



POLICY REPORT

Solving Asheville's Civic Center Dilemma: Making Lemonade Out of a Lemon

MICHAEL SANERA
TRAVIS FISHER
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Executive Summary

During the last thirty years, the Asheville Civic Center has not been adequately maintained and is currently in a significant state of disrepair. The Civic Center loses money on its operations – since 2000, it has lost almost \$1 million per year. In October 2005, the City Council created a Civic Center Task Force to find solutions to this situation. This report offers

By selling the Civic Center, Asheville would immediately gain needed funds, eliminate the yearly losses, and gain a new revenue stream.

a solution not currently in the public discussion: sell the Civic Center to a private company.

Financially this option makes sense.

By selling the Civic Center, the city would immediately gain needed funds from the sale of the property. The yearly losses will be eliminated, freeing up nearly one percent of the budget for essential city services such as police and fire protection. The city would also gain a revenue stream from the taxes paid by the private owner.

And finally, the city would be free of the renovation and modernization costs, which have been estimated in the range of \$73 million to \$115 million.

Selling the Civic Center also makes sense because it would eliminate current inequities. Since 2000, the average Asheville resident has been taxed \$82.42 (\$329.68 for a family of four) to cover the Civic Center losses whether that citizen attended events or not. Furthermore, Asheville taxpayers paid an average subsidy of \$7,473 per event over the last three years for events attended by a fraction of tax-paying Asheville residents and by nonresidents who had paid no city taxes. Private ownership would eliminate these inequities.

Finally, this report offers guidelines on how to sell a civic center. Experts in the sale of public property recommend that cities use a competitive bidding process to ensure the highest possible price. In addition, the sale contract must obligate the private owner to renovate and modernize the facility for continued operation as a civic center.

Solving Asheville's Civic Center Dilemma

Asheville citizens face an important decision. What should the city do with its aging Civic Center? The buildings continue to deteriorate, the facilities lose money and Asheville citizens are not getting the top-quality sports and entertainment they desire.

The city council's October 12th action to create a Civic Center Task Force is a hopeful sign. The Council's instruction to the Task Force is to develop recommendations regarding the type of facilities needed and to find public and private partnerships that might assist with financing renovation and improvements.

This report will contribute to this process by offering suggestions and alternatives to help Asheville citizens make an informed decision.

BACKGROUND

The Asheville Civic Center is comprised of an arena, banquet hall, auditorium and exhibit hall. The original structure, the Municipal Auditorium, was built in the late 1930s, opened in 1940, and was renovated and renamed the Thomas Wolfe Auditorium in 1974. That year also saw the debuts of the newly completed arena and the exhibit hall.¹ The complex has not been renovated since, and maintenance has been spotty, leading to significant deterioration of the facility.²

Deteriorating Buildings

The current disrepair of the Asheville Civic Center was documented in the February 2005 "White Paper" written by the Civic Center Commission.³ This report states that the facilities have been neglected and poorly maintained since the 1970s. The Thomas Wolfe Auditorium badly needs a new roof as well as new wiring and seating. The leaky roof is a significant health and safety problem because rainwater creates interior mold and weakens the structural integrity of the building. Also, rainwater has stained the interior walls and ceilings.

The arena's ice-making equipment for the skating and hockey rink is outdated and expensive to operate. The arena's seating is old, and its sound system is inadequate. According to the "White Paper," the

scoreboard is an embarrassment because "[p]atrons can't tell the score, time, period, or player number due to the low resolution and/or missing bulbs."⁴

The lighting in the exhibit hall is inadequate, and there are not enough electrical outlets or telecommunications links to suit the needs of exhibitors. Moreover, all of the approximately 500 exhibit hall tables are over 30 years old and need to be replaced.

While the "White Paper" did not estimate the cost of those repairs, it relied on a consultant's estimate that the maintenance backlog alone would cost \$10 million.⁵ That estimate did not address the structural, design or modernization issues.

In 2002, the task force presented the findings and recommendations of a Heery International study of the Civic Center.

