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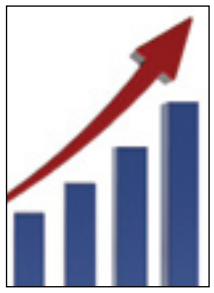

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DEPARTMENTS

AG's 'Consumer Win' Just Pennies on Dollar

Investors in coastal real estate schemes stand to recover little

By Don Carrington
Executive Editor

RALEIGH

A settlement touted by North Carolina Attorney General Roy Cooper on Sept. 3 as a "win" for investors victimized by two questionable developments on the North Carolina coast promises to provide only pennies-on-the-dollar restitution to those who lost money in the transactions.

Attorney General Roy Cooper

Cooper, in a press release announcing the $2.28 million settlement with the developers and marketers of two coastal developments, said:

"Consumers who bought overvalued lots at two coastal real estate developments in Carteret and Onslow counties will get to recoup some of their money."

The developers' site plans for Cannonsgate in Carteret County and Summerhouse in Onslow County show the extent of the planned build-out of the coastal developments as envisioned in the original planning.

But if the 1,100 consumers who may be eligible for refunds shared the entire settlement, each payment would average only $2,073. Public records indicate many buyers have lost more than $100,000 each.

Cannonsgate, in Carteret County, and Summerhouse, in Onslow County, were the creations of developers Randy and Gary Allen, who were implicated in the scandals that dogged former Gov. Mike Easley. Easley, along with his wife Mary, purchased a waterfront lot in December 2005 at Cannonsgate under suspicious circumstances that led to damaging investigative reports by *Carolina Journal*, *The Charlotte Observer*, and *The News & Observer*.

Responding to fraud complaints filed as early as 2007 from purchasers in Cannonsgate and Summerhouse, Cooper's office pursued legal action through its Consumer Protection Division. The defendants listed in the settlement agreement are Randy Allen of Charlotte and his brother Gary

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Private Exchanges Could Help Save Businesses

Some companies see exchanges as way to save health costs

By Dan Way
Associate Editor

RALEIGH

Fearful of the impact Obamacare may have on their businesses, some North Carolina employers are considering private health insurance exchanges as a way to continue providing medical coverage to employees at a lower cost than the federal Obamacare exchange.

Duke Energy recently announced it would shift nearly 15,000 retirees from a company-sponsored health plan to a private health exchange run by United Healthcare.

Gary Salamido, vice president of governmental affairs for the North Carolina Chamber of Commerce, said the Chamber could create or partner with a private health exchange to help members contain costs. "In a nutshell, the more businesses learn [about Obamacare], the more uncertain, and, for lack of a better word, the more scared they are of the bill," Salamido said.

"There's nothing that prohibits private exchanges from happening" in North Carolina after Obamacare takes effect, Salamido said. "We're looking at it pretty directly. I can't get into a lot of detail right now, but the North Carolina Chamber is looking at what are options for our members."

IBM cited unsustainable cost increases for retirees' health plans when the company notified 110,000 former workers it would pay an annual contribution into a health retirement ac-

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Obamacare Could Hike Premiums 80 Percent

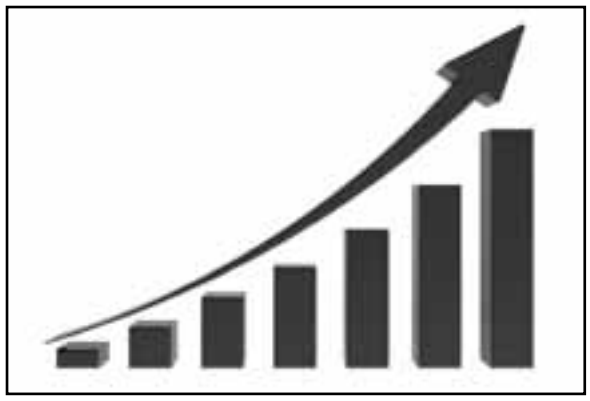
By Dan Way
Associate Editor

RALEIGH

Individual health insurance premiums in North Carolina would spike as much as 80 percent on average due to the effects of Obamacare mandates if plans submitted by Blue Cross Blue Shield of North Carolina are approved by the federal government.

Younger, healthy consumers representing one-third of individual policyholders would bear disproportionately "substantial increases" to offset the costs of insuring older, less healthy populations and the requirements of the Affordable Care Act, BCBSNC officials acknowledged.

The 80-percent average increase comes from comparing the 2014 rates for BCBSNC's lowest-cost "bronze" Obamacare plans to a statewide average of current individual-policy premiums compiled by the Manhattan Institute for Public Policy Research, a New York-based nonprofit research organization. Manhattan researchers used data from the federal government to compile its 2013 premium averages for each state. They calculated rates for different age groups and for policies offering different levels of coverage.



BCBSNC, which controls 85 percent of the state's individual health insurance market, announced in early September a sampling of its 26 new plans crafted for sale in all 100 counties on the federal health exchange marketplace.

"We definitely know that the premiums that Blue Cross and Blue Shield released are increasing across the spectrum of all ages," said Katherine Restrepo, health and human services policy analyst at the John Locke Foundation. "It's not looking too good."

Restrepo noted that the comparisons are not perfect because the Obamacare-based plans have different components and richer layers of required coverage. However, she said, the data are sufficiently reliable to draw credible conclusions about costs associated with the 25-, 40-, and 60-year-old age groups.

It's also the case that under Obamacare, participants in the health exchanges whose income is between 100 and 400 percent of the federal poverty level may receive varying degrees of subsidies depending on actual income and other factors. Subsidies would offset premium costs. Subsidy amounts would vary not only from state to state, but even county to county, said Barbara Morales Burke, vice president of health policy and chief compliance officer at BCBSNC.

"What's important and why this is a legitimate comparison is because the Manhattan Institute took the state's five cheapest health plans [and] averaged them out among these three age groups in the most populous counties of the state," Restrepo said.

BCBSNC's bronze plan covers 60 percent of actuarial costs; the policyholder picks up the remaining actuarial costs of care and must take care of co-pays and a deductible out-of-pocket. Covering 70 percent, 80 percent, and 90 percent of actuarial costs, respectively, silver, gold, and platinum plans are more expensive and offer more comprehensive coverage.

"Just looking at the bronze plans that Blue Cross put out, age 25 starting premiums will be at $185, and the Manhattan Institute numbers, the pre-Affordable Care Act rates, were at $102, so this is an 81 percent increase," Restrepo said.

"If you look at the age group of 40-year-olds, Blue Cross and Blue Shield for the bronze plan starts out at $235. The Manhattan Institute for 40-year-olds put out $132 premiums prior to the Affordable Care Act, and this results in a 79 percent increase," she said.

Costs for the 60-year-old group would be even higher, she said.

The new Blue Cross catastrophic plan was designed as the lowest-cost, bare-bones policy. Even it would cost considerably more than the previous $102 monthly premium average of five lowest-cost plans now being offered — even though each of the five plans provides more coverage than the Blue Cross catastrophic plan. The catastrophic premium under the new Blue Cross menu would be $145 for a 25-year-old, or 42 percent higher. (Manhattan did not evaluate catastrophic plans available now, but they should have even lower premiums than the $102 average of the lowest-cost plans.)

Morales Burke said the insurance company did not compile a comparative table to show side-by-side costs of current premiums and those that will take effect in 2014.

"These are new products. The benefits are different, the permitted rating factors and rating methodology is different compared to what we do today. There are these taxes and fees that have to be included, so it's really an apples-to-oranges comparison," Morales Burke said.

Other plans and associated premiums were to be released Oct. 1, when the federal exchange opens, and the open enrollment period commences.

"We felt like at this point in time it would be helpful to people to get some idea of what they might see by releasing just a sampling of these rates," Morales Burke said.

"We know that there is interest in how it compares, but it's going to boil down to a specific individual, especially when you want to look at it in terms of subsidies that they may qualify for," Morales Burke said.

"We do expect that a good number of our existing individual customers will qualify for some premium subsidy," Morales Burke said.

Critics of Obamacare contend its subsidies give it an unfair advantage over existing private-sector insurance, and will crowd people who have insurance out of self-paid or employer-paid plans into the subsidy-laced government exchanges.

"The ACA will make coverage available to many who have never had it and will enhance benefits for most consumers. These are good things, but they come at a cost," Patrick Getzen, Blue Cross vice president and chief actuary, said in a news release announcing the new plans.

"After the impact of subsidies, we expect about two-thirds of our individual customers will see the amount they pay for coverage increase similar to previous years — or they may pay less. The remaining one-third of our customers will see fairly substantial increases due to the requirements of the ACA," Getzen said.

Morales said the one-third who will see those "fairly substantial increases" primarily will "be people who are younger, who are healthier, and who probably don't qualify for much if any premium subsidy."

Under Obamacare, insurers no longer will be able to set initial premiums for individuals based on a patient's medical history, so the sizable discounts healthier people (who typically are younger) have enjoyed will be eliminated in 2014.

"We've got to just kind of treat everyone as average health for our total book of business. And the variation based on a person's age will have to be compressed compared to what we can do today," Morales Burke said.

At press time, neither BCBSNC nor Coventry Health Care of the Carolinas — the second carrier seeking permission to sell its products on the federal exchange — had received approval of its plans from Washington. Nor had Coventry released its rates. *CJ*

State's Community Health Centers Hope to Survive Obamacare

By Dan Way
Associate Editor

RALEIGH

Concern is rising among community health centers that serve nearly a half million patients in North Carolina yearly — most of them uninsured — that Obamacare may drain away their patients and doctors. Meantime, officials say, patients are antsy about how the law will affect them.

The Affordable Care Act, as Obamacare is officially known, mandates that everyone who is not covered by an employer-provided health plan purchase individual insurance by Jan. 1 or pay a fine. Enrollment is set to begin in state and federal health care exchanges Oct. 1, and includes tax-credit subsidies for participants who meet income eligibility standards.

Patients are "very curious, and very nervous, too," about Obamacare's effects on their health care, said Eugene Chalwe, director of Piedmont Health Services' community health center in Carrboro, which serves between 2,400 and 3,600 patients a month.

Currently, 52 percent of community health center patients in North Carolina are uninsured, compared with 36 percent nationally. Of the insured population, 22 percent have Medicaid, about 12 percent Medicare, and about 14 percent private insurance.

Despite the Obamacare mandates, some individuals might opt out of purchasing insurance and pay a tax penalty, said Rebecca Whitaker, spokeswoman for the North Carolina Community Care Association. In addition, there are 355,000 people who earn less than 100 percent of the federal poverty level who are ineligible for subsidies on the exchange and unlikely to be able to afford insurance.

"For folks between 100 and 138 percent of poverty, if they're qualified for a subsidy to purchase private insurance and some cost-sharing reductions, it may still be $100 a month for a premium," and they may remain uninsured because of the cost, Whitaker said.

"Even folks who could afford it could decide — because it's the young 'invincible' population — not to purchase health insurance, knowing they could go to a health center and access care on the sliding-fee scale," Whitaker said.

Lisanna Gonzalez, a family nurse practitioner who has been providing health care for patients at Piedmont Health Services' community health center in Carrboro for the past year, conducts a physical examination on a patient at the clinic. (CJ photo by Dan Way)

She said fundamental uncertainties about Obamacare are ratcheting up anxiety among the 34 federally qualified health centers in the state that operate about 180 different clinical sites in 62 counties, and among medical professionals who staff them.

If Blue Cross Blue Shield of North Carolina and Coventry Health Care of the Carolinas, the only applicants on North Carolina's federal exchange, siphon community health center patients into their plan networks, the centers would struggle to pay for medical care for the uninsured, Whitaker said.

"Concern about maintaining and growing your patient population is even more compounded by what's on the horizon for health center funding in the future," Whitaker said. Federal allocations to care for the uninsured are scheduled to drop "pretty dramatically" in 2016.

"So certainly if the future of the health center is threatened and the financial stability is threatened because their payer mix of federal support and community support can no longer sustain operations, I think that would worry anybody," Whitaker said. "I think it's a pretty significant concern."

Community heath centers serve 466,000 individual patients during 1,447,499 visits annually, she said. The centers are required by law to care for anyone, regardless of ability to pay.

Overall, 94 percent of patients in community health centers across North Carolina have incomes less than 200 percent of the poverty level and are eligible for participation in the sliding-fee scale, she said.

"So we're actually waiting for some guidance from the federal government … how to apply sliding fees to those individuals who may decide not to purchase insurance," Whitaker said.

At Piedmont Health Services, 67 percent of the patients are uninsured and pay the lowest fee on the sliding scale.

But Brian Toomey, Piedmont Health CEO, does not share the same foreboding as many of his colleagues.

Indeed, he is planning to add a community health center in Burlington and another in Chapel Hill in the near future to complement the seven Piedmont Health centers in Carrboro, Prospect Hill, Burlington, Snow Camp, Union Ridge, Siler City, and Moncure. The Piedmont system serves more than 40,000 patients at 110,000 visits annually.

"We believe that once people see us, the vast, vast majority … are very pleasantly surprised," Toomey said.

"We think we're going to be adding patient loads," he said.

"That was the experience that health centers saw in Massachusetts," Toomey said. Then-Gov. Mitt Romney implemented state-based health care reforms in 2006 that many observers say were the basis for Obamacare.

"We think that's going to be the experience that happens here as well. We think there are many people who got to know us because of our small-business plan, got to see us in a different light than they would have normally, expected us to be, and found out that we're a really good value for the dollar," Toomey said.

The small-business plan partners with chambers of commerce in Piedmont Health's service area, providing low-cost health care and a medical home to employees and their families who are in chamber member businesses that are underinsured or uninsured.

"History shows that some people will leave us, because for the first time in their life they [can choose] where they can get their health care, and I'm glad they exercise that right," Toomey said. "Part of [the uncertainty] is because this is all new," he said.

Piedmont Health receives 12 percent of its $39 million annual budget from the federal grants that community health centers receive for uncompensated care. Nationally, the grant average is 33 percent.

Piedmont Health already incurs expenses for uncompensated care at 135 percent of its grant amount, and in 2016 the federal grant will be reduced by 40 percent.

"Obviously that's a very large number, but the design of what was supposed to happen and is supposed to happen is that that would be offset by the number of insured people that we will now be taking care of," Toomey said.

Piedmont received a $340,000 federal outreach grant through which three case workers and a manger work to enroll patients in the Obamacare exchange.

Twila Brase, president of the St. Paul, Minn.-based Citizens' Council for Health Freedom, is among those who believe community health centers nationwide are participating in their own demise by assisting uninsured patients to enroll in Obamacare exchanges.

"I could see the health plans depriving [health centers] of patients. So all the people that they have now they go into the exchange and get, quote, covered, but they can't find their way into a doctor's office anywhere because of the long lines," Brase said.

"Meanwhile, the health plans [won't] put community health centers into the limited network, and that means [patients will not go] to the community health centers, which [would cut] patients off from that as an option," Brase said.

She is not convinced community health centers are necessary.

"It would be far better to take all of that taxpayer money, and let people keep it in their pockets, and build an entire charitable care system" that would be less expensive and provide more medical services than the community health center model, Brase said.

Toomey believes community health centers will remain vital operations, given their experience in providing medical services in low-income communities. *CJ*

State Briefs

Reduced penalties

State officials hope to save $2 million a year in indigent legal services by reclassifying some crimes to either low-level misdemeanors or infractions. By reducing the punishment, defendants would not have the right to a state-paid attorney, such as a public defender, because defendants under those reduced charges would not face the potential of jail time.

"In the past, any time a person could under any circumstance go to prison, he was entitled to legal counsel," said Rep. Leo Daughtry, R-Johnston. "We're just trying to make it where we could lessen the impact of appointed counsel."

Some boating-safety offenses were downgraded from misdemeanors to infractions. The changes were included in the state budget, which passed the General Assembly this summer.

But Danielle Carman, assistant director of the Office of Indigent Defense Services, questions whether the savings will be as great as anticipated since many of the reclassified offenses remain misdemeanors. Carman said anyone with four or more previous misdemeanor convictions still will be entitled to a court-appointed lawyer.

Many offenses were downgraded from Class 2 to Class 3 misdemeanors. Among them are fishing without a license, failing to carry a driver's license or registration card, failing to sign a registration card, failing to notify the DMV within 60 days of changing addresses, permitting a car to be driven by someone who has no license, driving while a license is revoked (except if it was revoked resulting from a DWI conviction), and failing to return rental property valued at $400 or less.

Child care audit

An investigation by state Auditor Beth Wood says Where Dreams Come True, which at one time operated three day care facilities in Transylvania and Henderson counties, illegally received $68,239 from a subsidized child care program for new enrollments after the provider was cited for 85 violations between June 2007 and April 2011. The original owner of the facilities tried to stay in business by transferring ownership to an employee, which is against the law.

State Department of Health and Human Services Secretary Aldona Wos reported that local officials in Transylvania County have recouped $7,433.70 from the provider. *CJ*

Lack of Obamacare Competition Worries Experts

By Dan Way
Associate Editor

RALEIGH

North Carolina consumers could be the biggest losers after one of three insurance carriers that applied to participate in the Obamacare federal exchange withdrew from the government-approved marketplace, health experts say. They cite the lack of competition in providing coverage on the individual market for consumers who will be required to purchase health insurance when the federal law takes effect in January.

"We have a de facto monopoly in our state. I think it's a very bad thing" on several levels, said Michael Cousins, a North Carolina-based nationally recognized expert in evaluating health care outcomes, referring to the 85 percent of the individual insurance market Blue Cross Blue Shield of North Carolina already controls.

"I think it is problematic that there are not stronger forces willing to step in" and offer insurance plans on the exchange, Bill Atkinson, WakeMed Health president and CEO said in September. "I would say given the magnitude of the dilemma, it's going to take four or five to [offer competitive products]. We ended up with three, and one has dropped out, and it was relatively small," Atkinson said.

FirstCarolinaCare Insurance Company's early September decision to pull out of the federal exchange "was not a step taken lightly," Kenneth Lewis, company president, said in a statement announcing the reversal.

"When we originally proposed participation in the exchange, we recognized that there were many unknowns for all of us. However, after months of review, there continue to be uncertainties in the Exchange implementation and processes for insurers," Lewis said in a written release.

The Affordable Care Act, Obamacare's official title, requires all individuals to have insurance or to pay a penalty tax, starting Jan. 1. Uninsured individuals may purchase plans on the government exchange, and potentially qualify for significant tax credits, depending on income.

Only BCBSNC and Coventry Health Care of the Carolinas maintain an active interest in offering insurance plans on the exchange.

"It's reducing choice, and it's putting more money in the pockets of the big dominant plans, and that doesn't add value to the marketplace, it just adds value to the owners of that plan," Cousins said after FirstCarolinaCare dropped out. Moreover, neither BCBSNC nor Coventry has received federal approval to sell their products on the federal exchange.

"There are two ways it reduces choice. The first is obviously by just not having another carrier, at a high level we have less choice now," Cousins said.

