



Take Pride in Carolina

Budget Savings Report

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The State Employees Association of North Carolina (SEANC) is pleased to submit our “Take Pride in Carolina” budget options report to Gov. Bev Perdue and the N.C. General Assembly.

The “Take Pride in Carolina” report outlines over \$10 billion in budget options, more than three times the amount of the current \$2.7 billion budget gap. These budget options will serve to maintain the quality public services that our citizens deserve and expect from their government. This report is produced not only for lawmakers, but also for citizens. It’s time for citizens to understand exactly where their tax money is going so that they can make a value judgment.

Should the state lay off public employees who provide quality public services, or should it give tax breaks to wealthy corporations? The correct choice is obvious.

This report offers legislators a stark choice between working families and wealthy corporations by presenting budget options that expand the revenue base, eliminate corporate tax loopholes and stop corporate welfare. It provides common sense solutions to solve the

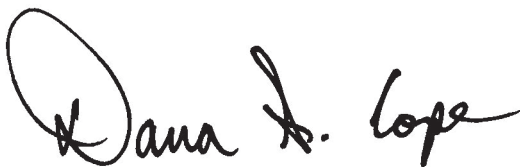


budget deficit crisis – from selling unused heavy equipment in the Department of Transportation, to closing the corporate tax loophole allowing parent corporations and their subsidiaries to file separate tax returns. These budget-saving ideas were contributed directly by SEANC members.

North Carolina is a state committed to excellence which draws the best and the brightest from around the country and the world. Making cuts to already stretched agencies begins a race to the bottom that ultimately destroys the standard of excellence North Carolinians take pride in.

The bottom line is that the governor and legislature need to pass a budget that shows they understand the importance of putting North Carolina – and North Carolinians – first.

It's time to have this debate. It's time to take pride in Carolina.



Dana S. Cope
Executive Director
State Employees Association of N.C.



MANDATED COMBINED TAX REPORTING

State laws contain significant corporate welfare provisions. One of the most egregious is the fact that parent corporations and their subsidiaries are allowed to file separate tax returns. This makes it possible for major corporate entities to spread out their claimed earnings and “move” their greatest profits to other states. This accounting scheme was developed specifically to evade paying full corporate taxes in North Carolina. The N.C. Department of Revenue estimates annually that the state suffers tremendous shortfalls in underpaid corporate returns, including \$33.5 million from Walmart alone. This gives major chains an advantage over local businesses. State leaders should mandate combined tax reporting.

IMPACT:

\$375 million



END SPECIAL CORPORATE TAX BREAKS

According to the latest edition of the N.C. Department of Revenue's Biennial Tax Expenditure Report, the state lost \$5.8 billion in revenue in the 2009-2010 fiscal year as a result of hundreds of special tax breaks. Unlike direct spending for agencies and programs, this type of loss does not appear in the state's budget. Most of these special tax breaks are never evaluated in order to measure their effect on meeting promised goals. Worse yet, a recent study about business incentives from the University of North Carolina at Chapel Hill's Center for Competitive Economies found that roughly 50 percent of the companies receiving Bill Lee Act/Article 3J tax credits over a 10-year period experienced a decline in the number of workers they employ.



Here are some of the most disgraceful corporate tax loopholes that need to be closed.

The Film Industry

G.S. 105-130.47 and G.S. 105-151.29

Loophole: After often receiving incentive funds to start a project in the state, production companies are also allowed to write off huge expenses, including insurance and portions of their payroll. Would you like more butter with that popcorn?

The Alcohol & Tobacco Industries

G.S. 105-113.21(a1), G.S. 105-113.39(a) and G.S. 105-113.85

Loophole: Tobacco distributors, wholesalers and retail dealers and alcohol wholesalers and importers who file tax reports and payments on time may deduct 2 percent from the amount due. If you file your tax return on time, do you get a discount? No.

The Motorsports Racing Industry

G.S. 105-164.14(l)

Loophole: Professional motorsports racing team are permitted a refund on the sales tax paid for their aviation fuel when flying to and from races. The same professional motorsports, already highly-compensated, may also receive a refund of half the sales tax paid for car parts. So yes, racing fans, keep cheering for those crashing cars – because you're helping to pay for them!