The Heery report provided cost estimates not only for the repair of the existing buildings, but also for reconfiguration and modernization of the entire civic center complex. This report recommended that the city build a new performing arts center, convert the Thomas Wolfe Auditorium into a "great hall" banquet and ballroom, and make significant changes to the arena and the exhibit hall. Estimates of the total cost of these recommendations ranged from \$72.8 million to \$115.1 million, depending on the extent of the improvements.⁶

A "White Paper" by the Civic Center Commission stated that the facilities have been neglected and poorly maintained since the 1970s. A consultant's estimate for the cost of just the maintenance backlog of the Civic Center was \$10 million. In 2002, a Heery International study estimated that the cost for the repair, reconfiguration and modernization of the entire civic center complex would range from \$72.8 million to \$115.1 million.

Figure 1: Annual Income of the Asheville Civic Center, 2000-05



Source: Asheville Comprehensive Annual Financial Report (CAFR) 2000-2005

Financial Status

The Civic Center's revenues fail to cover its costs, which causes significant yearly losses. During the last six years those losses have totaled \$5.7 million (Figure 1), an average annual loss of nearly \$1 million.⁷

Instead of thinking about expenditures minus revenues, another way to think about this loss is to view it in terms of a percentage of Civic Center revenues. Since 2000, for example, expenditures were on average 61.6 percent greater than revenues. In other words, for each \$100 gain in revenues, the Civic Center incurred \$161.60 in expenses. That would be like an auto manufacturer spending \$32,320 to make a car that sold for \$20,000.

One reason for those losses is the Civic Center's extremely low utilization rate. Civic Center staff report that in 2005 there were "nearly 200 event days" at the complex.⁸ With four venues at the Civic Center that each could be used every day of the year,

the utilization rate is only 14 percent – obviously an extremely low level of utilization and a factor in the losses.⁹

THE ROAD LESS TRAVELED — SELLING THE CIVIC CENTER

Sometimes a seemingly intractable problem can be solved by going beyond conventional wisdom and popular opinion. In this case, the city should consider an option not currently included in the popular discussion. What would happen if the city sold the Civic Center to a private company with the condition that the facilities be renovated and modernized for operation as a civic center?

Governments across the United States and around the world, are selling government-owned enterprises at an increasing rate. While selling a civic center is not common, cities have sold stadiums, convention centers, parking structures, airports and wastewater systems¹⁰ (see Table 1).

Table 1: Sale or Transfer of Government Enterprises to the Private Sector¹¹

Former Public Enterprise	Sold or Transferred By
Long Island Railroad	New York State
Golf course	Portland, OR
Golf course, 2 radio stations, 1 TV station, United Nations Plaza Hotel	New York, NY
Vista Plaza Hotel	Port Authority of NY & NJ
Farmer's market	Milwaukee, WI
Emergency medical services	Las Vegas, NV
Emergency medical services	Fort Wayne, IN
Solid waste disposal	Traverse City, MI
Aviary	Pittsburgh, PA
Botanical gardens	Norfolk, VA
Conrail Railroad, Alaska Power Marketing Administration, Elk Hills Naval Petroleum Reserves, Helium Plants	U.S. Federal Govt.
Air traffic control system and rail services	Canada
Water, electric and gas utilities, telecommunications, TV channel TFI, financial holding company	France
All 3 London airports, British Petroleum, Jaguar, British Telecom, British Airways, Rolls Royce, British Rail, seaports, waste water treatment	United Kingdom
Airports	Austria
Airports	Denmark

Recognizing Differences Between the Public and Private Sectors

First and foremost, one must recognize that the Asheville Civic Center doesn't perform any functions that are fundamentally different from those performed by private movie theaters, roller skating rinks, or hotel meeting rooms. Those services are all performed by the private sector and make a profit for their owners. It's an old story, but private firms are more efficient and thus more profitable than similar public-sector operations. A study of government enterprises sold to the private sector found that, after the sale, those enterprises were 45 percent more

profitable, experienced a 27 percent increase in sales, became 11 percent more efficient, had a 45 percent increase in investment, increased dividends by 96 percent, and had 6 percent more workers.¹² The Civic Center operations should experience similar results if owned and operated by the private sector.

