



agenda 2010

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

John Locke
FOUNDATION



POLICY REPORT

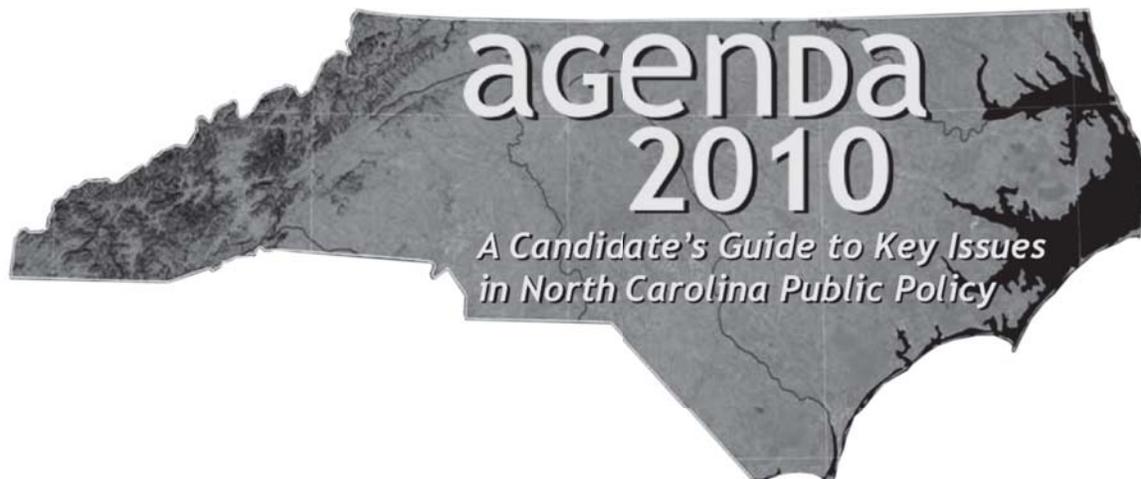


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About the John Locke Foundation

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

As we enter the 2010 campaign season, candidates for public office in North Carolina are faced with the daunting and possibly overwhelming task of developing informed positions on dozens of public policy issues. *Agenda 2010* provides a concise and easily digestible public policy guide for candidates for state and local offices across the state. The reports offered here are part of an ongoing series begun 14 years ago and published every two years by the John Locke Foundation.

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 that "every tenet of the new economics that Hazlitt dispels continues today to rear its head in one form or another." Comparing the topics and issues covered in this year's *Agenda* to those covered in our previous guides make it quite clear that the same could be said for the actions of North Carolina's state government. Most of the same topics that were covered ten years ago in 2000, or even in 1996, when our first *Agenda* was published, "continue to rear their ugly heads." Concerns about misplaced spending priorities, high and increasing overall levels of spending, and a regulatory and tax burden that punishes productive activities are continuing problems that plague North Carolina's citizens and economy. Education finance and performance, Medicaid, and economic development policy all continue to cry out for reform. Unfortunately, these issues and too many others seem destined to be a part of our *Agenda* concerns for years to come.

There are, however, several new issues for lawmakers to contend with immediately, which are reflected by four new topics in *Agenda 2010*. These new sections highlight how changing events can shift the focus of policymakers in a matter of months or even weeks. New for *Agenda 2010* are sections on "**State Debt**," which has been steadily increasing; "**Eminent Domain**," which has moved to the forefront of state issues as U.S. Constitutional protection of private property rights were gutted by the U.S. Supreme Court's decision in *Kelo vs. City of New London*; "**Forced Annexation**," brought to legislators' attention by a grassroots backlash against local governments that forcibly annex people living in unincorporated areas; and "**ABC Reform**," which became an issue facing the legislature as a result of recent scandals.

What unifies the John Locke Foundation's analysis of all these issues is our fundamental commitment to free markets, private property rights, individual liberty, and limited government. The overarching goal of our recommendations is to advance these ideals. In doing so the citizens of North Carolina will not only be freer, but also more prosperous.

Agenda 2010 is a joint effort of the research staff at the John Locke Foundation. We would like to thank research interns Jacob Burgdorf, Ian Davis, Steven Holden, Cameron Lambe, Kamen Nikolaev, Sara Riggins, and Amanda Vuke for all their help. We would also like to thank Jay Schalin of the John William Pope Center for Higher Education Policy for his entry on "**Higher Education**."

Each of these entries 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.

Roy Cordato
Vice President for Research
John Locke Foundation

Spending Reform

The top priority for policymakers throughout the state must be to *stop spend-and-tax budgeting*. They create new programs when the economy is flush, then raise taxes to pay for those programs when the economy dries up.

North Carolina's constitutional balanced-budget requirement forces choices when tax collections fall, but spending also grows as quickly as tax revenues in good years. Spending has not been based on priorities and program effectiveness, which has left taxpayers with a poor return on their investment in government as measured by the status of health, roads, crime, and education in the state compared with the tax burden. Few programs within government have developed meaningful outcomes against which their work can be measured.

Key Points

- General Fund appropriations per person, adjusted for inflation, increased 79 percent from 1980 to 2010.
- Federal dollars per person in the North Carolina budget, adjusted for inflation, increased 185% from 1980 to 2010.
- State government now spends \$3 of federal money for every \$4 it appropriates through the General Fund.
- Budgeted state government appropriations from all sources in fiscal year 2010 totaled \$49.3 billion.
- The loss of temporary federal funds and temporary taxes by June 30, 2011, will leave desired expenditures \$2.8 billion higher than expected revenues.
- In previous downturns, spending cuts and tax increases totaling 33 percent of pre-recession appropriations were used to keep the budget balanced until growth resumed.
- Few agencies have meaningful outcome-based measures on which to evaluate their progress.

- The John Locke Foundation used state-level data on uniform measures to determine the value of services received in each state for the tax burden imposed on citizens. Graded on a curve, North Carolina tied for 33rd among all states.

Recommendations

1. **Define government's role in each policy area.** Some policy goals are better achieved by families, charities, or free enterprise.
2. **Post budget bills online 72 hours before the first vote.** Legislators, journalists, analysts, and citizens should have time to read and understand bills.
3. **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.
4. **Expand the rainy day fund to 10 percent of General Fund appropriations in the most recent fiscal year.** Setting aside money for the future limits the growth of government and means less money will be needed to offset revenue dips. Based on past experience, at least 10 percent is needed to avoid further tax increases. Current law limits the savings reserve account to five percent of General Fund appropriations, but even that modest level has never been reached.
5. **Pass a constitutional amendment to limit spending growth.** 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.

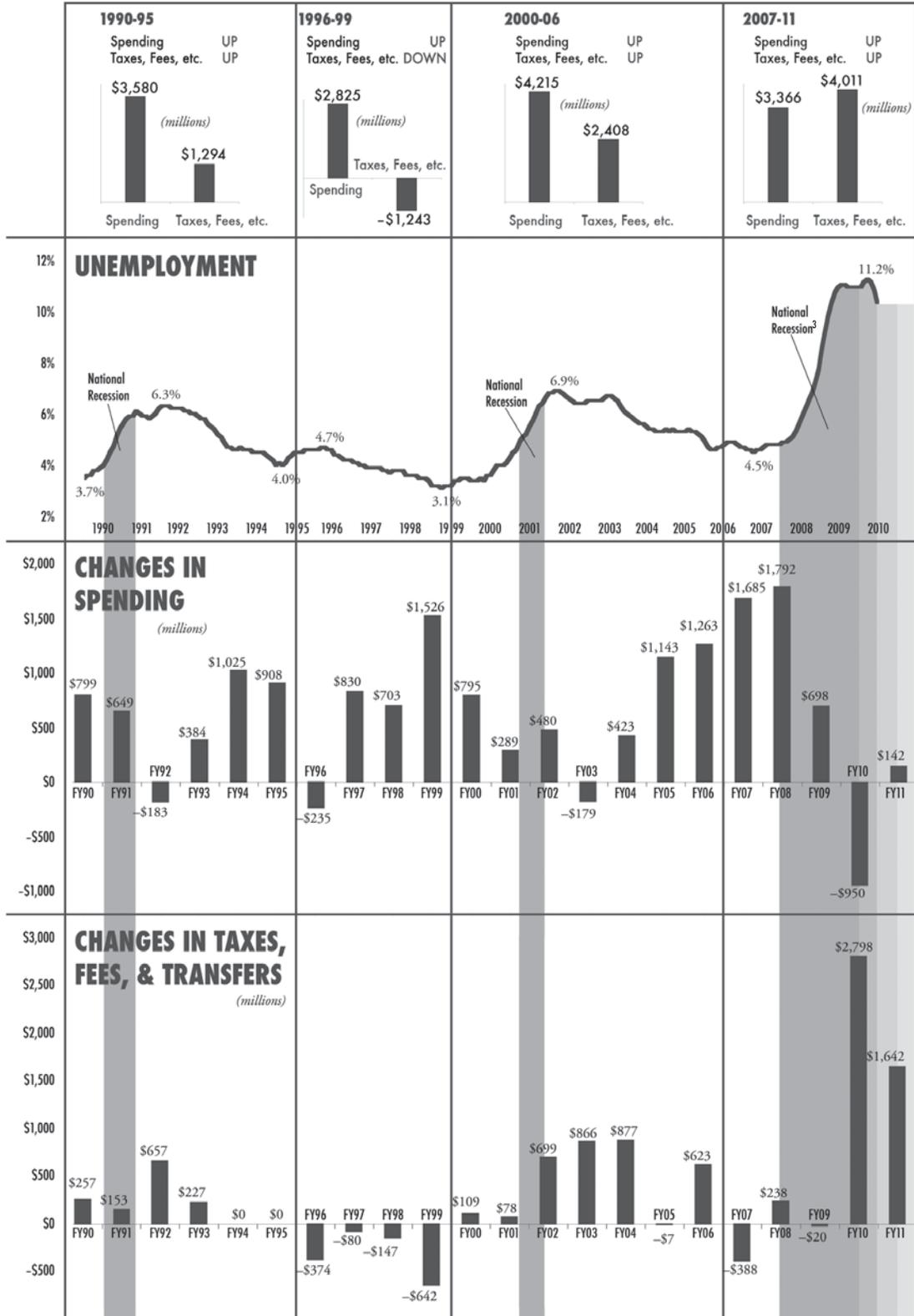
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Whether in expansion or recession, spending always rises, and taxes ratchet up

Spending increases in good times and bad. The increased spending in good economic times increases the burden on government when the economy turns down. This graph shows the trends in spending¹ and taxes² in North Carolina compared to the monthly state unemployment rate as a proxy for the economic cycle.

In addition to the general pattern, two other points are worth noting:

1. Spending grows more in dollar terms than taxes rise and fall.
2. Tax hikes are larger than tax cuts.



¹ Availability increase from tax and fee changes, transfers, and in FY10 and FY11 federal stimulus.

² Previous budget to current budget.

³ Whether the recession that began in late 2007 has ended or is ongoing is unclear at present; the shaded area to signify that recession is faded to represent that uncertainty.

State Tax Burden

Taxes are the price we pay for government, so a reasonable tax burden is of benefit to the citizens who consume the services those taxes fund. Unfortunately, the price of government in North Carolina has grown dramatically over the past two decades and is no longer reasonable. 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.

Although people continue to move to North Carolina, personal incomes have fallen relative to the national average and to other states in the region after peaking in 1997. The combined state and local tax burden, on the other hand, is now above the national average. North Carolina governments have more taxes and fees available to them than other states in the region, and a wider variety of tax methods often leads to higher total taxes. To offset the harms from a higher tax burden, state and local governments have passed a number of targeted tax breaks for selected companies.

Key Facts

- North Carolina's top marginal tax rates on individual (7.75 percent) and corporate (6.9 percent) income are the highest in the Southeast and 9th highest in the nation.
- North Carolina has the fourth highest tax on beer in the nation.
- North Carolina's gasoline tax is second only to Florida's in the Southeast.
- North Carolina's combined state and local sales tax rate of 8.07 percent is eighth highest among all states that also have an income tax.
- North Carolina's estimated tax burden in 2008, 9.8 percent of personal income, is among the highest in

the South and 20th among all states.

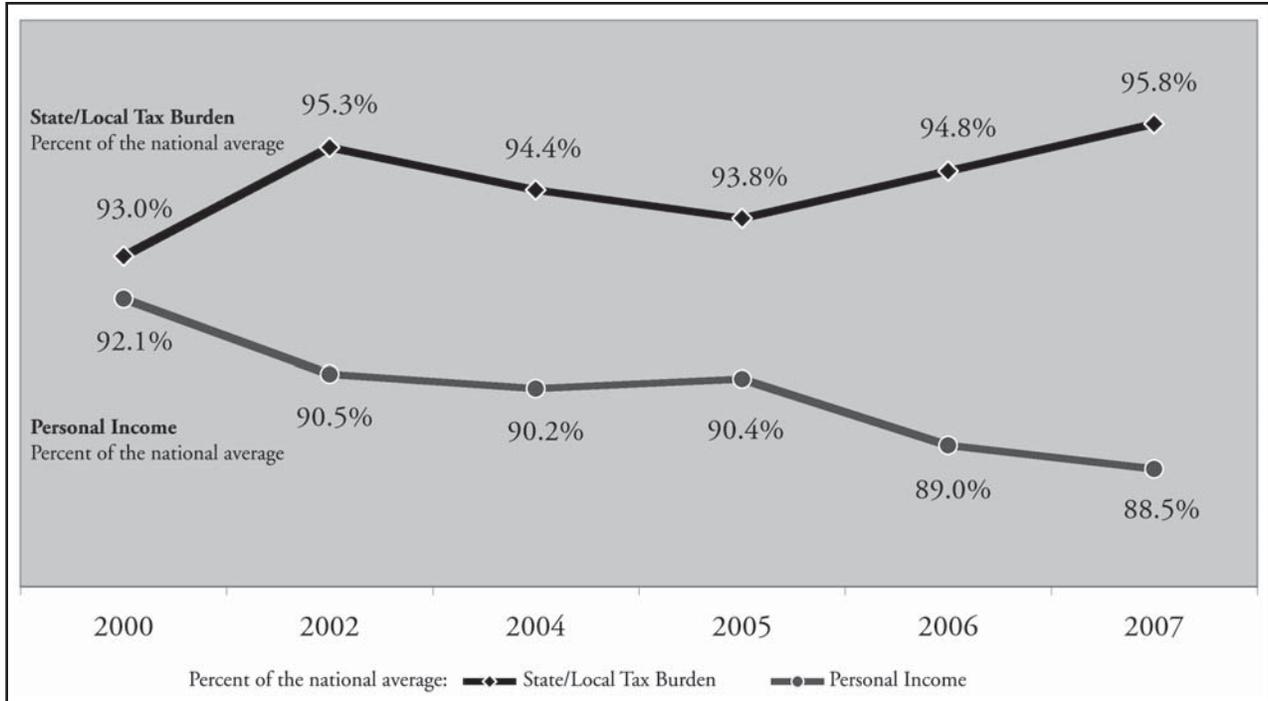
- Per-capita personal income in North Carolina has stagnated in dollar terms and declined in comparison with regional and national levels.

Recommendations

1. **Reduce the tax burden to the regional average or below.** A high tax burden can harm economic growth. Targeted tax breaks can sometimes mask the effects of high taxes, but they do little to offset the drag they place on the economy. Getting the tax burden in line with those of surrounding states would remove a hurdle from North Carolina's economy. If the state were able to reduce taxes below the levels of surrounding states, the tax environment would contribute to economic growth.
2. **Reduce personal and corporate income taxes to a flat rate of at most 6 percent.** The income tax is one of the most noticeable taxes and most manipulated taxes. A lower, flatter rate applied more broadly would provide greater certainty and stability to taxpayers and government alike.
3. **Give families tax relief for education and health expenses.** Those expenses are penalized by the federal tax code. State tax credits or deductions can offset those tax penalties.
4. **Eliminate selective exemptions, deductions, and other tax biases.** Tax breaks for selected companies and higher taxes for certain activities warp the tax code. Together they raise the tax burden while distorting economic decisions.

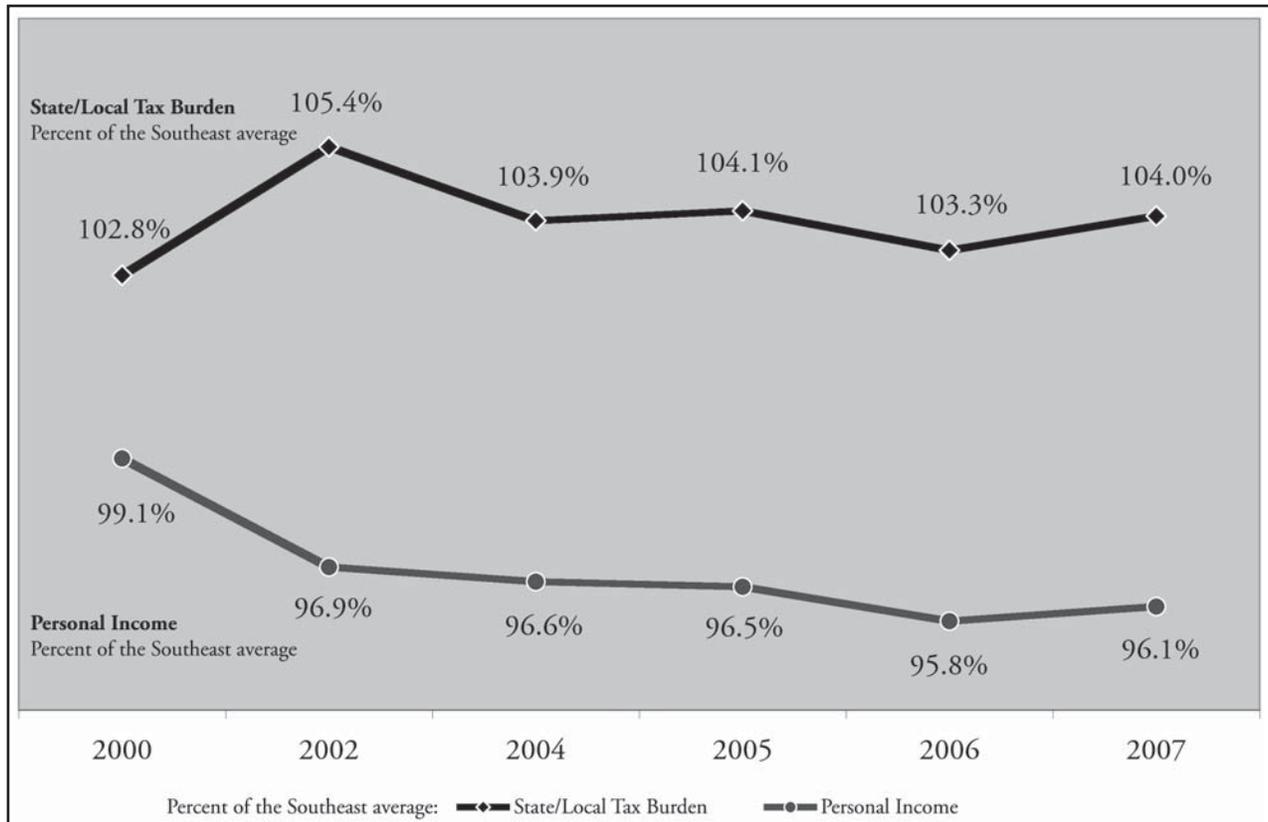
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North Carolina personal income has fallen behind the national average as the tax burden has increased



Source: Tax Burden, Census Bureau; Personal Income, Bureau of Economic Analysis

North Carolina's tax burden is higher than the Southeast average, while its personal income is lower



Source: Tax Burden, Census Bureau; Personal Income, Bureau of Economic Analysis

Tax Reform

Tax reform is important for North Carolina's economic future. Reform proposals offered in the General Assembly, however, would put as much emphasis on raising taxes as on reforming them. That is the wrong approach.

Taxes should apply as broadly as possible with as low a rate as possible. Tax policy should be based on the principles of *simplicity* (making it easy to understand), *neutrality* (not penalizing some activities relative to others), and *liberty* (allowing people to keep as much of their money as possible). North Carolina's current tax code is not very good on any of these counts.

Key Points

- North Carolina's tax rates are among the highest in the South.
- State government relies on three taxes for 95 percent of tax revenue: personal income tax, corporate income tax, and sales tax.
- The progressive personal income tax has greater fluctuation than personal income itself.
- The tax code penalizes saving and investment over consumption.
- A flat-rate consumed income tax would be less volatile and more equitable. It would exclude savings and investment from taxation.
- Excluding business-to-business purchases would further improve the transparency, equity, and neutrality of the tax code.
- Corporations do not pay taxes themselves; they are only intermediaries, collecting taxes from individual workers, consumers, and shareholders.
- The Senate and House in 2010 considered tax cuts targeted to, among others, film production, green industrial parks, data warehouses, and firms with fewer than 25 employees that hire a new worker and keep that person employed for three years.
- The Senate and House in 2010 considered new or

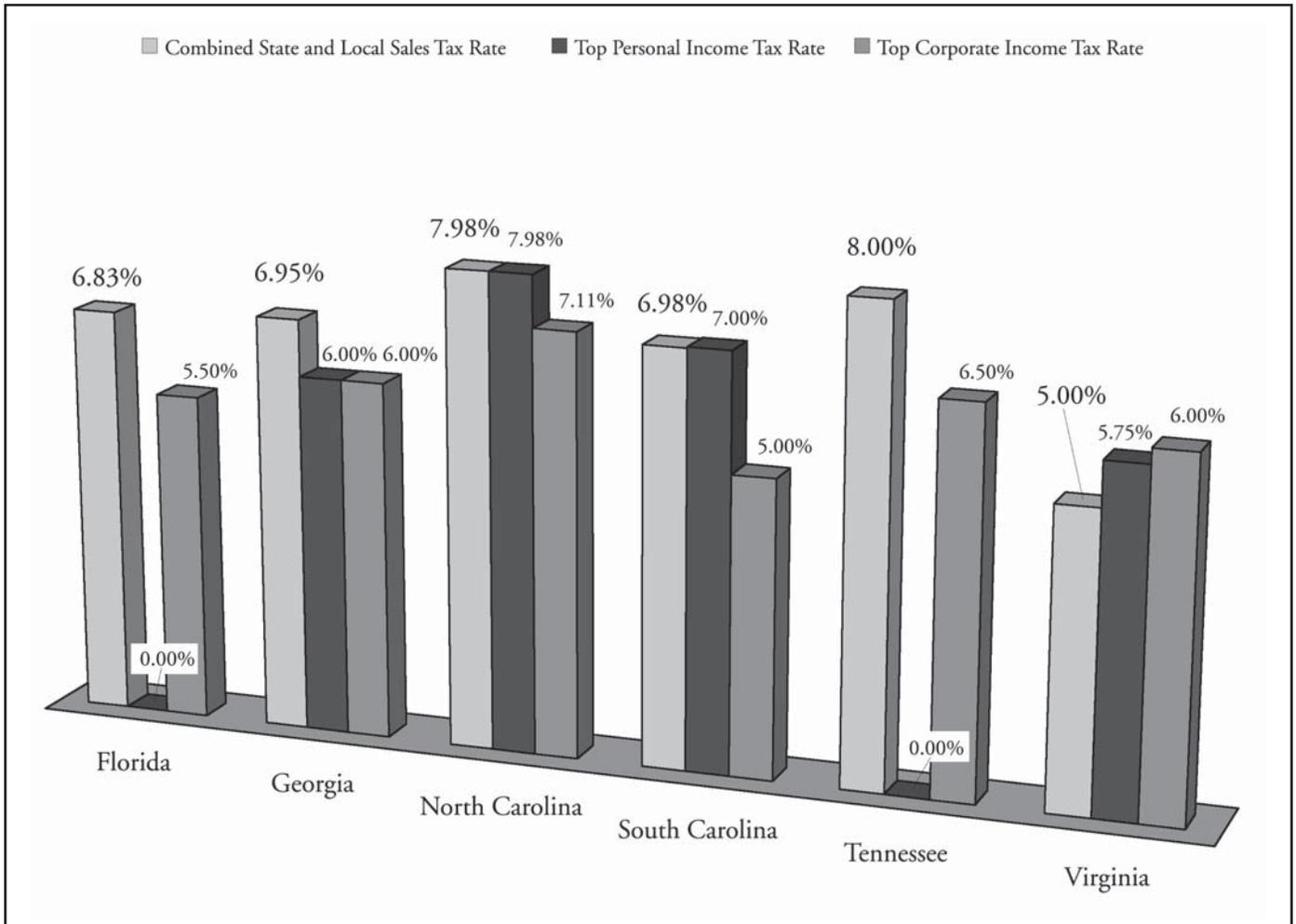
higher taxes on little cigars, Internet travel companies, Internet ticket resellers, car repairs, lawn services, and other services.

Recommendations

1. **Remove targeted tax cuts and hikes.** State policymakers should remove tax provisions from the state tax code that are inconsistent with the principles of simplicity, neutrality, and equity. In every case, the goal should be to lower tax rates while offsetting at least some of the revenue loss by broadening the tax base to eliminate bias.
2. **Switch to a flat-rate consumed income tax.** North Carolina should reform its income tax system to create a single-rate, easy-to-understand tax on consumed income that ends multiple layers of taxation on savings and investment. That reform would make corporate dividends entirely tax deductible or abolish corporate income taxes. It could also offer tax exclusions for household investment in education, health, and other private human-capital formation.
3. **Don't reform the tax code to raise revenue.** Although they use the welcome phrase, "broaden the base and lower the rate," legislators seeking tax reform in North Carolina had an implicit third goal in mind – to increase revenue. Tax reform will not work unless it is revenue neutral or, even better, reduces revenue. That means spending reform must come first.
4. **Reduce or abolish the corporate income tax.** Corporations do not pay taxes but merely channel taxes from their owners, customers, and workers into taxes. Research suggests 70 percent of the corporate tax burden is borne by labor. Reducing North Carolina's corporate income tax rate would improve the state's overall business climate.

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North Carolina's tax rates are the highest or nearly the highest among those of neighboring states



Tennessee has a 6% personal income tax rate on dividends and interest.
 North Carolina adds a 3% surtax on the personal and corporate income tax rates.

Source: State Departments of Revenue

Transparency and Accountability

Government needs to be open and accountable to taxpayers. Many of the tools to achieve that goal also help government employees succeed in their jobs.

In addition to providing services to the citizenry, governments should also allow citizens to understand how they pay for those services. As budgets have become increasingly complex, citizens are less able to monitor how their taxes are spent.

What is available online now is of limited value. Documents must be downloaded and data must often be extracted from scanned pdf's into more useful formats. Legislators can request fiscal research staff to plumb the budget depths for them, but that service is not available to taxpayers.

To understand state spending in any area, a legislator or citizen must consult a number of documents, go through hundreds of virtual or real pages, add numbers together, and sometimes extrapolate from the past. There is no single source online that provides detailed information on how the state spends money.

Many state agencies provide useful information for consumers of their services, as seen in the relative ease in finding school enrollment and graduation rates at education-related agencies' websites. Few agencies have meaningful measures of their results; fewer still make those measures available online. Without such measures, policymakers and agency managers can make only informed guesses about what works and how to spend tax dollars effectively.

Key Facts

- Governments at all levels have taken steps to make more information available online. They have been assisted by the press, the John Locke Foundation, and other groups.
- North Carolina has an online directory of contracts, stimulus projects, and grants.

- Wake County makes transaction information available in a useful online database (<http://www.wakegov.com/budget/watch>).
- Newspapers across the state post salaries of state and local employees in easy-to-use databases.
- NCTransparency.com acts as a portal to transparency resources available online.
- The basics of transparency can be handled at little cost. The town of Columbus (population 1,000) puts its check register online each month.
- State and local governments generally have also made their operations and processes more transparent with online meeting calendars and agendas.
- Open data standards allow better analysis of data and make it possible to combine with other online sources. Examples include PadMapper.com and recovery.org.

Recommendations

- 1. Put detailed spending online, not just contracts.** North Carolina should expand NCOpenBook.gov to provide transaction-level detail updated daily with spending and revenue for all of state government. Each state agency should provide easy access to its transaction information on every page of its website.
- 2. Use XML and structured formats for data transparency.** Just putting information online is not enough if it is difficult to analyze and use the data. Open data standards make it easier to compare information in context.
- 3. Develop meaningful outcome measures for state agencies and hold them accountable for their results.**

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NCTransparency.com grades governments and links to budgets and other online resources

State Counties Schools Municipalities What is Transparency? Search

JOHN LOCKE FOUNDATION
Transparency

Visit the John Locke Foundation's statewide issues blog
The Locker Room

NC Transparency was created by the [John Locke Foundation](#) in an effort to encourage transparency among North Carolina's governmental entities. It connects citizens to important information available online from state agencies, counties, school systems, and municipalities, and also points out important information that is not available. [Learn more](#) about NC Transparency.

