ISSN 1092-7999

MICHIGAN Privatization REPORT

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2000-01 / Spring 2000

Shining a Light on Privatization

Privatizing Pedagogy

Jobless Ph.D. for Hire

Let There Be Lighthouses!

Keep Private Enterprise Private

PRIVATIZATION BY THE BOOK

"Legacy of Flight" Ignores Legacy of Failure

Contracting for "Circuses"

MICHIGAN PRIVATIZATION REPORT

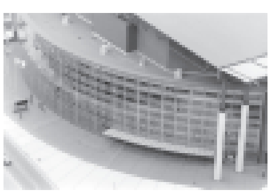
Editor:	David Bardallis
Managing Editor:	Michael LaFaive
Assistant Editor:	Samuel Walker
Graphic Designer:	Daniel Montgomery
Circulation Manager:	Amy Kellogg

Michigan Privatization Report is published quarterly by the Mackinac Center for Public Policy, a nonprofit, nonpartisan, tax-exempt research and educational organization devoted to analyzing Michigan public policy issues. *Michigan Privatization Report* is distributed to state senators and representatives and policy staff; department directors and staff; municipal officials and administrators; school superintendents and school board members. Additional copies are sent to Michigan radio and television news directors, print news editors and select industry leaders. Total circulation is over 14,000. Please contact the Mackinac Center for Public Policy at 140 West Main Street, P.O. Box 568, Midland, MI 48640; Phone: (517) 631-0900; Fax: (517) 631-0964; e-mail: mcpp@mackinac.org; or World Wide Web: http://www.mackinac.org if you wish to receive *Michigan Privatization Report*.

MICHIGAN
Privatization
REPORT

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2000-01 / Spring 2000

FEATURES



DEPARTMENTS

ADVERTISERS:

Flying the Privatized Skies

By Michael LaFaive

In 1996 Canadian officials concluded a $1.1 billion privatization of the country's air traffic control system. It was sold to a private, nonprofit organization called NAV Canada which now provides air traffic control, flight information, electronic aids, and navigation to business, personal, and commercial flights throughout Canadian air space.

The United States should follow Canada's lead. Adapting NAV Canada's model of privatization to America's air traffic control system would mean greater safety, greater efficiency, less cost, and less frustration.

Free from bureaucratic mandates and able to operate more like an entrepreneurial enterprise, NAV Canada is the only private company in the world to operate a country's air traffic control system. So how is the newly privatized system flying?

Consider a few facts. NAV Canada has

• invested $250 million in new systems and technology and built three new, state-of-the-art control towers;

• reduced the Canadian government air traffic control system's bureaucracy by 900 people across four major areas: administration, management, engineers and controllers;

• helped save airlines $163 million in taxes while passengers have saved an average of $25.00 per ticket; and

• increased the salaries of air traffic controllers by an average of 33%.

Airports as large as Detroit Metropolitan Airport and as small as Midland's Barstow Airport (pictured here) could be sold off to the benefit of taxpayers, travelers, and pilots alike.

According to an October 1999 article in *The New York Times*, most of Canada's air traffic control constituencies believe the new arrangement is going well.

When the idea was introduced, controllers, who had endured a wage freeze for years, were eager to become employees of a private company. Airlines, upset at delays and at the government's use of taxes collected on air fares for non-aviation purposes, were also ready for change. And Transport Canada was running late and over budget on its huge modernization project which threatened to collapse, as a similar system did in the United States in the early 1990s.

Meanwhile, the U.S. air traffic control system remains woefully outdated. Much of the radar equipment in use is two or three decades old and is still dependent on mainframe computers and vacuum-tube technology. Robert Poole, president of the Reason Foundation and an air traffic control expert, notes four other problems with our current system.

First, there may be a conflict of interest within the Federal Aviation Administration (FAA), the regulatory body in charge of the U.S. air traffic control system. Not only is the FAA owner and operator of the system, it is in charge of ensuring aviation safety. How likely is the FAA to police itself with regard to safety violations?

Second, the U.S. government's procurement process is far too slow. Technology advances quickly and federal procurement systems don not move fast enough to supply a dynamic air traffic control system.

Third, U.S. civil service rules are inadequate for hiring and retaining qualified workers for air traffic control systems.

Lastly, America's current system of funding is restrictive and politicized because it relies on federal appropriations for its budget.

The Clinton administration, to its credit, has tried to resolve some of these issues. In 1995, for instance, it proposed making the entire U.S. air traffic control system a quasi-governmental corporation, much like the U.S. postal service. This allegedly would have given the U.S. air traffic control system more flexibility on personnel and procurement, but the idea never got off the ground.

In 1998 the administration proposed making the FAA an organization similar to the Patent and Trademark Office, which can set its own fees and control revenues, but Congress balked. As it turns out, politicians enjoy a subservient FAA, and many airports remain a potent source of pork-barrel spending projects.

It is unfortunate that U.S. policymakers have had so little luck changing the operational status of America's air traffic control system. Air travel is booming. The total number of "enplanements" (how often a person steps onto a domestic carrier on U.S. soil) now tops more than 500 million annually.

Privatization has increased the safety and lowered the costs of air travel in Canada. By contrast, billions of dollars are spent every year in the U.S. on wasted fuel and wasted crew and passenger time due to delays caused by the obsolete U.S. air traffic control system.

The United States should follow Canada's lead. Adapting NAV Canada's model of privatization to America's air traffic control system would mean greater safety, greater efficiency, less cost, and less frustration. MPR!

Michael LaFaive is managing editor of Michigan Privatization Report.

Editor's Note: Portions of this article were excerpted from the summer 1998 issue of Michigan Privatization Report.

Airport Privatization: Windfall Denied U. S. Cities

By Ronald Utt

Cities across the United States could earn hundreds of millions of dollars for local projects by selling or leasing their airports to private companies. They could, that is, if the Federal Aviation Administration (FAA) was not preventing them from doing so.

Private airports are not illegal—some 3,000 smaller ones across the country operate on a for-profit basis—but those that receive federal funding are effectively precluded from privatizing by the FAA. And unfortunately, the FAA reauthorization bill Congress is about to vote on does nothing to fix the problem.

The agency interprets any federal spending on an airport as a *de facto* property right that allows the FAA to impose restrictions that make privatization nearly impossible. At a time when many countries are reaping the benefits of privatizing their airports, Congress seems determined to make U.S. airports more dependent on government.

The FAA reauthorization bill will boost federal subsidies to airports further still, bucking a worldwide trend that has weaned dozens of airports from government subsidies. Great Britain pioneered the trend in 1987 when it sold seven airports, including busy Heathrow and Gatwick, in a public share offering worth $2.5 billion.

The new private owner, BAA PLC, has since invested more than $5 billion in the seven airports and in 1998 alone paid $340 million in taxes on profits to the British government. Contrast that with U.S. airports, most of which are tax users, not payers.

In 1998 and 1999, more than 60 airports were sold or leased to private owners around the world, from Australia and Mexico to Germany and Italy. Because these transactions occurred recently, the prices (or rents) paid by investors can be used by local U.S. officials to determine the potential value of their airports.

It turns out many American cities are sitting on an extraordinary source of untapped wealth. Using the "per-enplaned passenger basis,"—an industry rule of thumb that ties the value of an airport to the number of passengers it serves each year—the potential worth of the top 71 U.S. Airports falls somewhere between $90 billion and $100 billion.

Consider Atlanta's Hartsfield and Chicago's O'Hare, the nation's busiest airports. Each serves more than 30 million passengers per year and each may be worth as much as $5.5 billion. In Atlanta's case, that breaks down to $13,500 per city resident, or $90,000 per student in the public schools. New York could gain up to $5 billion through the sale of Kennedy and LaGuardia airports. Los Angeles International and Dallas-Ft. Worth could fetch more than $4.5 billion each, while Miami International might bring in as much as $3 billion. Even the smallest airport on the list, El Paso International in Texas, may be worth $300 million, hardly an insubstantial sum.

Of course, these estimates reflect broad averages. What investors may actually be willing to pay depends upon such things as the airport's physical condition, prospective local taxes, existing labor contracts, and growth prospects. The estimates must also be adjusted for any outstanding debts the airports owe and the depreciated value of past federal grants that must be repaid if the airport is sold.