IMPACT:

**\$22.5
million**

**\$8.8
million**

**\$2.7
million**



**RETURN GOLDEN LEAF MONIES
TO THE GENERAL FUND**

North Carolina's Golden LEAF gives out millions of dollars in tobacco settlement funding every year to ineffective projects that are not properly vetted. For example, a recent grant from Golden LEAF paid almost \$400,000 toward the construction of a teapot museum. What was the result? The museum was never built. Abolishing Golden LEAF and returning that money to the general state fund would mean that North Carolina would be able to find better ways for its use.

IMPACT:

\$570 million



ELIMINATE THE ONE NORTH CAROLINA FUND

The One North Carolina Fund, which hands out millions of dollars each year to wealthy corporations and business owners, was created to “enhance the competitive position of North Carolina when recruiting industry.” The very existence of this fund is an insult to hard-working state employees who provide quality public services everyday, without question. Eliminating this fund and ending its drain on the state would help reduce the \$2.7 billion budget deficit.

IMPACT:

\$52 million



**RECOUP CAPITAL RESERVES FROM
NONPROFIT HOSPITALS**

As a result of having nonprofit status, many North Carolina hospitals and health care systems are able to accumulate massive capital reserves (net assets) through an indirect subsidy from taxpayers. If the state asks these nonprofit hospitals and health care systems to contribute a small portion of these capital reserves back to taxpayers, the budget deficit can be alleviated. This budget savings would not impact regular operations to these vital services – only capital reserves.

IMPACT:

\$4.5 billion



CONSOLIDATE STATE-FUNDED HEALTH CARE, DRAW DOWN FEDERAL FUNDS

North Carolina should be drawing down federal funds to establish an exchange under the Affordable Care Act of 2010. Also, reimbursement rates for medical providers (hospitals, doctors and pharmacists) are different between the State Health Plan, Medicaid and prison inmate health care. The state should negotiate the best universal reimbursement rates. We need to maximize taxpayer resources and get the best deal for taxpayers through an appointed commission that would negotiate and set uniform rates of reimbursement and remove all politics from health care funding decisions – once and for all.

IMPACT:

\$1 billion



CAP STATE HEALTH PLAN REIMBURSEMENT RATES

Some health care providers claim that they only recover 80 percent of actual treatment costs for Medicare patients. If legislators made the decision to restrict hospital reimbursement rates in the State Health Plan to 150 percent of the Medicare rate, huge costs savings could be realized. A 150 percent reimbursement rate still guarantees health care providers a 20 percent net profit.

IMPACT:

\$375 million



INCENT STATE HEALTH PLAN MEMBERS TO AUDIT MEDICAL CHARGES

Members of the State Health Plan (SHP) have often talked about being overcharged for medical care. A remedy to this would be the establishment of a self-audit program to correct billing errors. In this program, SHP members would check their bills and statements for inaccuracies, have verification of the mistake by an audit processor and then collect 10 percent of the recovered overpayment. With this model, the member is empowered to verify charges and the state recovers 90 percent of their overpayment. Win-win.

IMPACT:

\$21 million



END PAYMENTS FOR HOSPITAL MISTAKES

We have all heard of hospital “never events” on the evening news – when people become sick or injured while they are hospitalized for something unrelated. This can be due to provider negligence or poor sanitary conditions in the hospital environment. Charging additional costs due to a health care provider’s medical errors and carelessness is not something that taxpayers should be responsible for. In accordance with policies adopted by the Centers for Medicare and Medicaid Services, the North Carolina State Health Plan should eliminate provider reimbursement for “never events” that occur during inpatient hospital care.

IMPACT:

\$13 million



ELIMINATE STATE HEALTH PLAN BENEFIT FOR LEGISLATORS

Full-time state employees in North Carolina take pride in working hard for what few job benefits they are afforded. Therefore, it is unreasonable that part-time legislators in the N.C. General Assembly should enjoy the same benefits of a full-time worker. In just one example, our part-time legislators have the option of enrolling in the State Health Plan (SHP) – a benefit that is otherwise only offered to full-time state employees. Currently, 147 out of 170 legislators elect the SHP. By eliminating this benefit for themselves, state leaders can take one step closer to demonstrating that they are in favor of quality benefits for quality work.

