

May 2004 Revision of the March 2003 Study

A Mackinac Center Report

Recommendations to Strengthen Civil Society and Balance Michigan's State Budget

WITH NEW PREFACE AND A 2004 ADDENDUM

Michael D. LaFaive
Project Manager

**An Analysis of Fiscal-Year 2002-03
Appropriations and Recommendations for 2004-05**



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Recommendations to Strengthen Civil Society and Balance Michigan's State Budget 2nd Edition

**An Analysis of Fiscal-Year 2003-04 Appropriations
and Recommendations for 2004-05**

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Preface to the 2nd Edition, 2004

As the debate rages in Lansing over the size and scope of the 2004-2005 Fiscal Year state budget, the Mackinac Center for Public Policy is republishing and updating budget cutting ideas from its March 2003 study, "Recommendations to Strengthen Civil Society and Balance Michigan's Budget." The 2003 study made over 200 recommendations that, if adopted, could still generate more than \$2 billion in savings and one-time "revenue enhancements" for the state General Fund/General Purpose (GF/GP) portion of the state budget. The GF/GP is the area over which legislators have the most discretion. It's especially notable that none of these recommendations include any cuts to revenue for the state School Aid Fund or the Michigan Education Assessment Program, we recommend only a small cut to Medicaid revenue.

This report differs from the 2003 budget five ways. First, it excludes most budget line items that would have relied primarily on federal or special revenue funding. We made this change to simplify the report for our readers and to emphasize the savings that could easily balance Michigan's budget without raising taxes — an imperative if Michigan is to compete effectively with other states and nations for economic growth and development.

Second, this report is different from the 2003 budget study in that it relies on both the Governor's "as passed" 2004 budget data and her *proposed* 2005 budget as sources. For instance, in the Agriculture section of the 2004 update to "Recommendations to Strengthen Civil Society and Balance Michigan's Budget" you will find the entry:

Program: Agricultural development, marketing and emergency management

Appropriation:	Interdepartmental Grants: \$ 500,000
	Federal Funds: \$ 100,000
	Special Revenue Funds: \$ 895,400
	<u>GF/GP: \$ 946,300</u>
	Total: \$2,441,700

All of the data in the format above is taken from House Fiscal Agency (HFA) Line Item and Boilerplate Summaries released by the HFA in September 2003. We used this source because it contains more useful information than the proposed budget.

By contrast to the HFA data published last year, we employed the Governor's Fiscal Year 2005 proposed gross appropriation for each line item so legislators could tell whether or not the appropriation increased, decreased, or remained unchanged from the FY 2004 budget. The reader can find this information at the end of each "Recommended Action" item in study. Following is an example.

Recommended Action:

The Fairs and Expositions section of the state budget should be eliminated. **Savings: \$17,295,900.**
Governor Granholm's 2005 proposal decreases the gross appropriation to \$16,801,300.

Third, the author has taken the liberty of highlighting useful information by adding new italicized commentary within the 2003 text. Following is an example.

Recommended Action:

To former Gov. Engler's credit, he reduced the appropriation for this program by 38.5 percent over the previous fiscal year (ending in 2002), but Gov. Granholm could go further and remove the state entirely from this program. Migrants have been finding satisfactory places to live on their own accord since long before the state began inspecting and licensing migrant housing in 1978. *Author's Note: Granholm did go further than Engler, reducing the appropriation in FY '04 by another 53.6 percent to \$255,000.* Prior to 1978, every housing situation may not have been ideal — from either the observers' or migrants' perspective — but that does not mean people were worse off then as opposed to now, on net balance.

Fourth, the aggregate savings proposed by the Mackinac Center for Public Policy in this document reflect neither the proposed savings or proposed spending increases in Governor Granholm's 2005 proposed budget.

Fifth, the Mackinac Center for Public Policy recommends making other fundamental changes to Michigan's budget landscape that did not appear in the 2003 budget study. Those are detailed in the 2004 addendum at the back of this volume.

Summary of Recommendations*

	<u>Actual Appropriation</u>	<u>Recommended Appropriation</u>	<u>Difference</u>	<u>Percent Change</u>
Agriculture	\$97,150,800	\$75,259,100	\$21,382,400	23%
Career Development	\$466,880,000	\$0	\$466,880,000	100%
Community Health	\$9,478,814,800	\$8,856,213,800	\$622,601,000	7%
Community Colleges	\$289,013,100	\$268,653,600	\$20,359,500	7%
Corrections	\$1,724,507,200	\$1,465,831,120	\$258,676,080	15%
Family Independence	\$3,959,304,200	\$2,748,771,700	\$1,210,532,500	31%
Higher Education	\$1,789,754,500	\$1,377,829,500	\$411,925,000	23%
History, Arts, and Libraries	\$57,131,100	\$22,582,330	\$34,548,770	60%
Michigan Economic Development Corp.	\$104,513,200	\$0	\$104,513,200	100%
Military and Veterans Affairs	\$103,097,500	\$77,168,280	\$25,929,220	25%
Natural Resources	\$254,151,000	\$250,125,400	\$4,025,600	2%
State Police	\$460,898,900	\$395,898,900	\$65,000,000	14%
Treasury	\$1,853,369,300	\$1,539,869,300	\$313,550,000	20%
Total:	\$20,541,434,800	\$17,002,893,930	\$3,538,540,870	17.2%

*See the next page for a summary of savings and revenue enhancements.

Total Budget Savings and Revenue Enhancements by Category

General Fund/General Purpose Recommendations	\$1,674,204,730
State Revenue Sharing from Special Revenue	\$313,550,000
Racino License Revenue	\$1,600,000,000
Tobacco Settlement Revenue	\$281,992,400
Sale of State Fair Grounds	\$59,600,000
Sale of Ralph A. MacMullan Conference Center Property	\$10,000,000
*Elimination of School Aid Fund Subsidy	\$327,000,000
**Gambling Addiction Revenue	\$3,500,000
<hr/>	
TOTAL SAVINGS	\$4,269,847,130

*The Granholm Administration recommended eliminating a large component of this subsidy. The legislature modified her request only slightly. Indeed, as of April 2, 2004 the GF subsidy to the School Aid Fund has been cut to \$138,600,000.

**Gambling Addiction in the Community Health budget receives funding from a number of sources (existing casinos, for instance) that can and should be redirected to the GF/GP component of the state budget.

INTRODUCTION (March, 2003)

Tough times, tough decisions. But also magnificent opportunities. That's what a looming state budget deficit means for Gov. Jennifer Granholm and Michigan's newly elected 92nd Legislature. Make no mistake about it: The soft economy and resulting decline in state revenues will dominate politics in Lansing this year as officials struggle to fulfill the state's responsibilities and its constitutional mandate to balance income and expenses. How officials respond will be determined by whether they see our situation as a crisis to be survived, or an opportunity to be welcomed.

State programs will be under the microscope, scrutinized in more detail than they have been in perhaps a decade. Priorities will be re-examined, and some programs may be eliminated. Others will be pared back. The state workforce will shrink. Certain government duties, once regarded as sacrosanct, will be found to be expendable after all. Adjustments of one degree or another will be undertaken within all 20 state departments. Ingenious and compassionate private citizens and organizations will surprise skeptics by expanding or arising to do what had recently been an activity of the state.

As challenging as the situation may seem, we must keep it in perspective. First, state government is not the only means, nor necessarily the best means, for meeting human needs. Second, state government is not the only entity in Michigan that's having a difficult time. Hundreds of thousands of Michigan families, nonprofits, and businesses are, too. Indeed, it's precisely *because* those families and business are in trouble that the state is in trouble. We should never forget that the state has nothing to spend for anybody except what it first takes from somebody. And the state's first priority ought to be the fiscal health of the hard-working people who, as taxpayers, have to pay the state's bills before they pay their own. When they are not unduly burdened by taxes, they have less need for assistance themselves and more ability to help those who do need assistance.

All across Michigan, citizens are coping with the challenges of an ailing economy. And they are coping by re-examining their spending. They are re-prioritizing, and doing without some things they'd love to have. They are hiring less, spending less, and taking fewer and shorter vacations closer to home. They are stretching further the dollars they have, and generally exerting the discipline necessary to weather the storm. Why should state government not do the same? In fact, why wouldn't we welcome this as an opportunity for officials to demonstrate the discipline and prudence we expect from them?

Another matter that should inform the budget debate in Lansing is the fact that Michigan families and businesses are shouldering a tax burden that is still above the average among the 50 states. What we get in exchange is a mixed bag. We get decent roads and good schools in some areas. But more often than not we get excessive construction costs, inefficient bureaucracies, and schools that parents and children are desperate to escape.

Due in large measure to rising property tax rates and assessments, state and local taxes actually have risen since 1993, the year before Proposal A passed, from 10.7 percent of total personal income in Michigan to 10.8 percent in 2000, the most recent year for which numbers are available. The state's Single Business Tax exacts a "take" that represents a larger portion of business income than that of perhaps any corporate income tax in the other 49 states. Even a May 2002 report from the Michigan Economic Development Corporation showed that Michigan ranks 16th among 17 peer states in business costs (meaning that 15 of the 17 states with whom we compete have *lower* costs). Michigan simply must make more progress in reducing the financial burdens it imposes on its workers, families and businesses. Because we live in a competitive and highly mobile world, we cannot afford to do otherwise.

Gov. Granholm and the Legislature can pursue any number of courses as they navigate today's troubled fiscal waters. On the one hand, they could ignore the difficulties faced by the state's citizens and simply raise taxes. That would drive people and businesses elsewhere, and in the long run undermine the state's financial health for many years. Until the early 1990s, that's what Michigan often did, inspiring the all-too-familiar line that the last person to leave the state should turn the lights out. On the other hand, the governor and Legislature could follow the example of most of the state's citizens who know what to do when times are tough: Make tough decisions.

There is a magnificent opportunity in these difficult times to make a huge difference in how state government relates to its citizens — to regroup, stick to the basics and do them well, and trust the people. This is a

time to strengthen civil society — that network of private institutions, community associations, schools and religious organizations, families and friends and coworkers, and all their voluntary, from-the-heart interactions. There is room for politics in our lives, but most of what enriches and defines us as a progressive and compassionate people emanates from other, deeper sources.

As government grows, civil society shrinks. When government moves beyond its core functions, it does not create things out of thin air so much as it displaces what a free people would choose to do. And it ends up performing too many tasks too poorly, including the ones we absolutely must rely upon for the sake of safety and basic, essential services. If this is a radical notion, then America was founded on radical notions.

For all people interested in the advancement and enrichment of our culture, this is a crucial observation with far-reaching implications. Cultural progress should not be defined as taking more and more of what other people have earned and spending it on “good” things through a government bureaucracy. Genuine cultural progress occurs when individuals solve problems without resorting to politicians, or the police and bureaucrats they employ. How can we restore and strengthen the attitudes and institutions that formed the foundation of American civil society?

Certainly, we can never do so by blindly embracing government programs that crowd out private initiatives or by impugning the motives of those who raise legitimate questions about those government programs. We cannot restore civil society if we have no confidence in ourselves and believe that government has a monopoly on compassion. We’ll never get there if we tax away large portions of people’s earnings and then, like children who never learned their arithmetic, complain that people can’t afford to meet certain of their needs.

We can advance civil society only when people get serious about replacing government programs with private initiative, when discussion gets beyond such infantile reasoning as, “If you want to cut government subsidies for Meals on Wheels, you must be in favor of starving the elderly.” Civil society blossoms when we understand that “hiring” the expensive middleman of government is not the best way to “do good”; that it often breaks the connection between people in need and caring people who want to help. We make progress when the “government is the answer” cure is recognized for what it is: false charity, a cop-out, a simplistic non-answer that doesn’t get the job done well, even though it allows advocates to believe they’ve done the right thing.

The kind of leadership we at the Mackinac Center for Public Policy hope to see from Lansing in 2003 and beyond is defined by adherence to the principle enunciated by Thomas Jefferson in his first inaugural address:

. . . a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government . . .

In accordance with this Jeffersonian principle, the Legislature and the governor should evaluate each item in the state budget, asking 12 key questions:

- Does the item weaken communities by assuming a responsibility best left to private families, charities or firms?
- Does the item duplicate what other state agencies or the federal government are doing in that area?
- Does the item primarily benefit a single favored constituency or region rather than the state as a whole?
- Are direct users or beneficiaries of the service paying a reasonable amount of the cost?
- Does the item create or expand an “entitlement” that cannot be reasonably withdrawn if necessary or advisable in the future?
- Has the item received significantly more money in recent years but not used that money in the most effective way?
- Has the item been funded in the past by deceptive or inappropriate legislative or executive actions?
- Does the item use taxpayer funds for political advocacy or to discriminate against racial or ethnic groups?
- Does the item discourage self-help and personal independence unnecessarily or encourage reliance upon government?
- Does the item yield benefits commensurate with costs?

- Does the item force private businesses to unfairly compete with the state?
- Does the appropriation growth of an item exceed the rate of inflation or real personal income growth?

The Mackinac Center for Public Policy recognizes that not all budget cuts are created equal. Some represent the proverbial “low-hanging fruit” — easy to reach, if not painless. Other budget cuts would surely entail at least short-term pain. We encourage readers to consider the potential for *long-term gain* — from all the cuts recommended herein, whether they be “low-hanging fruit” or, to mix metaphors, the “sacred cows” of the Lansing establishment.

Michigan citizens have reason to be encouraged by the statements made by incoming Gov. Granholm and her representatives since the November 2002 election — statements to the effect that she will address the budget deficit from the spending side and avoid raising the tax burden on still-overburdened Michiganians. If she follows through and makes the tough decisions required in these tough times, she will truly display the kind of leadership she was elected for, and the Mackinac Center for Public Policy will be in the forefront of a cascade of praise that will be due her.

Scrutinizing every nook and cranny of state government, raising questions about previously unquestioned premises, thinking creatively about how to do things better, if the state is to continue doing them at all — these are healthy, positive attributes of forward-looking leadership in a free society. While some may approach the state's deficit with their minds already closed to the concept of downsizing the public sector, we ask readers of this document to think progressively. Why must the state do things as it always has? Why can't — and why shouldn't — private people and private institutions do more? Will they *ever* do more if we take for granted that they can't or shouldn't? With government at all levels consuming over 40 percent of national income — more than ever before in our nation's history — why isn't now a good time to make a big difference?

The following analysis examines the 2003 fiscal year state budget and makes recommendations for fiscal year 2004. If the legislature adopts the recommendations in this study it will be able to close the estimated \$1.5 billion General Fund/General Purpose (GF/GP) budget deficit that is expected in fiscal year 2004, with millions to spare. Adopting every recommendation in this study would reduce overall state spending by \$3.7 billion, which constitutes 14.2 percent of the total state budget. Of this total, \$1,527,814,522 is from the GF/GP portion of the budget. We also recommend a 50 percent reduction in the state revenue sharing that is not constitutionally mandated, producing savings of \$344,665,000, which should be redirected to the state's GF/GP fund. In addition, we recommend the sale of three state properties worth an estimated \$69,600,000, a fee hike worth \$25,280,155, the elimination of the Life Science Corridor Initiative, which would save another \$45,000,000; and use of the \$11,500,000 in annual revenue from the state's Indian Gaming Compact. Together, these savings and revenue enhancements exceed \$2 billion.

Most complaints leveled against the proposals in this study will fit into one of two categories. First, people will argue, “Why cut a program that constitutes such a small proportion of the total budget?” And second, people personally affected by the program cut, such as recipients of direct subsidies, will oppose the proposal on the basis that it will affect them disproportionately. Both of these arguments are easily refuted when examined more closely. In the first case, while it is quite true that eliminating one program will have little effect on the overall size of the budget, many of these cuts will certainly affect some people more than others, but this is not coincidental — it is these same people who are benefiting disproportionately by the very presence of the programs. What is unjust or unfair is not the elimination of the programs, but their creation in the first place.

Over the past 12 years, the Engler administration took steps to reduce the size of state government. But there is far more work to be done. It is the Mackinac Center for Public Policy's hope that Gov. Granholm will take much of Lansing's power and return it to where it rightfully belongs: the homes of families and individuals who are the citizens of the Great Lakes State.

One final word of introduction is necessary. It is important to note that the title of this study is not, “Reducing the Proportion of State Spending Paid by State Taxes.” A large portion of Michigan's budget comes from the federal government. In this study we recommend cutting many expenditures funded entirely by Washington. The source of the funding is not the issue here. Restoring civil society requires reducing the role of coercive institutions (government) and increasing the role of formal and informal voluntary associations in improving peoples' lives and solving problems. If a state function is outside the proper role of government, the fact

that the money goes through Washington first is of secondary importance. "That's federal money," is no excuse for continuing such functions.

A Note On Terminology

Each proposal within this analysis contains information described as the "appropriation breakdown." The numbers in these breakdowns refer to the origins of the funds used to pay for the program. There are four possible areas from which a program can be funded: Interdepartmental Grants, Federal Funds, General Fund/General Purpose (GF/GP) Funds, and Special Revenue Funds.

Interdepartmental Grants are exactly what the name implies: funds transferred from one state department to another. For example, if the Department of Commerce were to assume some of the computer processing responsibilities of the Department of Labor, Labor would issue a grant to Commerce to help pay for the provision of that service.

Federal Funds are funds sent from Washington to Lansing to subsidize the operations of various state programs. The source of Federal Funds is, of course, federal revenues, which are comprised of federal income tax, fuel tax, capital-gains tax, and tariff receipts, just to name a few sources.

General Fund/General Purpose Funds are funds gained by the state from three main areas: state personal income taxes, state sales and use taxes, and single-business and insurance taxes. These taxes are broad-based and (in theory, if not always in practice) intended to fund programs that also have broad-based effects.

Special Revenue Funds are comprised of many different types of state revenues. The most common type of Special Revenue Funds, however, is targeted taxes, user fees, and regulatory fees.

Department of Agriculture

The following is a list of Michigan Department of Agriculture (MDA) programs that should be downsized, outsourced, or eliminated. The MDA was created in 1921 by the Michigan Legislature. According to the department's official web site, its mission is "to serve, promote and protect the food, agricultural, environmental and economic interests of the people of Michigan."¹ This sweeping statement effectively authorizes the department to involve itself in aspects of civil society in which government action may be unnecessary or counterproductive, distorting market mechanisms and incentives in the process. Accordingly, the Legislature should reduce and/or eliminate low-priority programs, including those listed below.

I. Executive

Program: Commissions and boards

Appropriation:	Interdepartmental Grants:	\$ 8,800
	Special Revenue Funds:	\$15,000
	<u>GF/GP:</u>	<u>\$39,500</u>
	Total:	\$63,300

Program Description:

The Commissions and Boards line item subsidizes the work of the Agricultural Commission, the Marketing and Bargaining Board, the Michigan State Fair Board, and the Upper Peninsula State Fair Board. The Agricultural Commission is a five-member bipartisan group of citizens appointed by the governor and subject to Senate confirmation. Members serve four-year staggered terms. By law, not more than three members may be of one political party. The commission appoints the director of the MDA and approves all rules and regulations promulgated by the MDA.

The Marketing and Bargaining Board administers Public Act 344 of 1972, which permits producers of perishable fruits and vegetables to be represented in negotiations for the price of commodities by an accredited agricultural association. Functions of the board include: determining the definition of a commodity bargain board unit, administering accreditation procedures, determining members of the accredited bargaining units, and protecting the rights of both growers and handlers. The State and Upper Peninsula Fair Boards oversee the operations of their respective fairs.

Recommended Action:

The MDA should be restructured according to the design of many other departments of state government, which do not have commissions to oversee department management. This could be accomplished in part by eliminating the Agricultural Commission, allowing the governor to choose the director, and granting the director the responsibility for setting department policy.

The Marketing and Bargaining Board should be eliminated, and its functions handled by the private sector. Both the producers and the processors of fruit and vegetables have every incentive to make sure that their negotiations over the price of their products go smoothly and without error. There is no reason to believe that agricultural producers, wholesalers and processors are any less able to conduct commerce than producers, wholesalers and processors of other goods. State funding of the fair boards should be eliminated along with state funding of the fairs themselves. There is no reason to maintain them once the fairs are privatized (see recommendation on pages 10). **Savings: \$63,300. Governor Granholm's 2005 proposal decreases the gross appropriation to \$53,300.**

Program: Statistical reporting service

Appropriation:	<u>All from GF/GP:</u>	<u>\$326,500</u>
	Total:	\$326,500

Program Description:

The Statistical Reporting Service (SRS) maintains an agricultural database under an agreement with the United States Department of Agriculture (USDA). The agreement is designed to create and maintain a statistical service of use to the state and to the USDA. The SRS attempts to “keep accurate, current, and historical data for all commodities in the program.”²

Recommended Action:

The state could extricate itself from its agreement with the USDA immediately. The functions associated with the agreement, if necessary, can be handled by the agriculture industry itself. Most non-agricultural industries provide market information without government assistance. There is no reason to expect any less from the agriculture industry. Indeed, private organizations exist in almost every area of commerce to survey producers and consumers and develop detailed and reliable market and safety information of the same kind provided for the agriculture industry through the SRS. This is true in every industry, from automobiles, computers and telephones, to snack food and insurance policies.³ Indeed, both government and business routinely rely on private statistical survey research organizations, such as the Rockville, Md.-based WESTAT, or Mathematica, Inc., of Princeton, NJ. There is no reason to believe that the Michigan agricultural industry or federal and state governments could not look to organizations such as these for data collection and distribution. **Savings: \$326,500. Governor Granholm’s 2005 proposal increases the gross appropriation to \$342,200.**

II. Environmental Stewardship

Program: Cooperative resources management initiative

Appropriation:	<u>All from Interdepartmental Grant:</u>	<u>\$1,000,000</u>
	Total:	\$1,000,000

Program Description:

According to the state’s House Fiscal Agency, a nonpartisan agency that gives expert financial assistance to the House Appropriations Committee, this appropriation helps coordinate efforts of local, state and federal governments with private-sector conservation organizations who “work together to manage land in Michigan.” It is designed to match private landowners with government partners who help the landowners design an effective land-management plan.

Recommended Action:

The state could remove itself from this initiative entirely. Private conservation groups are formed around the self-interest of the individuals who agree with the groups’ missions. As a result, they maintain sufficient incentives to coordinate their own efforts without help from the state or other units of government. **Savings: \$1,000,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Migrant labor housing

Appropriation:	<u>All from GF/GP:</u>	<u>\$255,000</u>
	Total:	\$255,000

Program Description:

According to the state of Michigan, the Migrant Labor Housing program has two components. The first component involves licensing and inspection of any site occupied by more than five migrant workers. The second component involves grants for the construction of migrant housing.

Recommended Action:

To former Gov. Engler's credit, he reduced the appropriation for this program by 38.5 percent from FY '03 to FY '04 but Gov. Granholm could go further and remove the state entirely from this program. Migrants have been finding satisfactory places to live on their own accord since long before the state began inspecting and licensing migrant housing in 1978.⁴ *Author's Note: Granholm did go further than Engler, reducing the appropriation in FY '04 by another 53.6 percent to \$255,000.* Prior to 1978, every housing situation may not have been ideal — from either the observer's or migrant's perspective — but that does not mean people were worse off then as opposed to now, on net balance. The transitory needs and wants of employers and employees are too fluid and complex to be confined to the one-size-fits-all standardization model offered by a state program. The bottom line is that unless adult migrant workers are being illegally defrauded or coerced, they are quite capable of accepting or rejecting housing based on how they themselves, and perceive the benefits and costs of living and working in a particular area.

In removing itself from this role, the state may wish to ease its financial and regulatory transition by privatizing housing inspections in part or whole. The Mackinac Center for Public Policy has long recommended contracting out to private agencies for state and local inspections of housing and housing-related items. This form of partial privatization would work by having the MDA contract out inspection of the 950 sites under its jurisdiction. Such a move could shave 20 percent from this line item. (For more on this subject, see "Looking Over Private Inspections," in the Winter 2001 edition of Michigan Privatization Report.⁵)

The state could, at a relatively small cost, alert those companies whose clients include farmers living in migrant housing to the fact that the state no longer intends to regulate such housing. This would serve to draw insurers' attention to the risk of having to make more payouts based on the provision of regulation-free housing by their clients. Insurers may or may not mandate similar private inspections and then reflect any concern that they may have by raising or lowering premiums paid by farmers to protect insured assets. **Savings: \$255,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

III. Market Development**Program: Agricultural development, marketing and emergency management**

Appropriation:	Interdepartmental Grants:	\$ 500,000
	Federal Funds:	\$ 100,000
	Special Revenue Funds:	\$ 895,400
	<u>GF/GP:</u>	<u>\$ 946,300</u>
	Total:	\$2,441,700

Program Description:

The Market Development program is effectively a marketing department for the state's private agriculture industry. It also subsidizes some charitable work with food banks in the state.

Recommended Action:

All line items underneath the Market Development Section 109 of the MDA budget for the 2003 FY should be eliminated. There are no functions in this section of the budget that cannot or are not already being performed by private for-profit and nonprofit organizations. The following is a description of each individual program, and the amount that could be saved by elimination. **Savings: \$2,441,700.**

Marketing and Emergency Management: This program is designed to "serve as a catalyst, coordinator, and resource to provide promotional marketing, and economic development opportunities for Michigan's food and

agricultural industry.” It is also dedicated to “protecting the state’s food and agriculture resources in times of emergencies.”⁶ Unfortunately, the marketing component of this line item is best described as corporate welfare for the agriculture industry. Agriculture is a profit-making industry and should not receive what are essentially marketing subsidies any more than the auto, computer, and defense industries should. A prime example of the department’s unnecessary marketing efforts is the free distribution of Michigan Wine Country, a trade publication of the Michigan wine industry. *Author’s Note: Governor Granholm’s proposed 2005 budget reorganizes this section of the MDA slightly. For instance, there is now a specific line item for the state “Grape and Wine Program.” This program, which helps market Michigan’s grape and wine industries was previously just rolled up into a general “marketing” line. Savings: \$2,005,600.*

Agriculture Development: The Agriculture Development Office was created in 1997 to help improve the “economic and environmental sustainability and viability of Michigan’s food and agriculture industry ...”⁷ The office also “focuses on expansion of food and agricultural value-added processing ...”⁸ For example, in September 2000, the MDA reached a grant agreement with the Midwest Nut Producers Council in which it would grant \$82,255 in federal and state money to “develop, test and devise a marketing strategy for two products, a chestnut puree and chestnut crumble.”⁹ The grant will help the industry “work with 15-20 Michigan chefs to test and evaluate new chestnut products,”¹⁰ and prepare recipes in their own restaurants using chestnuts, interview customers about the dishes, and provide feedback to the grantee.

Private industry has its own incentives for adding value to agricultural products — profit being one of them. By providing government money for such research, the state is, in effect, socializing the risk of the agriculture industry while helping to ensure profits that the industry may not otherwise see. In addition, the Agriculture Development Office may actually *hurt* agricultural processing businesses. It has used its own resources in conjunction with the Michigan Economic Development Corporation (MEDC) to grant special favors to particular firms, while giving none to their in-state rivals. The Summer 2002 issue of the Mackinac Center’s Michigan Privatization Report, described how “Agricultural Processing Renaissance Zones” may do more harm than good.