Nevertheless, because all but two of these airports are owned by local or state governments, their potential worth represents a windfall that communities could use for other public purposes, such as schools or tax relief. The airports' income and assets would thereafter yield a steady stream of tax revenues to all levels of government.

Local governments can draw another important lesson from the worldwide privatization trend. Although the 60 airports sold or leased worldwide in 1997-98 went for an average of $116 per passenger, the actual prices varied greatly, from $225 per passenger in Perth, Australia, to $32 per passenger in Naples, Italy.

The crucial determinant: whether the new private owner had to operate in partnership with government. For partial sales, under which the investor agreed to joint ownership with the government, the average price per passenger was $81. But for "100 percent" sales, the average price per passenger was $162, suggesting that combined public- and private-sector involvement carries considerable costs.

New York could gain up to $5 billion through the sale of Kennedy and LaGuardia airports.

Airport privatization could be a winning issue for Congress. But for now, unfortunately, lawmakers seem wholly uninterested in reducing the government's costly role in what could be a successful private industry. MPR!

*Ronald Utt is a research fellow at The Heritage Foundation in Washington, D.C. For more on privatization visit the Heritage Foundation Web site at **www.heritage.org**.*

What Can Officials Do?

- Persuade federal officials to reduce their influence on local assets.
- Remind citizens of the benefits of airport privatization.

Privatizing Pedagogy: For-Profit Education Gets Good Start in Flint

By Brian Scoles

The private, for-profit education management organization Edison Schools is making steady progress in offering students and parents in Flint an alternative to the struggling traditional public school system.

Edison Schools, founded in 1992 as The Edison Project, is the nation's leading private manager of public schools. The New York-based company manages public and charter-public schools through a partnership with school districts and charter school boards around the country.

Edison runs four schools in Flint: Flint Northwestern Community High School-Edison Partnership; Garfield-Edison Elementary School; Williams-Edison Partnership School for Primary and Elementary Academies; and Williams-Edison Partnership School, Junior Academy.

Edison offers a comprehensive management plan that features an ambitious and wide-ranging curriculum that emphasizes the use of technology, an emphasis that includes a computer on every teacher's desk and in the home of every student in grade three and above.

Even though Edison schools are public schools—fully funded by tax dollars and open to any child—full responsibility for implementing the educational program, technology plans, and management systems rests with Edison. And Edison is accountable for results: If parents are dissatisfied with the company's performance, Edison's contract can be terminated. According to Rick Larios, Vice President of Educational Policy for Edison Schools, "Evidence shows that if we do not meet [parents'] expectations, they will take their child elsewhere."

As elsewhere, Flint parents are looking for a greater number of educational options for their children. "I had sacrificed my sons to the [Flint Community Schools] gifted program because I thought that was the best option at that time," Marlene Smith, mother of three Flint school children, told *The Journal Times* of Racine, Wisconsin. "They didn't excel. They weren't successful, and I wasn't happy. I began looking for other options for my daughter."

Smith and other parents with

See *"Edison"* on page 12

Let There Be Lighthouses!

By Burton Folsom, Jr.

Lighthouses are popular tourist attractions in Michigan and play a fascinating part in the state's history. But many of them are no longer needed and their upkeep and maintenance are costing taxpayers millions of dollars each year.

To solve this problem the federal government has recently asked an intriguing question: "Would you like to buy a lighthouse?" Last October, Scott Holman, an entrepreneur and avid scuba diver from Freeland, Michigan, emphatically answered, "Yes, I do." And he put his money where his mouth is. He placed a winning $86,003 bid for the 2,400-square-foot Granite Island Lighthouse, 10 miles off the coast of Marquette.

The Granite Island Lighthouse, located about 10 miles north of Marquette, was purchased by Freeland entrepreneur Scott Holman for $86,003.

The island upon which the lighthouse is built covers just under 2.5 acres of rock and grass and is also home to an oil house, boat slip, dock, and boat housing structure. The first Indians and Europeans to visit the island saw no need to risk climbing the sheer 60-foot walls. It was not until dynamite was applied to one end in the 1860s that access to the island became easy and constant.

What Can Officials Do?

- Encourage state lawmakers to reduce legal barriers to purchasing lighthouses.
- Remind taxpayers that government need not subsidize Michigan historical sites to protect them.

Holman's bid was the highest submitted for the Granite Island Lighthouse, according to Melissa Green of the U. S. General Services Administration. What few know is that it was not his first bid. After Holman submitted his first offer of $56,003 he suffered nights of restless sleep, sure that he had offered too little. He upped his offer to $86,003, calming his nerves, and then waited patiently. The new bid made Holman the highest bidder by a margin of $6,000, beating out a serious bidder who flew to Boston to personally submit his own bid. Over 80 people bid on the Granite Island Lighthouse.

"There's a lot of work to be done," said Holman, who plans to restore the weatherbeaten lighthouse and seagull-populated island (which came with his purchase) and open both to future overnight stays. Holman also reports that many of the losing bidders have contacted him with offers of financial and refurbishing assistance, as well as requests to visit the island once repairs are complete. *[Editor's Note: For photos and more information on the Granite Island lighthouse, visit **www.graniteisland.com** on the Internet].*

Others in the state are lobbying legislators to change Michigan law to make ownership of lighthouses easier, and plans are in the works for a $35 million private, nonprofit Great Lakes Lighthouse Museum.

All of this is great news for American taxpayers: Instead of spending money to repair obsolete lighthouses, the federal government is collecting cash by selling them outright—a process also known as "shedding." The term shedding refers to the wholesale removal of an asset from a government's books.

Unfortunately, the state is still playing some role in Michigan lighthouse upkeep. Late last year the state budgeted more than $3 million for upkeep and restoration of lighthouses and Governor Engler has promised an additional $10.5 million. Still, progress has been made toward privatizing lighthouses, and others may be sold off soon.

The federal government began building lighthouses under President George Washington. To help ships navigate the nation's shores, the government built hundreds of lighthouses, supplied them with modern lenses, and often built caretakers' houses nearby. But radar, modern communications, and other innovations have now rendered many lighthouses obsolete.

See *"Lighthouse"* on page 14

All of this is great news for American taxpayers: Instead of spending money to repair obsolete lighthouses, the federal government is collecting cash by selling them outright—a process also known as "shedding."

Feature

Privatization by the Book: Competition for Campus Bookstores

By Michael LaFaive

Every college student experiences the dreaded "campus bookstore" at least once in his career. Aisles and aisles of books and supplies at heart-stopping prices are as traditional a part of collegiate life as Saturday football games, mid-term exams, and fraternity parties.

At Midland's Northwood University, Follett operates under a lease agreement whereby the firm collects about 7% of the store's net revenue on a monthly basis.

But the form and content of the traditional bookstore has been changing. More and more, colleges are getting assistance from the private sector. In addition, cyberspace is beginning to give the bricks-and-mortar college bookstores a run for their money.

Colleges (and universities) have begun contracting out for the operation of student bookstores with great success. Indeed, in 1982 only 7% of America's 3,500 colleges and universities contracted with outside vendors today, that number exceeds 30%. Today, Internet-based bookstores are also competing with traditional operators to deliver the best products at the lowest costs.

The Follett Corporation is one company that is operating both traditional college bookstores as well as an Internet site. Follett is an education-centered business influencing more than 110,000 schools and university campuses nationwide. It was the brainchild of Charles Follett, a clerk in the store of one Charles Barnes.

In 1917, Charles Follett bought out a Barnes family member and the company split into two separate entities. The first, operated by Charles Barnes's son, became bookselling giant Barnes & Noble, the second became Follett Corporation. With 7,000-plus employees Follett is now a top operator of college and university bookstores and has been in the business since 1925.

Follett currently runs more than 400 campus bookstores, including those at nine of Michigan's 67 two- and four-year colleges and universities. Follett's biggest competitor is Barnes & Noble, which runs almost 300 stores. Follett's nine Michigan sites include Grand Rapids Community College; Jackson Community College; Mott Community College; Michigan State University; Northwood University; Alma College; Siena Heights College; University of Michigan—Flint; and Wastenaw Community College. Follett typically gets 10% of gross revenues for each of the bookstores it takes over.

