public School (NCVPS). In 2011, nonprofit organization North Carolina Learns attempted to open the first virtual charter school in the state, the North Carolina Virtual Academy.

Despite an application that met all statutory and regulatory requirements, NC State Board of Education chairman Bill Harrison unilaterally declared — without a board vote — that the board would not consider applications for virtual or online charter schools. Although NC Learns won an early victory in the Office of Administrative Hearings, the courts later sided with Harrison’s arbitrary and capricious decision.

In January 2013, the State Board of Education approved a standard application, accountability requirements, and operating procedures for virtual charter schools. This policy suggests that the board, which is under new leadership, is ready to embrace school choice and competition.

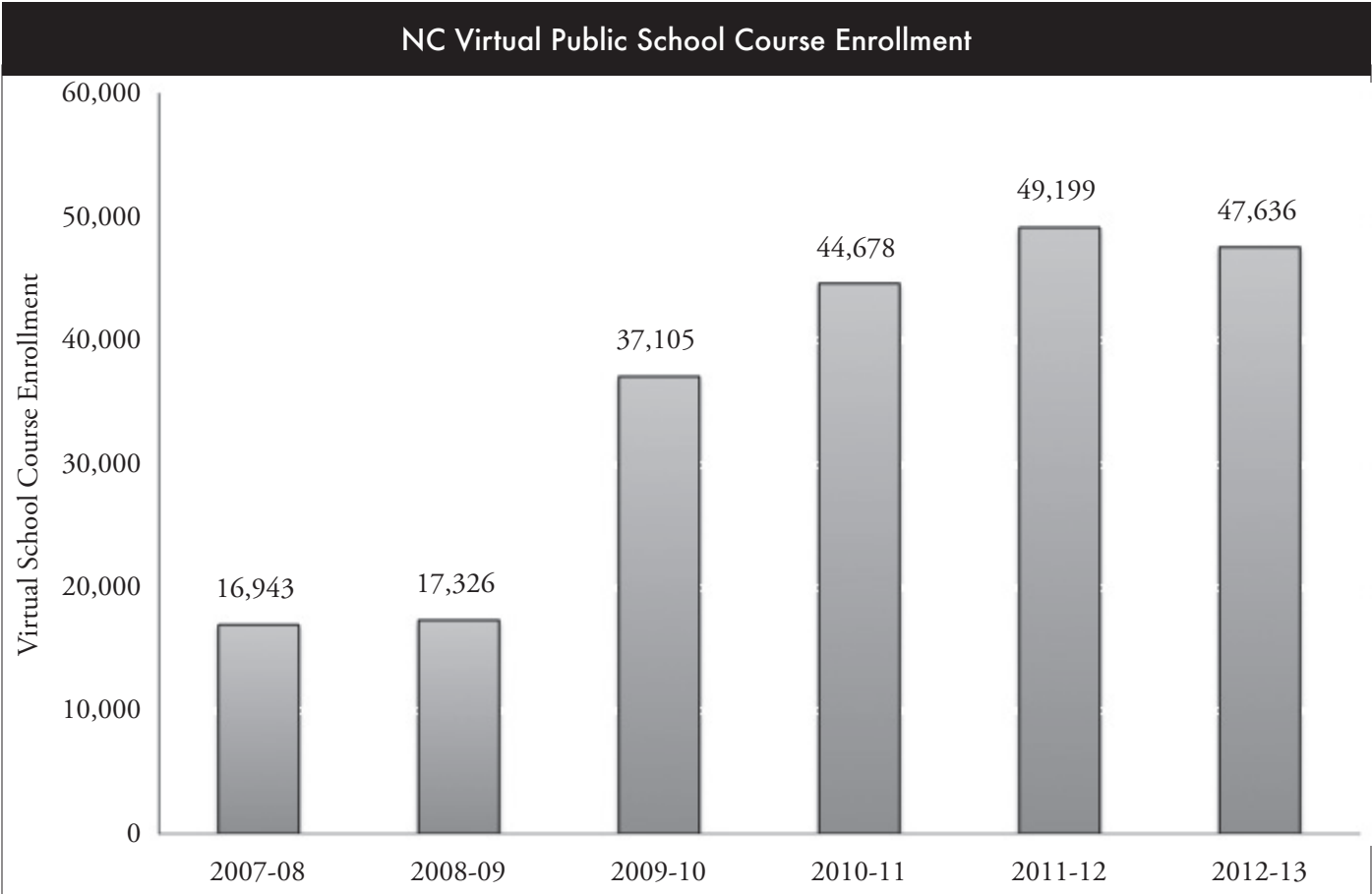
Key Facts

- Beginning as a pilot in 2005, the North Carolina Virtual Public School (NCVPS) is a state-operated online school that enrolls nearly 50,000 high school students. NCVPS offers approximately 150 courses but no full-time programs. It is the second largest virtual school in the country.
- Some of the early proponents of virtual charters made exaggerated claims about the cost savings, e.g., that the virtual charter could operate at half of the cost of a traditional public school, but they cannot operate for pennies on the dollar. In reality, savings will reach a few hundred dollars per student.
- According to a recent report, 30 states plus Washington, D.C., had at least one full-time online school operating statewide during the 2013-14 school year.

Recommendations

1. **The state should maximize competition in course offerings by expanding the number of virtual school providers, including private and for-profit online schools, as well as institutions of higher education in North Carolina and beyond.** Allow state, local, and federal funds to follow the student to the traditional or virtual school (or course) of their choice.
2. **North Carolina should allow all current and future virtual school providers to hire teaching candidates who possess the requisite skills and relevant knowledge and experience, rather than those who possess mandated credentials.** If eliminating the existing certification process is not an option, the state should reform lateral-entry or alternative certification programs, so that individuals who do not possess education credentials to teach can easily obtain them.
3. **The state should commission annual independent cost-benefit analyses of virtual schooling that assesses fiscal implications, student/parent satisfaction, and student performance.** While the initial findings of cost savings are suggestive, the state should only expand online course offerings if the cost of those courses decreases current personnel and capital outlays at the school district level.

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Higher Education Policy

North Carolinians are proud of their higher education system—both the University of North Carolina, which has sixteen college campuses, and the 58-school community college system.

But much of their reputation is based on a belief in quality that may not be accurate.

Only 64 percent of UNC students graduate in six years. Two-thirds of those graduates carry debt, ranging from an average of \$16,983 at UNC-Chapel Hill to \$28,119 at NC A&T. For those who drop out the burden is greater, because getting a good job is more difficult.

Even college graduates are having a hard time finding a job in today's economy, especially those who declared a major in a marginal field or took relatively easy courses through school. As a result, many lack the discipline, knowledge, and skills developed through rigorous coursework.

Key Facts

- Higher education represents about 18 percent of the state's General Fund budget. UNC received \$2.5 billion in 2012-2013, and the community college system received \$990 million.
- The total budget of the UNC system is nearly four times as large, or \$9 billion. That includes tuition, donations, federal grants, etc.
- The state subsidizes UNC at \$13,442 per residential student (2010). At UNC-Chapel Hill, that figure is \$16,932.
- UNC faculty are well-compensated. In 2010-11, average pay ranged from a low of \$61,818 at UNC-Pembroke to \$108,578 at UNC-Chapel Hill. Median household income in North Carolina was \$46,450 during the same period.
- UNC enrollment is flat overall, and declining at some schools. Over time, that will put less pressure on the state to fund the universities and may spur university cost control.
- Members of the UNC Board of Governors have questioned whether some funds from tuition ought to go to need-based aid, as is the current policy.
- The Board of Governors is considering a rule requiring that all religious groups be allowed to keep out members who don't share their views. A bill is also under consideration by the General Assembly.

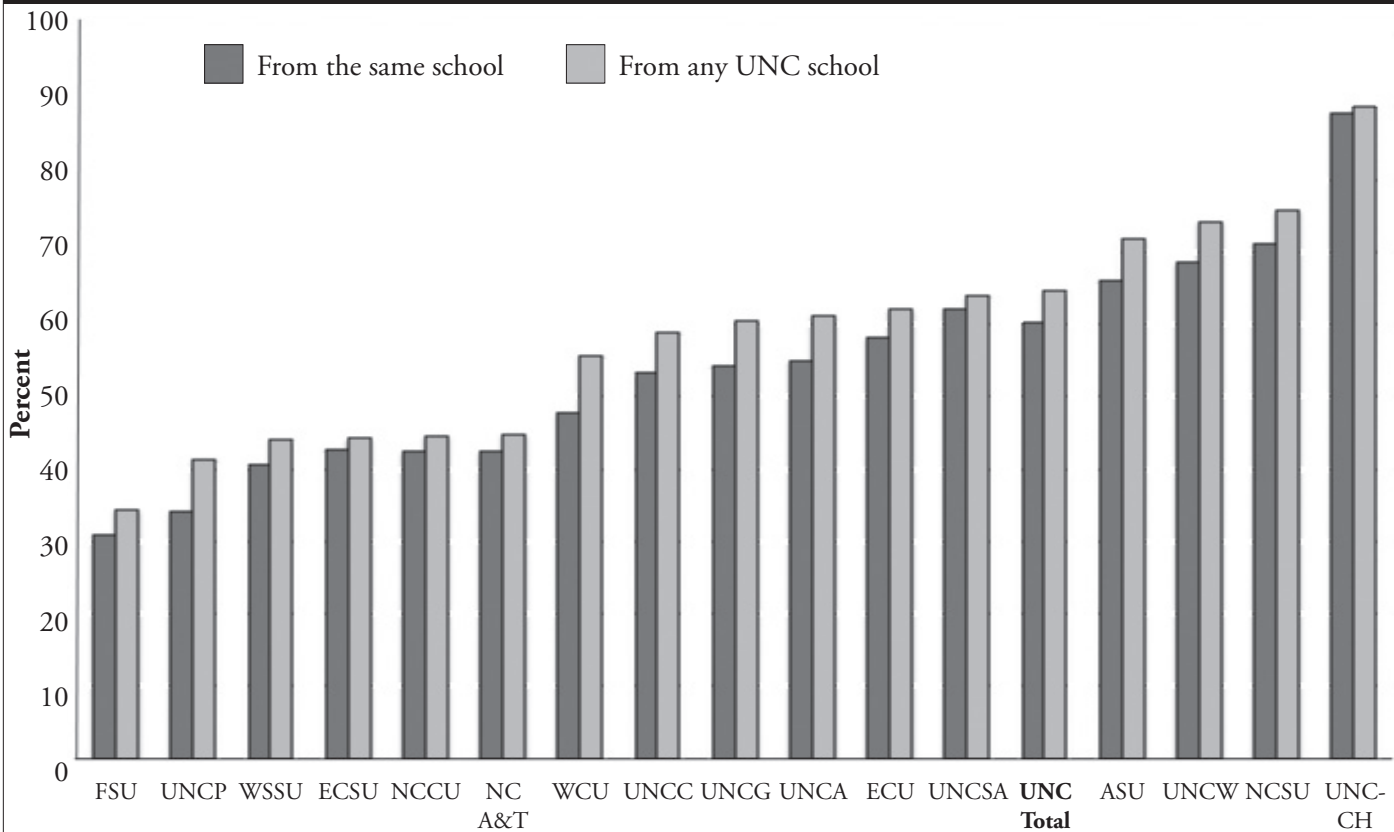
- University officials are spearheading changes to the administration of athletic programs at UNC system schools. Alumni of UNC-Chapel Hill have had their loyalty tested by an ongoing scandal related to athletics and academic “no-show” courses. A chancellor quit because of it, and a state district attorney is still investigating.
- Governor Pat McCrory has recommended that the community colleges be allowed to keep savings that they have accrued through greater efficiency.
- Community college officials have asked the legislature to consider letting them give “applied baccalaureate degrees.” All community colleges now give only associate's degrees and certificates.

Recommendations

1. The elected members of the NC General Assembly should consider the following measures:
 - **Keep UNC's budget under control**, because that is the only way that reform will occur.
 - **Change the funding method to include student learning outcomes**, not just enrollment.
 - **Insist on financial transparency** by making expenditures available as far down as the department level.
2. The Board of Governors for the UNC system should approve the following reforms:
 - **Review faculty course loads**, especially in the humanities, where the emphasis on research has led to inadequate teaching and unnecessary research.
 - **Authorize a complete review of general education** (the “core curriculum”) in all UNC schools.
3. Initiatives led by UNC system administrators should include the following:
 - Continue to **raise minimum admission standards**.
 - **Reduce the number of administrators**.
 - **Increase academic transparency** by making course syllabi available online.

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UNC System Six-Year Graduation Rates for 2006 Cohort



Source: The University of North Carolina

There Are More Administrators Than Faculty at UNC Schools
Professional, Paraprofessional, and Clerical Administrators per Full-time Faculty

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
ASU	1.37	1.29	1.37	1.40	1.45	1.45	1.41	1.43	1.36	1.39
ECU	3.30	2.97	2.93	2.91	3.27	3.24	2.91	3.03	3.16	3.31
ECSU	2.20	2.22	2.50	2.51	2.23	2.39	2.49	1.85	1.88	2.04
FSU	1.60	1.56	1.50	1.52	1.63	1.45	1.43	1.60	1.71	1.76
NC A&T	2.08	2.75	2.27	2.13	2.07	2.23	2.37	2.18	2.16	2.47
NCCU	2.39	2.87	3.40	2.95	2.44	2.29	2.38	2.45	2.77	2.56
NCSU	3.26	2.81	2.58	2.56	2.69	2.73	2.68	2.71	2.84	2.90
UNCA	1.53	1.63	1.64	1.62	1.57	1.55	1.68	1.71	1.56	1.59
UNC-CH	5.27	6.33	5.91	5.42	5.17	5.04	4.95	5.05	5.02	4.93
UNCC	1.41	1.34	1.38	1.34	1.33	1.38	1.35	1.51	1.59	1.62
UNCG	1.74	1.73	1.74	1.69	1.74	1.77	1.72	1.85	1.72	1.74
UNCP	1.32	1.28	1.33	1.37	1.39	1.34	1.38	1.49	1.35	1.31
UNCW	1.68	1.61	1.72	1.67	1.69	1.76	1.76	1.79	1.63	1.59
UNC-SA	1.36	1.42	1.55	1.28	1.62	1.32	1.33	1.47	1.52	1.62
WCU	1.94	1.90	1.73	1.70	1.75	1.72	1.83	2.04	1.97	1.82
WSSU	1.58	1.52	1.67	1.67	1.43	1.34	1.34	1.48	1.42	1.48

Source: IPEDS, Department of Education

North Carolina Education Lottery

The North Carolina Education Lottery was born of corruption, from its inception as a bill, to its lobbying, to its rushed enactment in the NC House and Senate in the face of the state's constitutional requirement that revenue bills face multiple votes on successive days, to its false promise to and exploitation of the state's poorest and most desperate citizens.

