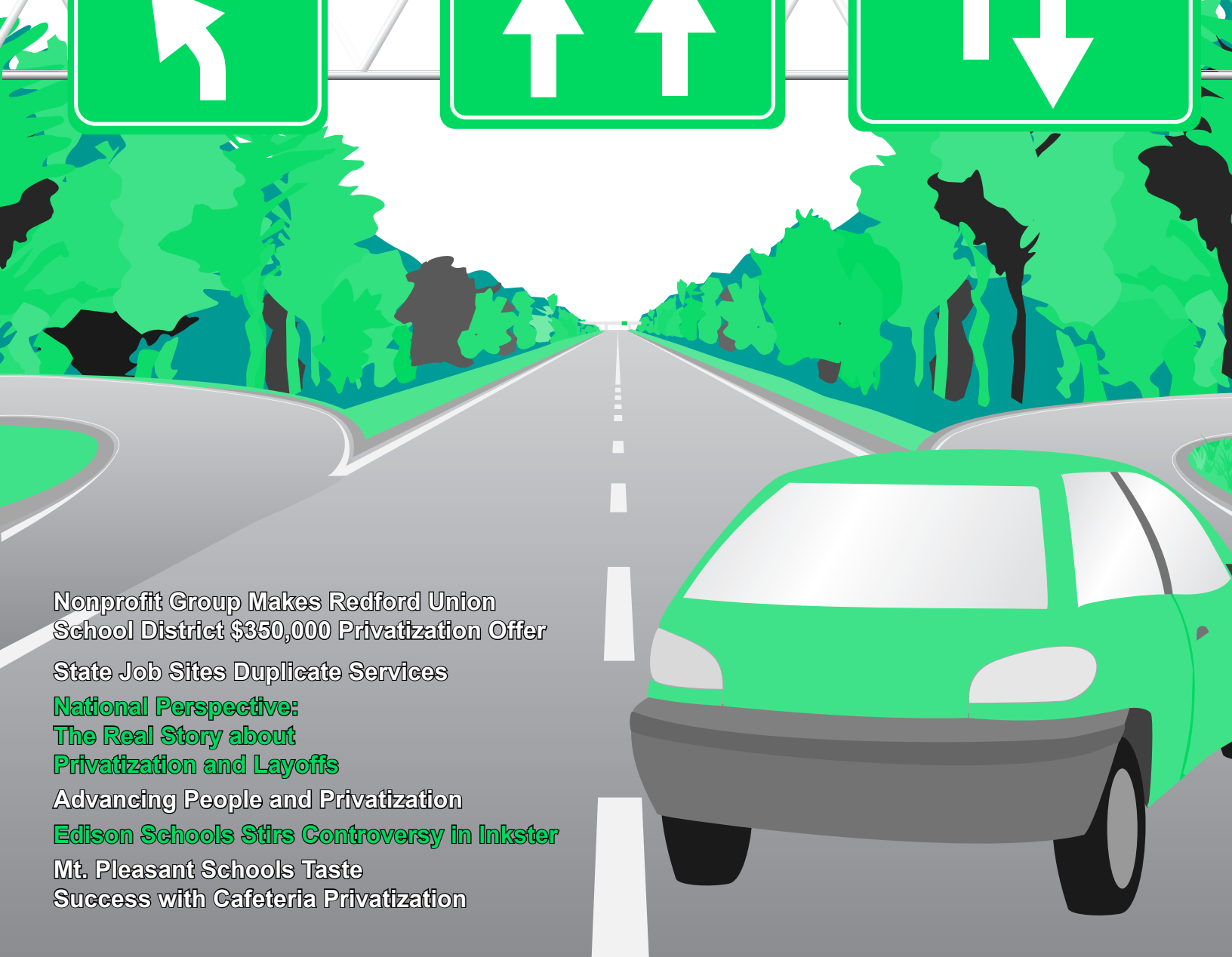
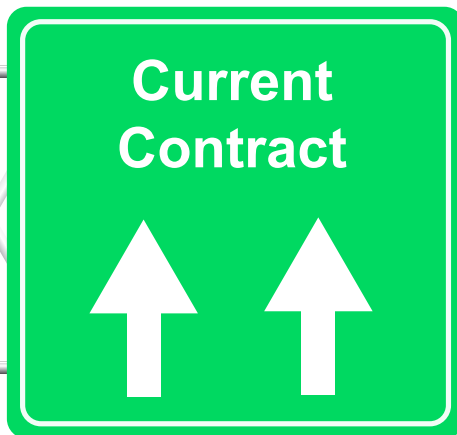




Privatization

REPORT

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2001-02 / Summer 2001



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State Job Sites Duplicate Services

National Perspective:
The Real Story about Privatization and Layoffs

Advancing People and Privatization

Edison Schools Stirs Controversy in Inkster

Mt. Pleasant Schools Taste Success with Cafeteria Privatization



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MICHIGAN PRIVATIZATION REPORT

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Feature

Redford Union School District Gets \$350,000 Offer to Save Teachers' Jobs

■ By David Bardallis

In early February the Mackinac Center for Public Policy guaranteed the Redford Union School District that the Center would obtain the \$350,000 needed to retain eight public school teachers who have been reassigned due to budget cuts. By competitively bidding out support services such as busing and cafeteria, as

“We sometimes lose sight of the simple fact that children are the focus of our school system, and that teachers are the ones who work hard each day to make a difference in their lives,” Overton said. “If we have to choose between overly expensive support services on the one hand and teachers, on the other, we say protect the teachers.” According to the Mackinac Center,

“Increasingly the challenge in public education is not the overall amount we are spending, but how it is being spent. With parents sacrificing to raise additional money for the district, the least we can do is assure that current school resources are being spent wisely,” said Overton.

Overton noted that “in order to achieve its full potential, the Redford Union School District must be able to devote as much of its funding as possible to classroom instruction, i.e., teacher salaries and instructional materials.”

Overton explained that the Mackinac Center is Michigan’s leading source of privatization information and can help the Redford Union district explore potential savings from outsourcing non-instructional services, as the Center has done with other districts in the past.

In other districts, the Center has helped identify unnecessary overhead costs that, once reduced, free up funding that can be used to hire more, or retain, classroom teachers.

Specifics from the Center’s written offer to the Redford Union School District are highlighted below.

- The Mackinac Center for Public Policy will work with your staff, at no charge whatsoever, to evaluate the current costs of non-instructional services and other overhead items, to draft requests for proposals (RFPs) from private vendors to provide these services, to ensure an open and competitive bidding process, and to evaluate bids. The district will accept good faith bids from reputable firms that meet the specifications of the RFP and result in cost savings. The district will not be required to hire the low bidder, but rather the firm that we all agree will provide the best overall value to the district.

See “\$350,000” on page 8



Redford Union has thus far failed to act on a nonprofit group’s guarantee of \$350,000 in savings. The savings would be achieved through outsourcing noninstructional services such as busing.

well as other district duties that raise overhead costs, Redford Union could easily save the \$350,000—perhaps more—it needs to keep teachers in the classroom.

