

► It's Not Just the Economy

How North Carolina's tax system is exacerbating the state's budget woes and how we can fix it

By **Alexandra Forter Sirota**, Director of the NC Justice Center's Budget & Tax Center and **Edwin McLenaghan**, Budget & Tax Center Public Policy Analyst

OVER THE PAST TWO YEARS, North Carolina has cut funding to nearly every program and service that benefits North Carolinians, and communities throughout the state are reeling.

There are fewer resources in

classrooms and fewer meals delivered to home-bound seniors. Fewer infants and toddlers from low-income families are attending quality child care, and more are on waiting lists for preventive health care. Fewer adults have access to mental health services or substance abuse prevention services, and higher tuition means fewer workers are able to afford the training they need to qualify for new jobs.

"North Carolina's public structures have provided critical support to

struggling families in this recession," said Bill Rowe, director of advocacy for the NC Justice Center. "But budget cuts are severely hurting the ability of these support systems to continue to serve families and communities."

And more budget cuts appear to be on the way. North Carolina faces an estimated budget shortfall of \$3.7 billion in the next fiscal year – about equal to last year's entire state investment in community colleges and the UNC system.

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► North Carolina's Convoluted School Funding System

By **Matthew Ellinwood**, Policy Advocate for the NC Justice Center's Education & Law Project

ACCORDING TO THE MOST RECENT U.S. Census data, North Carolina ranks 45th in the nation in per-pupil spending and 43rd in per-pupil spending as a share of personal income. North Carolina ranks behind other southern states including South Carolina, Virginia, Georgia and Kentucky.

Despite North Carolina's dismal performance thus far, it is clear more budget cuts for education are on the way. (See above article on the state's current fiscal crisis.)

In the coming months, North Carolina must have a robust conversation about education funding – which means first, we have to understand how the funding system works.

Unfortunately, that's not so easy.

A System that Defies Common Sense

In addition to being among the most underfunded, the North Carolina school-funding system is one of the most complicated and nontransparent in the nation. Its confusing nature makes it difficult to tell where money is going and leaves the state's most disadvantaged students without the resources they need.

Here's the breakdown of the different "allotments"

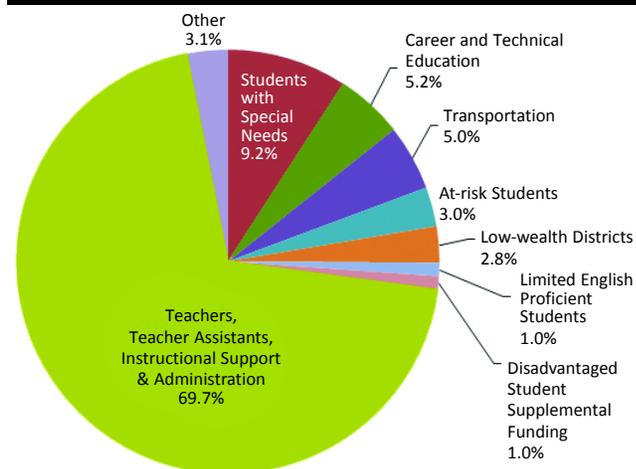
through which the state distributes funds to districts:

Teacher Allotments

The principal component of the state's education finance system is the classroom teacher allotment. Districts use a school's Average Daily Membership (ADM) to determine

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How NC Distributes Education Funds - FY 2009-2010



SOURCE: "Funding Threatened for North Carolina's Public Schools" – NC DPI – April, 2010 <http://www.ncpublicschools.org/docs/superintendents/home/funding.pdf>

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► The Sales Tax Disaster

By **Edwin McLenaghan**, NC Budget & Tax Center Public Policy Analyst

IN EACH OF the last three recessions, North Carolina lawmakers have ratcheted up the state sales tax rate in the face of declining revenues and increased need for public services and investments.

Relying on the sales tax to close revenue shortfalls is popular because the public and lawmakers believe the sales tax affects all residents equally. But the reality is sales taxes hit middle-class families hard, low-income families hardest, and wealthy families hardly at all.

That's because low-income families must spend almost all the money they make on life's necessities, and they pay sales taxes on much of what they purchase. The state's wealthiest families, on the other hand, can afford to save and invest their money, and they are more likely to spend money on services that are not covered by the sales tax. They are also more likely to avoid sales taxes by shopping online or out of state.

Looking only at state and local sales and excise taxes, data from the Institute on Taxation and Economic Policy show the poorest fifth of North Carolinians pay nearly seven times more of their income in those taxes than the wealthiest 1

percent does. Middle-class families pay almost five times as much.

Erosion of the Sales Tax

North Carolina's sales tax is designed for an economy based on the manufacture and sale of tangible goods in brick-and-mortar shops. Today, North Carolinians – especially wealthy North Carolinians – spend more on services, few of which are subject to the sales tax, and buy more goods online and out of state.

This erosion of the sales tax has forced lawmakers to increase the sales tax rate just to keep revenues constant. In 1973, when the state sales tax rate was 3 percent, sales tax collections comprised about the same share of North Carolina residents' incomes as such collections did in 2010, when the state sales tax rate rose to nearly twice the level of the 1970s.

A host of studies commissioned by multiple governors and the General Assembly have all recommended expanding the sales tax to include more services. Doing so would keep lawmakers from having to continually raise the tax rate just to keep up with the state's needs.

It would also enable the state to have a lower sales tax rate while raising the same amount of revenue. A lower rate would help level the playing field for in-state businesses versus online out-of-state retailers.

Yet state policymakers have repeatedly failed to act on the recommendations of their own study commissions. The result is an ever-increasing sales tax rate that falls disproportionately on low-income and middle-class families and puts in-state businesses at a competitive disadvantage.

Importance of the Income Tax

Even more important than reforming the sales tax, however, is making sure that North Carolina's revenue system maintains its primary reliance on the state income tax. Unlike the sales tax, the state income tax asks more from those most able to pay, while still requiring contributions from the vast majority of North Carolina households, even families with incomes at the federal poverty line. And unlike the sales tax, revenues from the state income tax tend to keep pace with the growth of the economy.

Good public policy and the will of the public dictate that North Carolina lawmakers should take a balanced approach – one that includes raising revenue – to close the state revenue shortfall of \$3.7 billion next year. But lawmakers should consider not just *how much* revenue to raise but also *how* to raise it so they spread tax responsibility fairly and avoid making life harder for struggling families. ■

► How Big Corporations Suck North Carolina Dry

By **Jeff Shaw**, NC Justice Center Communications Director

North Carolina's outdated revenue system has a series of loopholes that corporate monoliths can use to avoid state taxes and stick the average taxpayer with the bill for the many state investments on which businesses rely. These corporations benefit from taxpayer-funded schools and infrastructure, but they refuse to contribute.

"Right now, our state tax system allows corporations to use shady accounting practices to avoid paying income taxes here in North Carolina," said Edwin McLenaghan, a policy analyst with the NC Budget & Tax Center who focuses on tax policy. "This takes money out of North Carolina's economy, even though these companies are doing business here every day."

Because these multi-state corporations aren't paying their fair share, small local

businesses must pay more in taxes – placing North Carolina's homegrown businesses at a competitive disadvantage. Families have to pay more, too. And where does the money the corporations should be paying in state taxes go? Into the pockets of shareholders all over the world.