Northwood University's campus bookstore is operated under lease agreement with Follett, a for-profit company which runs more than 400 campus book stores nationwide.

At Midland's Northwood University, Follett operates under a lease agreement whereby the firm collects about 7% of the store's net revenue on a monthly basis. Since taking over the store, Follett has been able to increase the store's product lines. New products include "academically priced" computer software (which is discounted and available only to students and faculty), music compact discs, greeting cards, and general reading titles. Other popular changes brought about by Follett include allowing students to reserve their books online and sell back their books year-round (previously, the texts could only be returned during finals week).

What Can Officials Do?

- Examine the possibility of bidding out campus bookstores.
- Request proposals from private vendors and publicize the results.

Unfortunately, savings by universities and profits by companies such as Follett and Barnes & Noble do not appear to be affecting textbook prices, which are set by distributors. Mark-ups have largely remained the same at campus stores. But this may be changing.

It is estimated that new college textbooks represent a $5 billion annual market, catering to 15 million higher education students whose total discretionary spending power exceeds $100 billion yearly. With that much money at stake, you can bet Internet competition will try to give traditional school book and supply stores a run for their money, in much the same way e-mail and faxes are forcing the postal service to reinvent itself.

Since 1998, dozens of Internet sites have dedicated space to the sale (or resale) of college texts. The bigger players include **Varsitybooks.com**; **Efollet.com**; **Studenttextbooks.com**; **Utbooks.com**; **Bigwords.com** which actually will rent students texts, too; **Classbook.com**; **Collegebookzone.com**; and **TextbookSource.com**, as well as the Internet portal Yahoo, which maintains college texts on its shopping and auction sites. And these sites sell mostly new books. There is an equal number of sites where students can sell each

See *"Bookstore"* on page 12

Contracting for "Circuses"

By Anna Stephens and Michael LaFaive

Over 1500 years after the Roman Empire collapsed under the weight of its burdensome welfare state, the late Romans' idea of state-subsidized entertainment—or "bread and circuses" as one contemporary historian derisively called it—endures in twenty-first century America.

Across Michigan, state and local governments can be found operating (or subsidizing) everything from art galleries, museums, and symphony orchestras to waterslide parks, tennis courts, and sports stadiums.

But if government officials insist on spending scarce resources to build commercial projects for entertainment and profit, they should at least seek the aid of private-sector contractors to manage the projects at lower cost to taxpayers.

Some officials are doing just that with SMG, a private, for-profit facilities management group based in Philadelphia. The group, which has offices in 25 states and five foreign countries, manages 68 buildings worldwide (23 more than their nearest competitor) including arenas, convention centers, theatres, and stadiums. Two of those facilities are in Grand Rapids, and each provides a good example of successful private-sector operation of publicly owned properties.

The Grand Center

The Grand Center is a 20-year-old convention center and banquet hall built by the city of Grand Rapids and subsidized by taxpayers for most of its existence. One year, losses totaled $800,000. Finally, in 1994, the city's part-time mayor, John Logie, made the decision to contract out the Grand Center's management to SMG. Almost immediately, the company turned the Grand Center around, moving it from 1996 losses of $150,600 to an "operating excess" surplus of $126,000 in just 12 months. These net revenues were the first in the Grand Center's history.

The Grand Center was neither the first nor the last government-sponsored facility to be helped by SMG's management. The Centroplex in Baton Rouge, Louisiana; the Peoria Civic Center in Illinois; and Pepsi Arena in Albany, New York, all have seen their cash flows go from negative to positive within 12 months of SMG taking over management of the facilities.

The Van Andel Arena in Grand Rapids, above, is managed by SMG, a private, for-profit company that operates government-owned facilities across America.

Across Michigan, state and local governments can be found operating (or subsidizing) everything from art galleries, museums, and symphony orchestras to waterslide parks, tennis courts, and sports stadiums.

Van Andel Arena

The Van Andel Arena, which opened its doors to the public in the fall of 1996, is virtually in a class by itself. It is formally owned by Grand Rapids's Downtown Development Authority (DDA), but is being run now by SMG, under contract with the DDA. DDAs are state creations that allow local governments to "construct, rehabilitate, equip, improve, maintain, or operate any building within the downtown for public or private use." They are only allowed, however, in areas that have suffered a decline in the number of businesses in the city.

What Can Officials Do?

- Seek private expertise in running government-owned facilities.
- Don't get into the business of convention centers and stadium building in the first place.

In the early 1990s two members of the Van Andel family, Jay and Betty Van Andel, paid $1 million for a feasibility study for building the arena. Jay Van Andel is co-founder of Amway and a highly regarded Grand Rapids philanthropist. When the study revealed that a downtown sports and entertainment facility would be viable, they donated an additional $10 million to get the project moving. Another $10 million was raised privately with contributions from other sources, and the rest of the $75-million price tag was financed by floating bonds that are paid for from arena ticket sales.

The city, to its credit, has avoided directly subsidizing the arena with tax dollars, making it a rare bird among city-owned recreational facilities. In-

See *"Circus"* on page 16

Substituting the Private for the Public

By James Roberts

Can the private sector solve some of the problems facing the nation's public schools? The success of the Kelly Educational Staffing program indicates that the answer is yes.

Kelly Services has partnered with Detroit Public Schools to help locate substitute teachers.

Facing a shortage of substitute teachers, public school districts across the nation have begun to look to the private sector for help. In Metro Detroit, some public schools have enlisted the help of Kelly Services, a Fortune 500 temporary employment agency. With over 1,800 offices in 19 countries, Kelly Services locates more than 750,000 employees each year for a wide range of jobs.

If the search for substitute teachers can be successfully privatized—that is, actually work better under private management—this raises an important question: How much of the rest of what public schools do would work better privatized?

As part of a national effort, the Troy, Michigan-based agency has established the Kelly Educational Staffing program, which advertises open positions in both public and private schools, interviews applicants, and trains substitute teachers for grades K-12. To ensure that the substitutes are qualified, Kelly Services conducts background and reference checks on each applicant, and it insists that they meet local certification requirements. The agency also provides substitutes with a handbook and other orientation materials.

According to *The Detroit News*, the shortage of substitute teachers in Metro Detroit mirrors a national problem. Around 96,000 teachers are absent from schools across the nation each day, and there are not enough qualified substitutes to meet this demand on a regular basis. Surveys indicate that over 90 percent of the nation's school districts struggle to locate substitutes.

The shortage has arisen because many substitutes have taken full-time positions or have quit teaching altogether. Additionally, the strong economy has presented substitutes with more lucrative opportunities in the private sector, leading officials to turn to that same sector for help.

"I'll try anything and anybody who can find substitutes for us," Sue Kenyon, superintendent of Dearborn Heights District No. 7, told the *News*. "We have been short of substitute teachers every day this year."

Although the partnership between Kelly Services and public schools developed only recently, the success of the program already has become apparent. By allowing Kelly to search for and train substitute teachers, school districts can avoid these administrative tasks, saving both time and money.

"The program is win-win for everyone," said Teresa Setting, director of Kelly Services Product Management. "With one call to their local branch office, school administrators can find the substitute teachers they need.

"Because our expertise is staffing, Kelly can find and manage more eligible candidates than schools can alone," she added.

"Initially, it will cost the districts more," Kim Osborne, a spokeswoman for Kelly, told *The Detroit News*. "But in the long run, they will see savings."

School officials who have become involved with the program agree with these positive assessments.

"Before Kelly, we had two primary problems," said Carlos Hicks, superintendent of the Gulfport, Mississippi, district where Kelly first provided its substitute service in 1997. "We couldn't find enough substitute teachers, and we were spending too much of our limited time contacting and scheduling substitute teachers. We have been pleased with both the quality and quantity of substitute teachers Kelly has provided. It has worked better than we ever could have imagined."

Critics of private involvement in public education commonly claim that a for-profit organization will sacrifice standards to ensure a profit. Kelly Services deflects this fear by pointing out that its rigorous candidate screening, orientation, and training programs have been developed by school officials themselves.

"Our orientation process and quality control measures, developed with the schools, ensure [that] only the most qualified substitute teachers end up in front of children," Setting said.