STATE AGENCIES

Dept of Transportation

The North Carolina Department of Transportation is responsible, in coordination with other entities, for overseeing the of transportation conduits within the State, including public transportation, rail and air travel, the ferry system, and the State highway system. Additionally, it encompasses the Department of Motor Vehicles which deals with licensing, vehicle registration, and vehicle taxes among other requirements.

COUNTIES

Top Grades	
Wake County	A
Mecklenburg County	A
Buncombe County	B
Currituck County	B
McDowell County	B
Lowest Grades	
Ashe County	D
Avery County	D
Beaufort County	D
Bertie County	D
Caswell County	D

SCHOOLS

Top Grades	
Wake County Schools	B
Charlotte-Mecklenburg County Schools	C
Chapel Hill - Carrboro City Schools	C
Durham County Schools	C
Henderson County Schools	C
Lowest Grades	
Pasquotank County Schools	D
Gaston County Schools	D
Johnston County Schools	D
Randolph County Schools	D
Harnett County Schools	D

MUNICIPALITIES

Top Grades	
Columbus	A
Cary	B
Nags Head	B
Charlotte	B
Pinehurst	B
Lowest Grades	
Longview	F
Walnut Creek	F
Taylortown	D
Andrews	D
Teachey	D

Retreats of the APPALACHIAN INSTITUTION
August 28th
Lake Logan, NC
Click for details

AGENDA
2008
Issue Guide

2009
City-County
Issue Guide
A handy reference
for major policy
issue areas

NCOpenBook.gov makes state government contracts and grants searchable online

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NC OPENBOOK
Transparency in NC State Government

GRANTS
CONTRACTS
ABOUT
NCRcoveryGOV

Transparency Links

- [Office of State Budget and Management](#)
- [Campaign Finance Reports](#)
- [Lobbyist Directory](#)
- [Department of Transportation Contracts](#)
- [Current Legislation](#)
- [Consolidated Federal Funds Report](#)

News and Press Releases

- 03/30/2009 - Gov. Perdue Launches NCOpenBook.gov
- 02/27/2009 - Gov. Perdue Launches NCRcovery.gov
- 01/12/2009 - Governor Perdue Signs First Day of Change Orders

Updates

Contracts data represent state FY 2008-09
Grant disbursement data represent state FY 2007-08

Welcome to NC OpenBook

About NC OpenBook

Created by an Executive Order signed by Governor Bev Perdue on her first day in office, NC OpenBook is part of her effort to bring more transparency and accountability to state government in North Carolina. In the 21st century, access to information online should be the basic standard. As citizens, North Carolinians have a right to know how their government is operating and this site will save taxpayer dollars by shining more light on government contracts.

NC OpenBook currently includes a searchable database of approximately 2500 state contracts and over 5000 grant disbursements. This data represents those contracts and grants currently available for a searchable database. The Office of State Budget and Management is currently working with state agencies and departments to streamline their contract databases and a complete searchable database will be available later this year.

In addition to state contracts and grants, NC OpenBook.gov will feature detailed information about state agency performance measures and is linked to North Carolina's economic recovery efforts.

Governor's Message

Thank you for visiting NC OpenBook. I hope you'll find this site to be a user-friendly way to know what's happening in your state government.

As Governor, one of my priorities is to improve efficiency, transparency and accountability in state government and in the way we spend taxpayer dollars. This website will help you track those efforts. This new level of transparency will help create a better, more efficient state government that works for the people of North Carolina.

Sincerely,
Bev Perdue
Gov. Bev Perdue

Visit Gov. Bev Perdue's Website

State Agency Consolidation

The constitutional offices of North Carolina state government have changed little since 1900. As a reaction first to the tyranny of royal governors and then to the Civil War, the state has divided executive power among a number of separately elected offices. At the same time, governors and legislators have created many agencies under their direct control.

The result has been a lack of coordination and focus on major functions, wasteful administrative spending, and a lack of accountability to the public.

State government departments need to be reorganized and consolidated. Departments or agencies that perform similar functions should be grouped together, both to reduce cost and to improve the delivery of services. At the same time, the number of separately elected executive branch officers should be reduced to three at most — the governor and lieutenant governor, who should run as a team, and an independent state auditor. By electing too many officers to fixed four-year terms, the current system limits immediate accountability for poor performance by department heads and creates confusion among citizens and lawmakers.

Under the state constitution, the governor has constitutional authority to reorganize state government. If the reorganization affects existing law, the governor must file the changes as executive orders with the General Assembly during a legislative session. Those orders become effective at the end of the session unless at least one chamber votes them down.

Furthermore, if the governor and General Assembly wish to proceed with administrative reorganization that eliminates the major duties of the Council of State, they can do so. While the constitution mandates that Council of State offices be elected, it does not define their duties. The offices could be made part-time advisory positions with no administrative duties. The governor could reassign their duties by executive order and even could appoint Council of State members to head departments in his or her administration.

Key Points

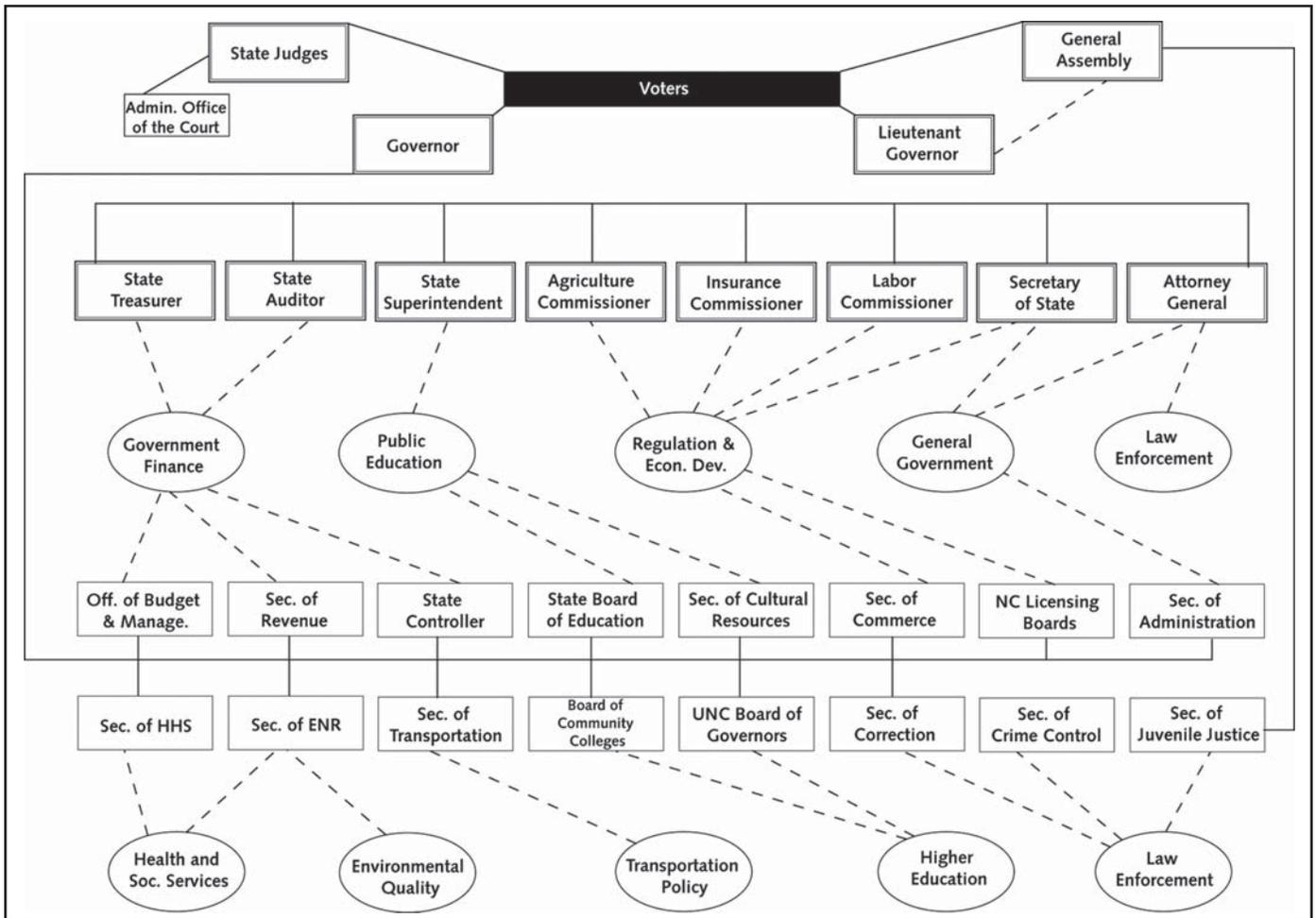
- There are five major departments or offices that oversee state finances: the Department of Revenue, State Treasurer, State Controller, State Auditor, and the Office of State Budget, Planning, and Management. Most of these separate units could be merged into a Department of Finance, headed by an appointed secretary. It would include divisions similar to the previous departments but would not require the staff or funding now necessary.
- There are currently six departments or agency categories that attempt to regulate business activities in North Carolina. These offices could be consolidated (when not eliminated outright) to form a single Department of Commerce devoted to providing consumers with reliable information and protection from fraud.
- A single, statewide police force could be formed within a consolidated Public Safety Department.
- All disability services could be merged within the Health and Human Services Department.

Recommendations

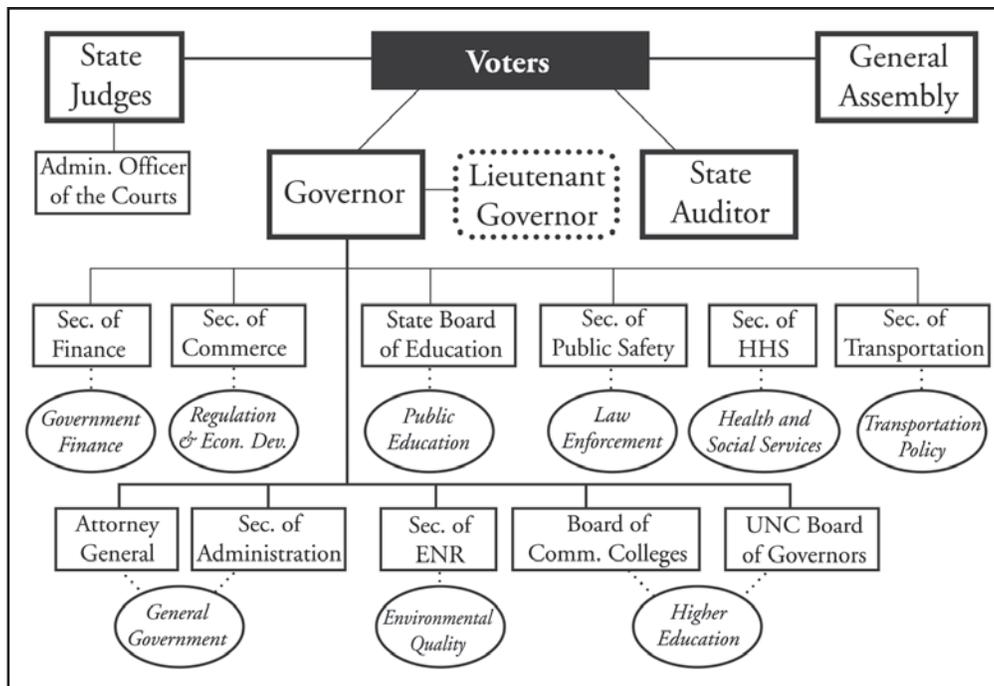
1. **Consolidate state departments** to eliminate unnecessary bureaucracy, clarify responsibility for governmental functions, and concentrate departments around core state functions (see charts).
2. **Consolidate functions and reduce the number of major administrative departments** from 26 to 13. These and other agency reorganizations could save taxpayers as much as \$54 million a year.
3. **Amend the state constitution to eliminate all elected state executives except the governor, lieutenant governor, and state auditor, and to downsize and streamline accountability for appointed state boards.**

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North Carolina state government as currently organized (major state agencies and their functions)



North Carolina state government – after consolidation



State Debt

State spending of current tax dollars is just part of the budget story. Governments also borrow money and take on future obligations they need to fund. This borrowed money can cripple a government, as we have seen in Greece, California, New Jersey, and Illinois. North Carolina has more limits on debt than other states but has still managed to dig a fairly deep hole.

Most outside experts say the state's assumed 7.25 percent return on pension fund investments is overly optimistic. Lower rates of return mean more of the pension obligation is unfunded. State Treasurer Janet Cowell is seeking more flexibility to pursue higher yielding asset classes and has convened the Future of Retirement Commission to address the long-term viability of state pensions.

Debt passed without voter approval makes up one-fourth of the \$15.7 billion in outstanding tax-supported state debt, but it comprises 100 percent all newly authorized debt since the higher education bonds passed in 2000. The cost of servicing that debt will approach \$800 million in fiscal year 2011.

Unfunded pension and retiree health care obligations add another \$43 billion to future obligations for state taxpayers.

Key Facts

- North Carolina has accumulated \$6.1 billion in General Fund debt, one-fourth of that without a vote of the taxpayers.
- Since 2003, the General Assembly has authorized \$3.3 billion in new borrowing without a vote of the taxpayers.
- The last bond vote was in 2000, for \$3.1 billion in

building projects for universities and community colleges.

- North Carolina also has \$9.6 billion in government borrowing outside the General Fund.
- State employee pensions are officially funded at 99 percent of obligations. At market value, the funding level falls to 79 percent or less, adding at least \$14 billion in unfunded liabilities.
- Future retiree health benefits have an unfunded liability of \$29 billion.
- Combined debt and unfunded liabilities for the state equal \$59 billion.

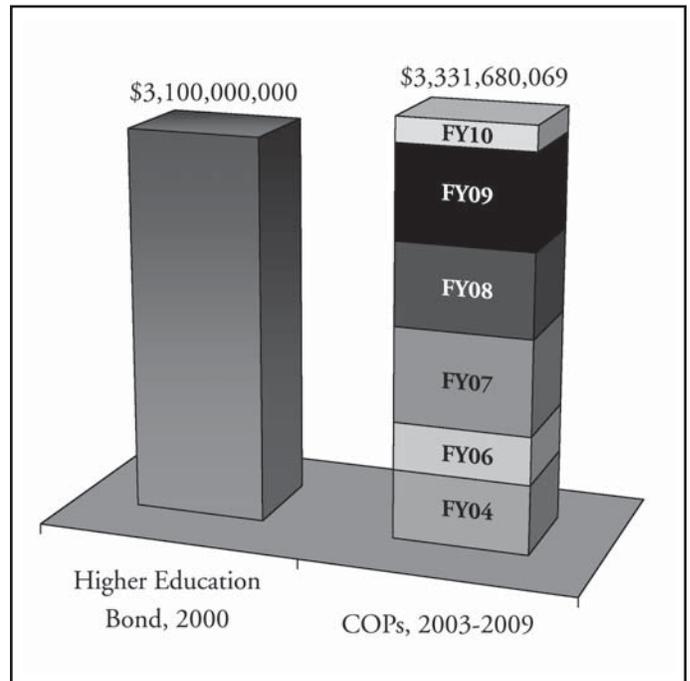
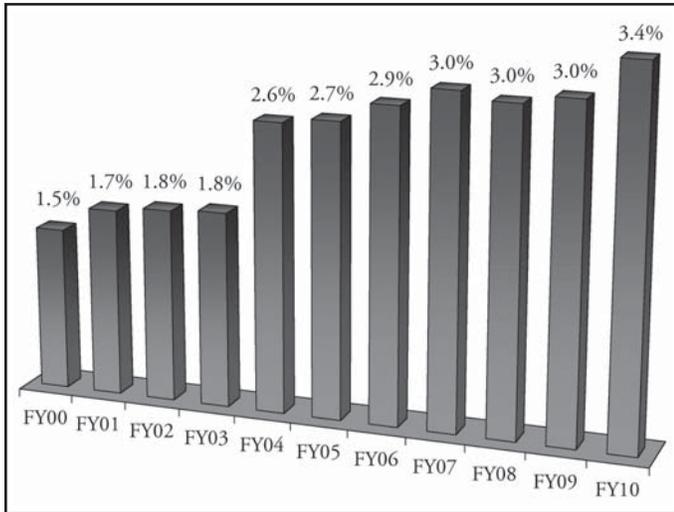
Recommendations

1. **Limit non-voter-approved debt.** Lawmakers have abused non-voter-approved debt. Any further borrowing by the state should be subject to voter approval.
2. **Reform state employee pensions.** Traditional defined benefit pensions put taxpayers at risk for higher costs in the future, particularly when actual returns on investments fall short of the assumed rate of return. Moving to more portable and flexible benefits, such as a 401(k), will improve the sustainability of the system.
3. **Reform employee and retiree health benefits.** State government should set aside reserves to cover future health care costs for retired state employees. Health Savings Accounts would be one solution and will remain an option at least until 2018, when the state will need to meet federal health insurance regulations.

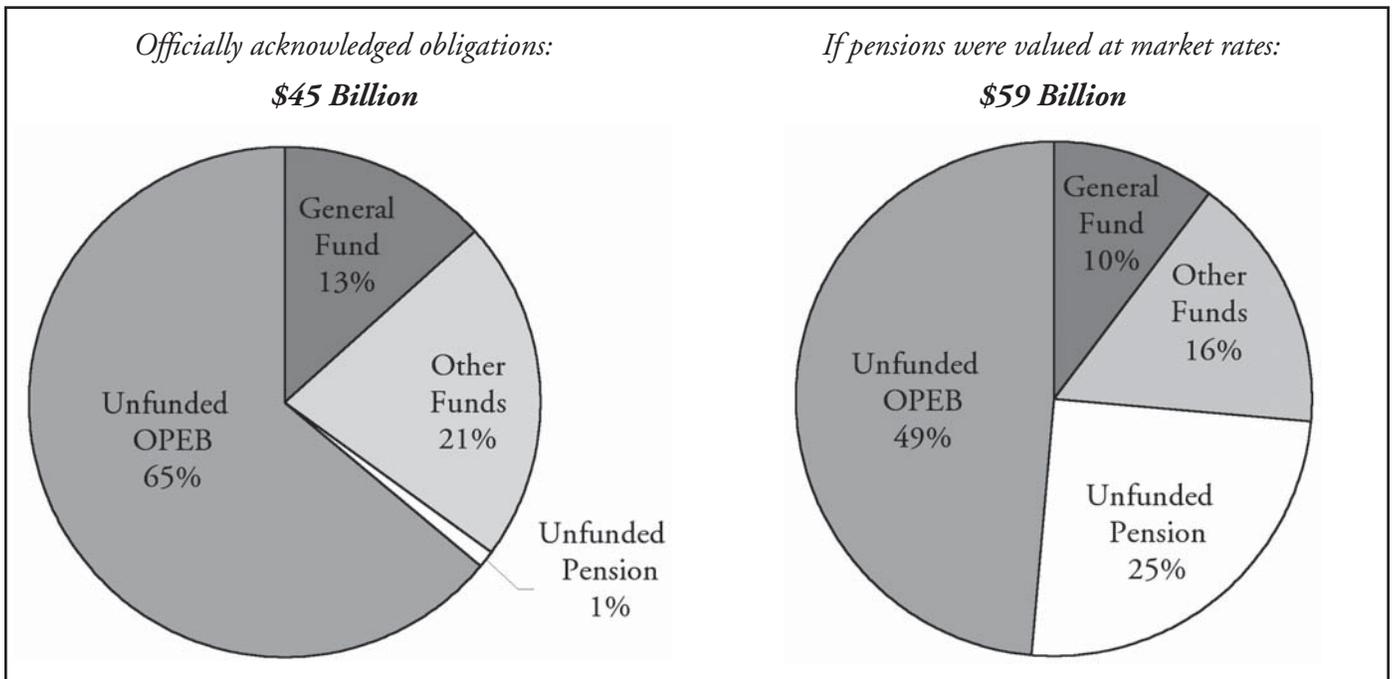
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The General Assembly has authorized more debt without a vote of taxpayers than voters approved in the last bond referendum

Debt service has more than doubled as a share of General Fund appropriations since FY 2000



Official measures of debt may underestimate obligations by one-third



Sources: Debt Affordability Study, Pew Center on the States, Manhattan Institute

School Standards and Testing

With the implementation of the ABCs of Public Education, the Excellent Schools Act, charter school legislation, and other reforms, North Carolina lawmakers have put education atop the priority list. But even after some recent progress, repeated problems with the state testing program and disappointing performance from high school students suggest more fundamental changes are needed.

Key Facts

- The state implemented the state testing program during the 1996-97 school year.
- The North Carolina Department of Public Instruction (DPI) develops all end-of-grade and end-of-course tests in-house. From adoption of the curriculum to reporting test results, North Carolina has a 22-step, approximately four-year test development process.
- State tests have four levels of achievement. Achievement Level III or above is considered proficient.
- Students in grades 3-8 take end-of-grade reading and mathematics tests. Elementary and middle school students with disabilities take NCEXTEND1 and NCEXTEND2 assessments. All 5th and 8th grade students take an end-of-grade science test.
- In 2009, the State Board of Education approved a policy that allowed retests to be included in performance data for grades 3-8.
- Students in grades 9-12 take one or more end-of-course test in Algebra I, Algebra II, Biology, English I, Geometry, US History, Civics and Economics, and Physical Science.
- Beginning in 2009-10, DPI eliminated end-of-course tests in chemistry and physics. The state will eliminate the end-of-course geometry test starting in 2010-11.
- The state uses three accountability measures: *Performance Composite* (percentage of all student test scores in a school that are at or above proficient (Achievement Level III)); *Growth* (expected rate of growth for a student based on two previous years of test performance); and *AYP Status*. (AYP, for Adequately Yearly Progress, is a federal measure that determines how subgroups (race/ethnicity, sex, disability, and socioeconomic status) performed on state tests. For a school to make AYP, all subgroups in the school must score proficient on state tests.)
- Students who enter 9th grade in 2009 will have to

earn four English credits, four math credits, three science credits, three social studies credits, one health and physical education credit, and six elective credits as part of the Future-Ready Core course of study.

- North Carolina participates in the federal National Assessment of Educational Progress (NAEP). The rigorous NAEP tests are administered infrequently, however; 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.
- 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. In 2008-09, 94.3 percent of the teacher workforce had earned state certification and licensure, 25.6 percent of classroom teachers had master's degrees, and over 12,000 teachers obtained board certification.
- DPI has initiated the Accountability and Curriculum Reform Effort (ACRE), which will completely revise the state's curriculum and testing program by 2012.

Recommendations

1. **Replace the state's end-of-year and end-of-course tests with an independent, field-tested, and credible national test of student performance.** Many norm-referenced tests are 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 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. **Reward teachers based on the value they add to the performance of their students.** DPI should continue to measure and report growth in school and district test scores, but also place greater emphasis on measuring and reporting the performance of individual teachers.

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NAEP Scores, North Carolina and the United States, 2000–09

NAEP Mathematics Scale Scores, 2000–09

Year	United States		North Carolina		Gap	
	4th Grade	8th Grade	4th Grade	8th Grade	4th Grade	8th Grade
2009	239	282	244	284	5	2
2007	239	280	242	284	3	4
2005	237	278	241	282	4	4
2003	234	276	242	281	8	6
2000	226	274	232	280	6	6

NAEP Reading Scale Scores, 2002–09

Year	United States		North Carolina		Gap	
	4th Grade	8th Grade	4th Grade	8th Grade	4th Grade	8th Grade
2009	220	262	219	260	-1	-2
2007	220	261	218	259	-2	-2
2005	217	260	217	258	0	-2
2003	216	261	221	262	5	1
2002	217	263	222	265	5	2

SAT scores, North Carolina and the United States, 2000–09

Year	United States			North Carolina			Gap
	Reading	Math	Total	Reading	Math	Total	Total
2009	501	515	1016	495	511	1006	-10
2008	502	515	1017	496	511	1007	-10
2007	502	515	1017	495	509	1004	-13
2006	503	518	1021	495	513	1008	-13
2005	508	520	1028	499	511	1010	-18
2004	508	518	1026	499	507	1006	-20
2003	507	519	1026	495	506	1001	-25
2002	504	516	1020	493	505	998	-22
2001	506	514	1020	493	499	992	-28
2000	505	514	1019	492	496	988	-31

Four-year cohort graduation rate, 2005–09

Subgroup	2005–06	2006–07	2007–08	2008–09
All Students	68.3%	69.5%	70.3%	71.8%
Native American Female	55.3	60.6	58.3	64.8
Asian Female	77.5	79.6	83.5	86.7
Black Female	67.8	68.8	70.0	70.4
Hispanic Female	57.2	58.0	60.3	63.9
Multi-Racial Female	68.3	70.4	73.2	77.0
White Female	76.5	78.2	78.7	81.4
Native American Male	47.1	50.0	49.2	55.4
Asian Male	73.1	78.3	78.7	81.0
Black Male	52.7	53.8	55.2	55.9
Hispanic Male	47.7	49.5	52.9	54.6
Multi-Racial Male	63.6	59.4	63.1	65.3
White Male	70.6	71.9	72.9	74.2

School Choice and Competition

In North Carolina, public education is a core function of state and local government. The state constitution, in the words of the N.C. Supreme Court, recognizes the right to a “sound, basic education” for every child in the state. But public education need not and should not be delivered by government monopolies, as a diverse array of magnet, charter, and private schools are demonstrating across the country and here in North Carolina. In the end, no system for delivering goods and services functions well without providing a means for consumers to make their desires known and express their level of satisfaction.

Key Facts

- Between 2000-01 and 2008-09, there has been a 104 percent increase in home schools and a 128 percent increase in the number of home school students. For the 2008-09 school year, 77,065 students were enrolled in 41,042 home schools.
- Between 2000-01 and 2008-09, there has been a 4 percent increase in private schools and a 10 percent increase in private school students. For the 2008-09 school year, 98,545 students were enrolled in 683 private schools.
- In 2008-09, there were 35,131 students enrolled in North Carolina charter schools, public schools of choice that are funded by taxpayer dollars and subject to many of the same accountability and regulatory requirements as district schools.
- In 2008-09, the average county market share of North Carolina’s public and private schools of choice – charter, home, and private schools – was 11 percent. Martin County had the lowest percentage market share (3 percent), while Northampton County had the highest (28 percent). For the 2008-09 school year, 210,741 students were enrolled in charter, home, and private schools.
- On the 2008-09 North Carolina end-of-grade and end-of-course tests, the average charter school performance composite (percentage of “proficient” students across grades and tested subjects) was 73.0 percent, compared with 69.8 percent for district schools.
- Since the 1996-97 school year, the State Board of Education has approved 143 charters, closed 33 charter schools, and allowed 10 charter schools to relinquish their charter without opening.

- Neither the state constitution nor the federal constitution would prohibit a comprehensive school choice program in North Carolina.

Recommendations

1. **Give parents an “Education Bill of Rights.”** An Education Bill of Rights should attach funding to the students and give parents the right to use that funding to send their children to any public, charter, or private school in the state.
2. **Have North Carolina school districts make greater use of open enrollment and magnet schools.** District leaders should employ choice and competition as tools to improve academic performance and allow diverse learning communities to form.
3. **Lift the legislatively imposed statewide cap of 100 charter schools.** The state of North Carolina should allow the number of charters to grow as long as parents, educators, and oversight agencies ensure accountability for results.
4. **Allow North Carolina families to set up educational savings accounts.** Families should be able to make an annual tax-deductible deposit of \$5,000 per child, from which they can withdraw funds tax-free for educational expenses such as textbooks, educational materials, or tuition incurred at any time from preschool through college. Needy students in public schools where fewer than 60 percent test at grade level should get \$4,500 scholarships to attend private schools, provided that no additional regulatory burdens are placed on private schools that accept those students.
5. **Let low- and middle-income parents receive or access education tax credits.** Family education tax credits would reduce the state income tax liability of families that incur out-of-pocket expenses for private school tuition and educational services and expenses. A philanthropy education tax credit would reduce the state income tax liability of individuals and business that donate to scholarship funding organizations. Research has shown that both types of tax credits are educationally and fiscally sound.