Corporations operating in North Carolina aren't required to report a total, honest accounting of the profits they made from all of their subsidiaries in different states. So they manipulate their books and move the profits earned here to other states, thus avoiding North Carolina's corporate income tax.

The solution: combined reporting. By requiring corporations to report a combined corporate tax return from all of their subsidiaries, North Carolina can put an end to the creative accounting. Not only would this mean corporations would contribute to the public institutions from which they benefit, it would also level the

playing field for local small business.

"Combined reporting is more honest, more fair, and just makes more sense for North Carolina's businesses and taxpayers," said McLenaghan.

One 2007 study found that combined reporting would add \$144 million annually to state coffers while making the tax system fairer. That revenue could be used to expand the Earned Income Tax Credit, putting money in the pockets of hundreds of thousands of working families. It could also prevent thousands of teachers or firefighters from losing their jobs.

Plus, it could help put more people to work. "Imagine a North Carolina where local small businesses didn't have to pay more than their fair share," said McLenaghan. "A North Carolina with combined reporting would help small business create jobs and make sure huge out-of-state companies don't have an unfair advantage." ■



The North Carolina Justice Center is the state's leading

progressive research and advocacy organization. Our mission is to eliminate poverty in North Carolina by ensuring that every household in the state has access to the resources, services and fair treatment it needs in order to enjoy economic security.

To make opportunity and prosperity for all a reality, we fight for:

- **Public investments** in services and programs that expand and enhance opportunities for economic security
- **A fair and stable revenue system** that adequately funds those public investments while fairly distributing tax responsibility
- **Health care** that is accessible and affordable
- **Public education** that opens a world of opportunity to every child
- **Consumer protections** that shield hard-earned assets from abusive practices
- **Jobs** that are safe, pay a living wage and provide benefits
- **Housing** that is safe and affordable
- **Fair treatment for everyone** in North Carolina, regardless of race, ethnicity or country of origin

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The Justice Center puts out a weekly e-newsletter covering state and federal policy issues. Visit www.ncjustice.org to subscribe – It's free!

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► Coalition Fights for Shared Prosperity in North Carolina

By **Jeff Shaw**, NC Justice Center Communications Director

WORKING PEOPLE NEED CLEAN AIR. People of faith need good, family-wage jobs. And health care workers know that early childhood programs that help kids learn are vital to their future success.

No matter what issue you're passionate about, the state budget matters, and more than ever, North Carolinians are seeing the connections between those issues. To protect the crucial public investments that keep teachers in schools, public safety workers

system combined with the worst crisis since the Great Depression has created a large budget shortfall. Together NC supports a balanced approach to addressing the shortfall, which would include raising new revenue. A cuts-only approach, supported by many legislators and conservative lobbyists, would cripple North Carolina's economy, put thousands of people out of work, and undermine funding for essential needs like education, health care and public safety.

"To build a better North Carolina, we need to invest in the vital programs that help our people lead healthier, better lives," said Bill Wilson of AARP North Carolina. "Together NC reflects those values, and that's why so many organizations have joined the coalition."

Chris Estes, executive director of the NC Housing Coalition, said he felt it was important to be a part of Together NC for two main reasons.

"First, if you want funding from the state for issues you work on, you need to be part of the effort to fix the structural problems with a broken and outdated revenue system," he said. "Second, the NC Housing Coalition advocates for funding support for housing, which is part of many other services that are typically needed for the individuals, families and children involved. If all of these vital services and support programs are to get adequate funding, we must advocate for a better solution for the whole budget."

"It is going to take all of us working together on structural reform of our budget and revenue systems, and Together NC is the best way to do that." ■

For more information, visit www.togethernc.org.



on the job and the air and water clean, a coalition called Together NC is backing a balanced approach to fixing the state's revenue problem.

The group has more than 115

member organizations – nonprofits, service providers, grassroots advocates and more – so the issues that matter to each member are varied, but they share a deep commitment to preserving North Carolina's vital public institutions.

"In North Carolina, we've worked hard to get world-class universities, high-quality health care for children, and programs that keep our streets safe," said Louisa Warren of the NC Justice Center, one of the Together NC coalition's coordinators. "Our state's people value that, which is why so many groups are responding to Together NC's message."

North Carolina's outdated revenue



TOGETHER NC: the launch event in 2009 (top) and a press conference (bottom)

► Investing in North Carolina's People

By **Gene Nichol**, Professor of Law and Director of UNC's Center on Poverty, Work & Opportunity

FRANK PORTER GRAHAM wrote, over a half-century ago, that "all the historic shibboleths about equality of opportunity are tested in their sincerity not on the Fourth of July but when we come to make the budget of the commonwealth." The truth of Dr. Frank's claim will be more potently on display when the new legislature assembles later this month than at any time in decades. What we choose to support says much about who we are.

And the challenges are dramatic. Despite recent sweeping and painful budget cuts brought on by recessionary shortfalls, the state begins the upcoming budget cycle facing a deficit that approaches \$4 billion. Governor Perdue has asked the varied corners of state government to prepare for cuts of up to 15% – or perhaps even more. Public schools, community colleges, universities, social services, mental health, law enforcement, transportation, health care, poverty and other programs – often already under potent duress – brace for what may be debilitating reductions. In balancing our budgets, cuts atop cuts, we threaten to devour our seed corn.

It is remarkable to ponder North Carolina's path of the last century. A hundred years ago, we had the highest illiteracy rate in the South and one of the highest in the nation. We spent about 20 percent of the national average, per pupil, on education, tying Alabama for last place. Economic studies concluded that North Carolina was "the least productive state in the nation." We ranked near the bottom in per capita income.

During World War II, we were stunned to learn that more North Carolinians were declared physically unfit for military service than candidates from any other state. As late as the 1960s, fully a third of Tar Heel families lived in wrenching poverty. In 1970, we ranked 48th among the states in percentage of residents who had graduated high school.

Broadly speaking, in both competitive and humane terms, we found ourselves at the bottom of the South. And the South found itself at the bottom of the nation.

Our plight is very different now. The derisive "Rip Van Winkle State" moniker has long been left in the dust. In recent decades, we've been among the fastest growing states in the nation. Poverty, though still troubling, has been markedly reduced. Changes in educational attainment, at both the K-12 and higher education levels, have been among the most impressive in the country. Health care innovations have changed the lives of our citizens, as they've set the pace for other regions. And the state can claim metropolitan, commercial and intellectual centers that are the envy of much of the world.

To be frank, these massive and proud changes did not come to pass by eliminating taxation, disinvesting in education, abandoning economic development, gutting the public sector, or ignoring the plight and the possibilities of the poorest North Carolinians. Nor were they achieved by rejecting a constructive role for government in helping us to build "a nobler and fresher civilization in this ancient commonwealth."

Rather, they reflected wise and determined efforts to invest in a shared future for our children, our neighbors, our colleagues, and our successors. And, though the road has sometimes been difficult and costly, its success is undeniable. Now we frequently compete to lead the nation, not to trail it.

Our values and our belief in ourselves and in our children's future are inevitably lodged center-stage as we face these surpassing budget challenges. A confident, generous, ambitious and determined people sacrifice to develop and invest in human dignity and capacity. A fretful, frightened and self-absorbed polity barks "to each his own."