The newest type of renaissance zone created in Michigan is known as Agricultural Processing Renaissance Zones, of which there are three, two in Oceana County and one in Ionia. All illustrate two basic problems with state favoritism in the name of “economic development”: 1) It’s unfair to businesses that do not receive the tax advantages offered; and 2) Officials can’t prove that the development they claim as proof of the zone’s success wouldn’t have taken place without their interference.

Targeted tax relief places at a competitive disadvantage those businesses that do not get the state favors. This is why some Michigan agricultural companies, in January 2001, actively opposed zones being granted around the properties of their competitors, Peterson Farms, near Shelby, and Gray & Company in Hart.

One of the zones’ critics, who asked to remain anonymous for fear of state retribution, told Michigan Privatization Report, “The state has put me at a terrible disadvantage by giving my competition substantial tax relief. How can Lansing bureaucrats possibly believe that hurting me will help the economy?” This was generally the nature of other processing companies’ opposition, though several firms’ officers noted that they were not opposed to the idea of helping the agricultural industry. The state took testimony in person and by letter from businesses opposed to the way these zones were being used, but plowed ahead anyway.

All of this might be tolerable if state officials could prove that renaissance zones actually produce a positive net benefit to the economy. But the literature on the subject is very clear: Enterprise zones have little measurable impact on economic growth and employment — but they do have huge costs.

Nationwide, research indicates that enterprise zones have had a negligible impact on economic growth and development. Professors Thomas Lambert and Paul Coomes of Spalding University and the University of Louisville, respectively, studied one of the nation’s oldest and biggest enterprise zones in Louisville, Ky., and used “many measures to try and give the program every chance of success.” Yet the evidence, published last May, showed that after 14 years “it is difficult to document that this program has been effective.”

Other studies concur. In their paper, “Enterprise Zones and Local Employment: Evidence from the States Programs,” published in *Regional Science and Urban Economics*, Daniele Bondonio and John Engberg found “zero

impact” on local employment from enterprise zones and that “the level of the monetary value of the incentives awarded to zone businesses does not noticeably contribute toward enhancing the impact on local employment.”¹¹

(For more on this subject, see “Make Michigan One Big Renaissance Zone,” in the Summer 2002 Michigan Privatization Report.¹²) **Savings: \$742,400.**

Export Market Development Program: This program is similar to the marketing line item above, with an international application. In a time of fiscal crisis, should the state of Michigan subsidize dried fruit seminars in Taiwan? Promote dried blueberries in Japan? Should it market pickles in Korea, apples in Israel, and cherries in Germany? Past MDA grants have also been used to help “develop bakery recipes that utilize processed cranberry products.”¹³ Indeed, should the state do these things at *any* time? The case that it should is an extremely weak one.

In February 2002, the MDA gave a \$5,950 grant to the Michigan Food Processors Association so its members could attend a food show in Canada.¹⁴ In March, a delegation from the Michigan Potato Industry Commission flew to tropical Costa Rica with the help of a \$5,600 MDA grant.¹⁵ The goal? To educate Costa Rican snack processors on the use of Michigan potatoes in their respective businesses.

A review of the commission’s spending indicates part of its grant was spent before and after the trip on meals at the Budweiser Brew House in Detroit and at a Bob Evans restaurant in Romulus. These are particularly troubling uses of grant funds. Even if subsidizing this travel were a legitimate function of the state, is it not fair to assume that commission members would have eaten something, and paid for it themselves?

These are just a few examples of how Michigan subsidizes the international marketing efforts of private business. For-profit businesses should be required pay for their own marketing efforts. It is a basic issue of fairness. Most business owners do not receive state help marketing their own businesses yet they are forced to pay taxes to support those who do. **Savings: \$100,000.**

Food Bank Council: This appropriation provides a General Fund/General Purpose subsidy to the Food Bank Council of Michigan for handling items donated for charity. The Food Bank Council of Michigan is a private, nonprofit charity that is comprised of 10 smaller food banks in the Great Lakes State. Each bank provides food and funds to low-income people through 2,500 charities.¹⁶ This is a seemingly kind, but unnecessary, state appropriation. Europe, America, and Michigan have a long and generous tradition of private charity. If the state took less money from taxpayers, private citizens would have more to give to private food banks and similar organizations, voluntarily.

Michigan’s “Harvest Gathering” program is a good example of how the private sector can alleviate citizens’ hunger problems. Harvest Gathering is a private, nonprofit foundation founded by then-MDA director Bill Schuette in 1990. Schuette and other state officials used their high-profile positions to help raise private funds and food for Michigan families. Last year alone, Harvest Gathering collected and redistributed 650,000 pounds of food at 100 locations across all 83 counties in Michigan. **Savings: \$630,000. Governor Granholm’s 2005 proposal increases the gross appropriation to \$630,500.**

Future Farmers of America: This line item subsidizes the Michigan chapter of the Future Farmers of America. Future Farmers of America is a private, nonprofit organization whose mission is to make a “positive difference in the lives of students by developing their potential for premier leadership, personal growth and career success through agricultural education.”¹⁷ The state should no more appropriate funds for this organization than it should for future economists, accountants, or computer scientists of America. To subsidize one career choice over others, the state effectively gives its blessing to a single job category as if farming is more important than other work choices. Government should be neutral with respect to how free young men and women choose their occupations. In addition, career opportunities are of sufficient importance that young people have every incentive to find career information without government involvement. **Savings: \$60,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

IV. Fairs and Expositions

Program: Fairs and Expositions

Appropriation:	<u>All from Special Revenue Funds:</u>	<u>\$17,295,900</u>
	Total:	\$17,295,900

Program Description:

The Michigan state budget contains 20 separate line items under Section 110 (“Fairs and Expositions”) in the MDA budget, denoting exactly where this \$20 million is spent. Expenditures in this area include money to state fair operations, prize money for fair contests, and “purses” for horse racing victories.

Recommended Action:

The Fairs and Expositions section of the state budget should be eliminated. **Savings: \$17,295,900. Governor Granholm’s 2005 proposal decreases the gross appropriation to \$16,801,300.**

The following is a list and description of each line item.

Michigan State Fair: The official fair of the state of Michigan was the first of its kind in the nation. It was originally held in a different city each year, but since 1905, has been located at the corner of Eight Mile and Woodward in Detroit. Its 2003 appropriation is \$5,110,200.¹⁸ Most of the revenue for the state fair is generated by ticket sales, but that has not always been the case. From 1970 to 1995, for example, the fair lost an average of \$2 million annually,¹⁹ which the Legislature ultimately subsidized with additional appropriations. From 1995 to 2002, fair attendance and revenue improved, but not by much. In 2002, the fair eked out a \$28,000 profit.²⁰ This is not a cause for celebration, however. Due to the collapse of a lease arrangement between the state, fair officials, and a private developer, the cost of maintaining the fairgrounds will increase by about \$900,000 in 2003, excluding necessary capital improvement costs. The state should remove itself from fair operations entirely and sell the 200 acres of state land on which it operates. *Author’s note: In 2003, the State Fair generated less revenue than it spent as part of its operations. Its losses were made up with \$747,000 in subsidies from the Michigan Department of Agriculture (\$255,200) and Department of Management and Budget (\$491,800).*

What revenue might the sale of state fairgrounds generate? It is impossible to tell precisely without actually selling the land. Still, a general idea of possible sales prices can be formed by extrapolating data from the offers made on properties adjacent to the fairgrounds. In April 2000, developer Joseph Nederlander agreed to purchase 36 acres of government-owned land adjacent to the state fairgrounds in Detroit for \$6.1 million. Before the deal was legally finalized, Nederlander sold it to another developer, Bernie Schrott, for \$10.5 million. While both of these deals ultimately fell through, they still give an indication of what the 36 acres might sell for. What if the parcel for sale was 5.5 times larger, as is the fairgrounds? The potential for **\$57 million** in one-time revenue makes the sale of the fair land and its buildings worth exploring. **Savings: \$5,110,200.**

Upper Peninsula State Fair: The Upper Peninsula (U.P.) State Fair, located in Escanaba, was not created by the Legislature until 1927. Its 2003 appropriation is \$1,214,400.²¹ It required a General Fund/General Purpose subsidy of \$177,900 in fiscal year 2001 to pay its bills.

The state of Michigan should remove itself from U.P. state fair activities entirely, and the 100 acres of state-owned land on which this fair operates should be sold. That’s because, as with other forms of private entertainment, state fairs should sink or swim on their own merit. If there is demand for these summer festivals, the people who value them the most will be willing to fund and operate them without state influence. Even if the state were to remove itself from fair involvement, it would hardly result in a dearth of fair fun. Seven Michigan counties and another 80 communities and associations run their own fairs, too.²² Ottawa County alone has three different community fairs. Barry County’s Bill Ackerman has run a private, for-profit fair for 24 years. The “Prairieville Old Fashioned Farm Days Show Grounds” plays host to fair events every August. Animals are on display for show and racing; there are craft shows, dancing, live country music, cow-chip golf ball driving contests, and a “National Truck Pull”

competition. It is situated on 140 acres of land owned by Ackerman. His fair is so popular it often fills the 3,000-space camping area set aside by Ackerman for overnight guests.

The sale of the U.P. land would generate dramatically less revenue than the state fairgrounds in Detroit, given the abundant supply of undeveloped land in and around Escanaba. According to Kevin Dubord, assistant assessor for the city of Escanaba, land adjacent to the fair sold two years ago to Gordon Foods Inc. for \$2,000 per lineal foot of street frontage. That is, it cost \$2,000 for every one of the 250 feet of land available along North Lincoln Road, on which the Gordon Foods property, and the fair, are located. At \$2,000 per lineal foot, the UP fairgrounds might fetch **\$2.6 million.**²³ **Savings: \$1,214,400.**

Other Line Items under Fairs and Expositions: In early 2002, Gov. Engler used his veto pen to remove most of the following expenditures from the state budget because of a disagreement over the sizes and source of the appropriations. On Sept. 17, 2002, he asked the Legislature to reinstate the funding at the levels he originally requested. After some haggling, the funding was reinstated.

Fairs and Racing: This line item funds five full-time state employees to “oversee” other fairs, particularly with respect to how state “premiums” are used (see “Premiums — County and State Fairs,” below). It also provides assistance to county and community fairs. According to MDA Horse Racing Analyst Bob Woodman, state employees advise fairs on how to maintain records and help them “keep business.”²⁴ They also administer “Michigan Bred” programs that are funded for pari-mutuel breeding programs (see “Standardbred Sire Stakes” and “Standardbred Breeders’ Awards,” below, for more information).

The Michigan Bred program is sold as a way to improve Michigan horse racing by helping to subsidize Michigan “winners.” **Savings: \$612,500.**

Building and Track Improvement - County and State Fairs: This is a line item to help improve the racing tracks or buildings and grounds at Michigan fairgrounds. **Savings: \$963,200.**

Premiums — County and State Fairs: “Premiums” are generally used as award monies to children who win prizes for such things as raising the best livestock, having the best crafts, or winning the “antique tractor pull” contest, to name just a few examples. **Savings: \$1,614,000.**

Purses and Supplements - Fairs and Licensed Tracks: According to Michigan Deputy Racing Commissioner James Bowes, this line item enlarges the potential winnings for horse owners who enter their animals in races around Michigan. This is designed to improve the number and quality of races by providing a greater incentive for horse owners to run their animals at Michigan racetracks. **Savings: \$2,137,900.**

Standardbred Fedele Fauri Futurity: This line item reflects money that is appropriated to subsidize a particular race, known as the “Fedele Fauri Futurity,” at just one fair, the Kinross Fair, just outside of Sault Ste. Marie. **Savings: \$70,800.**

Standardbred Michigan Futurity: This line item is also appropriated to subsidize a specific “harness” race, which was held at Mecosta County Fair in Big Rapids in 2002. Harness racing involves jockeys being pulled by horses on two-wheel carts. **Savings: \$70,800.**

Quarterhorse Programs: A “Quarterhorse” is a specific breed that is raced in Michigan in “flat back” style (that is, without a harness and carriage to pull). The appropriation is used to subsidize the award for winners. **Savings: \$34,800.**

Licensed Tracks - Light Horse Racing: This program supplements winning purses for the owners of horses that are four years old. It is essentially an age-specific category. **Savings: \$67,300.**

Standardbred Breeders’ Awards: Breeders’ awards are granted to Michigan owners of horses whose offspring go on to win a race in Michigan. **Savings: \$1,082,300.**

Standardbred Purses and Supplements - Licensed Tracks: The state adds to winning purses to increase the incentive for Michigan standardbred owners to enter their horses and compete. This line item is similar to the purses and supplements for fairs and licensed tracks, listed above. **Savings: \$242,400.**

Standardbred Sire Stakes: This appropriation subsidizes the purse of a race run annually and by a specific breed of horse that is also sired in Michigan. The finals have been held at Hazel Park Raceway the last two years. **Savings: \$906,800.**

Thoroughbred Sire Stakes: This is a specific race at Great Lakes Downs in Muskegon run by a specific breed of horse that is also sired in Michigan. **Savings: \$906,800.**

Standardbred Training and Stabling: This line subsidizes fairgrounds that provide stables and training tracks for standardbred horses. **Savings: \$38,300.**

Thoroughbred Program: This is a fairly sweeping program that encompasses various purses and awards for owners of Michigan bred horses. **Savings: \$1,586,900.**

Thoroughbred owners' awards: This program supplements winning purses for horse owners whose thoroughbreds are Michigan bred and obtain a certain amount of points based on their year-long racing performance. **Savings: \$136,500.**

Distribution of Outstanding Winning Tickets: Every year a percentage of winning tickets from horse bets goes uncollected. Money that would have been collected is now divided between the owners of racing tracks and the owners of the horses involved in each race. Rather than appearing under "Fairs and Expositions" in the MDA budget, this appropriation could accrue to, and be distributed by, the Michigan Gaming Office.²⁵ **Transfer: \$500,000.**

¹ Michigan Department of Agriculture, "Roles, Mission, and Guiding Principles," accessible on the Internet at <http://www.michigan.gov/mda/0,1607,7-125-1572-7773--,00.html>.

² Tim Aben and Julie Stapelman, "Line Item and Boilerplate Summary: Agriculture," p. 4. Lansing: House Fiscal Agency, January 2002.

³ Aaron Steelman and Joseph P. Overton, excerpted from "Advancing Civil Society: A State Budget to Strengthen Michigan Culture," April 1996, p. 9.

⁴ Michigan Department of Agriculture, "Migrant Labor Housing Program, FY 2001 Annual Report," p. 1.

⁵ Accessible on the Internet at <http://www.mackinac.org/3161>.

⁶ Aben and Stapelman, p. 15.

⁷ Ibid.

⁸ Ibid.

⁹ Michigan Department of Agriculture, Agriculture Development Division, "Inter-Office Purchases & Services Requisition," Sept. 24, 2002.

¹⁰ Ibid.

¹¹ Michael LaFaive, "Make Michigan One Big Renaissance Zone," Michigan Privatization Report, summer 2002, p. 5. Accessible on the Internet at <http://www.mackinac.org/4473>.

¹² Ibid.

¹³ Michigan Department of Agriculture, "Summary of 2002 Export Grants," obtained through Freedom of Information Act in October 2002.

¹⁴ Ibid.

¹⁵ Letter to Paul Burke of the Michigan Department of Agriculture from the Michigan Potato Industry Commission, Sept. 20, 2002.

¹⁶ Food Bank Council of Michigan, "Who We Are," accessible on the Internet at <http://www.fbcmich.org>.

¹⁷ Future Farmers of America, "FFA Mission and Strategies," accessible on the Internet at

http://www.ffa.org/about_ffa/organization/html/mission.html.

¹⁸ Aben and Stapelman, p. 17.

¹⁹ Gary Heinlein, "Fair's low turnout puts it in jeopardy," The Detroit News, Sept. 22, 2002. Accessible on the Internet at <http://www.detnews.com/2002/metro/0209/22/c01-593735.htm>.

²⁰ “State Fair Succeeds Again,” The Detroit News, Oct. 21, 2002. Accessible on the Internet at <http://www.detnews.com/2002/editorial/0210/21/a08-617449.htm>.

²¹ Aben and Stapelman, p. 17.

²² Telephone interview of Barb Hensinger, director of fairs, racing and expositions, Michigan Department of Agriculture by Mackinac Center for Public Policy Director of Fiscal Policy Michael LaFaive, Sept. 17, 2002.

²³ Telephone interview of Kevin Dubord, assistant assessor, by Mackinac Center for Public Policy Director of Fiscal Policy Michael LaFaive, Sept. 30, 2002.

²⁴ Author interview with Bill Woodman, horse-racing analyst, Fairs and Racing Division, Michigan Department of Agriculture, Sept. 23, 2002.

²⁵ Ibid., Interview with Barb Hensinger.

Department of Career Development (Now Part of Department of Labor and Economic Growth)

The Michigan Department of Career Development (MDCD) is the outgrowth of an initiative by then-Gov. John Engler (Executive Order 1999-1) to split the former Michigan Jobs Commission into two parts. One part became the MDCD, and the other part became the Michigan Economic Development Corporation (MEDC). The MDCD concentrates on delivering federally sponsored job training and placement services, and MEDC is the state's chief dispenser of corporate welfare and "economic development" programs.

The mission of the MDCD, according to its 2001 annual report, is "to continuously improve the Career Development System [to] produce a workforce with the required skills to maintain and enhance Michigan's economy." Then-Gov. Engler preferred to see the department "focus solely on workforce issues;" however, his Director of department, Barbara Bolin, pressed for an expanded mission "to increase education and technical skills for career placement or advancement," and ... "to provide services, build partnerships and coordinate efforts" with the business community.¹

The MDCD is a coordinating bureaucracy that simply manages workforce programs. The department is funded largely by the federal government, which provides 88 percent of its operating money.

In 1998, Congress passed the Workforce Investment Act of 1998 (WIA). Congress intended this legislation to "integrate and streamline services," as well as encourage "informed consumer choice regarding career development, universal access to government employment and training services, more systematic accountability, performance-based management; strong local governance of employment-related government services, active private sector participation, and increased labor market responsiveness at state and local levels."²

WIA consolidated 17 separate federal programs to coordinate and control employment and training through a mandatory, national system of local one-stop career centers (in Michigan they are known as Michigan Works! Service Centers, or "one-stops") and regional and state workforce development boards (in Michigan the board is known as the Michigan Works! Association), all reporting to the U.S. Secretary of Labor.

Prior to WIA, federal workforce programs such as job training and education fell under the federal government's Job Training Partnership Act of 1982 (JTPA). Through the 1970s and early 1980s JTPA had become the largest job-training program in the country. But WIA dramatically expanded employment services coverage areas, and at the same time began to displace private labor market activities previously served by the private staffing services industry. In effect, WIA introduced a new personal entitlement into the national workforce system: adult job placement for the currently employed. No longer did recipients have to be unemployed to receive services.

However, the state of Michigan is not required under the normal administration of American federalism to implement the federal statutes, including the Workforce Investment Act. This state power was reinforced by the U.S. Supreme Court's New York decision in 1994.³ The state of Michigan should refuse to accept federal funding for the programs operated by the MDCD and shut down the MDCD and eliminate all the programs run through it.

Last Fall, in preparation for the Congressional reauthorization of the Federal Workforce Investment Act former Director Bolin recommended an expansion of MDCD functions, and requested an expansion of federal financing of the Michigan workforce system.⁴

Instead of a call for more federal funding, Gov. Granholm and her new appointee should use this opportunity to call for an end to federal intervention in job training and employment.

As demonstrated below, nearly every program provides services that duplicate, and often interfere with, private sector providers of identical or superior services. Programs that are not duplicative are capable of being provided by local community associations or businesses. Although labor markets, like government planners, are imperfect, they have been operating efficiently since long before governments began providing job searches and training for Michigan citizens, and will continue to do so in the absence of this department. (For more information on refusing federal funds, see Appendix I.) This department should be eliminated.

I. Departmental Operations

Program: Department operations

Appropriation:	Federal Funds:	\$5,263,700
	Special Revenue Funds:	\$ 636,100
	<u>GF/GP:</u>	<u>\$1,899,200</u>
	Total:	\$7,799,000

Program Description:

This appropriation funds support services for the department including budgeting, human resource needs, and grant management, and expenditures made for building occupancy.

Recommended Action:

This function should be eliminated with the rest of MDCD functions (which are now part of the new Department of Labor and Economic Growth). **Savings: \$7,799,000. This is a rough estimate based on the FY '04 appropriation.**

II. Workforce Development

Program: Employment placement and training services

Appropriation:	Federal Funds:	\$69,114,400
	Special Revenue Funds:	\$ 4,618,500
	<u>GF/GP:</u>	<u>\$ 7,198,300</u>
	Total:	\$80,931,200

Program Description:

This appropriation funds a large array of programs financed primarily by the federal Workforce Investment Act of 1998, the Wagner-Peyser Act of 1933, and the Carl D. Perkins Vocational and Technical Education Act, as well as by funding from the U.S. Departments of Education and Agriculture.

Workforce Investment Board. (WIB) After the federal Workforce Investment Act took effect in July 1999, the governor's Workforce Commission assumed the role of advice, oversight, and research.⁵ In March 2002, a state Workforce Investment Board replaced the commission; the WIB more closely met the requirements of WIA.⁶ The WIB oversees the statewide "career development system,"⁷ which includes the programs described below. We recommend that the Workforce Investment Board be eliminated.

Michigan Works! Association. The Michigan Works Association offers policy guidance to the Michigan workforce development system. This body is a holdover from the federal Job Training Partnership Act, and attendant Private Industry Councils established at the local and regional levels.

The Michigan Works! Association has assumed the lead role in planning the workforce system over the years. It sets the direction for Michigan's regional "Michigan Works! Agencies" (also known as "regional workforce development boards"). In effect, the Michigan Works! Association directs how the local workforce development officials should carry out implementation activities pursuant to the Workforce Investment Act.

Michigan Works! Agencies (MWAs). There are 25 MWAs in Michigan. These agencies are required under the terms of WIA (Title I) if the state wishes to accept federal funding. MWAs plan services for the unemployed, as well as for employed adult workers, disabled workers, young people, and poor, divorced or widowed older female

homemakers without children, often called “dislocated homemakers.” Some agencies serve several counties while others may just serve just one. These agencies do not provide local or regional services directly. The services are provided through Michigan’s 104 Michigan Works! Service Centers, or “one-stops.”

Michigan Works! Service Centers. There are 104 one-stops or Michigan Works Service Center across the state, all governed by MWAs. These one-stops provide the federal government’s workforce development services, and offer three basic services: 1) “core services” (e.g. job search and placement services for all adult worker applicants, as well as the unemployed “dislocated workers”); 2) “intensive services” (intensive counseling, case management for those who cannot get new jobs on the first round of core services), and 3) “training” (in-depth occupational training, skill and job upgrading for those unable to get jobs as a result of intensive services).

Michigan Works! Service Centers effectively duplicate services already provided by the private sector, either by the private staffing services industry or nonprofit organizations, and thus create unfair, subsidized competition against the private sector. Some Michigan Works! Agencies and their one-stops have engaged in very aggressive, anti-competitive behavior by giving away their services “for free;” that is, by providing recruiting and placement services to large corporations at no charge.¹⁰

All 25 Michigan Works! Agencies and their 104 Michigan Works! Service Centers should be eliminated. They operate in direct and unfair competition with Michigan’s private staffing services industry and serve no unique purpose.

Michigan Rehabilitation Services. This item is found within the Employment Training Services program. It provides administration funding for the Michigan Rehabilitation Services program, which is addressed below. It should be eliminated with the rest of the MDCD.

Michigan Community Service Commission (MCSC). This appropriation funds administration of the MCSC. The MCSC coordinates and markets volunteerism in Michigan. Ironically, nearly all the funding for a commission dedicated to voluntary association is funded by involuntary tax revenue. Ninety percent of the MCSC’s 2002 and 2003 funding of approximately \$8.5 million is derived from federal and state taxation. The commission was created in 1991 and has redistributed more than \$40 million to organizations that work to “engage thousands of Michigan citizens in volunteer service.”¹¹ Government-directed, involuntarily funded “volunteerism” actually harms the charitable ethic of our state by making organizations dependent on government funding rather than true community support and voluntary involvement. It creates the false impression that civic institutions need government support and direction. Administrative support for this program should be eliminated with the MCSC itself.

Recommended Action:

As described above, the Employment Placement and Training Services appropriation funds programs that either duplicate the services provided by, and in many cases actually harm, private for-profit and nonprofit organizations. These programs should be eliminated. **Savings: \$80,931,200. Governor Granholm’s 2005 proposal increases the gross appropriation to \$83,346,000.**

Program: Michigan career and technical institute

Appropriation:	Federal Funds:	\$ 8,160,500
	Special Revenue Funds:	\$ 1,693,600
	GF/GP:	\$ 1,040,200
	Total:	\$10,894,300

Program Description:

This appropriation funds the Michigan Career and Technical Institute (MCTI), whose mission, according to the MCTI web site, is “to provide technical training and support services to prepare Michigan residents with disabilities for employment in today’s competitive job market.”¹²

Recommended Action:

This program should be eliminated. Like many other programs it is well intentioned and addresses an important need. These services, however, are best provided and funded by local community organizations and businesses, not the federal or state government. Recycling community funds through expensive and bureaucratic state and federal programs, returning a portion back to the community with strings attached, crowds out the private, nonprofit and for-profit efforts. Many fine private organizations are working today to meet this need. Indeed, persons with disabilities are often sought by firms for their skills, and for the good public relations that can result from employing disabled citizens. The MCTI web site, "www.abletowork.org" even provides a link to a consortium of Fortune 1000 companies that are voluntarily facilitating their own hiring and training of the disabled. **Savings: \$10,894,300. Governor Granholm's 2005 proposal increases the gross appropriation to \$11,528,400.**

III. Career Education Programs

Program: Career and technical education

Appropriation:	Federal Funds:	\$2,719,700
	<u>GF/GP:</u>	<u>\$ 605,200</u>
	Total:	\$3,324,900

Program Description:

This appropriation funds the staff that oversees vocational-technological education programs at high schools and other centers operating in concert with community college programs. It also administers federal grants as well as develops and implements new programs.

Program Recommendation:

Oversight and coordination of vocational and technical education programs should be provided by the organizations and individuals involved without state assistance. These organizations are best equipped to determine the amount of resources to be applied to these functions versus actual instruction. This program could be eliminated. **Savings: \$3,324,900. Governor Granholm's 2005 proposal decreases the gross appropriation to \$3,266,100.**

Program: Adult education

Appropriation:	Federal Funds:	\$2,121,600
	<u>GF/GP:</u>	<u>\$ 161,500</u>
	Total:	\$2,283,100

Program Description:

This appropriation funds the administration of several state and federal adult education programs in Michigan.

Recommended Action:

This program should be eliminated along with state adult education programs. Please see "Adult Basic Education" in the following section, "Department Grants," for the rationale. **Savings: \$2,283,100. Governor Granholm's 2005 proposal increases the gross appropriation to \$2,304,400.**

Program: Commission on Spanish speaking affairs

Appropriation:	<u>All from GF/GP:</u>	<u>\$220,500</u>
	Total:	\$220,500

Program Description:

This appropriation funds the commission, which was created in 1975 to "assist Michigan's Spanish-speaking citizens in areas such as education, employment, civil rights, health and housing."¹³

Recommended Action:

This commission and its funding should be eliminated. Although there is no doubt that Spanish-speaking citizens benefit from such assistance, the same is true of virtually every other non-English-speaking ethnic group in Michigan. This type of assistance is best provided and funded by local community organizations and ethnic associations. Civil rights violations should be addressed by the Department of Civil Rights. **Savings: \$220,500.**

Governor Granholm's 2005 proposal decreases the gross appropriation to \$221,000.