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Charter and district per-pupil expenditures, 2008-09

<i>Public School Type</i>	<i>State Expenditures</i>	<i>Federal Expenditures</i>	<i>Local Expenditures</i>	<i>Capital</i>	<i>Total</i>
Charter	\$5,491.71	\$383.47	\$2,353.85	—	\$8,229.03
District	\$5,654.58	\$884.99	\$2,123.31	\$668.29	\$9,331.17
<i>Difference</i>	-\$162.87	-\$501.52	+\$230.54	-\$668.29	-\$1,102.14

Charter, private, and home school market share, 2008-09

<i>LEA Name</i>	<i>Market Share</i>	<i>LEA Name</i>	<i>Market Share</i>	<i>LEA Name</i>	<i>Market Share</i>
Alamance-Burlington	14%	Franklin County	12%	Orange County	10%
Alexander County	8%	Gaston County	13%	Pamlico County	24%
Alleghany County	4%	Gates County	6%	Pasquotank County	11%
Anson County	5%	Graham County	15%	Pender County	6%
Ashe County	8%	Granville County	7%	Perquimans County	6%
Avery County	13%	Greene County	6%	Person County	20%
Beaufort County	11%	Guilford County	14%	Pitt County	11%
Bertie County	17%	Halifax County	12%	Polk County	12%
Bladen County	5%	Harnett County	7%	Randolph County	8%
Brunswick County	15%	Haywood County	10%	Richmond County	7%
Buncombe County	19%	Henderson County	16%	Robeson County	6%
Burke County	7%	Hertford County	15%	Rockingham County	9%
Cabarrus County	11%	Hoke County	6%	Rowan-Salisbury	11%
Caldwell County	7%	Hyde County	13%	Rutherford County	16%
Camden County	4%	Iredell-Statesville	14%	Sampson County	7%
Carteret County	12%	Jackson County	14%	Scotland County	6%
Caswell County	10%	Johnston County	6%	Stanly County	12%
Catawba County	9%	Jones County	10%	Stokes County	10%
Chatham County	16%	Lee County	10%	Surry County	10%
Cherokee County	13%	Lenoir County	16%	Swain County	17%
Clay County	4%	Lincoln County	13%	Transylvania County	17%
Cleveland County	6%	Macon County	13%	Tyrrell County	4%
Columbus County	9%	Madison County	12%	Union County	12%
Craven County	10%	Martin County	3%	Vance County	18%
Cumberland County	11%	Mcdowell County	10%	Wake County	17%
Currituck County	6%	Mecklenburg County	19%	Warren County	12%
Dare County	6%	Mitchell County	13%	Washington County	4%
Davidson County	10%	Montgomery County	9%	Watauga County	14%
Davie County	9%	Moore County	14%	Wayne County	10%
Duplin County	4%	Nash-Rocky Mount	14%	Wilkes County	9%
Durham County	20%	New Hanover County	16%	Wilson County	15%
Edenton/Chowan	4%	Northampton County	28%	Yadkin County	6%
Edgecombe County	4%	Onslow County	8%	Yancey County	10%
Forsyth County	16%				

Education Spending

Will Rogers said, “Lord, the money we do spend on Government and it’s not one bit better than the government we got for one-third the money twenty years ago.” Such is the case especially for the money we spend on public education. Despite billion-dollar increases, it has become clear that more money alone will not yield better results.

Key Facts

- Between 1965 and 2009, there has been a 273 percent increase in state real per-pupil expenditures, a 446 percent increase in federal real per-pupil expenditures, a 521 percent increase in local real per-pupil expenditures, and a 329 percent increase in total real per-pupil expenditures.
- State public school funding has increased by 28 percent, from \$5.74 billion in 2001 to \$7.35 billion in 2010. From 2001 to 2009, student enrollment in North Carolina public schools increased nearly 13.7 percent.
- Local public school funding posted a 49 percent increase, adding an additional \$981 million to the state’s public schools since 2001.
- Federal funding to North Carolina public schools has nearly doubled, thanks to significant increases in No Child Left Behind funding (increased \$270.9 million since 2001) and in special education (IDEA) funding (increased \$124.2 million since 2001).
- In 2008, the federal government allotted \$944 million in ARRA (American Recovery & Reinvestment Act) or “stimulus” funds to North Carolina public schools.
- There has been a \$3.9 billion increase in state, local, and federal public school spending since 2001.
- Much of the money spent on public education in North Carolina pays for employee salaries and benefits. For the 2008-09 school year, the state spent nearly 91 percent of funds appropriated for public education on salary and benefits.
- Since 1992-93, teacher pay has increased 119.2%, compared with a 52.5% increase for state employees and a 58.6% increase in the Consumer Price Index.
- For the 2008-09 school year, average teacher compensation was \$54,786 (including base salary, Social Security, retirement, and hospitalization, but not supplemental pay).

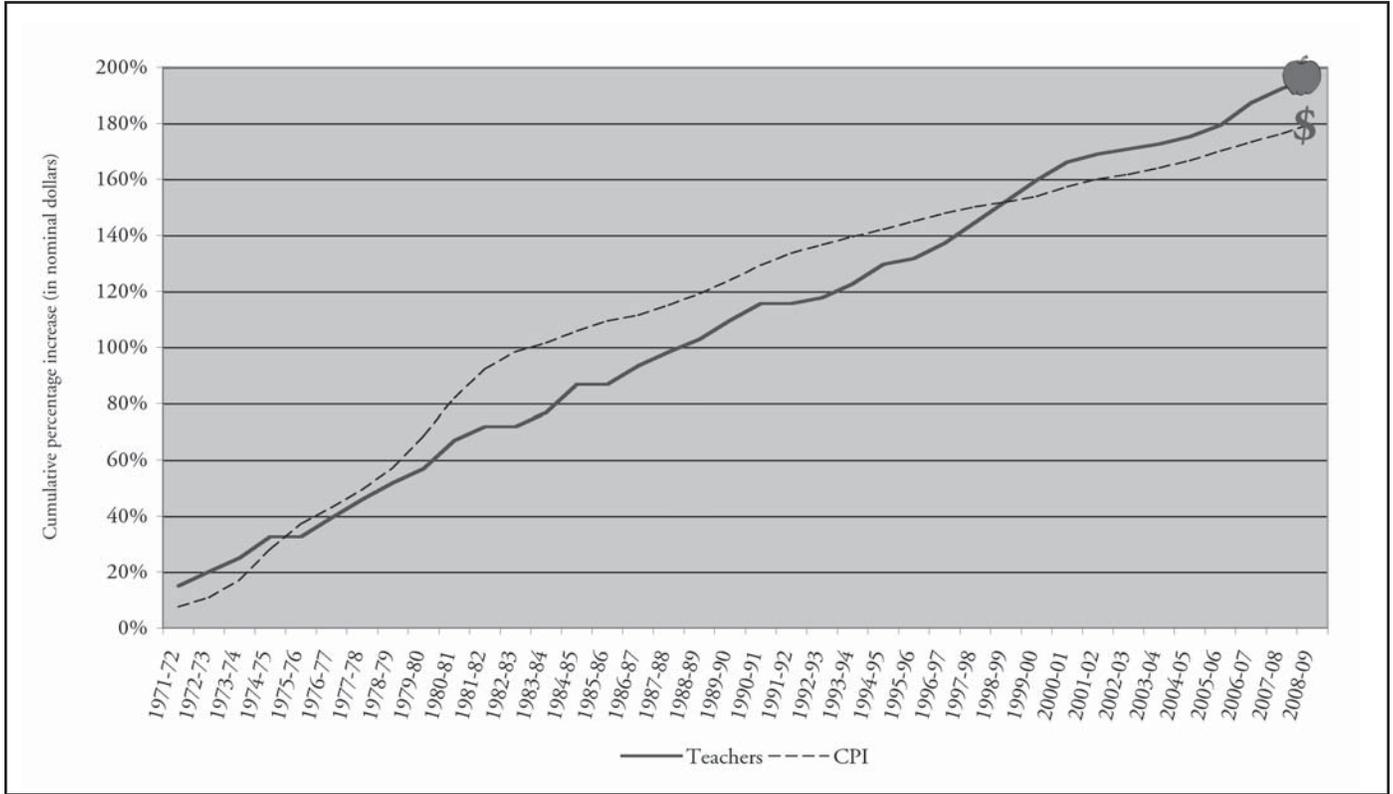
- For the 2008-09 school year, average principal compensation was \$83,721 (including base salary, Social Security, retirement, and hospitalization, but not supplemental pay).
- For the 2008-09 school year, average assistant principal compensation was \$63,061 (including base salary, Social Security, retirement, and hospitalization, but not supplemental pay).
- The state has contributed over \$2 billion for capital expenditures since 1995. School districts, which are responsible for financing their own capital programs, have spent over \$11 billion during the same period. Taking into account all sources of revenue, school districts have spent nearly \$13.2 billion for school capital expenditures since 1995.
- Control over public education in the state is highly centralized. In North Carolina, 64.3 percent of the funds come from the state, compared with the national average of 47.1 percent. Local funds make up 25.5 percent, and federal funds comprise 10.3 percent.

Recommendations

1. **Change the way that North Carolina funds public education by attaching funding to the student.**
The state should discontinue the confusing practice of allocating funds to each school district using various funding formulas. Coupled with open enrollment for schools statewide, student-centered funding would ensure that schools of the parents’ choosing receive funds necessary to educate each child and nothing more.
2. **Reallocate lottery revenue** to provide additional funding to high-growth school districts for school construction and renovation and for cost saving incentives related to capital expenditures. Lottery revenue should also be distributed to charter schools, which do not receive funds for capital expenditures.
3. **Implement a merit pay system for teachers** that will pay a portion of their salary 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.

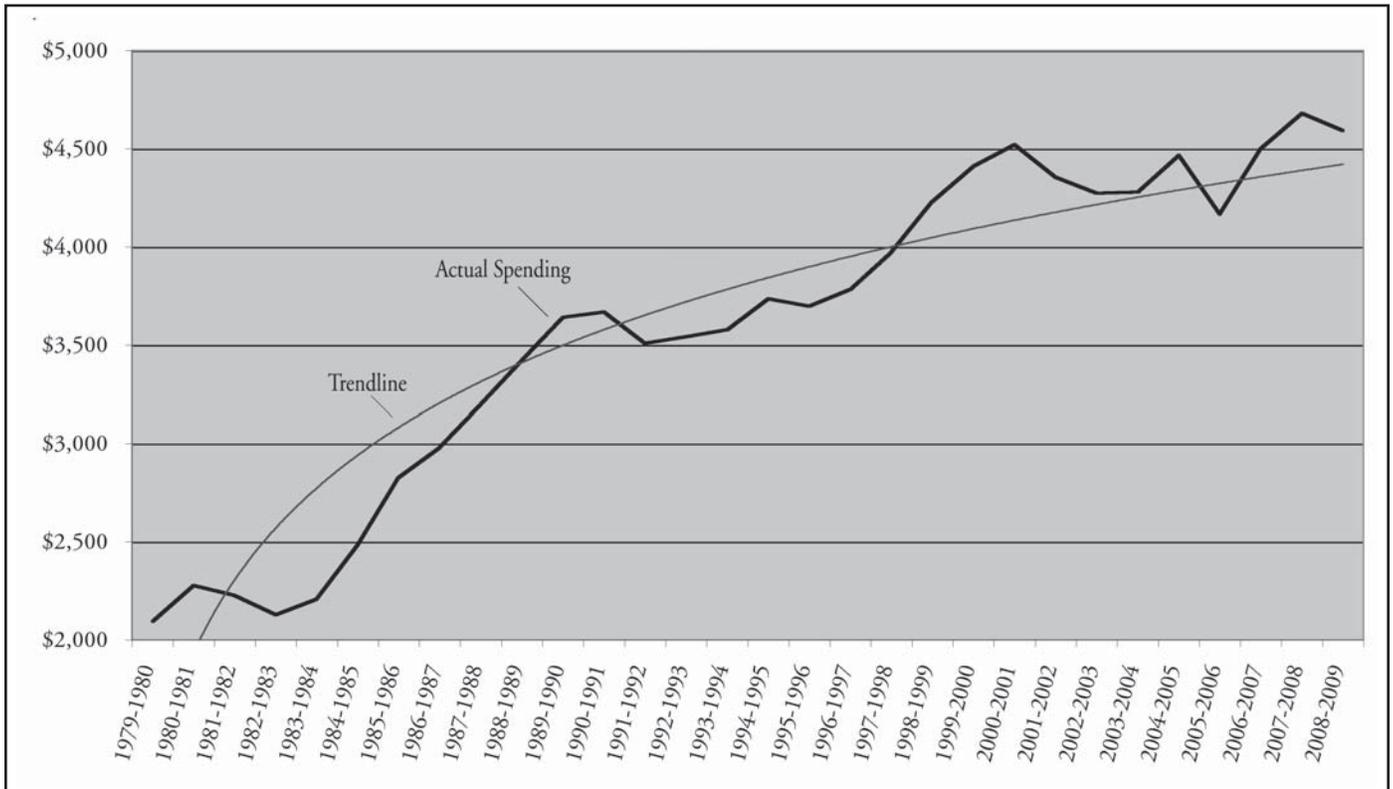
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Teacher pay increases in North Carolina vs. inflation, 1971-2009



Real per-pupil public education expenditures, 1979-2009

(graph shows actual spending and the overall trend)



Child Care and Early Childhood Education

One of the most controversial issues in the past few years has been the growing role of the state in providing childcare and preschool opportunities to North Carolina children. All too often, proponents of highly centralized early childhood programs and services spend more time tugging heartstrings than recommending sound public policy.

Key Facts

- The North Carolina Department of Public Instruction, Office of School Readiness, oversees five state and federal pre-kindergarten programs – More at Four, Preschool for Exceptional Children, Title I Preschool, Even Start and Head Start. Budgets for these programs totaled \$413.3 million in FY 2009-2010.
- *More at Four* locations typically combine funds and classroom resources with Preschool Exceptional Children, Title I Preschool, Even Start and Head Start programs.
- More at Four is a state pre-kindergarten program for at-risk four-year-old children. In 2009-10, it served 31,197 children and had a budget of over \$165.5 million. Over half of the More at Four budget comes from the NC Education Lottery. State appropriations make up the remainder.
- Private childcare providers and public schools are both eligible for More at Four dollars. Facilities are reimbursed at a rate of \$5,081 per slot for 2009-10.
- *Preschool Exception Children* is a state and federal program that serves three-, four-, and five-year-old students with disabilities. It had a budget of approximately \$61.5 million for the 2009-10 school year.
- *Title I Preschool* is a federal program for low-income four-year-old students. In 2009-2010, North Carolina received \$61.4 million for Title I programs.
- The \$1.5 million federal *Even Start* program serves low-income families in four areas: early childhood education, adult literacy, parenting education, and parent/child literacy.
- The federal *Head Start* program is the largest federal pre-kindergarten initiative in North Carolina. In 2009-10, the state received \$123.2 million for Head Start. The program included education, nutrition, counseling, and health services.

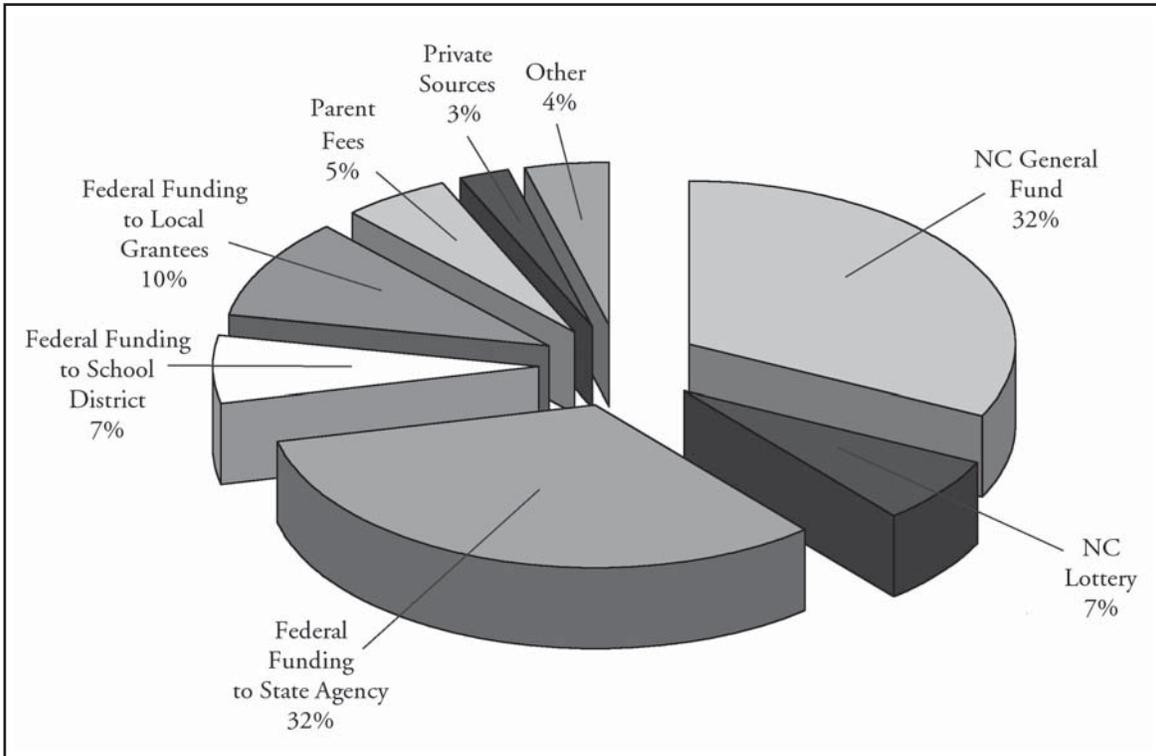
- The Department of Health and Human Services administers three early childhood and childcare programs. The total budget for the programs was \$682 million in 2009-2010.
- The DHHS Division of Child Development oversees the federal Child Care Subsidy and the state Smart Start program.
- In 2009-10, the *Child Care Subsidy* had a budget of \$404 million, not including \$61 million from parent fees and \$51 million from Smart Start. The *Smart Start* initiative had a budget of \$180 million, which includes \$20.6 million for administration and oversight, but not \$32 million from private sources.
- The Smart Start initiative is a public/private program that provides childcare subsidies, teacher training, health screenings, and support for families with children from birth to six years old.
- The DHHS Division of Public Health operates the state and federal *Early Intervention* program. The state spent \$77.4 million on these efforts in 2009-10.
- For the 2009-10 school year, North Carolina spent \$1.09 billion on early childhood and childcare programs.

Recommendations

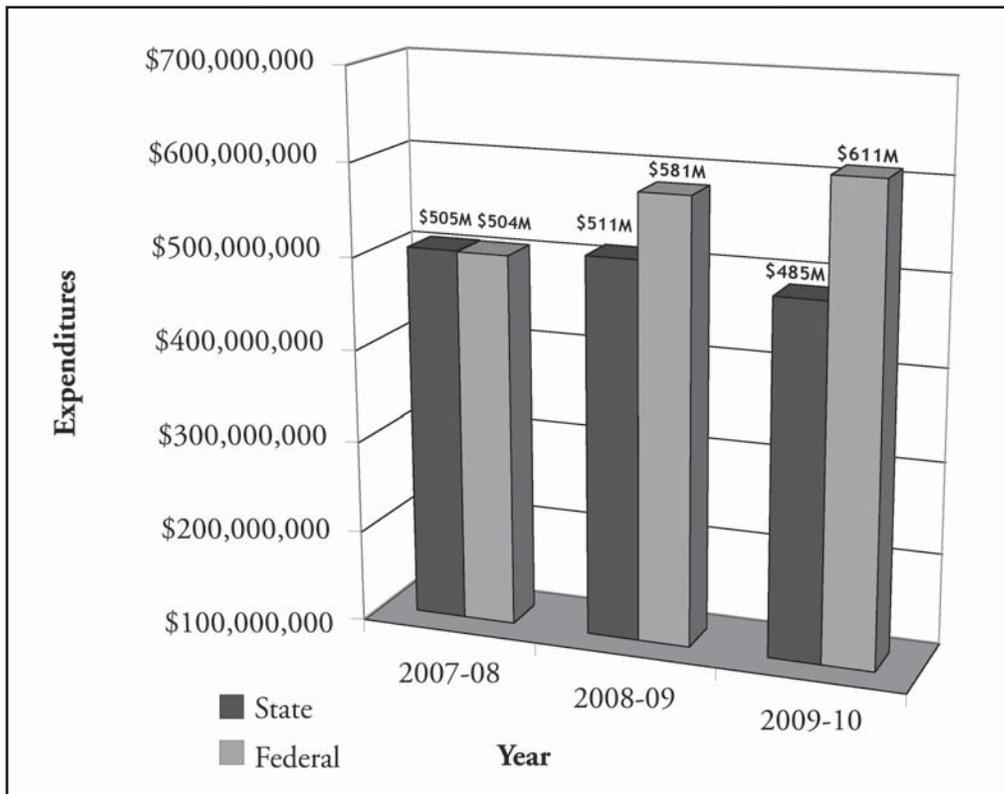
1. **Eliminate Smart Start and other subsidy programs for childcare and preschool expenses in favor of a refundable Smart Start tax credit for preschool children.** For a smaller subset of desperately poor preschoolers who lack functioning parents, a carefully designed state intervention may be justified.
2. **Limit regulation of daycare operations to health and safety requirements only.** Parents should make their own decisions about the trade-off between price and child/staff ratios or qualifications.
3. **Have a qualified, independent research firm redesign and conduct yearly evaluations of Smart Start and More At Four.** Longitudinal studies should be conducted to determine if state pre-kindergarten programs produce lasting social and educational benefits as children progress through school.

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Early childhood education and childcare funding, by source, 2009-10



State and federal early childhood education and childcare expenditures, 2007-10



Education Lottery

The North Carolina Education Lottery was born of corruption, from its inception as a bill, to its lobbying, to its suspiciously rushed enactment, to its false promise to and exploitation of the state's poorest citizens.

From its very beginning, lottery proceeds were predictably used to *supplant* rather than *supplement* education funds. Also, portions of lottery proceeds were taken for the state's General Fund. Essentially, the lottery benefits various public programs other than education.

Supplanting is a major problem with state lotteries. In the long run, lottery states are left with lower per-capita spending on education than states without lotteries.

Older state lotteries are also beset with what lottery researchers call *lottery fatigue*. Lottery proceeds flatten as their novelty fades and as residents initiated into gambling branch out into other forms of gambling offering quicker payoffs.

North Carolina's lottery proceeds have not flattened yet, but that "good news" may owe to the severe recession. Other signs of lottery fatigue are already evident: "sweepstakes cafés" are a fast-growing industry in North Carolina, the casino on the Cherokee reservation is expanding, and there has already been serious talk of overturning the state's nascent ban on video poker.

Key Facts

- Studies consistently find that the biggest purchasers of lottery tickets are the poor, minorities, elderly, and high school dropouts.
- A 2007 JLF study found that the best predictors of a county's lottery sales to adults 18 or older were its poverty rate, unemployment rate, and property tax rate. The recession has heightened those effects.
- In 2009, the top ten counties in lottery sales per adult had average poverty rates of 22.8 percent, average unemployment rates of 12.2 percent, and average property tax rates of 71.72 cents. Those rates are all well above the state averages.
- Those counties had lottery sales of \$389 per adult — over twice the statewide average.

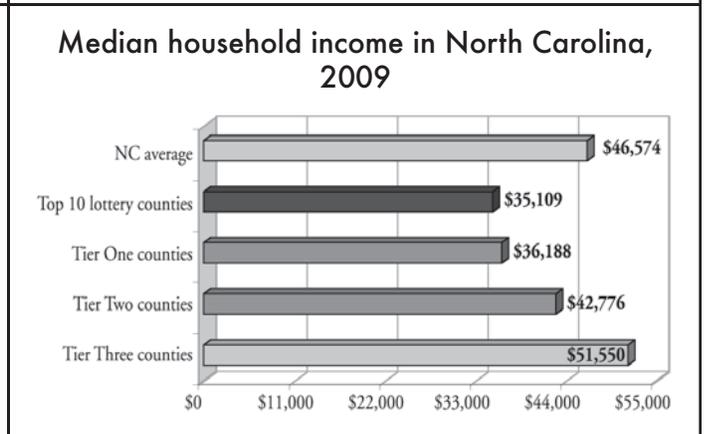
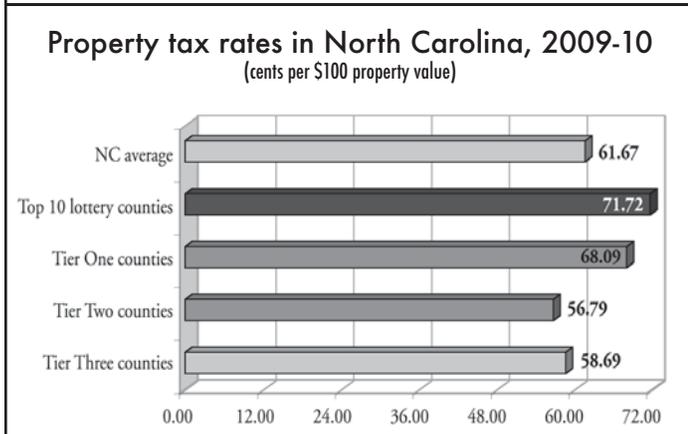
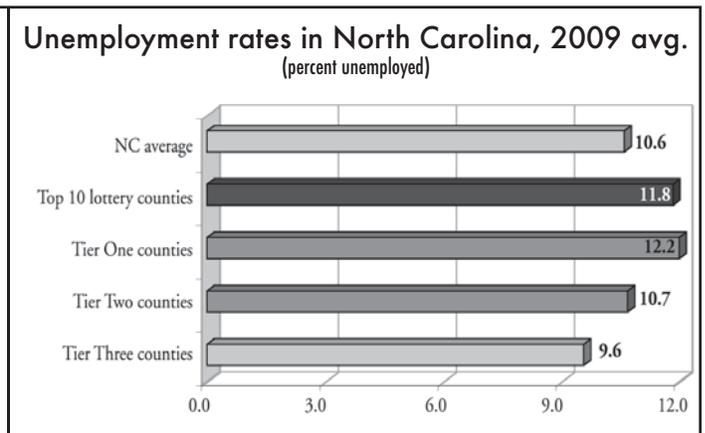
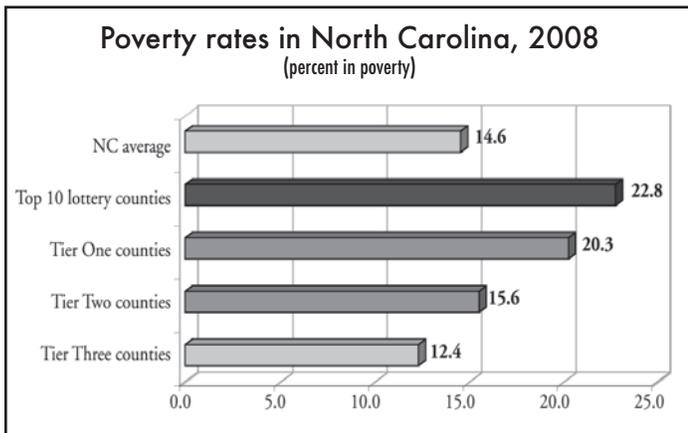
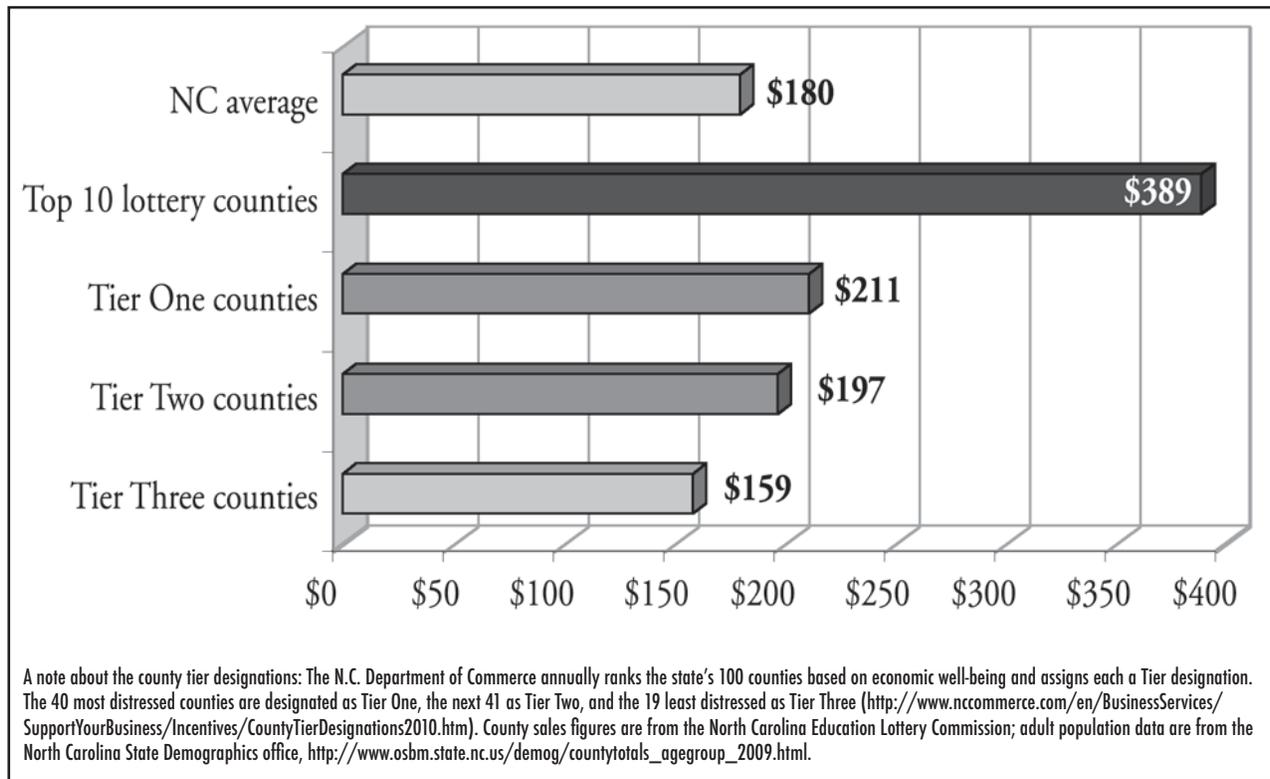
- The most economically distressed counties in North Carolina had lottery sales higher than the state average and much higher than the least economically distressed counties. They also had higher poverty and unemployment rates.
- The current lottery formula emphasizes class-size reduction and pre-kindergarten programs. Even according to the state's own assessment, those programs haven't improved students' performance.

