

ISSN 1092-7999



MICHIGAN

Privatization

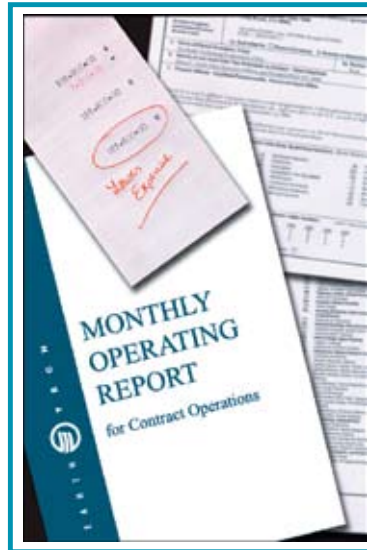
A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2005-02 / Winter 2006

REPORT



- Advice for the Mayor of Detroit -
- Putting a Cap on Subsidized Dental Programs -
- School Facilities and Public-Private Partnerships -
- Government Broadband and More! -

HOW TO LOWER EXPENSES



When you contract the operation of your water or wastewater facility to Earth Tech Operation Services, you save money. Often lots of money.

Supply costs are reduced through process optimization. Costly equipment repairs are minimized through aggressive preventive maintenance. Labor costs are reduced through improved employee utilization.

We handle tough regulatory issues and take responsibility for the compliance of your facility. Your satisfaction is guaranteed.

Call 1-800-748-0199 for a free evaluation and see how easy lowering your expenses can be.



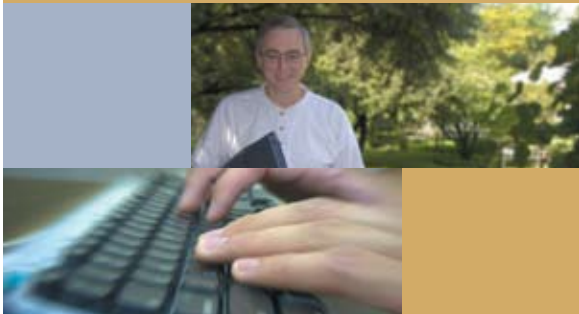
A **tyco** INTERNATIONAL LTD. COMPANY

800-748-0199

5555 Glenwood Hills Parkway, S.E., Grand Rapids, Michigan 49512

MichiganVotes.org

Being an informed citizen has never been this easy.



Your legislator's entire voting record is at your fingertips, 24 hours a day.

Privatization REPORT

Editor: Chris Bachelder

Senior Managing Editor: Michael LaFaive

Graphic Designer: Daniel Montgomery

Michigan Privatization Report is published biannually 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 22,000. Copyright © 2005 by the Mackinac Center. All rights reserved. Permission to excerpt or reprint is hereby granted provided that Michigan Privatization Report, the author, and the Mackinac Center for Public Policy are properly cited, and a copy of excerpt or reprint is sent to the editor. 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: www.mackinac.org if you wish to receive Michigan Privatization Report.

Privatization

A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2005-02 / Winter 2006

MICHIGAN REPORT

FEATURES

4 Advice for the Mayor of Detroit

Detroit has voted to keep Mayor Kwame Kilpatrick in office. The reelected mayor faces some harsh realities: Detroit is incurring more expense than its revenues can sustain, its bureaucracy is bloated and its services are poor. With Detroit's back against a financial wall, it is time for city officials to implement privatization and other bold reforms.



5 Help For the Air Program

The state's Department of Environmental Quality may wish to follow the lead of other states and contract out with private providers to administer its air permitting program. Such a move would likely save the state money while freeing up current DEQ resources for more highly valued uses.

7 Put Cap on Subsidized Dental Programs

The state of Michigan subsidizes two dental programs that should be drilled from the budget. Any call to privatize these programs might be met with protest that proponents of privatization are uncaring. But private-sector alternatives to these state-subsidized programs already exist.

8 School Facilities and Public-Private Partnerships

Construction and refurbishment of school facilities is on the rise everywhere, but especially in Michigan. Intriguing experiments in school construction across the globe suggest there are opportunities to save money. MPR looks at one of them.



11 Useful Privatization Guide Released

Privatization is no longer an unknown term. For decades governments have employed it to help save money and improve services. Because of its prevalence there is ample experience to indicate what has worked well in the past, and what has failed. The National Federation of Independent Business and the Reason Foundation have teamed up to produce a guide for public officials who want to privatize successfully.

16 Government Broadband Unnecessary, Unfair

Municipalities have gotten into the business of providing Internet access. Municipalities that operate such systems should privatize them, while those without them should allow the private sector to provide the service without taxpayer funded competition.

DEPARTMENTS

12

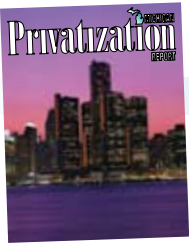


Around the State

The latest privatization initiatives, controversies and news from Around the State.

ADVERTISERS:

Earth Tech Operation Services	2
MichiganVotes.org	2
Educlean Services	6



Features

Advice for the Mayor of Detroit

By Michael D. LaFaive

Detroiters have cast their ballots for mayor, and they have voted to keep Kwame Kilpatrick. Mayor Kilpatrick must recognize that his victory brings with it a sobering challenge. Detroit's decline has been extensively covered by the media for decades as evidenced by a 1961 Time Magazine story entitled "Decline in Detroit." Since the publication of that article, the downward spiral has only accelerated, with Detroit now ranked as the poorest big city in the United States, according to figures released in September by the U.S. Census Bureau.

Mayor Kilpatrick must make fundamental changes to Detroit's economic landscape. Appalling public services, excessive tax burdens and suffocating business regulations have chased people, entrepreneurial talent and financial capital away from the Motor City for the past half century. The following are five recommendations for returning prosperity to the city of Detroit.

1. Accelerate reductions in the city income tax. Add no new or increased taxes to the already sky high tax burden.

The city of Detroit maintains an excessive tax burden that weighs on citizens and job providers alike. According to a study prepared by the Finance Department of Washington, D.C., in 2003 Detroit was the eighth highest-taxed city in the country for a family of four making \$50,000.

