

**NORTH CAROLINA WORKERS:
The State's Most Important Job Creators**

2 How Jobs Are Really Created

3 Taxes & NC Workers

4 The Importance of Government Employees

5 How Health Reform Affects NC Workers

6 Jobs for Those Needing a Second Chance

7 BofA Paperwork Error Terrorizes Mom

7 Education as Economic Investment

8 Public Transit to Connect Workers to Jobs

9 Payroll Fraud

10 Filling Bill Friday's Shoes

10 The Big Business of Prisons

11 Open Records Delay

*The state's preeminent voice
for economic, social and
political justice*

The Justice Center works to ensure that every household in North Carolina has access to the opportunity, resources and fair treatment it needs to achieve economic security.

JUSTICE CENTER PROJECTS

- Budget & Tax Center
- Workers' Rights Project
- Education & Law Project
- Consumer Protections & Housing Project
- Immigrant & Refugee Rights Project
- Health Access Coalition
- NC Policy Watch

STAY INFORMED!

Sign up for our free e-newsletters at www.ncjustice.org and www.ncpolicywatch.com



www.facebook.com/ncjustice
[/ncpolicywatch](http://www.facebook.com/ncpolicywatch)
[/nchealthaccess](http://www.facebook.com/nchealthaccess)



www.twitter.com/ncjustice
[@ncbudgetandtax](http://www.twitter.com/ncbudgetandtax)
[@ncpolicywatch](http://www.twitter.com/ncpolicywatch)
[@ncjc_education](http://www.twitter.com/ncjc_education)
[@ncworkersrights](http://www.twitter.com/ncworkersrights)
[@nchealthaccess](http://www.twitter.com/nchealthaccess)

Policy & Progress Managing Editor:
Diane Gill Morris
policy&progress@ncjustice.org

▶ The Producers, the Earners and the Spenders

North Carolina's workers are job creators



By **Alexandra Forter Sirota**,
Director of the
NC Justice Center's
Budget & Tax Center

DURING THIS POLITICAL SEASON, there has been much discussion about job creators and the importance of designing policies that support their efforts to generate economic activity and growth. Unfortunately, too much of the discussion misses the critical role of workers as job creators and thus undermines the very policies that would best build and sustain jobs in the long term.

And North Carolina must focus on proven ways to create jobs. The state's job deficit—the number of jobs needed to replace those lost, employ new workers, and get the state back to pre-recession unemployment levels—has not fallen below half a million since the recovery began. In southern states, including North Carolina, there are nearly three unemployed workers for every job opening, making persistently high and long-term unemployment a common—even shared—experience in communities across the state.

North Carolina needs to create good, quality jobs in order to build a solid foundation for future economic growth.

Workers are the linchpin of that effort. Their work produces goods and services, and they use the earnings from their work to go out and purchase goods and services. So why have many politicians and pundits forgotten about the role of workers as job creators?

Guided by a Failed Premise

Popular but bad economic theory maintains that only the wealthy create jobs by investing their money, which generates the kind of economic activity that can create and sustain jobs over the long term. The reality is that this theory doesn't work.

The Congressional Research Service recently analyzed the 65-year decline in top tax rates, which were a direct result of the thinking that putting money in the pockets of the wealthy would increase

productivity and growth. The findings show there is no relationship between these tax cuts and productivity, economic growth or even savings and investment levels.

The policies resulting from this flawed theory have in fact made things worse, concentrating wealth and leaving middle-class workers to fight each other for the scraps (see chart on page 3).

The "Average Joe" Entrepreneur

But there is something to be said for the role of entrepreneurs in job creation, right? Absolutely, but favoring the wealthy is not the same thing as helping entrepreneurs.

While personal wealth is a factor in determining who creates and owns a business, it is not the sole determinant. In

BUSINESS OWNERS WHO VALUE WORKERS

ERIC HENRY, President, TS Designs

When Eric Henry helped open TS Designs 35 years ago, the manual screen printing shop had only a few employees. Eventually, the company began getting big-name clients like Nike, Gap, and Polo, and it ballooned to more than 100 employees. Even during its growth, the company prided itself on giving back to the community and offering its employees fair wages and benefits.

However, the North American Federation Trade Agreement (NAFTA) in 1993 forced TS Designs into a tight corner. The company came close to bankruptcy, partially because Henry wanted to remain true to its moral model, even when everyone told him he had to outsource labor and increase the bottom line.

"We never wanted to go overseas only to bring products back to the community, and sell to the employees we laid off," Henry said.

TS Designs decided to stay in North Carolina, with an emphasis on being a local company that employed and sold to North Carolinians and a focus on the "triple bottom line": people, profit and planet. The company began overseeing the production of t-shirts from "dirt to shirt," while maintaining a transparent supply chain. They connected with farmers and manufacturers who were committed to being completely transparent in their labor practices.

Soon, the company was utilizing 500

textile jobs and monitoring the production – from the cotton plant to the print shop – of the Cotton of the Carolinas brand.

TS Designs currently has 17 full-time employees. The employee base has ebbed and flowed over the last four years, but Henry said the company is at a point now where it will be able to start hiring again in 2013.

"Workers are our most valuable asset and are why we have fought to keep their jobs and benefits," Henry said. "They are a leg of our three-legged stool of people, planet and



Photo by Duncan Wolfe

profit. The stool will not stay up without all three legs."

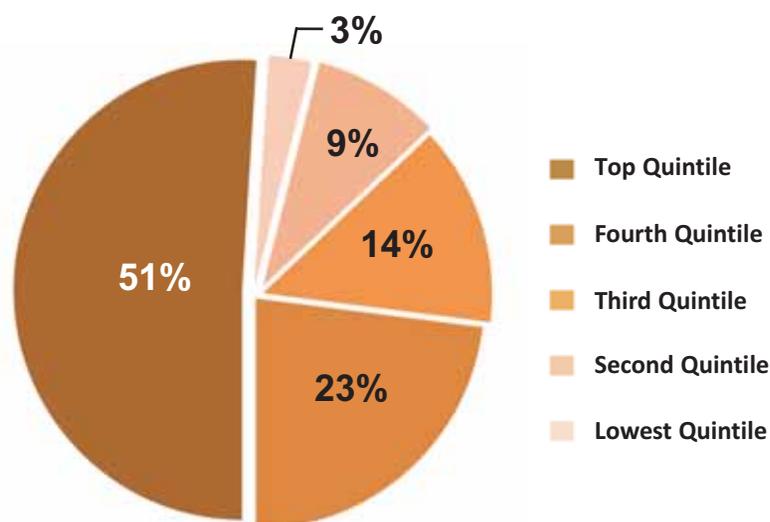
"I also see [the workers] as a part of a system," Henry added. "Everything works as a system, and when you weaken or remove one part from this system, the whole system fails."