Recommendations

1. **End the North Carolina Education Lottery outright.** Its origin is suspect, its history is doubtful, and its manifold negative effects are sure.
2. *If that is not feasible:* **End the lottery as a state monopoly on gambling and legalize other forms of gambling that can then be taxed.** This option would remove the state from endorsing and promoting an activity many North Carolinians find immoral, let alone counterproductive to the responsible message that society rewards education and hard work. It would also allow for new industries (sweepstakes cafes, video poker, horse breeding and training, etc.) to build within the state, bringing jobs and helping the economy recover.
3. *If that is not feasible:* **End the lottery as it is, then recraft and pass a lottery bill the right way,** in accordance with the state Constitution. The next recommendation will offer a reform for the lottery formula to consider here as well.
4. *If ending the lottery is not feasible:* **Put all lottery proceeds to proven good uses of education money.** A reformed lottery formula would focus especially on construction (with emphasis on high-growth school districts) and also include funding for charter schools and incentives programs to reward school districts and administrators who find innovative, low-cost solutions to facilities needs.

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North Carolina Education Lottery sales per adult, 2009



Sources: Poverty rates and estimated median household income by county: US Census Bureau, Small Area Income and Poverty Estimates, <http://www.census.gov/did/www/saipe/county.html>; average unemployment rate, 2009, by county: NC Employment Security Commission, <http://eslmi40.esc.state.nc.us/ThematicLAUS/clfasp/CLFAASY.asp>; county property tax rates, 2009-10: NC Department of Revenue, <http://dornc.com/publications/propertyrates.html>.

Higher Education Policy

North Carolina is proud of its university system, which is often heralded as a model in comparison with other states' systems.

Not all of the hype is deserved, however. After all, the comparison is made with other wasteful, inefficient higher education systems. And North Carolina spends more per student than does any of its neighboring states, yet despite the expense it ranks sixth out of ten in the percentage of residents with college degrees.

This expense is largely justified in the name of economic prosperity: educated citizens earn more, are more innovative, and require fewer social services. But the benefits of higher education, like the benefits of almost everything, are subject to the law of diminishing returns. North Carolina is likely paying for too much of a good thing already, and should look to cut unproductive spending before making additional expenditure increases.

After slight budget cuts in the last couple of years, university officials would have you believe that further reductions will cause grievous harm to the system's academic mission. But as long as universities can offer such frivolous courses as N.C. State's "honors" philosophy class in "Time Travel," there is plenty of fat to cut from the system.

While keeping an eye on the money is important, education is first and foremost about passing ideas to the next generation. No matter how fiscally prudent legislators are in the present, if the ideas underpinning liberty and prosperity are not passed on, it will all come to naught. As Ronald Reagan said, "Freedom is never more than one generation away from extinction."

The ideas that now dominate the American campus come from the left and do not promote liberty. Because higher education's governance is extremely complex, with radical professors protected by tenure and academic freedom, this problem is often ignored for more readily achievable goals. Yet it must be addressed.

Key Facts

- The six-year graduation rate for all UNC schools is 58 percent. Despite academics' claims to the contrary, graduation rates and SAT scores are strongly correlated.
- For instance, at UNC-Pembroke, the five-year graduation rate is 31.8 percent, while average SAT scores (Math and Reading) are 930. At UNC-Chapel Hill,

85.4 percent graduate within five years, while SATs average 1295.

- In UNC system political science departments, there are currently 129 full-time faculty members registered as Democrats and only 17 registered as Republicans.
- UNC pays \$23 million a year for biotech research at the NC Research Campus at Kannapolis, an investment that even UNC president Erskine Bowles called "very risky."
- A study by Cornell University economists found that, for 138 major research institutions in 2000, the median of net university revenues from patents and licenses was only \$343,952.
- A recent UNC study on K-12 showed that teachers with undergraduate degrees in fields other than education frequently outperform education school graduates.
- State money has been used for such things as N.C. State's "Lavender Graduation" ceremony for gay students, for "Vagina Day" celebrations, and for paying visiting speakers such as Sister Souljah.

Recommendations

1. **Increase admissions standards at universities** so that students who are not likely to thrive on a UNC campus start at the lower-cost community colleges.
2. **Base need-based scholarships on merit** to reduce the wasteful enrollment of students who are not likely to graduate.
3. **Eliminate state funding for campus centers and institutes with political agendas.**
4. **Base scientific and technical research grants on the advancement of knowledge rather than on expectations of job creation.**
5. **End requirements that professors in the humanities and social sciences conduct original research, so that they can concentrate on teaching.**
6. **Make finances and academics more transparent** by online publishing of specific budget line items and course syllabi.

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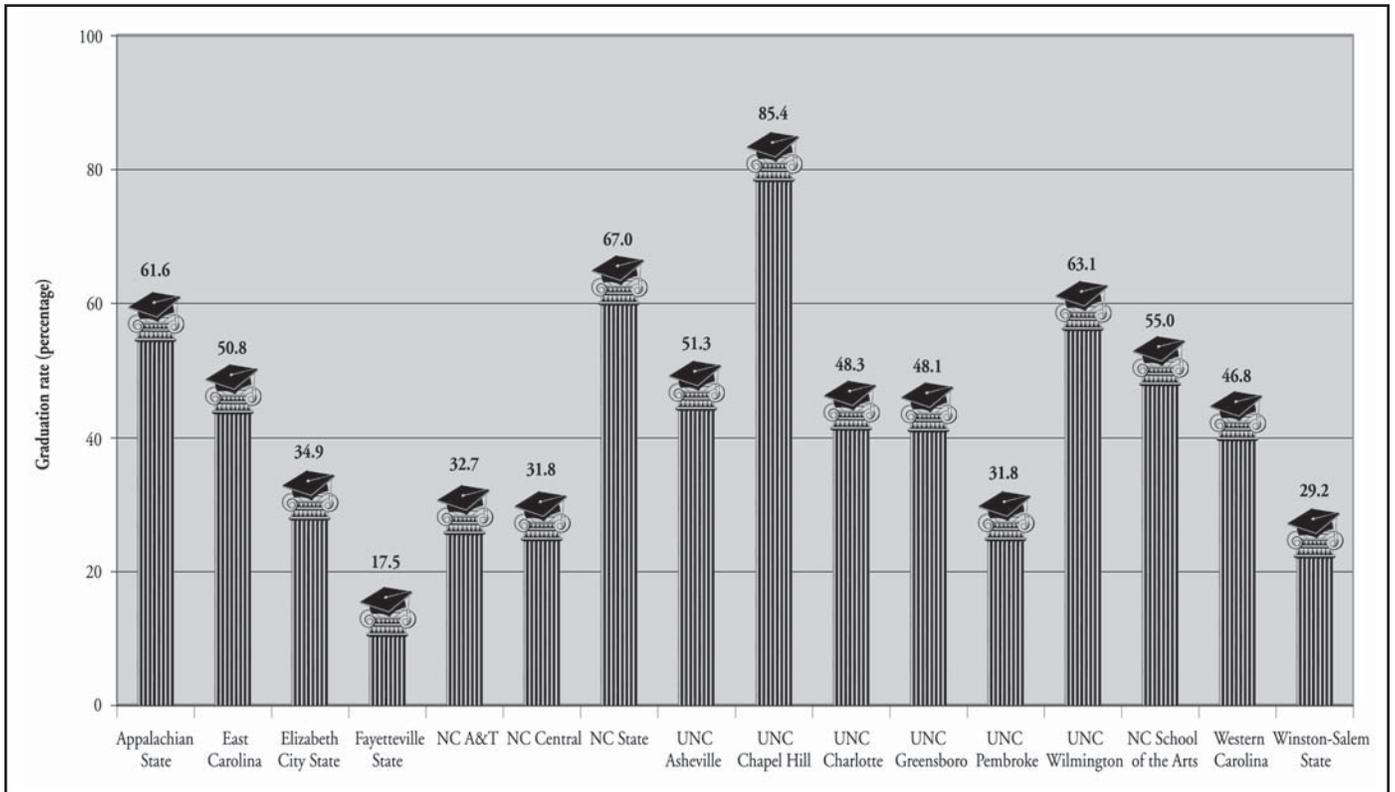
Higher education spending and resident college graduates

State	State public higher education appropriations* per FT student	Percentage of residents age 25+ with a BA/BS
North Carolina	\$8,844	26.1%
Georgia	\$8,795	27.5%
Alabama	\$8,102	27.7%
Maryland	\$8,100	35.2%
Tennessee	\$7,901	22.9%
Florida	\$6,564	25.8%
West Virginia	\$6,433	17.1%
Virginia	\$5,700	33.7%
South Carolina	\$5,700	23.7%
Delaware	\$5,695	27.5%
U.S. Average	\$6,928	27.7%

* Appropriations to two-year and four-year institutions.

Sources: U.S. Census Bureau Statistical Abstract of the U.S.; State Higher Education Executive Officers.

Five-year graduation rates in the UNC system



Job Training

For state and local policymakers, the issue of job training requires a significant amount of rethinking. Over the years, economic research in job training has consistently found government training programs to be wasteful, inefficient, and sometimes even counterproductive. In stark contrast, the benefits of private and company-sponsored job training are demonstrably positive and significant.

Key Facts

- In 2007-08, total expenditures for job training and placement services in North Carolina exceeded \$469 million, including federal and local grants.
- Government training and placement programs in N.C. span 12 state departments and divisions and include 24 programs.
- The most recently obtainable outcome data for North Carolina's programs continue to show only modest benefits. Only about 29 percent of Job Training Partnership Act clients entered employment as a result of being in the program, and 26 percent were still employed after 90 days. The same proportion of Employment Security Commission (ESC) job office clients were placed in jobs.
- From 2005-08, only about one-sixth (17 percent) of Vocational Rehabilitation clients found employment after completing the program — not even one-third (30 percent) left the program rated job-ready.
- Government training programs lack the incentives of a private-sector trainer to place trainees in jobs successfully.
- Private and company-sponsored training is fundamentally enhanced by ownership in the training process by both trainee and trainer.
- Private providers are more likely than government to keep up with the latest occupational trends and needs.
- An estimated 31 percent of workers received formal

professional and technical training from their current employer, and 28 percent received informal professional and technical training from their current employer.

- For the hardest to employ, charitable providers of training have proven success through developing the work ethic and addressing “soft skills,” those life skills that makes a person employable at any job: timeliness, proper attire, good hygiene, respect for others, a good attitude toward superiors and colleagues, good communication skills, sobriety, etc.

Recommendations

1. **Consolidate state training programs** as much as possible to reduce redundancy and increase oversight.
2. **Allow Education Savings Accounts (ESAs)** so that North Carolinians can save money tax-free for future post-secondary education and training investments, including retraining after a job loss.
3. **Promote school choice**, allowing educational innovation and competition to flourish:
 - Lift the state cap on charter schools
 - Allow open enrollment in public school districts
 - End forced busing, allowing voluntary busing to district schools of the parents' choice
4. **Let concerned educators augment their curricula to meet localized needs** in order to help prevent the next generation of adults from making poverty-inducing choices. Schools could address personal responsibility, the importance of soft skills, and other issues where there is a particular community need or parental interest.

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North Carolina job training, job placement, and related programs and services,
actual requirements, 2007-08 (includes federal state, and local grants)

State Department or Division <i>Program</i>	2007-08 Actual Requirements
Department of Labor	
<i>Apprenticeship Training</i>	\$ 2,020,540
Division of Vocational Rehabilitation	
<i>Counseling and Placement — State</i>	32,200,701
<i>Counseling and Placement — Third Party</i>	10,157,826
<i>Agency Operated Rehabilitation Facility</i>	2,845,075
<i>Case Services</i>	51,475,248
<i>Establishment of Facilities</i>	251,018
<i>Client Assistance Project</i>	290,261
<i>Supported Employment Project</i>	616,352
<i>Assistive Technology Project</i>	1,886,097
Department of Commerce	
<i>Workforce Development Administration</i>	5,176,565
<i>U.S. Department of Labor Grants Program</i>	71,016,433
<i>Commission on Workforce Development</i>	76,421
<i>Employment Security Commission</i>	225,842,013
Department of Administration	
<i>Workforce Investment Act Program — Indian Affairs</i>	221,593
<i>Displaced Homemakers</i>	2,235,393
Department of Environment and Natural Resources	
<i>Young Offenders</i>	985,049
Division of Central Management and Support	
<i>Office of Economic Opportunity</i>	17,885,486
Division of Aging and Adult Services	
<i>Community Based Services — Senior Community Service Employment Program</i>	2,531,337
Division of Social Services	
<i>Refugee Assistance Programs</i>	2,575,489
Division of Services for the Blind, Deaf, and Hard of Hearing	
<i>Rehabilitation for the Blind — Counsel/Placement</i>	14,696,923
Department of Correction	
<i>Prison Education Services</i>	4,556,094
Department of Juvenile Justice and Delinquency Prevention	
<i>Job Training Partnership</i>	61,330
Community Colleges System Office	
<i>Administration</i>	1,899,667
<i>State Aid — Institutions</i>	17,745,583
Total: \$469,248,494	

Economic Development

While economic development has been part of the agenda of most recent administrations, the legislature, and local elected officials in North Carolina, it is one of the most misunderstood activities that governments undertake. Politicians love to attract attention to themselves through job announcements and ribbon cutting, but those are a poor substitute for less glamorous policies that promote free markets, entrepreneurship, and overall economic growth.

The idea of economic development policy has come to mean policies meant to funnel tax and other kinds of subsidies to businesses and/or regions in the state. Hence the term *corporate welfare* is derisively attached to these policies, even though their stated purpose is to expand economic activity and employment, not to provide relief. Corporate welfare is the much more accurate term because like traditional welfare, these programs ultimately transfer wealth from some state residents to others without adding to economic growth or net job creation.

A partial list of economic development/corporate welfare programs would include:

- overseas advertising subsidies in the departments of Commerce and Agriculture
- special marketing programs for industries as varied as film production and meat goat farming
- state subsidies for private ventures such as the N.C. Biotechnology Center's venture capital fund
- state services offered below cost to agricultural and other businesses
- regional subsidies such as the state's investment in the Global TransPark in Kinston
- special tax breaks for "job creation" in distressed communities, worker training, and research and development

Programs that support all of this activity include the The William Lee Act, the One North Carolina Fund, and the Golden LEAF Foundation. The latter's revenues flow from North Carolina's portion of the tobacco settlement.

Key Facts

- In 2008-09 the General Assembly's appropriations for economic development in the form of tax credits and direct payments totaled over \$1.2 billion.
- Those appropriations do not include money allocated

by the Golden LEAF Foundation, which added about \$172 million during 2008-09.

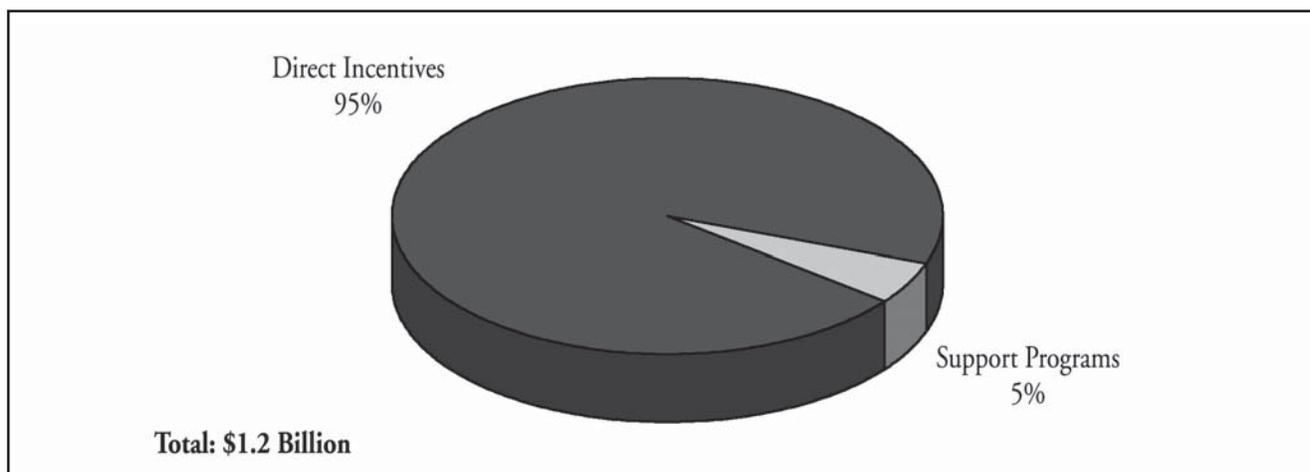
- While incentives may benefit the targeted business or entice it to locate within the state, they harm existing businesses and other taxpayers.
- Such policies do not generate net benefits for the state. Instead they simply hurt some and help others.
- Since higher taxes are an added cost of doing business, these subsidies depress economic growth for those businesses not receiving the subsidy.
- The subsidized entrants into the market add to the demand for resources, such as workers and land. This drives up costs for all businesses.

Recommendations

1. **Create an economic environment that will maximize gross state product (GSP).**
2. **Eliminate tax biases** against saving, investment, and entrepreneurship.
3. **Adopt a low, flat-rate, consumed income tax** where all income used for saving and investment would be exempt from taxation.
4. **Abolish the corporate income tax** or at least dramatically lower the rate.
5. **Eliminate all estate and inheritance taxes**, which are additional layers of taxation on saving.
6. **Lower the overall level of taxation** by cutting state spending.
7. **Keep the regulatory burden to a minimum.** All proposed regulations should meet a rigorous test of benefit/cost analysis with the presumption that no new regulations are implemented unless the benefits from their stated objectives outweigh the costs to the state's consumers and businesses.
8. **Devote state resources to core and constitutionally mandated functions** and to making sure that the services that it provides are of high quality, consistent with the citizens' desires, and conducive to economic growth. Those would include safety and law enforcement, education, water and sewer services, and roads.

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Economic development spending by type, FY 2008-09



Top five Golden LEAF grant recipients, 2006-10

2010	<i>Grant Name</i>	<i>Amount</i>
	Golden LEAF Loan Program at Self-Help	\$5,000,000.00
	Fair Bluff Career Technical Academy	\$1,750,000.00
	2010-11 Golden LEAF Scholars Program	\$1,740,000.00
	Triad Region GLOW - AM and MRO Workforce Development Initiative	\$1,452,550.00
	The Innovate Project	\$1,200,000.00
2009	<i>Grant Name</i>	<i>Amount</i>
	Camden County Green Industrial Park	\$1,999,100.00
	Golden LEAF Scholars Program, 2009-10	\$1,740,000.00
	Golden LEAF Scholars Program — Two-Year Colleges	\$1,500,000.00
	Construct Commerce Center Building	\$1,216,461.00
	Digital Classrooms & Technology Support for High School Reform	\$1,150,000.00
2008	<i>Grant Name</i>	<i>Amount</i>
	Marco Polo (MP)	\$99,999,999.99
	Project Huge	\$2,500,000.00
	Elizabeth City Aviation Research & Development Commerce Park	\$2,000,000.00
	Golden LEAF Scholars Program, 2008-2009 Academic Year	\$1,740,000.00
	Hunt Laptop Project: 1-to-1 Computing	\$1,613,300.00
2007	<i>Grant Name</i>	<i>Amount</i>
	The North Carolina Biomanufacturing Training and Education Center (BTEC)	\$2,570,000.00
	Supplementary Funding for BRITE Facility	\$2,300,000.00
	Golden LEAF Scholars Program (2007-08)	\$1,740,000.00
	Golden LEAF Scholars Program — Two-Year Colleges	\$1,500,000.00
	Pilot Plant to Enhance Sustainable Conversion of Biomass to Ethanol Fuels in NC	\$1,500,000.00
2006	<i>Grant Name</i>	<i>Amount</i>
	Western North Carolina Education Network (WNC EdNET)	\$2,000,000.00
	NC Community College Aerospace Alliance Initiative	\$1,948,681.00
	Golden LEAF Scholars Program — Two Year Colleges	\$1,500,000.00
	Rockingham County Equestrian Center	\$1,500,000.00
	Golden LEAF Scholars Program	\$1,500,000.00

Regulatory Reform

Most state governments, and even the federal government, have far better controls over the regulatory power of government agencies and commissions than does North Carolina. These controls are critical because unelected and unaccountable state officials make major decisions affecting almost every facet of our lives.

When there is excessive regulatory power, North Carolina suffers because it imposes great costs on its citizens and businesses and hurts the economic competitiveness of the state. All too often, the agencies ignore the will of the legislature in granting them regulatory power and instead regulate as they please.

Key Facts

- Regulations are agency-created rules that help to implement or interpret enacted legislation.
- In a 2005 John Locke Foundation survey of more than 600 North Carolina business leaders, regulatory burden was ranked as the second most important factor reducing the state's economic competitiveness (only North Carolina's tax burden ranked higher).
- About 81 percent of N.C. business leaders said that the cost of most government regulations exceeded their benefits.
- North Carolina has something called the Rules Review Commission (RRC) to review regulations and make sure agencies are not exceeding their authority. The RRC's power is, however, very limited.

Recommendations

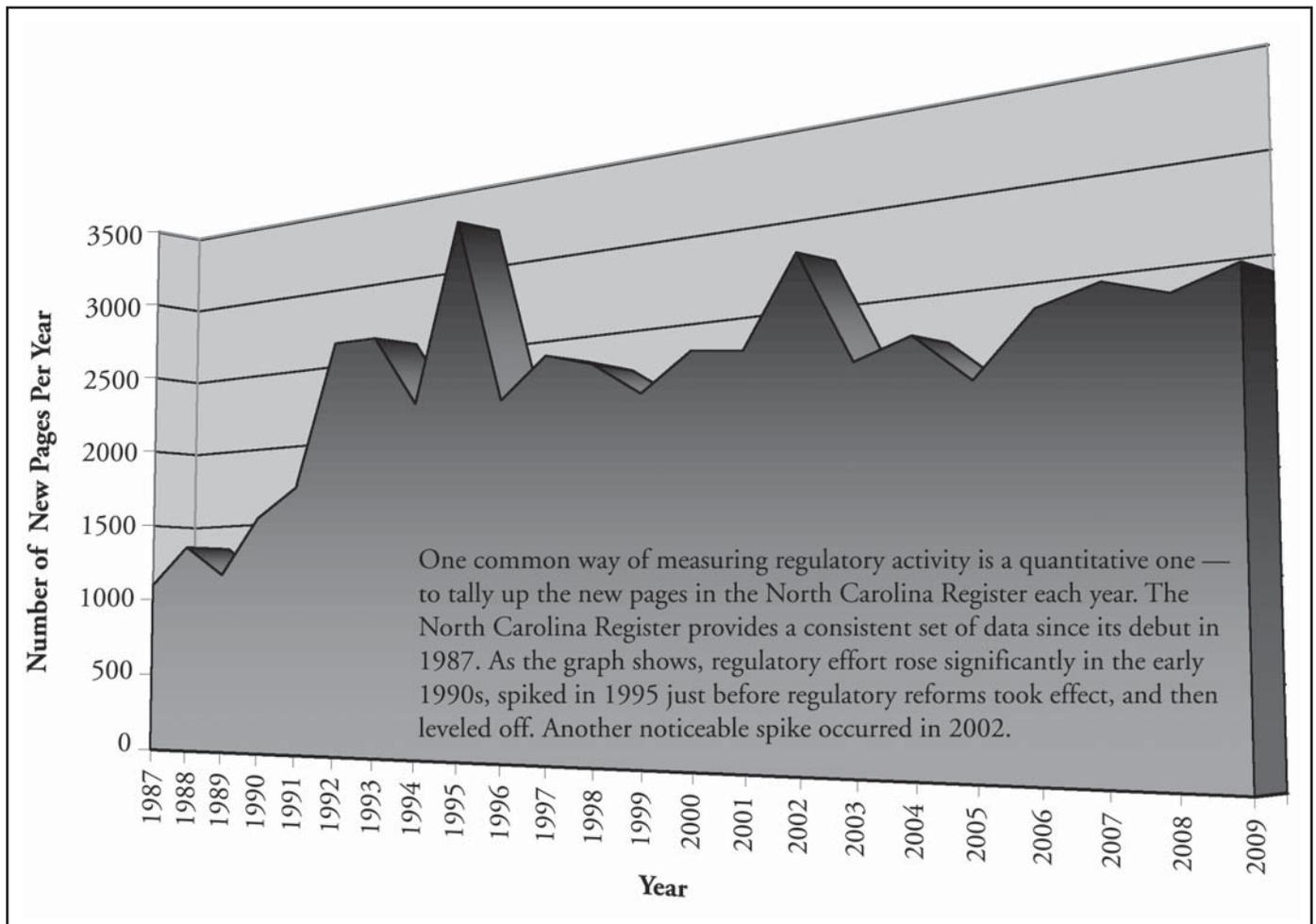
- 1. Give the RRC more power to challenge statutory authority.** The RRC should review rules to make sure they are "clearly within the authority delegated to the agency by the General Assembly." In addition, to define what "clearly within the authority" means, the law should clarify that clear statutory authority exists when no reasonable argument can be made that statutory authority does not exist.
- 2. Require cost/benefit analysis of regulations.** For nearly 40 years, the federal government has required agencies to conduct cost/benefit analysis. North Carolina does not require this approach. The RRC should

provide oversight in connection with the cost/benefit analysis. If the costs of new regulations exceed the benefits, then the regulations should be rejected.

- 3. Require that alternatives be considered.** As the federal government does, North Carolina agencies should be required to seek out alternatives to proposed regulations. As stated in President Reagan's Executive Order 12291, "the alternative involving the least cost to society shall be chosen."
- 4. Reduce the costs of complying with regulations.** As stated in President Carter's Executive Order 12044, regulation should be approved if "the least burdensome of the acceptable alternatives has been chosen."
- 5. Require regulations to achieve a clearly stated purpose.** Each agency should identify, in specific terms, what goals are being met by adopting the regulations. Regardless of what costs and benefits are identified, if the regulations do not achieve their stated purpose, the RRC should reject the regulations.
- 6. Require agencies to consider the unique needs of small businesses.** To address the differences between small businesses and larger businesses, agencies should be required to consider regulations that reduce the impact on small businesses (see the U.S. Small Business Administration's model legislation, next page).
- 7. Require periodic review of regulations.** Thirty-two states have periodic review of regulations, and the Small Business Administration recommends it as well. The passage of new laws or changes in technology can cause regulations to become outdated or unnecessary. Therefore, agencies should, as in Tennessee, have the burden to justify the continued existence of their regulations.
- 8. Prohibit agencies from passing regulations that exceed federal standards.** According to the Environmental Protection Agency (EPA), about one-third of all states have a law that prohibits agencies, at least in some areas, from exceeding federal standards.

