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13 Ways of Looking at a State Lottery
Plus: Public School Reform in North Carolina





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The Center was formed in 1977 by a diverse group of private citizens "for the purpose of gathering, analyzing, and disseminating information concerning North Carolina's institutions of government." It is a nonpartisan organization guided by a self-elected Board of Directors and has individual and corporate members across the state.

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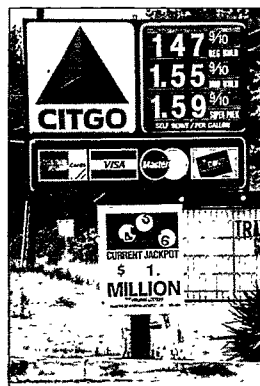
Laurita Ray
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EDITOR
Mike McLaughlin

GRAPHIC DESIGN
Carol Majors

PRODUCTION
Publications
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13

Ways of
Looking
at a
State Lottery

(WITH APOLOGIES TO THE POET,
WALLACE STEVENS)



by John Manuel

Executive Summary

The history of public lotteries in the United States goes all the way back to the American colonies, which used a lottery to help support troops during the Revolutionary War. Since then, lotteries have periodically surfaced as a means of providing money for education and other purposes—particularly in times of war or soon after, when public dollars were scarce. Soon after the Revolutionary War, Yale, Harvard, and the University of North Carolina at Chapel Hill tapped temporary lotteries to construct college dormitories, including UNC's South Building. Another round of lotteries surfaced after the Civil War. But these early lotteries were project-related. They tended to wither when the buildings were built or when public scandal forced officials to abandon them as a revenue source. They were not sources of continuing funding of governments, and tickets were pricey for the times—aimed at the wealthy rather than the typical day laborer.

Today, the lottery picture is somewhat different, as 37 states and the District of Columbia operate some type of lottery. Funds from these lotteries are either earmarked for various state government programs or go directly into general funds for any state program.

North Carolina is among the 13 states that do not operate a lottery, although bills to create a lottery have been introduced in the legislature every session since 1983. State lawmakers have raised moral, political, and practical objections to the lottery, but a series of events in neighboring states has renewed the hopes of lottery supporters and placed additional pressures on the state to act. Georgia lent new drive to the lottery with its Hope Scholarship Program. Both Alabama and South Carolina elected Democratic governors on the promise of a lottery vote (though the lottery was ultimately defeated in a public referendum in Alabama). And since the founding of the Virginia lottery in 1988, North Carolina citizens have streamed across the state line to purchase lottery tickets, spending an estimated \$86.5 million there in the 1998–99 fiscal year, according to spokespersons for the Virginia lottery. Mike Easley, the Democratic gubernatorial candidate in 2000, supports a citizen referendum on a state lottery with the proceeds going to reducing class size in the public schools and to a pre-kindergarten program for at-risk children. On the Republican side, gubernatorial candidate Richard Vinroot opposes the lottery but has said he wouldn't veto a bill submitting a lottery to a voter referendum.

With the lottery a key issue in the 2000 governor's race and the General Assembly perhaps considering lottery legislation in its 2001 session, the North Carolina Center for Public Policy Research decided the time is ripe for another in-depth discussion of state lotteries. The Center last looked at this question in 1985. The Center now has developed 13 research questions on issues ranging from whether lotteries are a reliable revenue stream to whether they promote compulsive gambling.

According to the latest survey, only seven of the 38 states (the District of Columbia included) allow lottery funds to flow directly to the state's general fund. The remainder earmark funds for particular programs, with 20 of the 31 states that earmark directing all or part of their revenues for education. As a percentage of total state budgets, the revenue from lotteries is small, ranging from 0.33 percent (\$6.3 million) in Montana to 4.07 percent (\$558.5 million) in Georgia. In 1997, total revenues from 37 lottery states and the District of Columbia amounted to 2.2 percent of general revenue collected by those jurisdictions. And, taken as a percentage of total state revenues, lottery revenues are declining. In 1989, the mean percentage of the total state budget provided by lotteries for the 29 states then participating was 3.7 percent. By 1997, the figure for those same states was 1.9 percent. It appears that after decades of remarkable growth, lottery sales are slipping nationwide. Some experts cite "jackpot fatigue"—a need for ever-higher prizes to attract public interest. Others cite competition from other forms of gambling.

To encourage participation in the games, states market lotteries heavily. Marketing includes the number and type of games instituted as well as advertising and promotion. Beyond the initial cost of purchasing and setting up gaming equipment, on-going marketing costs primarily are those associated with media advertising (such as television, radio, and billboard ads) and non-media promotion strategies. States differ in what they count as marketing costs, but on average, these expenditures account for about 1 percent of lottery sales. However, there is a broad range. For fiscal year 1997, marketing costs ranged from 0.02 percent of lottery sales in Massachusetts to 3.6 percent of sales in Montana. Actual dollars spent for marketing ranged from \$650,000 in Vermont to \$59 million in New York.

In promoting lotteries, legislative proponents typically assert that lottery revenues will enhance funding in certain program areas such as education—the primary beneficiary of state lottery dollars nationally. However, there is no guarantee that lawmakers will not merely substitute lottery revenues for normal levels of appropriations. Author Pamela Allen, writing in Education Policy, concluded that normal levels of appropriations for education were merely supplanted

by lottery funds in California, Florida, Michigan, and Illinois. The substitutions came despite the fact that lotteries in all four states were promoted as boosting funding for education. A 1996 study by Money magazine found that state spending for education as a percentage of total state budgets had remained relatively unchanged during the 1990s—about 50 percent for lottery states and 60 percent for non-lottery states. A 1998 study focusing exclusively on Florida found the state now spends less per student on public education than before the lottery was instituted—about 35 cents of each tax dollar compared to 40 cents on the dollar prior to establishment of the lottery. On the other hand, a July 2000 analysis published by State Policy Reports indicated that lottery states spend more per student, on average, than non-lottery states. Lotteries that direct funds to a narrowly prescribed program or project—such as Georgia's Hope Scholarship Program—are more successful in enhancing funding for education.

Critics contend that the lottery preys on the poor, though lottery advocates dispute this contention vigorously. On the whole, lottery play is spread evenly across almost all income groups. However, research indicates that low-income players spend a higher proportion of their income on lottery tickets than do players who earn more. The amount of money players spend drops sharply as education levels increase. High school dropouts who play the lottery are by far the biggest spenders. African Americans who play spend more than other racial groups. Other socioeconomic groups that play heavily include males, Hispanics, Catholics, laborers, and the middle-aged generally.

As to other social problems often associated with the lottery, research indicates that lotteries are less likely to contribute to problems with compulsive gambling than other forms of gambling. However, there is evidence that lotteries provide an avenue for minors to gamble, even though it is illegal for minors to play in all states with a lottery.

There are many different ways of looking at a blackbird and at state lotteries. Some believe the lottery panders to human weakness, and the state should not operate a lottery—no matter what. Others see the seemingly inexorable march of lotteries from state to state and believe participation by North Carolina ultimately is inevitable to stanch the flow of dollars across state lines. Still others believe the lottery to be a relatively harmless form of entertainment and an easy way to capture a relatively small amount of revenue without raising taxes. The lottery raises anew a time-honored question: How should the government raise money and how should the burden of financing government services be spread fairly among the citizens? Ultimately, the state faces a key policy decision as to whether to adopt a lottery. The Center believes the state's citizens should make an informed choice.

Lotteries have had a long history of financing education and public works in America. The American colonies used them to support their troops during the Revolutionary War. Yale, Harvard, and the University of North Carolina at Chapel Hill used them to finance the construction of college dormitories, including the venerable South Building on the UNC campus, before lotteries were banned in the state on religious and moral grounds in 1834.

Today, state lotteries are back with a vengeance, thanks to the financial needs of state government. Thirty-seven states plus the District of Columbia operate some form of lottery, netting revenue in excess of \$12 billion annually, revenue which goes to pay for ongoing state programs.

Not every state, however, sees the lottery as an unmitigated blessing. In North Carolina, lottery bills have been introduced to the General Assembly every session since 1983, when lottery proponents nearly got a bill through the Senate on their first try. Senate Bill 275 passed second reading in the Senate by a 26–21 vote and seemed to be headed for approval before a few well-placed calls from Zebulon Alley, then Governor Jim Hunt's lobbyist, succeeded in killing it.¹ A coalition of liberal Democrats and conservative Republicans has been fending off lottery bills in the legislature ever since, allied against more moderate compatriots of both parties who might favor the lottery to provide funding for favored programs such as public education or infrastructure improvements or to mitigate tax increases. All of the bills have been structured similarly, with 34 percent of revenue going to the state as profit, 50 percent to the players as prizes, and the remaining 16 percent to operating costs.

Hunt, now in his fourth term as governor (1977–85 and 1993–2001), has himself softened his position on the lottery, saying he has personal reservations but would favor allowing the people to vote on the issue. If the vote were favorable, Hunt would want most of the proceeds to go to education, according to his press office.

But though pundits responding to various fiscal crises have more than once declared, "This is the year of the lottery" for North Carolina, the political cards have never fallen just right for lottery proponents. The Senate has passed three different lottery bills but has seen them die in the House without ever being discussed on the floor. (See "Recent Legislative History of the Lottery in North Carolina," p. 10, for more.)

Former House Speakers Dan Blue (D-Wake), who held the office from 1991–94, and Harold

Brubaker (R-Randolph), speaker from 1995 to 1998, both staunchly opposed a lottery and made sure it remained buried in hostile House committees. Three lottery bills were introduced in the 1999–2000 General Assembly. Current Speaker Jim Black (D-Mecklenburg) says he would not prevent a floor vote on the lottery but wants it to be an informed vote. With that in mind, in the spring of 2000 Black appointed the 24-member House Select Committee on the Lottery. "I have said repeatedly that I want the lottery fully debated and understood before any House vote," says Black. "This select committee will ensure that those discussions take place."²

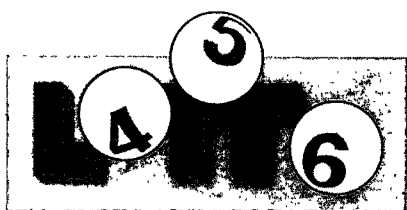
The committee met once before the 2000 session of the General Assembly but did not report. Yet another "year of the lottery" has passed without the General Assembly acting on the matter, but the debate is far from over and may soon intensify, as the lottery has found new friends in gubernatorial politics.

The lottery has been loudly condemned in the Tar Heel press and pulpit, attracting opposition from groups as diverse as the liberal Common Sense Foundation and the conservative N.C. Family Policy Council. (For excerpts from the editorial pages of North Carolina newspapers, see "Editorial Comments on the Lottery," p. 26.) Opponents include two former governors, Democrat Bob Scott (1969–73) and Republican Jim Martin (1985–93), along with former University of North Carolina President Bill Friday. Other foes include conservative and liberal policy groups such as the John Locke Foundation and the N.C. Budget and Tax Center and religious groups of nearly every stripe. Arrayed against these interests in support of the lottery are the public (if polls in general are to be trusted) and firms that would help to operate a lottery. In addition, the N.C. Association of Educators would support a lottery if all of the proceeds were devoted to education. And legislators say they have heard from some Parent-Teacher Association members who would support the lottery if the funds went to education.

The lottery also has been discussed among some environmental groups since past proposals have included support for environmentally friendly causes such as the state's Clean Water Trust Fund. So far none have taken a public stance. Business has been largely silent on the issue as well, although some interests—like the state's broadcast media—would likely benefit from lottery advertising.

John Manuel is a free-lance writer living in Durham, N.C.

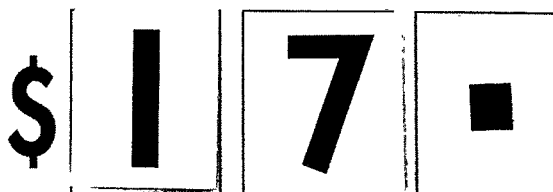
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Karen Tam

Among the concerns of opponents are that a lottery would prey on human weakness, that it would hurt the poor who would spend more than they could afford, and that it would weaken the family by encouraging compulsive gambling. And no matter their politics, there are those who believe the state operations should be financed by fairly imposed, broad-based taxes rather than games of chance.

Despite these arguments, the issue remains very much alive, thanks in part to its popularity with the broader public, many of whom just want to play the game. From the California Gold Rush to the current fascination with the television hit, "Who Wants To Be a Millionaire?", Americans have long been intrigued with the prospect of getting rich quick. The lottery feeds on that kind of thinking. As one lottery promotion put it, "All You Need Is a Dollar and a Dream." The lottery issue assumed importance in recent gubernatorial campaigns in Alabama and South Carolina, where Democrats won election on the promise of a lottery referendum. Previously, support for a lottery had helped elect Democratic governors in Georgia and Kentucky.³ This trend did not go unnoticed in Tar Heel political circles.

In North Carolina's 2000 Democratic primary

election, gubernatorial candidates Attorney General Mike Easley and Lieutenant Governor Dennis Wicker built much of their campaigns around support for a state lottery. The three Republican candidates—Rep. Leo Daughtry (R-Johnston), former Rep. Chuck Neely (R-Wake), and former Charlotte mayor Richard Vinroot—all opposed the lottery, and Daughtry and Neely went so far as to sign a pledge indicating that if elected, they would veto any lottery legislation. Vinroot said he personally opposed the lottery but would allow the public to vote in a referendum. Easley and Vinroot won their respective party primaries, and the lottery will be an issue in the November 2000 gubernatorial race.

A lottery bill was never brought up for a vote in the 1999–2000 session of the General Assembly, but the gubernatorial race keeps the issue alive and creates a strong possibility that the legislature will revisit the lottery question in 2001. Additional pressure may come from a decision by South Carolina voters, who face a yes or no question on the lottery in the November election. Current polls indicate that if such a referendum were held in North Carolina, 70 percent of citizens would vote in favor of the lottery, though lottery opponents would wage a fierce fight against it that could erode support. Such a situation occurred in Alabama, where

"And having myself made it a rule never to engage in a lottery or any other adventure of mere chance, I can, with less candor or effect, urge it on others, however laudable or desirable its object may be."

—THOMAS JEFFERSON

"AN ACADEMICAL VILLAGE"

THE WRITINGS OF THOMAS JEFFERSON,
LETTERS 1810

polls in August 1999 showed 61 percent favored a lottery but voters rejected it in a November referendum, 54 percent to 46 percent.

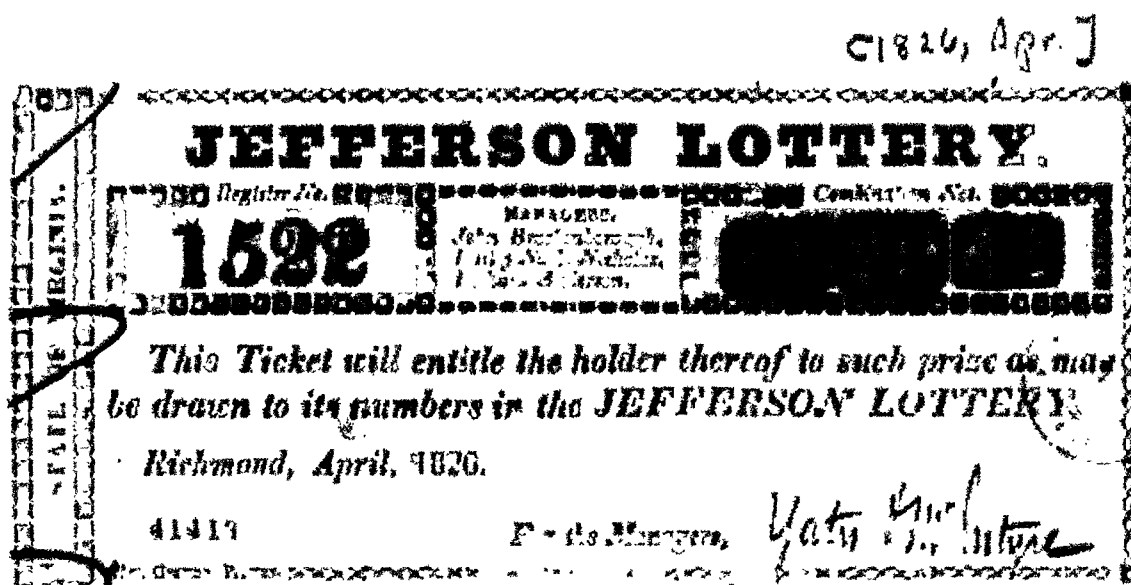
Given the controversial nature of this subject, many legislators would no doubt prefer to put the decision in the hands of the citizens, or otherwise avoid voting on it. But policymakers and citizens should have an understanding of the potential economic and social costs and benefits of a lottery and of the different ways a lottery can be administered. Thanks to more than two decades of research on state lotteries in the U.S., there is a wealth of information at hand.

A Brief History

America's involvement with gambling started in 1607 when settlers at the struggling Jamestown colony petitioned the English Parliament to conduct a lottery in England to support their venture. Even Thomas Jefferson, who in one instance wrote that he "made it a rule never to engage in a lottery or any other adventure of mere chance,"⁴ in the end proposed to sell off portions of his estate through a lottery in order to prevent his heirs from assuming a ruinous debt.⁵ In writings that attempted to justify his lottery proposal, Jefferson mused, "[I]f we consider games of chance immoral, then every pursuit of human industry is immoral, for there is not a single one that is not subject to chance."⁶

Historians cite three waves of lotteries in the U.S. The first, extending from 1607 to 1820, was spurred by the need to finance the Revolutionary War and, later, to provide funding for colleges, capital projects, and private charities. The first wave of lotteries included North Carolina and partial financing of South Building at the University of North Carolina at Chapel Hill. Other beneficiaries of Tar Heel lottery dollars included various civic projects such as the Craven County poor house and even churches in Brunswick and Wilmington.

These early lotteries were project-related—not a source of continuing funding of governments. In



addition, they tended to appeal to the wealthy, since tickets cost more than the average day laborer could afford. The demise of this wave was caused by scandals involving fraud by lottery operators and by the adoption of more stable revenue sources, such as excise taxes.

The second wave of lotteries, running from 1868 to 1895, was spawned by the Civil War, and was employed primarily by the Southern states to finance the rebuilding of infrastructure destroyed during the war. This wave died out due to a major scandal in Louisiana and to a nationwide protest against the use of mails for gambling.

The third wave began in 1964 and continues to the present. It is associated with the demands on government, particularly state government, to provide an increasing array of social services and educational support. In the face of mounting fiscal pressures, 37 states (starting with New Hampshire) and the District of Columbia have initiated lotteries to help support these services.

By most accounts, lotteries remain popular in the states that have adopted them, although the recent defeat of a lottery referendum in Alabama and demise of video poker in South Carolina indicate that the spread of lotteries is not inevitable. Alabama voters defeated a lottery referendum in 1999 by a vote of 54-46 percent, despite a strong push for passage by Governor Donald Siegelman, who was elected on the promise of holding a referendum on a lottery. North Carolina now is bordered

by states on the north (Virginia) and far southwestern corner (Georgia) that have lotteries. These attract a sizable number of North Carolina citizens as players, adding weight to the argument that we should adopt a lottery if for no other reason than to "keep our dollars at home." A South Carolina lottery would attract still more North Carolina players. There are many arguments for and against lotteries that make the process of deciding a complex one.

Arguments For and Against

Throughout history, people have expressed ambivalence about state-supported gambling. The U.S. has gone through successive waves of acceptance and revulsion, driven by the vicissitudes of economics, politics, the states' need for revenues, and the moral temperament of the times. In his book, *State Lotteries and Legalized Gambling: Painless Revenue or Painful Mirage?*, Boston College economics professor Richard McGowan states:

"The current controversy in the United States about lotteries and government's role in the gambling industry is merely a continuation of a debate that began in the 1600s with the founding of colonial America. This debate has always contained both economic and political elements that cannot be addressed separately. For the question that public policy officials face when they are dealing with the lottery question and gambling in general is: Does the revenue from the lottery or gambling justify the state's 'tolerance' of 'the necessary evil'?"⁷

In North Carolina, arguments for and against the lottery have raged back and forth in the pulpits and the press. The majority of editorial stances, as well as those publicly avowed by legislators, appear to be against the lottery. Yet newspaper polls show that a majority of North Carolina citizens are in favor of it. The latest "Your Voice Your Vote Poll," conducted for a coalition of North Carolina newspaper and broadcast outlets in January and February of 2000 to help guide coverage of the 2000 elections, found 70 percent of respondents favor a state lottery if the proceeds are used for education. This is consistent with previous polls that typically show support of 60 to 70 percent. (For more on this issue, see "What the Polls Say About Public Support for a Lottery in North Carolina, p. 42.) All these polls, however, were conducted in the absence of an organized campaign to turn the public against a lottery. Clearly, each side

"[I]f we consider games of chance immoral, then every pursuit of human industry is immoral, for there is not a single one that is not subject to chance."

—THOMAS JEFFERSON

"STATEMENT AND NOTE ON LOTTERIES,"

1826

Recent Legislative History of the Lottery in North Carolina

At least one lottery bill has been introduced in every session of the General Assembly since 1983. For the superstitious reader, that's nine sessions and nine lives for the lottery. These bills have typically sprung from the Senate, although there are a couple of House bills in the lot. As a body, only the Senate has taken a vote. Lottery bills in the House have rarely emerged from committee, and there are only a few instances of recorded votes on the floor of either chamber.

All of the bills were written by the same person, Kenneth S. Levenbook of the legislature's Bill Drafting Division, and all call for a public referendum on whether to institute a lottery. Most have been structured similarly, with 50 percent returned to the players in prizes, 34 percent to the state as profit, and the remainder devoted to various expenses. The bills have been tweaked subtly over the years to reflect issues that surface nationwide regarding how lotteries are run, Levenbook says. Under the current versions, for example, odds must be posted at retail outlets and cartoon characters that might appeal to minors cannot be used in advertising. While the 1983 bill would have devoted the revenue to education, some bills would have pumped the profits straight into the general fund, while others would have funded various capital projects.

What follows is a brief history of lottery legislation that has been debated on the floor of the House or Senate since 1983, courtesy of Levenbook.

- 1983: Senate Bill 275, introduced by Sen. Richard Barnes (D-Forsyth), passed second reading May 12, 1983, but failed a third reading 26–21.
- 1985: Senate Bill 532, introduced by the late Sen. Kenneth Royall Jr. (D-Durham), passed second reading by a 24–19 vote July 9, 1985. The bill failed to advance on third reading when the Senate deadlocked 24–24, and Lieutenant Governor Bob Jordan declined to vote.
- 1989: Senate Bill 4, introduced by Royall, passed third reading in the Senate, 24–19, on August 7, 1989, and was sent to the House. There, the bill was referred to the House Rules Committee and no further action was taken.
- 1991: Senate Bill 2, again introduced by Royall, passed third reading in the Senate 28–19 on June 13, 1991, by a 29–18 vote. The bill was referred to the House Finance Committee but never emerged from committee.
- 1993: Senate Bill 11, introduced by Sen. George Daniel (D-Caswell), passed third reading in the Senate on June 9, 1993, by a vote of 25–21. Again, the bill died in a House committee, this time the Committee on Constitutional Amendments and Referenda.
- 1995: House Bill 838, introduced by Rep. Toby Fitch (D-Wilson), received some discussion on the floor of the House in July 1995. Ultimately, the bill was referred to the House Judiciary II Committee, where it received an unfavorable report in June 1996.
- 1995: Senate Bill 624, sponsored by Sen. J.K. Sherron Jr. (D-Wake), failed second reading in the Senate by a vote of 19–27 on July 10, 1995.

According to Levenbook, no other lottery bills have been considered by either body *on the floor* since 1995. And while the lottery has its proponents in the House, the legislative history reveals that most of the action has been in the Senate. That much is unlikely to change unless the political makeup of the two chambers changes. Besides this history of support, the Senate has a larger Democratic majority (35–15 in the Senate vs. 66–54 in the House), and the Democratic nominee for Governor in 2000 is featuring the lottery as a key part of his campaign platform.

—Mike McLaughlin

of the lottery debate has some merit. The **arguments for a lottery** can be summarized as follows:

1. The lottery amounts to a voluntary tax, a painless way to gain additional revenue. Estimates are that North Carolina would raise \$300 million the first year after expenses and prizes.
2. Public opinion polls show that a majority of North Carolinians want a lottery. People should be allowed the freedom to play if they so chose. There is no need for the state to play big brother.
3. Lotteries have been used to raise money throughout the history of this country, including in North Carolina, and society has not fallen into ruin. Quite the contrary, the lotteries proved invaluable in financing wars, as well as education and infrastructure.
4. Thirty-seven states, including the neighboring states of Virginia and Georgia, now offer lotteries. North Carolinians are traveling to these states to gamble, spending an estimated \$86.5 million in the 1998–99 fiscal year on lottery tickets in Virginia alone, according to spokespersons for the Virginia lottery.⁸ That money could be staying in North Carolina. After deducting prize and expense money, about a third of the \$86.5 million went to support state government programs in Virginia.
5. Lottery revenues can be earmarked for socially acceptable purposes. The bills introduced in the 1999–2000 North Carolina legislature would use lottery receipts to fund college scholarships, to expand the preschool program Smart Start, to put technology into public schools, and to bolster the Clean Water Trust Fund.
6. There is little evidence that modern-day, state-sponsored lotteries are corrupted by criminal elements.
7. North Carolina already allows gambling in the form of religious and nonprofit-sponsored bingo games and raffles with proceeds going to charity. In addition, there is casino video gambling on the Cherokee Indian Reservation in Western North Carolina.

The **arguments against a lottery** are equally numerous. They include the following:

1. The state should not be sponsoring gambling, a widely recognized societal evil. The lottery

will encourage teenagers and others to participate in gambling.

2. Lotteries on average generate only about 2.2 percent of state revenues, hardly worth the expense to market and administer them.
3. Lottery revenues drop over time, forcing the states into ever-more aggressive marketing and ever-more cunning games.
4. States should raise money honestly through the tax system to generate revenues for perceived needs.
5. Studies show that as a percentage of household income, poorer people spend more money on lottery than people in higher income brackets. In effect, the lottery is a regressive tax.
6. Lotteries do not necessarily increase the amount of money states spend on programs earmarked for lottery revenues, such as education. On the contrary, states without a lottery spend a greater portion of their budgets on education than states with lotteries earmarked for education.
7. Lottery sales do not increase retail sales. On the contrary, dollars spent on lottery tickets are dollars not spent on retail goods.

To help sort out these different arguments, the N.C. Center for Public Policy Research has identified a list of a lucky 13 key questions to which lawmakers and citizens should have answers before voting on a lottery. In recent years, a number of comprehensive studies have been conducted that analyze the experience of other states with lotteries. Their findings provide a picture of what North Carolina would be likely to experience should the state adopt a lottery, as well as options for how to structure a lottery should the state decide to proceed.

II

I was of three minds,

Like a tree

In which there are three blackbirds

—WALLACE STEVENS

“THIRTEEN WAYS OF LOOKING AT A BLACKBIRD”

For what programs do states earmark lottery revenues, and what are examples of program accomplishments funded by lotteries?

1

Key up the Web pages on computer for state lotteries such as Pennsylvania's (www.palottery.com) or Georgia's (www.ganet.org/lottery), and along with the bold come-ons to play the lottery will be subtexts reading "Benefits Older Pennsylvanians" or "HOPE Scholarships Available." These subtexts are references to the "good causes" for which lottery revenues are earmarked after subtracting administrative costs and awarding prizes. In Pennsylvania, revenues are distributed among programs for the elderly and for mass transit and ride-sharing programs. In Georgia, the bulk of revenues are earmarked for the HOPE Scholarship program, which provides scholarships for qualified students wishing to attend a Georgia public college or university.

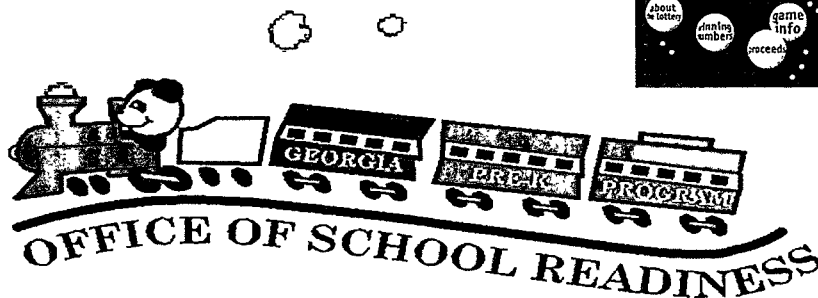
Earmarking of funds is one method of generating public support for lotteries. Rather than throwing money into the general fund to be spent on anything in the state budget, funds are earmarked for specific programs or projects that proponents think the public wants. According to the latest published data from *La Fleur's 2000 World Lottery Almanac*, the leading source of trade information on lotteries, only seven of the 38 states (the

District of Columbia included) put lottery revenues exclusively into the general fund.⁹ (See Table 1, p. 14.) Six other states direct part of their earnings to the state's general fund, but most earmark funds for specific programs or projects. Of the 31 states that earmark funds, 20 direct all or part of their revenues to education. The rest include a range of programs from parks and recreation to police and firefighters' pensions.

Asked to cite examples of successful programs funded by state lotteries, policymakers and academicians invariably point to Georgia's HOPE Scholarship Program. Established by Democratic Governor Zell Miller in 1993, the HOPE Scholarship Program provides any in-state student wishing to attend a Georgia public college or university with full tuition, mandatory fees, and a \$150-per-semester book allowance, provided that the student graduates from high school with a "B" average or higher. Students must maintain a "B" average in college to retain the scholarship. Students wishing to attend a Georgia public technical institution also are provided full tuition, mandatory fees, and a \$100-per-quarter book allowance. Those wishing to attend a private college in Georgia are eligible for a \$3,000 per year scholarship plus a \$1,000 Georgia Tuition Equalization Grant.¹⁰

As of September 1998, Georgia had awarded more than \$580 million in HOPE Scholarship grants to 319,000 students. The National Association of State Student Grant and Aid Programs now

Among the programs supported by the Georgia Lottery is the Office of School Readiness. Services include Pre-K, Head Start, Child Care Services, Child and Adult Care Food Program, Summer Food Program and Training.



ranks Georgia number one in the nation in student financial aid, with 77.9 percent of undergraduates receiving aid. North Carolina ranks 23rd, with 19.8 percent of undergraduates receiving aid.¹¹ As for percentage of students receiving need-based aid, Georgia ranks 49th at 0.7 percent, while North Carolina ranks 36th at 6.8 percent. In 1996, President Clinton modeled his America's Hope program, a tax credit for the cost of two years of education beyond high school, on Georgia's HOPE program, though he did not propose a national lottery to pay for the program. Instead, the funds would come out of general federal revenues.

The HOPE Scholarship Program has been criticized in North Carolina editorial columns for allegedly relying on the poor—who spend a disproportionate share of their income on the lottery—to shoulder the college costs of the more affluent. The program has also been criticized for not making scholarship money available to students who receive federal Pell grants—need-based scholarships awarded to students from low-income households. Recent news reports also state that 75 percent of students from Atlanta, Ga. and 64 percent of scholarship recipients statewide lose their HOPE scholarship after their freshman year of college.¹² Students who lose their scholarship in their freshman year cannot regain eligibility through improved academic performance until their junior year.

Moreover, the North Carolina Budget and Tax Center points out that a HOPE-style scholarship program for North Carolina would supplant federal tax credits already available for qualifying families with students in college.¹³ Currently, qualifying families with students enrolled in their first two years of college are eligible for a 100 percent federal income tax credit on their first \$1,000 of tuition and fees and a 50 percent credit on their second \$1,000 in tuition and fees. While some families are not eligible—those earning incomes small enough to be eligible for low-income grants and those with incomes above \$100,000, the scholarships would replace much of the tax credit for many North Carolina families, and the loss of the federal subsidy would be “substantial.”

However, the HOPE Scholarship Program is popular in Georgia. In-state college attendance rates for high school graduates who enroll in state universities the following fall have increased from 27.5 percent in 1992, the year before HOPE scholarships were instituted, to 30.7 percent in 1997, according to Sue Sloop, assistant director of research for the Board of Regents of the University System of Georgia. It should be noted, however, that other forces

“[T]he question public policy officials face ... is: Does the revenue from the lottery or gambling justify the state's ‘tolerance’ of ‘the necessary evil’?”

—RICHARD MCGOWAN,

***STATE LOTTERIES AND LEGALIZED GAMBLING:
PAINLESS REVENUE OR PAINFUL MIRAGE?***

may have been at work. During the same time period, North Carolina, minus any HOPE scholarship program, saw a similar increase in its high school graduates enrolling in state universities the following fall. In 1992, 25.5 percent of graduating high school students enrolled in state colleges and universities, while in 1997, the figure was 30 percent, according to the University of North Carolina General Administration office in Chapel Hill, N.C.

Nevertheless, in 1998, Georgia voters passed a constitutional amendment protecting the HOPE Scholarship Program from legislative and political tampering. The Georgia State Poll, conducted in April 1998 by Georgia State University, asked respondents, “If you could vote today on the Georgia state lottery, would you vote to keep it or discontinue it?”¹⁴ Of 730 respondents, 75 percent said they would vote to keep the lottery, while only 21 percent said they would discontinue it. The remaining respondents did not know or did not answer. The poll had a margin of error of plus or minus 3.6 percent.

Pennsylvania is another state frequently commended for its use of lottery revenues. With 15.83 percent of its population over 65—second only to Florida, Pennsylvania has been faced with the difficult prospect of either trying to raise taxes or finding alternative means of funding to provide services for this sector of the population.¹⁵ The Keystone State chose to initiate a lottery in 1972 and use the proceeds to fund programs in three areas—services for the aged provided through 52 local agencies on aging, a pharmaceutical assistance program for the elderly (PACE), and free and subsidized mass transit and ride-sharing programs. With funds from the lottery, Pennsylvania has provided funds to the elderly totaling \$10.72 billion since 1972.¹⁶

In the 1999–2000 legislative session, North Carolina saw three lottery proposals introduced. Each earmarked lottery revenues, but each differed

—continued on page 16

Table 1. How State Lottery Profits Are Spent by States

State	Dollar Amounts in Millions			Program or Budget Area Receiving Funds
	Total Lottery Revenue for Fiscal Year 1999	Total Lottery Expenses (including prizes, agent commissions, and other expenses)	Lottery Net Income for Fiscal Year 1999	
1) Arizona	\$ 269.16	\$ 188.46	\$ 80.70	A minimum of 30% of all revenues must be directed toward the state's clean air fund, county assistance, economic development, general fund, heritage fund and mass transit.
2) California	2,516.60	1,617.25	899.35	Education
3) Colorado	370.48	285.98	84.50	Conservation trust fund, state parks, capital construction, Great Outdoors Colorado
4) Connecticut	872.82	597.58	275.24	General fund
5) Delaware	527.73	316.60	211.13	General fund
6) District of Columbia	209.51	145.19	64.31	General fund
7) Florida	2,112.97	1,307.19	805.78	Education
8) Georgia	1,957.97	1,309.88	648.10	Education
9) Idaho	91.01	69.56	21.45	Net revenue must be split equally between the public schools and the state permanent building fund.
10) Illinois	1,502.05	976.34	525.71	Public schools
11) Indiana	681.23	477.17	204.05	Education, license plate tax, police/firefighters' pensions, teachers' retirement, economic development
12) Iowa	184.79	139.29	45.51	General fund
13) Kansas	199.89	139.58	60.31	85% of revenue is directed toward economic development, while the remaining 15% is used for prisons.
14) Kentucky	567.39	423.05	144.34	Education, general fund
15) Louisiana	299.01	192.06	106.95	Lottery proceeds fund (appropriated annually)
16) Maine	147.02	107.40	39.62	General fund
17) Maryland	1,080.03	688.45	391.58	General fund, Maryland Stadium Authority
18) Massachusetts	3,381.62	2,572.52	809.09	Assistance for compulsive gamblers, cultural council, revenue sharing

Table 1, continued

State	Dollar Amounts in Millions			Program or Budget Area Receiving Funds
	Total Lottery Revenue for Fiscal Year 1999	Total Lottery Expenses (including prizes, agent commissions, and other expenses)	Lottery Net Income for Fiscal Year 1999	
19) Michigan	1,729.28	1,213.95	515.32	Public schools
20) Minnesota	392.04	306.30	85.74	Environment and natural resources fund, general fund sales tax relief
21) Missouri	516.37	357.81	158.56	Education
22) Montana	30.33	23.15	7.18	General fund
23) Nebraska	73.33	55.15	18.19	Assistance for compulsive gamblers, education innovation, environmental trust fund, solid waste landfill closure assistance
24) New Hampshire	202.49	137.91	64.58	Education
25) New Jersey	1,683.33	1,028.49	654.84	Education, state institutions
26) New Mexico	89.65	70.04	19.61	Education
27) New York	3,702.12	2,288.80	1,413.33	Education
28) Ohio	2,110.77	1,483.28	627.50	At least 30% of all lottery revenues must be directed toward education.
29) Oregon	5,990.83	5,684.22	306.61	Economic development, job creation, public schools
30) Pennsylvania	1,676.62	1,008.39	668.22	Senior citizens programs
31) Rhode Island	742.08	608.68	133.41	General fund
32) South Dakota	556.75	457.99	98.78	General fund, capital construction fund
33) Texas	2,479.13	1,631.57	847.56	Education
34) Vermont	70.43	50.92	19.51	Education
35) Virginia	944.73	627.86	316.88	Education
36) Washington	451.79	360.43	91.36	General fund, Seattle Mariners baseball stadium, and stadium exhibition center
37) West Virginia	2,529.66	2,412.74	116.92	Education, senior citizens, tourism
38) Wisconsin	433.64	293.65	139.99	Property tax relief

States that direct lottery proceeds solely to general fund: 7

States that earmark at least some lottery proceeds for education: 20

States that earmark lottery funds for programs other than education: 11

Sources: *La Fleur's 2000 World Almanac*, TLF Publications, Inc., Boyds, Md., 2000, pp. 23, 237.



***Two North Carolina residents play the Virginia lottery.
The child is drawing, not playing the lottery.***

slightly as to which programs were earmarked. Senate Bill 21 and House Bill 42—identical bills sponsored by Sen. Tony Rand (D-Cumberland) in the Senate and Rep. Ted Kinney (D-Cumberland) in the House—each allocated 20 percent of net revenues to the state's Clean Water Fund for revolving loans and grants. As much of the remaining funds "as is needed" would be channeled into an Education Improvement Scholarship Program similar to Georgia's HOPE Scholarship Program. Any funds left over from these two programs would be used for technology in the public schools and public school facility and capital needs.

House Bill 46, sponsored by Reps. Bill Owens (D-Pasquotank) and Rep. Howard Hunter Jr. (D-Northampton), would have divided lottery revenues four ways. It directed 25 percent of net revenues to the Education Improvement Scholarship Program, 25 percent to public education technology needs, 25 percent to the counties for water and sewer infrastructure improvements, and 25 percent to the General Fund to reduce the State's bonded indebtedness.

House Bill 71, sponsored by Rep. Toby Fitch (D-Wilson) would have directed up to 50 percent of net lottery revenues to the Education Improvement Scholarship Program. It also directed \$1 million annually to public schools for capital improvements and the balance to Governor Hunt's Early Childhood Education and Development Initiatives Program—or Smart Start.

John Wilson, executive director of the North Carolina Association of Educators (NCAE), says the NCAE would support a lottery bill as long as *all* the money goes to public schools. "We would like to see grants given to kids who are below grade level and who are already in the system," Wilson says. "The money could go for tutors, for technology . . . whatever would get them up to grade level.

"We also like the idea of giving all kids the opportunity to go to college, similar to the HOPE Scholarships," Wilson says. "But unlike the HOPE Scholarships, our grants should be distributed evenly among *all* students that meet the academic criteria, including those who are eligible for Pell

grants.” Wilson says the NCAE was not supportive of any of the lottery bills in the 1999–2000 session because they did not commit all of the program revenue to education.

What is the track record of the lottery as a revenue source, and does the reliability or size of the revenue stream depend upon the programs for which the revenue is earmarked?

