ISSN 1092-7999

The DNR's Latest Land Grab

Michigan Privatization Report

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2002-04 / Fall 2002

Michigan: Should a Privatized River Run Through It?

No Business in Snow Business

National Perspective: Privatization and Culture

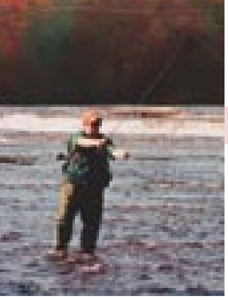
and more...

MICHIGAN PRIVATIZATION REPORT

Editor: Samuel Walker
Senior Managing Editor: Michael LaFaive
Guest Managing Editor: Eric Neuman
Graphic Designer: Daniel Montgomery

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: (989) 631-0900; Fax: (989) 631-0964; e-mail: mcpp@mackinac.org; or World Wide Web: http://www.mackinac.org if you wish to receive *Michigan Privatization Report*.



Feature

Incentives and Trash Collection

By Lisa A. Skumatz, Ph.D

For decades, environmentalists and state and local leaders have disagreed over how to manage the ever-increasing amount of garbage thrown out every year, and how to get us to recycle. One method that enlists the power of economic incentives has been grabbing the attention of both sides. Why? Because it works.

While adoption of a PAYT/VR program does not, in itself, constitute privatization, it gives municipal residents better signals for what their service actually cost.

The system is called by many names—among the most common are "pay as you throw" (PAYT), "variable rates" (VR), and volume-based rates. Instead of paying a fixed bill for unlimited collection, these systems require households to pay more if they put out more garbage—usually measured either by the can or by the bag. Paying proportional to actual use (the same way we pay for electricity, water, groceries, etc.) provides households with a market-based incentive to reduce disposal and increase recycling. While adoption of a PAYT/VR program does not, in itself, constitute privatization, it gives municipal residents better signals for what their service actually costs, and may give public systems and private systems rewards for efficiency.

According to recent research by Skumatz Economic Research Associates (SERA), there are currently more than 5,200 communities across North America, and more than 200 towns in Michigan with PAYT/VR programs. The SERA study shows that this market-based incentive doesn't require additional trucks on neighborhood streets, and reduces the trash tonnage placed in landfills or other disposal sites by 17 percent. It increases recycling by 50 percent in many communities, and encourages other diversion and waste prevention behaviors. In short, it may be the cheapest, most efficient way to manage waste.

How do PAYT/VR Programs Work?

PAYT/VR programs can be categorized into five major types:

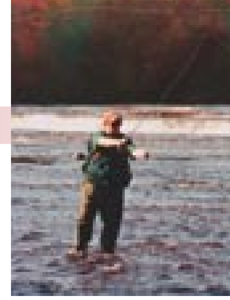
- **Variable can or subscribed can**: Households estimate the amount of garbage they will regularly generate, and sign up to receive a specific number of containers (or size of container) that will hold this amount. The more containers they use, the higher their regular disposal bill.
- **Bag programs**: Households purchase bags with special logos (city or hauler logo, depending on the collection arrangement). The price of the bag includes some or all of the cost of collection and disposal of the amount of waste in the bag. Some programs have a customer charge or base fee in addition to bag fees to cover fixed costs. For convenience, bags usually are sold at convenience and grocery stores as well as at city-owned facilities.
- **Sticker or tag programs**: Households purchase special tags or stickers to put on their bags of garbage. The sticker price includes some or all of the cost of collection and disposal of the amount of waste in the bag. As with bag programs, some tag or sticker programs charge the customer a base fee in addition to sticker fees to cover fixed costs. Tags and stickers are usually sold at convenience and grocery stores as well as at city-owned facilities
- **Hybrid programs**: Households pay a fixed bill or tax bill that entitles them to a first can or bag of garbage (size limits are usually around 30 gallons). After that, they pay only for waste disposal beyond a specified "base" volume, charged on a per-bag or per-sticker basis. This system is a hybrid of existing garbage programs and the new incentive-based approach, and minimizes billing and collection and equipment changes.
- **Weight-based**: Under this program (dubbed "Garbage by the Pound" by SERA), customer garbage cans are weighed on the back of retrofitted collection trucks, and the household is charged by the pound for the amount of waste it throws out. This system is fairer in that it charges customers even more precisely—and most important, they only pay for the service they use. It is also more convenient, allowing communities to use large cans, while still offering residents an incentive to recycle.
- **Other systems**: Some communities have drop-off variations of these programs, where customers pay by the bag or by weight at transfer stations, using fees, bags, stickers or pre-paid punch cards. In addition, some haulers offer PAYT/VR as one option, or customers may choose unlimited collection for a fixed fee.

PAYT/VR programs began to appear in Michigan in the mid-70s, and experienced dramatic growth in the 1990s. The majority of programs in the state are bag-based or hybrid-type, and some rural communities have instituted drop-off bag programs. Can-based programs are less common in Michigan than nationally. The SERA study found PAYT/VR programs in Michigan communities with populations as small as 200 and in communities with over 100,000. Nationally, the most common reasons for adopting PAYT/VR include: rising landfill/disposal costs; adoption of diversion goals (increasing recycling to 50 percent, for instance); reports of successful programs elsewhere; and legislative mandates. Even without mandates, the SERA study shows that Michigan communities have adopted PAYT/VR programs more frequently than communities in other states—with significant gains in recycling and reduced disposal.

Detailed analysis in the study showed towns that adopt PAYT/VR programs can expect:

- Disposal decreases of 16 percent to 17 percent
- Increases in the recycling rate that reach 5 percent to 6 percent of the

see "Incentives" on page 12



No Business in Snow Business

■ **By John La Plante**

If you were to ask Michigan citizens to rank the various functions and duties of their state government, they probably would be surprised to find "owning and operating a ski resort" on the list at all. Yes, the state does, in fact, own and operate the Porcupine Mountains Downhill Ski Area, located inside the Porcupine Mountains Wilderness State Park. The state has no business in snow business, and should instead sell off the facility or contract out its operation.