IV. Department Grants**Program(s): Department grants**

Appropriation:	Federal Funds:	\$278,762,900
	Special Revenue Funds:	\$ 10,708,800
	GF/GP:	\$ 12,946,500
	Total:	\$302,418,200

Program Description:

This appropriation funds grants to various charitable, educational, and welfare-to-work programs. The following is a list of those programs, a brief description, and the amount that could be saved by eliminating the program.

Focus: HOPE. Focus: HOPE is a well known, Detroit-area civil- and human- rights organization that is dedicated to improving humanity through multi-cultural charitable and education programs. It charges nominal fees for some of its work and uses its MDCD grant for job training. There is no reason to believe that this exemplary organization, and others like it, would not succeed without government subsidies. The majority of Focus: HOPE's revenue comes from private sources, as does that of countless religious organizations that provide job training and education as part of their own social services network. This appropriation should be eliminated. **Savings: \$5,860,200.**

Michigan Community Service Commission sub-grantees. Sub-grantees are organizations that receive government grants to help foster volunteerism in Michigan. The work of the MCSC, and the reason it should be eliminated, is described in "Workforce Development" (section II above), under the program "employment training services." **Savings: \$6,180,100.**

Personal assistance services. This appropriation funds personal assistance for people with disabilities at their place of work. As with other social service programs, the intention of this program is laudable. Such services, however, should be provided and funded by private charitable organizations, businesses, and individuals, preferably community-based programs, which best understand local needs. **Savings: \$459,500.**

Pre-college programs in engineering and the sciences. This appropriation funds the Detroit and Grand Rapids area Pre-College Engineering programs, which are designed to prepare and motivate students to pursue degrees in engineering or the sciences. Assistance, however, should be provided by private, charitable organizations, businesses, and individuals, preferably community-based programs which best understand local needs. Kettering University runs such programs and does so without state aid. **Savings: \$500,000.**

Vocational rehabilitation client services/facilities. This appropriation funds rehabilitation and independent living services for workers with disabilities. As discussed elsewhere in this report, job training or retraining is fundamentally the responsibility of employers, employees, and private organizations — not the state or federal governments. **Savings: \$54,989,500.**

Vocational rehabilitation independent living. This appropriation funds 10 Centers for Independent Living in Michigan. These centers work to provide services and resources for people with disabilities. As with the two line items directly above, there is no question that disabled individuals require assistance in learning certain skills. Such assistance should be provided and funded by private charitable organizations, businesses, and individuals — preferably community-based programs, which best understand local needs. State support for these sites should be eliminated. **Savings: \$3,079,700.**

Welfare-to-work programs. Funding for this appropriation stems from the federal government's Personal Responsibility Act of 1996. The program, which is administered by the state's Michigan Works! Association, is designed to increase the ability of welfare recipients to become employed with the help of non-cash assistance, such as transportation, clothing, and medical examinations. While this system represents an improvement over the welfare system that preceded it, it still drains communities of resources, filters them through expensive state and federal bureaucracies, and returns a portion — with strings attached — to local communities. As a first step toward making sizeable reductions in Michigan's own public assistance and service programs through the Family Independence Agency, the state should refuse federal funding for this program. (For information on refusing federal funds, see Appendix I.) The federal government maintains the prerogative of running the system itself directly in Michigan if it chooses. There is no compelling reason to pass this money through the state. **Savings: \$72,698,600.**

Recommended Action: All of the programs listed above should be eliminated for the reasons provided. **Savings: \$139,985,500. Governor Granholm's 2005 proposal increases the gross appropriation to \$357,980,300.**

¹ Michigan Department of Career Development, "Annual Report," 2001.

² Cynthia M. Fagnoni, "Workforce Investment Act: Implementation Status and Integration of TANF Services," testimony to the Subcommittee on Postsecondary Education, Training and Life-Long Learning of the U. S. House of Representatives Committee on Education and Workforce, and the Subcommittee on Human Resources of the House Committee on Ways and Means, GAO/T-HEHS-00-145, June. 29, 2000, p. 1; Daniel O'Shea and Christopher T. King, "The Workforce Investment Act: Restructuring Workforce Development Initiatives in States and Localities," Report # 12, Albany: Nelson A. Rockefeller Institute of Government, State University of New York, April 2001.

³ *New York v. United States*, 505 U.S. 144 at 174 and 178.

⁴ Michigan Department of Career Development, "State of Michigan Strategic Five-Year Workforce Investment Act Plan," <http://www.michigan.gov/mdcd/0,1607,7-122--8809--,00.html> Oct. 31, 2002.

⁵ Established in 1993 by Executive Order 1993-3 See

http://www.michigan.gov/eMI/Portal/CDC/Components/eMI_CDA.

⁶ Created by Executive Order 2002-05 by Gov. John Engler on Mar. 27, 2002.

⁷ Michigan Department of Career Development web page, "Michigan's Workforce Investment Board," accessible on the Internet at http://www.michigan.gov/mdcd/0,1607,7-122-1683_18969---,00.html.

⁸ Kimble F. Ainslie, "Staffing Service Industry Under Fire," Current Commentary, Mackinac Center for Public Policy, Sept. 18, 2002; <http://www.mackinac.org/pubs/comments/4665>.

⁹ Interview between Michael LaFaive and Kyle Caldwell of the Michigan Community Service Commission, Dec. 19, 2002.

¹⁰ Kimble F. Ainslie, "Staffing Service Industry Under Fire," Current Commentary, Mackinac Center for Public Policy, Sept. 18, 2002; <http://www.mackinac.org/article.asp?ID=4665>.

¹¹ Michigan Community Service Commission web site, "MCSC Mission and Vision," accessible on the Internet at <http://www.michigan.gov/mcsc/0,1607,7-137-6113-20613--,00.html>.

¹² Michigan Career Technical Institute web site, "Welcome to the Michigan Career and Technical Institute," accessible on the Internet at http://www.michigan.gov/mdcd/0,1607,7-122-1681_2913---,00.html.

¹³ Bob Schneider and Barbara Graves, "Line Item and Boilerplate Summary," Career Development and Michigan Strategic Fund, fiscal year 2001-2002, Jan. 2002, p. 8.

Department of Community Health

Created in 1996 by an executive order that consolidated the Departments of Mental Health and Public Health with Medicaid and the Office of Drug Control Policy, the Michigan Department of Community Health (MDCH) also incorporates the Office of Services to the Aging. It has absorbed the Adult Home Health Help Program and the Social Services to the Physically Disabled Program from the Family Independence Agency, as well as the Crime Victims Services Commission.

The Michigan Department of Community Health oversees state's healthcare policies and manages its publicly funded health systems. The department's stated mission is quite broad: it "strives for a healthier Michigan."¹ In pursuit of that goal, the department has three objectives: "Promote access to the broadest possible range of quality services and supports; take steps to prevent disease, promote wellness and improve quality of life [and] strive for the delivery of those services and supports in a fiscally prudent manner."²

The number and scope of government services that could be justified under the rubric of promoting wellness and improving the quality of life is limitless. It is no surprise, then, that MDCH is one of the state's largest departments. Each year, an estimated 1.5 million Michigan residents receive services that are provided with total or partial support from MDCH. Its gross appropriations for fiscal year 2003 exceed \$9 billion, and it employs approximately 5,465 people, in addition to supporting additional employees in county governments.

The department provides services to Michigan citizens from before birth to death. It is time for the state to rethink this department's mission and limit state government control and funding of healthcare services.

I. Departmentwide Administration

Program: Rural health services

Appropriation:	Federal Funds:	\$1,251,900
	<u>GF/GP:</u>	<u>\$ 126,000</u>
	Total:	\$1,377,900

Program Description:

This appropriation subsidizes the Michigan Center for Rural Health. The center, based at Michigan State University, aims "To coordinate, plan, and advocate for improved health for Michigan's rural residents and communities through creative visionary education, service, and research ..."³

Recommended Action:

This program should be eliminated. Rural residents may indeed have fewer choices in buying goods or services compared to their urban or suburban counterparts. For example, cable television service is not available in many rural areas, and world-class research hospitals typically are not located in counties whose population is under 10,000. On the other hand, rural residents may enjoy amenities not available to people who live in more densely populated areas, such as less congestion and easy access to outdoor recreation. Tradeoffs are inevitable in the choice of where to live, and the state could minimize the extent to which it shields individuals from the consequences of their own choices. **Savings: \$1,377,900. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Michigan essential healthcare provider program

Appropriation:	Federal Funds:	\$ 696,300
	Special Revenue Funds:	\$ 150,000
	<u>GF/GP:</u>	<u>\$ 545,400</u>
	Total:	\$1,391,700

Program Description:

This appropriation funds the Michigan essential healthcare provider program. The program offers up to \$25,000 per year to physicians and dentists who provide medical services to areas designated as “underserved” by the medical community for the repayment of school loans. In fiscal year 2001, the program placed 36 medical providers and 5 dentists.⁴

Recommended Action:

This appropriation should be eliminated. It is true that healthcare options — as well as many other services — are more limited in rural areas than suburban and urban areas, but this in no reason to subsidize access to health care in rural areas. The true cost of and access to healthcare services should be part of a person’s or business’ location decision. If shortages do exist, private groups such as medical associations and community organizations should address them independently of government. These grants perpetuate the image of rural communities as dependent on the largesse of urban and suburban residents. Doctors and dentists are important, certainly, but so are lawyers, plumbers, and hairdressers. We do not have state programs to attract other professions to rural areas, and we do not need such a program for doctors or dentists.⁵ **Savings: \$1,391,700. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

II. Mental Health/Substance Abuse Administration

Program: Consumer involvement program

Appropriation:	<u>All from GF/GP:</u>	\$189,100
	Total:	\$189,100

Program Description:

This appropriation funds the Consumer Involvement program. This program is designed to help consumers participate in policy forums and self-help groups. It also funds a consumer “hotline.”

Recommended Action:

Eliminate this program. Consumers are capable of such participation without a state program. Consumers have been buying and selling goods in the marketplace and solving consumer-related problems since long before this state program. If this service is needed it should be provided through a voluntary association. **Savings: \$189,100. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Gambling addiction

Appropriation:	<u>All from Special Revenue Funds:</u>	\$3,500,000
	Total:	\$3,500,000

Program Description:

This appropriation subsidizes education and research into pathological gambling and its treatment, and the operation of a 24-hour “help line.” The services are funded with revenue from the Michigan State Lottery, Department of Agriculture (horse racing) and by the three Detroit casinos.

Recommended Action:

The state could cease this operation entirely and redirect revenues to the General Fund. Few policy issues better illustrate contradictory functions of state government than gambling. On the one hand, nearly all forms of gambling have historically been illegal, and most still are. Yet for the last 30 years the state has owned and run its own gambling operation, the state lottery, and it sanctions and profits from a growing number of casinos around the state. Now, the state both encourages gambling through the Michigan State Lottery, and also discourages it through this program. Those with gambling problems do need help, but such assistance should be provided by local community organizations. **Savings: \$3,500,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Mental health initiatives for older persons

Appropriation:	Federal Funds	\$ 300,000
	All from GF/GP:	<u>\$1,049,200</u>
	Total:	\$1,349,200

Program Description:

This appropriation funds respite care (substitute caregivers who give regular caregivers a “respite”) and daycare services; it also provides training in Alzheimer’s Disease and related health issues to home healthcare providers. In fiscal year 2003, \$385,000 went to training, data analysis, research and technical assistance (33 percent of the total allocation) while \$780,600 (67 percent) went to respite and daycare services.⁶

Recommended Action:

This program could be eliminated. Where needed, these services should be provided and funded by local community organizations. Institutions of civil society can, should be, and are providing these services. For example, the Lansing Area Parents Respite Center has compiled a guide listing numerous private and public providers of such services, and they are not the only group to do so. **Savings: \$1,349,200. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

III. Community Mental Health/Substance Abuse Services**Program: Community mental health non-Medicaid services**

Appropriation:	Special Revenue Funds:	\$ 1,582,400
	GF/GP:	<u>\$326,811,700</u>
	Total:	\$328,394,100

Program Description:

This appropriation funds Department of Community Health expenditures that are not covered by Medicaid, but mimic the services provided by the Medicaid program for people whose income and assets make them ineligible for Medicaid. *Author’s Note: In FY 2004, Governor Granholm increased this line item a surprising 18.6 percent over the previous year’s budget. She is now proposing paring it back to \$313 million.*

The term “Medicaid” is used generally to describe 56 entitlement programs jointly administered by federal and state governments (states must provide at least 14 of to get federal matching funds). The programs are designed to help the poor by providing them with short- and long-term healthcare services. The original Medicaid program was passed in 1965 as part of Lyndon Johnson’s “Great Society” initiative, in which he declared “unconditional war on poverty.” Michigan spends \$2 billion from its GF/GP account annually covering the costs of the program, and costs are expected to increase dramatically.

The services clients may receive under this program include, but are not limited to, help with substance abuse problems, general counseling, outpatient services, “inpatient care in a structured, secure environment,”⁷ psychiatric evaluations, hospital care, Intelligence Quotient and other “projective” psychological testing, health services (minor first-aid treatment, in-home nursing visits, and dietary services); “occupational therapy” (for problems that involve work performance); and “specialty services” such as music, recreational, art, and massage therapies.⁸

Program Recommendation:

This program should be eliminated. The federal government has established guidelines for the provision of Medicaid services based on a variety of factors, including assets and income. It is laudable to assist people who fall outside of the established government categories, but where do expansions of the state end, and personal and civic responsibility begin? If government refrained from crowding out private solutions to social ills with high taxes and regulation, private individuals and institutions could do more to address the needs of Michigan citizens. **Savings: \$328,394,100. Governor Granholm’s 2005 proposal decreases the gross appropriation to \$313,352,400.**

Program: Multicultural services

Appropriation:	<u>All from GF/GP:</u>	\$3,663,800
	Total:	\$3,663,800

Program Description:

This appropriation funds Community Mental Health Service Programs (CMHSP) for contracts for mental-health services to specified ethnic groups.

Recommended Action:

The funding for this program could be eliminated. Mental health services should not be either withheld or dispensed on the basis of ethnicity. **Savings: \$3,663,800. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Medicaid substance abuse services

Appropriation:	Federal Funds:	\$16,136,000
	<u>GF/GP:</u>	\$11,652,900
	Total:	\$27,788,900

Program Description:

This appropriation funds Medicaid substance abuse services. These services are managed by CMHSPs. Spending on substance abuse treatment is increasing, and more of the funding burden is being shouldered by taxpayers. Payments for substance abuse treatment increased 5.4 percent per year from 1987-1997, even as inpatient treatment was increasingly replaced by less costly outpatient treatment. While this is a slower rate than the growth in overall national health expenditures (8.2 percent per year), there is cause for concern. In 1997, \$11.9 billion was spent nationally on treating substance abuse. In that year, 62 percent of all substance abuse treatment funding came from the public sector, while only 55 percent of all mental health spending came from government. Taxpayers were increasingly called upon to fund substance abuse treatment; 61.8 of substance abuse treatment was funded through public sources in 1997, compared with only 50.3 percent to years earlier. By contrast, private insurance-funded spending grew only 1.9 percent a year.⁹ This discrepancy suggests a shift to public sources and/or a relative lack of cost control in public-sector programs.

Recommended Action:

All state substance abuse programs could be eliminated in favor of private assistance. Substance abuse is a serious problem that leads to a loss in productivity, the breakdown of families, and a number of other adverse consequences. However, this program is an other example of a system that takes resources from families and communities through taxation, funnels it through expensive state and federal bureaucracies, and returns a portion of the amount taken to certain selected individuals and organizations. These resources should be left with individual families and local communities who are close to the problems, and who can provide assistance that is more accountable and effective than that from distant bureaucracies in Lansing and Washington. **Savings: \$27,788,900. Granholm's 2005 proposal increases the gross appropriation to \$28,532,300.**

Program: Respite services

Appropriation:	<u>All from GF/GP:</u>	\$1,000,000
	Total:	\$1,000,000

Program Description:

This appropriation funds respite care for families who have children with emotional disturbances.

Recommended Action:

The state should remove itself from respite-care services. As with other forms of respite care, one should commend the hard work of family members who attend to their ill relatives. But every dollar that government takes from needy families, businesses, and individuals is a dollar that they cannot use to solve their own respite problems, or

those of their neighbors. **Savings: \$1,000,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: State disability assistance program substance abuse services

Appropriation:	<u>All from GF/GP:</u>	\$2,509,800
	Total:	\$2,509,800

Program Description:

This appropriation funds per-diem room and board payments for financially needy adults or emancipated minors who reside in substance abuse residential facilities.

Recommended Action:

This line item could be eliminated for the same reasons addressed by "Medicaid Substance Abuse Services" program, above. **Savings: \$2,509,800. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Community substance abuse prevention, education, and treatment programs

Appropriation:	Federal Funds:	\$61,957,900
	Special Revenue Funds:	\$ 1,460,000
	<u>GF/GP:</u>	\$17,130,500
	Total:	\$80,548,400

Program description:

This appropriation funds programs that distribute grants for substance abuse prevention, education, and treatment to 18 agencies and treatment centers. The treatment centers are outpatient and residential; there is no hospitalization.

Recommended Action:

Eliminate this line item for the same reasons addressed under the "Medicaid Substance Abuse Services" program. **Savings: \$80,548,400. Governor Granholm's 2005 proposal increases the gross appropriation to \$82,770,600.**

IV. Local Health Administration and Grants

Program: Local public health operations

Appropriation:	<u>All from GF/GP:</u>	\$40,618,400
	Total:	\$40,618,400

Program Description:

This appropriation funds operations that provide matching funds to local health departments for spending on any of nine services: immunizations, infectious disease control, STD control, hearing screening, private groundwater supply, and on-site sewage management.

Program Recommendation:

The state could change the public health code to remove any mandates for health services (such as those listed above) and eliminate matching grants that fund these activities at the local level. Local units of government have their own reasons to provide such services and pay for them directly. State intrusion, however well intended, attempts to provide universal solutions that cannot take into account all of the unique circumstances of respective counties, villages, and townships (CVTs). Rather than pay for half of all local hearing or sexually transmitted disease tests from state funds, for instance, the program could be eliminated and CVTs could determine their own public health destinies. The debate to raise taxes at the local level for such programs could personalize the issue, and lead citizens to better grasp the marginal costs and benefits of health programs, and how those programs directly affect their communities. **Savings: \$40,618,400. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

V. Chronic Disease and Injury Prevention and Health Promotion

Appropriations in this segment of the budget “promote healthy lifestyles.”¹⁰ The fact that “healthy lifestyles” is a good thing does not answer the question, “Is this a legitimate function of limited government?” Residents of Michigan, and the United States as a whole, do not suffer from lack of opportunity to learn about health issues. From Consumer Reports magazine to books to television shows, there are many ways that people can learn about healthy living. There is little need for expansive educational campaigns by governments.

Program: African-American male health initiative

Appropriation:	<u>All from GF/GP:</u>	\$106,700
	Total:	\$106,700

Program Description:

This appropriation funds the African-American Male Health Initiative, a program that provides community-based prevention and disease detection to African-American men, providing services such as screening for hypertension and diabetes.¹¹

Recommended Action:

This program should be eliminated. The state, to the extent that it has a health program, should serve the needs of the population as a whole. Special outreach activities to minority groups could be conducted by private organizations that advance the interests and serve the needs of those groups. Health services should not be either withheld or dispensed on the basis of race. **Savings: \$106,700. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Cancer prevention and control program

Appropriation:	Federal Funds:	\$ 8,552,700
	Special Revenue Funds:	\$ 1,641,300
	<u>GF/GP:</u>	\$ 849,100
	Total:	\$11,043,100

Program description:

This appropriation funds the Cancer Prevention and Control program, which provides grants to communities for screening and follow-up services for cancer, cancer education, and early detection, and grants for cancer prevention activities.

Recommended Action:

This funding could be eliminated. The private sector has and continues to provide these services on a for- and non-profit basis. While these diseases have serious effects on individuals and their families, the case for state intervention is weak. The medical establishment as well as private voluntary groups are capable of providing information and services as required. **Savings: \$11,043,100. Governor Granholm’s 2005 proposal increases the gross appropriation to \$13,243,800.**

Program: Chronic disease prevention

Appropriation:	Federal Funds:	\$1,228,300
	Special Revenue Funds:	\$ 239,100
	<u>GF/GP:</u>	\$ 155,000
	Total:	\$1,622,400

Program Description:

This appropriation funds the Chronic Disease Prevention program, a program that provides funds to local health departments to develop community coalitions to address chronic diseases and to develop programs and provide grants to reduce chronic disease, focusing on arthritis, stroke, and obesity. *Author's Note: The 2005 Granholm budget recommendation recommends an 850 percent increase in spending on this program and is based on the assumption that her proposal for a \$0.75 per pack cigarette tax hike will be passed into law.*

Recommended Action:

This program should be eliminated. Arthritis and strokes devastate lives of Michigan residents every day, and obesity is implicated in various health problems. Institutions of civil society, nonprofit groups, medical and community associations, and special-interest media outlets are capable of spreading the news about disease prevention and treatment. **Savings: \$1,622,400. Governor Granholm's 2005 proposal increases the gross appropriation to \$15,411,200.**

Program: Diabetes and kidney program

Appropriation:	Federal Funds:	\$1,059,000
	<u>Special Revenue Funds:</u>	<u>\$1,894,900</u>
	Total:	\$2,953,900

Program description:

This appropriation funds primarily the administrative staff and other expenses related to contracts to help mitigate diabetes and kidney disease through prevention programs.

Recommended Action:

This program should be eliminated. While well intentioned, many private groups exist to educate people about the risks of diabetes and kidney disease. For example, The National Kidney Association and American Diabetes Association both operate web sites with extraordinary amounts of information on kidney and diabetes-related topics. **Savings: \$2,953,900. Governor Granholm's 2005 proposal increases the gross appropriation to \$3,071,900.**

Program: Health education, promotion, and research programs

Appropriation:	Federal Funds:	\$ 102,800
	Special Revenue Funds:	\$ 326,300
	<u>GF/GP:</u>	<u>\$ 609,700</u>
	Total:	\$1,038,800

Program Description:

This appropriation funds the Health Education, Promotion, and Research programs. These programs support costs related to health research, work site and community health promotion, the tobacco program, school health, and osteoporosis prevention and treatment education.

Recommended Action:

This program should be eliminated. Basic research into health can more effectively be funded in other line items; health promotion and education of various diseases and in various settings can be done by voluntary groups and health businesses. **Savings: \$1,038,800. Governor Granholm's 2005 proposal decreases the gross appropriation to \$1,018,100.**

Program: Injury control intervention project

Appropriation:	Federal Funds:	\$615,000
	<u>GF/GP:</u>	<u>\$ 99,900</u>

Total: \$714,900

Program Description:

This appropriation funds the Injury Control Intervention project. This project operates and oversees programs to prevent disabilities, including fire safety, traumatic brain injury, and community childhood injury prevention programs.

Recommended Action:

This program should be eliminated. Individuals have every incentive to be concerned about their own health and safety and that of their loved ones. Institutions of civil society — individuals, private associations, and community groups — can all work to promote safe living based on their perceived needs and wants. **Savings: \$714,900. Governor Granholm's 2005 proposal decreases the gross appropriation to \$520,100.**

Program: Morris Hood Wayne State University diabetes outreach

Appropriation:	<u>All from Special Revenue Funds:</u>	\$250,000
	Total:	\$250,000

Program Description:

This appropriation funds the Morris Hood Wayne State University Diabetes Outreach program which works to identify and test people who may be at high risk for contracting diabetes.

Recommended Action:

Funding for this program should be eliminated. While well intentioned, this program need not be subsidized by the state. Nonprofit organizations and other institutions of civil society work on behalf of many causes, debilitating diseases being just one. For instance, the American Diabetes Association accepts no government funds, yet it raises money privately to donate to research on the disease and the same type of community outreach work funded by the Morris Hood Wayne State University program. The American Diabetes Association has four branch offices in this state alone. They are located in Bingham Farms, Lansing, Portage, and Grand Rapids, respectively. **Savings: \$250,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Physical fitness, nutrition, and health

Appropriation:	<u>All from GF/GP:</u>	\$100,000
	Total:	\$100,000

Program Description:

This appropriation funds grants to support a statewide network of local physical fitness, health, and sports councils so that they may develop a physical fitness curriculum. The money is used to educate the public on ways of preventing sports injuries.

Recommended Action:

This program should be eliminated. Michigan's residents enjoy a wide variety of physical activities for health, work and recreation. Recreation and health industries have enough incentive to promote physical fitness. **Savings: \$100,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Smoking prevention program

Appropriation:	Federal Funds:	\$1,738,500
	<u>Special Revenue Funds:</u>	\$3,114,200
	Total:	\$4,852,700

Program Description:

This appropriation funds the Smoking Prevention program, a program that provides money for contracts for smoking prevention programs and projects; for enforcing clean indoor-air laws; for an anti-tobacco media campaign; and for anti-smoking materials to school districts.

Recommended Action:

Funding for this item should be eliminated. Smoking is a voluntary and legal activity whose risks are widely publicized and whose benefits are perceived differently by each person. Even if the anti-smoking efforts of the state were effective, government should not be in the business of operating prevention programs. Private institutions exist for this very purpose and would continue to do so if the government removed itself from this arena.

As for educational campaigns, Michigan schools are struggling to carry out their core academic functions; they should be freed of requirements such as the conduct of anti-smoking campaigns. **Savings: \$4,852,700. Governor Granholm's 2005 proposal increases the gross appropriation to \$9,914,600.**

VI. Community Living, Children, and Families**Program: Dental programs**

Appropriation:	Federal Funds:	\$110,400
	Special Revenue Funds:	\$150,000
	<u>GF/GP:</u>	<u>\$225,000</u>
	Total:	\$485,400

Program Description:

This appropriation funds dental programs that provide money to pay for dental services for the uninsured (including those who do not qualify for Medicaid) who cannot get “dental services due to mental or physical handicap or visual impairment.”¹²

Recommended Action:

This program should be eliminated. Statewide, dentists generously work pro bono for low-income and uninsured patients. For example, in Ypsilanti, Mich., the Hope Medical Clinic, Inc. provides volunteer dental work four days weekly and maintains a network of dentists willing to provide specialty services — such as oral surgery — free of charge. The national group, Foundation of Dentistry for the Handicapped, maintains a list of private and government-subsidized “Donated Dental Services” providers for every state in the nation. This organization alone maintains a list of 642 Michigan dentists who volunteer their services individually, and in conjunction with private or government agencies. In cities across Michigan, local religious and charity groups such as the United Way and Red Cross often maintain a referral service of dentists (among other professionals) willing to provide free services to needy clients or directly subsidize dental work.

