ISSN 1092-7999

MICHIGAN Privatization REPORT

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2002-02 / Spring 2002

All in favor of privatization, raise your hand.

MICHIGAN PRIVATIZATION REPORT

Editor: David Bardallis
Senior Managing Editor: Michael LaFaive
Assistant Editor: Samuel Walker
Graphic Designer: Daniel Montgomery

Michigan Privatization Report is published quarterly by the Mackinac Center for Public Policy, a nonprofit, nonpartisan, tax-exempt research and educational organization devoted to analyzing Michigan public policy issues. *Michigan Privatization Report* is distributed to state senators and representatives and policy staff; department directors and staff; municipal officials and administrators; school superintendents and school board members. Additional copies are sent to Michigan radio and television news directors, print news editors and select industry leaders. Total circulation is over 14,000. Please contact the Mackinac Center for Public Policy at 140 West Main Street, P.O. Box 568, Midland, MI 48640; Phone: (989) 631-0900; Fax: (989) 631-0964; e-mail: mcpp@mackinac.org; or World Wide Web: http://www.mackinac.org if you wish to receive *Michigan Privatization Report*.

Michigan Privatization Report

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2002-02 / Spring 2002

FEATURES

DEPARTMENTS

ADVERTISERS:

Feature

Depression-Era Program Should be Privatized

By Diane Katz

Addressing a nation ravaged by unemployment, President Franklin Delano Roosevelt declared in his 1933 inaugural speech: "Our greatest task is to put people to work."

The Michigan Civilian Conservation Corp recruits roughly 200 young people to clear trails and clean state parks every year.

Five days after taking office, the new president called an emergency session of Congress to obtain authorization for a massive jobs program. Millions of men wielding shovels and spades were soon collecting government paychecks for sowing seedlings and reinforcing riverbanks from Maine to California.

Economists have long since recognized that Roosevelt's "New Deal" make-work schemes actually prolonged the Great Depression rather than relieved it. But 70 years later, Michigan lawmakers seem not to have learned this lesson.

The Michigan Civilian Conservation Corps (MCCC) is a reincarnation of FDR's federal "Tree Army." The MCCC employs some 200 recruits, ages 18 to 25, to spruce up state parks, clear trails and rake beaches. But were it not for its environmental bent—and a bit of New Deal nostalgia, no doubt—the program would not likely pass budgetary muster. The MCCC program should be privatized, that is, removed from state stewardship.

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

Participants who log 1,700 hours also become eligible for a federal education grant of $4,725 (or $2,362 for 900 hours of service). Enrollment suspends all payments due on outstanding student loans, while accrued interest is covered in full by taxpayers.

The scholarship benefit, in fact, appears to be the principal draw for corps enrollment. Some 60 percent of participants cited the award as their primary reason for enlistment. Thus, Michigan families who may be struggling with their own college costs are subsidizing the eligibility of others for federal tuition assistance.

Against the state's current billion-dollar deficit, the MCCC's budget may seem paltry. But it is symptomatic of the unnecessary spending that makes Michigan 16th-highest in the nation for tax burden per capita.

There is no shortage of government-sponsored employment assistance. The Michigan Department of Career Development, in fact, spends $486 million annually on a variety of other job training and placement services.

But environmental good works evidently rate premium treatment from Lansing. This enables the DNR to avoid some of the budget discipline that otherwise requires government agencies to prioritize spending. Says MCCC Administrator Steve Philip: "The department has come to depend on this sort of program to help get work done."

If, however, the DNR cannot properly fulfill its obligations absent a corps of federally subsidized workers, perhaps some of the state's vast land holdings ought to be returned to private stewardship. Such logic did not escape then-Saginaw Rep. Fred Crawford, who defied Roosevelt in 1937 when the president unsuccessfully sought permanent status for the federal CCC.

"I would rather have a boy of mine … grow up in private industry and agriculture than in any CCC camp," Crawford proclaimed. "I believe the proper place is on American farms and in American industries under private control."

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

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

But the state's so-called "rainy day fund"—once fed by tax cuts and a strong economy—is fast disappearing. The governor's 2003 budget proposal relies on a reduction of the fund to just $256 million from a high of $1.2 billion. In simple terms, Michigan cannot afford luxuries like the CCC.

Moreover, as the New Deal so tragically demonstrated, government's profligate spending undermines the very economic growth that would otherwise create plenty of private-sector jobs. It's long past time that lesson were heeded. MPR!

Diane Katz is director of Science, Environment, and Technology at the Mackinac Center for Public Policy.

If you would like to learn more about Great Depression-era programs and their effects on Michigan and America, call the Mackinac Center for Public Policy for a free copy of Lawrence Reed's "Great Myths of the Great Depression" at 989-631-0900. You may also find it on the World Wide Web at ***www.mackinac.org.***

State Produces Useful Privatization Overview

By Michael LaFaive

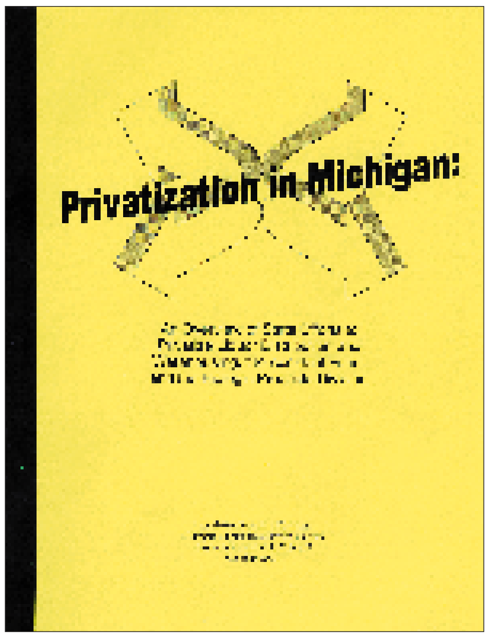
The Legislative Research Division, a nonpartisan department of Michigan's state government tasked with researching various policy issues, has produced a report highlighting a few of the Great Lakes State's more notable attempts at privatization.

The report, entitled "*Privatization in Michigan: An overview of State Efforts to Privatize Liquor Distribution and Warehousing, the Accident Fund, and the Biologic Products Division*," is a balanced, historical review that should prove useful for the future of privatization in our state.