The "Porkies" offer skiers 15 downhill runs, served by four lifts, on a ski slope area of 100 acres. With a history that goes back to 1940, the Porkies were one of the first alpine ski areas in the Midwest. It is one of four downhill ski areas in the western half of Michigan's Upper Peninsula, and the only one directly subsidized by Michigan taxpayers. Its low lift ticket prices ($28 for adults during peak periods, compared with $36 elsewhere) and generous children's policy (children under 12 ski free; other areas charge once a child is 7), give it an advantage—some would say an unfair advantage—over nearby privately owned ski areas.

The pricing policies also leave Michigan taxpayers—skiers and nonskiers alike—holding the bag. Last season, the state spent nearly $375,000 operating the area, and showed a $140,000 loss. The money came from taxpayers—including the owners and employees of privately owned ski areas.

The mountains in the area get over 200 to 300 inches of snow a year, and some have earned high praise from ski enthusiasts. Private, for-profit Big Powderhorn, near Bessemer, for example, was ranked No. 8 overall in the Midwest by readers of *Ski* magazine, and nearby Indianhead Mountain Resort snatched a No. 9 ranking.

You would think, with its lower prices, skiers would flock to the Porkies, but they don't—at least not compared to the neighboring privately run resorts. Brett Stangeland, managing partner of Indianhead, estimates that the four privately owned resorts in the area, (Indianhead, Big Powderhorn, Blackjack and Whitecap, just over the border in Wisconsin) together receive 300,000 skier visits per year. That's an average of 75,000 visits per year, each. By contrast, Porcupine has averaged approximately 17,000 visits per year.

Why? Because it needs improvements that private entrepreneurs have the best incentive to make. It does not have snowmaking equipment, for example, which helps create a solid base, and is essential in seasons when the snow is late to arrive. In addition, the Porkies could use better lifts to whisk skiers to the top of the slope. Ski enthusiasts, writing on the web site goski.com, approved of the Porkie's unbelieveable views, good snow, and variety of runs. But they lamented the slow lifts: "Bring a book," said one reader. High-speed lifts would help a Michigan-based resort compensate for its relative lack of steep and long runs (generally 400-600 feet, compared with 2,000-3000 feet in the Rockies).

Owners of private-sector ski areas pay property taxes to state and local governments, while the Porcupine ski area does not. The most recent numbers show that Indianhead paid over $66,000, and Big Powderhorn paid over $64,000. That represents yet another way in which the state is operating a business in unfair competition with the private sector. Why? Because the Porkies need not compensate local units of government in the same way mandated for private, profit-making institutions, even though the Porkies uses its share of local services.

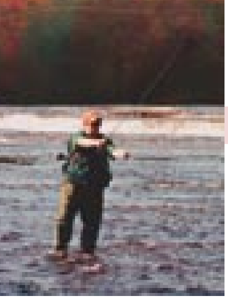
In short, the Porcupine ski area operates at an unfair advantage against its private-sector competitors, and even then is unable to operate in the black, lacking the all-important incentive of a "bottom line." The taxpayers of Michigan are paying for a second-rate ski resort. Of course, operating a well-managed resort takes specialized exper-

The state-owned Porcupine Mountains Downhill Ski Area offers tax-subsidized skiers great views, 15 ski runs, and even shelter for those who just need a short break.

tise and investment capital, neither of which governments have.

Michigan lawmakers looking for an example of what can be done under such circumstances should look at the city of Denver, which recently turned management of Winter Park Ski Resort over to the private sector. Winter Park opened in the late 1930s. By 1950, however, it was clear that the city could not, on its own, make the necessary investments that the area required to be competitive. It made some changes, and continued to operate the area. Earlier this year, however, city officials acknowledged that they need private capital to upgrade the resort. After receiving six proposals, the city chose Intrawest, an industry leader, to manage the park under a 50-year contract. The city of Denver will receive $3 million at contract approval, and a percentage of gross revenue. No government money will be used.

continued on next page



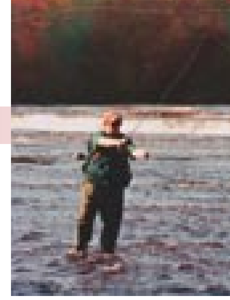
"No Business in Snow Business" continued from page 5

If Michigan were to contract out the operation of the Porkies ski area, there are plenty of homegrown companies that could handle the job. Boyne USA, for example, has been honored by readers of *Ski* magazine for its operation of Boyne Highlands and Boyne Mountain. Ski industry insiders Peter Shelton and Ed Chauner spoke favorably of Boyne's operation at Big Sky, Montana, in their book "*The Unofficial Guide to Skiing in the West*," a review of the best ski areas in western North America. Of course, one of the companies that currently own resorts in the western UP may also step in. It's not unusual for a company to own or operate several resorts in one area. Such is the case with the Aspen Company, which operates four resorts in and near Aspen, and Vail Resorts, which operates resorts in Vail and Beaver Creek.

Here in Michigan, privatization is hardly a new concept. In 1999, businessman Scott Holman bought government-owned Granite Island, a small island near Marquette that features a lighthouse, and, like the Porcupine Ski area, was underused. In Hamtramck, state-appointed Emergency Financial Manager Lou Schimmel contracted out much of the work of the city's Department of Public Works (DPW), to the benefit of the city's residents. Even an element of the criminal justice system—the Michigan Youth Correctional Facility—is run by a private enterprise.

If a government duty as fundamental as criminal justice can incorporate private enterprise to the benefit of Michigan citizens, there is no reason why the state shouldn't be looking at options for selling its ski resort. The state of Michigan simply has no business in snow business. MPR!

John La Plante has authored fiscal policy research articles for the Thomas Jefferson Institute in Virginia and the Oklahoma Council of Public Affairs. He is a graduate of Kalamazoo College in Kalamazoo.



Privatize MacMullan Conference Center

By Eric Neuman and Michael LaFaive

Is state ownership of a hotel/conference center a proper function of state government? The services governments provide, and the assets they own, have expanded to such a degree in the last century that many people are shocked to find out exactly what government has gotten itself into. The Ralph A. MacMullan Conference Center is a case in point. Michigan legislators should remove the state from this largely unnecessary government operation by selling it to a private citizen or organization.