Many other dentists simply offer free services without fanfare from their own offices. According to the 1997 Survey of Current Issues in Dentistry, 60.7 percent of American dentists provide some type of charitable (free or reduced cost) dental care through their primary practices. The majority of their charitable work goes to the low-income, and to handicapped individuals, but it also serves poor migrant workers, people who are homebound, institutionalized, or suffering from Acquired Immune Deficiency Syndrome. The average value of donated care per dentist surveyed in 1997 was over \$10,000. During the same year dentists also provide reduced-price services depending on a patients' ability to pay. Overall, these professionals treated an average 42 patients each, free-of-charge, and provided reduced cost services to an additional 103.¹³

Institutions of civil society, such as family members, religious groups, civic clubs and others who generously donate their time and skills could do more if government worked to avoid crowding them out with well-intentioned but unnecessary programs. Every dollar that is taken from communities and run through distant bureaucracies is a dollar that cannot be used to help people privately and through voluntary efforts. **Savings: \$485,400. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Dental program for persons with developmental disabilities

Appropriation:	<u>All from GF/GP:</u>	\$151,000
	Total:	\$151,000

Program Description:

This appropriation funds the Dental Program for Persons with Developmental Disabilities. This program is similar to the one listed above, though it is dedicated solely to the category of “developmental disabilities.”

Recommended Action:

This program could be eliminated. As with the program described directly above, groups and individuals already work to provide dental services to special needs clients who do not have insurance. **Savings: \$151,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Family planning local agreements

Appropriation:	Federal Funds	\$ 9,885,800
	Special Revenue Funds	\$ 634,600
	<u>GF/GP</u>	\$ 797,700
	Total:	\$11,318,100

Program Description:

This appropriation funds the Family Planning Local Agreements program. This program provides grant support to health departments across Michigan for, among other things, family planning.

Recommended Action:

This program should be eliminated. Family planning assistance is performed by private, nonprofit groups across the country without the aid of state subsidies. **Savings: \$11,318,100. Governor Granholm’s 2005 proposal increases the gross appropriation to \$12,270,300.**

Program: Migrant healthcare

Appropriation:	Federal Funds:	\$ 63,900
	<u>GF/GP:</u>	\$136,100
	Total:	\$200,000

Program Description:

This appropriation funds grants for local areas with high migrant populations, to provide healthcare, immunization outreach, and other services.

Recommended Action:

This program should be eliminated. Migrant workers are an important part of the Michigan economy, especially its agricultural sector. They come to Michigan because they perceive that the economic opportunities here are greater than elsewhere. State government should not distort these incentives by subsidizing the healthcare of these workers. Institutions of civil society exist to address all types of social ills, including those that effect migrants. Note: For more on the subject of migrant workers in Michigan see page 7. **Savings: \$200,000. Governor Granholm’s 2005 proposal increases the gross appropriation to \$272,200.**

Program: Pregnancy prevention program

Appropriation:	Federal Funds:	\$ 812,800
	<u>GF/GP:</u>	<u>\$5,033,300</u>
	Total:	\$5,846,100

Program Description:

This appropriation funds the Pregnancy Prevention Program, a program which supports grants to local agencies, including health departments, to provide family planning services.

Recommended Action:

This program should be eliminated. While unplanned pregnancies can pose significant challenges to both the child and the family, family planning assistance is performed by private, nonprofit groups across the country without the aid of state subsidies. The state should not interfere in family planning. **Savings: \$5,846,100. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Sudden infant death syndrome program

Appropriation:	Federal Funds:	\$221,300
	<u>GF/GP:</u>	<u>\$100,000</u>
	Total:	\$321,300

Program Description:

This appropriation funds the Sudden Infant Death Syndrome program. This program provides for grief counseling and follow-up services for families who have lost a child to Sudden Infant Death Syndrome (SIDS). It also provides funding for public education and reporting.

Recommended Action:

This funding should be eliminated. Each incident of SIDS is a tragedy for the family involved, but grief counseling and public education need not be a function of government. Extended families, religious organizations, the paid and unpaid services from professional counselors, and nonprofit groups can all work to raise awareness of SIDS and help families who have been grieved by it. **Savings: \$321,300. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

VII. Office of Drug Control Policy**Program: Drug control policy**

Appropriation:	Federal Funds:	\$1,587,400
	<u>GF/GP:</u>	<u>\$ 386,000</u>
	Total:	\$1,973,400

Program Description:

This appropriation funds the Drug Control Policy program. The office seeks to reduce the use of illegal drugs through a combination of social services, education and law enforcement.

Recommended Action:

This program has laudatory objectives, but it takes money from local communities, passes it through federal and state bureaucracies, and returns the remainder of it, strings attached, to programs which often duplicate existing school-based or community-based programs. One lesson of the last 30 years of anti-drug policy is that illicit drug use is most effectively reduced through efforts financed by local community organizations and individuals. This program should be eliminated. **Savings: \$1,973,400. Governor Granholm's 2005 proposal increases the gross appropriation to \$2,040,800.**

VIII. Office of Services to the Aging

Program: Community services

Appropriation:	Federal Funds:	\$20,220,300
	<u>GF/GP:</u>	<u>\$15,065,800</u>
	Total:	\$35,286,100

Program Description:

This appropriation funds programs that distribute money to Area Agencies on Aging in various parts of the state. It includes money for in-home services to the elderly; community services such as health education and training, recreational programs, homemaker and counseling programs, housing repair, and legal assistance. It also includes disease prevention efforts for the elderly poor.

Recommended Action:

This funding should be eliminated. The program is an example of how the state crowds out private effort and weakens the bonds that naturally link people together on a voluntary basis. Michiganians help the elderly, conduct house repair, and provide legal assistance voluntarily every day. *Pro bono* representation is a long and honored tradition in the legal profession. (Loosening restrictions on what is considered the “Unauthorized Practice of Law” could help as well. As Mackinac Center scholar George C. Leef has argued, repealing unauthorized practice of law restrictions would benefit the poor most.¹⁴) Unions in the building trades could offer housing repair services for free or at a reduced cost as a public service. Religious institutions and self-help groups offer counseling at nominal costs, or even free of charge. Privately organized people can meet the needs of the vulnerable even more if the burdens of the regulatory and political state are lessened. **Savings: \$35,286,100. Governor Granholm’s 2005 proposal decreases the gross appropriation to \$34,904,200.**

Program: Nutrition services

Appropriation:	Federal Funds:	\$26,743,900
	Special Revenue Funds:	\$ 167,000
	<u>GF/GP:</u>	<u>\$11,280,300</u>
	Total:	\$38,191,200

Program Description:

This appropriation funds nutrition services programs. These programs provide funding to Area Agencies on Aging for the delivery of hot meals, nutrition education, and administration.

Recommended Action:

This program should be eliminated. Community groups, families and individuals could shoulder these burdens free of the bureaucracy and regulatory apparatus of government. This is an example of how the state crowds out private effort and weakens the bonds that naturally link people together on a voluntary basis. **Savings: \$38,191,200. Governor Granholm’s 2005 proposal decreases the gross appropriation to \$37,290,300.**

Program: Senior volunteer services

Appropriation:	<u>All from GF/GP:</u>	<u>\$5,645,900</u>
	Total:	\$5,645,900

Program Description:

This appropriation funds senior volunteer services. Funding from this appropriation goes through the Area Agencies on Aging, to support volunteering and to financially reward volunteers. In the Senior Companion Program, seniors provide 20 hours a week of care to adults in need, and are paid a stipend in return. The Foster Grandparent Program is a similar program aimed at serving children. The Retired and Senior Volunteer Program supports senior citizen volunteers generally.

Recommended Action:

This program should be eliminated. There may be no better example of how the multiple and varied spending plans of government compete with and crowd out what has historically been normal human interaction. Paying people to volunteer, while not unique to this department, is an affront to the notion of volunteering, charitable service, and civil society. **Savings: \$5,645,900. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Senior citizen centers staffing and equipment

Appropriation:	<u>All from GF/GP:</u>	\$1,068,700
	Total:	\$1,068,700

Program Description:

This appropriation funds senior citizen centers' staffing and equipment. Senior centers provide information about the low-income energy-assistance program, Medicaid, nursing homes, food stamps, and a variety of other government programs and social services. The money from this allocation supplements the budgets for those centers, which receive public and private support.

Recommended Action:

This program should be eliminated. Responsibility for funding these services should belong to the private sector. While social interaction does help promote general health and well being, the state is stepping outside its appropriate sphere by funding self-help volunteer organizations. Any number of fraternal organizations, such as the Eagles, Elks and Masons, as well as veterans groups, religious groups and clubs, not to mention families and friends, are available to help seniors. Many senior services are performed through non-profit organizations under government contract. Some already solicit private support.¹⁵ **Savings: \$1,068,700. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Respite care program

Appropriation:	<u>All from Special Revenue Funds:</u>	\$7,100,000
	Total:	\$7,100,000

Program Description:

This appropriation funds programs that provide respite for caregivers working with elderly persons who need around-the-clock assistance. While the funds are technically classified as "restricted" and "tobacco settlement" revenue, these funds could be redirected to the General Fund.

Recommended Action:

This line item should be eliminated for the same reasons addressed in previous respite care line items, found above. **Savings: \$7,100,000. Governor Granholm's 2005 proposal increases the gross appropriation to \$7,600,000.**

¹ The MDCH web site, "The Michigan Department of Community Health mission," accessible on the Internet at <http://www.michigan.gov/mdch/0,1607,7-132--14173--00.html>.

² Ibid.

³ Michigan Center for Rural Health web site, "Our Mission," accessible on the Internet at

<http://www.com.msu.edu/micrh/index.htm>.

⁴ Michigan Department of Community Health web site, "Healthy Michigan Fund Report 2000-2002," p. 23, accessible on the Internet at http://www.michigan.gov/documents/sec213nov_23228_7.pdf.

⁵ For more information on this phenomenon, see William E. Pike, "Recruiting Rural Physicians: Small-Town Socialism," *Ideas on Liberty*, January 1999, p. 11-13, accessible on the Internet at <http://www.fee.org/vnews.php?nid=4210> (free registration required).

⁶ Correspondence with the House Fiscal Agency, Oct. 9, 2002.

⁷ Act No. 519, p. 14.

⁸ "Draft of Revised Chapter III for Prepaid Health Plans, Mental Health and Substance Abuse." The pages for this document are not numbered. This document describes services that are provided under the Medicaid program and which are mimicked by the Community Mental health non-Medicaid services program according to Irene Kazieczko, director, bureau of mental health substance abuse and long-term care for the Michigan's Department of Community Health.

⁹ All numbers come from Mark, Tami L; Coffey, Rosanna M King, Edward Harwood, Henrick et al, "Spending on mental health and substance abuse treatment," *Health Affairs* Vol. 19, No. 4, July/August 2000, p. 108-120.

¹⁰ Ibid. p. 24.

¹¹ Healthy Michigan Fund Report, p. 5.

¹² Ibid.

¹³ The American Dental Association, "1997 Survey of Current Issues in Dentistry: Charitable Dental Care," December 1998, p. 3, 7, 8.

¹⁴ George C. Leef, "Lawyer Fees Too High? The Case for Repealing Unauthorized Practice of Law Statutes," *Regulation* magazine, accessible on the Internet at <http://www.cato.org/pubs/regulation/reg20n1c.html>.

¹⁵ Senior Services, Inc., of Kalamazoo requests volunteer labor and donations on their web site, accessible on the Internet at <http://www.seniorservices1.org/Page0013.htm>. Voluntary contributions to this and similar organizations may increase if lower taxes result in more disposable income.

Community Colleges

The community college budget for fiscal year 2004 is comprised of two types of appropriations: those for the day-to-day operations of Michigan's community colleges, and grants, of which there are two. Substantial and immediate savings could be realized with respect to the day-to-day operations by retroactively indexing spending to two factors: inflation and enrollment, beginning in fiscal year 1985. Community college spending has grown at a far faster rate than either factor — a development that calls for greater scrutiny of requests for state funding increases.

One of the two grants, known as the "At-Risk Student Success Program," should be eliminated. It financially rewards community colleges for labeling students "at-risk," duplicates other funding mechanisms for special-needs students, and increases the overall cost of funding community colleges.

I. Operations

Program: Community college operations

Appropriation:	<u>All from GF/GP:</u>	<u>\$283,940,400</u>
	Total:	\$283,940,400

Program Description:

This appropriation funds the operational costs of Michigan's community colleges. Michigan's 28 community colleges provide the following: (1) low-cost courses for students planning to obtain a bachelor's degree, (2) courses for those who wish to have special kinds of technical skills in business, industry or other fields, and (3) programs to serve the direct educational needs of the community where the college resides. Fewer than 200,000 students are currently enrolled full-time in community colleges throughout the state, a 3.4 percent drop since the 1984-1985 school year.¹ The appropriation above does not include revenue for the tuition restraint program.

For the fiscal year 2003-04, individual community college appropriations totaled \$283,940,400. The specific appropriations according to Act 146 of 2003 are:

Alpena Community College	\$4,930,500
Bay De Noc Community College	\$4,766,800
Delta College	\$13,331,900
Glen Oaks Community College	\$2,236,800
Gogebic Community College	\$4,078,400
Grand Rapids Community College	\$16,769,300
Henry Ford Community College	\$20,436,700
Jackson Community College	\$11,312,800
Kalamazoo Valley Community College	\$11,542,800
Kellogg Community College	\$9,068,800
Kirtland Community College	\$2,752,400
Lake Michigan College	\$4,880,800
Lansing Community College	\$28,999,400
Macomb Community College	\$30,941,500
Mid Michigan Community College	\$4,127,600
Monroe County Community College	\$4,015,800
Montcalm County Community College	\$2,904,700
C.S. Mott Community College	\$14,661,600
Muskegon Community College	\$8,343,600
North Central Michigan College	\$2,826,100
Northwestern Michigan College	\$8,513,800
Oakland Community College	\$19,518,300
St. Clair County Community College	\$6,537,800
Schoolcraft College	\$11,455,400

Southwestern Michigan College	\$6,149,300
Washtenaw Community College	\$11,642,900
Wayne County Community College	\$15,050,600
West Shore Community College	\$2,144,000

Recommended Action:

While public support for higher education might be better accomplished by converting from direct funding to a system of tuition vouchers or tax credits, such a plan may not be politically feasible at this moment.² But it would give institutions of higher learning a stronger incentive to contain costs and to make sure that as many resources as possible are dedicated to serving students' educational needs. There are, however, some immediate steps that the Michigan Legislature should take to deal with escalating costs. During tough economic times there is no legitimate reason to exempt community colleges from the same budget discipline that families and state bureaucracies must face. **Governor Granholm's 2005 proposal decreases the gross appropriation to \$262,987,500.**

Author's Note: In Fiscal Year 2005, state funds are set to be appropriated to Michigan community colleges and universities as part of a "tuition restraint" policy. The funds will only be paid if the institutions "that did not adopt an increase in tuition and fee rates after December 1, 2003 for the 2003-2004 academic year, and that it will not adopt tuition and fee rate increases for the 2004-2005 academic year,"³ adjusted for inflation based upon the Detroit Consumer Price Index. Governor Granholm has set aside more than \$17 million for community colleges that restrain tuition increases. This is a poor use of state funds. Those who benefit the most from education should be required to bear the greatest burden of paying for it. The state should eliminate this program and its appropriation. Savings: \$17,036,800.

II. Grants

Program: At-risk student success program

Appropriation:	<u>All from GF/GP:</u>	\$3,322,700
	Total:	\$3,322,700

Program Description:

This appropriation funds the at-risk student success program. The at-risk student success grant funds community college programs for students who are labeled "at-risk." For a student to be labeled "at-risk," he or she must meet one of the following criteria: (1) He or she must have been placed in one or more developmental course(s) as a result of poor scores on standardized tests or as a result of failure to make satisfactory academic progress; (2) he or she should have been diagnosed by a qualified professional as learning disabled; or (3) he or she should require English as a second language assistance. The majority of at-risk students fall into the first category.

The funding method for the at-risk program adds "contact hours" for developmental and preparatory classes and then divides that sum by a college's three-year average of all student contact hours. That result is then divided by the total number of contact hours by all community colleges in Michigan. This equals the share of funds directed to that community college for "at-risk" students. Each school also receives a base grant of \$40,000 for its at-risk program.

Recommended Action:

This program should be eliminated. Providing extra assistance to students, whether "at-risk" or not, is best handled by individual, family and community efforts, not state government.

Funding of at-risk student programs in community colleges promotes a perverse system of incentives and rewards. Under the current system, a student who puts very little effort into a class and fails may be eligible for special treatment, whereas a student who puts forth a strong effort but only earns a C may not qualify. This program can actually subsidize poor performance by rewarding community colleges with additional funding.

According to the formula, community colleges receive more funding for each student labeled “at-risk.” The number of students defined as “at-risk” has gone up 20 percent in fiscal years 2000 and 2001 over each previous fiscal year, respectively, even though overall community college attendance remained fairly constant.⁴ At Gogebic Community College a whopping 45 percent of students in fiscal year 2001 were defined “at-risk.”⁵

According to Rhonda Burke of the Michigan Department of Career Development, community colleges are free to change their interpretation of the guidelines for at-risk students in any particular year.⁶ The state does not have a standard mechanism for community colleges to assess which students are “at-risk” and which are not. This gives community colleges wide latitude on how many students it assigns to developmental classes. In addition, community colleges need not spend their additional “at-risk” monies on students themselves.

Grants from this program may be used to fund building and technology upgrades such as new computers and software from which all students, faculty, and administrators’ benefit. During fiscal year 2001 Northwestern Community College in Traverse City used all of its at-risk funds for updating “technology related equipment and software.”⁷ The annual report for the program clearly states that the “purchases need not be associated with the operation of a program designed to address the needs of at-risk students.”⁸ In another example, C.S. Mott Community College in Flint allocated 42 percent of its at-risk funding to updating its “Reading Labs” and classrooms.⁹ **Savings: \$3,322,700. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

¹ Author’s calculations based on data from the Michigan Community College Network web site, (accessible on the Internet at http://www.michigancc.net/s_d/reports/edd/feeag.pdf) and the Mackinac Center for Public Policy study *Advancing Civil Society: A State Budget to Strengthen Michigan Culture, Second Edition*, April, 1996, p. 29.

² See Chodorov, Frank. “Why Free Schools are Not Free” and “Private Schools: The Solution to America’s Educational Problem,” in *Figurative Essays: Selected Writings of Frank Chodorov*, Indianapolis: Liberty Press, 1980; Lieberman, Myron. “Beyond Education,” New York: Praeger, 1986; Lieberman, Myron. “Public Education: An Autopsy,” Cambridge, Mass.: Harvard University Press, 1993; Richman, Sheldon. “Separating School and State,” Fairfax, Va.: Future of Freedom Foundation, 1994; and Sommer, John W. (editor), “The Academy in Crisis: The Political Economy of Higher Education,” New Brunswick, NJ: Transaction Publishers, 1995.

³ Boilerplate language found in Senate Bill 1049, p. 19. Accessible on the Internet at <http://www.michiganlegislature.org/documents/2003-2004/billintroduced/senate/pdf/2004-SIB-1042.pdf>

⁴ Michigan Department of Career Development, “At-Risk Student Success Program: Grant Expenditures and Program Summaries, January, 2002. The enrollment figures are found at http://www.michigancc.net/s_d/reports/trends/fe01.pdf, and is put out by the Michigan Community College Network.

⁵ Author’s calculations are based on three documents: The At-Risk Student Success Program report, referenced immediately above, and Michigan Community College Network, “Total Year-End Enrollments by Community College 1999-2000 and 2000-2001.” Accessible on the Internet at http://www.michigancc.net/s_d/reports/edd/tyeebcc.pdf.

⁶ Telephone interview of Rhonda Burke, Michigan Department of Career Development, by Mackinac Center for Public Policy Research Assistant James Hohman, Nov. 8, 2002.

⁷ At-Risk Student Success Program report, January, 2002, no page number is given.

⁸ Ibid.

⁹ Ibid.

Department of Corrections

Two options for savings are presented in this chapter. The first offers specific recommendations to the legislature on where to cut spending. The second option involves outsourcing management of the entire system, and the savings that could be achieved.

Operating under Act 232 of 1953, the Michigan Department of Corrections (DOC) is the citizen's agent for limiting the liberty of those convicted of violating the most serious of society's legal standards of behavior. It does this through operating prisons and camps, and administering systems of probation (an alternative to imprisonment) and parole (supervision for a time after imprisonment), as well as other means of punishment. There are many crime prevention theories in the academic literature, and the department employs several of them, including incarceration, deterrence, and rehabilitation.¹ It operates as guardian, tutor, physician and counselor to those under its charge. In addition to operating its own system of facilities, the department works with counties to deal with criminals who commit less serious crimes.

The duties the Michigan Department of Corrections carries out include, but are not limited to:

- Housing lawbreakers in prisons, camps and halfway houses
- Monitoring lawbreakers on probation and parole through meetings between the lawbreaker and department officials and through electronic monitoring
- Maintaining OTIS, a web-accessible database of offenders
- Notifying crime victims and their families of prisoner activities
- Overseeing the work of prisoners in building houses and components of houses for low-income families in conjunction with Habitat for Humanity
- Operating businesses that employ prisoners to create goods and sell services to state agencies and non-profit organizations (Michigan State Industries)
- Testing prisoners, probationers and parolees for substance abuse
- Operating residential treatment centers for substance abuse
- Identifying and providing counseling (group and individual) for prisoners with mental health problems (Psychological Service Units)
- Operating a "Social Skills Development Unit" that provides services for prisoners lacking social skills and a record of self-care (such as basic hygiene)
- Providing Adult Basic Education (ABE) leading to the General Equivalency Degree (GED)
- Conducting job-training programs in 13 trades such as horticulture and auto mechanics
- Supervising low-security-threat convicts on community service projects such as washing police vehicles and maintaining parks
- Matching employers and prisoners through a computerized job-search system.

The state's correction system represents one of the largest components of state spending. Indeed, the state will spend over \$1.7 billion operating the Department of Corrections during the fiscal year 2003. Only 2 percent of that amount comes from federal funds; 95 percent comes from the general fund/general purpose portion of the state budget, the area of the budget over which lawmakers have the most spending discretion.

The Department of Corrections (DOC) was responsible for administering criminal penalties to roughly 1.2 percent of Michigan's population, or 121,215 individuals as of Feb. 28, 2003.² It operates 42 prisons and 11 camps (including one "boot camp"), which house over 86,000 prisoners. DOC employees monitor an additional 54,000 convicts through probation and another 14,000 through parole. The department also houses approximately 450 offenders in corrections centers (halfway houses) and supervises approximately 1,000 people through electronic monitoring ("tethers").³ In an attempt to reduce the cost of building and operating more prison beds, the department contracts with counties to house certain inmates; in fiscal year 2001, it paid counties over \$17.1 million to house nearly 4,700 offenders in county jails rather than state prisons.⁴

The DOC employs a large number of people — nearly 19,000 — to oversee this population. Roughly half of the department's employees are corrections officers (prison guards). The other half includes not only parole and

probation agents, along with managers and administrative support, but social workers, teachers and medical personnel. Within and alongside a prison system, the department runs healthcare, job-training, and social-service systems.

The state attempts to help prisoners with their re-entry into society. But so do religious and secular groups such as Prison Fellowship and the Safer Foundation. Commercial firms such as Corrections Corporation of America and Cornell Corrections build and operate entire prisons for other states, often providing higher quality at a lower cost. These private-sector companies could run similar operations here. In New Mexico, 44 percent of prisoners are incarcerated under private management. In Michigan, less than 1 percent are managed privately.

I. Field Operations Administration

The Field Operations Administration is, broadly speaking, responsible for overseeing convicts who are not in the state's prisons. It is responsible for community corrections, parole, the Special Alternative Incarceration program ("boot camp"), and probation and parole.

Program: Field operations

Appropriation:	Special Revenue Funds:	\$ 14,106,400
	<u>GF/GP:</u>	<u>\$111,920,000</u>
	Total:	\$126,026,400

Program Description:

This appropriation funds field operations which includes the personnel costs of parole and probation agents, their clerical and administrative staff, office expenses, and the community work service crews.

Recommended Action:

Michigan's probation and parole system should be modeled after the bail system, which uses private incentives and actors to achieve important public goals, at minimal cost to the taxpayer. The state should test the viability of such a plan with a pilot program in several small counties and in a portion of a larger county.

Bail agents, typically used in pre-trial situations, post the bond of a defendant, in exchange for a percentage, often 10 percent of the bond. The bail agent has a powerful incentive, then, to make certain that the defendant actually shows up in court — if he does not, the agent loses not just 10 percent of the bond amount, but all of it. Bond agents may use a variety of methods, such as requiring a family member to co-sign the bond, to guarantee their success. Agents also use bounty hunters, typically other bondsmen or private investigators, who work on a part-time basis, to recover fugitives. Like the bondsman, a bounty hunter has a powerful incentive to succeed: no recovery, no pay.

With these financial incentives in place, the private bail system works well — and at no public cost — compared with public release programs. According to a Department of Justice study, only 15 percent of felony defendants on surety (monetary) bonds fail to appear, compared with 26 percent who are released on their own recognizance, and 42 percent for those released with unsecured bonds. Moreover, felony defendants released on surety bonds had a 9 percent re-arrest rate; those released on recognizance and unsecured bonds were re-arrested at rates of 15 and 16 percent, respectively.⁵

Under the current system of probation and parole, offenders are subjected to a number of requirements such as getting a job or enrolling in school, avoiding known felons, and reporting to probation and parole agents. Under a privatized probation and parole system, in exchange for release, the offender would have to post a bond, the amount for which would be set by the courts or a parole board. Those offenders who violate the terms of their probation or parole would lose this money, which could then be used in the criminal justice system.

Many offenders would require the help of a bondsman, who would then (most likely) enlist family members or friends as co-signers. Money would come from the offender's assets (where they exist), his family and friends,

wages earned either in prison or in the free labor market. As is the case with pre-trial bail, bondsmen would have a strong incentive to monitor the behavior of their charges, and might employ bounty hunters to pursue absconders.

This financial obligation would integrate offenders back into their communities: friends and families who would have a greater stake in helping the offender stay straight. Tying the offender back into the community is a key element in reducing recidivism. This would, of course, benefit the broader civil society through reduced crime and reduced spending on criminal law enforcement.

As a recent study on “Broken Windows Probation” pointed out, “Achieving the full value of probation [and by extension, parole] ... will require that a long-term commitment be made to investing in and restoring *the community* to the business of offender supervision.”⁶ Making an offender’s status on probation or parole more subject to his or her family and friends, who have a financial stake in the offender’s integration into civil society, can be a key first step into a better system of social integration for ex-convicts.

The system would probably need to retain at least some use of government employees. Public policy in Michigan already calls for offenders to make at least partial payment for their custody and oversight; this principle could be applied to an arrangement of private-market bonds for probationers and parolees. But by shifting the risk of offender relapse to private bondsmen, offenders and their families, the taxpayers would save perhaps 90 percent of the current cost of probation and parole. A pilot program could aim for a 10 percent system-wide savings, or \$12 million.

If a pilot program were successful, a statewide application could allow the state to do away with some of its other, non-prison sentences, such as those to corrections centers (halfway houses for prisoners nearing the end of their sentences). Offenders subjected to electronic monitoring could be supervised under a privatized probation and parole system as well. **Savings: \$12,602,640. Granholm’s 2005 proposal increases the gross appropriation to \$139,663,200.**

Program: Loans to parolees

Appropriation:	<u>All from GF/GP:</u>	\$294,400
	Total:	\$294,400

Program Description:

This appropriation funds a program whose goal, as stated by department policy, is to provide parole prisoners with “reasonable maintenance and subsistence for a two-week period.”⁷ Parolees are to repay the money within 180 days of receipt.