In fact, the economic nature of the partnership supplies an incentive for quality that is increasingly lacking in the current market for substitute teachers. Right now, the shortage of substitutes is so acute and chronic that instead of scrutinizing candidates, districts facing shortages may make decisions out of desperation. Indeed, some districts seeking substitutes even have resorted to hiring parents or people with no more qualifications than a high school diploma.

"The main goal is often to get a warm body in there," Max Longhurst, an education specialist with Utah State University's Substitute Teacher Institute, told *USA Today*.

If the search for substitute teachers can be successfully privatized—that is, actually work better under private management—this raises an important question: How much of the rest of what public schools do would work better privatized?

School districts oversee a number of services—from payroll administration to cafeteria management—for which a private agency could assume responsibility. By privatizing these functions, school districts could focus more clearly on their primary objective: educating children. MPR!

James Roberts is education policy researcher and writer and an attorney with the Mackinac Center for Public Policy. He graduated from the Cornell School of Law in 1999.

“Jobless Ph.D. for Hire: Will Teach Students Who Cannot Afford College”

By Thomas F. Bertonneau

According to the College Board, a child born today probably will face college costs ranging from $84,000 for four years at a public university to more than $205,000 for a degree from a private institution.

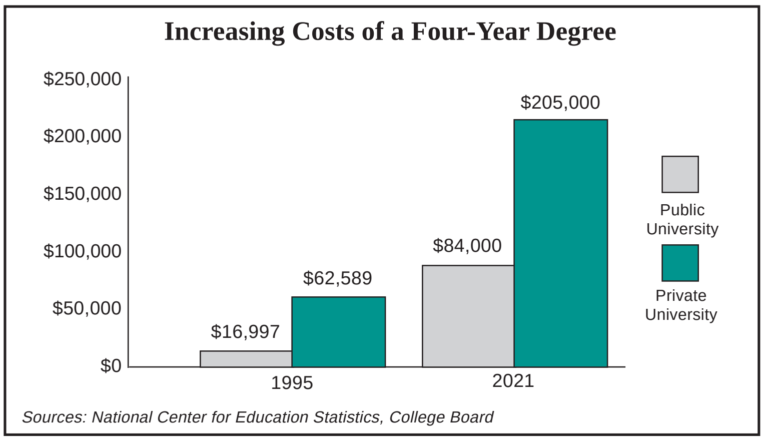
What if lawmakers discovered that they had it in their power to vastly reduce the cost of higher education, freeing families to obtain better health care, housing, and transportation—and in many cases actually improve the quality of higher education at the same time?

Privatization may provide an answer. Privatization can take many forms—selling government assets, issuing vouchers to increase competition, or contracting out (whereby the government or private citizens purchase their own services instead of having them provided directly).

Late last year, syndicated columnist George Will noted that the United States is experiencing “a glut of Ph.D.s.” Particularly in the humanities, universities turn out far more doctorates than the system can absorb. What would happen if the doctorate issued, say, by Ann Arbor’s English Department (or any other department in any of the 14 branches of the Michigan public university system) carried with it not only its obvious prestige—but the privilege to teach college-level courses, for credit, in the state of Michigan?

This would be a license merely to do what physicians and lawyers may currently do—hang out a shingle and operate independent, professional businesses. What would happen to higher education in Michigan if anyone with a Ph.D. from an accredited institution could offer for-credit coursework in their field of competency?

As the University of Michigan English Department’s description of its doctoral program notes, “the Ph.D. is the basic credential for positions in college and university teaching.” Currently, however, so many holders of humanities doctorates are clamoring for so few academic positions that a job advertisement brings in hundreds of applications.



According to the College Board, a child born today will probably face college costs ranging from $84,000 for four years at a public university, to more than $205,000 for a degree from a private college.

Devolving the decision-making apparatus from a university level to private, credentialed entrepreneurs contracting with students to independently provide higher education offers some striking advantages.

At the same time, as indicated by the appearance of institutions like the Western Governors’ University (an Internet access point to nearly 500 university-level courses), the demand for higher education is greater than ever.

Devolving the decision-making apparatus from a university level to private, credentialed entrepreneurs contracting with students to independently provide higher education offers some striking advantages for purchasers of college level courses. For example, educational entrepreneurs would be looking to develop their own clienteles. This would give them a financial incentive to set prices lower—in many cases substantially lower—than those demanded by the state system.

Currently in Michigan, students enrolled in state universities are subsidized by taxpayers. In the case of the educational entrepreneur, however, no such subsidy would be necessary.

Allowing newly minted Ph.D.s to enter independent private practice would immediately create opportunities for greater ethnic and cultural diversity among instructors. Perhaps most importantly, it would also increase diversity in pedagogical approaches, in points of view, and in the number and type of venues where students may acquire credit toward a degree. High standards could be maintained through school accreditation of instructors, by monitoring through professional associations as in the legal and health professions, and through testing of both instructors and students.

Just think of all the advantages for students. The average cost of an undergraduate course in the state universities of Michigan hovers around $700. What do students get for this amount? Often, if it is a required or lower-division course, they get a graduate student teacher and a seat in a classroom with hundreds of other students. Suppose, however, that the local Yellow Pages feature two or three pages listing for-credit coursework available from private, individual, entrepreneurial teachers? Suppose students notice that the same course is currently being offered by private instructors with Ph.D.s in small group settings at rates of, say, $350 per course? For half the university’s price, they could get a smaller class and a fully qualified teacher. At $350 per customer, and teaching two classes

See *“Ph.D.”* on page 14

"Edison" continued from page 6

similar stories decided to try sending their children to an Edison-managed Northwestern Edison High School. And since 1997, these parents and their children have benefited from Edison's academic standards, smaller class sizes, longer school days, and extended school year.

Edison Schools, although young and still improving, is the first of the many new for-profit companies to offer a private-sector option to public school parents.

"Children in Edison classrooms are provided with an atmosphere that gives the student more of a sense of belonging," according to Eylastine Green-Roberts, principal of Northwestern. "Five core teachers work with the same students, who travel with each other daily. It gives them an opportunity to build relationships."

The relationship-building process between teachers and students can last up to three years at a time, but for the process to work, the same people need to remain in place. If they do not, the Edison formula can get disrupted.

For example, during 1997, Edison students in Flint scored significantly lower on the MEAP test when compared to the rest of the state. Larios attributes the poor performance to a high degree of teacher turnover that first year and to the large percentage of low-performing students whose parents sent them to Edison in hopes of improvement. Now that there is consistency in personnel in the Flint-Edison schools, children are performing better.

"It takes time to grow," says Cheryl Tate, a teacher at Garfield Edison Elementary School. "The public looks for changes right away. That won't happen. We've been in a negative situation for so long. It's a process, and the public has got to be patient."

Part of the Edison process is to give students a greater degree of personal attention and free access to technology. Every student, teacher, principal, and administrator has easy access to classroom computers and other technologies, including video cameras, cassette tape recorders, VCR's, televisions, and laser discs.

What Can Officials Do?

- Investigate private alternatives to public school management.
- Recognize innovative, competitive approaches to educating children.

Of course, information technology can make a student, teacher, or school more effective—but only when used as a tool and not as a substitute for teaching. In Edison-managed schools, technology is fully integrated with the education program and used to facilitate communication, research, writing, and analysis—just as it is used in the "real" world outside of the academy.

The burgeoning for-profit education industry is driving exciting new innovations in the nation's public school system. Increased competition—whether from charter and private schools or management companies like Edison—is offering parents more options than ever before. Freedom of choice is encouraging all schools to compete for the right to educate children or suffer the market consequences of failure.

Edison Schools, although young and still improving, is the first of the many new for-profit companies to offer a private-sector option to public school parents. Its success is proof positive that privatization in public schools need not be limited to food service and bus driving. The private sector can offer success in the classroom as well.

Brian Scoles is education project administrator with the Mackinac Center for Public Policy.

"Bookstore" continued from page 8

other used texts, thus eliminating the campus book dealer as middleman.