2. Contract city services to competitive private firms with proven track records.

The city should conduct a "Yellow Pages" review of the services it provides — that is, it should ask, "If you can find it in the Yellow Pages, should city government really be doing it?" When-

ever private companies can perform a particular activity, the city should either stop offering it or provide it through competitive bidding. Between 1991 and 1998, Indianapolis saved more than \$550 million by applying this Yellow Pages test to more than 75 city services. The research literature on privatization shows that with adequate guidelines, private contracting can be effective and avoid cronyism.

3. Dramatically downsize the city bureaucracy, now one of the largest per capita in the Midwest.

The use of private contractors would allow the city to decrease its bureaucracy substantially. Through fiscal 2005, the city of Detroit maintained a complement of about 18,600 employees, yielding a resident per-city-employee ratio of just over 48-to-1. By contrast, Indianapolis maintains a ratio of about 203-to-1. Detroit's poverty makes this gap inexcusable.



The sale of Detroit's water department facilities and operations could garner over \$1.7 billion if the city would consider selling it.

4. Sell assets, such as underused buildings and equipment, and apply these one-time revenues to debt reduction and to retiree health care obligations.

The city of Detroit is sitting on a mountain of untapped assets. For example, the city could sell its electricity generating department to the highest bidder. It could also sell its bus fleet and contract the operation of its bus system to a private firm. It may even be able to sell its water department,

which the Mackinac Center for Public Policy estimated in 2001 could fetch more than \$1.7 billion.

5. Reduce the regulatory burden on the city's businesses to a level similar to comparable cities.

The city of Detroit operates a Byzantine maze of regulations that blanket nearly every facet of private enterprise. For instance, Detroit's movie theaters must submit to an annual city building inspection. This is in addition to a fire inspection, and the extra requirement is only one of many that add both time and cost to the operation of theaters in Detroit.

The city of Indianapolis, by contrast, requires no annual building inspections for theaters and has a generally milder regulatory regime. Not coincidentally, Indianapolis, with a population of only 784,000, is served by 17 theaters with more than 160 screens. Detroit is a city of 900,000 and hosts only two theaters with 16 screens.

The five steps outlined above would change the city's fundamental economic climate, rather than relying once again on questionable economic development projects like the Renaissance Center, which was sold in the 1990s at a fraction of its original cost.

Real reform can't be postponed. If Detroit's decline persists and the city's financial problems continue, the state may be forced to appoint an "emergency financial manager" to run the city under Public Act 72, which would be an ignominious development for the mayor and Detroit itself. **MPRI**



Michael D. LaFaive is director of fiscal policy for the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy.

If Detroit's decline persists and the city's financial problems continue, the state may be forced to appoint an "emergency financial manager."

Help for the Air Program

By Russ Harding

The Michigan Department of Environmental Quality should follow the lead of other state environmental agencies and contract with private sector air quality firms to help administer its air permitting program. States that have or are privatizing some of their air permitting include: Iowa, Indiana, Kentucky, Minnesota, Missouri, New Jersey, Tennessee and Texas. There are several benefits that could be realized almost immediately by utilizing private contractors in the processing of air permits:

- Scarce state resources would be freed up to do final review, conduct public hearings and perform other administrative tasks.
- “High tech” private sector jobs would be created that help grow Michigan’s economy.
- The state would save money that could be used for other purposes.
- The state would not need to increase the number of permanent employees to deal with temporary increases in air permit workload.

The Air Permit Program administered by MDEQ under delegation from the national EPA is critical to the retention and creation of manufacturing jobs in the state. An “Air Permit to Install” must be obtained before a manufacturing plant can start operations. Most changes to an existing plant, whether for expansion or for a change in process that involves air emissions, trigger the requirement for a new air permit. In an auto assembly plant, merely changing the

brand of paint used to paint vehicles often results in the need for a new air permit. Many facilities must also obtain a “Permit to Operate” which must be renewed every 5 years.

Obtaining permits in a timely manner is an important issue for firms doing business in the state. Industry simply can not tolerate permit delays if they are going to remain competitive in a global marketplace. During the late 1980s and early 1990s, Michigan’s environmental agency had a backlog of over 1,000 permit applications. It was not unusual for companies to wait 18 months or more to obtain an air permit. MDEQ should be commended for having instituted a number of much needed reforms in the air permitting program, which have reduced permit backlogs. However, there is no guarantee that when economic activity picks up in the state, backlogs of air permit applications will not become a problem again.

One way to ensure that permit backlogs are a thing of the past is to contract with private air firms for review of permit applications. Dr. Howard Ellis, whose firm Enviroplan Consulting has successfully operated air permit programs for state and local government, lists the following as essential elements in privatizing an air permit program:

1. Establish a management process that is the same as a successful process for managing a state permitting section.
2. Compensate the contractor on a fixed fee basis by permit type and stage.

3. Address conflict of interest issues by hiring a contractor not currently working for Michigan companies.
4. Have a penalty provision in contracts so a contractor is not paid for poor quality permits.
5. Give permit applicants the option to expedite the processing of their permit applications by paying an expediting fee to cover some or all of the costs of contractor permit preparation.
6. Retain state responsibility for final review and approval of each draft and final permit prepared by a contractor in the same way that a Michigan DEQ Section Chief reviews a permit writer’s permit.
7. Protect Michigan jobs by requiring a contractor to have a Michigan office for the permitting work.

With state budgets remaining tight and Michigan’s economy stuck in neutral, there has never been a better time to harness the expertise of the private sector in adjudicating air permits. If the state bureaucracy continues to resist the involvement of the private sector in processing air permits it may be necessary for legislators to mandate private sector participation. [MPRI](#)



Russ Harding is senior environmental policy analyst with the Mackinac Center for Public Policy.