By having fewer carriers offering plans on the exchange, there will not be as much variance in the four so-called "metal plans" that Obamacare mandates. The plans must meet specific actuarial values of coverage — platinum (90 percent), gold (80), silver (70), and bronze (60). Insurers will cover the actuarial value of the plan, with the balance of the risk assumed by ratepayers through premiums.

While every carrier will use a similar "metal" label to describe their plans, Cousins said, each one "can get to that actuarial value differently." BCBSNC will offer a gold plan providing coverage of certain procedures and picking up 80 percent of the costs. However, he said, "Coventry also has a gold plan that by regulation also covers 80 percent of expenses. But how they get to 80 is through a different mix of services in coverage, so it really does reduce options" to consumers.

"The other reason it's bad is because now it gives the remaining two carriers more negotiating power with hospitals and physicians, which at the end of the day results in more dollars going to profit because there's less competition," Cousins said.

"The more that the No. 1 carrier in the state dominates, the more [it] can squeeze the delivery system of hospitals," he said.

BCBSNC now covers 85 percent of the individual insurance market in North Carolina and likely will remain the dominant player. That "reduces their need to compromise," Cousins said.

Atkinson voiced no concern about the providers participating on the exchange.

"I think we'd like to see more people involved, and more importantly consumers ought to have a choice, but it has nothing to do with whether the groups that are going to do this are good," Atkinson said. "It's going to take a lot more to do this right."

The experts interviewed by *Carolina Journal* expressed several reasons for the small number of players in the forthcoming market for individual coverage.

"The return on doing this model is less than the return on traditional insurance," Atkinson said. "I'm not sure a lot of people are trying to run down an avenue where they get paid less by the government than they get paid today by businesses."

Cousins thinks a common theme running through many states has kept an array of insurers out of the government marketplaces: The earliest applicants for insurance "are expected to be the sicker people and the poorer people because they don't have coverage, and so there's a little bit more risk."

Many carriers are nervous about being the first out of the gate because of so many uncertainties in how the federal health reform will work.

In North Carolina, Cousins said, BCBSNC is less nervous "because they already have experience in the marketplace. They're so dominant that they know what they're getting into. They have more information than the other carriers, and so because they have more information they can price better, and so the risk for them is smaller than for anyone else."

Katherine Restrepo, health and human services policy analyst for the John Locke Foundation, had similar thoughts. "United, Cigna, and Aetna [which also owns Coventry] are the three biggies that have pulled out of marketplaces" in a number of states, Restrepo said. Aetna announced in September it was leaving the New Jersey exchange, marking the sixth state the insurance giant has dropped out of after announcing it planned to provide coverage.

With just two insurers, North Carolina has among the fewest companies offering plans on an exchange. New York has 16, California and Ohio have 12, Oregon has 10, and Virginia has nine. Even much smaller states by population have more exchange participants than North Carolina. For example, New Mexico has five, Nebraska has four, and Montana and South Dakota each have three. *CJ*

JLF: N.C. Tax Reform Plan Sets Stage for Long-Term Growth

By CJ Staff

RALEIGH

North Carolina's new tax reforms help set the stage for long-term economic growth in the state. That's the assessment of the John Locke Foundation's top tax expert, who analyzes the reforms and suggests future improvements in a new Spotlight report.

"This tax reform plan removes some important systemic obstacles to economic growth in North Carolina," said report author Roy Cordato, JLF vice president for research and resident scholar. "North Carolina legislators deserve praise. They have helped level the playing field for taxpayers and eliminated some important roadblocks to prosperity."

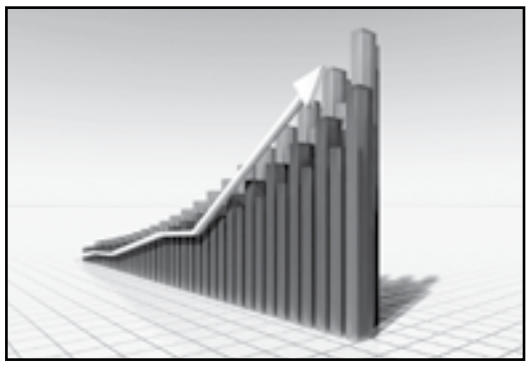
Cordato, a Ph.D. economist, outlines key changes in the 2013 tax reform plan and emphasizes benefits of reducing taxes by as much as $4.75 billion over five years. His report recommends future reforms targeting the personal income tax base and the eventual end of the corporate income tax.

"For many years, it has been recognized that North Carolina's tax system needed a major overhaul," Cordato said. "The system served as a model of hodgepodge tax policy, with high marginal rates on personal and corporate income and lots of exemptions carved out for the favored few. This has led to a tax system that generally penalized investment, entrepreneurship, economic growth, and — therefore — job creation."

The "sweeping" tax reform measure approved by the N.C. General Assembly and signed into law by Gov. Pat McCrory starts to fix the problems, Cordato said.

"Throughout the process, reformers aimed to reduce the tax system's general bias against productivity and job creation, reduce favoritism and special carve-outs, simplify the tax code, and reduce the overall burden on taxpayers," he said. "The final version of the law made significant progress in accomplishing all of these goals."

Lawmakers lowered personal and corporate income tax rates while broadening the tax base, expanded the sales tax base to include some services, and eliminated the estate or death tax. "The overall tax cut of $4.75 billion over five years works out to no more than 4 percent of expected state General Fund revenue during the period, and probably less if the economy grows as a result of reform," Cordato said.



Cutting the overall tax burden will have positive effects, Cordato said. "Reducing tax revenues means transferring resources from political control to control by consumers and entrepreneurs," he said. "This enhances economic efficiency, generating more useful output and greater economic growth and prosperity."

From the perspective of economic growth, the two most important reforms targeted personal and corporate income taxes, Cordato said. Lawmakers replaced a graduated personal income tax system with current rates from 6 percent to 7.75 percent. The new flat rate is 5.75 percent.

"North Carolina no longer has the highest top marginal tax rate in the Southeast," Cordato said. "That's important because an income tax is in essence a penalty on productive activity of all kinds. The higher the rate, the greater the penalty. The old progressive rate structure also had the effect of penalizing people for earning higher incomes and becoming more productive. The new flat rate eliminates that problem."

Future reforms should focus on the income tax base, Cordato said. "This year's reforms did not address the problem of the income tax's penalty on all forms of investment," he explained. "Money saved or invested is taxed first as income and then taxed a second time as earnings when the savings or investment yields interest, dividends, or capital gains."

Lawmakers can address that issue by removing either principal or interest from the tax base, Cordato said. "The John Locke Foundation has recommended addressing this issue through new universal savings accounts, USAs, that would exempt all deposits from taxable income while taxing any withdrawals," he said. "Another option would be to lower or eliminate the tax on capital gains."

On the corporate income side, North Carolina leaders dropped the tax rate from 6.9 percent, highest in the Southeast, to 6 percent in 2014 and 5 percent in 2015. The rate could drop as low as 3 percent in 2017 if the state meets revenue targets.

"Unlike the current corporate income tax, which combines a high rate with special breaks for favored businesses and industries, new lower rates will apply across the board," Cordato said. "Loopholes and giveaways embedded in the current system, based on what is essentially a crony capitalist model, are eliminated."

Future reform should focus on abolishing the corporate income tax, Cordato said. "It's a hidden tax, and it creates a drag on the state's economy by placing an additional layer of taxation on investment," he said. "Lawmakers should repeal the legislation that enables the state to tax corporate income at all. This would make it difficult for future legislatures to reinstate the tax."

Most of North Carolina's weak economic recovery can be blamed on factors outside the state, especially federal government decisions involving health care, environmental regulation, excessive government spending and debt, and expansive new taxes, Cordato said.

"There is no reason for North Carolina's government to be adding additional burdens on our state's economy on top of those that are being thrust on us by Washington," he said. "State lawmakers realize this and are working to remove obstacles to growth." *CJ*

COMMENTARY

Common Core Debate Needs Civility

Remember when debates over educational standards were "wonky" (read: boring) discussions of goals for student learning? Unfortunately, those days are long gone.

In just three years, the debate over Common Core State Standards has become remarkably contentious. One major reason is that traditional sources of information about public schools, specifically the mainstream media and state education agencies, have failed to disseminate critical information about Common Core in a timely and balanced way.

TERRY STOOPS

The Common Core State Standards are a series of grade-by-grade English and mathematics standards adopted by the N.C. State Board of Education in 2010. To date, 45 states, the District of Columbia, Department of Defense Schools, and four U.S. territories have adopted Common Core standards for one or both subjects.

Months, even years, after their adoption, easily accessible information about the Common Core standards have been hard to come by. In general, North Carolina's mainstream media has done a poor job of covering the adoption and implementation of the standards. For example, there was virtually no coverage of the SBE vote in major state newspapers, such as *The News & Observer*. The *N&O* did not begin to publish reports and opinion pieces about the standards, in earnest, until 2012.

In addition, the N.C. Department of Public Instruction has not been forthcoming with information about Common Core standards. DPI did not feature Common Core resources on its website until 2013 — three years after the SBE adopted the standards. And when Lt. Gov. Dan Forest asked DPI earlier this year to answer 67 basic questions about the costs and benefits of Common Core, Superintendent of Public Instruction June Atkinson contemptuously dumped 597 pages of material for each of the 67 questions in the original query.

Unfortunately, this negligence occasionally allowed misinformation to spread among citizens simply trying to understand how changes to state standards and tests will affect their public schools. Even so, the vast majority of those who object to the Common Core standards have legitimate concerns about the budgetary, educational, and administrative consequences of implementing common standards and tests fully.

But many Common Core proponents have little interest in engaging their critics in reasoned debate. Even the most substantive concerns will not escape the mud-slinging fury of some local, state, and national pundits, who prefer to belittle and demean their detractors by depicting them as liars, conspiracy theorists, or crackpots. For example:

- In a June 2013 interview, Atkinson remarked, "I just find it distressing that people have chosen to believe people who are actually lying, and I don't use that word very often."
- A few days later, Chester Finn and Michael Petrilli of the Thomas B. Fordham Institute wrote, "For some time now, outside groups have been vigorously spreading misinformation about the Common Core State Standards. The effort has been relentless, and North Carolina has not been immune to the falsehoods."
- The editors of *The News & Observer* recently opined, "How do you respond to such baseless and paranoid objections to a sensible plan drawn up by two groups that are hardly radical: the National Governors Association and the Council of Chief State School Officers?"

Jay Greene of the University of Arkansas warns that as opposition to Common Core grows in state legislatures and schools around the country, it would be a mistake for Common Core proponents to dismiss well-meaning critics as "crazies." A renewed commitment to civil discourse, as well as greater transparency about the standards, will go a long way toward improving the tone of the debate. *CJ*

Dr. Terry Stoops is director of research and education studies at the John Locke Foundation.

N.C. Supreme Court Gets Another Crack at *Leandro*

By Barry Smith
Associate Editor

RALEIGH

North Carolina's highest court is about to weigh in — again — on state government's constitutional role in making sure children considered at risk of failure in school begin kindergarten with the proper tools to succeed.

Oral arguments are scheduled Oct. 15 in *Hoke County Board of Education v. State of North Carolina*. It's the latest iteration of what became known as the landmark 1997 *Leandro* case, in which several school systems from poorer counties filed a lawsuit claiming the children in their counties weren't receiving adequate and equal educational opportunities.

It produced an N.C. Supreme Court opinion saying that every child should have the opportunity to get a "sound, basic education." It lifted Wake County Superior Court Judge Howard Manning to fame, as he was the trial judge assigned to handle the case and subsequent legal proceedings.

Recent funding changes to N.C. Pre-K, formerly known as More at Four, by Republican majorities in the General Assembly have resulted in a new ruling by Manning, prompting appeals to the N.C. Court of Appeals and now the state Supreme Court.

"They cut the funding to N.C. Pre-K pretty substantially," said Leanne Winner, director of governmental relations for the N.C. School Boards Association.

The school boards association has filed a friend-of-the-court brief supporting the Hoke County Board of Education and others challenging the changes made by the General Assembly.

Former Supreme Court Associate Justice Bob Orr, who wrote a subsequent *Leandro* opinion in 2004, filed the brief on behalf of the school boards association.

Manning had called for a prekindergarten program in his ruling that led to the 2004 Supreme Court case.

Orr called *Leandro* his "swan song opinion" — his last ruling before leaving the court. In it, the Supreme Court said the state had to come up with a remedy for children from poorer families who were unprepared for kindergarten.

Orr said that the court "identified without controversy" that "at-risk kids" entered kindergarten so far behind that it would be difficult for them to catch up.

"It wasn't up to the trial court to make that determination," Orr said. "It was up to the state."

Orr said that after Manning told the state to "get them up to speed," lawmakers established pre-K programs over the course of the next seven years.

After the General Assembly made changes in the program in 2011, Orr said Manning reminded lawmakers that the pre-K program was the agreed-to remedy. "If you're going to come in and reduce it or start moving backwards from it, you've got to find something to replace it," Orr said.

In a memo, Jeanette Doran, executive director of the N.C. Institute for Constitutional Law, says N.C. Pre-K is one of several state programs targeting at-risk children.

"The state has enacted many programs in addition to N.C. Pre-K to address the needs of at-risk children before and as they enter kindergarten," Doran's memo says. "On appeal, the North Carolina Supreme Court should recognize that the Hoke County court failed to account for multiple programs in place in addition to N.C. Pre-K to assist at-risk children."

Doran lists Smart Start, a program begun by former Gov. Jim Hunt in 1993, as one program to help working parents pay for child care. She said Smart Start has some similarities to N.C. Pre-K, although it is a distinct program.

Lifting the cap on charter schools, as the General Assembly did in 2011, also provides opportunities for charter schools to serve high-poverty areas, Doran says. In addition, state law is targeting literacy among younger pupils. "If a screening shows that students need extra help, those students will be tutored in instructional supports such as phonics and vocabulary," Doran says.

Doran lists other recently enacted laws meant to help at-risk students who have disabilities or who come from poorer demographics.

Those programs provide up to $6,000 in scholarship grants for special-needs students to attend private schools, and up to $4,200 per year for students from lower-income families to attend a private school.

Orr said the programs suggested by Doran haven't been offered to Manning as evidence that the state is meeting its duty.

"If [critics of *Leandro*] have another way, present them to the trial court," Orr said. *CJ*

Audit Unearths Employees Padding Reimbursement Reports

By Dan Way
Associate Editor

RALEIGH

Misallocated mileage reimbursement funds found in two separate investigations of the Department of Public Instruction and the Department of Insurance expose the difficulty of supervising work-at-home state employees and might be only part of a larger problem, State Auditor Beth Wood said.

"There's always a possibility, again, when you have policies and procedures that are not in place to stop it … the risk is higher that more of this is going on," Wood said.

"It is absolutely difficult to monitor, to supervise people who work from home unless you have some kind of performance measures or metrics or objectives that somebody's supposed to complete. Unless you have that in place, it's practically impossible to monitor someone working from home," Wood said.

State employees working from home is not a common practice, Wood said, "but it's not unusual, either."

Reports on the financial improprieties involve personnel claiming either bogus trips so they could collect extra compensation or excessive miles driven to inflate their reimbursement.

In addition, Charlotte Hughes, a former division director at DPI, was cited as improperly negotiating a return to employment with the education agency prior to a statutorily required six-month waiting period after retirement. Auditors asked officials at the state retirement system to determine if Hughes engaged in double-dipping from the pension plan after she returned to DPI as a contractor.

"At this point, the matters included in that audit report are personnel issues that are under investigation by department staff. Once an action is taken on those items, it will be a public record and we will be happy to share it at that time," said DPI communications director Vanessa Jeter.

Margaret Jordan, a spokeswoman for the Office of State Personnel, did not return voicemail or email messages asking how many state employees receive the work-at-home allowance.

The DPI investigation was launched after a hotline tip, Wood said.

A technology support analyst was investigated after she filed questionable mileage reimbursement reports. She worked in the Federal Program Monitoring and Support Services Division, which ensures that federal funds targeting schools with high percentages of low-income families are being used properly to help students meet state academic standards.

> Reports involve people working from home and claiming bogus travel expenses

The analyst submitted and was paid $3,403 for mileage traveled from Raleigh to Midway High, Middle, and Elementary schools, and Plain View Elementary School in Sampson County. Yet auditors found administrators at those schools did not know the employee, did not recognize her name, and were unaware of any technical assistance being provided to their schools. The analyst's job did not require travel to the schools.

A review of the DPI employee directory shows Loreto Tessini of Dunn is the only technology support analyst listed in the Federal Program Monitoring Division.

The employee defended the mileage, saying her supervisor directed her to submit it because the analyst's duty station changed from Raleigh to at-home.

The duty station change, which would have qualified her for reimbursement for travel from home to Raleigh, was never officially recorded, so the manager told her to use a school near her home to file for the expenses as a business trip, she said. The supervisor denied that.

Auditors recommended disciplinary action against the employee and recovery of the reimbursement funds. In the agency response, state schools superintendent June Atkinson said after a corrective review, it was determined the reimbursement requests were "due to miscommunication."

"When you write down on a piece of paper that you traveled from Raleigh to Dunn, that you visited a school, and then you sign your name to that, and never went to that school, that is not a clerical error," Wood said. The reimbursement forms require truthful information "under penalty of perjury," she said.

"But our recommendation was that the superintendent of public instruction take disciplinary action not only against the employee who did it, but those above her who signed off on it," including her supervisor and division director, Wood said.

Wood stopped short of saying fraud or other criminal activity was committed.

"I'm not saying that it [wasn't], but that's not my call to say something is illegal. The state auditor doesn't make that allegation. We're putting that back into the hands of the state superintendent to determine if this person falsified records and should she be disciplined, and what that discipline should be," Wood said.

Hughes retired April 1, 2012, and later signed a contract to work as a DPI quality reviewer.

Under state return-to-work laws, she was ineligible for state service for six months.

"However, the former division director engaged in activity and discussions regarding a return to service within six months of retirement," including attending two training sessions, the audit stated.

Auditors recommended that the State Treasurer's Retirement Systems Division should determine whether Hughes should forfeit retirement pay and state health plan coverage already received. She received $70,758 in retirement benefits from her retirement until June 30 this year.

"The department will be reviewing the auditor's report and the recommendations to see if actions are appropriate," said Schorr Johnson, press secretary in the state Treasurer's Office, under which the retirement systems operates.

In the audit involving the Department of Insurance, investigators looked at top travelers and identified two employees with "excessive or unnecessary costs of about $3,800 during 2012" derived from 6,132 overstated miles driven. Anything 20 miles more than the distance between two locations is considered excessive. *CJ*

Opponents of Longer School Day Dislike District Response

Parents of kids in Charlotte-Meck schools frustrated

By Karen McMahan
Contributor

RALEIGH

Two years after Charlotte-Mecklenburg Schools added 45 minutes to the elementary school day systemwide, parents and teachers opposed to the longer school day increasingly have grown frustrated over a lack of progress in getting district officials to reconsider the current seven-hour day.