Located in Roscommon, the MacMullan Conference Center is a hotel/conference center whose clientele is effectively limited by state statute, to be run as a semi-exclusive facility. Even though it is backed by all taxpayers, only those who are favored by state law can actually use it. These include: environmental and conservation education groups; government agencies; education institutions; nonprofit corporations and associations; handicapper groups; and organizations hosting an event that has a natural resources or environmental agenda. (Ironically, it was private sector companies that lobbied for these restrictions to limit the state's ability to take away their business.)

Located on 30 wooded acres along beautiful Higgins Lake, MacMullan plays host to nearly 15,000 guests annually. The facility charges $64 to $75 per person per night depending on which lodge guests stay in. The rates include three meals daily and use of meeting rooms and audio-visual equipment. There are six lodges for overnight accommodations and nine classrooms on the site. The lodges can sleep up to 135 people each night. The lodge also maintains 660 feet of beachfront access for swimming and fishing, as well as such amenities as volleyball, horseshoes, shuffleboard and basketball.

The only good news about MacMullan is that it usually raises enough money to cover its own direct costs, which helps avoid direct subsidies from state taxpayers. The bad news is that, according to MacMullan manager Jim Scott, roughly 60 percent of those paying to stay at the hotel/conference center are from other government institutions, excluding public schools and universities. In other words, taxpayer-funded state agencies are footing the bill for most of MacMullan's upkeep—so it might as well be state subsidized.

Located in Roscommon County on Higgins Lake, the resort-like MacMullan Conference Center is owned by the state of Michigan and used primarily by government officials.

Wouldn't it be more efficient simply to hold meetings between state officials in a state-owned office in Lansing? If officials want to explore an idea or consider the advantages of new legislation, do they really need to do so at a state-owned, lakefront conference center?

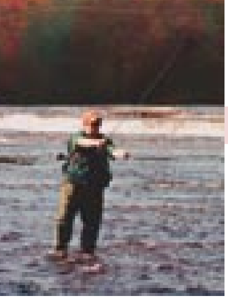
State involvement with this operation is wrong on several levels. First, it falls under no legitimate function of limited government. It is essential neither for purposes of public safety (such as police) enforcing the law through court actions, nor any other government function.

Second, if the citizens of Michigan pay state taxes and are thereby required to indirectly contribute to MacMullan's operations, they should have access to the facility.

Lastly, because MacMullan is a government entity, it has no real "bottom line." Unlike other conference facilities it won't "go out of business" if it fails to satisfy its customers. It therefore competes unfairly with other businesses, which must operate efficiently to survive. According to American Business Directories, there are 36 private, for-profit businesses in Michigan that describe themselves as "conference centers" and provide some or all of the services provided by MacMullan. Countless other hotel/conference center combinations operate in Michigan, as well. When the state indirectly

see "Privatize MacMullan" on page 15

Lastly, because MacMullan is a government entity, it has no real "bottom line." Unlike other conference facilities it won't "go out of business" if it fails to satisfy its customers.



Feature

The DNR's Latest Land Grab

By Diane Katz

The Michigan Department of Natural Resources is seeking control of some 390,000 acres of prime Upper Peninsula (UP) property to preserve as forestland and for recreational access. The land grab would be equal to 690 square miles, or more than half the size of Rhode Island. Well-intended though the proposal may be, the state should be privatizing resource management rather than increasing its already vast holdings.

Well-intended though the proposal may be, the state should be privatizing resource management rather than increasing its already vast holdings.

A Hawaiian trust plans to offer the property for sale sometime this fall. The coveted tracts traverse 10 UP counties and encompass two-and-a-half miles of Lake Superior shoreline and 130 inland lakes.

Officials of the DNR hope to secure $20 million from the state's Natural Resources Trust Fund to purchase a "forest conservation easement" that would prohibit any development on the property. An "easement" would not confer outright ownership of the property to the state, but the DNR would manage the land. Any buyer of the property would effectively cede to the agency their right to build or otherwise develop it.

At a Sept. 12 press conference, Gov. John Engler announced a partnership in the land deal with the Michigan chapter of The Nature Conservancy. The state is also hoping to engage a timber company to underwrite the land purchase in concert with the DNR's purchase of development rights.

No sooner had news of the impending sale hit the headlines than some environmental activists began urging the state to acquire the property for safekeeping.

"The UP is being looted," Doug Cornett, of Northwoods Wilderness Recovery, lamented to The Detroit Free Press, which reported the pending sale in July.

"If it all goes private, it's gone," predicted Ray Fenner, executive director of Superior Wilderness Action Network.

The fact that the Hawaiian trust—a *private* entity—has for years preserved the property as forestland, while also providing hunting and fishing access, evidently was lost on Messrs. Cornett and Fenner. But that's hardly surprising. The notion that government alone can be relied upon to preserve natural resources is widespread, notwithstanding the superior stewardship demonstrated daily by private conservators.

Entrepreneurs, in particular, are deemed untrustworthy stewards despite having driven the gains in agriculture and technology that have greatly improved environmental quality, notes Michael De Alessi, director of the Competitive Enterprise Institute's Center for Private Conservation.

"This despite the generally dismal track record of (government) conservation programs," he says. "[But] widespread fisheries depletion, overgrazed and overcrowded national parks, the forest fires that ravaged the Southwest last year, and the failure to recover endangered species are all potent reasons to search for more viable alternatives."

The DNR already controls 4.5 million acres of Michigan land, including 142 miles of Great Lakes shoreline and 3.9 million acres of forest—12 percent of all land statewide. Moreover, the Michigan Department of Agriculture has spent $24 million to retire development rights on some 13,000 acres of farmland. In total, more than 20 percent of all Michigan property is held by federal, state and local units of government.

The state also enjoys a veritable monopoly on outdoor recreation, including 96 state parks and 14,000 campsites, 92 miles of trails, marinas, bridle paths, shooting and archery ranges, luge and snowmobile runs, ski slopes and bike paths.

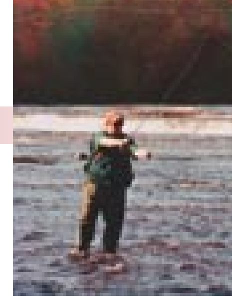
This dominant state system has inhibited the private recreation industry, which finds it difficult to compete against the state's tax and regulatory advantages. And to the extent that the state continues, in effect, to subsidize vacations for affluent families, private property owners will shy away from preserving their property for recreation. The irony here is that stiff competition from the state makes it far more likely property owners will earn a return on their investment through development.