The school district cuts have prompted parents to raise money through bake sales, magic shows, and other means to keep children with their teachers. In a letter to then-Superintendent Thomas Gay, Mackinac Center Senior Vice President Joseph Overton stated that the district could save well over \$350,000 by outsourcing non-instructional services to private firms. If an outsourcing plan failed to yield the needed savings while maintaining or improving current service quality, the Center would pay Redford Schools the difference, up to \$350,000.

Michigan ranks first in the nation in terms of public education overhead. Only 46 percent of Michigan public education employees are actually teachers.

Under the proposal, the Mackinac Center for Public Policy would work with the Redford district to evaluate the current costs of non-instructional services, draft requests for proposals (RFPs) from private vendors, ensure an open and competitive bidding process, and evaluate bids. The district would be required to accept bids from reputable firms that met the specifications of the RFP and resulted in cost savings. If \$350,000 in savings were not realized, the Mackinac Center would pay the difference up to the entire \$350,000 required to keep teachers in their current positions.

The school district cuts have prompted parents to raise money through bake sales, magic shows, and other means to keep children with their teachers.

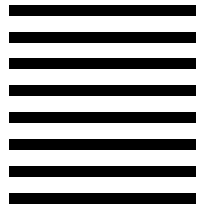
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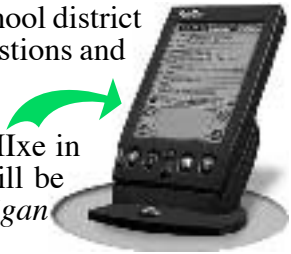
READER SURVEY

Win a Palm IIIxe!

Complete and mail this survey to be entered into a drawing for a Palm IIIxe handheld computer.

The *Michigan Privatization Report* is conducting a survey of readers employed as school district employees or school board members. Please take a few moments to answer these questions and help us improve *MPR*. Your responses will be kept strictly confidential.

Win a Palm Pilot! The Mackinac Center for Public Policy is giving away a Palm IIIxe in exchange for your participation in our school contracting survey. A respondent will be chosen at random. The deadline for submitting a completed survey is July 13. *Michigan Privatization Report* will announce the winner in its fall edition.



1. In what school district are you currently employed? _____
2. How many full-time employees work for your district? _____
3. How many part-time employees work for your district? _____
4. How many students does your district serve? _____
5. How many staff report directly to you, if any? None 1-5 5-15 16-30 31-50

6. How much time do you spend reading *Michigan Privatization Report (MPR)*?
None 5min 15min 30min more than 30 minutes
5. Do you pass *MPR* on to anyone when you're done with it? Yes No
6. Are you a Superintendent? School Board Member? Business Manager? Other _____?
7. In the last five years, which functions, if any, has your district privatized/outsourced?
 Transportation Food Service Custodial Payroll
 Grounds Maintenance Information Technology Administrative Printing
 HVAC Maintenance Security Vending Other _____
8. If your district has privatized/outsourced any of the above functions, what have been the annual savings, if any, or revenue generated from the sale of assets (such as school buses)? If possible, please show savings or losses in two parts: Total over the past one to five years, and average annual.

9. What is the job title of the person most likely to be in charge of privatization/outsourcing initiatives?
 Business Manager Superintendent Other _____
10. What was the reason for privatization/contracting out in your district?
 Save money Improve services Focus on core mission Other _____
11. Why does your district not use privatized services?
 Union opposition Would threaten jobs of district employees Not necessary
 Other _____
12. To what extent does your school contract with an Intermediate School District for services?

13. To what extent has *MPR* heightened your awareness of the benefits and methods of privatization?
 Not at all Slightly Very much Other _____
14. Has anything you have seen in *MPR* made you more likely to consider privatization as an option?
 Yes No
15. Would you be willing to let *MPR* feature your district's privatization success/failure? Yes No
16. What would you recommend for improving *MPR*?

17. Contact information* Name _____ Phone _____
 Address _____ City _____ State _____ Zip _____

State Job Sites Duplicate Services

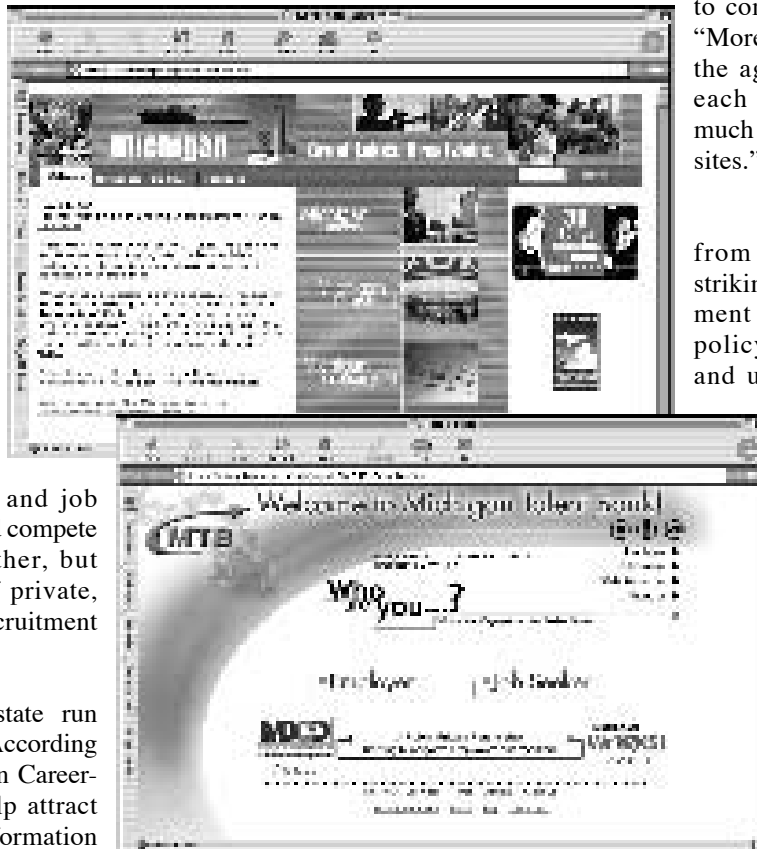
■ By Michael LaFaive

When it comes to the bewildering array of programs sponsored by state government, it's often said that the right hand doesn't know what the left hand is doing. But in some cases the right hand not only knows what the left hand is up to—the two are actively thumb wrestling.

Take, for example, two highly similar programs—one operated by the Michigan Economic Development Corporation (MEDC) and the other by the Michigan Department of Career Development (MDCD). The MEDC sponsors a web site called "Michigan Careersite" while the MDCD operates one known as the "Michigan Talent Bank." They each carry out the same function—bringing job seekers and job providers together—and compete not just with each other, but also with hundreds of private, Michigan-based job recruitment companies.