Indeed, school district officials have dug in. Even though Superintendent Heath Morrison promised to work with concerned parents soon after he took his current position in 2012, he has not recommended any changes to the schedule. Moreover, the district's chief of staff reportedly has blocked teachers and parents who oppose the new schedule from expressing their concerns at public meetings.

CMS announced the expanded schedule in 2011 without soliciting public input. Soon after, a group of concerned parents formed Child First School Schedules to address worries about the negative effects of the longer day on children and family life, particularly when many magnet school children would arrive home after 6 p.m.

CFSS circulated an online petition in September 2011 to seek community input and action on the late-bell schedule. Comments from more than 1,000 respondents showed that children were too fatigued from the longer day and travel times to do homework, spend quality time with their families, or participate in extracurricular activities.

Susan Plaza, a CFSS member, told *Carolina Journal* that her group has worked closely on the matter with the Classroom Teachers Association of North Carolina, a nonpartisan trade association, hoping their combined efforts might yield better results.

The school board initially said the schedule change was needed to save busing costs. Plaza said her group made a proposal in February 2012 that would save $1 million in transportation costs and resolve the late-bell schedule, but the board rejected the plan. CFSS then developed five additional alternatives.

Morrison promised to work with the parents group and establish a task force last year. But Morrison and the school board did not recommend changes for the 2013-14 budget year.

CMS asked the Council of the Great City Schools, a Washington, D.C.-based trade association representing urban school districts, to review CMS transportation research and make recommendations that might work for the district and CFSS parents.

The review included an on-site visit to CMS at the end of July during which the Great Schools review team would interview staff, teachers, parent groups, and other stakeholders, according to the contract obtained by *CJ*. The contract for $18,000 did not include the starting or ending dates for the work to be performed or when the report would be provided to Morrison.

Plaza told *CJ* that her group prepared for a July 31 meeting with the review team to provide background on the negative effects of the schedule on students, parents, and teachers, with a focus on the transportation solutions the parents group had developed.

Instead, Plaza said the review team centered the discussion around the benefits of the longer day and the positive impacts it has on low-income students eligible for the federal free and reduced-price school lunch program.

The parents group also asked CTANC President Judy Kidd to attend the meeting so she could present the teacher survey results. Kidd was not allowed to speak, Plaza said.

A week before the site visit, Plaza said her group had asked the district's chief of staff, Earnest Winston, if Kidd also could attend the review team's meeting with teachers. Winston never contacted Kidd, and when she entered the meeting room, she was asked to leave. Kidd told *CJ* she was told, "they wanted to keep the crowd down."

Plaza said the meeting included no elementary teachers and only one middle-school teacher. The other attendees were parents, who told Plaza that "their principal asked them to attend because they like the longer day/late bell," she said.

Several sources told *CJ* that Winston had sent a memo to principals asking them to invite only parents and teachers to attend who liked the late-bell schedule. Winston told *CJ* that he had called principals, but denied asking only for supporters.

Plaza said she was "very disappointed in how the meetings were conducted," and believes "it was a very insincere effort to bring closure to this issue. … It seems quite clear that CMS did not want the voice of elementary teachers to be heard, unless they liked the bell schedule."

The problems caused by the late-bell and longer day schedule have made up the top agenda item on every superintendent teacher advisory committee, teacher advisory committee, and faculty advisory committee for the past two years, Kidd said.

In an email response to Plaza's complaint about the meetings obtained by *CJ*, Winston defended the review team's actions and denied any attempt to skew the perception that most parents and teachers liked the schedule. "[T]eachers at all levels were invited to participate, including a number of elementary school teachers who did in fact meet with the CGCS team," the email said.

Winston told *CJ* that the council's report is expected sometime in September. It was not available at press time. *CJ*

Expanded JLF Report Answers Key Common Core Questions

By CJ Staff

RALEIGH

Just five months after releasing a report that outlined key questions surrounding new Common Core public school education standards, the John Locke Foundation has revised and expanded the report — nearly doubling the number of questions answered.

"Parents, educators, and taxpayers continue to raise serious questions about the Common Core State Standards Initiative," said report author Terry Stoops, JLF director of research and education studies. "As we continue to learn more about Common Core and its potential impact on public education in North Carolina, we see a strong demand for good, solid information."

Written in a question-and-answer format, Stoops' revised report expands the number of topics addressed from 35 to 60. Stoops also grouped questions in categories to help readers find the information they seek more quickly.

"Readers will find information about the very basics of Common Core — What is it? Who wrote it? What grades and subjects are covered? — along with sections focusing on Common Core in North Carolina, the federal government's involvement, the impact on testing and accountability, as well as Common Core's impact for classroom teachers and data collection," Stoops said. "The report also addresses political and legal questions surrounding Common Core, and it discusses sources of opposition and support for these new standards."

Among Stoops' updates are questions dealing with recent developments in North Carolina's General Assembly and executive branch. "While the report makes clear that there is no standard left versus right or Democrat versus Republican dimension to support or opposition to Common Core, the revised report mentions Republican Lt. Gov. Dan Forest's decision this summer to question the adoption and implementation of Common Core," Stoops said. "The report also discusses legislative action in 2013, including a bill to create a Common Core study group. That measure stalled in a state House committee."


spotlight

60 Questions About Common Core

Stoops also points to new lists of more than 30 websites devoted to support for and opposition to Common Core. "That list includes both the N.C. Department of Public Instruction's Web page with material that explains reasons for adoption of the Common Core standards, along with the StopCommonCoreNC.com site, which offers a much different perspective."

> Stoops' report is a response to the strong demand for good information

Readers will learn that the Washington, D.C.-based National Governors Association, Council of Chief State School Officers, and Achieve Inc. supported development of the Common Core standards, with "significant" funding from the Seattle-based Bill and Melinda Gates Foundation.

Stoops addresses questions about the quality of Common Core standards. "There is a great deal of debate about the quality of Common Core English language arts standards," Stoops said. "The new common standards are likely an improvement over North Carolina's previous English standards but are still critically flawed," he said. "A 2012 study from professors at Emory and the University of Arkansas concluded that the Common Core has deficient literature standards and a misplaced stress on literary nonfiction or information reading."

The news is no better for math standards, Stoops reports. "By most accounts, the Common Core mathematics standards are worse than most existing standards," he said. "The report cites three different pieces of scathing criticism, including one expert's assessment that Common Core math standards give students 'a flimsy make-believe version of mathematics, without the ability to solve actual math problems.'"

Despite these concerns, North Carolina is one 45 states, along with the District of Columbia, Department of Defense schools, and four U.S. territories that have adopted at least one piece of the Common Core. The N.C. State Board of Education voted unanimously in June 2010 to adopt Common Core standards.

That vote had nothing to do with any evidence of success linked to Common Core standards, Stoops reports. "Between the time of adoption and the statewide implementation of Common Core standards, they had not been subject to field-testing."

Researchers estimate North Carolina public schools might spend as much as $525 million over the next seven years, an average of $75 million a year, to implement Common Core standards, according to Stoops' report.

Additional information should help parents, educators, and taxpayers as they try to make sense of the growing debate over Common Core, Stoops said. "As Common Core plays a greater role in the future of North Carolina schools, more and more questions arise about its likely impact," Stoops said. "This report should give people the basic information they need to start to address their concerns."

The report can be found at http://www.johnlocke.org/research/show/spotlights/294. *CJ*

Town and County

Crime rates down

Crime rates continue to fall across North Carolina. The latest data, counting the total number of serious crimes in the state in 2012, show that crime is at its lowest rate in the state since 1976.

The statistics are based upon the number of seven types of crime reported to local police departments and sheriff's offices across the state: murders, rapes, robberies, aggravated assaults, burglaries, larcenies, and motor vehicle thefts. For purposes of the statistics, murders, rapes, robberies, and aggravated assaults are classified as "violent crime," while burglaries, larcenies, and motor vehicle thefts are considered "property crimes."

In 2012, there were 356,810 of such "index" crimes reported in the state or 3,767.2 per 100,000 state residents. The total number of index crimes fell by 3.2 percent compared with 2011. Growth in the state's population meant that the crime rate per 100,000 residents fell by 4.4 percent as a result. Violent crime rose in 2012 in North Carolina — the number of aggravated assaults increased by 3.7 percent — but that was more than offset by reductions in all three categories of property crimes.

The crime rate varied widely across the state.

CMPD review board

Charlotte's Citizens Review Board, which has provided oversight of the police department since 1997, has come under recent criticism for being toothless. Even so, a new report recommends only minor changes to the board's operations, reports *The Charlotte Observer*.

Over the past 16 years, 79 complaints have been lodged with the board alleging inadequate discipline of officers by the Charlotte-Mecklenburg Police Department. In no instance has the board ruled against the department — indeed, the board has disposed of most complaints without holding formal hearings. The report recommended that the review board communicate better with the public and publish its rulings.

"It's hard for me to believe this is it," said Charlotte defense attorney Matt Newton, who was active in a group that wanted the board to have more power to investigate allegations of police misconduct.

Harvey Katowitz, who serves on both the review board and the task force examining how it operates, argued that the board functions well. *CJ*

Union Station Funding Still Millions Shy

By Sara Burrows
Contributor

RALEIGH

Raleigh city planners are about $22 million short of the $73 million they predict they'll need to build a classic train station in the style of New York City's Grand Central Station — complete with a first-class passenger lounge, locker room, gym, quiet room for employees, restaurant and retail spaces, rooftop terrace, and solar panels — in the middle of the city's mostly abandoned warehouse district.

Supporters of Raleigh's new Union Station hope it will become a "destination hub" — attracting nearby development, creating local jobs, and renewing a section of downtown that slowly vanished as the state's traditional manufacturing industry withered. They also see the station as a place connecting train riders with buses, light rail, and local streetcars.

An architect's rendering of the "platform view" of the proposed Raleigh Union Station multimodal transit center. (City of Releigh image)

Opponents argue that a new train station is unlikely to entice investments from developers and new business owners. They say the station, along with the entire Southeast High Speed Rail Corridor with which it will connect, stands to serve a small number of elite riders who will depend on big tax subsidies for their rides.

They also argue that if Union Station were such an attractive draw for the region's economy, local governments and taxpayers would be more willing to fund it. Instead, almost all of the $50 million put up for the project so far has come from the federal government, with the city promising to add only $5.75 million from transportation bonds. Meanwhile, the Wake County Board of Commissioners rejected a proposal to increase sales taxes for the station.

Mitchell Silver, who heads the Raleigh Planning Department, has been a key player in pushing Union Station. A critical part of his plan to shape Raleigh into what he has called "one of the world's attractive cities" is building a bigger, more comprehensive public transportation network.

Silver has said Union Station — built on the site of a retrofitted steel fabrication warehouse — could become the "Gateway to the South" for passengers traveling from Boston and Washington, D.C., to Charlotte, Atlanta, and beyond.

He also hopes it will become a "destination" in and of itself, with the redevelopment of the old Dillon Supply building into a train station sparking life into the vacant industrial buildings around it.

A *News & Observer* editorial illuminated this vision: "Passengers — and visitors, for this will be a hangout spot — will enter the site through a civic plaza covered by a large 'urban canopy' (architects' description), and they'll wait for their trains in a Grand Central-style station," the editorial said.

The editorial also noted that passengers arriving at Raleigh's current Amtrak station are "taken aback" by its smallness and "dismayed if not depressed by the antiquated, run-down facility."

In order to attract development, Union Station architect Steve Schuster said the "landmark" building "has to be authentic, has to be memorable, and has to be unique."

But it also has to be paid for, and finding funding has been difficult.

Initially, in June 2011, planners said the vacant building chosen for Union Station could be "up-fitted" for $20 million. Six months later, cost projections rose to $35 million. By March 2012, cost estimates soared to $75 million, after site planners factored in track, platform, and signal improvements and a proposed extension of West Street, allowing pedestrians, cyclists, and cars to travel on a roadway beneath the tracks.

As of Sept. 19, Silver said Raleigh had secured $51.25 million of the projected $73 million cost of the station. The U.S. Department of Transportation is providing $36.5 million, the NCDOT $9 million, and the city $5.75 million.

An additional $15 million in federal stimulus money had been promised, Silver said, but it was redirected to improving the rail lines between Raleigh and Charlotte when that project ran over budget.

Conservative transportation experts say budget overruns are typical of these types of projects and that taxpayers will be lucky if the Union Station project stays under $100 million.

Randal O'Toole, a transportation and urban growth expert at the libertarian Cato Institute, said $73 million for a "train hub" sounded "absurd to him."

Approximately 224 people take round trips in and out of Raleigh each day, he said, and converting Amtrak's lines to "high-speed" rail — operating at peak speeds of 110 miles per hour — won't be enough to attract large numbers of riders.

"[I]t is an expensive ride for an elite group of riders," O'Toole said.

David Hartgen, a retired professor of transportation studies at UNC-Charlotte and a senior fellow at the Reason Foundation, said the economic impact of Union Station would be "zero," aside from some temporary construction jobs.

He said there is no evidence transit-oriented development stimulates overall economic development, but merely shifts it to the areas that get the most subsidies.

He added that it doesn't make sense for rail advocates to demand huge investments in public infrastructure while private transportation companies like Megabus are cutting routes.

The difference in thinking may explain the difference in ticket prices, even with Amtrak being heavily subsidized by the state and federal government.

"Amtrak has three trains a day between Raleigh and Charlotte with fares starting at $34. Megabus doesn't serve Raleigh — probably because of Amtrak competition — but has three buses a day from Durham to Charlotte, and fares start at $26," O'Toole said.

Union Station supporters connect the decision of software company Citrix Systems to locate in the warehouse district with the planned train station and hope more companies follow suit.

In an early September announcement, U.S. Sen. Kay Hagan, D-N.C., said a $10 million federal Transportation Investment Generating Economic Recovery grant for the project would help Union Station revitalize downtown Raleigh's economy.

O'Toole countered that a better strategy for the warehouse district would be to follow the example of Anaheim's "Platinum Triangle" in California.

"Anaheim did not offer any subsidies to redevelop this old warehouse district," O'Toole said. "Instead, it deregulated the area, allowing any development that landowners wanted to do. Unfettered by onerous permitting processes, developers soon invested several billion dollars in the district." *CJ*

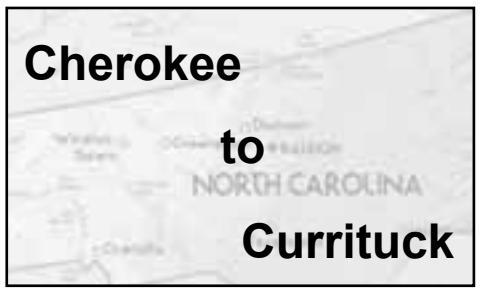
Aging Greensboro Water Lines Need Higher Rates for Repair

By Michael Lowrey
Associate Editor

RALEIGH

Greensboro residents can expect to see substantial annual increases in their water bills throughout the rest of the decade. The additional money is needed in part to make repairs to the city's aging water and sewer lines, reports the Greensboro *News & Record*.

All told, the city has 1,485 miles of water lines, 1,410 miles of sewer lines, and 1,094 miles of stormwater pipes. The nominal life expectancy of the city's water and sewer lines is 60 years, with a third of the lines at least 50 years old. Some lines in downtown Greensboro are much older, dating to 1901.



Age isn't the only factor in determining the condition of water and sewer lines. Different types of materials — terra cotta, iron of differing types, PVC — were used at different times, and each reacts differently to varying soil conditions around the pipes. The amount and types of nearby development also can place more stress on pipes.

"The current budget for rehab means that we're doing 0.5 to 0.6 percent of the system per year," said Steve Drew, water resources director for Greensboro.

"I'm trying to move us to a 100-year plan, and replace 1 percent of the system per year."

Replacing old water and sewer lines isn't cheap. To pay for the additional work, Drew projects that water rates for city residents will increase by between 3.5 percent and 6.25 percent per year through 2019. Annual increases for those using Greensboro water who live outside the city limits will increase even more, from 6.10 percent to 8.25 percent a year.

Guilford County pay

Guilford County officials are developing a plan to correct problems with the salary structure for county workers. The issue likely will take a number of years to fix and will involve spending several million dollars, reports the Greensboro *News & Record*.

The county has operated under a pay freeze for the past four years, which also saw an end to its merit pay bonuses. One unintended consequence of this was that new hires at times made more than longtime employees doing the same job. The county has settled one pay equity lawsuit and has raised the pay of a number of other employees to prevent more lawsuits.

A more systematic solution would require the county to determine which employees deserve raises and why. A review prepared by a consulting firm estimates that the county needs to spend $3.8 million to make pay more logical.

Complicating matters is that nearly half of county departments stopped doing performance evaluations on employees when the merit pay program ended. Evaluations are set to resume for all employees by June.

"In order to do this right, even though it's going to take more time, we need to consider doing a classification study and then a [labor] market study before we move forward with this thing," said Commissioner Bill Bencini.

"With the lack of data we have on our hands, I don't think anything we would do would have a whole lot of validity."

Tax revenue split

Brunswick County has formed a study commission to examine how it splits sales tax receipts between municipalities in the county. The issue could prove contentious, and it's uncertain whether county commissioners will take any action, reports the Wilmington *Star-News*.

Currently, Brunswick municipalities split sales tax revenues based on population. A number of resort communities that have a small number of year-round residents but plenty of vacationers renting houses don't like the method.

"Fairness is the primary issue," said Bald Head Island Mayor Andy Sayre.

County commissioners instead could allocate the money based on property values or a combination of property values and population. A switch to a method that considers property value would give more money to beach resorts like Bald Head Island, and likely result in the lowering of property tax rates.

Towns that don't generate a consistent flow of vacationing renters like the current population-based approach just fine.

"I think a change would be upsetting to the people in Leland," said Leland Councilman Jon Tait. "The people in Leland spend money 365 days a year." *CJ*

COMMENTARY

Carowinds Takes Taxpayers For a Ride

The city of Charlotte and Mecklenburg County have approved a proposal giving Cedar Fair Entertainment, the corporate owner of the Carowinds amusement park, $922,468 in incentives over the next three years to help the park build new rides and attractions. The city council approved its $330,000 share Sept. 16, and county commissioners endorsed their portion of just under $600,000 the following day. The money comes from the Business Investment Grant.


SARAH CURRY

Luckily for Carowinds, the city and county have decided to be creative with their grant-making, because the program's guidelines should not allow this type of investment. The grant program lists the business growth clusters that are eligible to receive the funds. They include manufacturing; corporate headquarters; transportation and distribution (logistics); emerging technologies and industries; or financial, insurance, and professional services. None of these include the entertainment industry. City officials say the focus of the Carowinds grant is based on its impact on the hospitality industry — another industry not on the list. Moreover, there is a minimum requirement for job creation that's a condition of getting the investment grant. This project doesn't meet that criterion, either.