The DNR's easement proposal is but the latest example of a troubling expansion of what's known as the "Public Trust Doctrine." The root of the doctrine, dating to Roman times, holds that some resources, by the laws of nature, are provided in common to all—the air and the seas, for example. The idea was later adapted to constrain imperial abuse of resource ownership, according to James Huffman, professor of law at Lewis and Clark Law School in Portland, Ore. The doctrine subsequently evolved into a common right to access navigable waters, principally for commercial purposes.

Throughout the 20th century, however, the Public Trust Doctrine has mutated into a ready excuse to subsume private property under government control.

In this instance, state officials justify the easement bid as necessary for environmental aesthetics as well as to preserve recreational opportunities. But as Richard Epstein, Professor of Law at the University of Chicago Law School has pointed out, a doctrine designed to constrain the "crown" has become an excuse to constrain personal liberty (in the form of property rights).

On a practical level, government is not the most efficient or effective



steward of natural resources. Distant bureaucracies hold no direct stake in land management decisions, whereas individual property owners who bear economic consequences for their actions are far more likely to protect and preserve what is their own. Moreover, government operates under a set of incentives that rewards adherence to the bureaucratic process, not results. Private individuals, on the other hand, derive reward only from outcomes.

Private conservation alternatives abound, and the sale of the Kamehameha lands offers a stunning opportunity for even more—particularly so if the Legislature were to loosen the government's domination of resource management.

The state of Michigan does offer limited incentives for private conservation. The Commercial Forest Act, for example, allows tax breaks to property owners who grant snowmobile and hunting access to the public. State grants also are available to assist private landowners in developing timberland management plans.

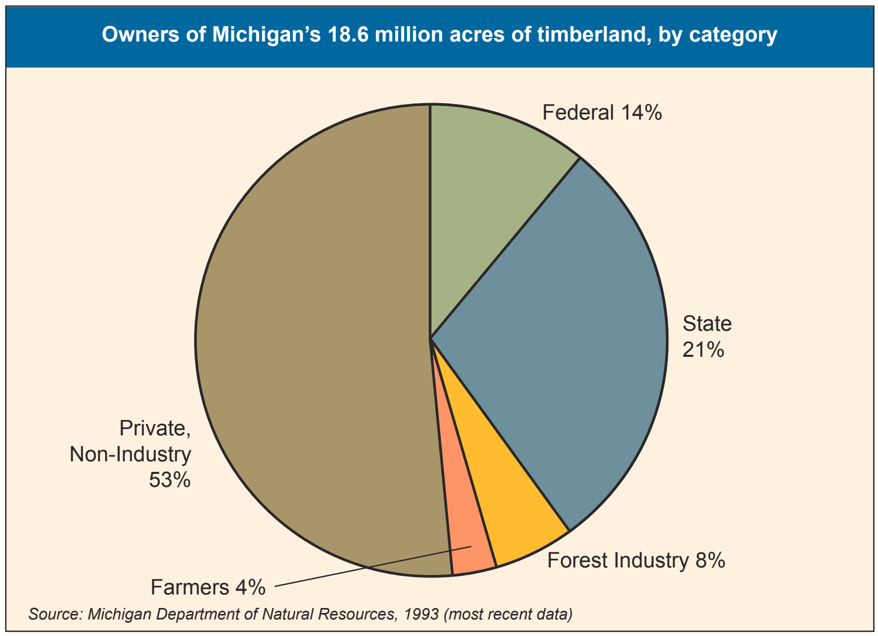
But private conservation efforts are hampered by the considerable tax and regulatory advantages enjoyed by government. To underwrite its easement proposal, for example, the DNR has simply submitted an application for $20 million to the state's Natural Resources Trust Fund (NRTF), which finances government land acquisition with revenues from state mineral leases. Needless to say, most private investors do not enjoy such easy access to free money.

Last year, the trust fund board granted $30.1 million to government entities for 10 major land acquisitions. An additional $7.4 million was distributed for 31 recreation development projects. And this pot of cash just keeps on growing. Since its establishment in 1984, the cap on the NTRF trust fund cap has been increased from $200 million to $500 million.

Among the more promising developments, however, is the prospect of a statewide "Water Quality Trading Program" that inches the state toward a more market-oriented approach to resource management. As currently drafted, the proposed rules would allow industrial facilities to earn credits for voluntary reductions in discharges of nutrients such as phosphorous and nitrogen, and to trade the credits with willing buyers whose effluents would otherwise exceed regulatory caps. A pilot project conducted two years ago within the Kalamazoo River Watershed demonstrated that credit trading improved water quality. Facilities were allowed to capitalize—literally—on innovative and cost-effective discharge reductions rather than be constrained by costly regulatory dictates.

Unfortunately, the proposed trading program, which was initiated in 1995, has not yet been approved by the Department of Environmental Quality. That bureaucratic processes have delayed water quality improvements for seven years is yet further evidence of how government inefficiency thwarts environmental progress.

Just as the profit motive was the force driving the Kalamazoo demonstration project, that same motive has prompted corporations to preserve property for recreational use. The International Paper Co. for example, collects 25 percent of its total profits from hunting, hiking, fishing and camping on a 1.2 million-acre spread across parts of Texas, Louisiana and Arkansas.

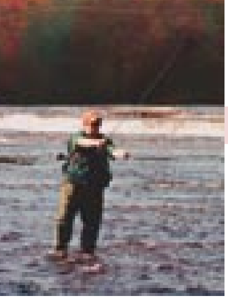


Government already owns a great deal of Michigan land and it wants more. This chart breaks out ownership of Michigan timberland, which includes land owned by federal and state governments. How much land must be owned and managed by government before public officials are satisfied?

Environmental groups, too, are marrying economics with conservation. The Audubon Society, for example, collects sizable royalties from tapping the petroleum reserves underlying its wildlife sanctuary in Louisiana.