In short order the North Carolina Education Lottery has become, by design, a highly visible contributor to education funding in the state. By that fact, it would seem to be irreplaceable. Nevertheless, there are very real concerns over the lottery's actual effects on education spending, in addition to concerns over its effect on society.

Key facts

- The North Carolina Education Lottery was sold as a way to boost education spending in the state, but research shows that this has historically been a false promise of lotteries.
- States without education lotteries have maintained and increased education spending more than states with lotteries.
- States that adopt education lotteries tend to exhibit a declining rate of spending for education, especially in comparison with the rest of the budget. Presence of an education lottery gives a perception of longstanding education needs now being sufficiently "covered" such that competing budgetary items are more "affordable" and get a more favorable reception in appropriations decisions.
- Supplanting has been a problem in North Carolina from the outset. In early 2006, before the first lottery ticket was even sold, then Gov. Mike Easley announced that half of the expected lottery revenues would go to replace existing education spending. In 2009 then Gov. Bev Perdue transferred \$50 million from the Lottery Reserve into the General Fund, as well as \$37.6 million intended for school construction (later returned).
- The lottery is a state funding source that many North Carolinians find immoral out of (a) religious belief, (b) concern about taking advantage of the poor and undereducated, or (c) both.
- Originally, 35 percent of lottery proceeds went to education funding. By 2013, only 28 percent was going to education funding.

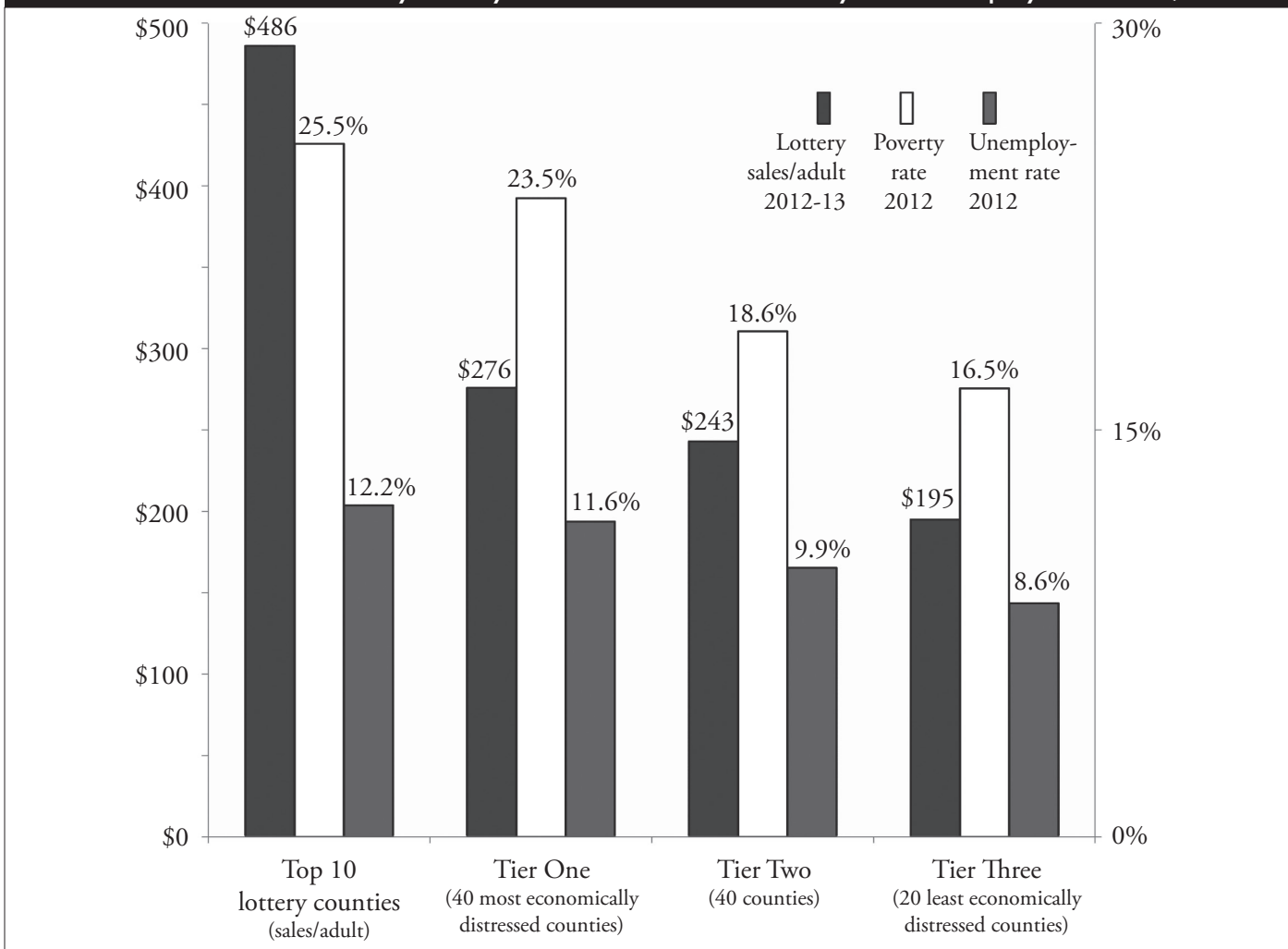
- Poverty, unemployment, and property tax rates are reliable predictors of a county's lottery sales (see table and graph).
- Nine of the top 10 counties in lottery sales per adult were among the most economically distressed counties in the state.
- At approximately \$486 per adult, lottery sales in those counties were two and a half times higher than in the 20 most economically well-off (Tier Three) counties in the state (\$195 per adult). The median household income in the top lottery counties was only 69 percent of the median household income in the Tier Three counties.
- The best possible reform to address all these concerns would be to end the state lottery and return to a more honest, direct form of education funding.

Recommendations

1. **End the state lottery and return to a more honest, direct form of education funding.** This would be the best possible reform to address all concerns over the state lottery. It has not become an irreplaceable funding source in the few short years of its existence.
2. **Allow private gambling in North Carolina.** Even if state leaders choose to use gambling to raise revenue for education and other state needs, that doesn't mean there should be a state-sanctioned monopoly in charge. Legalizing gambling would allow industries to develop and compete, providing a range of games, creating jobs, buttressing the economy, and contributing through responsible taxation to education spending and the General Fund.
3. **Reform the lottery so as to use education proceeds more effectively.** Short of repealing the lottery, state leaders could call for an increase in funding for school construction and construction cost-saving incentives, funding for all public schools, including charter schools, and eliminating funds for unproven initiatives and programs.

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North Carolina Education Lottery County Sales Per Adult and Poverty and Unemployment Rates, 2012-13



Sources: North Carolina Education Lottery (sales, FY2013); North Carolina State Demographics Office (population, 2012); US Census Bureau (poverty, 2012); Bureau of Labor Statistics (unemployment, 2012)

North Carolina Education Lottery Sales and County Economic Indicators, 2012-13

	Top 10 lottery counties	Tier One counties	Tier Two counties	Tier Three counties	NC average
Lottery sales per adult	\$486	\$276	\$243	\$195	\$226
Poverty rate	25.5	23.5	18.6	16.5	20.1
Median household income	\$34,306	\$35,212	\$41,779	\$49,387	\$40,674
Unemployment rate	12.2	11.6	9.9	8.6	10.3
Property tax rate (cents/\$100 property value)	74.02	65.84	59.85	59.39	62.16

A note about the county tier designations: The North Carolina Department of Commerce annually ranks the state's 100 counties based on economic well-being and assigns each a tier designation. The 40 most economically distressed counties are designated as Tier One, the next 40 are designated as Tier Two, and the 20 least economically distressed counties are designated as Tier Three.

Sources: North Carolina Education Lottery (sales, FY 2013); North Carolina State Demographics office (adult population, 2012); U.S. Census Bureau, Small Area Income and Poverty Estimates (poverty rates and median household incomes, 2012); Bureau of Labor Statistics, Local Area Unemployment Statistics (unemployment rates, 2012); North Carolina Department of Revenue (county property tax rates, 2012-13).

Renewable Energy Portfolio Standard

In 2007, the North Carolina General Assembly passed far-reaching electricity regulations (typically referred to as Senate Bill 3). At the heart of this bill is a 12.5 percent “renewable energy and energy efficiency portfolio standard.”

The renewable portfolio standard requires utilities to provide customers 7.5 percent of their electricity through renewable sources of energy. As defined in the law, this includes power generated from wind, solar, and biomass such as pig and chicken waste, and also wood. These are all forms of energy that are significantly more expensive than traditional fossil fuels such as coal and natural gas which, in the absence of subsidies and mandates, would likely be the fuels of choice for utilities. The law does not allow hydro power to be used to satisfy the mandate even though, as an energy source, it is renewable and nonpolluting. It is also relatively inexpensive. This suggests that the real purpose of the law is not to encourage renewable energy per se but to subsidize solar and wind power.

The other 5 of the 12.5 percent is meant to come from reduced electricity usage owing to mandated energy-efficiency measures. In this case “energy efficiency” has nothing to do with actual economic efficiency, i.e., getting more for less, but simply refers to using less energy even if that is inconsistent with people’s actual preferences and needs.

Key Facts

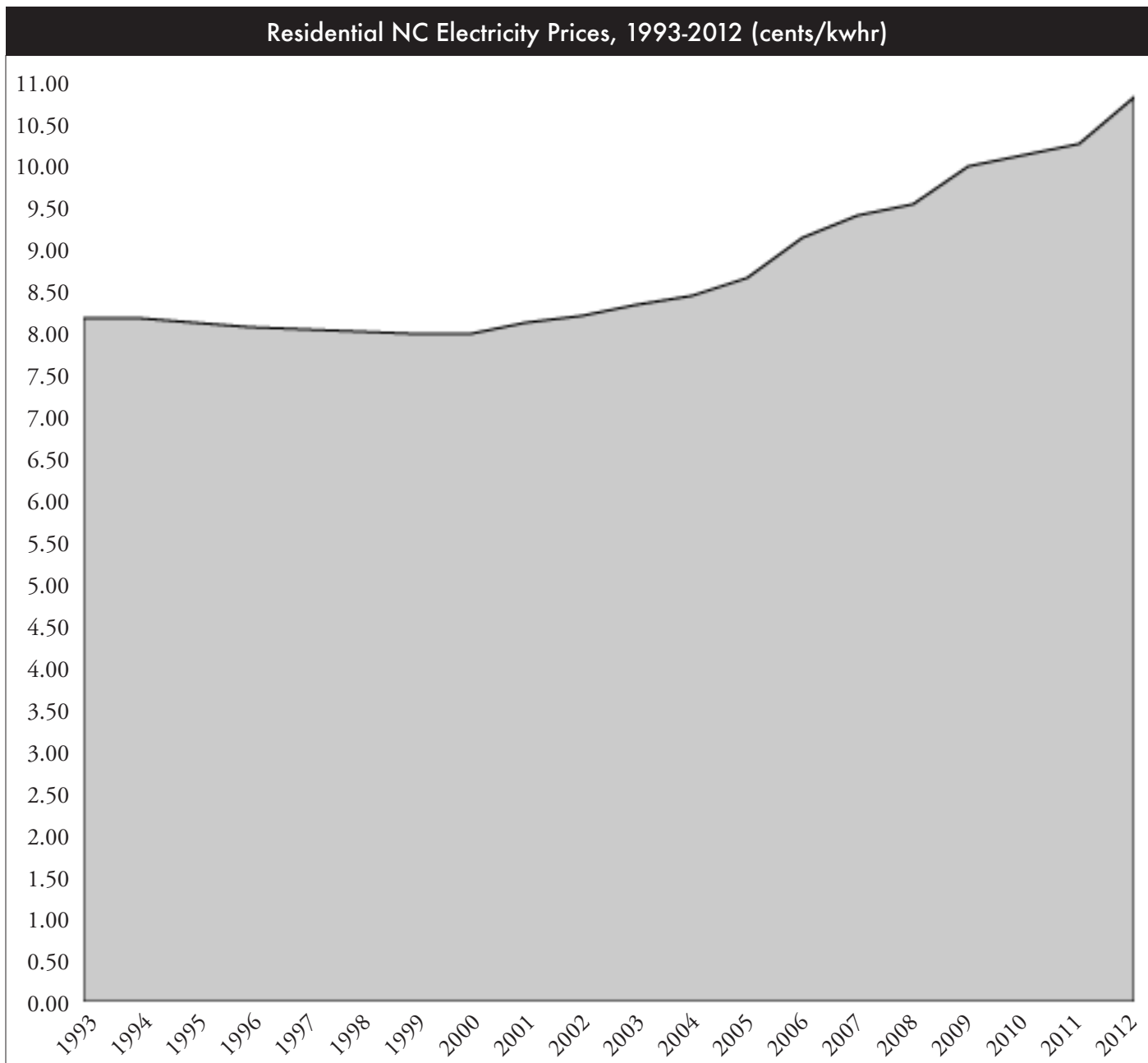
- North Carolina’s renewable energy mandate is forcing electric utilities, and therefore their customers, to purchase electricity generated from wind and solar plants that is 3 to 4 times as expensive as electricity generated from traditional sources.
- All increased costs associated with the mandate are being passed on to electricity customers.
- In addition to the higher electricity costs, the mandate is forcing taxpayers to bear an extra burden. Because of the mandate, new solar and wind power plants are being built in and planned for the state. These are all heavily subsidized with tax credits, although the biggest subsidy is the mandate itself.