Another important difference between the public and private sectors is building maintenance. Why have the Civic Center buildings been allowed to deteriorate? Are any movie theater buildings in Asheville, or for that matter in the state, in similar disrepair? The reason for this disparity is that the public-sector budgeting process, being politically

driven, places a premium on spending limited tax resources on projects that are “politically visible” and thus presumably assist in the re-election of politicians. Maintenance of public buildings is not politically visible. The private owner-operator, on the other hand, must maintain his buildings because if he does not, he will lose customers. Thus, he maintains his buildings with funds that are included in his prices.¹³

Therefore, in the long run, Asheville’s goal of providing its citizens with a civic center that is a “premier entertainment destination”¹⁴ is best met by selling the complex to a private firm.

FINANCIAL REASONS FOR SELLING

Typically, cities sell public property for three financial reasons: to eliminate yearly operating losses, to gain the sale price in cash, and to create a revenue flow when the private enterprise starts paying taxes on the property. All three reasons apply to Asheville.

Government enterprises sold to private owners became 45 percent more profitable, 11 percent more efficient, and had 6 percent more workers.

The Civic Center’s operational losses of \$5.7 million over the last six

years are likely to continue even after renovations. A consultant’s report in 2000 noted that the losses in the late 1990s were “likely to continue and given the age of the building are likely to increase.”¹⁵ This prediction came true. Losses in the late 1990s averaged \$370,000 annually,¹⁶ while the losses in the early 2000s averaged nearly \$1,000,000 per year. In addition, this report was not optimistic about renovations turning the situation around. “At best, this [renovation] is a short-term solution.”¹⁷ “Renovation can extend its life as a civic center, but will not make it a facility that positions Asheville for the long term.”¹⁸ The sale of the Civic Center would eliminate those operating losses. Moreover, the sale would move the Civic Center from a drain on the budget to a new source of revenue through property taxes.

The Civic Center loss of \$5.7 million since 2000

is a significant amount, almost one percent of the entire city budget.¹⁹ Those funds could have been put to better use on essential city services such as police and fire protection and roads. In fact, the operating loss for 2005 alone was enough to hire 15 new police officers or firefighters.²⁰

Public safety is an issue facing Asheville right now. Nineteen police officers left the Asheville police force last year, and currently there are 29 total vacancies. Asheville’s police salaries are lower and vacancy rates higher than those in Spartanburg, Chattanooga and Roanoke. Data from these cities clearly show that the cities with the highest starting salaries for police officers have the lowest vacancy rates. For example, Roanoke’s starting police officer’s salary is \$30,002 and its vacancy rate is 1.6 percent, compared to Asheville’s starting salary of \$26,141 with a vacancy rate of 15.2 percent.²¹ That \$1.2 million that Asheville spent to cover the Civic Center’s losses in 2004 could have given each of the city’s 191 police officers a \$6,282 bonus.

The sale price and the post-sale tax revenue to the city are difficult to estimate without a formal appraisal. But even a badly deteriorated civic center is likely to fetch a multi-million dollar price. Based on the sale price, considerable property tax revenues would flow into the city.