Individual property owners, meanwhile, are joining forces in private land management. North Maine Woods Inc, a nonprofit association founded by 20 private landowners, now oversees 3.5

continued on next page



Feature

"The DNR's Latest Land Grab" continued from page 9

million acres of Maine forest in which thousands of visitors annually camp, hunt, canoe and fish.

Some U.S. states are moving forward with private solutions to water quality issues.

Enormous environmental benefits could likewise be had if Michigan were to leverage the power of incentives more broadly. For example, Michigan has nearly 28,000 miles of rivers that are periodically assessed for water quality by the state. Of the 21,890 miles assessed since 1997, some 777 are rated by the state as not supporting aquatic life and 1,542 miles of river are rated as not sustaining fish for human consumption. There are also 588 miles that fail to meet the standard for recreational swimming. Another 2,620 river miles have undergone channel and habitat modification. Clearly, there is room for improvement in state water quality, room that private ownership could transform into an effective incentive for improving Michigan rivers and streams. One option would be to assign management rights to private individuals.

Experience elsewhere demonstrates that the quality of Michigan rivers, such as the AuSable River, shown here, could be improved by privatizing river management.

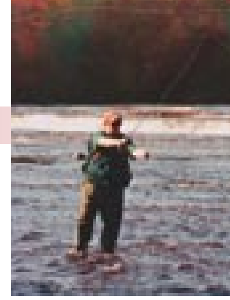
Experience elsewhere demonstrates that the quality of Michigan rivers could be improved were the state to privatize river management. In Scotland, for example, the sections of most every major river, and most minor ones, that flow through private property are either privately owned or leased. New Zealand fisheries have likewise improved since tradable fishing rights were instituted.

Some U.S. states are moving forward with private solutions to water quality issues. Since 1990, according to Clay J. Landry of the Bozeman, Montana-based Political Economy Research Center, an estimated $61 million in public and private funding has been spent on leases and purchases of water rights—primarily to improve habitat for endangered fish species. The amount of rights purchased translated into more than 2.3 million acre-feet of water that were not diverted to some other use. By creating a market for water, people have an economic incentive to protect and improve fish habitat.

There currently is no legal impediment preventing a private individual or group from acquiring the development rights or title to the 390,000 acres of UP property in question. But the state already controls more land than it can adequately care for, and no adequate reason to relentlessly acquire more.

There's no evidence that DNR officials are acting with nefarious purpose in seeking to prevent UP development. Government agencies, by their very nature, seek to expand their reach. But state environmental policy should not be rooted in the assumption that only government can be trusted to safeguard natural resources. Both the environment and citizens would derive much greater benefit if the state controlled less, not more property.

Diane Katz is director of science, environment, and technology policy for the Mackinac Center for Public Policy.



Legislature Should Spawn Hatchery Privatization

By Michael LaFaive

Does the State of Michigan really need to be in the fish hatching business?

Our state government has been hatching fish since 1873, when $1,200 was first appropriated for the construction of a hatchery in Cass County. Today, the state operates six fish hatcheries, located in the counties of Van Buren, Benzie, Wexford, Marquette and Emmet. Together these are capable of producing a million pounds of fish annually. In 2001 the state produced 48 million fish.

Might private entrepreneurs be more concerned than officials of the Michigan Department of Natural Resources (MDNR) with satisfying a demanding clientele, and doing so in an economically efficient way? Michigan legislators ought to consider, as an experiment, privatizing one or two hatcheries to study the efficacy of private-sector involvement in growing fish for Michigan rivers and lakes.

According to the MDNR it costs the state a system-wide average of $6.92 per pound raise fish based on "known costs." According to Michigan private aquaculture officials, it costs the private sector less than $2.00.

For the 2002-2003 fiscal year, the "fish production" line item in the state budget was $6.8 million. But this figure doesn't come near the entire state cost of producing fish for deposit in Michigan's lakes and streams. General state fisheries management is a $24 million annual endeavor.

And that figure doesn't include capital costs, the large investments made by the state to improve the fisheries infrastructure, which raise the cost of state-produced fish. For instance, the Oden state fish hatchery is being renovated at an estimated cost of $11 million, which is not reflected in the state fisheries budget.

It's not as if Michigan doesn't offer a lucrative opportunity to private entrepreneurs. The Great Lakes State is a fishing paradise. According to the MDNR, Michigan offers more than 3,000 miles of shoreline, more than 11,000 inland lakes more than five acres in size, and 36,000 miles of rivers and streams, including the world famous Au Sable River. The Michigan sport fishing industry alone generates $1.4 billion in economic activity statewide.

Entrepreneurs already are involved in hatching fish, to the degree that they can make a profit competing against their large-scale competitor subsidized by taxes and fees. Sportsmen are charged taxes on fishing gear and purchase licenses each year. A portion of the revenue from these sources are invested in state hatchery management. As of 2000, Michigan was home to 65 private aquaculture facilities (licensed by the state to raise products as diverse as catfish and shrimp), 33 of which are commercial trout operations that sell more than 474,000 pounds of fish annually. The value of the fish stock sold ranks 12th among the 50 states.

State ownership of hatcheries is nothing new. Indeed, a survey of all 50 states by *Michigan Privatization Report* has found that 49 of them own at least one fish hatchery. Delaware stands alone in owning no hatcheries (but it is thinking about getting into the business).

On the other hand, there are signs that states are beginning to question the government's role—or at least to recognize that private businesses can hatch fish far cheaper. Nineteen states currently supplement or intend to supplement their fish production by purchasing stock from private, for-profit businesses. Oregon, which owns 34 hatcheries, is starting a pilot program to ensure that a minimum 10 percent of the state's fish stock is obtained from private sources. Private hatcheries could provide an even greater percentage.

The publicly financed Oden State Fish Hatchery, above, remains closed to the public as construction efforts run behind schedule. There is no hatchery function performed by the state today that could not be performed privately if lawmakers would allow it.

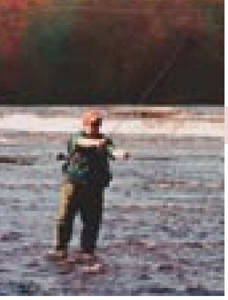
There is no reason why a hatchery that is a private business couldn't operate according to the same quality guidelines the state works under, and for less. One way to find out is to experiment with privatization.