– By Julia Hawes, NC Justice Center
Communications Specialist

<http://tsdesigns.com/>

Top 20% of North Carolinians Held More than Half of Income in the State

Share of Aggregate Income by Quintile, 2011



fact recent research by the federal Treasury Department has found that just 1 percent of small business owners are millionaires. Moreover, an annual survey by the University of Michigan found that nearly 4 out of 10 nascent entrepreneurs live in low- or moderate-income households.

It is the middle-class that serves as the incubator of business formation in the United States.

Self-employment and entrepreneurship are often important alternatives to wage and salary employment for low- and middle-income workers. In fact, recent research by the RAND Corporation found that rates of entrepreneurship increased during the Great Recession as workers who lost their jobs turned to self-employment as an alternative means to make ends meet. Such so-called survival business start-ups are important to generating economic activity.

But if entrepreneurs are creating jobs, the vast majority do so as they start out and in line with consumer demand and with the support of the workers who produce their goods and services. It is young firms that are responsible for the majority of job creation in the United States—in 2007, businesses that had been around for fewer than five years created nearly two-thirds of all new jobs.

Fortunately, the same policies that support entrepreneurship also support

workers in their role as producers, earners, and consumers. Public investments in transportation and infrastructure—to get goods to market and workers to work—and education so the state's workforce is skilled, competitive, and capable of critical thinking provide the foundation.

Further public investments in research and development, a regulated marketplace, and the rule of law are necessary and fundamental to building on this foundation a strong economy that can support innovation and active economic participation of more North Carolinians.

Bad Theory, Bad Policy

The dominance of a disproven economic theory—the wealthy as job creators—has shaped North Carolina's tax code, jeopardized public investments, and thereby reduced our ability to collectively invest in creating fertile ground for job creation. But it has done more than that—it has diverted our attention from workers in their role as job creators.

Workers have seen their incomes decline over the past decade in North Carolina, and at the same time an increasing concentration of income gains have gone to the top 5 percent. These income trends left unchecked and unaddressed have forced workers to

BUSINESS OWNERS WHO VALUE WORKERS

MIKE PHILLIPS, Owner, Men at Work

In 1990, Mike Phillips was imprisoned for selling drugs. "I told myself then, 'If I get out, you're never going to have to worry about me again,'" he said. He devoted himself to that promise and his company, Men at Work Car Care Center, and he decided to pay it forward by employing workers who had also spent time in jail.

"If these people don't have opportunities, they're going to go back to what they were doing before," Phillips said. "I provide a way station to give a ray of hope to these people." Sometimes it's just a couple hundred dollars for a week's work, Phillips added, but it gets them "off the couch."

Men at Work is run by a few full-time employees and a "thousand part-timers," Phillips said. The company has moved a few times over the years, but it still gets customers from all over Raleigh—from the Governor's Office and Progress Energy employees to local TV journalists.

The current location on West South Street lets Phillips focus on the neighborhood teenagers, whom he will often bring into the shop on the weekends. "I put them to work and see what they can do, just to give them the experience," he said.

Phillips is working on getting a community center off the ground with a focus on students who need somewhere to go after school or on days they are suspended. The center would offer skills training that might one day lead to a job.

He is also hoping to create future

jobs and opportunities by encouraging the people currently working at Men at Work to branch out on their own



Photo by Julia Hawes

someday. "My goal is for guys out of prison to eventually be able to open their own franchise," he said. "You get them out of prison and give them an opportunity. Success is nothing if you don't give anything back."

Phillips said people often urge him to save more of his profits for himself. "But [these workers] are the ones that need it," he said. "You plant seeds and harvest it later."

— By Julia Hawes, NC Justice Center Communications Specialist

www.menatworkcarcarecenter.com/

increase their work hours and take on more debt to pay for basic needs. Over the long term, such solutions run counter to the goal of a stable economy.

What can North Carolina do to change this? It can shift its budget and tax policies so they benefit middle-income workers and entrepreneurs and help low-wage workers move into the middle class. That includes a fairer tax system that asks everyone to contribute based on their

ability to pay and raises enough revenue to fund needed investments in programs that increase opportunity—education, training, and work supports.

What the country and North Carolina need is to create a sound, sustainable economy. We can do that by developing public policies informed by the reality of who creates jobs and how jobs are created. ■

Everyone Pays, Everyone Benefits

But in North Carolina, the responsibility of paying taxes falls too heavily on the shoulders of working families

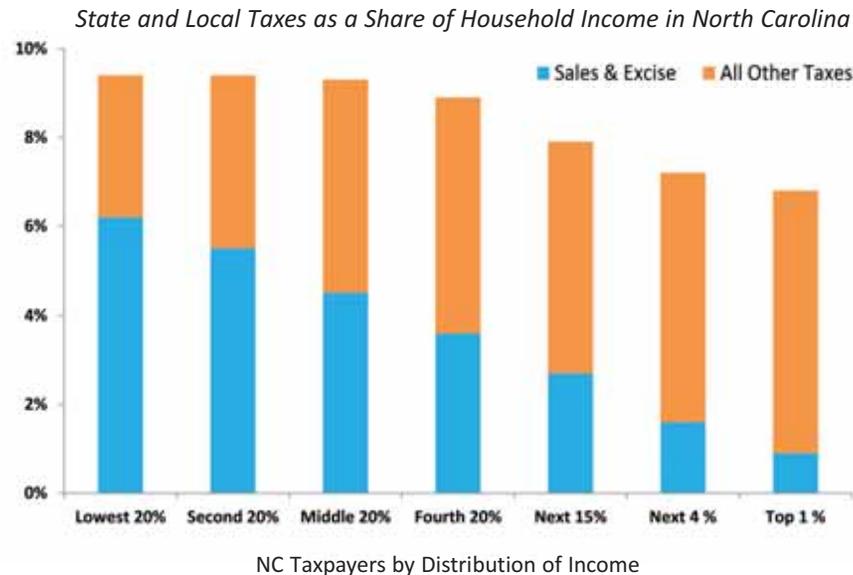


By **Cedric Johnson**,
Tax Policy Analyst
for the NC Justice
Center's Budget & Tax
Center

NORTH CAROLINA'S ECONOMIC PROSPECTS will increasingly depend on its ability to build an educated and skilled workforce capable of competing for good-paying jobs. Unfortunately, the state's current tax system, which funds important public structures, fails to generate adequate and stable revenue and threatens the state's economic vitality.

The myth that nearly half of Americans don't pay taxes and thus have no *skin in the game* suggests we all aren't doing our part. But when it comes to who pays taxes in North Carolina, let's give credit where credit is due—kudos go to every North Carolinian, because we all pay the taxes that make possible public investments and economic prosperity in the Tar Heel state.

FIGURE 1: Low- and Middle-Income Families Pay Greater Share of Income in State and Local Taxes than the Wealthy Do



North Carolinians pay each and every convenience store, dine at a restaurant, put gas in the car and shop at the mall. These

dollars help fund public schools, roads and bridges, local fire stations and libraries, and other services that make North Carolina an attractive place to raise a family and operate a business.