2

The principal (if not the only) reason for instituting a state lottery is to increase revenues to state government. Proponents speak of lotteries as a *painless* source of revenue, provided by citizens who voluntarily choose

to play the game as opposed to taxes, which are required to be paid by citizens. How significant are those revenues and how do they vary over time? Revenues from lotteries consist of the money left over after the awarding of prizes, retail sales commissions, and operating revenues. As a fraction of total state budgets, the revenue from lotteries is small, ranging from 0.33 percent (\$6.3 million) in Montana to 4.07 percent (\$558.5 million) in Georgia. In 1997, total revenues from the 37 lottery

states and the District of Columbia amounted to 2.2 percent of the general revenue collected by those states.¹⁷ (See Table 2, p. 18.) Figures developed by the staff of the North Carolina General Assembly suggest that a lottery here would generate approximately \$300 million in net revenue for the state the first year, 2.3 percent of the fiscal year 1999–2000 budget of \$13.3 billion. Kenneth S. Levenbook, an attorney in the legislature’s Bill Drafting Division, says the lottery revenue figure was derived by multiplying the average per capita lottery sales in all lottery states—\$155 per year—times North Carolina’s 1998 population of approximately 7 million. The resulting \$1.08 billion figure was then multiplied by 0.34, the minimum proportion of gross sales required by the pending lottery bills to be used for public purposes. The figure does not account for any erosion of sales tax revenue that may occur if—as some critics suggest—the purchase of non-taxed lottery tickets is substituted for taxed items.

In the 2000 Democratic primary, the Easley campaign has used this \$300 million figure as the estimated amount of revenue available for its education platform, which focuses on reducing class size in the public schools and establishing a pre-kindergarten program for at-risk 4-year-olds. The Wicker campaign used a higher figure of

How Does the Lottery Compare as a Revenue Source?

Lottery dollars sound big on first blush, but how does a state lottery compare to other more traditional state revenue sources? Estimates are that a state lottery would produce some \$300 million in the first year of operation. That represents 2.3 percent of a state budget of \$13.3 billion. But what about taxes? How much would they produce?

According to the legislature’s Fiscal Research Division, a 1 cent increase in the state sales tax would produce \$761.4 million annually, more than twice the revenue production estimate for a state lottery. On the other hand, a 1 percent surtax applied to every taxpayer’s state personal income tax bill would produce only \$76.3 million—much less than a lottery.

As for what the lottery revenue could buy, reducing class size in the public schools—as favored by Democratic gubernatorial candidate Mike Easley, could easily swallow every dime. The Fiscal Research Division estimates that to reduce the current student-teacher ratio allotment for grades K–3 in the state’s public schools to 15 students per teacher would cost \$331 million. Currently, the allotted ratio is one teacher per 19 students for grades K–2 and one teacher per 22.23 students in grade 3. Because all teachers are not deployed in the classroom, the actual student-teacher ratio is higher than the allotted ratio.

—Mike McLaughlin

Mike McLaughlin is editor of North Carolina Insight

**Table 2. State Revenues, Lottery Revenues, and Lottery Revenues as
a Percentage of Total State Revenues, 1997**
(amounts in millions of dollars)

State	State Revenue	Lottery Revenue	Lottery Revenue As Percent of Total Revenue
1) Arizona	\$ 8,262	\$ 79.7	0.96%
2) California	73,584	711.9	0.97
3) Colorado	7,349	92.7	1.26
4) Connecticut	10,071	252.6	2.51
5) District of Columbia	2,986	34.2	1.14
6) Delaware	2,797	66.7	2.38
7) Florida	25,984	802.4	3.09
8) Georgia	13,707	558.5	4.07
9) Idaho	2,552	17.7	0.70
10) Illinois	23,355	571.2	2.45
11) Indiana	12,132	172.0	1.42
12) Iowa	6,352	42.5	0.67
13) Kansas	5,425	55.9	1.03
14) Kentucky	8,967	152.0	1.70
15) Louisiana	9,200	98.4	1.07
16) Maine	2,760	40.0	1.45
17) Maryland	11,388	392.3	3.44
18) Massachusetts	18,002	696.0	3.87
19) Michigan	25,590	563.4	2.20
20) Minnesota	13,581	84.1	0.62
21) Missouri	10,054	131.3	1.31

approximately \$410 million in estimated lottery revenue, based on the same estimate of per capita spending of \$155, a more current North Carolina population estimate of 7.5 million, and a slightly higher multiplier of 0.35 based on the 35 percent profit the Georgia Lottery must return to the state.

The legislature's Fiscal Research Division uses the \$300 million figure but considers it to be a conservative estimate. Still, even if the lottery produced at the higher estimate, it would remain a relatively small revenue producer compared to other

revenue sources for state government. (See Table 3, p. 21.) For example, the individual income tax produces \$6.6 billion revenue annually—nearly 54 percent of the state's general fund. The sales and use tax produces an additional \$3.4 billion—or 25 percent of the state's general fund revenue. By these standards, the lottery's 2.3 percent contribution is little more than a drop in the bucket.

Critics contend that lotteries are not a dependable source of revenue since states may experience declines in some years and increases in others.

**Table 2,
continued**

State	State Revenue	Lottery Revenue	Lottery Revenue As Percent of Total Revenue
22) Montana	1,920	6.3	0.33
23) Nebraska	3,576	19.5	0.54
24) New Hampshire	1,807	51.3	2.84
25) New Jersey	20,600	612.4	2.97
26) New Mexico	4,990	20.5	0.41
27) New York	44,912	1,530.6	3.41
28) Ohio	21,799	750.4	3.44
29) Oregon	7,768	72.8	0.94
30) Pennsylvania	25,792	691.0	2.86
31) Rhode Island	2,392	42.2	1.76
32) South Dakota	1,247	5.9	0.47
33) Texas	31,746	1,161.1	3.66
34) Vermont	1,386	23.6	1.70
35) Virginia	14,545	331.1	2.28
36) Washington	14,101	94.2	0.67
37) West Virginia	3,998	43.9	1.10
38) Wisconsin	13,012	132.6	1.02
Total	\$509,691	\$11,205.0	Avg. 2.20%

Source: Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gaming Impact Study Commission," Duke University, June 1, 1999, Table 4.

They frequently cite a 1987 study by Indiana University economists John Mikesell and Kurt Zorn that concludes, "Clearly, a state cannot rely on net revenue from its lottery to be a stable, reliable source of revenue."¹⁸ The North Carolina Budget and Tax Center reports that lottery net revenue to the states dropped by \$180 million from 1997 to 1998, or 1.5 percent.¹⁹ At the same time, overall state government revenue was increasing by 6 percent, or \$50 billion. The Budget and Tax Center makes particular note of a 23 percent decrease in

revenue for the Virginia lottery. However, a recent study by Duke University professors Charles T. Clotfelter and Philip J. Cook indicates that while lottery revenues have indeed shown more volatility than conventional sources of state revenue, *they rarely decline*. Comparing lotteries to conventional state taxes, including the sales tax and individual income tax among others, the authors find that lottery revenues are the most dependable in the sense of showing the lowest frequency of declines in revenue from one year to the next.

"Even though lottery revenues are subject to an unusual degree of volatility, much of this has consisted of breathtaking growth," the authors state. "Surely, this is the kind of volatility to which few state legislatures would object."²⁰

Taken as a total percentage of state revenues, however, lottery revenues are declining. In 1989, the mean percentage of the state budget provided by lotteries for the 29 states then operating lotteries was 3.5 percent.²¹ In 1997, that figure for the same 29 states was 1.9 percent. For all 37 states and the District of Columbia, the 1997 mean percentage of the budget provided by lotteries was 2.2 percent. Indeed, it appears that after decades of remarkable growth, lottery sales are slipping nationwide. Some experts blame "jackpot fatigue"—a need for ever-higher prizes to attract public interest. Others say that as more states institute lotteries, there are fewer opportunities to recruit players from the other side of state lines. Still others cite competition from video gambling and casinos.

"It is a difficult time," Terri La Fleur, author of *La Fleur's Lottery Almanac*, told the *Las Vegas Review-Journal* in the spring of 1999. "Sales are beginning to mature in a number of states, [and] many lotteries are not allowed to expand. As a result of other gambling opportunities—casinos, video gaming machines at racetracks—there is a lot of competition for gambling dollars."²²


"That the chance of gain is naturally over-valued, we may learn from the universal success of lotteries. . . . The vain hope of gaining some of the great prizes is the sole cause of this demand."

—ADAM SMITH

THE WEALTH OF NATIONS

Keon Chi, director of the Center for Trends and Innovations at the Council of State Governments in Lexington, Ky., has conducted a national study of lotteries and casinos. Asked whether the lottery can be a reliable source of state revenue, Chi says, "They can be." However, Chi notes that the success of a lottery varies by state. "Some states, like Arizona, have not been very successful in raising revenue." A number of factors can contribute to inconsistent revenue production, Chi notes, including "poor management, lack of publicity, lack of planning, and perhaps competition with other gaming activities such as casinos."

8



**GAMES FOR THE
Common**

1999

Pay to the Order of Virginia's Public Schools \$ 536,068.24

Five Hundred Thirty Six Thousand Sixty Eight and — ²⁴/₁₀₀ Dollars

By selling Virginia Lottery products,
1+L Food Mart

contributed the above amount to K-12 education
in Virginia, from Jan 1st 1999 to Dec 31st 1999.

Penelope W. Kyle
Penelope W. Kyle, Virginia Lottery Director

THANKS,
JEFF

Karen Tam

**Table 3. N.C. General Fund Revenue
by Source and Percent of General Fund**
(amounts in millions)

Tax Revenue	1998-1999 Actual	1999-2000 Authorized	Percent of General Fund
Individual Income	\$ 6,606.5	\$ 7,121.4	53.64%
Sales and Use	3,376.2	3,374.3	25.42%
Corporate	848.5	829.2	6.25%
Franchise	409.6	410.9	3.10%
Insurance	291.2	305.7	2.30%
Beverage	158.0	162.2	1.22%
Inheritance	169.9	137.5	1.04%
Cigarette	44.9	42.8	0.32%
Licenses	27.6	30.9	0.23%
Piped Natural Gas	0	30.0	0.23%
Miscellaneous	32.9	23.1	0.17%
Total	\$11,965.3	\$12,468.0	93.92%
Nontax Revenue			
Investment Income	\$ 249.3	\$ 236.2	1.78%
Judicial Fees	121.0	127.1	0.96%
Disproportionate Share Receipts	85.0	105.0	0.79%
Miscellaneous	129.8	156.0	1.18%
Total	\$ 585.1	\$ 624.3	4.71%
Transfers From Highway Funds	183.4	183.6	1.38%
Total General Fund Revenue	\$12,733.7	\$13,275.9	100.00%
Projected Revenue from State Lottery		\$ 300.0	2.3%

Source: Fiscal Research Division, N.C. General Assembly.

Look Who Won Here!



We sold a
winning ticket
worth
\$5,000.00
May 5, 2000



Karen Tam

To what degree does the reliability or size of revenue depend upon the programs for which the revenue is earmarked? Not much, it appears. While some players may be motivated to support state initiatives such as the Georgia scholarship program, the larger factors seem to be changing consumer preference, marketing efforts, the size of lottery prizes, and competition from neighboring states. An Ohio legislative panel examining three straight years of declining revenues cited competition from other states as a major factor.²³ The committee determined Ohio residents were being lured across state lines by riverboat casinos in Indiana and multi-state lotteries such as Powerball, which produce much larger jackpots but are not offered in Ohio. Other factors cited in Ohio included a 30 percent profit requirement that may hurt the state's ability to promote the lottery and even changing retailing practices such as pay-at-the pump gasoline sales and e-commerce.

An analysis of per capita lottery sales compared with type of program funded shows little correlation. For 1998, per capita lottery sales for states directing revenues exclusively to the general fund ranged from \$61 (Iowa) to \$235 (Connecticut). For states earmarking funds exclusively for education, per capita sales ranged from \$48 (New Mexico) to \$238 (Georgia). Massachusetts, the state with far-and-away the highest per capita spending on lottery tickets (\$525), earmarks its funds for a hodgepodge of programs including revenue sharing for cities and towns, a state cultural council, and programs to treat compulsive gambling.²⁴

Shannon Cadres, public relations coordinator for the Massachusetts State Lottery, says the primary factor affecting lottery revenues in her state is the size of the jackpot. In 1997, Massachusetts joined the Big Game Consortium, a group of seven northeastern states that pools

money for larger jackpots. The availability of bigger jackpots in that one game has offset declining revenues for all other games in Massachusetts.

"For fiscal year 1999, our sales of all on-line games experienced a decline," Cadres says. "However, sales of the Big Game went up 74 percent, because of the big jackpot. Last fall, the jackpot hit \$197 million. When jackpots get that high, people who rarely play will come out and buy tickets."

What is the cost of marketing a lottery, and does the cost increase, remain stable, or decrease over time?

Beyond the initial decision as to whether to institute a lottery, the most important decisions a state makes with respect to the lottery concern how much the state pays out in prizes and marketing.

3

Marketing includes the number and type of games instituted, as well as advertising and promotion. Initially, states incur a high expense to purchase and set up the hardware and infrastructure required to play the game(s). After that, marketing expenses decline. This initial expense varies based upon the number and type of game chosen. Typical lottery games include:

Scratch-off instant games: These games utilize a paper ticket with spaces that can be scratched off to reveal numbers or words indicating whether the ticket is a winner. This game can be instituted without the investment in computer terminals required by more advanced lottery products. Many states choose to sell tickets through vending machines, which frees the retail outlet from using its staff to sell tickets. Stakes are small but the odds of winning are high, typically one in four.

Daily numbers game: Using computer terminals, players choose three- or four-digit numbers. One winning combination is posted each day. This game gives players the sense that they are actively involved in the gambling process. The odds of winning in the three-digit game are approximately one in 1,000.

Lotto: The most common of lottery products, lotto asks players to choose a handful of numbers from a much larger set, say, six numbers from a field of 44. Drawings typically take place twice a week. The odds of picking a correct number in lotto are far lower than the daily numbers game—1 in 7 million for the example above versus 1 in 1,000 for picking a three-digit number. Because winning combinations are so hard to come by, the prize money can roll over to several consecutive drawings, reaching into the tens of millions of dollars. This game requires a network of computers to be installed.

Keno: Similar to lotto, keno requires players to choose a few numbers out of a larger group of numbers. The difference is that players decide how many numbers to choose. The size of the payoff—and the odds of winning—vary according to how many numbers are correctly chosen. This game also requires a network of computers to play.

Video lottery: Video lottery games are played on terminals (VLT's) similar to arcade video machines. They can be programmed to carry a variety of games, and the odds of winning vary. Like conventional slot machines, video lottery games offer bettors the chance to receive immediate payouts for winning bets. This potential for instant payouts brought video poker under fire in South Carolina on the belief that it encouraged compulsive gambling.

Once a state has incurred the initial cost of purchasing and setting up gaming equipment, ongoing marketing costs are primarily those associated with media advertising (e.g. television, radio, billboards ads) and non-media promotion strategies. States differ in what they count as marketing costs. For example, one state may count a promotional event centered on the lottery as advertising while another state may not. But on average, these costs account for approximately 1 percent of lottery sales. For fiscal year 1997, advertising costs for the 38 states ranged from 0.02 percent of lottery sales in Massachusetts to 3.6 percent of lottery sales in Montana. Dollars spent ranged from \$650,000 in Vermont to \$59 million in New York.²⁵

Over time, marketing expenses will vary based upon how heavily a state wants to promote its games. The conventional wisdom holds that, as with any product, lotteries must continuously be advertised and new games introduced to maintain the public's interest and keep revenues flowing.

***"It was Saturday night, I took my change
Down to the store for the lotto game.
I got two chances at a buck a pair,
And by 7:05 I was a millionaire."***

—WASHINGTON STATE LOTTERY ADVERTISEMENT, 1987
FROM *SELLING HOPE: STATE LOTTERIES IN AMERICA*,
BY CHARLES T. CLOTFELTER AND PHILIP J. COOK



Looking at states' advertising budgets over two years and comparing that with ticket sales over those same two years, the results are quite mixed.²⁶ Of the eight states that decreased advertising budgets between fiscal years 1989 and 1990, three saw corresponding decreases in lottery sales, while five saw increases. On the other hand, of the ten that increased advertising revenues, eight saw corresponding increases in sales. In Maryland, for ex-

ample, the fiscal year 1990 advertising budget was increased by 12 percent and sales increased by 9 percent. Oregon saw a 6 percent increase in sales when the advertising budget was increased by 11 percent. A longer look might produce a clearer picture of the correlation between lottery revenues and spending on advertising, but state spending on advertising varies from year to year. A state might spend more one year, less the next, then increase advertising spending again in year three. A two-year look provides a snapshot approach.

In 1995, the Massachusetts legislature put a cap of \$400,000 on its lottery marketing expenditures and limited that amount to point-of-sales promotions. Despite these limitations, lottery revenues in that state have continued to grow. But despite the Massachusetts experience, the consensus is that lotteries must advertise to succeed. The Council of State Governments' Chi cautions that because lotteries are run by states, they should establish policies on advertising content. "State officials need to be careful about advertising," says Chi. "They should not exaggerate the odds or target low-income groups."

Clotfelter, the Duke economist, notes that North Carolina does not have to adhere strictly to the national model in promoting its lottery. Instead, the state could choose to restrict advertising and pay out more in prizes, reducing what Clotfelter calls

"It is commonly observed that a sudden wealth, like a prize drawn in a lottery or a large bequest to a poor family, does not permanently enrich. They have served no apprenticeship to wealth, and with the rapid wealth come rapid claims which they do not know how to deny, and the treasure is quickly dissipated."

—RALPH WALDO EMERSON

"THE CONDUCT OF LIFE," 1860

the “implicit tax”—the amount retained by the state after expenses and prizes. “There is no rule that an N.C. lottery has to look like everyone else’s,” notes Clotfelter. “The state could choose to assess a lower implicit tax rate or it could limit the amount and kind of ads. Both of those would reduce the revenue potential, though.”

Do lottery revenues supplement state funding for specific program areas such as education or supplant it?

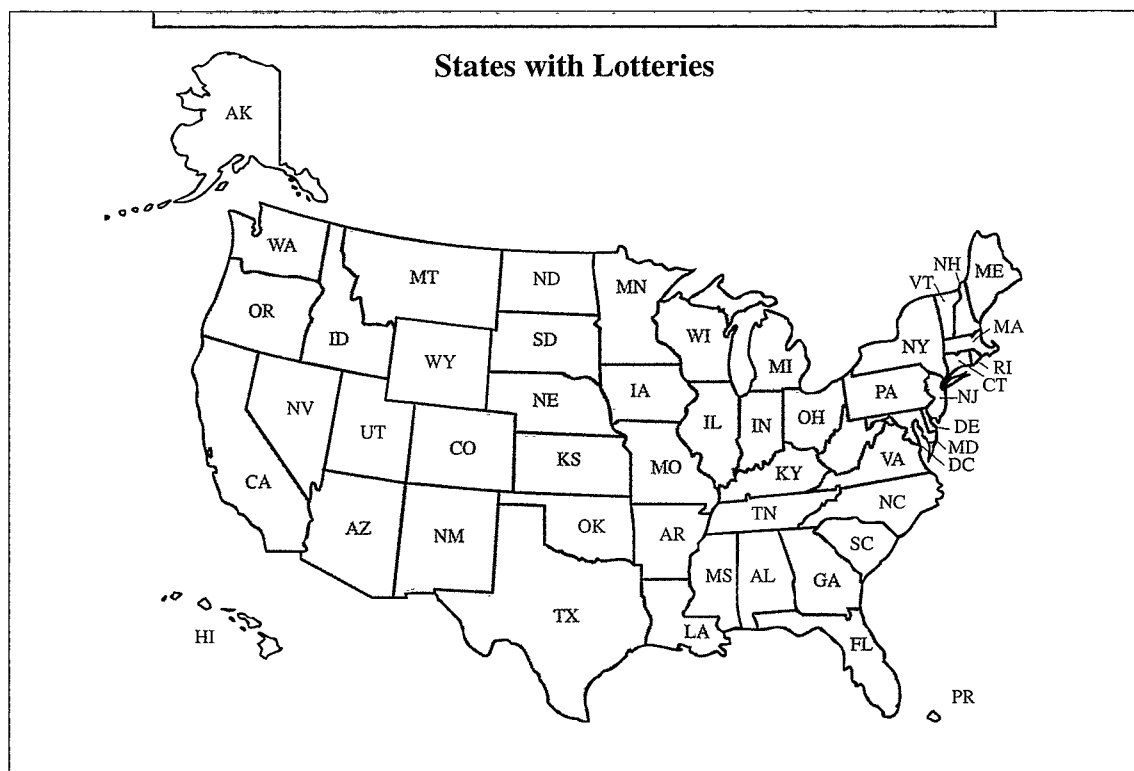
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In promoting their lotteries, legislative proponents typically imply that lottery revenues will enhance funding in certain program areas such as education. However, there is no guarantee that state legislatures will not merely substitute lottery revenues for normal appropriations. Determining the degree to which lottery funds either *supplement* or *supplant* state revenues is complicated by several factors. First, it is extremely difficult to track funds through state systems, even when they are earmarked. Second, one has to determine what the level of funding in a targeted area such as education *would* have been without the lottery.

“When changes in education funding occur after a lottery begins, it is difficult to tell whether this reflects substitution, or simply changes in the state’s larger economic picture,” the Educational Research Service states in *State-Run Lotteries: Their Effect on School Funding*. “Also, enrollments, funding formulas, educational priorities, special programs, and other issues all have an effect on the final funding amount for education. Comparisons of funding in lottery and non-lottery years, or between lottery and non-lottery states, have to account for these influences.”²⁷

Despite these difficulties, researchers have attempted to answer this “supplement versus supplant” question for a number of states. In an article in *Educational Policy* journal, Pamela J. Allen details how lottery funds were substituted for normal education appropriations in California, Florida, Illinois, and Michigan, despite the fact that the lotteries had been promoted as boosting educational expenses. Allen says that states may initially intend for lottery funds to increase funding in a certain area, but that changes in the economy or politics or changing state budget priorities may cause them to redirect those funds if not specifically prohibited by law.

“As the revenue begins to accrue, they [lottery funds] become a convenient source from which to fund other high priority state services, such as mass



Editorial Comments on the Lottery in North Carolina Newspapers

While most newspaper editorials published in North Carolina newspapers oppose a state lottery, a few are favorable, and some straddle the fence. Here are excerpts, pro, con, and neutral, from Tar Heel editorial pages.

For

"Decisions on gambling—whether it's a lottery, a poker game, or a sporting event—should be made by individuals, not by state lawmakers. Lawmakers are sent to Raleigh to preserve our freedoms, not to make moral decisions for individuals."

—*The Gaston Gazette*,
Gastonia, N.C., May 25, 1997

"That people who can't really afford tickets will buy them is the most compelling argument against lotteries. But most people in the United States have some discretionary spending money—they buy soft drinks, go to movies, buy CDs or make other non-essential purchases. For many people, buying lottery tickets is a form of recreation, one where about 34 percent of the purchase price. . . . would go toward education and other state programs from which they and other state residents would benefit."

—*The Asheville Citizen-Times*,
Asheville, N.C., February 19, 1999

"[I]f the lottery bill passes the Legislature and goes on to passage in referendum, so be it. The people will have spoken, and the people will get a lottery to compete with those in Virginia, Georgia and other neighboring states."

—*The Herald Sun*,
Durham, N.C., April 28, 1997

Against

"Why is a stance against the lottery the most favorable to working people and families? First, the lottery is a fool's bargain: The odds against someone hitting it big are tremendous. Second, those who play the lottery most often tend to be people who can least afford it, but who are banking on a jackpot to make them rich. . . . Third, with the advertising and promotion needed to get folks interested, the state in effect becomes a deceptive agent of gambling—hardly a role any state should play. Fourth, the promises to devote lottery proceeds to noble efforts in education sound good—but they are not as reliable as old-fashioned but steady revenues from equitable taxes on all citizens. Fifth, all too often, the lottery proceeds that were to be a bonus become a substitute for needed appropriations, and a way for lawmakers to avoid politically unpopular tax increases."

—*The News & Observer*,
Raleigh, N.C., March 17, 1999

"Letting voters decide the issue may sound like democracy in action. But it's really political gutlessness. We elect people to represent us, study the issues, debate them and make a thoughtful decision. When they punt the ball to the voters—most of whom haven't studied the issue and many of whom will likely be swayed by TV commercials—they shrug off their responsibilities."

—*Morning Star*,
Wilmington, N.C., Feb. 12, 1999

Against

"North Carolina does not need a gigantic, state-sponsored media campaign urging the poor and unsophisticated to tie their futures to chance. The best way to assure that such a campaign will not hit the North Carolina air waves is to assure that there is no lottery to advertise."

—*Winston-Salem Journal*,
Winston-Salem, N.C., Feb. 12, 1999

"Maybe we're old-fashioned, but we reject the idea that the relationship between government and citizens should be that of hustler to sucker. Politically, a lottery may be an idea whose time is soon to come. That doesn't make it a good idea."

—*The Charlotte Observer*,
Charlotte, N.C., March 8, 1999

transit or social services," Allen writes. "If the funds are able to be held within the education budget, they become a convenient source for financing recurrent costs, such as salaries. The degree to which lottery monies are available for such purposes is a function of the specificity of laws and statutes which govern the use of lottery funds."²⁸

When spending needs for program areas earmarked for lottery funds continue to rise, or when spending within the program area actually drops following the institution of a lottery, public cynicism about the lottery is likely to follow. Such has been the case in Florida, where citizens were initially persuaded to vote for the lottery on the promise that it would enhance funding of public education. However, a 1998 study of Florida's funding of public schools by the *Palm Beach Post* found that the state now spends 35 cents on the state tax dollar for education compared to 40 cents out of each dollar before the lottery was instituted.²⁹

Neutral

"If the majority of voters want it, they should have it. What they should *not* do is vote for it blindly, assuming that it's a pie-in-the-sky scheme that (1) hurts nobody and (2) will do good works forever and ever. The first is demonstrably untrue, and the second is questionable."

—*Fayetteville Observer-Times*,
May 7, 1997

"... Our system of government is supposed to be by, for and of the people. The lottery debate is one of those things, of many, that the majority should be allowed to decide. Give both sides a chance to air their views, and then let the final question rest with the people."

—Tom Joyce (signed editorial),
The Mount Airy News,
December 29, 1998

"When the lottery was inaugurated in 1988, we were led to believe that it would be used to *enhance* and *supplement* public education monies," says John Ryor, executive director of the Florida Teaching Profession-NEA. "Instead, lottery funds have been used to supplant normal appropriations going to education. . . . They've made some feeble efforts to restore general revenue funding, but it's tough in this environment of 'no new taxes.' If you don't have specific language that prevents it, the legislature will rob Peter to pay Paul in an instant."

A 1996 study by *Money* magazine found that state spending dedicated to education remained relatively unchanged from 1990 to 1995—about 50 percent for lottery states and 60 percent for non-lottery states—despite the growth in lottery revenues. North Carolina will spend approximately 60 percent of general fund revenues in the 1999–2000 fiscal year on public schools, community colleges, and universities, according to the Fiscal

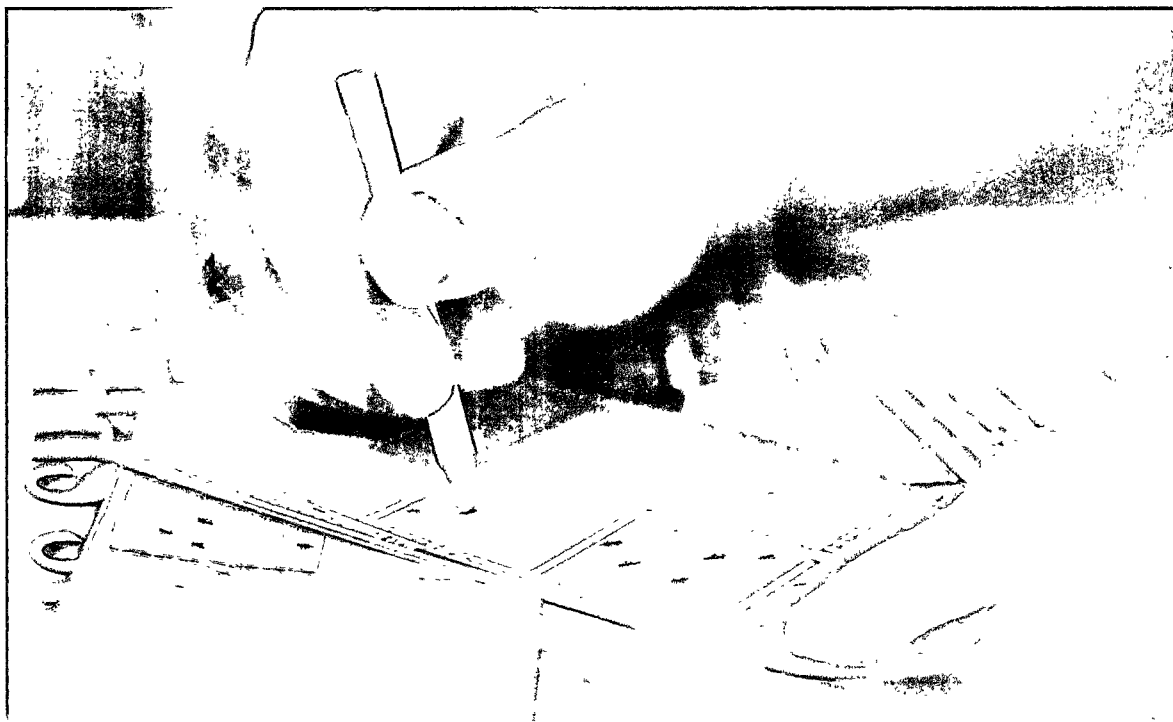
Research Division of the N.C. General Assembly. One might reasonably assume that lottery revenues would allow states to minimize new taxes. On the contrary, the study found that per capita taxes had increased by 21.7 percent during the five-year period in states with lotteries compared to 7.2 percent in states without a lottery. Connecticut, for example, enacted the state's first income tax in 1991 despite strong lottery sales. "[M]ost states create a lottery because they need all the money they can possibly generate," the authors of the *Money* magazine study write, adding that in 1995, when many states were cutting taxes, the odds of seeing taxes go up or down were about the same whether a state had a lottery or not.³⁰ However, a July 2000 analysis by *State Policy Reports* of Washington, D.C. (Vol. 18, No. 15, p. 10), indicates that lottery states, on average, spend more per student on education than do non-lottery states. Lottery proponents argue that while education spending in lottery states may have dropped as a percentage of overall state spending in the early 1990s, it had more to do with rising costs in other areas of state budgets such as Medicaid and Corrections than with decreased support for education. Since lottery states generally

are more populous and urban, these costs may represent a larger proportion of the budget than in non-lottery states. (North Carolina is the most populous state in the nation without a state lottery.)

Experience dictates that in order to keep track of where lottery revenues go and what their effect is, they must be directed to a narrowly-prescribed program or project, such as Georgia's HOPE Scholarships. "The problem with most states is that lottery revenues are allocated to such a large program area that they get lost," says Philip J. Cook, professor of public policy and economics at Duke University and co-author of *Selling Hope: State Lotteries in America*. "The key is to allocate funds to a new program or to one that has a small budget you can keep track of."

All three bills before the 1999-2000 General Assembly would have used a substantial portion of lottery proceeds to establish a new program in North Carolina tailored on the HOPE Scholarship Program in Georgia. However, Attorney General Mike Easley, the winner of the 2000 Democratic gubernatorial primary, focused his lottery proposal on using the revenues to reduce class size in the public schools. Such a program might be more sus-

A North Carolina resident picks his numbers for The Big Game lottery at S and J Grocery in South Boston, Virginia. S and J is the first lottery site north of the North Carolina state line on U.S. Highway 501.



Walt Unks, The Herald-Sun, Durham, N.C.

ceptible to supplanting existing education dollars since it does not create a new earmarked program as such. Indeed, the North Carolina Budget and Tax Center reached just such a conclusion when it compared Easley's plan with that of his primary opponent, Lieutenant Governor Dennis Wicker.³¹ Moreover, not everyone agrees that creating new educational programs is such a grand idea. "These types of issues make for good political debate, but we have current educational programs that are not fully funded now," notes Rep. Charlotte Gardner (R-Rowan), a lottery foe. "New programs will simply create new need in the future."

Who plays the lottery?

5

A common criticism of state lotteries is that they prey on the poor and under-educated, enticing them to spend money on a game they have little chance of winning and with money they can ill-afford to lose.

The issue of exactly who plays lotteries and with what frequency is one of the most contentious areas of debate about lotteries.

In their 1999 *Report to the National Gambling Impact Study Commission*, Charles Clotfelter, fellow Duke economist Philip Cook, *et al.* reported the results of a nationwide survey on gambling, which included questions on lottery play. The report states that lottery play is common in the U.S., with 51.5 percent of the adult population participating in 1998. The survey revealed little variation between racial and ethnic groups in terms of who plays the lottery. However, the survey found that African Americans who play spend more, on average, than other racial groups.

The report states that *participation rates* do not vary much by education, but that the *amount of money spent* by players drops sharply as education levels increase. High school dropouts who play the lottery are by far the biggest spenders. With respect to household income, the report found that participation rates increase as income rises up to \$100,000. However, players with incomes of less than \$50,000 spend more than others, and the lower income categories have the highest spending in real dollars. Based upon this finding, the authors conclude, "Lottery expenditures represent a much larger burden on the household budget for those with low incomes than for those with high incomes. [M]ales, blacks, high-school dropouts, and people in the lowest-income category are heavily over-rep-

**"Now Mister the day the
lottery I win,
I ain't never gonna ride in
no used car again."**

—BRUCE SPRINGSTEEN

"USED CARS"

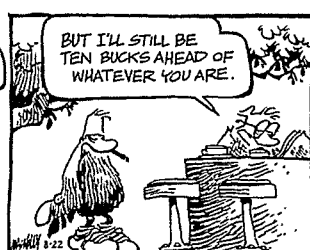
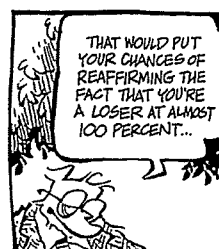
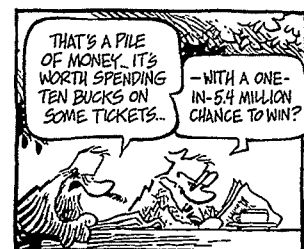
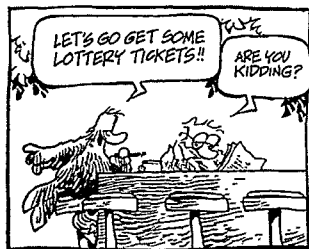
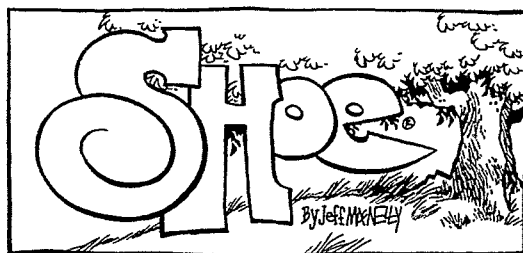
resented among those who are in the top 20 percent of lottery players."³²

No sooner was the report out than the criticisms began. Cathy Heatherington is senior vice president of the Angus Reid Group, a public opinion and market research firm. Angus Reid has a Lottery and Gaming Research Division, based in Calgary, Canada, and has done lottery research for a number of states. Heatherington, in a letter to the National Gambling Impact Study Commission, questions the report's conclusions about who plays the lottery. "We have conducted numerous studies exploring lottery behaviors and attitudes in many U.S. states and Canadian provinces," Heatherington writes. "After review of the [Clotfelter, Cook, *et al.*] report, we became concerned about the discrepancies in this report with what we have found to be true over twenty years of market research in the gaming sector."

Based on the Angus Reid Group's own survey of lottery players in Texas, Heatherington states, "We find that there are no significant differences between the proportion of low income groups in the top vs. the bottom proportion of spenders. In fact, the top spenders on lottery games are disproportionately over-represented in the middle-income groups. . . . Contrary to Clotfelter and Cook's assertions, we have found no empirical evidence of lottery gaming acting as magnet for lower income-populations."³³

However, Cook points out that the Angus Reid Group represents the lottery industry, "whereas our study was conducted for an independent agency that had no connection to either the industry or to any organization that opposes gambling." Cook also notes that even if the Angus Reid findings in Texas are true, Texans who gamble may not be representative of the nation as a whole.

A study compiled by the Texas lottery indicates that Texans with the lowest incomes are the least likely to play and represent the smallest percentage of those spending more than \$205 annually



on lottery tickets. Indeed, the percentage spending \$205 or more annually increased by income group, with the greatest number of respondents, 30 percent, earning \$50,000 or more.³⁴ Texans earning \$30,000–\$49,999 were most likely to play the lottery, with 75 percent indicating that they had participated in the previous year. Still, a majority of all income groups were likely to play the lottery, including 64 percent of those Texans earning less than \$10,000.

Other state studies have produced similar findings. In Virginia, a year-long consumer tracking survey conducted from July 1997 to July 1998 by Chilton Research Service, then of Radnor, Pa., showed the highest percentage of Virginia lottery players to have incomes in the \$35,000 to \$49,999 range (17.6 percent), while the highest percentage of spending (28.6 percent) came from players earning \$50,000 or more.³⁵ The Iowa lottery reports that, based on a 1999 study, approximately 64 percent of its players live in a household with an income of more than \$35,000. Roughly half of lottery players have some college education.³⁶ Such

findings give weight to the argument that lotteries do not necessarily “prey on the poor,” although it should be noted that studies also consistently find high numbers of lottery players in every income group. “[D]ifferences among groups are much greater with respect to amount played than with respect to participation rate,” note Clotfelter and Cook.³⁷ “Indeed, with a few exceptions there is remarkable uniformity in participation.”

Whether individual low-income players spend more or less than their middle-income counterparts in *actual dollars* remains subject to debate. However, there is no question that low-income players, since they earn less, spend *proportionally more* of their income on lottery tickets. Lottery proponents say the same is true for the purchase of a bar of candy or a gallon of milk. Opponents bristle at this comparison, saying lottery spending is more like a regressive tax that falls more heavily on the poor. Proponents say the lottery is not a tax, since the purchase is voluntary, and around and around the argument goes.

Clotfelter notes that lottery agencies like to

focus on broad participation rates across income groups and ignore the regressive nature of lottery spending. Virtually every study [of lottery spending] says that the percentage of income spent falls as income rises," Clotfelter says.

In their earlier work on state lotteries, *Selling Hope: State Lotteries in America*, Clotfelter and Cook indicated that income is less important than other socioeconomic factors in determining who plays the lottery.

"At least three measures of lottery involvement may be used to measure the play of a given population group. The first is the participation rate, the percentage of group members who bought at least one ticket during a given period of time. Second is the average expenditure by members of the group—the total expenditure over some period of time divided by the number of people belonging to the group. Third is the prevalence of heavy players within the group—the percentage of group members who spent a relatively large amount over the specified time period."³⁸

In practice, note the authors, the three measures are closely related. For example, California lottery players without a high school degree tend to participate in high numbers, spend a lot as a group, and include relatively high numbers of players who are also big spenders. However, Clotfelter and Cook note that "lottery expenditures appear to be remarkably uniform across a broad range of income groups."

According to the authors' analysis, factors that influence play include: gender—males play more than females; age—people in their middle years tend to play more than either the elderly or the young; and religion—Catholics play more than Protestants, perhaps, the authors surmise, because the Roman Catholic Church tolerates moderate gambling. Education also is an important determinant, with lottery participation falling as education levels rise. In addition, occupation plays a role as laborers and service workers play more than advanced professionals. And, the authors indicate lottery play varies by race and ethnic group with African Americans and Hispanics/Latinos playing more than non-Hispanic whites.