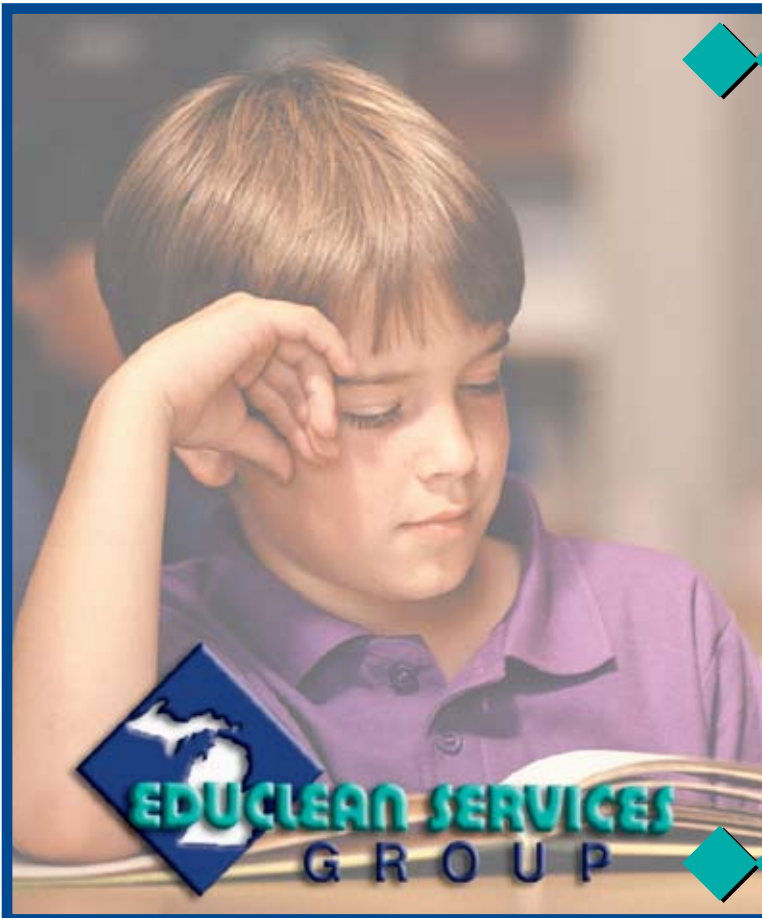
With state budgets remaining tight and Michigan’s economy stuck in neutral, there has never been a better time to harness the expertise of the private sector in adjudicating air permits.



MEGA: A Retrospective Assessment



You can view or download the full-length study, "MEGA: A Retrospective Assessment," on the Internet at www.mackinac.org/7054. You can order a print version of the study for \$10 by contacting the Mackinac Center in one of the following ways: by phone at (989) 631-0900; by e-mail at mcpp@mackinac.org; by Internet at www.mackinac.org/7054 (click the "Order" button); or by mail at 140 West Main Street, P.O. Box 568, Midland, Michigan 48640.



Our Speciality...
**Clean & Healthy Environments
For Learning**

EDUCLEAN SERVICES

800-632-1221

Detroit • Ann Arbor • Kalamazoo • Midland
Battle Creek • Grand Rapids • Saginaw
Lansing • Bay City • Marquette • Traverse City
Flint • Holland • Jackson • Caro
Trenton • Mt. Pleasant • Marshall

Put a Cap on State Dental Programs

By *Laura J. Davis and Michael D. LaFaive*

The Michigan state government is a \$40 billion behemoth containing more than 1,000 budget line items representing expenditures on everything from art subsidies to road work. There are two line items in the state budget that could be eliminated — or privatized — involving dental care. This story isn't limited to ending government programs, however; it is also an example of how private, voluntary civil institutions provide valuable services.

The Michigan Department of Community Health budget contains “Dental programs” and “Dental program for persons with developmental disabilities” line items. The first has two distinct parts and works to help people who are uninsured but do not qualify for dental services through Medicaid.

The first part of the dental programs line item is known as a “donated dental services program,” and the second as the “local health department dental care program.” The Dental program for persons with developmental disabilities is similar though it is dedicated solely to people with disabilities.

According to the House Fiscal Agency, appropriations for each line item in fiscal 2006 totaled \$485,400 and \$151,000 respectively. Neither was generated through the General Fund/General Purpose portion of the state budget. This was not always the case. In fiscal 2004 the dental programs line item received \$225,000 from GF/GP. The state's GF/GP is the portion of the budget over which legislators have the most discretion.

The idea of eliminating state dentistry subsidies is not unheard of. Gov. Jennifer Granholm recommended eliminating the dental programs subsidy

for 2006 and the state House concurred, but the Senate restored the funding.

In fiscal 2004 the dental program line item involving donated services helped 410 patients receive over 5,600 dental procedures. Approximately \$4.9 million in dental treatment has been provided *gratis* to patients over the past nine years.

The funding for this program is used solely to administer a matching service done under contract with a non profit that brings together dentists who volunteer their expertise with patients who need it. Taxpayer funded government middlemen, however, are not the only way to assist people with dental needs. Dentists and others are very generous with their time, and may make up for this subsidized matching service with efforts of their own.

Rather than allowing political society — one characterized by government coercion including taxes and mandates — to address the needs of the state's current patients in dental programs, we should allow civil society to shoulder the burden in its entirety. Civil society is simply that network of “from-the-heart” private institutions that provide charity and similar services in helping the less fortunate. Dentists and other medical professionals are very generous in supporting private, charitable institutions with time and resources.

Almost 7 out of 10 of dentists provide charitable dental care to members of their communities, according to a survey by the American Dental Association. They also provided an average of \$8,323 in free or reduced dental care in 1999 when the ADA last completed its survey “2000 Survey of Current Issues in Dentistry: Charitable Dental Care.”

Charitable dental work currently abounds in Michigan, and the state's program duplicates services that are already being provided. Many dentists,



as the ADA documents in its survey, provide charitable dental care either for free or at a reduced rate, according to an individual patient's ability to pay, and they usually do so without fanfare. The ADA found in its survey that a typical dentist provided services free of charge to an average of 88 patients per year, while providing reduced rate services to approximately 113 people per year.

These dentists serve communities of handicapped individuals, low income individuals, the homebound and elderly, institutionalized patients, HIV/AIDS patients, and migrant workers, in addition to others — such as disaster victims, the homeless, foster children, and missionary workers. They would likely do even more if government would stop taxing them to provide the very services to people to whom so many already volunteer to assist.

There are also clinics such as Hope Medical Clinic, Inc. in Ypsilanti that provide volunteer dental work several days a week throughout the year. In addition there are many referral services — including local clinics like Hope, and organizations like the National Foundation of Dentistry for the Handicapped, the United Way, and the Red Cross — that maintain lists of dentists who are willing to donate their services to those in need.

see “State Dental Programs” on page 15

Almost 7 out of 10 of dentists provide charitable dental care to members of their communities, according to a survey by the American Dental Association.