The 2011 legislative session will ask, in potent terms, whether we'll realize and honor the strongest lesson from North Carolina's history – that we're all in this together. ■



Gene Nichol

This shortfall comes after two years of substantial budget cuts and a period of modest income growth—yes, growth—for North Carolina. From the second quarter of 2008 to the second quarter of 2010, the height of the Great Recession, state personal income (the sum of all state residents' annual income) increased by just under 1 percent, adjusted for inflation.

Over the course of the same two years, non-temporary tax revenues (not including the temporary two-year sales and income tax increases passed in 2009) dropped by nearly fifteen percent.

So, even presuming the economic recovery picks up steam next year, the governor and state lawmakers must balance the state's budget with only 93 cents for every dollar of tax revenue collected in 2008. Factor in the nearly half a million new state residents, nearly 200,000 more North Carolinians looking for work, 30,000 new students at community colleges, and more than 200,000 residents newly eligible for Medicaid, and it becomes clear that the state's budget challenges are unprecedented.

Why Revenues Can't Keep Up

North Carolina's revenue system suffers from severe weaknesses built into its very structure and exacerbated by short-sighted policy decisions.

First, the revenue system suffers from volatility—it overreacts to ups and downs in the economy. The state's tax code was built for the economy of the 1930s, not a service- and technology-based 21st century economy. Because the tax system has failed to evolve with the times, much of the state's economic activity is exempt from taxation; for example, most services are not subject to the state sales tax. As a result, the state must levy higher tax rates on the portion of the economy that is taxed.

To sustain the public structures that form the foundation of a state's economy, state revenues need to at least keep pace with economic growth. Ideally, the state would collect and save enough revenue when the economy is strong to make up for lost revenue during the inevitable economic downturns.

But instead, lawmakers in North Carolina often cut taxes when times are good because revenues tend to grow rapidly. Short-sighted tax cuts during an economic boom cause substantial shortfalls because state revenues plummet even more than the economy during a recession, at the same time

struggling families need state services most.

In addition, the state's tax system asks more from families with the least means. Data from the Institute on Taxation and Economic Policy show that the poorest fifth of households in North Carolina pay 9.5 percent of their income in state and local taxes, compared to 6.8 percent for the wealthiest 1 percent of households.

Few North Carolinians would agree that it's right for a single mother earning \$20,000 per year to pay a greater share of her income in state and local taxes than a wealthy investment banker, yet it's typically the case under North Carolina's upside-down tax system.

Furthermore, because of all of the exemptions and preferences lawmakers have added to the state's tax code, many taxpayers—households and businesses—of similar means and abilities to pay have very different state and local tax bills. For

example, a comfortable retired couple with a home in Brunswick County with pension and Social Security income of \$60,000 per year will likely pay much less in taxes than a young couple earning the same income but struggling to provide for three children while renting an apartment in Charlotte.

Similarly, a modestly successful hardware store owner is likely to pay a much larger share of her income in state and local taxes than the profitable local branch of a national retail hardware chain because tax loopholes let multi-state businesses shift their profits out of North Carolina.

Lawmakers put many of these tax breaks and exemptions into the tax code without a clear goal in mind or a solid understanding of who would benefit. While eliminating some of these exemptions will not be politically popular, doing so will be necessary to create a fairer and more stable revenue system.

The Challenges for the Coming Year

Governor Perdue and lawmakers can take a balanced approach to closing the state's revenue shortfall by raising substantial new revenue while ensuring that North Carolinians as a whole pay no more of their income in state taxes than they did in 2008.

Hard work and good ideas are needed to address the problems caused by the economic uncertainty families and communities in North Carolina face. The new stewards of the state's public structures have a responsibility to ensure that they put the rhetoric of the campaign season behind them and focus on real solutions that preserve and enrich the public structures that will underpin a future of shared prosperity in North Carolina. ■

Cutting the Economic Recovery and North Carolina's Quality of Life

WITH A \$3.7 BILLION BUDGET GAP LOOMING, Governor Perdue requested that state agencies present proposals for cuts of 5, 10 and 15 percent. Under these proposals, more than 21,000 NC public servants would lose their jobs. There would also be direct private-sector job losses, as the state cut or canceled contracts with private companies, and indirect job losses, as newly unemployed workers reduced their spending.

These proposed cuts would undermine North Carolina's ability to recover from the Great Recession and build a stronger economy over the long term. They would also exacerbate the already significant challenges families face and erode the quality of life in North Carolina.

PROPOSED STATE SPENDING CUTS

Reduce the state's ability to prepare and train the future workforce by:

- Eliminating more than 5,000 teacher positions and more than 13,000 teaching assistant positions in K-12
- Reducing at-risk and low-wealth funds available to schools with high needs
- Eliminating funding for the drop-out prevention program
- Eliminating more than 650 faculty positions in the UNC system and 1,600 faculty positions in the community college system, which would result in increased class size
- Reducing funding for early childhood education,

which has been documented to generate significant return on investment

Reduce access to less-costly, preventative health care and services by:

- Cutting Medicaid services that enable thousands of North Carolinians with physical and mental health problems to receive cost-effective care in their communities instead of in institutions and nursing homes
- Eliminating substance abuse programs at several correctional facilities across the state
- Reducing the vocational rehabilitation services that provide an additional 3,000 people with support and services to achieve improved employment outcomes

Reduce the resources and quality of life in our communities by:

- Eliminating the mosquito control program and wastewater discharge elimination
- Closing five state parks and reduce the hours for all state parks to a Friday-to-Monday schedule
- Reducing grant funding to the NC Arts Council, which facilitates local art and cultural events, programs and training across the state and state aid to libraries that could lead to the closure of neighborhood libraries
- Eliminating 10 concerts of the NC Symphony across the state

► Justice Center Advocates Honored

Two veteran NC Justice Center advocates were honored this past fall by important statewide organizations for their contributions to the cause of combating poverty and promoting social, political and economic justice.

The NC Housing Coalition honored Justice Center General Counsel and Director of Advocacy Bill Rowe at the group's annual meeting when its board and staff took the extraordinary step of renaming the coalition's "Service to Affordable Housing Award" the "Bill Rowe Award."

Housing Coalition Director Chris Estes said that the decision was an obvious one given Bill's decades of extraordinary commitment, advocacy, and leadership in the battle to promote affordable housing.

In acknowledging Bill as the first recipient of the newly-named award, he noted that:

"Bill Rowe has been a constant force for social and economic justice throughout his career. Whether it is working on landlord tenant issues (of which he has authored most of North Carolina's law on the topic), or lobbying successfully for increased funding for the North Carolina Housing Trust Fund every year since it was created, no one has done more than Bill for low-income people and affordable housing."

In receiving the award, Bill thanked his wife, civil rights attorney Susan Pollitt, his sons Willie and Henry, and his colleagues at the Justice Center - particularly long-time colleague Al Ripley. He also called on those in the social justice movement to redouble their efforts to promote affordable housing for low-income people "because no issue is more important to fighting poverty."