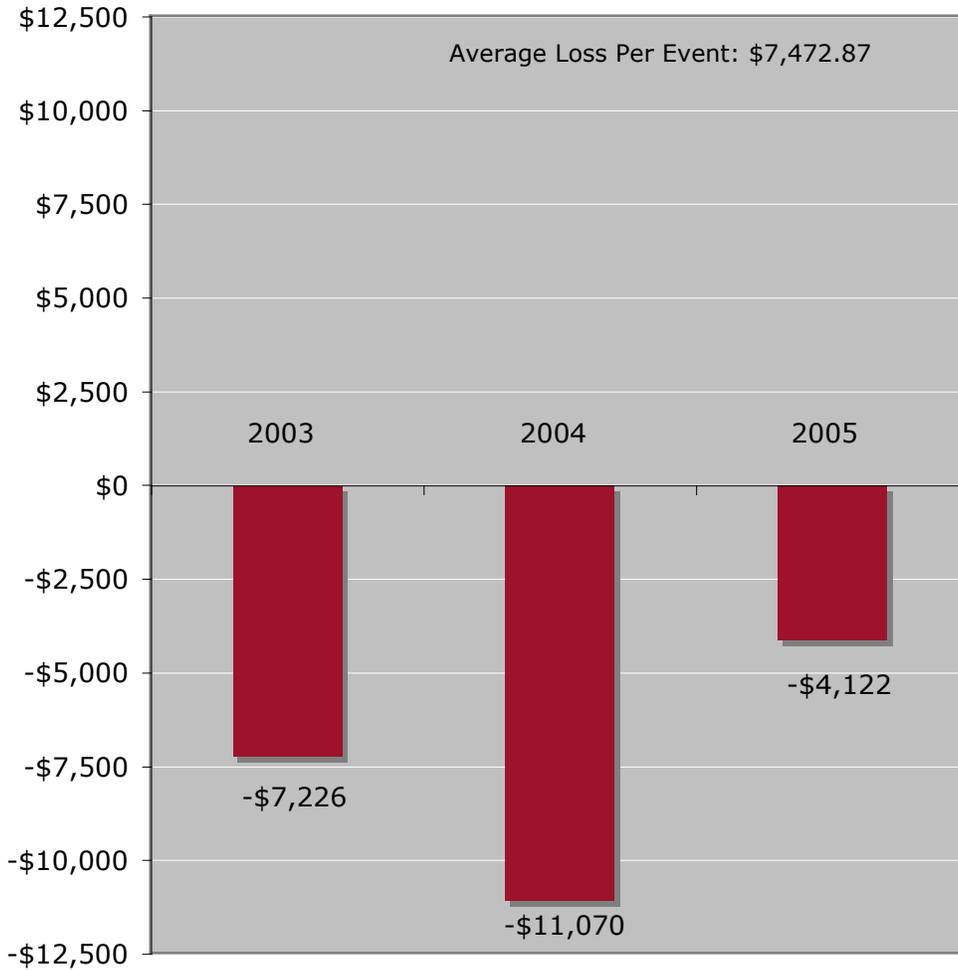
Selling the civic center to a private party would also save the city renovation and modernization costs. Those costs, estimated in the Heery report, range from \$72.8 million to \$115.1 million.

New Taxes to Finance Civic Center Renovation and Modernization?

The Heery report concluded that new taxes would be necessary to finance its recommended improvements, and for possible revenue sources, the report suggested increases in countywide sales tax, prepared food and beverage tax and a hotel tax.²² The hotel tax and, to some extent, prepared food and beverage taxes are considered by some to be tourist taxes.

So-called tourist taxes seem to be a painless method for cities to pay for civic center improve-

Figure 2: Asheville Civic Center Average Income Per Event, 2003-05



Source: Event Data from Asheville Civic Center Staff
(note: data only available for these three years)

ments. One of the axioms of tax policy, however, is that if you want less of something, tax it; if you want more, don't tax it. This axiom is commonly understood when "sin" taxes are imposed to decrease consumption of cigarettes and alcohol. On the other hand, the federal income-tax deduction on mortgage interest payments encourages widespread home ownership. But some city officials consider tourism outside the laws of economics. These officials ignore this basic economic truism and follow the opposite strategy, taxing something they want to encourage. They tax tourists because they cannot vote in local

elections. Thus, from the political point of view, it is a "politically painless" way to raise money.

Unfortunately, there are real economic consequences to raising taxes on tourists. Tourists are mobile, and they "vote with their feet." When faced with higher prices due to higher taxes, many of them spend their tourist dollars elsewhere or just stay home. Because of this, it is dangerous for city officials to calculate the expected revenue from a new city bed tax, for example, by multiplying historic occupancy rates by the proposed tax rate. Bed tax increases can deter tourists, and expected

new revenues may not materialize because tourists have “voted with their feet.” New York State failed to consider this consequence and “lost \$962 million in taxes on visitor spending to collect \$463.2 million from a 5% room tax.”²³

THE EQUITY ISSUE

Using tax money to provide entertainment to only a portion of the city population raises equity issues. Those who participate in events at the Civic Center are being subsidized by those who don't.

By selling the Civic Center, Asheville would get an immediate infusion of money, save nearly \$1 million a year covering the Center's operating losses, avoid paying renovation costs, gain property-tax revenue — and stop forcing city taxpayers to subsidize Center attendees, especially non-residents who paid no city taxes.