Varsitybooks.com, the most visited site of its kind, has access to over 2.5 million titles through more than 25,000 publishers. While it stocks as many as 200,000 of the most popular texts, it can still conduct business with less overhead than a traditional campus store. Its Web site claims that many titles can be had for 40% off retail. Several other sites even allow students to compare their "cyber" prices with the exact price being charged at the local campus bookstore.

Experience shows that privatizing college and university bookstores can give students a wider range of product choices, while saving universities operational costs. And the Internet is putting student-consumers in the driver's seat when it comes to choices among product and service deliverers.

Competition may ensure that college students in the near future come to view the staid, quasi-monopoly campus bookstore as a historical curiosity, much like goldfish-swallowing and other dead university fads. MPR

Michael LaFaive is managing editor of Michigan Privatization Report.

Keep Private Enterprise Private

By Michael LaFaive

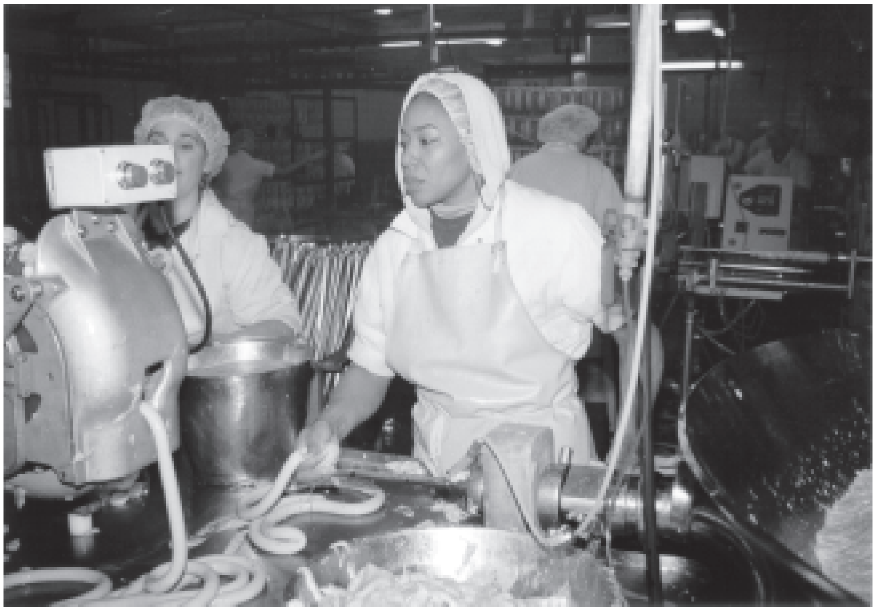
Many economists have long criticized government "economic development" programs—including selective business subsidies and tax incentives—as being wasteful and ineffective at "creating" new jobs.

But there is another reason to be skeptical of these programs: They are fundamentally unfair. By taking taxes paid by *all* businesses and using them to subsidize only *some* businesses or industries at the expense of the others, government unbalances the economic playing field.

The poor economics and unjust nature of these programs highlights an aspect of privatization known as shedding, whereby government eliminates certain of its functions entirely and leaves things to the more efficient resource allocation of competitive markets. One candidate for shedding is the Michigan Economic Development Corporation (MEDC),

A Case Study in Unfairness

A particularly egregious example of government "economic development" unfairness involves Boar's Head Provision Company, a meat products company headquartered in Brooklyn, New York. In exchange for Boar's Head's promise to invest $14 million and create 450 new jobs over the next three years, the Michigan Jobs Commission (predecessor to the MEDC) arranged in 1998 to give Boar's Head an "economic development package" worth up to $5.1 million in federal, state, and local resources. The package includes up to $3 million for equipment leasing, an abatement of the 6-mill state education tax of up to $212,590, and as much as $1,000 per worker for training. Armed with these "incentives," the company opened a processing plant near Holland, Michigan, on December 13, 1999.



Cherry Trees on the Harold "Jolly" and Joyce McManus farm on Old Mission Peninsula are often harvested by family members, as shown here. The value of the McManus farm, which has been in the family for more than a century, has skyrocketed in recent years.

In press releases, statements, and reports, the MEDC will count its deal with Boar's Head as adding 450 "new jobs" to Michigan's economy. What its press releases will *not* reveal is the impact of the deal on other Michigan businesses, such as Koegel Meats, Inc., in Flint.

Like Boar's Head, Koegel makes meat products. A Michigan-based family business for three generations, Koegel produces an extensive line of cold cuts and the popular "Koegel's Vienna Frankfurters" that are grilled by the millions in Michigan backyards every summer. Its products use recipes devised by Albert Koegel when he emigrated from Germany to Michigan and started the company in 1916. The firm sells 99 percent of its product in Michigan and employs 110 people at its Flint facility.

Al Koegel, son of the founder, is not one to make a big fuss about unfair competition. Like his dad before him and his son John who will carry on after him, Koegel would rather run the business than spend time lobbying politicians for special favors. He cannot help but point out when asked, however, that for all of its 85 years, Koegel Meats always paid its taxes and never took a dime of taxpayer money: no abatements, no subsidies. The company always trained its own employees with its own funds. Koegel once even turned down federal money for job training because he did not want the hassle of red tape and paperwork.

The Koegel story is the classic American free enterprise, Horatio Alger story. A German immigrant comes to America seeking opportunity, settles in Michigan, starts a company, works hard, and succeeds. His family keeps the business here through thick and thin in one of the most high-tax, economically distressed areas of the state. The business focuses on its customers and it grows—

See *"MEDC"* on next page

What the MEDC's press releases will *not* reveal is the impact of its deal with New York-based Boar's Head on Michigan businesses, such as Koegel Meats, Inc., in Flint.

What Can Officials Do?

- Stop subsidizing one group of businesses with the tax dollars of others.
- Eliminate the Michigan Economic Development Corporation.
- Reauthorize the 1851 amendment to Michigan's constitution which prohibited the state from taking any financial interest in businesses.

"Lighthouse" continued from page 7

Because Michigan has more lighthouses than any other state, policy makers would do well to absorb this lesson: See the light, lighten citizens' tax load, and sell the lighthouses.

Since 1939, the Coast Guard has been in charge of maintaining the nation's lighthouses, but keeping them in shape has often been a losing battle. "Many of them have been abandoned by the authorities and are falling victim to vandalism and the elements," reports Tim Harrison, editor of the monthly publication, *Lighthouse Digest*.

Selling these lighthouses is, therefore, a win-win situation for everyone. Investors like Holman have the incentive to improve the value of their property, the government collects revenue from the sale, and the lighthouses themselves, which are historical treasures, do not disintegrate through public neglect.

For those who are skeptical about turning these historic treasures over to private owners, we can turn to history as a guide. Before the 1960s, a few lighthouses were sold to private individuals. Most of these owners, including some in Michigan, have taken excellent care of their property. The Mendota Lighthouse, for example, is a well kept home on the Keweenaw Peninsula. Two others—the Sand Hills Lighthouse (also on the Keweenaw Peninsula) and the Big Bay Point Lighthouse north of Marquette—are now popular bed-and-breakfast establishments.

William Frabotta bought the Sand Hills Lighthouse almost 40 years ago. He refurbished the eight bedrooms, all with private baths, and now rents out the rooms in both summer and winter. Frabotta brags about the cross-country skiing in the winter and the view of the scenic Northern Lights from the tower during the summer. "People love to come here to see a part of history," he says.

America's dwindling supply of lighthouses presents us with both a case study in the shortcomings of public ownership and a heartening prospect of what private enterprise can do if given the chance. Because Michigan has more lighthouses than any other state, policy makers would do well to absorb this lesson: See the light, lighten citizens' tax load, and sell the lighthouses. MPR!

Burton Folsom is historian in residence with the Center for the American Idea in Houston, Texas, and a former senior fellow with the Mackinac Center for Public Policy in Midland, Michigan.

"Ph.D." continued from page 11

every semester, an entrepreneurial teacher could earn $25,000 per year—comparable to the pay received by on-campus adjunct instructors.

It could happen in the near future, if lawmakers in Lansing take to the idea. There is a "glut," as George Will put it, of people who are eager to teach at the college level but who can not find employment in an age of departmental downsizing and politically influenced hiring.