Unfortunately, low- and moderate-income North Carolina families contribute a notably larger share of their incomes to state and local taxes compared to higher-income families (Figure 1). The over-reliance on contributions from low-income households not only poses challenges to the long-term adequacy of the state's revenue collection but also threatens the economic vitality of local counties across the state.

Many working North Carolinians simply earn too little to make ends meet and face a gap between their monthly budgets and the costs of housing, child care, transportation and other essentials. Consequently, a tax system that requires those least able to contribute to pay the most in taxes as a share of their incomes fails in promoting economic opportunity for all North Carolinians. As low- and moderate-income North Carolina families

The Grease of the Private Economic Engine

Government employees are job creators and do jobs that benefit private businesses



By **Allan Freyer**,
Economic Policy
Analyst for the NC
Justice Center's
Budget & Tax Center

NORTH CAROLINA'S LEGISLATIVE leaders claim that cutting government spending and laying off government employees will somehow help "job creators," and that public-sector jobs are not *real* jobs and provide no benefit to the private sector.

Flying in the face of 75 years of established economic consensus, this philosophy ignores the fundamental reality that public-sector workers are job creators, too. They spend their paychecks at private-sector businesses, enabling those businesses to hire new workers.

Eliminating public-sector employees in a struggling economy simply eliminates their ability to spend their paychecks at these businesses, which then are forced to lay off, rather than hire, new workers.

But beyond that, public-sector workers provide services that make private economic growth possible.

The All-Important Ripple Effect

Public workers act as job creators when they administer key public programs that make large-scale expenditures related to billions of dollars in contracts and direct purchases from private-sector businesses—revenues that pay for additional hiring.

This includes not only office-related expenditures like office supplies, information technology and business services, but also large-scale government programs. For example, North Carolina's Medicaid program spent a combined

\$12.2 billion in federal and state funds in FY 2011-12 on direct support to providers (like hospitals) and beneficiaries, who spend these dollars at hospitals and private-sector health providers. These providers in turn purchased supplies from the state's private-sector medical device manufacturers, which used those earnings to hire and pay workers.

It is precisely these ripple effects that make the state's cuts to Medicaid in the 2011-13 budget—and the resulting loss of \$833 million in federal matching funds for Medicaid—so devastating to the state's healthcare industries. These cuts are estimated to eliminate 13,000 jobs throughout the state, 65% of which will come out of the private sector.

Laying the Foundation for Business Growth

Perhaps most importantly, public-sector workers promote job creation

By helping to reduce business costs for training, infrastructure, and public safety, government employees are saving private businesses significant amounts of money.

when they provide public goods—key services that are available to everyone in the state and help facilitate economic growth but which cannot be provided by private businesses in a cost-effective manner. Typical examples of public goods include roads, bridges, sewer lines, public education, job training, law enforcement, public safety, and national defense.

see a larger share of their paychecks go toward state and local taxes, they have fewer dollars available to spend in their local economies, to save and to invest in their futures.

A growing, thriving middle class is essential to economic prosperity in North Carolina. Accordingly, a tax system that is fair and generates adequate revenue for public investments that promote economic growth must be attentive to the impact of tax policies on low- and middle-income families.

Some state legislators are calling for the elimination of the state personal income tax, which would likely require a significant increase in the state sales tax rate to make up for more than \$10 billion in lost revenue. The bulk of state and local taxes that low- and moderate-income North Carolinians pay are sales and excise taxes (Figure 1). The Institute on Taxation and Economic Policy reports low-income families typically spend three-quarters of their incomes on things subject to sales tax, while the wealthiest families spend only a sixth of their incomes on sales-taxable items.

Private businesses move their goods to market on the roads built through government contracts administered by government workers, and their property is protected by publicly funded law enforcement officials and fire fighters.

Businesses employ workers educated by public school teachers and workforce development experts at public community colleges. Skilled labor, in particular, is critical for improving business productivity and profits, so public investments in workforce development form the basis of the state's competitive edge when trying to attract and expand private-sector businesses in the state. In fact, North Carolina has been consistently ranked in the top states for business by groups like Forbes Magazine, CEO Magazine, and Site Selection Magazine specifically because of its highly regarded, publicly trained workforce.

By helping to reduce business costs for training, infrastructure, and public safety, government employees are saving private businesses significant amounts of

Thus, ending the income tax and increasing the sales tax rate would mean low- and moderate-income families would pay an even larger share of their incomes in state and local taxes.

A fairer, more consistent tax system would maintain the personal income tax and broaden its base. That would involve reducing preferential treatment of certain kinds of income and adding additional brackets to better align the tax with a household's ability to pay. Expanding the sales tax base to include currently exempt services while lowering the sales tax rate would generate additional revenue and make the system fairer to working families.

As North Carolina's economy continues a tenuous recovery following the Great Recession, lawmakers will face the daunting task of addressing yet another budget gap for the coming fiscal year. Nevertheless, this challenge presents an opportunity to improve the state's tax system and place North Carolina on a path toward economic prosperity. This is an opportunity the state cannot afford to forego. ■

money, which then can be re-invested into private-sector job creation.

The Common Good is Good for Business

Without the contribution made by public employees, private businesses would have to provide these services themselves, a burden far too heavy to ask North Carolina's businesses to carry. Given that we're competing in a global economy in which every other nation in the world provides these kinds of public services to businesses, asking North Carolina's businesses to assume these costs by reducing public investments is a recipe for long-term capital flight, not job creation.

So, when legislators start talking about cutting government jobs, remember that government workers are job creators, too. In the middle of a difficult recovery, North Carolinians shouldn't buy the argument that laying off the people who are responsible for the public goods that allow businesses to grow and thrive will somehow lead to job creation. ■

8 Things You Should Know about North Carolina Workers, the Affordable Care Act, and Medicaid Expansion

1 The Affordable Care Act expands health coverage to the middle class, including most of the 1.5 million people in North Carolina who are uninsured. For middle-income families—making up to \$88,000 a year for a family of four—reform provides subsidies to help pay insurance premiums and caps out-of-pocket expenses.

2 The NC General Assembly will vote on whether to expand Medicaid coverage to those of more meager means—about \$15,000 in earnings per year for an individual. **About 500,000 low-income citizens—many in the poorest and most rural parts of our state—would get affordable health coverage.** Many of these newly insured people have at least one family member working full-time, often at a small business that can't afford to offer insurance.

3 Right now, hundreds of thousands of low-income North Carolinians do not qualify for Medicaid. If a person between the ages of 18 and 64 does not have a serious disability or is not the parent of young children, he or she cannot qualify for Medicaid coverage, regardless of income. **Medicaid expansion will change that.**

4 The federal government will pay 93% of direct costs of expansion—**pumping between \$15 and \$20 billion into North Carolina's economy over the first six years.** That money goes directly to doctors, hospitals and other health-care providers, especially in the lowest-income and most rural parts of our state.

5 North Carolina will save money by expanding Medicaid. State and local governments currently spend billions helping hospitals, community health clinics and other providers take care of people who don't have health insurance. So even though North Carolina's share of the Medicaid expansion will be about \$830 million over the first six years, the expansion will mean the vast majority of people will be able to pay their medical bills, so state and local governments will save millions.