> This is a bad idea for everyone involved, except Carowinds

To get a grant, applicants must promise to create at least 20 new jobs paying at least as much as the average annual wage rate for the area (currently $44,000), yet the city estimates that only 15 new jobs will be created with an average salary of $43,000, along with 270 seasonal jobs with an hourly wage ranging from $8.10 to $8.25. More than $900,000 in incentives will give high school students summer jobs and pay 15 people less than the area's average salary; that doesn't sound like a good investment to me. The purpose of the grant program was to attract high-paying jobs so that the workers would pay taxes and eventually add wealth to the area. That was the argument in 2009 and 2010 when this grant provided more than $7 million to Siemens in exchange for almost 1,500 new jobs paying almost $20,000 more than the jobs at Carowinds will pay.

The locals got around these limits by reducing the pay requirement. *The Charlotte Observer* reported that, "in an effort to attract manufacturers, the City Council last year said that a grant recipient only must meet the average [pay] for the type of businesses they are in. … At the time, city staff said they didn't think it would be used for restaurants, shopping centers, or entertainment centers."

It gets better. Carowinds is on the state line, so the park receives incentives from South Carolina, too. One of the economic development workers for York County, S.C., told the Charlotte paper "the amusement park has gotten a property tax reduction of roughly 40 percent for 'decades.'" So the park is getting almost a million dollars from North Carolina, along with a property tax break from South Carolina.

This is a bad idea for everyone involved, except Carowinds. Property taxes are the largest source of revenues for Mecklenburg County. Rates will increase for the 2014 fiscal year by 3.17 cents to 46.87 cents per $100 of valuation. Those taxes pay for such essential public services as firefighting, police, greenways, parks, local libraries, and schools.

Meantime, the city and county are using tax money to pick winners and losers. If Carowinds wants to invest and build more rides, it can do so without government money. Local governments should do what they can to keep taxes low for everyone and provide only essential services to citizens. Last time I checked, roller coasters weren't a necessity that local government was expected to provide. *CJ*

Sarah Curry is director of fiscal policy studies at the John Locke Foundation.

Journalists' Lawsuit Against Incentives Heads to Court

By Barry Smith
Associate Editor

CHARLOTTE

A lawsuit filed by four former broadcasters and communications professionals claims the Charlotte City Council broke state open government laws — and violated its own code of ethics — when it went into closed session to discuss paying for renovations at Bank of America Stadium. The council has refused to act on the ethics complaint while the lawsuit, scheduled for a November court date, is pending.

The council "deliberated and voted secretly for a plan to raise the prepared food and beverage tax for stadium renovations," said Mike Cozza, a former TV reporter and one of the plaintiffs in the case. "There's no exemption in the Open Meetings Law that allows closed discussion or votes for a tax plan."

According to transcripts of a Feb. 8 closed session of the Charlotte City Council, board members discussed renovations to the stadium where the NFL's Carolina Panthers play. They also discussed asking the General Assembly to increase the city's prepared food tax by 1 percentage point with the hope of raising $144 million to pay for stadium renovations.

At one point, according to transcripts of the Feb. 8 closed session, Patsy Kinsey, then a council member and now mayor, said that once council members voted on the incentives package, it would be a "done deal."

The General Assembly didn't go along with the council's plan to increase the city's prepared food tax. Instead, it allowed the city to expand the use of existing taxes to include stadium renovation.

City Council approved $87.5 million to entice team to stay in Charlotte

In April, the council pared down the contribution to $87.5 million and voted unanimously to provide the money for renovation as a "hard tether" to keep the Carolina Panthers in Charlotte for six years.

Cozza and his co-plaintiffs — journalists and former broadcasters Bruce Bowers, Ken Koontz, and Wayne Powers — say in their lawsuit that the mayor and city council violated the state's Open Meetings Law by going into closed session to discuss the "location of industries or businesses" in the city, including potential economic development incentives.

Cozza said that the "location" of Bank of America Stadium never has been in doubt.

"It is the case that the Panthers stadium has been located at 800 South Mint Street for 17 years," Cozza said. "Nobody proposed to change the location." Cozza went on to say that Panthers owner Jerry Richardson has said that the idea of moving the team would be "offensive" to him.

The lawsuit contends that the Charlotte City Council broke state open government laws when it went into closed session to discuss paying for renovations at Bank of America Stadium, home of the Carolina Panthers NFL football team.

A potential new owner of the Panthers also may face a financial disincentive in moving the team since it owns Bank of America Stadium. An owner relocating to another city may have to purchase or lease a facility for the team, incurring an additional expense while leaving Bank of America Stadium without a tenant.

Bob Hagemann, Charlotte city attorney, said via email that the city council was well within its legal rights when it went into closed session to discuss the stadium renovations and "to tether the Carolina Panthers to Charlotte."

Hagemann said that while Richardson does not plan to move the team, the team would be sold sometime in the future. Hagemann noted that Richardson is in his mid-70s and had a heart transplant several years ago.

"If not sold before, the team will be sold not long after Mr. Richardson dies," Hagemann said. "The next owner is not likely to have the same commitment to the Carolinas that Mr. Richardson has, and other cities are trying to lure an NFL team."

Cozza said that while the Open Meetings Law allows for closed sessions to consider economic development incentives, deliberations over taxes are not allowed.

"A tax is not something that the city gives," Cozza said. "It's something that the city takes."

Hagemann said the law allows for closed sessions to discuss "matters relating to the location or expansion of industries or businesses." And that would include discussing how to pay for them.

"To me it is illogical, impractical, and contrary to the 'matters relating to' phrase to suggest that the council may consider what it might offer in exchange for a commitment from a potential private-sector partner, but may not consider how it would pay for the public contribution," Hagemann said.

Cozza also notes the transcript showing that then-council member Kinsey, now the mayor, said that the council would act at the closed meeting without considering public input.

According to the transcript, Kinsey said, "The fact is, friends, when we vote today it's a done deal, based on the timeline that I've been told. Even though we say the public can come and speak to the increase in tax, it's done. It's done and that is OK, if that is what we want that's OK."

Hagemann said he didn't dispute what Kinsey said, but he doesn't see a legal significance to the "done deal" statement.

"The truth of the matter is that the proposal that council publicly announced immediately following the Feb. 8 closed session was obviously not a done deal as the state chose not to participate either by authorizing the proposed revenue source or by directly investing in tethering the Panthers to Charlotte and North Carolina," Hagemann said.

Cozza said the council never took a public vote on the proposal. And he said that the council violated its own code of ethics, which states:

"The mayor and council members should conduct the affairs of the board in an open and public manner. They should comply with all applicable laws governing open meetings and public records, recognizing that doing so is an important way to be worthy of the public's trust."

At its Sept. 23 meeting, the council did not act on the ethics complaint. It did, however, approve $28 million in spending for the 2014 fiscal year for stadium renovations.

Hagemann reiterated his position that the council complied with the state Open Meetings Law.

The plaintiffs are asking the court to declare that the actions taken in the closed meetings were in violation of the state's Open Meetings Law, to enjoin the council from future violations, and to award the plaintiffs attorneys fees. *CJ*

Alcohol-Related Issues on Ballots Across North Carolina

Many local measures dealing with the sale of alcoholic drink

By Barry Smith
Associate Editor

RALEIGH

While it could be a stretch to say that politics are driving people to drink, in a number of municipalities across North Carolina, voters will be deciding issues related to alcohol.

Of the 49 local issues on the ballot in the Tar Heel State, a majority of them — 26 — involve the sale of alcohol.

"That's too big of an issue for the council to decide," said Rhodhiss Mayor Rick Justice, where no fewer than six alcohol measures are on the ballot in the town of about 1,000 that straddles the Caldwell and Burke county line.

School bond measures, as well as city and town transportation, parks, and greenway issues also have found their way on the ballot this fall. A couple of counties will be deciding whether to increase local sales taxes. Fire tax districts and town charter amendments also are on the ballot. *Carolina Journal* received a list of the measures from the State Board of Elections. The vast majority of the ballot issues will be decided Nov. 5, with the exception of a few measures that will go before voters in October.

The omnibus election reform bill signed into law at the end of the legislative session made dates for municipal and county tax elections uniform. Beginning Jan. 1, they must fall on the same date as primary or general elections for members of the General Assembly. Previously, local officials had wide latitude in scheduling special elections. Critics of that process said they were designed to limit voter turnout, so that advocates of tax increases would be more likely to participate. House Speaker Pro Tem Paul "Skip" Stam, R-Wake, said earlier this year that tax referendums held on "weird dates are designed to manipulate the voters so that only a select few will make the decision."

Justice said the Rhodhiss council could have decided the alcohol issue itself by just saying no, but he said council members felt the citizens should have the final say.

He said that the townsfolk have given no indication how they'll weigh in on the Nov. 5 referendum. "I don't think the people are extremely pro or con," Justice said. "In fact, it's been relatively quiet."

Rhodhiss voters will be deciding whether to have on-premises only malt beverages, off-premises only malt beverages, or both on and off-premises malt beverage sales. They also get to vote on on-premise only unfortified wine sales, and off-premises only unfortified wine sales. There's also a mixed beverage referendum.

Three Columbus County municipalities — Chadbourn, Fair Bluff, and Tabor City — will hold mixed beverage referendums.

The Lee County town of Broadway will have referendums on malt beverage, unfortified wine, and mixed beverage sales, as well as voting on whether to allow an ABC store.

Voters in the Yadkin County town of Jonesville will decide ballot issues on malt beverages, ABC stores, and mixed beverages. Marshville, in Union County, will hold referendums on ABC stores and mixed beverages. Rutherford County voters will decide whether to approve on-premises malt beverage sales only, off-premises malt beverage sales only, or on-and-off-premises sales.

Harrisburg will have an ABC store referendum. Hertford and Stoneville will be deciding on mixed-beverage sales. Grove Township in Harnett County will hold referendums on malt beverages and unfortified wine.

On other subjects, Johnston County voters will decide two education bond referendums. Voters will be asked whether to approve $57 million for the public schools and $7 million for the community college. A $75 million public school bond will be on the ballot for Onslow County. Pitt County voters will decide a $19.9 million community college bond referendum.

In Wake County, voters will consider on Oct. 8 an $810 million public school bond referendum.

Municipalities also have placed bond referendums on the ballot:

• Raleigh voters will decide a $75 million bond referendum. Money from bond sales would be used for streets, sidewalks, streetscape, buses, and a train station, among other things.

* Mecklenburg County voters will consider in a single measure $290 million in school bonds and $210 million in community college bonds.

• Hendersonville voters will decide on a $6 million parks and recreation bond referendum, with the money going to develop Berkeley Park.

• Grifton voters will consider a $1.9 million bond for streets.

Sanford voters, during their Sept. 10 municipal primary election, approved four bond referendums: bonds for greenways, a streetscape, sidewalks, and parks and recreation improvements.

Voters in two counties — Harnett and Yadkin — will decide whether to add 0.25 cents to the local sales tax rate.

Three towns — Bladenboro, Ronda, and Canton — have submitted changes to their town charter for voter approval.

Five fire districts in Jones County are asking citizens to establish fire tax districts. They are Comfort, Hargetts Cross, Maysville, Pollocksville, and Trenton. *CJ*

AG's 'Consumer Win' Brings Just Pennies on Dollar for Investors

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of Florida; their companies R. A. North Development, R. A. North Development I, and Southeastern Waterfront Marketing; and sales associates Douglas Therrell, Kenneth Bednar, and Michael Woolard.

Under the terms of the settlement agreement, the defendants agreed to make a payment to Cooper's office to cover refunds, the costs of the investigation leading to the settlement, and consumer education at Cooper's discretion. The agreement also says the defendants' payment "is not a fine, penalty, or payment in lieu thereof."

Coastal crash

Land records show that Horace Beasley of Colerain and Edward Wood of Wilmington together bought a Cannonsgate lot in October 2005 for $480,000. It is now listed with a real estate agent for an asking price of $125,000 — a loss of $355,000 before any real estate commission or other costs. A deed of trust with BB&T indicates they borrowed $460,000 when they purchased the property. Beasley could not be reached for comment about the settlement.

Berkley Skinner III of Rocky Mount, also a member of the N.C. Wildlife Resources Commission, bought a Cannonsgate lot in October 2005 for $380,000. He now has it listed with a real estate agent for an asking price of $139,000 — a loss of $241,000 before any real estate commission or other costs. A deed of trust with BB&T indicates Skinner borrowed $341,892 when he purchased he property. A separate deed of trust indicates he borrowed another $77,155 to purchase one of the boat slips in the Cannonsgate Marina. Skinner did not return calls seeking comment.

Bank of America gained possession of lot 208 in Summerhouse through a foreclosure process. In 2008, the lot had an assessed tax value of $350,000. Now it is listed with a real estate agent for $13,000.

The Cannonsgate development has 525 individual lots, and Summerhouse has 1,029 lots. To be eligible for a refund, a consumer must have purchased a lot from one of the defendants or their agents and be the current owner of the lot or the owner at the time of a foreclosure.

In addition, the consumer cannot have received a discount from the purchase price at the time of closing. That condition apparently would disqualify the Easleys from submitting a claim, as an *N&O* report from September 2009 published a closing statement showing that the Cannonsgate developers had discounted the purchase price by 25 percent less than the amount recorded in public documents, letting the Easleys pocket $137,000 in cash at closing.

"We don't yet know how many consumers may end up receiving refunds," Cooper's spokeswoman, Noelle Talley, told *CJ*. "Our Consumer Protection Division plans to send letters to approximately 1,100 potentially eligible consumers who purchased properties in Summerhouse and Cannonsgate to encourage them to file a claim."

Talley said the $2.28 million payment was calculated through "settlement negotiations."

Sign at the Cannonsgate development in Carteret County. (CJ file photo)

Pat McClain, a real estate agent with Century 21 Action in Surf City, told *CJ* that Summerhouse has about 10 homes, including a few under construction. "But things are picking up out there. I expect to see a lot more activity by this time next year," she said.

Cannonsgate has at least three completed homes and several more under construction.

Losses not clear

A federal investigation into mortgage fraud associated with Cannonsgate and Summerhouse led to multiple guilty pleas and prison terms for people associated with the Virginia company Total Reality Management. TRM agents purchased lots at Cannonsgate and Summerhouse directly from the developers. Then, using phony appraisals, they resold the lots immediately at a much higher price to gullible investors, many of whom were public school teachers in northern Virginia. TRM went out of business in 2008.

According to the terms of Cooper's settlement, no one who purchased a lot from TRM is eligible for a refund.

Approximately 500 buyers were involved as plaintiffs in multiple lawsuits against Bank of America, BB&T, and other banks involved in financing the lots.

One attorney associated with the lawsuits who did not wish to be identified told *CJ* he believed most of the plaintiffs have settled with the lending institutions. He added that it is difficult to determine any owner's actual loss from public records, because an individual's loan or note modification may not be submitted for recording as a public document.

Allegations

The settlement agreement said Cooper's office alleged that the sales agents:

- Marketed the parcels of real property in the subdivisions as having good investment potential, leading some consumers to believe falsely that they could flip the property quickly for a substantial profit.
- Created an unfair sense of urgency by pressuring purchasers to buy residential lots immediately, or they no longer would be available.
- Advertised the sales prices of the lots as "developer pricing," giving the false impression that the value of the property was discounted in some way and would increase in value over time or upon completion of infrastructure or amenities.
- Occasionally engaged in "flip" transactions, during which third parties purchasing from defendants R. A. North and R. A. North I simultaneously purchased the residential lots and then sold them to consumers for a substantial profit.

The defendants denied the allegations, but agreed to the settlement "to resolve this controversy without further proceedings," and agreed not to engage in similar behavior in future North Carolina real estate transactions.

The governor's lot

In December 2005, Mike and Mary Easley purchased a lot in Cannonsgate. Reports beginning in 2006 from *CJ*, *The Charlotte Observer*, and the *N&O* concluded that the Easleys got a sweetheart deal on the lot, including the $137,000 in cash they received at closing.

Four Easley political donors, all named to state boards or commissions, were involved in the project. Both Allen brothers served on the Wildlife Resources Commission. Department of Transportation board member Lanny Wilson provided financing for the project. N. C. State University Board of Trustees Chairman McQueen Campbell served as Easley's real estate broker while also working for the Allen brothers on Cannonsgate and other coastal projects.

An April 2006 *CJ* report on the purchase showed that, based on comparable sales in the development, the Easleys got a deal when they paid $549,880 for a 0.36-acre lot at the Intracoastal Waterway and the entrance to the Cannonsgate marina. Less desirable lots had sold for as much as $699,000, according to public records. A subsequent story in *The Charlotte Observer* also reached the conclusion that the Easleys got a sweetheart deal.

In October 2009, the State Board of Elections convened a hearing on alleged violations of campaign finance law by Easley during his 2005 re-election campaign and his second term as governor. Wilson and Gary Allen testified under oath at the hearing, held at the Clarion Hotel in downtown Raleigh. Wilson testified that he and his wife wrote checks to the state Democratic Party after they had given the maximum to Easley's re-election campaign with the understanding that the money would go to a "special account" designated for Easley. Allen acknowledged writing two $50,000 checks to the state Democratic Party with the understanding that the money would be designated for the Easley campaign. Contributions of the sort admitted to by the Wilsons, Allen, and others are illegal.

Easley's top aide and general counsel, Ruffin Poole, a Raleigh attorney, was subpoenaed to testify, but had his subpoena quashed by a Wake County judge. Poole did not appear at the hearing.

The board fined the Easley campaign $100,000 and referred the matter to the Wake County District Attorney for prosecution. In November 2010, Easley entered an Alford plea for felony obstruction of justice, agreed to pay a $1,000 fine, and surrendered his law license. Under an Alford plea, a defendant does not admit guilt but concedes that he might lose in a jury trial and accepts punishment from the court.

Other trouble

Poole also had ties to Cannonsgate and Summerhouse. Poole pleaded guilty to one count of income tax evasion in April 2010 in exchange for prosecutors conditionally dropping more than 50 other federal charges against him.

The income tax charge stemmed from an investment Poole made in Cannonsgate. Poole admitted that he didn't disclose a $30,000 return from the investment on his federal income taxes for 2005. Federal prosecutors claimed that Poole's $30,000 income resulted "from criminal activity" — suggesting that aspects of the transactions surrounding Cannonsgate violated the law.

The initial indictment alleged that Poole, who was nicknamed "the little governor" in Easley's office, derived significant personal benefits by using his official position to expedite environmental permits for coastal developers.

The indictment alleged that Lanny Wilson gave Poole several free vacations to Costa Rica, a bachelor party in New Orleans, and an engagement party in Wilmington. Wilson also allowed Poole to invest in Cannonsgate and Summerhouse, netting Poole $55,000 in a short period of time.

Poole was fined $30,000 and served one year in prison. *CJ*

Private Exchanges Could Help Save Businesses Facing Huge Costs

Continued from Page 1

count when retirees became eligible for Medicare.