Building School Facilities

*By Ronald D. Utt and
Michael D. LaFaive*

During the past decade, many parents, teachers and public officials have argued that public school buildings are overcrowded, obsolete or unsafe. This concern has produced a surge in spending on school infrastructure — a cost to taxpayers that could be reduced through public-private partnerships.

According to U.S. Census data, spending on school and university facilities has increased 213 percent over the past 10 years, and is growing almost twice as fast as spending on new residential construction, which itself has experienced one of the biggest booms in recent memory. In 2004, school districts spent more than \$29 billion nationwide on new schools, additions and modernizations. This is a record, according to *American School and University* magazine.

In Michigan, school construction spending is up dramatically. According to the Anderson

Economic Group, between 1994 and 2004 property taxes dedicated to school debt activity — such as school construction spending — increased 217 percent. This greatly outstripped inflation, which rose by less than 21 percent during the same time period. It also outstripped enrollment, which increased less than 12 percent, according to the U.S. Department of Education. A February 2004 report from the Michigan Land Use Institute found: “(A)nnual expenditures in the U.S. for school construction doubled since 1992. In Michigan they tripled.”

Indeed, from 2003 to 2004, applications to the Michigan School Bond Loan Program, a state Treasury plan that indirectly subsidizes the cost of school borrowing for new construction projects, jumped from 24 to 40. The overall value of Michigan public school projects (including technology, furnishings, site acquisition and other expenses) increased by a surprising 65 percent between 2003 and 2004.

What mechanisms might be employed to save districts — and thus taxpayers — money in school construction? A number of innovative solutions have emerged in the United States, Canada and the United Kingdom, and many involve partnerships with private developers, builders and nonprofit agencies.

In the United Kingdom and Nova Scotia, a private developer will often finance 100 percent of the construction

with Public-Private Partnerships

of a new school in exchange for long-term lease payments from the school system. This lease may run for 20 or 30 years and cover only normal business hours. After hours, the developer is free to lease the building to compatible educational organizations such as trade schools, refresher programs, colleges and universities.

Much of the developer's increased revenues under this arrangement are effectively passed on to schools in the form of lower rent. When builders know they can make more money by leasing their facility at night, they adjust their bids accordingly when they vie for the right to build the school.

In many cases, school systems also have the option to buy the building at a predetermined price. Contracts may even call for the owner of the building to refurbish the kitchen or other aspects of the building.

The United Kingdom has the world's most extensive public-private partnerships for schools. Since 1997, such partnerships have driven the new construction or renovation of 256 school buildings. Currently, work is underway on another 291 schools, and an additional 222 schools are in various stages of the procurement process for renovation or new construction through public-private partnerships. Clearly, the approach has appeal.

Consider the money that could be saved if a frugal public school district partnered with an organization like the Bouma Corporation of Grand Rapids (this example is not meant to suggest Bouma's interest in such a partner-

ship). The Bouma Corporation designs and builds charter schools for as little as \$65 per square foot, or about \$100 per square foot when land acquisition and furniture costs are included. By contrast, new conventional public schools, such as the Cass Technical High School and Detroit High School for the Fine, Performing & Communication Arts, cost about \$262 and \$391 per square foot, respectively. Furthermore, Bouma's buildings are built in one-fifth the time of similarly sized school buildings.

Combining such private-sector cost advantages with a partnership in which a private firm can rent out a building after normal school hours could dramatically reduce school districts' costs for developing educational infrastructure. The savings could matter greatly in fast-growing suburbs, deteriorating cities, and places that are experiencing a demographic boom of school-age children. Although there are many reasons why some communities are struggling with school infrastructure, a common cause of the shortfalls is the cumbersome public-sector design and construction process.

The United Kingdom has the world's most extensive public-private partnerships for schools. Since 1997, such partnerships have driven the new construction or renovation of 256 school buildings.

As has been demonstrated in the United States, Canada and especially the United Kingdom, public-private partnerships offer the prospect of serving more community needs for less cost and in less time. Michigan school officials may wish to pursue public-private construction partnerships in order to save money and reduce the need for higher property taxes. MPRI

Note: Portions of this article were excerpted from the Ron Utt study, "Public/Private Partnerships Offer Innovative Opportunities for School Facilities," a publication of the Maryland Public Policy Institute.



Ronald D. Utt, Ph.D. is the Herbert and Joyce Morgan Senior Research Fellow of the Thomas A. Rowe Institute for Economic Policy Studies at the Heritage Foundation in Washington D.C.

Michael D. LaFaive is director of fiscal policy for the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy.

“Broadband” continued from page 16

Wireless Oakland has captured headlines as the state’s largest municipal broadband proposal to date.

the U.S. Internet Industry Association, writing for the Washington D.C.-based New Millennium Research Council.

Arguments for municipal broadband might be more plausible if evidence existed of market failure. But there’s hardly a great shortage of Internet access in Michigan. Even those preferring to Google in public can easily find wireless “hotspots” in airports and hotels, as well as Starbucks, Borders and Kinkos. Meanwhile, a joint venture between McDonalds and Intel will soon make wireless access as ubiquitous as Big Macs, while Verizon, among others, is preparing to expand wireless services across entire communities in 2006.

Nor is Internet connectivity an issue for lower-income households, which constitute the market segment experiencing the highest rate of growth in access. Free broadband also is widely available in public libraries and schools, as well as community centers, compliments of federally mandated taxpayer subsidies.

Thus, the attraction to municipal broadband is hard to fathom — if we dismiss as a primary factor the conceit of politicians. But the risks and adverse consequences of government-managed access are abundantly clear, as evidenced by a closer examination of the Wireless Oakland project.

Wireless Oakland has captured headlines as the state’s largest municipal broadband proposal to date. County officials are promising “free” wireless Internet access throughout the county’s 910 square miles, both open-air and in-building. Plans also call for “no cost” or “low cost” computers and training for low-income residents, although funding has not yet been found. Mr.

Patterson and his team claim that the project will attract new business, boost tourism, improve education, enhance public safety and eliminate the so-called “digital divide” in one of the nation’s wealthiest counties — all without a dime of taxpayer financing.