Published in October of 2001, the document lists arguments for and against privatization and sets the stage for more in-depth analyses by offering a sweeping account of Michigan's fiscal health from as far back as January 1983. One of the most salutary services of the study is to expose the negligence of the State of Michigan in failing to impose any uniform system of monitoring to determine whether its privatization attempts have been successful—or even whether they were implemented at all.

For example, the report details Gov. Engler's Privatize, Eliminate, Retain, or Modify (PERM) process, implemented in his first term, which used sound methodology for determining whether or not a state activity should be privatized. But because no benchmarks were set up for marking improvement in cost and performance for programs and services privatized, the analysis of whether PERM was a success can only be based upon erratic data resulting in wildly differing assessments. While a successful monitoring system should have been part of PERM from the start, the only evaluations available are from entities other than those that did the privatizing, namely, the Senate Fiscal Agency and the Council of State Governments, a nonpartisan association that shares information among state governments. From the Legislative Research Division report:

> From January 1993 until its abolition as an independent unit in September 1997, the Privatization Department supervised the PERM process. Over this period, according to the Senate Fiscal Agency, 15 departments submitted 67 PERM reports and 51 percent (34) of said reports were submitted by three departments: Military and Veterans Affairs (14), Transportation (13), and the Department of Natural Resources (7). In addition, among the 67 PERM reports there were only 38 recommendations for privatization (57 percent), 3 for elimination, 19 for retention, and 7 for modification.
>
> Due to the lack of systematic follow-up, the fiscal agency reported that it was very difficult to ascertain the number of recommended privatizations that were actually accomplished. Of the 38 activities recommended to be privatized, the departments identified only 24 activities that were actually privatized, or 63 percent of the activities recommended for privatization.



The state of Michigan has produced a useful privatization overview of Michigan's three most notable privatization attempts.

The Senate Fiscal Agency findings are very different from those compiled by The Council of State Governments (CSG). In 1997, CSG conducted a nationwide survey of state executive agencies to determine the number of programs and services that had been privatized during the past 5 years. Among the 11 Michigan executive agency respondents, CSG reported that 119 services had been privatized. This number is significantly higher than the 38 recommendations for privatization and the actual 24 activities that had been privatized as cited by the Senate Fiscal Agency.

Only those privatizations that were in some way controversial and therefore of interest to news media received a level of public attention such that their success or failure was sufficiently documented. Perhaps the most controversial of Gov. Engler's privatization initiatives, cited in Privatization in Michigan, was the state liquor and warehousing distribution system. After years of debate, legislative proposals and counterproposals, one lawsuit, and even a restraining order, the system was privatized in January 1997.

This highly readable report is the first to provide an overview of the history of privatizations carried out by the state of Michigan.

Despite general approval of the effort by merchants, *MPR* criticized the plan at the time for not going far enough. "The problem is that the LCC (Liquor Control Commission) did not leave the business of liquor distribution. Truly effective privatization would have meant commercialization—walking away from the business lock, stock, and (half) barrel." For more on this subject, see "Liquor Privatization: Pouring a 200-Proof Opportunity Down the Drain" in the

continued on next page

Feature

“Useful Report” continued from page 5

spring, 1997 edition of *Michigan Privatization Report*.

Another prominent example detailed in Privatization in Michigan occurred in 1994 when Blue Cross/Blue Shield of Michigan (BCBSM) paid the state $255 million to acquire the Accident Fund of Michigan, assuming the liabilities of this state-owned workers’ compensation insurer, in what was at the time the largest privatization of a public agency (state or local) in U.S. history. Upon taking office, the Engler administration almost immediately pushed for privatization of the Accident Fund, an idea that was first advanced in a study by the Mackinac Center for Public Policy (for more on BCBSM see the late winter edition of *MPR* 2001-01).

The most current section of Privatization in Michigan details the privatization of the Michigan Biologic Products Institute (MBPI), which was purchased by the Bioport Corporation. The reason: The September 11 terrorist attacks on America highlighted the need for Anthrax vaccines, of which Bioport is the only producer. The report brings to light facts that were not widely circulated. For instance, the state of Michigan was paid only $14.4 million for MBPI, “instead of the nearly $25 million that the [Engler] administration reported.”

This highly readable report is the first to provide an overview of the history of privatizations carried out by the state of Michigan. It offers a degree of detail that will prove helpful not only to those looking for examples to follow in the future, but also to those trying to assess the many pitfalls that can stymie efforts to return public assets to the private sector. Unlike many reports, this one names names—and for that reason deserves a place on the bookshelves of Michigan lawmakers.

Michael LaFaive is senior managing editor of Michigan Privatization Report.

Perils and Pitfalls of Privatization

Reviewed by Lawrence W. Reed

Public/Private Finance and Development: Methodology, Deal Structuring and Developer Solicitation
By John Stainback
New York: John Wiley & Sons, Inc., 2000, 287 pages

A quarter-century ago, "privatization" was not in any dictionary. The term became prevalent sometime in the late 1970s and Prime Minister Margaret Thatcher of Great Britain became the first national leader to make it a centerpiece of economic policy. It has been in the dictionaries ever since.

Here in the United States, it wasn't until the 1980s—when governments at all levels were straining under the weight of huge, expensive bureaucracies the taxpaying public increasingly resented—that privatization began to really take off. Here it has become particularly popular at the level of local government.

But it has to be done right. There's nothing worse for a "reform" idea than a poor implementation that leads observers to reject the idea outright. It isn't enough to simply declare, "Government is too big and its services are antiquated and costly. Just turn them over to the private sector." Any township, city, county or state official knows that rushing into privatization without doing one's homework first is a prescription for failure.

Fortunately, experts like John Stainback are telling us how to avoid the pitfalls and ensure success. In his latest work, *Public/Private Finance and Development*, he provides the reader with all the information he or she needs to forge profitable public/private partnerships. This is not a book for the generalist; it's not a quick and easy read. It deals with what has become a complex subject, but it walks the reader through the minefields and provides invaluable advice. Stainback describes both the advantages and disadvantages of public/private partnerships. If you're a government official who would like to explore partnerships with the private sector but aren't sure how to go about it, this book is for you. If you're a developer, architect, contractor, investment banker, attorney, or an engineer, and if you're interested in partnering with the public sector, this book is for you as well.