Whatever the statistical surveys may say, the image persists that the lottery is most appealing to those who see little chance of achieving their dreams through traditional avenues of work or investment. The concern is not so much that people will stop working to play the lottery, but that they

will spend money on lottery tickets that they ought to be putting into savings or consumer expenses. Walter Reinhart is president of Capital Investor Group, a Durham, N.C., financial planning firm that offers payroll deduction pension plans for public school employees. Reinhart says that his firm has had particular difficulty in selling these plans to custodial staff and first-year teachers in counties bordering Virginia, as these people would rather spend that money on lottery tickets purchased across the border.

"We explain that if they will set aside \$50–\$100 a month for a pension plan, they could expect to accumulate \$500–\$1000 a year in supplemental retirement," Reinhart says. "They compare that [savings] to what they imagine they can win by playing the lottery and consider it chump change. Savings for retirement is taking a back seat to the sale of lottery tickets in counties all along the Virginia line and beyond."

Who is most likely to benefit from lottery revenues?

6

Along with the question of who plays the lottery is that of who benefits from the revenue. Aside from those holding winning tickets and those directly involved in the administration, sale, and marketing of lottery games, the answer is as varied as the programs funded. Nationwide, lottery funds are used to provide services to such varied groups as police and fire departments (Indiana), compulsive gamblers (Iowa), Vietnam veterans (Kentucky), juvenile delinquents (Montana), senior citizens (Pennsylvania), handicapped children (Virgin Islands), and even baseball fans (the state of Washington). Wisconsin dedicates its lottery profits to property tax relief, directing more than 32 percent of gross revenues to that purpose (nearly \$140 million) in 1998–99.

But because the largest amount of lottery revenue is directed towards education, one might conclude that students of all races and income levels are the greatest beneficiaries of lottery funds. Lotteries as a whole have not had a huge impact on the amount of spending for education in states that host the games. But in states such as Georgia where lottery funds are specifically targeted to supplement new educational programs without sacrificing others, students clearly benefit, as do the parents who might otherwise pay their college bills.

Do lottery ticket sales displace other retail spending, or do they stimulate more sales?

7

One criticism of state lotteries is that they do not generate income, but rather displace spending in other areas, particularly in retail sales. Owners of stores where lottery tickets are purchased, primarily convenience stores, typically receive a 5 percent commission on ticket sales—the same 5 percent figure included in the 1999–2000 North Carolina lottery bills. These bills set overall administrative costs at 16 percent of gross revenue, retain 34 percent as revenue for the state, and return 50 percent of the gross to the players as prizes. In some states, storeowners have argued for an increase in commissions claiming that sales of other items have fallen since implementation of the lottery. If that is true, states instituting a lottery also may suffer a loss of revenue to the degree that non-taxed lottery sales displace the sale of taxed items such as soap and soft drinks.

To address these questions, University of North Florida economists Mary Borg, Paul Mason, and Stephen Shapiro conducted a survey of 2,000 households in Georgia and Florida in the years immediately before and after the institution of a state lottery. Of that number, 355 households participated. The survey asked respondents to estimate monthly expenditures on items such as housing, utilities, groceries, and restaurants. The survey included people who play the lottery and who do not play the lottery.

The results of this survey, published in *The Economic Consequences of State Lotteries*, indicate that lottery players are *not* spending less than other households on necessities such as food, clothing, or shelter, although players earning less than \$20,000 annually were found to spend less on utilities.³⁹ The study found overall, lottery players *significantly* reduced their spending in only one category—alcohol—by an average of \$4.39 a month.⁴⁰ With the exception of the reduction in alcohol spending, the authors noted that they could not explain how players found the money in their budgets to spend some \$25 on the lottery each month. The authors speculated that the money may have come from very small reductions in spending from a broad range of categories. Except for the reduction in utilities spending for lower-income players, the study countered the notion that lottery players are skimping on necessities. But it bore out the complaints of some convenience store operators

that the sale of at least some items (beer and wine) have fallen since the institution of a lottery. The study did not include a separate category for discretionary convenience items such as soft drinks and snacks.

Despite the latter finding, associations representing convenience stores in neighboring Virginia and Georgia are both supportive of their state lotteries. “Some locations are profitable and some are not, but overall our membership is supportive,” says Michael O’Connor, executive vice-president of the Virginia Petroleum Marketers Association. “If a competitor down the street has the lottery and you do not, you’re definitely at a disadvantage.”

According to Gary Harris, executive vice-president of the N.C. Petroleum Marketers Association, most convenience store operators in North Carolina are opposed to a lottery. “The problem we have found out at the retailing end is that the benefits of selling lottery tickets do not offset the increased hassle,” Harris says. “If you have someone standing in line buying 20 lottery tickets, you can’t service the people who are buying gas and groceries. That ends up turning customers away.” The association has said they would oppose bills introduced to the legislature that include a 5 percent commission, but “not oppose” bills that upped the ante to 7 percent.

Wade Hargrove, a Raleigh attorney and lobbyist for the North Carolina Association of Convenience Stores, says the trade association opposes the lottery if the commission for retailers is less than 7 percent. Hargrove argues that the lottery affects more than just alcohol sales. “People buy fewer Coca-Colas, bags of potato chips, and other discretionary items,” Hargrove says. “It’s not just alcohol. People buy less of other things, and the profit margin on other things is much higher.” For example, a dollar spent on a soft drink might yield a merchant 30 cents profit. That same dollar would produce only a nickel in profits if used to purchase a lottery ticket under lottery legislation currently before the General Assembly.

In addition, convenience store operators worry that when jackpots get large, long lines could turn away some shoppers. “People shop at convenience stores because it’s convenient,” says Hargrove. “The moment it becomes inconvenient, people don’t stop.”

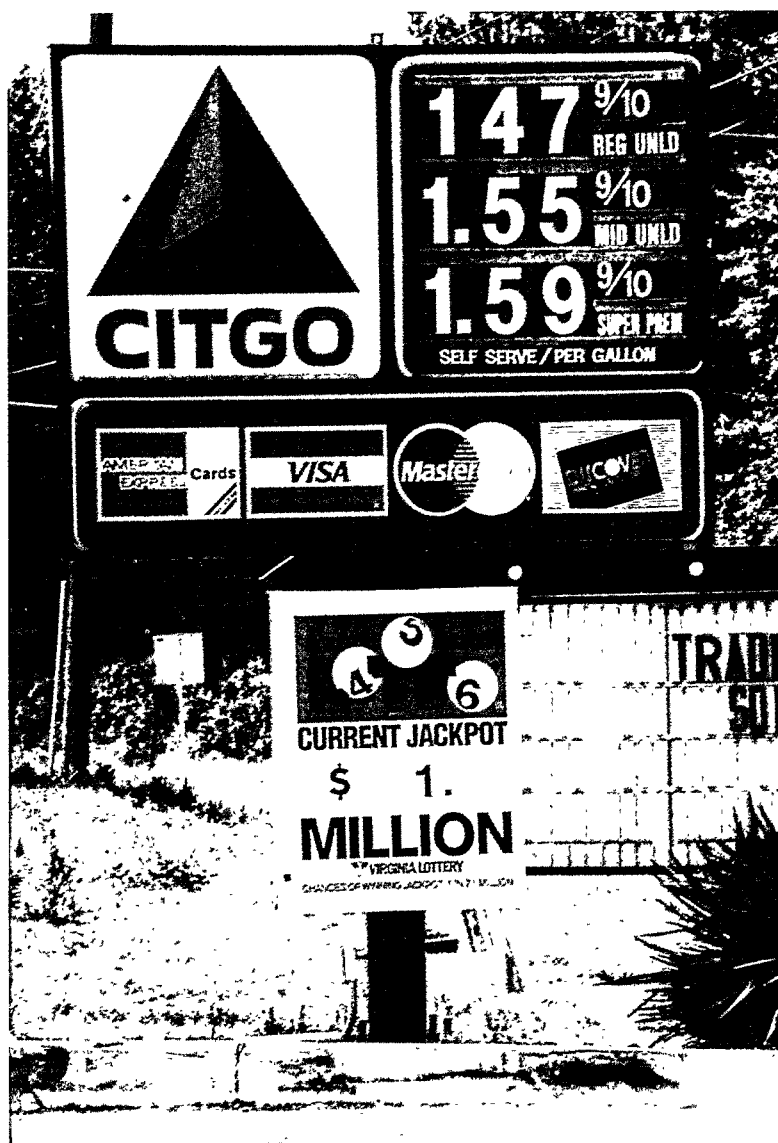
Lowell Simon is a past president of the N.C. Association of Convenience Stores and a vice president for operations of the 24-store Quik Chek chain, based in Troy, N.C. Simon, who has worked with convenience store operations in New York and

Boston, argues that with the additional expense of operating a lottery, convenience store operators will not make money on the lottery even with a 7 percent commission. Primary among these added costs is the need to hire additional part-time help to handle the extra business generated by the lottery. Simon says problems such as shoplifting and people driving off without paying for their gasoline increase when attendants are tied up with lottery transactions. He estimates that the average convenience store would generate \$250,000 a year in lottery ticket sales but would need to generate \$400,000 in annual sales to break even at the 5 percent commission level.

According to a Council of State Governments study, the average commission for lottery ticket retailers nationwide is 6.5 percent⁴¹—less than the 7 percent sought by retailers but more than the 5 percent commission in the 1999–2000 legislation. (See Table 4, p. 38 for more.) However, the national average is boosted by incentive plans in many states that reward retailers who meet sales goals. North Carolina's proposed law sets the base commission for retailers at 5 percent, but allows the state lottery commission to award bonuses and incentives of up to 7 percent. The North Carolina convenience store operators are seeking a *base* of 7 percent.

Tracing the lottery's effect on state sales tax revenue is complicated by the fact that sales tax receipts tend to rise year after year due to general economic growth trends. The question is how much faster would the sales tax have risen without the lottery? The University of North Florida economists' study finds this varies widely based upon the state's tax structure. States without a state income tax (North Carolina has a state income tax) and with high rates associated with sales and excise taxes, lose considerably more non-lottery revenue as a result of instituting a lottery. Borg, Mason, and Shapiro indicate that while these revenue losses are generally less than 15 percent of each dollar of revenue from the lottery, some states may be forfeiting as much as 23 percent of their supposed lottery proceeds indirectly through the impact of the lottery on other sources of state revenue. "Policymakers need to be aware, and even expect, that their other state revenue sources will decline proportionately with the growth of lottery revenues and prepare their budgets accordingly," the authors state.⁴²

The N.C. Budget and Tax Center has attempted to address



I make a profit on every transaction, but that's not the reason. In an industry where rent is frequently in excess of 5% and labor always in excess of 12%, it would take some extremely creative accounting to believe that selling a product with a 5-6% profit will pay [its] way.

The reason I want to have a lottery machine in [my] store is because I believe that it brings traffic through the door; customers who will spend money on other, more profitable products.

—EXECUTIVE OF SOUTHLAND CORPORATION,
ON WHY HIS 7-ELEVEN STORES ARE LOTTERY RETAILERS
FROM *SELLING HOPE: STATE LOTTERIES IN AMERICA*,
BY CHARLES T. CLOTFELTER AND PHILIP J. COOK

the issue of sales tax revenue loss for North Carolina.⁴³ Using an effective sales tax rate that takes into account that all goods are not subject to the full sales tax, the Budget and Tax Center found that on lottery sales of \$882 million, the state would lose \$23.6 million in sales tax revenue and local governments would lose \$12.7 million. The Budget and Tax Center assumed that a dollar spent on a lottery ticket would result in one less dollar in retail sales, so the sales tax payment that would have been generated by that dollar of retail spending would be lost.

Do lotteries contribute to problems with compulsive gambling?

Along with the contention that lotteries prey on the poor, critics contend that lotteries contribute to problems of compulsive or pathological gambling. In 1996, President Clinton established the

8

National Gambling Impact Study Commission (NGISC) to study the social and economic impacts of gambling in the United States. Section 4(a)(2)(c) of the NGISC Final Report Recommendations calls for "an assessment of pathological or problem gambling, including its impact on individuals, families,

businesses, social institutions, and the economy."⁴⁴

To carry out this mission, the National Research Council established the Committee on the Social and Economic Impact of Pathological Gambling. The committee's charge was to identify and analyze studies on pathological and problem gambling, highlighting key issues and data sources that provide scientific evidence of prevalence and multiple effects. The committee's findings are summarized in *Pathological Gambling: A Critical Review*.

Pathological gambling is defined as "a mental disorder characterized by a continuous or periodic loss of control over gambling, a preoccupation with gambling and with obtaining money with which to gamble, irrational thinking, and a continuation of the behavior despite adverse consequences." Problem gambling is defined as "gambling behavior that results in any harmful effects to the gambler, his or her family, significant others, friends, coworkers, etc."⁴⁵

The committee's research indicates that approximately 0.9 percent of the adults in the United States, or 1.8 million people, meet the definition of compulsive gamblers. For pathological and problem gambling combined, the figure is 2.9 percent or 5.7 million people.⁴⁶

The committee analyzed the effects of many different types of games on compulsive gambling, but *had relatively little to say about state lotteries.*

The report notes that there have been numerous studies on links between legalization and compulsive gambling, several of which showed increases and others not. One study found that participation in a state lottery was associated with a greater involvement in general gambling, which is in turn linked with problem gambling.⁴⁷ But another study found that the Minnesota lottery switched adolescents from illegal to legal gambling and did not increase overall gambling in the state.⁴⁸

The report by the Committee on the Social and Economic Impact of Pathological Gambling states, "Legal gambling could increase the number of people who gamble at least a few times; if pathological gambling is some constant proportion of people who experiment with gambling, then the number of pathological gamblers will also increase. Another possibility is that legalization encourages

people to gamble more frequently and to spend more money on gambling. This increased gambling activity could place more people at risk for developing gambling problems by increasing their comfort with games, their familiarity with gambling as entertainment, and their likelihood of socialization with other gamblers."⁴⁹

The North American Association of State and Provincial Lotteries (NASPL) acknowledges that problem gamblers do play the lottery, but it asserts that lotteries by nature do not appeal to problem gamblers. "Problem gamblers are attracted to games for a variety of reasons," the NASPL states. "One is a sense of high excitement, usually involving considerable sensory stimulation. Lottery tickets do not provide this. A second factor is a sense of mastery or skill. Lotteries have no skill element. A third is the immediacy of the result and reward

Winning the Lottery: What Are the Odds?

Almost everyone has heard the adage that your chances are better to be struck by lightning than to win the big prize in a state lottery. But is this statement really true? The answer is less than clear cut. Lottery proponents argue that the average person's chances of winning at least some money are much better than most people believe and are far better than the odds of being struck by lightning. However, a Kentucky coal miner who invests a few dollars in the Powerball game every week in hopes of hitting the jackpot actually might have a better chance of catching a lightning bolt.

In a recent study of the Kentucky lottery, statistical data showed that the odds of guessing the correct six numbers for the Kentucky Powerball game were roughly 1 in 81,000,000, according to a spokesperson for the Kentucky lottery. In contrast, the National Weather Service estimates that a person's chance of being struck by lightning over the course of a lifetime as 1 in 600,000. If these numbers are correct, a player would indeed stand a better chance of being struck by lightning than winning the lottery. However, Edward J. Stanek, director of the Iowa lottery, says Powerball is not an "all or

nothing" game, and the player is not required to get all six numbers right to win some amount. In fact, being less than perfect in picking the correct numbers can still result in winning \$100, \$1,000, or even \$100,000.¹ Kentucky lottery officials note the chance of winning \$1,000 playing Powerball are 1 in 364,041. That means a player is roughly twice as likely to win the \$1,000 prize in a single play as to be struck by lightning over the course of a lifetime, though the odds of winning Powerball are still remote.

In a speech delivered to the North American Association of State and Provincial Lotteries (NASPL), Stanek further addressed the comparison between lottery wins and lightning strikes. He noted that in 1995, lightning in the United States and Canada killed 91 people while in that same year, 1,136 people won \$1 million or more playing lotteries. Also, using data from the National Safety Council, Stanek calculated that the odds of an average American being killed by lightning on any particular day were about 1 in 1,178,989,420. Thus, according to his analysis, a player would be 21.44 times more likely to win a typical Powerball game than to

—continued

and the ability to play repeatedly and quickly. Numbers game drawings typically take place some time after the purchase is made, and players have to wait between a day and a week to play again. Even instant or scratch tickets have much less immediacy than other forms of gambling.⁵⁰

In its report to President Clinton, the NGISC makes a number of recommendations with respect to compulsive gambling. Among these, the NGISC recommends that all governmental gambling regulatory agencies require applicants for gambling licenses to adopt a "clear mission statement" as to

***"I figure you have the same
chance of winning the lottery
whether you play or not."***

—FRAN LEBOWITZ

their policy on problem and pathological gambling, and refuse to service any customer who appears to have a gambling disorder. The NGISC also recommends that states fund research, education, and treatment programs on problem gambling. It urges states to mandate

that private and public insurers and managed care providers identify successful treatment programs, educate participants about pathological gambling and treatment options, and cover appropriate programs under their plans.⁵¹

A number of states already have programs designed to raise awareness about the problems of

Odds, continued

be killed by lightning on a day when Powerball numbers were being drawn.²

In contrast to the National Weather Service's 1 in 600,000 figure, however, Stanek's number reflects the odds of being struck and *killed* by lightning on any particular day while the National Weather Service's odds reflect a person's chance of only being *struck* by lightning during their entire lifetime. So both lottery proponents and opponents can use the lightning statistic to argue their case.

Aside from Powerball, there are other less complicated games such as scratch-off cards where the odds are much more player friendly. For example, in the Kentucky study, scratch-offs were the most widely played lottery game in the state, garnering 37 percent of player participation (as opposed to Powerball's 30 percent participation rate). When surveyed, 27 percent of players indicated they liked knowing if they win or lose immediately, while another 23 percent said they enjoy the opportunity to win often (the odds of winning at least something in Kentucky's scratch-off games are 1 in 4).³ Therefore, those who do think the odds of being struck by lightning and winning the Powerball jackpot are comparable are probably more inclined to participate in games like scratch-offs where the odds

of winning are much more in their favor.

North American lotteries in 1998 awarded \$52 million in prizes each day. This equates to \$36,000 being given away every minute of every day.⁴ While those who cite the minuscule chances of winning a \$100 million jackpot in a Powerball game are correct, the opportunity to win smaller amounts is much greater. Thus, while the lightning analogy may add a certain electricity to anti-lottery arguments, it may not be entirely accurate. Still, people lose much more often than they win, no matter what game they play.

—Gregory Gunter

FOOTNOTES

¹Edward J. Stanek, "A Critique of Lottery Critics" (from the speech "Take the High Road and Keep the Upper Hand" delivered to the North American Association of State and Provincial Lotteries at its Twenty-Third Annual Meeting in Boston, Mass. on Sept. 29, 1997, p. 10.

²*Ibid.*, p. 10.

³"Kentucky Lottery Corporation Participation and Attitude Study, University of Louisville Center for Urban and Economic Research, 1994. A total of 1599 adults over 18 years of age took part in the survey conducted from February 1994 until April 1994. The information was obtained through telephone conversations with participants throughout the state.

⁴See Stanek, note 1 above, p. 10.

Gregory Gunter is an intern at the N.C. Center for Public Policy Research.

compulsive gambling. Iowa runs a Gambling Treatment Program funded by the lottery, riverboat casinos, and racetracks. The Missouri Lottery is part of that state's Alliance To Curb Compulsive Gambling. In Ohio, the lottery provides tuition funding for a counseling certification program that trains professionals in treating gambling problems.

Kenneth Levenbook, a staff attorney in the North Carolina General Assembly's Bill Drafting Division, has suggested that if North Carolina goes ahead with a lottery, it should first conduct a survey to measure the incidence of pathological and problem gambling to serve as a baseline from which to measure the lottery's effect over time.

Are present-day lotteries plagued by scandal, or are they relatively scandal-free?

9

Throughout history, lotteries have been plagued by the occasional, and sometimes not so occasional, scandal. Economist Richard McGowan attributes the decline of the "golden age" of

lotteries from 1810 to 1840 primarily to scandals. In 1818, after local newspapers informed readers that New York's Medical Science Lottery was fixed, the state legislature launched an investigation. The probe revealed that lottery operators regularly informed prominent people, mostly politicians, what the winning numbers would be. This led to the ban of lottery sales in New York.

In 1823, Congress launched the Grand National Lottery in order to pay for improvements to the District of Columbia. Tickets were sold and the drawing took place, but the agent sponsoring the lottery fled town with several hundred thousand dollars in prizes. The winner of the grand prize subsequently sued the District of Columbia for the prize money.⁵²

Present day lotteries differ from those of the past in that most are owned and run by the states rather than by private brokers. Many games are computerized with direct lines running from gaming machines to state headquarters, reducing the possibility of tampering. This has reduced the number of scandals, but has by no means eliminated them. Pennsylvania suffered a scandal in the early 1980s when it was discovered that one of the operators of the daily number drawing was weighting balls bearing the number "6" heavier than the others.⁵³ In 1996, an executive with GTECH, the largest private operator of government lotteries in the

U.S., was convicted for defrauding his employer through a kickback scheme involving state government lobbyists in New Jersey.⁵⁴ And in 1999, Massachusetts suspended three employees at one of the local lottery offices after an investigation turned up serious problems there, including missing scratch tickets.⁵⁵

Other than these few instances, modern day state lotteries are remarkably free of scandal. As Clotfelter and Cook write, "Finally, let us note one objection that is not an issue in current opposition to lotteries: the corruption, fraud, and criminality that characterized the operation of many lotteries in the nineteenth century and other more recent forms of gambling. . . . [A]fter two decades of largely honest and efficient operation by state lottery agencies, this argument has all but disappeared."⁵⁶

Are there additional social consequences to the operation of state lotteries?

10

Aside from the problem of compulsive gambling and the occasional administrative scandal, some are concerned about other social costs that lotteries may entail. Editorial pages are full of anecdotal stories and claims of social ills that presumably emanate from state-sponsored lotteries—corrupted youth, increased crime, bankruptcies, and general moral decline. However, there is a dearth of solid research to back up most of these claims.

One concern is that state-run lotteries may be a "gateway" to induce people to engage in other forms of gambling, particularly illegal gambling.

—continued

"I guess I think of lotteries as a tax on the mathematically challenged."

—ROGER JONES

A MATHEMATICIAN,

ON THE ODDS OF WINNING POWERBALL

ON THE "NBC NIGHTLY NEWS"

Table 4. Lottery Revenue Allocations (in percentages)

States with Lotteries	Revenue to State	Prizes	Cost of Administration	Retailers	Other
1) Arizona	29%(a); 21.5(b)	at least 50%	18.5%	max. 7%	
2) California	34	51.5	7.9	6.6	
3) Colorado	26.1	59.3	8.9	5.7	
4) Connecticut	32.6	58.5	3.4	5.3	0.2%(c)
5) Delaware	min. 30; 26.8(d)	min. 45; 11.2(d)	max. 20; 0.6(d)	min. 5; 49.8(d)	11.6(e)
6) Florida	38	50	6.5	5.5	
7) Georgia	35	51	7	7	
8) Idaho	varies	at least 45	max. 15	5	max. 3.5
9) Illinois	37	54	balance	5 to 6	
10) Indiana	30	56	2	10	2
11) Iowa	28	54	12	6	
12) Kansas	31.25	53	10.15	5.6	
13) Kentucky	27.1	59.7	5.7	6	1.5(f)
14) Louisiana	35	50	10	5	
15) Maine	27.8	56.2	8.4	6.9	0.7(g)
16) Maryland	37.68	52.75	4.29	5.28	
17) Massachusetts	22	70	2.2	5.8	
18) Michigan	37	51	3	7	2(h)
19) Minnesota	variable	variable	max. 15	6	
20) Missouri	31	55	7.75	6.25	
21) Montana	23(i)	51(j)	10(k)	5(l)	11(m)
22) Nebraska	25	53	2	5	15(n)
23) New Hampshire	30	—	2	—	68(o)
24) New Jersey	41	51	1	7	
25) New Mexico	(p)	at least 50	not limited	—	2(q)
26) New York	38	51	5	6	
27) Ohio	32.5	56.98	4.02	6.28	0.22(r)
28) Oregon	22(s); 56(t)	62(s); 89.9(u)	5(s); 10(t)	(v)	5(w)
29) Pennsylvania	40(x)	50	3	5	2(y)
30) Puerto Rico	35	50	10	5	

Table 4, continued

States with Lotteries	Revenue to State	Prizes	Cost of Administration	Retailers	Other
31) Rhode Island	at least 30	67.61	.60; 31(d)	8(a); 5(b)(z);	1(aa)
32) South Dakota	20(b); 25(bb); 49.5(d)	6.5(b); 50-55(bb); (cc)	9.5(b); 19.5(bb); 0.5(d)	5.5(b); 5.5(bb); (dd)	
33) Texas	35	53	7	5	
34) Vermont	30.7	59.6	1.1	5.3	3.3(o)
35) Virginia	30 to 35	50 to 55	less than 10	5 to 6	
36) Washington	22.4	63.3	7.5	6.1	0.7(ee)
37) West Virginia	30 to 40	50 to 60	11	6.25	22(ff)
38) Wisconsin	32.7	56	6.1	5.2	
*Average	32.1	53.62	6.98	6.54	
*Median	32.5	53	7	6	

Key:

*For states with a range or breakdown by type of lottery game, figures are averaged; figures do not include states with an undefined variable rate.

- (a) online sales
- (b) instant sales
- (c) miscellaneous/Wet Inc.

- (d) video lottery
- (e) video vendors
- (f) ticket costs
- (g) Outdoor Heritage Fund
- (h) game-related expenses
- (i) after prizes, admin., and retailer costs

- (j) min. of 45 percent
- (k) no limit

- (l) no more than 10 percent
- (m) cost of tickets and vendor fees
- (n) vendors and marketing

- (o) cost of sales
- (p) of net revenues: 60 percent to critical capital outlay for schools; 40 percent to scholarships
- (q) to reserve fund

- (r) non-operational revenue 0.07 percent; net income 0.15 percent

- (s) of gross income for traditional lottery

- (t) of net for video lottery

- (u) of gross for video lottery

- (v) increasing base of 5 percent of gross for traditional; decreasing base of 3.5 percent of gross for video (sliding scales based on retailers' sales)

- (w) to vendors of gross for traditional and fixed lease rates for video

- (x) Older Pennsylvanians' Benefits

- (y) commissions to vendors and bonuses

- (z) plus 1 percent bonus for prize earnings exceeding \$1,000

- (aa) video lottery for cities and towns

- (bb) lotto tickets

- (cc) other costs are paid after prizes for video lottery

- (dd) remainder to operators and establishments for video lottery

- (ee) baseball stadium construction

- (ff) vendor fees; 6 percent of on-line gross sales and 16.25 percent of all gross net sales

Source: Keon S. Chi and Drew Leatherby, "States Ante Up: Regulating Lotteries and Casinos," *Solutions*, Council of State Governments, Lexington, Ky., Vol. 6, No. 2, October 1998, p. 9. Copyright 1998 The Council of State Governments. Reprinted with permission from *Solutions*.



Shawn Smith of Durham holds the flier that was posted in the S & J Convenience Store in Alton, Virginia, indicating he held the winning ticket for \$5 million.

"A [state] lottery is bad criminal policy," says Coy Privette, a former member of the N.C. House of Representatives and former executive director of the Raleigh-based Christian Action League of North Carolina. "The illegal lottery rides 'piggy-back' on the legal lottery. People who play the lottery extensively prefer the illegal lottery."⁵⁷

The Center could not find any studies that confirm a link between state lotteries and illegal gambling. However, there is evidence to show that *state lotteries provide an avenue for minors to gamble*, despite the fact that every state lottery prohibits the sale of lottery tickets to minors. Clotfelter and Cook cite numerous studies indicating adolescents do find ways to play the lottery.⁵⁸ States have come up with various strategies to discourage play by minors, but the effectiveness of these measures is widely questioned. Former Arizona Governor Bruce Babbitt told the *Los Angeles Times* in 1984 that a ban on sale of lottery tickets to minors would be unenforceable.⁵⁹ Bills introduced in the 1999–2000 General Assembly would have prohibited the sale of lottery tickets to persons under age 18, directed retailers to determine the age of potential lottery purchasers, and adopted guidelines for lot-

tery advertising to minimize the appeal of the lottery to minors.

Another concern is that *lotteries sap the work ethic of a state's citizenry* by promoting the idea that the way to get ahead in life is through luck rather than hard work. Clotfelter, Cook, *et al.* suggest that lottery states may actually suffer a reduction in government revenues over the long run by reducing economic growth. "Specifically, if the lottery promotion erodes the propensities to work, save, and self-invest in education and training, the consequence will eventually attenuate growth in productivity," they state.⁶⁰ However, the authors cite no studies that demonstrate this effect.

Closely associated with concerns about undermining the work ethic is the notion that *government is diminished in the eyes of its citizens* by promoting an activity that is otherwise declared illegal. Indeed, lottery states find themselves in the hypocritical position of aggressively promoting one form of gambling (lotteries) while criminalizing others (such as betting on college athletics). In some states, citizens have demanded that their governments eliminate some forms of gambling, reduce expenditures on marketing, or both as a means

of reducing problems of underaged and compulsive gambling. But as with any product, a cutback in lottery marketing and availability can mean a drop in sales—putting the states in a Catch-22 situation. The Catch-22 is that restrictions that reduce underaged and compulsive gambling may also reduce overall sales, thus cutting revenue. The need for increased revenue is what leads states to institute lotteries in the first place.

Another potential cost to state governments is the loss of credibility should the lottery fail to raise overall spending or performance in targeted areas such as education, or when tax increases are still deemed necessary to keep pace with rising costs. Public cynicism toward the lottery ran high in Florida, for example, when it was revealed that per pupil educational expenditures actually declined following the institution of the lottery.

Political influence: *To what extent do firms associated with the administration or operation of lotteries become heavy contributors to political campaigns?*

11

Surveys and anecdotal evidence indicate that lottery-related firms do become heavy contributors to political campaigns

or ballot measures, at least during those times when crucial votes or lawmaking affecting the industry is in the offing. In 1997, the citizens group Common Cause, based in Washington, D.C., conducted a study showing that gambling interests contributed \$8.6 million to national political committees from 1988 through 1996. Of that amount, \$3.9 million came in 1996 as Congress debated whether to create the NGISC to study the effects of legalized gambling in the United States. "Gambling interests quickly became Washington high rollers, using the soft money to load the dice in their favor," says Ann McBride, president of Common Cause.⁶¹ The study also found that gambling interests increased their "soft money" donations at the state level to counter growing voter opposition to legalized gambling. Soft money donations do not go directly to political candidates and thus are exempt from laws limiting campaign contributions.

In Arkansas, gambling interests spent an estimated \$8 to \$10 million to support a referendum to legalize casinos in the town of Hot Springs. In Ohio, gambling interests spent an equal amount to support a referendum legalizing eight dockside casinos. However, these plans were both defeated by anti-gambling forces.⁶²

Gambling interests also have lent their weight to individual political races. In 1998, Democrat Jim Hodges defeated incumbent Republican South



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Carolina Governor David Beasley in a hard-fought race for governor that centered on the issue of video poker, then a \$2.5 billion dollar business in South Carolina. Declaring video poker to be a "cancer" on the state, leaving "troubled children, broken homes and overwhelmed social agencies," Beasley campaigned to have video poker outlawed.⁶³ Hodges, a former critic of video gambling, said the issue of video poker's continued legality should be

put to a public referendum. Hodges also came out in favor of a state lottery as a way of raising money for education.⁶⁴ Video poker, while lucrative for vendors, produces only \$60 million per year for the state of South Carolina through a franchise tax. A state share of more than 30 cents per dollar spent on lottery tickets would yield a much larger take.

While campaign disclosure laws don't require parties to report their soft money receipts, news

What the Polls Say About Public Support for a State Lottery in North Carolina

Polls dating back to the 1980s have consistently shown that North Carolinians favor a state lottery. Support hovers around 60 percent but rises to about 70 percent when the question links using lottery proceeds for public education.

In January and February of 2000, for example, KPC Research of Charlotte, N.C., asked 1,020 residents about support for a state lottery as part of the "Your Voice, Your Vote" survey intended to help guide coverage of the 2000 election for 15 media organizations statewide.¹ Respondents were asked, "Would you support or oppose a state lottery for North Carolina if the profits were used for public education? Of those who answered (3 percent refused), 70 percent said they would support a lottery for that purpose, 27 percent said they would not, and 3 percent said they were not sure. The poll had a margin of sampling error of plus or minus 3.1 percent.

A question on the fall 1999 Carolina Poll, conducted by the School of Journalism and the Institute for Research in Social Science at the University of North Carolina at Chapel Hill, was worded similarly but *did not mention earmarking the profits for public education*.² Of the 714 persons responding, 62 percent said they supported a state lottery, 31 percent were opposed, and 7 percent said they did not know or declined to answer. The margin of sampling error for this poll was 3.7 percent.

The Carolina Poll, conducted each spring and fall, has asked about support for a state lottery numerous times over the past two decades,

yielding fairly consistent results. The poll features a random telephone sample of adult North Carolinians with respondents within the household selected randomly by asking for the adult with the nearest birthday. The survey uses an unweighted sample, meaning the results are not adjusted to account for any underrepresentation of subgroups in the population. In the fall of 1990, respondents were told, "Here are some questions about other issues in the news. Do you support or oppose a state lottery in North Carolina?" Of 822 respondents, 61 percent said they supported a state lottery, while 24 percent said they were opposed. An additional 12 percent said they didn't know, and 2 percent did not answer. (Margin of sampling error was plus or minus 3.4 percent) The question regarding a state lottery was worded identically in the fall of 1989. In that poll, 66 percent of 634 respondents said they would support a lottery, while 25 percent were opposed. An additional 8 percent said they did not know, and 1 percent did not answer. (Margin of sampling error was plus or minus 3.9 percent.) The 1989 poll was conducted about one year after institution of the Virginia lottery in September 1988. This might have accounted for a slight increase in support (66 percent) compared to other years in which the Carolina Poll question did not mention using the proceeds for education.

And finally, in 1983, the Carolina Poll asked, "Some people have proposed that North Carolina hold a lottery to raise money for state government expenses. Do you think a state lot-

reports state that video poker interests spent heavily to defeat Beasley. *USA Today*, in a systematic analysis of the campaign, estimates that video poker interests spent at least \$3 million in direct and indirect giving (issue ads, bumper stickers and billboards) on the South Carolina race.⁶⁵ Compared to video poker, lottery-related spending in the state has thus far been modest, though the vote on whether to amend the South Carolina Constitution to allow a

lottery is still months away. Two multinational lottery firms, Rhode Island-based GTECH and Montana-based Automated Wagering International spent some \$135,000 in South Carolina in 1999, according to published reports.⁶⁶ Of that amount, Automated Wagering International donated \$10,000 to the state Democratic Party and \$3,500 to Gov. Jim Hodges' campaign for reelection in 2002. The remainder went to Columbia, S.C., lobbying firms.

tery would be a good idea or a bad idea?" Some 59 percent of the 599 respondents said a state lottery would be a good idea, while 28 percent said it would be a bad idea, and 13 percent said they did not know. (Margin of sampling error was plus or minus 4 percent.)

But if polls have shown consistent support for a state lottery in North Carolina, another important issue is intensity of support. While this is difficult to measure, a number of polls have made the attempt. A March 1998 Carolina Poll set the question up thusly: "Some people favor a state lottery to raise revenue for the North Carolina educational system. Other people oppose a lottery on moral or economic grounds. Do you strongly favor, favor, oppose, or strongly oppose a state lottery with the revenue used to support education?" Of the 370 persons responding, 29 percent said they strongly favored a state lottery, 41 percent said they favored a lottery, 16 percent opposed a lottery, and 10 percent strongly opposed a lottery. A total of 4 percent said they did not know or did not answer. (Margin of sampling error was plus or minus 5 percent.)

The Chapel Hill, N.C., polling firm FGI asked the question differently in May 1994 and got somewhat different results.³ In a poll sponsored by *The News and Observer* of Raleigh, N.C., a total of 608 North Carolina residents were asked, "Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose a state lottery?" About 48 percent said they strongly favored a state lottery, while 16 percent somewhat favored a state lottery. Of those opposed, about 10 percent were somewhat op-

posed, while 22 percent were strongly opposed. Another 4 percent said they did not know or did not answer. (Margin of sampling error was plus or minus 4 percent.)

Because the track record of public support for a state lottery is strong in North Carolina, most lottery legislative proposals call for a vote of the people in a statewide referendum. That's the poll that really counts. While lottery referenda of various stripes have passed across the nation, the last statewide vote, which came in November 1999 in Alabama, was a loser, 54%-46%.

—Mike McLaughlin

FOOTNOTES

¹ Information on the "Your Voice Your Vote" poll is taken from www.yvyyv.com. The Your Voice Your Vote project is a consortium of broadcast and print media outlets that use a poll to determine what voters are concerned about in a particular election year, then attempts to tailor campaign coverage to address those concerns. Such efforts to involve the public in coverage are discussed in Tom Mather, "Civic Journalism: Strengthening the Media's Ties With the Public," *North Carolina Insight*, N.C. Center for Public Policy Research, Raleigh, N.C., Vol. 15, No. 4/Vol. 16, No. 1, March 1995, pp. 70-87.

² The Carolina Poll is a joint project of the School of Journalism and the Institute for Research in Social Science at the University of North Carolina at Chapel Hill. Poll results are accessible through the IRSS data archive at www.irss.unc.edu. All Carolina Poll results mentioned in this article are taken from this source.

³ IRSS data archive at www.irss.unc.edu. Similar to the Carolina Poll, this poll featured a random telephone sample, with adults selected within households using the nearest birthday method. The results were adjusted to balance male and female responses.

Mike McLaughlin is editor of *North Carolina Insight*.

Gambling interests now are beginning to focus on North Carolina political races as well. The *News & Observer* of Raleigh, N.C., reported that video poker interests donated \$133,680 to four of the five major gubernatorial candidates (Republicans Leo Daughtry and Richard Vinroot and Democrats Mike Easley and Dennis Wicker) leading up to the May 2000 primary. North Carolina law allows video poker as long as no cash prizes are awarded.⁶⁷ However, in the waning days of the 2000 General Assembly, the North Carolina legislature enacted Senate Bill 1542, which placed further restrictions on video poker out of fear that thousands of video poker machines idled by the South Carolina ban would be deployed across state lines. Under the new law, video poker machines are limited to no more than three per location, video poker locations must be separated by at least 300 feet, and no new video poker machines may be introduced to the state that were not in place on June 30, 2000. In addition, minors are forbidden from playing, and each video poker machine must be registered with the county sheriff.

Video poker and lotteries are two different entities, but there is still a lesson to be drawn. Should a party or candidate mount a serious challenge to an existing state lottery, or should the immediate opportunity arise to start or expand a lottery, lottery interests will no doubt weigh in with campaign contributions, as is their right under current campaign finance laws.

Are most state lotteries publicly or privately operated, and does either type of game generate more revenue than the other?

12

While states certainly have the option of structuring lotteries as private operations, all state lotteries are presently run by an agency of state government.

Clotfelter and Cook cite two distinct advantages to this option. First, provision by a state agency gives state governments substantial control over all aspects of a lottery's operation. Second, operation by a state agency reduces the potential for corruption.

"One persistent problem in forms of commercial gambling that rely on private providers, especially casinos, is preventing the involvement of organized crime," the authors write. "In contrast, the state agency model that has been the rule for modern lotteries has been quite successful in avoiding

***A Lottery is a Taxation,
Upon all the Fools in Creation;
And Heav'n be prais'd,
It is easily rais'd,
Credulity's always in Fashion:
For, Folly's a Fund,
Will never lose Ground,
While Fools are so rife in the
Nation.***

—HENRY FIELDING, 1732

even the appearance of corruption or influence by organized crime."⁶⁸

While all state lotteries are currently administered by a state agency, states vary in the degree to which the lottery agency is administered differently from the rest of state government. Presently, 14 of the 38 lottery agencies are part of a traditional state agency, usually the department of revenue. In all but one of those cases, the lottery is subject to state regulations covering procurement and the employment and compensation of state employees. In the remaining 24 jurisdictions, separate agencies have been established, some being independent, quasi-public entities, not bound by the state's civil service requirements or rules of procurement. This independence allows the agency to operate more like a business, including the ability to pay salaries to top managers that would exceed those permissible to similar state workers.