IMPACT:

\$723,000



TERMINATE SECRET BLUE CROSS CONTRACT FOR THE STATE HEALTH PLAN

Blue Cross and Blue Shield of North Carolina has a no-bid, sweetheart, cost-plus contract to administer the State Health Plan (SHP). In its current form, the SHP must reimburse Blue Cross its costs, plus pay a profit, but the secret contract does not specify which costs are allowable or how Blue Cross is to measure those costs. The contract even has a special provision preventing the SHP from ever learning what specific costs Blue Cross is charging. As a result, both taxpayers and SHP members share the burden of administrative costs defined solely by Blue Cross. It's bad business. The state could save millions of dollars by opening up this secret contract for a new bid.

IMPACT:

Untold millions...



EXTEND TEMPORARY TAXES FROM 2009

In 2009, Gov. Bev Perdue and the N.C. General Assembly established a temporary 1 percent sales tax and corporate and higher income earner tax. These temporary taxes are scheduled to sunset this year. Although the original intent was for these measures to be short-lived, the state's budget crisis requires shared sacrifice. In creating an extension on these taxes, the state can preserve quality public services that taxpayers depend on while also helping to resolve the budget deficit.

IMPACT:

\$1.3 billion



INCREASE CIGARETTE TAX

North Carolina's tax on tobacco products is only 45 cents per pack. If leaders opted to increase the cigarette tax by \$1 per pack, state coffers would benefit and citizens may be encouraged to curb their tobacco use. With decreased tobacco use, the state would also spend less on Medicaid for resultant health problems!

IMPACT:

\$453.9 million



MODERNIZE FRANCHISE TAX STRUCTURE

Franchised businesses are all around us – and the number Limited Liability Corporations (LLCs) has grown rapidly over the past decade in North Carolina along with our exploding population. However, the state franchise tax applies to very few LLCs. By choosing to modernize the franchise tax structure and extend it to include LLCs, state leaders can create a substantial new revenue stream.

IMPACT:

\$200 million



MAXIMIZE ACCESS TO FEDERAL MEDICAID DOLLARS

The federal infrastructure of Medicaid funding exists for a reason! Washington regulations allow Medicaid provider taxes on a broad spectrum of services, including some hospitals. North Carolina presently has provider taxes on nursing homes and HMOs, but our state's access to federal Medicaid funding is limited by this narrow application of the tax. State leaders can elect to maximize North Carolina's access to federal Medicaid dollars by expanding it to the broader spectrum of services, including some hospitals, thereby alleviating the burden on the state budget.

IMPACT:

Untold millions...



CREATE FOUR DAY, 10-HOUR STATE WORK WEEK

In 2008, Utah implemented a mandatory four day, 10-hour work week for most state employees. After the policy was in place for two years, an independent study by Brigham Young University showed an enormously positive impact on performance. The state saved money because workers took fewer sick days and incurred less overtime. Utah also saved 13 percent on energy bills by having unoccupied facilities an extra day each week. Even by exempting public universities, the court system, prisons and other critical services from this model, North Carolina could see similar savings by setting up this work calendar.

IMPACT:

\$600 million



CREATE VOLUNTARY FURLOUGH PROGRAM

No one wants to be told that they are required to take unpaid time away from work. Mandatory furloughs are an ineffective and unfair method of saving money. However, a number of state workers have indicated that they would show interest in the opportunity to elect a voluntary furlough program. Based on the fiscal notes prepared for a voluntary furlough bill filed in the 2009 N.C. General Assembly, the state would save \$41 million per furlough day. By giving employees the option to take a furlough, North Carolina could save money while also acting as a fair employer.

IMPACT:

\$250 million



**VIDEO CONFERENCING FOR
INMATE COURT APPEARANCES**

North Carolina's correctional officers spend a great deal of time physically transporting inmates all over the state when court appearances are required. There is a better solution to all of this driving! By outfitting a small conference room at each correctional facility with the capability to engage in video conferencing, mandatory court appearances could be met without the added costs of staff time and vehicle fuel and maintenance.