Stainback is a nationally known authority on privatization strategies and is often called upon to provide expert assistance in shepherding public/private partnerships to successful implementation. He recently formed a new company, Stainback Public/Private Real Estate LLC, based in Malvern, Pa.

Which projects are best suited for a public/private partnership approach? In this age of high-tech and niche expertise, there are few projects the public sector can bring to fruition entirely on its own. Stainback's shows how to implement privatization plans for new building construction, rehabilitation and expansion of existing buildings, infrastructure improvements, and to a lesser extent for the management of airports, wastewater treatment plants, correctional facilities, and other services.

Even more important, Stainback goes to great pains to emphasize the importance of what would seem to the layman like minor details. For example, he devotes an entire chapter to the process of soliciting developers. He explains the formula for putting together a proper RFP (Request for Proposal), the notice a governmental body issues to inform private developers of a new enterprise and what will be required. This document, which sets the stage for success or failure of the entire venture, must be not only informative, but must also attract the developer. "Avoid introducing highly technical matters," Stainback advises. "If government and university officials are constrained by an abnormal amount of regulations, specifications, and/or legislative requirements, they should make the developer aware of these additional hurdles by summarizing these issues, but they should not incorporate attachment after attachment at the RFP stage. These details can be fully addressed after a developer is selected. If the RFP is one or two inches thick, most developers will not want to incur the time and expense of adequately addressing these issues until he or she has been selected."

By the time the reader is finished with *Public/Private Finance and Development*, he or she will have no excuses for not knowing how to structure a win-win privatization deal for both the government and the firms with which it does business.

Another useful portion of the book deals with the structuring of finance plans. Using the "Stainback Five-Part Public/Private Finance and Development Approach" illustrated in Chapter 7, projects that initially appear to be financial losers can be transformed into attractive opportunities that will attract capital.

But all this might still seem like so much theory if it were not for Chapter 10, "Eight Case Studies." This is where the rubber meets the road. In very illuminating detail, Stainback explains how actual public/private projects around the country came together. They include the Oregon Arena in Portland; the Oyster School/Henry Adams House in Washington, D.C.; the Veterans Administration Medical Center Complex in Durham, N.C.; and the White Flint Metro Station in Bethesda, Md. From conceptualization to implementation, these case studies provide detailed information that can improve the chances of success for any public/private partnership.

see "Book Review" on page 12

But it has to be done right. There's nothing worse for a "reform" idea than a poor implementation that leads observers to reject the idea outright.

Feature

Keeping it Close to Home: A Survey of

By Joe Agron

School districts and colleges across the nation are slowly reducing their use of outsourcing, preferring instead to keep the operation of non-educational services in-house.

According to American School & University's 7th Privatization/Contract Services Survey, 23 percent of school districts in the United States did not contract out any services in 2001, compared with 21.7 percent in 1999 and 23 percent in 1997. As for colleges and universities, 6 percent did not outsource any services in 2001, compared with 5.3 percent in 1999.

While school districts increased their use of privatized services in some areas, more than half of the categories posted a drop in the use of outsourcing.

Those institutions that do outsource non-educational services are not as enamored with the practice as in years past. The percentage of school districts that privatize five or more services dropped to 9 percent from 15 percent two years ago (the last year this survey was conducted). The percentage of colleges and universities that outsource five or more services shrunk to 34 percent from 44 percent in 1999.

The survey was mailed to 1,000 school financial officials and 1,000 college financial officials in May. The result was a 29 percent response rate for schools and a 32 percent response rate for colleges and universities, or 30 percent overall.

What's Being Outsourced?

Table 1 identifies the percentage of school districts that currently contract out for various types of non-educational services. For purposes of this survey, privatized non-educational services are operations—such as transportation, janitorial or food services—and are separate from the academic mission of the institution, which are turned over to outside companies.

Table 1

Percentage of school districts using selected contract (privatized) services, 2001

Type of service	% of districts
Administrative	2.4%
Computer servicing	18.5%
Custodial	8.2%
Facility management	2.4%
Food service	17.5%
Grounds maintenance	8.6%
HVAC maintenance	19.9%
Instructional-equipment upkeep	4.5%
Laundry	7.9%
Maintenance	3.4%
Office-equipment upkeep	18.2%
Payroll preparation	3.8%
Printing	14.0%
Security	12.7%
Transportation (busing)	31.8%
Vending	20.2%

Among the most commonly privatized services at K-12 institutions are transportation (31.8 percent), vending (20.2 percent), heating, ventilation, and air conditioning maintenance (19.9 percent), computer servicing (18.5 percent) and office-equipment upkeep (18.2 percent).

While school districts increased their use of privatized services in some areas (administrative, computer servicing, laundry, printing, security, transportation and vending), more than half of the categories posted a drop in the use of outsourcing. The largest growth was reported in the outsourcing of laundry services, which more than quadrupled from two years ago to 7.9 percent of all school districts, and security, which grew by more than 50 percent to 12.7 percent of districts. Custodial, facility management, grounds maintenance and HVAC maintenance experienced the biggest shift away from being outsourced, as more districts brought these services in-house.

Table 2 details those services most often outsourced by colleges and universities. Among the most common include food service (74.6 percent), vending (63.2 percent), bookstore operations (45.7 percent), custodial work of academic buildings (26.3 percent) and laundry (20.6 percent).

Although six categories saw an increase in the percentage of colleges and universities outsourcing these services, twice the number of categories experienced a shift away from privatization and back to in-house operation. The largest percentage increases were posted in transportation, which more than doubled to 14.9 percent from two years ago, and computer servicing, which increased by 80 percent to 8.3 percent of higher-education institutions.