Minimum number of FREE public wireless Internet hotspots in Oakland County

116

In Oakland county, a wide range of locations from coffeehouses and restaurants to hotels and a mall offer wireless Internet access.

The Pontiac-based firm of MichTel Communications, LLC will own, operate and maintain the wireless network, but will answer to a newly formed public corporation overseeing the service. And while there are no plans for county taxpayers to directly finance the infrastructure, the project will still impose significant costs on the public.

As it is, county staff has already spent untold work hours on the project, and employing an array of public facilities in the process. But that’s peanuts compared to the potential ripple effects of usurping private enterprise.

In theory, the Wireless Oakland plan is viable because the county has pledged to provide unfettered access to hundreds of public facilities for MichTel’s rooftop antennae and re-

ceivers. The access inventory includes 325 buildings, 350 public schools, 1,400 traffic signals, 200 tornado siren poles and other structures that county officials say is worth “hundreds of millions of dollars.”

Competing firms — all those that have not won county favor — can only dream of such access given the siting obstacles they must endure. For example, telecom firms paid Oakland County communities more than \$2.1 million for rights-of-way in 2003-2004, according to state figures; payments statewide totaled nearly \$16 million. There’s no accounting for the hours of bureaucratic wrangling.

MichTel thus will enjoy a tremendous competitive advantage in the state’s most lucrative market — assuming it actually secures the estimated \$113.5 million in financing needed in the next five years to build and operate the network . The provision of free access by MichTel will only further erode rivals’ market share, thereby jeopardizing the investment and innovation otherwise maximized by free and fair competition.

There’s also great risk that Wireless Oakland will lock in a technology that may become obsolete even before the network is completed. The choice of wi-fi presumes that county officials know what system is best despite the roiling of consumer preferences and the rapid pace of remarkable technological change.

According to a Nov. 7 report in Crain’s Detroit, SBC Communications Inc. characterized the Wireless Oakland plan as unsustainable. “The rate of technology change and the eminency of known new capabilities see “Broadband” on page 15

Useful Privatization Guide Released

By Michael D. LaFaive

In September, The National Federation of Independent Business and the Reason Foundation, an institute that produces globally recognized privatization research, released a 32-page study titled “A Legislative Guide to Competitive Sourcing in the States (and Elsewhere).” The guide was written by the Reason Foundation’s Adrian Moore, Geoffrey Segal and Rebecca Bricken, and it is designed to help policymakers privatize in the most effective way possible — that is, by doing it right the first time.

Privatization has been on the rise. According to the guide, “the value of all federal, state and local government contracts with private firms — including service outsourcing agreements — is up 65 percent since 1996, reaching a total of over \$400 billion in 2001.” Other studies suggest that contracting has been driven in recent years by state budget troubles. A nationwide survey by the Council of State Governments, for instance, found in 2003 that among the state budget officers and legislative directors who responded, 68.4 percent said a primary reason for privatization initiatives in their state was to save money. The Mackinac Center for Public Policy surveyed every school district in Michigan in 2005, after several years of slow growth in state education budgets, and found that the number of districts that privatized busing, food or janitorial services had increased from 31 percent to 35.5 percent since 2001.

The guide notes that with recent increases in competitive contracting, states may need to update the guidelines and policies in their contracting rules. The report is therefore designed to share “best practices,” thus “ensuring transparency, accountability, and the delivery of high performance.”

The report contains five major sections:

- **“Definitions.”** In keeping with the Socratic idea that the beginning of wisdom is the definition of terms, the report starts by defining eight privatization-related words or activities, such as “contracting out,” “public private partnership” and “inherently governmental.” Using a four-part format that appears throughout the study, the authors accompany each definition with a related policy recommendation, a specific example of the recommendation, the reasoning behind it, and — helpfully — the potential pitfalls in following it.
- **“Authority to Competitively Source.”** The guide describes how legislation and executive orders can encourage administrators to consider privatization when they might otherwise avoid the risks that can accompany a high-profile privatization. The guide further recommends adopting “policies for evaluating internal and external service delivery options when expanding services or adding new services,” so that administrators are encouraged to consider competitive contracting from the outset whenever a government unit decides to expand its activities.
- **“Competitive Sourcing Process.”** This section describes how well-organized government practices can encourage effective competitive contracting. One potential error is to let each state agency design its own particular requirements for contracting. This process can unnecessarily multiply contracting standards and force companies that bid on multiple contracts to expend extra resources in complying with many varying requirements, driving contract costs upward without benefit.

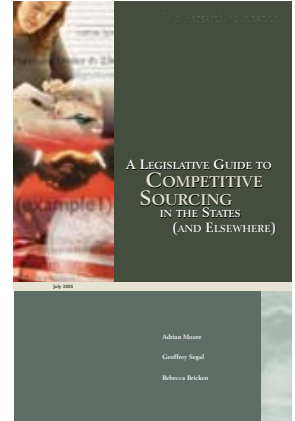
One reason Southwest Airlines flies only one type of aircraft is so

that its mechanics need to learn only one system. The same savings can be obtained by having state agencies use similar privatization processes whenever possible.

- **“Implementing Competitive Sourcing.”** The authors suggest that government agencies evaluate bids on a “best value basis,” a process that weighs both price and quality considerations. (The Mackinac Center for Public Policy counsels that a “request for proposals” should not require automatic acceptance of the lowest bid, though administrators should offer a very public explanation whenever the lowest bidder is not selected.) The study’s authors also recommend “performance-based contracts,” which specify the desired results, but allow contractors to propose their own methods for achieving the outcomes.
- **“Post Competitive Sourcing: Oversight and Enforcement.”** The guide emphasizes the importance of auditing and of regular reporting to public officials and the public itself. These practices not only “ensure performance and accountability,” but allow privatization to remain “transparent and readily accessible to policy makers and the public.”

This report belongs in the reference library of policymakers who want to explore privatization. It is not the first and last word on privatization, but as a quick guide on best practices, it was not designed to be. Policymakers should use it to design privatization strategies that benefit from the experiences of others. [MPRI](#)

Michael D. LaFaive is director of fiscal policy for the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy.