Recommended Action:

This program should be eliminated. While the goal of helping out ex-prisoners adjust to life outside is worthy and even in the state’s interest, a revolving loan fund could be turned over either to private bail agents or nonprofit groups that are interested in helping felons as they re-enter society. **Savings: \$294,400. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

II. Correctional Facilities Administration

Program: Academic/vocational programs

Appropriation:	<u>All from GF/GP:</u>	\$33,679,800
	Total:	\$33,679,800

Program Description:

The DOC offers adult basic education programs to all prisoners, aimed at helping them pass the GED exam. The department also offers training in 13 trades, among them: horticulture, custodial maintenance technology, building trades, food-service management, automobile mechanics, visual graphics technology, and optical technician work.⁸

Recommended Action:

The state should eliminate this program by turning over all educational and vocational programs to private, for-profit and non-profit groups. Community activists, prison-focused nonprofits, and unions have an interest in promoting a steady supply of qualified, competent, honorable ex-convict workers, and are in a better position to understand what job skills will be needed in the workplace. **Savings: \$33,679,800. Governor Granholm's 2005 proposal decreases the gross appropriation to \$33,165,900.**

OPTION II

States across the country have been grappling with how to operate their prison systems as efficiently and effectively as possible. One option growing in popularity is outsourcing prison management. In Texas, Tennessee and also here in Michigan, private firms have lowered the cost of running corrections systems. The idea could be further explored in Michigan, since taxpayers, state officials, and prisoners themselves could derive tremendous benefits.

Although the state of Michigan has not engaged in privatization on a large enough scale to produce the kinds of savings potentially available, it has experimented with the idea with good results. In 1999, the state contracted with a private firm, Wackenhut Corrections Corporation, to build and operate a single correctional facility in Baldwin. Opened in 1999, the Michigan Youth Correctional Facility has space for 450 men under the age of 20. The DOC estimates that the facility saves between \$6,975 and \$19,125 per day based on comparison with state-run prisons. On a per-year basis, this comes to between \$2.5 million and \$6.9 million annually — for just one facility.

Such savings are not uncommon. A survey of 28 studies of prison privatization by the Reason Foundation, a Los Angeles-based research institute, found that virtually all private prisons save money — typically between 10 and 14 percent of the cost of government prisons.⁹ Three recent studies done by Louisiana State University, the Arizona Department of Corrections, and the state of Florida found cost savings from 3.75 percent to 14 percent, with no decrease in the quality of services.¹⁰ The Florida study found that private prison construction costs there were 24 percent lower than they would have been had the state built its own facilities.¹¹

Cost savings is not the only reason units of government adopt privatization for building and/or operating correctional facilities. Privatization also:

- Relieves overcrowding.

Governments can increase inmate housing capacity faster by contracting with the private sector. Private firms in Pennsylvania, for example, built a prison in two years less than it took the state to build a similar prison nearby — and for \$38 million less — while saving the county in which it was built \$1.5 million annually in lower debt costs. In Houston, a new Immigration and Naturalization Service detention facility was expected to cost \$26,000 per bed and take 30 months to build, working through normal government construction procedures. A private firm did the job for \$14,000 per bed in less than six months.¹²

- Improves quality.

States can improve quality when they use contractors. A 2002 review of 18 prison quality studies by the Reason Foundation found that 16 conclude that privately run prisons performed at least as well as government-run prisons.

By some measures the private prisons do even better. The American Corrections Association (ACA) is a private, nonprofit group that operates as a private regulatory body — ensuring that the services of its members meet certain standards before they receive accreditation. In order to earn ACA accreditation, a prison must meet guidelines that include staff training, fiscal controls, food service, sanitation, and safety and emergency procedures. The Association maintains 19 unique manuals of standards, each of which applies to a different type of correctional facility.¹³ While only 10 percent of America's 48,000 government-run prison facilities are accredited by the ACA, 44 percent of privately run facilities are so accredited.¹⁴

The Harvard Law Review recently looked at studies of public and private prisons to determine whether the quality of prison services suffered when they were delivered privately. According to the author, “. . . [N]one of the more

rigorous studies finds quality at private prisons lower than quality at public prisons on average, and most find private prisons outscoring public prisons on most quality indicators.”¹⁵

- More innovative.

Private firms can offer states more flexibility in planning and designing prisons and prison operations. Because they are subject to market competition, they must innovate as a matter of survival. For instance, a private prison administrator discovered that the Virginia Department of Corrections maintained expensive warehouses for food, out of fear that deliveries would not reach prisons. This long-standing custom first developed when food was delivered to prisons by pack mules. The system simply had no motive to change until a private firm was hired to save the state money.¹⁶ In Florida, privately run prisons have introduced more advanced locking systems, a greater use of camera surveillance, and a host of other innovations.¹⁷

While Michigan has only experimented with prison privatization, other states have done far more and with great success. In New Mexico, for example, 44 percent of state and federal inmates are housed in facilities under private management. In Oregon the number is 43 percent. By comparison, only 0.9 percent of all Michigan inmates are incarcerated under a private management system.¹⁸

No state has privatized the management of its entire correctional system. However, one state, Tennessee, came close to being the first, but was thwarted by political pressure to abandon the move in 1998. Tennessee expected to save more than 22 percent of its corrections budget annually — or \$100 million — by contracting with Corrections Corporation of America, a private, for-profit prison management business.¹⁹ If the state of Michigan were to contract with such a vendor and shave just 15 percent, General Fund savings could exceed \$250 million. **Savings: \$258,676,080. Granholm's 2005 proposal increases the gross appropriation to \$1,824,618,900.**

¹ Incarceration refers to the fact that if criminals are in prison, they are unable to commit other crimes. The theory of deterrence holds that would-be criminals will not commit crimes if they know that punishment awaits, while rehabilitation involves changing the thought patterns of prisoners so that they will not commit further crimes once released.

² Telephone interview of Leo Lalonde, director, public information office, Michigan Department of Corrections (MDOC), by Mackinac Center for Public Director of Fiscal Policy Michael LaFaive, Feb. 28, 2003.

³ The U.S. Census Bureau estimated Michigan's population in 2001 at 9,990,817. The number of institutions and offenders comes from the (MDOC) "2001 Annual Report," p. 61-62, which is accessible on the Internet at http://www.michigan.gov/corrections/1,1607,7-119-1441_1523---,00.html. Population estimates are accessible on the Internet at <http://quickfacts.census.gov/qfd/states/26000.html>.

⁴ MDOC Annual Report 2001, p. 18.

⁵ Much of the material in this section is derived from Morgan O. Reynolds, "Privatizing Probation and Parole," National Center for Policy Analysis Policy Study 233, June 2000, accessible on the Internet at <http://www.ncpa.org/studies/s233/s233.html>.

⁶ Reinventing Probation Council, "Transforming Probation Through Leadership: The 'Broken Windows' Model," Center for Civic Innovation at The Manhattan Institute and the Robert A. Fox Leadership Program at the University of Pennsylvania, July 2000, p. 3, accessible on the Internet at http://www.manhattaninstitute.org/html/broken_windows.htm.

⁷ Marilyn Peterson and Tumai Burris, "Line Item and Boilerplate Summary: Corrections Fiscal Year 2001-2002," p. 7.

⁸ MDOC web site, "Education: The Highest Priority," accessible on the Internet at http://www.michigan.gov/corrections/0,1607,7-119-9741_9747---,00.html.

⁹ Segal and Moore, Part II, Tables 2a, 2b, and 2c, p. 3.

¹⁰ Alexander Volokh, "A Tale of Two Systems: Cost, Quality, and Accountability in Private Prisons," Harvard Law Review, May, 2002, Vol. 115, No. 7, p. 1868.

¹¹ Ibid.

¹² Segal and Moore, "Weighing the Watchman: Evaluating the Costs and Benefits of Outsourcing Correctional Services, Part I, Employing a Best-Value Approach to Procurement," p. 3.

¹³ American Corrections Association, "Facts About the Accreditation Process," p. 7. This document is not dated.

¹⁴ Segal and Moore, Part I, p. 12.

¹⁵ Volokh, from the section entitled, "Evidence from the Studies," p. 1877.

¹⁶ Segal and Moore, Part I, p. 4.

¹⁷ Office of Program Policy Analysis and Government Accountability, Florida Legislature, "Review of Bay Correctional Facility and Moore Haven Correctional Facility," Report No. 97-68, April, 1998.

¹⁸ U.S. Department of Justice, Bureau of Justice Statistics Year-End 2001 Report, "Prisoners in 2001," p. 8.

¹⁹ National Conference of State Legislatures web site, "Tennessee Considers, Retreats from Large-Scale Prison Privatization," , May, 1998. Accessible on the Internet at <http://www.ncsl.org/programs/cj/cj140598.htm>.

Family Independence Agency

The Family Independence Agency (FIA) is charged with three essential tasks: “to help meet the financial, medical, and social needs of individuals and families living in Michigan who are unable to provide for themselves; assist those who are capable of becoming self-sufficient through skill building, opportunity enhancement, and family-focused services; and help protect children and vulnerable adults from abuse, neglect, and exploitation.”¹

The development of skills, the creation of opportunity and the achievement of family self-sufficiency are vital to Michigan's economic development. A civil society protects against the abuse, neglect or exploitation of citizens of Michigan who are too young, or too mentally or physically disabled, to protect themselves. The question is not whether people who need help should receive it. They should. The question is: Who can best provide the help, and who bears the most responsibility to do so?

The Family Independence Agency provides womb-to-grave care. The FIA provides food, shelter and clothing. It funds adoptions, childcare, job training, reading programs, credit counseling, and budget counseling. It makes sure children are cared for before school and after school. It seeks to inspire children, prevent teenage pregnancy and gang involvement, and develop children's leadership skills, their ability to manage anger, and their sense of self-sufficiency. It monitors the crime, aggression, and academic development of young people as well as their school attendance, drop-out rates, and their cultural and ethnic sensitivity.

The dollars spent are significant. The first \$2.75 billion comes from the federal government. Another \$1.1 billion comes from the state. Yet another \$67 million comes from local governments.² All of this money comes from individuals, families, small businesses, and large corporations. All of these entities, banding together as communities, can and do meet enormous human welfare needs. When the state takes money from these groups it means that they have less money to improve their own lives, and those of their own families and neighbors. The resources taken by the state cannot be used by individuals and private institutions to create jobs or provide health insurance or be put to work developing new technology or medicines or be put away for a child's college fund.

The FIA budget of \$4,074,490,500 amounts to almost \$410 per citizen³ or \$1,075 for every household in the state.⁴ These numbers do not tell the whole story, because the mission of the FIA, as stated above, is not focused on every household in Michigan. The vast majority of citizens in Michigan have no need for the services provided by the FIA because they are providing for their own needs.

The FIA's focus is primarily the poor, those who live below the poverty level as established by the federal government. With a budget of almost \$4.1 billion, the FIA spends nearly \$4,000 per man, woman and child below the poverty level⁵ or \$21,163 per poor household annually.⁶

Despite this spending, many in Michigan remain in poverty. Consider the following statewide statistics:

- 1 in 6 children are poor now. (poverty level is \$17,650 for a family of 4.)
- 1 in 3 children will be poor at some point in their childhood.
- 1 in 15 lives at less than half the poverty level.
- 1 in 7 has no health insurance.⁷

It must be admitted that despite these enormous amounts of money, the system has not significantly alleviated poverty. Individuals and families are not rapidly moving out of poverty. The percentage of people who live under the federal level of poverty has remained stagnant for more than two decades despite ever-increasing amounts of spending. Governments at every level have spent more than \$6 trillion fighting poverty with an endless array of government programs, yet U.S. poverty rates have generally remained where they were when President Lyndon Johnson predicted that such programs would ultimately produce “the Great Society” in 1964.

No amount of money can fulfill a community's responsibility for the well-being of its neighborhoods, a neighborhood's responsibility for the welfare of its families, a family's responsibility for the welfare of its members, or each individual's responsibility for his or her own personal welfare. What \$6 trillion in government spending can

do is displace the wealth that these and other mediating institutions such as religious and community service groups might otherwise use to help those less fortunate.

A strong economy, one unencumbered by unnecessary regulation and freed from extensive taxation, holds the greatest hope for the poor. Enterprise, initiative, and investment have done vastly more to alleviate human poverty than any poverty program. For much of human history, poverty was the norm. While it is troubling that of 9,938,444⁸ citizens in the state, 1,021,605 live below the poverty level, it must be acknowledged that this is remarkable progress when compared even to the history of poverty in the United States.

The source of our progress has not been an extension of the role of the government but the growth of business and enterprise. As Don Mathews, economics professor at Brunswick College in Georgia has written, “By our current definition of poverty, 56 percent of families in the United States were poor in 1900. By 1947, even after the economic shocks of the Great Depression and World War II, the percentage of families in poverty had been reduced by more than one half, to 27 percent. By 1967, the percentage was halved again, to 13 percent. Notably, the decrease in poverty between 1900 and 1967 occurred before the advent of the greatly expanded welfare state. In other words, it was the free market, not government welfare, that caused the poverty rate to fall from 56 percent in 1900 to 13 percent in 1967.”⁹ It is interesting that the last 25 years of ever-growing government budgets, greater regulations, and more extensive government involvement in social problems have not significantly dropped the rate of poverty. The level has remained around 10 percent for the past 35 years.

This does not mean that the state should play no role. There will always be some who will slip through the cracks of particular mediating institutions. There are those who require special help or have unique situations who have not yet been helped by families, neighbors, friends, churches and communities. There are some services state government provides because private or non-profit options do not yet exist in the absence of state programs.

The behemoth FIA cannot be brought to its proper proportions overnight and this review makes no claim to accomplish this. Rather, the most glaring examples of FIA overstepping must be addressed first. Over time, as civil society begins again to take its proper place and those who predict all manner of devastation are proved wrong by experience, more levels of bureaucracy can be dismantled and their responsibilities once again shouldered by those best qualified.

I. Executive Operations

Program: Demonstration projects

Appropriation:	Federal Funds:	\$5,257,800
	Special Revenue Funds:	\$1,419,300
	<u>GF/GP:</u>	<u>\$1,127,000</u>
	Total:	\$7,804,100

Program Description:

This appropriation funds the demonstration projects of the department. The allocation for this program is distributed to a wide variety of new pilot programs being considered for continue use. Past programs have included:

- Adopt-a-House, which funds the renovation and repair of homes occupied by low-income families in Grand Traverse County.
- Independent Living Program, which counsels youths 16 years of age and older who are in foster care, or who have been in foster care, as they exit the child welfare services system.

Recommended Action:

The state should eliminate this program. Michigan’s civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

These private human welfare service providers could do a great deal more if government did not: a) crowd them out with programs of its own; b) take from citizens the very money (in taxes) they might otherwise contribute to these organizations; and c) engage in charity that requires nothing of the recipient.

Michigan's government should step aside and allow charitable organizations to do the work they are most qualified to do. This would not only be of the greatest help to the poor; it also would revitalize community life by giving those more fortunate the opportunity to take personally the task of caring for their less fortunate neighbors.

Savings: \$7,804,100. Governor Granholm's 2005 proposal decreases the gross appropriation to \$6,773,500.

Program: Commission on disability concerns

Appropriation:	Federal Funds:	\$565,100
	Special Revenue Funds:	\$ 33,000
	<u>GF/GP:</u>	<u>\$346,100</u>
	Total:	\$944,200

Program Description:

This appropriation funds the commission on disability concerns. The commission staff provides training, advocacy, information and technical assistance on issues affecting individuals with disabilities.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

Many of the most effective organizations operate without government funds and often hire and train disabled people at their own expense, and without fanfare. Some nonprofits that provide services to the disabled raise most of their money privately.

For instance, Goodwill Industries of West Michigan, Inc., a workforce development agency with a network of not-for-profit businesses whose mission is to provide work opportunities and skill development for people with barriers to employment, raises most of its money privately. With headquarters in Muskegon, and serving an 11-county area including Lake, Manistee, Mason, Newaygo, and Oceana, along with portions of Montcalm, Osceola, Mecosta, Kent and Ottawa, Goodwill has a long, successful history of providing vocational rehabilitation and employment services for people with disabilities and other special needs. The agency was founded in 1950 to meet the employment needs of persons with disabilities. Throughout the decades, Goodwill has maintained its focus on its mission while changing and improving services to meet the new and emerging needs of the diverse population it serves.¹⁰ **Savings: \$944,200. Governor Granholm's 2005 proposal increases the gross appropriation to \$969,100.**

Program: Commission for the blind

Appropriation:	Federal Funds:	\$13,123,800
	Special Revenue Funds:	\$ 640,000
	<u>GF/GP:</u>	<u>\$ 3,697,400</u>
	Total:	\$17,461,200

Program Description:

The appropriation funds seven different programs: the commission for the blind, administration, rehabilitation, the business enterprise program, center for independent living, youth low vision, and client assistance program.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

The commission for the blind is focused primarily on only one handicap — poor vision/blindness. Nonprofits already exist to serve the blind population and would no doubt work to expand their services if the opportunity presented itself. Consider just one Michigan nonprofit as an example of a civil society institution that caters to some needs of the blind and their loved ones.

Livonia's Seedlings Braille Books for Children is dedicated to increasing the opportunity for literacy among the blind. Seedlings provides high-quality, low-cost Braille books for blind children so that blind and sighted family members may read together. The books are for toddlers and preschoolers and allow early exposure to words through the tactile page as sighted family members read the print. Print-and-Braille books are for beginning readers and allow parents' input into the early reading process. Seedlings' Braille-only books offer popular and classic literature. World Book Encyclopedia articles also are offered in Braille for students. Since 1984, Seedlings has placed over 109,000 braille books and articles into the hands of blind children throughout the United States and Canada. Seedlings has received the 1999-2000 Literacy Agency of the Year Award from Wayne County Reading Council and relies on approximately 50 active volunteers to translate, proofread and deliver its books. There is no reason to think that this organization, and others like it, couldn't increase the roles it plays in the lives of Michigan's sightless. **Savings: \$17,461,200. Governor Granholm's 2005 proposal increases the gross appropriation to \$17,697,400.**

II. Family Independence Services Administration

Program: Employment/training support services

Appropriation:	Federal Funds:	\$19,014,000
	GF/GP:	\$ 725,100
	<u>Total:</u>	\$19,739,100

Program Description:

This appropriation funds a program designed to assist Michigan's jobless in their pursuit of employment.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

Relieving businesses and people of the taxes they pay to fund these programs will allow them to use their own resources to hire and train people instead of relying on government to do it. Furthermore, there are several non-profit organizations already providing such services. **Savings: \$19,739,100. Governor Granholm's 2005 proposal decreases the gross appropriation to \$16,629,100.**

III. Child and Family Services

Program: Adoption subsidies

Appropriation:	Federal Funds:	\$135,589,400
	GF/GP:	\$ 83,796,800
	<u>Total:</u>	\$219,386,200

Program Description:

This appropriation funds the adoption subsidies program. The program is designed to help defray the cost of placing children with special needs, such as those with a handicap.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

No one doubts the value of adoption and the dedication of parents who choose to adopt needy children. But the weighty decision to adopt should not be distorted to any degree by public subsidies. Indeed, one of the reasons adoption is so expensive is due to government red tape in the first place. If state officials want to reduce the cost of adopting children they should work to remove regulatory barriers, not tax one parent to subsidize the adoption decisions of another. Private groups — employers, nonprofits, and individuals — help defray the costs of adoption voluntarily. Harvard University subsidizes adoption costs for its faculty and Adopt Share, a Christian Ministry, helps subsidize adoption costs with private grants. Other organizations give out low-interest loans. A simple Internet search is an effective way to find private, civil society institutions willing to subsidize the cost of adoptions. The China Care Foundation in Greenwich, Conn. specializes in helping Americans adopt Chinese orphans (with subsidies and other assistance) who risk a life of institutionalization simply because they were born with a cleft lip or clubfoot.¹¹ **Savings: \$219,386,200. Governor Granholm's 2005 proposal increases the gross appropriation to \$239,210,600**

Program: Adoption support services

Appropriation:	Federal Funds:	\$ 7,976,200
	GF/GP:	\$ 6,124,900
	Total:	\$14,101,100

Program Description:

This appropriation funds adoption support services. This program helps families who have adopted a child from a state foster-care program to find and access support services. The program acts as a conduit of information for persons needing assistance in locating post-adoption support services within their community.¹²

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

While the desire to assist families who have adopted a child from a state foster care program is admirable, this allocation merely spends \$14.5 million pointing people in the direction of agencies that can help them. Private efforts, even Internet searches, can do the same. There are also many support groups that are organized loosely and prefer to remain discreet to avoid state attention. Michael LaFaive, Mackinac Center for Public Policy director of fiscal policy, reports that some foster parents' support groups want to avoid state involvement because many of the complaints they wish to air in the support group are critical of the state foster-care system. In addition, information on the Internet is readily available to adoptive parents.

Just one example, the Adoption Network at www.adoption.org, contains the following helpful information and it is free:

- [Adoption Forums](#) 500+ message boards related to adoption.
- [Adoption Cafe](#) Lively adoption discussion for all members of the Adoption Triad.
- [Adoption Newsletters](#) Sign up for newsletters on adoption topics.
- [Adoption Mail](#) Free e-mail @ Adoption.com. Check your e-mail from nearly any computer.
- [Adoption Chat](#) Chat live right now with others touched by adoption.

- [Adoption Calendar](#) Find out about local and national adoption conferences, workshops, and events.
- [Adoption E-Cards](#) Create and send virtual cards, hugs, flowers, and chocolates to friends.
- [Adoption E-Pals](#) Make friends with similar adoption interests.
- [Share Your Story](#) Share your adoption story, or read the stories of others.
- [Adoption Poetry](#) Let this special collection of adoption poetry move you.
- [Adoption Experts](#) Ask a question of the adoption experts.
- [Adoption Lists](#) Join E-mail discussion lists on adoption topics.

Savings: \$14,101,100. Governor Granholm's 2005 proposal increases the gross appropriation to \$14,166,600.

Program: Youth in transition

Appropriation:	Federal Funds:	\$ 9,749,200
	<u>GF/GP:</u>	<u>\$ 3,008,200</u>
	Total:	\$12,757,200

Program Description:

This appropriation funds the youth in transition program. This program prepares eligible foster-care teens for living on their own. It provides educational support, job training, independent living skills training, self-esteem counseling, and other programs and support to equip teens with educational, vocational, and psychological skills to function as independent adults. The program also provides subsidized job placement, pre-employment training, and job training for delinquent youth.¹³

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

The J.O.Y. Youth Center in Grand Rapids offers its services free of charge to urban youth ages 8-16. J.O.Y. offers after school recreation and crafts, homework/tutoring, and other wholesome activities. It reaches inner-city children with religious, educational, leadership, and physical training. Typically, approximately 250 children participate each week. The 25 volunteers employ a holistic approach to educating children and instilling self-worth. Children are placed in leadership roles to foster decision-making and responsibility. The J.O.Y. program is not the only private program in Michigan to offer such services.

Another example is Urban Youth Ministries in Holland, which provides at-risk youth with educational and recreational opportunities. The organization uses field trips and athletic leagues to build relationships and minister to teenagers. Young people who show interest and potential are invited to participate in vocational courses that include woodworking, bicycle repair, upholstery, cooking, and photography. **Savings: \$12,757,200. Governor Granholm's 2005 proposal decreases the gross appropriation to \$12,482,700.**

Program: Domestic violence prevention/treatment

Appropriation:	Federal Funds:	\$11,583,600
	<u>GF/GP:</u>	<u>\$ 1,892,700</u>
	Total:	\$13,476,300

Program Description:

This appropriation funds domestic violence prevention/treatment programs. Support services include transportation, information and referral, and advocacy in obtaining emergency health care, legal information, financial assistance, permanent housing, and childcare.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

While the state must play a law-enforcement role in protecting the most vulnerable of its citizens, there are many good religious and other non-profit organizations that have done excellent work in this area with trained staff, volunteers and donors who are committed to the work. For example, the Ramoth House in Grand Rapids offers battered women and their children a safe-house, crisis intervention, information and referrals, legal advocacy, housing and job assistance, transportation, child care, individual counseling and support groups. In Midland, the Shelter House does the same. Institutions such as this exist all over the state and could more easily expand, if government at all levels didn't take 40 percent of peoples' incomes to fund programs that are not superior to private-sector ones. **Savings: \$13,476,300. Governor Granholm's 2005 proposal increases the gross appropriation to \$13,695,600.**

Program: Teenage parent counseling

Appropriation:	Federal Funds:	\$3,745,900
	<u>GF/GP</u>	<u>\$ 25,400</u>
	Total:	\$3,771,300

Program Description:

This appropriation funds teenage parent counseling. This program provides supportive services, group home living, and prevention counseling for teenage parents.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

Families, religious organizations, and non-profits can and do meet the needs of young mothers. For example, the Family Life Center in Allendale serves young women dealing with unplanned pregnancies. The Center offers a close family atmosphere by housing all of the women in one home, supervised by a live-in house parent. The young women are required to pay 30 percent of their income in rent, while another 10 percent is put into savings. They are provided a structured and caring environment to help them get on their feet. This is not the only city in Michigan to benefit from private charitable services for young mothers and mothers-to-be. **Savings: \$3,771,300. Governor Granholm's 2005 proposal increases the gross appropriation to \$3,793,500.**

Program: Black child and family institute

Appropriation:	Federal Funds:	\$ 7,000
	<u>GF/GP:</u>	<u>\$ 93,000</u>
	Total:	\$100,000

Program Description:

This appropriation funds the Black Child and Family Institute. This program provides health screening, physical exams, education, and tutoring for African-American families in the city of Lansing.

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

These private human welfare service providers could do a great deal more if government did not: a) crowd them out with programs of its own; b) take from citizens the very money (in taxes) they might otherwise contribute to these organizations; and c) engage in charity that requires nothing of the recipient.

Michigan's government should step aside and allow charitable organizations to do the work they are most qualified to do. This would not only be of the greatest help to the poor; it also would revitalize community life by giving those more fortunate the opportunity to take personally the task of caring for their less fortunate neighbors. **Savings: \$100,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

IV. Public Assistance

Program: Family independence program

Appropriation:	Federal Funds:	\$130,039,400
	Special Revenue Funds:	\$ 50,210,700
	<u>GF/GP:</u>	<u>\$189,089,500</u>
	Total:	\$369,339,600

Program Description:

This appropriation funds the Family Independence Program (FIP). FIP provides a monthly cash assistance grant for families. This cash assistance is supposed to cover the costs of personal needs such as school clothing, housing, heat, utilities, and food. The projected monthly caseload for 2003 is 92,100 cases.¹⁴

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

Ultimately, the goal of future political leaders should be to eliminate this expenditure in favor of a social safety net for the poor that is provided entirely by voluntary associations: charitable groups, religious organizations, neighbors and families. This can be done. Part of the damage inflicted by welfare programs has been to encourage people to wonder how we ever got along without the programs. Consequently, people find it difficult to believe the poor can be helped any other way. This is unfortunate, because today we have more means at hand to help the poor than at any other time in human history. But they can be fully released only if we lower taxes on Michigan citizens commensurately to ensure that families and individuals are in the best position to take care of their own and to donate more to social service charities.