Looking Forward

The use of privatized services is expected to decline at both school districts and colleges, compared with projections made in past years. About 25 percent of school districts report they will most likely outsource additional non-educational services in the near future (compared with 27 percent in 1999 and 42 percent in 1997). Roughly 36 percent of higher-

Education-Related Outsourcing

Table 2

Percentage of colleges using selected contract (privatized) services, 2001

Type of service	% of colleges
Bookstore	45.7%
Computer servicing	8.3%
Custodial	
Academic buildings	26.3%
Residential buildings	18.7%
Facility management	9.2%
Food service	74.6%
Grounds maintenance	18.1%
HVAC maintenance	17.8%
Instructional-equipment upkeep	2.5%
Laundry	20.6%
Maintenance	
Academic buildings	9.2%
Residential buildings	8.3%
Office-equipment upkeep	9.8%
Payroll preparation	10.8%
Printing	19.4%
Security	
Academic buildings	15.9%
Residential buildings	8.3%
Transportation (busing)	14.9%
Vending	63.2%

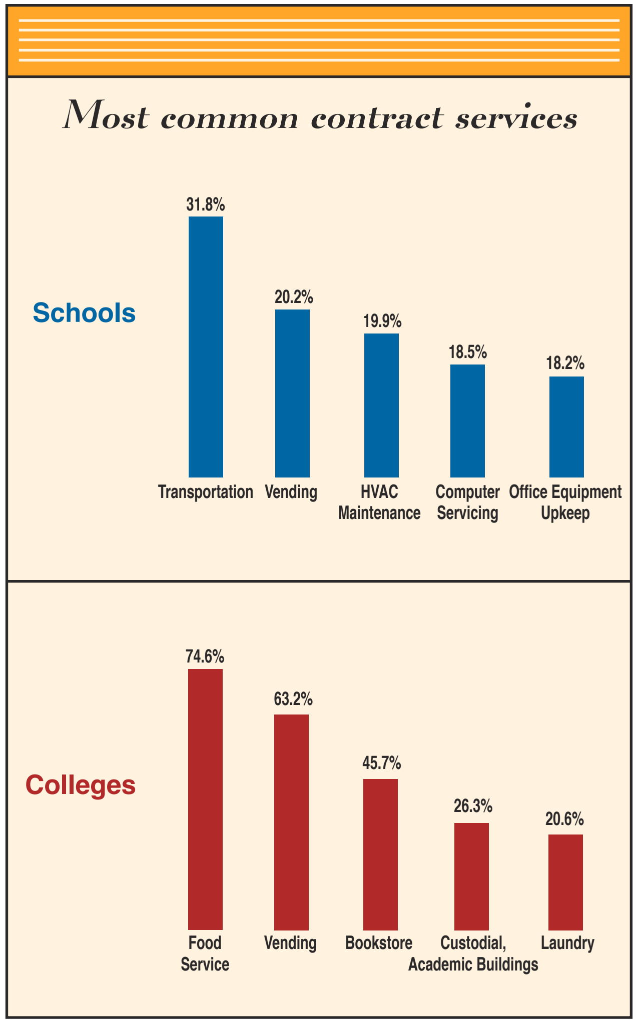
education institutions expect their use of outsourcing to increase over the next few years (compared with slightly more than 37 percent in 1999 and 54 percent in 1997).

Larger school districts are more likely than smaller districts to predict that their use of outsourcing will increase. The tendency to privatize non-educational services is highest among districts with enrollment greater than 5,000 and lowest in districts with fewer than 1,000 students. At the college level, institutions with more than 10,000 students are more likely to increase future use of outsourcing.

The reasons schools and colleges privatize non-educational services are similar. Higher-educational institutions most often choose outsourcing because the private vendor offers better equipment (41.3 percent) or because it saves time (34.9 percent). School districts always preferred to keep operations in-house, although these same two factors (better equipment and time-savings) received the highest percentage of respondents' preferences (32.5 percent and 25.7 percent, respectively) as reasons for outsourcing.

Public opinion and accountability were listed by both school districts and colleges as the primary reasons outsourcing of non-educational services was not practiced, and why operations remained or were brought back in-house. MPR!

MPR Editor's note: This article reports that school privatization is in a mild retreat nationwide but does not suggest why. There is probably more than one reason, but one may be the powerful influence of teachers' unions, who vociferously oppose the outsourcing of noninstructional services to protect revenue derived from union dues paid by noninstructional staff.



Also, Michigan Privatization Report *conducted a survey of privatization in Michigan school districts in the summer of 2001. The results of the survey can be found* ***www.mackinac.org/3721****.*

Joe Agron is the editor-in-chief of American School & University magazine. For more than 70 years, AS&U has been the leading education facilities/business publication for school and university administrators.

Feature

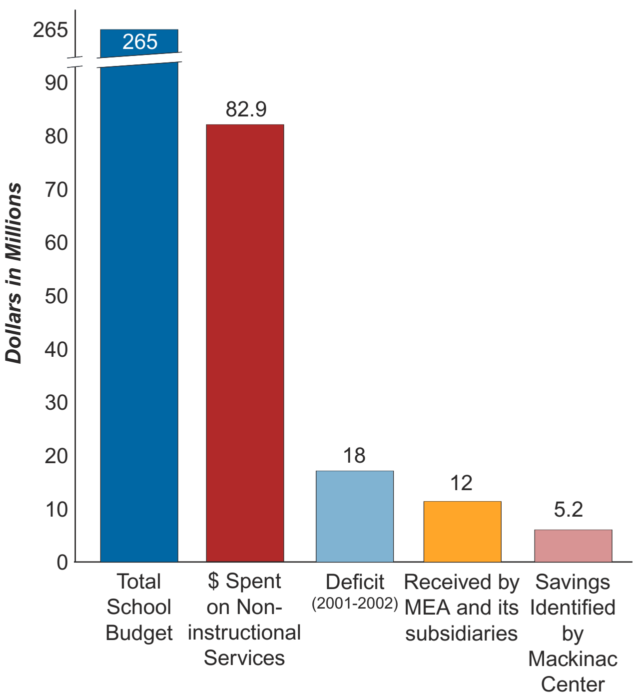
Mackinac Center Offers Advice to Grand Rapids Public Schools

By Nathan Crosslin

Last year, the Mackinac Center for Public Policy conducted a fiscal analysis of the Grand Rapids Public School System to see whether private contracting could help the district dig itself out of a runaway budget deficit, which registered an $18 million shortfall for the 2001-2002 school year.

This analysis showed that by restructuring the district's health benefits plan and privatizing non-instructional services, Grand Rapids could achieve savings amounting to nearly a third of its deficit and possibly whip itself into financial shape within a few years. The alternative would be draconian budget cuts—and possibly teacher layoffs—that might affect the quality of education offered to Grand Rapids students.