The second Justice Center staffer to win recognition was Sister Attracta Kelly, a Dominican nun who is also an attorney and was the long-time head of the Justice Center's Immigrants Legal

Assistance Project (ILAP). Attracta, who left the Justice Center in 2010 to become the Prioress of her Michigan-based order, the Adrian Dominican Sisters, received the Nancy Susan Reynolds Award for excellence in advocacy from North Carolina's largest funder of progressive nonprofit advocacy, the Z. Smith Reynolds Foundation of Winston-Salem.

In honoring Attracta, the foundation produced an extraordinary video that touched on several aspects of her life, including her work as an educator and as a community organizer in rural west Tennessee. It was her work as an attorney at the Justice Center, however, that won the highest praise from the foundation.

The foundation noted and celebrated Attracta's remarkably successful record in providing legal assistance to immigrants who had fled their native countries due to persecution, as well as her work assisting victims of domestic violence, families who would face extreme hardship if separated, and victims of violent crimes, natural disasters, and human trafficking. For many of these individuals, it was noted, her work to help them obtain legal status so they could stay in the United States literally saved their lives.

The Z. Smith Reynolds Foundation also lauded Attracta's tireless efforts to assure that her work will continue in the wake of her departure through the mentoring, support and training she provided to hundreds of lawyers, lay advocates, students and service providers who work with immigrants and their families throughout the state.

In accepting the award, Attracta made clear that she was accepting it on behalf of the entire ILAP team - in particular, paralegal Cristin Ruggles and attorneys Lisa Chun, Winstona Cole and Tana Liu-Beers - and called on all North Carolinians to work for comprehensive immigration reform. ■



Bill Rowe



Attracta Kelly

► Budget & Tax Center Spreads the Word about the Budget

To help North Carolinians understand the realities of the state budget, staff from the NC Justice Center and its project, the Budget & Tax Center, have been holding legislative briefings around the state.

BTC Director Alexandra Forter Sirota and Justice Center Policy Advocate Louisa Warren teamed up with United Way Government Affairs Director Jill Cox for eight stops. The last legislative briefing will be January 19 in Raleigh.

During each briefing, Sirota, Warren and Cox deliver an informative breakdown of key state budget and policy issues and then answer questions from civic leaders, community members and local journalists.

"The legislative briefings make sense of budget complexity and translate political rhetoric into reality," said Kenneth Schorr, executive director of Legal Services of Southern Piedmont in Charlotte. "They help people throughout North Carolina understand what's really going on, and how they can get involved."

In addition, the legislative briefings help the staff keep apprised of the specific issues facing people in every corner of the state.

"It's important to get out into

communities and listen to the people there about the issues that matter in their lives," said Warren. "It helps us focus our research work on the policies that can make a real, tangible difference."

Many of the legislative briefings are held at county United Way offices, and UW representatives say the events offer valuable information.

"We get strong attendance each year from Buncombe County and the surrounding areas because of the important information presented," said Ron Katz of Buncombe County United Way. "The Justice Center staff offer good insights into what has occurred as well as accurate forecasts for what we can expect."

This year, most people want to talk about North Carolina's revenue shortfall and how that will affect vital state programs. "People want to preserve the essential state services that they rely on, like education," said Warren. "This year, they're concerned that lawmakers might adopt a shortsighted, cuts-only approach to the budget."

Join us for the final briefing before the start of the new legislative session. Go to <http://ow.ly/3p3YT> for details and to RSVP. ■



Wednesday, January 19, 2011 • 1:15 p.m.
Marbles Kids Museum, downtown Raleigh, NC

GET READY FOR 2011 at a legislative briefing by local legislators and staff from the NC Budget & Tax Center, NC Justice Center and United Way of North Carolina.

Go to <http://ow.ly/3p3YT> for details and to R.S.V.P.



Initial State and Local Allotments to Triangle-area School Districts for Fiscal Year 2010-11* (actual allotments will change over the course of the year)								
		STATE FUNDS						
SCHOOL DISTRICT	AVERAGE DAILY MEMBERSHIP	TEACHER ALLOTMENT	SPECIAL-NEEDS ALLOTMENT	DISADVANTAGED STUDENT SUPPLEMENTAL FUND	AT-RISK STUDENT SUPPLEMENTAL FUND	LOCAL FUNDS	PROJECTED TOTAL STATE AND LOCAL FUNDING	PROJECTED TOTAL STATE AND LOCAL FUNDING PER STUDENT
WAKE COUNTY	141,194	\$355,111,008	\$65,511,134	\$3,445,744	\$17,423,589	\$311,373,607	\$995,481,859	\$7,050
DURHAM PUBLIC	31,867	\$81,779,236	\$15,388,679	\$1,089,131	\$5,482,209	\$100,996,102	\$258,529,439	\$8,113
ORANGE COUNTY	7,007	\$18,874,767	\$3,309,470	\$199,556	\$935,396	\$22,698,512	\$59,645,449	\$8,512
CHAPEL HILL-CARRBORO	11,740	\$31,519,316	\$3,616,386	\$299,606	\$1,460,250	\$74,601,104	\$130,588,460	\$11,123
CHATHAM COUNTY	7,691	\$19,434,713	\$3,859,734	\$216,412	\$1,286,932	\$23,327,284	\$62,359,946	\$8,108
HARNETT COUNTY	18,889	\$46,200,630	\$8,854,828	\$1,154,925	\$3,083,226	\$19,828,574	\$119,647,596	\$6,334
JOHNSTON COUNTY	32,063	\$82,067,144	\$15,023,248	\$1,770,994	\$4,588,012	\$49,031,083	\$218,412,634	\$6,812
NASH-ROCKY MOUNT	17,462	\$46,305,819	\$7,268,132	\$1,146,769	\$3,129,814	\$22,758,210	\$114,085,493	\$6,533
FRANKLIN COUNTY	8,467	\$20,963,363	\$3,013,696	\$1,997,250	\$1,414,351	\$11,525,433	\$56,698,097	\$6,696
GRANVILLE COUNTY	8,769	\$21,817,113	\$3,071,706	\$535,594	\$1,193,322	\$12,385,287	\$58,198,395	\$6,637

* Figures do not include federal education funding

the appropriate number of teachers using prescribed student-teacher ratios. School districts get money from the state based on the experience and qualifications of the teachers they hire.

The net effect is that better-performing districts receive more state money than struggling districts. That's because teachers in high-poverty districts with more at-risk children are less likely to be National Board-certified or state-certified and are often less experienced-so they are paid less than their more experienced and credentialed counterparts. That means less money for struggling districts.

The teacher-allotment system doesn't take into account how much money a county contributes to increase teachers' salaries above the base state salary. Wealthy districts are able to supplement teacher salaries more than poorer districts, increasing the motivation for the most qualified teachers to go to districts that tend to be better-performing.

Special-Needs Allotments

The state provides "special-needs allotments" to schools to help cover the costs of educating intellectually gifted children, children with disabilities, and children with limited English proficiency. These additional funds are capped at a

percentage of ADM. In other words, districts receive a percentage increase in funding up to the cap, even if their numbers of special-needs students are much more than what is covered under the cap.

There are two non-capped special-needs allotments that provide extra funding to educate students from low-income households. There's the At-Risk Fund, some of which goes to pay for a school security guard in every high school and a drug and alcohol program in every district. The state distributes half of the remaining funds based on the total number of students in each district and the other half based on the number of students receiving free and reduced lunch.