6 Medicaid expansion is needed to save rural hospitals, which provide free care to patients who can't afford hefty medical bills. Because health reform depends on new patients possessing Medicaid cards, the law phases out millions in federal funds to help support these hospitals. Many hospitals will also see reduced reimbursements for Medicare as policymakers try to rein in spending. **North Carolina hospitals can weather these changes only with an influx of newly insured Medicaid patients.**

7 By expanding Medicaid, North Carolina can attract federal dollars for ongoing efforts, like providing more care to low-income seniors and disabled adults in their homes and communities.

8 Medicaid saves lives. Research shows that people who are uninsured have a 25% greater chance of premature death than people who have insurance. Recent studies show that enrolling 500,000 people in Medicaid can lead to 2,840 fewer deaths per year. ■

Connecting People who have Criminal Records with Employers

Non-profit re-entry organizations provide training and job assistance



By **Daniel Bowes**,
Equal Justice Works Fellow
with the NC Justice Center's
Workers' Rights Project

IN THIS ELECTRONIC AGE of pervasive information, the shadow cast by a felony conviction is more consequential than ever. Felony convictions serve as modern-day scarlet letters, designating hundreds of thousands of North Carolinians as second-class citizens and depriving them of the resources, opportunities, and privileges essential to productive citizenship.

Nowhere is the destructive nature of a criminal record more evident than in the employment arena. Research by the Society of Human Resource Management found the vast majority of private employers consider applicants' criminal records in hiring decisions and often will not even

Employment Application

Full Name: Last First MI Title

Address: Street Address Apt. #/P.O. Box

City State Zip

Phone: () E-mail Address: Social Security No.: Current Salary: \$

Date Available: Position Applied for:

Are you a citizen of the United States? YES NO

Have you ever worked for this company? YES NO

Do you have any allergies to pets? YES NO

Have you ever been convicted of a felony? YES NO

If yes, explain:

consider hiring individuals with felony convictions.

In many circumstances, it is reasonable and appropriate for an employer to consider an individual's criminal record. After all, prior criminal behavior may indicate an inability or unwillingness to responsibly discharge the duties of a job. Unfortunately, such blanket policies exclude skilled, well-intentioned applicants.

Applicants' with criminal records become steadily more frustrated as opportunity after opportunity is denied them based on a box checked "yes" beside the question, "Have you ever been convicted of a felony?"

"I want so much to prove myself," said Thomas E. Hockaday, whose felony convictions occurred more than 20 years ago. "I want so much to be given a chance to work and to advance, but I feel like I'm always confronted by the past, by a lifestyle that I've walked away from. That question takes me back to a life that I have frankly outlived."

Re-entry Programs Make the Connection

Stepping in to bridge this divide between skeptical employers and unproven but earnest applicants are a handful of nonprofit organizations around the state. These organizations provide in-depth job and life-skills training to participants with criminal records, and then they utilize long-term relationships with partner employers to place program graduates in entry-level jobs. In a sense, these organizations are substituting the blemished records of program participants with their own reputations for providing and continuing to support dependable employees.

Wake County is lucky enough to have two of the state's most reputable job training and placement organizations in StepUp Ministry and Community Success Initiative. Each year, hundreds of Wake County residents excluded from traditional pathways to work because of their criminal records are allowed to contribute to their communities and families through the efforts of these two organizations.

The Community Success Initiative was "birthed on a prison bunk that belonged to me," said Dennis Gaddy, executive director of the eight-year-old organization. Gaddy spent five and a half years in prison and often draws on his experiences there in providing services to program participants "who still want to accomplish something with their lives."

In addition to job readiness training, CSI's curriculum for people with criminal convictions who are re-entering society addresses housing, mental health issues, substance abuse, personal development, education, and family needs.

"People come to us and their first request is usually for help finding a job," said

Gaddy. "But we understand that there are all of these issues that are connected to employment that are hidden underneath the surface, and so we try to address those as well."

Sheldon Howard, who spent 23 years "as a guest of the NC Department of Corrections," is a re-entry mentor at CSI and often shares his own experience of "going in a young man and coming out old," confronted by a lot of closed doors.

At an orientation event, Howard explained to new participants in the six-week program, "We got a program we believe in, a program that we think will help you accomplish some wonderful things in your life, but it's going to take some discipline on your part, some work and commitment, and maybe even some sweat and tears."



Photo courtesy of Diane McKinney Photography

Three women receive graduation certificates for completing the year-long StepUp Life Skills Class.

Encouragement and Empowerment

Across town, employment counselors at StepUp Ministry are preaching a similar tough but hopeful message. Since 2005, StepUp Ministry has placed more than 1500 people in jobs around Wake County, with 81% of participants staying at those jobs for more than one year.

"On average the state of North Carolina spends \$27,747 to keep one prisoner incarcerated for a year," said StepUp Ministry Executive Director Steve Swayne. "StepUp Ministry invests \$1,200 to prepare one ex-offender for employment and place that same person in a job. We believe that employment is the first step towards living a stable life."

As an employment counselor and recruiter at StepUp Ministry, Theresa Godfrey splits her time between convincing individuals with criminal records that they have a genuine opportunity for change and convincing employers of the value of hiring individuals with criminal records. To do both, Godfrey describes her own involvement in the criminal justice system and her successful journey of reentry.

A month after her release three years ago for crimes motivated by drug addiction, Godfrey enrolled in StepUp Ministry's job training and placement program. "They gave me encouragement and empowered me to go out and get a job."

Godfrey's message to program participants, and the broader message of StepUp Ministry, is one of empowerment and growth. "People have a lot to offer. We made a mistake, but we do not have to be the victims of the mistakes we made."

The efforts of StepUp Ministry and Community Success Initiative are providing genuine second chances to worthy individuals and making communities stronger. Their success demonstrates to employers the value of peering beyond applicants' past criminal mistakes to examine their efforts to rehabilitate their lives and contribute to their families and communities. ■

▶ Jumping through Hoops to Avoid Foreclosure

Bank of America's minor paperwork mistake may cost a Raleigh family their home



By **Rochelle Sparko**,
Staff Attorney with the
NC Justice Center's
Consumer Protections
and Housing Project

I MET JESSICA MURRAY earlier this year when she contacted the North Carolina Justice Center because she was afraid she might lose her home.

Even though Jessica has a good job as a medical recruiter, she struggled to keep up with her bills and support her two children after a contentious custody battle. She filed for bankruptcy in 2010 but made sure to make the monthly mortgage payments on her Raleigh home.

Despite making her payments, she still is at risk of foreclosure—because Bank of America refuses to apply her payments to her loan.

A Welcome Modification

Jessica was current on her mortgage loan when she received a letter from her loan servicer, Bank of America, inviting her to apply for a loan modification. Because it was a struggle to make her monthly mortgage payments, she applied.