Spending and Expenses in Grand Rapids Public Schools



Unfortunately, district and union politics prevented district officials from adopting the Mackinac Center plan.

The budget documents from Grand Rapids made clear why the school district was in financial arrears. Like many districts throughout the state, it maintains a bloated bureaucracy that has outstripped its incoming revenue. Its total budget, which currently stands at $265 million, is subject to runaway health-care benefits that have increased in cost by 10.5 percent each year for the last three years. The cost of other benefits has increased by from 5 to 8 percent. Overall, expenses for the Grand Rapids Public Schools are rising at an annual rate of 6.2 percent. Yet, its revenues are growing at a rate of only 3.9 percent.

Part of the reason for this is that students are leaving for better education alternatives elsewhere. In Michigan, when a student leaves one school district for another, the "foundation grant" money provided per pupil by the state goes with them. That grant currently amounts to $6,582 per student. In the 2001-2002 school year, Grand Rapids Public Schools lost 222 more students than anticipated. That comes to a loss of around $1.4 million. The district anticipates losing even more students in the 2002-2003 school year. It also expects to run a $16 million deficit if it cannot successfully make changes to reduce the cost of operating the district.

After examining financial and operational information from the district, the Mackinac Center recommended that Grand Rapids competitively contract with private vendors to provide bus and food service for its students, janitorial services for upkeep of its schools, and health-care benefits for its employees. The Center conservatively estimated the possible savings from such a plan at $5.2 million per year, nearly a third of the district's projected deficit. The actual savings would almost certainly be more.

Competitively bidding out such services is a common-sense management practice used in business, government, nonprofit corporations, and school districts across the country. Indeed, in a 2001 Mackinac Center survey of 228 Michigan school districts, 71 reported outsourcing at least one of their major non-instructional services.

Even the Michigan Education Association (MEA) union, which officially opposes school district efforts to save money and improve service by contracting out, has itself contracted with private vendors for food, security, janitorial and mailing services at its headquarters in East Lansing. Presumably, the union does this to save money, improve quality, or both.

This was not the first time that the Mackinac Center had offered its assistance to a school district. In January 2001, parents in the Redford Union Schools made statewide news when they began hosting bake sales in an unsuccessful attempt to raise money to preserve teachers' jobs that were being eliminated due to budget woes.

Mackinac Center Senior Vice President Joseph P. Overton contacted the district and suggested that privatization might offer a way to keep the teachers and save money at the same time. After conferring with the district superintendent, the Center drafted a proposal containing cost-saving opportunities. "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 told the Detroit News. "If we have to choose between overly expensive support services and teachers, we say protect the teachers," he said.

The Mackinac Center was so certain that its plan to outsource non-instructional services would cost less while delivering higher quality that it guaranteed $350,000 in savings to

see "Advice" on page 12

Keeping the Faith

By David Bardallis

"Faith-based" charities received national attention in the last presidential campaign when then-candidate George Bush proposed a federal partnership with religious organizations to provide social services to the poor and disadvantaged. But smaller units of government have been successfully contracting with such groups for years.

One such success story is the partnership between Kent County in western Michigan and St. John's Home, a private, nonprofit children's agency. In 1998, the government-run Kent County Child Haven closed its doors after 38 years of housing Grand Rapids-area children who had been removed from homes due to suspected abuse or neglect. The county then turned over the job of finding a place for these children to St. John's Home.

St. John's, which opened its doors in 1889 as an orphanage but has since expanded its mission and services, responded with "Kids First." Kids First is an emergency-shelter-care program tailored to meet the needs of Kent County children who are unable to remain in their own homes due to mistreatment or extreme domestic disturbance. Requests for placement at Kids First come from Children's Protective Services (CPS)—a part of the Kent County Family Independence Agency—or from local police agencies in consultation with CPS.

In fact, many of the approximately 600 children handled annually by Kids First are brought to St. John's by local law enforcement agents, according to Michelle Hoexum, development director for the home. "Police officers have a high level of confidence bringing children here because they know St. John's is a safe place for kids and will take good care of them," she says.

Police aren't the only public officials who have a high level of confidence in St. John's. According to Robert Jamo, a member of the Kent County Family Independence Agency board, the Kids First program has been a real success story.

"It's been a good fit," he says. "I've been very pleased with their performance."

According to Jamo, the contract with St. John's Home comes up for renewal every year, with St. John's officials giving annual face-to-face reports to county officials. Under the terms of the contract, which is worth approximately $1 million annually, St. John's must be prepared to accept any child under 17 referred to them for placement.

St. John's home provides social services under contract to children in Kent County.

The decision to choose St. John's for the contract was simple, says Jamo. "We put the contract out for bid, and St. John's came in lowest, and their bid also included services from two other agencies," he says. "It was easy to pick them."

The original two agencies St. John's subcontracted with are D.A. Blodgett Services for Children and Families, which provides foster-care settings for some youths, and Wedgwood Christian Youth and Family Services, which offers secure environments for youths considered dangerous to themselves or others. But as the Kids First program has expanded, so has its stable of subcontracting agencies.

"We consider ourselves the gateway to the child welfare system in Kent County," says Marvin McKenzie, program director for St. John's Home.

Has the Kent County-St. John's Home partnership saved money?

"I don't believe the county has necessarily saved any money," says Jamo. "But that was never the point."

Neither Jamo nor McKenzie had exact figures when contacted by *MPR*, but McKenzie does believe St. John's Home's relationship with the county has resulted in a net savings.

"The county was operating Child Haven for about $1 million in 1998; we took it over for $874,000 a year at that point," he says.

"The county was operating Child Haven for about $1 million in 1998; we took it over for $874,000 a year at that point," he says.

McKenzie also believes his organization has made a difference in a more fundamental way. "Recidivism [among troubled youths] is considerably less than it was at Child Haven, where it was 27 percent in 1996 and 32 percent in 1997," he says. "Now it's down to about 5 percent." He adds that the problem of "runaways"—kids who are admitted to St. John's Home but who quickly sneak away the moment they find an opportunity—has decreased significantly in recent years.

Another improvement has been St. John's Home's ability to approach children's problems in a flexible way, treating youths according to their different needs.