There's also the Disadvantaged Student Supplemental Fund, which is the state's primary means for targeting assistance to the state's neediest students. To distribute the money, the state predicts the percent of students in a district who will fail using three indicators – child poverty rate, percent of students in single-parent families, and percent of students with at least one parent without a high school degree. The amount that this percentage is above the state average failure rate is designated as the district's disadvantaged population, although it is unclear if this number has

any relationship to the district's actual disadvantaged population. Each school district is then allocated a target teacher-disadvantaged student ratio based on the size of the estimated disadvantaged student population. Finally, the number of teachers required to attain this ratio is calculated and multiplied by the average teacher salary to arrive at the final allotment figure.

Got that?

While the goals of DSSF funding are laudable, the formula is hopelessly complex and opaque, bears no relation to the actual number of disadvantaged students, and does not have enough funding to impact the most economically disadvantaged students in the state.

In addition to these special-needs allotments, North Carolina has a Low Wealth allotment for counties with poor property-tax bases, and a Small County allotment for rural districts that often have high transportation costs. However, there's no telling if these funds are actually improving student education.

An Easier Way

Believe it or not, this is a simplified explanation of the North Carolina education finance system. Sadly, all of this complexity does nothing to ensure that the state's schools meet the needs of

their most disadvantaged students.

Other states use a simpler weighting system based on the actual number of disadvantaged students and actual costs of educating them. It's a better method that allows for more accountability and gives the public and the legislature an understanding for the true cost of a quality education for all.

Take a look at Pennsylvania's education finance system, for example. Under the Pennsylvania system, the average cost of providing a quality education is calculated based on the cost of educating a student to the proficiency level. The state then examines just four factors to adjust this number: 1) enrollment changes over time, 2) district size, 3) regional cost differences, and 4) the cost of educating students with disabilities, students living in poverty, English-language learners, and gifted students. Each of these factors is assigned a weight, and each district receives a lump sum based on the actual cost of educating students.

Such a system makes the education budget understandable by the public and therefore accountable to the public. North Carolina should look at creating such a finance system as it tries to balance the challenges of the current financial crisis with the needs of its children and families. ■



► Scratch and Shift: NC Lottery Giving Education Smaller Share

By **Sarah Ovaska**, NC Policy Watch Investigative Reporter

THE N.C. EDUCATION LOTTERY sold \$1.4 billion in scratch tickets and number games during the last fiscal year. That works out to an average of \$200 a year for every adult in the state.

The most impoverished counties in North Carolina had the highest per-adult sales. An NC Policy Watch review of lottery data found that 18 of the 20 counties with poverty rates higher than 20 percent had lottery sales topping the statewide average of \$200 per adult.

The NC Education Lottery has been in existence for more than five years. It has turned over more than \$1.6 billion to fund early childhood education programs, scholarships for needy students and construction of new schools. But lottery officials have also chipped away at the percentage of sales going to these programs each year.

When the lottery initially passed, legislators wrote into the law that 35 percent of all its proceeds would go to fund educational programs. But in 2007, they inserted a loophole that let lottery officials stray from that. Last year, the lottery gave 29 percent of its \$1.4 billion in sales to educational programs. By dedicating more money to lottery prizes, the state lottery officials say they are boosting sales and will raise more money for education in the long run.

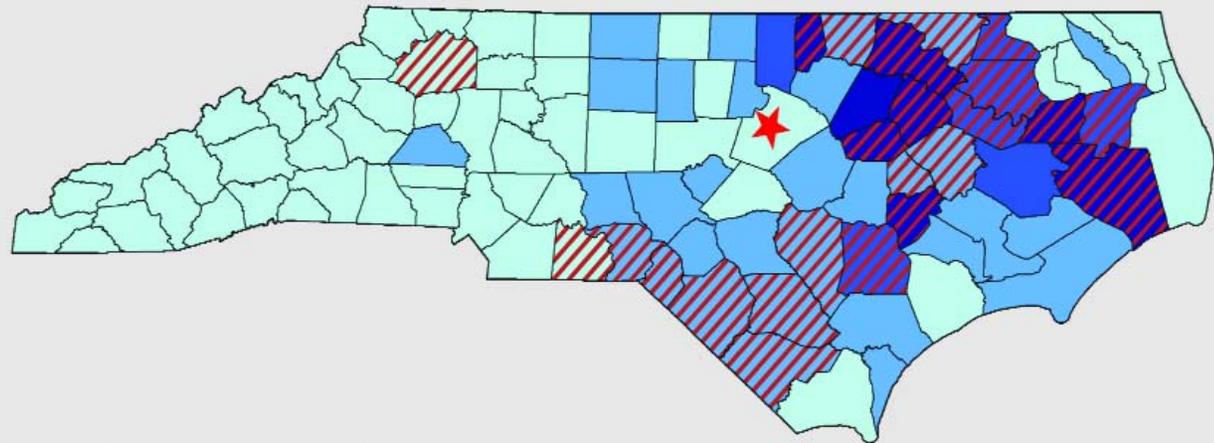
Lottery officials don't conduct demographic studies to find out who is buying the \$1, \$5 and \$10 scratch tickets or choosing numbers in hopes of winning the Mega-Millions or Powerball. But critics of the lottery have long suspected it's the poorest people in the state who line up to buy chances to win.

In order to get a better idea of who is buying tickets, NC Policy Watch requested and received data of county sales for the 2009-10 fiscal year, and then compared those figures with the 2009 adult populations of each county as estimated by the U.S. Census. Policy Watch then compared those figures with the latest U.S. Census poverty rates for each county. The Census defines poverty as a single-person household with an annual income of less than \$11,000 or a family of four living on less than \$22,000 a year.

The NC Policy Watch study was unable to take into consideration lottery sales to

What North Carolinians Spend on the Lottery

The N.C. Education Lottery sold \$1.42 billion worth of lottery tickets in the 2009-10 fiscal year, enough for every adult in the state to have spent \$200.11 on lottery sales in a year. An N.C. Policy Watch analysis of county sales data found that all but two of the 20 most impoverished counties had per capita sales that topped the state average. **To view an interactive map comparing lottery sales and poverty rates by counties, and to read the full report on the N.C. Education Lottery, go to www.ncpolicywatch.com.**



North Carolina

Lottery Sales Per Capita: \$200.11

Total Lottery Sales: \$1.42 billion

Adult Population: 7,102,917

% of residents below poverty line: 14.6%

NC Policy Watch / Sarah Ovaska (Reporter), Ricky Leung (Design/Development), Alexandra Sirota (Data Analyst)

*SOURCES: U.S. Census, poverty (2008) and population (2009); N.C. Education Lottery sales data (2009-10).

out-of-state residents because the state does not collect that data.

Some of the most impoverished counties in the eastern part of the state also had some of the highest per-adult lottery sales. Washington County (21.8% poverty in 2008) sold \$435.84 worth of tickets per adult, while Tyrrell (23.3% poverty in 2008) had \$349.79 in sales. Bertie County (23.5% in 2008) had \$386.64 and Edgecombe (22.9% in 2008) had \$468.99 in sales per adult.

The highest per capita sales were \$536.11 in Nash County. The lowest were in Madison County near the Tennessee border, with \$41.48 in sales for every adult.