Legislation proposed in the 1999–2000 General Assembly called for the creation of a North Carolina Lottery Commission consisting of nine members, five appointed by the Governor and four by the General Assembly. The bills called for a director to be appointed by the governor to direct the operations of the Commission and serve as chief executive officer.

While all state lotteries are under the control of a state agency, the actual operation and marketing of the games is invariably contracted out to one or more private firms such as SciGames, which specializes in instant ticket games, and GTECH, which specializes in on-line games. These companies provide, install and maintain all the gaming machines, communications infrastructure, and tickets, as well as select and award prizes.

The Council of State Governments recommends that states study the feasibility of privatizing lottery operations "for the purpose of separating regulatory and operational functions."⁶⁹ Legislation proposed in North Carolina encouraged the lottery director to contract out as much of the services as possible. Levenbook says this is to discourage the creation of additional bureaucracy within state government. The bills also prohibited contracting with any one firm to provide all services as a way of discouraging a monopoly situation.

Could the North Carolina General Assembly put the question of whether to institute a lottery to the voters in the form of a public referendum, or would that be a violation of the state constitution?

13

Some lottery proposals envision an up-or-down vote by the legislature. By contrast, Sen. Tony Rand (D-Cumberland) and others have suggested that the issue of a state lottery in North Carolina be put to a referendum of

the voters. Indeed, this is how every piece of lottery legislation has been drawn in the state since 1983, says Levenbook of the legislature's Bill Drafting Division. A referendum provides a measure of political cover for legislators who can maintain a personal opposition to the lottery while allowing a "vote of the people." Of the major gubernatorial candidates in 2000, Democrats Easley and Wicker supported a referendum. Republicans Leo Daughtry and Chuck Neeley signed a pledge

As one legislator said, "I'd rather give [the voters] the option of voting for or against the lottery bill than give them the option of voting against me because I didn't support the lottery."

—FROM CHARLES T. CLOTFELTER
AND PHILIP J. COOK

SELLING HOPE: STATE LOTTERIES IN AMERICA

from the Christian Coalition and the Christian Action League of North Carolina indicating they would veto any gambling legislation, including legislation calling for a referendum on a lottery. Richard Vinroot also signed the pledge but marked out the "including a referendum" language before he signed it. With Vinroot capturing the Republican nomination and Easley the Democratic nomination, both major candidates would allow a lottery referendum to go forward.

However, some people hold the opinion that allowing the public to authorize a lottery through a referendum would be an unconstitutional delegation of legislative authority. The North Carolina Constitution states, "The legislative power of the State shall be vested in the General Assembly, which shall consist of a Senate and a House of Representatives."⁷⁰

John L. Sanders, a former director of the Institute of Government at the University of North Carolina at Chapel Hill and a specialist in state constitutional law, is among those who believe a binding lottery referendum would be unconstitutional. Sanders examined the issue of a lottery referendum in a 1994 article for *Popular Government* and has testified before legislative study committees on the issue. Sanders writes:

"The general rule laid down by the North Carolina Supreme Court that the legislative power may not be delegated by the General Assembly, and the absence of any decision in which the supreme court has established an exception to that rule so as to allow the General Assembly to delegate the final decision on the statewide effectiveness of legislation to the voters in a statewide referendum, support the conclusion that such a delegation, if challenged in the state courts, probably would be found to be unconstitutional."⁷¹

However, Gerry Cohen, director of bill drafting for the N.C. General Assembly, disagrees with Sanders' interpretation. "The Bill of Rights of our state constitution says, 'For the purpose of amending and strengthening the laws, elections shall frequently be held,'"⁷² Cohen states. "To me, that says you can hold elections, of which a referendum is one form, to amend the laws."

Sanders disagrees. "[T]hat provision has nothing to do with referendums but instead guarantees frequent elections for members of the General Assembly," he says.

The North Carolina Attorney General's Office also has issued an opinion that a lottery referendum would be legal on grounds that power rests with the people unless limited by the constitution.

**Table 5. State Lotteries, Method of Authorization, Approval Rate,
and Date Begun**

Lottery	Method of Authorization	Approval Rate If Voter Referendum	Date Begun
1) Arizona	Ballot Initiative	51%	July 1, 1981
2) California	Ballot Initiative	58	Oct. 3, 1985
3) Colorado	Ballot Initiative	60	Jan. 24, 1983
4) Connecticut	Legislation		Feb. 15, 1972
5) District of Columbia	Ballot Initiative	66	Aug. 22, 1982
6) Delaware	Legislation		Oct. 31, 1975
7) Florida	Referendum	64	Jan. 12, 1988
8) Georgia	Referendum	52	June 29, 1993
9) Idaho	Referendum	51	July 19, 1999
10) Illinois	Legislation		July 30, 1974
11) Indiana	Referendum	62	Oct. 13, 1989
12) Iowa	Legislation		Aug. 22, 1985
13) Kansas	Referendum	64	Nov. 12, 1987
14) Kentucky	Referendum	60	April 4, 1989
15) Louisiana	Referendum	65	Sept. 6, 1991
16) Maine	Referendum	61	June 27, 1974
17) Maryland	Referendum	80	May 15, 1973
18) Massachusetts	Legislation		Mar. 22, 1972
19) Michigan	Referendum	67	Nov. 13, 1972
20) Minnesota	Referendum	57	April 17, 1990
21) Missouri	Referendum	70	Jan. 20, 1986
22) Montana	Referendum	70	June 27, 1987
23) Nebraska	Referendum	63	Sept. 11, 1993
24) New Hampshire	Legislation		Mar. 12, 1964
25) New Jersey	Referendum	82	Dec. 16, 1970
26) New Mexico	Legislation		April 26, 1996
27) New York	Referendum	61	June 1, 1967
28) Ohio	Legislation		Aug. 13, 1974
29) Oregon	Ballot Initiative	66	April 25, 1985

Table 5, continued

Lottery	Method of Authorization	Approval Rate If Voter Referendum	Date Begun
30) Pennsylvania	Legislation		Mar. 7, 1972
31) Rhode Island	Referendum	N.A.*	May 18, 1974
32) South Dakota	Referendum	60	Sept. 30, 1987
33) Texas	Referendum	65	May 29, 1992
34) Vermont	Referendum	66	Feb. 14, 1978
35) Virginia	Referendum	57	Sept. 20, 1988
36) Washington	Legislation		Nov. 15, 1982
37) West Virginia	Referendum	67	Jan. 9, 1986
38) Wisconsin	Referendum	65	Sept. 18, 1988
Total	Referendum –	23	
	Ballot Initiative –	5	
	Legislation –	10	

* Results of the Rhode Island referendum were not available.

Source: *La Fleur's '98 World Lottery Almanac*, TLF Publications Inc., Boyds, Md., 1999, p. 5.

“[T]he great emphasis placed by our appellate courts on the nature of the North Carolina Constitution as being one of limitation, rather than of grant, strongly suggests the conclusion that the enactment of legislation conditioned upon a favorable vote of the people must be constitutional,” states the opinion.⁷³

Of the 38 jurisdictions in the U.S. that have lotteries, 23 were authorized by referendum.⁷⁴ (See Table 5, above.) However, these were not exactly comparable to the referendum proposed for North Carolina. Cohen says these other states all had provisions in their constitutions that banned gambling, and the referenda were needed to change the constitutions. This is the case in South Carolina, for example, which will hold a referendum on the lottery in November.

Alabama is the most recent state to decide on the issue of a lottery by state referendum. In the largest voter turnout (53 percent) for a referendum in the state’s history, Alabama citizens in October

1999 voted against creating a state lottery by a vote of 54.3 percent against versus 45.7 percent for. Governor Donald Siegelman had lobbied strongly for the lottery, but it was successfully opposed by a coalition of religious groups, according to David Azbell, spokesperson for Alabama Secretary of State Jim Bennett.

South Carolina’s lottery referendum is scheduled for November 7, 2000. Governor Jim Hodges is lobbying strongly in favor of the lottery as a means of financing education. The lottery is opposed by leading Republicans and religious groups. Polls show two-thirds of South Carolina voters are in favor of a lottery.⁷⁵ Meanwhile, a South Carolina Supreme Court ruling has resulted in the banning of video poker effective July 1, 2000.⁷⁶ In 1999, the South Carolina legislature enacted the law to ban video poker and submitted the act to the voters for approval or disapproval. In a suit brought by video poker interests, the state’s highest court held that while the legislature could by simple act

abolish video poker, it could not delegate its authority by submitting that act to a vote of the people. But the court found that the act was complete without the referendum feature and thus was effective to abolish video poker. Four months after abolition of video poker takes effect, South Carolinians go to the polls to decide on a lottery.

Conclusion

Lotteries have a long history in this country, having been used to raise funds for key programs and projects at times when generating revenue by other means was not feasible or politically acceptable. Public sentiment about the appropriateness of lotteries has waxed and waned over time. Currently, the nation is in its third wave of "lottery fever" with 37 states plus the District of Columbia sponsoring the games. As more states add lotteries, the pressure grows on neighboring states to do the same. However, questions about the constitutionality of a lottery referendum in North Carolina and defeat of a lottery referendum in Alabama suggest that the spread of a lottery to North Carolina is not inevitable.

If a referendum on the lottery is put to the voters of North Carolina, polls indicate that it could pass. The most recent "Your Voice Your Vote" poll—sponsored by a consortium of North Carolina broadcast and print media outlets to help guide coverage of the 2000 elections, placed support for a lottery at 70 percent of North Carolinians if the revenue were spent on education. This is consistent with previous poll findings. But the passage of a lottery referendum is not automatic, as Alabama politicians will testify. The lottery remains highly controversial in North Carolina, with many prominent political and religious figures opposed. "How can the state itself engage in activity it condemns as illegal in law?" asks Sen. Hamilton Horton (R-Forsyth).

And whether the referendum could ever be held is at question, since a public vote on the lottery could well be challenged as unconstitutional. How the courts would ultimately decide is uncertain, as legal scholars interpret the state constitution in different ways. This is a question that could be avoided with a straight up-or-down vote of the General Assembly, but the issue is viewed as too controversial for a direct legislative vote. That sort of thinking perplexes some legislators, such as Rep. Martin Nesbitt Jr. (D-Buncombe). "You've got one way to do it that might be legal and one way you know is legal. Why not do it the right way?" asks

Nesbitt, who opposes a state-operated lottery. Republican Sen. Jim Forrester (R-Gaston), also a lottery foe, agrees with Nesbitt's assessment. "If we're elected to represent the people, we ought to stand up and vote on it one way or the other," says Forrester.

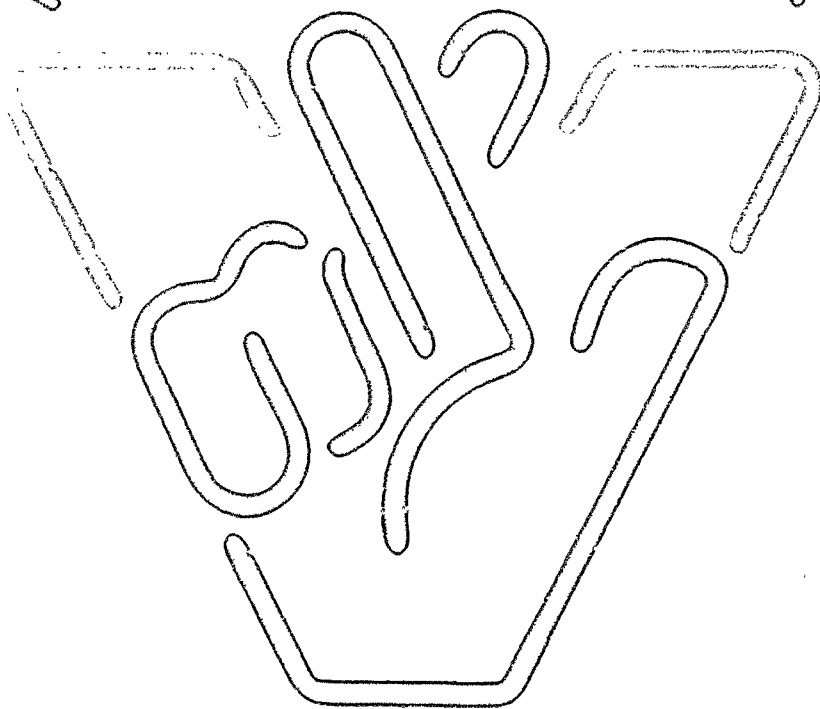
Why not a yes or no vote by the legislature? The answer is simple to lottery proponents such as Rep. David Redwine (D-Brunswick). "A straight-up vote wouldn't pass," says Redwine. "We're just following the pattern of what most states have done." Though not a personal fan of the lottery, Redwine does not like the flow of lottery revenue to other states from North Carolina—estimated at \$86.5 million in the 1998–99 fiscal year for Virginia alone, according to a spokesperson for the Virginia lottery. That flow will only intensify if South Carolinians vote yes on the lottery in November 2000.

Should a North Carolina referendum be authorized by the General Assembly, pass constitutional muster, and be approved by the voters, North Carolina could expect to earn in excess of \$300 million in net revenue the first year—2.3 percent of the total state budget of \$13.3 billion, according to the legislature's Fiscal Research Division. Depending upon which bill is passed, North Carolina could see the bulk of those funds earmarked for an Education Improvement Scholarship Program modeled after Georgia's HOPE Scholarships.

Democratic gubernatorial candidate Mike Easley campaigned and won his party's nomination on a promise to use lottery funds to reduce class size in the public schools and establish a pre-kindergarten program for at-risk four-year-olds. Legislation featuring his priorities also could surface in a future session of the General Assembly. Additional lottery funds might be directed to the state's Clean Water Fund, to counties for water and sewer infrastructure improvements, to local school districts for capital improvements, to Governor Jim Hunt's Smart Start child care initiative (the Early Childhood Education and Development Initiatives Program), or to the General Fund to reduce the state's bonded indebtedness.

However, there would be a cost. North Carolina would likely see some increase in problem and compulsive gambling—exactly how much is not certain. Despite rules to the contrary, minors would succeed in playing the lottery. It would be unlikely that the state could eliminate illegal play by minors entirely without sacrificing lottery revenues. Evidence suggests that a majority of players would not skimp on necessities (food, shelter,

THE BIG GAMING



LOTTO

Karen Tam

clothing) to finance their gambling, but might cut back on spending for alcohol. Convenience stores might see some decrease in revenue, but this might be offset by commissions for lottery ticket sales. Any decline in retail sales would be reflected in a corresponding loss of sales tax revenue to the state and local governments. In addition, there could be increased resistance to tax increases to meet rising

government costs if the public perceives that lottery money is or should be adequate to meet the need for increased revenue.

Scandals involving lottery administration would be unlikely. However, once the games are established, public acceptance combined with pressure and political contributions from the gaming

—continued on page 56

13 Ways of Looking at a State Lottery:

by Gregory Gunter, Ran Coble and Mike McLaughlin

Issue

1. For what programs do states earmark lottery revenues, and what are examples of program accomplishments funded by lotteries?

2. What is the track record of lotteries as revenue sources, and does the reliability or size of the revenue stream depend upon the programs for which the revenue is earmarked?

3. What is the cost of marketing a lottery, and does the cost increase, remain stable, or decrease over time?

4. Do lottery revenues *supplement* state funding for specific program areas such as education or *supplant* it?

5. Who plays the lottery?

The Positives

Of the 31 states that earmark funds, 20 states earmark at least some lottery proceeds for education. Seven other states put lottery proceeds into the general fund. The other states use lottery funds to support programs ranging from parks and recreation to police and firefighters' pensions. Georgia uses lottery funds for its HOPE college scholarship program. Pennsylvania funds a broad range of programs for the elderly with lottery proceeds.

In 1997, total revenues from the 37 lottery states and the District of Columbia amounted to 2.2 percent of the general revenue collected by those jurisdictions. A lottery in North Carolina would generate an estimated \$300 million in revenue in the first full year of operation, or 2.3 percent of the total state budget.

On average, marketing costs (including media advertising) account for approximately 1 percent of lottery sales. Over time, marketing expenses will vary based on how badly a state needs revenue and wants to promote its games.

Some states, such as Georgia, have made use of their lottery to fund new programs that supplement their efforts in public education. The Georgia effort includes a pre-kindergarten program, technology for the public schools, and college scholarships based on grades. An analysis by *State Policy Reports* indicates that *per student spending* on education is slightly higher in lottery states than in non-lottery states.

Though the research findings conflict, the evidence seems to indicate that there is little variation between racial and ethnic groups in terms of who plays the lottery. Also, the percentage of players who participate does not vary much by education levels, though the amount of money spent by these players does vary.

summary prepared by Center Intern Gregory Gunter, Center Executive Director Ran Coble, and Insight Editor Mike McLaughlin

The Positives, the Negatives, and the Bottom Line

The Negatives

When funds are earmarked, programs no longer have to compete against other priorities in the budget-making process. As a result, funds may not be put to their most pressing use. On the other hand, lottery funds make only a small contribution to states' general funds and may not be large enough to result in significant accomplishments or may simply supplant existing revenue (see number 4 below).

When taken as a percentage of state revenues, lottery revenues appear to be on the decline. The Center's research indicates that lottery revenues as a mean percentage of state operating budgets for the 38 lottery jurisdictions dropped from 3.5 percent in 1989 to 2.2 percent in 1997. Just looking at the 29 jurisdictions operating lotteries in 1989, the mean percentage of operating budgets these lotteries produced dropped to 1.9 percent by 1997. *State Policy Reports*, in its July 2000 edition, notes that the average annual increase in lottery sales per capita declined from 9 percent between 1973 and 1987 to 1.6 percent from 1987 to 1997.

Research suggests that in order to maintain the public's interest, states may be forced to increase advertising costs. However, other factors can influence the public's interest in the lottery, such as the size of the jackpot or introduction of new games.

(1) In California, Florida, Illinois, and Michigan, research shows that lottery funds have substituted for normal levels of appropriations, despite the fact that lotteries had been promoted as boosting spending for education. (2) A separate study indicates that states *without* lotteries devote a *higher percentage of their general funds to education* than do states with lotteries. (3) States with lotteries have seen per capita tax revenues increase an average of 21.7 percent over the past five years versus 7.2 percent for states without a lottery.

Low-income players spend a higher proportion of their income on lottery tickets than do players who earn more. The amount of money spent by players drops sharply as education levels increase. High school dropouts who play the lottery are by far the biggest spenders. African Americans who play tend to *spend* more, on average, than other racial groups. Other socioeconomic groups that play heavily include males, Hispanics, Catholics, laborers, and the middle-aged generally.

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Bottom Line

Earmarking funds for broad purposes such as public education will not protect against lottery funds merely supplanting existing state funds. However, earmarking for education is the most politically popular use of lottery funds. Polls show support for a state lottery in N.C. increases by 5 to 10 percent when the poll question mentions using the proceeds for education.

Although lottery revenues are declining as a percentage of state revenue, research indicates that they are a comparatively reliable revenue source relative to other state government revenue sources such as the sales tax.

States must market heavily and continue to introduce new games in order to maintain a reliable revenue stream from the lottery. When sales stagnate, states also may be forced to consider more aggressive forms of gaming, such as video terminal gambling or riverboat casinos.

Lottery revenues may supplant rather than supplement normal levels of funding for state government programs, but this is difficult to prove or disprove through research. Rising costs in other program areas such as Medicaid and corrections also may account for a lottery-funded program receiving a smaller proportion of the state budget over time. Such costs may hit harder in lottery states, which generally are more populous.

There is a difference between comparing *participation rates* at various income levels versus *proportion of income spent* by the poor on lotteries. Lotteries are regressive in that lower-income players spend a higher percentage of their incomes on tickets than do higher income players. However, the poor do not seem to participate in lotteries in numbers greater than their proportion in the population.

13 Ways of Looking at a State Lottery:

Issue

6. Who is most likely to benefit from lottery revenues?

The Positives

States tend to earmark lottery proceeds for education, so students are the most frequent beneficiaries. Nationwide, lottery revenues also benefit senior citizens (Pennsylvania), police and fire departments (Indiana), Vietnam veterans (Kentucky), juvenile delinquents (Montana), compulsive gamblers (Iowa), and even baseball fans (Washington State).

7. Do lottery ticket sales displace other retail spending, or do they stimulate more sales?

Retailers who sell lottery tickets typically receive a 5 percent commission from sales, and having tickets available for sale can bring in customers. One study indicates that lottery players significantly reduced their spending in only one category (alcohol).

8. Do lotteries contribute to problems with compulsive gambling?

Most compulsive gamblers tend to gravitate toward types of gambling that involve a skill element or provide an immediate reward, such as casino games and video poker.

9. Are present-day lotteries plagued by scandal, or are they relatively scandal-free?

States place a high priority on operating scandal-free lotteries in order to safeguard the public trust and protect the integrity of the games. Corruption has not been a major problem in the operation of modern-day lotteries.

The Positives, the Negatives, and the Bottom Line

The Negatives

The lottery may shift resources from frequent players—including high school dropouts—to more affluent beneficiaries, such as those most likely to earn a merit-based college scholarship.

Sales of other goods may decline if the consumer's discretionary income is limited or if lines become so long for the lottery that they discourage other customers. The benefits of selling lottery tickets may not offset the increased hassle that could be created by long lines for lottery ticket sales in retail outlets. Also, states without a state income tax (North Carolina has a state income tax) and with high rates associated with sales and excise taxes lose non-lottery revenue as a result of instituting a lottery.

Legalization of gambling can encourage people to gamble more frequently and spend more on gambling. The lottery may be a gateway to other forms of gambling, particularly for minors.

Scandals have and still can occur even with state governments running the games. Pennsylvania suffered a scandal in the 1980s when an operator tried to rig a daily numbers drawing. In 1996, an executive with GTECH, the largest private lottery operator in the U.S., was convicted for defrauding his employer through a kickback scheme involving state government lobbyists in New Jersey. And in 1999, Massachusetts suspended three employees at a local lottery office after an investigation turned up missing scratch tickets.

Bottom Line

If a lottery is designed in a way to supplement rather than supplant existing revenue, students benefit from lottery revenues. The HOPE Scholarship Program, though skewed toward the more affluent, has also boosted the college-going rate in Georgia and enhanced available financial aid for college students.

Lottery sales may displace some discretionary retail purchases, though the research does not give a clear answer on this question. State sales tax revenue may also suffer with the institution of a lottery.

Lotteries may contribute to compulsive gambling, though not as much as other games of chance that require at least some skill level and that provide quick results and rewards to the player. The research findings are in conflict here. There have been numerous studies on links between legalization and compulsive gambling, several of which showed increases and others not. One study found that participation in a state lottery was associated with a greater involvement in general gambling, which was in turn linked with problem gambling. But another study found that the Minnesota lottery switched adolescents from illegal to legal gambling and did not increase overall gambling in the state.

Contemporary lotteries appear to operate relatively scandal free.

—continued

13 Ways of Looking at a State Lottery:

Issue

10. Are there additional social consequences to the operation of state lotteries?

The Positives

Having a legal form of gambling may discourage citizens from seeking out illegal forms in which to participate. Carefully crafted programs also can result in desirable social outcomes, such as encouraging more young people to attend college (e.g., the Georgia HOPE Scholarship Program).

11. Political Influence: To what extent do firms associated with the administration or operation of lotteries become heavy contributors to political campaigns?

Given the popularity of most state lotteries once implemented, large political contributions may be unnecessary to keep the games in place.

12. Are most state lotteries publicly or privately operated, and does either type of game generate more revenue than the other?

All lotteries operated in the United States are entities of the state, though private concerns play a large role in their operations. By having lotteries run by an agency of state government, the state has substantial control over all aspects of the lottery's operation.

13. Could the North Carolina General Assembly put the question of whether to institute a lottery to the voters in the form of a public referendum, or would that be a violation of the state constitution?

Gerry Cohen, the director of bill drafting for the N.C. General Assembly, says such a referendum would be constitutional. Of the 38 jurisdictions in the United States that have lotteries, 23 were authorized by referendum.

The Positives, the Negatives, and the Bottom Line

The Negatives

(1) State lotteries may induce people to engage in other forms of gambling. (2) State lotteries provide an avenue for minors to gamble, even though every state lottery prohibits sales to minors. (3) Lotteries may sap the work ethic of state citizens by promoting the idea that the way to get ahead in life is through luck rather than hard work. (4) Government may be viewed as hypocritical and diminished in the eyes of its citizens by promoting an activity that is otherwise illegal—a state-sanctioned numbers game. (5) Some people spend more than they can afford on the lottery in hopes of striking it rich. The government is cast in the role of encouraging this type of speculative behavior.

Gambling interests in general contributed \$8.6 million to national political committees from 1988-1996. Gambling interests also increased their soft-money donations at the state level to counter opposition to legalized gambling. And, video poker interests gave \$133,680 to four North Carolina gubernatorial candidates in the May 2000 primary. Lottery firms do involve themselves in the process of trying to get new lotteries approved. This can involve contributions to candidates, lobbying expenses, and campaigns for a favorable vote if a public referendum on a lottery is scheduled. However, such activity is not exclusive to lottery firms.

By running the lottery itself, the state may be viewed by some citizens as engaging in an immoral activity.

John Sanders, the former director of the Institute of Government at the University of North Carolina at Chapel Hill and a specialist in constitutional law, says a lottery referendum would be an unconstitutional delegation of the legislative power of the N.C. General Assembly. Referenda in other states were needed to amend state constitutional provisions that banned gambling.

Bottom Line

Research indicates that lotteries do have negative social consequences. These include a modest increase in compulsive gambling and lottery play by minors. Citizens also may become more cynical about the role of government as a moral agent in people's lives.

Lottery firms will work to get a lottery on the ballot by hiring lobbyists and by contributing to candidates. If a public referendum is scheduled, proponents will organize a campaign to win a favorable vote. Pro-lottery interests will help to finance this campaign. Once lotteries are in place, however, research suggests that lottery firms take a lower profile in the political process.

All of the lotteries operating in the United States are run by the states, though private firms handle the technical aspects of the games. This helps to assure a cleanly run enterprise and to avoid scandal. Thus, it is not possible to determine whether a privately operated lottery would generate more revenue.

The majority of states (23 by referendum and five by ballot initiative) have conducted a public vote on whether to go into the lottery business, so a referendum would not be unusual. One distinction is that many states had to amend a constitutional ban on gambling in order to put a lottery in place, which required a public vote. North Carolina's constitution does not ban gambling. Experts disagree on whether a referendum would be constitutional. This issue likely would be settled by state appellate courts in North Carolina.

**"In each show a life was transformed (for better or sometimes worse)
by the tax-free gift of \$1 million from an eccentric philanthropist."**

—CHARLES T. CLOTFELTER AND PHILIP J. COOK

SELLING HOPE: STATE LOTTERIES IN AMERICA

REGARDING THE 1950S TELEVISION SERIES, "THE MILLIONAIRE"

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industry would make it difficult for anyone to successfully challenge the existence of the lottery.

The experience from other states suggests that people eventually lose interest in the basic games, forcing the state (or rather its vendor) to keep raising jackpots and to continuously come up with new, more exciting games to keep revenues growing. This would not inevitably lead to the legalization of casinos and riverboat gambling.⁷⁷ But should interest in traditional games wane and the state be unwilling to legalize more exciting (e.g. addictive) forms of gambling, sales might decline.

If one views a state lottery as harmless entertainment and a way to gain state revenue from a voluntary source, these costs may seem negligible. The costs may seem larger to people who are opposed to gambling from a moral perspective, or to those who believe the state should not be engaged in encouraging people to spend their money in ways that may not be wise.

In the end, the question of a state lottery is a policy decision—whether made directly by the people or by their elected representatives. The Center believes that decision should be an informed one. ■■

FOOTNOTES

¹ For more on the lottery discussions in the early 1980s, see Steve Adams, "The Numbers Game—The Lottery for North Carolina?" *North Carolina Insight*, N.C. Center for Public Policy Research, Raleigh, N.C., Volume 7, No. 4 (April 1985), pp. 24–33.

² "House Speaker Creates Select Committee on Lottery," press release issued by office of N.C. House of Representatives Speaker Jim Black, Raleigh, N.C., March 14, 2000, p. 1.

³ Democratic political consultant James Carville is credited with using the lottery to help get Wallace Wilkinson elected governor of Kentucky in 1987 and Zell Miller elected governor of Georgia in 1990. See Jonathan Dube, "N.C. watches as states add lotteries," *The Charlotte Observer*, Charlotte, N.C., Dec. 9, 1998, p. 23A.

⁴ Thomas Jefferson, "An Academical Village," *The Writings of Thomas Jefferson, Letters 1810*, The Library of America, New York, N.Y., 1984, p. 1222.

⁵ Dumas Malone, *Jefferson and His Time—The Sage of Monticello*, Little, Brown & Co., Boston, Mass., 1981, pp. 473–482.

⁶ Thomas Jefferson, "Statement and Note on Lotteries," Manuscript Division of the Library of Congress, Washington, D.C., February 1826, image 918 of 1,153. Document may be viewed on the Library of Congress web site at <http://memory.loc.gov/ammem/mjthtml/mjtjhome.html>

⁷ Richard McGowan, *State Lotteries and Legalized Gambling: Painless Revenue or Painful Mirage*, Quorum Books, Westport, Conn., 1994, p. 4.

⁸ The Virginia estimate is based on the 9.3 percent of North Carolina residents who won more than \$600 in the lottery and thus had to provide information to lottery officials. This percentage, applied to the lottery's gross revenue for the year yielded the estimate of \$86.5 million.

⁹ Teresa La Fleur and Bruce La Fleur, *La Fleur's 2000 World Lottery Almanac*, TLF Publications, Boyds, Md., 2000, p. 23.

¹⁰ "Georgia's HOPE Scholarship Program" fact sheet published by Georgia Finance Commission. www.hope.gsfc.org/press_release/hopefaq.cfm

¹¹ 30th annual survey report of state-administered student financial aid available for the 1998–99 academic year, New York State Higher Education Services Corporation, Albany, N.Y., Table 15, p. 74.

¹² "Keeping HOPE tougher than qualifying for it" *Atlanta Journal & Constitution*, Atlanta, Ga., Dec. 30, 1999, p. 1A.

¹³ "The Lottery Tax: Still a Bad Idea for North Carolina," *BTC Reports*, the newsletter of the North Carolina Budget and Tax Center, Raleigh, N.C., Vol. 5, No. 5, February 1999, pp. 4–5.

¹⁴ Results from the Georgia State Poll are taken from the website of the Howard W. Odum Institute for Research in Social Science data archive at the University of North Carolina at Chapel Hill, N.C. www.irss.unc.edu

¹⁵ These rankings are based on 1999 figures from the U.S. Bureau of the Census. Top-ranked Florida's percentage of persons over 65 is 18.14, followed by Pennsylvania's 15.83 percent. North Carolina ranks 27th in the nation in percentage of its population over age 65, at 12.48 percent. For more, see the Census website at www.census.gov

¹⁶ Pennsylvania State Lottery web page. www.palottery.com

¹⁷ Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission," unpublished, Duke University, Durham, N.C., 1999, Table 4.

¹⁸ John Mikesell and Kurt Zorn "State lotteries as fiscal savior or fiscal fraud" *Public Administration Review*, American Society for Public Administration, Washington, D.C., July/August, 1986, p. 314.

¹⁹ "Lotteries: Don't Bet on Their Revenue," *BTC Reports*, the newsletter of the North Carolina Budget and Tax Center, Raleigh, N.C., Vol. 6, No. 6, May 2000, p. 1.

²⁰ Charles T. Clotfelter and Philip J. Cook, *Selling Hope: State Lotteries in America*, Harvard University Press, Cambridge, Mass., 1989, p. 218.

²¹ The 1989 calculations are by the author and based on "Lottery Dollars—Percentage of State Expenditures Paid for by Lottery Proceeds," a table published in *Governing* magazine, March 1991, pp. 52–53. 1997 calculations also are by the

author and based on data included in Table 2 of this article.

²² Associated Press, "State lotteries feel squeezed by market and political forces," *Las Vegas Review-Journal*, Las Vegas, Nev., May 31, 1999, p. 1D. www.lvrj.com

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²⁸ Pamela J. Allen, "The Allocation of Lottery Revenues to Education in Florida, California, Michigan and Illinois," *Educational Policy*, Newbury Park, Calif., Vol. 5, No. 3, September, 1991, pp. 296-311.

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³⁰ Peter Keating and Joan Caplin, "Lotto fever: We all lose!" *Money*, New York, N.Y., May, 1996, pp. 142-149.

³¹ Kimberly Cartron, "Easley and Wicker Lottery Spending Plans Are Both Unsatisfactory," *BTC Reports*, the newsletter of the North Carolina Budget and Tax Center, Raleigh, N.C., Vol. 6, No. 6, April 2000, pp. 3-5.

³² Clotfelter, Cook, *et al.*, note 17 above, p. 13.

³³ Angus Reid Commentary on Clotfelter, Cook, *et al.* report. www.naspl.org/sltcrept.html

³⁴ *Demographic Study of Texas Lottery Players*, Texas Lottery, January 1999, p. 13. The survey was conducted in October and November 1998 by the Office of Survey Research in the College of Communication, University of Texas, Austin, Texas. A total of 1,720 interviews were conducted, producing a margin of sampling error of 2.4 percent.

³⁵ Consumer tracking survey conducted by Chilton Research Services, Radnor, Pa. A total of 10,991 Virginians were surveyed by telephone July 7, 1997, to July 5, 1998. The margin of sampling error from this type of survey is less than 1 percent. Additional information is available from the Virginia lottery by telephone at (804) 692-7521.

³⁶ Iowa Lottery Baseline Study, May 1999, unpublished. Available from Iowa Lottery Headquarters, 2015 Grand Ave., Des Moines, Iowa, 50312. Additional information is available from the Iowa Lottery at (515) 281-7900.

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³⁸ Clotfelter and Cook, note 20 above, p. 95.

³⁹ Mary O. Borg *et al.*, *The Economic Consequences of State Lotteries*, Praeger Publishers, New York, 1991, pp. 92-95.

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⁴¹ Keon S. Chi and Drew Leatherby, "States Ante Up: Regulating Lotteries and Casinos," *Solutions*, Council of State Governments, Lexington, Ky., Vol. 6, No. 2, October 1998, p. 9.

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⁵⁴ Peter Elkind "GTECH Executive Convicted for Kickback Scheme with State Political Consultants," *Fortune Magazine*, New York, N.Y., Nov. 11, 1996, p. 184.

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⁶² *Ibid.*

⁶³ Jim Drinkard and William Welch, "Gambling industry ups the ante in politics," *USA Today*, Arlington, Va., Jan. 8, 1999, p. 1A.

⁶⁴ David Plotz, "Busted Flush—South Carolina's video-poker operators run a political machine," *Harper's Magazine*, New York, N.Y., August, 1999, pp. 63-72.

⁶⁵ Jim Drinkard and William Welch, note 63 above.

⁶⁶ Robert Hainer, "Lottery operators investing in S.C. politics, lawmakers," *Spartanburg Herald Journal*, Spartanburg, S.C., Jan. 21, 2000, p. 1A.

⁶⁷ Matthew Teague, "Video poker industry finances candidates," *The News & Observer*, Raleigh, N.C., April 23, 2000, p. 1A.

⁶⁸ Clotfelter and Cook, note 20 above, pp. 247-248.

⁶⁹ Chi and Leatherby, note 41 above, p. 13.

⁷⁰ Article II, Section 1 of the Constitution of North Carolina.

⁷¹ John L. Sanders "Can the Fate of the Lottery Be Left to the Voters?," *Popular Government*, Institute of Government, University of North Carolina at Chapel Hill, Chapel Hill, N.C., Winter, 1994, p. 16.

⁷² Article I, Section 9 of the Constitution of North Carolina.

⁷³ Andrew A. Vanore Jr. and Norma S. Harrell, "Advisory Opinion: Constitutionality of legislation conditioning the establishment of a lottery upon approval of the voters in a statewide referendum; Article II, Section 1 of the North Carolina Constitution," March 2, 1999, p. 11.

⁷⁴ Teresa and Bruce La Fleur, note 9 above, p. 5.

⁷⁵ Bill Swindell, "Lottery opponents kick off drive to defeat the Nov. 7 referendum," *The Post and Courier*, Charleston, S.C., April 19, 2000, p. 1A.

⁷⁶ *Joytime Distributors v. South Carolina*, 528 S.E. 2d 647 (1999).

⁷⁷ Casino boats used for offshore gambling already operate just south of the North Carolina line in Little River, S.C. Rep. David Redwine's 1999 bill to ban casino boats from North Carolina waters (H.B. 19) became caught up in opposition from legislators who hope cruise ships that offer gambling as entertainment will make stops in North Carolina, Redwine says. The bill died in a Senate committee.

"Is that your final answer?"

—REGIS PHILBIN

"WHO WANTS TO BE A MILLIONAIRE?"

School of Excellence 1998-1999

Oak Grove Elementary

Random Acts

of

Public School

Reform

WILL NEW ELECTIONS
AND BUDGETS UNDO
CURRENT REFORM
EFFORTS AGAIN?

by S.D. Williams and Joanne Scharer

Executive Summary

North Carolina—home to a long line of “education governors”—is no stranger to school reform. In fact, some critics charge that the state has been almost too willing to try new things, lurching from reform to reform without giving any of them a fair trial to see if they work. Is this charge fair? To address the question, the Center examined major reform efforts undertaken since the 1983 publication of *A Nation at Risk*, a national study that laid out in stark terms problems facing public school systems across the country. In the intervening 17 years, North Carolina’s public schools have endured 10 major reform efforts, but how many of these new education programs were deserted before they had a chance to show any results? To address this question, the Center discusses each of the reforms in detail, including the intent of the reform, its cost where applicable, and its duration. These reforms are:

A 1984 pilot program to expand the school day and school year. The 1983 North Carolina General Assembly launched two pilot projects to lengthen the school year and the school day. This effort assumed that the state’s public schools were doing their job but that they needed more time to teach more. The pilots started in 1984, and each soon floundered and stalled without completing its projected three-year funding duration.

The 1985 Basic Education Program (BEP). The Basic Education Program (BEP) established a minimum curriculum, set standards for every school system, and provided a funding mechanism that would direct money in such a way that even the state’s poorest counties could teach the full curriculum and reach the standards. Although it was never fully funded, the Basic Education Program is one of the only reforms of its era that wasn’t eventually abandoned by the state.

The 1985 Pilot Career Ladder Program for teacher advancement. The Career Development Program, often referred to as the Career Ladder Program, was a pilot enacted by the General Assembly in 1985 to provide local systems with the power to reward excellent teaching through a merit pay system. While popular with some teachers, critics charged the merit process was unfair and not tied to student performance. Ultimately, the Career Ladder Program was eliminated due to a faltering state and national economy.

The 1989 School Improvement and Accountability Act (Senate Bill 2). The School Improvement and Accountability Act—or Senate Bill 2 (SB 2)—was the first effort to transfer power to local systems and put student performance first in

educational reform. Ultimately, SB 2 authorized the State Board of Education to establish a Performance-Based Accountability Program—a step toward decentralizing public school education in the state. Primarily due to a state budget shortfall in 1991, the program was eventually transformed before anyone could determine whether it would improve student performance.

The Year-Round School Movement in 1989. North Carolina's year-round school movement began in Wake County when the first year-round school opened in 1989. Year-round schools operate on a calendar in which students attend school during all seasons of the year. The theory is that students benefit from the alternative calendar because they're never away from school long enough to forget what they've learned. The calendar also offers an opportunity to lengthen the school year. Unlike other education reforms tried in the state, year-round schools emerged from local efforts. Today, more than a decade later, 121 of the 2,154 (5.6 percent) public schools in North Carolina are operating on a year-round calendar.

1991 Outcome-Based Education Pilot Programs. In 1991, the General Assembly directed the State Board of Education to develop outcome-based education pilots in which expectations for student achievement were clearly stated but also reflected that students have different learning styles and learn at different rates. To accomplish such a change in a short time proved impossible, and participating systems were still planning when the state stopped funding the pilots. In addition, due to a rightward shift in politics in N.C. and across the nation in 1994, Outcome-Based Education became a target of conservatives who saw it as a liberal effort undermining traditional values and the need for basics.