One private group dedicated to providing a private social safety net is "New Focus National," a faith-based training organization that cultivates change in families' finances and relationships so that they can move from the welfare rolls to self-sufficiency. Organizations such as this exist to serve Michigan citizens, in one form or another, in virtually every community in Michigan.

The greatest need of these families and individuals is jobs. In addition to examining how religious and community groups are already meeting the needs of the poor, the state must also consider how some regulations stifle opportunities for the unemployed, and for low-income workers. **Savings: \$369,339,600. Governor Granholm's 2005 proposal increases the gross appropriation to \$391,810,100.**

Program: State emergency relief

Appropriation:	Federal Funds:	\$14,033,500
	<u>GF/GP:</u>	<u>\$27,374,700</u>
	Total:	\$41,408,200

Program Description:

This appropriation funds the state emergency relief program. The goal of this program is to prevent serious harm to individuals and families by helping them obtain safe, decent and affordable shelter and other essentials when they face an emergency due to circumstances beyond their control.¹⁵

Recommended Action:

The state should eliminate this program. Michigan's civil society — which includes individuals, nonprofits, religious organizations, businesses and fraternal organizations — works to help people in need and will continue to do so.

These private human welfare service providers could do a great deal more if government did not: a) crowd them out with programs of its own; b) take from citizens the very money (in taxes) they might otherwise contribute to these organizations; and c) engage in charity that requires nothing of the recipient.

Michigan's government should step aside and allow charitable organizations to do the work they are most qualified to do. This would not only be of the greatest help to the poor; it also would revitalize community life by giving those more fortunate the opportunity to take personally the task of caring for their less fortunate neighbors.

There are numerous non-profit organizations who can fill this societal role. Many churches take care of such needs in their own areas. Large organizations such as American Red Cross, Catholic Social Services, and Lutheran Social Services, while they may receive a portion of their funding from various government entities, regularly provide emergency relief and could do so without government stipends. One example of a local operation is the Holland Rescue Mission, which provides emergency and long-term assistance in moving clients to lives of responsibility and independence. The Mission offers numerous programs: a men's emergency shelter, a women/children's shelter, a children's ministry, a men's discipleship program, an industrial training program, a community food bank, a thrift store, a volunteer program, and chapel services. The mission attempts to foster personal responsibility among the poor and homeless. Employed homeless men who stay at the shelter are required to save their money in a custodial account. In the discipleship program, men are encouraged to be responsible for themselves and must report to a mentor. About 60 people reside at the mission full-time to take advantage of its programs. In addition, thousands receive meals and overnight lodgings. **Savings: \$41,408,200. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Day care services

Appropriation:	Federal Funds:	\$298,026,400
	<u>GF/GP:</u>	<u>\$192,217,600</u>
	Total:	\$490,244,000

Program Description:

This appropriation funds day care services. The goal of this program is to provide available, affordable and quality child day care to qualifying Michigan residents when a caretaker is unavailable to do so due to "employment, education, and/or health/social condition."¹⁶

Recommended Action:

This program should be eliminated. Civil society has provided day care from time immemorial. Grandparents, parents, aunts, cousins, neighbors and religious organizations are responsible (and may be most qualified) for this role in civil society. Lawmakers should consider removing the regulatory roadblocks must also be considered that

keep low-income families from offering day care in their homes as a means of augmenting their income. **Savings: \$490,244,000. Governor Granholm's 2005 proposal increases the gross appropriation to \$517,773,300.**

¹Erin Black, Myron Freeman, Tumai Burris, "Line Item and Boilerplate Summary: Family Independence Agency," p. 1. Lansing: House Fiscal Agency, December 2002.

² Act No. 519, Public Acts of 2002, p. 1.

³ U.S. Census Bureau web site, "Profile of General Demographic Statistics," accessible on the Internet at <http://censtats.census.gov/data/MI/04026.pdf>.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ The Skillman Center web site, "From A Child's Perspective," accessible on the Internet at <http://www.skillmancenter.culma.wayne.edu/Children%20and%20Policy.htm>.

⁸ Negative Population Growth web page, "NPG State Facts," accessible on the Internet at <http://www.npg.org/states/mi.htm>.

⁹ Don Mathews, "The Free Market Lifts All Boats," The Chalcedon Report, June 1997, accessible on the Internet at <http://www.chalcedon.edu/report/97jun/mathews.shtml>.

¹⁰ Goodwill Industries of West Michigan web page, "Employment and Training Services," accessible on the Internet at <http://www.goodwillwestmich.org/index.html>.

¹¹ Angel Fire web site, "Available Resources to Help Defray or Cover the Expense of Adoptions," accessible on the Internet at <http://www.angelfire.com/journal/adoptionhelp/adopthelp.html>.

¹² Michigan Family Independence Agency web site, "Support Services," accessible on the Internet at http://www.michigan.gov/fia/0,1607,7-124-5452_7116-22559--,00.html.

¹³ Family Independence Agency web site, "Support Services."

¹⁴ Policy Analysis Program Evaluation Division Budget, p. 6.

¹⁵ Policy Analysis Program Evaluation Division, p. 16.

¹⁶ Policy Analysis Program Evaluation Division Budget, p. 20.

Higher Education

The Higher Education budget directly funds a portion of the operations of Michigan's 15 public four-year universities. In addition, the budget also contains appropriations for the following programs: the Martin Luther King, Jr. - Cesar Chavez - Rosa Parks College Day Program; the Martin Luther King Jr. - Cesar Chavez - Rosa Parks Future Faculty Fellowship Program; the Grant and Financial Aid Program; and various state and regional programs — all of which should be slated either for elimination or reduction.

As in the case of Michigan's community colleges, the rate of increase in higher education funding has far exceeded the rate of increase in enrollment and inflation. To remedy this problem, expenditures should be retroactively indexed to enrollment and inflation. This would produce an immediate and long overdue savings for Michigan taxpayers, and encourage changes that would increase the efficiency of these institutions.

I. State Universities

Program: Public university operations

Appropriation:	Special Revenue Funds	\$ 9,500,000
	<u>GF/GP:</u>	<u>\$1,453,935,500</u>
	Total:	\$1,463,435,500

Program Description:

This appropriation funds a portion of the operations of Michigan's 15 four-year universities located throughout the state. Currently 232,648¹ full-time students attend Michigan's public universities.

Three of these institutions — the University of Michigan in Ann Arbor, Michigan State University, and Wayne State University — have large undergraduate, graduate and professional programs. Five institutions — Western Michigan University, Eastern Michigan University, Central Michigan University, Oakland University, and Northern Michigan University — offer primarily undergraduate programs, but also offer some graduate programs. Programs in specialized areas are emphasized at two institutions: Michigan Technological University, which offers primarily engineering courses, and Ferris State University, which offers primarily vocational and technical programs. Three institutions, as well as the University of Michigan's two sub-universities in Flint and Dearborn, offer primarily undergraduate liberal arts programs; they are: Grand Valley State University, Saginaw Valley State University, and Lake Superior State University.

For the fiscal year 2004, the state legislature appropriated operations funds for state universities as follows:

Central Michigan University	\$81,541,700
Eastern Michigan University	\$78,873,300
Ferris State University	\$49,968,200
Grand Valley State University	\$59,085,800
Lake Superior State University	\$12,841,800
Michigan State University	\$293,383,700
Michigan Technological University	\$49,717,400
Northern Michigan University	\$46,811,500
Oakland University	\$49,087,900
Saginaw Valley State University	\$26,673,700
University of Michigan — Ann Arbor	\$327,206,100
University of Michigan — Dearborn	\$25,193,900
University of Michigan — Flint	\$21,661,300
Wayne State University	\$228,279,900
Western Michigan University	\$113,109,300

To Governor Granholm's great credit, she did not hold funding to higher education sacrosanct. Indeed, during her first full-year in office, state cuts to general operations for higher education totaled \$193 million, more than the Mackinac Center recommended for Fiscal Year 2004.

Recommended Action:

Although the direction of higher education funding should be toward using tuition vouchers or tax credits to replace direct state grants to public universities, such changes may be politically difficult at the moment. Such a move would provide universities with stronger incentives to control growing costs, a problem the Legislature should take more immediate steps to address.

Spending at Michigan's 15 public universities has increased to levels that few could have anticipated and some believe are unjustified. Total spending by universities from fiscal year 1985 through fiscal year 2002 increased by more than \$5 billion in nominal terms.

According to the President's Council, State Universities of Michigan, the "nearest approximation to total expenditures" for Michigan's 15 public universities shows an increase from about \$2.4 billion to \$7.6 billion during this period. (The year 1985 is used as a base year because this is when state spending began increasing most dramatically.)

Both state appropriations to public universities and the revenue they derive from tuition and fees have helped fund the extraordinary increases in higher education spending.

Total state appropriations for university operations increased from approximately \$760 million to \$1.615 billion since 1985. The increase is 24 percent more than inflation, but full-time enrollment increased 28 percent over this time.

During the same period, however, students' tuition and fees skyrocketed. In fiscal year 1985 the tuition and fees charged to all full-time public university students (not weighted by population, program of study, or school) averaged approximately \$1,786. If tuition and fees had increased at merely the rate of inflation, students today would pay only \$3,093 annually instead of the fiscal year 2002 average of approximately \$5,365. This means today's students, on average, pay about 73 percent more than they would have to pay if tuition and fee increases had just kept pace with inflation.

Since higher education spending is one of the largest drains on the state budget, it deserves special scrutiny at a time of projected deficits. Increases in tuition and fees in excess of inflation suggest one way to determine a reduced state appropriation.

If state appropriations for higher education were reduced by an amount equal to the excess revenue generated by tuition and fee increases that exceeded inflation since 1985, the total savings would come to approximately \$547 million, based on a current population of 241,134 students. (The savings calculation is imprecise, since no attempt is made to account for changes in the mix of undergraduate and graduate enrollment, or changes in the proportion of students paying higher amounts at some universities and lower amounts at others.)

Universities are charging students \$547 million more per year than can be explained by inflation alone. *Author's Note: This figure, used in the Center's 2003 budget study, has decreased due to recent cuts in higher education but remains above where it would be if tuition and fees had just kept pace with inflation.* With more than a half-billion dollars in new annual revenue from students, the universities should be less dependent on the state. Additional cuts from the higher education portion of the state budget are justifiable and technically possible, but a starting-point reduction for the coming year could include an end to the new "tuition restraint program."

Author's Note: In Fiscal Year 2005, state funds are set to be appropriated to Michigan community colleges and universities as part of a tuition restraint policy. The funds will only be paid if the institutions "that did not adopt an increase in tuition and fee rates after December 1, 2003 for the 2003-2004 academic year, and that it will not adopt tuition and fee rate increases for the 2004-2005 academic year,"² adjusted for inflation based upon the Detroit

Consumer Price Index. Governor Granholm has set aside more than \$87 million for universities that restrain tuition increases. This is a poor use of state funds. Those who benefit the most from education should be required to bear the greatest burden of paying for it. The state should eliminate this program and its appropriation. Savings: \$87,806,000.

II. Martin Luther King, Jr. — Cesar Chavez — Rosa Parks Program

According to the state's House Fiscal Agency, a bureau of state government charged with providing assistance to the Michigan House of Representatives on fiscal policy issues, describes this line item as providing funds for Department of Education programs designed to raise "participation of underrepresented minorities in postsecondary education in Michigan." Additional money for these programs is also included in the general operations appropriations for state universities.

Program: Select student support services

Appropriations:	<u>All from GF/GP:</u>	<u>\$1,956,100</u>
	Total:	\$1,956,100

Program Description:

This line item issues funds to student programs at Michigan public universities and independent colleges to help students identified as disadvantaged or in need of additional academic assistance.

Recommended Action:

This program should be eliminated. Colleges and universities have long maintained mechanisms for assisting academically challenged and disadvantaged students without targeted state programs. **Savings: \$1,956,100. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Michigan college/university partnership

Appropriation:	<u>All From GF/GP:</u>	<u>\$586,800</u>
	Total:	\$586,800

Program Description:

This program is designed to increase the number of minority students making the transition from community colleges to Michigan public universities.

Recommended Action:

This program should be eliminated. There is no reason the state should target one group of students over another for special favors. **Savings: \$586,800. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Morris Hood, Jr. educator development program

Appropriation:	<u>All from GF/GP:</u>	<u>\$148,600</u>
	Total:	\$148,600

Program Description:

This appropriation funds the Morris Hood, Jr. educator development program. This program aims to increase the number of minority students enrolling in and completing K-12 teacher educational programs at the baccalaureate level. The MHED program specifically targets African Americans, Native Americans, and Latinos.

Recommended Action:

This program should be eliminated. If a university places a high priority on such a program it could be funded with revenues raised through the private fundraising efforts of the university itself. **Savings: \$148,600. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

III. State and Regional Programs

Program: Agricultural experiment station

Appropriation:	<u>All From GF/GP:</u>	<u>\$33,163,800</u>
	Total:	\$33,163,800

Program Description:

This appropriation funds the Agricultural Experiment Station (AES). AES, based at Michigan State University (MSU), conducts research on topics relating to Michigan agriculture. Past projects conducted by the station include the Status and Potential of Michigan Agriculture Project (SAPMA), which assessed the status of 22 Michigan agricultural commodities and developed estimates for potential growth; and the Status and Potential of Michigan Natural Resources Project (SAPMINR), which looked at Michigan's natural resources, identifying trends and future opportunities. In addition to the MSU office, AES has 15 branch offices throughout the state. To the degree that its work addresses problems associated with true public goods, such as protection from Ash Borer disease, the state should provide resources in the form of grants through its Agriculture department, which already maintains a line item for fighting it. Of the figure above \$2,950,000 is spent on "Project GREEN," which is a research project designed to improve the state's agricultural industry. One high-profile project tackled by Project Green and publicized in 2001 had Michigan State University researchers working to grow "the perfect Pointsettia." According to Project Green, in 2001 Michigan ranked 6th for Pointsettia production.

Recommended Action:

As with other industries, from automobiles to furniture to chemicals, the Michigan agriculture industry should be responsible for conducting its own research. Michigan farmers, their trade associations, and the Michigan agriculture industry at large — not the state of Michigan and its taxpayers — should determine what research is needed and provide for its funding. This program should be eliminated. **Savings: \$33,163,800. Governor Granholm's 2005 proposal decreases the gross appropriation to \$32,168,900.**

Program: Cooperative extension service

Appropriation:	<u>All from GF/GP:</u>	<u>\$26,604,300</u>
	Total:	\$26,604,300

Program Description:

This appropriation funds the cooperative extension service. This program conducts a variety of educational programs throughout the state for non-student residents. Examples of courses offered include handicapped horseback riding, sewing, pottery, etc.

Recommended Action:

The cooperative extension service program (co-op) could be handled effectively by the private sector. Indeed, there are a number of private schools and other organizations throughout the state that already offer co-op style classes to people of all ages. The state should discontinue this program. **Savings: \$26,604,300. Governor Granholm's 2005 proposal increases the gross appropriation to \$27,746,200.**

IV. Grants and Financial Aid

Program: Grants and financial Aid

Appropriation:	Federal Funds:	\$ 4,400,000
	Special Revenue Funds:	\$143,250,000
	GF/GP:	\$114,009,400
	Total:	\$261,659,400

Program Description:

This appropriation funds the Grants and Financial Aid Division. The Division conducts, among others, the following programs — each of which should be eliminated:

- State competitive scholarships, which provides financial aid for needy students with qualifying scores on the ACT, which is one of the most widely accepted testing programs for aspiring college students;
- Tuition grants is designed to subsidize students attending at independent—that is, private—colleges and universities;
- Work study program, which helps financially needy students obtain assistance through work while studying in college;
- Part-time independent student program, which is designed to financially assist adult university and college students;
- Dental clinic grants, which subsidizes the education dental care for low-income citizens of southeast Michigan;
- The Michigan Education Opportunity Grant Program, which assists financially needy undergraduates who are enrolled at least half-time at a Michigan community college or public university;
- Nursing scholarship program, which provides an incentive for students to become nurses.
- Michigan merit award program, which provides scholarships to students with high scores on the state Michigan Education Assessment Program (MEAP) test. The MEAP is funded primarily with money from the national tobacco settlement. Its revenues are defined as “restricted” in the state budget, but could easily be diverted to General Fund uses to balance the state budget;
- The Tuition Incentive Program/high school completion awards program is designed to give students from low-income backgrounds incentive to graduate from high school and then college.

Recommended Action:

Eliminating the above grants would produce a savings of \$260 million based on Governor Granholm's 2004 budget. These programs take money from students and parents through taxes, pass it through the administrative bureaucracies of the many grant programs, and return it to students — minus the costs of collection and administrative overhead. State subsidies also drive up the costs of higher education. The state of Michigan should adopt a policy that encourages students to rely on their families, themselves, private foundations and scholarships, and private business grants and loans to fund their education. Ideally, students should be independent of the state for financing their educational needs, just as they should be for their food, clothing and shelter.

The Mackinac Center has expressed this idea in a recent article about the tuition grant program, a program that helps subsidize students at private college and university education. It follows.

Gov. Granholm wants to end \$64.8 million in direct annual subsidies to Michigan private college and university students. The move will eliminate just a fraction of the state's projected \$1.3 billion deficit, but it illustrates precisely the type of restraint necessary to correct years of state overspending and opens an opportunity to improve the way higher education is funded.

The Tuition Grant program is a 37-year-old fixture of the state budget. The program's \$2,000 annual grants are very popular among the low-income students who get them and the 39 private, nonprofit colleges and universities where the money is spent.

Those who favor extending these subsidies point to the college students who benefit from each of the more than 40,000 checks. But there are always benefits on at least one side of any transfer of wealth. The cost side of the ledger must also be considered.

Not only must somebody pay every penny of Michigan's \$39.7 billion budget that is received by someone else, every dollar spent on one state program must be weighed against the value of spending it on another program. Not all state priorities are created equal.

State officials have already eliminated some non-core spending, including funding for such items as "equestrian princess pageants," "Horse of the Year" balls, and free fruit and vegetable distributions at a highway rest stop. They closed last year's spending gap without resorting to broad-based tax increases. But more cuts are needed to avoid a disastrous repeat of the 38 percent income tax hike imposed the last time a Democratic Michigan governor faced large deficits.

Defenders of private tuition subsidies should expand their arguments beyond the undisputed fact that some students benefit from them. They should recommend precisely what other state spending should be cut in order to preserve their Tuition Grant program.

The cuts can be made; the Mackinac Center for Public Policy has recommended more than \$2 billion in lower spending and sales of unneeded state assets. In some cases, just a rule change would produce mammoth savings. Repeal of the state's prevailing wage law for school construction alone, as Ohio has done, would stop the annual waste of more than \$150 million.

Even if money were no object, private-college tuition subsidies for poor students may not be a proper function of the state. The hallmark of civil society is the voluntary, mutual benefit derived by both parties to a transaction. Yet, no matter how much or how little benefit is gained by the grant recipients, the state makes no effort to determine how much benefit is forgone by individual taxpayers who would have spent the \$65 million on voluntary priorities no less worthy than the private-college students they are forced to support.

Such subsidies can be culturally, as well as economically, divisive. Although the program restricts some courses of study, several of the qualifying schools are religiously affiliated or explicitly sectarian. Should either atheists or devout Catholics be required to directly subsidize tuition at thoroughly Protestant Grace Bible College?

If the state were not already overspending, and if private college tuition subsidies were a proper function of the state, there would still remain the question, "Is our Tuition Grant program effective?" Two features of the program suggest it is more costly than necessary.

The tuition grants do not have to be repaid. There are income requirements (lower incomes qualify), but there is no requirement for students to first tap into available student loans, nor even to seek summer employment, before receiving the full grant. This means that middle-class college students who don't qualify for the grants are taking out student loans and working summer jobs to pay for school, while their parents pay taxes to support low-income, nonworking private-college students who can graduate debt-free. This is unfair, and it raises the program's cost by encouraging students to go after the "free" money first.

In 2000, private colleges and universities provided nearly \$8 billion in private assistance to students who needed help with tuition. Students of all income ranges can still receive heavily subsidized schooling at well-regarded state universities. Michigan's current overspending problem, coupled with questions about the fairness and effectiveness of the Tuition Grant program, make private-school tuition subsidies a good candidate for elimination.

Savings: \$261,695,400. Governor Granholm's 2005 proposal decreases the gross appropriation to \$134,991,300. *Author's Note: Much of the decrease in the proposed budget is a result Governor Granholm's recommendation that the state end the "Tuition Grants" program, which will save about \$64.7 million.*

¹ Telephone interview with Ellen Jefferies, deputy director of Senate Fiscal Agency by Mackinac Center for Public Policy Research Intern Rachel Hoekstra, Nov. 18, 2002.

² Boilerplate language found in Senate Bill 1049, p. 19. Accessible on the Internet at <http://www.michiganlegislature.org/documents/2003-2004/billintroduced/senate/pdf/2004-SIB-1042.pdf>

Department of History, Arts, and Libraries

The Michigan Department of History, Arts, and Libraries is one of the most recent additions to state government, having been created under Public Act 63 of 2001. It consolidates the administration of a number of pre-existing state functions and programs. The department's five main agencies are the Michigan Council for Arts and Cultural Affairs, Michigan Historical Center, Library of Michigan (formerly known as the State Library), Mackinac State Historic Parks, and the Michigan Film Office. In addition, the department oversees the state records management program, demography work, and U.S. Census reporting activities. The department's mission statement is, "To enrich the quality of life for Michigan residents by providing access to information, preserving and promoting Michigan heritage, and fostering cultural creativity."¹

Before proceeding into an analysis of each of the department's main agencies and functions, however, the reader may find it useful to review the following brief explanation of the philosophy undergirding the recommendations made in this section.

Background Philosophy: State and Society

American traditions of law and liberty recognize a fundamental distinction between the activities of government and those of society at large. Since the Colonial Era, the coercive institutions of government have been widely understood to be appropriate to the protection of life and property from criminal violence and fraud. Other concerns, however basic or vital, historically have been addressed by voluntary civil institutions. This theoretical understanding of, and practical distinction between, the different roles of state and society — spelled out in the federal and state constitutions — have been key to unleashing the vibrant cultural and economic life that has flourished in this country since its inception in the 18th century. In other words, America's Founders understood that while government may serve, in some ways, as the *protector* of a society's culture, it is but a product — not the *source* of—that culture.

What, then, is the source of culture? The word "culture" is derived from the Latin *cultus*, meaning "care, cultivation, worship," implying that the roots of culture run deep in the human imagination and in human history. In his book, "The Roots of American Order," Michigan-born cultural historian Russell Kirk traced the development of Western culture generally, and American culture specifically, back through the centuries to the societies of ancient Jerusalem, Athens, and Rome, up through medieval London and all the way to America's constitutional convention at Philadelphia. "[A] nation's culture," explained Kirk, "is the complex of convictions, folkways, habits, arts, crafts, economic methods, laws, morals, political structures, and all the ways of living in community that have developed over the centuries."²

Kirk's definition helps to make the salient point. Within a free, or *civil*, society, government is just one of many threads in the broad and colorful tapestry of human life. It has the narrow and limited role of guardian, and when it steps outside of that role, its growth into other spheres of life soon results in an increasingly unfree, or *political*, society. The difference for the average citizen is this: In a civil society, citizens themselves make the decisions affecting their lives. In political society, government officials make many or even most of those decisions for citizens. The citizen's judgment about what is in his or her own best interest is supplanted by the judgment of others, who may not have his or her best interests at heart — and may not even know what those best interests might be.

The types of decisions made by bureaucrats in a political society run from the most important — such as where one should (or is allowed to) live, how one's children are to be educated, or how one is to spend one's own money — to the most mundane — such as how much water toilet bowls should hold, or how big the holes in Swiss cheese ought to be. (Regarding these last two examples: As humorist Dave Barry might say, we are not making this up.)

But perhaps the most dangerous aspect of a political society is that the state sets itself up as the very *definer* of a society's culture rather than as its guardian. In such a situation, there comes to be an "official line" on everything. This official line, instead of being reached by open academic inquiry and consensus, is instead asserted and enforced by a bureaucratic minority operating the coercive machinery of the state. Instead of being open to challenge and revision as new nuggets of truth are gleaned by scholarly prospectors, the government-enforced official line is

impervious to new evidence or interpretation. Thus there is the spectacle, in some countries, of a “Ministry of Culture,” that may actually criminally prosecute those who hold the “wrong,” i.e., governmentally disapproved, opinions. This country is not yet that far down the road to censorship and statism, but the persistence of the phenomenon known as “political correctness” reveals the ever-present danger to intellectual and academic freedom when citizens cease their vigilance.

It is with this information in mind that the reader ought to understand the recommendations made in this section regarding the pruning of Michigan’s proto-Ministry of Culture, the Department of History, Arts and Libraries. For it is precisely because the pursuit of truth in history, art and the humanities is so important to society that it must be kept out of the realm of politics insofar as is possible. Perhaps French economist and statesman Frederic Bastiat summed up this understanding best in his classic 19th-century treatise, “The Law.” In the following passage, Bastiat is inveighing in particular against socialism, but his analysis applies to any brand of the statist philosophy, including fascism, communism, or the garden-variety welfarism of modern-day America:

Socialism, like the ancient ideas from which it springs, confuses the distinction between government and society. As a result of this, every time we object to a thing being done by government, the socialists conclude that we object to its being done at all.

We disapprove of state education. Then the socialists say that we are opposed to any education. We object to a state religion. Then the socialists say we want no religion at all. We object to a state-enforced equality. Then they say that we are against equality. And so on, and so on. It is as if the socialists were to accuse us of not wanting persons to eat because we do not want the state to raise grain.³

In short, the Mackinac Center is not recommending budget cuts for the Department of History, Arts and Libraries because it does not want or like art; on the contrary, our reasons are precisely the opposite.

I. Department Operations

Program: Unclassified salaries

Appropriation:	<u>All from GF/GP:</u>	<u>\$219,300</u>
	Total:	\$219,300

Program Description:

This appropriation funds unclassified salaries that provide support services for the director of the Department of History, Arts and Libraries. In other words, it funds the director’s staff.

Recommended Action:

With the elimination of approximately 58 percent of the History, Arts and Libraries budget comes the ability to downsize these appropriations commensurately, producing an additional savings of approximately \$128,047. **Savings: \$128,047. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Management services

Appropriation:	<u>All from GF/GP:</u>	<u>\$1,819,700</u>
	Total:	\$1,819,700

Program Description:

This appropriation funds the management services of the department. These services provide administrative support for the department.