The Lottery Oversight Committee, which functions in an advisory role to the legislature, is expected to issue a report about the lottery and whether it's living up to its intended goal of maximizing the profits it gives back to education. Committee members are expected to

take a critical look at the lottery, and their report will be in the hands of the Republican-led legislature when the N.C. General Assembly reconvenes later this month.

To view an interactive map comparing lottery sales and poverty rates by counties, and to read the full report on the N.C. Education Lottery, go to www.ncpolicywatch.com. ■

► Updating our 20th Century Labor Laws for the 21st Century Workplace

By **Louisa B. Warren**, NC Justice Center Policy Advocate

Would you drive a Model-T Ford down an interstate highway? Probably not. That would be incredibly out of step with the times, not to mention dangerous and painfully slow.

But that's essentially the description of our country's workplace standards – a horse-and-buggy set of policies and laws that don't match the 21st century workplace.

The United States' major labor laws were passed in the 1930s. Since then, there have been no significant changes or updates to the Fair Labor Standards Act and the National Labor Relations Act, the two primary labor laws on the books.

While the laws have remained static, the workforce has not.

One major change has been the dramatic surge of women in the American workforce. Today, women are primary breadwinners in nearly four in 10 families, and only one in five families with children has a male breadwinner and a female homemaker. Single-parent households, often headed by women, are one in five of families with children.

These demographic and labor-force shifts have put tremendous pressures on families trying to juggle the demands of work and care-giving.

And the challenges span multiple generations. Grandparents increasingly play a vital role in caring for our country's children. Almost four in 10 grandparents report caring for a grandchild in the past 12 months. An estimated 6.4 million Americans live with their grandchildren, and more than half of these grandparents are in the labor force.

Grandparents also need and receive care from family members. Nearly one in 10 unpaid family caregivers in the United States is caring for a grandparent or grandparent-in-law.

North Carolina's families feel the impacts of these shifts in workforce demographics and care-giving demands daily, but public policies have failed to keep up. Consider that the United States is the only industrialized nation that does not provide paid maternity leave.

Half of North Carolina's workers have

no paid sick days for short-term illnesses and routine needs, more than half do not qualify for unpaid leave under the Family Medical Leave Act (FMLA), and the vast majority of workers have no wage replacement if they need to take extended leave for their own serious illness, the serious illness of a family member or to care for a new baby.

North Carolina can do a lot more to honor and support working families. State leaders should consider the following:

- **Expand the Definition of "Family" for the Family Medical Leave Act.** Federal law currently provides 12 weeks of unpaid leave to eligible employees when the employee or a close family member has a serious medical condition or to care for a newborn or newly adopted child. However, because the leave is unpaid and covers only a narrow definition of "family" (parent, spouse and child), few workers can actually afford or qualify for FMLA. At least ten states have broadened the definition of family to include grandparents, parents-in-law, adult children or siblings with serious health conditions.

- **Explore State Paid Family Leave Insurance.** No federal law requires employers to give their employees paid time off for themselves or family members, and there is no federal family leave insurance system. Studies show that the single largest reason workers do not take FMLA leave is that they cannot afford to go without their paychecks, even temporarily.

Three states have passed state paid leave insurance programs, and Congress is considering federal funding to states to help them start up their own paid leave insurance programs.

- **Provide Paid Sick Days.** Legislation that would allow most workers to earn up to seven paid sick days a year has been introduced in North Carolina since 2007. The "Healthy Families, Healthy Workplaces Act" should be passed into law in North Carolina.

These policy changes, taken together, would signal that North Carolina really is about family values and believes in empowering workers so they can live up to their responsibilities at home and on the job. ■

► Health Benefits for All

North Carolinians are Better Off after Health Reform

By **Adam Linker**, Policy Analyst for the NC Justice Center's Health Access Coalition

ROBIN EASTRIDGE works for a small business that does not provide health benefits, and her husband is self-employed laying tile. Because they do not get insurance through work, they have struggled for years to maintain affordable coverage.



To hear Robin Eastridge and others tell their stories of health care struggles and triumphs, visit the NC Health Access Coalition's YouTube channel at www.youtube.com/nchealthaccess.

A few years ago Robin Eastridge landed in the hospital with a serious viral infection. After recovering, she spent months wrangling with her insurance company over the final bill. The insurer eventually paid.

But when it came time to renew her policy, the premiums jumped 42 percent. On a \$3,500 deductible policy, her new rate was \$900 per month.

When the construction industry collapsed and tile work evaporated, the Eastridge family had to drop its expensive insurance plan. They skipped necessary medications and avoided the doctor. When their finances began to recover they started shopping for another policy, but because of that hospitalization, insurance companies denied Robin Eastridge again and again.

Robin Eastridge is one example among thousands of people currently locked out of the private health insurance system.

Reforming the Insurance Market

The health reform legislation signed into

law last March, commonly referred to as the Affordable Care Act, was debated exhaustively and cleaved the country, often by political party. According to a November 2010 poll from the Kaiser Family Foundation, 42 percent of the public favors the health reform law while 40 percent is unsupportive of reform.

A campaign of misinformation stoked some of these divisions, according to University of North Carolina political scientist Jonathan Oberlander. "Once you

had all of that stuff about death panels and pulling the plug on grandma and all of these other myths about reform, they're very hard to get out of people's heads," he told the Health Access Coalition in an interview.

Despite the rhetoric, many believe the Affordable Care Act takes a reasonable approach to expanding insurance coverage. Dr. William Roper, CEO of UNC Health Care, explained that reform built on a series of mainstream

health policy ideas proposed over several decades. He pointed out that he worked on a requirement that everyone purchase insurance when he served as a health care advisor to President Ronald Reagan.

During the health care debate the Affordable Care Act was the only piece of reform legislation proposed that maintained employer-sponsored insurance, preserved private insurance companies, and eliminated preexisting conditions, according to several non-partisan analysts. A recent study by the RAND Corporation, for example, estimated that health reform will increase the number of businesses that offer insurance to employees.

The Sensible Cuts of Reform

While many citizens understand the benefits of health reform there is general confusion about some of the cuts the legislation makes. Opponents of reform churned up a tumultuous debate about changes to Medicare.

Political ads that ran last fall accused lawmakers of slashing Medicare funding

► Hampered by HAMP as Foreclosures Rise

by \$500 billion. But according to the non-partisan FactCheck.org, these claims are misleading. Medicare benefits will not be reduced; instead, future spending growth will slow a bit over the next ten years. FactCheck.org notes, “So the program isn’t being cut below existing levels, or even stopped in its tracks. It will simply grow slightly less than it would have otherwise - about 7 percent less.”

Medicare savings come from two primary sources in the Affordable Care Act: reductions in payments to private insurance companies that offer Medicare Advantage plans and changes to how Medicare pays hospitals. Bob Jackson, state director of AARP North Carolina, says, “The new law protects guaranteed Medicare benefits, adds important new benefits for seniors such as lowered prescription drug costs, increases payments to primary care providers, and strengthens efforts to find and prosecute fraud while extending the financial solvency of Medicare by over ten years.”

The Promise of Care for All

Perhaps most importantly, the Affordable Care Act ensures that no one is barred from buying insurance. Insurance companies are now banned from denying policies to children with preexisting medical conditions or from capping lifetime benefits. More aggressive rate review led to Blue Cross and Blue Shield of North Carolina rebating more than \$156 million in premiums to customers across the state.