The Michigan Legislature should start a pilot program of its own that would allow for the sale of at least one of its state hatcheries to a private business. The program should also include a contracting arrangement whereby a private business operates a state-owned hatchery. The state could mandate production requirements as part of the sale and track the quantity and quality of the fish produced at the newly privatized center.

If the program works, other sales could ensue. The state could also ask the federal government to turn over its three Michigan-based hatcheries to the state for sale, and any savings from privatization could be turned back, for example, to Michigan fisherman in the form of less expensive fishing licenses.

Simply because the state has been providing a particular service for a long time doesn't necessarily mean that it should continue to. Plenty of private alternatives to state fisheries exist and they should be explored by officials desiring the best services at the lowest cost for Michigan sportsmen. MPR!

Michael LaFaive is an economist and senior managing editor of Michigan Privatization Report.



"Incentives" continued from page 4

amount of disposal—which usually comes to about a 50 percent increase in the current level of recycling;

- Increases in yard waste diversion amounting to about 4 percent to 5 percent of disposal over current yard waste diversion levels;
- A reduction of about 6 percent of waste, due to less packaging, buying in bulk, grass recycling (leaving it on the lawn), and other behaviors that keep materials out of the waste stream.

"Pay as you throw" and "variable rate" programs are great ways to increase recycling, divert yard waste from trash pickup, and generally reduce the amount of garbage left on the curb.

Based on these figures, a town that generates 100,000 tons of residential refuse annually could expect to see an annual reduction of 16,000 tons. Recycling tonnage would increase by about 5,500 tons as people moved waste, such as empty milk jugs, from their garbage bags to recycling programs. About 6,000 tons would be avoided through waste prevention.

Experience shows that people produce less waste in order to lower their garbage bills when PAYT/VR programs are in place. For instance, shoppers may bring canvas bags to grocery stores instead of getting new bags they will need to throw away. They may also look for products with less packaging in order to prevent unnecessary waste and disposal charges.

The biggest concern over these programs, according to SERA research—that they create an incentive for the less scrupulous to dump their garbage illegally—is reported as a problem in less than one-quarter of communities. According to SERA research, PAYT/VR communities report that illegal dumping problems usually last less than 4 months and are easily solved through a variety of enforcement strategies. In fact, SERA examined the composition of illegally dumped materials and found that the vast majority of illegal dumping usually involve non-residential sources and are not in response to PAYT/VR programs.

Michigan Case Studies

The PAYT/VR programs operating in two Michigan communities are summarized below, and are chosen to show that the programs work in both urban and rural environments. Such programs are very common in suburban areas in the state.

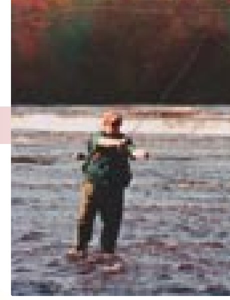
Lansing: With a population of over 119,000, Lansing was one of the first communities in the state to implement a PAYT/VR program, which it did in 1975. The program uses multiple private haulers operating competitively. Both bag and variable-can options are available to residents. Weekly recycling in 15-gallon bins was implemented in 1991, adding to the drop-off service that was implemented several years previously. The curbside program collects newspaper, aluminum and bi-metal cans, three types of glass, and No. 1 and No. 2 plastic bottles. The weekly curbside yard waste program was established in 1991. Through these programs, the city has achieved a 15 percent recycling rate and 30 percent yard waste diversion rate, for a total diversion rate of 45 percent.

Emmet County: In Emmet County refuse collection has never been a government-run function. Several years ago, the county did, however, begin requiring citizens to pay for refuse collection based on volume. Lisa Seltzer, public works director for the county for 13 years, reports that when the program was implemented, garbage volume initially dropped and recycling increased. Unfortunately, it is impossible to measure the degree of change because Emmet County has had huge increases in its population, and thus, in total volume of refuse. One county employee told *Michigan Privatization Report* that he pays less today for garbage pick-up at his home than he did 20 years ago. In other words, even excluding the effects of inflation, it costs him less to have his refuse picked up today than it did in 1982.

"Pay as you throw" and "variable rate" programs are great ways to increase recycling, divert yard waste from trash pickup, and generally reduce the amount of garbage left on the curb. They also help reduce the cost of collecting and disposing of garbage. Communities should at least examine these systems to see if they make sense. The localities that adopt them should re-examine their programs every few years as conditions, priorities and options change.

The right economic incentives offer a powerful tool for reducing waste that flows into America's landfills. It is clear from empirical and anecdotal evidence that PAYT/VR systems have reduced waste, and in many cases cut the cost of collection and disposal (the SERA study found that two-thirds of PAYT/VR communities had no increase in costs or fees). Officials in cities, counties and villages would be wise to consider this cutting-edge waste management technique for their own communities.

Lisa Skumatz, Ph.D, is an economist and principal of Skumatz Economic Research Associates, a research and consulting firm based in Colorado. She can be contacted at 303-494-1178 or by email at skumatz@serainc.com. SERA's website is www.serainc.com.



Ann Arbor, Pontiac consider privatizing garbage pickup

ANN ARBOR—In addition to possibly having to lay off city workers, the city of Ann Arbor, in order to achieve budget savings, is considering privatizing its trash pick up service.

If the city follows through on this idea, it would join Traverse City, Emmett County, Hamtramck, and other Michigan cities that have privately run trash pick up.

In Auburn Hills, for example, where homeowners hire their own sold-waste contractors to pick up garbage, city leaders are considering a plan to give the job to a single contractor in an effort to reduce truck traffic and noise in its neighborhoods. Most south Oakland County communities contract with a single hauler, although neighboring Rochester Hills allows residents to choose their own garbage collectors as well.

Meanwhile, Pontiac's annual $1 million-plus sanitation deficit has the city council debating which of a raft of proposals—including privatization—to put before resident voters in November.

Pontiac Mayor Willie W. Payne recently proposed a plan whereby residents would rent new 105-gallon garbage bins for $1.50 per week, to be emptied by new trucks with robotic arms. Although this plan was given the thumbs-up in a Detroit News editorial, the city council balked, and the plan was taken out of the city's proposed budget in late June. The mayor says he expects it to reappear on November's ballot.

