



BOOK REVIEW: Privatization bears fruit in the Big Apple



MICHIGAN

Privatization

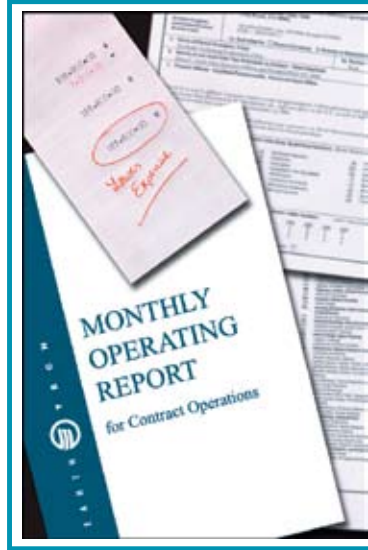
A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2007-01 / Summer 2007

REPORT

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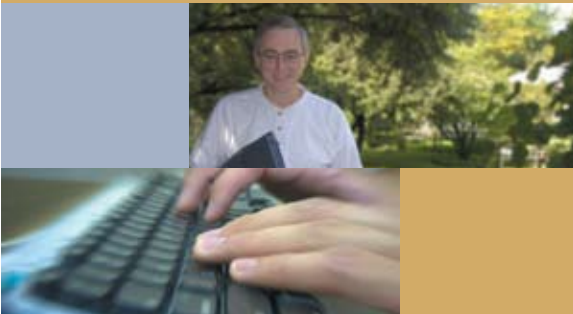
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Michigan Privatization REPORT

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MSHDA: Providing Housing for the Poor or for the Cool?



By James M. Hohman

James M. Hohman is a fiscal policy research assistant at the Mackinac Center for Public Policy.

Government agencies that were created to accomplish lofty civil objectives often end up functioning as little more than political machines. The Michigan State Housing Development Authority, for example, was established to increase the supply of affordable housing for low-income Michigan residents. Today the agency is engaged in activities well beyond its scope and mission. MSHDA needs to be reformed and some of its functions privatized to realign the agency with its stated objectives.

MSHDA was created in 1966 to increase the supply of low-income housing in the state. While it now administers a number of other programs with various aims, its core purposes are spelled out in its enabling legislation. According to the legislative findings, the purpose of MSHDA was to address “a seriously inadequate supply of, and a pressing need for, safe and sanitary dwelling accommodations within the financial means of low income or moderate income families or persons.”

To carry out this function, MSHDA administers a number of federally authorized programs, including loan programs and the Low Income Housing Tax Credit.

The Low Income Housing Tax Credit administered by MSHDA allows developers to take a federal tax credit for a portion of the money they invest in the project. MSHDA is limited in the amount of credits it is authorized to offer, and each year more projects request these credits than MSHDA can allocate. State housing authorities are allowed to award \$1.75 in credits for each state resident, which means that MSHDA can offer roughly \$18 million a year. To allocate those credits, MSHDA has developed a way to pick which projects get funded.



The Michigan State Housing Development Authority has extended its reach into the messy business of state economic development policy, which includes the Cool Cities Initiative.

One would expect that the projects that are best-financed and offer the most housing using the least of the limited federal resources available would receive the agency’s highest ranking. But there are other criteria for the tax credit, including “walkability,” environmental impact and whether the developers have a plan to encourage greater ethnic diversity. Projects also score points if they

receive other government incentives.

Michigan also sets aside some of its credits specifically to be used for “Cool Cities,” a state-run program designed to encourage younger workers to reside in Michigan cities. MSHDA designates 5 percent of its credit cap, or about \$600,000, to Cool Cities projects.

In addition to questionable spending priorities, the program suffers from excessive complexity. In fact, developers score points by simply being able to jump through all of the application hoops within four months of applying.

Outside of the tax credit, MSHDA devotes considerable resources to projects that have little to do with low-income housing. Instead, the agency seems more and more interested in getting into the game of economic incentives. Last year MSHDA started a Southeast Michigan Development division and Urban Revitalization division. According to its five-year action plan, MSHDA also envisions itself as being the “convener” of state incentives.

These divisions are costly. There are four divisions within MSHDA that can be considered part of the economic development scheme. The 67 employees working in these divisions cost MSHDA approximately \$5.2 million annually.