Since 2000, each Asheville resident was taxed an average of \$82.42 (\$329.68 for a family of four) for events at the Civic Center in addition to the price they may have paid for tickets to Civic Center events. More importantly, residents who attended no Civic Center events were taxed \$82.42 to subsidize residents and non-residents who did attend Civic Center events. Additionally, for the last three years for which data are available, the average loss per Civic Center event was \$7,473²⁴ (see

Figure 2, preceding page). In other words, Asheville taxpayers were forced to provide an average subsidy of \$7,473 for each event attended by a fraction of tax-paying Asheville residents and by nonresidents who had paid no city taxes.

Some might argue that a private provider would increase ticket prices to levels that would prevent the average citizen, let alone low-income people, from attending events. While this is highly unlikely, it is not a justification for the city to operate the facilities at a loss and subsidize citizens who attend events with general tax revenues.

If the city believes that prices prohibit certain segments of the community from attending events, it would be far better to subsidize individuals directly. For example, the city could purchase tickets from the private owner of the civic center and distribute them to low-income children. In Madison, Wisconsin, the Madison Symphony Orchestra provides subsidized tickets to schools based on the percentage of students in the individual school free and reduced lunch program. The schools then distribute the tickets to the students.²⁵

HOW TO SELL A CIVIC CENTER

How would a city sell its civic center? There are several options, with the simplest being a trade sale. In general, the city announces the sale of the civic center, accepts bids, and sells to the highest bidder. Specifically, however, experts in the sale of public property recommend a series of steps for a city to follow in a trade sale. In order to receive the highest possible price, the city should hire a consulting firm to determine the value of the property.²⁶ Obviously, a deteriorating facility badly in need of repairs will not bring top dollar. But a potentially low appraisal price should be considered in the larger context. Asheville would gain an immediate infusion of cash from the sale, experience long-run cost savings by eliminating those yearly operating losses, and also gain tax revenues from a private owner paying taxes on the property. Furthermore, Asheville taxpayers wouldn't be saddled with the burden of having to pay the cost of renovating the facility.

The next step is to hire a firm to conduct the sale. Investment bankers and big name accountancy firms are available to perform this function.²⁷ Firms such as PriceWaterhouseCoopers have departments that assist cities with the sale of public property. These firms usually follow a two-step process. First, they require interested companies to submit their technical and financial qualifications for review. The companies that qualify are then invited to submit sealed bids.²⁸ The city then sells to the highest bidder.

In addition, the city must consider the legal aspects of the sale. North Carolina law specifies the

procedures under which all municipalities may sell public property.²⁹ In addition to this general statute, the General Assembly gives Asheville, through a specific statute, another means to sell public property. This statute offers two options, the one most relevant to the sale of the Civic Center being the option by which the sale of public property contains restrictive covenants limiting the use of the property to a purpose designated by the city.³⁰ In other words, the terms of any sale contract for the Civic Center facilities would contain provisions that require the buyer to renovate the facilities and to operate them as a civic center.

An alternative to selling the entire complex to one buyer is to hold separate sales for each part. A consultant's report in 2000 noted that multi-purpose buildings were trendy thirty years ago when the Asheville Civic Center was built, but the current trend is for specialized facilities.³¹ According to that report, the Civic Center buildings are "too big for a single user in a city the size of Asheville, but it may be sub-divided and become highly desirable for a collection of users."³² Consequently, Asheville should consider splitting up the facilities into separate sales. The arena, the exhibit space, and the auditorium could be sold to different buyers. This could make more sense for Asheville because a hotel company may want only the exhibit and banquet halls; e.g., the existing downtown Renaissance Hotel may want to add more meeting and convention space to better compete with the Grove Park Inn.³³ Furthermore, a Missouri hotel developer recently expressed interest in building a new hotel downtown.³⁴ This developer or another might find the Civic Center's exhibit and banquet space an attractive addition to its plans.

Experts on the sale of public property warn against two temptations. First, some might believe that the city could achieve a higher sale price by renovating the civic center before selling it. Experts advise against that, however, because it is difficult to predict the needs of a potential buyer.³⁵ The buyer will want to renovate and reconfigure the building to suit his current needs. The second temptation is

to offer the buyer city financing. Experts advise that cities should sell for cash even if it means a lower sale price.³⁶ Asheville does not need to go through a lengthy sale process, only to see the buyer default and be left having to start all over again.