If health reform survives the current political assault, the bill will eliminate preexisting-condition exclusions in 2014 and provide premium subsidies to more than 1 million North Carolinians.

One person already benefiting from reform is Robin Eastridge. After private insurance companies denied her coverage, she turned to the temporary preexisting-condition plan created by the Affordable Care Act for people who can’t get coverage on the individual market. She says the plan, called Inclusive Health, quickly accepted her application.

She and her husband are now insured and pay \$313 per month in premiums. Eastridge told the Health Access Coalition in a recent interview: “I cried the day I got my insurance card.” ■

By **Sarah Ovaska**, Investigative Reporter for NC Policy Watch

AFTER JAMES LOVELACE lost his job in 2008, he and his wife Candie asked Bank of America to modify the loan on their 900-square-foot Rutherford County house.

The family was looking for help through the Home Affordable Modification Program (HAMP), a program backed with \$75 billion in federal stimulus dollars that has fallen far short of the 3 million to 4 million American struggling homeowners it was supposed to help.

The Lovelace family fell behind on their mortgage payments when James, who provides the family’s income while Candie stays home with their three young children, lost his manufacturing job. He was out of work for 15 months in 2008 and 2009 before landing a new job in January of this year as an electrician’s assistant.

His new job pays \$12 an hour, giving the family of five \$2,000 a month to live on.

The family has trimmed back on their spending to live on James’ salary and catch up on the bills that went unpaid when James was unemployed. They never eat out, and clothing for their three growing daughters comes from consignment or thrift shops.

James has avoided medical treatment for his chronic back pain, and the family turned to their church to help pay for a nearly \$3,000 helmet that their infant daughter needs for a medical condition that puts her at risk of a misshapen head.

They’ve made enough room in their budget so they can afford a small monthly mortgage payment, but the family found out in late November, after six months of anxious waiting, that Bank of America wouldn’t approve the HAMP loan modification.

The bank did offer to put the family in an assistance program that lowered the interest rate on the families mortgage and requires monthly mortgage payments of \$450.

But it also leaves the family owing \$60,000 for a home that they bought eight years ago for \$53,000 and had been making regular payments on up until James Lovelace lost his job.

The prospect of starting over has frustrated Candie Lovelace.

“We owe more than when we bought

our house,” she said. “You sign it or you go into foreclosure, you don’t have any say.”

HAMP Falters, Families Suffer

The Home Affordable Modification Program is supposed to help reduce mortgage payments and lower interest rates for struggling homeowners. Approval for permanent loan modifications is left up to the banks and mortgage lenders, who cancelled more than half of the trials initiated by struggling homeowners.

More than a year and a half after the program started, only 550,000 households across the country have received permanent loan modifications through the end of November, the most recent data available. That’s less than half of the 1.43 million homeowners accepted for trials in the program, according to a November performance report from the U.S. Department of the Treasury.

In North Carolina, only 9,466 homeowners were approved for permanent HAMP loan modifications through the end of November.

This spring, a scathing report from the Troubled Asset Relief Program (TARP) inspector general called the HAMP program “disappointing” and questioned “whether HAMP is worth the resources being expended or whether the program needs to be re-vamped to actually help more borrowers.”

HAMP could see its participation go up, and thus help people keep their homes, if banks and servicers were required to look to loan modification programs as an initial option for defaulting homeowners and move to foreclosure as a last resort, said Chris Kukla, government affair counsel for the Center for Responsible Lending, a Durham-based consumer rights and lending group.

“It is up to servicers to decide if they were going to participate and to what extent,” Kukla said. “There was a lot of carrot and no stick.”

The low participation levels in HAMP come as foreclosures continue to rise across the state. As of the end of November, North Carolina had 63,589 foreclosure filings for 2010, according to state courts data. Mecklenburg and Wake counties top the state in the numbers of foreclosures.

North Carolina was spared the massive casualties seen in states like California and

Florida in the fallout of the subprime mortgage crisis. That’s largely because mortgage lending laws in North Carolina have more protections for consumers and some predatory loan operations were dissuaded from setting up shop in the state, Kukla said.

Many of the homeowners in foreclosure proceedings now have experienced some type of hardship, like unemployment, a cut in work hours, divorce or major illness, Kukla said. Foreclosures tend to lag unemployment by a year or more, meaning that the state may be reaching its peak in foreclosures now, he added.

“We’re still going to see a lot of pain,” Kukla said. “We’re still hearing a lot of stories of people that are trying desperately to get a modification but can’t get an answer.”

A Common Story in All 50 States

The N.C. Attorney General’s Office has heard from many consumers like the Lovelaces who complain of having to wait for months and resubmit the same documents and forms multiple times. They have also heard from families facing foreclosure proceedings started by one branch of their mortgage servicer while another branch slowly processes their modification applications, said J.B. Kelly, legal counsel at the N.C. Attorney General’s Office.

“The complaints are so consistent across the fifty states, it’s hard to believe that consumers are making it up,” Kelly said.

The nation’s 50 attorneys general launched a far-reaching probe into the mortgage industry following the “robo-signing” scandal last fall. That scandal, which led numerous large banks to temporarily halt foreclosures, followed reports in the media that major servicers were foreclosing on people’s homes using affidavits that had been signed in bulk and not examined closely.

Kelly expects that increasing the access and ability of consumers to have their loans modified will be factored into the findings of the investigation.

“Many of them (consumers) want to do right, and they don’t know how to do right,” Kelly said. “Hopefully the 50-state investigation will help in that process.” ■

► A Harvest of Dignity

By **Bart Evans**, Coordinator of the N.C. Farmworker Advocacy Network

ON FARMS THROUGHOUT North Carolina, many of the same crops are grown on the same land, using many of the same methods of past generations. They are still planted and harvested by hand, as they have been since the time slaves did that work.

But don't get caught up in nostalgic notions of the preservation of small, family farms. Today, the name of the game is, overwhelmingly, global agribusiness – factories in the fields.

Local farms continue to rely heavily on a vulnerable, immigrant workforce from the global south. Even as U.S. farms are increasingly branding their products for the global marketplace, farm labor conditions remain a hidden shame of the industry.

It's been half a century since Edward R. Murrow's "Harvest of Shame" documentary aired on CBS, revealing the plight of migrant field workers and making a strong call for change. Murrow highlighted the "backwardness" of the extreme, systemic poverty of field workers, and asked us how, in this great, modern nation, this could be happening.

Fifty years later, the agricultural industry is just as important to our national and state economies. Yet it still relies on a system of exploitable workers to hand-harvest crops. Murrow's concerns have yet to be addressed.

The global forces affecting North Carolina agriculture offer new opportunities to address some of the age-old problems that continue to exploit and degrade the environment and workers. Indeed, as agribusiness reaches out to new markets, it also changes the distribution of power within the system.

For example, if North Carolina growers wish to market their sweet potatoes to a European market, they will have to meet new health and safety standards of the European supermarket chains. This is one

example of new possibilities for points of leverage, to again force the question of how can this be happening here?

Recently, the Farmworker Advocacy Network (FAN) held a series of events around North Carolina to kick-off the Harvest of Dignity Campaign, which seeks to improve the laws protecting farmworkers. FAN is a coalition of organizations that work with farmworkers directly or work around issues affecting farmworkers.

