

North Carolina's Unfinished Transformation



Connecting Working Families
to the State's Newfound Prosperity



John Quintero, NC Budget & Tax Center

NC Justice Center • *Opportunity and Prosperity for All*



ABOUT THE JUSTICE CENTER

The Justice Center is a statewide, non-profit advocacy organization dedicated to securing economic justice for disadvantaged persons and communities. The mission of the Justice Center is to address poverty by ensuring that low-income individuals and communities have the resources and services they need to move from poverty to economic security. The work of the Justice Center is based on the belief that four objectives must be realized to enable disadvantaged individuals and communities to move from poverty to economic security. They include:

- work that is safe, pays a living wage and provides benefits that will enable a family to be self-sufficient;
- government action that supports and protects those able to work;
- a safety net of income and services that supports those unable to work;
- equal opportunity for low-income persons to achieve economic security free of discrimination.

To achieve its mission, the Justice Center works in collaboration with North Carolina's disadvantaged individuals and communities employing a multi-forum advocacy model in which the Center uses four primary strategies to fight poverty:

Litigation: Undertaking high-impact litigation to ensure that the rights of traditionally underrepresented populations are protected.

Research and Policy Development: Conducting and disseminating policy research and developing alternatives to existing policy on key issues facing traditionally disadvantaged populations.

Public Policy Advocacy: Working with traditionally underrepresented populations to define and shape the public policies that will most dramatically impact their communities.

Grassroots Empowerment/Community Capacity Building: Developing and implementing initiatives designed to enable low-income, working poor and minority individuals and community-based organizations to take the lead in solving the problems that they face.

JUSTICE CENTER PROJECTS

North Carolina Living Income Initiative
North Carolina Immigrants' Legal Assistance Project
North Carolina Poverty Law Litigation Project
North Carolina Education and Law Project
North Carolina Budget and Tax Center
North Carolina Consumer Action Network
North Carolina Health Access Coalition
Grassroots and Community Empowerment Project

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COVER

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Bottom photo: Charlotte skyline, 2002; Joe McLear/ TRANSPARENCIES, Inc.

North Carolina's Unfinished Transformation:

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This report is funded by the Working Poor Families Project, a national initiative of the Annie E. Casey, Ford, Rockefeller, Joyce and Charles Stewart Mott Foundations. Begun in 2001, the project assesses state policies and programs designed to help low-income working families succeed in the labor market and achieve economic self-sufficiency. The consulting firm Brandon Roberts + Associates manages the project on behalf of the sponsoring foundations. For more information about the Working Poor Families Project, visit <http://www.aecf.org/initiatives/fes/workingpoor/index.htm>

OVERVIEW:

North Carolina's Unfinished Transformation



NOT SO LONG AGO

"Women working in textile mill," early 20th century. Bayard Wootten, North Carolina Collection, University of North Carolina Library at Chapel Hill.

North Carolina has undergone a remarkable transformation over the past half century. An overwhelmingly rural state dependent upon agriculture and low-wage manufacturing, gripped by poverty and burdened by segregation has emerged as one of America's most metropolitan, economically competitive and fastest growing places. People across the globe now benefit from goods and services invented at North Carolina colleges and universities, brought to market by North Carolina entrepreneurs and financed by North Carolina capital.

Wise public investments in the state's physical infrastructure and people sparked this transformation. Early in the 20th century, at a time when other southern states were pouring money into short-term industrial development projects, North Carolina instead realized that long-term investments would pay greater dividends.¹ The upgrading of the educational system, the development of a model road system and the modernization of the tax code all positioned the Tar Heel State to benefit from the postwar economic boom that shifted America's economic engine from the Rustbelt to the Sunbelt. Such public investments set the stage for Charlotte's rise as a financial center, the Research Triangle's development as a technology hub and an overall surge in prosperity.

Today, this prosperity stands at risk. Other states, regions and nations – many of which draw inspiration from North Carolina's past practices and policies – compete directly with the Tar Heel State. At the same time, North Carolina's commitment to the policies that fostered success has waned. Unless the state renews its support of wise investments in its future, North Carolina will fail to finish its transformation.

Future prosperity depends upon the contributions of North Carolina's workforce. However, a vital segment of that workforce – low-income working families – is ill-equipped to thrive in the modern economy. One-third of the state's working families – some 313,596 families

scattered from Murphy to Manteo – are paid too little to support themselves.² Moreover, the number and proportion of low-income working families has risen steadily since 2000.³ Despite working hard in such essential jobs as child care workers, nursing home attendants, janitors and cashiers, low-income working families simply are paid too little to make ends meet.

Educational deficiencies and a lack of crucial skills prevent many low-income working families from thriving in a world where education and knowledge are prerequisites for success. One-third of low-income working families in North

Wise public investments in North Carolina's physical infrastructure and people helped transform the state into one of America's most metropolitan, economically competitive, and fastest growing places. Today, this prosperity stands at risk.

Carolina contain at least one parent who lacks a high school diploma or General Educational Development (GED) credential.⁴ Such low levels of educational attainment limit the prospects of individual families and the entire state. After all, in a globally competitive world, a state "can rise no higher than the sum of the knowledge of its people."⁵

North Carolina long has seen itself as a southern leader in educational and workforce policy, but when it comes to implementing policies that aid low-income working families, the state actually has fallen behind the nation as a whole and behind virtually every state in the South Atlantic (Florida, Georgia, North Carolina, South Carolina, Tennessee and Virginia). Consider the following:

- North Carolina has a greater proportion of low-income working families than

found in the nation and every South Atlantic state except for South Carolina.⁶

- North Carolina's share of low-income working families with at least one parent without a high school diploma or GED is the eighth worst in the country and the second worst in the South Atlantic, ahead only of Georgia.⁷

Helping low-income working families succeed in the modern economy is essential to the future prosperity of individual families and the entire state. Aware that a skilled workforce is indispensable for business, corporate leaders across North Carolina have begun calling attention to the needs of the state's workforce. The CEO of Blue Cross and Blue Shield of North Carolina, for instance, recently told *Business North Carolina* of his firm's "struggle to find people for entry-level jobs who can communicate with our customers."⁸ Similarly, a strategic assessment of metropolitan Charlotte warned that "a high level of illiteracy and lagging educational performance threaten to leave large segments of the workforce unprepared for the demands of a 21st-century economy."⁹

One-third of North Carolina's working families -
some 313,596 families in all - have low
incomes, defined as less than \$37,620 per year
for a four-person family.

This challenge is one North Carolina can meet precisely because it has done so before. The state recognized early in the 20th century that long-term economic prosperity hinged upon the workforce and consequently invested extensively in its workforce development system. It is not by accident, for instance, that North Carolina possesses one of America's most successful community college systems.

To help the state answer the challenge, this report assesses the three pillars of the state's workforce

development system – education and training programs, economic development policies and work supports – and analyzes the system's success in helping low-income working families prosper in the labor market. The resulting policy recommendations offer a comprehensive approach for honing the workforce development system's ability to aid low-income working families.

Overall, North Carolina's record in aiding low-income working families is a mixed one. Positively, the state has a tradition of investment in education and training and has built one of the country's finest systems of public higher education. The state also has been a national leader in partnering with the private sector to train skilled workers suited to the needs of industry. Moreover, North Carolina has developed strong social insurance programs, especially in the areas of unemployment insurance and workers' compensation. Lastly, state agencies responsible for workforce development have crafted a sophisticated accountability system that facilitates the development of data-driven policies.

Negatively, North Carolina has been overwhelmed by the speed of recent economic developments, specifically the decline of the manufacturing sector and its devastating impact on rural communities. Some affected workers have turned to the post-secondary educational system for help, but many low-wage working families cannot access the education needed to better themselves. Similarly, at the very moment when the state should be following its traditional approach of investing in workers, it has chosen instead to focus scarce resources on business subsidies designed to attract jobs that too often pay low wages, offer few benefits and provide little opportunity for advancement. Finally, North Carolina has allowed its revenue system to become outmoded. This has resulted not only in higher taxes for low-income working families, but also a reduction in the resources needed to invest in those families' future.

Sustained and strategic investments in North Carolina's physical infrastructure and workforce helped spark an economic transformation that has

produced unimagined prosperity. Though remarkable, this transformation remains unfinished and precarious. Unfinished, because not every Tar Heel who works hard earns enough to provide for their family's basic needs; precarious, because the state's future prosperity hinges upon the contributions of low-income working families who are finding it increasingly difficult to get ahead.

If North Carolina is to finish its transformation of the past half century, the state must prioritize the needs of low-income working families and ensure that they have access to the resources required to become economically competitive, self-sufficient and upwardly mobile. Such long-term investments will not only enrich the well-being of individual families, but also grow the prosperity of the entire state. ■

Summary of Findings

North Carolina's low-income working families form an essential part of the workforce and play a vital role in creating, sustaining and expanding the state's prosperity. Yet state programs and policies are insufficient to help many low-income working families acquire the skills and education needed to thrive in the modern economy – a fact that undermines North Carolina's long-term success. Addressing this situation is a challenge North Carolina can meet because it already possesses the three components of a comprehensive workforce development system: education and training programs, economic development policies and work supports.

Below are the key findings from this assessment of how well North Carolina's workforce development system meets the specific needs of low-income working families.

A) The State of Low-Income Working Families

- One-third of North Carolina's working families - some 313,596 families in all - have low incomes, defined as less than \$37,620 per year for a four-person family.

- North Carolina has a greater proportion of low-income working families than the nation as a whole and all but one South Atlantic state.
- The number of low-income working families grew by 8.6 percent between 2000 and 2003.
- Low-income working families contain 37 percent of the state's children.
- Nearly half of all low-income working families had at least one minority parent. Minority working families are twice as likely as their white counterparts to be poor.
- While low-income working families work hard in such essential jobs as child care workers and nursing home attendants, inadequate policies and structural factors like stagnating wages, shifting tax burdens and soaring basic costs hinder them from entering the middle class.

B) Education and Training

- Many low-income working families have not benefited from North Carolina's investments in education. One-third of the state's low-income working families contain at least one parent who has neither finished high school nor earned a GED – the nation's eighth worst proportion.
- Most of the education and training programs that could benefit low-income working families are administered or offered through the North Carolina Community College System, which can function as an educational "gateway" for low-income working families.
- The core challenges facing education and training programs include preserving the affordability of those

programs; funding programs to meet the needs of low-income working families; building career pathways for low-income working families; and tracking the needs and accomplishments of low-income working families.

C) Economic Development Policy

- Occupations frequently characterized by low wages, minimal benefits and limited mobility employ many members of low-income working families. In fact, 22.7 percent of all jobs in North Carolina do not pay enough to lift a four-person family out of poverty.
- Despite having reoriented its economic development policies away from infrastructure investments and towards business subsidies, North Carolina has not secured quality jobs. Instead, many subsidized jobs pay poorly and offer little chance for career advancement.
- Minimal accountability is built into current subsidy programs. Recipients are not required to show if contractual goals have been met, and negotiations occur outside of the normal budgetary process.

D) Work Supports

- Low-income working families frequently lack the benefits and supports that help middle-class families weather unexpected events.

- Almost four out of every ten low-income working families in North Carolina contain at least one parent who lacks health insurance.
- North Carolina's tax system has grown increasingly regressive. The bottom 20 percent of taxpayers was the only income group to see a net tax increase between 1989 and 2002.
- North Carolina has demonstrated a commitment to children through its refusal to significantly cut child care funding during the recent economic downturn and through sustained support of the More at Four and Health Choice programs.
- North Carolina's unemployment insurance and workers' compensation systems provide valuable social insurance in a well-administered, cost-effective and fair manner. With some reforms, these systems would better protect working families. ■

NORTH CAROLINA FACT

22.7 PERCENT OF ALL JOBS IN NORTH CAROLINA DO NOT PAY ENOUGH TO LIFT A FOUR-PERSON FAMILY OUT OF POVERTY.

POLICY AGENDA

The following recommendations outline improvements to the education and training programs, economic development policies and work supports that form North Carolina's workforce development system. Taken together, these policy changes would improve the system's ability to help low-income working families become economically self-sufficient and sustain and expand the prosperity that has resulted from North Carolina's recent transformation.

A) Education and Training Programs

1. Post-Secondary Education

- Preserve the affordability of post-secondary education.
- Maintain the state's current investment in need-based financial aid in the short term. In the long term, increase the public investment in need-based financial aid so as to help low-income working families walk through the campus gates and earn academic and/or industry-recognized credentials.
- Extend financial aid to adults who enroll on a part-time basis and/or in non-credit career classes.
- Provide additional financial aid in the form of need-based grants rather than tuition waivers.
- Fund the community college system to make it more accessible to low-income working families.
- Reconsider the standard that campuses must meet to earn funding on a full-time equivalent basis.
- Fund non-credit career courses on a full-time equivalent basis, at least for courses leading to an industry-recognized certification.
- Reevaluate the allocation of federal Perkins funds between post-secondary and secondary programs to see where students actually receive vocational education.

- Develop systematic career pathways that improve low-income working families' access to, and completion of, education and training programs that will prepare them for careers in growing economic sectors.
- Track the educational needs and accomplishments of low-income working families to better target services and supports to help them succeed.
- Adapt the state's workforce development tracking system to provide specific information on the retention and outcomes of low-income working families enrolled in post-secondary programs.