In fact, with pressure building on state finances, MSHDA adopts employees laid off in other agencies. When the state cut positions from the Michigan Economic Development Corporation last year, MSHDA picked them up. As a result, MSHDA’s general operating expenses ballooned by 25 percent in fiscal year 2006.

MSHDA has its hands in projects that have little to do with increasing the stock of low-income housing. For example, MSHDA provides financing to the Michigan Broadband Development Authority. Last year, MSHDA had to write off \$8.6 million from its line of credit to the MBDA because of MBDA’s poor performance.

Whether MSHDA can ever effectively provide affordable housing through central planning is dubious. But it certainly won’t be successful if it continues to digress from its assigned mission. Federal policy allows for MSHDA to administer rental assistance programs and lending programs geared toward increasing the stock and quality of low-income housing and helping people with low incomes to pay for housing. This is where MSHDA’s focus should lie. How MSHDA can use a degree of privatization to advance its objectives will be discussed in the near future at www.mackinac.org and in the next edition of Michigan Privatization Report. [MPRI](#)

Creative Contracting Saves Districts Money

Public school districts around the state are using private contractors in a variety of creative ways to provide nonessential services while saving money. The latest Mackinac Center survey, released in August 2006, found that 37 percent of districts contracted out for at least one of the three large support services — food, custodial or transportation.

For the most part, the decision to seek competitive contracts is driven by finance. A district's ability to raise additional revenues for school operations is limited, and many of a district's costs are locked in by collective bargaining agreements. According to many observers, school districts have historically paid little attention to the quality of the support services that they provide. They are in the education business, after all. Maintaining an efficient school bus parts inventory and developing cleanliness standards never fit within their mission statements.

Opponents of privatization often argue that contractors can provide district savings because they pay employees less than the schools do. In reality, savings are often realized because contractors across the state offer far more reasonable benefits to the district, not because they have the ability to exercise market control over wages.

Food service is a perfect example. Contractors provide cafeteria services to more than 150 districts in the state. Many of these contracts cover only the management of the district's food services. In those cases the food service workers remain district employees, demonstrating that contractors can improve services even without addressing wages.

School food service is a regulated business. In addition to numerous regulations governing the food that students are served, the state also regulates the financial operations of the school's food service program. If districts make money by selling meals in schools, that money must stay within the food program. By law, the school cannot use food service revenues to pay teachers, buy chalk or support any aspect of the district's fundamental education mission.

"When you talk about savings, it's a combination. It's getting maximum participation in the district and paying less money on the food," said Rick Simpson, regional sales director for Chartwells School Dining.

Private food service provider Chartwells took over the Reese Public Schools' food service in 2006. In the short time since then, the average daily meal sales have increased by 9.5 percent.

"Our kids are much happier with the food and the choices that they have," said Superintendent Storm Lairson.

Custodial service is a business of practices — that is, finding the best way to do a task. Developing, implementing and measuring the proper way to clean is important. But developing best practices takes experience and expertise. Sometimes, this involves spending a lot of time to save just a little money.

"In the private sector, we are tasked to save pennies," said one contractor. It can make sense for a contractor to find ways to save money and improve services in ways that can be implemented repeatedly.

Some districts simply do not have the capital to invest in the latest cleaning technology. When the Midland School Board looked to contract out custodial work, its service provider offered to bring Kaivac cleaning machines to replace mop, buckets and elbow grease when cleaning locker rooms and bathrooms. The company offered to invest \$100,000 in equipment to service the district.

Private contracting allows costs to be contained over a long time period. Indeed, North Muskegon recently extended its custodial service contract for two more years at the same price as its first three years of service.

A number of school districts across the state contract out for student transportation. Like food services, there are economies of scale in purchasing buses, equipment, parts and fuel.

Contracting also helps to contain some of the liability associated with providing these services. Accidents happen and can be expensive if someone is injured. Districts must purchase insurance to cover their liability. Large national bus companies tend to be self-insured, producing more savings for school districts. Some districts contract out only for the transportation of special education students. In order to receive an education appropriate to their needs, these students have an individual education plan, which may require transportation between buildings and areas in a district.

For both transportation and custodial services, contracting locks the district's costs in place, making financial operations more predictable. School business managers do not have to worry about increases in health insurance or pension costs. And contract costs are maintained for the length of the contract.