Why not make public universities more private by allowing Ph.D instructors and students the opportunity to independently contract with each other and get more out of the current system? MPR!

Thomas F. Bertonneau is executive director of the Association of Literary Scholars and Critics and an adjunct scholar with the Mackinac Center for Public Policy, for which he authored the study Declining Standards at Michigan Public Universities.

"MEDC" continued from page 13

taking no public money and paying full freight in taxes year in and year out.

Now taxpayers, including the Koegel family, are being forced to help subsidize a New York firm that will compete directly with Koegel Meats.

Leveling the Economic Playing Field

The claims of MEDC to "create" jobs with its subsidies and tax packages for companies like Boar's Head are not borne out under scrutiny for several reasons. One reason is that any jobs Boar's Head does create come only at the expense of potential opportunities at other firms whose resources have been taxed away to make Boar's Head's jobs possible. Those resources are no longer available to those firms to build or expand facilities and train or hire new workers for themselves.

Another reason is that with Michigan's low unemployment rate, Boar's Head will find it difficult to find jobless workers to fill whatever jobs it does create. Boar's Head workers will most likely only be drawn from other Michigan businesses, most of which used their own funds to train and hire the workers in the first place. In this way MEDC job "creation" is really only job shifting.

A level playing field, where all businesses are treated fairly and equitably under the law, is the cornerstone of true economic development. Government cannot "create" jobs, but it can remove barriers to entrepreneurship so that everyone can compete equally in the marketplace of opportunity. Lansing policy makers should re-consider the MEDC's role in Michigan's economy and whether or not state government should be involved in "economic development" at all. MPR!

Michael LaFaive is managing editor of Michigan Privatization Report.

Privatizing the Poor: How to Expand Low-Income Housing in Michigan

■ **By Gary Wolfram**

Privatization, in its broadest sense, is the transfer of assets or services from the tax-supported and politicized public sector to the entrepreneurial initiative and competitive markets of the private sector. Privatization takes on many forms including, but not limited to contracting out, public-private partnerships, and "asset shedding," or ending government involvement in a particular endeavor altogether. Low-income housing is an area where state policy makers should consider this latter form of privatization.

The Michigan State Housing Development Authority (MSHDA) is the primary vehicle for setting low-income housing policy in Michigan. While MSHDA does not directly own or rent low-income housing, it does act as a "bank" by selling bonds and using the proceeds to provide loans to developers and individuals who promise to erect low-income housing.

MSHDA has more than $2.3 billion in bonds outstanding at this time. The proceeds from the bonds are lent to developers and homeowners, sometimes through private lending agencies. These bonds are limited obligations, and the mortgage payments from each MSHDA-financed project are the backing for the bonds. However, should any of MSHDA's projects turn sour, the state government would not allow MSHDA to default on its bonds: Taxpayers would be forced to make the payments.

So what is wrong with government-backed low-income housing loans? For one thing, they are unnecessary. In order to keep its bond rating high and avoid defaults, MSHDA tends to lend for the sort of low-income housing projects that are most likely to be financed by the private sector, anyway. In other words, MSHDA uses its status as a tax-free government entity to compete with standard, for-profit lenders. The main beneficiaries of this arrangement are developers, not low-income renters. To the extent that rents are kept low to benefit the poor, the bonds become riskier, and MSHDA must put the taxpayer in a vulnerable situation.

Has MSHDA ever defaulted? No. MSHDA-financed housing projects are generally well managed; however, the real problem is that MSHDA encourages the misuse of scarce resources by providing developers with artificially low loans. How? The housing market naturally provides low-income housing through an efficient mechanism. Housing typically filters down naturally through the distribution of income. As the market produces new higher-income housing, and as higher-income families move into the new housing, the older housing stock becomes available for low-income tenants.

Economies make the most efficient use of resources when the amount that consumers will pay for a product is at least equal to the value of the resources that get used up in producing the product. The fact that the market typically produces low-income housing through the passing on of former high-income housing, indicates that this is the best use of resources. MSHDA distorts this economic process by encouraging developers to do something that ultimately does not make the most efficient use of resources: that is, build new low-income housing. This results in fewer resources available for all citizens, both poor and nonpoor.

Despite the enormous amount of money MSHDA lends, the resulting amount of housing built is actually quite small relative to the available housing stock. For example, the city of Detroit has slightly under one million people, about 32 percent of whom are below poverty level. This means more then 300,000 residents are in need of, on average, 100,000 low-income housing units. MSHDA currently provides financing for only 8,123 housing units in Detroit, and not even all of those are low-income. In other words, the private sector provides an estimated 92.9% of low-income housing in Detroit, while MSHDA's loans have resulted in less than 8.1% of that housing.

The private sector provides an estimated 92.9% of low-income housing in Detroit, while MSHDA's loans have resulted in less than 8.1% of that housing.

If MSHDA is unnecessary and ineffective, why have it? Part of the reason for the existence of MSHDA is that several federal programs that also distort the housing market require a state agency to administer. For example, there are federal tax credit programs available for developers of low-income housing and for first-time homebuyers. MSHDA is the agency through which these credits are administered.

Such federal programs are not directly under the control of state officials; however, Lansing policy makers could do two things to encourage an increase in the availability of low-income housing while removing bond default risks to taxpayers and minimizing public debt.

MSHDA is the state's primary vehicle for setting low-income housing policy in Michigan. This Midland project was built in conjunction with the federal government's "Section 8" housing program.

The first is loosening up zoning laws and building regulations. More new low-income housing would be produced in Michigan if state and local requirements for certain square footages or certain types of building materials did not drive up the price of housing beyond the means of low-income families. Policy makers should re-examine the wisdom and necessity of such regulations.

See *"MSHDA"* on next page

"Circus" continued from page 9

deed, in 1995 only 6 of 27 publicly owned arenas of a size similar to the Van Andel Arena could claim that they made more money than it cost to operate them.

Some argue that government should not concern itself with the entertainment of its citizens, believing it is fundamentally unfair to tax one person to subsidize the leisure of another.

Mayor John Logie reports that in the first year of management under SMG the arena made $1 million in profits, the second year $1.5 million and the third year $2.2 million. In addition, *Amusement Business Magazine* named the Van Andel Arena America's number-one arena for its size (seating 10,000-15,000) based on gross ticket sales for 1998 and 1999. This is likely due to SMG and its management team, which took over operations at Van Andel Arena nine months before it opened its doors.

Some argue that government should not concern itself with the entertainment of its citizens, believing it is fundamentally unfair to tax one person to subsidize the leisure of another. But since so many public officials have gone ahead and done so, they would do well to look at examples like SMG and its operation of Van Andel Arena, which, unlike similar arenas around the country, has not required direct tax subsidies.

Success stories like the Grand Center and Van Andel arena show that private management can be a good answer to the mismanagement and lost revenue that plague so many public facilities. MPR!

Anna Stephens is a winter research intern with the Mackinac Center for Public Policy.

Michael LaFaive is managing editor of Michigan Privatization Report.

"MSHDA" continued from page 15

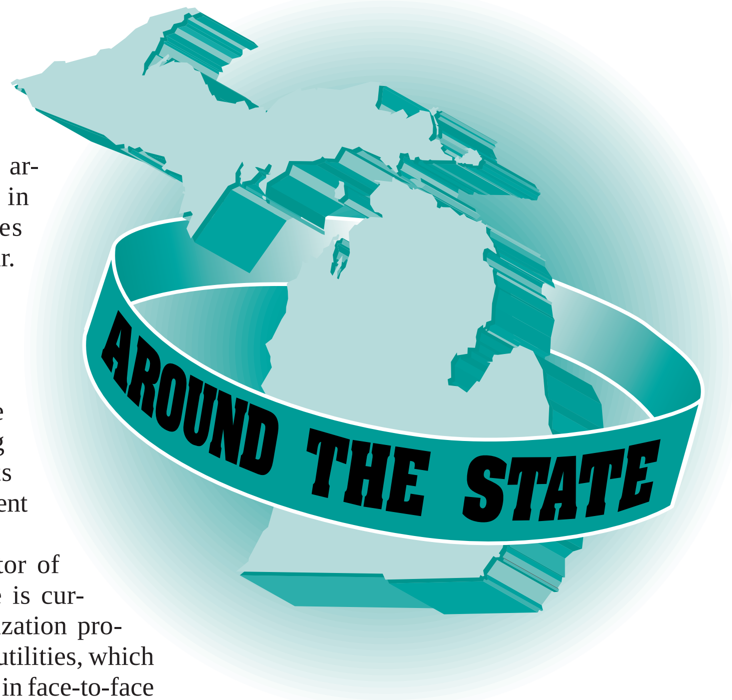
Secondly, state lawmakers should end the government's involvement in new low-income housing and let the competitive private sector provide this housing in the most efficient manner. Indeed, as has been shown, the truth is that the private sector is already providing the vast majority of low-income housing units and could do even more if MSHDA were abolished.