Why does the state run these redundant sites? 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 it does not exclude skilled workers from any field, so the two sites end up performing overlapping duties. In addition, an MEDC brochure about Michigan Careersite brags about its ability to "grab" jobs posted on Michigan's Talent Bank and move them to its own. Why bother?

Reading the brochure, one gets the sense that even MEDC officials know they should not be in the job board business. It reads, "The world does not need another job board. We know. Internet job boards are one of the great advances in modern recruitment, but their popularity and abundance have reduced human resource staff productivity nationwide. The MEDC is partnering with Michigan-based Careersite.com to fix this problem."



The state of Michigan has been operating two internet job boards in competition with each other and with 6,000 privately operated sites nationwide. This duplication of services may soon end with a merger of the two sites.

What problem? If job boards are a great advance, why have they hurt human resource staffs? The fact is they are popular because they increase productivity—otherwise people wouldn't use them and entrepreneurs wouldn't risk personal wealth to add one more to a crowded field.

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."

The unfair competition from the state is all the more striking given 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." What's fair about subsidized state corporations 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 taxpayers a cent. Meanwhile, the MEDC is spending about \$500,000 to operate Michigan Careersite for its first two years. The MDCD does not know what it costs to operate the Michigan Talent

See ".com" on page 12

Reading the brochure, one gets the sense that even MEDC officials know they should not be in the job board business.

“\$350,000” continued from page 4

- The school board and district staff must work together in good faith to facilitate a fair and effective bidding process, and provide Mackinac Center representatives with the necessary financial and operational information to conduct an effective outsourcing effort.
- If the efforts of the Mackinac Center and the district fail to yield a savings of at least \$350,000 in the first full fiscal year of private operations in the identified areas, while maintaining the same or better quality, the Mackinac Center will pay the district the difference between the savings and \$350,000.

Today hundreds of Michigan schools have outsourced various non-instructional services and are reaping the benefits of cost savings. In 1994 the Michigan Legislature passed Public Act 112 to give school boards the ability to make unilateral decisions regarding the outsourcing of non-instructional services despite union objections. The purpose was to make it easier for school boards to allocate the greatest possible funding to classroom instruction for children.

In April of this year The Detroit News opined that Redford Union should entertain the Mackinac Center for Public Policy’s offer because “cutting costs

to save teaching jobs seems reasonable enough to set quibbles aside. Pursuing competitive bidding would be in the interest of balancing the budget and shoring up Redford union’s reputation as a solid school district.” Redford Union officials responded to the News by saying that the “Mackinac proposal had not been rejected outright. But it is on the back burner.”

It should be placed on the front burner. After all, what does the district have to lose? MPPI

David Bardallis is editor of Michigan Privatization Report.

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Edison Schools Stirs Controversy in Inkster

■ By Elizabeth Moser

Despite intense opposition from critics, Edison Schools is proving that a “for-profit” company can make a positive difference in education.

Edison is an educational management company that currently operates 27 schools in Michigan and 113 schools across the country, serving more than 57,000 students. In Michigan, a recent example of Edison’s partnership with public schools is in the Inkster school district, where it has taken control of operations and has saved the district from a state takeover.

Going into the 1999-2000 school year, the suburban Detroit district was facing dismally low graduation rates, a burgeoning debt, and alarming enrollment losses due to students taking advantage of Michigan’s schools-of-choice program.

When the state threatened to take over the district, the school board became willing to consider a new approach to its problems: contracting the daily operation of Inkster schools to Edison, in the hope that the company could turn things around.

The Michigan Education Association, the state’s largest union for janitors, bus drivers, cafeteria workers and teachers, is opposed to contracting out and often works to scuttle attempts by districts at outsourcing. It should be noted that the MEA has contracted out at its own headquarters for such things as mail, food, and security.

The Inkster school board voted to contract with Edison in February 2000. By September, Edison had assumed

operation of the entire district. Edison-Inkster Superintendent Terry Ann Boguth says so far the results have been more than encouraging.

“Since last year [when the contract with Edison was announced], enrollment has increased 15 percent, the first



Edison manages 27 Michigan schools including in Inkster.

enrollment increase in 10 years,” Boguth told *Michigan Privatization Report*.

Part of Edison’s plan for Inkster is to directly assess which subject areas need the most work and focus the educational program on fixing these. Included in Edison’s five-year contract with Inkster is a guarantee that the number of students who achieve passing reading and math scores on the state achievement test will increase by 3 percent in the first year, with a yearly improvement rate of 5 percent each year after that. It also guarantees that test scores in other subject areas will increase by a total of 10 percent by the end of the five-year contract period.

To accomplish these goals and encourage accountability among teachers, parents and students, Edison is using Quarterly Learning Contracts, which are a fundamental part of Edison’s school design. The contract is an agreement between a student, the parents of that student, and the student’s teachers. It defines each person’s responsibilities in the educational process. The contracts

allow each student to have a personalized education plan that focuses on individual areas of greatest need.

Contracts include a specific goal established for the student each quarter, such as improving reading skills. Tasks to be performed in achieving the goal are also listed in the contract, which is signed by the student, parents, and teacher. The contracts, along with narrative report cards, allow teachers to provide ongoing written input on a student’s progress rather than just a letter grade. Boguth says the contracts encourage each party in the educational process to “commit to responsibilities.”

Edison-Inkster also has implemented a longer school day and school year for the district. Depending on their grade, students attend school seven or eight hours per day, and students are in school three days longer than the typical school year.

But Boguth says one of the best improvements made so far is Edison’s teacher training initiative. The district provides ongoing teacher training through professional development seminars and technology training. All Edison-Inkster teachers have their own laptop computers and are regularly trained in new ways to integrate technology into classroom activities.

Edison-Inkster also plans to provide students in third grade and above with home computers to allow access to homework on the Internet and to encourage parents to maintain constant contact with teachers via e-mail. Boguth says changes in curriculum will focus on improving reading skills and introducing foreign languages in elementary school classes.

Despite the positive changes that have been made in Inkster’s schools, the district still may face state takeover due to

See “*Inkster*” on page 14

Edison-Inkster also has implemented a longer school day and school year for the district.

Advancing People and Privatization

By Michael LaFaive
and Joseph Overton

At its core, privatization is about people. It is about government being considerate of its constituents by a) funding only those functions that it absolutely has to through the onerous mechanism of taxation, and b) working in the most cost-effective way possible in areas where it is involved.

Five years ago the Mackinac Center for Public Policy published a study entitled *Advancing Civil Society: A State Budget to Strengthen Michigan Culture*. In it, the Center drew a distinction between political society and civil society. A political society places responsibility for meeting a wide range of human needs on the institutions of government. The people of Michigan elect public officials who, through statutes and administrative bureaucracies, design programs that attempt to respond to perceived problems.

By contrast, a civil society is a society of individuals and families, private institutions and voluntary associations, religious groups, and commercial firms, which join hands and take upon their own shoulders the task of satisfying their own needs and the needs of their communities. A civil society sees danger in the coercive powers of government, and therefore only allows government a limited role, preferring to operate in an environment that is free to the widest extent possible.