The retirees could use that money to buy a Medicare Advantage policy or supplemental Medicare coverage from among competing plans offered on a private insurance exchange operated by Extended Health, a private Medicare exchange operated by Towers Watson & Co. in New York.

In a statement, Duke Energy cited double-digit annual cost increases as its reason to employ a private exchange.

Sears, Time Warner, and Darden restaurants also have moved retirees into private health exchanges.

Private exchanges have been in existence for more than a decade. Many have developed as companies move away from traditional defined benefit plans, in which the employer selects the health insurance plan and pays the majority of an employee's costs. Exchanges enable companies to shift easily to a defined contribution model, in which the employer pays a set amount into a savings account for each worker; the employee can use the savings account to help pay for insurance coverage chosen by the employee from the exchange.

Some private exchanges work with a single carrier and the employer continues to select the insurance provider; others are multicarrier entities that use brokers or consultants to offer a variety of plan choices.

"It's a good idea," said Devon Herrick, senior fellow and health economist at the Dallas, Texas-based National Center for Policy Analysis, of the North Carolina Chamber setting up a private exchange.

"There's nothing inherently wrong with the idea of an exchange. It's essentially a marketplace," Herrick said. But "the problem" with the Affordable Care Act is that its exchange "is a highly regulated marketplace" that imposes criteria such as minimum standards on buyers. The Obamacare exchange limits the type of policies consumers can purchase and sets prices that may be unaffordable without some form of tax subsidy, Herrick said.

The Affordable Care Act, as Obamacare is formally known, requires individuals to have health insurance starting Jan. 1, 2014. It requires businesses with more than 50 employees to provide health insurance beginning in 2015.

Individuals and employers that do not buy health insurance will pay a fine, enforced by the IRS through income tax returns. The fines help fund tax credits for those buying health policies on the Obamacare health exchanges and pay for unreimbursed emergency health care for the uninsured.

The Chamber is looking for solutions at the state level. "Groups may come together to offer private exchanges to give people options, to give small businesses options in the interim. At least at that juncture there will be something available to them that gives different affordability levels for those plans," Salamido said.

> The problem with the Affordable Care Act exchange is that it is a "highly regulated marketplace" that imposes on buyers criteria such as minimum standards

A private exchange would let employers make "independent decisions based upon what's available in the marketplace" and is more affordable than Obamacare for their situation, Salamido said.

About a half dozen private health insurance exchanges sell plans in North Carolina, said Sam Gibbs of eHealthInsurance.com, the pioneer of electronic health insurance marketplaces.

Based in California, eHealth began offering individual and family health plans on the Internet in 1999, two years after the company's founding. It is licensed to sell in every state and partners with more than 180 health insurance companies. Gibbs, who is based in Asheville, is senior vice president and president of government systems for eHealth.

Gibbs said he has had conversations with state Chamber of Commerce staff members about their interest in a private exchange.

"What the Chamber of Commerce will do is … contract with a technology company like an eHealth to be their technology platform for this private exchange," Gibbs said. "They will get some type of compensation, and if it's a broker-based compensation model from that entity, they'd be eligible to share some type of remuneration from that."

eHealth has "other relationships that are similar to this," he said.

The Chamber is most likely to offer its members a private exchange for part-time workers. It would be less costly to work through an existing entity that already has a technology platform and digital record processing capabilities than creating a system from scratch, Gibbs said.

If a company decides not to provide employee health care, it could direct its employees to the Obamacare exchange and its tax credits.

However, some employees may earn too much to receive a tax credit. They could be referred instead to a private exchange for an individual or family plan. Those plans may follow Obamacare mandates fully or provide greater flexibility. For example, Obamacare does not require adult vision or dental coverage, but that may be provided in a policy on a private exchange at a price lower than an Obamacare policy.

Gibbs' company and some of those other half dozen Web brokers, as they are known, also will offer separately the federally approved, subsidized plans on the Obamacare federal exchange to North Carolina residents beginning Oct. 1, Gibbs said.

Some market analysts believe private health exchanges are about to grow dramatically. Accenture Research, a global management consulting company, is among them.

An Accenture Research study projects "private exchange participation will approach public exchange enrollment levels as soon as 2017 and surpass them soon thereafter. The result: In 2017 approximately 18 percent of the American public will purchase insurance through exchanges, radically transforming the health insurance landscape."

Gibbs believes North Carolina will show mixed results regionally.

"North Carolina is somewhat unique in that its population [is] split right down the middle. You've got about half the population that's all along the Interstate 85 corridor all the way through Raleigh-Durham, and the other half of the population is really rural," he said.

"These private exchanges are going to be more for the larger population areas where you've got companies that [have] more than 50 employees, more than 100, more than 200, and not so many part-time," Gibbs said.

"In the big population areas you'll probably see a lot of them, but I'm not sure somebody in my hometown [of Beaufort] is going to build a private exchange for the [67,000] people who live in Carteret County," he said. *CJ*

Vigdor: Time to Differentiate Among Students Of Varying Abilities

By CJ Staff

RALEIGH

American students test poorly in mathematics when compared to students in other developed countries. Even students in some "developing" countries post higher math scores than Americans. Dr. Jacob Vigdor, professor of public policy and economics at Duke University, has researched the topic. He discussed his findings during an interview with Mitch Kokai for Carolina Journal Radio. (Head to http://www.carolinajournal.com/cjradio/ to find a station near you or to learn about the weekly CJ Radio podcast.)

"[W]hat we've discovered over the years is that we sort of wobbled back and forth between trying to make everybody a superstar and then realizing that we can't make everybody a superstar. ... And the thing that makes that difficult is that you can't accomplish both things at the same time if you're trying to apply sort of a one-size-fits-all math curriculum."

Dr. Jacob Vigdor
Professor of public policy and economics
Duke University

Kokai: First of all, you have spent a lot of time looking at the data, and Americans do fare poorly compared to these other countries on math scores. Is this something we should worry about?

Vigdor: It is. If you look around the country and you look around the world, people who have strong math skills are more productive workers. There is a lot of work for them to do. Even if you look at the immigration policy debate these days, a lot of the people that we're trying to bring into this country — if you see, you know, the CEOs who are lining up behind changes to immigration policy, they want workers who are skilled at some of these more mathematically intensive tasks. And the United States just can't produce enough of those workers.

Kokai: And in the past this was not true? Americans rated highly, and we've fallen behind in recent years? Is that right?

Vigdor: The United States was a little bit better off in previous years, but, you know, you can go all the way back to the Sputnik era, and people have been worrying about math performance of American students for more than half a century. We've been trying to do things about it for more than half a century, and, well, frankly, they haven't worked. And in some cases there is some evidence that they backfired.

Kokai: So if this has been something that has been noted for a number of years, many things, as you just said, have been tried and have failed, why?

Vigdor: Well, it's a long story, but, you know, the basic message is that we have a couple of competing desires in American society. On the one hand, we want to provide the best possible education to the best and brightest. Some people have a natural proclivity for mathematics, and for those people we want to give them the resources they need to excel at the very highest levels. And then we have this other desire, which is that we want, sort of, the typical, the average student to do really well at the same time.

And I think what we've discovered over the years is that we sort of wobbled back and forth between trying to make everybody a superstar and then realizing that we can't make everybody a superstar and just trying to help the kids who were struggling. And the thing that makes that difficult is that you can't accomplish both things at the same time if you're trying to apply sort of a one-size-fits-all math curriculum. If you go too fast, you leave some kids behind. If you go too slowly, you'll help the kids who you would have left behind, but the superstars are going to be sitting around without enough work to do, and you won't be realizing the full potential of those students.

Kokai: With these two competing goals, trying to make sure that everyone gets the good, solid education and does well and then actually dealing with those who have the proclivities to be very good at math, you're failing everyone in some respects.

Vigdor: That's right. All you have to do is look at what's happened to algebra textbooks over time. If you look at introductory algebra textbooks from 100 years ago, they went into some really advanced topics that you just won't see in your average introductory algebra textbook these days. So what we've done in order to make the curriculum more accessible is that we've sort of lowered our standards in a lot of respects.

And so what happens is that maybe we've helped some people, but at the same time the curriculum is no longer as challenging as it once was for students who are high-achieving students. And so this is why when you're trying to find someone like an electrical engineer or a computer programmer, you have to find someone who is trained abroad.

Kokai: Now, I'm guessing that we're not going to get to the point where one of these two goals is going to go away. Some people are always going to say, "Hey, everyone should get a good, solid math education." And others are going to say, "Yes, but we need to make sure that the best students are getting the best possible education."

Vigdor: Yes.

Kokai: Given that we have those two goals, how do we go about addressing this?

Vigdor: The way to slice the Gordian knot, so to speak, is to just treat students differently. And, you know, where that gets you into trouble is that what we're talking about doing is tracking. We're talking about having differentiated curriculum. We're talking about taking our best students and giving them something different than what we're giving the average student.

The problem that you run into with that kind of strategy is that there are a lot of voices within the education establishment that say, "Well, you know, we really want to be treating all the students the same. And we want to treat every child like they're a superstar," even though, well, you know, the test score data show the truth, which is that some kids arrive in kindergarten just readier for more advanced work than others.

But if we can actually differentiate the curriculum, that gives us the opportunity to have courses that are very rigorous and really challenging for the high-achieving students while still giving, you know, your average, your moderately performing students the opportunity to do work that's at their level and really helps them get where they need to be.

Kokai: Is there a good way to pursue that goal that would allow a student to be able to move from one track to another? Let's say a student struggles early on in math, but then the light bulb moment goes off and he or she could suddenly be ready for the higher level. Is there some way that we can design that would enable that type of change to happen?

Vigdor: I think that's really possible. Particularly these days, with the introduction of more technology into schools, that there are ways to use technology and to use the expertise of just teachers to help identify those students who are turning a corner in their own personal progression and get them into the more enriched courses if they demonstrate that they're ready for them.

Kokai: Some people might hear what we're saying, and they will say to themselves, "Well, if this has been an issue for 50 years or more, and the United States is still a technological leader and largely because we import people who are smart mathematically, shouldn't we just keep that current system and not worry about this?" Why should we worry about this?

Vigdor: Here is the sort of scenario that you want to watch out for. Imagine that we continue to sort of import our engineers and our mathematicians and we just let the American students major in philosophy and English and the things that are less mathematically intensive. If you just look at the labor market data, what we're going to evolve into is a situation where, you know, your American-born students are going to be the ones occupying the lower rungs of the ladder compared to the people who have the more technical skills. *CJ*

Top School of Arts Official Keeps Job Despite Finding

By Dan Way
Associate Editor

RALEIGH

A high-ranking manager at the UNC School of the Arts will keep her $114,695-a-year job despite investigative findings that she improperly gave a state computer to her son for use at college and then obtained one for herself at taxpayer expense.

According to the report by the Office of State Auditor, Lisa Smith, chief information officer at the 1,100-student residential school in Winston-Salem, "misappropriated state property" and broke school technology use policy.

She "may have violated" a state statute prohibiting procuring state property for personal use, a misdemeanor, the audit said.

A UNC School of the Arts employee who answered Smith's telephone said she was not in the office when the audit was released. Smith did not respond to subsequent requests for comment.

Quoting a prepared statement by the school's interim chancellor, James Moeser, spokeswoman Lauren Whitaker said: "A mistake was made. It was a misuse of state equipment, and the university has taken appropriate disciplinary action."

Whitaker neither would identify Smith as the subject of the investigation nor describe the discipline. She said Smith is employed at the school and would remain chief information officer.

"As a taxpayer, it's disappointing" that the discipline appears to be minimal for such a serious offense, state Auditor Beth Wood said. "We put people into positions, and they're supposed to be good stewards of our money, and here you have somebody who's taking advantage of their position for personal gain."

Wood said when taxpayers see a case like this, they might rightly wonder "what other things have been done."

The investigation was not a full-blown audit, but a probe launched after a tip to the auditor's hotline.

"When we got the tip, we weren't sure of everything that might have been involved, but it turns out that this computer was it," Wood said.

The laptop, a $2,373 Apple MacBook Pro, was still in perfect working condition when it was recovered, despite Smith having reported it as broken, Wood said.

Smith claimed the laptop was malfunctioning because it wouldn't connect to Wi-Fi or the school's Virtual Private Network that would enable a connection to a school server from a remote location. She purchased a replacement MacBook Pro for $2,828, and gave the other laptop to her son for use at home, and later at Appalachian State University.

Forensic investigators determined the laptop had been connected to a Wi-Fi network at Appalachian State.

Smith "attempted to conceal her son's use of the laptop computer by deleting his unauthorized user profile," the audit said. "The CIO later admitted that she deleted the unauthorized user profile the day before investigators took possession of the laptop."

"This was the chief information officer, so this was the person who was the division head with a lot of authority to make decisions. And in this case that authority was abused, and the School of the Arts didn't really have any procedures in place to catch this sort of thing," Wood said.

Division heads don't need approval from a supervisor when they purchase equipment.

"If this was an average employee asking for a piece of equipment like this, you'd have to get approval," Wood said.

Although Smith claimed the computer was broken, "there was no [work order] ticket for her computer, it was not given to anyone to be fixed, there was no evidence" anyone attempted to repair the computer even though it was under warranty, Wood said.

"The oversight was just not there."

Nor did the laptop show up on subsequent inventories as missing because the school has a policy that assets valued below $5,000 are not recorded.

In contrast, the auditor's office and other UNC system schools include computers in inventory lists "just because they so easily could be walked away with," Wood said. There is a "need to know where they are and who has them." *CJ*

COMMENTARY

Paying for College in 2031

In late May, my husband and I welcomed our first child, Ned. After the first few weeks of sleepless nights and a very steep learning curve, the hospital bills came. They're only the first of many expenses involved in raising a child — and they're chump change compared to the anticipated cost of putting Ned through college in 2031.

According to CNN Money's college cost calculator, sending a child to UNC-Chapel Hill or N.C. State University for four years starting in 2031 will cost $133,197, including tuition, fees, room and board, books, and supplies. I'll need to sock away $2,031 per year immediately in a tax-free 529 account until Ned's 18 to meet that goal.

JENNA ASHLEY ROBINSON

But if current trends continue, the real cost probably will be much higher. For the past three decades, the cost of college has risen three times faster than the pace of inflation.

What's a new parent to do?

Our first step is to make a plan — now instead of later. Will we pay for all of Ned's college or just tuition? What will we do with the money if Ned gets a scholarship, decides to forgo college, or takes a nontraditional route?

After thinking it over, we've decided to save for tuition and fees only. Not only will it make our goal more attainable, having to pay for some of his own expenses will give Ned some skin in the game when he makes decisions about college. Halfway to the goal we'll reassess our plan — by that point, the predictions for the cost of college may be more accurate.

We'll also encourage Ned to take a few steps to decrease the cost of school, like taking AP courses, online courses, or maybe even participating in Early College. If he shows special academic, musical, or athletic talent, we'll encourage him to hone those skills in order to compete for scholarship money.

Fortunately, there are some tax-advantaged options for us to save for Ned's college tuition, in case a scholarship doesn't materialize:

- Coverdell Education Savings Accounts: Parents may contribute up to $2,000 a year to a Coverdell account for a child under 18. Contributions are not tax-deductible, but growth and withdrawals for qualified expenses are exempt from federal taxes. The downside is that the $2,000 limit means that a Coverdell account won't keep up with rising tuition rates.
- 529 Plans: Most states, including North Carolina, offer 529 college savings plans. Parents' money grows tax-free, and withdrawals for qualified expenses are exempt from federal taxes. Some states even offer prepaid plans, which let parents prepay all or part of the costs of an in-state public college education. Each state determines its own lifetime contribution limit, ranging between $100,000 and $270,000.

We opened an account for Ned last month and set up automatic monthly drafts from our checking account.

Private banks offer options as well. Upromise, a service from Sallie Mae, allows members to earn money for college by spending money at Upromise partner companies — including online stores, restaurants, and grocery and drug stores. I've had a Upromise account in my own name for several years, thinking it would be useful for grad school. But since I never used the money, I can transfer the account into Ned's name.

Of course, the biggest factor in paying for Ned's college is out of our hands: the tuition bubble. If it bursts, then Ned will be in good shape from a few savvy investments we're made early on. And he'll probably have more options than just brick-and-mortar schools. If not, then our meager savings will only defray his whopping tuition bill. *CJ*

Jenna Ashley Robinson is director of outreach for the John W. Pope Center for Higher Education Policy.

Campus Briefs

UNC-Chapel Hill once again gained the national spotlight to start the new fall semester. The student government, which doles out money to student organizations to invite speakers and hold events, gave only $3,000 out of an $8,000 request by the large and long-established Republican Club to host a couple of speakers.

Adding insult to injury, student government gave $4,000 to a relatively new anarchist group with only eight to 10 members, the UNControllables, and $5,100 to an obscure feminist publication, *Siren Womyn Empowerment Magazine*, that hasn't been to press in three years.

Even the Republicans' $8,000 request was less than they received last year, when they got more than $12,000 to hold a debate between libertarian journalist John Stossel and former Democratic National Committee chairman Howard Dean. That event was attended by more than 600 people.

Official statements by student government members said they made the decision for financial reasons. Yet some financial committee members disparaged the Republicans' intended guest speakers, Katie Pavlich, a Townhall.com editor and the author of a book on the "Fast and Furious" gun-running scandal, and Ann McElhinney, who made the documentary film "FrackNation" that questioned the environmental movement's attempts to block drilling for natural gas. The two female conservatives were described as "nonintellectual," "of no value," and "as unreliable as a Wikipedia page."

All apparently will end well as the Republican Club used social media to raise money via small contributions and "crowdsourced" to collect the funding needed to host Pavlich and McElhinney.

Or maybe not all. There is still the matter of the university's support for the UNControllables. Last winter, in a letter to the student newspaper, one of the group's founders defended "unknown" anarchists who anonymously took "credit" for breaking windows at a randomly chosen fraternity because "all fraternities are sites of conscious self-organization for patriarchal power and the homophobia that supports it." It's hard to see how such a group improves the campus dialogue. *CJ*

Compiled by Jay Schalin, director of policy analysis at the John W. Pope Center for Higher Education Policy.

Plan to End Master's Bonus 'Kicks the Beehive'

By Jesse Saffron
Contributor

RALEIGH

Historically, North Carolina public school teachers earning a master's degree have received an automatic 10 percent salary increase. Now the Tar Heel State may have become the first in the nation to eliminate the reward for earning the additional credential.

In July, Gov. Pat McCrory signed a budget wiping out the increase. This elimination is part of a broader reform effort to tie financial bonuses to actual teaching and student performance.

Eliminating pay for master's degrees will save the state money. Almost 28 percent of N.C. teachers, or 27,000, hold master's degrees, costing the state's taxpayers $181 million in the 2010 fiscal year.

These cuts may have a big impact on North Carolina's 34 public and private colleges offering graduate education programs. A number of administrators have expressed concern about falling enrollment: The pay bump was a powerful incentive for students to pursue master's degrees. At Appalachian State University, for example, enrollment in the master's in education program fell by 35 students this fall, and administrators expect a bigger decline next year.