- Higher electricity costs hurt the economy. According to the Beacon Hill Institute at Suffolk University, North Carolina’s renewable energy mandate will cost North Carolina ratepayers \$1.8 billion by 2021.
- Because higher electricity costs increase the cost of doing business, it is estimated that the mandate will cost North Carolina \$140 million in lost GDP and 3500 jobs by 2021.
- Because of the tax credits, tax revenues will be reduced by \$43 million by 2021. This is likely an underestimate, since it does not include tax subsidies for the construction of new wind and solar power plants. It also does not include what is called construction work in progress (CWIP), a provision of the bill that allows electric monopolies to pass along certain costs associated with the construction of new nuclear power plants even if the plant is never completed.
- Before passing the mandate, which was supported overwhelmingly by both political parties, there was no cost benefit analysis done and no analysis of benefits to the environment. In fact it has not been demonstrated that the mandate will have any environmental benefits for the state at all. Except for targeted special interests, such as favored companies in the renewable and nuclear energy industries, the mandate only imposes costs on electricity customers and the economy with no offsetting benefits.
- There has twice been legislation introduced in the General Assembly to repeal the mandate or phase it out, in 2011 and 2013. In both cases the legislation failed to make it out of committee.

Recommendation

Repeal Senate Bill 3, the overarching legislation that contains the renewable energy mandate or, at the very least, repeal that portion of the bill that contains the 12.5% renewable energy/energy efficiency mandate.

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BHI Cost Estimates for Renewable Energy Mandates (2009 Dollars)

Year	Employment Loss (Jobs)	Investment Loss (\$ millions)	Real Disposable Income Loss (\$ millions)	Real State GDP Loss (\$ millions)	State and Local Revenue Loss (\$ millions)
2010	1046	22.94	8.23	90.21	35.12
2012	3078	38.61	49.36	134.65	47.29
2014	3275	37.24	44.09	116.07	42.22
2021	3592	43.20	56.80	140.35	43.49

Source: Beacon Hill Institute

The Map Act

The Map Act is a state law that allows road planners to establish official maps of future road corridors in order to freeze development within the maps, reducing property values, and thereby reducing the amount of just compensation that must eventually be paid to property owners.

North Carolina is one of a small number of states that use map acts to restrict property rights inside future road corridors. Of those states with map acts, North Carolina's offers the least protection for property owners. Building and subdivision permit applications can be delayed for up to three years at a time under North Carolina's Map Act. Even worse, there is no time limit in North Carolina on how long an official map can continue to encumber a property. The Map Act is used in dozens of projects across the state, affecting hundreds—if not thousands—of property owners.

Key Facts

- The North Carolina Transportation Corridor Official Map Act allows the North Carolina Department of Transportation (NCDOT) and local government authorities to file official corridor maps, the effect of which is to indefinitely restrict development of properties lying within the map.
- Once a map is established, applications for building and subdivision permits must get NCDOT approval. NCDOT can delay a permit for up to 3 years (1,095 days).
- Only 12 other states have comparable map act statutes. Thirty-seven states accomplish their corridor preservation goals without restricting property rights as under the Map Act.
- Eleven map act states limit permit delays to 365 days or less. In Tennessee the delay can be no longer than 80 days. Utah has no time limit on permit delays, but property owners have the right to demand at any time to be acquired or released from a map.

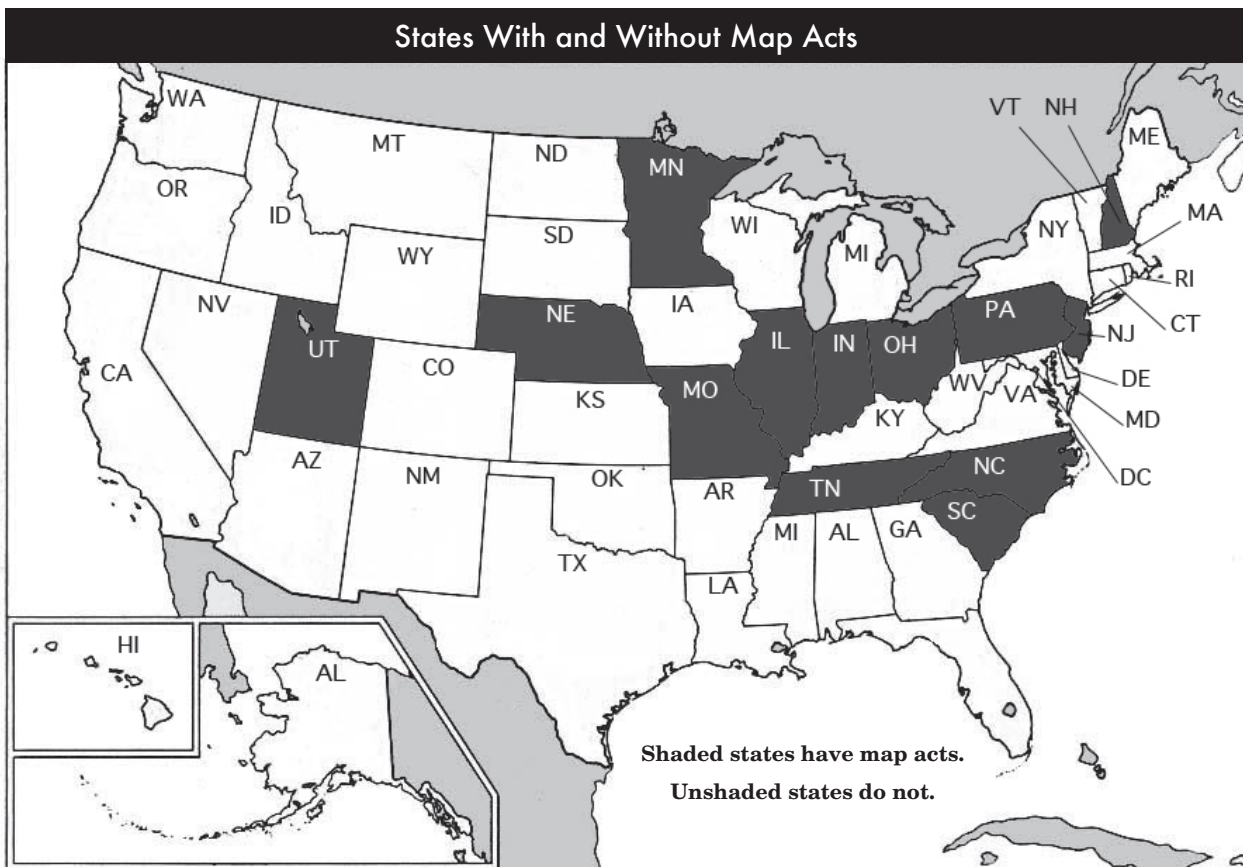
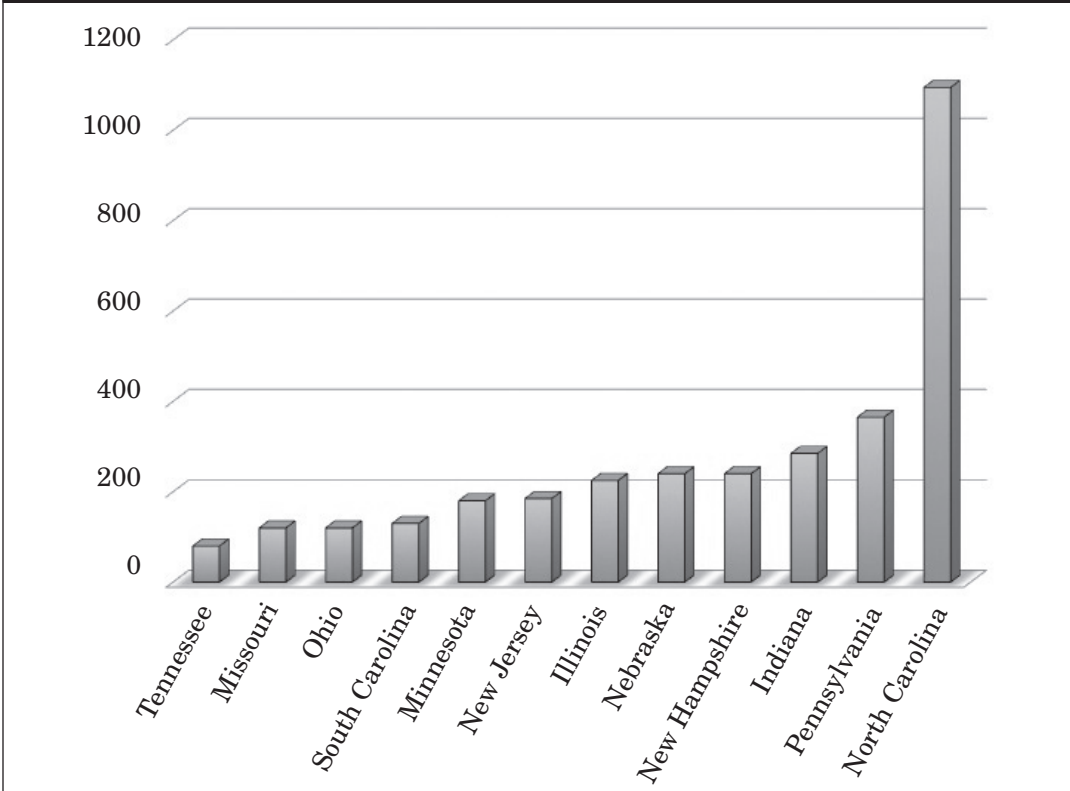
- Property owners in the Forsyth County Northern Beltway corridor have been under an official map for nearly two decades, since 1997. The Northern Beltway property owners took their complaints to court, seeking to finally be acquired and to challenge the constitutionality of the Map Act.
- With the official map encumbering these properties, property values have plummeted and the owners cannot sell their properties at reasonable returns.
- There is an advanced acquisition program for property owners with financial or medical hardships, but the Northern Beltway property owners have argued that advanced acquisitions have been granted in a selective and arbitrary manner.
- Courts in several other jurisdictions have found long delays related to future condemnation to be unconstitutional violations of the right to just compensation. Violations have been found in as little as 2.5 years. The indefinite nature of North Carolina's Map Act clearly threatens property owners' rights.

Recommendations

1. **Repeal the Map Act entirely**, opting instead for traditional acquisition and condemnation procedures.
2. **Short of full repeal, the Map Act should be amended to set a reasonable time limit on building and subdivision permit delays** of 80 to 120 days. In addition, no official corridor map should last more than 1 to 3 years.
3. **The advance acquisition hardship program should be reformed to establish clear guidelines** and minimize the amount of discretion officials have in denying applications.

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Figure 4: Maximum Number of Days Permits May Be Delayed Under Map Acts



Quick Take in Eminent Domain

Under North Carolina Law, ‘quick take’ refers to a legal process whereby the government can take title to property under the power of eminent domain without first allowing the landowner to have a hearing in court.

The Fifth Amendment to the U.S. Constitution recognizes the use of the power of eminent domain to take private property for public use, but it also requires that property owners receive just compensation. Typical public uses include roads, public utilities, schools, and courthouses. In some cases North Carolina law gives property owners 120 days to challenge a taking and request a hearing in court. However, in many circumstances, local governments in North Carolina are authorized to use quick take. Under quick take, title and right of possession of property automatically transfer to the city, county, or other condemning authority, without so much as a hearing. All the authorities must do is give 30 days’ notice and file a declaration of taking in court.

Quick take leaves property owners at a significant disadvantage when it comes to negotiating issues such as just compensation, fulfillment of the public purpose requirement, and (when applicable) the reasonableness of the terms of any easements that are sought. Without the right to a hearing prior to title transfer, and without additional procedural safeguards, North Carolina property owners are at risk.

Key Facts

- While the North Carolina Constitution does not contain a “takings” clause, the courts recognize the right to just compensation as a fundamental right under the ‘law of the land’ provision of Article I, Sec. 19.
- North Carolina’s quick take statute provides that upon 30 days’ notice, a condemning authority can automatically take title to property by simply filing a declaration of taking in superior court.
- The notice must include an estimate of how much compensation is due. However, this notice is not required to provide an explanation of how the amount was calculated.
- One of the most egregious abuses of the quick take procedure happens during beach nourishment projects. Beach nourishment is the process of replacing sand along coastlines that have been affected by erosion. On these projects, authorities typically send letters to property owners estimating zero compensation is due because it is claimed that the owners will benefit from the improvements.

- Even when projects are expected to last only 2 to 5 years, condemning authorities commonly demand 20 or 30-year agreements and threaten to use quick take if property owners do not capitulate.
- Under quick take, once property owners receive a notice of intent to take they have 30 days to file a request in court for an injunction to delay the taking. But since authorities do not have to show the basis of their compensation estimates, owners may not know if the estimate is fair or whether there is a sound basis to file an injunction.
- Without the requirement of a hearing prior to automatic transfer of title and right to possession, property owners have very little, if any, leverage to bargain for more reasonable terms.

Recommendations

1. **Quick take should be repealed so that all takings go through the normal 120-day condemnation process**, which includes the right to a hearing. The right to a hearing would not only satisfy the requirements of due process, but also give local governments some incentive to negotiate in good faith with owners in order to avoid costly court proceedings.
2. Short of repeal, several reforms of quick take procedure are necessary. First and foremost, **property owners should be entitled to a pre-condemnation hearing**. Such a hearing could easily be held within the 30-day quick take time frame.
3. **Condemning authorities should be required to make a good faith effort to negotiate with landowners prior to initiating quick take proceedings** and calculate a good faith estimate of the amount of just compensation that is due.
4. In the 30-day notice prior to taking, **condemning authorities should be required to explain how they calculate the estimated just compensation amount**. To be effective, the notice should contain the estimated value of the property or easement being taken, the value of the benefits (if any) accruing to property owners as a result of the taking, and how these estimates were determined.

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Treatment of Juvenile Criminals

North Carolina is one of only two states in the nation that treats minors ages 16 and 17 as adults in the criminal justice system. Forty-eight states keep these minors in the juvenile justice system. Research suggests that raising the age of eligibility for the juvenile justice system may reduce crime and reduce costs. The State of North Carolina has studied raising the juvenile age for a number of years now. Legislative proposals in the General Assembly would raise the age of juvenile jurisdiction for certain low-level, non-violent offenses.