Also on the ballot will be whatever solutions Pontiac's City Council decides upon, which could include higher taxes, fees, some other kind of rental arrangement, or privatization. Council member John Bueno told the Detroit Free Press that turning over city-run trash collection to a private hauler is an option that should be explored. Such a plan would eliminate the 3-mill property tax for garbage collection.

But Mayor Payne opposes privatization, which he says would likely result in higher refuse collection costs. This goes against the experience of other Michigan cities such as Pleasant Ridge, which privatized refuse collection in 1996, and cut costs by 22 percent.

Private-sector adoption agencies dispute findings of FIA audit

LANSING—The head of the Michigan Federation of Private Child and Family Agencies (MFPCFA) is disputing the findings of a self-audit by Michigan's Family Independence Agency (FIA), which purports to show that public-sector workers handle adoption cases more efficiently than their private sector counterparts.

Bill Long, head of the MFPCFA, says the FIA audit didn't count overhead costs such as administration and rent, factors that were counted for private agencies—including the salaries paid to adoption administrators.

The dispute comes amid reports that the FIA, which has been contracting with private agencies since the 1980s, sent more than half its cases—56 percent—to such agencies last year. In July, Ruth Mutchler, who represents FIA employees at United Auto Workers Local 6000 used the audit to claim that the state was "insisting on privatizing adoption services even though evidence suggests FIA employees do a better job for less money."

But Jean Hoffman, adoption program manager for the FIA, admitted to the Associated Press that the audit didn't recognize many of the benefits of working with private agencies.

But Jean Hoffman, adoption program manager for the FIA, admitted to the Associated Press that the audit didn't recognize many of the benefits of working with private agencies.

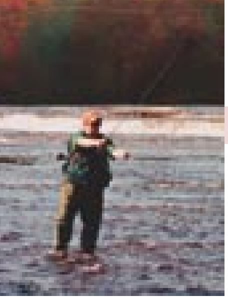
Kilpatrick refuses to watch grass grow, hires private companies, is shut down

DETROIT—Give city workers the job of cutting the grass at Detroit's parks, and you might learn the meaning of the expression "watching grass grow." But apparently, Mayor Kwame Kilpatrick has discovered the secret of getting workers to suddenly spring into action: Hire private contractors to do the same job.

In July, when grass in some of the city's parks reportedly got so high toddlers could hide in it, Kilpatrick had the quasi-public Detroit Building Authority (DBA), which he chairs, hire three private companies to do the mowing for $1.1 million.

Detroit Mayor Kwame Kilpatrick

Suddenly, the American Federation of State, County and Municipal Employees, which represents 6,000 city workers, became a flurry of activity. Its leaders, as well as some members of the Detroit City Council, charged that the DBA's mandate, which is to provide capital improvements on city property, did not extend to cutting grass. The union filed a lawsuit alleging that the city had violated its contract with the



Around the State

A system begun in February of 2000 by the Wayne County Department of Community Justice hands juvenile delinquency cases over to a host of private agencies, which are officially designated as Care Management Organizations.

union, and seeking $25,000 in damages. The union also filed a complaint with the Michigan Employee Relations Council and conducted media interviews.

Fighting back, Recreation Department Director Hurley Coleman stood in grass up to his chest as he told the Detroit News that the DBA has been used in the past to perform similar work, and that there are too few city workers and not enough equipment to maintain the parks.

But to no avail. In August, a Wayne County Circuit Court terminated the contracts and ordered the city to go back to having city workers mow at Belle Isle, Eliza Howell Park, Palmer Park and other sites.

Summing up the situation succinctly was Kilpatrick spokesman Jamaine Dickens, who told the Detroit News: ". . . we have parks that need their grass cut."

Private agencies transform Wayne County juvenile justice system

WAYNE COUNTY—After garnering a reputation for decades as having one of the nation's most overburdened juvenile justice systems, Wayne County is experiencing a revolution at the hands of private social service agencies.

A system begun in February of 2000 by the Wayne County Department of Community Justice hands juvenile delinquency cases over to a host of private agencies, which are officially designated as Care Management Organizations. These CMOs are then given both positive and negative incentives—more pay if their charges stay off drugs and graduate from high school; penalties if kids who wind up in more trouble, for example—and then allowed to develop their own ways of integrating delinquents into their communities.

These methods include frequent tests for illegal drugs and alcohol, electronic tethering, mental health treatment and supervision by case managers, who are assisted by a squad of sheriff's deputies who track down kids who don't cooperate.

Even officials who were initially skeptical about the new program admit it has resulted in better treatment for juvenile offenders. Not only that, but it is saving money—fewer kids are being sent to public facilities like the W. J. Maxey Training School, where the cost of treating one child is $327 each day. That's about twice the cost of the community-based programs.

"The old system was kind of a revolving door," Westland Police Chief Emery Price told the Detroit Free Press. "As far as I am concerned, it's working much better than it did in the past," he added.

State outsourcing a major reason public unions want binding arbitration

LANSING—In July, a group of public employee unions turned in 400,000 signatures to qualify the Michigan Employee Rights Initiative—which would give state public sector workers the right to collectively bargain and to seek binding arbitration in contract disputes—for Michigan's November ballot. The initiative is now known as Proposal 3. Union leaders cited outsourcing of state work to private companies as one of the major reasons for the move.

Leaders of the Services Employees International Union, the American Federation of State, County and Municipal Employees, the Michigan State Troopers Association and the United Auto Workers Local 600, complain that contracts negotiated with the Office of the State Employer are often changed by the Michigan Civil Service Commission, which has final say in these matters.

They charge, for example, that union contract provisions requiring state outsourcing proposals to show they would save money for the state have been stripped out of previously signed agreements by the Commission.

But according to Dan McLellan, legal counsel for the Commission, at no time in the ensuring decade has the Commission stripped such a provision from a union contract, because such a limitation has not actually appeared in a collective bargaining agreement.

In fact, Commissioner Robert P. Hunter, who is also labor policy director for the Mackinac Center for Public Policy, anticipates that passage of the Michigan Employee Rights Initiative ultimately will have no impact whatsoever on the state government's ability to contract out with private companies for services.