The guide notes that with recent increases in competitive contracting, states may need to update the guidelines and policies in their contracting rules.

Around the State

South Haven Marina May Be Privatized

SOUTH HAVEN — South Haven City Manager Kevin Anderson has been authorized to seek proposals to operate the city's four marina and boat launches, according to an Oct. 9 article in the South Haven Tribune. The idea to contract out for management of the marina was facilitated by the retirement of the marina's previous director. "Marina privatization is still a relatively rare occurrence," said Michael LaFaive, senior managing editor of Michigan Privatization Report, "but its popularity appears to be growing as strapped governments look for ways to improve services and save money."

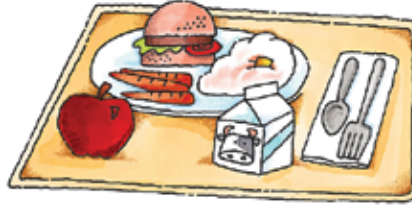
Several years ago the Westrec Corporation of Encino, Calif., took over management of Chicago's marinas. They also operate marinas in Arizona, Florida, California, Georgia, Hawaii, Nevada, and the state of Washington. Not all are being managed for units of government. Some are directly owned by Westrec. The company also manages marina-related restaurants and campgrounds.

South Haven released a 53-page Request for Proposal to solicit interested parties in negotiating a management contract for marinas. The four marinas have over 200 boat slips plus accommodations for other boats.

The Mackinac Center for Public Policy has written briefly on the subject of marina, dock and boat launch privatization in its studies "Recommendations to Strengthen Civil Society and Balance Michigan's State Budget," and "Ecorse: The Fall and Rise of a Michigan City." Both are available online at www.mackinac.org/5046 and www.mackinac.org/252, respectively.

Food Service Outsourced in Grosse Pointe

GROSSE POINTE — The Grosse Pointe Public School System last July agreed to contract with Sodexo Management, Inc. to provide food



services to students, employees and guests throughout 17 of its buildings, 16 of which were schools. It is a one-year contract with the option of four one-year renewals.

This deal was not included in the Mackinac Center for Public Policy's summer survey of school privatization totals because it was unknown to the Center at the time its researchers contacted the Grosse Pointe School district. The goal of outsourcing the program was to break even financially. Last year when it was run by the district the program lost \$50,000. This year, that loss will not only be eliminated, but the program could possibly generate more than \$90,000 in additional revenue for the district.

Kalkaska Considers Private Custodians; Keeps Service In-House

KALKASKA — The citizens of Kalkaska have been debating whether or not their local school board should contract out for management of school custodial staff. The Leader & Kalkaskian reported Oct. 12 that



the September school board meeting did not result in a vote on the issue because of a last minute proposal by the Michigan Education Association. The MEA is the state's largest union of teachers, janitors, cooks and bus

drivers. At its Oct. 24 meeting the board chose to tentatively ratify a contract with district custodians. Michigan Privatization Report was informed on Nov. 14 that concessions were made by the custodians to make keeping the service in-house more affordable. While the deal has not yet been completely finalized, it appears as though it will be.

Forest Area Community Schools Explores Private Custodians

FIFE LAKE — Forest Area Community Schools is beginning to examine custodial privatization as a way to save money. The district has, according to the Oct. 5 edition of the Leader & Kalkaskian, received three bids from outside firms. According to the article, district officials are happy with the quality of the custodial services, but want to reduce costs without sacrificing quality. The article also states that the district is reviewing the bids while it works with the custodians' union representatives. "It is not uncommon for government units to collect private bids in order to encourage employees to make wage and benefit concessions," said Michael LaFaive, senior managing editor of Michigan Privatization Report. "That may be what's taking place here. The district can say to the union, 'we have an option to obtain these services at a more competitive cost.'"

Ithaca Schools Pleased with Private Mental Health Providers

ITHACA — The Ithaca Public Schools is in the second year of a three-year contract with a private psychological service to provide mental health work throughout the district, a move estimated to have saved \$32,000. Prior to contracting for individual student evaluations with List Psychological Services of Bay City, the school district purchased the

South Haven released a 53-page Request for Proposal to solicit interested parties in negotiating a management contract for marinas.



services from its local Intermediate School District. Charles Schnetzler, superintendent of the Ithaca school district, told MPR that they are happy with the services the district is now receiving.

Gratiot County Completes Fiscal 2006 Budget; More Privatization Looms

GRATIOT COUNTY — Gratiot County is set to lay off two government janitors and a fair coordinator effective Jan. 1, 2006 to help balance its 2006 budget. The janitorial work will now be performed by the local firm “MMI,” according to the Sept. 8 edition of the Gratiot County Herald. Looming on the horizon, however, are additional layoffs as county commissioners examine privatization of kitchen services at the jail. The county will also consider cuts to, or privatization of, its animal shelter and county permitting functions.

Traverse City Zoo Move Possible Says Review Committee

TRAVERSE CITY — The Sept. 16 edition of the Traverse City Record-Eagle reported that the city’s Clinch Park Zoo Review Committee found that moving the Clinch Park Zoo to another location is feasible and that “some form of privatization should occur.” Members of the committee were split on whether or not the zoo should remain open if it was not moved. One possible location mentioned by the members was the former state hospital grounds.

On Nov. 7 the city commission voted unanimously to adopt a Recommendation Statement from its 15-member Clinch Park Zoo Review Committee. The statement includes an announcement by the city of its intention to close the zoo by Labor Day 2007. It also recommends that the city solicit proposals from community associations or individuals for the cre-

ation of a new zoo on another site.

The annual tax subsidy necessary to maintain the current zoo is approaching \$400,000, according to the Record-Eagle.

Michigan Privatization Report Launches Electronic Around the State

MIDLAND — Michigan Privatization Report has begun sending



monthly “Around the State” updates of privatization initiatives, controversies and news about privatization in the Great Lakes State. This is the most popular feature of MPR. If you would like to receive this electronic digest in the future, please email Michael LaFaive at mpr@mackinac.org with the word “subscribe” in the subject line.

CPA Broaches Privatization with Houghton Board of Education

HOUGHTON — According to the Houghton Lake Resorter, the fiscal 2006 school budget for the Houghton Public Schools is more than \$600,000 in the red and will effectively wipe out the district’s positive fund balance if drastic steps are not taken. In a special Sept. 12 meeting with the school board, Certified Public Accountant Steve Smaka recommended that the board consider privatizing its busing and food services.