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Measuring the trend in state regulatory activity – new pages in the North Carolina Register, 1987-2009



United States Small Business Administration's model regulatory flexibility analysis legislation

(a) Prior to the adoption of any proposed regulation on and after January 1, 2007,* each agency shall prepare a regulatory flexibility analysis in which the agency shall, where consistent with health, safety, environmental, and economic welfare consider utilizing regulatory methods that will accomplish the objectives of applicable statutes while minimizing adverse impact on small businesses. The agency shall consider, without limitation, each of the following methods of reducing the impact of the proposed regulation on small businesses:

- (1) The establishment of less stringent compliance or reporting requirements for small businesses;
- (2) The establishment of less stringent schedules or deadlines for compliance or reporting requirements for small businesses;
- (3) The consolidation or simplification of compliance or reporting requirements for small businesses;
- (4) The establishment of performance standards for small businesses to replace design or operational standards required in the proposed regulation; and
- (5) The exemption of small businesses from all or any part of the requirements contained in the proposed regulation.

(b) Prior to the adoption of any proposed regulation that may have an adverse impact on small businesses, each agency shall notify the [Department of Economic and Community Development or similar state department or council that exists to review regulations] of its intent to adopt the proposed regulation. The [Department of Economic and Community Development or similar state department or council that exists to review regulations] shall advise and assist agencies in complying with the provisions of this section.

* Reflects only the date this model legislation was drafted.

Eminent Domain

Eminent domain is the government's power to seize private property. The Fifth Amendment of the United States Constitution states "Nor shall private property be taken for public use, without just compensation." In other words, the government may seize private property for a "public use" if just compensation is provided.

For nearly a century, however, the United States Supreme Court has effectively deleted the phrase "public use" from the Fifth Amendment by allowing the taking of property for "public benefits" or "public purposes." These broad terms give the government power to take property for almost any reason. The demise of property rights was evidenced in the case of *Kelo v. City of New London* (2005).

The Supreme Court held in *Kelo* that the government can take private property from one citizen and transfer it to another so long as it is for economic development. In other words, if the government thinks it could generate more tax revenue by seizing someone's house and giving the property to a developer to build a shopping mall, it can legally do so.

Key Points

- States have the power to provide greater property rights protection than that afforded by the Fifth Amendment, and many states do.
- Eight states have passed constitutional amendments in response to the *Kelo* decision and other eminent domain abuses. Two of those states are North Carolina's neighbors Georgia and South Carolina.
- North Carolina has the weakest constitutional property rights protection in the country. The state constitution is the only one in the nation that does not have a "takings" clause—a provision that says property may only be taken for a public use.
- It would not be enough, however, merely to prohibit "economic development" takings. *The government rarely admits when it is taking property for economic development.* Instead, the government prefers to use a different justification, usually blight or urban development, for taking property for economic development. The most common eminent domain abuse connected to economic development is the seizure of private property through blight laws.
- By defining "blight" in very broad terms, the government can take property for whatever reason it wants.
- A recent Institute for Justice study states: "Under that

act [Federal Housing Act of 1949], which was in force between 1949 and 1973, cities were authorized to use the power of eminent domain to clear 'blighted neighborhoods' for 'higher uses.' In 24 years, 2,532 projects were carried out in 992 cities that displaced 1 million people, two-thirds of them African American."

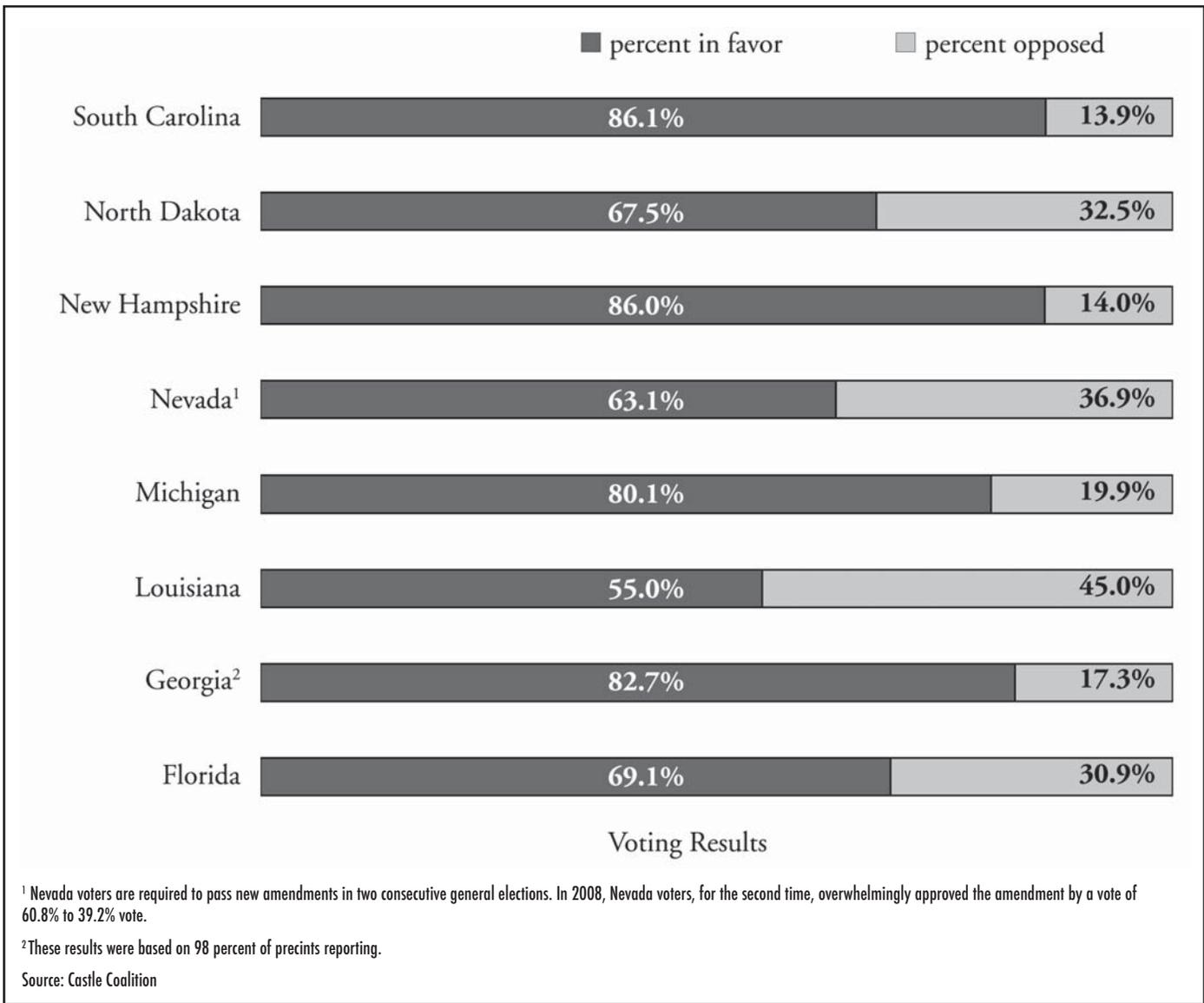
- *Just compensation* only covers "fair market value" without regard for relocation costs, loss of business goodwill, and other factors that financially harm property owners.

Recommendations

- 1. Amend the North Carolina Constitution to protect property owners from eminent domain abuse.** A fundamental right such as property rights should not be protected through statutory changes. That would be akin to protecting free speech through a state statute.
- 2. Prohibit economic development takings.** There needs to be a clear prohibition against the taking of property for economic development. Unless such a change is made, all property owners will be at risk of losing their homes, businesses, and places of worship to politically connected developers who "promise" to bring in money to the community.
- 3. Properly define blight and seize properties only if the properties themselves are blighted.** Under this reform, the property to be seized must present a concrete threat to the health and safety of the public.
- 4. Impose the burden of proof on the government.** Courts improperly defer to the government over whether something is a "public use" or a property is blighted. This deferment makes it virtually impossible for a property owner to challenge eminent domain abuses. The government should have the burden to prove that a taking is for a public use, that a property is really blighted, and that compensation is just.
- 5. Include relocation costs, attorneys' fees, and loss of business goodwill in just compensation.** Just compensation should make property owners whole. When the government seizes a home, it currently has to pay the property owner fair market value only, causing the owner to suffer significant financial loss.

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States that passed constitutional amendments protecting against eminent domain abuse in 2006



Forced Annexation

North Carolina is one of only a handful of forced-annexation states. Forced annexation is a type of annexation process that allows municipalities to unilaterally force property owners in unincorporated areas to live within the municipalities without their consent. Forced annexation is just one type of annexation (see the table on the following page), but it is the focus of annexation reform.

Key Points

- Annexation victims have no voice as to whether they will be forcibly annexed.
- Out of the states that allow city-initiated annexations (not to be confused with forced annexation), 67 percent allow a vote of the property owners. About half of states with city-initiated annexations allow county commissions to approve the annexations.
- Municipalities regularly annex people living in areas that do not need any services.
- The North Carolina Supreme Court, in a case called *Nolan v. Village of Marvin* (2006), explained that the primary purpose of forced annexation is to promote sound urban growth by providing property owners services that are a significant or meaningful benefit to them.
- There is nothing significant or meaningful in providing a service that an area does not need. Annexing municipalities often try to duplicate existing services, such as providing one extra police officer to an area with excellent police protection, as if such provision were somehow meaningful.
- Adding insult to injury, municipalities force annexation victims who neither wanted nor needed water and sewer not only to take them from the municipality,

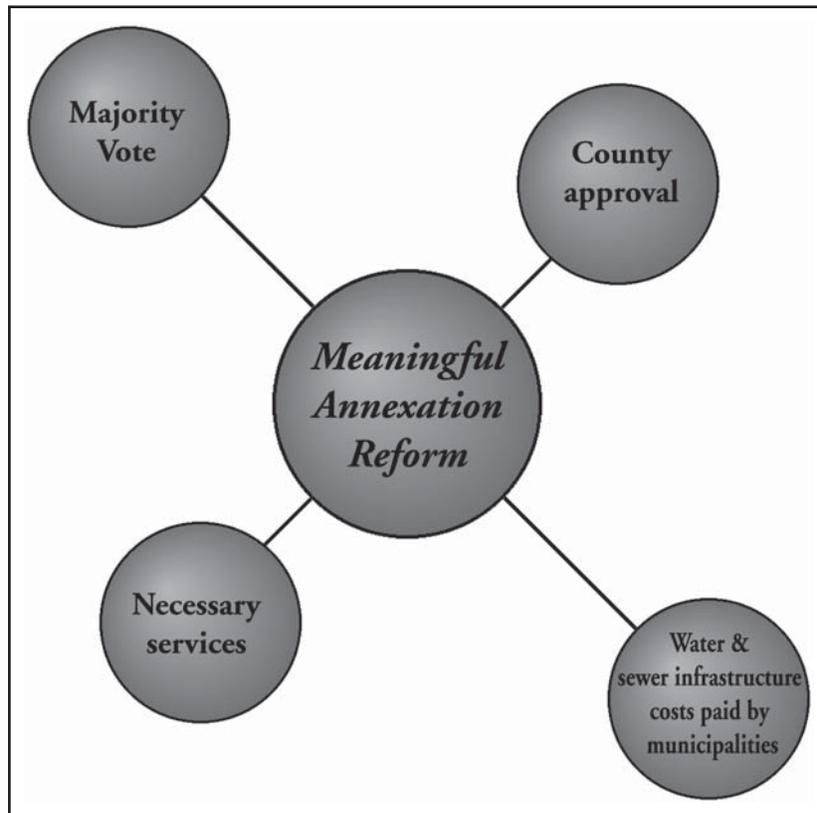
but also to pay for their infrastructure (and water and sewer infrastructure often costs more than \$20,000).

Recommendations

1. **Give annexed property owners a real voice in the annexation process.** True reform would give affected property owners a say over whether they are to be annexed. Ideally, it would require a simple majority vote in the affected area. Another option, albeit less desirable, is to have county commissioners approve annexations initiated by municipalities. At least in this process, affected property owners would have a representative voice regarding the annexation.
2. **Provide annexation victims at least one service that offers them a meaningful benefit.** If an area does not need any service, then a municipality should not be able to annex the area. Applicable services would be those included in the annexation statute: fire, police, water, sewer, and solid waste collection. If an area is found to be in *genuine need* of just one of those services, then a municipality should be able to move forward with its annexation if it can provide the service.
3. **Have annexing municipalities pay for water and sewer infrastructure.** Since municipalities are the ones that initiate the annexation, they should bear the cost of whatever infrastructure is necessary to provide water and sewer services. Forcing those massive costs on property owners is one of the greatest problems of the existing annexation law.

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The four essential components of meaningful annexation reform



Three types of annexation in North Carolina

<p>1. City-Initiated Annexation</p> <p><i>Forced Annexation</i></p> <p><i>Annexation By Consent</i></p>	<p>A municipality initiates annexation, but it does not have to be a <i>forced</i> annexation; it could be contingent upon a majority of affected property owners voting in favor of the annexation, either directly by referendum or indirectly through a vote of county commissioners.</p> <p>A municipality unilaterally forces affected property owners to live within the municipality.</p> <p>A municipality initiates annexation, but affected property owners vote directly or indirectly in favor of it. This kind of city-initiated annexation gives property owners a real voice in the annexation process.</p> <p><i>Note: North Carolina currently does not have this kind of city-initiated annexation.</i></p>
<p>2. Voluntary Annexation</p> <p><i>Satellite Annexation</i></p>	<p>Property owners petition a municipality to be annexed into the municipality. This type of annexation could be thought of as property owner-initiated annexations.</p> <p>A voluntary annexation in which property owners not located contiguous to a municipality seek to be annexed into the municipality.</p>
<p>3. Legislative Annexation</p>	<p>Annexation passed by the legislature.</p>

Energy Policy

It has been long-standing policy that energy should be both low-cost and reliable. After all, energy is the lifeblood of our economy. Energy is an input into every good or service.

Unfortunately, in 2007, the North Carolina legislature passed legislation, Senate Bill 3 (SB3), that would knowingly drive up electricity prices. The bill mandated that utility companies purchase 7.5 percent of their electricity from renewable energy sources, such as solar and wind power. The extra costs, not surprisingly, are passed on to customers.

Key Facts

- Under SB3, utility companies can meet 40 percent of the renewable energy mandate by buying electricity from outside the state, even though the electricity never comes back to North Carolina. In other words, North Carolinians pay extra for electricity to subsidize the electricity produced and delivered in states like Texas and California.
- “Renewable energy” is an arbitrary term with an arbitrary meaning. The obvious point of SB3 is to reduce carbon dioxide (CO₂); however, the definition of “renewable energy” includes neither nuclear energy nor even most hydropower.
- The “allowable” energy sources are filled with significant problems, not least of which is the high cost of wind, solar, and biomass (see the graph on the following page).
- North Carolina has poor wind resources. The only feasible locations for wind power in this state would be in the mountains or along the coast.
- Some environmental extremists want to create for wind power a special exception to the state’s Ridge Law, which prohibits the construction of tall structures along the mountain ridgelines. The law would still prohibit modest *privately* funded buildings that

would create jobs and help the economy, but electricity customers would be forced to pay for the placement of costly, unreliable, and massive (500 feet tall) industrial wind turbines along mountain ridgelines.

- If offshore wind turbines were constructed, not only would the massive structures be visible from the coast, but also customers would have to pay an excessive amount for electricity (much more even in comparison with the costs of onshore wind power).
- Wind power is intermittent and unreliable because the wind does not blow all the time. As a result, wind is not a source for baseload generation (the electricity generation needed for ongoing demand). Also, since wind cannot blow on cue, it is not a means for meeting peak demand.

Recommendation

1. **Repeal SB3.** A bill that artificially creates higher electricity prices hurts the economy and hurts families. Those who suffer the most are the poor. Individuals with lower incomes spend a greater share of their personal budgets on energy compared with groups at higher income levels. SB3 drives up electricity prices, creates a less reliable electricity system, and has no benefits.

If renewable energy sources, such as wind, solar, and biomass, were viable low-cost options, then utility companies would use them. Instead, these energy sources are so inadequate that the legislature had to pass a bill to force people to buy renewable energy.

SB3 primarily serves as a way to mandate a guaranteed market for renewable energy providers, because otherwise people would avoid their cost-prohibitive and unreliable electricity.

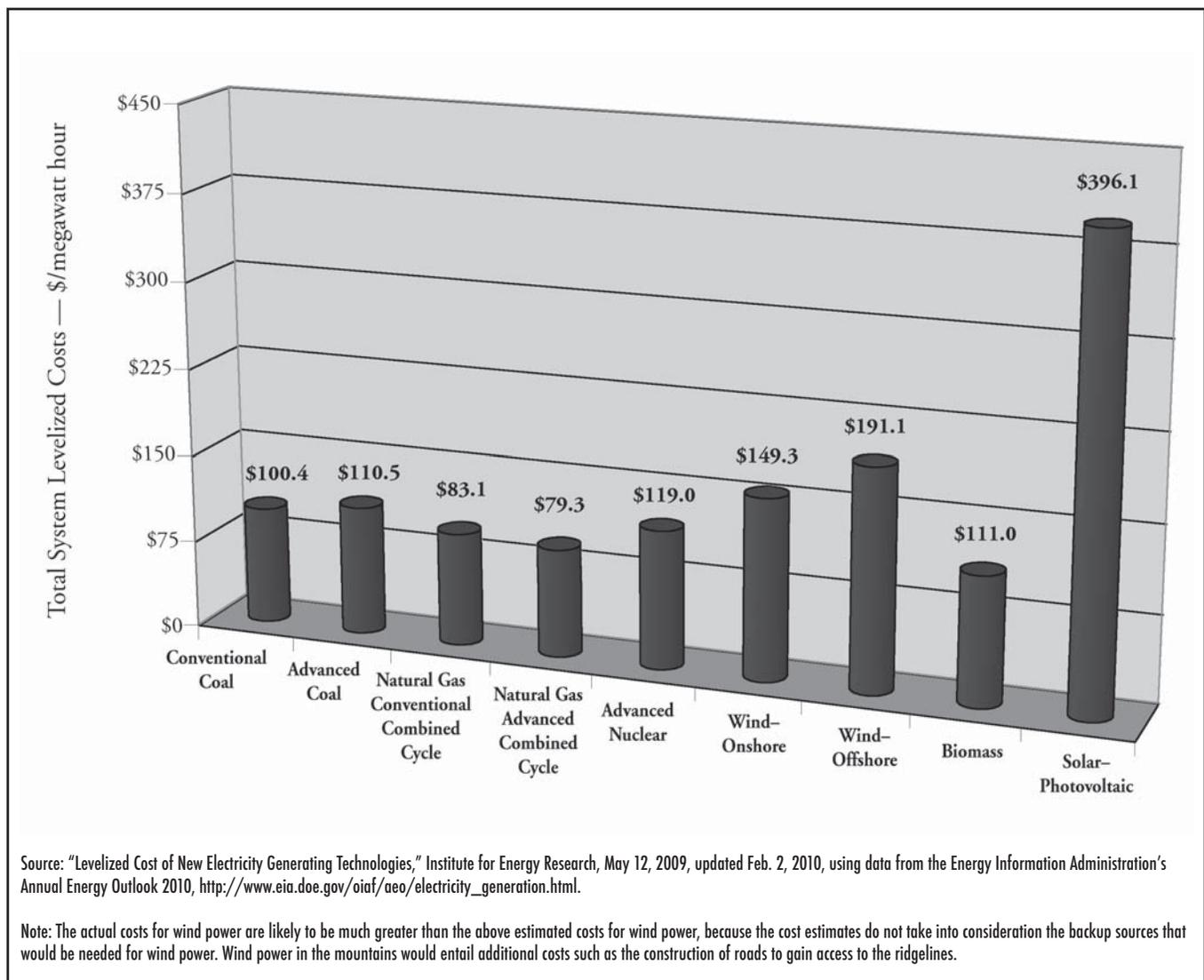
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Economic impact estimates for SB3 (net present value in 2009 dollars)

Year	Employment (jobs)	Investment (\$millions)	Real Disposable Income (\$millions)	Real State GDP (\$millions)	State and Local Revenues (\$millions)
2010	-1,046	-\$22.94	-\$8.23	-\$90.21	-\$35.12
2012	-3,078	-\$38.61	-\$49.36	-\$134.65	-\$47.29
2014	-3,275	-\$37.24	-\$44.09	-\$116.07	-\$42.22
2021	-3,592	-\$43.20	-\$56.80	-\$140.35	-\$43.49

Source: Beacon Hill Institute, Suffolk University

Cost of new energy generating technologies, 2016



Climate Change

In recent years environmental policymakers in the General Assembly have focused on reducing emissions of carbon dioxide (CO₂) in what is, at best, a misguided attempt to thwart global warming.

In 2007 the General Assembly passed Senate Bill 3 (SB3), which requires North Carolina's electric companies to generate 7.5 percent of the electricity that they sell in the state from renewable sources, such as wind and solar energy, and to induce its customers to reduce their energy use by another 5 percent. The measures are referred to as "energy efficiency" although the term *efficiency* in this case simply means reduction in use.

Global warming is likely to continue as the focus of environmental policy for the foreseeable future. In 2005 the legislature created the N.C. Legislative Commission on Global Climate Change (LCGCC) to evaluate the issue and to determine what, if anything, should be done about it. From the beginning the Commission's leadership, Rep. Joe Hackney, replaced by Rep. Pricey Harrison, and lawyer and environmental activist John Garrou, all have been strongly in favor of imposing CO₂ controls and energy use restrictions on North Carolina's industries and consumers.

The LCGCC completed its work in May 2010. Its final report recommended a laundry list of policies formulated by an environmental advocacy group, the Center for Climate Strategies, that was hired by the North Carolina Department of Environment and Natural Resources for its own commission called the Climate Action Plan Advisory Group (CAPAG).

CAPAG was formed to investigate ways to control CO₂ emissions and was specifically forbidden to have any discussion regarding the science of global warming. All of its investigative approaches were developed by the Center for Climate Strategies. Most of the CAPAG recommendations are now being proposed to the legislature by the LCGCC.

Given that former LCGCC chair Rep. Joe Hackney is now Speaker of the House, it is very likely that these recommendations will be taken seriously and ultimately be introduced as legislation in the coming months and years.

Key Facts

- There is nothing North Carolina can do, either by itself or in conjunction with other states, that will have a noticeable or beneficial impact on the climate.
- Suffolk University's Beacon Hill Institute in Boston concluded that policies recommended by CAPAG and now being proposed by the LCGCC would reduce employment by 33,000 jobs and state output by \$4.5 billion. The commission was presented with testimony from the authors of this study but ignored the findings and made no mention of it in the final report.
- Testimony of scientists to the LCGCC was based on science that has, as a result of the Climategate scandal, been shown to be fraudulent — including the now discredited "hockey stick graph" which was used as proof of manmade global warming by several witnesses. The legislative commission neither revisited any of those issues nor investigated the implications of Climategate revelations for their conclusions.
- The final commission report relies extensively on the 2008 testimony of IPCC head Rajendra K. Pachauri. Since that time it has been revealed that Pachauri stands to make a great deal of money if CO₂ restrictions such as cap and trade are put into law. There have been several calls for his resignation.
- Recent economic analysis has concluded that SB3, North Carolina's renewable energy standard and so-called energy efficiency requirements, will cost North Carolina over 3,600 jobs and \$140 million in lost state product with no global warming benefits.

Recommendations

1. **Abandon all state attempts to fight global warming.**
2. **Repeal already adopted legislation such as SB3,** which is raising energy costs and reducing employment opportunities in the state, which is already suffering from one of the highest unemployment rates in the country.

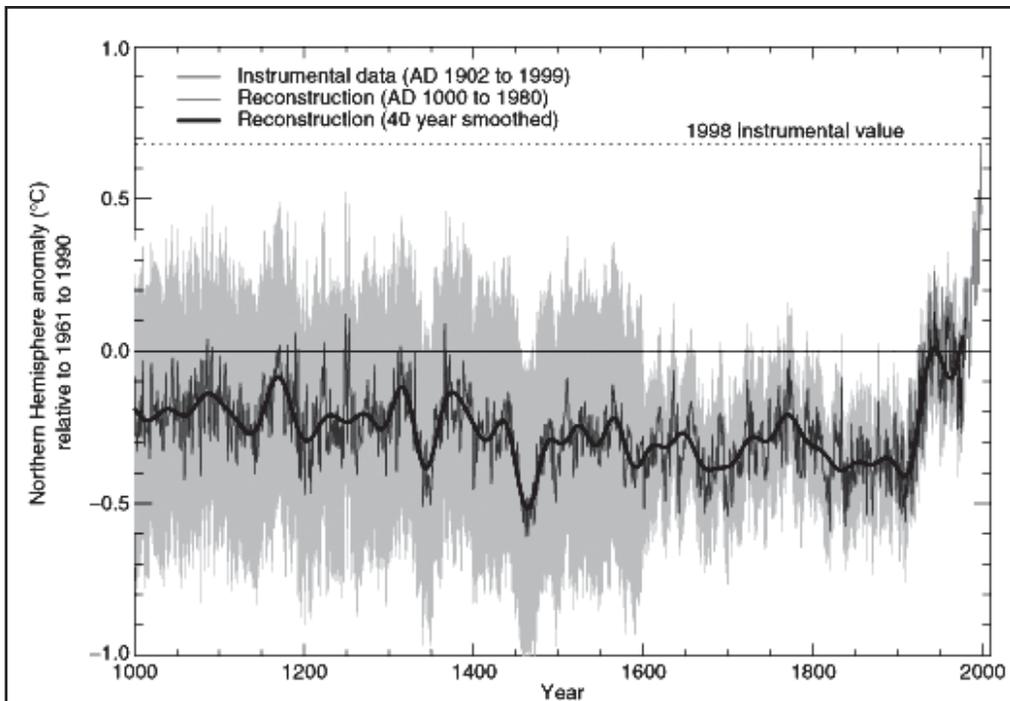
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Economic impact estimates for CAPAG proposal recommendations for 2011

	<i>Energy Demand and Supply</i>	<i>Transportation</i>	<i>Cap & Trade</i>	<i>Total*</i>
Net Employment	-2,473	-1,202	-29,808	-33,483
Investment (\$ millions)	-\$76.7	-\$27.7	-\$397.7	-\$502.4
Real Disposable Income (\$ millions)	-\$242.5	-\$46.5	-\$1,976.5	-\$2,265.5
Real State GDP (\$ millions)	-\$360.3	-\$168.0	-\$4,002.6	-\$4,530.9
State and Local Revenue (\$ millions)	\$170.3	-\$17.5	-\$337.3	-\$184.6

* Minor differences are due to rounding.
Source: Beacon Hill Institute, Suffolk University.

The IPCC's discredited "Hockey Stick" graph



The "hockey stick" graph (above) was constructed by paleoclimatologist Michael Mann. It purports to show a 1,000-year climate record. The N.C. Legislative Commission on Global Climate Change (LCGCC) relied heavily on this graph, which was presented in testimony by several scientists, none of whom were climatologists. It has been shown that for all years until 1980 proxy data from tree rings were used (the solid black line). When it became clear that after 1980 the proxy data showed a decline in temperatures, the authors dropped these data from the graph, continuing on after 1980 with only instrumental thermometer readings. In the "Climategate emails" it was referred to as the "trick" that was used to "hide the decline." The LCGCC made no attempt to revisit this issue in light of these revelations.

Note on the source: This chart is Figure 5 from the Intergovernmental Panel on Climate Change Third Assessment Report, copyright 2001 The Intergovernmental Panel on Climate Change, http://www.grida.no/climate/ipcc_tar/wg1/pdf/WG1_TAR-FRONT.PDF.

Water and Drought

North Carolina has experienced droughts on a regular basis since 2000. The 2007-08 drought was the most severe. In response, municipal water agencies restricted when and how people could use water, some considered pricing policy changes, and many raised prices after the drought because successful conservation efforts left them with less revenue. Private water suppliers also had little ability to temporarily raise prices even if they had wanted to, because they would have had to get permission from the state Utilities Commission, which has no easy or timely way to approve temporary price increases in response to low water levels.