Recommended Action:

With the elimination of approximately 58 percent of the History, Arts, and Libraries budget comes the ability to downsize the management services appropriation commensurately, producing a savings of approximately \$1,062,503. This is an estimate only, and a detailed analysis of the impact of program reductions is needed to determine exact savings. **Savings: \$1,062,503. Governor Granholm's 2005 proposal decreases the gross appropriation to \$5,155,400.**

Program: Office of film and television services

Appropriation:	<u>All from GF/GP:</u>	<u>\$129,900</u>
	Total:	\$129,900

Program Description:

This appropriation funds the Michigan Film Office through the office of film and television services appropriation line item. The Michigan Film Office was created in 1979 "to assist and attract incoming production companies and to promote the growth of our indigenous industry."⁴ Its fiscal year 2003 gross appropriation is \$143,500, the entirety of which comes from the state general fund.⁵

Recommended Action:

This item should be eliminated. Using state resources to help one of America's most successful industries is unnecessary. The film industry maintains a complement of full-time site locaters. Even if attracting film companies to Michigan were crucial to the health of the state economy, it would best be a function handled by local chambers of commerce. **Savings: \$129,900. Governor Granholm's 2005 proposal increases the gross appropriation to \$131,800.**

II. Michigan Council for Arts and Cultural Affairs**Program: Arts and cultural grants and administration**

Appropriation:	Federal Funds:	\$ 700,000
	<u>GF/GP:</u>	<u>\$11,071,300</u>
	Total:	\$11,771,300

Program Description:

This appropriation funds the Michigan Council for Arts and Cultural Affairs (MCACA). Former Gov. John Engler created MCACA in 1991⁶ "to encourage, develop, and facilitate an enriched environment of artistic, creative cultural activity in Michigan."⁷ The council is made up of 15 appointees, each of whom serve three-year terms, and a staff of nine individuals who oversee the awarding of grants to a variety of organizations and projects throughout the state. The MCACA's fiscal year 2003 appropriation is \$12,481,700, \$700,000 of which comes from federal sources. In addition, MCACA received an additional \$11,900,000 from the state's general fund; an amount not reflected in the original appropriation. The total budget (including the supplemental appropriation) is \$24,381,700.⁸

In September 2002, then-Gov. Engler announced \$22.6 million in MCACA grants to 368 organizations and projects in 69 counties for the current fiscal year.⁹ Some of these grants go to regional or local government arts councils, who in turn "re-grant" some of their funding to other organizations and projects of their choosing.¹⁰

The administration line item, worth \$839,100, simply covers personnel and operational costs for the program.

Recommended Action:

The Michigan Legislature should eliminate state funding for the Michigan Council for Arts and Cultural Affairs, including its administration. The reasons for this move include the following:

- Government arts subsidies are inherently politicized and unfair.** Having an “arts council” enables politicians and their appointees — not the art-consuming public—to decide which art forms and artists are worthy of support and which are not. The artistic judgment of the “common folk” may not always be agreeable to the connoisseur, but the judgment of the elite minority who control government “arts funding” is far from infallible. For example, MCACA awarded \$22,200 to one elementary and one middle school in the Lansing school district to bring “teaching artists” from nearby BoarsHead Theatre (which received \$72,700 from MCACA) into the classroom. One of the artists’ homework assignments consisted of directing students “to brush their teeth with the opposite hand to illustrate that it’s possible to learn new skills.”¹¹ It is at least debatable whether citizens allowed to keep their own “arts dollars” would choose to spend it in such a manner. But even if they did, at least it would be their own money. As author John Updike, two-time winner of the Pulitzer Prize, declared, “I would rather have as my patron a host of anonymous citizens digging into their own pockets for the price of a book or a magazine, than a small body of enlightened and responsible men administering public funds.”¹²
- Government art subsidies often take from the poor and give to the rich.** Supporters of government arts subsidies like to argue that the subsidies are needed to bring art to lower-income people who otherwise would not have the resources to enjoy it. However, evidence suggests that art subsidies flow from the poor and middle classes to wealthier citizens — those who tend to frequent museums, operas and symphonies in the first place. For example, projects from wealthy Wayne County received \$9,718,300 in MCACA grants for fiscal year 2003, the largest dollar amount received by any Michigan county. Oscoda County residents saw just \$5,000 in MCACA grants come their way. According to census data, Wayne County has a population of 2,045,473 people and a per-capita income of \$20,058; Oscoda County, by contrast, has 9,558 residents and a per-capita income of \$15,697. As a ratio of grant funds to population, Wayne County receives back from the state \$4.75 per citizen while Oscoda receives only \$0.52 per citizen. Over half of the Wayne County grant money, \$5,943,900, went to just two organizations: the Detroit Symphony Orchestra and the Detroit Institute of Arts. Economist Robert Samuelson seems to have had it right when he called government arts funding “high-brow pork barrel”.¹³
- Government art subsidies corrupt artists.** Subsidies gradually but inevitably lead to the “dumbing down” of art as the hopeful beneficiaries of government grants tailor their craft in such a way as to make them most likely to receive state money. In other words, because there never will be enough money for every aspiring artist, the state must of necessity develop a selection process; thus artists applying for grants will tend to pursue work palatable mainly to their government patrons. Some writers have recognized the artist’s need for independence and warned against this dynamic. Nobel Prize-winning novelist William Faulkner remarked, “I’ve never known anything good in writing to come from having accepted any free gift of money. The good writer never applies to a foundation. He’s too busy writing something.”¹⁴ Faulkner’s fellow Nobel laureate, one-time Michigan resident Ernest Hemingway, said that a writer who uses politics to advance his career might “get to be an ambassador or have a million copies of his book printed by the government,” but he is betraying his craft.¹⁵ **Savings: \$11,771,300. Governor Granholm’s 2005 proposal increases the gross appropriation to \$12,479,200.**

III. Mackinac Island State Park Commission

Program: Mackinac Island park operations and historical facilities system

Appropriation:	Special Revenue Funds:	\$1,379,000
	GF/GP:	\$1,486,400
	Total:	\$2,865,400

Program Description:

This appropriation funds the Mackinac Island State Park Commission. The commission was created under Act 451 of 1994 for the purpose of managing Mackinac Island State Park, Colonial Michilimackinac State Park, and Historic Mill Creek State Park. The commission is composed of seven members, appointed by the governor with the advice and consent of the Senate, who serve 6-year terms. The fiscal year 2003 gross appropriation for the Mackinac park system is \$2,950,800; \$1,037,600 of this amount comes from the Mackinac Island state park fund, while \$76,400 is generated from user fees.¹⁶ The remaining \$1,836,800 is made up from the state general fund.¹⁷

Recommended Action:

The Legislature could take advantage of outsourcing for the Mackinac State Historic Parks. The parks need not be managed by the state — in fact, they might be improved and made more self-sufficient if management responsibility were transferred to a private, nonprofit organization. This is what New York City did with its crown jewel, Central Park, contracting with the private, not-for-profit Central Park Conservancy. The conservancy has restored the park from its dilapidated state in the 1970s to its present beautiful condition, using almost \$250 million worth of private investment. The conservancy also privately raises \$17 million of Central Park's annual \$20 million operating expenses.¹⁸ There is no reason a similar arrangement could not work with Mackinac Island and other state parks. Oversight of such a contract could be provided by a current state employee acting in the capacity of contract manager. **Savings: \$1,288,300. Governor Granholm's 2005 proposal increases the gross appropriation to \$3,000,000.**

IV. Michigan Historical Program

Program: Historical administration and services

Appropriation:	GF/GP:	\$4,841,000
	<u>Special Revenue Funds:</u>	<u>\$233,400</u>
	Total:	\$5,074,400

Program Description:

This appropriation funds administration and services for Michigan's historical programs. The Michigan Historical Center's web site explains that the center "preserves and interprets Michigan's past and helps people discover, enjoy and find inspiration in their heritage."¹⁹ The center's nearly 80 employees oversee and administer five main components of the state's historical program, including the Michigan Historical Museum System, State Archives of Michigan, State Historic Preservation Office, Office of the State Archaeologist, and Michigan History magazine. The center is also responsible for overseeing implementation of the federal National Register of Historic Places program in Michigan and shares with the federal government the duty of managing the Thunder Bay National Marine Sanctuary and Underwater Preserve in Lake Huron.

The Michigan Historical Commission, created in 1913,²⁰ serves as the advisory board to the center. It consists of six members appointed by the governor to terms of six years. The commission, in conjunction with the Department of History, Arts, and Libraries, administers the State Register of Historic Sites and several other historical programs.

Recommended Action:

The Legislature should downsize, outsource or eliminate the following agencies and programs:

Ten historic museums and sites throughout the state focus on themes in Michigan history including native peoples, early French explorers, miners, loggers, settlers, a Victorian family, and the Depression-era Civilian Conservation Corps.²¹ Each of these museums and sites may be worthy and important; however, it does not follow that the state should assume all the costs associated with owning and operating them. Museums funded entirely through private philanthropy and attendance fees exist throughout the country. State and local governments also have successfully transferred responsibility for public museums to private, nonprofit groups, as Milwaukee did in 1992, maintaining and even improving service while ending a constant drain on the treasury. The Legislature could transfer management of Michigan's state historic museums and sites to private nonprofit groups. **Approximate Savings: \$4,059,520. Governor Granholm's 2005 proposal increases the gross appropriation to \$5,155,400.**

Note: Approximately 20 percent of the expenditure for the “Historical administration and services” line item funds the work of state archivists; positions *not* recommended for elimination.

Program: Heritage publications

Appropriation:	<u>All from Special Revenue Funds:</u>	\$700,000
	Total:	\$700,000

Program Description:

This appropriation funds Michigan History magazine and other Michigan specific publications. Michigan History is a state-produced bimonthly periodical, established by statute in 1913²² and was first printed in 1917 as a scholarly journal for the purpose of recording Michigan history for posterity. It evolved into its current glossy magazine-style format with pictures and illustrations in 1978. The magazine also produces promotional items and literature for Michigan Historical Center, including books, posters, mugs, calendars and other items.

Recommended Action:

Funding for Michigan History magazine should be eliminated. While promoting and chronicling Michigan history is a worthy endeavor, there is no compelling reason to force taxpayers to support state-produced publications on the subject. Each year, many thousands of books and magazines are published on a wide variety of topics, history included, by private entities who are funded voluntarily by only those who are most interested in their topics.²³

Savings: \$700,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.

V. Library of Michigan

Program: State aid to libraries

Appropriation:	<u>All from GF/GP:</u>	\$13,327,100
	Total:	\$13,327,100

Program Description:

This appropriation funds the state aid to libraries program. This program is a function of Public Act 89 of 1977, known as the Michigan State Aid to Public Libraries Act. It is the library equivalent to the state’s revenue sharing program to local governments. The state distributes funds to Michigan’s 300-plus local libraries to assist in their operations.

Recommended Action:

This appropriation should be eliminated. Libraries need not be public entities. Private libraries exist and have throughout our nation’s history. Indeed, one of America’s first lending libraries, established in Philadelphia by Benjamin Franklin, was created as a civil institution for the betterment of mankind, thanks to the private donations of individuals and fees paid by users. Regardless, local units of government should not receive such state subsidies. Those who benefit the most from such services (local users) should bear the burden of funding those institutions.

Savings: \$13,327,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.

Program: Subregional state aid

Appropriation:	<u>All from GF/GP:</u>	\$505,000
	Total:	\$505,000

Program Description:

This appropriation funds special services to the blind and to others with disabilities.

Recommended Action:

The state should eliminate this appropriation. Individuals, institutions and businesses can and do help people with disabilities out of a deep concern for their welfare, not because the state insists upon it. Livonia's Seedlings Braille Books for Children is a good example. It is dedicated to increasing the opportunity for literacy among the blind. Seedlings provides high-quality, low-cost Braille books for blind children so that blind and sighted family members may read together. Few of Michigan citizens may realize the degree to which such organizations, and the kind people who associate with them, can and do provide assistance to people with disabilities without state intervention. They could do more, too, if government didn't crowd them out with high taxes and programs such as this. **Savings: \$505,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

¹Press Release from the Michigan Department of History, Arts, and Library celebrating its 1-year anniversary, accessible on the Internet at http://www.michigan.gov/hal/0,1607,7-129-1859_1861-53017--M_2002_10,00.html.

²Russell Kirk, "The Politics of Prudence," Bryn Mawr, Penn.: Intercollegiate Studies Institute, 1993, p. 193.

³Frederic Bastiat, "The Law," Irvington, N.Y.: The Foundation for Economic Education, 1998, p. 29.

⁴See Michigan Department of History, Arts, and Libraries web site, "What is the Michigan Film Office," http://www.michigan.gov/hal/0,1607,7-160-17445_19275---,00.html.

⁵Act No. 523, p. 2.

⁶Executive Order No. 1991-21.

⁷See Michigan Department of History, Arts, and Libraries web site, "Mission Statement," at <http://www.cis.state.mi.us/arts/mission.htm>.

⁸Act No. 523, p. 2; and telephone interview with Nick Bozen of Michigan Department of History, Arts, and Libraries, Dec. 30, 2002.

⁹See Michigan Department of History, Arts, and Libraries web site, "FY 2003 Arts & Cultural Grants," at <http://www.cis.state.mi.us/arts/grants/grants.htm>.

¹⁰The figure of \$24,381,700 under "Gross Appropriation" does not exactly match the enacted figure in Act No.523. The Act shows an appropriation of \$12.4 million. This was later revised upward. The author took the liberty of rolling the supplemental appropriation into this analysis to reflect the true potential savings from eliminating the program.

¹¹Fiscal year 2003 the Michigan Council for Arts and Cultural Affairs grant application form, "Artist in Residence for Education Program," Lansing School District, p. 5. Other work for the "teaching artist" including dressing up as Cortez and "barking out orders in gibberish so the students would understand the language problem the Aztecs faced, and how threatened they felt."

¹²Quoted in Bill Kauffman, "Subsidies to the Arts: Cultivating Mediocrity," Washington, D.C.: The Cato Institute, Policy Analysis No. 137, 1990, p. 6. Accessible on the Internet at <http://www.cato.org/pubs/pas/pa137.html>, p. 14.

¹³Kauffman, p. 7.

¹⁴Kauffman, p. 14.

¹⁵David Bardallis, Viewpoint commentary "Ernest Hemingway and Arts Subsidies: A Farewell to Alms," July 1999, accessible on the Internet at <http://www.mackinac.org/article.asp?ID=1949>.

¹⁶Ibid.

¹⁷Ibid.

¹⁸See the Central Park Conservancy web site, "Support the Conservancy," accessible on the Internet at <http://www.centralparknyc.org/support>.

¹⁹See the Michigan Historical Center web site, "The Michigan Historical Center," at <http://www.sos.state.mi.us/history/museum/explore/explore2.html>.

²⁰Act No. 271, Public Acts of 1913.

²¹See the museum system's web site, "Welcome to Michigan Historical Museum System," at http://www.michigan.gov/hal/0,1607,7-160-17447_18595---,00.html.

²²Act No. 271, Public Acts of 1913.

²³Historian Burton W. Folsom, Jr. produced his 1997 book, "Empire Builders: How Michigan Entrepreneurs Helped Make America Great," entirely with private funding, for example.

Michigan Economic Development Corporation (Now Part of The Department of Labor and Economic Growth)

The Michigan Economic Development Corporation (MEDC) is a quasi-public agency of the state. For budgeting purposes, the MEDC is not officially recognized as a state agency. The Strategic Fund, which was created in the 1980s, is the recipient of state and other funds that are used to operate the MEDC. The MEDC was created in 1999 and took over a portion of duties once held by the Michigan Jobs Commission (MJC). The MJC was a department designed to house all of the state's disparate "economic development" programs in one single unit. An executive order split the MJC in 1999 in favor of two newly created departments, known as the Michigan Department of Career Development and the MEDC.

The MEDC oversees work designed to "retain and expand jobs through business retention visitation programs."¹ The 231-employee MEDC is Michigan's chief dispenser of corporate welfare.

The MEDC is arguably the least necessary entity in state government. Its existence is based on several flawed premises and political considerations, such as:

- The assumption that state bureaucrats can foster wealth and job creation better than individual consumers, workers, bankers, insurers, investors and managers, whose collective decisions form the market economy.
- The assumption that the efforts of trade associations, industry groups, chambers of commerce, law and accounting firms, universities and a host of specialty consultants are insufficient to provide businesses with the expertise they need to grow and prosper in Michigan, and that state bureaucrats can supplement the services these organizations already provide.
- The assumption that engaging in an economic "war between the states" through selective tax credits and subsidies for large corporations is a more effective economic development strategy than across-the-board tax relief.
- The political fear that public officials will be seen as "doing nothing" to encourage economic development if they only remove barriers to the efficient operation of the free-market economy and refrain from state intervention.

The fact is that all the business support services provided by the MEDC, if needed at all, can be, and most often are already, provided by private-sector firms. The programs are subject to political considerations, and there is no reason to believe that state bureaucrats can invest capital any better than private-sector financial institutions and Michigan companies themselves. Michigan does not need a government-directed industrial policy; it needs leadership that understands and respects the operation of a free-market economy.

It is therefore recommended that the MEDC be eliminated entirely. Doing so will liberate significant state resources to be returned to Michigan citizens and businesses. State legislators also should change the law to ensure that all Strategic Fund revenues generated through Indian Gaming Compacts be redirected to the General Fund. Doing so will raise approximately \$11.5 million annually for state coffers.² *Author's Note: In 2002 Compact revenues exceeded \$13 million. The Mackinac Center will use this updated figure to calculate the total recommended savings for the 2nd edition of the Center budget study.*

I. Michigan Strategic Fund

Program: Administrative positions

Appropriation:	<u>All From GF/GP:</u>	\$4,054,700
	Total:	\$4,054,700

Program Description:

This appropriation funds the department's administration positions.

Recommended Action:

This line item should be eliminated with the rest of the department. **Savings: \$4,054,700. Governor Granholm's 2005 proposal decreases the gross appropriation to \$2,632,400.**

Program: Job creation services

Appropriation:	Interdepartmental Grants:	\$ 100,900
	Federal Funds:	\$ 2,953,300
	Special Revenue Funds:	\$ 903,100
	<u>GF/GP:</u>	<u>\$15,735,700</u>
	Total:	\$19,693,000

Program Description:

This appropriation funds the work of full-time employees who support the work associated with MEDC programs. These programs include, for example, Travel Michigan, E-MEDC, the MEDC's public affairs office, and the Michigan Economic Growth Authority, to name a few. The following is a description of each of the four most notable programs supported by the job-creation services appropriation.

Recommended Action:

These functions should be eliminated with the rest of the department.

Travel Michigan: Travel Michigan helps the Michigan Travel Commission by marketing the state as a destination for tourists. According to its web site, it also maintains a telephone service that the public can call to get information about traveling in Michigan. The marketing services of this group should be left to private groups such as businesses and their trade representatives.

E-MEDC: This section is described in House Fiscal Agency documents as coordinating "information technology and e-business efforts; customer assistance and customer advocacy units; export services and ombudsman office." According to officials at the E-MEDC office, information technology and e-business efforts include internal web support to MEDC staff and Michigan "Careersite" operations. The MEDC's creation and maintenance of Careersite is an example of a state agency that uses state funds to compete directly with private, for-profit, taxpaying businesses.

It also underscores the fact that Michigan state government is now so big and bewildering that it competes against itself. Consider the case of "Careersite," operated by the MEDC, and "Michigan Talent Bank," operated by the Michigan Department of Career Development (MDCD). Each agency carries out the same function — bringing job seekers and job providers together — and competes not just with each other, but also with hundreds of private, Michigan-based job recruitment companies.

Why does the state run these redundant websites? According to the MEDC, Michigan Careersite was created to help attract "skilled workers in Information Technology, Life Sciences, and Advanced Manufacturing." The MDCD says its Michigan Talent Bank is intended to "bring employers and employees together," but since it does not exclude skilled workers from any field, the two sites end up performing overlapping duties. In addition, an MEDC brochure about Michigan Careersite boasts of its ability to "grab" jobs posted on Michigan's Talent Bank and move them to its own.

Private recruitment companies have long helped employers find qualified workers to fill jobs. During the 1990s, Michigan alone saw 348 new human resource firms spring up to fill this role. Michigan also is home to many privately run labor exchange web sites, such as Careermatrix.com. Its founder, Dennis Hoyle, is not thrilled with the state's involvement in his business: "It really is irksome to see the state using our tax dollars to compete against us,"

he said. “Moreover, it’s bizarre watching the agencies competing against each other. There really isn’t much difference between the two sites.”

Unfair competition from the state is all the more striking given then-Gov. Engler’s comment in November 1999: “Tax policy is best which is simple and uniform, and which treats similarly situated activities in the same manner.” There is nothing fair about subsidized state agencies paying zero taxes while competing with private, for-profit, taxpaying firms.

Additionally, a number of general web sites in the state, such as mlive.com, operate labor exchanges, and many online newspapers post their want ads electronically. There are over 6,000 web sites specifically dedicated to job recruitment nationwide, and most of these private organizations do their work without costing the taxpayer a cent. Meanwhile, the MEDC is spending about \$500,000 taxpayer dollars per year to operate Michigan Careersite for its first two years. The MDCD does not know what it costs to operate the Michigan Talent Bank.³

Michigan Economic Growth Authority: In April 1995, the state created the Michigan Economic Growth Authority (MEGA), an agency empowered to issue tax credits to companies that promise to expand in or relocate to, Michigan.

No company should be blamed for accepting a legal tax credit when it is offered, just as no individual should be faulted for taking a credit on his personal income tax form. But what makes these discriminatory MEGA credits problematic is that they are both unnecessary and unfair. Businesses — and the economy generally — would be better off with a fair field and no favor, a climate of lower tax burdens for all and discriminatory treatment for none. To date MEGA officials, working in concert with the MEDC, have arranged for companies to receive as much as \$2 billion in tax credits, abatements and job training subsidies. For more on this subject see the Mackinac Center for Public Policy web module on economic development at <http://www.mackinac.org/ecodevo>. **Savings: \$19,693,000. Governor Granholm’s 2005 proposal increases the gross appropriation to \$19,793,200.**

Program: Michigan promotion program

Appropriation:	<u>All from GF/GP:</u>	\$5,717,500
	Total:	\$5,717,500

Program Description:

This appropriation funds the Michigan Promotion Program. This program is designed to market Michigan as a destination choice for tourists. The funding helps create and distribute publications, such as “Michigan Travel Ideas,” that tout the Great Lakes State as a great place to visit. Another example of marketing funded by this line item involves the so-called, “Warm Weather Media” campaign of fiscal year 2002. This was a \$4 million advertising initiative targeted to people in Chicago, Indianapolis, Cleveland, and Green Bay, to encourage them to think about Michigan as a summer destination.⁴

Recommended Action:

The Michigan Promotion Program should be eliminated with the rest of the MEDC. There are at least three compelling reasons for ceasing this operation. First, it is unnecessary. Thousands of Michigan businesses have every incentive to encourage tourism in Michigan on their own, or by using their respective industry associations. The Tourism Industry Coalition of Michigan, which exists to increase awareness of tourism in the Great Lakes State; the West Michigan Tourist Association, which does the same for the west side of Michigan; and the Travel Industry of America are all good examples. Second, it is unfair. Thousands of Michigan businesses derive no direct benefit from tourism yet are taxed to pay for the benefits of advertising for those who do. Third, there is no empirical evidence to prove that this program delivers more tourism to Michigan than would have occurred if central planners simply left tourism to the private sector.

During fiscal year 2002 this line item funded \$100,000 in advertising for the for-profit company Cabela’s Retail, Inc. Cabela’s is a mammoth catalog and retail outlet for everything related to outfitting outdoor sports enthusiasts. It ships over 60 million catalogs to every state and 120 countries every year and maintains seven retail outlets. The

MEDC arranged for Cabela's to receive millions in financial incentives in exchange for opening a 200,000-square-foot store in Dundee, Mich.⁵ Cabela's accepted the state's offer and opened its Dundee store in October, 2000. One component of the incentive package was subsidized advertising. The MEDC also arranged for Cabela's to get other promotional assistance, including:

- \$300,000 in catalog advertising from Cabela's Retail, Inc. over a three-year period;
- One full-page ad in the state's tourism publication, "Michigan Travel Ideas," to Cabela's (\$100,000 in value);
- Full access to the state's "Travel Michigan" database, which contains the names and addresses of over a million people seeking information about travel in Michigan (\$80,000 in value);
- Free marketing and publicity assistance surrounding the official grand opening ceremony of Cabela's in Dundee (\$25,000 in value);
- Cabela's "free" membership in the state's "Circle Michigan" tour promotional organization (\$4,500 in value). Circle Michigan is a private association that works with bus operators to help increase tours for groups to attend trade shows and other special events.

Businesses and trade groups should do their own marketing. There is no reason for the state to reach into the pockets of small and medium-sized sports retailers (there are more than 1,000 in Michigan) to subsidize the operations of the state's biggest sports retailer. (For more on Cabela's Retail, Inc., and the MEDC see subsequent reference below, and the article, "A Tale of Two Sporting Goods Stores," in the Summer 2002 edition of Michigan Privatization Report.⁶ **Savings: \$5,717,500. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

Program: Economic development job training grants

Appropriation:	<u>All from GF/GP:</u>	<u>\$10,048,000</u>
	Total:	\$10,048,000

Program Description:

This appropriation funds job training grants to firms that MEDC officials believe are worthy of special job training assistance.

Program Recommendation:

Businesses have always been able to train employees to suit their needs. When state officials grant subsidies to one company to train employees they often put their in- or out-of-state rivals at a competitive disadvantage.

Consider one example first highlighted by the Mackinac Center for Public Policy in 2000. Boar's Head Provision Company is a meat products company headquartered in Brooklyn, N.Y. In exchange for that company's promise to invest \$14 million and create 450 new jobs in Michigan, the Michigan Jobs Commission arranged in 1998 to give Boar's Head an "economic development package" worth up to \$5.1 million in federal, state and local resources — including up to \$450,000 in economic development job training grants. Armed with these incentives, the company opened a processing plant near Holland, Mich., on Dec. 13, 1999.

The Michigan Jobs Commission, now the MEDC, counted 450 "new" jobs as the agency's contribution to the Michigan economy through the Boar's Head deal. What the agency's self-serving pronouncements do not state 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 back yards every summer. The company's meat products still 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 father before him and his son John who will carry on after him, Al would rather run the business than spend time lobbying politicians.

He cannot help but point out when asked, however, that for all of its 84 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, and continues to do so to this day.

Such targeted assistance may be called “economic development” by government officials, but, it is more likely just another example of robbing Peter to pay Paul.⁷ **Savings: \$10,048,000. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

Program: Life Sciences Corridor Initiative

Appropriation:	Special Revenue Funds:	\$10,000,000
	GF/GP	\$ 5,000,000
	<u>Total:</u>	<u>\$15,000,000</u>

Program Description:

This appropriation funds the Life Sciences Corridor Initiative (LSCI). This initiative is funded solely through money obtained through tobacco settlement proceeds. By 1998, 40 states sued tobacco companies under a variety of legal theories. One of the dominant theories is that tobacco companies are responsible for large health costs borne by the state for smoking-related illnesses.

The LSCI was created in 1999 to help facilitate the growth of biotech firms in the state of Michigan. There are at least 45 LSCI-type programs sponsored by units of government around the country, and many of these are funded through the \$8.5 billion state tobacco settlement money. Michigan’s program is effectively corporate welfare for a specific industry. Consider just two of the grants issued through the LSCI.

GeneGo, Inc. — GeneGo is a private firm that works in what is known as the “post-genome bioinformatics and systems biology” field. That is, the company maintains a database of models for human tissues and diseases to help researchers discover previously unrecognizable ways that people acquire and suffer from certain diseases and even new ways to treat those diseases. GeneGo, Inc., moved to New Buffalo, Michigan (about one mile inside Michigan’s border) from its original home in Portage, Indiana. According to The Detroit News, GeneGo moved to Michigan after being promised a “\$200,000 state grant and the possibility of future funding” from state officials.