2. Adult Basic Education and Literacy Programs

- Increase funding of adult education programs to meet the demand for education resulting from immigration and economic transformation.
- Track the enrollment, transition and completion rates of low-income working families involved in adult basic education. Also track the movement of such students from adult basic education programs into post-secondary programs.

3. Temporary Assistance to Needy Families (TANF)

- Increase monthly benefit amounts so that recipients have the financial ability to pursue education and training.
- Exempt the time a person spends in training from the 24-month and 60-month benefit limits. This could be done by using state and county Work First funds to create separate programs.
- Set standards for the number of people who complete training and achieve economic self-sufficiency and regularly measure and report on the progress being made towards those goals.

B) Economic Development Policies**1. Business Subsidies Programs**

- Set wage requirements to ensure that subsidized employers pay adequately and do not shift employment costs to the public.
- Require subsidized firms to pay 80 percent of employee health care costs and 70 percent of the cost of family coverage.
- Direct subsidized companies to use the Employment Security Commission of North Carolina as a “first source” of potential employees.
- Adopt safeguards like recapture and clawback provisions that hold subsidized firms accountable for their contractual obligations.
- Improve the transparency of the subsidy process through an annual tax expenditure report. Also, incorporate subsidies into the budgetary system, so legislators can weigh the cost of subsidies against other spending needs.

2. Customized Worker Training

- Support continued investments in the New and Expanding Industry Training Program and the Focused Industry Training Program.
- Track specifically the enrollment, progress, advancement, completion rates and wage growth of members of low-income working families involved in customized training.
- View customized training as a door into the post-secondary education system and establish a referral system that links participants in customized training to adult education and other post-secondary programs.

C) Work Supports**1. Tax and Wage Policies**

- Create a state Earned Income Tax Credit to help offset the growing regressivity of North Carolina's tax system and reward work.
- Raise the state's minimum wage by at least \$0.85 per hour.

2. Basic Benefits

- Expand Medicaid and North Carolina Health Choice to provide health insurance to all parents in families earning less than 200 percent of poverty.
- Provide the necessary resources to eliminate the state's child care waiting list and to fully fund the Smart Start and More at Four initiatives.

3. Housing Assistance

- Appropriate \$50 million annually to the North Carolina Housing Trust Fund.
- Fund fully the expansion of the North Carolina Home Protection Pilot Program from 27 to 50 counties in preparation for an eventual expansion to all 100 counties.

4. Social Insurance

- Eliminate the one-week waiting period for the receipt of Unemployment Insurance (UI).
- Reevaluate current UI policies to ensure that temporary workers are treated favorably.
- Undertake structural reforms in the UI system in preparation for the next economic downturn.
- Protect the workers' compensation system from attempts to limit benefits and restrict eligibility. ■

CHAPTER 1

A Transformed State

“The Rip Van Winkle State.” That was North Carolina’s nickname for much of its history. Like Washington Irving’s famous farmer, North Carolina slumbered while the rest of the country grew and prospered. North Carolina finally awoke after the Second World War and subsequently transformed itself from a state that lagged behind the nation on almost every measure of social and economic well-being into one of America’s fastest growing states. This transformation has altered every aspect of life in the Tar Heel State and has created special challenges for low-income working families. Any consideration of public policies related to low-income working families consequently must be grounded within the context of North Carolina’s transformation.

A SLUMBERING STATE: THE NORTH CAROLINA OF 1940

The “Rip Van Winkle” description of North Carolina applied well into the 20th century. As late as 1940, North Carolina was an overwhelmingly rural state dependent on agriculture and low-wage manufacturing, gripped by poverty and burdened by segregation. On the eve of the Second World War, the state contained 3.6 million residents, 70 percent of whom were white and virtually all of whom were native-born Americans (**Figure 1-A**).¹ Three-fourths of the population lived in rural areas.²

Economically, most Tar Heels earned a living from agriculture and manufacturing.³ Because the kinds of economic activities that dominated North Carolina’s economy required little formal education, the state posted low levels of educational attainment. Also, because the economic activities that predominated in North Carolina typically paid low wages, many residents were poor. In 1941, North Carolina’s per capita income equaled 56 percent of the national level.⁴ Crushing poverty, coupled with the restraints imposed by segregation, drove



Woman in a cigarette plant, early 20th century. North Carolina Collection, University of North Carolina Library at Chapel Hill.

many African Americans to leave in search of better opportunities elsewhere.⁵

NORTH CAROLINA AWAKENS: THE POSTWAR ECONOMIC TRANSFORMATION

Despite these problems, the North Carolina of the 1940s was, in the words of scholar V.O. Key, a “state on the move.”⁶ Writing in 1949, Key described North Carolina as an energetic and

FIGURE 1-A

SELECT DEMOGRAPHIC CHARACTERISTICS FOR NORTH CAROLINA, 1940 VS. 2000		
	1940	2000
Population	3.6 million	8.0 million
Racial/Ethnic Composition		
% White	71.6	72.1
% Black	27.4	21.6
% Hispanic	--	4.7
Rural/Metropolitan Composition		
% Rural	72.7	30.0
% Metropolitan	27.3	70.0
Median Age	23.0 years	35.8 years
Per Capita Personal Income as % of National Level	56.0	91.0

SOURCE: U.S. Census Bureau



Farmer in peanut field, Halifax County, circa 1940. North Carolina Collection, University of North Carolina Library at Chapel Hill.

As late as 1940, North Carolina was an overwhelmingly rural state dependent on agriculture and low-wage manufacturing, gripped by poverty and burdened by segregation.

ambitious place, full of confident people determined to better their home.

This attitude flowed largely from the extensive public investments in physical infrastructure and human capital made during the 1920s and 1930s. In particular, North Carolina expanded its educational system, developed an extensive

highway system and modernized the tax code to better fund core public services.⁷ These investments provided North Carolina with competitive advantages lacked by many of its southern neighbors and positioned the state to benefit from the economic restructuring that occurred in America following the Second World War - a restructuring that came about in two waves.

First, immediately after the war, North Carolina's economy shifted from the farm to the factory. The mechanization of agriculture increased productivity and decreased the demand for agricultural labor. Displaced farmers, in turn, found new employment in a manufacturing sector

that blossomed when labor-intensive producers of goods like textiles moved to the South in search of "a low-wage, nonunionized labor force, plus relatively cheap land prices, tax incentives and lax environmental and safety controls."⁸ The expansion in manufacturing proved short lived as many of the manufacturers who relocated to North Carolina quickly began leaving for even lower-cost locations in the developing world. Between 1978 and 1997, for example, North Carolina lost one-third of its textile jobs.⁹

Second, the state's economic base shifted from manufacturing to services and retail. Between 1970 and 2000, the number of jobs in the service sector grew by 264 percent, while the number of jobs in the retail sector increased by 163 percent. Together, these sectors accounted for 44 percent of all North

Carolina jobs in 2000, up from 27 percent in 1970.¹⁰ Much of the growth in services and retail has occurred in metropolitan areas.

NORTH CAROLINA TODAY

Between 1950 and 2000, North Carolina underwent a massive transformation that turned it into an overwhelmingly metropolitan state with a growing, diverse population linked to a post-industrial economy. Four specific changes are noteworthy:

- The state's population is considerably larger than it was in 1940. Approximately 8 million people lived in North Carolina in 2000 – a 122 percent increase over 1940.¹¹
- The state's population is much more diverse as a result of the movement of people from other parts of the country and world into the Tar Heel State. For example, North Carolina's Hispanic population essentially quadrupled between 1990 and 2000.
- The population is richer. In 2000, North Carolina's per capita personal income of \$27,068 equaled 91 percent of the national level, up from 56 percent in 1941.
- North Carolina has become a metropolitan state with three areas – Raleigh-Durham, Charlotte and Greensboro/Winston-Salem/High Point – containing 43 percent of the total population.¹⁴

ONGOING TRANSFORMATION

The developments of the last half century have turned North Carolina from a sleepy, rural state into one of America's fastest-growing and most



dynamic places. Although these changes have benefited many North Carolinians and the state as a whole, they have not touched every Tar Heel. This is especially true for the members of low-income working families. ■

NORTH CAROLINA FACT

NORTH CAROLINA HAS BECOME A METROPOLITAN STATE WITH THREE AREAS – RALEIGH-DURHAM, CHARLOTTE AND GREENSBORO/ WINSTON-SALEM/HIGH POINT – CONTAINING 43 PERCENT OF THE TOTAL POPULATION.

FIGURE 2-A

THE LIMITATIONS OF THE FEDERAL POVERTY LEVEL

No official measure of poverty existed in the United States until 1965, when Mollie Orshansky, an employee of the Social Security Administration, developed an estimate. Orshansky took the Department of Agriculture's "economy food plan" (a budget detailing how much a family in an emergency or temporary situation would need to spend to keep from starving), modified it for different family sizes, and multiplied the number by three. Orshansky's calculation, adjusted for inflation, became the federal poverty level (FPL). In 2003, the FPL equaled \$18,660 for a family of four and \$12,682 for a family of two.

By Orshansky's own admission, her measure never was intended to specify an adequate income, but rather represented a floor under which a family definitely could not live. Scholars and government commissions subsequently have echoed Orshansky's criticism of the FPL. A study published in 1996 by the Panel on Poverty and Family Assistance, a project of the National Research Council, concluded that the FPL "no longer provides an accurate picture of the differences in the extent of poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time." Although the panel proposed changes and the U.S. Census Bureau experimented with different measures, the FPL remains the standard statistic.

Four major limitations prevent use of the FPL as a measure of basic living costs:

- The FPL is based only on the dollar amounts of food and assumes that the cost of food accounts for one-third of a family's expenses. While that may have been true when the FPL was developed, food now consumes a much smaller share of a family's budget.
- The FPL ignores expenses that are significant today but were not common during the 1960s. For example, the increase in the number of working women requires even many two-parent families to purchase child care.
- The FPL was designed to measure a family's after-tax income but today is applied to its before-tax income, thereby inaccurately portraying the amount of money a family actually has available to spend.
- The FPL is a fixed amount regardless of where a person lives. Yet living costs, especially for housing, vary widely across geographic areas.

CHAPTER 2

Working Families
in a Transformed North Carolina

North Carolina's remarkable transformation has created special challenges for low-income working families. Despite working hard in such essential jobs as child care workers, nursing home attendants, janitors and cashiers, low-income working families are finding it increasingly difficult to succeed financially. Factors beyond their individual control - stagnating wages, widening income inequality and soaring basic costs - are pushing working families into lives lived "in the shadow of prosperity, in the twilight between poverty and well-being."¹ Until low-income working families benefit from the changes that have remade North Carolina in recent decades, the state's long-term prosperity will be constrained.

WHAT IS A WORKING FAMILY?

Terms like "working family," "low-income" and "poor" are frequently used ones that people intuitively grasp yet struggle to define precisely. In this report, the following definitions are used:

- **Family:** A family is a married-couple or single-parent, primary family with at least one child under age 18.
- **Working Family:** A family in which all related members age 15 and over have either a combined work effort of 39 or more weeks in the last 12 months **or** a combined work effort of at least 26 weeks and one unemployed parent actively looking for work within the past four weeks.
- **Poor Working Family:** A working family with an annual income below the threshold for poverty defined by the

U.S. Census Bureau. In 2003, the threshold for a four-person family equaled \$18,810.

- **Low-Income Working Family:** A family with an annual income less than 200 percent (or double) of the poverty threshold. For a family of four in 2003, the low-income threshold was \$37,620.

This report focuses on working families with incomes at or below 200 percent of poverty rather than just those officially defined as poor by the federal government. This is because the official definition “burnishes reality by underestimating the numbers whose lives can reasonably be considered impoverished” (Figure 2-A).² To spotlight families that earn too much to be technically poor but too little to be truly self-sufficient, this report considers all working families earning less than 200 percent of poverty.

The 200 percent of poverty standard is also the one adopted by the national Working Poor Families Project, of which this report is part. Although a uniform national figure permits meaningful interstate comparisons, it also obscures local differences in living costs. Previous research by the North Carolina Budget and Tax Center has found that the average Tar Heel family with children must earn 231 percent of the federal poverty level to afford its basic needs.³ However, to remain consistent with the larger Working Poor Families Project, this report adopts the 200 percent of poverty threshold, even though it undercounts North Carolina’s low-income working families.

HOW MANY LOW-INCOME WORKING FAMILIES LIVE IN NORTH CAROLINA?