Bank of America employees advised her to stop making her mortgage loan payments while they processed her application, causing her to fall about two months behind on her loan. Then the bank offered to lower her monthly payment by about \$300. Jessica signed the necessary documents and made the new payment each and every month.

Several months went by, and Jessica noticed her monthly mortgage statements showed her payments were not being applied to her loan. Instead, Bank of America placed her money in a suspense account. She called Bank of America, and an employee told her it takes a while for the monthly statements to reflect the new loan terms and that everything would show up properly soon. So Jessica kept making the monthly payments and didn't think much more about it.

Then she received a letter from a Bank of America account manager that said he would assist her through the loan modification process. But Jessica had finished that process six months before. Now, she was worried.

Getting the Run-around

She tried for six months to work with Bank of America to get the problem straightened out, even sending her account representatives copies of the modification documents she had signed and returned now nearly a year earlier. When nothing worked, Jessica contacted the North Carolina Justice Center for legal help. That's when I, as an attorney with the Justice Center's Consumer Protections and Housing Project, got involved.

Bank of America stated repeatedly that Jessica's loan modification was held up by a problem with the paperwork and that the modification simply needed to be edited to include Bank of America's address. Once that correction was made, everything would be fine. Bank of America promised, in writing, that her mortgage loan would not be adversely affected by the delay in getting the revised paperwork to her.

We decided to bring the problem to the National Servicing Center, a government agency that mediates between borrowers and loan servicers in an effort to avoid foreclosures. After investigating, the National Servicing

Center threatened to fine Bank of America for each day it did not provide revised documents to Jessica.

Shortly thereafter, and after 18 months of delay, Bank of America provided her with new loan modification documents and required her to sign and return them in two weeks.

\$11,000 in Surprise Fees

The new documents included approximately \$11,000 in fees that were not charged in the original modification—directly contradicting Bank of America's written promise that Jessica would not be financially harmed by the bank's delay. We demanded that Bank of America correct the mistake before Jessica would sign the new paperwork, but Bank of America threatened to revoke the modification offer if she failed to sign and return the paperwork by the deadline.

I spent hours on the phone with the National Servicing Center and employees of Bank of America until I finally found someone with the authority to extend the deadline for Jessica to return the paperwork.

It has now been two years since Bank of America approved Jessica Murray for a loan modification. She has made every single modified payment, but she, her family, and her home remain in limbo. She hasn't been able to rebuild her credit following her bankruptcy because, as far as the credit agencies are concerned, she's behind on her mortgage, despite her on-time payments. Now, she isn't sure if she's choosing between paying \$11,000 she doesn't owe and losing her home to foreclosure.

The Justice Center stands committed to assisting Jessica through this process, whether she is ultimately offered a fair modification or needs the intervention of the North Carolina court system to obtain justice. ■

▶ Investing in Education to Improve the Workforce



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

THERE ARE FEW BETTER INVESTMENTS North Carolina can make to boost job creation than strengthening its public education system.

Good public schools pay off now because businesses know employees will be happier and more productive if they're not worried about the quality of education their children are receiving. And good schools will pay off later because quality education is the key input for ensuring that North Carolina has a productive and well-

prepared workforce in the future.

Creating such a workforce will be essential for economic growth. The industries that are experiencing the most growth and are projected to account for the majority of jobs in the future demand highly skilled workers. These jobs will require not only academic knowledge but also advanced critical-thinking skills and the ability to adapt in rapidly changing work environments.

A more educated workforce is more adaptable, can learn new skills and tasks more easily, is more autonomous and needs less supervision, and can use a wider range of new and emerging technologies—all features that employers and businesses look for.

Building Skills that Work

Creating a workforce that is flexible and excels at

critical thinking necessitates improving both cognitive and noncognitive abilities. Cognitive abilities are what most education policy focuses on: the ability to score well on tests, what most of us would call "book smarts."

But noncognitive abilities are just as necessary for people to find success in life and at work. These include motivation, sociability, the ability to work with others, attention, self-control, self-esteem, and the ability to make informed choices that affect health.

Research by Nobel Prize-winning economist James Heckman shows that the labor market is increasingly oriented toward valuing these noncognitive abilities as well as higher-order cognitive abilities, like the ability to find creative solutions to new challenges. Educational interventions—especially for at-risk children and those from low-income households—must focus on improving students' cognitive and noncognitive abilities.

(Continued on page 8)

Connecting Workers to Jobs with Reliable and Accessible Public Transit



By **Tazra Mitchell**,
Fellow at the
NC Justice Center's
Budget & Tax Center

HISTORICALLY, NORTH CAROLINA has favored road and highway investments over public transit. Only 3 percent of the state transportation budget goes to public transit.

But there is an increasing need for public transit to connect workers to job opportunities. The lack of public transit limits the ability of workers—especially those living outside of cities—to find and keep jobs.

Research by the UNC School of Social Work shows that a lack of transportation is one of the most common barriers to obtaining and maintaining employment. Commuting from home to job interviews, work, or work-related activities and back again is a challenge for many North Carolinians.

For some, owning a car is cost-prohibitive. Expenses related to car ownership—the cost of a vehicle, insurance premiums, maintenance and operating expenses—account for the second largest share of expenditures for the typical household. Public transit provides a more affordable option to jobless and lower-income individuals.

North Carolinians traveling to work by means of public transportation are disproportionately people with lower incomes, according to the latest Census Bureau data. In 2011, 67 percent of public-transit riders had incomes of \$25,000 or less, up 11 percent from 2010. And public-transit users were more likely to work in educational services, health care, and social assistance jobs—

occupations that heavily contribute to local communities' well-being.

Home to Work and Back Again

Public transit is only helpful to low-income workers if it connects where they live to where the jobs are available. This means transportation and affordable housing plans need to be coordinated.



Affordable housing is less available in urban areas than in rural areas. But, according to the Center on Labor Technology, any housing-related savings from living far from urban centers are often erased by higher transportation expenses due to longer commutes.

This makes public transit important for people living outside of urban centers.

Unfortunately, turning to public transit is simply not an option for many non-urban residents.

Public transit is scarce in rural areas, sometimes available only on a first-serve basis with certain eligibility restrictions. Fixed-route services often bypass all or a significant portion of areas outside of urban centers, leaving many transit-dependent residents without a reliable method of getting to work.

This is particularly problematic because, increasingly,

rural North Carolinians must look to the metropolitan region to access jobs. Ninety-eight percent of the state's job growth during the official economic recovery has been in metropolitan areas. Rural areas lost jobs during this time period, compounding the geographic disadvantage faced by rural residents and reinforcing the need for stronger and more flexible public transit services.

Even public-transit services in urban areas provide only limited access to jobs: the Brookings Institution found the typical metropolitan resident in the state can only reach 30 percent of jobs via transit within 90 minutes. And service hours do not always match up well with the needs of low-wage workers who are more likely to have night and weekend jobs.