The initial state favor provided to GeneGo appears to have come in the form of a very low-interest loan of \$210,000⁸ made by the MEDC through a private venture capital fund, known as Sloan Enterprises, L.L.C. Sloan is the recipient of \$843,000 awarded through the 2001 fiscal year LSCI grant process. The loan rate is 6 percent. According to one Michigan venture capitalist, who asked to remain anonymous for fear of MEDC retribution, this loan rate is about 24 percent less than most venture capitalists demand for taking outrageously high risks. In other words, since MEDC officials are not risking their own money, why charge a risk premium in exchange for loaning money to ventures with a high likelihood of failure? Governments have an overall poor record of picking winners and losers in the marketplace. Governments should not be making such investment decisions. If venture capitalists won’t voluntarily risk their own money for a 30 percent return on investment, Michigan citizens should not have to watch their tobacco settlement dollars placed at risk for a 6 percent return.

How have venture capitalists been responding to today’s investment environment? They have been retreating. According to Thomson Venture Economics and the National Venture Capital Association, the venture capital industry was able to raise \$107.7 billion dollars for investment in new industries and firms in the year 2000. In 2002 it is on pace to raise just \$7 billion, a 94 percent drop in less than two years. Yet during this same time, the MEDC has overseen a dramatic and direct increase in investments in firms that venture capital investors are avoiding with good reason. The National Association of Securities Dealers’ Automated Quotation Biotech Index, which measures the performance of a basket of publicly traded biotech companies, has declined from a high of 1,600 in 2000 to 400 in 2002, a drop of 75 percent — and a much larger percentage drop than the Dow Jones Industrial Average or the S&P 500 over the same time period.

State officials might respond by saying, “Well, we are not investing taxpayer’s money, it is tobacco settlement money.” That’s correct, but it is important to remember that everything has a cost, even if it is just an opportunity

cost. If we direct tobacco settlement money to high-risk industrial policy we have to find other money to fund the core, but unglamorous needs of the state, such as road improvements and police. Savings from eliminating this program should be redirected to the General Fund/General Purpose component of the state budget. **Savings: \$15,000,000. Governor Granholm's 2005 proposal leaves this appropriation unchanged over the previous year's budget.**

¹ Bob Schneider and Barbara Graves, "Line Item and Boilerplate Summary, Career Development and Michigan Strategic Fund, Fiscal Year 2003," December 2002, p. 20.

² This estimate is based on information provided by Howard Heideman, Manager of Tax Policy, Office of Revenue and Tax Analysis, Michigan Department of Treasury, on Nov. 4, 2002.

³ Michael LaFaive, "State Job Sites Duplicates Services," Michigan Privatization Report, Summer, 2001, p. 7, 12.

⁴ Michigan Economic Development Corporation/Travel Michigan Advertising and Promotion document for the fiscal year 2002 obtained via the Freedom of Information Act. Lansing: October, 2002.

⁵ Michael LaFaive, "A Tale of Two Sporting Goods Stores," Michigan Privatization Report, Summer 2002, p. 8-9.

⁶ Ibid.

⁷ This section was adapted from Mackinac Center for Public Policy Viewpoint, "Government Economic Development Handouts Rob Peter to Pay Paul," Feb. 7, 2000, accessible on the Internet at <http://www.mackinac.org/article.asp?ID=2670>.

⁸ Promissory Note dated Nov. 20, 2001 between GeneGo, Inc., a Delaware corporation, and the Michigan Economic Development Corporation, obtained through Freedom of Information Act, September, 2002.

Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs (DMVA) has two primary missions. The first is to “execute the duties laid down by state statute and the Governor.”¹ These duties include providing “executive oversight and coordination for state veterans programming,” the largest part of which includes operating two veterans’ homes. According to the state, this first mission accounted for 63 percent of the department’s fiscal year 2000 budget.²

The second mission of the department of military and veterans affairs is to “ensure the preparedness of the Michigan National Guard” whose role is to “protect lives and property in times of natural disaster ... and to assist the federal government in defending the sovereign interests of the United States ...”³

In addition, the department operates education-related programs for “at-risk” youth at Selfridge Air National Guard Base and in Battle Creek.

I. Veterans Service Organizations

Program: Veterans Service Organizations

Appropriation:	<u>All from GF/GP:</u>	\$3,912,300
	Total:	\$3,912,300

Program Description:

This appropriation funds Veterans Service Organizations (VSOs). In some states, the government department that handles veterans’ affairs employs personnel to assist veterans in filling out the required paperwork for obtaining veterans’ benefits. In Michigan, the Department of Military and Veterans Affairs does not employ such people, so the job of assisting veterans falls to veterans groups themselves.

In Michigan, there are 12 VSOs that receive yearly grants from the state general fund.⁴ According to state documents, these funds are primarily used to pay the salaries of organizational personnel who “assist veterans in obtaining benefits, primarily from the U.S. Department of Veterans’ Affairs.”⁵

The VSOs are required to submit an annual report to the Michigan Department of Military and Veterans Affairs to account for the grant monies they receive from the state. Some groups submit audited reports while others do not, depending on their size, resources, etc. Although the Department of Military and Veterans Affairs serves as the conduit for distributing the funds, the VSOs are not accountable to the department for how the funds are spent.

Recommended Action:

This program should be eliminated. While it is well intentioned, veterans are quite capable, in most instances, of relying on their own efforts, and it is in their self-interest to do so. Disabled veterans who need the help of friends, family, church or other institutions should have no trouble obtaining the benefits due to them without this program. Moreover, VSO funds are distributed in part to religious and ethnic groups: Catholic veterans, Polish veterans, Jewish veterans. **Savings: \$3,912,300. Governor Granholm’s 2005 proposal leaves this appropriation unchanged over the previous year’s budget.**

II. Grand Rapids and D. J. Jacobetti veterans' homes

Program: Grand Rapids veterans' home

Appropriation:	Federal Funds:	\$14,090,300
	Special Revenue:	\$14,181,600
	<u>GF/GP:</u>	<u>\$13,824,800</u>
	Total:	\$42,096,700

Program: D. J. Jacobetti veterans' home

Appropriation:	Federal Funds:	\$ 4,073,700
	Special Revenue:	\$ 4,191,500
	<u>GF/GP:</u>	<u>\$ 4,680,400</u>
	Total:	\$12,945,600

Program Description:

This appropriation funds the Grand Rapids Home for Veterans, and the D. J. Jacobetti Home for Veterans. The two homes combined maintain 940 beds for veterans. Funding for these two facilities comprises 63 percent of the state's Department of Military and Veterans Affairs budget. Because of their size and the many regulatory agencies under which they must be licensed, the nursing homes are complex operations. Along with GF/GP appropriations, the homes have other sources of revenue, such as federal funds, insurance reimbursement and some fees generated for particular services. Michigan's veterans' hospitals charge about \$190 per day per patient. By contrast, the statewide average for private-sector care ranges between \$120 to \$130 per day per patient. Michigan Department of Military and Veterans' Affairs officials acknowledge that they are the two most expensive nursing homes in the state.⁶

The DMVA has had some success in outsourcing some staff functions, such as certified nursing aides, housekeeping, physical therapy, and fire and safety functions. Officials at the Grand Rapids Home for Veterans estimates that such outsourcing has saved taxpayers about \$1,690,000 since 1995.⁷

Recommended Action:

Outsource the entire operation of these nursing homes to the private sector. A well-written contract between the state and private nursing homes can guarantee whatever level of quality is now being maintained (if not better) while saving money. The state contracts out for management of an entire prison; the same could be done for nursing homes.

Privatization has worked for other states' veterans' homes. The state of Georgia contracted with Priva-Trends, Inc. for management of the Georgia War Veterans Home, which covers more than 20 acres and maintains 550 beds.

The 10-year management contract with Priva-Trends began in 1997 and is expected to save the state an average of \$10,600,000 per year. Before Priva-Trends took over the Home, the per-patient daily rate for advanced-care patients was \$164. As a result of the contract, this cost dropped to \$92 — a 44 percent savings. Those patients requiring simple residential services were costing the state of Georgia \$101 per patient per day, but under the contract this cost dropped to \$59.91, or 40 percent. More importantly, an analysis by the U.S. Department of Veterans Affairs revealed that Georgia's veterans are now getting better care under the Priva-Trends contract than they did when the home was state managed. If the state of Michigan could achieve 40 percent savings through privatization it would total more than \$22 million (\$7.4 million in GF/GP savings). **Savings: \$22,016,920. Governor Granholm's 2005 proposal increases the gross appropriation to \$57,477,300.**

¹ Kyle Jen and Julie Stapleman, "Line Item and Boilerplate Summary, Military and Veterans Affairs Fiscal Year 2002, January 2002, p. 1.

² Michigan Manual 2001-2002, "Department of Military and Veterans Affairs," Lansing, Sept. 2001, p. 519.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ Telephone interview of Lieutenant General E. Gordon Stump by Mackinac Center for Public Policy Director of Leadership Development Brian Carpenter, November 2002.

⁷ Interview of Hubert B. Hess by Mackinac Center for Public Policy Director of Leadership Development Brian Carpenter, Nov. 13, 2002.

Department of Natural Resources

The Michigan Department of Natural Resources (MDNR) is one of two departments in the state government dedicated to protecting Michigan's environment. In 1995, Gov. Engler reorganized the MDNR by dividing its duties between environmental and natural resource protection. The Department of Environmental Quality concentrates its efforts on regulation, such as issuing permits for industrial facilities, and enforcement of environmental regulations, and will be examined in more detail in a separate chapter. The MDNR now focuses its efforts solely on "stewardship of Michigan's natural resources and for the provision of outdoor recreational opportunities . . ."¹

I. Fisheries Management

Program: Fish production

Appropriation:	Federal Funds:	\$4,095,900
	<u>Special Revenue Funds:</u>	<u>\$2,776,500</u>
	Total:	\$6,872,400

Program Description:

This appropriation funds fish production programs. The line item for "fish production" describes a state program for collecting, growing and hatching eggs, and transporting fish both to the Great Lakes and to inland waters for deposit. Our state has been in the hatching business since 1873, when \$1,200 was first appropriated for the construction of a hatchery in Cass County. The state owns and operates six fish hatcheries.

Program Recommendation:

State lawmakers should, at a minimum, outsource the production of fish to Michigan's commercial fish hatcheries. As of 2000, Michigan was home to 65 private aquaculture facilities (licensed by the state to raise fish for sale), 33 of which are commercial trout operations. The value of fish stock produced in Michigan ranks 12th among states.

According to a survey conducted by Michigan Privatization Report, 19 other states currently supplement or intend to supplement their fish production by purchasing stock from private, for-profit businesses. The state of Oregon, which owns 34 hatcheries, is beginning a program to ensure that 10 percent of the state's fish stock is obtained through private sources.

How much might outsourcing fish production save the state? It is impossible to tell precisely without actually contracting out the operations of at least one hatchery. But we can make a rough estimate based on public- versus private-sector costs. According to MDNR officials it costs the state \$6.92 per pound to raise fish based on its "known costs." Sometimes, not every expense of running a government operation is easily identifiable. Expenses for electricity or pensions, for instance, may be charged to a different department, which make the true cost of providing a service seem smaller than it really is. Private-sector aquaculture officials say it costs private producers about \$2.00, or 71 percent less. If the private sector could produce fish for just 25 percent less than it currently costs the state, the savings would come to \$1,718,100. **Savings: \$1,718,100. Granholm's 2005 proposal increases the gross appropriation to \$7,610,600.**

II. Parks and Recreation

Program: MacMullan conference center

Appropriation:	<u>All from Interdepartmental Grants:</u>	<u>\$1,313,900</u>
	Total:	\$1,313,900

Program Description:

This appropriation funds the MacMullan conference center. The conference center is a state-owned and run motel/lodge located on Higgins Lake in Roscommon. The facility's clientele is effectively limited by state statute. That is, in order to stay at the center one must belong to a group approved by state officials.

Recommended Action:

The MacMullan conference center and corresponding land should be sold to the private sector. The state should not be in the business owning and operating a resort-type facility for its employees and their guests.

Even though the conference center is supported by taxpayers, only those favored by state law can actually use it. These include: environmental and conservation education groups; government agencies; educational institutions; nonprofit corporations and associations; 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.)

MacMullen has six lodges for overnight accommodations and nine classrooms. The center can sleep up to 135 people each night. The conference center also maintains 660 feet of beachfront access for swimming and fishing, as well as such amenities as volleyball, horseshoes, shuffleboard and basketball facilities.

The 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, which constitutes a defacto subsidy.

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 is currently listing 7.4 unimproved acres on Higgins Lake with 460 feet of frontage for \$2.3 million. MacMullen has four times the acreage and almost one-third more lake frontage. The state could reap **\$10 million.**² **Savings: \$1,313,900.**

Program: Michigan Civilian Conservation Corps

Appropriation:	<u>All from Special Revenue Funds:</u>	<u>\$993,600</u>
	Total:	\$993,600

Program Description:

This appropriation funds the Michigan Civilian Conservation Corps (MCCC). This program is designed to help low-income participants gain work experience and receive job counseling. Its funding level for the 2003 fiscal year is down \$2,400,000 from the previous fiscal year.

Recommended Action:

The MCCC program should be eliminated. This is a Depression-era program and a reincarnation of the 1930s "Tree Army" that took to the forests of America to create work clearing paths, digging ditches, and related activities. The MCCC employs some 200 recruits, ages 18 to 25, to spruce up state parks, clear trails and rake beaches.

The majority of MCCC recruits are fed and housed by the state while earning \$5.15 per hour on projects devised by the Department of Natural Resources (DNR). With a budget of \$3.2 million for fiscal year 2002, the program cost per corps member ran a whopping \$17,700 — or nearly three times what Michigan pays per pupil for public education each year.

Participants who log 1,700 hours become eligible for a federal education grant of \$4,725 (or \$2,362 for 900 hours of service). Enrollment suspends all payments due on outstanding student loans, while accrued interest is paid in full by taxpayers. The scholarship benefit, in fact, appears to be the principal draw for corps enrollment. Some 60 percent of participants cited the award as their primary reason for enlistment. Thus, Michigan families who may be struggling with their own college costs may be subsidizing federal tuition assistance for MCCC workers.

Whether Michigan's Civilian Conservation Corps fulfills its education and training goals is uncertain. No follow-up of participants has ever been undertaken.

The state has survived without the MCCC, and it can again. Budget constraints prompted Gov. John Engler to veto all funding for the program in 1991. Four years later, however, using proceeds from the sale of the state's accident fund, the Legislature created a \$20-million endowment to generate about a third of the MCCC's current budget.³

Savings: \$993,600. Governor Granholm's 2005 proposal increases the gross appropriation to \$1,016,900.

¹ Michigan Department of Natural Resources web site, "The Department of Natural Resources..." accessible on the Internet at <http://www.michigan.gov/dnr/0,1607,7-153-10366-30397--,00.html>.

² Portions of this program recommendation were adapted from the Fall 2002 Michigan Privatization Report article, "Privatize MacMullan Conference Center," accessible on the Internet at <http://www.mackinac.org/4740>.

³ Adapted from an article by Diane Katz, Mackinac Center for Public Policy director of science, environment, and technology "Depression-era Program Should Be Privatized," Michigan Privatization Report, p. 4. Accessible on the Internet at <http://www.mackinac.org/article.asp?ID=4142>.

Department of State Police

The Michigan Department of State Police (MDSP) was created in 1935. Its purpose is to provide 24-hour statewide quality police service for the safety and the protection of people and property in the state of Michigan. Its primary responsibilities are to “reduce the opportunities for crime, to reduce traffic accidents through diligent and fair enforcement of the laws of this state, and to act as a first responder to any citizens needs that can be addressed through the resources of the criminal justice system.” Citizens highly value these services, but like all large government agencies, the MDSP operates a number of programs that are unnecessary. Major savings could be realized by devolving certain functions to lower levels of government. These recommendations are offered below.

I. Uniform Services

Program: Uniform Services

Appropriation:	Interdepartmental Grants	\$ 610,100
	Federal Revenue:	\$ 1,500,000
	Special Revenue Funds:	\$ 33,284,700
	<u>GF/GP:</u>	<u>\$122,271,300</u>
	Total:	\$159,649,100

Program Description:

This appropriation funds uniformed police services — such as road patrols. The Michigan State Police (MSP) provide many law enforcement services that local and county agencies cannot. Patrolling highways and writing traffic tickets is not one of these services, however. It would cost far less to the state to devolve road patrol duties to county sheriffs, and let the MSP focus on services that require greater specialization and economies of scale. Among the latter are forensic science and lab services, criminal databases, and special operations, etc.

Recommended Action:

Devolve road patrol to the counties and fund the patrol work with grants from this line item. The total spent on this line item could drop by 28 percent, since state police receive more lucrative salaries and benefits than do sheriff's deputies. Indeed, the average state trooper receives \$90,000 annually in wages and benefits whereas county sheriff's deputies average \$65,000 to \$70,000. Taxpayers could save \$65 million on this line item and enjoy no net loss in road patrol personnel. These savings assume proportional reductions in department-wide administrative, support, and state police post expenses that would be possible given a large reduction in personnel. **Savings: \$65,000,000.** **Governor Granholm's 2005 proposal increases the gross appropriation to \$169,119,200.**

Department of Treasury

The mission of the Michigan Department of Treasury is to “provide quality financial, tax, and administrative services.”¹

These functions are necessary for the operation of state government departments and programs. What are not necessary, however, are some of the programs that the Department of Treasury administers.

I. Revenue Sharing

Program: Constitutional state general revenue sharing grants

Appropriation:	<u>All From Special Revenue Funds: \$683,050,000</u>
Total:	\$683,050,000

Program: Statutory state general revenue sharing grants

Appropriation:	<u>All From Special Revenue Funds: \$724,800,000</u>
Total:	\$724,800,000

Program Description:

These appropriations fund revenue sharing programs. The state of Michigan collects more than \$1.5 billion that is then turned over to local governments. Of this amount, a little more than \$679 million is constitutionally mandated, while the remainder is distributed by legislative direction. Some of these funds are distributed through the Revenue Sharing Act of 1971, while others are distributed through individual tax statutes.

Recommended Action:

Revenue sharing should eventually be eliminated. The vast majority of revenue sharing simply allows some communities to provide their citizens with services below the actual cost of providing them, encouraging the overuse of these services. It also reduces competition between communities, which would encourage efficiency in local governments. Revenue sharing taxes some citizens simply to give money to the governments of communities in which they do not reside. This is what Frederic Bastiat, a 20th-century French legislator and essayist, would have called “legalized plunder.”²

Author's Note: The FY 2005 revenue sharing proposal may change this line item substantially. Governor Granholm has proposed effectively suspending the statutory county revenue sharing payments of \$183 million. This and other cuts to the statutory portion of state would reduce the total amount of statutory state general revenue sharing grants line item to only \$443,500,000. As this document went to print Granholm's proposal was still an undecided issue in the legislature. If the legislature refuses to adopt the program change state statutory revenue sharing will stand at \$627,100,000. Based on this figure, the Mackinac Center for Public Policy makes its recommendation of a 50 percent cut in state revenue sharing.

The state should reduce its revenue sharing by 50 percent of what is not mandated by the Michigan Constitution. This would reduce the injustice of taking from some Michigan citizens to give to others, and would improve the efficiency of local governments. A 50 percent reduction in statutory revenue sharing would yield savings exceeding \$313 million. This money should be redirected to the General Fund. **Savings: \$313,550,000. Governor Granholm's 2005 proposal decreases the gross appropriation to \$1,135,400,000.**

¹ Department of Treasury Mission Statement is available on the Internet at http://www.michigan.gov/treasury/0,1607,7-121-1755_2294---,00.html.

² Frederic Bastiat, “The Law,” 1850, Irvington-on-Hudson Foundation, 1998.

2004 Addendum to Recommendations to Strengthen Civil Society and Balance Michigan's State Budget

May 2004

Few items have received as much attention in Lansing during the last 18 months than the state of Michigan's budget. Faced with a yawning gap between revenues and proposed state expenditures last year, Governor Granholm sealed a budget deal that addressed the Fiscal Year (FY) 2004 deficit without a general hike in taxes. Unfortunately, the state is facing another billion-plus dollar deficit in FY 2005 and there is serious talk about substantial tax hikes to maintain high spending. Such tax increases are not necessary. There is plenty of room to cut the state budget again or raise revenues through "one-time" sales of state assets. A few ideas follow.

Auction Racino Licenses

At the same time state lawmakers grapple with a \$1.3 billion budget deficit, they are planning to give away assets that could be sold instead for as much as \$1.6 billion.

Legislation to expand gambling in Michigan (HB 4610) would effectively give away licenses to for-profit operators of newly allowed "racinos," which are video lottery terminals at horse racing tracks. Similar gambling licenses have sold elsewhere for hundreds of millions of dollars.

Selling racino licenses could wipe out the expected 2005 budget deficit without raising any taxes, with about \$300 million left over for the rainy day fund or other spending. Experience in Michigan and elsewhere shows that private investors are willing to pay for the right to operate gambling machines.

Under the legislation, racinos could be permitted at Michigan's seven existing and four or more proposed racetracks. An additional racino at the state fairgrounds could be permitted as well.

Jeff Hooke, a Maryland-based investment banker and author of several studies on the value of gambling licenses, reports that in 2000 a Michigan Indian tribe paid \$265 million for a 40 percent interest in a Detroit casino license. Last March, the state of Illinois auctioned a casino license for more than \$500 million. The Mackinac Center and Hooke estimate that licenses to run video lottery terminals at 12 Michigan tracks could be worth as much as \$1.6 billion if auctioned off to the highest bidders. Their figure factors in the effect of future gambling taxes paid by the operators.

William Thompson, University of Las Vegas, Nevada is professor of Public Administration and author of the "Gambling in America: An Encyclopedia of History, Issues, and Society" and "Legalized Gambling: A Reference Handbook" has said that not auctioning off licenses "would be foolish of Michigan."

Gambling is no substitute for genuine economic development. But if the state insists on being in the gambling business, it shouldn't give away assets for free, especially when job-destroying tax increases are on the table.

Although it would be tempting to auction the licenses off and use the sale revenue as a one-time solution for this year's budget deficit, such a move may not be the best option. The Mackinac Center for Public Policy recommends using "one-time" revenue increases — from the sale of state assets, for instance — to change the basic structure of Michigan's budget. For instance, lawmakers could use proceeds of any asset sale to pay down Michigan's General Obligation Debt, which currently exceeds \$1 billion. The advantage in eliminating debt is that it will save the state money each year. Paying it off would save Michigan approximately \$78 million in annual principal and interest payments through 2021 (assuming a 3.5 percent interest rate as Treasury does).¹

Securitize Tobacco Settlement Money

Securitization of tobacco settlement revenue is an option worth exploring. In order to cope with their own deficits other states have “securitized” the stream of revenue that they had expected to receive from the national tobacco settlement. In other words, states sold the right to future tobacco settlement payments. Michigan may wish to do the same. The tobacco settlement requires annual payments to states in perpetuity, but estimates of the settlement’s total value often assume income for the years 1998 through 2025. Through those years, Michigan’s total settlement is worth \$8.5 billion. Securitizing even a portion of this total revenue could result in billions of revenue generated in one-lump sum payment, or several payments, to the state.

It is worth noting that this is not an elegant solution to the state’s fiscal woes. As in most policy discussions officials must examine the costs and benefits. Do the benefits outweigh the costs — including the perceived risks — of selling tobacco settlement money? For the purposes of this study the Center will not estimate the value of securitizing its tobacco settlement revenue. It will instead recommend the idea for further study and a redirection of annual tobacco settlement payments away from its current uses and toward the General Fund. This will increase money available to balance the budget by approximately \$300 million. This could necessitate ending programs that the revenue currently funds such as the “Michigan Merit Award Program,” and life sciences initiative. For more on the life sciences initiative, see page 75. For purposes of calculating total savings the Mackinac will use the figure \$281,992,400, which was the total Tobacco Settlement Appropriations in Fiscal Year 2004.

State Land

The Mackinac Center for Public Policy has also recommended selling off the state fairgrounds and the Ralph A. MacMullan Conference Center. We repeat this recommendation in the pages of this study, but find it prudent to cite it here because these properties could also be used to generate a “one-time” source of revenue exceeding \$69 million. These revenues too could be used to pay down debt. For more on the sale of these properties, see pages 10 and 82, respectively.

School Aid Fund

The state school aid budget funds Michigan’s Kindergarten through 12th grade education system. The School Aid Fund is comprised of federal, state, and local funds and is expected to have close to \$16 billion in funds in FY 2005, \$11.2 billion of which comes from state sources. One source of funds is the General Fund/General Purpose budget. Last year, the state appropriated a \$327 million subsidy from GF/GP to the School Aid Fund. To Governor Granholm’s credit, her proposed budget reduces this subsidy by \$146 million. The legislature should eliminate the subsidy entirely.

School Savings

The legislature could help school districts save money to offset any such cuts by making some fundamental changes to Michigan law. For instance, Mackinac Center for Public Policy analyst Paul Kersey has recommended repeal of Michigan’s Prevailing Wage Law of 1965 — which would translate into savings of more than \$400 million dollars every year, \$150 million of which would accrue directly to schools.

The prevailing-wage law applies whenever state funds are used on the construction, renovation or repair of buildings or roads. Under this law, workers must receive the wage typical of those doing similar work in the community. In Michigan this is uniformly taken to mean the higher wages set in local collective bargaining (union) agreements.

As the Mackinac Center for Public Policy reported in the late 1990s, school construction in Michigan is on the order of \$1.5 billion annually, or close to \$900 per pupil. Because of the Prevailing Wage Act, these costs are substantially greater than they need to be. In a study for the Mackinac Center for Public Policy, Professor Richard Vedder of Ohio University found that the law increased construction costs by at least 10 percent. In 1997, the Ohio

Legislature exempted schools from that state's prevailing wage law — saving schools an average of 10.5 percent in construction costs, according to the nonpartisan Ohio Legislative Budget Office.

If Michigan were to follow Ohio's lead, our schools would save at least \$150 million annually — a figure that amounts to roughly \$90 for every student in the state.

More Taxes Not Needed

Lawmakers need not raise taxes to pass a balanced budget for Fiscal Year 2005. Many alternative options exist. Legislators could sell off assets for a single-year solution to our overspending woes, or they could take adopt (or adapt) any number of the more than 90 recommendations made throughout the 2nd edition of this budget study and addendum.

If legislators insist on raising taxes, however, then they should be prepared to recommend to Michigan families where to cut their household budgets to keep state spending at its high level. Should families buy less health care? Should they buy fewer diapers and less food for their children? Should they buy fewer books, or stop paying their utility bills? Should they patronize restaurants less often? Should taxpayers work more overtime? These are choices people will face if the state refuses to cut spending or sell certain assets.

The people who pay the bills of government deserve a legislature that will scrutinize every aspect of state spending, preserving only those that are truly necessary and cost effective.

¹ Documents detailing state general and non-general debt responsibilities were provided to the Mackinac Center for Public Policy via fax by Terry Stanton of the Michigan Department of Treasury, April 23 2004.

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