Low-Wealth and Small School Funds in 1991. In 1991, the state created two funds designed to provide additional money to low-wealth and smaller school systems. Unlike other reforms, this reform effort focused on equity rather than accountability or effectiveness. These reforms are still in place today, though they have not resolved the issue of school finance equity, which is now subject to a lawsuit in the courts.

The 1996 charter school legislation. The General Assembly passed North Carolina's charter school legislation in 1996. Charter schools are public schools that are nonprofit corporations run by boards of directors that have significant autonomy in determining how the schools are operated. In return for the flexibility and freedom from various public school policies, charter schools

assume responsibility for student performance. The legislation allowed 100 such schools in the state, a maximum that nearly has been reached. Whether the cap on the number of charter schools should be raised or even removed is an issue currently under debate.

The 1996 ABC plan. In 1996, the General Assembly passed the School-Based Management and Accountability Program, commonly referred to as the ABC plan. As part of the new effort, the General Assembly gave local school boards and, most importantly, staff at individual schools greater flexibility in managing funds and operating public school programs. In return, the program requires accountability to standards in student achievement. Under the ABC plan, features of the Basic Education Program remain intact, but a school's accountability rests on student mastery of certain required courses and competencies. In 1999, the State Board of Education added to the ABC plan a provision making students' promotion and graduation contingent on their performance. Therefore, unlike other accountability reform efforts, the ABC program holds students themselves accountable. The plan, including the student accountability standards, is still in place.

The Excellent Schools Act in 1997. The Excellent Schools Act, initiated by Governor James B. Hunt Jr. and enacted into law by the General Assembly in 1997, increased teachers' salaries while holding them to a higher professional standard. Under the Act's four-year plan, teachers receive annual salary increases averaging 6.5 percent with the aim of reaching the national average for teacher compensation. However, the legislation also provides several bonus and incentive programs and increases the pay of teachers with masters' degrees or certification by the National Board for Professional Teaching Standards. On Governor Hunt's recommendation, the 2000 General Assembly enacted the fourth of four installments needed to help teacher pay meet the national average.

Tracing the evolution of the state's education reform efforts over the last two decades reveals several key observations about the nature of such reforms, at least in North Carolina. One of them is the interplay of education reform and politics. A danger in education reform is that it is a perennial gubernatorial campaign issue; every governor wants to solve the state's education problems. With the 2000 election just around the corner, a key question remains. Will the state keep riding the current reforms or change reform horses yet again?

In 1983, the National Education Commission slapped the country awake with the publication of *A Nation at Risk*. The report laid out in stark terms many of people's worst fears about education in the United States: that our children were falling behind their peers in other developed nations and would not be prepared to successfully lead the U.S. economy or government in the years ahead. This shock to the nation's education systems soon resulted in reform efforts in virtually every state—the first nationwide effort at school reform since the launch of Sputnik in 1957 and the largest ever undertaken.¹

North Carolina, no stranger to school reform and home to a long line of "education governors," embarked with renewed vigor on its quest to improve education in a large, still relatively poor and rural Southern state. Looking back from the turn of the century, one can discern a path among the state's subsequent efforts that leads logically to the state's current ABCs Program, which, although having its share of critics, has shown some progress in advancing student achievement. The ABCs name comes from the State Board of Education's Accountability in the Basics with Local Control plan, which was the basis of the legislation now in effect.²

While the benefit of hindsight provides a view of the evolution of the state's reform efforts, no one involved in the reform of the 1980s and 1990s could have predicted this outcome. In fact, in the early 1990s, the state was widely criticized for engaging in stop-and-go reform—embarking on promising efforts, abandoning or neglecting them for political or economic reasons, then embarking on others.³

In his 1999 State of the State address, Governor Jim Hunt noted, "When the '90s began, North Carolina had begun falling behind. There had been too much start-and-stop reform. Like a lot of states, we'd jumped on a new reform bandwagon every couple of years—a flavor-of-the-month approach." These changes were frustrating for local school boards, educators, and parents.

A great danger in education reform is that it is a perennial gubernatorial campaign issue; every governor wants to solve the state's education problems. North Carolina is no exception. The 2000 election will bring a change, however, as Governor Hunt has served the maximum of two consecutive

"While some lament that educational reform is an institutional Bermuda Triangle into which intrepid change agents sail, never to appear again, others argue that public education is too trendy, that entirely too many foolish notions circulate through the system at high velocity. Are schools too resistant to change or too faddish? Viewed over the course of history, they may seem to be both."

—DAVID TYACK AND LARRY CUBAN

TINKERING TOWARD UTOPIA—

A CENTURY OF PUBLIC SCHOOL REFORM

terms allowed under the state constitution. (Hunt has served a total of four, four-year terms, 1977–85 and 1993–2001.) Will a new governor embark on new campaign reforms that once again frustrate the populace?

Not surprisingly, the two candidates have their own ideas as to what will improve North Carolina's public school system. The Republican candidate—former Charlotte Mayor Richard Vinroot—supports increased use of charter schools, vouchers, and tax credits or tax-free savings accounts enabling parents to pay for their children's educational expenses, including home-schooling. The Democratic candidate, Attorney General Mike Easley supports a strengthened accountability program, character education, and the creation of a state lottery to address the state's education needs. Easley believes any lottery proceeds should go only to an expanded pre-kindergarten program for at-risk children and to K–12 public schools, maintaining they need it the most. Easley especially hopes to reduce class size.

This article looks back at 17 years of reforms in an effort to describe their evolution. Many educators agree that stability and continuity are key ingredients in educational reform. For example, abandoning a promising path well before its end is

S.D. Williams is a freelance editor and writer from Durham, N.C. Joanne Scharer is a freelance public policy consultant from Carrboro, N.C.



Karen Tam

reached can result in confusion and low morale among educators and not necessarily in better education for students.

North Carolina has undertaken numerous school reform efforts and improvement projects, has amended reforms often, and has issued bonds or appropriated millions of dollars for significant school construction, curriculum reform, and teacher salary raises. Since 1983, the major efforts at front-line public school reform—changing the way schools are run and/or the way students are taught—are the following:

1. A pilot program to expand the school day and school year in 1984;⁴
2. the 1985 Basic Education Program (BEP);⁵
3. a pilot career ladder program for teacher advancement, implemented in 1985;⁶
4. the 1989 School Improvement and Accountability Act (Senate Bill 2);⁷
5. the Year-Round School Movement in 1989;
6. the Outcome-Based Education pilot programs started in 1991;⁸
7. the Low-Wealth School Fund⁹ and Small School Fund¹⁰ in 1991;
8. the 1996 charter school legislation;¹¹
9. the 1996 ABCs Program;¹² and
10. the Excellent Schools Act (aimed at gradually increasing teacher pay to the national average) in 1997.¹³

To these proposals could be added the state's student accountability and promotion standards that changed from advisory status to state policy in April 1999. These will be discussed as part of the ABCs Program, because they are part of that program's emphasis on the accountability of individual schools.

1984: Pilot Projects to Extend the School Day and Year

In the wake of *A Nation at Risk*, the 1983 North Carolina General Assembly launched two pilot projects to lengthen the school year (See Table 1) and the school day. From the more than 30 school systems that applied, two were chosen—one each in Halifax and Polk counties. In the case of Halifax, the General Assembly had decided to direct state funding to a county that had little of its own. On

the other hand, this pilot, like various other programs, was based on the “assumption that we were doing things right, we just needed more resources with which to do the same things better,” according to the Public School Forum of North Carolina.¹⁴

The pilots started in 1984 and each soon floundered and stalled without completing its projected three-year funding duration. Critics attribute the failure to lack of planning; the projects were apparently put in place during the summer with little notice, catching many parents by surprise.¹⁵ Jim Clarke, superintendent of Halifax County Schools from 1982 through 1986, however, says the pilot efforts and their outcomes were more complex than most people realize. “These projects were meant to find whether additional resources would make a difference in education in poor counties, whether they would help attract better teachers, and to what extent lengthening the school year to 200 days and the school day to seven hours would raise student achievement,” he says.

Clarke adds, “Now, you have to understand what kind of a school system we had. When I arrived in Halifax County, the system didn't have a

Table 1. Length of School Year for Various Nations, in Days

Nation	School Days Per Year
Japan	243
South Korea	220
Russia	211
Netherlands	200
Scotland	200
Thailand	200
Hong Kong	195
England/Wales	192
Hungary	192
France	185
Ireland	184
Spain	180
Sweden	180
United States	180

Source: N.C. Department of Public Instruction.

single school accredited by the Southern Association of Schools and Colleges. I couldn't even find records that the system had applied. . . . We had so many deficiencies that simply needed money, like the school libraries. We spent a great deal of our initial funds just to buy books and equipment. Then we spent money on teacher training, because, while we had many hard-working teachers, Halifax County could not afford to supplement teacher pay like richer counties could, and it was difficult to attract the best and brightest to a rural system for less money than they could get anywhere else, so we had to work just to help our teachers become accredited in their areas.

"Then we began expanding school hours in selected middle and high schools. One high school even had evening hours. We extended some schools into summer—not just as summer schools, but as an extension of the regular year, to allow students to get ahead. Basic math was the general math curriculum in the high schools—you had to be something special just to study algebra—so we began to redefine the curriculum.

"These changes were greeted well by the people who they were benefiting. I tell you the real reason opposition arose—racism. There were deep divisions in Halifax County at the time. The School Board was majority African American, reflecting the 86 percent African American population in the county, but in the next election, a white majority board was elected. It seems we had upset the apple cart. By making reforms, we were throwing a spotlight on the fact that the school system had been in poor shape, and there were people in the county who did not appreciate that."

Dan Moss, a member of the Halifax County School Board for the last 18 years, while agreeing with Clarke about the influence of racism on the reform effort, believes the reform itself was lacking as well. "I didn't think it worked too well," says Moss. "They [the students] just played that last 30 minutes." Moss also says, "While I don't think it was worth the time we were putting into it, racism in the county made us give up on it too quickly."

The General Assembly had appropriated \$2.2 million for these pilots in 1983–84 but appropriated nothing the next year, with each system's new school board unhappy with the changes that had occurred. The reforms were stopped, and Clarke retired in 1986. He says, however, that a more representative board was elected in the subsequent election, and that in 1988, all of the system's schools passed state accreditation. The lessons here

are that preparation for reform must be thorough, the groundwork for community participation must be laid, and goals must be shared.

1985: Basic Education Program

The Basic Education Program (BEP) established a minimum curriculum, set standards for every school system, and provided a funding mechanism that would direct money in such a way that even the state's poorest counties could teach the full curriculum and reach the standards. At heart, then, the program is and always was a mechanism to guarantee funding for a minimum floor curriculum to which every school in the state must adhere. It also prescribed such things as guidance counseling and psychological services, promotion standards, in-school suspension, programs for exceptional education, equipment needs, staffing ratios, and facilities standards.

Many people mistakenly believe that the 1985 Basic Education Program died in the early 1990s because of the state's stop-and-go habits. The program was indeed wounded in the late 1980s and early 1990s, a victim of both a souring economy and new educational priorities, but it never died. Even in 1991—when the General Assembly had to raise taxes by \$600 million and cut spending by another \$600 million to deal with a \$1.2 billion state budget deficit—the General Assembly noted that it intended the Basic Education Program to be "the focus of State educational funding" until it was fully funded.¹⁶ Initially projected to cost \$751.9 million over eight years, it still has not been fully funded, though funding has reached nearly \$607.5 million.¹⁷ Today, after numerous refinements, it is still the basis of the state's Standard Course of Study, among other things, and remains an important part of the state's plans for education.

"The basic education program for the State of North Carolina is just that: basic," notes the original proposal to the General Assembly.¹⁸ "It does not describe an ideal education program. Rather, it attempts to describe a program of instruction which is fundamentally complete and would give the student a thorough grounding in these areas: the arts, communication, media and computer skills, second languages, healthful living, mathematics, science, social studies, and vocational education. The premise that there is a common core of knowledge and skills which every child ought to command when he or she graduates from high school is essential to the concept."

—continued on page 68

North Carolina: *First in Education Reform?*

Education has been a significant public policy issue facing North Carolina since the early days of statehood. The state led the way for public higher education in 1795, when the University of North Carolina became the first state university to open its doors. Though the first public school in North Carolina did not open until 1840, sixty-one of sixty-eight counties had voluntarily established public schools by 1852, and in 1869, the General Assembly adopted a general school tax and a four-month school term.

During the early 1900s, North Carolina did several things to promote education. A state appropriation in 1901 provided money to equalize local schools and to bring schools in poorer counties up to the same standard as those in the more prosperous counties. As North Carolina proudly stakes claim to being "first in flight," the state also was first in many educational endeavors. Besides being home to the first state university to open its doors, the state led the nation in building rural consolidated schools, and before long, more children were riding motorized school buses to school each day than in any other state. North Carolina's community college system was established in 1963, and North Carolina was the first state to offer customized training and retraining of workers as an incentive to new and expanding industries. In 1965, the North Carolina School of the Arts opened as the first state-established and state-supported school in the nation for the performing arts. And in 1978, the legislature created the North Carolina School of Science and Mathematics.¹

The UNC System now includes 16 public universities educating more than 155,000 students. North Carolina's community college system includes 59 institutions, serving more than 850,000 students. The state's public school

system includes 2,154 schools enrolling more than 1.2 million children. Finally, there also are 36 private colleges and universities in North Carolina, with more than 68,000 students.

All these efforts characterize the state's belief in supporting education. However, in recent years, North Carolina's public schools have led a volatile existence with education programs funded one minute but disbanded the next. In fact, a January 1997 report by *Education Week* characterized North Carolina's education policy as "Random Acts of Reform." In other words, North Carolina has experimented with many new reform ideas since the early 1980s, but the stop-and-start nature of these reform efforts often has left little opportunity to evaluate or even yield results.

The state has had 10 major educational reform efforts since 1984 ranging from a longer school year, to increased accountability efforts, to charter schools, to higher teacher pay. Though some reforms are cyclical, some themes resonate throughout North Carolina's history—such as accountability, access, and equity.

The *accountability* issue poses the question, "What are we getting for the public investment in public schools?" Considering performance-based standards of student achievement such as test scores, literacy, or dropout rates, is student performance in North Carolina providing a big enough bang for the state's buck?

Accountability also implies workforce preparedness, another important indicator of education success or failure. While North Carolina, through its community college system, was the first state to offer customized training and retraining of workers as an incentive to industries, the quality of North Carolina's workforce is questionable. While more and more employers are looking for workers with at least two years of education beyond high school, employers are having trouble finding workers with even adequate reading skills. Industry recruiters are

Ran Coble is executive director of the North Carolina Center for Public Policy Research.

able to tout relatively low labor costs for industries looking to relocate to North Carolina, but they also are having to warn industries about a shortage of skilled workers.

A second important issue in education is *access*. Since a "free appropriate education" is guaranteed by the state constitution, in the K-12 public schools, access pertains more to equal educational opportunities for special needs students. Parents want programs that identify and evaluate children with special needs while also providing individualized education for their children. Under both state and federal law, children with special needs have a right to education and all related services.

Yet another recurring issue is *equity*, particularly as it relates to different funding levels for rich and poor public school systems across North Carolina. The General Assembly appropriated money to equalize funding among local schools as far back as 1901, but the equity issue still endures in the 21st century. The latest legal challenge to the state's financing system is *Leandro v. State*. The plaintiffs assert that school funding disparities violate the state con-

stitution. More specifically, Article IX, section 2(1) of the state constitution says, "The General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools . . . wherein equal opportunities shall be provided for all students." The state Supreme Court says this means every student has the right to "a sound basic education," as measured by (1) the goals and standards adopted by the legislature; (2) the level of performance of the children of the state and its various districts on standard achievement tests; and (3) the level of the state's general educational expenditures and per-pupil expenditures.² The outcome of this case will add another chapter to the history of education and public school reform in North Carolina.

—Ran Coble

FOOTNOTE

¹Educational history from Hugh Talmage Lefler and Albert Ray Newsome, *North Carolina: The History of a Southern State* (3rd edition), University of North Carolina Press, Chapel Hill, N.C., 1973, pp. 262, 368, 532, 591, and 604.

²346 N.C. 336 (1997), especially 355-356.

"In effect, nations move toward the pinnacle of their greatness in proportion to their educational progress. They advance if education advances; if it decays, they decay; and they are engulfed and lost in oblivion once education becomes corrupt or is completely abandoned."

—SIMÓN BOLÍVAR

**Table 2. Basic Education Program funding schedule
by year with projected funding, actual funding, and difference
between projected and actual funding (in millions)**

Fiscal Year	Projected Funding	Actual Funding	Difference Between Scheduled and Actual
1985-86	\$68.5	\$63.2	-\$5.3
1986-87	\$32.4	\$27.3	-\$5.1
1987-88	\$153.4	\$126.6	-\$26.8
1988-89	\$120.6	\$134.6	+\$14
1989-90	\$103.8	\$69.3	-\$34.5
1990-91	\$90.8	\$44.5	-\$46.3
1991-92	\$100.0	-\$42.8	-\$142.8
1992-93	\$82.4	\$43.6	-\$38.8
Totals	\$751.9	\$466.3	-\$285.6

Source: N.C. Department of Public Instruction

Note: The original projected funding schedule for the Basic Education Program was to be eight years as depicted in the table above. However, the program in revised form (i.e. built into other programs) has been continued through at least 1998-99 at a total cost of \$607.5 million. The fact that the original projected cost of the BEP was \$751.9 million and actual funding through 1998-99 was \$144.4 million less than that amount demonstrates that the BEP was never fully funded.

"North Carolina had already had a Standard Course of Study for most of the 20th century," says Howard Maniloff who, as special assistant for policy development to the State Board of Education (SBE) from late 1982 to 1987, coordinated the original Basic Education Program proposal. "The goals of the Basic Education Program were to reinvigorate that standard course and to *provide more equitable funding for education across the state*, so that any child in any school system would be assured of at least taking this basic educational program" [emphasis added].

The 1983 state budget called for the creation of a School Finance Pilot Project in eight school systems.¹⁹ The bill directed the State Board of Education to define a basic education program for North Carolina's schools and determine the costs for implementing it, so that the progress of the pilot school systems could be measured against each other. The costs were broken down in detail to cre-

ate the plan. For example, Maniloff says it considered the salary of the teacher, the cost of the blackboard the teacher would use, the chalk the teacher would write with, the books the students would need, and even the desks the students would sit behind, although there was no provision for capital improvements. When the plan was ready, the General Assembly accepted and funded it statewide with minor changes, bypassing the original intent to have a pilot project. The state now had a basic plan for all students and a cost for its implementation.

The Basic Education Program is often given credit for two particular achievements: making *state* education funding more equitable across all systems and lowering classroom ratios for the number of students per teacher. The first was accomplished straightforwardly: the state directed its funds so that all 141 systems could meet the costs for the Standard Course of Study and have the educational infrastructure needed to implement it (See

Table 2). As for the second achievement, the program did not require schools to reduce class sizes, but it did require them to hire additional special staff such as art teachers and counselors. Thus, the total number of teachers or professionals in the schools rose in relation to the number of students, although in practice the number of students in classrooms often remained at the same level. "Lowering class size," says Maniloff, "was a byproduct."

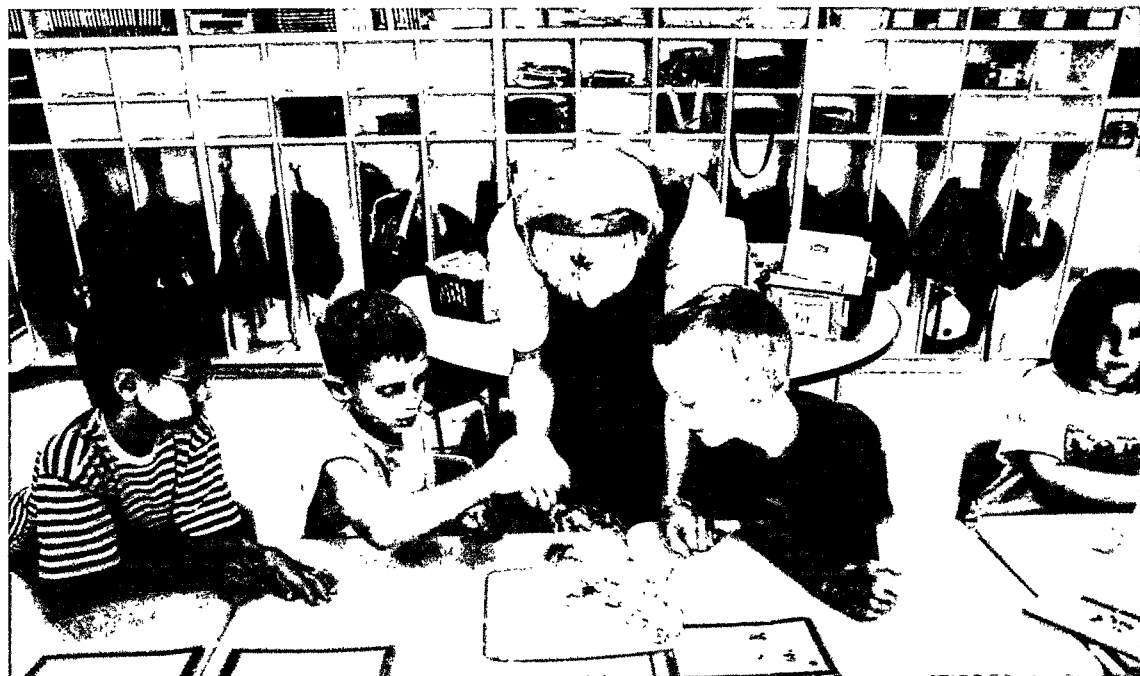
The Basic Education Program defined a Standard Course of Study, which outlines rigorous course content calling for integration of science, social studies, literature, and the arts, and determined how much it cost to implement it. Promotion from grades three, six, and eight was based on end-of-year tests, although principals had the power to promote any child.²⁰ The program did not define benchmarks, such as what a student must know and be capable of doing in order to graduate and, by extension, what a school must do to ensure that its students meet those benchmarks. But without knowing it, the program's creators laid the groundwork for subsequent reforms that focused on outcomes, which are measurements of what a student has learned—in this case, mastery of the Standard Course of Study. That curriculum is still in place though it has been refined many times over the years, most recently by an infusion of technology education, an alignment with national educational standards, and greater emphasis on the application of knowledge.

The Basic Education Program came close to full funding for its first two years at a total of approximately \$90.5 million of a projected \$100.9 million. Funding first fell behind significantly for the 1987–88 school year, as the 1980s boom economy faded. By 1992–93, funding was behind schedule by \$285.6 million, and it never caught up. The School Improvement and Accountability Act of 1989, among other efforts, diverted funds from the Basic Education Program. But before that reform was instituted, another one was tried and abandoned.

1985: The Career Development Program

The Career Development Program,²¹ often referred to as the Career Ladder Program, was a pilot enacted by the General Assembly to provide local systems with the power to reward excellent teaching through pay raises. At the same time, the program aimed to hold teachers accountable for the quality of their work. The program is sometimes mistakenly coupled in the public's mind with the Basic Education Program because they shared an era. They were, in fact, completely separate as the Basic Education Program included no financial incentive programs of any kind.

To implement the Career Ladder Program, 16 schools were chosen to participate in the initial four-year phase, which cost about \$100 million. The



program was not re-funded in 1989 when it came up for renewal. The initial price tag to extend it to the entire state would have been roughly \$400 million, but a recession that would lead to a \$1.2 billion state budget shortfall in 1991 was on the way. And while popular with some teachers, the program had opposition from groups who contended the merit process, as administered, was unfair and that it did not improve student performance.

Governor James G. Martin ran for office in 1984 with a platform including merit pay for teachers and won big. "This was one of Governor Martin's signature pieces," says John Dornan of the Public School Forum of North Carolina, an independent nonprofit devoted to strengthening schools and maintaining consistent support for school improvement. "But from the beginning, the North Carolina Association of Educators contended that the evaluation process was flawed. All of the

state's superintendents reached the top of the ladder, including one who was fired. Costs escalated far more than people expected. People were moving up the ladder pretty rapidly."

Although the pilot projects faded away after 1989, individuals who had raised their salary levels through the program were allowed to remain at the levels they had achieved and from there advance in step with the state's other teachers. The state stopped funding further raises at these escalated levels only in 1999.

A controversial and expensive feature of the program was the use of outside evaluators to judge teachers' performance. Using the Teacher Performance Appraisal Instrument (which is still used in many North Carolina systems to evaluate teachers), these evaluators observed teachers in the classroom and judged them on a handful of skills shown to enhance student performance, such as sticking to the lesson plan. Although national research had shown that student performance rises in classrooms where teachers follow these steps, student performance was not a factor in whether a teacher received a merit raise or not.²² If they followed the rules, supposedly, they would receive their increases.

Teacher performance programs were nothing new in the mid-1980s. North Carolina had initiated the idea in an earlier merit pay pilot program, the Comprehensive School Improvement Project, back in the 1960s. It, too, was allowed to fade away. In a 1990 book on education reform, researcher Susan Moore Johnson argued that there is a built-in flaw to merit plans:

"Promoting competition among colleagues would reduce rather than increase the productivity of schools because teachers would conceal their best ideas and pursue their own interests rather than the general good. Moreover, performance bonuses might perversely reward teachers for success with able students while discouraging efforts with those who progress more slowly. Finally, teachers resented policymakers' efforts to entice them with the prospects of one-time bonuses for a select few when many teachers held second jobs just to meet basic living expenses. By seeking to provide recognition for exemplary teachers, potentially at the expense of many others, the reforms threatened egalitarian norms that the profession supports."²³

**Table 3. Number of
N.C. School Systems by Year**

Year	Number of N.C. School Systems
1983-1984	142
1984-1985	142
1985-1986	141
1986-1987	140
1987-1988	140
1988-1989	140
1989-1990	134
1990-1991	134
1991-1992	133
1992-1993	129
1993-1994	121
1994-1995	119
1995-1996	119
1996-1997	117
1997-1998	117
1998-1999	117
1999-2000	117

Source: N.C. Department of Public Instruction

"Not everything that can be counted counts and not everything that counts can be counted."

—ALBERT EINSTEIN

The Career Ladder Plan was not based on one-time bonuses, but similar criticisms arose in North Carolina. Some of the same criticisms would emerge in the mid- to late-1990s in opposition to the current ABCs plan, which does not reward individual teachers but teachers as a group at individual schools that exceed state expectations.

Still, the Career Ladder Plan was not defeated by the criticism of educators. In fact, the N.C. Department of Public Instruction had performed extensive surveys, the results of which indicated that the majority (58%) of teachers supported the plan.²⁴ A faltering state and national economy, the potentially high long-range cost of the program, and the appearance of another new reform plan on the block, put an end to the career ladder plan—although, as noted, the state continued to pay for the plan's legacy until 1999.

1989: School Improvement and Accountability Act, or Senate Bill 2

The School Improvement and Accountability Act—or Senate Bill 2 (SB 2), as it is commonly known—intended to put student performance first in educational reform. The act was not meant to replace the Basic Education Program, which would still be implemented but with reduced funding. The intent was to boost student academic achievement, create uniform measures of progress, and hold local systems accountable for achieving the goals.²⁵

The major force behind the bill was the Public School Forum of North Carolina. In 1988, the Forum released *Thinking for a Living: A Blueprint for Educational Growth*, which stated, among other things, that "policymakers should determine what they want from schools, provide the basic resources needed to do the job, and then give professional educators the freedom to do what they need to do to meet those goals. Educators would willingly be accountable if they were given the freedom to do their job."²⁶

As in all politics, however, the motivations may not have been so black and white. According to Maniloff, the coordinator of the original Basic Education Program, "Senate Bill 2 was a part of a political power struggle between local school boards and the Department of Public Instruction as well as an effort to focus on student achievement. Some educators had always believed that the program was too prescriptive. Senate Bill 2 redistributed power from the state to the local level by dressing it up in educational jargon. Still, I wish we had put more focus on student achievement in the BEP," he admits, "because it's obviously a worthy objective."

Senate Bill 2 authorized the State Board of Education to establish a Performance-Based Accountability Program in which school systems could voluntarily participate. All 134 systems operating in the state in 1989–90 chose to do so, as it



Karen Tam

was a way to fund merit raises. In addition, it seemed to be a way for schools to chart their own destiny. Under this program, "Each unit developed a plan setting forth its educational goals, the measures of achievement, and the programs and staff necessary to implement the goals. All plans were reviewed and approved by the State Superintendent of Public Instruction before implementation. Local units were given 'maximum flexibility' in using funds to achieve goals. Plans were to be implemented in periods of three to five years with annual assessments. Local [school district] plans were to be funded as long as they showed satisfactory progress."

The bill also authorized the development of end-of-course and end-of-grade tests for grades 3–12 and allowed continuation of Career Ladder programs in systems that chose to do so. In addition, it charged the State Board of Education with writing

"But my daddy said, 'If you can't count they can cheat you. If you can't read they can beat you.'"

—TONI MORRISON
BELOVED

an annual report card on North Carolina education.

The overriding goal of the bill's Performance-Based Accountability Program may have been the improvement of student performance, but it was school *systems* that were held accountable for meeting goals, not *students*, *teachers*, or individual *schools*, as is the case with the current ABCs plan. Senate Bill 2 injected measurable educational accountability into reform, but while improved student performance was the goal, it still was not quite the bottom line.

School systems—and, under their guidance, individual schools—could have flexibility in the way they operated, but in return they would be accountable for meeting about 50 performance objectives created and chosen by the Department of Public Instruction. These ran the gamut from improving student attendance rates, to adding books and other resources to the library, to increasing the number of students performing at grade level. The performance objectives were based on the established criteria for state accreditation. Individual schools within the participating systems were given objec-

tives to meet by their systems, and committees of teachers, administrators, and parents within those schools wrote plans outlining their strategies for meeting the objectives or requesting waivers from the objectives. The individual school waivers first had to be approved by the local school board, which then had to have its systemwide plan approved by the state.

In 1991, schools participating in the Performance-Based Accountability Program had to develop Site-Based Management Committees, essentially another name for the Performance-Based Accountability Program committees. The committees, which also consisted of administrators, teachers, and parents, would now develop the individual school plans.

Under Senate Bill 2, school systems also participated in differentiated or merit-based pay plans. Although these were not tied specifically to the Performance-Based Accountability Program, in most schools it was the Performance-Based Accountability Program committees (and subsequently Site-Based Management Committees) that made recommendations about differentiated teacher pay. This pay was meant, as it was in the Career Ladder Program, to reward excellence in teaching, but in fact, local schools and school systems usually sought the extra pay for teachers who took on extra work. It was not tied to student performance. The state granted many of these requests and also granted most waiver requests. From 1990 to 1993, the Department of Public Instruction had about 2,000 approved waivers to state policy on its books. By contrast, from 1993 to 1996, it had approximately 14,000. The difference is essentially that originally waivers were submitted and granted to school systems. In 1993, waiver requests had to come from individual schools. In 1999–2000, approximately 1,000 waivers were approved primarily for class size in grades 4–12. This reduction is evidence of the flexibility that has been given to schools in operating these programs.

In the days of Senate Bill 2, if a school wanted to use money earmarked for textbooks to buy other instructional materials, the individual school committee would vote on the recommendation and send it to the local board, which, if it approved the request, would send it to the state Department of Public Instruction. If the Department of Public Instruction approved, the individual school would then fill out a form requesting that funds for textbooks be moved to instructional supplies. Now, schools may simply write such flexibility into their three-year plans.

According to one of its main proponents, John Dornan of the Public School Forum, Senate Bill 2 suffered “death by amendment. There were substantial changes almost on an annual basis.” Policies on waivers, school plans, the testing regimen, and differentiated pay were changed constantly at the state level. In 1991, for example, the General Assembly allowed funds previously set aside for merit pay to be used for across-the-board bonuses, if employees preferred. In 1992, the General Assembly changed the way school systems adopted their three-year Performance-Based Accountability plans. In 1993, it modified the indicators of student performance that must go into these plans. It also moved ultimate responsibility for approval of plans from the state superintendent, who is elected by the citizens of North Carolina, to the State Board of Education, whose members are appointed by the Governor. These are just some of the numerous changes made by the legislature.

The Performance-Based Accountability Program was a step toward decentralizing public school education in the state, but it also created greater administrative responsibility at the local level. It died, or was transformed, before anyone could determine whether transferring power to local systems would improve student performance. According to Representative Edd Nye (D-Bladen), one of the reasons it was superseded by the next reform in the mid-1990s was that, while it put the

notion of accountability solidly into North Carolina public school reform, it did not deal directly enough with individual student achievement for some legislators. “We [the legislature] believed that we weren’t obtaining enough information on student achievement,” says Nye. “We weren’t putting achievement requirements where they should be—on the student.”

Perhaps the main cause of the Performance-Based Accountability Program’s demise—or its transformation into current policies—was economic. In 1990 and 1991, North Carolina, like many other states, found itself in a serious budgetary crisis. The 1991 revenue shortfall was \$1.2 billion. That year, the state provided severely limited continuation funding for the Performance-Based Accountability Program but no additional funding. Senate Bill 2 continued as the law of the land into the mid-1990s, with numerous changes, until the ABCs reform was passed in 1996.

1989: Year-Round School Movement

North Carolina’s year-round school movement began at the local level when, in 1989, Wake County opened the first year-round school in the state, Kingswood Elementary. Kingswood was followed by Morrisville Elementary, also in Wake County, and a year later by Mooresville Park View Elementary in Iredell County. Year-round schools



operate on a calendar in which students attend school during all seasons of the year. The school calendar is reorganized by eliminating the long summer break and replacing it with more frequent short breaks.²⁷ Champions of the year-round model believe students benefit from the al-

ternative calendar because they're never away from school long enough to forget what they've learned. Year-round schools also can offer an opportunity to lengthen the school year, a reform first tried in 1984 with a pilot program to expand the school day and school year.²⁸ Offered on an optional basis, year-round schools provide a popular alternative for parents who may find the calendar more amenable to their work schedules. Opponents of the model argue that a year-round calendar, especially if mandatory, can be inconvenient for some families, and that year-round students don't necessarily outperform their peers who attend school on the traditional calendar.²⁹ More specifically, a 1993 evaluation synthesis conducted by Wake County Public School System researchers in Raleigh, N.C., examined 27 studies of year-round programs across the country. On achievement they concluded, "Overall, YRS [year-round schooling] seems to have no adverse effects on academic achievement for most students. The majority of studies we examined reported either positive effects or no effects on achievement."³⁰ Overall, studies on achievement both nationally and on the state level have not shown conclusive proof of achievement differences between traditional and year-round schools.³¹

Unlike other education reforms examined in this article, year-round schools emerged from local efforts. Today, more than a decade later, 121 (5.6 percent) of the 2,154 public schools in North Carolina are operating on a year-round calendar.³² While year-round schools weren't originally initiated by the State Board of Education or the General Assembly, the State Board of Education did institute a policy in 1991 to encourage and support local efforts to implement year-round education models.³³ In addition, in 1993, the General Assembly passed a bill granting local boards of education more flexibility to establish year-round schools.³⁴ The year-round school movement continued to spread across the state throughout the 1990s, though the calendar was rarely tried at the high

"[T]he answer to all our problems comes down to a single word—education."

—LYNDON BAINES JOHNSON

school level. In 1998, the General Assembly directed the Department of Public Instruction to form a task force to identify the barriers that prevent local boards of education from providing year-round schools for all grade levels. This task force also was to identify ways that local

boards of education or the State Board of Education could minimize or remove those barriers.³⁵ In their May 1999 report, the task force concluded that there currently are no State Board of Education policies or state statutes that prevent local boards of education from providing year-round schools for all grade levels.³⁶

1991: Outcome-Based Education

In 1991, the General Assembly directed the State Board of Education to develop outcome-based education pilots. According to the statute, Outcome-Based Education is "a program in which expectations for student achievement are clearly stated in terms of knowledge, skills, and attitudes" but also "reflects that students learn at different rates using varying learning styles."³⁷ In other words, progress toward, and ultimately, achievement of the program goals was more important than having certain students in particular classes.

The General Assembly intended to fund \$100,000 the first year (1992–93) to cover planning costs and \$3 million each of the next four years (through 1996–97) for implementation and assessment. It initially authorized the board to select four pilot sites for participation but raised it to six—two consortia and four individual sites. The pilot was to last for five years until 1996–97, with the first year (then the first two) devoted to planning and the subsequent years devoted to implementation.

To apply for the opportunity to participate in the program, each system (there were 129 systems in the 1992–93 school year) submitted a proposal that allowed for flexible educational methods and timetables. While only entire school systems could apply, not all schools within a system had to participate. The Charlotte-Mecklenburg County school system was one of the six pilot sites, but only 14 of the 119 schools in that system participated.

—continued on page 77

Key Education Reforms in North Carolina

Name: Lengthen the School Year and School Days

Begun: 1984

Statewide or Pilot: Pilots in Halifax and Polk Counties

Projected Funding Duration: Three years.

Original Objective: To improve the quality of education by providing local flexibility in the school year and school day schedules

Projected Cost: Not available

Actual Appropriations: No funds appropriated specifically for this project—existing funds spent not available

Actual Duration: 1 year

Outcome: Dropped because of community objections in pilot counties

Name: North Carolina Basic Education Program (BEP)

Begun: 1985

Statewide or Pilot: Statewide

Projected Funding Duration: 1985–1993

Original Objective: To provide a standard minimum course of study and the funding to support it for every student in North Carolina

Projected Cost: \$751.9 million

Actual Appropriations: \$607,487,939

Actual Duration: Still in existence in revised form

Outcome: Not fully funded as of 1999–2000

Name: Career Development Program (also known as Career Ladders)

Begun: 1985

Statewide or Pilot: Pilot in Alexander County, Buncombe County, Burke County, Burlington City, Charlotte-Mecklenburg County, Edenton-Chowan County, Greene County, Harnett County, Haywood County, Montgomery County, New Hanover County, Orange County, Perquimans County, Roanoke Rapids City, Salisbury City, and Tarboro City

Projected Funding Duration: The original 16-county pilot lasted four years, but participants were grandfathered into pay levels they had achieved through the program.

Original Objective: To reward excellent teaching

Projected Cost: Funding covered within existing educational budget

Actual Appropriations: \$262,357,370 (records available from 1987–88 to 1998–99)

Actual Duration: The pilot program lasted from 1985 to 1989, but participants continued to be paid according to the program's guidelines through 1998–99

Outcome: Not extended statewide in 1989 because of cost

Name: School Improvement and Accountability Act (Senate Bill 2)

Begun: 1989

Statewide or Pilot: Statewide

Projected Funding Duration: Open-ended

Original Objective: To boost student performance by holding school systems accountable for meeting specified goals

Projected Cost: \$45 million per year for merit teacher pay plan

Actual Appropriation: \$194,670,614

Actual Duration: 1989–1996

Outcome: Senate Bill 2's merit pay for better teachers was replaced by the ABC incentive awards in 1996, and the bill's educational reforms were folded into or replaced by the ABC Program.

Name: Year-Round Schools

Begun: 1989

Statewide or Pilot: Neither. Unlike the other reforms mentioned in this chart, year-round schools are a local initiative. There currently are 121 year-round schools sprinkled across the state, or 5.6 percent of the 2,154 public schools in North Carolina.

Projected Funding Duration: N.A.

Original Objective: To replace the traditional long summer break with shorter, more frequent breaks so that students attend school during all seasons of the year. The theory is that students benefit because they are never away from school long enough to forget what they've learned.

Projected Cost: The state does not appropriate extra funds for year-round schools.

Actual Appropriations: N.A.

Actual Duration: N.A.

Outcome: In existence.

—continued

Name: Outcome-Based Education Program

Begun: 1991

Statewide or Pilot: Pilot in (1) consortium of Alamance County, Johnston County, and Granville County; (2) consortium of Madison County and Mooresville Graded School District; (3) Charlotte-Mecklenburg County; (4) Elizabeth City-Pasquotank County; (5) Polk County; and (6) Vance County

Projected Funding Duration: Three years

Original Objective: To base education on defined, real-world outcomes for individual students rather than on generalized academic outcomes

Projected Cost: \$2.9 million

Actual Appropriations: \$8,331,240

Actual Duration: Three years

Outcome: Dropped due to inconclusive results and political conflict between local school boards and the state Department of Public Instruction

Name: Low-Wealth and Small School Funds

Begun: 1991

Statewide or Pilot: Funds available to qualifying schools on a statewide basis.