Key Facts

- The age of juvenile jurisdiction was set at 16 more than a century ago in 1909. But today, North Carolina and New York are the only remaining states in the U.S. that do not treat offenders aged 16 and 17 as minors in the juvenile system.
- North Carolina SBI statistics indicate that 94 percent of 16- and 17-year old offenders in the adult system are accused of non-violent offenses. Moreover, only 3 percent of these minors are accused of serious felonies.
- North Carolina youths who are incarcerated in adult prisons are twice as likely to reoffend compared to youths kept in the juvenile system.
- Keeping 16- and 17-year old offenders in the juvenile system, rather than putting them into the adult system, can make our communities safer through reduced recidivism. Studies have linked lower rates of repeat offenses for minors kept in the juvenile system versus those put into the adult system.
- Two state studies have projected net economic benefits to society, ranging from \$7.1 million to as much as \$52.3 million, if North Carolina raises the age of juvenile jurisdiction. These studies factored in costs to taxpayers, reduced costs to victims resulting from lower recidivism rates, and increased earning potential of juvenile offenders who will avoid the stigma and reduced economic opportunities associated with an adult criminal record.

- In 2011, the General Assembly's Youth Accountability Planning Task Force (YAPTF) commissioned a study by the Vera Institute of Justice that estimated a net economic benefit of \$52.3 million per annual cohort of youth aged 16 and 17.
- The North Carolina Sentencing and Policy Advisory Commission has recommended raising the age of juvenile jurisdiction to 18.
- House Bill 725, which passed the North Carolina House in 2013, is a proposal to raise the age of juvenile jurisdiction to include 16- and 17-year olds. The bill would extend juvenile court jurisdiction to low-level, non-violent offenses committed by 16- and 17-year old minors. The bill excludes from juvenile jurisdiction motor vehicle offenses under Chapter 20 of the General Statutes.

Recommendations

1. **The age of juvenile system jurisdiction should be raised** to include non-violent, low-level offenders ages 16 and 17.
2. **Violent offenses and serious felonies should remain in the adult system.**
3. In order to mitigate stresses on the juvenile system resulting from this policy change, **juvenile jurisdiction could be raised gradually** and systematically over a number of years.

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Regulatory Reform

North Carolina's regulatory environment has improved steadily in recent years. Under Republican leadership since 2011, the General Assembly has passed Regulatory Reform Acts in 2011, 2012, and 2013. Expect this annual effort to continue.

While there are still plenty of areas to address, keeping on this arc would make North Carolina a national model for other states seeking ways to boost employment and job creation, especially as it fights expanding federal interference with those goals.

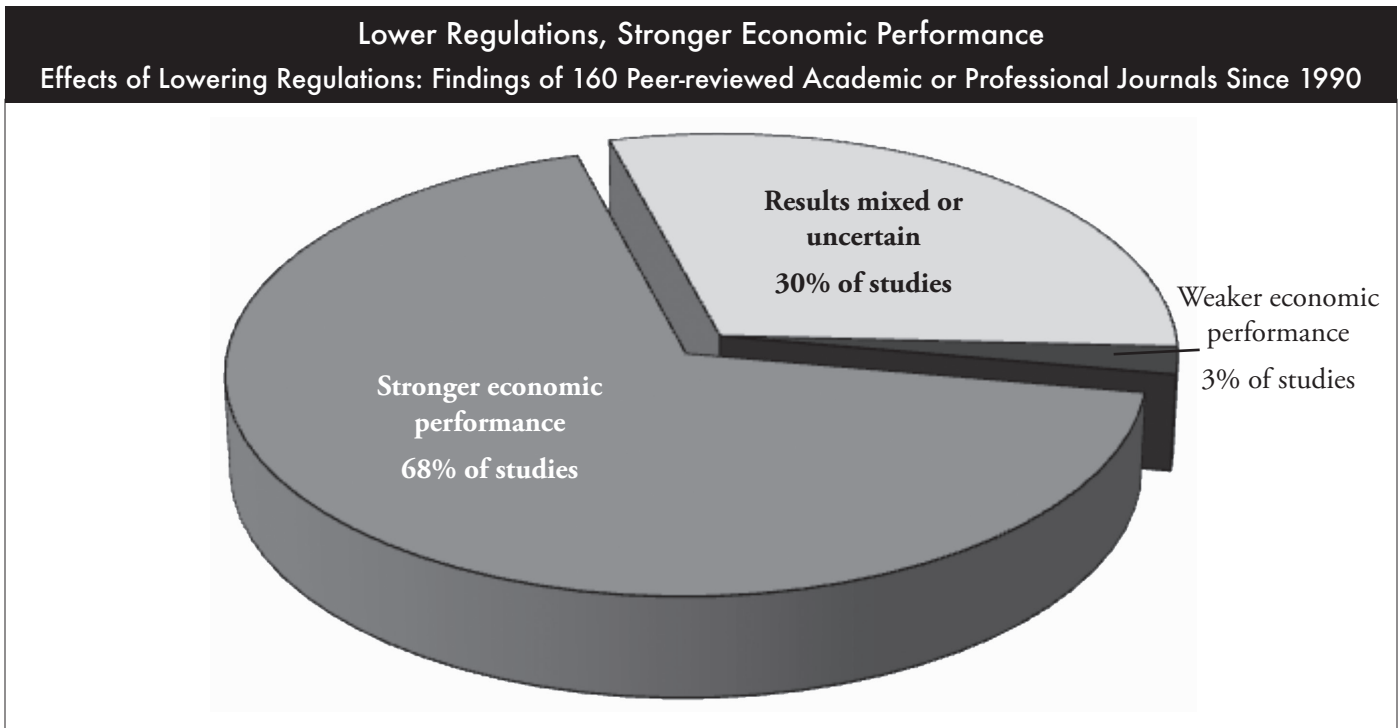
Key facts

- Research has consistently shown a link between burdensome state regulations and negative economic effects. Empirical studies of state regulatory burdens were more likely to find negative economic effects than even studies of state tax burdens.
- The Regulatory Reform Act (RRA) of 2011 issued several guiding principles for state rulemaking and, importantly, barred state environmental rules from being stricter than federal rules, unless approved by the legislature.
- For disputes between a regulated party and a state environmental agency that are heard by the state Office of Administrative Hearings, RRA '11 changed the way appeals were handled. Before RRA '11, if an Office of Administrative Hearings (OAH) decision went against the agency, the agency could simply overrule it. Now both parties have to appeal to the state Superior Court.
- RRA '12 made several technical changes and required certification that proposed new rules by the governor's Cabinet agencies and Council of State departments adhere to the new state rulemaking principles before they can be published.
- RRA '13 had several provisions, the most significant being a sunset provision with a thorough, three-tiered periodic review process. Under this reform, all regulations are slated to expire after 10 years if they are not reviewed by their originating agency.
- Sunsetting was shown to have a positive economically significant impact and was the only state rules review process shown to have a "robustly statistically significant" effect in reducing a state's regulatory burden, according to a 2012 study by the Mercatus Center of George Mason University.
- An effective sunset approach needs an effective "sunrise" approach. Sunrise complements to sunset laws would include a REINS law, strong cost/benefit analysis, requiring agencies to consider alternatives to regulation (including no regulation), stating regulations' objectives and outcome measures by which to hold them accountable (also a good feature of transparent government), regulatory reciprocity, and small business flexibility analysis.
- The REINS approach (from the "Regulations from the Executive In Need of Scrutiny" Act proposed before Congress) would require an affirming vote in the General Assembly before allowing to proceed any proposed rule that would have a major impact on the economy, cause significant cost or price increases for consumers, or do significant harm to competition, employment, productivity, and other healthy economic activities.
- Regulatory reciprocity would reduce the total regulatory burden over time by making agencies "trade in" a number of old rules for each new rule. It would also introduce opportunity cost to agency rulemaking, as agencies would have to consider their own trade-offs to creating a new rule.
- Small businesses (98 percent of employers in North Carolina) typically struggle with higher costs to comply with regulations because, unlike big firms, they generally lack their own compliance and legal staffs. Over two-thirds of the states therefore require agencies to conduct small business flexibility analysis to test whether rules have a disproportionate impact on small businesses and offer various ways to relieve it.

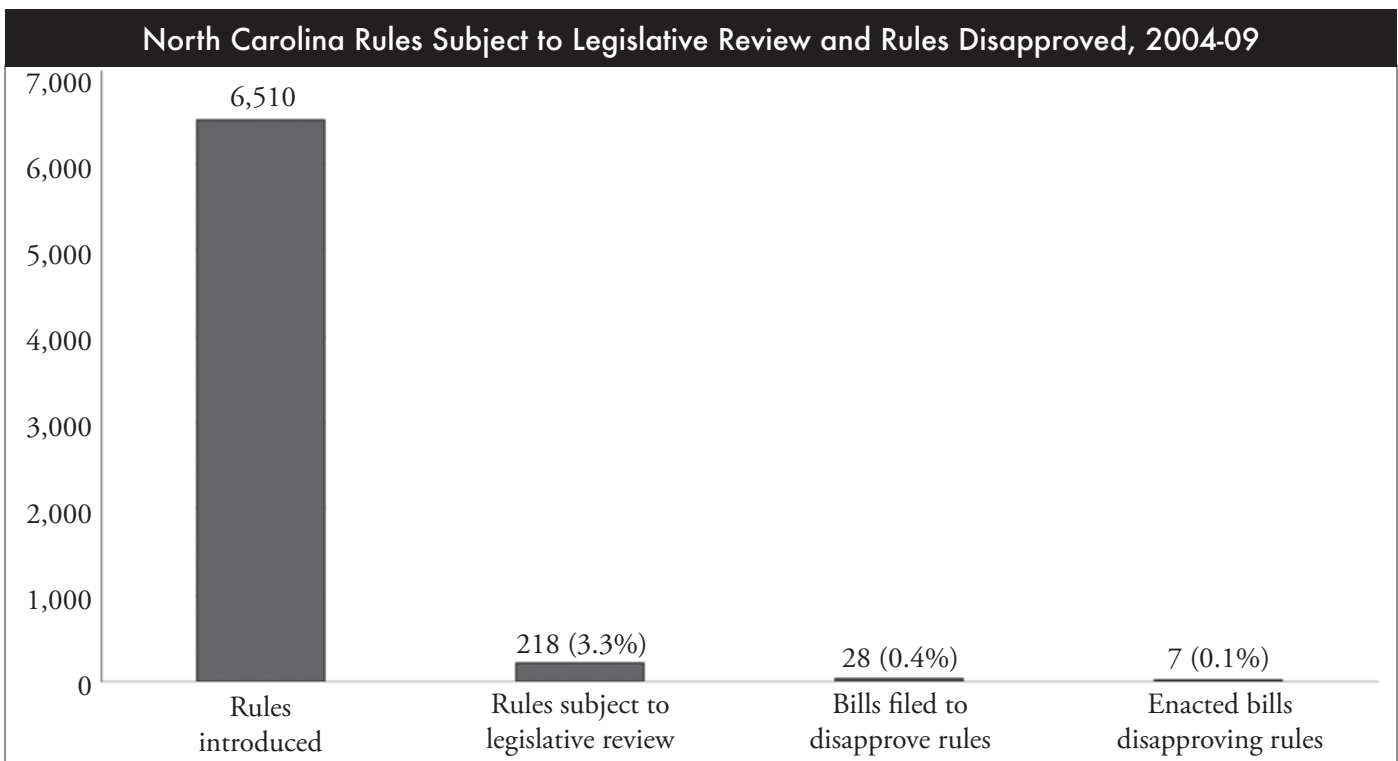
Recommendations

1. **Enact the REINS approach in North Carolina.**
2. **Follow up RRA '13's sunset provisions with a package of sunrise provisions**, including strong cost/benefit analysis, considering alternatives to regulation, holding regulations accountable to stated objectives and outcome measures, and regulatory reciprocity.
3. **Enact small business flexibility analysis.**
4. **Extend RRA '11's no-more-stringent laws and administrative-court appeals reform** to all state agencies, not just environmental agencies.

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Source: John Hood, "Lower Taxes, Higher Growth: Scholarly Research Reveals Economic Benefits of Fiscal Restraint," John Locke Foundation *Spotlight* No. 452, April 15, 2014, johnlocke.org/research/show/spotlights/303. (Percentages add up to more than 100 owing to rounding.)



Source: Daren Bakst, "Regulating the Regulators: Seven Reforms for Sensible Regulatory Policy in North Carolina," Figure 1, John Locke Foundation *Policy Report*, February 2010, johnlocke.org/research/show/policy-reports/207.

Occupational Licensing

At its core, an occupational license is a government grant of permission — obtained at the expense of time and money — to an individual to enter the field of work he desires. North Carolina’s Constitution, Article I, Section 1, recognizes a fundamental right of all persons to “the enjoyment of the fruits of their own labor.” A fundamental right ought not require petitioning and paying the state to be enjoyed.

Nevertheless, North Carolina is one of the more aggressive states in licensing occupations. Neighboring states of Virginia, Georgia, and South Carolina are less restrictive overall (see top chart). Crossing the border into South Carolina reduces the number of licensed occupations by about two-thirds.