Others are apprehensive, too.

• "We are worried; some students pursue their master's in education no matter what, but I know of at least a couple who have decided to put it off because of this cut," Russell Binkley, a professor at Western Carolina University's School of Teaching and Learning, told the Pope Center for Higher Education Policy.

• "We have heard that some teachers plan to move out of state — to states that pay teachers better and recognize the advanced preparation of teachers with master's degrees," Mary Delaney, head of the department of education at Meredith College, explained in an email.

But one reason the legislature felt comfortable eliminating the extra pay is the lack of empirical support for the claim that the additional diploma improves teaching. North Carolina's nonpartisan Fiscal Research Office of the General Assembly has found that "multiple studies [indicate] that teachers with advanced degrees perform no better than teachers without advanced degrees."

One such study, conducted by the National Center for Analysis of Longitudinal Data in Education Research, focused on North Carolina teachers. It concluded that the relationship between teachers with master's degrees and student achievement is statistically insignificant.

Another study, produced by economists Eric Hanushek and Steve Rivkin, shows that "a master's degree has no systematic relationship to

teacher quality as measured by student outcomes."

The Center for American Progress, a left-leaning think tank and general proponent of teacher unions, has criticized master's degree curricula as "a 'confusing patchwork' lacking in rigor and often absent course work that a reasonable person might imagine fundamental." The CAP report also said that in the 2007-08 school year, state and local governments spent almost $15 billion nationwide for the master's pay increase, following years of expenditure increases "many times" higher than inflation.

Even Arne Duncan, the current U.S. secretary of education, favors ending the automatic pay increases for master's degrees in education. "There is little evidence [that] teachers with master's degrees improve student achievement more than other teachers — with the possible exception of teachers who earn master's in math and science," Duncan said during a 2010 speech at the American Enterprise Institute. And philanthropist Bill Gates, who has given billions of dollars for education reform, told a meeting of state education administrators that "restructuring pay systems is like kicking a beehive," but tough decisions need to be made, and one of them is to eliminate extra pay for master's degrees.

Yet some remain sympathetic to the previous policy. "[These] findings are far from conclusive and fail to consider an important aspect of receiving an advanced degree — namely, that teachers who receive their master's are often more invested in teaching," wrote Paul Fitchett, an assistant professor at UNC-Charlotte's college of education, in a recently published letter.

Students who recently entered master's programs thinking they automatically would obtain salary increases may find relief from the looming April 2014 cut-off date. Republican state Reps. Bill Brawley and Ruth Samuelson, both from Mecklenburg County, along with several others in the General Assembly, hope to extend the original date, most likely in the budget revisions that will go before next year's short session. "If you start a program based on a promise that was made, that promise has got to be kept," Brawley told Raleigh's *News and Observer*.

McCrory also asked the State Board of Education in September to extend the pay supplement immediately for those teachers now in master's programs. State Board of Education Chairman Bill Cobey told the governor the board could not authorize spending that had been removed from the state budget, but the governor insisted that the money could be found.

So the master's bonus eventually will be eliminated — beginning in April or possibly later to let current master's candidates receive the salary increase. Even so, thousands of teachers presently earning the increases will continue to receive them, as the new law doesn't affect teachers who already hold the advanced degree. *CJ*

Jesse Saffron is a writer and Web editor with the John W. Pope Center for Higher Education Policy.

Opinion

UNITAS: Malicious Indoctrination Masquerading as Education

UNITAS ("unity" in Latin) is a housing program at UNC-Chapel Hill run jointly by the Anthropology Department, the Department of Housing and Residence Life, and APPLES, the service learning program. Focused on a single theme of "diversity," it is part course work, part dormitory, part extracurricular activity, part social club, and part community service — and all political indoctrination.

JAY SCHALIN

Living at UNITAS is voluntary. Residents must participate in community activities, perform community service (known as "service-learning"), and take two three-credit courses offered by the Anthropology Department.

Those two courses, ANTH 092 in the fall and ANTH 093 in the spring, are the defining elements of the program; the syllabi of the two courses show the program's real intent.

Most of ANTH 092 is spent creating an intellectual framework through highly politicized readings and discussions on diversity. Toward the end of the fall semester, the focus shifts to discussion and theoretical understanding of service learning, activism, and community organizing. Program literature describes ANTH 092 as "constructing a toolkit for identifying and understanding oppression, and ways of working toward social justice."

The second semester — ANTH 093 — is largely about putting this toolkit to use in a service-learning project, focused on volunteer work. The syllabus describes it as "an action-oriented framework for addressing issues of social responsibility and social justice."

It is difficult to know what occurs in the classes, discussions, and activities, but the intellectual content of the program is revealed in the main textbook for both courses: *Readings for Diversity and Social Justice*. This choice shows the program's true colors: In assigned reading after assigned reading, a steady drumbeat sounds the message that all groups in our society, save one, are continually victimized by systemic oppression. The members of that one group — straight white males — are depicted as the victimizers and oppressors and as seeking deviously to maintain a system in which they are privileged above all others.

> The UNITAS curriculum demonizes a specific demographic group

Racism is defined so that only whites can be racist. In a section of the book titled "Racism: For Whites Only?" the president of Spelman College, Beverly Daniel Tatum, answers her own question in the affirmative. She uses a definition of racism that says it is not mere prejudice, but "a system of advantage based on race," or rather, "prejudice plus power." Since only whites are advantaged in our society, only they can be racist: "The person engaged in active racist behavior has identified with the ideology of white supremacy," she bluntly states. She adds that "all whites benefit from racism," just not equally so.

The book is as antagonistic to capitalism as it is to whites. In an assigned reading titled, "What Can We Do?" author and activist Allan G. Johnson writes that "capitalism has provided the economic context for privilege and oppression … it was the engine that drove the development of modern racism."

Even the legitimacy of the United States itself is questioned. In an assigned chapter titled "Heteropatriarchy and the Three Pillars of White Supremacy," Andrea Smith, who holds a Ph.D. in "History of Consciousness," states that "it has never been against U.S. law to commit genocide against indigenous peoples — in fact, genocide is the law of the land." She adds, "Whiteness operates differently under a logic of genocide than it does under a logic of slavery."

Smith equates "whiteness" with "white supremacy" — the rule rather than the exception throughout the book.

Where such demonization of a specific demographic group will eventually lead, it is too soon to tell. But it is hard to see how it merits both sanction and subsidy by the state of North Carolina.

And even without its extreme politicization, UNITAS is problematic academically. First of all, what do its major elements, such as service learning, activism, and modern politics. have to do with the study of anthropology?

Also, almost everybody in the program gets an A for the two anthropology classes. Over a three-year period, out of 78 grades given for ANTH 092 and ANTH 093, 64 were As, 10 were Bs, 3 were Cs, with 1 D, for a cumulative GPA of 3.76 on a 4.0 scale. Clearly, the program lacks rigorous academic standards.

Recently, former Indiana Gov. Mitch Daniels was attacked for suggesting that Howard Zinn's *People's History of the United States* is inappropriate for educating that state's students. But that book is indeed too biased and dishonest for quality education. The same is true of the UNITAS program — it is malicious political indoctrination masquerading as education.

While there is great benefit in academic freedom, when academics create a program that is so deliberately one-sided, false, and divisive, it is time for the adults to take over and put an end to it. *CJ*

Jay Schalin is director of policy analysis at the John W. Pope Foundation for Higher Education Policy.

From the Liberty Library

• In *Philanthropy Under Fire*, author Howard Husock defends the American tradition of independent philanthropy from significant political and intellectual challenges which threaten it today. Although the United States continues to be the most charitable nation in the world, serious efforts seek to discourage traditional, personal charitable giving by changing the tax code, and directing philanthropy toward causes chosen by government. Some voices seek to narrow the very definition of philanthropy to include only direct redistribution of income from rich to poor. In contrast, Husock broadly defends philanthropy's causes — from the food pantry to the art museum to the university science lab — as both a source of effective new ideas and as a core aspect of democracy and liberty. More information at www.encounterbooks.com.

• Margaret Thatcher's time in office defined an era — a Golden Age of conservative leadership. But she was not a typical conservative politician then or now. Lady Thatcher understood that conservative principles are for everybody, not tied to special-interest groups or trends. Conservative ideas must win people over first, before conservatives can win their votes later. She understood that honor and conviction could change minds — and crumble despotic regimes to the ground. In *Margaret Thatcher on Leadership*, Nile Gardiner and Stephen Thompson outline the critical lessons conservatives can learn from Lady Thatcher on articulating conservative principles to a broader audience, cutting through bureaucratic messes to achieve goals, and standing up to aggressive regimes. To learn more, visit www.regnery.com.

• For a century, statists have constructed a federal Leviathan, distorting and evading our constitutional system in pursuit of an all-powerful, ubiquitous central government. In *The Liberty Amendments*, Mark Levin argues that if we cherish our American heritage, it is time to embrace a constitutional revival. In the Constitutional Convention of 1787, the framers provided two methods of amending the Constitution. The second was intended for our current circumstances — empowering the states to bypass Congress and call a convention for the purpose of amending the Constitution. Levin argues that we, the people, can avoid a perilous outcome by using this second method. See more at http://books.simonandschuster.biz/. *CJ*

Book review

Coolidge Biography Argues for the Power of Principle

• Amity Shlaes. *Coolidge*, HarperCollins, 2013, 566 pages, $35.

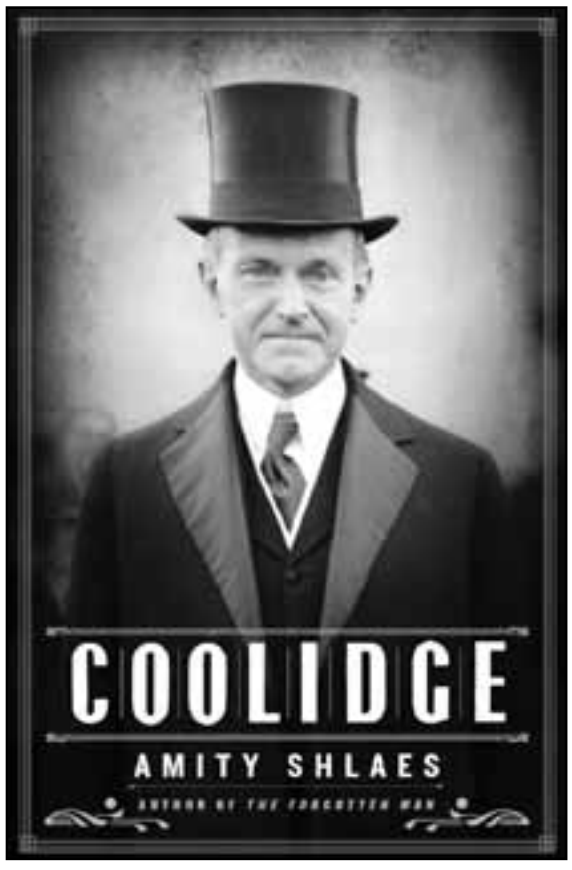
By Hal Young
Contributor

RALEIGH

He was known as "Silent Cal" and often underestimated by strangers. His adult life was marked by a deliberation and caution which others interpreted as sloth. He was christened John Calvin Coolidge, and like the Swiss reformer, he was driven by principles that often were not popular, even when true. At every juncture in his life, it seems, he nearly took the wrong step, or failed to step out at all.

Yet biographer Amity Shlaes found his story strangely compelling, and relevant to understanding the presidency and the roots of much that followed in the 20th century.

Shlaes writes in the introduction that research for her previous book, *The Forgotten Man: A New History of the Great Depression*, unexpectedly led her to Coolidge. "I discovered I was writing the prequel, the story of a forgotten president from the 1920s," she said. What made this quiet man significant, standing in the Oval Office between the activist Roosevelts and after a war leader like Wilson? "[He] was principally a man of work," she concluded, "… a rare kind of hero: a minimalist president, an economic general of budgeting and tax cuts."



"Economic heroism is subtler than other forms of heroism, harder to appreciate," she says.

Coolidge certainly exercised economy of words; elected to a second term as president of the Massachusetts state senate, he gave a session-opening address of just 44 words:

> *Honorable senators: My sincerest thanks I offer you. Conserve the firm foundations of our institutions. Do your work with the spirit of a soldier in the public service. Be loyal to the Commonwealth and to yourselves. And be brief; above all things, be brief.*

He was nearly a caricature of New England hardheadedness and carried frugality to the point of parsimony. Newly married during a housing boom awash in easy credit, the young attorney Coolidge and his wife rented one half of a duplex instead of taking a mortgage. They stocked their kitchen and linen closet with items bought at a bankruptcy sale, their towels and tablecloths were indelibly marked "Norwood Hotel."

Many years later, when the news of President Harding's death reached him on vacation in New England, the next morning found the new President Coolidge standing on the station platform in Rutland, Vt., waiting for the regular 9:35 accommodation; he had turned down the railroad's offer of a special train to rush him to Washington. As president, he was known to make his own sandwiches in the White House kitchen, grumbling to an observer, "I have to supply the cheese, too," and intruding on the cook and housekeeper over excessive dinner preparations.

It was this sense of economy which marked his administration more than anything. "I regard a good budget as among the noblest monuments of virtue," he told a group of Jewish philanthropists. "The budget idea, I may admit, is sort of an obsession with me. … Do you wonder, then, that at times I dream of balance sheets and sinking funds, and deficits, and tax rates, and all the rest?"

His administration did away with red tape — literally. Specifications changed so federal documents would be wrapped up with white string instead, a small but noticeable cost savings. When the government ran a surplus, he pushed to reduce taxes, guided by his Treasury Secretary Andrew Mellon's principle of "scientific taxation" — a supply-side argument which predated Arthur Laffer's curve by several decades. When Coolidge took office in 1923, the top federal income tax rate stood at 56 percent; when he left in 1929, it had dropped to 24 percent, and federal debt dropped from 26 percent of gross domestic product to 16 percent.

Beyond his frugality, Coolidge was a man of perseverance. Setbacks only delayed him; they didn't dismay. "To an improbable extent, the chapters of Coolidge's life after childhood are chapters of near failure upon near failure," Shlaes writes.

> *Coolidge almost didn't leave the village, almost didn't make it at college, almost didn't get a job, almost didn't find a wife, almost disappointed as a state senator, almost stumbled as Massachusetts governor, almost failed to win a place on the Republican presidential ticket in 1920, and almost failed in Washington once he arrived there as vice president in 1921 …*
>
> *Surveying the travails of the 30th president, some writers have suggested that those personal defeats are the essence of the Coolidge story. They err. Coolidge's is not a story of "Yes, but." It is a story of "But yes." For at every stage, Coolidge did push forward, and so triumph.*

Some victories came at a high personal cost. When the 1927 flood of the Mississippi River submerged more than 3 million acres and displaced thousands of families in the deep South, Coolidge stood firm against calls for federal aid. That was the business of states, he said; "the national government," as he called it, would send tents and blankets from the War Department's surplus, but limit itself to rescue — not rebuilding. Critics decried his hard-fisted approach and accused him of regional prejudice, until a disastrous flood in his native Vermont received the same principled response.

Like many who lead by principle and not by personality, Coolidge lived to be disappointed by his successor. Herbert Hoover, the engineer-prodigy turned commerce secretary, proved to be made of different economic stuff than Silent Cal. Coolidge had foreseen the coming stock market crash and was unhappy to see his carefully tended budget moving purposefully into the red; Hoover was a staunch supporter of big projects and leaving a big footprint.

When the crash came, it was Hoover who took the blame, and Coolidge disappeared into the shadows. Perhaps Shlaes' biography will complete the partial rehabilitation of Coolidge's legacy, begun in the Reagan years, and fulfill *The Wall Street Journal*'s obituary editorial, that "in due time, the good fortune of the United States to have had such a man as Calvin Coolidge in just the years that he filled that office will be more clearly realized than it has yet been." *CJ*

N.C. Delegates Had Outsized Role at Constitutional Convention

A few weeks ago, I was identifying to some friends the various founders in an online photo of Howard Chandler Christy's famous painting, "Signing of the Constitution of the United States."

I knew all three North Carolina delegates attended the convention and were signatories. But I was reminded that all three were featured prominently in the portrait.

TROY KICKLER

George Washington is the commanding figure, standing on the platform, behind the desk. Benjamin Franklin is prominent, too, although sitting down. Alexander Hamilton is depicted leaning forward as Franklin lends an ear to the junior statesman's opinion — something Hamilton shared with whoever would listen.

The South Carolina delegation, including Charles Pinckney and John Rutledge, are at the back of Independence Hall, with outstretched arms, indicating they are ready to sign the Constitution.

So, who is signing the document in that massive portrait that now hangs in the Capitol? North Carolinian Richard Dobbs Spaight. Standing behind him is North Carolinian William Blount. And stepping up to the platform is North Carolinian Hugh Williamson.

At age 30, Spaight was one of the youngest delegates, yet he may have been the most dependable: He attended every session of the convention. He was the one who suggested state legislatures should elect U.S. senators. This was the case until passage of the 17th Amendment, when the office became a popularly elected one. Spaight also wanted Congress to elect the president; however, his peers preferred the electoral college.

Of the Constitution signers, two died in duels. One was Hamilton, who famously died in a duel with Aaron Burr, and the other was Spaight, who first battled John Stanly, a political opponent, in a war of published essays. The quarrel ended in an 1802 duel in New Bern.

In duals, the offended often found satisfaction on the field without killing his rival. Stanly, however, aimed to kill — four times. Barely able to lift his pistol, a sickly Spaight continually missed, but Stanly's aim was true on the fourth and final round. The next day Spaight died.

When doing genealogical research, you must be prepared to uncover the bad along with the good. So it is with studying the nation's founding fathers. On that note we discuss William Blount.

As a land speculator, Blount mishandled money and amassed a fortune by deceitful means. He and his brother, John Gray Blount — under various aliases — owned millions of acres of western land. (Western land was located in what is now the North Carolina mountains and modern-day Tennessee.)

Blount said little, if anything, at the Constitutional Convention, and some historians claim that he signed the document simply to prove that he was present. In fact, he didn't appreciate the Constitution's value and believed the nation, as one historian puts it, would one day "disintegrate into various separate and independent governments."

Blount later played an instrumental role in the budding state of Tennessee. He was a territorial governor and then served in the U.S. Senate. In the Senate, he worked to incite war among various Indian tribes and the Spanish. His shenanigans were uncovered, and he was impeached and removed from the Senate. Charges of treason and other crimes eventually were dropped.

Even though Blount tarnished the Old North State's reputation, it was polished and revived by the most esteemed of North Carolina's signers, Hugh Williamson. Williamson was a Renaissance man: an ordained Presbyterian minister and an accomplished doctor, philosopher, and scientist. During the Revolutionary War, he had served as North Carolina's surgeon general, and he had inoculated the state's troops against smallpox.