Privatization is a major vehicle through which Michigan can transform itself from a coercive, politicized society into a civil society whose outstanding trait is its voluntarism and resourcefulness in solving problems on its own.

The Mackinac Center study recommended a total of \$2.5 billion in spending cuts representing 7.5 percent of the total state budget. Much of the savings were derived from privatizing

functions then being performed by the state government or eliminating them altogether as functions properly belonging to the private sector.

The \$2.5 billion total was made up of a host of the kinds of small, seemingly insignificant items which, added together, wind up costing state and local government a substantial sum.

For example, the Mackinac Center discovered that the Michigan Department of Natural Resources was spending \$52,000 of the taxpayers' money each year publishing a periodical called *Natural Resources Magazine*. The publication reported on areas of interest already covered by many private sector publications, Michigan being a very outdoors-minded and environmentally conscious state.

Since publication of the Mackinac Center's report five years ago, the Department has ceased publishing the magazine. First it contracted the task out to a private vendor, and the venture failed. Then the state, to its credit, did not attempt to revive it.

Another recommendation called for the sale of Michigan fish hatcheries, which at that time were receiving an annual appropriation of \$6,804,000. Gov. Engler's recommended budget for fish production for fiscal year 2001-02 is \$6,874,400, nearly the same as in 1996. But why is the government involved in hatching fish in the first place? This is a service that could be contracted out—and with great success—to the private sector. The state of Michigan more than likely could reduce its costs by doing the same.

The same goes for Michigan's Hunting Access Program, which leases private lands throughout southern Michigan for public hunting. This year's appropriation is \$400,000, 26 percent higher than its cost in 1995-1996.

It is hard to underestimate the popularity of hunting in Michigan. Still, this is another clear example of the intrusion of political society. The state is interfering in an area where private individuals can and do perform the same activity through voluntary means. Every year thousands of Michigan hunters reach mutually beneficial agreements with private landowners regarding their desire to hunt on the landowners' property. There is no reason to believe hunting would suffer if this program were eliminated.

Did you know that your tax dollars support a government-owned-and-run conference center? The MacMullan Conference Center is a hotel/lodge located on Higgins Lake in mid-Michigan. It is used by a wide variety of governmental agencies for overnight training sessions and conferences. The annual grant received by MacMullan from the state averages about \$1.2 million. A state statute dictates who may use the Center and includes publicly funded educational groups; religious schools; groups with an environmental focus; and municipal, state, and federal agencies. It can sleep 135 people per night and averages about 15,000 guests per year. Conference Center rates run a minimum of \$61.75 per night and include three meals and use of meeting rooms and audio-visual equipment.

Even if the Center could turn a profit as a state-run business it should be sold off to private investors. Why? It is simply not a proper function of government. Nationwide recreation and convention center businesses are very competitive and would have little difficulty assuming the responsibilities of running this operation for profit.

The state also operates a development program for docks and harbors to encourage tourist-related economic development. The program currently is spending money on several loca-

See "Advancing" on page 16

Privatization is a major vehicle through which Michigan can transform itself from a coercive, politicized society into a civil society whose outstanding trait is its voluntarism and resourcefulness in solving problems on its own.

Mt. Pleasant Schools Taste Success with Cafeteria Privatization

■ By Michael LaFaive

Mt. Pleasant Public Schools has seen a lot of changes in the past few years, but none so interesting as its new contract with Chartwells, a private, for-profit food service company.

In 1997, the district hired Gary Allen as superintendent. When he arrived, the school board almost immediately brought up longstanding concerns about cafeteria costs, which were being subsidized to the tune of \$283,000 during Fiscal Year 1997. In other words, the district was spending \$283,000 more for cafeteria services than it was earning from the sale of lunches. That was \$283,000 that could not be used to hire more teachers, increase their pay, or buy classroom equipment.

This is not uncommon in school districts, but is a drain on precious resources that can usually be reduced or even reversed. Not only that, but most school districts conduct their accounting so that the real cost of cafeteria services is hidden in the total costs for janitorial, maintenance and other services. One reason Mt. Pleasant's school board was able to easily identify this problem is that it separates the various services in its accounting procedures so officials can see the true amount of money being spent on food service. If district janitors or maintenance crews dedicate 12 hours to cleaning or fixing the cafeteria, then these expenses are charged to "food service" on the district balance sheet.

Many other districts falsely appear to be breaking even or making a profit on food services simply because they do not separate these costs in their accounting ledgers. This is why the Mackinac Center for Public Policy and other outsourcing experts have long advocated "full-cost," "total-cost" or "fully allocated" accounting for school districts and other public entities. If public officials are unable, because of antiquated or inaccurate accounting,

to see how much various services cost, there's no way to see the size of the potential benefits from privatization (see Mackinac Center for Public Policy study *How to Compare Costs Between In-House and Contracted Services*).

Before considering privatization, Mt. Pleasant challenged its district food manager to reduce the food service subsidy without outside assistance. This was accomplished by raising the price paid by the children for their lunches. The deficit dropped by \$68,000 to \$215,000 in 1998 and to \$192,000 the following year.

When the district was satisfied it was saving all it could short of privatization, it decided to release a Request For Proposal (RFP) to prospective companies to run its food service. An RFP stipulates to companies what a district (or other unit of government) is looking for when it intends to competitively bid some service.

Chartwells, a subsidiary of United Kingdom-based Compass Group, which operates an office in Grand Rapids and other American cities, won a contract to manage food service for Mt. Pleasant Public Schools. Under the agreement, all employees except one remained employees of the district, complete with unchanged salaries and fringe benefits. Chartwells provided one manager to run the entire service. The American Federation of State, County and Municipal Employees union

representing Mt. Pleasant's food service was unopposed to the contract because the employees could remain members of the district and the union.

The result? Chartwells has saved the Mt. Pleasant district \$113,000 in its first full-year as district food manager. The first \$100,000 in savings came because Chartwells, being

a large multi-national company, can buy far bigger stores of supplies at a time than any



Chartwells has improved lunch services and saved money in the Mt. Pleasant Public Schools.

single school district, and suppliers will charge the company less because it buys in bulk. Another \$13,000 in savings was achieved simply by streamlining certain

See "Sweet Success" on next page

Another \$13,000 in savings was achieved simply by streamlining certain operations, such as food preparation.

“Sweet Success” continued from page 11

operations, such as food preparation and delivery—something the district had been unable to do as well as Chartwells.

The food is better, too. Student use of the high school cafeteria is up dramatically. In fact, a survey of students indicates that they are very pleased with the privately managed cafeteria. Many students who normally walked to local eateries for lunch, now prefer to dine on the school premises, making the lunch hour a safer as well as a tastier hour of the day.

In Mt. Pleasant, students can choose from a stir-fry (with ingredients chosen individually) a salad bar, or other food selections from a widely varied menu.

Chartwells makes a point of creating an attractive buffet-style operation for students. In effect, the company treats its students as customers. Chart-

wells knows the district would refuse to renew its contract if food quality deteriorated, or if costs got out of control.