"Our old 1960s building [county-run Child Haven] didn't allow us to segregate children according to their problems," says Jamo. "So we had older kids, younger kids, with different problems all in the same place."

"Ours is not a one-size-fits-all approach," says McKenzie. "One of the focuses of Kids First is ameliorating the

see "Faith" on page 12

“Advice” continued from page 10

the Redford Union Schools. In other words, if the district, having kept its teachers and following the Center’s savings plan, failed to reap this amount or more in savings, the Center would give the difference to the district out of its own pocket.

The union and its subsidiaries receive revenue of more than $12 million annually from the district and its employees each year.

Regrettably, district and union politics prevented Redford Union from accepting the offer, and administrators followed through with their plans to do away with teachers’ jobs. The same appears to be happening now in Grand Rapids.

Grand Rapids Public Schools Superintendent Dr. Patricia Newby and Carol Crawford, chief financial officer, have indicated that the district has been exploring many elements of the Mackinac Center’s recommendations and agreed that there are substantial savings to be found in non-instructional outsourcing. Unfortunately, neither believed that implementing the changes was possible, mainly due to opposition from the MEA, which currently collects union dues and fees from the district’s custodians, food service workers, bus drivers, teachers and clerical workers.

The union and its subsidiaries receive revenue of more than $12 million annually from the district and its employees each year. If Grand Rapids Public Schools were to privatize their non-instructional services, or competitively bid out for health insurance, the MEA would probably lose much of this sum and the political leverage that comes with it. The union typically will fight tooth-and-nail to prevent a school district from taking this kind of action, whether or not it would help the schools keep more teachers in the classroom. School district representatives justifiably fear a negative MEA public relations campaign that would put severe pressure on the school board to reject any privatization proposal.

Instead, public school officials often follow the path of least resistance. In the current public school political environment, it is easier to blame budget cuts on stingy taxpayers rather than it is to stand up to labor unions and other vocal opponents of sound management. In Grand Rapids, this has already taken the form of an outright denial of services: The district no longer provides bus transportation for its high school students. Next year it intends to close the deficit further by packing more students into each classroom. Such steps would probably not be as necessary if the district had taken the Mackinac Center’s advice.

Of course, those who lose most from this situation are the students, who never see the additional teachers and facilities that school districts’ wasteful overspending could have paid for. Over time, such policies cause a stagnation and deterioration of educational quality that adds fuel to the school choice movement, and causes more and more students to take advantage of the choices already out there.

Grand Rapids Public Schools are facing a budget crisis that requires extraordinary action. But before any real progress can be made, district officials have to muster the courage to stand up to the school employees’ union and do what is necessary to benefit their district and its students.

Nathan Crosslin is coordinator of the Mackinac Center for Public Policy’s Education Reform Leadership Project.

“Review” continued from page 7

With the tremendous volume of local and state privatizations here in Michigan in recent years, it would have been a nice touch for *MPR* readers if Stainback had at least one Michigan case study. Though none are here, the lessons to be learned from other places are certainly as applicable to future efforts in Michigan as well as anywhere else.

Stainback draws upon 24 years of experience in the real-estate industry, including 15 years in public/private finance and development, to write this book. With more and more helpful guides like this at our disposal, there is no excuse for poorly planned or poorly executed public/private projects any more.

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

“Faith” continued from page 11

crisis situation. We want to make sure kids’ needs are met for the short time we have them.”

The partnership with St. John’s Home hasn’t been without snags, however. “[At Child Haven] we were getting older youngsters staying longer than 30 days,” says Jamo. “We hoped with this contract to reduce the length of time these youngsters had to wait to get placed into foster-care settings. Unfortunately, it hasn’t worked out as well as we would have liked.”

Privatization, like most things in life, isn’t always perfect. But it certainly can be a useful tool to help public officials improve the quality of services to citizens—and even to get troubled and mistreated children back on the right path.

David Bardallis is editor of Michigan Privatization Report

State Landlord Will Fail To Pay Tax Bill

According to the Michigan Information and Research Service (MIRS) the Michigan Department of Natural Resources does not have enough money to pay property taxes to local governments this summer on the property it owns. MIRS quoted one state Senator, Leon Stille, (R-Spring Lake) as saying "Do we own too much property?" If we can't keep up with the taxes maybe we should sell some of the land rather than sit on it."

Three-years ago *Michigan Privatization Report* (*MPR*) recommended doing just that. In his article "Land Ho! Should Government Be Landlord?" Peter Leeson totaled state-owned recreational lands, and those lands obtained by the state through tax reversion, purchase, and gifts. The value of the land acquired by the state between 1992 and 1997 alone was $1.3 billion.

It is refreshing to see state lawmakers echo *MPR* ideas. It's just too bad that state agencies aren't taking the lead by implementing these ideas before their financial backs are against a wall.

Detroit schools privatize maintenance department

DETROIT—In January, Detroit Public Schools signed a 10-year, $78.5 million contract with Aramark ServiceMaster Facilities Services to manage its 3,000-employee maintenance operations department.

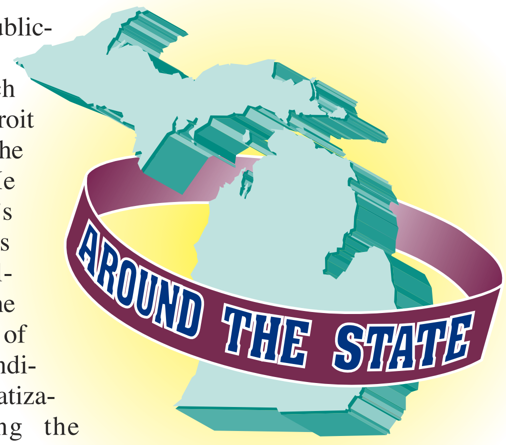
The move, which could have eased the district's current budget woes had it been taken sooner, was blamed by some workers and union officials for the layoff of 69 employees only days earlier. But Senior Deputy Chief Executive Officer Robert Moore said the layoffs were due to belt-tightening, and that although the Aramark contract had indeed eliminated 43 sub-foreman positions, these people had not been let go, but had been sent back to labor positions. The 69 who were laid-off were some of 688 who have been laid off in recent months due to shortfalls projected in the district's budget for the 2002-03 school year. Unionized demonstrators protesting the job cuts created such a disturbance that at a February school board meeting had to be cancelled.