Key facts

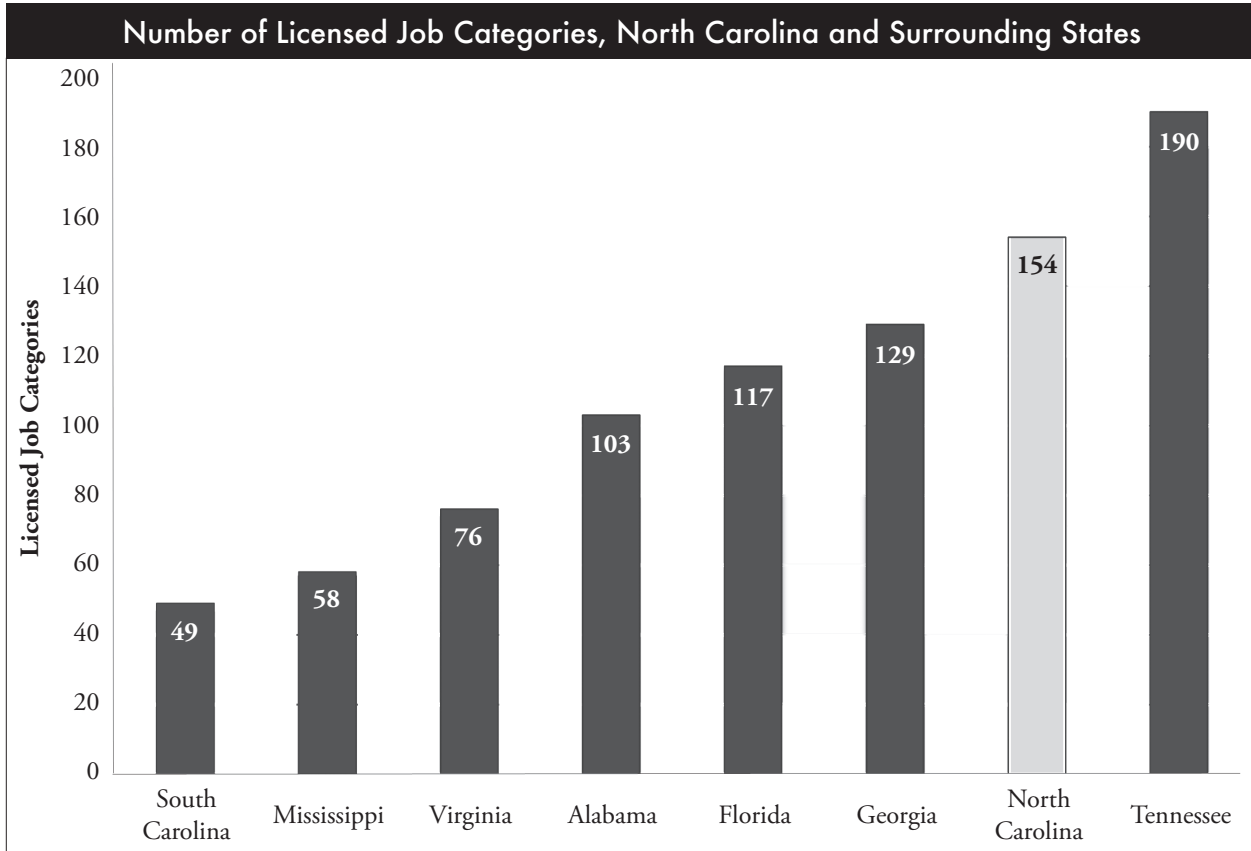
- North Carolina features 51 occupational licensing boards licensing access to well over 100 occupations.
- Occupational licensing is thought to serve the state’s interest in protecting citizens from fraudulent or negligent providers and ensuring safety and quality of services.
- University of Minnesota economist Morris Kleiner estimated that occupational licensing accounted for \$100 billion in lost economic output per year and transferred \$300 billion per year from consumers to people in licensed occupations.
- Research is mixed on whether licensing actually improves public safety. There is little evidence it improves quality of service at all.
- Research is consistent, however, that licensing increases the cost of service and drives up wages for members in the licensed profession.
- Unsurprisingly, most occupational licensing is favored by individuals already in the regulated industry.
- Providers already in the field reap benefits from restrictions and hurdles to entry placed on future potential competitors, including licensure fees (often recurring), mandated credit-hours of academic instruction (time and money), passage of a qualifying exam or exams (including exam fees), and supplemental education (more time and money).
- Licensing has grown tremendously. In the 1950s, nearly one in 20 workers needed a government license; now that number is approaching one in three.
- States differ greatly over which occupations even need state licensure.

- A 2012 study by the Institute for Justice found that North Carolina licenses more occupations that often employ the poor or less educated than do most states, though it was on par with South Carolina and Virginia (see bottom chart).
- Without state licensure, who would ensure safety and quality? Who would step up to fill society’s desire for information if government didn’t? The market offers several ways: through private providers of certification (Good Housekeeping, Underwriters Laboratories, Better Business Bureau), product comparisons and reviews (Consumer Reports, CNET, trade publications), word-of-mouth, social media, crowdsourcing web sites and applications (Angie’s List, Amazon.com, Yelp!), advertising, etc.
- The government would still enforce safety and quality through the courts system.
- Overregulation and internecine battles prevent, for example, nurse practitioners and physician assistants from being allowed to provide routine medical care, which would expand basic care and make it less expensive.
- Teacher certification mandates are a significant barrier to expanding virtual schooling, blocking high-caliber out-of-state teachers, higher education faculty, private-sector professionals, private-school faculty, and independent scholars from teaching in online schools despite those schools’ virtual elimination of physical limitations.

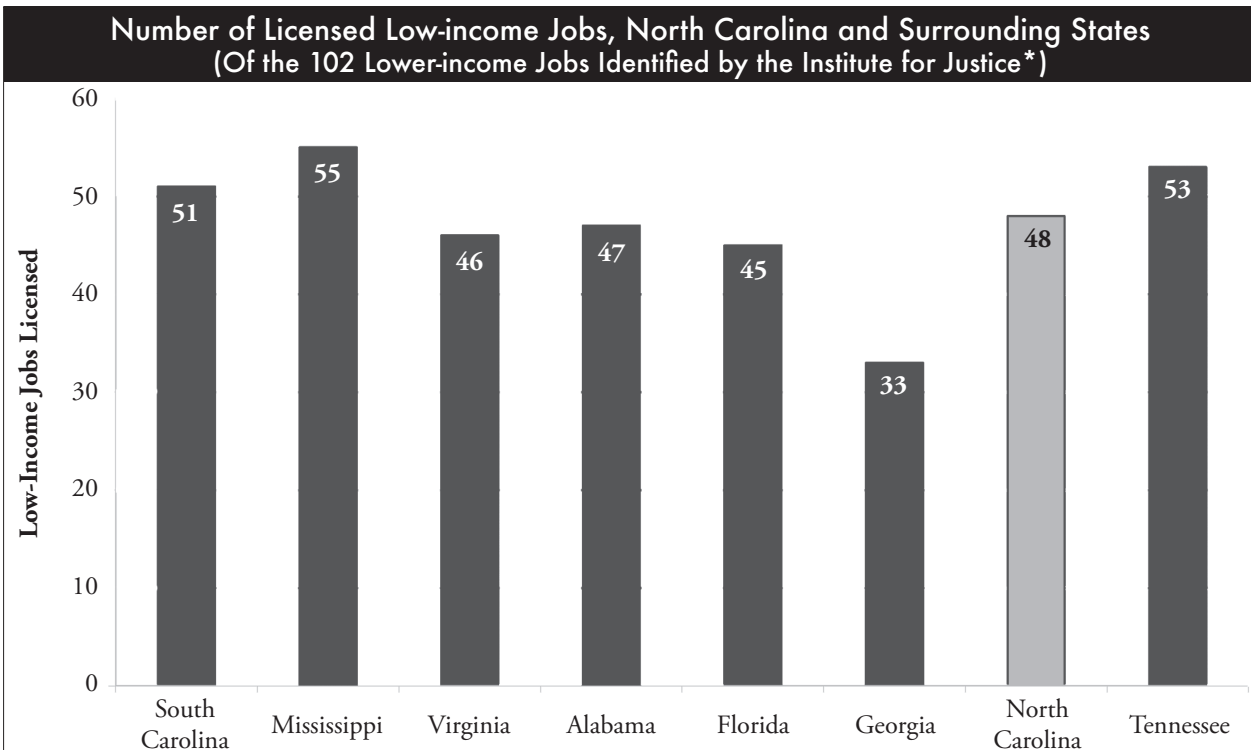
Recommendations

1. **Reduce the number of licensing boards and licensed job categories** to bring about more job opportunities and lower costs for consumers.
2. **Enact sunset provisions with periodic review for current licensing boards, and apply sunrise provisions for any proposed future licensing board.**
3. **Encourage reciprocity and apply a principle of ‘least-cost state’** (i.e., our licensure standard for a particular field should not be stricter than a competing state’s).
4. **Allow nurse practitioners and physician assistants to provide more routine medical care.**
5. **Ease or eliminate traditional certification and licensure requirements for all prospective teachers.**

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Source: Byron Schlomach, "Six Reforms to Occupational Licensing Laws to Increase Jobs and Lower Costs," Goldwater Institute Policy Report No. 247, July 10, 2012.



Source: Dick M. Carpenter II, Lisa Knepper, Angela C. Erickson, and John K. Ross, "License to Work: A National Study of Burdens from Occupational Licensing," Institute for Justice, May 2012, ij.org/licensetowork.

* "The 102 occupations studied are those recognized by the [Bureau of Labor Statistics] in which practitioners make less than the national average income and where the occupation is licensed in at least one state."

Alcoholic Beverage Control

In 2009-10, a succession of scandals in North Carolina's Alcoholic Beverage Control (ABC) system — including exorbitant salaries, nepotism, and lavish parties for ABC board members and staff hosted by liquor representatives — prompted then Gov. Beverly Perdue to raise the issue of privatization. The effort was mostly political theater, but it revealed the issues with trying to reform this remnant of the Prohibition Era.

Any talk of ABC reform involves two separate concerns: (1) preventing social ills related to alcohol consumption and (2) maintaining state revenue from it. In practice, if one concern is addressed, it gets criticized based upon the other concern, and vice-versa. Therefore, any attempt at reform should address both up front.

Key facts

- Currently there are 422 ABC stores in North Carolina operated by 167 local ABC boards.
- The ABC Commission determines what brands of spirituous liquors may be sold in North Carolina, publishes set retail prices for each of them, administers oversight of the state-owned liquor warehouse, and oversees the local ABC boards.
- The local boards operate ABC stores, buy from the state warehouse, and sell to the general public as well as mixed-beverage licensees, such as restaurants and bars.
- The receipt, storage, and distribution of liquor to and from the state warehouse (and a second, leased warehouse facility) is the responsibility of a privately owned warehouse contractor, currently LB&B Associates.
- Each local board is appointed by the county or municipal governing authority.
- Because of local option, there are several municipalities allowing liquor sales found within counties that disallow liquor sales; in those cases, there are several local ABC boards within a single county. Local ABC boards are independent, separate entities with their own policies and procedures.
- In fiscal year 2012, 93 percent of ABC boards turned profits. Over half had profits greater than 5 percent of sales.
- In fiscal year 2013 the ABC system distributed an estimated \$316 million in revenue to state and local budgets. Total revenues were about \$828 million; the other \$512 million

went for operating expenses, the cost of goods sold, and the ABC commission and warehouse.

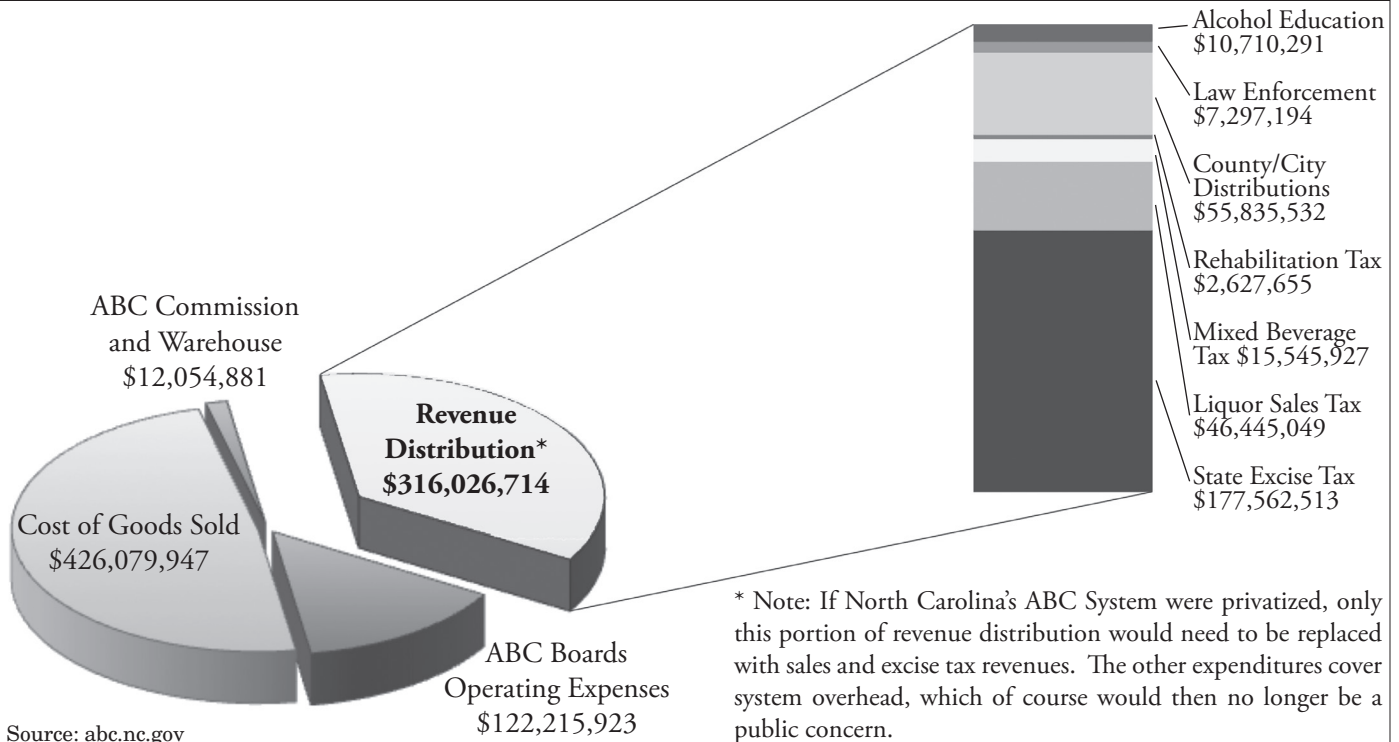
- Regarding the concern over social ills of alcohol consumption, studies have shown that the rate of consumption is not dependent upon who sells the alcohol — the state or private licensees. Deregulation in West Virginia and Iowa resulted in less per-capita alcohol consumption.
- Furthermore, North Carolina already allows beer and wine to be sold in grocery stores, convenience marts, specialty shops, restaurants, taverns, bars, and other privately owned establishments — who charge competitive prices varying from outlet to outlet, town to town.
- North Carolina also allows liquor-by-the-drink in restaurants, bars, taverns, and other privately run enterprises.
- As for maintaining the \$316 million in revenue to state and local budgets from liquor sales, that could be accomplished through a menu of sales and excise taxes and fees as part of reform.
- When the province of Alberta, Canada, converted from control to a license system, officials set up revenue-neutral excise taxes. In subsequent years those taxes needed to be reduced, not increased, in order to keep the system revenue neutral.
- Another social concern should be public corruption, which state control imposed in lieu of market forces may invite, as seen in 2009-10.
- In a privatized system, private vendors would be responsible for the other \$512 million in overhead. They would also pay income and sales taxes and create jobs, further expanding the state's tax base.
- The state and localities could reap a one-time windfall from sales of the state warehouse and local ABC stores.