As the MSHDA mortgages become due, policy makers should retire the existing bonds and eliminate the vast expansion of state debt that is used to construct housing whose value is less than the value of the resources being used to construct it.

More low-income families would benefit if the government retained MSHDA solely as the agency that administers federal tax credits and ended the state's involvement in the housing business altogether. MPR!

Gary Wolfram is George Munson professor of political economy at Hillsdale College.

Around the State



State Plan to Privatize Mental Health Services Meeting Opposition

LANSING—Community Mental Health Boards across Michigan are protesting state plans to introduce competitive bidding for mental health care, which would take control away from the boards.

Since 1963, Michigan's constitution has guaranteed state support of the mentally ill and developmentally disabled. That used to mean the state would pay for institutional care. But in 1974, control of public services for the mentally ill moved to 49 Community Mental Health Boards, which operate services at the local level in one or more counties.

Twenty-five years later, those boards are facing the greatest change since their inception. After allowing the state to introduce managed care into mental health services as a cost-containment measure in 1998, the federal government has told state officials they will have to develop a plan for competition.

State officials have informed the Community Mental Health Boards that because the federal government requires competition as a condition of Medicaid payments, competitive bidding must be phased in over the next two years, and must be in place by October 2002. Under the new system, the boards will no longer have the right to provide mental health services. They will have to bid to provide services, and the state will be free to take bids as well from private and nonprofit companies, including hospitals and health maintenance organizations.

The Muskegon County Board of Commissioners has authorized the county's corporation counsel to file lawsuits against the state and federal governments, on grounds that allowing private companies to provide mental health care violates Michigan's constitution.

Some experts predict that under the new system, many rural Community Mental Health Boards would survive, since fewer private companies would bid for services in those areas. But some boards in more populous counties would probably disappear.

Seeing the Light on Privatization

DETROIT—The city of Detroit is moving closer to privatizing its Public Lighting Department (PLD).

Mark Petty, director of the department, says he is currently evaluating privatization proposals from four private utilities, which applied for consideration in face-to-face meetings in September and October of 1999. Following his evaluation, Petty will make recommendations to Mayor Archer, who will submit the plan to the city council.

Originally advanced in 1998, the formal request for private proposals states that the city's objective is "competitively priced electricity for the customers of the city of Detroit." The formal request also states that the city is prepared to consider everything from partnership with other energy providers to improve PLD operations, including the outright sale of the entire public system, leasing the PLD to a private utility for a finite term, to allowing another utility to operate the system without any transfer of property.

The four bidders are Detroit Edison/Energy Resources Management, Michigan Consolidated Gas, Enron (a Texas-based oil and utility company), and a consortium headed by Texas Utilities/Enserch. None of the proposals submitted so far involves a wholesale change of ownership for Detroit's public lighting system.

However, the efforts toward privatization are meeting strong union opposition. Accusations include that the PLD has deliberately downsized in recent years in order to sabotage operations and justify a takeover; that turning operations over to Edison would be a disaster since the company has had problems supplying the suburbs with electricity; and that the PLD has failed to provide a comprehensive report detailing the need for privatization, or to satisfy other requirements called for in the new city charter.

The city of Detroit is moving closer to privatizing its Public Lighting Department.

On the (Private?) Street Where You Live

AuSABLE—The builder of a housing development circulates a petition among the various property owners in his development, asking whether they would like him to request in Circuit Court that the local township allow their street to be a private street. All but one of the homeowners responds to the petition, and all the respondees say yes. Should the road be made private?

That was the issue facing the AuSable Township Board of Trustees in November, and the issue was not as cut-and-dried as it might seem. The Board decided by a 4-3 vote not to oppose privatizing the access street to the Boon Docks Subdivision, but the decision came only after a three-way tug-of-war between Board members, the AuSable Township Planning Commission, and the Iosco County Road Commission.

The AuSable Township Planning

continued on next page

Commission had already voted—almost unanimously—to recommend fighting to keep the road in question public. And Board Supervisor Ronald Lamrock agreed with the recommendation, requesting a decision from the full Board. Lamrock had also objected to the developer's installation of wrought iron fencing, a stone wall, and electrically operated gates in the subdivision, and had asked the Iosco County Road Commission to certify the street as part of the public road system. But the Commission said the gate, fencing, and possibly the stone wall would have to be removed first.

One argument raised by anti-privatization forces was that the developer, Roland Burke, was collecting a fee from property owners to pay for street maintenance without proper authorization.

But Board members favoring privatization argued the property owners' case, gaining the 4-3 vote. Now the case will be decided in court.

When the local Chamber of Commerce suggested the council ask citizens whether they support or oppose privatization, "it was as though someone had handed city officials a snake."

Privatization in Ann Arbor: Don't Ask, Don't Tell

ANN ARBOR—The Ann Arbor city council last year asked prominent local institutions to submit possible questions to be asked of area citizens for the city's third annual community survey. But when the local Chamber of Commerce suggested the council ask citizens whether they support or oppose privatization, "it was as though someone had handed city officials a snake," according to editors at *The Ypsilanti Press*.

"It was enough to put an end to the Ann Arbor Area Chamber of Commerce's participation," wrote the *Press*. Yet, "the Chamber's proposed questions do exactly what the survey was intended to do: Get city residents' views about financial priorities."

Assuming that the goal of the survey is to get a statistically sound sample of general attitudes toward public spending and budget priorities, the questions, such as, "When city tax revenues grow at a rate greater than inflation, should the money be spent or returned to taxpayers?" seem well aimed. Yet they were refused by the Council members.

The incident displayed "a closed-mindedness stunning in a group purportedly interested in measuring public opinion," the *Press* opined.

Waste Not, Want Not

ROYAL OAK—City commissioners are upset about the fact that the private company that takes care of their waste disposal, Waste Management Co., charges above-industry averages, and yet is just about to have its contract extended for another five years.

The Southeastern Oakland County Resource Recovery Authority, a 12-city consortium founded in the 1950s to obtain discount hauling rates, is considering a proposal to extend Waste Management's contract without competitive bidding.

If the proposal is approved, a number of cities, including Royal Oak, Berkley, Beverly Hills, Birmingham, Clawson, Ferndale, Hazel Park, Hunting Woods, Lathrup Village, Oak Park, Pleasant Ridge, and Troy will continue to pay waste hauling fees totalling $38 per ton. In a meeting of consortium member cities January 12, a proposal was approved to hire an outside consultant to compare rates with other cities in Metro Detroit to see if the consortium rates are out of line.

Royal Oak is threatening legal action if the contract goes through. Mayor Dennis Cowan says other Metro Detroit cities pay far less—and wants the Authority to scrap the proposal and even consider breaking it for the sake of bringing down costs. He also is calling for the Authority's by-laws to be changed so cities can withdraw from the consortium: Madison Heights, which left the consortium two years ago, pays only $22 per ton to Waste Management, after competitive bidding. Royal Oak thinks it could save $4.5 million by 2007 if it paid a similar rate.

At the acrimonious meeting of the Authority January 12, all of Royal Oak's resolutions were either rejected or tabled.

Every Dog Has His Day: Antrim County May Privatize Animal Shelter

BELLAIRE—Like an unwanted stray dog, Antrim County's animal control division can not seem to find anyone willing to give it a loving home.

The county sheriff's department has operated the animal control division in cramped quarters on the grounds of the Antrim County Airport for decades. But for years, the Federal Aviation Administration has been calling for the shelter to be moved for safety reasons.