One-third of North Carolina’s working families in 2003 had low incomes. Of these 313,596 families, three-fourths earned between 100 and 200 percent of poverty, and one-quarter were officially poor (Figure 2-B).⁴

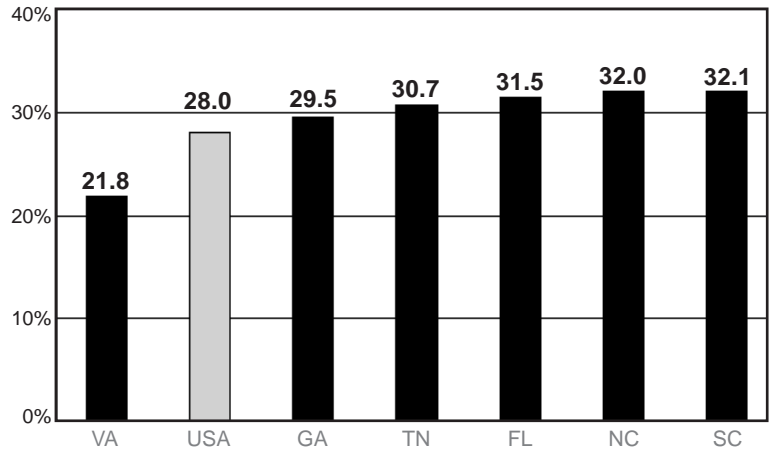
FIGURE 2-B

WORKING FAMILIES IN NORTH CAROLINA BY INCOME STATUS, 2003		
	Number of Families	Percent of Families
All Working Families	980,500	100%
Low-Income and Poor Working Families	313,596	32%
Low-Income Working Families (100-200% of poverty level)	243,158	25%
Poor Working Families (< 100% of poverty level)	70,438	7%

SOURCE: Population Reference Bureau, analysis of 2003 American Community Survey

FIGURE 2-C

LOW-INCOME WORKING FAMILIES AS A PERCENTAGE OF ALL WORKING FAMILIES, SOUTH ATLANTIC, 2003



SOURCE: Population Reference Bureau, analysis of 2003 American Community Survey

North Carolina had a higher percentage of low-income working families in 2003 than the nation as a whole. In fact, only 14 states had a greater percentage of low-income working families than the Tar Heel State. Among the six states in the South Atlantic, North Carolina had a higher percentage of low-income working families than every state but South Carolina (Figure 2-C).⁵

Meanwhile, some 70,438 working families in North Carolina earn less than the amount needed to lift them over the federal poverty level. In other words, such families work yet are unable to escape poverty by dint of their own labor.⁶

FIGURE 2-D

EARNED INCOME TAX CREDIT CLAIMS BY REGION, 2002		
Region	% of Regional Tax Returns Claiming EITC	% of All North Carolina EITC Claims
Eastern North Carolina	26	37
Central North Carolina	17	51
Western North Carolina	19	13

SOURCE: North Carolina Budget & Tax Center

Additionally, the number of low-income working families in North Carolina steadily increased between 2000 and 2003. The total number of low-income working families grew by 8.6 percent over that three-year period.⁷ This increase is partly attributable to the last recession, but it would be a mistake to view this development as an anomaly that will right itself. Rather, as will be discussed later in this chapter, the rise in low-income working families is the result of structural changes to the economy.

WHERE DO NORTH CAROLINA'S LOW-INCOME WORKING FAMILIES LIVE?

All 100 of North Carolina's counties contain low-income working families, based on an analysis of families claiming the federal Earned Income Tax Credit (EITC). The EITC is "a refundable federal income tax credit available to families who work but generally earn less than 200 percent of the federal poverty level."⁸

In North Carolina, 37 percent of the state's children – some 636,509 – resided in low-income working families in 2003.

One of every five North Carolina tax filers claimed the EITC in 2002. Eastern North Carolina had the highest claims rate with 25 percent of all tax filers taking the credit. The claims rate equaled 19 percent in Western North Carolina and 17 percent in the central part of the state. In terms of individual counties, Robeson

County had the highest claims rate (42 percent), Orange County the lowest (10 percent).⁹

Half of all EITC recipients in North Carolina lived in the central part of the state, home to the population centers of Raleigh-Durham, Charlotte and Greensboro/Winston-Salem/High Point. Eastern North Carolina contained 37 percent of all EITC filers, Western North Carolina 13 percent (Figure 2-D). This pattern is consistent with national studies that have found that families in large cities and rural areas are most likely to qualify for the EITC. Also, families in rural southern communities typically receive higher EITC credits than their counterparts in large cities and other parts of the nation. This suggests that working poverty runs "deeper" in places like rural Eastern North Carolina.¹¹

WHO LIVES IN LOW-INCOME WORKING FAMILIES?

Although North Carolinians of all ages and races live in low-income working families, prime-age workers, children, minorities and immigrants were especially likely to belong to such families in 2003. In general, North Carolina had a higher proportion of these demographic groups residing in low-income working families than can be found in the nation as a whole or in other South Atlantic states (Figure 2-E).

Prime-Age Workers

Contrary to popular perception, low-income working families are not headed by very young parents. Almost nine out of every ten low-income working families in North Carolina contained at least one adult between the ages of 25-54, considered to be the prime working years. This rate was slightly lower than the national one and ranked third in the South Atlantic.¹²

Children

In North Carolina, 37 percent of the state's children – some 636,509 – resided in low-income working families in 2003. North Carolina's percentage of children living in low-

FIGURE 2-E

Low-Income Working Families: Select Demographic Traits, South Atlantic States, 2003								
Children <18			Minorities (at least one parent)		Immigrants (at least one parent)		Prime-Age Workers (at least one parent)	
State	% in Low-Income Working Families	Rank South Atlantic	% of Low-Income Working Families	Rank in South Atlantic	% of Low-Income Working Families	Rank in	% of Low-Income Working Families	Rank in South Atlantic
Florida	35.5	5	42.2	2	35.7	6	87.2	6
Georgia	33.7	2	44.4	3	17.0	4	86.5	4
North Carolina	36.8	6	46.3	4	14.2	3	85.5	3
South Carolina	35.2	4	52.7	6	7.4	1	83.8	1
Tennessee	35.1	3	48.0	5	8.3	2	85.5	2
Virginia	23.9	1	30.4	1	17.5	5	86.9	5
<i>USA</i>	<i>32.3</i>	--	<i>41.7</i>	--	<i>28.8</i>	--	<i>87.4</i>	--

SOURCE : : Population Reference Bureau, analysis of 2003 American Community Survey

income working families not only exceeded the national proportion of 32 percent, but also was the worst rate in the South Atlantic.¹³

Minorities and Immigrants

Slightly fewer than half of all low-income working families contained at least one minority parent. This rate exceeded the national one and ranked in the middle of the South Atlantic. Meanwhile, 14 percent of North Carolina's low-income working families contained at least one immigrant parent, again ranking the state in the middle of the South Atlantic region.¹⁴

Minority working families in North Carolina also are more likely than all working families to be poor. While seven percent of all working families in North Carolina fell below the federal poverty level in 2003, 10 percent of minority working families were poor. Minority working families also were twice as likely as their white counterparts to be poor.¹⁵

CAN LOW-INCOME WORKING FAMILIES EARN MORE BY WORKING HARDER?

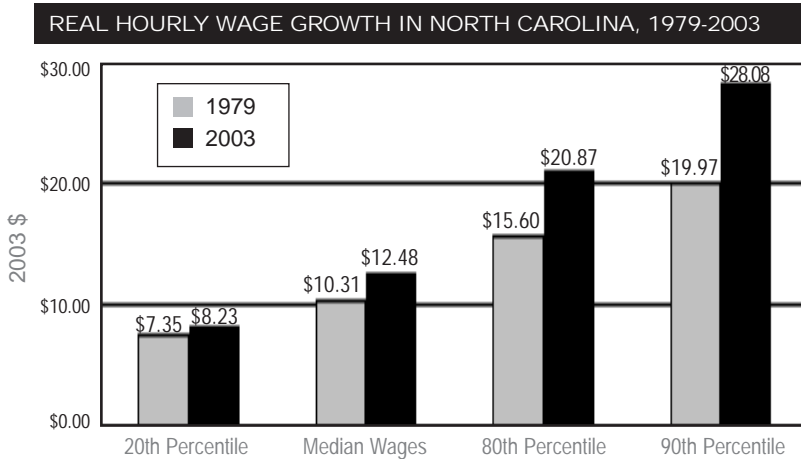
Every day, North Carolina's 313,596 low-income working families challenge the "American doctrine that hard work cures poverty."¹⁶ Low-income

working families in North Carolina, like their peers across the nation and South, sadly can not raise their incomes simply by working more. They already are working more than one job.

In 2003, the average low-income working family in North Carolina worked 2,485 hours – the equivalent of 1.2 full-time jobs. This considerable work effort held for all family types. Married low-income working families held the equivalent of 1.4 full-time jobs; single-father families, 1.1 full-time jobs; and single-mother families, one full-time job.¹⁷ Despite working the equivalent of multiple jobs, these families remain low-income.

Consider, for example, the 53 percent of low-income working families headed by married couples.¹⁸ Recent research by the New America Foundation found that the average incomes of the nation's poorest married-couple families (earning less than \$24,537 a year in 2002) rose by 5 percent, adjusting for inflation, between 1979 and 2002. This rise resulted not from higher wages or an increase in the number of hours worked by husbands (most of whom already were employed full-time), but from an increase in the number of hours worked by wives. If wives had not worked more, these families actually would have seen their incomes drop by 14 percent.¹⁹

FIGURE 2-F



SOURCE: Elizabeth Jordan, *The State of Working North Carolina 2004*, Raleigh, NC: North Carolina Budget and Tax Center, p. 18.

WHAT ARE THE FACTORS HOLDING LOW-INCOME WORKING FAMILIES BACK?

Low-income working families in North Carolina are held back not by their work effort but by state policies and structural factors. Even if families could work more hours, the combination of stagnating wages, shifting tax burdens and soaring basic costs likely would erase any increased earnings.

Stagnating Wages

Previous research by the North Carolina Budget and Tax Center has found that the lowest-paid North Carolinians experienced little growth in inflation-adjusted wages between 1979 and 2003.

In recent years, public leaders have shifted much of the responsibility for funding government from the affluent to those least able to pay.

Over that period, the state's lowest-paid workers saw their wages rise by \$0.88 per hour or 12 percent. Middle-income workers, meanwhile, realized a wage increase of \$2.17 an hour or 21

percent, while the best-paid workers gained \$8.11 per hour or 40 percent (Figure 2-F).²⁰

Similarly, an income gap has appeared among working families. In 2003, the most affluent working families in North Carolina had incomes 7.7 times greater than the incomes of the least affluent working families. This gap was the nation's 30th worst.²¹

Wage stagnation is further compounded by the fact that low-income working families frequently possess few financial assets. Assets are critical because they provide families with the resources to manage emergencies or pursue long-term investments like homeownership and higher education. According to the national organization CFED, North Carolina "ranks in the middle of the pack in terms of asset accumulation."²² Because low-income working families tend to have fewer assets than more affluent ones, they are more vulnerable to unexpected events and less able to invest in their long-term growth.

Shifting Tax Burdens

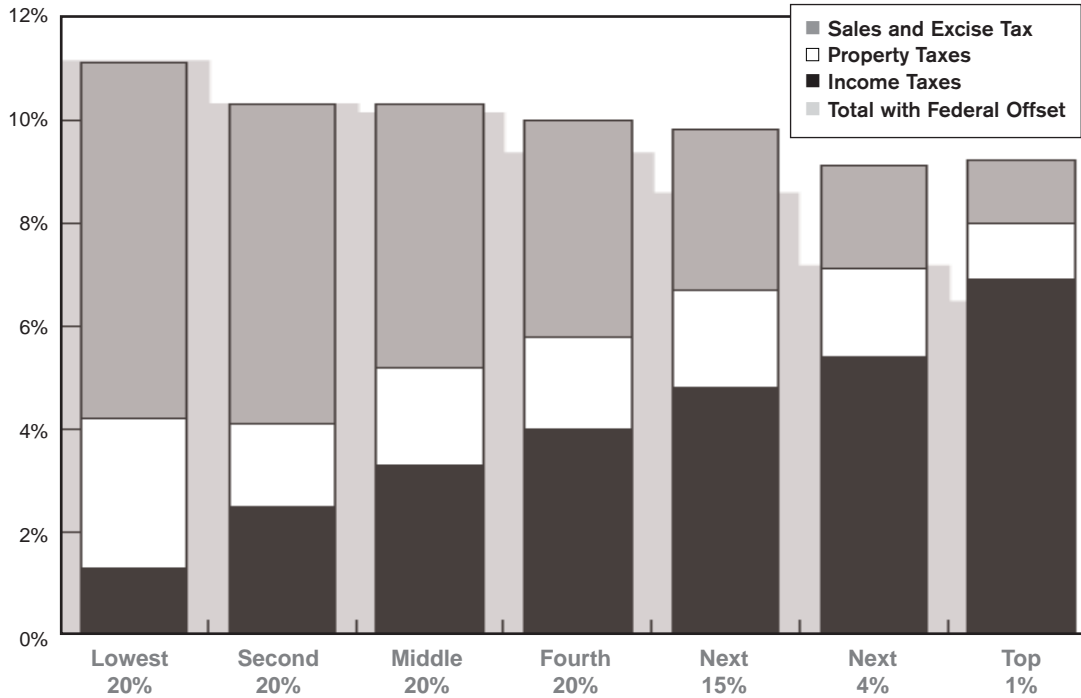
Changes to North Carolina's tax system further exacerbate the struggles of low-income working families. In recent years, state leaders have shifted much of the responsibility for funding government from the affluent to those least able to pay. In 2003, for instance, the poorest North Carolinians devoted nearly 11 percent of their incomes to state and local taxes, while the richest spent about nine percent.