One audience member took issue with the recommendation, noting that she had heard privatization may be more costly in the long run. The Mackinac Center for Public Policy has noted that this is a common contention among opponents of privatization. “It’s a beguiling argument simply because it is so sweeping and generalized,” said Mackinac Center director of fiscal policy Michael

LaFaive, who has been following privatization in Michigan for 10 years. LaFaive argues that if privatization were more expensive over time, then it would be likely that districts would increasingly abandon privatization; yet we’ve seen growth in competitive contracting, not a decline.

Smaka, a retired state employee and former school board member told MPR that the union’s demands were simply too high. “The MEA is going to have to come to grips with the fact that the district cannot afford the contract which it agreed upon several years ago. If the contract isn’t modified the district could be facing bankruptcy,” he said.

The Resorter published a lengthy account of the board’s meeting. Other ideas discussed at the meeting included competitive bidding for health care benefits to reduce costs incurred for current MESSA benefits; establishing a long-term plan for replacing buses and improving facilities; closing unnecessary facilities; and less use of overtime.

Ambulance-Township Partnership to the Rescue; Officials Face Recall Vote

OWOSSO — The Owosso Township Board voted 5-2 in late August to contract out for ambulance service. The vote followed months of arguments on both sides of the issue and may now result in a recall vote.



In September those opposed to ambulance privatization began collecting signatures to remove Township

continued on next page

The annual tax subsidy necessary to maintain the current zoo is approaching \$400,000, according to the Record-Eagle.



Dean Transportation got high marks for its first day of operation in the Grand Rapids Public Schools system.

Supervisor Richard Gute and Clerk Judy Gute from their positions. Both of the two officials voted in favor of the privatization. The Flint Journal reported that three other trustees who voted to change services are not included on the recall petition. The recall vote is slated for Feb. 28, 2006.

The Mackinac Center for Public Policy has written on the subject of ambulance privatization for years. For further reading, see “Ambulance Wars” on the Mackinac Center’s Web page at www.mackinac.org/3999 or “Privatization: A Cure for What Ails Detroit’s Emergency Medical Services?” at www.mackinac.org/3163.

Albion Schools Privatize Custodial Services

ALBION — The Albion Board of Education has voted to privatize its custodial services by hiring a private firm, a move which is expected to save \$250,000 per year. According to the Albion Recorder, the vote was 6-1 and followed public input, some of which implored the board not to adopt the proposal. The argument in favor of privatization ultimately prevailed because administrators were facing a financial problem. “The bottom line is dollars,” board Vice President Kirk Lee said, according to the Recorder. The firm hired by the Board was Grand Rapids Building Services, which began its work in September.

Shortly before Albion approved the privatization of custodial jobs, the Mackinac Center for Public Policy published its third biennial survey of school privatization. Center researchers found that more than one-third of all school districts in Michigan now contract out for at least one of three major noninstructional items, which include food, custodial and busing services. Of the 552 school districts successfully contacted by the Mackinac Center, 156 contract for food services. 8.7 percent of districts contract out for custodial services, up

from 6.6 percent just two years ago. To read more about the Center’s findings, visit the Mackinac Center’s Web site at www.mackinac.org/7212.

Cedar Springs Schools Contracts for Custodial Services

CEDAR SPRINGS — The Cedar Springs Post reported in August that the local school board voted 5-2 to contract with Grand Rapids Building Services for custodial work at its new middle school. The contract covers a two-year period and is valued at \$123,000. It was estimated that the school would need to spend \$44,000 more on supplies and worker compensation plus an additional \$30,000 on equipment. The West Michigan vendor has been in business in business since 1915 and, according to the Post, is the largest company of its kind in the area.

Smooth Transition to Privatized Service in Grand Rapids

GRAND RAPIDS — While the first day of school often results in missed and late buses throughout school districts in Michigan and elsewhere, Dean Transportation got high marks for its first day of operation in the Grand Rapids Public Schools system. According to a report in The Grand Rapids Press, school officials reported there were “just 20 transportation-related calls to the district’s hotline, far fewer than in recent years.”

The Grand Rapids community has been increasingly debating the use of competitive contracting lately as the school system works to reduce deficits. It is estimated that the contract will save the district over \$18 million during the 5-year life of the agreement.

In a move unrelated to the quality of services provided by Dean Transportation, the Michigan Education Association filed an unfair

labor practice against the company on Oct. 14. The MEA claims that it has a right to represent former district employees now working for Dean. The basis for the claim is the “successor doctrine” which allows a union to continue representing employees after a change in employers. The doctrine dates back to a legal precedent from 1972.

Thomas Washburne, Director of the Mackinac Center’s Labor and Education Project, argues that the successor doctrine may not apply in this instance. “The issue in Grand Rapids is that the former employer is a public school district, while the new employer is a private company. As such, this is not a case where employees have previously voted to be represented by a private sector union,” he said.

State May Finally Dispose of Northville Psychiatric Hospital Property

LANSING — Privatization comes in a variety of forms, including the sale of government assets to the private sector. The state of Michigan has been looking at selling the 414-acre Northville Psychiatric Hospital property in Wayne County since 2001. The sale price exceeds \$30 million.

According to the Sept. 30 edition of Michigan Information Research Service, the Department of Management and Budget tried to auction off the property. Because it received only “one qualified bid,” the DMB entered into negotiations with Real Estate Interests Group. The final deal would have REI paying \$25 million up front and another \$6.5 million at a later date.

This led Grand/Sakwa Properties, a real estate development firm, to file suit on the grounds that REI’s bid did not conform to the demands laid out by DMB in its initial specifications, which mandated a \$33

million minimum bid. An injunction on the sale of the property was issued by Ingham County Circuit Court Judge James Giddings as a result of the suit.

On Sept. 30, however, Court of Appeals presiding Judge William Whitbeck overturned the injunction. According to MIRS, “the court said that while Sawka may have standing under the Open Meetings Act, they failed to show that the violation of that act would result in irreparable harm.” The term standing simply refers to whether or not a plaintiff has the right to make challenges in a court of law.