Chartwells is not the only private, for-profit firm working for Mt. Pleasant Public Schools. Service Master, Inc. is currently managing custodial and maintenance operations in the district, and has retained the district’s former employees. Thomas Armstrong, business manager of Mt. Pleasant Public Schools, notes that the contract has not necessarily saved the district money, but it has been beneficial. “Service Master gives us the expertise that we could not have had with an in-house crew. It brings cleaning methods, chemicals, and a whole laundry list of skills and experience that we otherwise would not have, said Armstrong.”

Done correctly, privatization of school lunch services works and works

well. There’s no telling how much educational quality might improve—or how much money might be saved—if every school district focused exclusively on education, leaving ancillary duties such as food preparation, janitorial and maintenance operations, lawn maintenance and other duties to private-sector specialists able to perform them better and less expensively. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

“.com” continued from page 7

Bank, according to Melvin Farmer, Freedom of Information Act officer with the MDCD.

Another ironic twist is the MEDC’s mission to recruit workers from outside Michigan. According to the agency, it is “saturating the cities of Chicago, Indianapolis, Cincinnati and Columbus” with \$5 million in advertisements to tell workers about Michigan job opportunities. At the same time, the MEDC is enriching Career Site Corp., which it hired to help run Michigan Careersite. Career Site Corp. also operates Careersite.com, a national labor exchange site that can help Michigan workers find jobs outside the state.

Michigan’s inter-agency rivalry for labor-related web traffic is another example of government bureaucrats trying to “do good” without regard to the consequences of their actions. Will somebody in the Legislature or the governor’s office please tell state agencies that the business of bringing employers and employees together is best left to business, not state bureaucrats pretending that they understand the market better than actual entrepreneurs?

Editor’s Note: As this edition of MPR went to print changes involving the MEDC’s Web site have been made. Michigan Privatization Report has been informed that Michigan Careersite’s

may soon be merged with MDCD’s Talent Bank, leaving only one state-run Internet job board. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

The Real Story about Privatization Layoffs

■ By Robin Johnson

The perception exists across the United States that privatization of public services results in massive layoffs as private companies get rid of highly-compensated public employees and replace them with lower paid, non-union workers with fewer benefits to perform the same services. This has generated intense opposition to privatization from public employee unions at all levels of government.

However, there is much evidence to show that privatization has resulted in few, if any, layoffs and that public employees can actually benefit in the long term from private-sector management. Several studies demonstrate that the fears of many have been overblown:

- A 1985 General Accounting Office (GAO) study of job displacement as a result of Department of Defense downsizing revealed that, of the 9,650 employees affected by privatization, 94 percent were placed in other government jobs or retired voluntarily. Half of the remaining 6 percent were employed with the private contractor. Only 3 percent were laid off.
- In 1989, the National Commission on Employment Policy (NCEP), a research division of the U.S. Department of Labor, studied the effects of privatization on employees from a variety of jurisdictions across the nation over a five-year period. The report, regarded as the most comprehensive examination of privatization's impact on government employees, found that, of the more than 2,000 workers in 34 privatized city and county services, only 7 percent were laid off. More than 50 percent of the affected workers were hired by private contractors, approximately one-fourth (24 percent) of the employees transferred to other

government positions, and seven percent retired. In conclusion, the study found that "in the majority of cases, cities and counties have done a commendable job of protecting the jobs of public employees."

- A 1995 study of privatization in Illinois municipalities found that only 3 percent of the 516 responding cities reported layoffs due to contracting. Nearly two-thirds (64.9 percent) of the cities reported no displacement of affected employees, while 10.8 percent transferred workers to other government jobs, 5.4 percent reported that employees were hired by the private contractors, 5.1 percent said the affected employees retired, and 9.8 percent reported a combination of these results. In late 1999, a follow-up survey of 220 Illinois cities of more than 5,000 in population found roughly the same percentage (only 3.8 percent) of cities reporting that employees were laid off as a result of privatization.

In fact, strategies to lessen the impact of privatization on public employees are now the rule, not the exception, among governments that contract services. Recent long-term contracts that privatized water and wastewater services in Atlanta, Buffalo, Milwaukee, and Indianapolis included provisions that all existing public employees would be hired by the private firm at comparable wages and with comparable benefits. In these examples, employees were unionized and the private contractor bargained in good faith with the union.

Reductions in force (RIFs) are usually accomplished through attrition instead of layoffs. Private contractors and public officials are aware of the intense opposition privatization can create, and have developed effective strategies to soften, if not overcome, such objections. Reducing the workforce through attrition to an efficient level

allows private contractors time to win over employees and establish a level of trust.

Multiple sources exist that can assist public officials with employee transition strategies. For example, a 1997 General Accounting Office (GAO) report recommended employee involvement in the privatization decision-making process, training to provide skills for either competing against the private sector or monitoring contractor performance, and the creation of a safety net for displaced employees. The strategies will vary depending on local political factors and the relationship between political leaders and employees. Most officials said that the strategies were designed to bolster support for privatization as well as to mitigate employee concerns.

A 1997 International City/County Management Association survey confirmed the movement among municipalities to more employee-friendly policies. The number that adopted measures to overcome employee opposition and smooth the transition to privatization increased during the previous five years. Among the policies that cities increasingly use are:

- Involving line employees in the evaluation process to determine the feasibility of a privatization initiative;
- Adopting formal programs and policies to lessen the impact of privatization on public employees—such as requiring private contractors to hire the existing workforce, or reducing public employment only through attrition; and
- Managed competition wherein public employees can compete with private firms for public contracts. Philadelphia provides an excellent example of the kinds of measures that can be

See "Real" on next page

In fact, strategies to lessen the impact of privatization on public employees are now the rule, not the exception, among governments that contract services.

Layoffs are a very real concern to public employees when the issue of privatization is raised.

“Inkster” continued from page 9

problems with its elected school board. The Detroit Free Press recently reported that Inkster’s school board has broken the contract with Edison by acting in a “financially irresponsible” manner.

In taking over the district, Edison agreed to eliminate Inkster’s \$1.9-million debt, and expected board support for future cost-saving measures. But the Free Press investigation shows that Inkster school board members cost the district \$66,000 by refusing to approve a contract with an outside vendor to provide food services to Inkster schools.

According to the Free Press, board members also spent over \$10,000 in travel expenses for out-of-state education conferences, despite a district moratorium on out-of-state travel, and refused to document many of the expenditures with receipts. The Free Press investigation also found that, of the receipts submitted for school board members’ trips, many were for lavishly high-priced meals and other questionable expenses.

Despite these and other negative developments, Inkster School Board President John T. Rucker, in a recent newsletter, commended the improvements Edison has made in the district and mentioned the board’s commitment to saving money.

“We are dedicated to continuing the improvement of Inkster Public Schools . . . We accept our obligation to be fiscally responsible and are continuing to seek new ways to operate our schools more economically,” Rucker wrote.

State officials will only interfere with the district if problems continue with the school board, or if Edison requests state assistance.