Targeted Expansion of Public Transit

Due to budgetary constraints and individual preferences, it is not feasible or necessary for public transit to be available in every neighborhood or within reach of every job. Indeed, the optimal level of public transit varies from community to community based on need and efficiency.

And while public transit is not the only response to increasing job accessibility, addressing the existing public transit coverage gaps in neighborhoods where jobs and opportunity are lacking is vital to supporting workers and the recovery.

Investing in expanded public-transit options—by sending buses into underserved areas or upping evening and weekend services, for example—is one way to remove transportation barriers and support the extension of opportunity to disadvantaged communities.

But in order to truly improve the chances of successful employment outcomes, policymakers must work across multiple policy silos—like housing, transit, and jobs—to enable social and economic inclusion, accessibility, and mobility across the state. ■

Investing in Education to Improve the Workforce (Continued from page 8)

How We Make It Happen

First, North Carolina needs to increase access to early education, which is a compelling and thoroughly evaluated investment. The overwhelming body of evidence on early education shows that investing in education in the years when the brain is developing most rapidly, particularly before third grade, improves student achievement, college attendance, earnings, employment, and health, and it decreases criminal activity and participation in risky activities.

Ability gaps between students open at an early age, often before schooling begins, and persist into adulthood. The best way to ensure that these gaps never develop and therefore improve the overall quality and productivity of the workforce is to intervene early with high-quality early education programs such as prekindergarten. Heckman's research shows that prekindergarten improves noncognitive skills and that these skills carry over into adulthood and into the workforce.

Another area of agreement in education policy is that the most important input that determines whether a child will be successful is the quality of teaching she receives. Studies show policies that attract higher-quality teachers lead to improved standardized test scores, increases in the graduation rate, and improved noncognitive abilities—all of which lead to a more prepared workforce.

Policies designed to improve the quality of teachers include increased professional development, higher salaries, incentives for teaching in areas where teachers are harder to attract, incentives for national board certification, and incentives for mastery of a given subject area.

And North Carolina needs to increase its investments in its disadvantaged students. While the majority of students are served well by our educational system, students from low-income families, students with disabilities, and English language learners are at an increased risk of being failed by it. The economic and workforce productivity returns are

therefore highest for investments in these groups of children.

In the past 30 years, a greater percentage of children are attending and graduating college, but a greater percentage are also dropping out of secondary school and creating a growing underclass. The best and most efficient way to improve North Carolina's workforce is to focus reforms and programs on disadvantaged students early in their lives.

One other relationship between education and the workforce is clear: there is no way to improve the workforce by disinvesting in education. Unfortunately, this is the path North Carolina's leaders have chosen in recent years. Indiscriminate spending is not the answer, but well-targeted investments in education are desperately needed to ensure that North Carolina's workforce is prepared for the increasingly high-skilled jobs of today and tomorrow. ■

▶ Payroll Fraud Robs North Carolina Workers

Misclassification of workers leaves them without a safety net and gives cheating employers an unfair advantage



By **Harry Payne**,
Senior Counsel for
Policy & Law for the
NC Justice Center's
Workers' Rights Project

OFTEN WHEN YOU SEE A DOCTOR, she will tell you, "You'll just feel a little pinch," then it hurts like crazy for a moment. But you know what's coming and that it's good for you, and you are prepared.

Such notice, benefit and care were not afforded to Michelle*, a licensed physician's assistant who worked for a North Carolina medical practice for years. Her big pinch came as a terrible economic shock and damaged her life, and she didn't know it was coming until it was too late.

paid vacation," Michelle said. "How do you have paid vacation and be an independent contractor?"

By categorizing her as an independent contractor, Michelle's employer avoided the protections, regulations and costs that are linked to employment. Michelle didn't know what her designation was or how important it was until she was let go after raising an issue about questionable billing practices.

As an independent contractor, Michelle was not eligible to receive unemployment insurance benefits because her employer had never paid premiums into the system for her. She now knows her employer contributed nothing on her behalf for taxes, Medicare, or Social Security.

Without unemployment checks coming, Michelle struggles to meet her immediate needs while trying to figure

and is always financially damaging to the worker. Michelle noted, "I am devastated. From reading websites and my research I found out that I was an employee, and realized there are so many people in worse situations than me. They're thinking they have secure jobs and are

By categorizing her as an independent contractor, Michelle's employer avoided the protections, regulations and costs that are linked to employment.

that cost and pressure that keeps so many workers from crying foul. Many lower-wage earners simply give up.

The real danger working people face is that they don't know their status—or the consequences of being misclassified—until something bad happens, like an injury or layoff.

That's why the NC Justice Center is supporting a change in the law so that any worker would be assumed to be an employee unless the employer proves otherwise. We also are asking for the law to require that each person hired be given written notice of their status and for whom they work. ■

**We used Michelle's first name only at her request.*

If your employer gives you a 1099 tax form instead of a W-2 tax form, he is treating you *as an independent contractor*.

You may be an employee, not an independent contractor, if:

- **Your employer can exercise control over the way you complete your job (how, when, and where you do your work).**
- **You are paid on set dates in regular amounts.**
- **You are given extensive supervision.**
- **Your employer trained you to do your job in a certain way.**
- **Your employer provides the tools and materials required to do your job.**
- **You have worked for the same employer year after year.**
- **You work for only one employer.**

Not an Employee after All

For three and a half years Michelle worked under the legally required supervision of her physician-employer who defined her hours, provided her uniforms, paid for her malpractice insurance and license, sent her to conferences, and treated her like an employee.

But without her knowledge, her employer had categorized her as an independent contractor. "They gave us

out how to pay what she owes the IRS, the NC Department of Revenue, the Social Security Administration and Medicare.

Public Costs of Payroll Fraud

Michelle's employer committed payroll fraud, which not only robbed Michelle but also cheated federal and state systems of needed tax revenue.

Payroll fraud is common in industries such as construction, hospitality, and home health, but it happens elsewhere

employed but they don't know what's going on."

Such misclassification is illegal, but it's also lucrative and rarely prosecuted. It redirects substantial funds away from benefits and protections for employees and into the employer's pocket. The employer gets away with not paying unemployment insurance, Social Security and Medicare taxes, and the worker loses wage-and-hour protections, is ineligible for workers' compensation, and is not protected from discrimination on the job.

In industries such as construction, where every bidder has similar costs for materials and labor costs are significant, those engaged in payroll fraud reap benefits and put honest employers at a decisive competitive disadvantage.

Too Costly to Challenge

In today's job market, people need work and many are grateful for any job. North Carolina is a "hire at will, fire at will" state, meaning that under state law an employer doesn't need a reason to let someone go. Workers who need their jobs and may have difficulty finding new ones aren't likely to start discussions about misclassification.

Challenging a misclassification can require many expensive hearings in different venues regarding each of the benefits and taxes that weren't paid. It is

THE WORKERS' RIGHTS PROJECT of the NC Justice Center offers Know Your Rights factsheets for North Carolina workers.