IMPACT:

\$5 million



CREATE ONE SOURCE FOR INMATE PRESCRIPTION INFORMATION

Tremendous amounts of paper are sometimes used in the most unexpected ways – and this can cost a great deal of money. For example, when a state prisoner has health care needs that require a prescription, the prison pharmacy prints out at least one informational sheet about each new medication provided to that individual prisoner. An alternative solution would be to provide a notebook of information sheets on all prescription drugs in the prison library – where inmates can then have shared access should they choose.

IMPACT:

\$3 million



**SELL UNUSED EQUIPMENT AND
SELL THE AIRPLANE**

The N.C. Department of Transportation has approximately 2,300 pieces of heavy equipment that were purchased at a cost of \$153 million. The State Auditor reports that much of this equipment is not used. This unused equipment is a waste of taxpayer money. Speaking of excess equipment, it's time to sell the Department of Transportation's airplane.

IMPACT:

\$56 million



STOP DOUBLE-PAYING FOR MOWING AND NEW SIGNS

Is it really that difficult to mow grass in a straight line? Unfortunately, it seems so. Mowing contractors with the N.C. Department of Transportation have often been carelessly destroying road signs while performing their work. What's worse is that these contractors are not being held accountable for the damage to state property. Taxpayers are then left holding the bill for contract fees as well as new signs! If the state would simply include a provision in each work agreement that the contractors are responsible for damaged property, citizens wouldn't be double-paying.

IMPACT:

\$10 million



GET OUT OF THE LIQUOR BUSINESS

Should alcohol sales be a core mission of the state? The current system is ripe for corruption, mismanagement and unnecessary bureaucracy. By selling North Carolina's liquor warehouse and the state-owned properties currently occupied for the retailing of ABC liquor, taxpayers could see an enormous return to the general fund.

IMPACT:

\$800 million



CREATE MORATORIUM ON PRIVATE CONTRACTORS AND CONSULTANTS

North Carolina employs some of the best and brightest workers, yet the state continues to hire countless consultants and private contractors each year. For example, an external audit of the State Health Plan, completed by Navigant, had the same findings as our own State Auditor – with a big consultant’s fee of \$1.2 million. This is wasteful duplication of work that the state’s existing workforce can undertake, and a shameful exploitation of taxpayer’s money.

IMPACT:

\$100 million



INCREASE COURT FEES

If you break the law, you should pay the price. By increasing court costs for misdemeanors, felonies, probation/parole fees and community service fees, the state would help to deter future lawbreakers while also helping to plug the state budget deficit. Fees and fines must also increase in order to keep up with the workload. For example, judicial branch appropriations have grown over 50 percent since 1999 due to the burden on our court system. And during the 2008-2009 fiscal year, General court fees were only equivalent to 42 percent of the judicial branch's appropriations. Enough is enough.

IMPACT:

\$75 million



USE STATE-OWNED OFFICE SPACE MORE EFFICIENTLY

It's moving day! North Carolina needlessly spends millions of dollars each year to rent office space, yet many state-owned buildings sit empty or partially-occupied. And in some of the cases where a state group is paying to rent space, the lease agreements are for amounts out of line with adjacent commercial properties. The solution is obvious. Legislators can impart enormous savings for our citizens by housing agencies in properties that are already state-owned, or else evaluating and renegotiating rental agreements.

IMPACT:

\$20 million



MODERNIZE E-PROCUREMENT SYSTEM

Every year, state agencies and departments pay high amounts when purchasing items from established, contracted vendors. On everything from ink pens to safety vests, a pre-ordained price has been set. Yet too often, state employees know that making local purchases, even at retail prices, would be more cost-effective. Agencies must be given the flexibility to make these choices by reorganizing the e-Procurement system. Furthermore, many agencies have reported that the establishment of a department-to-department trading system would allow state groups to offer unused or surplus items to each other, thereby saving money on unnecessary purchases.

IMPACT:

\$10 million



CHARGE NOMINAL ADMISSION TO MUSEUMS

North Carolina's museums and historical sites are an obvious draw for many citizens and tourists. But a statewide budget crisis necessitates collective action. As an example, the N.C. Museums of Art, Natural History, Maritime and Transportation have almost 900,000 annual visitors. These museums do not charge admission, yet the state supports their operation in countless ways. If each of these visitors paid a nominal fee of \$5 for admission, the state would be better able to support its general operations as well as continue to endorse museum growth and expansion.

IMPACT:

\$4.5 million



This report was prepared by the
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