At the Philadelphia Convention, Williamson was the most vocal of the North Carolina delegation and one of the most vocal in all the assembly. The convention adopted his suggestion for a six-year senatorial term, and he was influential in drafting the impeachment process in the Constitution. *CJ*

Dr. Troy Kickler is director of the North Carolina History Project (northcarolinahistory.org).

Movie review

'Jobs' Captures Intensity, Arrogance of Apple Computer's Genius

• "Jobs," directed by Joshua Michael Stern, Open Road Films, 128 minutes, released Aug. 16.

By Sam A. Hieb
Contributor

GREENSBORO

Let's face it: In many ways, all biopics are the same. The lives of famous and complicated people are compressed into two hours, with hairstyles, clothing styles, and music all changing rapidly to mark the passage of time.

Still, within the genre, you have the great — Sissy Spacek as Loretta Lynn in "Coal Miner's Daughter " and Meryl Streep in "The Iron Lady"; the decent — Joaquin Phoenix as Johnny Cash in "Walk the Line" and Greg Kinnear as Bob Crane in "Auto Focus"; and the awful — Val Kilmer as Jim Morrison in "The Doors" and Anthony Hopkins as Tricky Dick in "Nixon."

Now we have Ashton Kutcher — he of "That '70s Show" and "Two and A Half Men" fame — as Steve Jobs. The argument can be made that Jobs is the most complicated of any individual portrayed in any biopic. Certainly more complicated is explaining Jobs' incredible contribution to society — consumer-friendly computer technology — that average moviegoers might not be able to grasp, never mind the fact that many likely own an iPhone, iPod, iPad, or all three. And that's exactly what Jobs wanted.

I was worried I would not be able to grasp the technological jargon when I was assigned to review the excellent biography by Walter Isaacson, *Steve Jobs* (on which the "Jobs" movie was not officially based).

But like the book, the movie puts front and center the attributes that helped Jobs go from young hippie to head of a corporation, whose personal wealth skyrocketed practically overnight.

The movie opens in 2001 with Jobs revealing the iPod at Apple headquarters. While 12 years doesn't seem that long ago, and we've gotten so accustomed to technological innovation that nothing fazes us anymore, it is an incredible moment when Jobs pulls the device capable of storing 1,000 songs out of his jeans pocket.

The movie then takes us back to Reed College (James Woods appears as Jobs' professor) in Portland, Ore., where Jobs, his girlfriend Ahna (Chris-Ann Brennan) and his best friend Daniel Kottke (Lukas Haas) take LSD. The soundtrack then breaks into "Brandenburg Concerto No. 3" (J.S. Bach was Jobs' favorite classical composer) and the effects of the acid trip are used to fast-forward through the next several years of his life, including his trip to India with Kottke.

Ashton Kutcher, of TV's "That '70s Show" and "Two and A Half Men," plays Apple co-founder Steve Jobs in the movie "Jobs." (Open Road Films photo)

It's an incredible effect. Watching Jobs standing in a field, arms outstretched with Bach blasting away, you suddenly believe the possibilities are limitless. It turns out they were.

Fast-forward to Jobs' gig at Atari, where he's shown cussing out a co-worker for not being dedicated enough. Fed up with Jobs' bare feet and his body odor, his boss issues a do-or-die challenge on a tight deadline. Jobs meets the challenge —with the help of his buddy Steve Wozniak (Josh Gad) — and the accomplishment allows him to prop up his bare feet on the desk in triumph.

It was actually Woz who came up with the idea of integrating the computer, the video monitor, and the keyboard. Jobs drove the marketing and the sales. Luck played a huge role in Apple's survival. Frustrated as hundreds of phone calls to finance the company went nowhere and after a profanity-laced tirade at his small team of employees, almost miraculously the man with the money, Mike Markkula (Dermot Mulroney), pulls up. He invested $250,000 and kept the company afloat.

Things go quickly from there — the company continues to grow, and Apple goes public. Then comes the huge turning point in Jobs' life — when he decides to bring in Pepsi CEO John Sculley (Matthew Modine) to market the Macintosh.

Sculley's expertise results in the famous "1984" commercial — a creative triumph — but continuing financial losses from the Macintosh convinces Apple's board to go with Sculley's vision, which was based on pushing the profitable Apple II while the Macintosh team improved the pathbreaking computer. The vote to oust Jobs from heading the Macintosh division was especially humiliating after Markkula voted with the rest of the board members.

From there, the movie progresses rapidly. After another board meeting, Jobs is chastised for his spending habits. He's alone in his office late at night, crunching numbers, when his old buddy Woz walks in to tell Jobs he's getting out because Apple has become nothing like the company they started in the garage of the Jobs family home.

There's considerable speculation about what really did and did not take place, as there is with any biopic. For his part, Wozniak has criticized the movie, telling CNN that "almost every scene in the movie never happened." (Interesting side note —Wozniak joked the worst scene was one in which he and Jobs were engaged in an impromptu debate over Bob Dylan versus the Beatles. Woz said he "was offended that he was portrayed as the 'pop Beatles guy.'")

Wozniak also said the movie failed to portray Jobs' true brilliance. He would know, but for the most part I'd say the movie did tap into Jobs' brilliance, his dedication, and, yes, his arrogance. When Ahna tells Jobs she's pregnant, he reacts violently, vociferously denying he's the father. However, the pregnancy apparently inspires him to "grow up" — he shaves his beard and dons business suits — but not enough to provide any sort of emotional support for his daughter until many years later.

Jobs' impact on business and society will be felt for many years. And as the years go on, perspective on that impact will change. During that time, no doubt, there will be untold other books and movies about his life.

While "Jobs" is nowhere near the definitive story of Steve Jobs, it's a decent start. *CJ*

Book review

Coyne Finds Humanitarian Aid From Government Not That Helpful

• Christopher J. Coyne, *Doing Bad By Doing Good: Why Humanitarian Action Fails*, Stanford Economics and Finance, 2013, 258 pages, $76.50.

By George Leef
Contributor

RALEIGH

One of the most ingrained of "progressive" ideas is that governments have a responsibility to aid people who have suffered from natural disasters, live in poverty, or are threatened by organized violence. Demands that governments (including that supragovernment, the United Nations) act whenever calamities strike are based on the assumption that they have the ability to relieve suffering and stop bloodshed.

What if that assumption is mistaken?

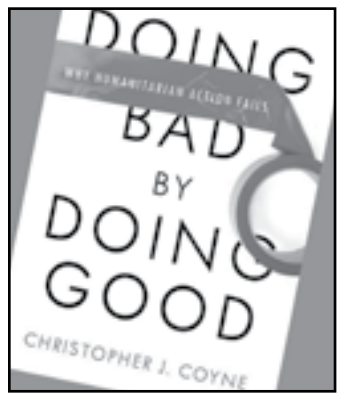
In his new book *Doing Bad By Doing Good*, George Mason University economics professor Christopher Coyne argues just that. His analysis shows that each of the three main types of humanitarian action either fails entirely or accomplishes relatively little good for the resources committed.

Coyne gives several reasons for his conclusion: Government programs are run by people who do not recognize their own knowledge constraints, seldom learn from their mistakes, don't consider the perverse incentives they create for the people they are supposedly helping, and often have incentives of their own that conflict with their humanitarian mission.

In sum, Coyne has taken the Hayekian and "public choice" insights that explain the defects in domestic welfare programs and applied them to their international analogues.

Much as we are inclined to judge humanitarian actions by their good intentions, Coyne insists that we think realistically about what they accomplish and suggests that those who truly are interested in helping poor and suffering people around the world should seek nongovernmental avenues for doing so.

Adam Smith wrote in *The Wealth of Nations* about the type of person he called "the man of system," who "seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard." Coyne finds Smith's observation about these blinkered, arrogant individuals to be pertinent to his topic and refers to the type who runs international humanitarian programs as "the man of the humanitarian system."



Those people believe that suffering can be relieved or prevented just as we managed to put a man on the moon — it's merely a technological problem that can be solved if we devote enough resources and exert enough will. They are mistaken, but, unfortunately, humanitarian programs have fallen almost entirely under their sway.

Out of every dollar the U.S. government devotes to humanitarian aid, only about 10 cents go for relief following disasters such as famines, earthquakes, and tidal waves. The rest goes into "developmental aid" — projects meant to enable native peoples to enjoy a rising standard of living through economic growth.

Coyne finds that to be a terrible allocation of resources because disaster relief, while often wasteful, at least does some good. Developmental aid, per contra, is mostly squandered.

The programs are administered by those "men of the humanitarian system" who seldom see that their ideas about what local people need are different from what the people themselves think they need. For instance, the men of system usually assume that more formal schooling for children is a high priority, so they build schools and measure success by the number of boys and girls enrolled. The problem is that formal education is often a low priority for the people and putting resources into it is wasteful.

Several of Coyne's illustrations of failed development projects come from Afghanistan. One particularly good example relates to a dam in the Helmand Valley that would provide farmers with more water. Unfortunately, he writes, "those who planned and implemented the program never asked how farmers would deal with the significant inflow of additional water."

The officials in charge, both western and Afghan, blithely assumed that the farmers would know what to do with more water, but as it turned out, they didn't. Their fields were flooded and crop yields decreased.

Those "experts" still were paid well for their time. The adverse effects fell upon the poor locals. Because the experts bear no costs when they're wrong, Coyne argues, they keep repeating their mistakes.

What about disaster relief? Shouldn't we send food when people are starving and medicines when they face epidemics?

Coyne doesn't argue that we should throttle our impulse toward generosity, but points out that such aid is not likely to accomplish as much good as we think.

One reason is that disaster relief aid is often of the wrong kind, or delivered to the wrong place. What Americans witnessed with FEMA's bungling following Hurricane Katrina was illustrative of international efforts. Coyne notes a study of drug donations after the 2004 tsunami that devastated coastal areas of Indonesia, which found that 70 percent had labels in foreign languages that could not be understood by local medical practitioners and had to be discarded. Some 600 tons of medicine were destroyed at a cost of $3 million.

Moreover, disaster aid can have the effect of rewarding the rulers for policies that cause and sustain crises. North Korea, for example, has been using the widespread hunger of its population to leverage aid from the United States for many years.

Doing Bad By Doing Good presents a depressing picture of the work done by "men of the humanitarian system." We'll do far more good for those we want to help by moving away from state humanitarianism and toward private, nonstate efforts. *CJ*

George Leef is director of research at the John W. Pope Center for Higher Education Policy.

COMMENTARY

Government Lets Parents Off the Hook

If you see obese children and don't wince at what it means for their physical and emotional health, you don't have a heart. But the Left believes you and I should feel much more than concern. The Left thinks you and I are responsible for these kids.

At the conclusion of his proclamation declaring September as National Childhood Obesity Awareness Month, President Obama writes: "We all share in the responsibility of helping our Nation's children enjoy longer, healthier lives. Together, we can give them the energy and confidence to learn, excel, and pursue their dreams."

DONNA MARTINEZ

Words have meaning, and presidential words aren't chosen haphazardly. That this president advocates a transfer of individual responsibilities to the collective isn't surprising. But it is troubling. And it is wrong. My neighbor kid's overindulgence in pizza with extra cheese is my concern, but it's not my responsibility. Nor is policing her TV viewing habits or deciding her bedtime. And it's certainly not my responsibility to give her "energy and confidence" to lead a happy and productive life.

What kids need are parents who serve chicken and vegetables for dinner, not pizza oozing with cheese. What kids need are parents who invest in bikes and basketballs, not TVs and cars. What kids need are parents willing to be parents, not buddies. Unfortunately, fewer and fewer Americans seem willing to embrace their individual obligations to their kids.

The Centers for Disease Control and Prevention reports that in 1980, a mere 7 percent of U.S. kids ages 6 to 11 were obese. By 2010, the number had more than doubled to 18 percent, and more than one-third of 6- to 19-year-olds were obese. The CDC also has concluded that government anti-obesity programs had little impact at stemming the tide of early childhood obesity between 2008 and 2011.

Still, telling parents to get their act together is politically incorrect. It makes people feel better to say we're all part of the problem. But minimizing parental responsibility ignores their unique and powerful impact. We understand this when it comes to alcohol, cigarettes, and abuse. It's the same with nutrition. I'm willing to bet you eat certain foods today, and don't eat others, because of what you were introduced to as a child.

When we shift responsibilities away from parents and toward the collective, government officials eagerly step through the open door. In September, the North Carolina Institute of Medicine's Task Force on Early Childhood Obesity Prevention recommended sending government officials into the homes of "at-risk" families to monitor what Medicaid recipients feed their kids. As *Carolina Journal* contributor Sara Burrows recently reported, ideas from a 2012 meeting of the group outlined weekly home visits — visits that would start at pregnancy and continue until age 5. Government social workers' monitoring of the household would be all-encompassing, from sleep, "screen time," nutrition, and physical activity, to working with medical care providers.

Who would qualify as "at-risk"? Government would decide.

And there's the problem. From the president on down, the Left believes government makes better decisions than parents. They put their utopian views into practice by imposing rules that defy human nature. In a free society, we must accept that some parents will feed their kids more pizza than chicken, and some families will spend more time on the couch than riding bikes.

Until we call these parents out for their actions, rather than allowing them to hide behind proclamations and rules about collective responsibility, we can expect more obese kids. As the Mayo Clinic's Web page on prevention puts it, "Don't expect your child to do something you are unwilling to do for yourself." *CJ*

Donna Martinez is co-host of Carolina Journal Radio.

EDITORIAL

Predictable Consequences

More than three years after Obamacare became law, finally we know what's in it. Sort of. The U.S. Department of Health and Human Services released the 2014 rates for health insurance policies on the federal exchange in late September, days before individuals were allowed to enroll in the plan, and North Carolinians took a shot to the jaw: According to calculations by the Manhattan Institute, residents of the Tar Heel State will endure the nation's highest rate increases, with individual rates tripling for women and quadrupling for men.

There's nothing affordable about the Affordable Care Act. Premiums are increasing, companies are reducing coverage and cutting payrolls, and hospitals and physicians' practices are not participating in plans offered on the exchanges.

So while President Obama vowed that his signature legislation would reduce medical premiums an average of $2,500 yearly, a House Ways and Means Committee analysis of HHS rates for the least-expensive "bronze" plan found that annual rates for 27-year-old males would rise by $701 and 27-year-old females would pay an additional $240. In North Carolina, the hikes would be $1,612 and $756, respectively.

The Manhattan Institute analysis, which compared the average 2013 premiums of the five least-expensive individual policies in the state with the premiums announced by HHS, found that premiums for 27-year-old males in North Carolina would surge by 267 percent in 2014. Premiums for 27-year-old females would jump 151 percent.

What about the taxpayer subsidies that are supposed to ease the sticker shock for many low- and middle-income workers? Writing for *Forbes*, the Manhattan Institute's Avik Roy says, "subsidies only protect some people. Middle-class Americans face the double-whammy of higher insurance premiums, and higher taxes to pay for other people's subsidies."

When Blue Cross Blue Shield of North Carolina released a summary of individual rates in early September, the company predicted that, even accounting for estimated tax subsidies, two-thirds of its ratepayers would see increases in line with recent trends, with some seeing reductions. But about a third of ratepayers would experience what a press release called "fairly substantial increases due to the requirements of the ACA."

Taking potential subsidies out of the equation, John Locke Foundation health and human services analyst Katherine Restrepo found that the average BCBSNC premiums for 25-year-olds and 40-year-olds would increase by 80 percent.

Moreover, the president said June 15, 2009, "If you like your health care plan, you can keep your health care plan. Period."

Not so fast. Hundreds of employers, including UPS and Xerox, are dropping coverage for employees' spouses.

From the beginning, we predicted these kinds of outcomes: higher premiums, less coverage, and fewer choices. Now that the actual costs of Obamacare are apparent, we wonder how much longer voters will tolerate elected officials who stand behind this monstrosity. *CJ*

EDITORIALS

Do Not Play

Subsidies for sports are a losing proposition

North Carolina politicians face many difficult decisions. Whether to subsidize professional sports with tax dollars isn't one of them. The answer should be no, not a dollar, not a dime.

If you like going to pro football, basketball, hockey, or baseball games, then by all means enjoy yourself — but not at taxpayers' expense. Subsidized sports is a racket, pure and simple. Team owners, broadcasters, and assorted lackeys bamboozle their marks with promises of broad economic benefits for the community at large. They hire flimflam artists posing as scholars to claim that the team will have a "huge economic impact" without bothering to compare it to the lost economic impact of the tax dollars diverted from their original uses, such as shopping or eating out.

Careful policy analysts have been onto this scam for decades now. Most studies about government subsidies for sports teams find they aren't worth the cost to taxpayers.

For example, economist Ian Hudson wrote a study for the *Journal of Urban Affairs* in 1999 that used a regional-growth model to evaluate the employment effects of communities gaining or losing professional sports teams. He didn't find any. In the same journal, economist Robert Baade concluded that subsidizing sports was not a wise public investment. "The primary beneficiaries of subsidies are the owners and players, not the taxpaying public," he wrote.

But what about the other businesses that make money from sports teams, such as vendors and nearby restaurants? Well, sure, they gain a bit — but other businesses in the community lose income.

As economists Dennis Coates and Brad Humphreys concluded in their 2003 paper, "consumer spending on professional sports and spending in other sectors are substitutes. This helps to explain the negative total economic impact of sports found in other studies."

One such study, published in the *Journal of Sports Economics* in 2007, looked at franchises from all four major sports — football, basketball, baseball, and hockey — and found that they had "an adverse impact on local per-capita income for U.S. markets in both the short and long run."

There are a few contrary research findings, particularly for minor-league baseball in remote communities with few competing entertainment outlets. But the preponderance of the evidence suggests that forcing taxpayers to "invest" in professional sports is a foolish policy. *CJ*

Better Roads

North Carolina highways are improving

Don't look now, but North Carolina's long-maligned highway system is showing signs of significant improvement.

Actually, do look now. Look at a new set of infrastructure grades from the American Society of Civil Engineers. The 2013 report gives North Carolina a C for roads, which is up from a D- in 2009, and higher than the 2013 national average of a D. On bridges, North Carolina stayed at a C-.

In addition, David Hartgen and the Reason Foundation have just released the 20th in an annual series of rankings for state highway systems. As recently as 2005, North Carolina ranked 31st in highway performance, a metric including measurements of condition, congestion, safety, and efficiency. But according to the latest rankings, North Carolina ranks 19th.

Since 2009, the state has completed several major projects of road expansion and maintenance, with others in mid-construction. It seems likely that North Carolina's ranking would continue to improve even if nothing else were done.

Fortunately, the McCrory administration and General Assembly did something else of note. This year, they rewrote North Carolina's transportation funding formula, putting a greater emphasis on traffic congestion, economic growth, and highway safety.

Of course, North Carolina continues to have unmet transportation needs. Over time, state tax revenues from the sale of motor fuels and cars have not kept up with highway usage. These trends argue for continuing to find efficiencies in the Department of Transportation, dedicating all gas and car tax revenues to road and bridge projects, and using tolls to add new highway capacity where it makes sense to do so.