Learn about your rights regarding:

- Family and Medical Leave
- Health and Safety at Work
- Misclassification
- Unemployment Insurance
- Wage Theft
- Workers' Compensation
- Immigrant Workers' Rights

You can find these factsheets on our website:
www.ncjustice.org/workers-rights



Who Will Fill Bill Friday's Shoes?



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

THE LAST SPEAKER at the memorial service for former UNC System President William Friday was his longtime assistant Virginia Taylor, who told the audience in Memorial Hall on the UNC-Chapel Hill campus that the torch of Bill Friday's life's work was now in their hands.

Former Governor Jim Hunt echoed that sentiment. Hunt said what Friday would want us to do now "is step into his shoes and to walk forward and to have big, bold ideas" for North Carolina.

No one can replace Bill Friday. But the question raised by his passing is who will step up with those big and bold ideas? Who will accept that torch of public

service that burned so brightly for education and opportunity and social justice in Friday's hands?

The most likely candidates were packed into Memorial Hall that Wednesday morning of the memorial service, as top state and national leaders in business, education, philanthropy and politics all came to pay their respects.

And while the tributes to the life and work of Bill Friday were moving, it's not clear that all the leaders who were listening took the message to heart.

A day after the service, Governor Beverly Perdue announced she was shifting \$20 million to allow more than 6,000 at-risk four-year olds to enroll in the state's nationally recognized pre-school program, NC Pre-K.

That move may not meet the definition of big and bold, but it is a decision that is wise and welcome. Surely Bill Friday would have applauded the effort to help more children overcome the hurdles of

poverty to succeed in school and life—a cause at the core of Friday's lifelong crusade for fairness and opportunity.

NC House Speaker Thom Tillis, who was at the service, issued a joint statement with Senate President Pro Tem Phil Berger after Perdue's announcement, calling it an "expensive political stunt" that results in a "temporary expansion of government daycare."

The statement perfectly illustrates the pathetic nature of the current political debate and the right-wing ideology that defines it.

Tillis and Berger may have concerns with where Perdue found the money, but they didn't just voice that disagreement. They also disparaged the widely supported preschool program that numerous studies have shown helps low-income children do better in school.

The dismissal of NC Pre-K by the leaders of the General Assembly, as offensive as it is, is not much of a surprise.

Their party's candidate for governor claims every day that public schools in North Carolina are broken, even as the high school graduation rate rises while teachers and principals struggle to help kids in the face of devastating budget cuts and the dispiriting rhetoric from politicians like Tillis and Berger.

Our schools are not broken, and NC Pre-K is not temporary daycare.

Former Governor Hunt told the Memorial Hall audience that Bill Friday was North Carolina's greatest builder. And he was.

Too many of North Carolina's current political leaders are the opposite—not builders of anything, but dismantlers of public institutions like schools, pre-k programs and the public university system that is Friday's greatest living monument.

It is not clear at all who will fill Bill Friday's shoes. But it is painfully clear who will not. ■

When Crime Pays for Big Business



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

MANY ON THE POLITICAL RIGHT are forever lamenting the supposedly terrible effects of "big government." According to this narrative, so-called big government naturally breeds corruption and "cronyism," while private enterprise is inherently efficient and bottom-line driven. Therefore, goes the argument, we must "downsize" government and turn numerous core functions over to the private sector.

There is an obvious and unavoidable Catch-22 in heading down such a path: doing so requires transferring vast amounts of public tax dollars to private "vendors" or "contractors."

And when private actors are competing for public dollars—especially

really big dollars—a level playing field between competitors is almost impossible to maintain. That's why companies hire high-priced lobbying firms (ideally affiliated with the political party in power) and make big campaign contributions: the returns on their "investments" can be enormous. That's also why many corporations quickly devise ways to provide their "services" in such a way that the demand (and the size of government payments) never seems to abate.

A classic case in point is the private prisons or "corrections" industry. As explained in a recent online post by North Carolina Council of Churches Program Associate Chris Liu-Beers, the detention of immigrants has become a big business. He writes:

Over the last several years we've witnessed the disturbing trend of private, for-profit prison corporations benefitting from new anti-immigrant laws. These prisons operate like hotels, where each and every bed that is filled provides profits for the company. Every empty bed, on the

other hand, costs money. These companies have a financial incentive to detain as many immigrants as possible, and they have poured millions of dollars into lobbying efforts ensuring maximum profits.

An August Associated Press story found that "the industry's giants—Corrections Corporation of America, The GEO Group, and Management and Training Corp.—spent at least \$45 million combined on campaign donations and lobbyists at the state and federal levels in the last decade.

But the private corrections racket is not limited to the jailing of immigrants. Giant companies like CCA and the GEO Group (formerly a part of the Wackenhut security firm) have also been in the business of locking up domestic prisoners for some time.

A recent audit of a CCA prison in Ohio found it to be dangerously overcrowded and poorly prepared for fires and other emergencies.

And while North Carolina has, to its credit, mostly resisted the trend toward corrections privatization thus far, this

doesn't mean North Carolinians have been unaffected. CCA owns two of the main facilities, both in Georgia, where detained North Carolina immigrants are usually sent, and the GEO Group runs a federal prison in northeast North Carolina.

In another troubling development, the GEO Group, which has employed one of Raleigh's most influential lobbying firms since 2010, was recently awarded several new contracts from the state of North Carolina to provide community services to criminal offenders.

Is this trend toward privatization of core public services and the cronyism it inevitably breeds something that can be resisted? Evidence suggests that it will be a tough fight. The combination of corporate-funded politicians working in concert with conservative "think tanks" is a formidable force—especially when combined with a fleet of well-heeled lobbyists and the almost irresistible temptation for companies immersed in this business to milk the public coffers

(Continued on page 11, far right)

NC Open Records Delay Stymies Historian



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

A TEMPLE UNIVERSITY PROFESSOR is writing about North Carolina's worst industrial fire—the 1991 blaze at the Imperial Foods plant in Hamlet that killed 25 people.

Bryant Simon wants to find out what survivors said to labor department investigators. But his June 2011 request to look at the witness accounts of the fire has been pending at the NC Department of Labor for nearly a year and a half.

"There's no other way to get this

The plant hadn't had a safety inspection in its 11-year existence, and the plant's owners had come to North Carolina after their Pennsylvania plant was cited for unsafe working conditions by labor inspectors.

information if you're a historian," Simon said. "Hamlet was now 21 years ago, and there's virtually no records available."

Studying the Past to Understand the Present

Simon plans on writing a book about the culture of cheapness that surrounded the plant—the fast-food chicken tenders the workers made, the low pay workers received, and the shortcuts taken around labor laws. The voices of the surviving workers who spoke to the NC Occupational Safety and Health Administration investigators are key to his work, and his research has been held up without them, Simon said.

"The forces that are shaping our own lives blow up in Hamlet," said Simon, who was attending graduate school in 1991 at the University of North Carolina

at Chapel Hill. "It's an early indicator of the world we're living in now that's built around the idea of cheap."