In addition to the Inkster district, Edison runs over 27 other schools in Michigan. Its success with these schools, however, was recently questioned in a Western Michigan University (WMU) study, funded by the National Education Association, a vocal opponent of charter schools, educational management companies, and privatization. The WMU study said that Edison was no more successful at boosting student achievement than the districts that hired the company.

The study conceded that Edison students show improvement gains from year to year on standardized tests, but claimed that Edison-run schools do not perform as well as the company advertises.

John Chubb, chief education officer and executive vice president for Edison, told the Detroit Free Press the study is “a biased report that was set up from the start to criticize Edison Schools.” Chubb also told the Free Press that the study was unscientific and the data used were old and incomplete.

Despite the debate over Edison’s involvement and success in education, the rapid growth of Edison Schools and the company’s innovative programs have encouraged parents, teachers, and school districts to consider options beyond the traditional model for public education. Educational management companies like Edison are becoming more prevalent and are drawing support from parents and activists looking for bolder reform ideas in education. MPRI

Elizabeth Moser is the the Mackinac Center for Public Policy’s education research assistant.

“Real” continued from page 13

taken to minimize job displacement effects. As part of former mayor Ed Rendell’s Competitive Contracting Program (CCP), introduced in 1992, the city of Philadelphia implemented several programs designed to assist public workers in the transition required by privatization and public-private competitions. The city created new job classifications and established a Redeployment Office to match the skills of displaced employees to position openings in other departments. It also gave displaced employees preferential consideration for other city jobs, and required private contractors to give first right of refusal to affected city workers. In one case, the city invited displaced prison food service workers to participate in special training for newly created correctional officer trainee jobs.

Layoffs are a very real concern to public employees when the issue of privatization is raised. However, there is little evidence to suggest that privatization results in massive layoffs and hardship for public employees. As recent research demonstrates, the trends in government are, in fact, just the opposite. Few governments report widespread layoffs due to privatization. Most governments that enter into privatization agreements require that contractors hire the existing workforce and reduce the number of employees only through attrition or cause. Innovative officials from both the public and private sectors are showing that privatization can produce a win-win-win outcome for government, employees, and taxpayers. MPRI

Robin Johnson is director of the Reason Public Policy Institute’s Privatization Center in Los Angeles, California, where he oversees all of the Institute’s research on privatization and government reform.

State Ends Contract with ABC Paving Company

■ By Michael LaFaive

In 1994 the state of Michigan contracted with a private business to provide maintenance for 121 lane miles of I-496 and U.S. 27 near Lansing. ABC Paving Company of Trenton, Mich. won the bid and has maintained the stretch of road outlined in its contract with the state until recently. The state considered this an experiment or pilot program for road privatization.

The first contract was worth \$2 million and allowed for an extension of one year, which the state picked up. In 1997 the state re-bid the contract, choosing ABC Paving Company a second time. This time the contract was for \$3.2 million and 43 months with no renewal. This contract has ended and the state decided against re-bidding the contract.

The first contract was let amid substantial political opposition. Unfortunately, there was no clear performance benchmarking done before signing the contract with ABC so it was nearly impossible to measure how well (or poorly) ABC was doing. Benchmarking establishes a performance measure by which future work can be measured. Unfortunately the state never calculated what it cost government to do the same work it was asking ABC to perform. (See *MPR* '98-02 for more information.)

The state Senate Fiscal Agency attempted such a measurement in January, 1998 and concluded that the work of ABC was not cost effective. It also found that Michigan Department of Transportation work was expensive, too, particularly when compared to county road agencies.

According to the report, ABC's costs were about \$15,000 per "E-mile." An "equivalent" E-mile is a standard road measuring unit that is based on the total distance of all lane miles. Costs

per E-mile for roads maintained by the county and by MDOT in the same district were about \$7,000 and \$8,800, respectively. This was not a surprise to some analysts, as a Detroit News editorial noted, simply because ABC did not enjoy the same economies of scale over the 20 miles for which it was responsible than the state and counties benefited from in over thousands of miles of road in other areas.

State officials have now performed a cursory review of the second contract and found that, even in competition with county road commissions, which had better economies of scale, ABC finished "in the middle of the pack" in terms of costs.

Regardless, the state has let the ABC contract expire due in large part

to the fact that it will be doing major construction on I-496 (part of ABC's maintenance responsibility) and will not require maintenance services for some time and because MDOT believed that the experiment had run its course.

The Michigan Department of Transportation's experiment with road privatization was not a full-blown success. Neither, however, was it a failure. The state should conduct another experiment, but this time ensure that it is easier to measure the success or failure of the public and private enterprises involved. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

The Michigan Department of Transportation's experiment with road privatization was not a full-blown success. Neither, however, was it a failure.

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See pages 5 and 6 of this issue. Answer the short survey questions, tear out, fold, and mail the postage paid letter to us to be entered into the Palm giveaway contest.

“Advancing” continued from page 10

tions around Michigan’s Great Lakes shoreline. In addition, the state runs an extensive public-access sites program that acquires, develops and maintains public docks and launching sites for small craft throughout the state, including sites on the Great Lakes.

The state should sell its larger docking facilities to private firms and end its involvement in this area. The appropriation for these programs vaulted from \$2.1 million in fiscal 1995-1996 to \$8.9 million in the 2000-2001 budget year. Gov. Engler has recommended a smaller appropriation (\$6 million) for 2001-2002, but there’s no reason why the taxpayers should finance something that is a private-sector responsibility.

Private Forest Development is a program that provides financial assistance to private landowners in hopes of facilitating wise ecological use of their property. The program administers the Commercial Forest Act as well as certain federal grants. This line item in the state budget has increased 18 percent since 1995-1996, a fairly mild increase compared to other programs. Still, the issue is not just money, it is whether this is an area where the government should be involved.

Private landowners, many financially well off, should be responsible for the stewardship of their own land, and have a financial incentive to be so. They can rely on a variety of private-sector environmental, agricultural and educational organizations for information regarding the best ecological methods. Michigan citizens should not be required to subsidize private landowners; this is yet another program that should be eliminated.

Funds to pay for these programs come from a variety of sources and tend to fall into a few categories. They include federal funds (taxed from the whole country, sent to Washington, and sent to

Lansing), interdepartmental grants (funds are transferred from one department to another), general fund/general purpose (a budget fund over which lawmakers have the most discretion), and special revenue which can be comprised of many different types of state revenue.

In some cases, eliminating such programs may mean refusing federal funds, which are sometimes seen as “free” money because the money is received from taxpayers outside the state. But in actuality, even federal funds come from the citizens of Michigan, as well as from millions of other taxpayers outside the state. If Michigan is going to undertake

significant budget reforms it cannot exempt federally funded programs from the reform process.

Privatization is no longer a new concept. Governments, not only in the United States but in other countries as well, now have decades of experience getting out of enterprises where they had no business operating in the first place.