Denise Sloan, spokeswoman for the coalition, provided an ironic twist when she, in complaining about having contract provisions reversed by the Commission, contrasted in a revealing way what it's like to deal with the private vs. the public sectors. "You make a deal with Ford or GM, you know you've got a deal," Sloan told the Lansing State Journal. "You make a deal with the state, maybe you do or maybe you don't."

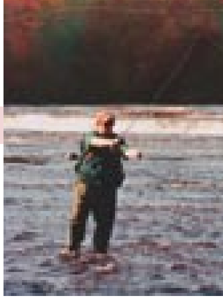
Bush executive order increases chances of success of federal contracting

WASHINGTON, D.C.—In July, a federal appeals court upheld President Bush's executive order banning the practice of favoring union bids in the awarding of federal contracts.

By concluding that the president acted within his constitutional authority in issuing the order, the three-judge panel from the U.S. Court of Appeals from the District of Columbia greatly increased the chances of success for federal privatization efforts.

By requiring that federal contracts go to bidders based on nothing but the merits of their bids, the president accomplished two major goals: 1) Assured that jobs contracted out by the federal government to private entities will garner the most value for the least tax money; and 2) provided bidders on federal contracts who use union labor with an economic incentive to come up with bids that are as competitive as those from non-union bidders.

As might be expected, the president of the Building and Construction

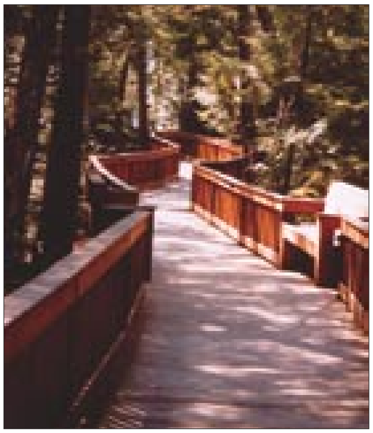


Trades Department of the AFL-CIO, Edward C. Sullivan, disagreed with the decision, calling it a major setback for unionized employees. Other groups such as the U.S. Chamber of Commerce and the National Right to Work Foundation, hailed the decision as right under the circumstances.

"President Bush's common sense executive order helps ensure open competition in the U.S. construction industry," Ken Adams, chairman of the American Builders' Association, told Fox News.

"Privatize MacMullan" continued from page 7

subsidizes its own conference center it taxes businesses from whom it is also taking customers.



This deck leads from MacMullan lodges to the beautiful water of Higgins Lake, where visitors can fish, swim, hold campfires, and play volleyball.

What might MacMullan sell for if it were sold openly on the market? It is impossible to say precisely, but a comparative analysis can give us a general idea. Coldwell Banker currently has a pending sale of a 7.4 acre unimproved parcel on Higgins Lake with 460 feet of frontage for $2.3 million. Imagine what four times the acreage and almost one-third more lake frontage would go for if MacMullan were sold? It is conceivable that the state could reap a one-time, $10 million payday.

And the taxpayers of Michigan could stop indirectly subsidizing a facility many of them are excluded from using. The state should wash its hands of this business by selling the Ralph A. MacMullan Conference Center to the highest bidder.

Eric Neuman is a mathematics and mathematical economics major at Brown University in Rhode Island and a summer research intern with the Mackinac Center for Public Policy. Michael LaFaive is an economist and a senior managing editor of Michigan Privatization Report.

"Sing a Privatizaion Song" continued from page 16

album has been downloaded more than 25,000 times.

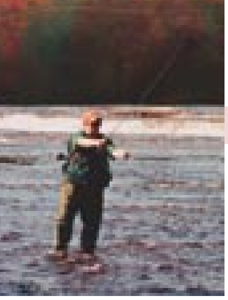
This one little song may seem insignificant enough to most people but for me it carries enormous implications for Uganda and maybe even for the United States and Michigan. No, I don't expect it to be No. 1 on the African hit parade (although who would have expected someone to put out *a song about privatization*?). But when public policy strategies become so well known that they are celebrated in pop music, it means the idea itself has become infused in the culture.

And infusing an idea in the culture is no small task since ideas, however benign or controversial, often take decades to percolate before reaching a "tipping point," where paradigms shift on a grand scale and with alacrity. In fact, "The Tipping Point" is the title of a book by Malcolm Gladwell, who defines the term as "that magic moment when an idea, trend, or social behavior crosses a threshold, tips, and spreads like wildfire."

There's no reason to believe what's happening in Uganda is confined to that African nation. Who knows? Maybe the word "privatization" will become a rallying cry against corruption, and for greater economic freedom.

Indeed, the photograph on page 16, taken last year outside the airport in Kagali, Rwanda gives reason for hope. The sign in the photograph is written in Swahili and reads: "Privatization fights laziness, privatization fights poverty, privatization fights smuggling, and privatization fights unemployment." I have always been heartened when cultures begin to believe in their own economic potential, particularly cultures that have been so oppressed by government-sponsored central planning.

The good news is that apparently there is a culture of privatization developing around the globe. As it gains momentum, let us hope that American policy-makers take the cue and more seriously look at privatization as a policy option. And who knows? It could catch on so well, even Britney Spears might sing about it.



Privatization and Culture: Approaching the "Tipping Point"

By Michael LaFaive

As senior managing editor of *Michigan Privatization Report*, the largest circulating quarterly of its kind in the world, I have virtually "seen it all" with respect to privatization. Now, I have heard it all. An English language, African-based band named, "Afrigo," from Uganda has released a song entitled, "Today for Tomorrow," which celebrates the benefits of privatization. It's not Jimmy Buffet, but it's not half bad.

This sign was photographed last year outside the airport in Kagali, Rwanda. It is written in Swahili and reads: "Privatization fights laziness, privatization fights poverty, privatization fights smuggling, and privatization fights unemployment." Michigan may be catching up to Rwanda's level of privatization enlightenment.

Here is a sample of the lyrics:

Privatization, the surer route to economic emancipation/

Yeah, businessmen run businesses/ government govern the nation/

You and I didn't create the situation/ Let's unite/check the economy/ a better future for our children;

And:

Make a hard decision today and it will pay off in the future . . .

According to MP3.com, where this track can be found, Afrigo's

see "Sing a Privatization Song" on page 15

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