But, try as they might, county officials have not been able to find a location for the division because residents do not want it nearby. That is why commissioners are now exploring the possibility of privatizing the animal control operation.

Dr. Steve Halstead, a veterinarian with the Michigan Department of Agriculture who oversees all of the state's animal control facilities, said privatization of such facilities, while uncommon, has worked effectively in some areas. If the facilities were privatized, the sheriff's department or county administrators would still ensure that state animal control requirements are followed, but a private vendor would staff and operate the facility.

Antrim County is not alone in having a growing population and a decades-old facility that can no longer meet the county's animal control needs. "Privatization looks like the best alternative for them right now," Halstead says.

U.P. Welfare-to-Work Branch Goes Private

UPPER PENINSULA—A Michigan Department of Career Development (MDCD) policy handed down to local branches of Michigan Works!, the state's unemployment and job training agency, prohibits branches from both administering and providing client services and requires instead that their branches contract out services to private vendors.

While the privatization policy has resulted in comparable and cheaper client service for many of the Michigan Works! programs throughout Michigan, county commissioners from all over the state are protesting the fact that the Western Upper Peninsula branch (WUP) of Michigan Works!, which provides its own services, has been denied a waiver from privatization for the first time.

The reason the WUP has been granted waivers in the past was because it consistently had the lowest cost-per-job-placement in the state of Michigan for the Welfare to Work Program, whose services are to be privatized. In fact, in the spring of 1999, WUP actually outbid the private company that will take over its client services, Teaching Family Homes of Marquette.

While Robert Pendleton, director of the Office of Workforce Development for the MDCD, does not deny that WUP has maintained an exemplary record, he says "One of the reasons we go with contracting is that it saves money . . . . Statewide we have saved a lot of money through contracting rather than having staff provide services."

Before the waiver for the new privatization policy was denied, the WUP was the only Michigan Works! branch that had not privatized its client services. Denial of the waiver makes the privatization policy uniform statewide.

Local Officials Balk at Privatization-Friendly Federal Guidelines

Advocates of new federal accounting standards for state and local governments believe that trying to place a dollar value on everything from highways to government land and buildings will enable governments to make informed decisions on issues such as privatization.

Others are calling the standards an unnecessary intrusion into state and local autonomy, a waste of time and money, and practically useless as far as information is concerned. "We're just adding another layer to an already large reporting document," Kathy Smith-Roy, president of Michigan Municipal Finance Officers Association, told the Associated Press.

State and local officials are expected to comply with the new standards nevertheless, even though they are not binding, because failure to do so could drive up borrowing costs: Agencies that give credit ratings would notice and give a bad rating. For the state of Michigan, the cost of pricing alone for a host of 12,000 items, including the State Capitol and the Mackinac Bridge, will come to $3 million.

Hamtramck Mayor Sick of Workers' Garbage

HAMTRAMCK—Frustrated by union tactics that left garbage pickup weeks behind, Mayor Gary Zych of Hamtramck has championed contracting out garbage collection. But he has been met by fierce opposition from the city employees' union and city council members.

The union claims privatizing is a violation of its contract, which, the mayor concedes, requires an agreement from the union. But with the sanitation employees refusing at one point to work new shifts and a string of injuries and time taken off by a number of employees, Zych says he may be dealing with a case of a union not acting in good faith. He even claimed the employees' refusal to work was tantamount to a wildcat strike.

Although workers finally agreed to new working hours, garbage collection still did not go smoothly. The town's two garbage trucks came up with problems that seemed to Zych like union delaying tactics and garbage collection was held up until they could be fixed.

At this point, Zych said if collection continues to fall behind, he would declare an emergency and call in a private company. But the garbage collection problem seems to be only one aspect of wider budget problems in Hamtramck—Zych recently asked the state about the possibility of his entire town going into state receivership.

Frustrated by union tactics that left garbage pickup weeks behind, Mayor Gary Zych of Hamtramck has championed contracting out garbage collection.

Lapeer Tries to Engineer Private Contract for Road Building

LAPEER—Road commission administrators are thinking about bringing in a contractor to replace some or all of the engineering department employees. Apparently road work that needs to be done is not getting done, or is done inefficiently, and repeated efforts to get the department to operate better have fallen on deaf ears.

"They've had three years to redesign their department to make it more efficient, and they've been sitting on their hands," says Managing Director Dan Toy. "We can't make it productive. We hide lots of costs internally. They're getting paid to sit here," he adds.

Toy says the bargaining contract with the current employees allows two-week layoff notices, but attorneys for the employees are making threatening noises about filing unfair labor practice complaints and otherwise resisting Toy's effort. MPRI

Correction!

In "A Free-Market Solution to Water Pollution," published in the winter 2000 issue of *MPR*, two sentences are incorrect. In the fifth paragraph, the sentence, "Let's say a farmer reduces the level of phosphorous in the water runoff from his land to a level below that required by current state regulations" should read ". . . from his land beyond what he is currently doing." In the sixth paragraph, the sentence, "The company, say, a water treatment plant, could then redeem the credit, which would allow it to emit one additional 'unit' of pollution, rather than pay the higher cost of reducing its pollution by the same amount" should read ". . . the same amount without exceeding its permit." *MPR* apologizes for any inconvenience arising from the errors.

K-Zoo's "Legacy of Flight": Will Taxpayers Be Taken For A Ride Again?

By Lawrence Reed

In 1984, a $70-million theme park opened in Flint, Michigan, amid much fanfare and hoopla. Situated on nearly seven acres of land in downtown Flint, the park was supposed to draw 900,000 visitors every year and help revive a dying inner city. It had the enthusiastic support of city and state officials and many big-name Flint citizens. Half of the $70 million it took to build the facility came from federal, state, and city governments.

Sixteen years later, nothing remains of the park. Closed after less than two years of sparse crowds, and then later demolished, the site is now part of the University of Michigan's Flint campus. "Build it and they will come" turned into, "Build it and they'll say *ho-hum*." The park's name—"AutoWorld"—has since become synonymous with overly ambitious boosterism and the folly of using public dollars for recreational projects that cannot pass a market test.

The Kalamazoo Air Zoo's Legacy of Flight project should not be funded with taxpayer dollars. If the idea were worthy of public support, it could fly under its own power instead of on a current of government subsidies.

With echoes of the Flint failure still reverberating, the city of Kalamazoo may be about to put taxpayers on the hook for another theme park. The Kalamazoo Air Zoo has announced plans to build a 6-1/2-acre "Legacy of Flight" attraction—an aviation entertainment and education center slated to open in June 2003. Local leaders are hoping to convince the state of Michigan to come up with as much as half of the estimated $80 million construction cost. Options that would force visitors to the city to pay some of the cost are being discussed, including a 25% hike in the local hotel accommodations tax.

The new "Legacy of Flight" aviation and entertainment center is projected to cost $80 million, half of which Kalamazoo hopes the state will finance.

As was the case with AutoWorld, advocates of this project argue that they will succeed where others have failed. The 840,000 people projected to annually visit Legacy of Flight will indeed show up, they say, because the exhibits will be more engaging and exciting.

Others, however, are more skeptical, suggesting that the very fact that subsidies are needed to make the project "work" is evidence of its lack of economic viability. "Politicians think they're smarter than the market and that they know best how to spend other people's money," said Dr. Gary Wolfram, an economist at Hillsdale College. "But they should put their own money where their mouths are and invest their own personal savings in projects like this, not the hard-earned tax dollars of everybody else.

"Hundreds of privately funded recreational and educational projects are thriving all over America—from Disneyland to the Saginaw Zoo—while similar projects that require tax money often become expensive white elephants. Government should not be in the entertainment business any more than it should be in the pizza business," he added.

The Kalamazoo Air Zoo's Legacy of Flight project should not be funded with taxpayer dollars. If the idea were worthy of public support, it could fly under its own power instead of on a current of government subsidies. MPRI

Lawrence Reed is president of the Mackinac Center for Public Policy.

MACKINAC CENTER
FOR PUBLIC POLICY
140 West Main Street • P.O. Box 568 • Midland, Michigan 48640

NON PROFIT ORG.
U.S. POSTAGE
PAID
MIDLAND, MI 48640
PERMIT #275