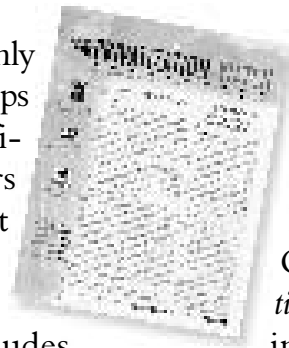
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A Military Museum for Detroit?

DETROIT—The Detroit City Council plans to refurbish historic Fort Wayne on the Detroit River by establishing a non-profit group that would raise enough private funds to turn the crumbling structure into a military museum.

The “non-profitization” of Fort Wayne, while technically not privatization since it is only one step removed in legal status from outright government planning, is nonetheless a step in the right direction. If approved, the plan is for a group appointed by the city, county and metro parks authority to turn Ft. Wayne, built in the mid-1800s and closed to the public for the past decade, into a museum focusing on Detroit’s industrial role in making tanks, planes, bullets and bombs during World War II.

UPS Will Deliver Tests to Detroit Schools

DETROIT—Detroit Public Schools has contracted with United Parcel Service (UPS) to deliver standardized tests to its schools in May, a job previously carried out by district employees. School officials say if it works as well as they expect, the one-time contract could become permanent, and ensure that the Essential Skills Achievement Tests arrive on time.

The district struggles to adequately teach Detroit school children the basic skills they need to learn; it also has trouble delivering in a timely manner the tests aimed at monitoring academic progress.

The problems haven’t been just on the delivery side of the equation, but also on the administrative side. Jack Crumpler, chief steward for the Teamsters Local 214, told the *Detroit News* that the district’s drivers had been hampered because school administrators often fail to turn in work orders for test materials on time.

Oak Park Privatization Plan Draws Protest

OAK PARK—Oak Park school employees protested outside the school administration building April 22 in response to the district’s attempt to hire an outside company to manage custodial staff. Currently, the district manages custodians, several of whom also drive school buses.

“Their ultimate plan is to subcontract out custodial maintenance,” said union representative Michael Landsiedel, who fears that contracting out management is just one step toward the full replacement of all current district workers. “We have about 40 people in this district that could be losing their jobs and livelihood,” he said.

Oak Park Superintendent Alexander Bailey said the district’s effort has more to do with improving quality than with saving money. “This is not an issue of money. There has to be something different in our buildings,” he said.

Privatization Without Permission?

LANSING—Should departments of the state government be allowed to award contracts to private companies for consulting, computer support and other services that are temporary, require expertise the state doesn’t have, or would yield long-term savings—without asking permission from the state Civil Service Commission?

The Commission itself said okay to this idea back in 1997—raising the limit on the dollar amount of contracts that could be awarded in this way from \$5,000 to \$500,000. But the Michigan Coalition of State Employee Unions sued and the matter has been batting around in the courts ever since.

But this July, the Michigan Supreme Court will rule on whether the new Civil Service Commission rule violates the state constitution—as the unions claim and as the state Court of Appeals has upheld—or whether the rule can stand.



A New Attitude at Detroit Schools

DETROIT—The office of Detroit Public Schools Chief Executive Officer Kenneth Burnley is taking a hard look at plans to outsource 3,000 school jobs. According to an April 22 *Detroit News* editorial, the new plan, plus recent outsourcing to UPS for delivery of tests and to private companies for mowing lawns and cleaning up debris around schools “reflect important philosophical shifts that will resonate in other troubled districts.”

The privatization plans include janitorial jobs, including housekeeping, grounds and building repairs, food service management, and managing the expansion of five new alternative schools opening for students this fall. Even state and federal lobbying jobs—the people who seek favor from lawmakers on behalf of the district—are being considered for private outsourcing.

The school employee unions claim they can do these jobs as well and as efficiently as private companies. But “rundown, debris-ridden schools are obvious problems in Detroit,” the *Detroit News* opined. “And if district maintenance workers and managers cannot get the work done, looking elsewhere for solutions is prudent.”

In cases such as grounds maintenance, district officials can choose between paying private companies who then must fulfill the terms of a legal

Detroit Public Schools has contracted with United Parcel Service (UPS) to deliver standardized tests to its schools in May, a job previously carried out by district employees.

contract or be fired—and paying public employees, who don't face the same consequences if they fail to do their work in a timely manner.

Detroit Stops Short of Privatizing Management of Failing Schools

DETROIT—Chief Executive Officer Kenneth Burnley recently balked at an idea many have thought might be just the thing to help failing schools: Allow private, for-profit companies such as Edison Schools to try their hand at improving academic performance.

Although the district appears ready to outsource many services, its leaders have yet to embrace the idea of a private company running a school, despite the successes reported by Edison, in places such as nearby Inkster, where Edison runs the entire school district.

It had been suggested that for 13 schools in Detroit designated as “low-achieving” schools, a private company might be just what the doctor ordered. But in late March, Burnley put that idea on hold, opting instead to give the Detroit Federation of Teachers a chance to make good on its promise to improve these schools' performance with ideas of its own.

Should MSU Privatize its Power Plant?

EAST LANSING—Michigan State University, known nationally for its college of natural resources, was recently embarrassed by revelations—aired by its own students—that its T. B. Simon power plant had failed to monitor its air emissions and may be releasing harmful pollutants into the atmosphere.

“What's going on shows a lack of concern for students' health,” Lisa Bergmann, leader of ECO, an MSU student environmental group, told the Detroit News. State inspectors are taking measures to ensure that the school take the necessary steps to measure

emissions of nitrogen oxide, produced by burning coal. A public hearing on the issues involved is being scheduled for late May. Compliance with all local, state and federal requirements is currently estimated at nearly half a million dollars.

As long as reform of the plant operations are being considered, why not look at contracting with a private utility for management or ownership of the plant?

In Great Britain during the 1980s, Margaret Thatcher encouraged the sale of state-owned electric power in Great Britain, which resulted in lower costs and an improved environment. The sale of utilities resulted in the use of a different and more efficient mix of energy providers, which generated fewer pollutants.

One option would be to outsource with a private company for management of the plant under a contract with specific guidelines for emissions output. If the private management firm failed to live up to its agreement, it could lose its contract and its profit from operating the plant. Another option is to shut the plant down and “wheel” the energy in. Current Michigan law allows customer choice in the purchase of electric generation services. This way, MSU may effectively shift pollution away from MSU students while providing the same level of energy services.

Is Promoting Tourism a Government Job?

BAY CITY—Travel Michigan, a government-run publication that promotes tourism in nine counties in northeast Lower Michigan, is under fire because of the discovery of serious errors revealed in an article by the Associated Press. The AP story revealed the following:

- U.S. 23, the main highway through the northeast Lower Peninsula, is omitted from one road map;
- There are no “best restaurants” to be found north of Bay City and east of

Interstate 75;

- Lake Huron is identified as Lake Superior on page 44.

Private-sector tourism magazines caught committing such errors would be vulnerable to being put out of business by competitors faster than you could say “privatization.” So far, there is no word on whether Travel Michigan will be privatized to improve quality, or whether there is sufficient public demand for its service at all.