Recommendations

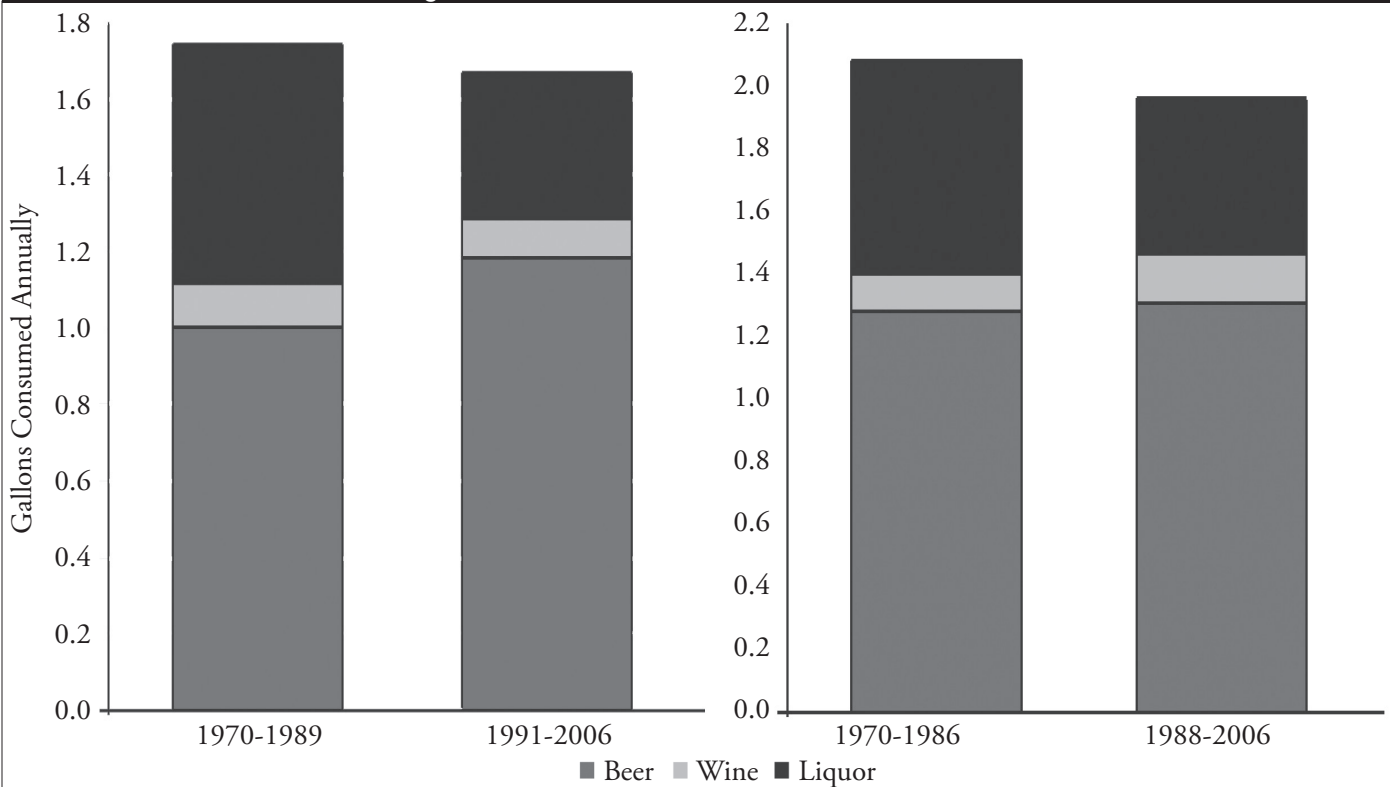
1. **Privatize liquor sales in North Carolina.**
2. **Sell the state warehouses and local ABC stores.**
3. **Set a flexible formula of sales and excise taxes to keep privatized liquor sales revenue-neutral.**

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Distribution of Revenue From the ABC System, 2012-13



Per-Capita Alcohol Consumption Before and After Deregulation



Source: John Pulito and Antony Davies, Ph.D., "Government-Run Liquor Stores: The Social Impact of Privatization," Commonwealth Foundation Policy Brief, Vol. 21, No. 03, October 2009. Reprinted with permission.

Medicaid Reform and ACOs

In just one year, plans for North Carolina's Medicaid reform have changed quite a bit.

One year ago, Gov. McCrory proposed a Medicaid reform that would have statewide managed care organizations (MCOs) compete to provide health care services to North Carolina's Medicaid patients. Each patient would be risk-adjusted for individual health status. These MCOs would be awarded fixed contracts from the state to have providers deliver care and would bear full risk in the event of cost overruns. Taxpayers would only be on the hook for Medicaid enrollment fluctuations. MCOs would be responsible for all Medicaid populations, coordinating both mental and physical health care needs.

However, the North Carolina Department of Health and Human Services (DHHS) has reported that providers were concerned with not maintaining full autonomy when delivering care to patients within a managed care system. Providers also did not have an appetite to deliver care at full risk to their patients. So a year later, the Medicaid reform gears have shifted towards a less risky and more flexible initiative, Accountable Care Organizations (ACOs).

Key Facts

- An ACO is a health care delivery model in which hospitals, physician groups, or both, clinically integrate to manage patient care. An ACO network aims to reduce fragmented care, thereby reducing unnecessary health care utilization over time.
- Each ACO must manage a Medicaid population of at least 5,000 people. Provider reimbursement is dependent on whether providers achieve quality health measures via delivery of standardized services within a set budget.
- The ACO benchmark budget will be projected based on previous medical claims of a Medicaid population within the ACO's geographic region of the state. All ACOs will share with the state any savings or losses.
- With each passing year, ACOs will take on greater degrees of risk when managing their Medicaid populations under an annual projected budget. ACOs will also be responsible

for providing care to 40 percent of the Medicaid population in year 1. The proposal urges ACOs to incrementally manage more Medicaid patients.

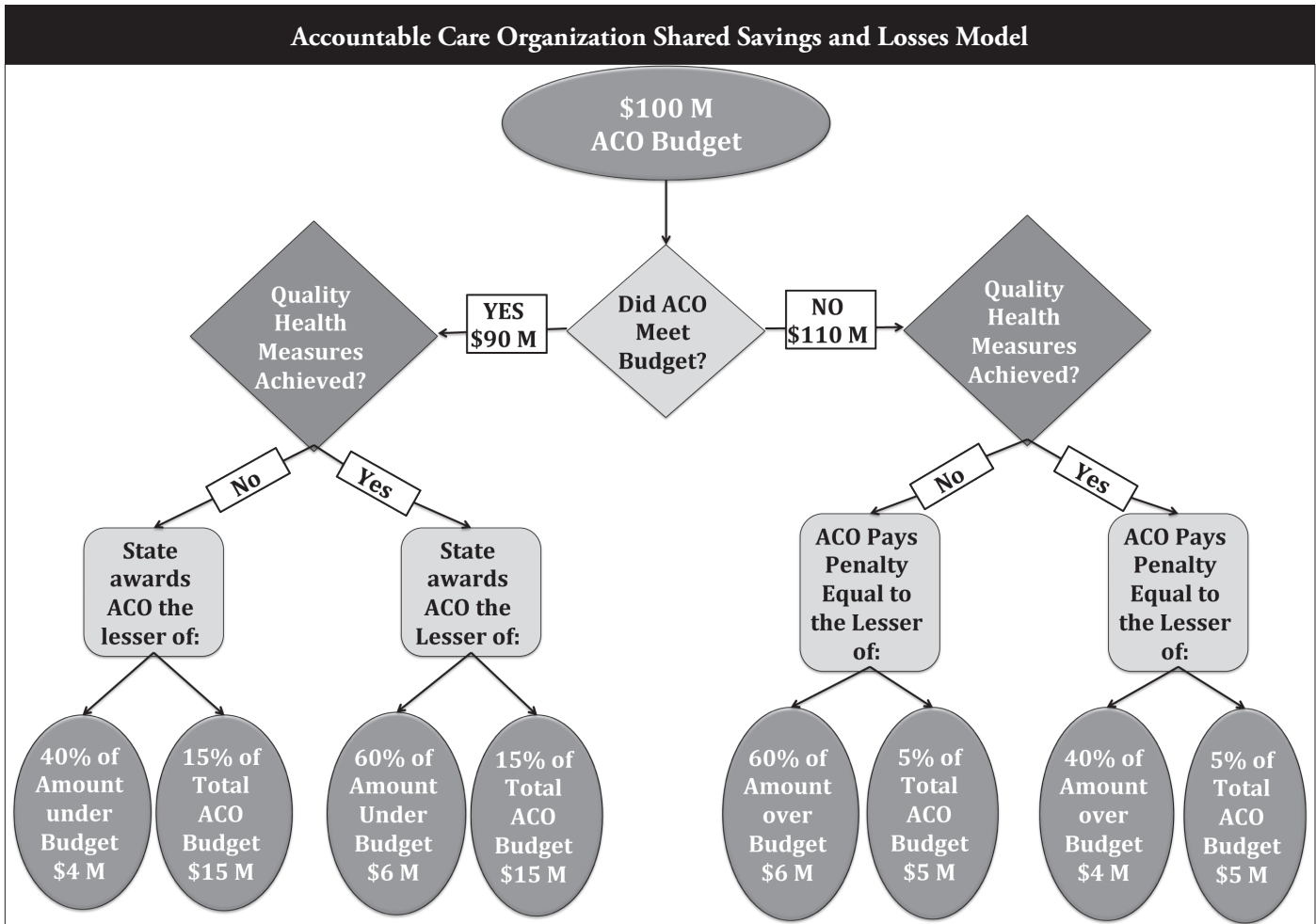
- Physical health, mental health, and long-term support services represent the three foundations of Medicaid reform. ACOs are primarily responsible for managing physical health services, although reform stakeholders have addressed that ACOs may be pressured to help manage prescription drugs for mental health patients down the line.
- Certain Medicaid populations will not fall under the fiscal responsibility of ACOs, as providers have only so much control over the physical wellbeing of their patients. Furthermore, ACO providers will only be held accountable for 90% of claims costs for patients suffering catastrophic or chronic health conditions exceeding \$50,000 in medical care per year.

Recommendations

Independent consultants hired by the NC DHHS project that North Carolina's Medicaid reform proposal will reduce the state share of the Medicaid budget by \$325 million over the next 5 years. This savings equates to just a drop in the Medicaid bucket. Overall, it looks as if the new reform proposal strays from the original proposal in which budget predictability ranked top priority.

What lies ahead remains one big unknown. The Legislature has yet to approve full implementation. Should the state continue to pursue Medicaid reform through an ACO approach, we recommend the following:

1. North Carolina's Medicaid reform proposal states that medical providers can voluntarily formulate an ACO. If, over time, providers refuse to participate, Medicaid reimbursement rates will be cut. **The state should rescind this penalty**, as only a quarter of physicians accept new Medicaid patients. Penalizing providers for noncompliance will not help solve the access issue.
2. One of the central tenets of an ACO is to provide a continuum of care to patients in less expensive settings



outside of hospitals. **Repealing Certificate of Need (CON) laws would promote a more robust and competitive ACO delivery system for Medicaid populations.**

- For any Medicaid reform system to effectively reduce fragmented care, improve quality, and cut costs, **patients should have skin in the game as well.** For example, patients could be rewarded for showing up

to appointments and complying with prescriptive actions that enhance overall wellbeing. Patients who infrequently show for scheduled appointments should be penalized, as this crowds out other Medicaid patients from gaining access to a provider.

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Medicaid Expansion

Obamacare is 2,000 pages of bad policy. It would be wise for North Carolina legislators to prevent further implementation of the Patient Protection and Affordable Care Act, including the law's optional Medicaid expansion.

Medicaid is a program jointly funded by the state and federal governments that delivers medical services to low-income parents and children, pregnant women, the elderly, the blind, and the disabled. The federal government currently funds two-thirds of North Carolina's \$14 billion Medicaid program.

Under the law, states have a choice whether to expand Medicaid eligibility to individuals earning up to 138 percent of the Federal Poverty Level. This figure equates to an individual earning \$16,105 a year and a family of four earning \$32,913 a year. According to the NC Department of Health and Human Services, the decision not to expand Medicaid leaves 154,000 North Carolinians without coverage. A majority of this population is childless adults, a group that Medicaid has not covered in the past and that does not typically receive other government welfare benefits.

Key Facts

- The federal government's expansion deal sounds enticing, as federal money would cover 100 percent of benefits (not including administrative costs) for the added population until 2017 and 90 percent in years thereafter. What this deal really means, though, is that the federal government would be borrowing more money to fully fund an expansion for three years, taxing future generations and applying a stronger chokehold on the federal deficit.
- North Carolina offers a variety of optional Medicaid services in addition to those required under federal law. However, the percentage of certain Medicaid populations utilizing particular services remains low. Just 35 percent of women on Medicaid receive breast cancer screening, while only 37 percent of adolescents utilize preventative care services. Seventeen percent of those with mental illnesses engage in follow-up visits after hospitalization.
- Emergency room visits are increasing for adults along with the aged, blind, and disabled Medicaid populations.

- Total Medicaid spending in North Carolina has almost doubled in the last decade, from less than \$8 billion annually to more than \$14 billion annually in 2012.
- North Carolina can learn from other states that have expanded eligibility to this population in the past. Arizona's expansion in 2002 originally projected slow enrollment growth, maintainable costs, a reduction in the number of uninsured, and reduced uncompensated care. All four of these projections were turned upside down. The expanded population (mostly childless adults) ended up costing two to four times more than low-income parents. Similar outcomes occurred in Oregon, Delaware, Maine, Washington D.C., Utah, and Vermont.
- Lastly, Medicaid expansion will not pave a smooth road to accessible health care. A quarter of North Carolina medical providers do not accept new Medicaid patients.