The group's message is simple and straightforward – change is badly and outrageously overdue, even more so now in the new, global agriculture

system. And while many would agree that a complete overhaul is what's truly needed, what workers are asking for is relatively plain and simple.

Safe places to work: Enact basic health and safety standards to protect field and poultry workers from injury, illness and toxic chemical exposure on the job. Poultry processing plants should be required to keep line speeds safe.

Safe places to live: Require employer-provided housing to be safe, sanitary and provide for basic decency, such as privacy in bathrooms and locks on the doors.

Better enforcement of existing laws: Require state agencies to work together to enforce our state's current laws protecting field and poultry workers. Crack down on repeat offenders who ignore the law and put people in harm's way.

North Carolina is home to roughly 150,000 field workers and 28,000 poultry workers and their families. The vast majority of the fruits and vegetables and nearly all of the poultry we eat are picked or processed by hand.

However, the people who help feed our families through their hard work also suffer dangerous working conditions, low pay and little recourse when they are hurt on the job.

It's time to stand in solidarity with these people to demand that 50 years is enough. ■



Opinion from NC POLICY WATCH

Headed the Wrong Way on Mental Health

By **Chris Fitzsimon**, Director of NC Policy Watch

There was a time not too long ago when North Carolina's troubled mental health system appeared to be turning the corner after years of woeful funding, ill-advised policies, and questionable leadership.

That time is gone.

Consider the events of the last few months. The state is preparing to close Dorothea Dix Hospital in Raleigh to save money, according to State Health and Human Services Secretary Lanier Cansler.

The federal government announced recently that it is investigating North Carolina's mental health system in response to charges from the group Disability Rights NC that the state has illegally placed more than 6,000 people with mental illness in adult care homes. Staff members in the homes have no experience dealing with people with a mental illness, potentially putting the patients, the staff members, and the other residents of the facility at risk.

Last summer the Wake County Chapter of the National Alliance on Mental Illness released a report showing that people with a mental illness faced long waits in emergency rooms and state facilities. People in need of care at a state psychiatric hospital during the first six months of 2010 waited an average of almost three days.

It sounds like the state could use more hospital beds for the mentally ill.

In November, HHS officials released a list of potential budget cuts of 5 percent to 15 percent to comply with a request from Governor Beverly Perdue, who is putting together a spending plan for next year to address the state's \$3.7 billion budget shortfall.

The proposed cuts include major reductions to mental health programs and services that are already falling well short of meeting the needs of many communities.

Leaders of the new Republican majorities in the state House and Senate continue to insist they will balance next year's budget with cuts

alone and refuse to consider raising new revenue. That means many of the cuts identified by mental health officials will be made, further crippling a system that's already sputtering.

Cansler, who is now in an almost impossible situation, says the state is closing Dix to save money. And it is true that the disastrous 2001 mental health reform scheme called for fewer hospital beds and greater investments in community services so patients could be treated closer to home.

But the services have never been adequately funded, and they are certain to be slashed next year. It seems likely the state will be left with the worst of both worlds-too few hospital beds for the people who need them and inadequate community services for the families who rely on them.

It was easy during the Easley administration to blame the governor and his HHS officials for the mental health disaster, and for the most part they deserved it. At the very least they were guilty of benign neglect, and people suffered as a result.

Today, there's not just an individual or two who are directly responsible, though the buck does stop with the governor. Instead, the problem now is the political climate and the people who refuse to confront it.

The state doesn't have to close Dorothea Dix and displace patients and their families, not to mention the workers who have faithfully kept the place running year after uncertain year.

The state doesn't have to slash community services either. There's no law that says the only way to respond to a crisis is to balance the budget on the backs of people least able to defend themselves in the halls of the General Assembly.

But unless somebody in Raleigh finds the political courage to confront the conventional budget wisdom, forget about the mental health system turning any corner. It's heading backwards quickly and running over families and people with a mental illness in the process. ■

Why Progressives Need Not Despair

By **Rob Schofield**, NC Policy Watch Director of Research and Policy Development

Last November's election results were certainly dispiriting to a lot of progressives. Here in North Carolina, the notion that the agenda for our General Assembly may soon include a raft of radical right-wing proposals is enough to make a person despair for the year to come.

There are, however, good reasons to view this political setback as less cataclysmic than it might have seemed at first blush. Here are a few:

#1 - The new conservative majorities are weak. First of all, in Congress, the Democrats retain control of the Senate. This is scarcely a recipe for revolutionary right-wing change.

Here in North Carolina, things are also not quite as bleak as some contend. Yes, the Republican majorities are significant-31-19 in the Senate and 68-52 in the House-but not all of those 99 Republicans

are on the far right. Several are significantly more thoughtful and moderate than some of the Democrats who used to hold positions of influence and power. And while the numbers are big, the Democrats have held bigger ones - even recently.

Add to this the reality that only seven of the 99 have ever served in a majority and that there are important divisions within the group-divisions over ideology, agendas, ambition and personality-and there's every reason to believe that the Republicans will have their struggles.

#2 - The opposition has great potential. A lot of smart, dedicated progressives remain in the North Carolina House and Senate. And while it's true there will only be so much they can do, they shouldn't be undersold. Add to this the presence of an array of solid and experienced progressive advocacy groups and a number of promising coalitions like the NAACP-led Historic Thousands of Jones Street (HK on J) movement and Together NC and a governor with a veto stamp and it's clear that progressives have a

fighting chance.

#3 - The progress we have made will stand. There is no doubt that the new, conservative General Assembly will pass a number of counter-productive laws. But there is only so much they can do in the near term to roll back history.

Despite the delusions of some to the contrary, for instance, they cannot opt North Carolinians out of national health care reform. Indeed, the new majorities will find that failure to create a new state health care exchange will only cede more local control to the federal government.

Other genies will prove similarly difficult to return to their bottles. Ideologues may try to reintroduce smoking in restaurants, revive predatory lending, ban abortions or send the LGBT community back into the closet, but that's not what most North Carolinians want. If such efforts do advance they're sure to guarantee a short stay in power.

#4 - Economic recovery is occurring. Though too slow, recovery is taking place. In a growing, well-positioned state like North Carolina, the new majority is not going to get far with an agenda premised on crowded schools, closed college campuses, crumbling roads, reduced services and homeless, mentally ill people wandering the streets. Perhaps even more importantly, the economic rebound is sure to deflate the fear-based appeals of the haters and extremists on the far right.

#5 - The state's population is rapidly diversifying. Conservatives may try to slow progress and stifle participation by people of color and new North Carolinians with anti-immigrant and voter ID laws, but ultimately the die is cast. North Carolina is rapidly becoming a much larger and more ethnically and socially diverse state.

Conservative activists like Raleigh's Art Pope may well spend their entire fortunes in an effort to hold back the tide, but ultimately, there is little they can do to make their brand of gussied-up 1950's conservatism appealing to the new, large, growing and increasingly urban North Carolina.

The battles of the coming legislative session may be fierce, but progressives can take solace in the knowledge that progress is here to stay-especially if they stay committed to the fight. ■





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 Duke University School of Law

GRASSROOTS EMPOWERMENT/
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