The difference is even wider when the federal offset, which is the ability of predominately wealthy taxpayers to deduct their state and local taxes from their federal returns, is included. After the offset, taxes consumed 6.3 percent of the incomes of the richest one percent of taxpayers but 10.9 percent of the poorest families' incomes (Figure 2-G). This trend actually has worsened over time, according to research by the Institute for Taxation and Economic Policy. For example, the net tax liability of the state's poorest households actually increased between

FIGURE 2-G

North Carolina State & Local Taxes in 2003

Shares of Family Income for Non-Elderly Taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$25,000	\$25,000 – \$39,000	\$39,000 – \$64,000	\$64,000 – \$124,000	\$124,000 – \$333,000	\$333,000 or more
Average Income in Group	\$9,100	\$19,700	\$31,300	\$50,100	\$84,800	\$176,800	\$813,800
Sales & Excise Taxes	6.9%	6.2%	5.1%	4.2%	3.1%	2.0%	1.2%
General Sales—Individuals	3.8%	3.5%	3.0%	2.6%	2.0%	1.3%	0.8%
Other Sales & Excise—Ind.	1.4%	1.2%	0.9%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.7%	1.5%	1.1%	0.9%	0.7%	0.4%	0.3%
Property Taxes	2.9%	1.6%	1.9%	1.8%	1.9%	1.7%	1.1%
Property Taxes on Families	2.8%	1.6%	1.9%	1.7%	1.8%	1.5%	0.7%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.4%
Income Taxes	1.3%	2.5%	3.3%	4.0%	4.8%	5.4%	6.9%
Personal Income Tax	1.2%	2.5%	3.2%	4.0%	4.7%	5.4%	6.6%
Corporate Income Tax	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%
TOTAL TAXES	11.0%	10.3%	10.4%	10.0%	9.8%	9.1%	9.2%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.6%	-1.4%	-2.0%	-2.9%
TOTAL AFTER OFFSET	10.9%	10.3%	10.1%	9.4%	8.4%	7.2%	6.3%

NOTE: Table shows 2003 tax law at 2000 income levels; Source: Institute for Taxation & Economic Policy

1989 and 2002, making this the only income group to see a net tax increase.

Soaring Basic Costs

At the same time that North Carolina's lowest-income working families have seen their wages stagnate and their tax burdens rise, the cost of essential goods like housing, health care and child care has surged.

Take housing. In 2003, 45.4 percent of all low-income working families in North Carolina spent over one-third of their annual incomes on housing – an amount that makes such families “housing burdened” under federal guidelines.²³ Low-income working families in metropolitan areas are even more likely to struggle with housing costs. In 2004, for example, the monthly fair market rent for a two-bedroom apartment in Raleigh-Durham, the state's most expensive rental market, totaled \$799. To afford such an apartment without being housing burdened, a four-person family would need to earn \$29,000 annually, an amount at the high end of the income distribution for low-income working families. Furthermore, the cost of housing in North Carolina's fast-growing metropolitan areas continues to rise. Between 1994 and 2004, the fair market rent for a two-bedroom apartment in Raleigh-Durham (adjusting for inflation) increased by 50 percent.²⁴

Similarly, rising medical costs threaten the financial health of low-income working families. Almost four of every ten low-income working families in North Carolina contain at least one parent without health insurance. This is the third worst rate in the South Atlantic, ahead of only Georgia and Florida.²⁵ While the children in low-income working families potentially could qualify for medical coverage through the North Carolina Health Choice children's health insurance program, it does not help a child's uninsured parents. Without access to health insurance, low-income working families are one illness or accident away from financial disaster.

Child care represents another mounting expense for low-income working families. The North Carolina Budget and Tax Center has estimated that child care – an essential expense if a parent is to work – costs a family with two young children an average of \$957 a month and is likely the family's biggest expense. For a family with one child, the cost of child care would average \$421 and be the family's second biggest expense after housing.²⁶

The high costs of such essential expenses as housing, health care and child care suggest that low-income working families cannot improve their financial position simply by cutting “frivolous” expenses. The fundamental problem for too many families is that their jobs pay wages that are too low to meet basic fixed costs like housing – costs that must be paid in full each month regardless.

Transforming Low-Income Working Families

North Carolina's low-income working families are discovering that the traditional American path into the middle class – hard work – no longer leads inexorably to a better life. These families consequently have found themselves excluded from North Carolina's newfound prosperity. Incorporating low-income working families into North Carolina's ongoing transformation consequently requires a transformation in the state's workforce development system. ■

NORTH CAROLINA FACT

ALMOST FOUR OUT OF EVERY TEN LOW-INCOME WORKING FAMILIES IN NORTH CAROLINA CONTAIN AT LEAST ONE PARENT WITHOUT HEALTH INSURANCE. THIS IS THE THIRD WORST RATE IN THE SOUTH ATLANTIC, AHEAD OF ONLY GEORGIA AND FLORIDA.

CHAPTER 3

Learning and Earning

Much of North Carolina's 20th century transformation resulted from sustained public investment in the state's physical infrastructure and educational system – investments that have paid dividends. The Research Triangle Park, for instance, blossomed because of the presence of well-educated Tar Heels, just as skilled individuals powered Charlotte's rise as a financial center.

Unfortunately, state policies and programs have not adequately served the education and training needs of many low-income working families. These educational deficits undermine North Carolina's long-term prosperity. A recent strategic assessment of the Charlotte region, for instance, warned that “a high level of illiteracy and lagging educational performance threaten to leave large segments of the workforce unprepared for the demands of a 21st-century economy.”¹

Helping low-income working families succeed economically is an achievable goal for North Carolina if state leaders recommit themselves to workforce development.

Traditionally, workforce development has been seen as separate from education, social policy and economic development. Yet workforce development actually encompasses all of those subjects. A comprehensive view sees that “workforce development is properly about sustaining upward mobility over the long-term” and that “the workforce development system should encompass all education, training and support services – paid and unpaid – that are necessary to achieve that sustained upward mobility.”²

North Carolina already possesses many of the resources – education and training programs, economic development policies and work supports – that can help low-income working



families become upwardly mobile. The challenge is to strengthen the system so that it better targets and serves low-income working families. Such investments are vital for building a workforce capable of sustaining and growing North Carolina's economic prosperity.

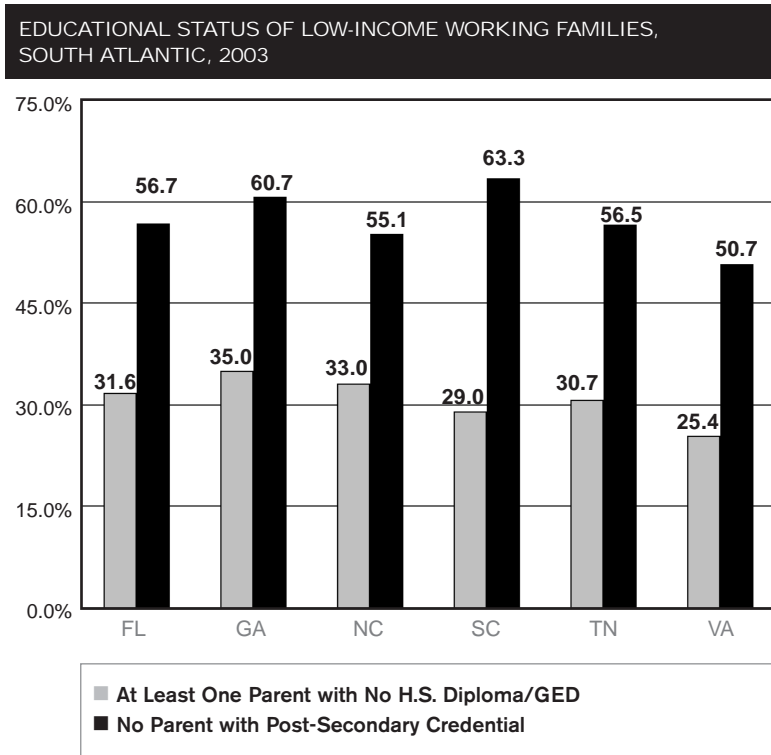
This chapter, which focuses on education, is the first of three analyzing the components of the state's workforce development system and how they can better aid low-income working families.

EDUCATION IN A NEW ECONOMY

North Carolina's shift from a manufacturing to a service economy has created jobs in fields that barely existed a few years ago and has provided lucrative opportunities for people with sophisticated knowledge and skills. At the same time, thousands of jobs previously open to people with little formal education have been eliminated or exported. Education consequently has emerged as both a dividing line and a prerequisite for success in today's economy.

Low-income working families too often stand on the wrong side of this educational divide. One-third of North Carolina's working families contain at least one parent who has neither finished high school nor earned a General Educational Development (GED) credential – the eighth worst percentage in the country.³ Also, 55.1 percent of the Tar Heel State's low-income working families contain no parents who have received a post-secondary degree (**Figure 3-A**).⁴

FIGURE 3-A



SOURCE: Population Reference Bureau, Analysis of 2003 American Community Survey

surging. National estimates show that jobs requiring a university degree will account for 29 percent of the positions created between 2000 and 2010.⁵ An additional 13 percent of anticipated new jobs will require an associate degree or a post-secondary vocational credential.⁶ Moreover, earning these credentials pays. In 2003, the average worker with a bachelor's degree earned over twice as much as a worker with only a high school diploma. Similarly, a person with an associate degree earned 29 percent more than a person with just a high school diploma (Figure 3-B).⁷

A TRANSFORMED WORKFORCE FOR A TRANSFORMED STATE?

Disturbingly for a state that prides itself on its commitment to education, a sizable proportion of North Carolina's workforce, including low-income working families, is poorly educated. Consider the following facts that point to a Tar Heel workforce ill-prepared to compete in a world where post-secondary education has become a minimum qualification for entry into the middle class:

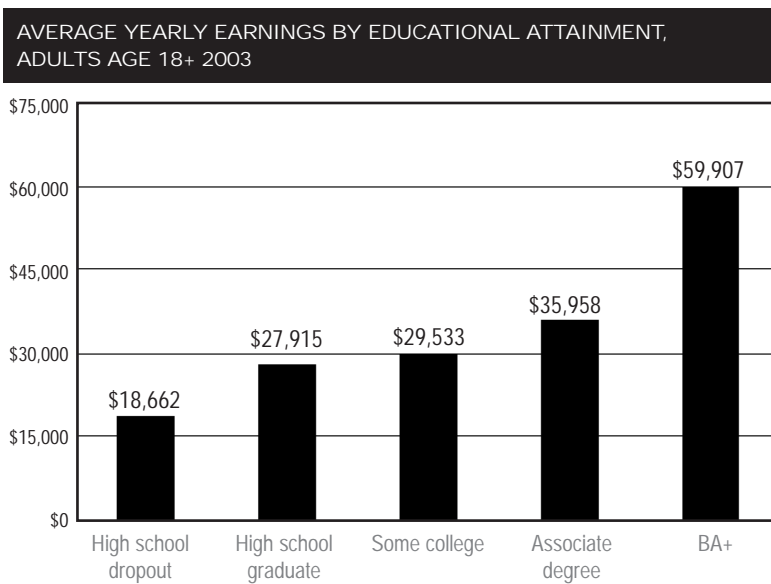
- Almost two-thirds of North Carolina's prime-age workers (ages 25-54) lack any kind of postsecondary credential.⁸
- One of every two adults over age 16 is deficient in basic literacy skills.⁹

These gaps appear even more pronounced when viewed through the lenses of race and ethnicity (Figure 3-C). Some 60 percent of white, prime-age workers lack a post-secondary degree, as do 73.6 percent of comparable black workers and 86.1 percent of Hispanic workers. More alarmingly, half of all prime-age Hispanic workers lack a high school diploma or GED.¹⁰

LONG-TERM WORKFORCE TRENDS

Left unaddressed, the educational deficiencies of the state's workforce will likely threaten North Carolina's economic prosperity. There are three reasons for this. First, North Carolina is aging.