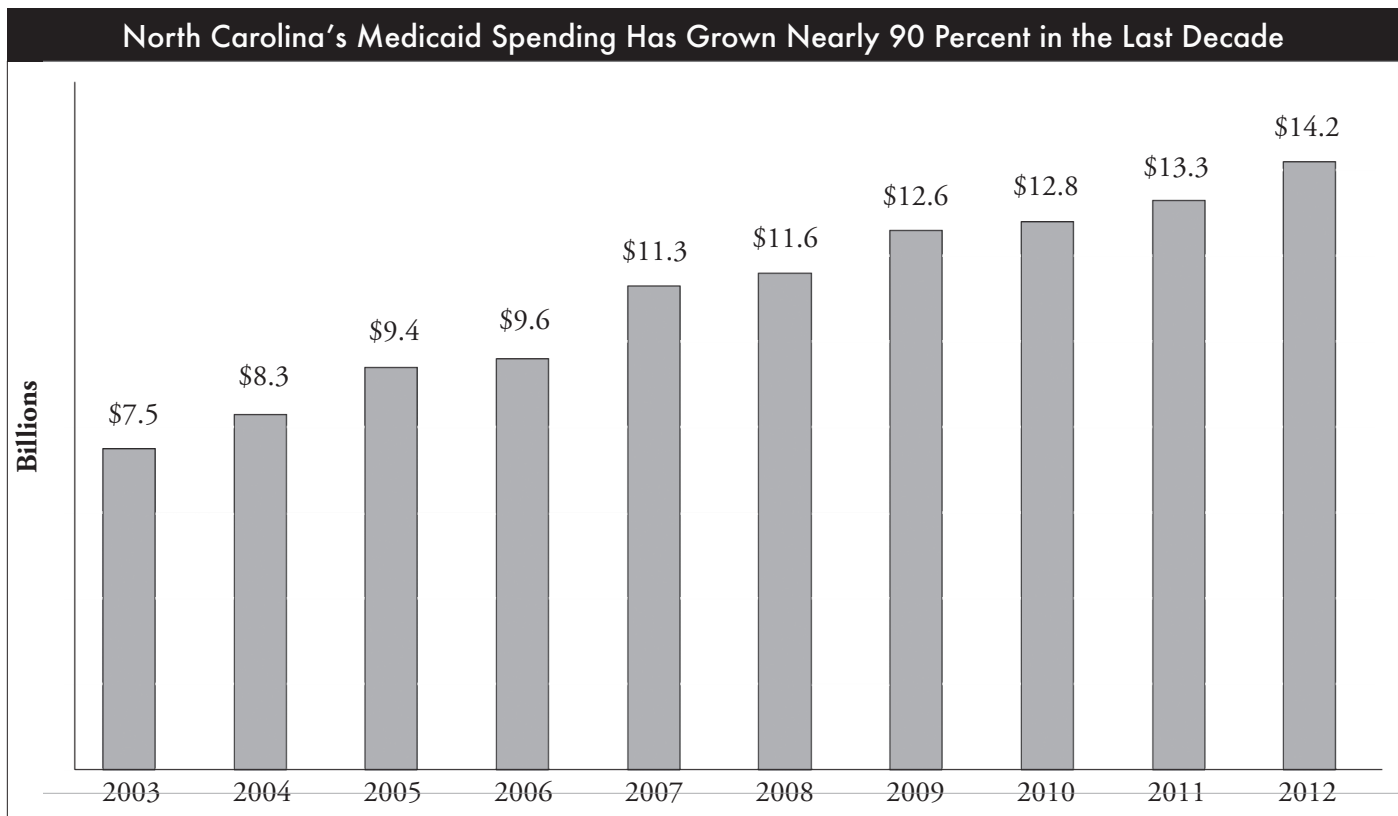
Recommendations

Expanding Medicaid will only add more individuals to North Carolina's dysfunctional medical assistance program. The state has instead gone forth with reform. North Carolina's Medicaid reform should intensely focus on the following principles:

1. **Budget predictability** – Have a per-capita funding cap for each Medicaid recipient. More expensive patients will receive more Medicaid resources and low-risk patients will be granted fewer.
2. **Accountability** – Require health care systems to take on more financial responsibility when delivering services to patients. Taxpayers should not be responsible for recurring Medicaid shortfalls worth hundreds of millions of dollars each fiscal year.
3. **Personal Responsibility** – The state can offer each patient a defined contribution health savings account (HSA). With a fixed amount of money, individuals will likely be more conscientious about how they spend their limited health care dollars.

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North Carolina's Medicaid Eligibility Levels, by Category	
Children (ages 0-5)	200% Poverty Line
Children (ages 6-18)	100% Poverty Line
Young adults (ages 19-20)	33% Poverty Line
Parents	33% Poverty Line
Pregnant women	185% Poverty Line
Elderly, blind, disabled	100% Poverty Line
Source: North Carolina Department of Health and Human Services	



Source: North Carolina General Assembly Fiscal Research Division

Health Insurance Exchanges

Full implementation of the Patient Protection and Affordable Care Act, or Obamacare, relies largely on the states. Within the federal health law's 2,700-plus pages, one key provision is the implementation of health insurance exchanges — online marketplaces where individuals can shop for federally qualified health plans offered by participating insurance companies. Through the establishment of the exchanges, the Obama administration intends to offer affordable, quality health care coverage to all, including those who were once denied due to pre-existing conditions.

The initial six-month enrollment period for an individual to sign up for non-group coverage and pay the first month's premium began on October 1, 2013 and ended on March 31, 2014.

Key Facts

- States can choose whether to set up their own exchanges or leave the task to the feds. Thirty-four states, including North Carolina, have opted for federally-facilitated exchanges.
- Sufficient competition in North Carolina's federal exchange has not arisen. Just two insurance companies, Blue Cross and Blue Shield of North Carolina and Coventry (and Aetna company), offer plans that include the federally required 10 essential health benefits. Blue Cross and Blue Shield has 85 percent of the individual market and is the only insurer operating in all 100 counties. Coventry offers Obamacare plans in just 39 counties.
- Obamacare's health insurance exchanges offer four "metallic" levels of health plans: bronze, silver, gold, and platinum. Bronze plans cover 60 percent of expenses, meaning consumers will be responsible for higher out-of-pocket expenses such as co-pays, co-insurance, and deductibles. Platinum plans come with the most expensive premiums but cover 90 percent of expenses.
- Consumers with annual household incomes between 100 and 400 percent of the federal poverty level (FPL) may qualify for subsidies to offset some of the cost of insurance premiums. However, subsidy amounts greatly tail off beyond 250 percent of FPL.
- Community rating under the federal health law mandates that a high-risk individual cannot be charged more than

three times the amount of a low-risk individual's premium. As a result, the elderly and sick will benefit at the expense of the young and healthy, as low-risk individuals will pay higher premiums to subsidize the health care costs of the high-risk population. For the exchanges to maintain a balanced risk-pool and avoid a taxpayer bailout as allowed in the law, low-risk 18-34 year olds must purchase coverage.

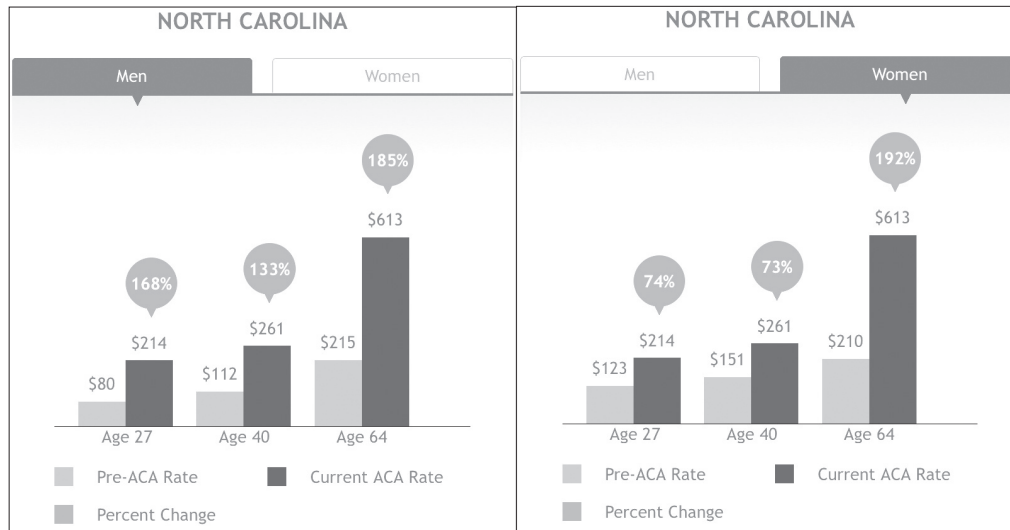
- According to the Manhattan Institute, percentage increases for North Carolina health insurance premiums in the individual market rank 4th highest nationwide. This data was calculated by comparing pre-ACA premiums to post-ACA premiums sold within each state. An average of the five cheapest health plans sold in every county of the state was calculated for consumers of three ages: 27, 40, and 64. To create a more sound comparison, the pre-ACA average rates included extra charges for pre-existing conditions. These average rates were then compared to the five least-expensive bronze plans on the exchanges in each county.

Recommendations

Research suggests that the Affordable Care Act fails to live up to its name. The following consumer-driven principles could achieve real health care reform that emphasizes patient choice, affordability, access, and competition:

1. **Allow individuals, not Washington bureaucrats, to create their own insurance plans** that meet their needs.
2. **A refundable, universal tax credit could provide affordable private coverage** for low-income patients.
3. **Repeal Obamacare regulations on Health Savings Account contribution limits.**
4. **Let market innovations and state-based high risk pools take care of the problem of individuals being denied health insurance coverage because of pre-existing conditions.** Health insurance companies should offer *health-status insurance* to assist those with pre-existing conditions and prevent individuals from being priced out of the health insurance market if their health status drastically changes.

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Coverage Tier	Income Level (based on FPL)	Federal Poverty Level (FPL)	Maximum Premium Contribution as a % of Income	Age of youngest adult	Monthly Premium	Required Monthly Contribution from Enrollee(s)	Monthly Credit Amount
Self-Only	\$17,235	150%	4.0%	20	\$183	\$57	\$126
	\$17,235	150%	4.0%	60	\$782	\$57	\$725
	\$40,215	350%	9.5%	20	\$183	\$183	\$0
	\$40,215	350%	9.5%	60	\$782	\$318	\$464
Family of Three	\$29,295	150%	4.0%	20	\$549	\$98	\$451
	\$29,295	150%	4.0%	60	\$1,747	\$98	\$1,649
	\$68,355	350%	9.5%	20	\$549	\$541	\$8
	\$68,355	350%	9.5%	60	\$1,747	\$541	\$1,206

Source: CRS computations based on “Annual Update of the HHS Poverty Guidelines,” 78 *Federal Register* 5182, January 24, 2013, <http://www.gpo.gov/fdsys/pkg/FR-2013-01-24/pdf/2013-01422.pdf>; and “National Health Care Calculator,” U.C. Berkeley Labor Center, <http://laborcenter.berkeley.edu/healthpolicy/calculator/>.

Certificate of Need Laws

North Carolina's Certificate of Need (CON) law was enacted in 1978 to comply with the federal Health Planning Resources Development Act of 1974. Based on the theory that the economics of health care is unusual and unlike any other market, CON laws use central planning to try to reduce health care costs by keeping health care facilities from buying too much equipment, building too much capacity, and adding too many beds.

In 1987 Congress repealed the mandate, which had failed spectacularly. Aggregate spending on health care had reached historic highs, exceeding 10 percent of GDP for the first time. CON regulations were also producing negative effects in local communities.

Subsequently 14 states ended their CON regimes. North Carolina, however, remained a CON state.

Key facts

- Four decades' worth of data and research into CON laws consistently find that CON laws fail to lower health care costs; if anything, they raise them. Limiting health services and facilities is far more likely to cause than restrict unnecessary increases in health care costs.
- The state Division of Health Service Regulation (DHSR) states that North Carolina's CON law "restricts unnecessary increases in health care costs and limits unnecessary health services and facilities based on geographic, demographic and economic considerations."
- North Carolina hosts one of the most restrictive CON programs in the country, regulating 25 different services. According to DHSR, it applies to "[a]ll new hospitals, psychiatric facilities, chemical dependency treatment facilities, nursing home facilities, adult care homes, kidney disease treatment centers, intermediate care facilities for mentally retarded, rehabilitation facilities, home health agencies, hospices, diagnostic centers, and ambulatory surgical facilities" as well as certain upgrades and expansions of existing health service facilities or services.
- North Carolina's CON program negatively affects health care consumers and local communities, especially small towns and rural areas. The impact is more than just artificially higher prices. The elderly, the poor, people under time constraints (mothers, small business owners, etc.), and — especially — people with emergency medical

needs would be better served by having medical services nearby.