The case was sent back to Judge Giddings for additional review, but he decided that the court could not grant a preliminary injunction against the sale of the property. Giddings expressed some disappointment in the way the transaction was handled but found no grounds to halt the transaction.

State Rep. Leon Drolet has since created a five-member panel to review the processes involved in state property sales. In an interview with Michigan Privatization Report, Drolet expressed concern over the number of failed attempts to sell the acreage. “The sale — or privatization — of any state asset should be done right the first time,” said the Macomb County representative. “While I applaud the good intentions of state officials, the repeated failure to complete transactions is problematic because it gives an important management technique — the sale of assets — a bad name.”

Drolet wants to ensure that every step involved in the sale of state properties is completed carefully and thoroughly to ensure that future deals are not stymied by poor process. **MPRI**

“State Dental Programs” continued from page 7

The NFDH maintains a list of 808 dentists in Michigan who are willing to provide dental services pro bono or at a reduced cost. This is up almost 26 percent from 2003 alone. The list of dentists includes both general practitioners, and specialists such as oral surgeons.

Elimination of a state service now being delivered might be deemed unfair and will be inconvenient to current recipients. In addition, many charitable institutions currently feel overwhelmed by demand. But it is also unfair and inefficient for the government to ascertain which Michigan citizens deserve special accommodations through government programs and which do not.

It is unfair because people who struggle to meet their own dental demands are taxed to pay for those who do not. It is inefficient because a) government programs usually require

costly overhead and paperwork, and b) bureaucrats, however smart and caring, do not have the information available to them to make the type of highly nuanced health care decisions that a diffused population of dentists, nonprofits, and patients can make without central planning.

There is no doubt the dental programs run by government are well intentioned, but they ultimately work to crowd out the generous institutions of civil society — family, friends, churches, organized charities, and other individuals — from doing all they can do voluntarily to assist the needy in a very personalized fashion. **MPRI**



Laura J. Davis is an adjunct scholar with the Mackinac Center for Public Policy and a University of Michigan law student. Michael D. LaFaive is director of fiscal policy for the Morey

Fiscal Policy Initiative at the Mackinac Center for Public Policy.

“The sale — or privatization — of any state asset should be done right the first time,” said State Rep. Leon Drolet.

“Broadband” continued from page 10

will make it unlikely that a player who invests in a total countywide wireless blanket will be able to obtain a return on investment prior to next generation services stealing their customer base,” the company stated in a letter to the county.

Recognizing such dangers, legislators in several states are considering bans on municipal broadband, while legislation is pending in Congress. Texas Rep. Pete Sessions introduced legislation in May to constrain municipal broadband, a sentiment echoed in a recent bill sponsored by Nevada Sen. John Ensign.

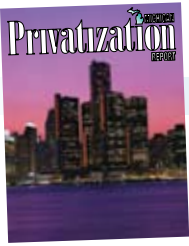
Michigan State Rep. Mike Nofs, chairman of the Energy and Technology Committee, likewise argues that

municipal broadband is anti-competitive. “We don’t need county, city and township governments trying to control private businesses. That’s not free enterprise.”

Alternatives do exist for local officials dissatisfied with the course of the market: To the extent that municipalities reduce tax and regulatory barriers, broadband penetration and consumer choices will increase. Simply put, Michigan needs less government involvement in broadband, not more. **MPRI**



Diane S. Katz is director of the Mackinac Center for Public Policy’s Science, Environment and Technology initiative.



Feature

Government Broadband Unnecessary, Improper

By Diane S. Katz

From Detroit to Marquette, municipalities by the dozen want more control over Internet access. Undaunted by the frequent costly failures of such ventures elsewhere, many local officials insist they can solve an array of economic and social ills by managing citizens' connections to the World Wide Web. But evidence and experience suggest strongly that a market-based approach would get the job done better and with less political baggage.

defeated by the likes of the Michigan Municipal League and other advocates of government-run Internet access.

In the absence of government interference, however, the number of high speed lines statewide has increased by 1,251 percent in the past five years, to more than 1.1 million. At least 32 firms in Michigan already offer Internet access of every sort, including coaxial cable, DSL, and wireless. Indeed, no other technology has ever spread as far so fast at such affordable cost.

Oakland proposal ranks as Michigan's most ambitious to date, encompassing "free" wireless access across Oakland's 910 square miles.

Assuming even the best of intentions, there's solid evidence that local governments are ill-equipped for the rough and tumble of the high-tech market. Indeed, executives have warned Oakland County that new technologies will render the proposed service obsolete before project costs can be recouped. More often than not, municipal broadband ventures have saddled taxpayers with unwelcome debt or otherwise failed to deliver promised results.

Take for example the Florida community of New Smyrna Beach, which is losing \$200,000 a month on its municipal telecom service. To the south, in Orlando, a 17-month trial of "free" wireless Internet ended after the service averaged a dismal 27 users daily — rather than the 200 needed to cover costs. Marietta, Ga., meanwhile, recently took a \$23 million loss on the sale of its fiber-optic network, while the city council of Acworth, Ga., raised property taxes to cover a \$1 million bond payment due on their municipal broadband system. Similar fiascos have also beset communities in Washington, California, Iowa and Oregon.

"Nearly every municipal network of the last decade has failed badly," said David P. McClure, president and CEO of *see "Broadband" on page 10*

Nonetheless, even cash-poor communities are lining up to finance and operate broadband networks or to franchise a favored firm that's willing to discount rates in return for a captive customer base. In addition to Detroit and Marquette, government broadband initiatives are underway in the counties of Oakland, Macomb, Washtenaw, Kent, Genesee and Ottawa, as well as in the cities of Battle Creek, Grand Rapids and Muskegon — to name but a few.

Proponents contend that municipal broadband will stimulate economic growth, alleviate computer illiteracy and even conquer blight. Blanketing a community with subsidized access supposedly will lure loads of high-tech investment and "prepare citizens for the economy and workforce of tomorrow."

"The benefits are nearly endless," according to Oakland County Executive L. Brooks Patterson, whose Wireless



The timing of this trend could not be more incongruous. The Michigan Legislature last month rewrote state law to promote *private* investment in telecommunications technology. But efforts to prohibit municipalities from muscling in on the market were largely