FIGURE 3-B



SOURCE: U.S. Census Bureau, Current Population Survey, March 2004

This puts low-income working families at a disadvantage in an economy where the demand for workers with post-secondary educations is

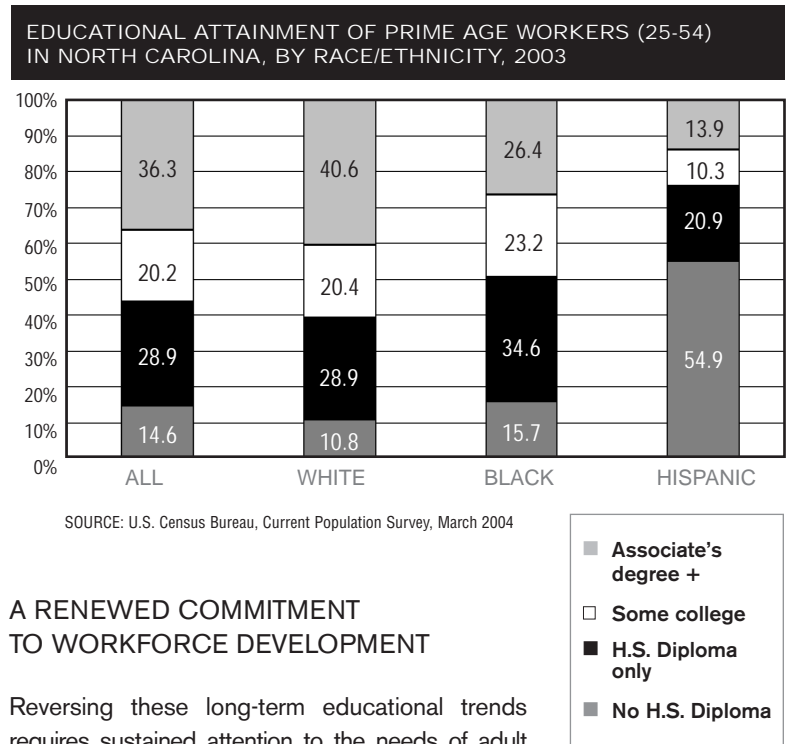
Many of the state's best-educated workers – white Baby Boomers – are nearing retirement age. The Boomers' replacements will be drawn predominately from the immigrant, black and Hispanic populations, a sizable proportion of which “will have grown up in poverty with inadequate resources at home and inadequate educational opportunities at school.”¹¹ In sum, the supply of well-educated workers is dropping at a time of rising demand.

Second, current prime-age workers, regardless of whether or not they live in low-income working families, are not updating their skills to keep pace with change. Only 6.8 percent of North Carolina's prime-age workers were enrolled in a post-secondary institution in 2003.¹² While many workers without a post-secondary credential currently may earn a solid living in a field like manufacturing, those jobs are disappearing, and many workers who have lost jobs or are at-risk of losing their jobs are unprepared educationally for life after the factories.

Third, few young adults are engaged in post-secondary education. Seven of every ten young adults (ages 18-24) in North Carolina were not pursuing a post-secondary education in 2003, the second worst rate in the South Atlantic (Figure 3-D).¹³ Among minorities, 71.3 percent of young blacks were not enrolled, as was the case for 77.3 percent of young Hispanics.¹⁴

North Carolina's alarming high school dropout rate further compounds this situation. Only 64.6 percent of students who entered the ninth grade in 2001 graduated four years later, while minority students had a 50-50 chance of graduating on time.¹⁵ Moreover, many of the high school students who do manage to graduate are unprepared for collegiate work. Half of the students who enroll in North Carolina's community colleges, for example, require remedial education before undertaking collegiate studies.¹⁶

FIGURE 3-C



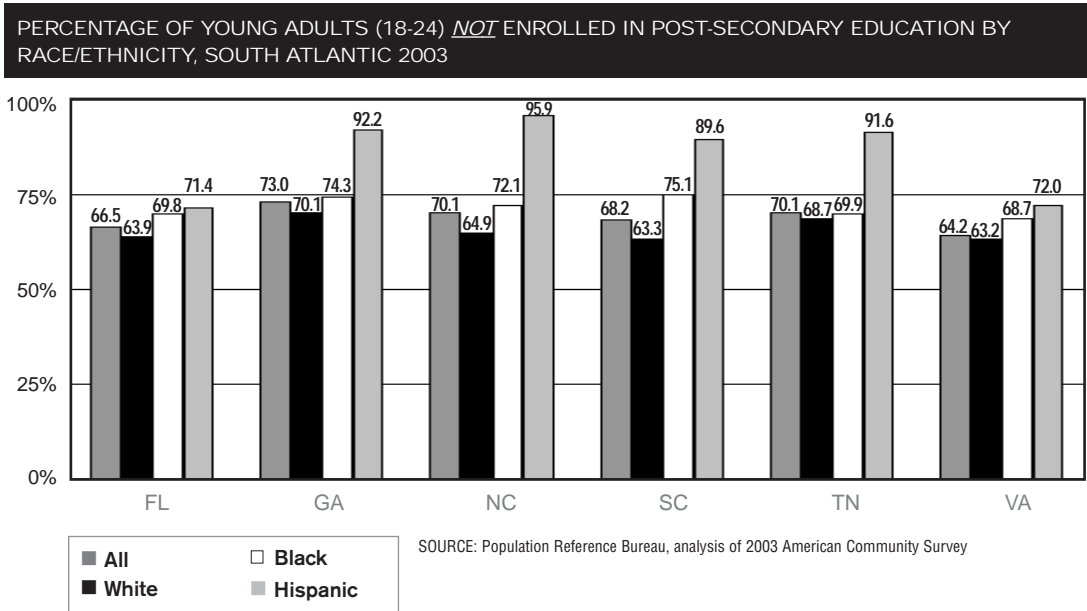
A RENEWED COMMITMENT TO WORKFORCE DEVELOPMENT

Reversing these long-term educational trends requires sustained attention to the needs of adult learners in general and adults in low-income working families in particular. Yet when it comes to education, the attention of most public officials is devoted to the challenges facing the K-12 system. That system indeed is vital to North Carolina's future prosperity, but “overlooking the education of working-age adults undermines the prosperity of our state now.”¹⁷

North Carolina's economic vitality hinges upon a renewed commitment to the educational components of the workforce development system. Key components include the following:

- Post-secondary educational programs geared towards adult learners.
- Literacy education provided through adult education courses.
- Training initiatives offered through the Workforce Investment Act.
- Policies that allow recipients of Temporary Aid to Needy Families to better their educations and achieve economic self-sufficiency.

FIGURE 3-D



POST-SECONDARY EDUCATION

A commitment to higher education has characterized North Carolina throughout its history. Following the American Revolution, the University of North Carolina at Chapel Hill became the first public university in America to open its doors.¹⁸ In 1971, Chapel Hill and 15 other state-supported institutions were consolidated into the University of North Carolina, one of America’s most prestigious public universities.¹⁹ Additionally, the state opted in 1963 to combine the technical institutes scattered across the state into the North Carolina Community College System – a system that has “trained thousands of persons to enter a wide array of occupations and opened college doors to growing numbers of adults.”²⁰

The University of North Carolina (UNC)

The 16-campus University of North Carolina (UNC) enrolled 183,000 students during the 2003-04 academic year.²¹ Historically, UNC has prided itself not just on the strength of its academic offerings, but also on its affordability. An example of this commitment is the “Carolina Covenant” at UNC-Chapel Hill. This program allows academically qualified students from

families with incomes below 200 percent of poverty to enroll without having to borrow money.²² Though designed for traditional students rather than working adults, the Carolina Covenant represents a way of helping children from low-income working families pursue education.

The North Carolina Community College System (NCCCS)

The North Carolina Community College System (NCCCS) forms the backbone of the state’s workforce development system and is the “primary agency for delivery of job training, literacy and adult education in North Carolina.”²³ Some 779,000 individuals (average age of 30) participated in the academic and continuing education programs offered through the system’s 58 campuses during 2003-04.²⁴ Other Tar Heels turned to NCCCS campuses to access services that, while not funded by the NCCCS, are delivered from on-campus offices. For example, 22 of North Carolina’s 99 chartered Job Link Career Centers (or “One-Stops”) are located at community colleges.²⁵

The NCCCS differs from its counterparts in other states in that it purposefully was designed to be an integrated workforce development

system capable of producing the skilled employees demanded by industry. Additionally, the NCCCS was created to be affordable and accessible to all North Carolinians, which accounts for both the system's historically low tuition and the fact that every state resident generally lives within 30 miles of a campus.

Key offerings of the NCCCS include associate degree programs and non-credit career and occupational continuing education courses that teach marketable job skills. The NCCCS also is the state's main provider of adult basic education courses and the sole provider of post-secondary vocational and technical training funded through the federal Carl D. Perkins Vocational and Technical Education Act. Finally, as will be discussed in chapter 4, the NCCCS sponsors customized industrial training programs tied to the state's economic development priorities.

The scope of the NCCCS's offerings gives it the potential to have a profound impact on low-income working families. Yet multiple factors are impacting the NCCCS's ability to help low-income working families become self-sufficient. Four major challenges are the following:

- Preserving the affordability of post-secondary education.
- Funding the NCCCS to meet the needs of low-income working families.
- Building career pathways for low-income working families.
- Tracking the needs and accomplishments of low-income working families.

Challenge 1: Preserving the Affordability of Post-Secondary Education

North Carolina's community colleges historically have charged low tuition. In 2004, a full-time, degree-student paid \$1,200 in tuition and fees – the lowest rate in the South Atlantic and a rate

roughly half as much as the national figure.²⁶

This seemingly low price, however, obscures the steady tuition increases that have occurred over the last decade. Tuition and fees at NCCCS campuses rose 65 percent (adjusted for inflation) between 1994 and 2004, according to the Southern Regional Education Board.²⁷ Rising tuition makes it financially difficult for low-income working families to enroll in post-secondary programs. For the typical Tar Heel family in 2004, tuition and fees equaled 15 percent of the family's income.²⁸ The percentage would have been higher for a low-income working family.

The North Carolina Community College

System (NCCCS) forms the backbone of the state's workforce development system. The 58 campuses served 779,000 students during 2003-04.

The issue of affordability has not gone unnoticed by North Carolina's leaders. The state increased its investment in need-based financial aid programs between 1994 and 2004. Today, North Carolina's state investment in financial aid equals 34 percent of the federal Pell Grant dollars flowing into the state, up from 3 percent in 1994.²⁹ Despite its increased funding, North Carolina's investment remains low compared to other states.³⁰ Furthermore, students enrolled less than half time generally are ineligible for aid. The same is true for students enrolled in non-credit career courses. Such classes – offered in areas like computer skills, building trades and medical office skills – provide people with practical work skills that can improve their earning potential.

To help keep post-secondary education within the reach of low-income working families, the state should take two actions:

- Increase the state's investment in need-based financial aid.
- Extend financial aid to adults who enroll on a part-time basis and in non-credit career classes, at least for classes leading to an industry-recognized certification.

Challenge 2: Funding the NCCCS to Meet the Needs of Low-Income Working Families

The NCCCS has experienced a sharp increase in enrollment in recent years. Enrollment in academic programs grew by 34.7 percent between 1993 and 2003, according to the Southern Regional Education Board.³¹ This jump resulted from a variety of factors, including population growth, an increase in the number of high school graduates attending college and the decision of workers hurt by the last economic downturn to acquire new skills.

When it comes to education, the attention of most public officials is devoted to the challenges facing the K-12 system. That system indeed is vital to North Carolina's future prosperity, but "overlooking the education of working-age adults undermines the prosperity of our state now."

In response, the General Assembly raised the state appropriation to the NCCCS by 18 percent or \$113.9 million between 2001 and 2004.³² This act, coming as it did during one of the worst fiscal crises in state history, signals a significant legislative commitment to North Carolina's community colleges. Other positive policies adopted by the General Assembly include the provision of funding for non-credit career classes at a level equal to two-thirds of a full-time equivalent student, along with financial rewards for positive performance in remedial programs.³³

Funding and tuition increases, however, have not kept pace with enrollment growth. On a per-student basis, funding declined by 11 percent of \$530 (adjusting for inflation) between 1993 and 2003.³⁴ Furthermore, per student funding declines have made it difficult for campuses to serve burgeoning enrollments. Not only have academic offerings been curtailed on some campuses, but campuses also have not been able to provide enough of the academic support services needed to help students enroll, access financial aid, devise a course of study, transition from one program or year of study to the next and complete a program. Such supports are especially vital for members of low-income working families.

To better equip NCCCS campuses to meet the needs of low-income working families, the state should adopt four structural changes.

First, the General Assembly should reconsider the calculation used to award the NCCCS funding for a full-time equivalent (FTE) student. To earn an FTE, community colleges currently must raise 32 credit hours over two semesters. In contrast, the UNC system, which enrolls far fewer students than the NCCCS, receives one FTE for every 24 credit hours generated over two semesters. As a result of this funding formula, the NCCCS has a higher hurdle to clear in order to draw state funds essential for serving the educational needs of low-income working families.

Second, the General Assembly should provide funding to the NCCCS for non-credit career and continuing education courses on a full-time equivalent basis instead of at the current rate of 75 percent. At a minimum, full-time equivalent funding should be provided for non-credit courses that lead to an industry-recognized certification – a certification that could translate into higher earnings or enhanced job prospects for a member of a low-income working family.

Third, the General Assembly should offer financial aid to students in the form of need-based assistance rather than through tuition

waivers. Community colleges currently are required to waive tuition for certain groups of people like senior citizens and public safety personnel. Campuses also are required to collect a certain amount of tuition revenue each year regardless of the number of waivers granted. Because the impact of tuition waivers are not accounted for in the revenue targets set for each campus, waivers increase the odds that a campus will miss its goal and have to return money to the state, thereby leading to reduced services for all students. To prevent this outcome and to better direct aid to low-income working families, the legislature should provide aid to students in the form of need-based grants rather than through waivers.

Fourth, the state should reevaluate its allocation of federal funds provided through the Carl D. Perkins Vocational and Technical Education Act. These funds are split between programs on the high school and post-secondary levels, and the NCCCS uses its share of funds to finance skills training and vocational training programs. Perkins funds also are the NCCCS's only source of federal aid for investments in the machinery and infrastructure needed for vocational education.