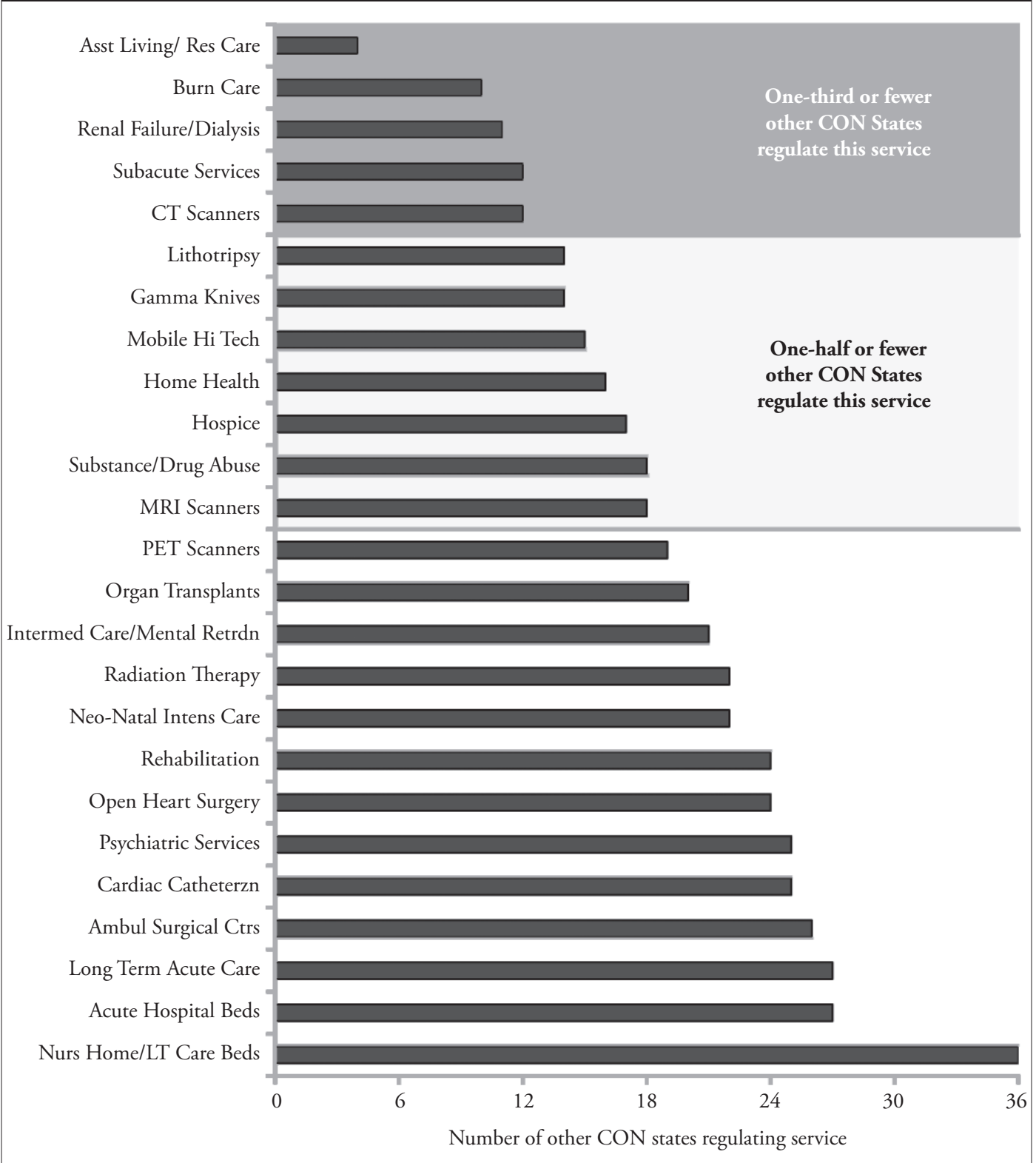
- Existing hospitals and medical service providers benefit from CON laws by keeping medical services more disparate and scarce and insulating them from competition.
- Fewer than one-fourth (23 out of 100) of counties in North Carolina have more than one hospital. Seventeen counties still have no hospital.
- North Carolina's CON laws frequently intrude into service areas that most other CON states leave untouched (see chart). For example, only half of the 25 health care services regulated by CON laws in North Carolina are also regulated by majorities of other CON states. Five services North Carolina regulates — burn care, CT scanners, renal failure/dialysis, subacute services, and assisted living and residential care facilities — are regulated in one-third or fewer of the other CON states.
- The cost in money and time just to apply to provide health care services in this state can be too great for smaller providers. In 2009 the application cost ranged from a minimum of \$32,000 (barring expedited review and appeals) to over \$5.4 million and could take from 90 days to two years or more.
- At the end of 2012 a legislative committee recommended several reforms to CON, including allowing "market driven competition in the provision of health services." Bills based on those recommendations failed in 2013.
- Especially amid the uncertain environment and inflationary forces fostered by the federal Affordable Care Act, keeping health care costs down is a worthy and important goal for state policymakers. CON is an area especially open for reform in North Carolina.

Recommendation

Repeal Certificate of Need. The intent of CON was to prevent unnecessary increases in the cost of health care services, which CON cannot do. Repeal would also offer health care consumers — i.e., people with physical needs, including emergencies — more choices and closer access.

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Services Regulated by North Carolina's CON Law
How Many Other CON States Also Regulate Them?



Mental Health

North Carolina's management and delivery of mental health, substance abuse, and developmental disability services (MH/SAS/DD) have undergone an array of changes since passage of the 2001 Mental Health System Reform Act.

In December 2013, the McCrory administration announced that the state's 10 mental health managed care agencies (LME-MCOs) will be consolidated into four regional entities. LME-MCOs are state-created and funded but have boards appointed by county commissioners. Local management entities (LMEs) are designed to direct patients to the most appropriate sources of care, work to build the network of providers available, and ensure that patients receive appropriate care from those providers. LMEs contract with Managed Care Organizations (MCOs) that deliver authorized services to MH/SAS/DD patients.

Furthermore, a Crisis Solution Initiative has been introduced to reduce inefficiencies and capitalize on best practices within LME-MCOs. The primary goal of the Initiative is for localities to establish programs that anticipate crisis episodes among the mentally ill population rather than assessing an individual's needs in an unnecessary and costly ER visit or jail. Many of the most seriously mentally ill patients end up in jail for public nuisance crimes, and sometimes for violent crimes.

Progress will be calculated based on the Crisis Solution Initiative Scorecard. Measurable goals for the Crisis Solution Initiative include reducing avoidable emergency room visits, emergency room wait times, and hospital readmissions. By addressing and measuring these matters, the Initiative is better able to care for MH/SAS/DD patients, save money, and reduce the burden on law enforcement and hospitals.

Key Facts

- Nationally, 17 percent of jail inmates have a serious mental illness.
- In FY 2013, approximately 150,000 emergency department admissions resulted from a primary MH/DD/SAS diagnosis.
- In FY 2013, the average wait time in emergency departments for state hospital admission was 3.52 days.
- In FY 2012, 13 percent of the mentally ill Medicaid population revisited the emergency department within 30 days.

Recommendations

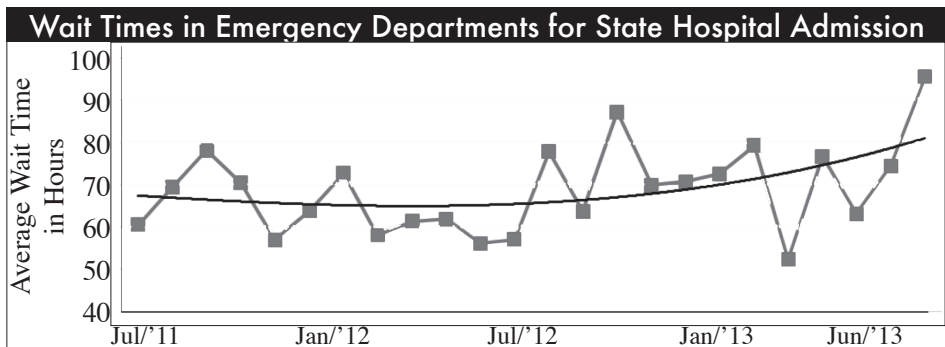
1. As the Crisis Solutions Initiative continues to unfold, the following best practices should be developed further:
 - a. The NC Department of Health and Human Services reports that **walk-in crisis centers are great alternatives to emergency departments in most crisis cases.** This initiative has decreased emergency department admission rates and allows health care providers to access short-term residential beds to assist people who need only a few days of crisis intervention for stabilization of mental health or detox needs. So-called Alliance and Assessment Centers are located across the state, including Wake, Durham, and Cumberland counties.
 - b. Localities should continue to **work with their assigned LMEs, the law enforcement community, and community leaders to utilize their allocated MH/SAS/DD funds efficiently.** The severely mentally ill should be effectively directed to proper care rather than waiting for days, even weeks, in emergency rooms or incarceration. Wake and Durham counties have made progress tackling this issue by establishing Crisis Intervention Teams (CIT), an approach supported by the state chapter of the National Alliance on Mental Illness (NAMI NC). Taking advantage of such pre-booking methods will help stabilize the mentally ill and enable them to become full productive members of society instead of wards of the state.
2. North Carolina has taken steps to address the psychiatrist shortage in 28 rural counties of the state by **spreading the practice of telepsychiatry.** A form of telemedicine, telepsychiatry allows for a psychiatrist to treat mentally ill patients through personalized audio-visual sessions. \$4 million has been appropriated for this statewide telemedicine initiative through FY 2015. In order to use taxpayer money most efficiently, the Crisis Solutions Initiative should track the most cost-effective technology that can be used by patients and providers.
3. **Competition among care managers across pre-defined LME-MCO borders could also improve efficiencies and help spread best practices more rapidly.**

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Total Health and Human Services Spending by County, FY 2012

County	Spending Per Capita	Rank	County	Spending Per Capita	Rank	County	Spending Per Capita	Rank
Clay	\$615	1	Hertford	\$284	39	Alexander	\$239	69
Swain	\$553	2	Martin	\$284	40	Transylvania	\$236	70
Northampton	\$503	3	Macon	\$280	41	Onslow	\$235	71
Edgecombe	\$485	4	Gaston	\$280	42	Pitt	\$231	72
Washington	\$476	5	Greene	\$275	43	Chowan	\$231	73
Graham	\$442	6	Caldwell	\$273	44	Carteret	\$230	74
Dare	\$437	7	Wilkes	\$271	45	Hoke	\$229	75
Warren	\$406	8	Stokes	\$270	46	Wake	\$226	76
Wilson	\$405	9	Vance	\$268	47	Pasquotank	\$223	77
Durham	\$401	10	Yancey	\$267	48	Lee	\$223	78
Jones	\$396	11	Alleghany	\$266	49	Alamance	\$216	79
Haywood	\$390	12	Duplin	\$265	50	Forsyth	\$215	80
Person	\$389	13	Franklin	\$265	51	Polk	\$210	81
Caswell	\$386	14	Yadkin	\$265	52	Rowan	\$209	82
Columbus	\$374	15	Rockingham	\$263	53	Harnett	\$207	83
Bladen	\$369	16	Nash	\$263	54	Burke	\$206	84
Tyrrell	\$368	17	Montgomery	\$263	55	Iredell	\$203	85
Ashe	\$365	18	Avery	\$263	56	Rutherford	\$197	86
Madison	\$358	19	New Hanover	\$262	57	Cabarrus	\$191	87
Jackson	\$352	20	Bertie	\$261	58	Moore	\$191	88
Cleveland	\$346	21	Davie	\$258	59	Granville	\$187	89
Buncombe	\$333	22	Chatham	\$253	60	Union	\$185	90
Cumberland	\$333	23	Johnston	\$248	61	Perquimans	\$185	91
Mitchell	\$332	24	Henderson	\$247	62	Currituck	\$182	92
Robeson	\$331	25	Pender	\$246	63	Randolph	\$181	93
Cherokee	\$329	26	Stanly	\$244	64	Davidson	\$178	94
Scotland	\$324	27	Wayne	\$243	65	Gates	\$172	95
Catawba	\$320	28	Lincoln	\$243	66	Watauga	\$142	96
Pamlico	\$320	29	McDowell	\$242	67	Camden	\$133	97
Richmond	\$319	30	Brunswick	\$240	68	Halifax	\$27	98
Beaufort	\$315	31						
Lenoir	\$304	32						
Guilford	\$302	33						
Craven	\$299	34						
Surry	\$291	35						
Anson	\$290	36						
Mecklenburg	\$290	37						
Orange	\$290	38						

Data for Hyde and Sampson Counties were unavailable.



North Carolina Fast Facts FY 2013-14

		<u>General Fund Uses</u>		
			Millions	% of Total
Population (2012)	9,765,229	Total Education	\$11,472	56%
<i>% Growth 2002-2012</i>	<i>17.3%</i>	<i>K-12 Education</i>	<i>\$7,868</i>	<i>38%</i>
State GDP (2012)	\$456 Billion	<i>Community Colleges</i>	<i>\$1,021</i>	<i>5%</i>
<i>% Growth 2002 - 2012*</i>	<i>22.1%</i>	<i>UNC System</i>	<i>\$2,583</i>	<i>13%</i>
Per Capita Personal Income (2012)	\$37,049	Total Health/Human Services	\$4,994	24%
<i>% Growth 2002 - 2012*</i>	<i>7.6%</i>	<i>Medicaid</i>	<i>\$3,462</i>	<i>17%</i>
Unemployment Rate (August 2013)	8.7%	Justice and Public Safety	\$2,369	11%
<i>Underemployment Rate (2012-2013)</i>	<i>15.6%</i>	Reserves and Debt Service	\$974	5%
		General Government	\$423	2%
		Natural and Economic Resources	\$371	2%
		Capital Improvements	\$28	0%
		Total General Fund Appropriations	\$20,631	100%

<u>North Carolina State Government</u>	
Total General Fund Revenue (FY 2012-13)	\$20.1 Billion
Total State Debt (June 30, 2012)	\$9.2 Billion
Total Budget (all sources)	\$50.8 Billion
<i>Spending Change (2004-2014)*</i>	<i>46.8%</i>

<u>Tax Rates</u>	
Personal Income (flat rate)	5.8%
Corporate Income	6.00%
State Sales and Use Tax	4.75%
<i>Average State and Local</i>	<i>6.75%</i>
State Gas Tax (capped until June 30, 2015)	37.5¢/gal

<u>General Fund Sources</u>		
	Millions	% of Total
Personal Income Tax	\$11,211	54%
Sales and Use Tax	\$5,491	26%
Corporate Income Tax	\$1,099	5%
Franchise Tax	\$678	3%
Alcohol & Tobacco Tax	\$579	3%
Insurance Tax	\$508	2%
Nontax Revenue	\$843	4%
Other Taxes	\$106	1%
Highway Trust Fund Transfer	\$218	1%
Total Availability	\$20,733	100%

<u>Transportation</u>		
	Millions	% of Total
State Highway Fund	\$2,049	65%
State Highway Trust Fund	\$1,105	35%
Total	\$3,154	100%

*Adjusted for inflation

Suggested Resources

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- Roy Cordato, “Tax Reform 2013: Setting the Stage for Economic Growth,” John Locke Foundation *Spotlight* No. 444, September 24, 2013, johnlocke.org/research/show/spotlights/295
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Film Tax Incentives

- Don Carrington, “Impact of Film Industry On NC Jobs Unclear,” *Carolina Journal*, March 31, 2014, carolinajournal.com/exclusives/display_exclusive.html?id=10937
- Jon Sanders, “Just 19 cents on the dollar?”, *Rights & Regulation Update*, March 19, 2014, johnlocke.org/newsletters/research/2014-03-19-fbghtje3v8hs93a7eea4sjr707-regulation-update.html
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*“To prejudge other men’s notions
before we have looked into them
is not to show their darkness
but to put out our own eyes.”*

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