Many of the statements need to be transcribed from the original handwriting, in line with a state law that requires the labor department to mask the identity (and handwriting) of witnesses to workplace safety issues, even for accidents that occurred more than two decades ago. That cost will be absorbed by Simon.

A Turning Point in Worker Safety

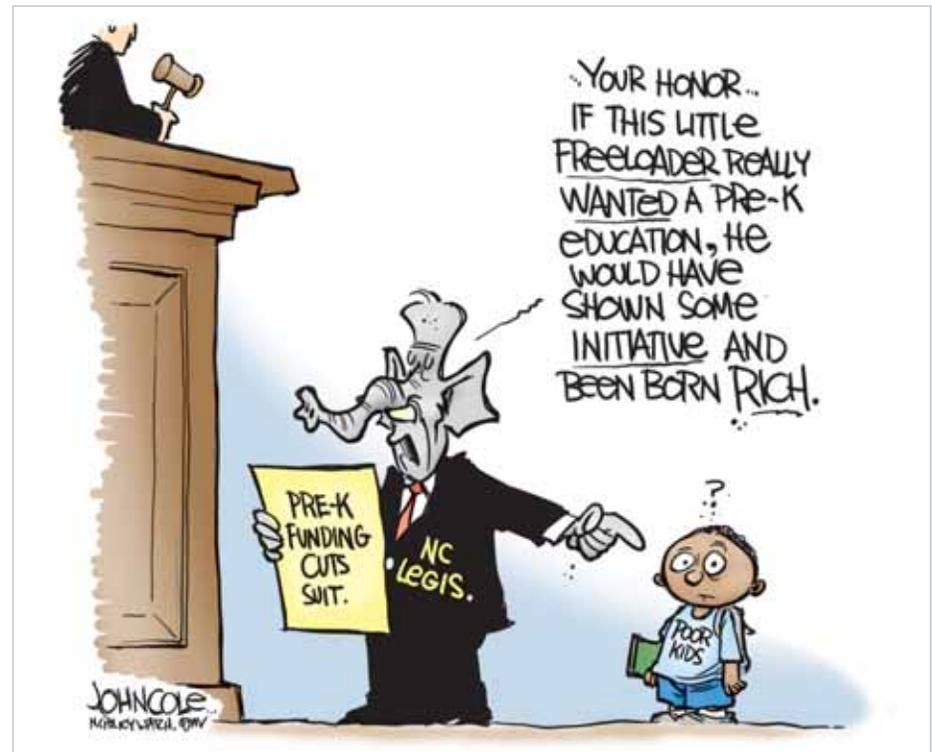
North Carolina's public records law requires agencies to provide the public with documents "as promptly as possible." Unlike the federal government and some other states, North Carolina doesn't have a firm deadline for public agencies to provide records.

The courts often serve as a last resort for public records issues, with media companies taking the lead in pushing for access to records related to timely news event.

But Simon says historians also have a need to access government records, which are often the only first-person accounts of happenings. He was surprised that the records of the Hamlet fire were still at the NC Department of Labor and hadn't been handed off to the state archives, given the fire's significance in the state.

The fire exposed woefully lacking enforcement of North Carolina's worker safety laws. The plant hadn't had a safety inspection in its 11-year existence, and the plant's owners had come to North Carolina after their Pennsylvania plant was cited for unsafe working conditions by labor inspectors.

Several reforms were pushed through after the fire, and John Brooks, the labor commissioner at the time, levied a record \$808,150 fine against the plant,



though the company never paid it, according to a News & Observer article on the fire's 20-year anniversary. (Brooks, a Democrat, is challenging Cherie Berry, the Republican labor commissioner since 2000, in this November's election.)

Finally, Some Progress

Simon first made his request to review the records on June 15, 2011. He sent emails approximately every three months asking for updates, according to copies of email correspondence provided by Simon. Though given copies of the state's findings initially, he got little information in coming months about his

request for witness statements.

After Policy Watch inquired about his information request, Simon received an email from Anne Weaver, the bureau chief of planning, statistics and information management, telling him that the worker statements will be transcribed and the documents soon will be in his hands.

He's glad to finally be getting the information he needs but said the experience has left him wondering what encounters other scholars will have.

"There's a larger issue about access to information for people trying to understand the state's present by learning about the past," Simon said. ■

When Crime Pays for Big Business (Continued from page 10)

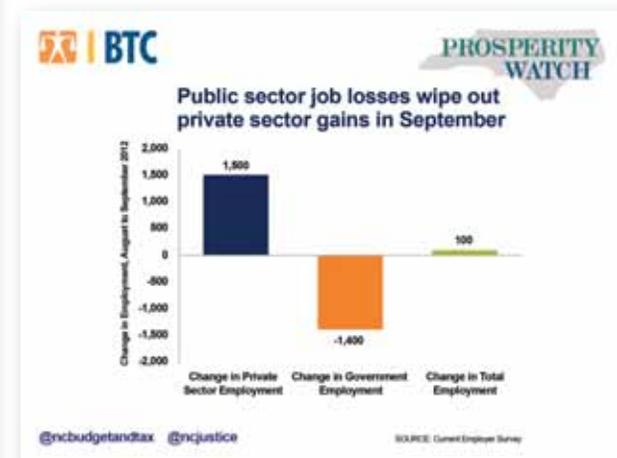
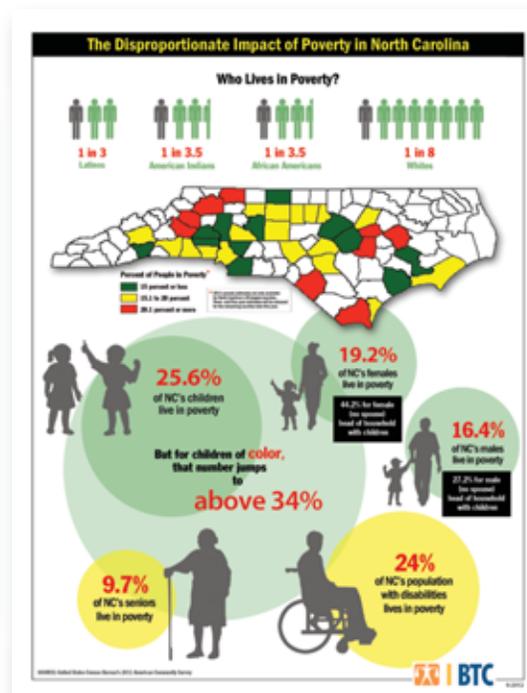
for all they are worth.

Truth and sunlight, however, can be a powerful antidote to mythology and corruption. Let's hope that, as a good first step in such an effort, progressive voices stand up and push back against

the myth that giant, for-profit corporations are somehow naturally more efficient and better stewards of public resources than a straightforward and well-organized public program. ■

Interested in how state policies affect workers and families?

Follow the NC Justice Center on **Facebook** or **Twitter** to get the latest news and analysis on policies that touch every person in North Carolina.



To get information in your inbox, visit the Justice Center's website and sign up for our **weekly e-newsletter**.