Empirical research has shown that higher prices lead to similar levels of conservation but at much less enforcement cost to the water utility and less of a decline in revenue. Higher prices cause consumers to conserve voluntarily, and to conserve individually in the ways that are most practical for their individual needs.

Amid the 2007-08 drought, lawmakers acted *not* to make prices more flexible in response to droughts or rainy periods, but instead to pass another law (HB2499) that expanded state control over private wells, private water companies, and municipal water systems. The state is also suing to gain control of a dam and reservoir owned by Alcoa along the Yadkin River.

Key Facts

- Raleigh and Durham had among the lowest water prices in the Triangle area and were also among the hardest hit by the drought.
- Neither system had enough reservoir capacity, nor had they built adequate connections to systems drawing from Jordan Lake or alternate sources.

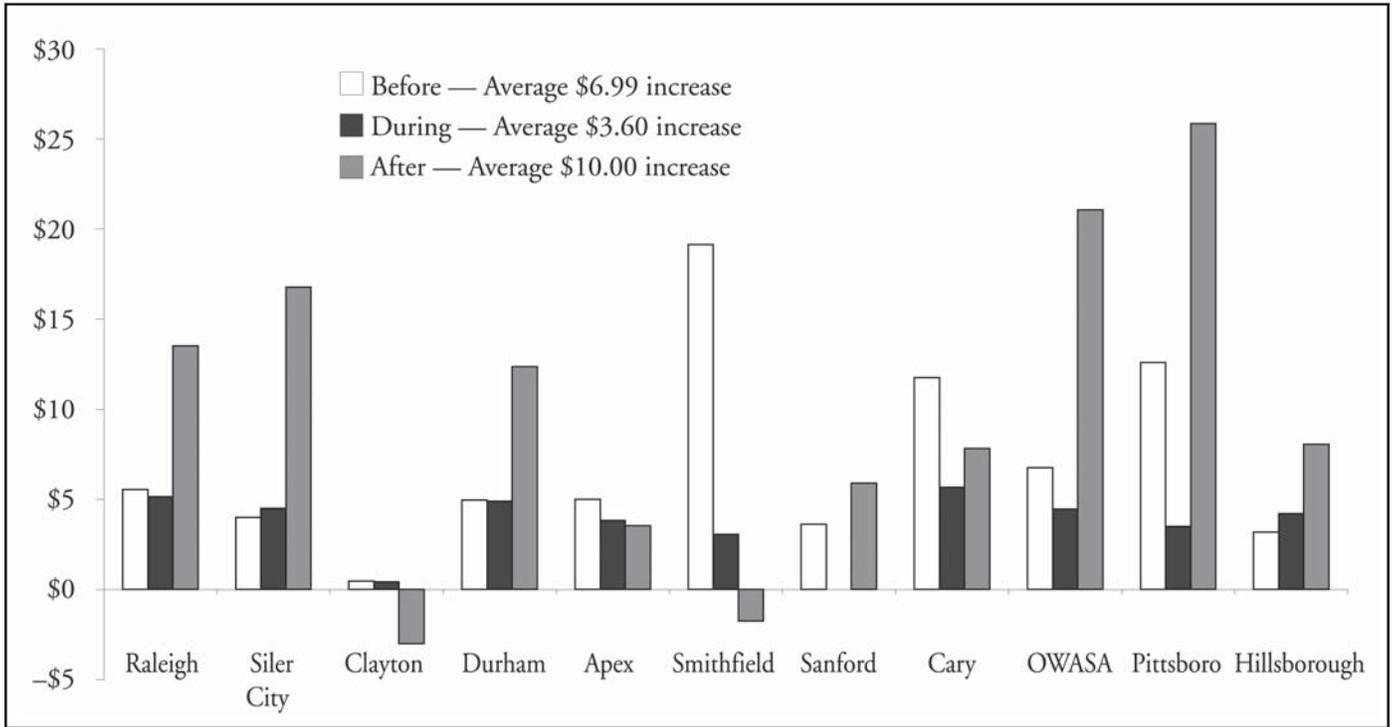
- Raleigh had stopped drawing from the Lake Benson and Lake Wheeler reservoirs in 1987 but could not start drawing from Lake Benson again until the Dempsey E. Benton water treatment plant was complete in 2010.
- Instead of raising rates, municipalities regulated how households could use water.
- Municipal water rates in the Triangle climbed faster before the drought began and after it ended than during the drought, when supplies were at their lowest levels.
- State regulation of municipal water systems and wells is unnecessarily onerous, potentially violates property rights, and will likely be ineffective against the next drought. The Division of Water Resources website does not include any information on local water rates.

Recommendations

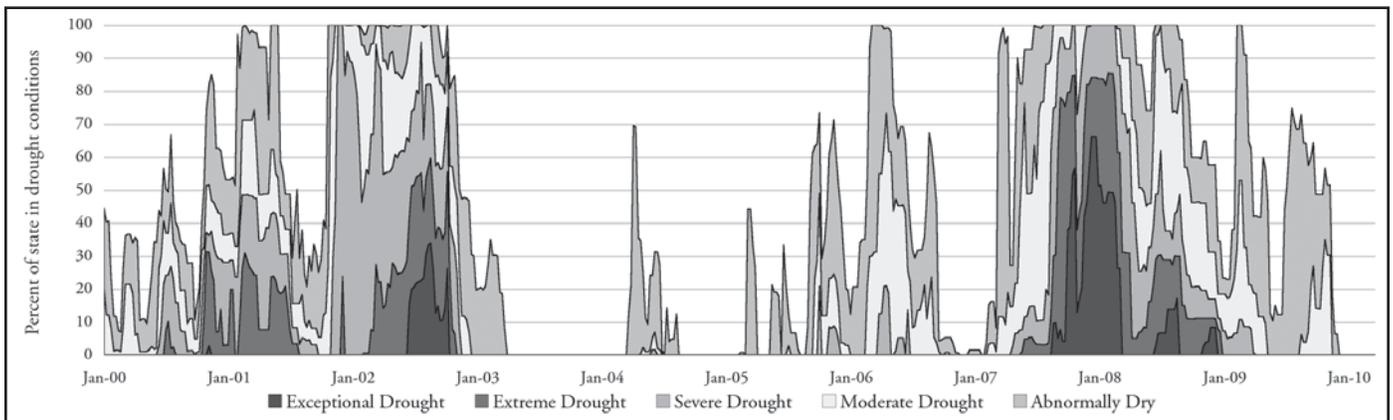
1. **Repeal SL 2008-143 and its command-and-control approach to water resource management.** It is too invasive and based on flawed assumptions.
2. **Reform water rate regulations to permit temporary price increases when supplies fall.** Prices could also fall when reservoirs are too high for public access.
3. **Facilitate innovations tried elsewhere** to reclaim wastewater for use as drinking water, to treat and transport drinking water separately from other water, and to privatize the water infrastructure as a way to increase investment.

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Water rate increases were smaller during the 2007-08 drought than either before or after



North Carolina has been through four droughts since 2000



Source: U.S. Drought Monitor, http://www.drought.unl.edu/dm/dmtabs_archive.htm

Health Care Reform

The new federal health care law will exacerbate many of the problems it was meant to address.

Some of the most effective health care reforms are changes in state policy, most of which are still available. Such reforms would only mitigate the costs to North Carolinians of federal law instead of resulting in a net reduction of health care costs, but they are still needed.

Key Facts

- The federal tax code punishes those who do not get insurance through their employer.
- Governments and insurance companies pay \$7 out of every \$8 spent on health care.
- Costs have risen as patients have paid a smaller portion of their medical expenses.
- Medicare accounts for half of the growth in medical costs.
- New treatment methods, pharmaceuticals, and diagnostic tools are often more cost effective than older methods when adjusted for inflation and health improvements.
- The federal health insurance law will add 15 million people to Medicaid across the country, 500,000 in North Carolina alone.
- Companies will need to file tax forms for any purchase of any good or service over \$600 starting in 2011.
- President Obama acknowledges that insurance premiums will rise 10-13 percent on average by 2016, and 17 percent for young healthy individuals, but nevertheless the president claims that the new policies will be better.

Recommendations

1. **Focus on care, not coverage.** Reform should expand access to quality care to more people throughout the state. Enrolling more people in Medicaid does not accomplish this goal.
2. **Give state employees control over their own health.** Provide a policy option for state employees to set aside money in a tax-free account to pay their medical expenses. If done with long-term accounts, this would also reduce the state's \$29 billion unfunded liability for future retiree health benefits.
3. **Let free enterprise flourish.** State restrictions on health insurance, care provision, and capital investment mean patients have fewer options for obtaining excellent care at reasonable costs. Some changes the state could take to offset the cost-raising and access-reducing aspects of national health care reform:
 - Allow individuals and businesses to purchase insurance from other states
 - Reduce mandated benefits for insurance companies
 - Ease restrictive licensing burdens on medical professionals
 - Repeal Certificate of Need
4. **Reform medical malpractice.** This means not just putting caps on punitive lawsuit awards, but allowing doctors and patients to agree in writing on the costs of malpractice. Too many injured patients never even file suit.

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Consumer-driven subscribers often have better care ...

Consumer-Driven (CDH) vs. Traditional Plans				
Study	Preventive Care	Recommended Chronic Care	Evidence-Based Care	Prescription Drug Utilization
CIGNA	+12%–14% ¹	Increased use of maintenance medications	92% of 300 rules for evidence-based care same or higher ¹	Cost and utilization slightly higher ¹
Aetna	+23%	Similar diabetic testing and chronic care script utilization	N/A	Generic utilization and substitution higher
Uniprise	Higher	Better compliance for chronically ill	Better compliance with evidence-based care	Prescription trends 3% higher
Reden & Anders	+4%	N/A	N/A	N/A

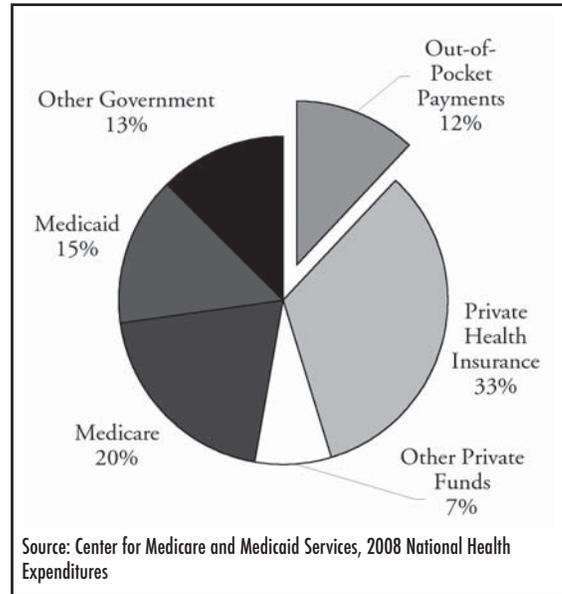
... and lower premiums than traditional plans

Study	CDH Trend	Traditional Trend	Percent Difference ²
CIGNA	-4%	9%	-12%
Aetna	-10%	8%	-17%
Uniprise	-15%	7%	-21%
Reden & Anders	N/A	N/A	N/A

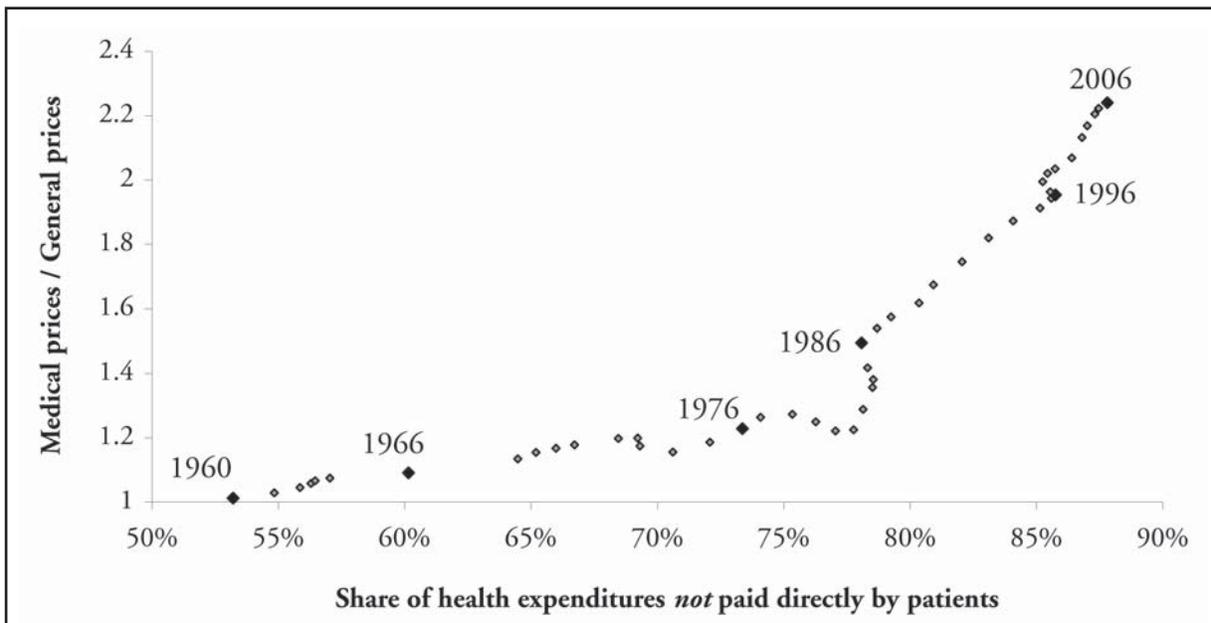
¹ Second CDH year

² Percent difference is calculated as $[(1 + \text{CDH trend}) / (1 + \text{traditional trend}) - 1] \times 100\%$

Of every \$8 spent on health care, patients pay less than \$1 out of pocket



As out-of-pocket share has fallen, medical costs have risen



Medicaid and Health Choice

Medicaid in North Carolina desperately needs patient-driven reform. State and federal expansions of Medicaid in the last 20 years have helped make it the fastest growing portion of the state budget.

North Carolina already has one of the most expensive Medicaid programs in the Southeast. Needed reforms go beyond cracking down on abuse and implementing a preferred drug list. Without reform, the state must either reduce the number of services covered or reduce the number of people eligible for Medicaid. With patient-driven reform, most enrollees can help reduce costs by making decisions about their own care.

Key Facts

- Medicaid was 5.5 percent of General Fund spending in fiscal year 1990 but climbed to 15.5 percent by fiscal year 2010.
- North Carolina has one of the most expensive Medicaid systems in the Southeast.
- Getting per-capita or per-enrollee costs in line with the regional average would save North Carolina more than \$400 million per year.
- The North Carolina Division of Medical Assistance expects the recently passed national health care reform to add 500,000 people to Medicaid in North Carolina by 2016.
- North Carolina Medicaid enrollment among adults under 65 more than doubled between 1999 and 2008 and is now near the national average.
- Private health insurance coverage in North Carolina fell from 77 percent in 1999 to 67 percent in 2008.
- Medicaid and NC Health Choice covered 31 percent

of all North Carolina children in 2008, up from 19 percent in 1999.

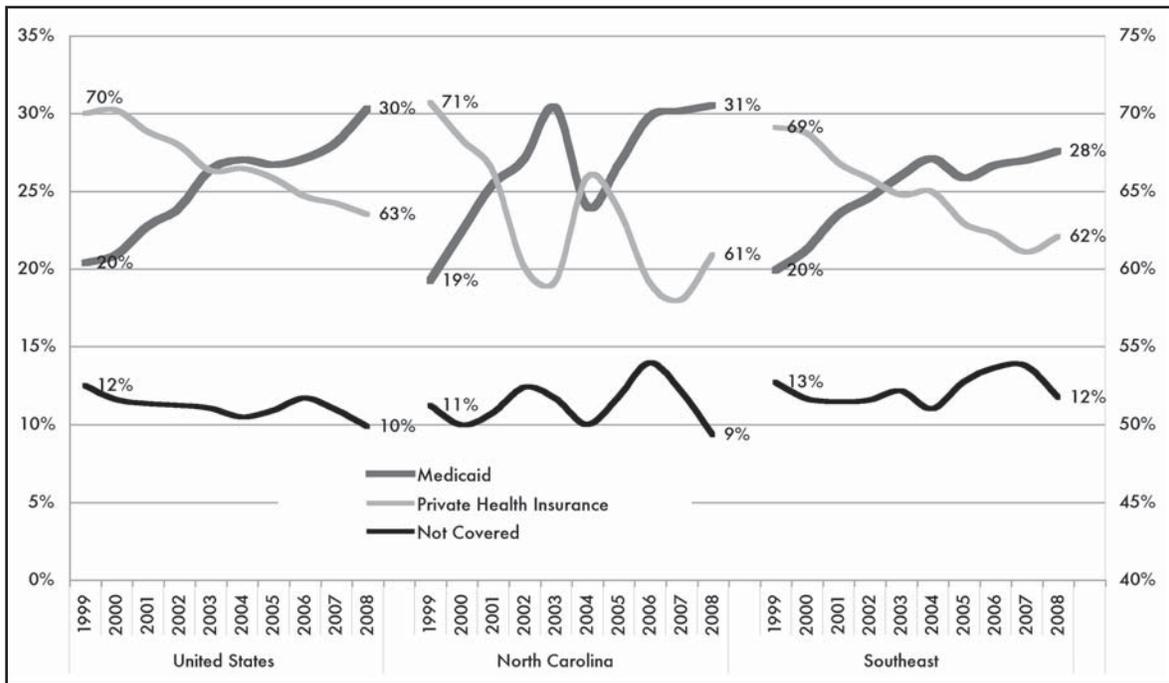
- The Congressional Budget Office estimates that six children lose private health insurance for every ten added to SCHIP.
- Losing Medicaid benefits is equivalent to paying a very high marginal tax rate.

Recommendations

1. **Seek a block grant.** State policy should not be held hostage to the whims of politicians in Washington, D.C. North Carolina should seek a block grant that would give the state more freedom to reform Medicaid.
2. **Use funds for premium support, not government insurance.** Despite its expense, Medicaid pays providers less than private insurance and leaves customers with less choice. The state should provide risk-rated subsidies to Medicaid recipients that can be used to purchase private insurance, with the option to continue coverage after they lose eligibility.
3. **Offer patient-controlled accounts.** Medicaid dedicates significant resources to monitoring and approving health expenses, but fraud and abuse remain major problems. Individuals with private sector health savings accounts have been more active in managing their health and had lower costs than those with traditional insurance. Medicaid patients could find similar savings. If the state allowed recipients to keep these accounts, the benefit could offset the high effective marginal tax rate that results from losing benefits.

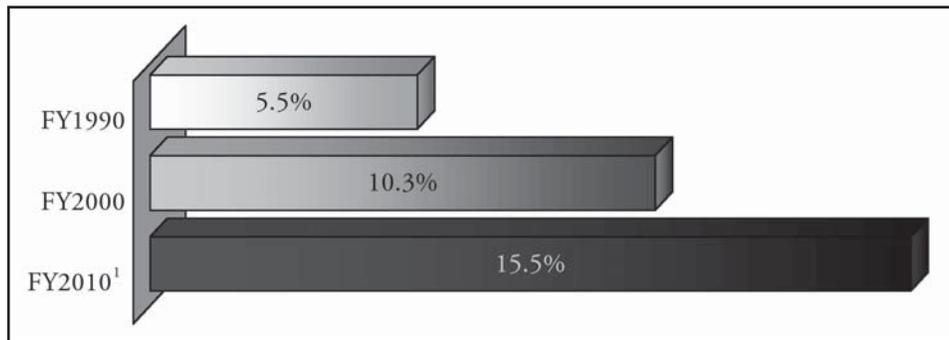
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Children under 18 were 50% more likely to be in Medicaid or NC Health Choice by 2008



Source: US Census Bureau

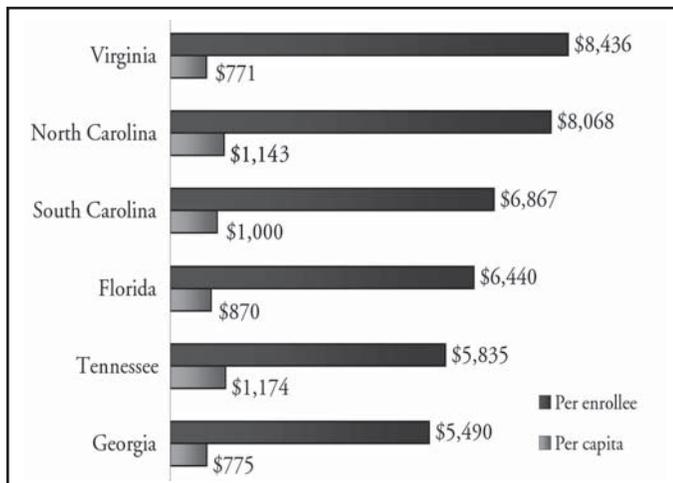
Medicaid's share of the General Fund in FY 2010 was nearly three times higher than in FY 1990



¹ Includes federal stimulus funds

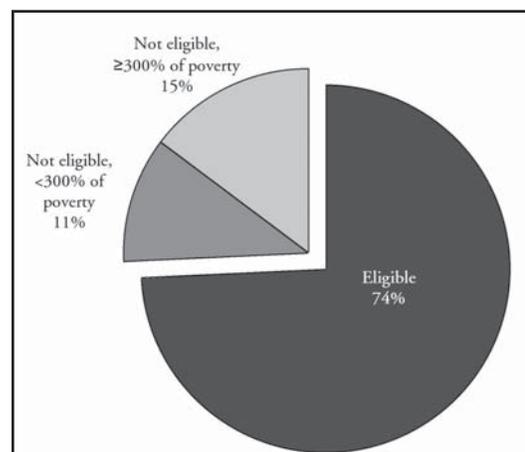
Source: North Carolina General Assembly

NC Medicaid spending is 2nd in the Southeast



Sources: NASBO, Kaiser Family Foundation, US Census Bureau

Three of four uninsured children already qualify for Medicaid or SCHIP



Source: Urban Institute, 2006

Mental Health

Mental health reform began in 2001 with a goal of moving from a hospital-based public system to a community-based public system but has had disappointing results. Despite claims to the contrary, privatization is not the problem. The main problem is hubris among reformers who too often have forgotten the first rule of medicine – do no harm. Each reform so far has provided an initial shock to the system followed by new problems and another round of revisions. Even when well intentioned, these changes have tended to make the system more complicated and less responsive to consumer needs.

Reforming mental health the right way depends on establishing responsibility at the right level and providing the right incentives for everyone in the system to seek better patient outcomes. Although there is no perfect system to emulate, many states have achieved success in one area or another. Some local management entities (LMEs) within North Carolina, such as Piedmont Behavioral Health, which operates under a Medicaid waiver, have also developed practices that the state can fruitfully expand to other regions.

Key Facts

- Discharges of patients who had been hospitalized for longer than one year rose quickly after reform but have declined since 2002. Discharges for all patients have declined since 2007.
- Piedmont Behavioral Health has some of the best mental health outcomes in the state at lower cost than the state's traditional fee-for-service programs.
- Every state hospital has been under federal investigation or had federal funding cut at some point in the past two years.
- State and private mental health management has been lacking at times. Examples include the Charles Franklin's \$319,000 salary as a contract employee with the Albemarle Mental Health Center LME, the Mental Health Association's unpaid taxes, and millions of dollars spent on unnecessary community support services.

- An estimated 16 percent of prison and jail inmates have serious mental illness.
- Inmates with mental illness cost more to detain per day and have longer detentions than other inmates.
- Crisis Intervention Teams (CIT), which improve treatment outcomes and public safety with less recidivism, have been adopted by 151 law enforcement agencies in every LME except Johnston County.
- Medicaid pays 60 percent of mental health costs in state.
- Seventeen counties have no psychiatrists, and 65 counties have less than one psychiatrist per 10,000 residents.

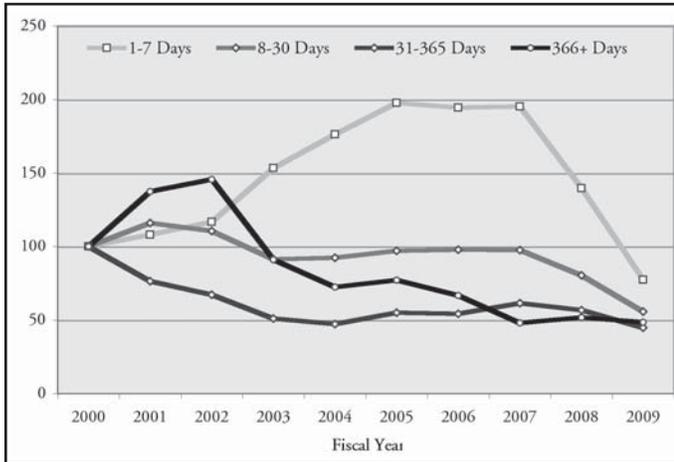
Recommendations

1. **Continue to expand Medicaid waivers that pay local mental health agencies** (LMEs) for managing care instead of paying providers for services. PBH (Piedmont Behavioral Health) has worked under this system and had better care and cash results than other management entities.
2. **Allow LMEs to compete and expand across geographic boundaries.**
3. **Encourage more counties and cities to adopt crisis intervention teams** (CIT) as a way to improve the community-care system, improve public safety, and allow jails to be used for other offenses. Only the Johnston County LME has not yet implemented CIT.
4. **Ease restrictions on scope of practice** that limit the ability of nurses and other doctors to provide access to psychiatric care in more places at less cost.
5. **Keep Dorothea Dix Hospital open indefinitely** and adjust staffing and training at state mental hospitals to the evolving role of hospitals as crisis centers with some long-term patients.

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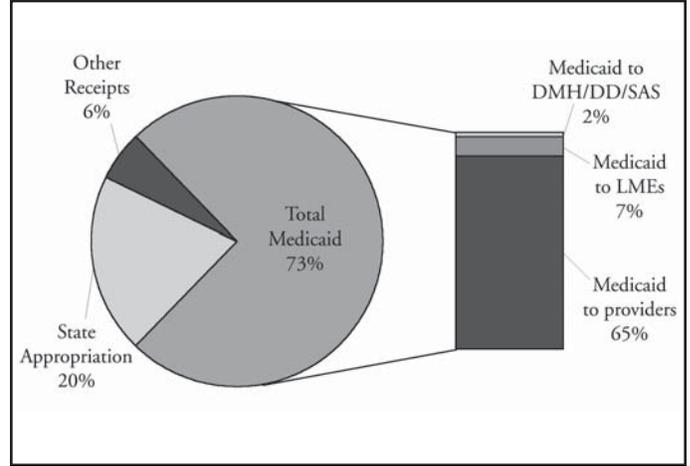
Long-term discharges spiked early in reform

(discharges by length of stay; FY2000=100)



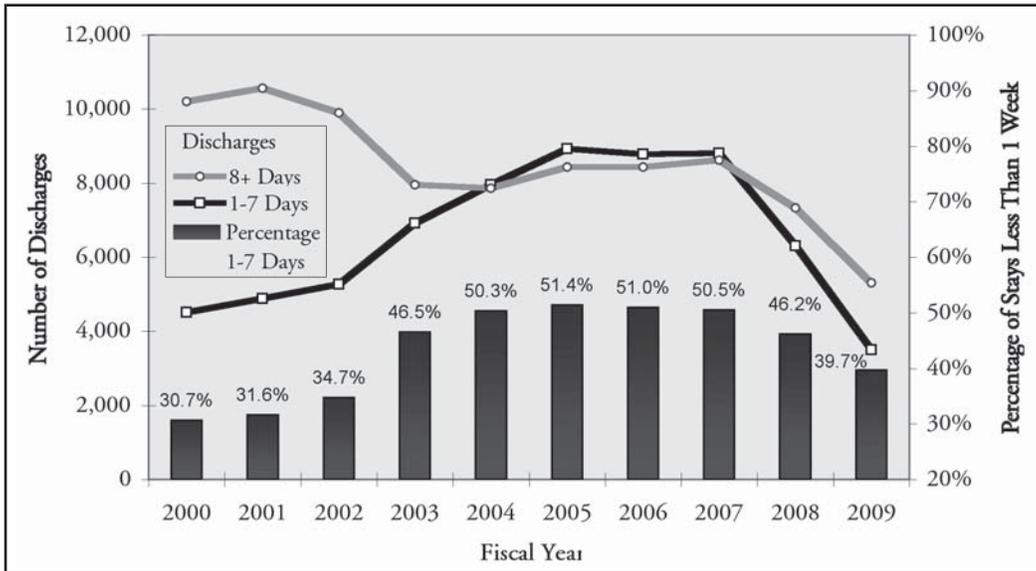
Source: Division of Mental Health, Developmental Disabilities, and Substance Abuse Services

Medicaid pays \$3 out of every \$4 on mental health, nearly all of that directly to providers

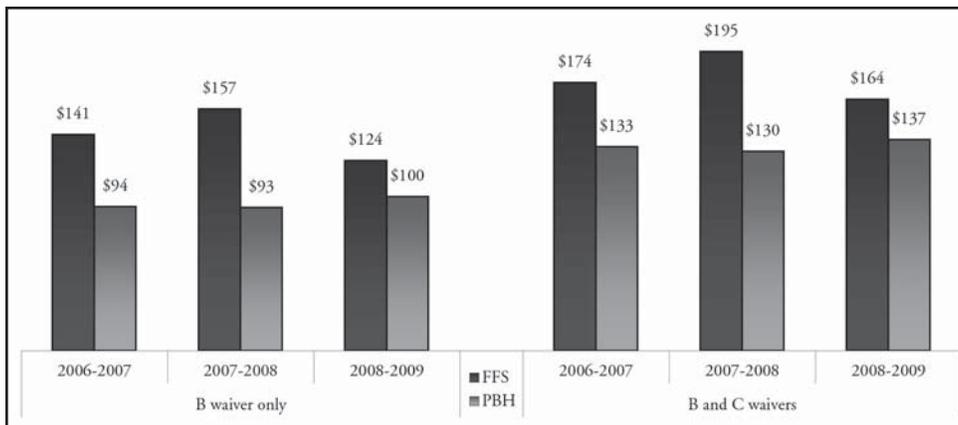


Source: Division of Mental Health, Developmental Disabilities, and Substance Abuse Services

Hospitalizations are down, and fewer of them are for one week or less



Piedmont Behavioral Health had lower costs in both waiver programs than Medicaid Fee-for-Service



Source: Piedmont Behavioral Health

Public Transit

Public transit systems in North Carolina have become less about helping citizens move around their communities in the way they desire and more about planners gaining enough political power to impose their transportation preferences and land use fads on those citizens. And it's not just in North Carolina. U.S. Secretary of Transportation Ray LaHood recently admitted that his Livability Initiative is "a way to coerce people out of their cars."