The final option to consider is transferring the facilities to nonprofit organizations. In 1993, the city-owned Norfolk Botanical Gardens was transferred to the nonprofit Norfolk Botanical Society. Pittsburgh gave its Aviary to a citizens group in 1992.³⁷ Under this option, the auditorium, for instance, could be transferred to the Asheville Symphony Guild. The arena could be transferred to the Asheville Ice Skating Association/Angels on Ice. And the exhibit hall could go to the Asheville Downtown Association or the Chamber of Commerce. While under this option, city subsidies could be necessary in the short run, the transfer contract should specify that subsidies would decrease and be eliminated over time, in order to give the nonprofit the incentive to become more entrepreneurial and seek private donations to support the facilities.

CONCLUSION

Asheville's Civic Center dilemma is solvable. Asheville can restore its Civic Center to serve as a "premier entertainment destination" that provides quality venues "for local, national and international performances, meetings and trade shows."³⁸ This can be accomplished, without further burdening Asheville's taxpayers, by selling the Civic Center to the private sector. Private sector renovation and operation would be more efficient and would not only eliminate the constant operating losses, but also would pay taxes to the city.

In its "White Paper," the Civic Center Commission said, "We'd all like to think that there is a[n] undiscovered pot of gold laying [sic] out there whose discovery would allow a painless solution to this and all the other painful problems of our community."³⁹ Selling the Civic Center may not be a totally painless solution, but with the funds Asheville would save, the City could make major strides toward solving other, more pressing problems.

Notes

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- 25 <http://madisonsymphony.org>
- 26 Gibbon, p. 3.
- 27 *Ibid.*
- 28 Savas, p. 235.
- 29 N.C. General Statute 160A-265 *et. seq.*
- 30 See S.L. 1979-317 at <http://www.ncga.state.nc.us/EnactedLegislation/SessionLaws/HTML/1979-1980/SL1979-317.html>; see also S.L. 1981-631 at <http://www.ncga.state.nc.us/EnactedLegislation/SessionLaws/HTML/1981-1982/SL1981-631.html>
- 31 Highland Group, p. 7.
- 32 *Ibid.*, p. 28.
- 33 *Ibid.*, p. 30.
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- 35 Savas, p. 218.
- 36 *Ibid.*, p. 232.
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About the Authors

Dr. Michael Sanera is Research Director and Local Government Analyst at the John Locke Foundation. In the early 1990s, Sanera was the founding president of the Goldwater Institute in Arizona, a state-based think tank studying Arizona public policies.

During the early 1980s, Sanera served in the Reagan Administration as the Assistant Director for Planning and Evaluation at the Office of Personnel Management and as a consultant at the U.S. Department of Education.

Sanera has published three books: *Facts, Not Fear: Teaching Children About the Environment* (co-authored with Jane Shaw), which is in its second edition, has been published in a Canadian edition, and has also been translated into Spanish and Turkish; *Steering the Elephant: How Washington Works* (co-edited with Robert Rector) and *Mandate for Leadership II: Continuing the Conservative Revolution* (co-authored with Stuart Butler and Bruce Weinrod).

Sanera was an Associate Professor of Political Science and Public Administration at Northern Arizona University from 1979 to 1995. Sanera earned his Ph.D. in political science in 1979 from the University of Colorado at Boulder and served as a U.S. Army military intelligence officer in Berlin, Germany in the early 1970s.

Travis Fisher joined the Foundation in January 2005 as a Research Intern. He earned a B.S. in Economics in May 2005 and will complete a Master's of Economics in May 2006, both at North Carolina State University. He is the President of the NCSU student organization The Society for Politics, Economics, and the Law.

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*“To prejudge other men’s notions
before we have looked into them
is not to show their darkness
but to put out our own eyes.”*

JOHN LOCKE (1632–1704)

Author, *Two Treatises of Government* and
Fundamental Constitutions of Carolina



200 West Morgan St., #200
Raleigh, NC 27601
V: 919-828-3876
F: 919-821-5117
www.JohnLocke.org
info@JohnLocke.org