Projected Funding Duration: Ongoing

Original Objective: To provide supplemental funds in counties with limited resources to allow those counties to enhance the instructional program and student achievement.

Actual Appropriations: In 1991, low-wealth schools received \$6 million while small schools got \$4 million. By 1999–2000, the appropriation had grown to \$77.3 million for the low-wealth fund and \$22.2 million for the small schools fund.

Actual Duration: In existence

Outcome: School finance issue remains unresolved.

Name: Charter Schools

Begun: 1996

Statewide or Pilot: Statewide

Projected Funding Duration: Open-ended

Original Objective: To offer citizens the opportunity and flexibility to open their own, state-supported schools while being held accountable to limited state guidelines

Projected Cost: Normal per-pupil expenditures from local school systems to follow students from public schools to approved charter schools—no extra costs

Actual Appropriations: \$48,703,638 million in existing

public school funds have been transferred to charter schools

Actual Duration: In existence

Outcome: As of August 2000, there were 90 charter schools in operation. However, there are five other approved charter schools that delayed opening for one year, bringing the total to 95. State law allows 100 charter schools. See text, pp. 81–84, for preliminary results.

Name: School-Based Management and Accountability Program (ABC Program)

Begun: 1996

Statewide or Pilot: Statewide

Projected Funding Duration: Open-ended

Original Objective: To give individual schools the flexibility to boost student achievement and simultaneously to hold them accountable for measurable achievements

Projected Cost: \$120 million per year

Actual Appropriations: A total of \$267,541,794 through FY 1999–2000

Actual Duration: In existence

Outcome: See text, pp. 84–97, for preliminary results.

Name: Excellent Schools Act

Begun: 1996

Statewide or Pilot: Statewide

Projected Funding Duration: Four years (through 2000–01 budget)

Original Objective: Raise NC teacher pay to the national average of \$41,928 (the projected average in 2001)

Projected Costs and Actual Appropriations: \$874,204,134 (through 2001)

Outcome: 2000 General Assembly authorized fourth of four installments.

Name: Student promotion/achievement standards—end of social promotion (part of ABCs)

Begun: 1999

Statewide or Pilot: Statewide

Projected Duration: Open-ended

Actual Appropriations: \$31,318,761 (Note: The General Assembly approved these funds to support the implementation of standards that changed status from “recommended” to “mandatory” in April 1999. These are part of the state’s ABC program.)

Outcome: In existence

Source: Paul LeSieur, N.C. Department of Public Instruction, Office of Finance, October 1999.



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Although the participating systems and schools had more flexibility, they were still bound by basic state policy. Some of the policy's guidelines included students having access to a common core of knowledge (the Basic Education Program); student advancement based on mastery of proficiencies adopted by the State Board of Education; and allowing the student to progress at his or her own rate. State rules detailed how parents, teachers, students, and administrators were to participate in the implementation of the programs.

Sam Houston, now executive director of the University of North Carolina System's Center for School Leadership Development in Chapel Hill, was superintendent of the Mooresville Graded School District from 1983 to 1993. His district was one of the original pilot systems. He says that the philosophical impetus behind Outcome-Based Education was a conflict between rigor and relevance.

"It's not difficult to increase the rigor of education," he says, "but it can be very difficult to make that rigor relevant to all students or their families. If you raise rigor without raising relevance, you'll see a rise in the dropout rate."

Outcomes, he says, were to be based on three questions: What should students know? What should they be able to do? And what teachable per-

sonal characteristics should they have to succeed in the world?

"We went to parents and the local business community and asked people what they had to know to be successful, and we started matching that to the curriculum," he says. "We found that while a good, rounded, basic education was still desirable, a lot of the specifics of the curriculum were not. Our studies showed us that students must have seven competencies to succeed." They must:

1. be able to communicate, which includes reading, writing, speaking, listening, and observing;
2. be able to use numbers and data effectively;
3. have problem-solving skills;
4. know how to process and analyze information rather than accept it passively;
5. be able to work in teams;
6. understand systems of technology, although not necessarily know the latest software, which changes every year anyway; and
7. have *enabling skills*—such as honesty, dependability, and concern with quality.



Karen Tam

"And you know," says Houston, "there was no such thing in North Carolina as an educational standard saying that a student must be able to make an oral presentation. And yet what more important ability is there in the working world?"

In order to develop these skills and fulfill the basic curriculum mandated by the state in the Basic Education Plan while making them interesting and relevant to students, the Mooresville system made changes in some of its schools. A year-round, quarter system was implemented originally in one elementary school using a school within-a-school, a model that offers both traditional and year-round calendars.³⁸ Dividing up the year differently allowed teachers to teach more intensive, short-term courses and allowed students more variety as they and their families designed courses of study that would lead ultimately to graduation based on individual timetables.

"I think our greatest accomplishment was in reaching out to the business and professional community in an effort to align education with the real world," says Houston. "We were definitely able to add some more rigor to education, although I don't really know if we succeeded in making it seem more relevant to students."

According to Houston, two things led to the end of this pilot. First, Outcome-Based Education was an attempt to tailor education to individuals, an enormous shift in the traditions of public education. To accomplish such a change in the space of several years proved impossible, and although some changes were implemented, the participating systems were still planning and training staff in the new concepts when the funding and statutory plug was pulled. The 1993-1994 End-of-Year Evaluation Report for the Outcome-Based Education program, the final year the program existed, reported, "Although all sites are closer to implementing OBE, the answer to this question [Did the pilot sites implement outcome-based education?] is, 'Not Yet.'" The report also noted that in terms of the effects of Outcome-Based Education, "'We still do not know' may be the best answer at present. Overall survey results indicate that the educational staff and parents of each district continue to support the initiatives."³⁹

Second, 1994 was the year of a dramatic rightward shift in politics in N.C and across the nation. Houston says Outcome-Based Education, both nationally and in North Carolina, became a target of conservatives who saw it as a liberal effort undermining traditional values and not respecting the need for basics—reading, writing, and arithmetic.

Unable to show concrete and lasting progress in three years, advocates of the program could not fight back successfully.

In 1995, Governor James B Hunt, Jr. pulled the funding for the pilot program from his budget. Unlike the Basic Education Program or Senate Bill 2, the General Assembly then repealed the program instead of merely modifying it or folding it into a subsequent reform.⁴⁰ Outcome-Based Education did leave a legacy, however. Although the origins of North Carolina's year-round school movement began in 1989, Outcome-Based Education helped encourage its progress as Houston's school system was one of the first in the state and nation to implement a year-round calendar. North Carolina now ranks fifth in the nation in the number of such schools.⁴¹

Low-Wealth School Fund and Small School Fund in 1991

North Carolina embarked on yet another reform in 1991 by creating two funds designed to provide additional money to low-wealth and smaller school systems. However, unlike other reforms, this effort focused on equity rather than accountability or effectiveness.

While the legislature enacted these measures in 1991, the issue of disparity in public school financing has been around much longer. The equity issue has its origins in the state constitution as Article IX, section 2(1) reads, "The General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools . . . wherein equal opportunities shall be provided for all students." In 1983, with this principle in mind, the Report of the Commission on the Future

"It is our American habit if we find the foundations of our educational structure unsatisfactory to add another story or wing. We find it easier to add a new study or course or kind of school than to recognize existing conditions so as to meet the need."

—JOHN DEWEY



The School in the Community charter school, which closed in April 1999, met in the Seeds of Sheba complex in Chapel Hill.

of North Carolina recommended that the state “devise and apply a system of public school finance that will provide equal educational opportunity to all schoolchildren.”⁴² In 1985, the General Assembly had the opportunity to meet the challenge put forth by the Commission.⁴³ At the time, Senator Robert Warren and Representative Jo Graham Foster introduced legislation which recognized that “the quality and the quantity of the school program is in part dependent upon where a child lives.”⁴⁴ The bill attempted to clarify state and local funding responsibilities for public schools, including funding for the new Basic Education Program. While funding for the Basic Education Program was included in that year’s budget, the school financing disparity issue received only a token response. As the bill read, “It is further a goal of the General Assembly to provide supplemental funds to low-wealth counties to allow those counties to enhance the instructional program and student achievement.”⁴⁵ Not until the eventual creation of the low-wealth and small school supplemental funds in 1991 did counties finally receive the fruits of the General Assembly’s 1985 “goal.”

Under the low-wealth supplemental fund provisions, counties are eligible to receive funds⁴⁶ if their property tax base is below the state average (a

measure of low wealth) and their tax rate (a measure of local tax effort) is above the state average. The small schools supplemental fund⁴⁷ provides additional money to counties with enrollments below 3,150 students or to counties with enrollments between 3,000 and 4,000 students and property tax bases below the state average. When first created in 1991, the low-wealth schools fund received an appropriation of \$6 million while the small schools fund received \$4 million. In 1999–2000, the state appropriated approximately \$77.3 million for the low wealth fund and \$22.2 million for the small schools fund.⁴⁸ These figures represent approximately 1.4 percent and 0.4 percent respectively of the total General Fund appropriations for public schools in 1999–2000.

While the state has taken some measures to address funding disparities between school systems, it hasn’t been without interest from the courts. In one case, *Britt v. N.C. Board of Education*,⁴⁹ the court found that funding disparities did not violate the state constitution.⁵⁰ Another case, *Leandro v. State*, is still pending in the North Carolina court system, and its outcome could have profound impacts on school financing and education reform efforts in the state. The case started as a lawsuit filed by five poor school districts against the state of

North Carolina and the State Board of Education. The districts' complaint was that the state's system of financing schools was unconstitutional because it deprived poor students of a good education. Later, six of the state's wealthier school districts joined the suit to argue for more state resources to address the challenges that poverty and other problems create even in more affluent areas. In 1997, the Supreme Court's opinion held that the state constitution not only provides a right to a general and uniform education, but also a right to a "sound basic education." The Court stated that, "A 'sound basic education' is one that will provide the student with at least: (1) sufficient ability to read, write, and speak the English language and a sufficient knowledge of fundamental mathematics and physical science to enable the student to function in a complex and rapidly changing society; (2) sufficient fundamental knowledge of geography, history, and basic economic and political systems to enable the student to make informed choices with regard to issues that affect the student personally or affect the student's community, state, and nation; (3) sufficient academic and vocational skills to enable the student to successfully engage in post-secondary education or vocational training; and (4) sufficient academic and vocational skills to enable the student to compete on an equal basis with others in further formal education or gainful employment in contemporary society." Furthermore, the court held that "an education that does not serve the purpose of preparing students to participate and compete in the society in which they live and work is devoid of substance and is constitutionally inadequate."⁵¹ While the Supreme Court's decision did not invalidate the state's school finance system, it did allow the school districts to try to prove at trial their claims that the state is not meeting its constitutional obligations.

1996: Charter Schools

Charter schools are nonprofit corporations run by boards of directors that have significant autonomy in determining how the schools are operated. Minnesota was the first state to allow charter schools, and now 36 states plus the District of Columbia have charter school laws on their books.

North Carolina's charter school legislation, passed in 1996, created a new educational creature and a new reform movement in the state.⁵² In return for the flexibility and freedom from various public school policies, charter schools assume responsibility for student performance, based on statewide standards.⁵³ These schools do not receive a total exemption from state rules. They must meet the same health and safety requirements as public schools, for example, and they must offer an educational program extending at least 180 days per year. The program must at least meet the state's student performance standards, and the schools must comply with special education regulations requiring specially designed instruction to meet the unique needs of children with special needs.⁵⁴ The curriculum, scheduling, and teaching methods may be determined by the schools, however, as long as they put them in their charters and have those charters approved.

Charter schools may not charge tuition. They receive the same per-student funding from the state as do the public schools (an average of \$3,658 for the 1999–2000 school year),⁵⁵ as well as the same rate of additional per-student funding for children with special needs (\$2,367 for 1999–2000).⁵⁶ Except for the funding of the five-person staff charter school office in the Department of Public Instruction (approximately \$550,000), these schools receive no additional state funding.⁵⁷ So far, \$48.7 million in existing public school funds have been

"Charter schools cannot take their 'customers' for granted. Their very survival depends upon the degree to which families believe the schools are responding to family preferences and working hard to provide the education they demand."

—BRYAN C. HASSEL

*THE CHARTER SCHOOL CHALLENGE,
AVOIDING THE PITFALLS, FULLFILLING THE PROMISE*

"Education for immediate effective consumption is more popular than ever, and nobody wants to think of the long term, or the intellectual tone of the nation."

—ROBERTSON DAVIES
THE REBEL ANGELS

transferred to charter schools.⁵⁸ Local funds—additional school funds made available from local property taxes⁵⁹—follow children to charter schools just as they do to the public schools. And, charters are eligible for various federal funds, such as the Innovative Education Program Strategies program, the Dwight D. Eisenhower Professional Development program, and the Safe and Drug Free Schools and Communities program, just as public schools are. Congress also increased the charter school grant program from \$100 million to \$145 million for fiscal year 2000.⁶⁰

The N.C. charter schools legislation allowed for the creation of a maximum of 100 such schools in the state. As of Aug. 31, 2000, there were 90 in operation, educating approximately 13,000 children. However, there are five other approved charter schools that delayed opening for one year, bringing the total to 95.⁶¹ With the state fast approaching the 100 charter school maximum, Republican gubernatorial candidate Richard Vinroot supports at least an expansion of charter schools to give more choices to parents.

The "charter" in charter schools refers to the written contract between the school and the local board of education (or, if the local board refuses to sign the contract, the State Board of Education). This document describes how the school will be run and how student learning will be measured. If the school lives up to its charter, it will not be bound by many state regulations that apply to other public schools. If it doesn't, it can be closed.

The entire school program is created by the school's board, which is usually made up of parents who felt that traditional public schools were not meeting their children's needs. Dennis LaCaria, whose son attends Community Charter School in Charlotte, chose the charter school alter-

native from day one. "When my son was starting school, based on the expensive private schools and under-performing public schools, a charter school was a unique opportunity to find somebody who was trying something innovative in education that would probably benefit my son," says LaCaria. "So far, we're happy with it."

Although not part of the ABCs Program technically, the charter school legislation aligns with the philosophy of local control, flexibility, and accountability. In essence, the legislation allows parents to start their own schools with public money as long as they agree to be accountable to the State Board of Education's student performance standards and basic school law concerning safety.

Many charter schools are organized around themes such as global learning, technology, or art—similar to magnet schools—and attempt to draw students with particular needs or interests. For example, Grandfather Academy in Avery County serves at-risk children, while Cape Lookout Marine Science High School in Carteret County focuses on maritime sciences. Charter schools are not, however, allowed to discriminate against any child in their application processes. Early critics of the charter schools feared that they might become havens of white flight, siphoning off middle class white students from public school systems. However, it seems that more black parents than might be expected are enrolling their children in charter schools. Thus, diversity remains an issue, but not in the way the critics may have forecast. For the 1999–2000 school year, about half (47.6 percent) of the students in the state's charter schools were black. Overall, 31.1 percent of public-school students are black and 61.9 percent are white. In addition, numerous charter schools focus on themes particularly important to minorities. Omuteko Gwamaziima, a new charter school in Durham, focuses on African-centered education. Overall, 38 of the state's charter schools (about half) have minority enrollments of 50 percent or more, and 10 have enrollments that are nearly 100 percent minority.⁶²

In addition to racial mix issues, charter schools also face the pressure of being successful in terms of both management issues and student achievement. In some cases, the individuals who decide to start a charter school are teachers or parents interested in providing an alternative to the traditional public schools. With this in mind, these founders may not have the experience necessary to handle the day-to-day administration of a school. The U.S. Department of Education's "The State of Charter

Schools—Fourth Year Report,” found that most charter schools identified fiscal obstacles, including funding for start-up and ongoing operations, as difficult challenges during implementation. Lack of planning time and facilities also caused problems for charter schools. In addition, many charter schools provide non-educational services to their students, including transportation, food service, before- and after-school care, and social and health services.⁶³

The added burden of not only teaching students but dealing with management and administrative issues is sometimes a burden too difficult to bear. Since the first North Carolina charter schools opened in 1997, 13 have had their charters revoked or have turned them in voluntarily. While five of those 13 were never able to open their doors due to problems such as not being able to find a facility or low initial enrollments, some had financial difficulties. School in the Community, a charter school for at-risk children in Chapel Hill, closed after struggling with dwindling enrollments and being \$50,000 in debt.⁶⁴ Northeast Raleigh Charter Academy also has stumbled since opening in August

1999 with enrollment dropping to 67 percent less than original projections and financial and personnel issues undermining parents’ trust.⁶⁵

Student performance is probably the most significant yardstick by which charter school proponents must prove that the schools actually work. Furthermore, positive results grant credibility, and credibility attracts more students and even helps with fundraising. Healthy Start Academy in Durham is one charter school that has had mixed results. The school’s first set of scores in 1998 were promising. From kindergarten through second grade—the grades the school offered at the time, students scored well above the national average on the Iowa Test of Basic Skills, a nationally recognized test. However, the real test would come when the school’s second graders moved up one year and took North Carolina’s end-of-grade test, part of the ABCs Program, which isn’t given until the third grade. While Healthy Start Academy did well on the Iowa test again in 1999, the school also faced a major disappointment in July 1999 as the students did poorly on the state’s exams.⁶⁶

A teacher works with his 1st and 2nd graders on the first day at the new Durham Community Charter School.



Peter Schumaker, The Herald-Sun, Durham, N.C.



Students study in sixth grade class at the Village Charter School in Chapel Hill on the first day of classes.

Healthy Start's story, and the fact that in 1999–2000 19 of the 44 low-performing schools were charter schools, makes some people question whether charter schools are working, but others say it is too early to tell. The State Board of Education is preparing to conduct a comprehensive evaluation of charter schools and “the educational effectiveness of the charter school approach,” including student performance. The report is due to the General Assembly by January 2002.⁶⁷

Until that time the board is remaining quiet. “The board has held off making any public statements until we do the [comprehensive evaluation] report,” says Jane Worsham, executive director of the State Board of Education. Worsham adds, “We do evaluate the data annually, and some of our highest scores were from charter schools, but so were some of our lowest.” From a parent's perspective, LaCaria believes that children who attend charter schools need the opportunity to adapt to a new system, as charter schools often have a different teaching approach than traditional public schools. To people who rely on early test scores to dismiss charter school efforts, LaCaria says, “to be

accurate, we need to compare apples to apples, and nobody's really doing that.”

Whether the charter movement will expand beyond the originally envisioned 100 schools remains to be seen. The success of charter schools and the effect these schools will have on the rest of public education in the state also remains to be seen. For the moment, they represent the furthest edge of the state's experiment with local control and flexibility.

1996: The ABCs Program

North Carolina experienced a watershed year for education reform in 1996. In addition to passing charter school legislation, the General Assembly passed the School-Based Management and Accountability Program, commonly referred to as the ABCs plan because it was based on the State Board of Education's Accountability in the Basics with Local Control plan. As part of the new effort, the General Assembly gave local school boards and, most importantly, individual schools greater flexibility in managing funds and operating public schools.

North Carolina's public school reform effort now rests on a program that gives individual schools a fair amount of control over how they operate and in return requires accountability to standards in student achievement. And while features of the Basic Education Program (such as instruction in the arts) remain intact, it is student mastery of the core, required courses and competencies for which the schools are held accountable. And, students themselves are held accountable for mastery in order to be promoted and to graduate.

Under the ABCs Program, schools focus on student performance in reading, mathematics, and communication skills in the elementary and middle school years. In grades 3 through 8, students are tested annually on reading and math with multiple-choice tests. In grades four and seven, they take writing tests. All items in the multiple-choice tests and the grading criteria in the writing tests are based on the content of the Standard Course of Study, which is at the heart of the Basic Education Program. High school students must take wide-ranging tests at the end of the 10th grade for promotion. To graduate, 11th grade students must pass a computer skills test, first taken in 8th grade, and must take an "exit exam,"⁶⁸ but students who fail are allowed to take these tests a second and possibly a third time.⁶⁹ High school students also take end-of-course (EOC) tests in the core courses that are required for graduation: English I and II; biology I; algebra I; U.S. history; and economic, legal, and political systems. In addition, the board has added end-of-course tests in algebra II, geometry, chemistry, physics, and physical science and will add English III and IV and earth and environmental science. Using the elementary and middle school tests and the end-of-course tests in the required courses as criteria for promotion was voluntary until April 1999. Now, it is required by law.⁷⁰

Ceding control to individual schools was a new step in North Carolina. The state's current policies grow directly from the legislation of 1996, but several other efforts set the present scene. First, the North Carolina Education Standards and Accountability Commission was established by the General Assembly in 1993.⁷¹ Three years later, that commission made recommendations that were the basis for the promotion standards that were enacted as part of the ABCs Program in 1999. Second, the 1995 General Assembly charged the State Board of Education with a radical downsizing of the Department of Public Instruction with the "goal of a decrease of at least 50 percent in the number of employee positions . . . and a decrease of at least

50 percent in the Department's budget"—or even elimination—of the Department of Public Instruction.⁷² This is ironic in that a large percentage of public school revenue in North Carolina comes from state funds (about two-thirds). N.C. is ranked 4th in the U.S. in percentage of state revenues for schools which range from 8.2 percent in New Hampshire to 89.1 percent in Hawaii. (See Table 4 pp. 86–87.) The ABCs Program was born in the context of this downsizing.

The North Carolina Education Standards and Accountability Commission

The Standards and Accountability Commission's charge was to "develop high and clearly defined education standards for the public schools of North Carolina" and "to develop fair and valid assessments" to assure that students in North Carolina meet these standards.⁷³ The 25-member commission—made up of 17 appointees by Governor James B. Hunt and four each by the House Speaker and Senate President Pro Tempore—represented a broad range of interests from bank presidents to classroom teachers. When the legislature authorized this commission, upon the recommendation of the governor, it stated that as soon as the State Board of Education approved its recommendations [but no later than spring semester of the 1999–2000 school year], those recommendations would become policy. With the governor's interest in the commission and his majority control over the selection of its members, business and education leaders expected dramatic recommendations.⁷⁴

Charged with setting education standards for public school students in North Carolina, the

—continued on page 88

"If you can't communicate or do basic math, you can't do anything. If we erred a little on the side of teaching too much reading, writing, and math, we won't pay much of a price for that."

—THE LATE JAY ROBINSON,
ADVOCATE OF THE STATE ABCs PLAN AND
CHAIRMAN, STATE BOARD OF
EDUCATION, 1994–1997

**Table 4. 1999 Public School Revenue Sources
Ranked by Percentage of State Contribution**

	% State	% Federal	% Local*
1) Hawaii	89.1	8.4	2.5
2) Michigan	76.8	6.7	16.5
3) New Mexico	73.3	13.2	13.6
4) North Carolina	69.2	7.6	23.2
5) Washington	67.4	6.7	25.9
6) Delaware	66.1	7.3	26.6
7) Alabama	65.5	9.1	25.4
8) Alaska	63.6	12.6	23.9
9) Oregon	63.5	6.8	29.7
10) Kentucky	62.7	8.9	28.4
tie Idaho	62.7	6.9	30.4
12) Utah	62.3	6.6	31.1
13) West Virginia	62.2	10.8	27.0
14) Oklahoma	61.2	8.9	29.9
15) Kansas	61.0	5.8	33.2
tie Arkansas	61.0	8.1	30.9
17) California	59.7	8.9	31.4
18) Minnesota	56.2	4.5	39.4
19) Mississippi	55.6	13.8	30.6
20) Wisconsin	54.5	4.4	41.1
21) Wyoming	53.2	6.2	40.6
tie Iowa	53.2	4.0	42.9
23) Georgia	51.6	6.6	41.8
24) South Carolina	51.4	8.1	40.5
tie Tennessee	51.4	8.0	40.6
26) Indiana	51.0	4.5	44.5

Table 4.
continued

	% State	% Federal	% Local
tie Louisiana	51.0	11.4	37.6
28) Arizona	48.6	7.6	43.8
29) Florida	48.3	7.6	44.1
30) Maine	46.9	6.3	46.8
tie Montana	46.9	10.2	42.9
32) Colorado	44.4	5.4	50.2
33) Texas	44.3	8.4	47.3
34) Ohio	43.6	5.8	50.6
35) Connecticut	42.4	4.3	53.3
36) Rhode Island	41.5	5.5	53.0
37) Pennsylvania	41.1	5.6	53.3
38) Maryland	41.0	5.1	53.9
39) North Dakota	40.7	11.5	47.8
40) New York	40.1	6.3	53.6
41) Nebraska	39.6	4.9	55.5
42) Missouri	39.5	6.1	54.4
43) New Jersey	38.0	3.2	58.8
44) Virginia	37.5	5.3	57.2
45) South Dakota	36.9	9.8	53.3
46) Massachusetts	36.1	5.1	58.8
47) Nevada	34.2	4.4	61.4
48) Vermont	28.0	4.9	67.1
49) Illinois	26.7	6.6	66.7
50) New Hampshire	8.2	3.7	88.1

* Percentages may not add to 100 due to rounding.

Source: National Education Association (NEA), *Rankings & Estimates, 1999*

commission sought input from a wide variety of North Carolinians to avoid political missteps in a volatile era. At the time, John Dornan, director of the Public School Forum of North Carolina, also acknowledged the importance of reaching out to the people. "If the commission's work gets broad support from the public," said Dornan, "it is not an overstatement to say it could easily be the engine that drives education reform in this state for years to come."⁷⁵

After three years of work and interim reports and recommendations, the commission presented 12 recommendations to the State Board of Education in July 1996. The board accepted most of them outright, including the following:

1. Developing a single, comprehensive plan, based on the ABCs, that will be the umbrella for all initiatives in curriculum, assessment, and standards.
2. Adopting six competency areas in which a student must show proficiency for graduation:
 - communication;
 - using numbers and data,
 - problem solving,
 - processing information,
 - teamwork, and
 - using technology.

(These are very similar to Mooresville Graded School District's conclusions from its Outcome-Based Education pilot. In fact, Sam Houston, former superintendent of the Mooresville district from 1983 to 1993, served as the first executive director of the Standards and Accountability Commission.)

3. Refining the general curriculum to stress understanding and real-world application rather than survey courses. Recent changes to the Basic Education Program reflect movement in this direction.
4. Establishing benchmarks. Students not meeting State Board of Education standards after certain grades will not be promoted or, in the case of the final year, will not graduate.⁷⁶ The commission recommended grades 4, 8, 10, and 12, but the State Board of Education chose grades 3, 5, 8, 10, and 12 instead. Social promotion, allowing students to continue to pass through school with their peers without satisfying academic requirements, will end. The adoption of this recommendation in 1999 stirred great controversy around the state, most

of it centering around the question of what is going to happen to students who can't meet the standards.⁷⁷

5. Requiring students to pass a 10th grade comprehensive exam, a multiple-choice test designed to assess the English Language Arts and Mathematics competencies the typical student should master by the end of grade 10.⁷⁸
6. Requiring high school students to choose from career preparatory, college preparatory, or college technical preparatory curriculums.
7. Giving schools great flexibility in the ways in which they help students reach the standards outlined by the ABCs Program.
8. Creating a comprehensive, statewide staff development plan that focuses on providing training, resources, research, and technology to teachers and schools.

The State Board of Education did not adopt a statewide policy dealing with extending the school day to provide more time for instruction, or flexible school hours (starting or ending the school day at alternative times), but some schools are addressing this issue on their own. The board also did not accept the commission's recommendation to give students the opportunity to graduate early, although this could be addressed again in the future. The board rejected a recommendation that graduating

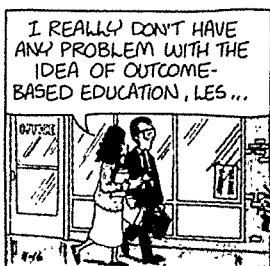
"When the stakes of test scores are so high for students, teachers, and schools, what gets tested is what gets taught. The tail of assessment wags the dog of curriculum and instruction, and the entire learning process gets reoriented around the kinds of basic skills that are easy and inexpensive to measure."

—CATHERINE AWSUMB

*THE GOOD NORTH CAROLINA
ELEMENTARY SCHOOL*



FUNKY WINKERBEAN by Tom Batiuk



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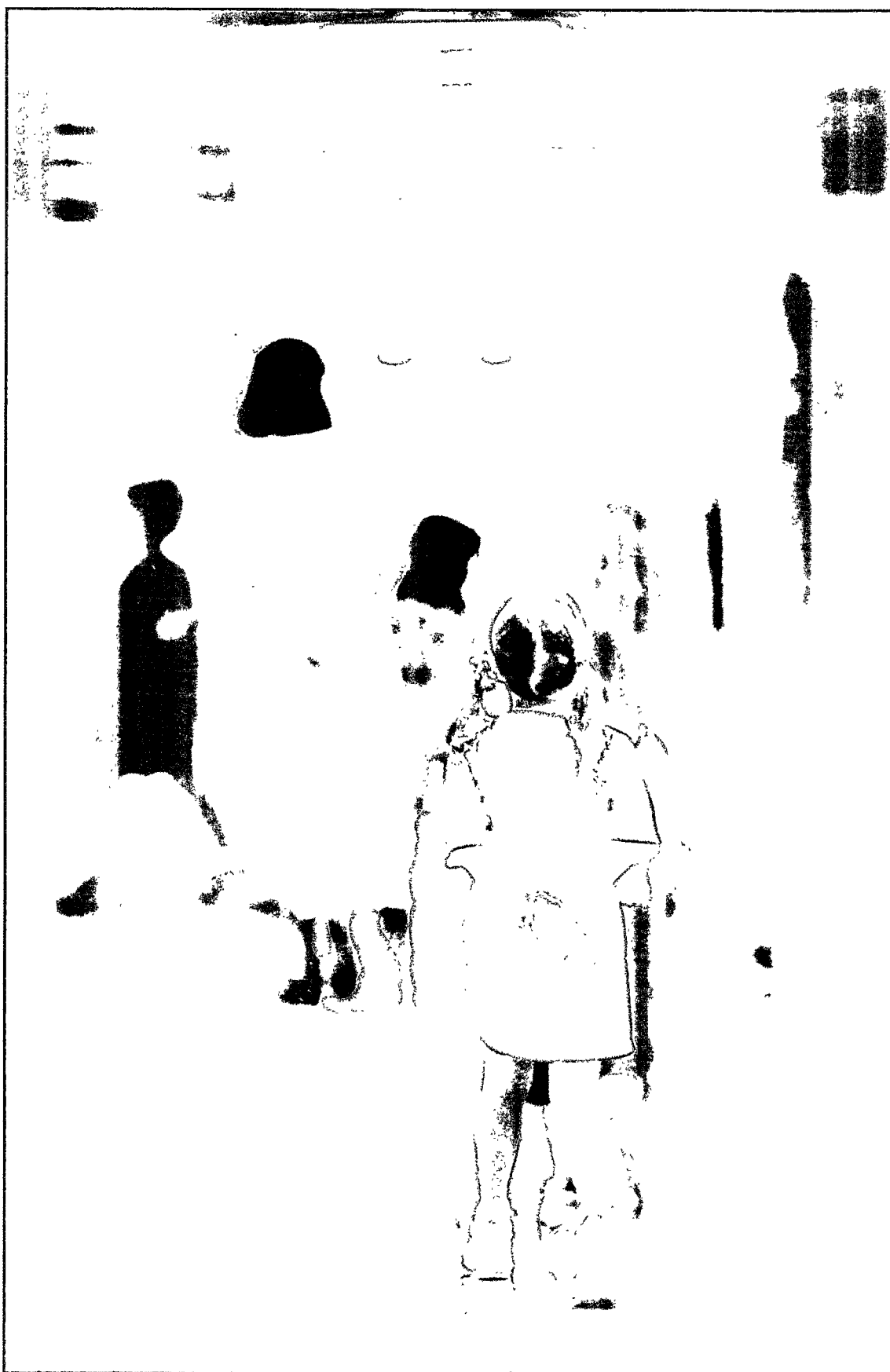
high school students be required to complete a final project (the commission did not define what this final project was to be), although some schools are adopting something similar on their own. These may include a major written report, oral presentation, or portfolio of a student's work. Finally, the board did not accept a recommendation to create a system of assessment of student performance that balanced standardized tests, performance-based tasks, and actual examples of student work.

Downsizing the State Department of Public Instruction

As they swept to control of the N.C. House (68–52) but not the Senate (24–26) in the 1994 elections, North Carolina Republicans promised voters they would dismantle the state-level Department of Public Instruction and transfer power, control, and savings to the 119 local school districts. North Carolina Republicans ran on a state-level contract with the people of North Carolina modeled after a national Contract with America pushed by then-Speaker of the U.S. House Newt Gingrich. The state-level contract called for education reform that “reduces the responsibilities and size of the state Department of Public Instruction and earmarks savings realized by DPI restructuring for use by local school boards to pay for textbooks, supplies and other classroom materials.”⁷⁹ Although Republicans did not accomplish a complete scuttling of the state education department, they were successful in

downsizing it radically. In the 1992–1993 fiscal year, before any reorganization took place, there were 843 Department of Public Instruction positions. By 1995–1996, there were only 498 and now in 1999–2000 there are still only 506. Furthermore, beginning in the 1994–1995 fiscal year and continuing through 1996–1997, the administrative division of the department's budget was slashed by about \$20 million.⁸⁰ The Republicans believed there was too little local control combined with too little progress in raising student achievement by a state-level bureaucracy they felt spent too much of the taxpayers' money. A good portion of the funds saved by downsizing was allocated by the legislature to local school systems for the reduction of class sizes in the second grade from 26 to 23 students and for additional textbooks.

The downsizing of the Department of Public Instruction resulted in a loss of power for the Superintendent of Public Instruction, historically one of four major power centers in education. Governors usually are active players in education policy. The superintendent is also a statewide elected official, and therefore exercises considerable clout. The 11-member State Board of Education is particularly powerful in that it is one of only two boards in the state that draws its power directly from the N.C. Constitution rather than from statute.⁸¹ The chair is elected by the full board, though sometimes the governor makes a recommendation to the board.⁸² The General Assembly always has power because it provides about two-thirds of the



Karen Tam

public schools budget.⁸³ In 1995, the General Assembly transferred a great deal of power from the state superintendent to the State Board of Education.⁸⁴ The superintendent, for instance, was stripped of his authority to approve local school systems' educational plans, and this power was given to the state board. Power to grant waivers from state educational policy also was transferred from the superintendent to the board. Finally, the board was given authority over the Task Force on Site-Based Management within the Department of Public Instruction, where issues of local control were being addressed.

At the same time, the legislature dropped the differentiated or merit-based pay plan that rewarded individual teachers based on student performance under the Performance-Based Accountability Program. The legislature gave the board the authority to adopt guidelines for developing school improvement plans, including guidelines for school and student performance goals and strategies, while the numerous student performance indicators of Senate Bill 2, such as attendance rates and dropout rates were eliminated. From now on, local schools would develop a "building-level," or individual school plan for improvement with the specific aim of boosting achievement.

In a nutshell, the General Assembly dropped Senate Bill 2 and adopted the ABCs Program, a plan that had been growing within the state board. From now on, the state would establish standards of achievement and accountability, but in large measure it would leave it to local schools to decide how those standards would be met. This is the essence of the ABCs Program, which is over-

seen by the State Board of Education with staff support from the Department of Public Instruction.

The ABCs Program

Henry L. Johnson, associate state superintendent for instructional and accountability services in the Department of Public Instruction, says the impetus for establishing the ABCs Program and its more rigorous standards came from legislators and State Board of Education members. According to Johnson, these officials said they had fielded numerous complaints "that high schools were graduating kids who couldn't read their diplomas and who worked in stores but couldn't make change." He adds, "There was some hyperbole in these stories, but the sentiment is valid."

Student achievement tests are the centerpiece of the state's ABCs Program. Individual schools, within broad guidelines, may determine how best to prepare students for the tests. If the schools succeed, according to a formula established by the State Board of Education, the state takes a hands-off approach, other than ensuring that basics such as facilities, staff training, and resources are taken care of. Teachers and certified staff in schools that succeed are rewarded financially.

Schools that fail literally can be taken over by the state, with Department of Public Instruction teams working with the staff to put the school on track. Principals, teachers, and other certified staff may lose their jobs, or, even more dramatically, superintendents may be removed from their duties if more than half of their schools are performing below state standards set for them. In a worst-case

"Faith in the power of education has had both positive and negative consequences. It has helped to persuade citizens to create the most comprehensive system of public schooling in the world. Americans have used discourse about education to articulate and instill a sense of the common good. But overpromising has often led to disillusionment and to blaming the schools for not solving problems beyond their reach."

—DAVID TYACK AND LARRY CUBAN

TINKERING TOWARD UTOPIA—A CENTURY OF PUBLIC SCHOOL REFORM

scenario, the State Board of Education may temporarily suspend a local school board if it deems the board "obstructionist" to efforts aimed at helping under-performing schools.

The State Board of Education gives every school in the state a set of test-score goals each year. They are individually geared to each school by considering: (1) the North Carolina average growth rate in the respective grade and subject; (2) an estimate of the proficiency of the students in the school; and (3) an estimate of the growth of the students' scores.⁸⁵ The goals are based on a complicated formula that takes into account the test scores of previous classes at each school and also the performance of students across the state. Each school receives a yearly goal that requires growth in test scores from the previous year. "We know, on average, how far up the scale on these tests the student body at any particular school should move," says Johnson.

At the end of the school year, after the Department of Public Instruction has tabulated each school's test scores, schools are placed in categories of various distinctions, depending on whether they have exceeded, met, or missed the goals set for them. To be named an *Exemplary Growth School*, the aggregate growth in student performance must be at least 10 percent higher than the goals set for the school. The absolute scores in these schools are not necessarily high. They may have exceeded their state-set goals by 10 percent, but if they had been a low-performing school in the past, their goals may be well below the levels of many other schools. Teachers and other certified staff at these schools receive a \$1,500 bonus, and teacher assistants receive \$500.

An *Expected Growth School* meets its state-set goals. Teachers and other certified staff receive a \$750 bonus, and teacher assistants receive

\$375. Bonuses for these top two categories of schools totaled about \$122 million in 1998–99.

At *No Recognition Schools*, the aggregate student performance does not meet its growth goals on tests. The staff receives no bonuses. Ironically, test scores at these schools may be high relative to other schools—they simply didn't grow enough from the previous year.

To be named a *Low-Performing School* (see Table 5, p. 95), the aggregate growth in student test scores is less than the goal and more than half of the students are performing below grade level. The Department of Public Instruction sends a team to help these schools.

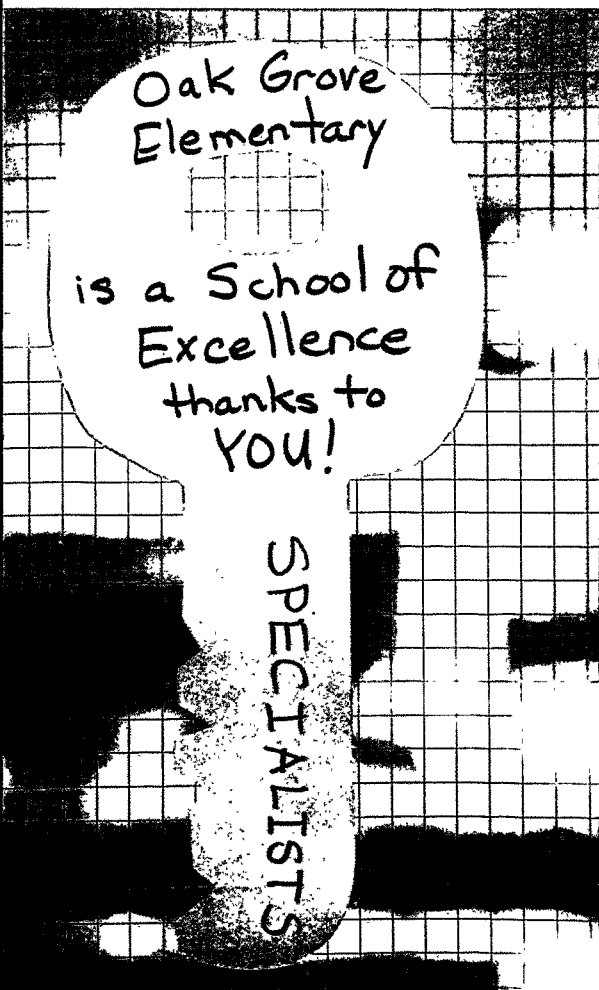
There are two other categories, which recognize aggregate student performance rather than progress toward growth goals. At a *School of Excellence*, 90 percent or more of the students perform at or above grade level (see Table 5, p. 94). At a *School of Distinction*, 80 to 89 percent score at or above grade level. Schools receiving these honors might or might not have met their growth goals.