"We always saw transit [Charlotte's light rail system] as a means, not an end," Charlotte-Mecklenburg planning director Debra Campbell told *Governing* magazine. She later added, "The real impetus for transit was how it could help us grow in a way that was smart. This really isn't even about building a transit system. It's about place making. It's about building a community."

Those terms — *smart*, *place making*, and *building a community* — are all euphemisms for anti-car, anti-suburb, pro-public transit, pro-high density living in the center city. In the words of urbanologist Joel Kotkin, planning bureaucrats at all levels are implementing "cramming" policies that will produce a "forced march to the cities."

When the vast majority of Americans want a home with a yard, transit planners must use government regulation to force them into high-density housing and use of mass transit.

Key Facts

- Approximately 80 percent of Americans want to live in a single-family detached home with a yard, and most people want to take advantage of the mobility offered by the personal automobile.
- Nevertheless, the U.S. Dept. of Transportation, the U.S. Dept. of Housing and Urban Development, and the Environmental Protection Agency have combined their authority and federal funding to coerce states and cities to adopt policies that force people to live in high-density housing and travel using mass transit.

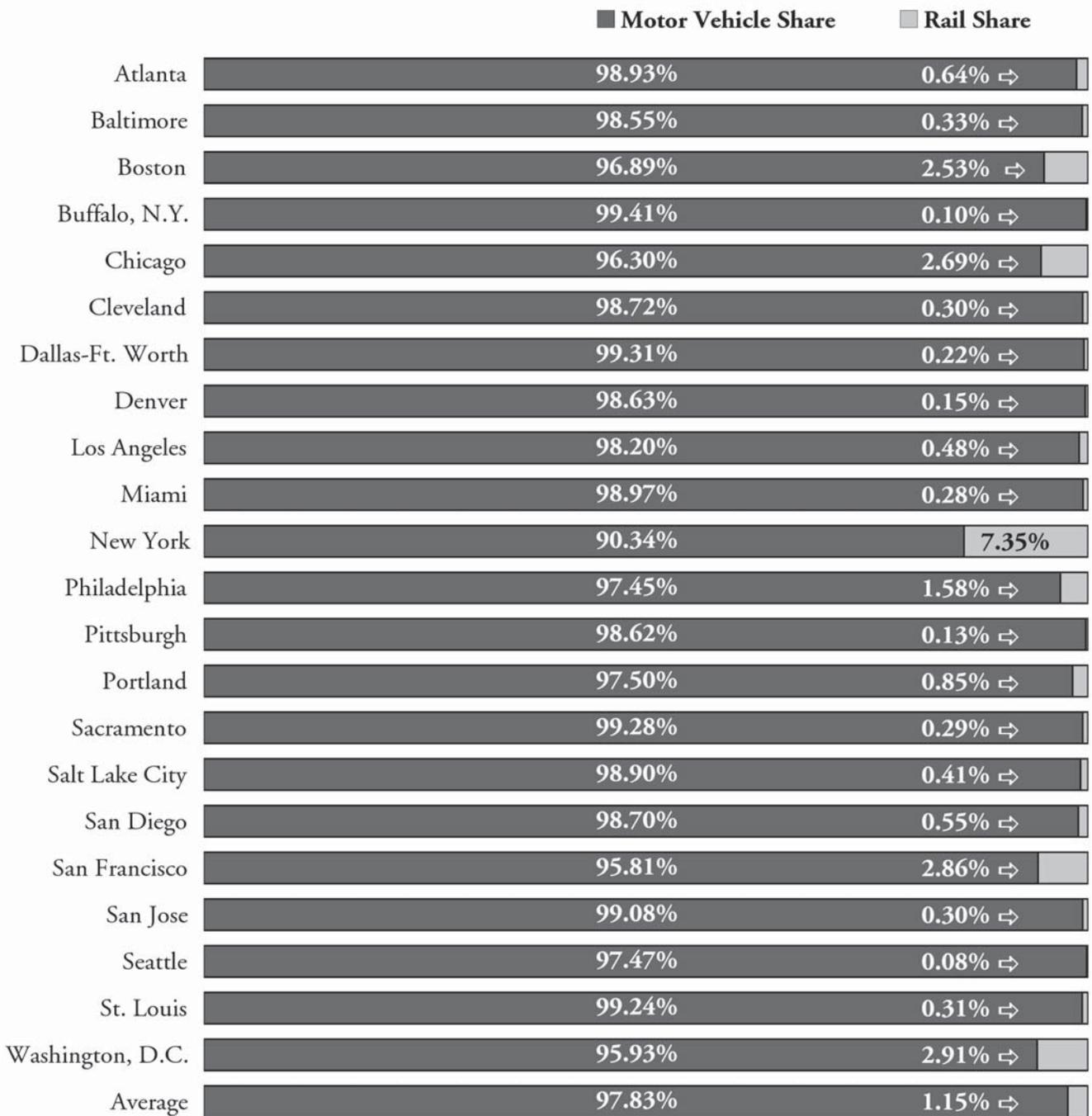
- The massive public-transit effort over the last 30 years has resulted in a decrease in the proportion of people using public transit in major metro areas from roughly 8 percent to 5 percent.
- Of the 22 largest urban rail transit systems in the country, only six carry more than one percent of the share of total passenger travel, and only one of those (New York City's) carries more than 3 percent (see the graph on the following page).
- In Charlotte, public transit (bus and rail) carries only 2.6 percent of the commuting passengers, but it received 57.5 percent of the transportation funds (see Figure 5, "Highways and Interstates," following section). This funding imbalance has contributed to the traffic congestion problem in Charlotte.
- Charlotte's light rail (LYNX) passengers pay only 3.4 percent of the total cost (operating and capital) of the trip. Taxpayers pay \$20.14 for every trip, or \$40.28 for every commuter to travel to and from work (Randal O'Toole, "Defining Success: The Case Against Rail Transit," Cato Institute *Policy Analysis*, No. 663, March 24, 2010, p. 4).
- According to Joel Kotkin, "Over 90 percent of all jobs in American metropolitan regions are located outside the central business districts, which tend to be the only places well suited for mass transit" ("Forced March to the Cities" *Forbes*, March 16, 2010).

Recommendations

1. **End state funding of rail transit projects.**
2. **Repeal the local-option sales tax authorization for rail transit projects.**

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Who travels how? Rail vs. motor vehicle share of all motorized passenger travel



Note: This chart uses data provided by the American Dream Coalition and the Thoreau Institute compiling fields from the National Transit Database. The rail share was calculated by dividing total rail passenger miles by total passenger miles for all travel methods, including rail and automobile.

Highways and Interstates

The “good roads” state is quickly turning into the “traffic congestion” state. While North Carolina ranks 3rd among the 50 states in the amount of money spent per mile of roads, it seems that the money is not spent well. Our rural and urban interstates are poorly maintained and congested (see Figure 1).

One reason for the deterioration of the state’s roads is that the General Assembly has not dedicated all highway-related revenues to highway construction and maintenance. Since 1990, a total of nearly \$4 billion in proceeds from gas and car taxes have been spent on transit or General Fund programs (see Figure 2). While most of this transfer was originally intended to offset tax changes in the 1989 transportation bill, it is long past time that all gas and car taxes be dedicated to highway investment.

The legislature has ignored the politicized decision making-process at the Board of Transportation, which continues to misallocate road building funds based on political logrolling, not documented transportation needs.

The General Assembly continues to allow the over-funding of public transit at the expense of roads. These failures have all contributed to a deteriorating road system. The legislature must restore public confidence by spending highway user fees on highways, not on politicians’ pet projects.

Key points:

- While North Carolina’s highway system ranks 20th of 50 states in overall performance, it ranks 46th in urban interstate congestion (Figure 1).
- The state’s low urban interstate congestion ranking is the worst among its competitor states in the Southeast (Figure 3).
- Of 17 municipal public transit systems in N.C., only five carry more than one percent of the commuters, and only three carry more than two percent.
- Nevertheless, those systems receive a disproportionate share of the transportation funds. Public transit’s share of transportation funds in Charlotte is 57.5%; in Raleigh, 27.5%; and in Durham, 50.7% (Figure 5).
- The state’s highway needs are estimated at \$50 billion to \$70 billion over 25 years.
- North Carolina’s gasoline tax of 30.2 cents per gallon

is the second highest in the Southeast (behind only Florida’s) and the 16th highest among the 50 states. It is nearly 10 cents higher than those of five other Southeastern states (Figure 4).

- Since 1990 the General Assembly has ignored the dismal road conditions and diverted about \$4 billion from the Highway Trust Fund to the General Fund (Figure 2).
- Spending \$8.2 billion in federal, state and local funds on rail transit in the Triangle that will carry only about one percent of the traveling public is a poor investment (see the “Public Transit” section).

Recommendations

1. **Stop transferring funds from the Highway Trust Fund to the General Fund.** Ending the transfer would add hundreds of millions of dollars a year to the state’s investment in highway construction and maintenance.
2. **Change the state’s highway formulas that currently favor sparsely populated rural areas so that they provide relief to the congestion-plagued cities.** In other words, highway funds should be distributed based on documented transportation needs, not political horse-trading.
3. **Restructure the Department of Transportation** by reducing and merging departments.
4. **Increase the use of competitive contracting** for design and planning functions.
5. **Downsize the Board of Transportation** and make it an advisory panel only.
6. **End the disproportionate funding of mass transit.** Transportation funding should be based on the way people actually travel, not on transit planners’ attempts to use transit to reshape cities.
7. **End state funding of rail systems** in the Triangle and the Triad and repeal local-option sales tax authorization for rail transit (see the previous section on “Public Transit” for more details).

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Figure 1. North Carolina performance by category, 2007 (overall rank: 20)

Category	50-State Rank
State-controlled highway miles	2
Total disbursements	3
Disbursements—capital bridges	4
Disbursements—maintenance	6
Disbursements—administration	9
% urban interstate in poor condition	22
% narrow principal arterial lanes, rural	34
Bridges, % deficit or obsolete	34
Fatality rate per 100 million miles driven	37
% rural interstate in poor condition	43
% urban interstate congested	46

Figure 2. Budgeted transfers from Highway Trust Fund to General Fund

Fiscal Year	Transferred (\$millions)	Fiscal Year	Transferred (\$millions)
1989-90	\$164.7	2000-01	\$ 170.0
1990-91	231.1	2001-02	251.7
1991-92	170.0	2002-03	377.4
1992-93	170.0	2003-04	252.4
1993-94	170.0	2004-05	242.5
1994-95	170.0	2005-06	252.6
1995-96	170.0	2006-07	57.5
1996-97	170.0	2007-08	172.5
1997-98	170.0	2008-09	147.5
1998-99	170.0	2009-10	108.6
1999-2000	170.0	Total	\$ 3,958.5

Figure 3. Urban interstate congestion, 2007

State	Rank (1=least cong.)
Virginia	18
Florida	32
Tennessee	35
South Carolina	36
Alabama	38
Georgia	42
North Carolina	46

Figure 4. State excise taxes on gasoline (cents/gallon)

State	Gas Tax	Rank
Florida	34.5	8
North Carolina	30.2	16
Tennessee	21.4	35
Alabama	20.9	36
Georgia	20.9	36
Virginia	19.5	41
South Carolina	16.8	47

Figs. 1, 3: David T. Hartgen, Ravi K. Karanam, and M. Gregory Fields, 18th Annual Report on the Performance of State Highway Systems (1984-2007/8), Reason Foundation, Dec. 2009; Fig. 2: N.C. General Assembly, Fiscal Research Division; Fig. 4: Tax Foundation.

Figure 5. Long-range plan funds by mode of transportation

MPO Region	Highway*	Transit*	Other*	Total Funding*	Transit Share of Funds (percent)	Transit Share of Commuting (percent)
Charlotte	\$4,699	\$6,346 [†]	--	\$11,045	57.5%	2.6%
Raleigh	\$5,726	\$2,174	--	\$7,900	27.5%	1.2%
Durham	\$2,778	\$3,104	\$240	\$6,122	50.7%	3.0%
Greensboro	\$2,955	\$743	\$115	\$3,813	19.5%	1.3%
Winston-Salem	\$2,362	\$43 [†]	--	\$2,362	1.8%	1.5%
Fayetteville	\$2,153	\$200 ^e	--	\$2,353 ^e	8.4%	0.8%
Hickory	\$1,680	\$116	--	\$1,796	6.5%	0.3%
Concord	\$1,421	\$50 ^e	--	\$1,471 ^e	2.9%	0.4%
Asheville	\$1,298 ^e	\$42 ^e	\$70 ^e	\$1,411 ^e	3.0%	0.8%
Wilmington	\$1,193	\$180	\$8	\$1,380	13.0%	0.9%
High Point	\$1,071	\$9 [†]	--	\$1,071	0.8%	1.3%
Gastonia	\$934	\$95	--	\$1,030	9.3%	0.3%
Goldensboro	\$900	\$34	\$11	\$945	3.6%	0.4%
Jacksonville	\$682	\$37	\$8	\$727	5.1%	0.8%
Greenville	\$533	N/A	--	\$533	N/A	0.8%
Burlington	\$492	N/A	--	\$492	N/A	0.1%
Rocky Mount	\$322	\$1	--	\$323	0.4%	0.4%

See David T. Hartgen, Ph.D., Table II.A.2: Long-Range Plan Funds by Mode, "Traffic Congestion in North Carolina: Status, Prospects, and Solutions," John Locke Foundation Policy Report, March 2007, <http://www.johnlocke.org/site-docs/traffic/01IntroandRecs.pdf>.

KEY
 * In thousands of dollars
 e Estimate
 † Through 2010
 ‡ Through 2014
 † Latest: \$8.4 billion

Privatization

Privatization is an umbrella term used to describe several techniques that increase competition in the public sector. The primary difference between the public and private sectors is competition. Private sector entrepreneurs must constantly look over their shoulders because the competition might find a way to cut costs and lower prices, putting them at a competitive disadvantage.

The public sector, on the other hand, can be characterized as a monopoly provider. State agencies are often the only service provider or when there is competition with the private sector, the state agency has unfair access to taxpayer funds. State agency personnel secure agency income, not by satisfying customers, but by satisfying special-interest groups who lobby for and legislators who pass their agency budget.

Taxpayers and citizens alike benefit from privatization techniques because increased competition lowers costs and improves the quality of services.

Types of Privatization

Competitive sourcing uses a bidding process that allows private sector service providers to compete with public sector agencies. If, for example, the state wanted to obtain bids for drivers' license processing, the existing state workers would submit a bid in competition with private companies. The lowest bid, public or private, would receive the contract to provide the service.

Public/Private Partnerships (PPPs) are joint ventures between public agencies and private firms to provide some service or perform some function. PPPs are commonly used in constructing buildings or roads. For example, private toll roads can be built according to state specifications with users paying the costs and, after a contractually agreed-upon time, the road would revert to state ownership.

Contracting out involves the public sector contracting with private or nonprofit firms to deliver a service that a government agency previously provided. Taxpayers can benefit because the contracts are open to competitive bidding. The government maintains control through the terms of the contract. Common examples are driver's license testing, food service in schools and prisons, parks management, and wastewater treatment.

Asset sales are a way for governments to increase revenues by shedding nonessential property or commercial-type enterprises. In addition, some governments have sold build-

ings and then leased back needed space. The budget crisis in California has prompted that state to consider selling the LA Coliseum, San Quentin Prison, and a number of state fairgrounds. Estimates of asset sales (also called divestiture) in California range up to \$1 billion (see chart).

State-level comprehensive approaches

The most effective way for North Carolina to save money through privatization is to create a state-level, independent decision-making body to manage privatization efforts. Recent successes in Florida, Virginia, and Utah prove the effectiveness of this approach.

Key Facts

- Florida's Council on Efficient Government created by former Governor Jeb Bush pursued privatization initiatives statewide, with cost savings estimated at \$550 million dollars.
- Virginia's Commonwealth Competition Council managed contracting out and privatization projects that saved the state \$40 million.
- Utah passed legislation in 2008 to strengthen its Privatization Policy Board.
- Louisiana established a Commission on Streamlining Government.
- Arizona's Council on Efficient Government proposal would have created the most powerful state-level privatization agency in the country.
- Illinois proposed a bill similar to Arizona's with its Council on Efficient Government.
- Oklahoma's legislature voted to establish a joint Committee on Accountability, Innovation and Privatization.
- Virginia is moving in a similar direction with a proposed Government Efficiency Review Commission.

Recommendation

1. **Adopt a comprehensive privatization strategy** by creating a Council on Efficient Government similar to those of Arizona and other states in the forefront of the comprehensive privatization movement.

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State privatization activities, 2009

Alabama	Commission report on PPP transportation projects issued and PPP enabling legislation passed.
Alaska	\$27 million private contract for management of the Medicaid Management Information System
California	PPP: roads, courthouses, prisons, rail transit; asset sales proposals for San Quentin Prison, LA Coliseum, Cow Palace, fairgrounds: could raise up to \$1 billion; proposed PPP for state parks in order to keep them open.
Connecticut	Proposed privatizing Bradley International Airport, 5 regional airports, social service programs.
Florida	68 services outsourced in 2008.
Georgia	Proposed privatization of state psychiatric hospitals, information technology.
Louisiana	Proposed outsourcing of correctional health services and food services, auto tags, safety training, accounting services, printing, data entry.
Maine	Privatized last of 4 facilities for severely mentally disabled.
Maryland	Proposal to privatize state medical aviation services died in legislature.
Massachusetts	Privatized turnpike service plaza operations.
Michigan	\$326 million private contract for management of statewide correctional health services; PPP: roads, schools energy, water, corrections, public safety, and information technology; proposal to privatize state historical marker program.
New York	PPP: bridges, roads, school construction, electric transmission data centers, state-owned real estate, environmental cleanup.
Minnesota	Proposed study of privatization potential of all government programs and a comprehensive database of all state-owned assets, including Minneapolis airport and state lottery.
Nebraska	Privatized foster care and group-home services.
Nevada	Spending and Government Efficiency Commission established, including Sunset Commission, inventory of all state property and leases, review fees so they cover costs, and state employee health care benefits comparable to those in the private sector.
New Hampshire	Proposal to allow state licensing of liquor sales in grocery stores and lease the Cannon Mountain ski area.
New Jersey	Privatized the cleanup of 20,000 environmental sites (which the Sierra Club is challenging in court).
Oklahoma	Study privatization of the state workers' compensation insurance monopoly and state employees health insurance program.
Pennsylvania	Proposal to prevent privatization of prison food service.
South Carolina	Governor posts "Waste of the Day" on his website. One features \$500,000/year loss by two state-run golf courses.
Tennessee	Outsource child support enforcement services with a 5-year, \$49 million contract, the largest in the nation.
Texas	Proposed privatization of vehicle fleet and fuel management services.
Utah	State is conducting the state's first commercial activities inventory.
Virginia	Proposal to privatize alcohol retail operations failed in legislature.
Washington	Proposal to privatize some of the state liquor stores.
West Virginia	First year of privatized workers' compensation insurance program was a success.
Wisconsin	Proposal to allow privatization of driver's license testing.

Source: Annual Privatization Report 2009, "State Privatization Update," Reason Foundation, pp. 9-31.

TIF Reform

In 2004, North Carolina voters narrowly approved a constitutional amendment that permits local governments to use a form of public debt called tax increment financing (TIF). The stated purpose of TIF is to promote private economic development in designated districts through the development of public improvement projects.

To put it simply, government financing of a public improvement project, such as water and sewer lines, would allegedly help attract private developers who otherwise would have ignored an area. The public improvement project would be financed through the extra property tax revenue (incremental revenue) that would exist due to the new private development.

Elected officials and development supporters claim there are no costs or risks to taxpayers in this financing method. Instead of eliminating the costs and risks, however, TIFs hide them. The costs are hidden because incremental tax revenues are diverted to pay debt instead of paying for government services. The risk are implicit in that a local government would not allow a TIF to default, for fear of facing higher fees and interest rates on future borrowing.

Key Facts

- TIFs do not affect a government's credit rating because they do not pledge tax revenue.
- TIFs are paid by tax revenue that never reaches government coffers.
- TIFs have higher interest rates and fees than similarly structured general obligation bonds or certificates of participation.
- TIFs do not increase spending because they divert tax revenue before government can spend it.
- North Carolina has had three TIF projects: a theater in Roanoke Rapids, a research campus in Kannapolis, and a town center in Woodfin.
- Amendment One states, "these instruments of indebtedness may be issued without approval by referen-

dum," which leaves room to have a referendum.

- The Local Government Commission approved all three TIF projects submitted to it.
- The Randy Parton Theatre (now Roanoke Rapids Theatre) was financed with the first TIF in the state. The city of Roanoke Rapids pledged sales tax revenue in addition to the incremental revenue from the enhanced property values. The Theatre was the first venue built as part of the Carolina Crossroads entertainment district, but its feasibility study assumed hotels and retail venues would be in place before it opened.

Recommendations

1. **Put TIFs to a vote of citizens, like general obligation bonds.** If these projects are good for economic development, voters will approve them just as they approved the constitutional amendment that makes them possible.
2. **Make the costs known.** The public is provided far too little information about the true nature of TIF projects, including the taxpayer exposure of the projects. The TIF statute should have strong protections to ensure the public has accurate and detailed information about TIFs. Local governments must make clear the additional costs involved in a proposed TIF project.
3. **Keep it honest.** There are too many ways for back-room deals to take place when it comes to TIFs — the TIF statute needs strong protections against conflicts of interest and other possible ethical risks.
4. **Review projects thoroughly.** The Local Government Commission needs to have real oversight powers and not be a rubber stamp for local governments. Current law sets approval of a TIF as the default and does not require enough disclosure.

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Only three TIFs have been approved in North Carolina

Roanoke Rapids
Carolina Crossroads Music
and Entertainment District
\$21.5 million
Roanoke Rapids Theatre
(formerly The Randy Parton Theatre)



Roanoke
Rapids

Woodfin



Woodfin
New Town Center
\$25 million
Roads, parking, other utilities

Kannapolis



Kannapolis
North Carolina Research Campus
\$168 million

Crime and Punishment

Preventing crime is the most basic function of government. North Carolina governments have made important progress in this area in recent years, but the state has reached an upper bound on imprisonment.

The probation system loses far too many offenders, with many returning as violent offenders. A large proportion of inmates have serious mental illnesses, and many of them could have been diverted from incarceration into the community care they need.

Key Facts

- In the 1980s, North Carolina tried to control its inmate population with Fair Sentencing (passed in 1981), Community Service Parole (1983), and a prison cap (1987).
- From 1980 to 1992, according to the American Legislative Exchange Council, North Carolina was the only state in the nation whose overall incarceration rate declined (by 6 percent). The state's crime rate rose by 25 percent, the nation's second-highest increase.
- By 1990 only one-fifth of state convicts were actually serving prison time, and one-third of new prison admittees each year were convicts incarcerated for violating the terms of their alternative punishments.
- By 1994 the average sentence for misdemeanants in North Carolina was 23.9 months, with average time served only 1.4 months (about 6 percent of the sentence). For felons, the average sentence was 8.8 years; average time served, 8.1 months (about 8 percent). And 83.4 percent of imprisoned convicts were on parole.
- In 1994 the General Assembly passed Structured Sentencing, which increased time served by violent offenders by eliminating parole.
- In 1996 the prison cap was repealed. In 1993, North Carolina's prison capacity was about 21,400; by 2010, extended prison system capacity was over 40,000.
- Inmate population, however, exceeded even extended capacity.
- In 1993, statewide jail capacity was about 9,000; by 2010, it was almost 21,000.

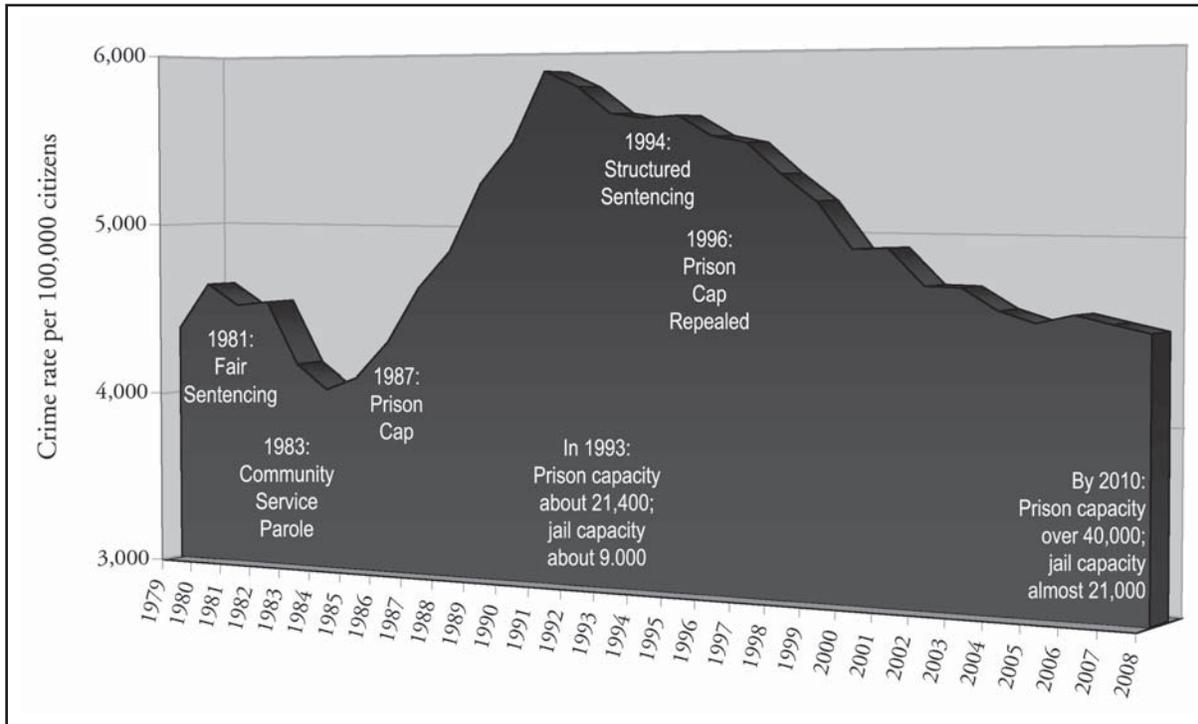
- From 1994 to 2008, North Carolina's crime rate fell by about 20 percent.
- According to *The News & Observer*, from 2000 to 2008, 580 offenders killed while on probation, and probation officers couldn't locate nearly 14,000 of the 114,000 criminals supposedly under their supervision.
- The private sector appearance bond system is a proven, successful, workable private model for getting families and communities, who are subject to the full financial penalty of the bond, to take responsibility for offenders.
- A system known as Conditional Post-Conviction Early Release would use performance bonds that require a surety and security or indemnity agreements to keep individuals placed in the system from committing new offenses. It would be geared to youthful offenders and non-violent misdemeanants identified at the trial level.
- Sixteen percent of all jail and prison inmates have serious mental illness and would be better served by community-based care (see the section on "Mental Health").
- Communities should start with crisis intervention teams or other pre-booking methods before implementing mental health courts or other post-booking interventions.