Of course, the privatization will probably save the taxpayers of Detroit a considerable sum, and deliver better services for those who matter most, the students. In addition, Aramark ServiceMaster will revamp the district's maintenance department to provide higher quality service. Among the planned improvements are putting a deadline on work orders (there is currently a backlog of 20,000) with a new software program, selling the maintenance warehouse and buying smaller, more centrally located buildings, and giving workers district vehicles stocked with supplies so they don't have to drive back to the warehouse for parts.

Mayor Kilpatrick Faces Tough Battles for Privatization

DETROIT—If new Detroit Mayor Kwame Kilpatrick expects to fulfill his campaign pledge to improve city services while also cutting costs, he's going to have to tangle with some pretty tough customers: the city's powerful unions, who resist privatization because they fear the loss of union dues and erosion of their bargaining clout.

It seems well nigh impossible for Kilpatrick to fulfill his promise unless he abandons former Mayor Dennis Archer's longstanding pledge not to privatize city services. In a recent Detroit News article examining the mayor's options, reporter Cameron McWhirter wrote that Archer's pledge restricted his ability to change city government in ways that were needed. On the other hand, Archer came about as close as he could to breaking his pledge, without actually doing so. He set up public-private partnerships such as the Detroit Institute for the Arts. He got Detroit's streets plowed following the blizzard of 1999 by indirect privatization—getting the Department of Public Works to hire private contractors. And he tried unsuccessfully to spin off costly departments onto other governments as well as outright divestiture, for example, trying to sell the century-old Public Lighting Department, although he couldn't find a buyer.



Kilpatrick could consider all of these options, as well as setting up competition between city workers and private companies for tasks such as garbage pickup or street repair. Al Garret, president of the city's largest union, American Federation of State, County and Municipal Employees Local 25, told McWhirter he would be willing to entertain such an idea for Detroit.

It seems well nigh impossible for Kilpatrick to fulfill his promise unless he abandons former Mayor Dennis Archer's longstanding pledge not to privatize city services.

Romeo district sued over mold bill

MACOMB COUNTY—When school districts contact out for services, they should have an accurate assessment of the job to be performed, clearly spell this out to the contractor, and have a pretty clear idea of what the cost will be. Otherwise, things can get out of hand pretty quickly, and even wind up in court. That's the lesson being learned by Romeo School District in Macomb County, which is being sued by a contractor for $1.5 million.

It seems the district couldn't open Washington Elementary for the current school year back in September because of the discovery of black mold, which can cause serious respiratory problems.

Around the State

Now that the school has opened to grades three through five, the company it hired for the cleanup job, Statewide Disaster Restoration, Inc., claims it hasn't been paid for $700,000-worth of cleanup work.

Romeo officials balked at this figure, and claimed the company did "unauthorized work." But Statewide is standing by its claim that it did what district officials asked, for a price that should have come as no surprise. The $1.5 million the company is claiming will cover damages and legal fees.

The expense of the cleanup, plus loss of funding due to declining enrollment, has ratcheted up Romeo's budget deficit to $1.8 million.

More on "how not to privatize" at Metro Airport

WAYNE COUNTY—The parking lot contract. The limo contract. The janitorial services contract. Construction overruns. Even Detroit Metro Airport's food-cart contract, investigators from Detroit's major newspapers are reporting, was signed under circumstances that look a lot like cronyism on the part of outgoing Wayne County Executive Edward H. McNamara.

In our last issue, we told you that a Detroit News investigation had turned up 86 percent of the airport's service contracts that had been awarded to McNamara political contributors. Since then, a slew of questionable contracting deals have been uncovered, further tarnishing an already shady reputation.

The FBI and a federal grand jury are investigating APCOA Inc., the airport's former parking contractor, for irregularities in bidding and contracts that some allege to have benefited McNamara's brother-in-law. The janitorial contractor, One Source, a campaign donor to McNamara and not the lowest bidder for its contract (which expired Nov. 30), appears to have overcharged Wayne County by about $1 million according to a county audit. Metro Cars, a luxury sedan company whose executives are major backers of McNamara, had its exclusive deal with the airport renewed in December, a single-bid contract expected to gross about $12 million per year. In a scramble to meet the deadline for opening the airport's new midfield terminal Feb. 24, no-bid contracts were granted to well-connected food-service companies to operate food-carts to replace restaurants that weren't able to open on time. One contractor who won a lucrative contract to operate 15 restaurants previously withdrew because of rising costs and "chaos" at the new terminal. Another contract, for CNN television services in the new terminal, was bid not by the county's purchasing office, but by Northwest Airlines.

So many reports resulted in a chorus of calls for an investigation—calls refused by state Attorney General Jennifer Granholm, who served under McNamara as Wayne County Corporation Counsel from 1994-98, and is viewed as a McNamara ally. Instead, Granholm has stood by McNamara and asked state police to determine whether an investigation is warranted. Then U.S. Rep. David Bonior called for an independent investigation of airport contracting practices, and for Granholm to remove herself from the investigation because she was corporation counsel for Wayne County when the questionable parking lot deals were made.

The latest is that McNamara and Gov. John Engler met in private for an hour and half in mid-February and when they came out, announced that the administration of Detroit Metro Airport would be taken away from Wayne County and handed over to a seven-member, independent authority to run both Metro and Willow Run airports. Wayne County Auditor General Brendan Dunleavy has warned lawmakers in Senate hearings that under the Engler/McNamara plan, the financial auditor would be accountable to the people he's supposed to be watching. In case of the kinds of financial funny business we've been seeing, in other words, the auditor wouldn't be very likely to call in the cops.

[Stanley} even openly discussed privatization of such things as the city golf courses, building inspections, and the demolition of derelict housing.

Flint throws out mayor—but city council refused privatization

FLINT—The people of Flint voted to end the decade-long tenure of Mayor Woodrow Stanley March 5 over a $30-million deficit (now estimated at $38 million), high unemployment, and a crumbling infrastructure, all blamed on Stanley. But it was the Flint City Council that blocked his efforts to privatize and to deploy a portion of the city pension fund surplus to pay other obligations.