Currently, North Carolina allocates one-third of its Perkins award to post-secondary programs and two-thirds to secondary schools.³⁵ Yet while secondary schools receive the bulk of the funds, they have steadily been shifting their vocational functions to the NCCCS. A more equitable allotment of funding between high schools and community colleges would enable community colleges to better support the kinds of vocational training that allow adults to move into better paying occupations.

Challenge 3: Building Career Pathways for Low-Income Working Families

Like its southern neighbors, North Carolina has historically lagged behind the rest of the nation in terms of post-secondary enrollment rates. While enrollment has surged in recent years, difficulties remain in enrolling low-income working families and moving those who do enroll along a career pathway.



While almost two-thirds of North Carolina's prime-age workers (ages 25-54) lack any kind of post-secondary credential, only 6.8 percent of these workers were enrolled in a post-secondary program in 2003.³⁶ Even for those who do enroll, there exists no guarantee that a person actually will complete a program. Almost half of all first-year community college students fail to return for a second year. Moreover, only 23 percent of students who enroll in a NCCCS program receive a credential or transfer to a four-year university within three years of starting.³⁷ Those who do earn a credential, though, can be quite successful.

A career pathways training model offers a way of linking members of low-income working families to the training needed to thrive in a growing, well-paying field. Ideally, a career pathway incorporates "into one seamless system all the steps – skills training, work experience and upgrade training – needed to prepare an economically and educationally disadvantaged worker for employment in a field and advancement in a career."³⁸

With state support, the NCCCS system and a few individual campuses were early innovators in the career pathways model. Guilford Technical Community College, for instance, received national recognition for its “Highway to Success” initiative, which provided former welfare recipients with a set of basic education, skills training and work experiences needed for employment as a medical office specialist or computer office specialist. A similar program at the college prepared individuals for manufacturing careers.³⁹

More recently, the NCCCS used state dollars and a \$60 million grant from the Golden LEAF Foundation to establish a BioNetwork initiative. The BioNetwork works with the private sector to prepare workers for careers in the state’s growing biotechnology, life sciences and pharmaceutical industries.⁴⁰ While the BioNetwork is not targeted specifically towards low-income working families, it is an example of a program that systematically links training to employment in a growing, high-wage sector.

A career pathways training model offers a way of linking members of low-income working families to the training needed to thrive in a growing, well-paying field.

Despite these individual programs, the NCCCS has yet to adopt the career pathways model on a system-wide basis and now lags behind other southern states like Arkansas and Kentucky where public leaders have made building statewide career pathway models a priority. Consequently, the NCCCS should develop a systematic process for identifying promising employment sectors and building career pathways that specifically prepare members of low-income working families for careers in those fields.

Challenge 4: Tracking the Needs and Accomplishments of Low-Income Working Families

The NCCCS has been a national leader in using performance data to strengthen its programs and accountability. For example, the NCCCS participates in the state’s “Common Follow Up System,” a multi-agency workforce development accountability system coordinated by the Employment Security Commission of North Carolina. Similarly, the NCCCS is an initial participant in the “Achieving the Dream” initiative, a national effort to improve “community college data systems so they can guide policy and drive improvement.”⁴¹

On the positive side, the NCCCS already tracks the progress of community college students receiving remedial services, including information about those who complete remedial programs and move onto higher levels of education.⁴² Similarly, the NCCCS gathers data on the employment outcomes of students who complete vocational programs, including the placement of such students into high-wage jobs.⁴³

On the negative side, the NCCCS does not currently collect data specifically pertaining to low-income working families. Because the NCCCS’ programs are open to all North Carolinians regardless of income or family status, the system does not collect data that would help illuminate the special needs of low-income working families. For instance, the state does not track the completion or placement rates of low-income students.⁴⁴ Given the NCCCS’ strong interest in data-based planning, collecting information related specifically to the performance and placement of individuals from low-income working families could lead to insights that help such individuals move along a career pathway and become upwardly mobile.

ADULT BASIC EDUCATION AND LITERACY PROGRAMS

While North Carolina’s extensive post-secondary educational system offers a variety of programs

geared towards adult learners, the system only benefits individuals with the basic educational credentials needed to enroll in a post-secondary program, not those who lack a high school diploma or the basic literacy skills needed to complete college-level work. For these individuals, adult basic educational and literacy programs are essential educational sources.

Adult education programs in North Carolina are a collection of literacy instruction, high school equivalency courses and English-as-a-Second Language classes typically offered in classroom settings, in workplace environments and in the prison system. During the 2003-04 program year, 110,185 Tar Heels – approximately half of whom were prime-age workers – were enrolled in basic education programs.⁴⁵ In terms of courses of studies, 55 percent of participants took basic literacy classes and another 18 percent were enrolled in secondary courses. The remaining 27 percent of students were studying English.⁴⁶

Although the need for adult basic education is large and likely will grow along with the state's immigrant population and the continued loss of manufacturing jobs, North Carolina invests little in adult education. In fact, the state spent \$40.84 per adult without a high school diploma/GED during 2001-2002.⁴⁷ Furthermore, adult education programs struggle to enroll eligible students, retain them and transition them into other post-secondary programs. Just 12.7 percent of eligible adults participated in educational programs, and only 35.2 percent of participants demonstrated improvement in basic literacy skills in 2003.⁴⁸ Furthermore, program data are neither collected nor analyzed from the perspective of low-income working families.

An additional challenge is that adult education frequently is overlooked in favor of post-secondary educational programs. Yet adult education programs complement post-secondary ones by helping people overcome educational deficiencies that otherwise would hinder them from pursuing higher education. North Carolina actually has an advantage in this



area because its adult basic education program is administered through the community college system. This offers the potential to connect adults systematically to the educational system and move them along an educational pathway that steadily improves their skills. For example, a student enrolling in basic literacy education could be linked, upon completion, to a GED class, followed by a degree or vocational program.

WORKFORCE INVESTMENT ACT

The federal Workforce Investment Act (WIA) provides funding for employment services and training programs designed to assist adults, disadvantaged youths and dislocated workers. While a statewide Commission on Workforce Development, housed within the North Carolina Department of Commerce, oversees WIA, 24 local workforce development boards actually make most policy and programmatic decisions. This flexibility allows local boards to tailor WIA to local economic conditions, but also leads to wide regional variations in offered services.⁴⁹ Some localities, for instance, provide funding for support services like transportation assistance; others do not. Similarly, some local workforce boards may spend more on training than others.

Basic WIA services are provided at 99 chartered JobLink Career Centers operated primarily by either the community college system or the Employment Security Commission of North Carolina. During the 2003-04 program year, 9,871 adults received WIA services, and 80.2 percent of those adults participated in employment training – an exceptionally high level.⁵⁰ Additionally, adults who completed WIA programs reported high levels of job retention and increased earnings.⁵¹

While WIA is North Carolina's major federal employment services and training program, it actually is funded to serve relatively few people. WIA training programs reached only 0.3 percent of the adults between the ages of 18 and 64 who likely would benefit from training due to a lack of a high school degree.⁵² However, performance data show that people served by WIA were quite successful. Efforts therefore must be made to insure that WIA has the resources needed to serve more adults who would benefit from training services.



TEMPORARY ASSISTANCE TO NEEDY FAMILIES

Since the reform of welfare in the mid-1990s, the number of North Carolina families receiving cash benefits through the Temporary Assistance to Needy Families program (TANF) has dropped from 135,000 to 35,000. Today, recipients can receive benefits for no more than 24

consecutive months and for no more than 60 months out of their entire lives. All TANF recipients also are subject to work requirements.

North Carolina's TANF program, called Work First, allows adults to receive short-term training that is directly related to employment, along with certain support services like transportation assistance. A person could enroll, for instance, in a certificate program offered at a community

college; a customized training program developed jointly by a community college and an employer; or an adult basic education and literacy program while receiving some time-limited work supports through Work First.

Approximately 13 percent of eligible TANF recipients were enrolled in training in 2003.⁵³ Among other problems facing TANF recipients involved in training is the fact that training alone fails to satisfy a recipient's work requirement.⁵⁴ Additionally, the time a person spends in training counts against the 24-month and 60-month time limits for the receipt of benefits.⁵⁵

Evaluation data compiled by the School of Social Work at UNC-Chapel Hill paint a mixed picture of the relationship between TANF in North Carolina and training. On the one hand, many recipients are in need of additional education and training. In fact, half of all recipients lack a high school degree or GED.⁵⁶ On the other hand, few people stay on the TANF caseload for any length of time, meaning that relatively few benefit from the training currently allowed. North Carolina's low benefit levels explain why people do not receive TANF for very long. Benefit payments have not been adjusted since the early 1990s, with a family of three, for example, receiving a maximum monthly benefit of \$272.

To encourage more TANF recipients to take advantage of the allowed training options, the state should take three steps. First, benefit levels should be raised to provide families with the ability to actually pursue education and training. Second, time spent in training should not count towards either the 24-month or 60-month time limits. North Carolina could accomplish this by using state and county Work First funds to support state-funded training programs. Third, standards for the number of TANF recipients who complete training and then achieve economic self-sufficiency should be established. Progress towards these goals should be regularly collected and evaluated.

TRANSFORMING EDUCATION IN NORTH CAROLINA

Much of North Carolina's transformation has resulted from investments in the state's educational system. Yet a sizable proportion of the state's low-income working families lacks the educational skills needed to thrive in the modern economy. These families are the very ones that could benefit most from the educational components of the state's workforce development system.

Compared to other states, North Carolina has demonstrated a remarkable commitment to support quality education and training programs that are accessible to large numbers of Tar Heels and the use of performance data to track outcomes and tailor services to needs. Yet challenges abound, especially from the perspective of low-income working families. Too few eligible people currently are able to take advantage of educational programs, and many

who do enroll ultimately do not finish a course of study. Moreover, rising costs threaten to exclude people from educational programs.

If North Carolina is to continue the economic transformation of the last century, renewed efforts must be undertaken to target services to the needs of low-income working families so that they can access education and training needed to improve their earnings. ■

NORTH CAROLINA FACT

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM SERVED 779,000 PEOPLE DURING 2003-04. THIS IS ALMOST FOUR TIMES THE TOTAL ENROLLMENT OF THE 16 CAMPUSES OF THE UNIVERSITY OF NORTH CAROLINA.

CHAPTER 4:

An Economy for One North Carolina

Education and training programs, while vitally important to the success of low-income working families, form just one part of a comprehensive workforce development system capable of aiding such families. Education and training prepare people to succeed in the modern economy, but they do not create the quality jobs that offer upward mobility to low-income working families. State economic development policies designed to benefit such families form a second piece of a comprehensive workforce development system.

Ironically, North Carolina’s economic transformation has complicated rather than simplified economic development. For decades, North Carolina avoided the large business subsidies popular in the South in favor of sustained investments in physical and educational infrastructure. This approach enabled North Carolina to outperform neighboring states.

The current situation is more complex. Many of the manufacturing jobs that the state cultivated

during the 20th century have decamped for the developing world, and other states have closed the gaps that separated them from North Carolina. In response, North Carolina reversed course in the 1990s and joined the “Buffalo Hunt” – an economic development approach that uses generous public subsidies to secure facilities.¹ The quantity of subsidized jobs bagged, however, often overshadows the quality of those jobs.

Despite good intentions, the “Buffalo Hunt” fails to feed low-income working families, especially in rural regions. To help such families, North Carolina’s economic development policies must aim to benefit businesses *and* workers. Businesses prosper only when they have access to trained workers, while low-income working families succeed only when they have access to jobs that pay solid wages, provide basic benefits and offer upward mobility.