Recommendations

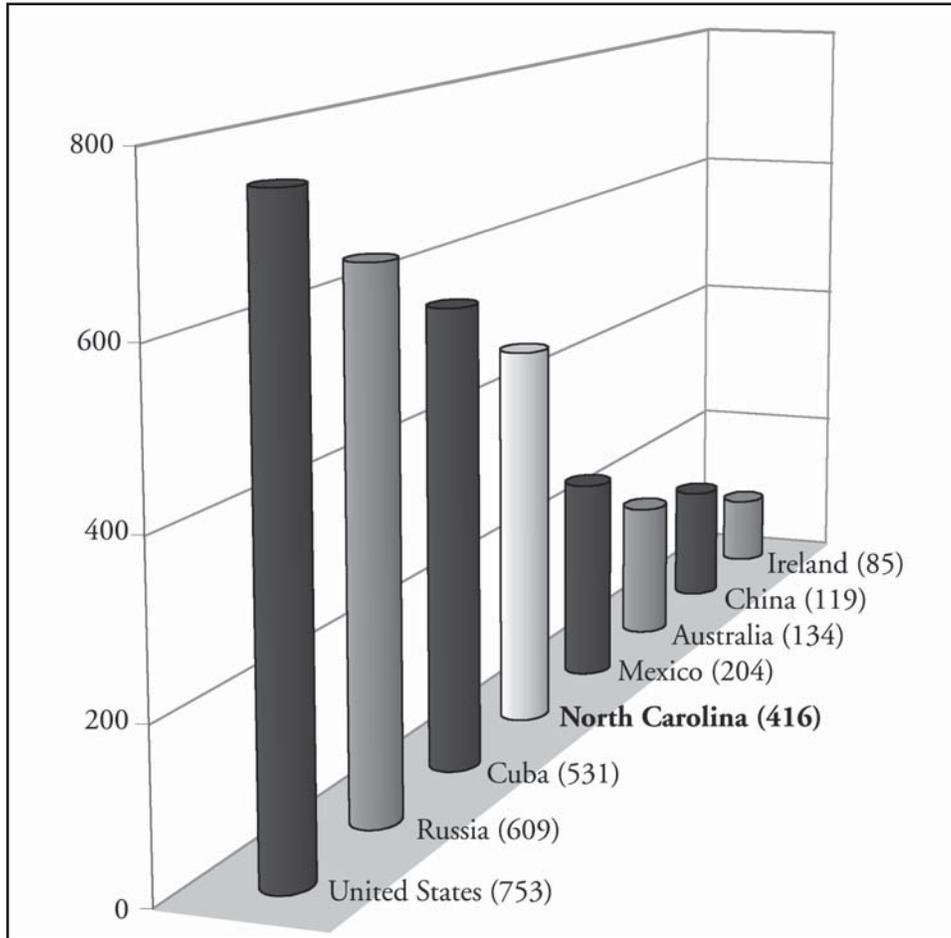
1. **Maintain North Carolina's commitment to fighting crime while reserving prison for violent and repeat offenders.**
2. **Adopt Conditional Post-Conviction Early Release bonds** as an alternative to the failing state probation system and a better way to involve the community in supervising and rehabilitating youthful and nonviolent offenders, with the costs borne by the offenders rather than the taxpayers.
3. **Divert mentally ill individuals into community-based care rather than jails**, starting with crisis intervention teams and other pre-booking interventions.

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Crime rate in North Carolina, 1979-2008



Inmate populations per 100,000 citizens, 2007



Taxpayer Financing of Campaigns

North Carolina has a public (i.e., taxpayer) campaign financing system for appellate court judges and for three Council of State positions: Auditor, Commissioner of Insurance, and Superintendent of Public Instruction. Not only does this campaign finance system lack public support, but also it is almost certainly unconstitutional.

Under this system, candidates in those races who agree to forego raising money for the general election can receive a large lump-sum payment for their campaigns from the state. The system is set up to equalize funding between candidates. If a traditional candidate (a candidate who has opted not to receive taxpayer funding) spends, for example, \$5,000 beyond the threshold amount, the state would automatically award the subsidized candidate \$5,000 in additional funds called *matching funds*.

A subsidized candidate will receive matching funds equal to the sum of the money spent by a traditional candidate opposing him in the race and by any independent groups supporting the traditional candidate. Such a setup creates the potential for absurd results, as illustrated in the graph on the next page.

Taxpayer-financed campaign systems chill free speech. Because of their matching funds, they punish traditional candidates for spending money on their campaigns and cause them to seek to avoid spending. For the same reason, they chill the speech of independent groups who support the traditional candidate: they do not want to harm their candidates by spending money and thereby triggering more money to his opponent.

Citizens should not be forced to pay tax dollars for the private benefit of politicians. It is political welfare, plain and simple. It is also an incumbency protection scheme — the equalization of funds benefits incumbents who have built-in advantages (e.g., name recognition).

It also is unethical to force citizens to support candidates and speech that they oppose.

In *Davis v. FEC* (2008), the United States Supreme Court held that punishing a self-financed congressional candidate for spending beyond a threshold amount of money was unconstitutional. The implication of *Davis* is that taxpayer financing systems are highly likely to be ruled unconstitutional.

Key Facts

- Independent groups that support a subsidized candi-

date can spend whatever amount they want, but independent groups that support traditional candidates are punished for engaging in free speech.

- The *Davis* ruling most likely means that North Carolina's public campaign financing systems are unconstitutional.
- The United States Supreme Court has blocked matching funds from being distributed in Arizona until it issues an opinion on (or declines to hear) a Ninth Circuit Court of Appeals case that found matching funds to be constitutional.
- Prior to the surprising Ninth Circuit opinion, two district courts had already struck down taxpayer financing systems in light of the *Davis* case. After the Ninth Circuit opinion, the Second Circuit Court of Appeals found that matching funds are unconstitutional.
- Taxpayer-financed campaign systems take dollars that could be returned to taxpayers or used for important programs and divert them to personal campaigns of politicians.
- Taxpayer financing does not limit the amount of spending in campaigns. It does, however, cause political donations to shift away from giving directly to campaigns to giving instead to political action committees, 527s, etc.
- North Carolina state income-tax forms contain a checkbox for taxpayers who wish to divert \$3 of the taxes they owe to public campaign financing systems. Only about 8 percent of all taxpayers check that box, however. The checkbox is the best measure of whether the public supports taxpayer financing of campaigns—clearly, they strongly oppose it.

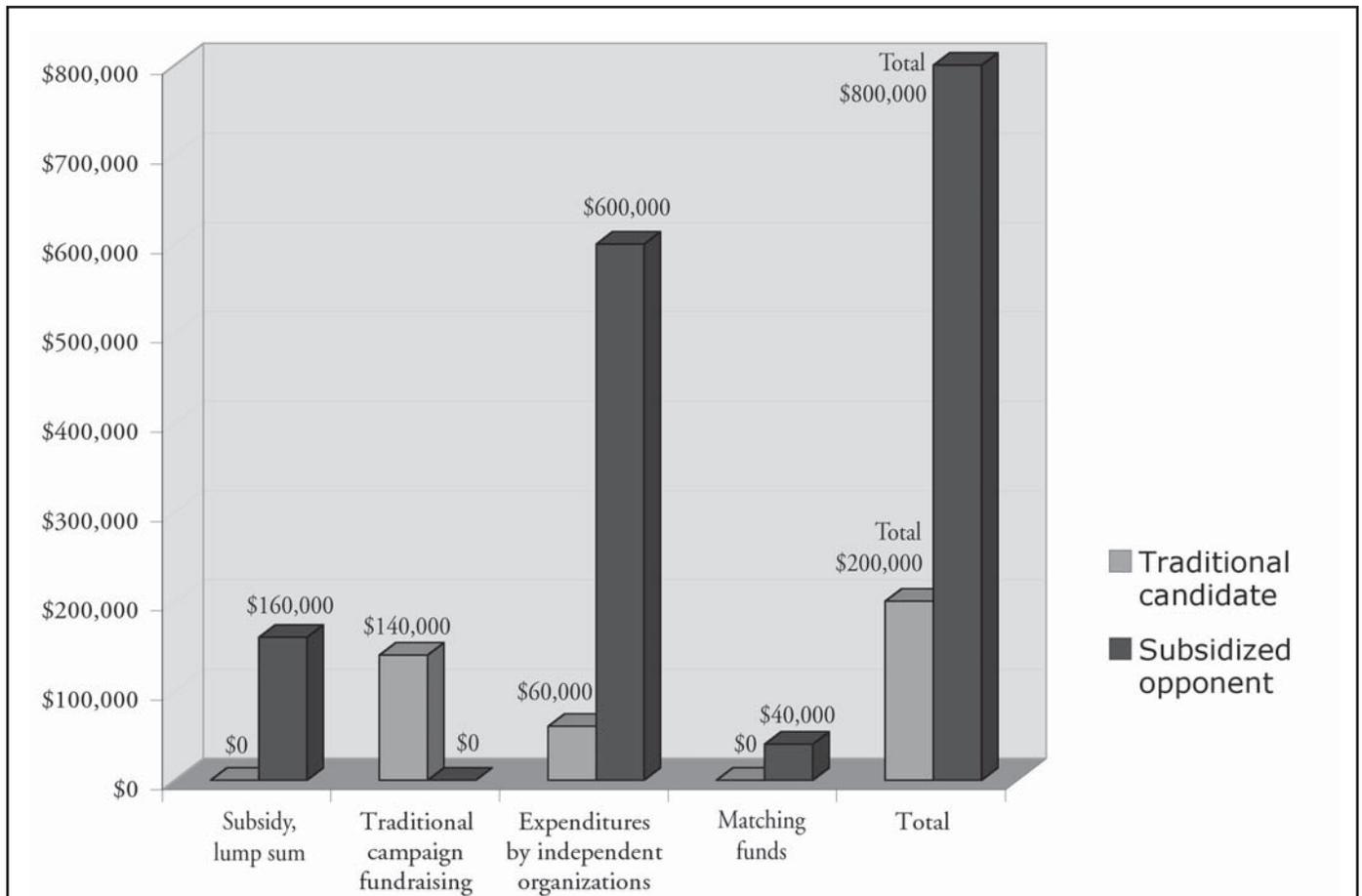
Recommendations

1. **Repeal existing taxpayer systems.** Taxpayer financing systems are almost certainly unconstitutional. As a matter both of law and of policy, the legislature should repeal the current taxpayer financing systems.
2. **Oppose any expansion of the taxpayer-financed campaign system.** Future proposals for new taxpayer financing systems are likely, but they should be strongly opposed.

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Potential for absurdity in matching-funds system

Hypothetical Court of Appeals race; matching-fund threshold, \$160,000



In this example, the subsidized candidate starts out with the \$160,000 lump sum of taxpayer-provided campaign financing, which the traditional candidate doesn't get. The traditional candidate raises and spends \$140,000 for his campaign, while the subsidized candidate relies on public funding. Furthermore, the traditional candidate receives only one-tenth of the support from independent organizations that his publicly subsidized opponent gets; they spend \$600,000 to support the subsidized candidate vs. \$60,000 for the traditional candidate. Nevertheless, under the matching-funds system, that \$60,000 combined with the \$140,000 the traditional candidate already raised and spent triggers an additional \$40,000 in taxpayer-funded matching funds for the subsidized candidate. That \$40,000 figure is the amount of total spending over the matching-fund threshold (\$160,000) that the traditional candidate enjoyed (total spending: \$200,000), without respect to the massive difference in spending in favor of the subsidized candidate (\$760,000 before the addition of matching funds).

ABC Reform

North Carolina's Alcoholic Beverage Control (ABC) system is a relic of the Prohibition era as well as a Gordian knot of political compromises through the decades. A succession of scandals in 2009 and '10 — exorbitant salaries, nepotism, and lavish parties for ABC board members and staff hosted by liquor representatives — prompted Gov. Beverly Perdue to raise the issue of privatization.

Key Facts

- The ABC Commission determines what brands of alcohol may be sold in North Carolina, sets uniform markup on retail prices for each of them, owns the central liquor warehouse, and oversees the local ABC boards.
- The local boards operate ABC stores, order liquor from distillers, receive shipments from the state warehouse, and sell to the general public as well as mixed-beverage licensees, such as restaurants and bars.
- 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.)
- At present there are 415 ABC stores in North Carolina operated by 163 local ABC boards.
- In 2009-10 the ABC system distributed an estimated \$262 million in revenue to state and local budgets. Total revenues were about \$770 million; the other \$500 million went for operating expenses, the cost of goods sold, and the ABC commission and warehouse.
- The two main concerns with ABC reform are *preventing social ills* and *maintaining state revenue*.
- As for the social concerns, studies have shown that alcohol consumption is not affected by who sells the alcohol — the state or private licensees. Deregulation in West Virginia and Iowa resulted in less per-capita alcohol consumption (see graphs). Deregulation

should therefore not cause increases in such things as drunk driving and domestic abuse.

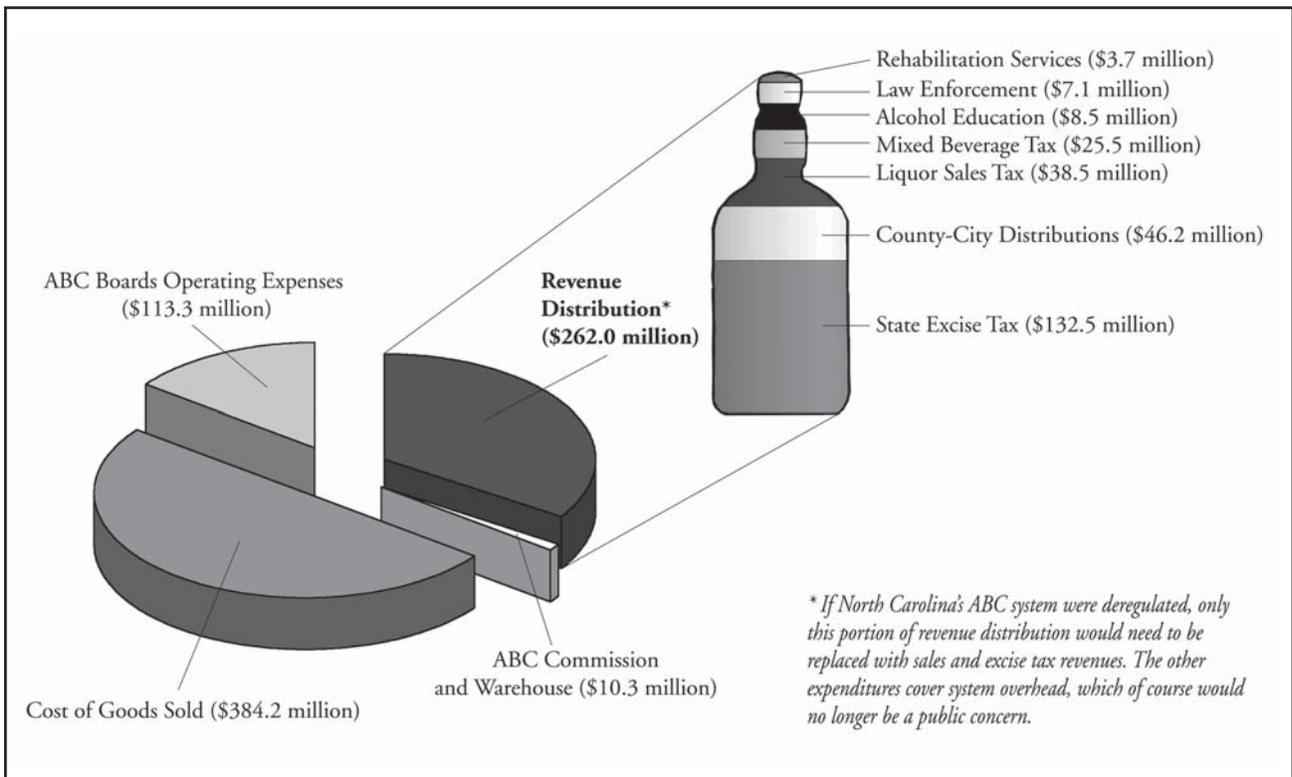
- North Carolina already allows liquor-by-the-drink in restaurants, bars, taverns, and other privately run enterprises. The state also allows beer and wine to be sold in grocery stores, convenience marts, specialty shops, restaurants, taverns, bars, and other privately owned establishments — and to be sold at competitive prices that vary from outlet to outlet, town to town.
- Another social concern should be public corruption. State control imposed in lieu of market forces invites the very sorts of scandals that brought privatization to the discussion.
- As for maintaining the \$262 million in revenue to state and local budgets from liquor sales, that is no real concern at all. State leaders could use a menu of sales and excise taxes and fees as part of deregulation.
- When Alberta, Canada, converted from control to a license system, officials set up revenue-neutral excise taxes and in subsequent years have had to reduce those taxes to stay revenue neutral.
- In a deregulated system, private vendors would be responsible for the other \$508 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

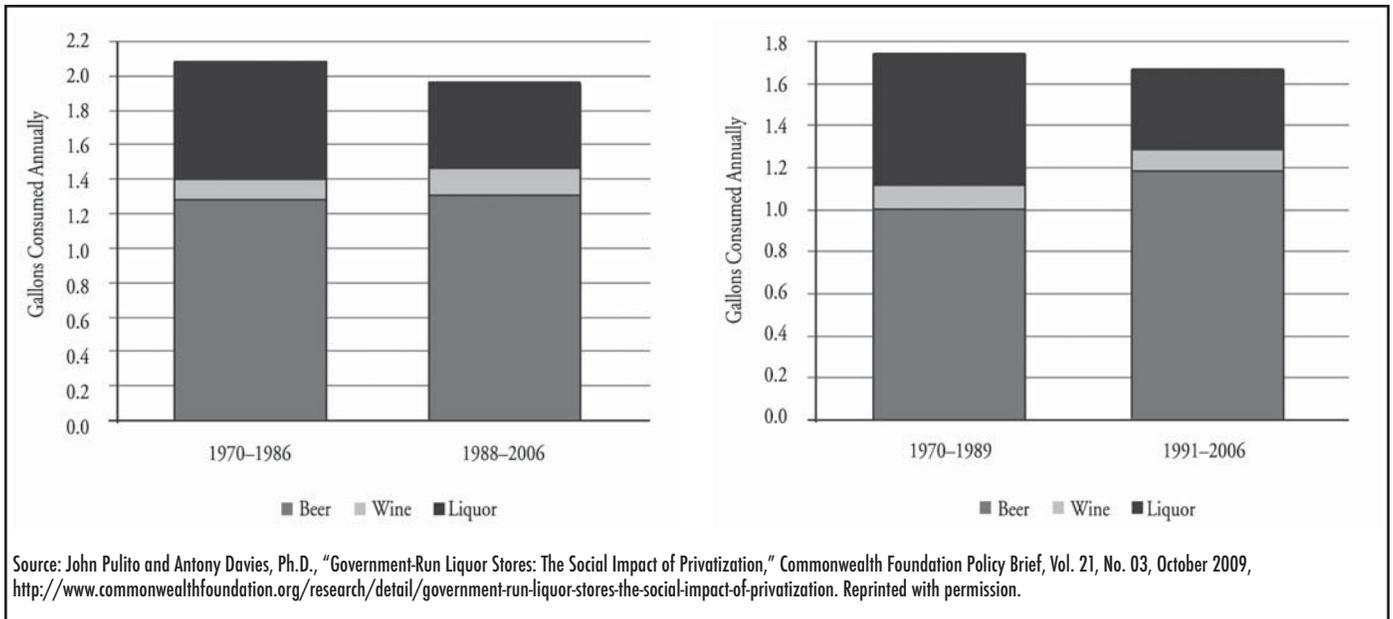
1. **Deregulate liquor sales** in North Carolina.
2. **Sell the state warehouse and local ABC stores.**
3. **Set a flexible formula of sales and excise taxes** to keep deregulated liquor sales revenue-neutral.

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Distribution of revenue from the ABC system, 2009-10



Per-capita alcohol consumption in Iowa and West Virginia, before and after deregulation



Suggested Resources

Spending Reform

- Joseph Coletti, “Start Building a Better Budget: Seven Steps to Saner State Spending” John Locke Foundation *Spotlight* No. 379, October 1, 2009, <http://johnlocke.org/research/show/spotlights/230>
- Joseph Coletti, “Taxpayers’ Return on Investment: North Carolinians Get Little Value for Their Tax Dollars,” John Locke Foundation *Spotlight* No. 359, September 23, 2008, <http://johnlocke.org/research/show/spotlights/210>
- Joseph Coletti, “Spend and Tax: A History of General Fund Crises in N.C. and How to Prevent Them,” John Locke Foundation *Policy Report*, September 14, 2006, <http://johnlocke.org/research/show/policy-reports/75>

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- Dr. Roy Cordato, “Tax Reform in North Carolina,” John Locke Foundation *Policy Report*, April 6, 2009, <http://johnlocke.org/research/show/policy-reports/196>

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- Joseph Coletti, “The True Cost of State and Local Taxes: How to Understand the Business Tax Burden Study,” John Locke Foundation *Spotlight* No. 386, April 16, 2010, <http://johnlocke.org/research/show/spotlights/237>

Transparency and Accountability

- Joseph Coletti, “Why Transparency? Creating Trust in Government,” John Locke Foundation *Policy Report*, December 17, 2009, <http://johnlocke.org/research/show/policy-reports/206>
- Joseph Coletti, “Trust But Verify: Open Government Is Better Government,” John Locke Foundation *Policy*

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- Chad Adams and Joseph Coletti, “Fiscal Transparency in N.C.: Surveying State and Local Governments,” John Locke Foundation *Spotlight* No. 347, May 14, 2008, <http://johnlocke.org/research/show/spotlights/199>

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- Joseph Coletti, “Budgets Are Not Unicorns: Gov. Perdue Uses Gimmicks Instead of Making Choices,” John Locke Foundation *Spotlight* No. 388, April 30, 2010, <http://johnlocke.org/research/show/spotlights/239>

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- Joseph Coletti, “Budgeting on Borrowed Time: FY 2009 Budget Has Excessive Spending, No Saving, and a Lot More Debt,” John Locke Foundation *Spotlight* No. 355, August 6, 2008, <http://johnlocke.org/research/show/spotlights/206>

School Standards and Testing

- Terry Stoops, “Survey of End-of-Course Test Questions: Many College and University Faculty Are Concerned About the Quality of State Standardized Tests,” John Locke Foundation *Spotlight* No. 393, July 6, 2010, <http://johnlocke.org/research/show/spotlights/244>
- Terry Stoops, “Parent-Friendly Schools, 2009: How ‘Parent-Friendly’ Are School Districts in North Carolina?,” John Locke Foundation *Spotlight* No. 381, November 30, 2009, <http://johnlocke.org/research/show/spotlights/232>

School Choice and Competition

- Terry Stoops, “Charter School Diversity: Too Black, Too White, or Just Right?,” John Locke Foundation *Spotlight* No. 390, May 20, 2010, <http://johnlocke.org/research/show/spotlights/241>
- Terry Stoops, “Zero Tolerance for Charter Schools: The State Board of Education Should Regard All Public Schools As Equals,” John Locke Foundation *Spotlight* 382, February 3, 2010, <http://johnlocke.org/research/show/spotlights/233>
- Terry Stoops, “Ten Myths about North Carolina’s Private Schools: A Parent’s Guide,” John Locke Foundation *Policy Report*, July 30, 2009,

Education Spending

- Terry Stoops, “No Bureaucrat Left Behind: N.C. Public Schools Add Staff at a Much Faster Rate Than Enrollment,” John Locke Foundation *Spotlight* No. 373, May 28, 2009, <http://johnlocke.org/research/show/spotlights/224>
- Terry Stoops, “Dropout Prevention Grants: Legislators Need to Rethink Their Approach to the Dropout Problem,” John Locke Foundation *Spotlight* No. 371, May 24, 2009, <http://johnlocke.org/research/show/spotlights/222>
- Terry Stoops, “Career and Technical Education: Meeting the Needs of the 21st Century Economy Isn’t Rocket Science,” John Locke Foundation *Spotlight* No. 361, November 18, 2008, <http://johnlocke.org/research/show/spotlights/212>

Child Care and Early Childhood Education

- “Early Childhood Programs,” *Carolina Journal Exclusive Series*, <http://www.carolinajournal.com/exclusives/series.html?id=7>

Education Lottery

- Joseph Coletti, “Eastern NC’s Lottery Bug: Counties with Higher Taxes and Unemployment Play More,” John Locke Foundation *Spotlight* No. 316, <http://johnlocke.org/research/show/spotlights/165>
- Terry Stoops, “A Lottery That Helps Students: How Lottery Proceeds Should Be Spent for Education,” John Locke Foundation *Spotlight* No. 280, <http://johnlocke.org/research/show/spotlights/127>
- Dr. Roy Cordato, “Easley’s Lottery Myths: Potential Revenue, Losses to Other States Inflated,” John Locke Foundation *Spotlight*, February 21, 2001, <http://johnlocke.org/research/show/spotlights/37>

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- Jon Sanders, “Job Training That Works: Public Programs Stagnate, While Private and Charitable Training Excels,” John Locke Foundation *Spotlight* No. 344, February 28, 2008, <http://johnlocke.org/research/show/spotlights/194>

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- Jay Schalin, “State Investment in Universities: Rethinking the Impact on Economic Growth,” May 1, 2010, http://www.popecenter.org/inquiry_papers/article.html?id=2366
- Max Borders, “The UNC School of the Arts:

Should It Be Self-Supporting?” December 1, 2009, http://www.popecenter.org/inquiry_papers/article.html?id=2266

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- Donald Downs, “Academic Freedom: What It Is, What It Isn’t, and How to Tell the Difference,” April 27, 2009, http://www.popecenter.org/inquiry_papers/article.html?id=2164
- Jay Schalin, “Opening Up the Classroom,” June 29, 2008, http://www.popecenter.org/inquiry_papers/article.html?id=2042
- George Cunningham, “UNC Education Schools: Helping or Hindering Potential Teachers?,” January 8, 2008, http://www.popecenter.org/inquiry_papers/article.html?id=1949

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- Joseph Coletti, “Debt is Debt: Taxpayers on Hook for TIFs Despite Rhetoric,” John Locke Foundation *Spotlight* No. 337, November 19, 2007, <http://johnlocke.org/research/show/spotlights/187>
- John Hood, “The Best Incentives: Targeted Policies Fail While Tax Rates, Services Matter,” John Locke Foundation *Spotlight* No. 239, December 8, 2003, <http://johnlocke.org/research/show/spotlights/81>
- Roy Cordato, “Socialism for Capitalists: New Incentives Won’t Aid North Carolina Economy,” John Locke Foundation *Spotlight* No. 222, August 5, 2002, <http://johnlocke.org/research/show/spotlights/66>

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- Daren Bakst, “Regulating the Regulators: Seven Reforms for Sensible Regulatory Policy in North Carolina,” John Locke Foundation *Policy Report*, February 23, 2010, http://johnlocke.org/research/show/policy_reports/207

Eminent Domain

- Dr. Michael Sanera and Katie Bethune, “The Anaheim Solution: How N.C. Cities Can Redevelop Without Using Incentives or Eminent Domain,” John Locke Foundation *Spotlight* No. 341, Jan 31, 2008, <http://johnlocke.org/research/show/spotlights/191>

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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.”

JOHN LOCKE (1632–1704)

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