North Carolina has made substantial progress in the management of our highway system. Let's keep it up. *CJ*

COMMENTARY

The Right Way To Cut Taxes

If your goal is fostering economic growth and job creation, there's a right way and a wrong way to cut taxes on business. Fortunately, Gov. Pat McCrory and the General Assembly made the right choice.

The wrong way is offering tax credits or other targeted incentives to companies based on where they locate or how they spend their revenue. Before such incentives can create net economic value, the public officials who craft them would have to possess superior knowledge to that of private entrepreneurs, investors, and managers.

JOHN HOOD

This is what Nobel Prize-winning economist Friedrich Hayek and collaborator W.W. Bartley called the "Fatal Conceit" in a 1988 book of the same name. Central planning doesn't fail because government officials are dumb or have bad intentions. Central planning fails because no person or group possibly could possess all of the constantly emerging and changing information necessary to make welfare-enhancing decisions.

Markets are far from perfect. In fact, perfection is impossible for human beings. Still, the reason the market process works better than central planning is that even as some market actors make bad decisions, others make good ones. That confines the damage resulting from the bad decisions and gives those in error a strong incentive to learn from their mistakes. If central planners make bad decisions, however, the consequences are far broader, and because planners don't incur personal losses commensurate with their error, they are more likely to repeat it rather than learn from it.

That's the theory. What about the practice?

Since 1992, academic or professional journals have published some 200 peer-reviewed studies about the potential economic effects of state and local tax policy. For overall tax burdens, 63 percent of the studies found negative associations with economic measures such as GDP, personal income, employment, or investment. The share of negative findings rises to two-thirds for corporate or business tax burdens and nearly three-quarters for marginal tax rates. In other words, all other things being equal, reducing tax rates on personal and business income is likely to have economic benefits for a state or locality.

But targeted tax incentives fare far worse in the research literature. Only 25 percent of scholarly studies link targeted incentives to improvements in economic performance. In most cases, incentives do not lead to noticeable changes in growth rates of output, income, employment, or investment.

The central-planning fallacy is one explanation. Reducing the effective tax burden on some firms, locations, or investment decisions creates a relatively higher tax burden on others. The resulting inefficiencies appear to offset whatever economic benefits may flow from incentives.

Another likely explanation has to do with uncertainty. A change in tax policy may not affect the decisions of entrepreneurs, investors, and executives unless they are reasonably confident it will stay in place for many years. Economic actors may feel more confident about broad-based tax cuts than they do about targeted incentives, given that the latter are often controversial, complex, and have expiration dates.

In their 2013 tax package, McCrory and the legislature focused on rate reduction rather than tax incentives. Several controversial tax breaks, such as a subsidy for film production, are scheduled to expire over the next two years. North Carolina's current 6.9 percent rate on corporate income will fall to 5 percent, and perhaps as low as 3 percent in four years if revenue-growth projections are met. The state's personal income tax, which now tops out at 7.75 percent, will convert to a flat tax of 5.75 percent, making North Carolina a more attractive place to start or invest in enterprises.

Eliminating special breaks and lowering marginal tax rates for everyone constitute sound tax reform. It's also good for business. *CJ*

John Hood is president of the John Locke Foundation.

EDITORIAL BRIEFS

Green Jobs

A recent government report shows just how fragile the green energy industry is, writes Benjamin Zycher for *The American*.

In June, the Government Accountability Office released a paper titled "Labor's Green Jobs Efforts Highlight Challenges of Targeted Training Programs for Emerging Industries." Among the report's findings: More than 84 percent of the $595 million that the Department of Labor had spent on green job activities since 2009 had gone toward "training and support services" rather than actual employment.

The Bureau of Labor Statistics, meanwhile, estimates that 3.4 million Americans were involved in the production of green goods and services in 2011. Of that number, 886,000 worked for the federal, state, or local governments.

"That the production of 'green' goods and services must be mandated and/or subsidized is strong evidence of uncompetitiveness," says Zycher.

"Unless government itself is to be the employer, or unless government is prepared to subsidize uneconomic industries indefinitely, 'green jobs' programs cannot overcome that central reality."

Indeed, even the government may agree that the focus on green jobs is wasteful. BLS has announced it will no longer track the number of workers in the production of green goods and services.

"In short, an expanding 'green' sector must be accompanied by a decline in other sectors ... and a creation of 'green jobs' must be acompanied by destruction of jobs elsewhere, says Zycher.

GMO labeling

Last year, California voters barely rejected a measure that would have required all foods made from genetically modified organisms to be labeled as such. "All we want is a simple label/ For the food that's on our table," was a chant commonly used by backers of the proposition. The issue isn't that simple, though, writes *Scientific American*.

Labeling requirements tend to limit options rather than expand choices. After the European Union required GMO labels, GMOs virtually disappeared from grocery stores, even though there's no evidence GMOs are less safe than conventional crops.

A labeling requirement also would raise the cost of food as GMOs are driven out of the market. Conventionally grown crops typically are not as productive as GMOs, requiring more land, water, and other resources. That translates into higher prices for non-GMO crops. A study by Northbridge Environmental Management Consultants estimates that the typical California family could have paid an extra $400 a year had the measure passed.

"At press time, GMO-label legislation is pending in at least 20 states. … Ultimately, we are deciding whether we will continue to develop an immensely beneficial technology or shun it based on unfounded fears," said *Scientific American*. *CJ*

Do We Ever Have Enough?

If you pick up any standard economics textbook, you'll find one of the underlying assumptions of modern economic thought is nonsatiability, which simply means that people always want more of things they like. People want more square footage of living space, more clothes, more tech gadgets, and more food. Indeed, perhaps the most famous economic idea — the "demand curve" — is built around the premise that as the price of something falls, people buy more because more is better.

MICHAEL WALDEN

But the concept of more is better — or stated another way, someone never can have enough — has been questioned in recent years. A big reason is the growing gap between the richest households and everyone else, made famous a couple of years ago by the protests against the "1 percent." Statistics do show that both the incomes of the richest, as well the percentage of all income going to the richest, have increased in recent years. Many criticize the lifestyles of those with the most money and question the worth of their spending on material items.

Certainly not all of the richest spend only on themselves. Bill Gates — who, of course, made his money in the computer world — is famous for establishing a foundation that has funded charitable activities to the total of billions of dollars. Gates is just one example — there are many, many very charitable and giving rich individuals.

Interestingly, the debate over spending and whether there is ever a point where "enough is enough" is not a new one. Indeed, it goes back to the Greek philosopher Aristotle. More recently, the 20th-century economist John Maynard Keynes — famous for being the father of government stimulus plans to fight recessions — argued people would reach a saturation point in their consumption of material goods. That is, he predicted we would eventually attain a point of "enough," after which people would work less and enjoy themselves more.

However, Keynes' prediction appears to have been wrong. Average work hours per person have fallen slightly, but nothing like Keynes anticipated. Many higher-income people actually work more than those lower on the income scale. And clearly our spending hasn't abated.

Why was Keynes wrong? Scholars think he missed a couple of key insights. He didn't anticipate the increasing variety of consumer products and services or even the introduction of totally new products — both of which would drive increased spending. I may not want to have more than one vehicle, but I could desire a different vehicle with more comfort, better fuel efficiency, and more tech options like Bluetooth and voice command. Thirty years ago my monthly cell phone bill was zero, because cell phones didn't exist. Now they do, and I am spending more monthly on my cell phone service than I do on clothes!

Keynes also missed the notion of what I will call "keeping up with the Joneses." It appears that what matters to people is not just their individual living conditions, but also their living conditions relative to the conditions of other households — and importantly to those above them on the income ladder. So as the rich spend more and accumulate more, other folks are motivated to increase spending to "keep up."

There are two reactions to this discussion. One is, "So what?" People will make their own decisions about how much they want to spend and consume, and it is their "right" to do so as long as they don't hurt others in the process and pay for all the resources they use. Any attempt to alter this simply would be meddling into other people's tastes and preferences.

The other reaction is 180 degrees different. Some question the worth of more material consumption and the implications for scarce natural resources. This viewpoint says tax policy should be used to moderate spending and consumption, especially of the rich — perhaps by applying a new national consumption tax that rises with income.

It's often good to "go back to basics" and question long-held views. In economics, one of the most basic is whether "more" is better! *CJ*

Michael Walden is a Reynolds Distinguished Professor at North Carolina State University.

Enforcing the Voter ID Law

The voter identification provision in North Carolina's new election law has drawn considerable attention from across the country. Democrats have, of course, been highly critical of it. They believe the new rules put poorer, younger, and particularly minority voters at a disadvantage since these people are less likely to own the forms of photo ID that will be accepted at the polls — a driver's license, passport, veteran's ID, or tribal card. They generally are the types of citizens who cast their ballots for Democrats.

ANDY TAYLOR

This opposition is not just about political strategy. The legal argument brought by some liberal groups is based on the concept that governments continue to prohibit citizens from exercising their rights based on some demographic characteristic they exhibit such as race or sex. In the case of voter ID, liberals generally don't point to concrete violations of the 14th Amendment's critical "equal protection" clause — "No state … shall deny to any person within its jurisdiction the equal protection of the laws" — but argue the requirement is unconstitutional because membership in a particular collection of individuals is likely to affect a disproportionately large number of them negatively. It does not matter that the regulation affects all citizens evenly or that, in direct response to the specific focus on race, there are no racial barriers to having or acquiring the necessary identification. Liberals tend to look at groups and statistical probabilities rather than individuals and actualities. They believe equality is violated not because the law is inherently unequal but because it presumably exaggerates or does not rectify existing inequalities.

Despite voter ID's popularity with the public, an argument can be made that the state's law is bad public policy. It makes voting more difficult and, theoretically at least, reduces participation in the process of determining who will make the decisions citizens must live by. We can argue over how much of a hurdle has been erected. Imposing voter ID rules in other jurisdictions has not reduced materially the proportion of eligible voters who cast ballots. But there is no doubt that, even if minimal, an obstacle exists.

We also can argue whether this is a proper price to pay to maintain the integrity of elections. In our simple plurality, winner-take-all elections, an illegitimate vote for a candidate negates a legitimate one for his opponent, effectively disenfranchising the individual who cast it. As U.S. Supreme Court Justice John Paul Stevens wrote for the majority in a 2008 case involving Indiana's voter ID law, *Crawford v. Marion County Board of Elections*, the state has a legitimate interest in combating fraud and maintaining public confidence in the democratic process. And while voting irregularities occur, we have little evidence that they are as problematic as some proponents of photo ID suggest.

If you believe, as I do, that rights belong to individuals, it is much harder to argue the current voter ID provision is intrinsically unconstitutional. It applies to all who are eligible to vote under ex ante rules (that are presumably fine with everyone). As Justice Antonin Scalia described the Indiana approach in his concurring opinion in *Crawford*, it is a "generally applicable, nondiscriminatory voting regulation." If the need for photo identification might be more of a burden to one voter than another, so might the varying distances citizens live from polling places. In Stevens' ruling, the only way such a law can be unconstitutional is if it suppressed voting generally. That is an unknown at the moment, although as I noted above, the experience of other states suggests it wouldn't.

Still, a law that should have an even effect across a large population might not be administered in that way. What happens if large numbers of voters are not asked for identification while millions of others are? In smaller precincts, election workers who know many voters as their friends and neighbors will not ask for proof of identity. What happens if people are charged inadvertently for obtaining a photo ID they need only for the purposes of voting? The new law is designed to prevent that from happening, but the procedure is so complex it could occur quite frequently, effectively subjecting an individual to an unconstitutional poll tax. These situations seem perilously close to violating constitutional principles of equal protection. Given the complexity of the law, continued resource constraints on election administration, and the new relaxed restrictions on partisan inspectors at polling places, constitutionally suspect unequal application of the voter ID requirement is likely to occur and will be reported.

There is nothing legally problematic about requiring voters to produce a photo ID as they cast their ballots. But we need to make sure the regulation is implemented fairly and evenly if we are to give the Constitution's equal protection clause the respect it deserves. *CJ*

Andy Taylor is a professor of political science at the School of Public and International Affairs at N.C. State University.

Medicaid and Obamacare

Before Obamacare, before individual mandates, before exchanges, there was Medicaid.

Started in 1965 under President Johnson as part of his War on Poverty, Medicaid extended health insurance coverage to low-income Americans.

Today, Medicaid is the largest publicly funded insurance program in the country. It serves low-income families, the elderly, and disabled.

BECKI GRAY

One In five Americans is on Medicaid, more than a third of the births in the United States are covered by Medicaid, and one-fourth of U.S. children get health care through Medicaid.

Medicaid covers one in nine North Carolinians — 1.6 million of us — and 51 percent of births are covered by Medicaid, the sixth-highest rate in the nation.

Medicaid is funded jointly by the state and federal governments. North Carolina's share of the program is about $3 billion, while total Medicaid spending in N.C. is closer to $14 billion.

Medicaid spending has grown 90 percent over the last decade and is the fastest-growing part of our state budget, with spending rising by 15 percent in 2011-12; 16.8 percent in 2012-13; and a projected 17.2 percent in 2014-15.

North Carolina's Medicaid costs are the highest in the South and among the highest in the nation. We have more people enrolled and spend more per patient than neighboring states. Twenty-five percent of the state's primary care physicians aren't accepting new Medicaid patients, limiting access, reducing health outcomes for patients, and driving up costs.

Uncontrolled expenses result in consistent budget overruns. Just this year, legislators faced a $400 million shortfall. Since Medicaid is a federal entitlement program, it has to be funded before anything else. Medicaid is the biggest driver of state budget decisions, crowding out other priorities.

Recent audits disclosed that our Medicaid administrative costs are significantly higher than in other states and consistently exceed budgeted amounts for contractual administrative services, with little to no attention paid to cost containment.

And then there's fraud. In 2010 the Government Accountability Office released a report identifying $48 billion "improper payments" nationally. That's nearly 10 percent of the $500 billion annual expenditures.

Medicaid was poorly managed before the McCrory administration took over. But recent personnel issues and glitches with the rollout of the NC FAST and NC TRACKS computer systems have highlighted problems with Medicaid that must be tackled now.

The General Assembly's 2013-15 budget authorized the administration to establish a Medicaid Reform Advisory Group to propose fixes for the program.

Medicaid can be reformed to be pro-patient and pro-taxpayer. Sensible proposals include allowing comprehensive medical providers to compete for patients, allowing individualized plans with subsidies based on need, and focusing provider payments on improvements in patients' health.

Then there is Obamacare. The Affordable Care Act relies on increasing Medicaid enrollment, leaving a healthier and less-poor population to join the health exchanges. Obamacare writers assumed that mandating states to increase the income eligibility of Medicaid recipients from 100 percent of the federal poverty level to 138 percent would shift more people into Medicaid. They did not, however, anticipate the Supreme Court would reject the mandate. Nor did they anticipate that even with a federal offer to pay 100 percent of the costs for a year, more than half the states (including North Carolina) would decline to expand Medicaid.

But the Medicaid rolls will grow. The court did not strike down the portion of the law enrolling in Medicaid all children age 6 to 18 in households earning less than 138 percent of the poverty level. In North Carolina, 51,000 kids will move from the state-sponsored Children's Health Insurance Program to Medicaid. The initial cost to N.C. taxpayers: $50 million.

And this is just the beginning.

Medicaid has been called the anchor of the Affordable Care Act. The question becomes: Will it sink or save the American health care system? *CJ*

Becki Gray is vice president for outreach at the John Locke Foundation.

FLOTUS: N.C. State Fair Must Serve Healthier Food (a *CJ* parody)

By King Vitaman
Culinary Correspondent

RALEIGH

An obscure provision in the federal Affordable Care Act has forced the North Carolina State Fair to replace traditional food offerings such as funnel cakes and corn dogs with healthier products, with an emphasis on locally grown foods.

U.S. Secretary of Agriculture Tom Vilsack said the state was required to follow a menu created by the Obama administration after Gov. Pat McCrory and the General Assembly refused to create a state-run exchange to handle medical insurance enrollments under Obamacare.

In an email to *Carolina Journal*, a spokesman for Vilsack wrote:

> *First Lady Michelle Obama insisted on this requirement for all states participating in the federal exchange.*
>
> *The secretary has the authority to designate a representative to oversee menu items at state fairs, and the First Lady agreed to take care of these duties.*

Mrs. Obama, a gardening enthusiast, came up with a specific list of healthier foods that she feels are fitting substitutes for the unhealthy food items commonly seen at the North Carolina State Fair.

She specifically has ruled out such traditional treats as sweet tea, nachos, sausage sandwiches, ribs, barbecue, fried macaroni and cheese, deep-fried Twinkies, Krispy Kreme cheeseburgers, and the aforementioned corn dogs and funnel cakes.

State Fair goers this year will find that many of their favorite fair food choices are no longer available, replaced by healthy alternatives mandated by the First Lady. (CJ spoof photo)

In their place she has mandated fresher and healthier alternatives such as carrot juice, wheat grass smoothies, tofurkey lettuce wraps, turnip and rutabaga skewers, arugula chips, and kale on a stick.

Two menu items will survive the new federal mandates, albeit in modified forms: pizza and turkey legs. Rather than offer cheesy, deep-dish pies with pepperoni and other meaty toppings, though, pizzas at the fair must be served on rustic, whole-grain crusts on a bed of goat cheese. The allowable toppings include spinach, artichoke hearts, heirloom tomatoes, and eggplant — all grown by local farmers. Moreover, in a nod to green energy, the pizza ovens must be heated with solar power.

"We did a trial run with a solar pizza oven, and it took about five hours to bake a pizza, but we're sure our visitors will find it worth the wait," said Sarah Ray, a spokeswoman for the fair. "Gov. [Pat] McCrory also was thrilled to see the solar ovens, because he said they would boost his plans to expand renewable energy use in the state."

As for the turkey legs, they must be broiled rather than fried, and originate from free-range, grass-fed birds. Legs from wild turkeys are allowed only if the vendor can certify that the turkey is from a so-called heritage breed — one of the breeds that was prevalent before the advent in the 1950s of large turkey farms.

State Agriculture Commissioner Steve Troxler told *CJ* he "didn't know what to make of all these new foods. The stuff inside the lettuce wraps can drip all over your clothes, and I've never seen such a scrawny pile of turkey legs. … Still, it's better to serve all this than be stuck in Obamacare."

Each vendor at the fair will be subject to an individual mandate that restricts their offerings to a specified amount of sugar, fat, cholesterol, nitrates, and sodium. FDA inspectors will set up a lab on the fairgrounds to test each and every food item put up for sale.

"They tell us this will be a minor inconvenience," Troxler said, "but the wait times for analysis by the lab are expected to be very long."

Troxler said he suggested a better way of dealing with the content of food sold at the fair. "Why can't we do it the way we always have: Let people eat what they want, and then when they pass it they can see what's in it." *CJ*