Art Gallery Funded by Artists Themselves

DETROIT—Can the art world survive without massive infusions of government money?

The Museum of New Art (MONA), recently established in downtown Detroit, is a 10,000 square-foot museum located on the second level of the Book Building on Washington Blvd., next door to the Graystone Jazz Museum. It is non-profit, funded and supported by locally, nationally and internationally recognized artists, who will raise money for its upkeep by hosting auctions of their work.

Established local artist and C-pop Gallery owner Tom Thewes hails the establishment of MONA as a step in the right direction. He complained to the Detroit News that places where government funding plays a prominent role, such as the Detroit Institute for the Arts, tend to be too “politically correct” in their exhibits, and don't give enough exposure to contemporary artists who “will not always be politically correct, but speak to everyone about current and relevant issues that affect us now.”

Privatization and freedom of artistic expression could be about to link arms.

Financial Woes Cause Saginaw to Turn to YMCA for Recreation Programs

SAGINAW—The financial outlook for the city of Saginaw has become so dire

Although the district appears ready to outsource many services, its leaders have yet to embrace the idea of a private company running a school.

that the city has asked the local branch of the YMCA to draw up a proposal for taking over Saginaw's recreational services. The association may offer a proposal in May.

City Manager Reed D. Phillips told the Midland Daily News that Saginaw is facing a \$1.8 million deficit if it doesn't find a way to lower its costs. Currently, the city spends around \$800,000 per year on recreation, a substantial portion of which could be saved if the YMCA were to take over.

The Mackinac Center for Public Policy published an article on Saginaw's budget woes in the Spring of 1996 and recommended several privatization opportunities to help the city save money. They included: water services, rubbish collection, the city boat launch, emergency medical services, and the Andersen Enrichment and Japanese Cultural Center, as well as its wave pool. If you would like to view this article visit the Mackinac Center for Public Policy Web site at www.mackinac.org, or contact the Center by phone at 989-631-0900.

Atherton School Board Gets Out of Day Care Business

BURTON—How much day care is needed in a given locale? That's the question the Atherton School District inadvertently bumped into when it decided that Children's Castle, the district day care center, which also provided after school programs, was too expensive and should be privatized.

In January, the Atherton School Board entered into negotiations with Medallion Corporation of Cincinnati, Ohio, and eventually contracted out the operation of Children's Castle.

But there was a snag—there was a mixup of signals and responsibility for the utilities bill became an issue. The issue was never resolved, and Medallion withdrew from the contract. And the Atherton school board didn't step back in to run Children's Castle. Parents using the facility simply moved their children elsewhere.

One lesson may be that privatizing a function or facility for which there isn't sufficient public demand or need is no better than doing nothing at all.

Let Private Developer Find Money-Making Use for Ford Auditorium Property

DETROIT—Rather than accepting bids from contractors to restore and rehabilitate the old Ford Auditorium, city officials should sell the property lock, stock and barrel to a private developer, according to a Feb. 16 Detroit News editorial.

The auditorium has been closed since 1990, and had been underused for decades prior to that. In the meantime, the city government has failed to come up with a suitable plan for the building or the land.

In 1990, then-Mayor Coleman Young ran an idea up the flagpole: Bulldoze the site and let Comerica Bank build a \$200 million, 25-story headquarters on it. But critics shot the idea down, saying it would block river views and access. Then Young tried suggesting a deal with Hilton for a \$250 million hotel, but voters rejected a ballot proposal that would have rezoned the area for private use.

The cost to bring the old auditorium up to building code specifications is estimated at about \$8 million. But to make it into a state-of-the-art facility would cost more like \$25 million. And even then, there's no guarantee the building would be used frequently enough to justify the expense.

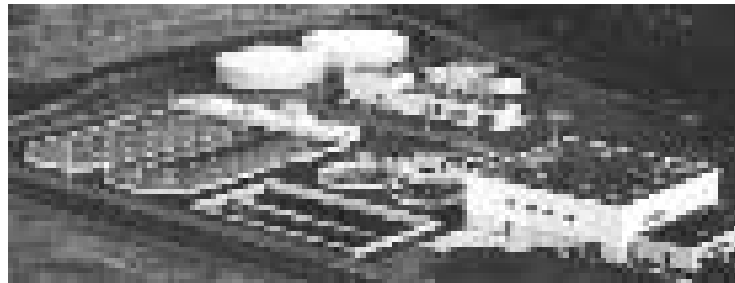
Wixom Renews Contract with EarthTech for Water, Waste Water Operations

WIXOM—The Wixom City Council recently approved a new 7.5-year contract with EarthTech, Inc. of Grand Rapids to provide water and

waste water system operations and maintenance services to the Detroit suburb through 2008.

The city originally privatized operation and maintenance of its water and waste water facilities in the late 1980s, following feasibility studies that showed a private company could accomplish the task more efficiently for less money.

The new contract, which took effect Jan. 1 and will continue through



Earth Tech of Grand Rapids manages the city of Wixom's water and wastewater operations, shown here.

June 30, 2008, will save the city \$40,000 per year over the previous contract, also with EarthTech, which ran from April of 1994 through June of 1999. Since that time, EarthTech had been working under an extended contract. MPRI

Feature

Detroit Violates Uniform Budget and Accounting Act

■ By Michael LaFaive

The Mackinac Center for Public Policy recently confirmed with officials at the Michigan Department of Treasury that the city of Detroit was delinquent in filing its annual audit for 2000.

Failure to file the audit violates the state's Uniform Budget and Accounting Act. According to a provision of another law, the local Government Fiscal Responsibility Act, the city's delinquency should automatically trigger a review by the state treasurer.

In a Jan. 2 letter to [then] state treasurer Mark Murray, this author pointed out that the city was delinquent in filing its audit and asked whether the state would be conducting a review of the city's finances as provided by law. On Feb. 1, Murray confirmed that Detroit "has failed to timely file its audit for FY ending 2000."

Murray also stated, however, that his office would not be conducting a review of Detroit's finances even though it is required to do so under Public

Act 72 of 1990. "Missing the audit deadline is not as clear an indication of a financial problem as are some other triggers provided" in the law, Murray



The city of Detroit has failed to produce its annual audit within the time frame required by law.

wrote. "Hence, in the case of a late audit, we would only proceed with a formal preliminary review if there were other indicators of financial problems present."

But the Mackinac Center disagreed with Murray's characterization of the law. "Public Act 72 offers the state treasurer no explicit discretion in this matter. The conditions that constitute city financial problems are clearly spelled out, and one of those is failure to file an audit as required," he said.

The state should adhere to the laws of its own creation and investigate Detroit's financial situation in greater detail—using P.A. 72 as its guide. Such an investigation would give the city an added incentive to keep its books in order and mitigate against charges that the state enforces P.A. 72 in an arbitrary and lackadaisical way. MPRI

Michael LaFaive is Managing Editor of Michigan Privatization Report.

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