Each year, the Department of Public Instruction determines how many assistance teams it can afford and sends them to Low Performing Schools. In the 1997–98 school year, there were 30 *Low-Performing Schools*, and teams were sent to 15. In 1998–99, there were 13 *Low Performing Schools*, six of which were charter schools. According to the original charter school legislation, the latter are not assured of receiving assistance teams, although the department may elect to offer help. Seven public school principals from the 1997–98 group were brought before the state board. Six of these principals returned to their duties, and one returned to the school system but not as a principal. The teaching staff also was evaluated in each of the 15 schools. An individual teacher deemed to be poor performing may be required to take a competency test. A teacher who fails the test three times may lose his or her license to teach. To date, 14 schools have repeated as a *Low Performing School*.

The ABCs plan draws from the Basic Education Program. It provides for teacher incentives without the divisiveness of the Career Ladder or the more-pay-for-more-work ethos of the Performance-Based Accountability Program. It has done away with more than 40 criteria of the Performance-Based Accountability Program plans and allows schools more autonomy. It hinges on student performance, although it aggregates performance into school-wide averages. Finally, it places both accountability and flexibility at the individual school rather than on the school system.

"I am entirely certain that twenty years from now we will look back at education as it is practiced in most schools today and wonder that we could have tolerated anything so primitive."

—JOHN W. GARDNER



Each school now writes a three-year plan that is submitted for approval to the local school board. Schools can propose flexible use of funds, flexible schedules, flexible curricula, and numerous other options. Chances are, as long as they meet basic legal requirements for the operation of a school and can convince the local school board that they will meet the goals for growth in student achievement, schools stand a good chance of having their plans approved.

On the other hand, the ABCs plan offers a financial disincentive to teachers who might otherwise decide to teach in schools with difficult, low-performing populations. These teachers aren't as likely to receive the bonuses that teachers at exemplary or expected growth schools will. Furthermore, some teachers and parents complain that by placing overwhelming importance on standardized tests and by holding schools responsible for the results, teachers focus too much on subject matter covered by the tests. The ABCs Plan also has raised

the ire of advocates for special education students, who say that reliance on standardized tests for promotion and graduation flies in the face of tailoring education to meet individual needs and goals. The N.C. Center for Public Policy Research found this to be an issue in its November 1998 examination of children with special needs published in *North Carolina Insight*. "The new high school standards are in direct conflict with the needs of special education kids," said Ann Brady, director of exceptional children programs in the Rockingham County Public Schools. "Special education kids who are trying to get a diploma want and need to take these tests, but they will pull scores down. When teachers and administrators realize this, they counsel the special education students not to take the standard course of study. And that is not in special education kids' best interests."⁸⁶

The program has made progress in terms of the standards it set for itself: "Testing results for the 1998-99 ABCs of Public Education show that the percentage of K-8 students who are performing at grade level or better in reading and math continues to increase, moving from 66.3 percent in 1997-98 to 69.1 percent in 1998-99. This represents a 9.1 percent increase since the ABCs began in 1996-97, when 60 percent were proficient. . . . The number of schools achieving Schools of Excellence recognition doubled from 24 in 1997-98 to 50 in 1998-99. Schools recognized as Schools of Distinction also increased significantly, going from 290 in 1997-98 to 408 in 1998-99. . . . The number of low-performing schools dropped from 30 to 13."⁸⁷ Furthermore, during the third year of the ABCs, 81.2 percent of schools met either their expected or exemplary growth standards compared to 56.7 percent in the first year (1996-97). End-of-grade test scores leveled off for the 1999-2000 school year, with 69.8 percent of students performing at grade level. That's less than a 1 percent improvement over 1998-99, leading state education officials to worry that student performance under the ABCs is leveling off. Of particular concern was a slight *decrease* in scores in grades six and seven. And whether the ABCs Program is successful by other standards may be a different story.

While the ABCs can show success on certain standards and accountability measures within the state, they provide no comparison with other states. On national tests like the National Assessment of Educational Progress (NAEP), a series of knowledge and skills tests developed and administered by the independent, nonpartisan National Assessment

—continued in page 96

**Table 5. Schools of Excellence and Low-Performing
Schools, 1999–2000**

A. 1999–2000 Schools of Excellence

71st Classical Middle (Cumberland County Schools)	Grey Culbreth Middle (Chapel Hill–Carrboro Schools)	Piney Creek Elementary (Alleghany County Schools)
A.T. Allen Elementary (Cabarrus County Schools)	Guy Phillips Middle (Chapel Hill–Carrboro Schools)	Robinson Elementary (Gaston County Schools)
Atlantic Elementary (Carteret County Schools)	Hardin Park Elementary (Watauga County Schools)	Roland–Grise Middle (New Hanover County Schools)
Barringer Academy (Charlotte-Mecklenburg County Schools)	Hayesville Middle School (Clay County Schools)	Rosewood Middle (Wayne County Schools)
Bee Log Elementary (Yancey County Schools)	Jacobs Fork Middle School (Catawba County)	Rutherford College Elementary (Burke County Schools)
Beech Mountain Elementary (Avery County Schools)	Jefferson Elementary (Forsyth County Schools)	Sandhills–Farm Life Elementary (Moore County Schools)
Blowing Rock Elementary (Watauga County Schools)	Jefferson Elementary (Guilford County Schools)	Shiloh Elementary (Union County Schools)
Brinson Memorial Elementary (Craven County Schools)	Kingswood Elementary (Wake County Schools)	South Charlotte Middle (Charlotte-Mecklenburg)
Brooks Global (Guilford County Schools)	Lake Norman Elementary (Iredell County–Statesville Schools)	Southwest Elementary (Forsyth County Schools)
C & L McDougle Middle (Chapel Hill–Carrboro Schools)	Lufkin Road Middle (Wake County Schools)	Summerfield Elementary (Guilford County Schools)
Clayton Middle School (Johnston County Schools)	Magellan Charter (Charter School–Wake County)	T.C. Henderson Elementary (Transylvania County Schools)
Colfax Elementary (Guilford County Schools)	Marie G. Davis Middle (Mecklenburg County Schools)	Tipton Hill Elementary (Mitchell County Schools)
Davidson Elementary (Charlotte-Mecklenburg County Schools)	McKee Road Elementary (Mecklenburg County Schools)	Topsail Middle (Pender County Schools)
Davidson International Baccalaureate Middle (Charlotte-Mecklenburg County Schools)	Morrisville Elementary (Wake County Schools)	Tryon Elementary (Polk County Schools)
Davis Drive Elementary (Wake County Schools)	Mountain Community School (Charter School–Henderson County Schools)	Valdese Elementary (Burke County Schools)
Davis Drive Middle (Wake County Schools)	Murphy Middle (Cherokee County Schools)	Valle Crucis Elementary (Watauga County Schools)
District No. 7 Elementary (Cumberland County Schools)	Northwest Cabarrus Middle (Cabarrus County Schools)	Villa Heights Elementary (Charlotte-Mecklenburg County Schools)
East Elementary School (Kings Mountain Schools)	Northwest Elementary (Lenoir County Schools)	Walnut Elementary (Madison County)
East Yancey Middle (Yancey County Schools)	Oak Grove Elementary (Wake County Schools)	Weddington Elementary (Union County Schools)
Elizabeth Lane Elementary (Mecklenburg County Schools)	Otto Elementary (Macon County Schools)	Weddington Middle (Union County Schools)
Exploris (Charter School–Wake County)	Parkway Elementary (Watauga County Schools)	Wesley Chapel Elementary (Union County Schools)
Glen Arden Elementary (Buncombe County Schools)	Partnership Primary (Wake County Schools)	West Lake Elementary (Wake County Schools)
	Peachtree Elementary (Cherokee County Schools)	West Lake Middle (Wake County Schools)
		West Pine Middle (Moore County Schools)

Table 5.
continued

B. 1999–2000 Low-Performing Schools

Aulander Elementary (Bertie County Schools)	Northampton High–West (Northampton County Schools)
Bartlett Yancey High (Caswell County Schools)	Northwest High (Halifax County Schools)
Carter Community (Charter School–Durham County)	OMA's Inc. Charter (Charter School–Cumberland County)
Carver Heights Elementary (Wayne County Schools)	Omuteko Gwamaziima (Charter School–Durham County)
Central N. C. School for the Deaf (N.C. Department of Health and Human Services)	Olympic High (Charlotte-Mecklenburg County Schools)
CIS Academy (Charter School–Robeson County)	Petree Elementary (Forsyth County Schools)
Eastern N.C. School for the Deaf (N.C. Department of Health and Human Services)	Provisions Academy (Charter School–Lee County)
Eastway Elementary (Durham County Schools)	Purnell Swett High (Robeson County Schools)
Engelmann Art/Science (Charter School–Catawba County)	Research Triangle Charter (Charter School–Durham County)
Fairmont High (Robeson County Schools)	Richmond County High (Richmond County Schools)
Goldsboro High (Wayne County Schools)	Right Step Academy (Charter School–Pitt County)
Healthy Start Academy (Charter School–Durham County)	Rowan Academy (Charter School–Rowan County)
Juvenile Evaluation Center (N.C. Department of Juvenile Justice)	Saint Pauls High (Robeson County Schools)
Kennedy Charter (Charter School–Mecklenburg County)	SPARC Academy (Charter School–Wake County Schools)
Lakeside School (Charter School– Alamance-Burlington Schools)	South Robeson High (Robeson County Schools)
Laurinburg Charter (Charter School–Scotland County)	Sugar Creek Charter (Charter School–Mecklenburg County)
Laurinburg Homework (Charter School–Scotland County)	Thomasboro Elementary (Charlotte-Mecklenburg County Schools)
LIFT Academy (Charter School–Forsyth County)	Turning Point Academy (Charter School–Durham County)
Lumberton High (Robeson County Schools)	Warren County High (Warren County Schools)
Maureen Joy Charter (Charter School–Durham County)	West Charlotte High (Charlotte–Mecklenburg Schools)
N.C. School for the Deaf–Morganton (N.C. Department of Health and Human Services)	Wilson Middle (Charlotte-Mecklenburg Schools)
Northampton High–East (Northampton County Schools)	Woodhill Elementary (Gaston County Schools)

Source: "A Report Card for the ABCs of Public Education, Volume I: Growth and Performance of North Carolina Schools, 1999–2000," Reporting Section of the North Carolina Department of Public Instruction, Division of Accountability Services, August 3, 2000.

Governing Board,⁸⁸ North Carolina's performance varies. For example, a 1997 study for the National Education Goals Panel found that North Carolina and Texas achieved the nation's largest percentage gains on the greatest number of National Assessment of Education Progress indicators between 1990 and 1996.⁸⁹ In North Carolina, the largest part of this increase came from the nation's largest gain in 8th grade math scores. However, the same study said that, when combining all the measures, North Carolina ranked 35th out of the 45 participating states. In any case, this study was conducted only a year after North Carolina started the ABCs Program, so the results don't include any potential gains that the program might have on student performance in subsequent years. On the other hand, after an increase in reading proficiency from 1992 to 1994, reading proficiency for North Carolina 4th graders on the NAEP test actually declined from 30 percent to 28 percent between 1994 and 1998. In 8th-grade reading, 31 percent of North Carolina's students were proficient in 1998, the first time the test was given to 8th graders. In 8th grade writing in 1998, and again the first time the test was given to 8th graders, North Carolina scored slightly above the national average; however, only 26 percent were proficient in writing. While the next state level math and science assessments were conducted in the spring of 2000, the next reading and writing assessments won't be given at the state level until the spring of 2002. Still, this year's science and math test results and the reading and writing test in 2002 should, after having had four years to have an impact, shed a little more light on the ABCs Program's ability to raise student performance.

The Iowa Test of Basic Skills is another national standardized test given each year to a sample of North Carolina 5th and 8th grade students. In 1992, the State Board of Education approved the Iowa Test of Basic Skills (ITBS) for use in the North Carolina testing program to facilitate the comparison of North Carolina's student achievement in reading, language, and mathematics with national indicators.⁹⁰ Between 1996 and 1999, while North Carolina's 5th and 8th graders increased their combined reading, language, and mathematics scores on the Iowa Test, they remain below the national average. However, in 1999 both the 5th and 8th graders scored above the national average in mathematics and only one point below the national average in reading.⁹¹

In an annual national education study, "Quality Counts 2000," North Carolina was one of only six states to receive an "A" grade in the "standards

"If you think education is expensive, try ignorance."

—DEREK BOK, FORMER PRESIDENT
OF HARVARD UNIVERSITY

and accountability" category.⁹² This category grades how well students are tested in core subjects such as math, science, English, and social studies. In the previous year's study, North Carolina received a "B" in this same category. Another report published in November 1999 by the Thomas B. Fordham Foundation, a Washington-based policy group, also gave North Carolina an "A" grade in setting solid academic standards and strong accountability.⁹³

North Carolina has also received recent acclaim from U.S. Secretary of Education Richard W. Riley. Deciding to make his annual speech on the state of American education at Southern High School in Durham, Riley said, "North Carolina, under Governor Hunt, has become a national leader in improving education. Governor Hunt has worked tirelessly to improve teacher quality, raise standards, expand early childhood education, give children the learning power of technology, and support improvements in public education. When a governor like Jim Hunt makes education a top priority, it makes all the difference to our children—and our nation."⁹⁴ President Bill Clinton also has applauded North Carolina's education improvement efforts. In his 1999 State of the Union address, President Clinton mentioned the state's test score gains and credited North Carolina with implementing the policy to "turn around the worst-performing schools—or shut them down," a policy Clinton supports.⁹⁵ Finally, in September 1999, North Carolina received the 1999 National Alliance of Business (NAB) Distinguished Performance Award for State of the Year. "North Carolina's schools have made more progress in more areas than any other state in early childhood development, teacher salaries and standards, school safety, and student accountability," said National Alliance of Business President Robert Jones.⁹⁶

Even in the midst of praise and recognition, there is still criticism. In "Grading Our Schools

'99," the John Locke Foundation asserts that despite recent improvements in some test scores, including national standardized tests and the state ABCs tests, the state's public schools still don't measure up.⁹⁷ The Locke Foundation argues that standards should be raised. Even some State Board of Education members question the ABCs test and North Carolina's efforts. "Does the [ABCs] test that we have do what we want it to do and do it well?" asks Board member Maria Palmer. State Board of Education Chairman Phil Kirk disputes the Locke Foundation claims and the question of whether the state's standards, especially for low-performing schools, are rigorous enough. "We've said all along that over time we'd raise the bar," says Kirk.⁹⁸

**The Excellent Schools Act in 1997:
Increasing Teacher Pay**

The Excellent Schools Act, initiated by Governor James B. Hunt and enacted into law by the General Assembly in 1997, increased teacher's salaries while holding them to a higher professional standard. Designed to attract and keep good teachers, the basic idea behind the act was that giving teachers higher pay attracts better teachers, who in turn will produce better-educated students. Under

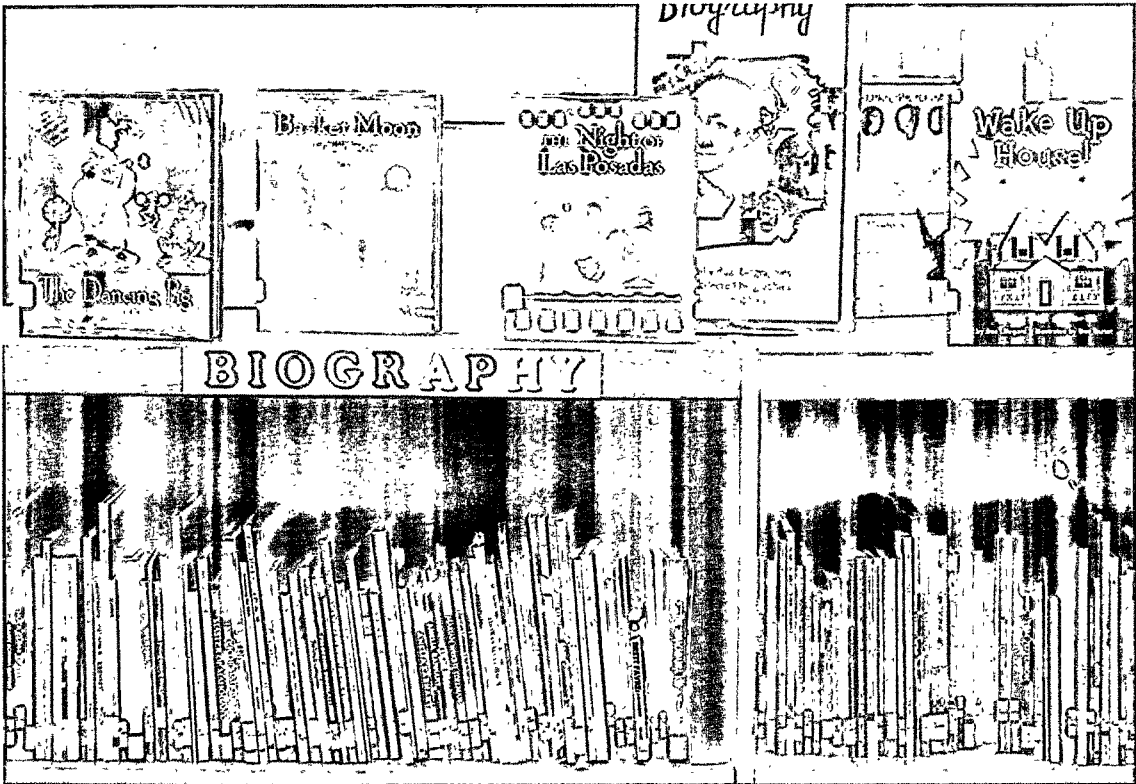
the act's four-year plan, teachers get annual salary increases averaging 6.5 percent from FY 1997–98 through FY 2000–01. However, the legislation also provides several bonus and incentive programs and increases the pay of teachers with masters' degrees or certification by the National Board for Professional Teaching Standards.

During his 1996 re-election campaign, Hunt pledged to boost teacher pay to the national average by the time he completed his fourth four-year term in 2001. While lawmakers endorsed Hunt's initiative with the Excellent Schools Act, they had to vote separately each year to fund the plan's pay increases. With the 2000–2001 budget, the legislature funded all four of the four yearly installments. However, it could be more difficult to maintain the legislature's commitment to increasing teacher pay after Hunt leaves office.

Concluding Observations

Start-and-Stop Education Reform

Perhaps the most obvious observation after examining 17 years of education reform in North Carolina is that changing an institution as vast as the North Carolina public schools takes time, and the state hasn't always allowed enough of it. In





1992, before charter schools and the ABCs Program, then-Johnston County school superintendent Thomas Houlihan asked pointedly, "Is the state ever going to finish a reform program? This start-and-stop reform is killing us. No one feels they can believe anything the state says anymore."⁹⁹ While the state has had good intentions for many years, the pattern has been to make changes every three to four years, seemingly without thorough or at times *any* evaluation. There is, however, some evidence that this pattern may be changing. "The General Assembly has become more interested in having evaluations completed," says Carolyn Cobb, Chief Consultant of the Evaluation Section of the Department of Public Instruction's Division of Accountability Services. Still, although the interest in evaluating the state's education reform efforts is increasing, "frequently other and more political considerations drive decisions more than what evaluations say," Cobb adds.

With the 2000 gubernatorial election in progress, Houlihan's question becomes important again. The state's latest reform efforts, charter schools, the ABCs, and increasing teacher pay are now at the same crossroads that many others have faced over the years—though not necessarily in the crosshairs of competing politicians. If Republican Richard Vinroot becomes the next governor of North Carolina, there is likely to be an expansion of the charter school effort. In terms of the continuation of the ABCs, both gubernatorial candidates seem to support the notion of accountability at least to some degree. Richard Vinroot acknowledges the positive goals of the ABCs Program but would strengthen it by making sure it accurately reflects education achievement.

The effort to increase teacher pay is the reform most likely to fall prey to election year politics or a tight budget year. Still, increasing teacher pay is a common concern for both candidates—though perhaps through different approaches. While supporting merit pay, Richard Vinroot opposes seniority-based compensation. The Democratic gubernatorial candidate, Attorney General Mike Easley, has focused more on reducing class size, but he also supports competitive pay for teachers and favors using a new lottery to reach his education goals.

Public School Financing and Education Reform

The Supreme Court's ruling in *Leandro v. State*, that the state constitution not only provides a

"Well is it Teacher's fault? Oh no
Is it Mommy's fault? Oh no
Is it Society's fault? Oh no
Well, is it Johnny's fault? Oh no!"

—DON HENLEY AND
DANNY KORTCHMAR
"JOHNNY CAN'T READ"

right to a general and uniform education with equal access for all students, but a right to a "sound basic education," has the potential to turn public school financing and education reform efforts upside down. While noting the constitutional requirement for a "sound basic education," the court did not declare that the "equal opportunities" clause of Article IX, Section 2(1) of the North Carolina Constitution requires equal funding or educational advantages in all school districts. Sending the case back to Superior Court for trial, the court said it should examine whether any of the state's children are being denied their right to a sound basic education by considering: (1) the goals and standards adopted by the legislature; (2) the level of performance of the children of the state and its various districts on standard achievement tests; and (3) the level of the state's general educational expenditures and per-pupil expenditures.¹⁰⁰

The Supreme Court's decision certainly leans toward those who support additional funds for low wealth or smaller schools, including the gubernatorial candidates. Republican Richard Vinroot—who comes from urban Charlotte, which does not benefit from low-wealth and small school system funds—believes that it is more important to spend the state's money effectively rather than "just throwing money at the problem of failing schools." But Vinroot agrees that all children deserve access to a quality education no matter where they live. Whatever the outcome of the *Leandro* case in the trial courts, the Supreme Court's ruling will definitely influence current school reform efforts and any future state budgets for education enacted by the General Assembly.

Leadership in N.C. Public Education, Superintendents and State Board Chairs

Superintendents of Public Instruction, 1952–Present

Charles F. Carroll	1952–1969
A. Craig Phillips	1969–1989
Bob R. Etheridge	1989–1997
Michael E. Ward	1997–present

Chairs of the State Board of Education, 1957–present

Dallas Herring	1957–1977
Dr. H. David Bruton	1977–1982
C.D. Spangler, Jr.	1982–1986
Mebane Pritchett	1986–1987
Jere Drummond	1987–1988
Howard H. Haworth	1988–1990
Barbara M. Tapscott	1990–1992
Kenneth R. Harris	1992–1994
Jay M. Robinson	1994–1997
Philip J. Kirk, Jr.	1997–present

Sources: N.C. Secretary of State's Office for superintendents, State Board of Education for board chairs.

The Balance of Power and Education Reform

The balance of power and conflicts between the Superintendent of Public Instruction and the State Board of Education change over time. (See *Leadership in N.C. Public Education* above, for a list of contemporary public education leaders in N.C.) Because the state superintendent is elected statewide, that gives him the opportunity to wield great influence and compete with the governor for the public's attention. Likewise, the State Board of Education has an inherent strength in that it is one of only two boards in the state that draws its power directly from the N.C. Constitution rather than from statute. However, the State Board of Education's leadership may be stronger at times than others. Some board chairs may take more initiative, some may receive better or more frequent press coverage, or others may be working in more favorable political circumstances. For example, from 1995–1998, when the House came under Re-

publican control, the Superintendent of Public Instruction, Bob Etheridge, lost considerable clout, and power shifted to Jay Robinson, the chair of the State Board of Education. Current board chair Phil Kirk continues to exert strong leadership, while the superintendent's post has gained some prestige under Mike Ward, who succeeded Etheridge. Historically, former superintendent Craig Phillips (1969–1989) and board chair Dallas Herring (1957–1977) stand out as strong leaders, in part due to length of service. Another area where the balance of power emerges is that the General Assembly is much more involved in the management and oversight of public schools than of the other two state educational systems—the University of North Carolina and the Community College systems. Thus, legislative turnover can play a major role in the sustainability of a particular public school reform over time. In fact, only eight, or 16 percent of the current 50 senators were in the Senate at the beginning of the first reform highlighted in this article—extending the school day and

school year in 1984. Likewise, only 16, or 13 percent of the 120 House members were in the House that year.¹⁰¹

The Budget Picture and Education Reform

The state's fiscal health obviously has a huge impact on education reform movements and their ability to have a lasting influence. For example, in 1991, the state's \$1.2 billion revenue shortfall caused the General Assembly to limit continuation funding for the Performance-Based Accountability Program, the latest reform effort at the time. Even today, while the overall state economy is booming, the financial impact of Hurricane Floyd and subsequent flooding, as well as the state losing two lawsuits costing state coffers a total of \$1.24 billion from 1999 to 2002, has created another budget crisis for the state. This budget crisis may well have implications for the state's latest education reform efforts, especially the effort to increase teacher pay.

While the reality of the state's budget situation is accepted by both gubernatorial candidates, Democrat Mike Easley sees a new state lottery as an additional source of revenue that will alleviate the strain that education reform places on the state's coffers. Republican Richard Vinroot, on other hand, does not support a state lottery. While an-

ticipating the challenge of fulfilling many wants with only a fixed amount of money, Richard Vinroot seems less concerned with the state's looming fiscal burdens. Vinroot notes that state spending has increased every year for the past three years and therefore believes "we have the resources to do what must be done to reform our schools."

Politics and Education Reform

Perhaps the most influential component of education reform is politics. Politics definitely come into play with any initiative, education or otherwise, in terms of the power of the governor, mandates from voters, and partisan conflict. Republican Governor James G. Martin was a relatively weak governor without veto power who faced a Democratic General Assembly all eight years he was in power. On the other hand, Governor James B. Hunt has been stronger, as he won the 1996 election with 56 percent of the vote and had at least one house of the General Assembly that was Democratic all 8 years of his last two terms. Only in 1995-98 did he face a Republican-controlled House. In addition, in the 1996 election, North Carolina voters gave the governor veto power by approving a constitutional amendment. With these factors in place, and by recommending Phil Kirk, a



Karen Tam



leading Republican, as Chairman of the State Board of Education, Governor Hunt was able to fulfill many of his education goals.

Partisan politics matter because parties have different visions for education. Based on the positions of gubernatorial candidates in 2000, Republicans are more likely to support charter schools, vouchers, accountability measures, and flexibility at the local level. Democrats, on the other hand, generally support reduced class size, increased teacher pay, accountability measures, and financial equity between rich and poor school districts. Governor Martin's experience with a majority Democratic legislature is a good example of the education gridlock that can occur with partisan conflicts. Martin wanted to continue the Career Ladder Program, but the General Assembly wouldn't go along. Another example of partisan conflict was from 1995–1998, when the House was predominantly Republican and the Senate predominantly Democratic. The Republicans successfully gained charter school legislation and a large cut in positions in the state Department of Public Instruction, but when the Republicans margin of control of the House slipped from 68–52 in 1995–96 to 61–59 in 1997–98, the Democrats stopped other Republican policy initiatives.

The Democratic Party's close ties with the North Carolina Association of Educators (NCAE) also affects policy issues like teacher pay, so that issue ultimately becomes a partisan battle. Thus, while the ABCs Program had bipartisan support in 1999 and 2000, the 2000 election could unravel these reform efforts for budgetary or political reasons.

Future Reforms and Initiatives

While the fate of current reforms ultimately rests in the hands of the future Governor and General Assembly, there are other initiatives that will inevitably compete for attention. Governor Hunt's "First in America" initiative aims to make North Carolina's schools the best in America by 2010. The plan has five key goals: (1) high student performance; (2) every child ready to learn; (3) safe, orderly, and caring schools; (4) quality teachers and administrators; and (5) strong family, community, and business support. Each of these goals includes a set of specific measurements developed by the Governor's Education Cabinet to monitor the state's progress. In addition, the Governor directed the North Carolina Education Research Council, a unit that coordinates research for the Education

Cabinet, to design and issue an annual Progress Report and Report Card on the state's progress. As such, the Council has identified a set of measures that will enable the state to chart progress to the "First in America" goal. The first official reports will be released in the fall of 2000.

Another initiative that the State Board of Education passed in 1999, although it won't go into effect until the 2000–2001 school year, is the end of social promotion, or allowing students to continue to pass through school with peers of the same age without satisfying academic requirements. The first group affected by the new requirements will be children hoping to be promoted from fifth grade in the spring of 2001. To be promoted, they must pass the state's end-of-grade tests under the ABCs Program. Students in grades three and eight will join the program in the spring of 2002.¹⁰² This policy change will continue to have an impact on the public schools in the future, especially as remedial education for students who don't pass the state tests becomes an issue. "We will never be completely done with this, but we cannot delay any longer," says State Board of Education Chairman Phil Kirk. "It's time a diploma means something in North Carolina."¹⁰³

Narrowing the racial achievement gap is another issue that has been in the spotlight as schools and students are being increasingly held accountable for their performance. Fewer than half of North Carolina's 400,000 black children passed state-mandated tests in reading and math in 1999, with scores only slightly better for American Indian and Hispanic students. Among the state's white students, about 80 percent passed the exams.¹⁰⁴ Now groups of parents, educators, and elected leaders, all are looking for ways to close the gap. In fact, a legislative study commission, the Commission on Improving the Academic Achievement of Minority and At-Risk Students, is now working to find ways to improve the academic achievement of minority students and other children who are at risk of failing school.¹⁰⁵ In the meantime, state education officials plan to run a pilot program in five school districts next year that rewards teachers in elementary and middle schools for closing achievement gaps among specific groups of children.¹⁰⁶

Finally, replacing the number of baby boomer teachers who will be retiring over the next five years has become a pressing issue, especially combined with the lack of retention of younger teachers who leave the profession to take higher paying jobs. In the next five years, North Carolina's pub-

Response to “Random Acts of Reform”

Thanks for the chance to review your [draft] article on education reform. The piece was accurate and engaging and I learned a lot! The section on charter schools—the topic addressed that I know the most about—appeared right on the money to me.

Though I'll provide a few editorial comments below, I mainly wanted to raise a question about the article's overall theme, that school reform in N.C. has been “random” or “stop and go.”

Overall, I think you tend to exaggerate how random the evolution of education policy has been in North Carolina. You lay out these 10 reforms in chronological sequence, with the implication that these were 10 successive, comprehensive efforts to improve schools, each of which has been thrown by the wayside in order to make way for the next reform.

My reading of history is a little bit different. Education, like most policy domains, is a complex endeavor, with a lot going on. In any state, I would *hope* to see many reform efforts running at once, addressing different elements of this complex system. Some of the reforms you trace aim to improve teacher quality (the Career Ladder Program and the Excellent Schools Act); others aim to set forth what students should know, how they and their schools should be evaluated, and where power should lie (i.e. the Basic Education Plan, Senate Bill 2, and the Accountability, Basics, and Control, or ABC Program); others aim at school finance equity (Low-Wealth and Small School funds and the BEP to a lesser extent); the rest are less wide-ranging, trying to do more specific things like lengthen the school year or give families more choice. It's really not the case that each of these reforms superseded or replaced the last.

Within these strands there's certainly been some stop and go. The BEP/Senate Bill 2/ABC progression is one example. But you acknowledge that there have been certain threads of continuity within that progression, as state policymakers grappled with exactly what standards to apply, what curriculum to mandate, how to test students and evaluate schools, and how to allocate control. This history looks to me more like Charles Lindblom's famous “muddling along,” with incremental efforts to do better, than wholesale replacement of one reform with the next. Though I believe the current accountability system is far from perfect, I don't think stop and go policymaking is necessarily the culprit.

Within the teacher quality strand, it's easier to see the Excellent Schools Act as a complete departure from the Career Ladder Program. But it seems clear that the Career Ladder Program was a failure, and surely states should scrap reforms that aren't working well, even at the risk of introducing instability.

—Bryan Hassel
Public Impact, Charlotte, N.C.

Bryan Hassel is president of Public Impact, an education policy consulting firm in Charlotte, N.C.

lic school system, which now employs about 86,000 teachers, will have to hire an additional 80,000 teachers. With this in mind, state and local school officials say they're working harder than ever to recruit and keep good teachers, offering incentives ranging from higher pay to low-interest housing loans. "When it comes to teacher recruitment, it's a vicious war out there," says James Merrill, Wake County's associate superintendent for administrative services.¹⁰⁷ Unfortunately, recruiting new teachers isn't just about the numbers. Even if the state can replace retiring teachers, doing so without considering their motivation and training could mean that some children, especially those who don't receive help, might not measure up to the state's accountability standards.

The unknown outcome of the upcoming 2000 gubernatorial election raises many other questions. Depending on who wins the coveted position, there may be a continuation of the ABCs Program, a state lottery, decreased class sizes, and more increases in teacher pay. On the other hand, there may be a total change in direction with more charter schools, a new voucher program, and a return to more merit-based pay for teachers. And regardless of what the new governor pursues, the state courts may move equity issues and school finance reform to the head of the class. Ultimately, elections matter, and we are again at a crossroads of continuing to follow the current path of reform or changing reform horses yet again. ■■

FOOTNOTES

¹ *A Nation At Risk: The Imperative for Educational Reform*, United States Department of Education, National Commission on Excellence in Education, Washington, D.C., April 1983.

² Chapter 716 (SB 1139) of the 1995 Session Laws, now codified as N.C.G.S. 115C-105.20 *et seq.*

³ See Drew Lindsay, "Random Acts of Reform," *Education Week*, Editorial Projects in Education Inc., Washington, D.C., January 22, 1997, pp. 177-180.

⁴ Chapter 761 (SB 23) of the 1983 Session Laws, Section 92, N.C. General Assembly.

⁵ Chapter 479 (SB 1, the Current Operations Appropriations Act of 1985) of the 1985 Session Laws, Section 55, now codified as N.C.G.S. 115C-81.

⁶ Chapter 479 (SB 1, the Current Operations Appropriations Act of 1985) of the 1985 Session Laws, Sections 39-53.

⁷ Chapter 778 (SB 2, the School Improvement and Accountability Act) of the 1989 Session Laws, now codified as N.C.G.S. 115C-105.20-28.

⁸ Chapter 689, (HB 83, the Appropriations and Budget Revenue Act of 1991) of the 1991 Session Laws, Section 199, now codified as N.C.G.S. 115C-238.12-19.

⁹ Chapter 689 (HB 83, the Appropriations and Budget Revenue Act of 1991) of the 1991 Session Laws, Sections 196 (a) and 201.2.

¹⁰ Chapter 689 (HB 83, the Appropriations and Budget Revenue Act of 1991) of the 1991 Session Laws, Section 201.1.

¹¹ Chapter 731 (SB 955) of the 1995 Session Laws (Reg. Session, 1996), Chapter 430 (SB 297) of the 1997 Session Laws, and Chapter 212 (SB 1366, special provision in the Budget Bill, Section 9.14) of the 1998 Session Laws, now codified as N.C.G.S. 115C-238.29 *et seq.*

¹² Chapter 716 (SB 1139) of the 1995 Session Laws (Reg. Session, 1996), now codified as N.C.G.S. 115C-105.20 *et seq.*

¹³ Chapter 221 (SB 272, the Excellent Schools Act, Part VII Section 16) of the 1997 Session Laws.

¹⁴ "We Must Choose a New Course for Schools," Public School Forum, Study Group IV, Raleigh, N.C., 1992, p. 9.

¹⁵ Lindsay, note 3 above, p. 178.

¹⁶ Chapter 689 (HB 83, the Appropriations and Budget Revenue Act of 1991) of the 1991 Session Laws, Section 196.

¹⁷ Information provided by Paul LeSieur, Director of the Office of Finance, N.C. Department of Public Instruction

¹⁸ "The Basic Education Program of North Carolina's Schools," N.C. State Board of Education, Raleigh, N.C., 1984, p. 1.

¹⁹ Chapter 761 (SB 23, the Current Operations Appropriations Act of 1983) of the 1983 Session Laws, Section 86.

²⁰ Promotion was based on a three-phase testing program for grades 3, 6, and 8. In Phase I, students took the nationally normed (averaged across students in all states) California Achievement Test (CAT). Students who scored at or above the 25th national percentile for their grade on the CAT satisfied the state's competency requirement for promotion. Students who had already been retained within their current grade span were exempted from the promotion standard. Non-exempted students who scored below the 25th percentile on the CAT proceeded to Phase 2. In Phase 2, students took the North Carolina Minimum Skills Diagnostic Tests (MSDT). Students who did not pass this test received remedial instruction during the state-funded Basic Education Program Summer School. At the end of summer school, the students took the Phase 3 MSDT test, which is a version of the Phase 2 test.

²¹ Chapter 479 (SB 1, the Current Operations Appropriations Act of 1985) of the 1985 Session Laws, Sections 39-53.

²² Linda Haac, "Testing Teachers: What's Wrong With This Picture?" *Leader*, Chapel Hill, N.C., December 15, 1988, p. 27. In 1982, researchers at UNC Chapel Hill's School of Education analyzed over 675 research studies on classroom teaching and found that certain teaching practices were related to student achievement.

²³ Susan Moore Johnson, "Redesigning Teachers' Work," *Restructuring Schools: The Next Generation of Educational Reform*, Jossey-Bass, San Francisco, Calif., 1990, p. 125.

²⁴ "Evaluation of North Carolina's School Career Development Pilot Program: A Report of an Outside Evaluation Prepared for the Joint Legislative Commission on Governmental Operations," Research and Service, Inc., Brentwood, Tenn., Dec. 31, 1998, pp. 44-52.

²⁵ "An Invitation to School Improvement in North Carolina," *North Carolina Legislation*, N.C. Department of Public Instruction, 1989, pp. 173-175.

²⁶ *Thinking for a Living: A Blueprint for Educational Growth*, Public School Forum, Raleigh, N.C., December, 1988.

²⁷ John Charles Bradbury, "Glossary of Year-Round Terms," *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 1 (May 1997), p. 22.

²⁸ Mike McLaughlin, "Year-Round Schools: An Opportunity To Lengthen the School Year?" *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 1 (May 1997), pp. 7-10.

²⁹ Todd Silberman and John Charles Bradbury, "Year-Round Schools: North Carolina School Systems Test the Waters," *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 1

(May 1997), pp. 2–41. See especially p. 18.

³⁰ D. Kirk Grotjohn and Karen Banks, "An Evaluation Synthesis: Year-Round Schools and Achievement," Wake County Public School System, 1993, p. 3, presented at the 1993 Annual Meeting of the American Educational Research Association, Atlanta, Ga.

³¹ Silberman and Bradbury, note 29 above, pp. 10–14.

³² Information provided by the Statistical Research Section, Financial & Personnel Service, N.C. Department of Public Instruction.

³³ "Policy supporting local efforts to implement year-round education models," N.C. State Board of Education Policy Manual.

³⁴ Chapter 98 (HB 616) of the 1993 Session Laws.

³⁵ Chapter 133 (HB 1478) of the 1997 Session Laws, 2nd Session.

³⁶ "1999 Year-Round Education Study Committee Report," N.C. Department of Public Instruction, Division of Instructional Services, May 15, 1999, p. 3.

³⁷ N.C.G.S. 115C-238.12-19

³⁸ Mike McLaughlin, "Year-Round Schools in North Carolina: A Firsthand Look," *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 1 (May 1997), pp. 32–41. See especially pp. 35–37.

³⁹ "1993–1994 End-of-Year Evaluation Report: Outcome-Based Education Pilot Program," Division of Development and Evaluation Services, N.C. Department of Public Instruction, February 1995, p. 42.