A CHANGED ECONOMY

North Carolina’s reorientation of its economic development policy has occurred alongside a shift from a manufacturing to a service economy. Between 1990 and 2003, the state’s manufacturing sector shed 220,000 jobs (a 27 percent drop).² Manufacturing remains North

FIGURE 4-A

Five Fastest Growing Occupations in North Carolina in Absolute and Percentage Terms, 2002-2012							
A) Total Number of Openings				B) Percentage Change			
Occupation	Total Growth Openings	Percent Change	NC 2004 Average Hourly Wage	Occupation	Total Growth Openings	Percent Change	NC 2004 Average Hourly Wage
Registered Nurses	23,100	33.4%	\$23.50	Medical Assistants	4,950	60.9%	\$11.90
Cashiers	22,040	20.1%	\$7.68	Occupational Therapist Aides	30	60.0%	\$13.15
Retail Salespersons	21,600	19.4%	\$10.43	Dental Hygienists	2,590	53.9%	\$27.43
Waitpersons	17,290	29.5%	\$7.33	Dental Assistants	3,120	53.0%	\$13.80
Food Preparation Workers	16,620	24.1%	\$6.99	Social and Human Service Assistants	5,110	48.4%	\$11.91

SOURCE: Employment Security Commission of North Carolina

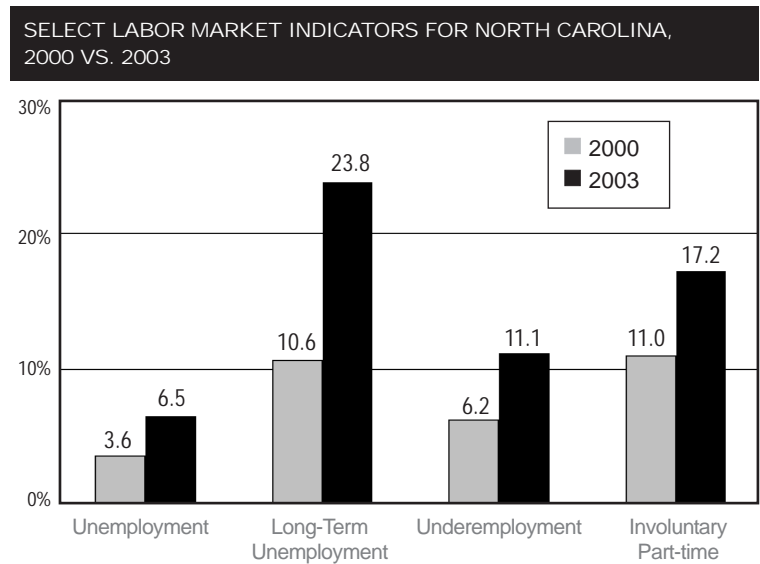
Carolina's leading sector in terms of employment, but the number of manufacturing jobs is expected to decline another 5.1 percent by 2012.³ Meanwhile, the state's service sector has exploded with four sub-sectors alone adding a combined 546,000 jobs between 1990 and 2003.⁴

The new service jobs come in two varieties: well-paying ones that demand high levels of education and poorly paying ones that require little formal education. Of the five occupations projected to generate the greatest number of openings between 2002 and 2012 in North Carolina, for instance, only one – registered nurses, which also is the only one requiring a post-secondary credential – pays a living wage. Meanwhile, the five occupations expected to grow the most in percentage terms require post-secondary education and pay good wages (**Figure 4-A**).

These trends pose special challenges to rural areas. Manufacturing jobs traditionally employed many people with modest levels of educational attainment and were dispersed across the state. Yet in many rural communities, “only one or two factories employed a major portion of a community’s workforce.”⁵ This means many communities lack alternative jobs for displaced manufacturing workers. Moreover, low levels of educational attainment hinder many displaced workers from finding employment in well-paying and fast-growing fields.

Such divides also exist within and among the state's metropolitan areas. The explosive growth in places like Charlotte has created excellent jobs for well-educated individuals, along with many poorly paying positions in fields like food service. Similarly, metropolitan areas closely linked to the knowledge economy like Raleigh-Durham have outgrown metros more closely tied to traditional industries like Greensboro/Winston-Salem/High Point.⁶ Raleigh, for instance, now has the seventh highest median household income of any large city in the nation.⁷

FIGURE 4-B



SOURCE: Elizabeth Jordan, "State of Working North Carolina 2004." Raleigh, NC: North Carolina Budget and Tax Center.

EMPLOYMENT TRENDS IN NORTH CAROLINA

Unemployment statistics reflect the impact of North Carolina's economic transformation. The last recession pounded the Tar Heel State. Between 2000 and 2003, unemployment, long-term unemployment and underemployment rates in North Carolina soared (**Figure 4-B**).⁸ More North Carolinians found themselves not just out of work, but out of work for longer periods of time. Minority, less-educated and younger workers especially suffered.⁹

These impacts were even more pronounced in rural areas. Between 2000 and 2004, urban unemployment rates rose from 2.8 percent to 5.1 percent, cresting at 6 percent in 2002. Rural unemployment rates, meanwhile, went from 4.6 percent to 6 percent, peaking at 7.6 percent in 2002.¹⁰ Rural counties perennially lead the state in unemployment rates with some counties posting double-digit levels (**Figure 4-C**).

OCCUPATIONAL TRENDS AMONG LOW-INCOME WORKING FAMILIES

Nationally, 25 occupations such as cashiers, cooks, home health aides, housekeepers and

FIGURE 4-C

NORTH CAROLINA COUNTIES WITH HIGHEST UNEMPLOYMENT RATES, 2004		
County	Type	Unemployment Rate
Scotland	Rural - Eastern NC	10.9%
Vance	Rural - Central NC	10.0%
Rutherford	Rural - Western NC	9.3%
Edgecombe	Rural - Eastern NC	8.8%
Anson	Rural - Central NC	8.7%
Wilson	Rural - Eastern NC	8.3%
Richmond	Rural - Central NC	8.3%
Graham	Rural - Western NC	8.2%
Halifax	Rural - Eastern NC	8.1%
Caswell	Rural - Central NC	8.1%
Bertie	Rural - Eastern NC	8.1%

SOURCE: Employment Security Commission of North Carolina

waitpersons employ many members of low-income working families. Almost six out of ten housekeepers, for instance, come from low-income working families, as do half of all cooks and 40 percent of all retail cashiers.¹¹

Many of these occupations are characterized by low wages, few benefits and limited mobility. In fact, 22.7 percent of all jobs in North Carolina in 2003 were in occupations that paid poverty-level wages (less than \$9.12 per hour for a four-person family).¹² These occupations are among those expected to add the most positions in North Carolina in the near future and many likely will absorb displaced manufacturing workers and others impacted by economic change. Given the wages and benefits associated with such jobs, it is unlikely that employees will be able to lift themselves and their families into the middle class simply on the basis of hard work.

NORTH CAROLINA'S BUSINESS SUBSIDY PROGRAMS

These occupational trends have not gone unnoticed by North Carolina's leaders and in fact triggered the reorientation of the state's economic development policy during the early 1990s. Prior to that time, the few subsidies offered by North Carolina were targeted to the infrastructure needs of a new facility, but the

loss of several new manufacturing facilities to other states, especially Mercedes-Benz's decision to build a plant in Alabama instead of North Carolina, persuaded state leaders that they needed to offer subsidies.

Today, North Carolina relies heavily upon business subsidies – primarily those offered under the William S. Lee Quality Jobs and Expansion Act, the Job Development Investment Grant Program (JDIG) and the One North Carolina Fund – to attract and expand businesses.

The Lee Act, JDIG and One North Carolina programs are the state's major subsidy programs. Authorized in 1996, the Lee Act allows eligible companies that expand in or relocate to North Carolina to offset up to half of state income, franchise or gross premium taxes with tax credits for job creation, equipment investments, worker training, research and development and maintaining a central administrative office.¹³ JDIG, meanwhile, rebates a percentage of the withholding taxes paid by new employees to eligible companies.¹⁴ The One North Carolina Fund provides direct cash to eligible firms.

North Carolina's incentives are not targeted specifically to aid low-income working families, although the state attempts to direct resources towards North Carolina's most distressed counties. The Lee Act divided the state's 100 counties into five tiers based on size and economic conditions. Investments in distressed counties are eligible for more generous tax credits.¹⁵ Unfortunately, this strategy has not significantly benefited rural communities. Only eight percent of the credits claimed during the Lee Act's first six years, for instance, were for investments in the state's most rural and distressed counties.¹⁶ Similar attempts to steer investment towards "development zones," which are concentrated areas within a county that are economically distressed, also have been unsuccessful, largely due to the overly broad and vague definition of development zones.

Four additional problems, at least from the perspective of low-income working families, trouble North Carolina's business subsidies.

First, companies may receive subsidies for jobs that do not provide living wages, a reality that forces some workers to turn to public programs to supplement their earnings.¹⁷ While North Carolina is one of only a few states to require subsidized firms to offer health insurance, employers must pay just half of an employee's premium and are not required to provide family coverage. The result: family members go uninsured or enroll in public programs.

Second, little accountability is built into current subsidy programs. Recipients are not required to show if negotiated goals have been met, and the state has been reluctant to seek reimbursement from firms that fail to meet their contractual obligations or take benefits to which they are not entitled. Moreover, much of the subsidy process occurs outside of the normal state budgetary process, resulting in little information about how much money is spent and who is benefiting.¹⁸

Third, North Carolina's business subsidies are not clearly linked to a specific sectoral development strategy. The North Carolina Department of Commerce has targeted several promising industries – industrial chemicals, transportation, telecommunications, industrial machinery, biotechnology, financial services and motorsports – for cultivation,¹⁹ but it is unclear if those targets guide the awarding of subsidies or if they are granted in an ad hoc manner.

Finally, North Carolina's business subsidies contain an inherent tension that limits their effectiveness. Leaders want to direct economic development activities to distressed rural areas, but the current subsidy programs favor metropolitan locations.

To improve its subsidy programs to better serve low-income working families, North Carolina should implement five reforms:

Nationally, 25 occupations such as cashiers, cooks, home health aides, housekeepers and waitpersons employ many members of low-income working families. Almost six out of ten housekeepers, for instance, come from low-income working families, as do half of all cooks and 40 percent of all retail cashiers.

- Set wage and benefit requirements that ensure adequate pay and prevent cost shifting to public programs.
- Require subsidized firms to pay at least 80 percent of employee health care costs and 70 percent of the cost for family coverage.
- Direct subsidized companies to use the Employment Security Commission of North Carolina and/or Job Link Career Centers as a “first source” of potential employees.
- Adopt safeguards like recapture and clawback provisions that hold firms responsible for meeting their contractual obligations.
- Improve the transparency of the subsidy process through an annual tax expenditure report. Also, incorporate subsidies into the budgetary system, so legislators can weigh the cost of subsidies against other spending needs.²⁰

CUSTOMIZED WORKER TRAINING

Customized worker training is another type of business assistance program offered by North Carolina. In fact, during the 1950s North Carolina became “one of the first states to

develop made-to-order job training” and consistently “has maintained one of the nation’s largest budgets to meet employer requests for trained workers.”²¹ Any firm that creates a certain number of jobs can partner with the North Carolina Community College System to design a training program for potential employees.

For decades, North Carolina avoided the large business subsidies popular in the South in favor of sustained investments in physical and educational infrastructure. This approach enabled North Carolina to outperform neighboring states.

Historically, the two major customized training programs in North Carolina have been the New and Expanding Industry Training Program (NEIT) and the Focused Industry Training Program (FIT). NEIT is concerned with the needs of expanding companies, while FIT is geared towards firms that need to retrain workers to keep abreast of changing technologies.²² Together these two programs trained 20,676 people for some 800 firms in 2003-2004.²³

Recently, North Carolina has made three improvements to its customized training programs. First, the legislature strengthened its commitment to training by deciding to fund FIT directly from the recurring budget, rather than from other, more volatile revenue sources.²⁴ Second, the state has created a BioNetwork program intended to meet the workforce needs of the biotech sector.²⁵ Finally, the state is establishing a Career Readiness Certificate Initiative, a portable credential showing that an employee has mastered basic workplace skills.²⁶

Customized training programs benefit both businesses and workers. To build on North

Carolina’s historic success in this area and better assist low-income working families, the state should do two things. First, the community college system should specifically track the enrollment, progress, advancement, completion rates and wage growth of members of low-income working families involved in customized training. Second, customized training programs should be viewed as a door into the post-secondary education system. A referral system that links participants in customized training to adult education and other post-secondary programs therefore should exist.

BUILDING ONE NORTH CAROLINA

In response to a transformation in the ways in which many Tar Heels earn their livelihoods, the state has reoriented its economic development policy from a traditional course of targeted investments in physical and educational infrastructure to a heavier reliance upon business subsidies. This approach, however, fails to address specifically the needs of low-income working families and actually may harm such families by generating jobs that lack the wages, benefits and mobility required to enter the middle class. ■

NORTH CAROLINA FACT

OF THE FIVE OCCUPATIONS PROJECTED TO GENERATE THE GREATEST NUMBER OF OPENINGS BETWEEN 2002 AND 2012 IN NORTH CAROLINA, ONLY ONE – REGISTERED NURSES, WHICH ALSO IS THE ONLY ONE REQUIRING A POST-SECONDARY CREDENTIAL – PAYS A LIVING WAGE. MEANWHILE, THE FIVE OCCUPATIONS EXPECTED TO GROW THE MOST IN PERCENTAGE TERMS REQUIRE POST-SECONDARY EDUCATION AND PAY GOOD WAGES.

CHAPTER 5:

Making Work Pay

Every day, North Carolina's low-income working families walk a financial tightrope with no margin for error. While many low-income working families earn too much to qualify for public programs like Medicaid, they frequently lack the employment benefits that help middle-class families weather unexpected developments. Thus, an event that would be a minor inconvenience for a more affluent family could throw a low-income working family into ruin.

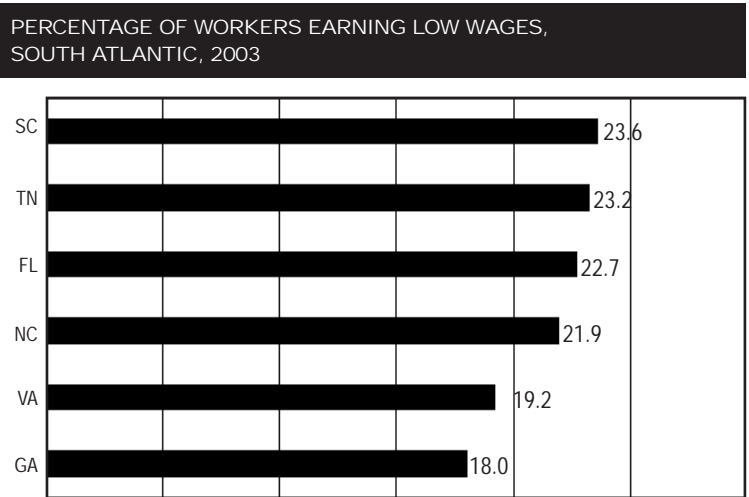
In an ideal world, low-income working families would be able to meet all their basic needs through their own work. Until then, public policies that support the work of low-income working families form a necessary third component of a comprehensive workforce development system. These supports come in four types that, taken together, can provide low-income working families with the stability needed to pursue the training capable of enhancing their productivity:

- Wage and tax policies like the Earned Income Tax Credit
- Basic benefits like health care
- Housing assistance
- Social insurance systems like unemployment insurance.