Ana Maria Hufton of Flint prepares to vote at Pierce Elementary School. The special recall election of Mayor Woodrow Stanley may herald the temporary end to Flint's self-governance.

In the fall of 2001, Mayor Stanley opened bidding from private contractors to provide refuse collection and disposal in the city, and invited city employees who collected refuse for Flint to competitively bid for the contract. Despite being granted some competitive advantages, the bid city employees submitted was the third highest of the four submitted. When Stanley recommended privatization to the Flint city council, it voted 9-0 *against.*

Stanley helped Flint avoid receivership last summer and worked out a plan with the state of Michigan for reducing the city's deficit. He even openly discussed privatization of such things as the city golf courses, building inspections, and the demolition of derelict housing.

Now that the mayor has been

removed from his position, what might alternative leadership propose for solving the city's problems? More taxes—Flint new mayor will take over with a terrible lesson clearly in mind: Don't try to shrink the size of municipal government. Since higher taxes are often the path of least resistance, they will probably be offered as the short-term solution to Flint's woes. This will only make matters worse, which is why state appointment of an Emergency Financial Manager for Flint is becoming more and more likely.

Editor's Note: As MPR *went to press the Flint city council voted 9-0 against privatizing the Flint IMA Sports Arena for $500,000 plus $3.5 million in renovations over the next ten years. To the city council's great credit the offer was rejected in part because there were no competing bidders invited to make offers on the property. The council appears willing to entertain future privatization attempts, provided the bidding process is opened up to other interested parties. Attempts at privatizing this arena, in some fashion, have been made since 1999, when the owner of a semi-pro hockey team, the Flint Generals, offered to manage the building. The 1999 deal would have meant an extra $250,000 annually to city coffers, plus 25 percent of all new revenues exceeding $1.9 million.*

Highland Park attempts to shed police force

HIGHLAND PARK—Ramona Pearson, the emergency financial manager appointed by the state last June to put Highland Park's books in order, disbanded the community's police force in December and turned over public safety duties to Wayne County, at no cost. Seems like a no-brainer and makes one wonder why a state takeover was necessary to make the move, which wipes out almost half of the city's $11 million debt in one shot. Unfortunately, a local judge thought differently and demanded that Pearson reopen negotiations with the Highland Park police officer's union. The negotiations may be for nothing, however. The city may end up reverting to township status, meaning Wayne County will end up providing police protection regardless of recent court actions. According to the Detroit News, all 125 city employees received layoff notices in early March.

State misses point of privatization—not tough enough on bus fixes

DETROIT—Just because services are privatized doesn't mean they automatically work better, as if by magic. It just means they're easier to get to shape-up—because contractors that provide the services can be fired. In December, the Michigan State Police didn't go that far. But maybe they should have.

They announced a get-tough policy regarding 25 school districts and private companies that provide school bus service for Detroit–area students. The transportation providers' infraction: buses that flunk the state police's unannounced bus-safety inspections.

A state school bus inspector examines the latch on a public school bus. A recent analysis of state records by the Detroit Free Press suggests that public school buses are passing safety inspections at a higher rate except in the city of Detroit.

The old way of dealing with the problem, more than likely a holdover from the days when all such school transportation service was government owned—was the honor system. If problems with buses were identified during the several inspections each year, the state police trusted districts to take care of it. After all, they weren't going to arrest anyone, and nobody could be fired. Now, they say they will require districts and companies whose inspection failure rate falls below the statewide average to be re-inspected before their vehicles can do service again.

Is this what we want for our kids? If a private company is providing poor service—especially of a kind that could result in injury or worse for our kids—it should be fired. Last year, the Detroit Free Press published a survey showing that private firms providing school bus service in the metro area failed state inspections at a higher rate than that of their public-sector rivals.

The point of privatizing services isn't just to save money. Sometimes it can be to save lives.

Just because services are privatized doesn't mean they automatically work better, as if by magic.

Air traffic controllers argue against privatization

CINCINNATI—In January, the National Air Traffic Controllers Association union asked a federal appeals court in Cincinnati to return the management of more than 100 control towers at small U.S. airports—sites in Michigan include those at Battle Creek, Detroit and Jackson—to the government.

Union lawyers claim the Federal Aviation Administration (FAA) acted illegally in 1993 when it privatized approximately 130 towers. Attorney William Osborne argued that air traffic control is the responsibility of the government and that the resulting 1,500 job cuts—including 19 in Michigan—could compromise safety.

The FAA is arguing that private management is efficient and saves money. MPR!

National Perspective

Enron and Social Security Reform

By Michael Tanner

Critics of Social Security privatization are saying that if the earnings Americans now put into Social Security are invested in the economy, they may suffer the same dire fate as the private pension accounts that were decimated by the Enron debacle.

Their faulty assumption is that the personal retirement accounts being recommended by the President's Commission to Strengthen Social Security operate in the same way—and are as vulnerable to the whims of the market—as the Enron accounts.

Fortunately, this is not the case.

No serious Social Security reform plan that allows workers to privately invest a portion of their payroll tax would let those workers invest so heavily in a single stock. Indeed, the plans suggested by the President's Commission, those legislative proposals currently making their way through Congress, and the plans being proposed by various think tanks, all envision broadly diversified portfolios.

What sank the Enron pension plans wasn't the fact that they were invested in the private sector—it was that they were invested almost completely in a single stock that went under. This is always a bad idea. Privatized Social Security pension plans, on the other hand, wouldn't go under in this way for the same reason someone with a diversified stock portfolio doesn't lose their money if a single stock drops off the board. They're still heavily invested in other stocks that are thriving.

If opponents of privatization truly believe that the Enron debacle has shown private investing to be too risky, they should be advising Americans to abandon their 401(k)s and other investments. Of course, they are doing nothing so foolish.

In fact, Senate Majority Leader Tom Daschle, D-S.D., recently endorsed private investment accounts as an "add-on" to the current Social Security system. This is because even opponents of privatization understand that private capital markets are extremely safe long-term investments.

Trying to drag Enron into the Social Security debate shows just how few arguments opponents of privatization really have. MPR!

Michael Tanner directs research on new, market-based approaches to health, welfare, and other "entitlements," such as Social Security for the Cato Institute, a Washington D.C.-based research and education institute.

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

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