⁴⁰ Chapter 324 (HB 229) of the 1995 Session Laws, Section 17.2.

⁴¹ "United States, Canada and Pacific Region Year-Round Programs: 1999–2000 School Year," The National Association of Year-Round Education, San Diego, Calif.

⁴² The Future of North Carolina—Goals and Recommendations for the Year 2000, Report of the Commission on the Future of North Carolina, N.C. Department of Administration, 1983, p. 30.

⁴³ Bill Finger, "Disparity in Public School Financing—An Update," *North Carolina Insight*, Raleigh, N.C., Vol. 7, No. 4 (April 1985), pp. 44–49. See especially p. 45.

⁴⁴ Senate Bill 49, preamble, 1985 Session.

⁴⁵ Chapter 479 (SB 1, the Current Operations Appropriations Act of 1985) of the 1985 Session Laws, Section 55, now codified as N.C.G.S. 115C-81(a).

⁴⁶ Chapter 689 (HB 83, the Appropriations and Budget Revenue Act of 1991) of the 1991 Session Laws, Sections 196 (a) and 201.2.

⁴⁷ Chapter 689 (HB 83, the Appropriations and Budget Revenue Act of 1991) of the 1991 Session Laws, Section 201.1.

⁴⁸ Information provided by the Fiscal Research Division, N.C. General Assembly.

⁴⁹ 86 N.C. App. 282, 357 S.E.2d 432, 436 (1987).

⁵⁰ Mebane Rash Whitman, "The Right to Education and the Financing of Equal Educational Opportunities in North Carolina's Public Schools," *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 1 (May 1997), pp. 42–71.

⁵¹ 346 N.C. 336 (1997), 345–347.

⁵² Chapter 731 (SB 955) of the 1995 Session Laws, 2nd Session, Chapter 430 (SB 297) of the 1997 Session Laws, and Chapter 212 (SB 1366, special provision in the Budget Bill, Section 9.14) of the 1998 Session Laws, now codified as N.C.G.S. 115C-238.29 *et seq.*

⁵³ Tom Mather, "School Choice: A Simple Term Covers a Range of Options," *North Carolina Insight*, Raleigh, N.C., Vol. 16, No. 2 (September 1995), pp. 15–21.

⁵⁴ John Manuel, "Special Education in North Carolina: Rough Waters Ahead," *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 4/Vol. 18, No. 1 (November 1998), pp. 12–18.

⁵⁵ According to the N.C. Department of Public Instruction's Allotment Policy Manual for FY 1999–2000, the per student funding is equal to the local education agency's (LEA) allotment divided by the average daily membership (ADM) for that LEA. Charter schools receive an amount equal to the state funded dollars per ADM for the LEA in which the school is located or (for new charters) in which the student was previously enrolled.

⁵⁶ According to the N.C. Department of Public Instruction's Allotment Policy Manual for FY 1999–2000, the per student funding for children with special needs is based on the funds generated for school-aged children with special needs divided by the local education agency's (LEA) April 1 total headcount of special needs children (not capped). Charter schools receive an amount equal to the LEA's state-funded dollars per headcount for the LEA in which the child was identified.

⁵⁷ This estimate includes the administrative costs of the N.C. Department of Public Instruction, Office of Charter Schools. Information provided by the Fiscal Research Division, N.C. General Assembly.

⁵⁸ Information provided by Paul LeSieur, head of Department of Public Instruction Office of Finance, October, 1999.

⁵⁹ Article IX, Section 2, Subsection 2 of the N.C. Constitution says that "The governing boards of units of local government with financial responsibility for public education may use local revenues to add to or supplement any public school or post-secondary school program."

⁶⁰ "K–12 Education Trends," *State Policy Reports*, Washington, D.C., Vol. 17, Issue 11 (November 1999), p. 16.

⁶¹ Information provided by Richard Clontz, a consultant with the Charter School Office of the N.C. Department of Public Instruction.

⁶² Information provided by the Statistical Research Section, N.C. Department of Public Instruction.

⁶³ "The State of Charter Schools—Fourth Year Report," Office of Educational Research and Improvement, U.S. Department of Education, Washington, D.C., January 2000, pp. 44 and 48.

⁶⁴ Deborah Robiglio, "Charter school to shut down," *The News and Observer*, Raleigh, N.C., March 23, 1999, p. 1B.

⁶⁵ Manya A. Brachear, "Despite setbacks, charter school vows to stick with unique curriculum," *The News and Observer*, Raleigh, N.C., February 4, 2000, p. 5B.

⁶⁶ Tim Simmons, "Black parents seek a better choice," *The News and Observer*, Raleigh, N.C., November 23, 1999, p. 1A.

⁶⁷ Chapter 27 (HB 216) of the 1999 Session Laws, now codified as N.C.G.S. 115C-238.29(c).

⁶⁸ This test is effective beginning with the graduating class of 2003.

⁶⁹ For students who fail the test in the 11th grade, more class time and help with skills will be made available, a second test and possibly a third may be given, and a personalized education plan will be developed to outline how the school will help the student. If the student doesn't pass the computer skills test in 8th grade, he or she must retake it until a passing score is achieved.

⁷⁰ N.C.G.S. 115C-105.20 *et seq.*

⁷¹ Chapter 117 (SB 878) of the 1993 Session Laws. This statute, codified as N.C.G.S. 115C-105.1 through 115C-105.10, was later repealed by Chapter 443 (SB 352, the Current Operations and Capital Improvements Appropriations Act of 1997) of the 1997 Session Laws, Section 8.27(c). While the Commission on Standards and Accountability was repealed, there is still a Committee on Standards and Accountability in the Department of Public Instruction.

⁷² Chapter 6 (SB 16) of the 1995 Session Laws, Section 2.

⁷³ Note 71 above.

⁷⁴ Tim Simmons, "Hunt panel to set school standards," *The*

News and Observer, Raleigh, N.C., September 10, 1993, p. 3A.

⁷⁵ *Ibid.*

⁷⁶ Students in Grades 3, 5, and 8 must score at or above a Level III on end-of-grade tests (EOG) in reading and math to be promoted to the next grade. According to the State Board of Education Policy manual, students performing at this level consistently demonstrate mastery of grade level subject matter and skills and are well prepared for the next grade level. Students in grades 4 and 7 must score at or above a 2.5 on the writing assessment.

⁷⁷ If standards aren't met, more class time and help with skills will be available for students in need. A second test and possibly a third will be given, and a personalized education plan will be developed to outline how the school will help the student. A formal review may be requested by parents if the student doesn't pass end-of-grade tests after a second or third try.

⁷⁸ North Carolina Department of Public Instruction, *The 1999–2000 North Carolina Testing Program*, available at www.dpi.state.nc.us/accountability/testing/TestProgOver9900.doc.

⁷⁹ Danny Lineberry, "The 1995 Legislature in Retrospect: Republican Lawmakers Work to Deliver on Their Contract," *North Carolina Insight*, Raleigh, N.C., Vol. 16, No. 3 (May 1996), pp. 102–118. See especially pp. 106–107. See also Mebane Rash Whitman, "The Evolution of Party Politics: The March of the GOP Continues in North Carolina," *North Carolina Insight*, Raleigh, N.C., Vol. 16, No. 2 (September 1995), pp. 81–97.

⁸⁰ Information provided by the Planning and Budget Section, Financial Services Division, N.C. Department of Public Instruction.

⁸¹ Article IX, Section 4 of the North Carolina Constitution. The other board established in the constitution is the Board of Public Welfare, now the Social Services Commission, in Article XI, Section 4.

⁸² N.C.G.S. 115C-11(a).

⁸³ Jack Betts, "The Superintendent of Public Instruction: Should North Carolina's Chief Public School Officer Be Appointed or Elected?" *North Carolina Insight*, Raleigh, N.C., Vol. 12, No. 4 (September 1990), pp. 2–22.

⁸⁴ Chapter 450 (HB 6) of the 1995 Session Laws, Sections 14–15, now codified as N.C.G.S. 115C-105.26–27.

⁸⁵ N.C. Department of Public Instruction, Division of Accountability Services, "Setting Annual Growth Standards: 'The Formula,'" *Accountability Brief*, Raleigh, N.C., Vol. 1, No. 1 (September 1996), pp. 3–4.

⁸⁶ John Manuel, "Special Education in North Carolina: Rough Waters Ahead?" *North Carolina Insight*, Raleigh, N.C., Vol. 17, No. 4/Vol. 18, No. 1 (November 1998), pp. 11–33. See especially p. 29.

⁸⁷ "More Students Proficient at Reading and Mathematics under ABCs," N.C. Department of Public Instruction press release, August 8, 1999, p. 1.

⁸⁸ The National Assessment of Educational Progress (NAEP) is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, national assessments have been conducted periodically in reading, mathematics, science, writing, history, geography, the arts, and other fields. Because the national NAEP samples are not designed to support the reporting of accurate and representative state-level results, NAEP assessments also have been conducted on the state level since 1990.

⁸⁹ David Grissmer and Ann Flanagan, "Exploring Rapid Achievement Gains in North Carolina and Texas," National Education Goals Panel, Washington, D.C. Nov. 1998, p. i.

⁹⁰ The ITBS was adopted in lieu of the previously used California Achievement Tests (CAT) for several reasons. Among

the reasons were: (1) it was more closely aligned with the mandated statewide curriculum; (2) it placed greater emphasis on higher-order thinking skills; and (3) it was more closely aligned with national curriculum standards.

⁹¹ "National Assessment of Educational Progress (NAEP) and Iowa Tests of Basic Skills (ITBS) Results for North Carolina and the Nation," Accountability Services, N.C. Department of Public Instruction, January 2000, pp. 16–20.

⁹² "Quality Counts 2000," *Education Week*, Editorial Projects in Education Inc., Washington, D.C., Vol. 19, No. 18, January 13, 2000, pp. 8–65.

⁹³ Chester E. Finn, Jr., Marci Kanstoroom, and Michael J. Petrilli, "The Quest for Better Teachers: Grading the States," The Thomas B. Fordham Foundation, Washington, D.C., November 1999, p. 33.

⁹⁴ As reported in Todd Silberman, "Education chief gives nod to N.C.," *The News and Observer*, Raleigh, N.C., January 6, 2000, p. 3B.

⁹⁵ "President William Jefferson Clinton, State of the Union Address," Office of the Press Secretary, United States Capitol, Washington, D.C., January 19, 1999.

⁹⁶ "North Carolina Wins State of the Year Award for Education Initiatives," N.C. Department of Public Instruction press release, September 27, 1999, p. 1.

⁹⁷ Doug Haynes, "Grading Our Schools '99: Annual Report to N.C. Parents and Taxpayers," The John Locke Foundation, N.C. Alliance for Smart Schools, Raleigh, N.C. September, 1999, p. 2.

⁹⁸ "ABCs Revisited," *Carolina Journal, Weekly Report for Executives*, The John Locke Foundation, Raleigh, N.C., Vol. 7, No. 23 (November 8, 1999), p. 1.

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¹⁰⁰ 346 NC 336 (1997), especially pp. 355–356.

¹⁰¹ Carolyn Waller, *Article II: A Guide to the 1999–2000 N.C. Legislature*, North Carolina Center for Public Policy Research, Raleigh, N.C., March 1999, pp. 16–65 and 72–191.

¹⁰² "Student Accountability Standards," N.C. State Board of Education Policy Manual.

¹⁰³ Tim Simmons, "Death knell sounds for social promotion in N.C. schools," *The News and Observer*, Raleigh, N.C., April 1, 1999, p. 1A.

¹⁰⁴ Tim Simmons, "Racial gap draws notice," *The News and Observer*, Raleigh, N.C., February 2, 2000, p. 1B.

¹⁰⁵ Chapter 395 (HB 163, the Studies Act of 1999) of the 1999 Session Laws, Sections 15.1–15.11.

¹⁰⁶ See Simmons, note 104 above.

¹⁰⁷ Johnathan Goldstein, "Teacher shortage looms for N.C., U.S.," *The News and Observer*, Raleigh, N.C., March 5, 2000, p. 1A.

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FROM THE CENTER OUT

Governance and Coordination of Public Higher Education in All 50 States: Executive Summary

by Carolyn Waller, Ran Coble, Joanne Scharer, and Susan Giamportone

The structure of higher education systems in the United States reflects the individuality of each of the 50 states.

Each state has its own history and culture in higher education, its own political structure and leadership, and its own geography and demographics—all of which influence higher education governance. Over time, each state has forged its own path toward the common goals of public higher education—teaching, research, and public service. Further, each state is unique in how it chooses to combine or divide authority for the two principal responsibilities of higher education boards—the governance of individual public institutions and the statewide coordination of higher education policy and planning.

Despite these differences, states can learn a great deal from one another and from an examination of other states' systems and structures. With that premise in mind, this report by the North Carolina Center for Public Policy Research (1) describes how each state structures its higher edu-

cation system and discusses the advantages and disadvantages of each structure; (2) surveys various state statistics relevant to higher education and reports this data (e.g., state population, number of public universities, and size of student enrollment) in conjunction with the type of higher education system found within each state; and (3) discusses the similarities and differences among the central boards in all 50 states.

The first section of the report discusses the three basic ways states structure their higher education systems. This information provides a comprehensive look at how each state attempts to provide public higher education opportunities to its citizens. As used in this report, the term "state higher education system" encompasses all the various boards, agencies, committees, etc. that *together* provide planning, coordination, and governance for the state's higher education sectors. The name of the system typically reflects the principal function of the central board within that system.

State Higher Education Structures

There are three state higher education structures in place throughout the country:

1. Consolidated Governing Board Systems: (24 states)

In these states, all public institutional governance is centralized in either one or two governing boards. There is either one statewide board whose primary duty is to *govern* all public postsecondary institutions in the state, or there are two multi-campus boards that divide

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The authors are: Carolyn Waller, a Raleigh attorney and former Center policy analyst; Center Executive Director Ran Coble; Joanne Scharer, a free-lance public policy consultant; and Susan Giamportone, a Raleigh attorney.

the governance of the state's public institutions between the two of them. Statewide *coordination* of higher education policy and planning may be the responsibility of this same consolidated governing board by statute or convention, or it may be the duty of a separate board or agency. Sometimes, a state has no formal board which carries out typical coordinating responsibilities.

2. Coordinating Board Systems—(a) Regulatory and (b) Advisory: (24 states)

In these states, central coordinating boards serve as liaisons between state government and the governing boards of individual institutions. These central coordinating boards have no governance authority. Instead, governance responsibilities are in the hands of institutional boards, three or more multi-campus boards, or a combination of institutional and multi-campus boards.

a. As part of their responsibility to coordinate higher education efforts throughout the state, **regulatory coordinating boards** generally have the authority to approve and eliminate academic programs at public institutions and to exercise some degree of regulatory power over the budgetary process. For instance, some regulatory boards present consolidated budgets, some may reject proposed budgets from individual campuses, and some review and submit individual campus budgets to the governor and the legislature (21 states).

b. **Advisory coordinating boards** have no real power *per se*, though their recommendations may be influential. They have the authority to review proposals to create new academic programs and to review existing programs, but their role is limited to providing advice to the state legislature, governor, or other higher education boards. The same holds true for their ability to influence university budgets (3 states).

3. Planning Agency Systems: (2 states)

In these states, there is no statewide board charged with higher education coordination or governance. There is only a planning agency that facilitates communication among institutions and education sectors and performs a voluntary planning function. Governance is the responsibility of institutional boards on each campus or multi-campus boards.

Why States Change Their Governance Systems

Aims C. McGuinness Jr. of the National Council for Higher Education Management Systems identifies eight recurrent concerns that may lead to reconsideration or restructuring of a state's higher education governance system, as follows: (1) actual or perceived duplication of high-cost graduate and professional programs; (2) conflict between the aspirations of institutions, often under separate governing boards, in the same geographic area; (3) legislative reaction to lobbying by individual campuses; (4) frustrations with barriers to student transfer; (5) proposals to close, merge, or change the missions of particular colleges or universities; (6) inadequate coordination among institutions offering one- and two-year vocational, technical, occupational, and transfer programs; (7) concerns about an existing state board's effectiveness; and (8) a proposal for a "superboard" to bring all of public higher education under one roof.¹

When concerns such as these are raised and changes are considered, it is natural that the decisionmakers look to other states to find examples of systems and structures that are working well. States initially may be tempted simply to copy higher education models that have worked successfully for another state. McGuinness cautions against this practice, stressing "[One state's] structure may be inappropriate for [another] state's unique needs and underlying political culture."² Instead, he suggests that states undertake a thorough evaluation of how well their existing policies and structures align with the state's agenda and public interest, and he offers the following guidelines:

- 1.** The development of clear goals and objectives should precede reorganization. Reorganization is a means to an end, not an end in itself.
- 2.** States should be explicit about the specific problems that were catalysts for the reorganization proposals.
- 3.** States should ask if reorganization is the only or the most effective means for addressing the problems that have been identified.
- 4.** States should weigh the costs of reorganization against its short- and long-term benefits.
- 5.** States should recognize that a good system considers both state and societal needs, as well as the needs of colleges and universities.

Higher Education Structures in All 50 States

States with a Consolidated Governing Board Structure (24 States)	States with a Coordinating Board Structure (24 States)	States with a Planning Agency Structure (2 States)
	Regulatory (21)	Advisory (3)
Alaska ⁺	Alabama	California
Arizona	Arkansas	New Mexico
Florida ⁺	Colorado	Pennsylvania
Georgia	Connecticut	
Hawaii	Illinois	
Idaho	Indiana	
Iowa [*]	Kentucky	
Kansas	Louisiana	
Maine [*]	Maryland	
Minnesota ⁺	Massachusetts	
Mississippi ⁺	Missouri	
Montana	Nebraska	
Nevada	New Jersey	
New Hampshire ⁺	New York	
North Carolina[*]	Ohio	
North Dakota	Oklahoma	
Oregon	South Carolina	
Rhode Island	Tennessee	
South Dakota [*]	Texas	
Utah	Virginia	
Vermont ⁺	Washington	
West Virginia ^{*,+@}		
Wisconsin [*]		
Wyoming ⁺		

* These states have no board with authority of any kind over **both** two- and four-year public higher education institutions. (Note: South Dakota has no two-year public institutions of higher education.)

+ Minnesota, Vermont, and West Virginia each have a consolidated governing board system of governance with two consolidated governing boards that govern a segment of the higher education institutions within their respective state. Florida also has an advisory coordinating board that supplements the work of Florida's State Board of Regents, the state's consolidated governing board. Alaska, Minnesota, New Hampshire, and Wyoming have planning agencies located in the states' consolidated governing board structure that supplement the work of the governing board.

@ In March 2000, the West Virginia Legislature passed a bill affecting the current governance structure of higher education in the state. Effective June 30, 2000, both the State College System Board of Directors and the University System Board of Trustees are abolished. A Higher Education Policy Commission will be created in July 2000 for policy development and other statewide issues. The Policy Commission is to employ a Chancellor, Vice Chancellor for Health Sciences, Vice Chancellor for Administration, and Vice Chancellor for Community and Technical Colleges and Workforce Education. During the transition year of July 1, 2000, to June 30, 2001, a statewide interim governing board is the governing board for public higher education. Each institution in the state will have its own governing board which will assume governance authority on July 1, 2001.

McGuinness writes, "States often begin reorganization debates with either of two misconceptions—each of which has an element of truth. One is that the state's needs will be better met if state policy deliberately fosters the autonomy and performance of individual colleges and universities; in other words, the less state involvement the better. Alternatively, others will argue that the sum of institutional needs is not the same as the state's needs. They will argue that institutional needs can only be understood in the context of a public agenda framed in terms of the state's long-range education, social and economic priorities. If each college and university is able to pursue its mission without regard to this broader framework, the result will be unnecessary program duplication. Important statewide concerns such as minority access and achievement or student transfer and articulation between and among institutions will not be addressed. The danger is that debates will be shaped by the assumption that one but not the other of these two perspectives must rule: either institutional autonomy is an absolute good and state involvement must be kept at a minimum, or state priorities must rule and institutional autonomy must be constrained by those priorities."

6. States should distinguish between state coordination (concerned primarily with the state and system perspective) and institutional governance (the direction of individual universities or systems of institutions which takes place within the coordination framework) and avoid trying to solve coordination problems with governance alternatives or vice versa.
7. States should examine the total policy structure and process, including the roles of the governor, executive branch agencies, and the legislature, rather than focus exclusively on the formal postsecondary structure.³

Some of the concerns behind restructuring efforts in the 1990s are not new. They reflect peren-

nial concerns over such issues as institutional autonomy and political power. However, according to McGuinness, some new forces also have been at work during the last decade, including:

1. Changes in state government leadership (governors, legislators, and higher education policymakers);
2. An apparent weakening consensus about the basic purposes of postsecondary education;
3. Growing political involvement in state coordination and governance;
4. An increase in legislative mandates in areas traditionally handled by state postsecondary education boards and institutions;
5. A gap between external and internal definitions of quality and expectations for quality assurance;
6. A trend toward boards dominated by representatives of internal constituencies and a decline in lay membership;
7. The impact of an increasingly market-driven, technology intensive postsecondary education system; and
8. State postsecondary education structures which are ill-equipped to address increasingly important cross-cutting issues, such as transfer and articulation between two- and four-year institutions and collaboration among the elementary, secondary, and postsecondary sectors.⁴

According to McGuinness, "The real issue in reorganization is, in some respects, not higher education at all, but the broader shifts in political and economic power within a state."⁵

As part of the concern for operating a cost-effective system, many states grant their central boards the power to approve new academic programs or to terminate existing ones. For example, among the many duties performed by the UNC Board of Governors is the duty to approve new

"Of all the threats to the institution, the most dangerous come from within. Not the least among them is the smugness that believes the institution's value is so self-evident that it no longer needs explication, its mission so manifest that it no longer requires definition and articulation."

—A. BARTLETT GIAMATTI, FORMER PRESIDENT OF YALE UNIVERSITY
A FREE AND ORDERED SPACE: THE REAL WORLD OF THE UNIVERSITY



programs and to terminate existing academic programs at its 16 constituent four-year institutions. This power over both new and existing programs is found among both consolidated governing boards and regulatory coordinating boards across the country. Advisory coordinating boards and planning agencies may only make recommendations on new or existing programs.

Fiscal powers also are important in governing higher education. As in many states with a consolidated governing board structure, the Board of Governors of the University of North Carolina develops a consolidated budget for all 16 constituent public universities and recommends this budget to the Governor, the Advisory Budget Commission, and the North Carolina General Assembly. The UNC Board also is authorized by statute to allocate certain lump-sum appropriations among the 16 constituent institutions.

In states with a regulatory coordinating board structure, the central board often reviews budgets from each constituent institution and then recommends a consolidated budget to the governor or state legislature. However, in some states with regulatory coordinating boards, the budgets are not consolidated. Instead, the board reviews the

individual budgets of the constituent institutions and presents a separate budget recommendation for each institution.

Advisory coordinating boards and planning agencies have no budgetary power beyond their ability to review and make recommendations on the budget requests of various institutions. In these states, the individual institutions or multi-campus systems present their budgets directly to the governor or state legislature. The advisory board or planning agency then will review the budget requests and submit its recommendations concerning the requests to the governor or legislature. In other words, unlike states with a consolidated governing board or regulatory coordinating board structure, the budget requests for all public universities do not come from one central board.

The second section of this report contains a comprehensive examination of state higher education structures, statistics, and statutes, often in a hierarchy or ranking from most to least. While this is not meant to imply any causal relationship between the reported statistics and the type of higher education system selected by any given state, this information provides important context and background concerning the environment in which a higher edu-

cation system operates. In addition, the tables provide an easy mechanism for identifying the states most similar to each other in terms of the measure being used and the type of higher education system.

Observations About Governance Structures and Other Factors

Among the observations made in this section are the following:

- Seven of the 10 most populous states have coordinating board structures (five regulatory and two advisory), while 11 of the 12 states having the smallest populations have consolidated governing board structures. However, among the seven most populous states with coordinating board structures, five are in states where governance is dominated by two or more multi-campus governing boards or by a combination of multi-campus governing boards and institutional governing boards, thus making their governance structure similar to that of the University of North Carolina. North Carolina, a state with a consolidated governing board, has the 11th largest population among the states.
- Thirty-five states have a central board responsible for coordinating statewide higher education policy and planning for all public postsecondary institutions, and another eight states have a central board with limited planning and administrative duties for all public postsecondary colleges and universities. Only seven states—including North Carolina—have no central board or agency charged with planning or coordinating higher education policy and planning for both the two-year and four-year public colleges and universities.
- Among the 10 largest higher education systems in the country, as measured by the total number of four-year and two-year public and private higher education institutions, North Carolina has the highest percentage of *public* institutions, 60.7%.
- California has the largest higher education total student enrollment in the United States at 1,900,099 and the largest *public* higher education enrollment at 1,625,021. North Carolina's higher education system has the 10th largest total student enrollment at 372,993 students. It is also among the top 10 states in terms of student enrollment in *public* higher education institutions, ranking ninth with 302,939 students.
- Nine of the top 10 states in terms of public higher education enrollment—including North Carolina—also appear in the top ten in terms of state funding for higher education operating expenses (i.e., state tax funds appropriated for higher education institutions, student aid, and governing and coordinating boards). North Carolina ranks sixth in the nation in total state funding for higher education with appropriations of more than \$2 billion per year.
- The average cost of tuition and fees for state residents at four-year public higher education institutions is lowest in Nevada (\$1,884) and North Carolina (\$1,895).⁶
- California has the highest average salary for full-time faculty members at public universities at \$76,814. The average salary for full-time faculty at North Carolina's four-year public universities is \$64,304, ninth highest in the nation.⁷
- Only in 14 states—California, Florida, Iowa, Kentucky, Maine, Maryland, Minnesota, New York, Oklahoma, Oregon, Tennessee, Vermont, Washington, and West Virginia—is the percentage of minorities enrolled in four-year public institutions larger than the percentage of minorities in the population as a whole.
- Alabama has the largest number of historically black colleges and universities with 13, two of which are four-year public institutions and four of which are two-year public institutions. There are 11 historically black colleges and universities in North Carolina, five of which are *public* higher education institutions and part of the University of North Carolina system.
- The Board of Governors of the University of North Carolina is the largest central state-level governing board in the country. The UNC Board has 32 voting members and one non-voting student member, while most of the boards examined have a total of 10–14 members. Of those central boards, the nearest in size to the UNC board is the 27-member Board of Trustees of the University System of New Hampshire.
- Members of central higher education boards most commonly are appointed by state governors (43 boards), either with or without approval of the state senate. Alternatively, in five states, the governor or another public official appoints a portion of the board with the state

legislature electing the remaining board members. Only in North Carolina and New York is the entire membership of the central, state-level board *elected by the legislature*. Two other states are unusual in that they have chosen *election by the public* of the members of their central higher education boards.

- The state statutes of 37 higher education boards specifically define the composition of their central higher education boards, mandating representation according to such factors as age, gender, geographic representation, political party affiliation, race/ethnicity, or other criteria. Of those 37 boards in 35 states, 20 have coordinating board structures (19 regulatory, one advisory), and 17 have consolidated governing board structures. For example, in North Carolina, at least two of the 16 members of the UNC Board of Governors elected every two years must be women, at least two must be minorities, and at least two members must be from the largest minority political party in the N.C. General Assembly.
- Members of the central higher education boards in the vast majority of states serve four- or six-year staggered terms with members being limited to the number of terms they may serve. Across the country, terms range between three years (Delaware and Rhode Island) and 12 years (Mississippi). Members of the Board of Governors of the University of North Carolina serve four-year terms of office and can serve no more than three full four-year terms in succession.
- Forty-three boards have master planning duties in setting long-term goals for higher education—20 consolidated governing boards, 20 regulatory coordinating boards, two advisory coordinating boards, and one planning agency. Centralized master planning for higher education systems appears to be a primary reason states create higher education boards or agencies.
- The Utah Board of Regents and the UNC Board of Governors—both consolidated governing boards—have a similar relationship to their local campus boards of trustees in terms of delegation of powers. In both states, each senior public institution has its own board of trustees whose principal powers are delegated by the central state-level board. Only in North Carolina and Utah is this delegation of duties to local boards specifically listed among the responsibilities of the central governing board, and these

are the only two states where the amount of power given to campus boards is left to the sole discretion of the central board.

- Among the 50 states, Wisconsin's overall structure of higher education is most similar to the structure adopted in North Carolina. Both have a consolidated governing board with authority over the four-year public institutions and another consolidated governing board that oversees the technical and community colleges. However, unlike Wisconsin, North Carolina has local campus boards of trustees. Student enrollment in each state's public universities is comparable, and each state has approximately the same number of four-year public universities (Wisconsin has 13 and North Carolina has 16). In addition, both are among the small group of states with no central board or planning agency that oversees both the state's public two-year and four-year institutions.

Unique Features in Higher Education Governance

Ultimately, the most important factors influencing the structure of each state's higher education system are those that are unique to each state: its political and higher education culture, constitution, history, population, geography, economic development, and other factors. Unique constitutional provisions can be found in Michigan, North Dakota, and North Carolina. For example, Michigan, with a long history of guarding institutional autonomy embedded in its constitution, is one of only two states with a planning agency structure, electing to keep governing duties in the hands of each individual campus. North Dakota's constitution spells out the name, location, and mission of eight higher education institutions that the state must maintain, including a school of forestry at Bottineau. In 1998, North Dakota citizens voted on whether to remove references to specific institutions in a referendum amending the 1889 constitutional provision. The referendum did not pass. And, in North Carolina, the constitution mandates that "The General Assembly shall provide that the benefits of the University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense,"⁷⁸ which explains why the average tuition for state residents is consistently among the lowest in the nation.

The sheer size of the population of New York City probably has led to the higher education governance system chosen by the New York legislature, with the City University of New York (CUNY) governing all institutions within the five boroughs of New York City, and the State University of New York (SUNY) governing all other post-secondary institutions within the state. West Virginia, one of 19 southern states that once operated two separate educational systems—one for black students and one for white students—continues to operate a dual governance system (now completely integrated), with each system governed by its own consolidated governing board⁹ (currently, the historically black West Virginia State College has a student body that is approximately 13% black).¹⁰ California, the state with both the largest number of students enrolled in its public colleges and universities and the largest number of public institutions, has created a three-tiered system of governance—one for the nine research institutions, one for the state university's 22 campuses, and one for the two-year junior colleges. Other examples of how geography, economics, and culture can affect university governance can be found in the unique

charges to the Iowa State Board of Regents to use degradable foam packing material manufactured from grains and starches and to the Board of Regents for the University of Wisconsin System to study the reintroduction of elk into the northern part of the state.

While some higher education concerns are unique to a particular state, some problems and issues face all states. One goal of this report is to help each state identify other states similarly situated to themselves in order to foster dialogue across state boundaries. Richard T. Ingram, president of the Association of Governing Boards of Universities and Colleges in Washington D.C., observes, "Higher education programs will be at the center of [federal budget] debates. . . Higher education also will be a critical item on the agenda of most state governors and legislators over the next several years. While the recovery of the economy will relieve some of the budgetary pressure most public colleges and universities have felt through the early 1990s, the ample concerns of these institutions will ensure that funding and productivity in higher education will remain hot topics." In addition, in the 21st century, emerging technology and



Karen Tan

distance education options are transforming higher education. In this environment, it is important that policymakers, higher education administrators, the media, and the public understand the choices that the 50 states have made in governing and coordinating institutions of higher education.

Trends in Governance, Accountability Measures, and Finances

Between 1950 and 1970, 47 states established either coordinating or governing boards for public higher education.¹¹ In the last few years, another wave of changes in governance has begun. In 1999, Kansas legislators centralized their governance structure and created a new Board of Regents to coordinate both public and private higher education and to govern all six public universities, 19 community colleges (though local governing boards are retained for the community colleges), five technical colleges, six technical schools, and a municipal university. Louisiana voters amended their constitution in 1998 to create a new 17-member board to oversee a system of 50 community colleges and trade schools. By contrast, Illinois decentralized and abolished its Board of Governors and Board of Regents in 1995 and gave seven universities their own governing boards. In 2000, West Virginia abolished its State College System Board of Directors and the University System Board of Trustees, giving each institution its own governing board, but the legislature also created a new Higher Education Policy Commission. The South Carolina General Assembly changed the composition of its Commission on Higher Education by requiring that some of its 14 members come from public university boards of trustees. Six other states have made changes over the last decade—Kentucky, Maryland, Massachusetts, Nebraska, New Jersey, and Texas—and Colorado, Florida, Hawaii, and Tennessee also are contemplating changes to their governance systems.

At the same time, there is a new drive toward accountability in higher education. Governors have started demanding more accountability from public colleges and universities, and state legislators are linking additional money in higher education to “important state goals,” says Earl S. Mackey, vice chancellor for external relations of the Ohio Board of Regents. The lawmakers want assurances that colleges will be accountable to the public, he says. About 5 percent of the Ohio system’s budget is used to reward institutions for

keeping tuition low, obtaining outside support for economically important research, and producing skilled graduates in a timely manner.¹²

At least 10 other states have implemented new accountability measures. Some states—such as Kansas, New Jersey, and New Mexico—began linking only a small share of their higher education appropriations to performance. Others, such as Colorado’s Commission on Higher Education, will base at least 75 percent of its annual recommendations for *new* money for colleges on institutions’ performance on such factors as graduation rates, class sizes, and faculty productivity.¹³ South Carolina’s Commission on Higher Education is in the process of implementing a system to distribute 100 percent of its money based on 37 performance indicators in nine areas, including instructional quality, quality of faculty, administrative efficiency, graduates’ achievements, and institutional cooperation and collaboration.¹⁴ Arkansas, California, Hawaii, Louisiana, and Virginia also have implemented new accountability measures.

The drive toward accountability also showed up in a poll of 35 governors by the Education Commission of the States. “All of the governors believed colleges should be more accountable for meeting local, state, and regional needs, and nearly all thought that it was important for states to link spending on colleges to the institutions’ performance; to put more emphasis on faculty productivity; to give students incentives to pursue particular careers; and to reorganize the sectors of education into a seamless system covering kindergarten through the first two years of college.”¹⁵ The good news for public higher education is that only elementary and secondary education were given a higher priority than higher education when governors were asked where more state money should go. The priorities of governors are verified by recent figures compiled by the National Conference of State Legislatures, which show public elementary and secondary education was the only sector that outpaced higher education in the growth of its state support in fiscal year 2000. Higher education’s slice of state budget pies—its share of aggregate general fund appropriations—dropped from 13.7 percent in fiscal year 1986 to 12.3 percent in fiscal 1996.¹⁶ However, in subsequent years, most legislatures appropriated funds to public colleges and universities at a rate significantly ahead of inflation rates.¹⁷ In fiscal year 2000, nine states included double-digit percentage increases for higher education—Florida, Maine, Maryland, Mississippi,

Montana, Nebraska, South Carolina, Texas, and Virginia.¹⁸

This cause for optimism among state higher education officials is tempered, however, by the predictions of the late Harold A. Hovey, who served as president of State Policy Research and as the top budget officer in Illinois and Ohio. Hovey estimated that 39 states will have deficits by 2006 if current economic assumptions hold. Hovey described higher education as "a balance wheel in state finance," which means it receives higher-than-average appropriations when times are good (as in the late 1990s) and lower-than-average appropriations when times are bad (as in the late 1980s and early 1990s). Consequently, if predictions of state deficits come to pass, the outlook for higher education is not very good, Hovey wrote.¹⁹

This report is the second report in a four-part series by the North Carolina Center for Public Policy Research that examines key issues in the governance of higher education. The first report, *Reorganizing Higher Education in North Carolina: What History Tells Us About Our Future*, is a historical review of the N.C. General Assembly's decision in 1971 to restructure North Carolina's public university system. That report was released in June 1999. The third report will analyze the powers of the UNC Board of Governors and the system of election of the Board by the North Carolina legislature compared to the process of selection used by other states. The fourth report will examine how well the University of North Carolina governance system has fulfilled its multiple missions under the guidance of the UNC Board of Governors since its establishment in 1972.

This report does not make recommendations nor does it draw causal inferences. Rather, the information presented is intended to highlight various facts, statistics, and statutes relevant to higher education across the country in order to provide a broad perspective and basis of comparison. We hope it serves as a resource for policymakers, people in higher education, the media, and the public for years to come. ☐

FOOTNOTES

¹ Aims C. McGuinness Jr., "Essay," *1997 Postsecondary Education Structures Sourcebook: State Coordinating and Governing Boards*, Education Commission of the States, Denver, CO: 1997, pp. 31–33.

² *Ibid.* at p. 33.

³ *Ibid.* at pp. 38–40.

⁴ *Ibid.* at pp. 34–39.

⁵ Aims McGuinness Jr., as quoted by Barbara Solow in *Reorganizing Higher Education Governance: What History Tells Us About Our Future*, North Carolina Center for Public Policy Research, Raleigh, NC: 1999, p. 3.

⁶ In February 2000, the University of North Carolina Board of Governors approved tuition increases at five of the system's 16 universities. Likewise, in March 2000, they approved fee increases at these same schools. Thus, while North Carolina's average cost of tuition and fees will increase, its ranking will still be one of the lowest in the country.

⁷ In 1999, the University of North Carolina Board of Governors, at the request of the N.C. General Assembly, commissioned a private consultant to study faculty salaries. The consultant, MGT Inc., compared average salaries and benefits on UNC campuses for four professorial ranks, from instructors to full professors, with their respective peer institutions across the country. Using public universities as the comparison, the study concluded that UNC system schools need an extra \$28.3 million each year to raise average salaries into the top 20 percent range. But comparing UNC schools with both their public and private peer institutions added an additional \$13.8 million to the figure.

⁸ Constitution of North Carolina, Article IX, Section 9.

⁹ In March 2000, the West Virginia Legislature passed a bill affecting the current governance structure of higher education in the state. Effective June 30, 2000, both the State College System Board of Directors and the University System Board of Trustees are abolished. A Higher Education Policy Commission will be created in July 2000 for policy development and other statewide issues. The Policy Commission is to employ a Chancellor, Vice Chancellor for Health Sciences, Vice Chancellor for Administration, and Vice Chancellor for Community and Technical Colleges and Workforce Education. During the transition year of July 1, 2000 to June 30, 2001, a statewide interim governing board is the governing board for public higher education. Each institution in the state will have its own governing board which will assume governance authority on July 1, 2001.

¹⁰ *Miles To Go: A Report on Black Students and Postsecondary Education in the South*, Southern Education Foundation, Atlanta, GA: 1998, p. 23.

¹¹ Education Commission of the States, *1997 State Postsecondary Education Structures Handbook*, Denver, CO: Education Commission of the States, 1997, p. 20.

¹² As quoted in Peter Schmidt, "States Make Healthy Increases in Spending on Higher Education," *The Chronicle of Higher Education*, Washington, DC: June 25, 1999, p. A39.

¹³ Sara Hebel, "A New Governor's Approach Rattles Colleges in Colorado," *The Chronicle of Higher Education*, Washington, DC: October 29, 1999, p. A44.

¹⁴ Peter Schmidt, "Rancor and Confusion Greet a Change in South Carolina's Budgeting System," *The Chronicle of Higher Education*, Washington, DC: April 4, 1997, p. A26.

¹⁵ Peter Schmidt, "Governors Want Fundamental Changes in Colleges, Question Place of Tenure," *The Chronicle of Higher Education*, Washington, DC: June 19, 1998, p. A38.

¹⁶ Peter Schmidt, "More Money for Public Higher Education," *The Chronicle of Higher Education*, Washington, DC: June 12, 1998, p. A30.

¹⁷ Schmidt, note 12 above, p. A39.

¹⁸ "State Budget Actions 1999," National Conference of State Legislatures, Denver, CO: March 2000, pp. 22–23.

¹⁹ "What's Ahead for Higher Ed?," *State Policy Reports*, Vol. 17, Issue 6 (September 1999), Denver, CO, p. 22. State Policy Research prepared *State Spending for Higher Education in the Next Decade: The Battle to Sustain Current Support* for the National Center for Public Policy and Higher Education in San Jose, California.

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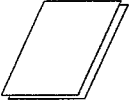
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MEMORABLE MEMO

Tony Z.

Sports Wagering Consultant

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