TAX AND WAGE POLICIES

Roughly one of every five workers in North Carolina earns low wages (less than \$9.12 per hour for a family of four) (Figure 5-A).¹ Paradoxically, such poorly paid workers face some of the highest tax burdens in North Carolina. In 2003, after adjusting for the federal tax offset, the poorest 20 percent of taxpayers paid 10.9 percent of their incomes to state and local taxes, while the richest taxpayers spent 6.3

FIGURE 5-A



SOURCE: Population Reference Bureau, analysis of 2004 Current Population Survey

percent.² Additionally, North Carolina's tax system has grown increasingly regressive in recent years. Between 1989 and 2002, the bottom 20 percent of Tar Heel taxpayers was the only income group to experience a net tax increase. Even worse, North Carolina taxes some families with incomes below the federal poverty level.³

Earned Income Tax Credit

To help offset the regressivity of North Carolina's tax system, the state should join the 18 others that have adopted state versions of the federal Earned Income Tax Credit (EITC), a refundable tax credit generally available to families that work and earn less than 200 percent of the federal poverty level.⁴ As mentioned in chapter 2, approximately 20 percent of all tax filers in North Carolina claimed the federal EITC in 2002. Adopting a state EITC would reduce the tax burdens faced by low-paid workers and supplement their wages without imposing costs on employers.⁵

Minimum Wage

The problems of low-wage work are especially pronounced for Tar Heel workers earning at or near the current minimum wage of \$5.15 per

hour.⁶ In 2003, some 101,000 North Carolinians earned less than \$6.00 an hour. In families with young children and a minimum wage worker, that worker contributed 52 percent of the family's weekly earnings.⁷

In August 2005, the North Carolina House of Representatives passed an \$0.85 per hour increase in the minimum wage, going from \$5.15 to \$6.00. This measure will be considered by the Senate during the 2006 session. Should the Senate approve an increase, it would benefit the state's lowest earning workers while having, as considerable research suggests, minimal impact on businesses.⁸

BASIC BENEFITS

Employment benefits provide workers with valuable protections against unexpected events like illness and the flexibility to balance the responsibilities of work and family. Unfortunately, low-income working families often lack vital basic benefits.

Health Care

Employer-sponsored health insurance is perhaps the most important benefit offered through the workplace, especially in an era of soaring medical costs. Yet approximately 21 percent of all North Carolina workers between the ages of 18 and 64 lacked public or private health insurance in 2003.⁹ This is the second worst rate in the South Atlantic (**Figure 5-B**). Similarly, 39.3 percent of North Carolina's low-income working families contain at least one uninsured parent – a higher proportion than found in every South Atlantic state but Florida.¹⁰

Parents in uninsured low-income working families are frequently excluded from both private and public coverage. The low wages earned by many families place private insurance out of reach, while Medicaid eligibility requirements disqualify many low-income working families on the grounds that they earn too much. In North Carolina, Medicaid eligibility for parents is limited to those in families earning less than 59 percent of the federal

poverty line or \$11,098 for a four-person family in 2003.¹¹ This threshold excludes some parents who are officially poor and all those with low incomes. Also, North Carolina's eligibility threshold is lower than those in neighboring South Carolina and Tennessee.

North Carolina has taken some steps to help low-income working families obtain coverage, primarily for children through the Health Choice for Children program. Yet more can be done. Most importantly, the state should expand Medicaid and Health Choice to ensure that all parents in working families earning less than 200 percent of poverty have access to health insurance.

Child Care

Access to safe, reliable child care is essential if low-income working parents are to secure and hold paid employment and enroll in education and training programs, but the cost of child care can be a crushing one for a family earning low wages. In fact, according to estimates by the North Carolina Budget and Tax Center, a family with two adults and two children will spend, on average, \$957 per month on child care.¹² This likely would be the family's biggest monthly expense.

North Carolina largely has refused to cut support for child care programs during the economic struggles of recent years. Between 2001 and 2004, for instance, North Carolina slightly raised the income thresholds used to determine eligibility for child care subsidies from 69 percent of state median income to 74 percent of state median income while only minimally increasing the monthly co-payment that a family must make.¹³

Such actions, however, have done little more than preserve the status quo. Some 27,000 eligible children were on waiting lists for child care assistance in mid-2005.¹⁴ Furthermore, North Carolina has not adjusted the rates paid to child care providers since 2001. While the state reimburses providers at 75 percent of the market rate, the General Assembly requires the use of market data from 2001 rather than current figures.

To address these issues, North Carolina should take four steps:

- Provide the resources needed to eliminate the waiting list for child care assistance.
- Link reimbursement rates to increases in the market cost for child care.
- Fund fully North Carolina's "Smart Start" early childhood initiative, designed to improve the quality of child care available to low-income working families.
- Support the full cost of the academic programs provided to at-risk pre-schoolers through the More at Four program.

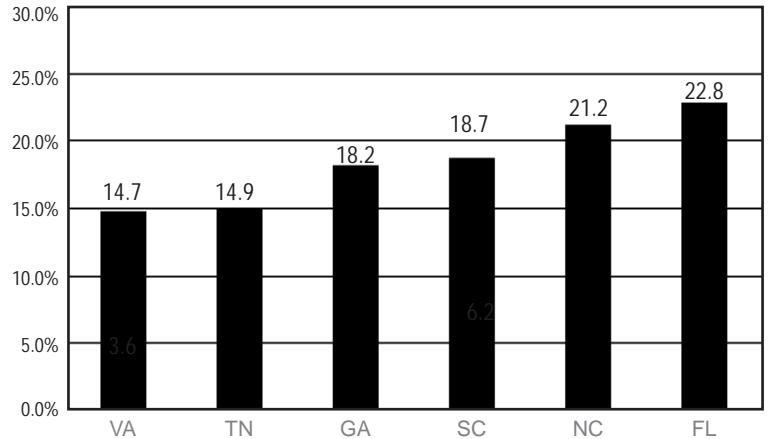
HOUSING ASSISTANCE

Housing is a problematic cost for many low-income working families. In fact, 45.4 percent of all low-income working families in North Carolina spent over one-third of their annual incomes on housing in 2003 – an amount that makes such families “housing burdened” under federal guidelines.¹⁵ Housing burdens are particularly problematic for working families in fast growing metropolitan areas like Raleigh-Durham and Charlotte.

The North Carolina Housing Trust Fund, a self-sustaining public agency administered through the North Carolina Housing Finance Agency, helps low-income working families meet their housing needs. The Trust Fund finances rental housing construction, homeownership for low-income families, emergency repairs for low-income homeowners and supportive housing for people with special needs. In spite of its success, the Trust Fund has been underfinanced, receiving just a \$3 million annual appropriation. A \$50 million annual state appropriation to the trust fund would provide housing assistance for over 6,000 low-income households while generating some 3,000 jobs each year and expanding local tax bases by an estimated \$30 million per year.¹⁶

FIGURE 5-B

PERCENTAGE OF UNINSURED WORKERS BETWEEN THE AGES OF 18-64, SOUTH ATLANTIC, 2003



SOURCE: Population Reference Bureau, Analysis of 2003 Current Population Survey

Similarly, a job loss or other temporary hardship can push low-income working families that own their own homes into foreclosure – a reality reflected by the fact that the number of foreclosure filings in North Carolina nearly tripled between 1998 and 2004.¹⁷ In response, the General Assembly created the Home Protection Pilot Program, a revolving loan fund that helps qualified homeowners who are out of work due to changing economic conditions meet their mortgage obligations. So far, the program has made 60 loans, provided financial counseling to other families in danger of foreclosure and brought better coordination to public and nonprofit agencies involved with housing issues. In the near term, the General Assembly should fully fund expansion from the 27 counties in which it currently operates to 50 counties in preparation for an eventual expansion to all 100 counties.

SOCIAL INSURANCE

From the perspective of low-income working families, North Carolina's unemployment insurance (UI) and workers' compensation systems are particularly strong. These programs protect workers from job losses or workplace injuries beyond their individual control. Nevertheless, these programs can be strengthened to better aid low-income working families.

Unemployment Insurance

North Carolina workers who lose a job through no fault of their own are eligible to receive up to 26 weeks of unemployment insurance. Benefits are sufficient to keep a family with one parent and two children from falling beneath the federal poverty level.¹⁸ The state also uses an “alternative base period” to compute benefits, leading to favorable treatment for low-wage workers with uneven earnings.¹⁹

To better serve low-income working families, North Carolina should abolish the one week waiting period that currently exists before a person can collect benefits. This waiting period often imposes hardships on low-income working families by forcing them to go without an income for a week. Also, the Employment Security Commission of North Carolina, which administers UI, should continue to explore policy changes that would ensure that temporary workers, who are a growing part of the workforce, are treated fairly by the UI system.²⁰

Structural reform also needs to be undertaken. For example, the UI premiums paid by employers are placed into the Unemployment Insurance Trust Fund, which then becomes the pot of money used to pay benefits to workers. During the 1990s, a time of robust economic growth and low unemployment, the General Assembly granted employers a 50 percent premium reduction whenever the Trust Fund’s balance reached \$800 million. Unfortunately, this arbitrary balance was inadequate to meet the demand for benefits during the recent downturn. As a result the Trust Fund ran out of money, forcing the state to borrow funds from the federal government to pay benefits.²¹ Fortunately, the General Assembly began addressing this issue last session.

Similarly, the depletion of the Trust Fund wiped out the state’s “Worker Training Trust Fund,” a \$12-\$14 million annual revenue stream generated by the interest earned on the Unemployment Trust Fund and dedicated to

workforce development programs not supported by federal sources.²² This led to the reduction and outright elimination of certain workforce development programs at a time of increased demand for those services. To prevent a reoccurrence of this problem, the state must provide the Trust Fund with a stable revenue source to prepare for the next downturn.

Workers’ Compensation

Workers’ Compensation protects employees against deadly or disabling job-related accidents. North Carolina has developed a workers’ compensation system that provides sufficient benefits at a reasonable cost to employers. Unfortunately, efforts have been undertaken to severely limit benefits for younger and older workers and shift the costs of caring for workplace-related injuries to the public. North Carolina should resist such potentially harmful changes to a well-administered, cost-effective and fair social insurance program.

HELPING LOW-INCOME WORKING FAMILIES KEEP THEIR BALANCE

Despite working hard, many low-income families teeter on the edge of financial hardship due to modest wages and limited benefits. As a result, such families lack the ability to weather unexpected events and a foundation for bettering themselves. To help such families, North Carolina must ensure that state policies and programs support work. Improvements to wage and tax policies, basic benefits and social insurance programs can help low-income working families better walk the tightrope of low-wage work and move towards self-sufficiency. ■

NORTH CAROLINA FACT

39.3 PERCENT OF NORTH CAROLINA’S
LOW-INCOME WORKING FAMILIES CONTAIN
AT LEAST ONE UNINSURED PARENT.

CONCLUSION:

Finishing The Transformation

In half a century, North Carolina transformed itself from a state that lagged far behind the rest of the nation on almost every measure of social and economic well-being into a national leader. This newfound prosperity, however, has not yet reached low-income working families. Until these families share in the state's success, North Carolina stands in danger of losing the remarkable gains of recent years.

Just consider: one-third of North Carolina's working families – some 313,596 families scattered across the state – work hard in such essential jobs as child care workers, nursing home attendants, janitors and cashiers, yet find themselves unable to get ahead.

Helping low-income working families thrive in the modern economy is essential to the future prosperity of individual families and the entire state, especially since low-income working families contribute an increasingly important segment of the state's workforce. If North Carolina is to compete successfully with other states and nations in a world that rewards

education and innovation, it cannot write off one-third of its working families.

Fortunately, this is a challenge the Tar Heel State can meet because it has done so once before. The state's remarkable transformation resulted in part from wise public investments in North Carolina's physical infrastructure and citizens. For example, North Carolina deliberately built a comprehensive workforce development system to help people acquire the skills needed to increase their earnings.

To maintain and expand its prosperity, North Carolina must renew its commitment to the three pillars of its workforce development system: education and training programs, economic development policies and work supports. Together, these three pillars can help low-income working families become economically competitive, self-sufficient and upwardly mobile. Such long-term investments not only will enrich the well-being of individual families, but also, as they did once before, propel North Carolina towards greater levels of prosperity. ■

■ *To see a comprehensive policy agenda designed to improve the workforce development system's ability to aid low-income working families, turn to pages 5-6.*

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