In some of these competitive contracting cases, the changes or savings may be small. Many of them are actions that districts can undertake themselves. Based on the example of school districts that have taken the lead, it is clear that others can find innovative and tailored ways to contract out and focus on the core mission of educating students. [MPRI](#)

By James M. Hohman

James M. Hohman is a fiscal policy research assistant at the Mackinac Center for Public Policy.

"Our kids are much happier with the food and the choices that they have."

— Superintendent Storm Lairson, Reese Public Schools



MANY STATES, including neighboring Indiana and Illinois, have been exploring ways to use the private sector to help build and maintain roads and highways. Unfortunately, this hasn't been happening in Michigan. If this state wants to improve mobility — and reap the economic benefits that result — we need to take advantage of public-private partnerships.



By Dr. John C. Taylor
Dr. Taylor is associate professor of Marketing and Logistics at Grand Valley State University.

One way to accomplish this is through the use of toll roads. Generally, toll roads make sense when they are able to catch drivers passing through a region. But unlike Indiana and Ohio, where there is a high percentage of through users making interstate journeys, most Michigan road users are state residents. Florida also enjoys an advantage since many of its road users are from out of state. Given Michigan's geography, it simply doesn't experience that kind of out-of-state traffic. Tolls are also not a very efficient means of collecting road taxes — it takes capital

improvements, electricity and manpower to collect tolls. A cents-per-gallon fuel tax is a much more efficient means of collecting fees for road use as gas stations are able to collect and distribute the revenue to the state without much additional cost. And like tolls, a gas tax follows a user-fee principle. The more a person drives, the more they pay, and the more fuel efficient a car they use, the less they pay, therefore promoting fuel conservation.

Selling some of Michigan's roads and using the proceeds to invest in other roads is probably not

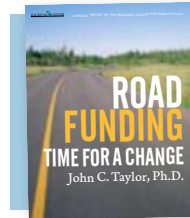
a viable option. Neighboring states and cities — like Indiana and Chicago — have pursued this option. For instance, Indiana received \$3.8 billion for a 75-year lease and Chicago has just received \$1.83 billion for 99 years for the 7.8-mile Chicago Skyway. A number of other states have also pursued or are considering the sale of roads. But they either are building brand new roads or had existing public toll roads to sell. This is a critical difference. Roads built with federal money are required to be toll-free, so Michigan would have to pay back federal funds — up to 80 percent of the total cost in some instances — if it wanted to make an existing highway a toll road.

In addition, if Michigan were to convert entire existing roads to tolls, it would have to add actual toll booths at exits since there would be no way to require all users to have automated technology. Installing toll booths would be very difficult given the space available at many exits. The resulting changes in driving behavior and use or non-use of exits would be extremely disruptive to businesses located at the exits and would likely bankrupt many of them. The only other option would be to use a photo-based toll collection system that might be a hard sell given privacy concerns.

One possible opening in Michigan for selling or leasing an existing public road would be the Mackinac Bridge. Federal aid would have to be repaid, but only in 1950s value dollars, making the cost more manageable. However, the price that could be obtained would be limited by modest traffic levels. The new lease holder or owner would also have to raise tolls by enough to pay back the cost of the bonding incurred to pay the state an upfront price. There would likely be a considerable outcry in the Upper Peninsula about the higher tolls and placing the bridge in private hands, because it is the only traffic route connecting Michigan's two peninsulas. Two other options involve sale or lease of the Michigan-owned half of the Blue Water Bridge and/or the Detroit-owned half of the Detroit-Windsor Auto Tunnel.

Should the sale of existing roads ever be considered, the level of tolls would of course have to be part of that decision. Quite high toll levels can be necessary

to cover the debt costs that private firms incur. For instance, in Indiana the consortium that is leasing the Indiana tollway is paying the state \$4.3 billion that will have to be recouped in tolls. And those tolls will be over and above current rates that the state charges to recoup construction and maintenance costs.



For a full exploration of Michigan's road finance system, see the author's Mackinac Center report "Road Funding: Time for a Change" at www.mackinac.org/8374.

For these reasons, the sale of existing Michigan interstates is probably not viable. However, should there be a need to construct major new road segments, such as a U.S. 23 extension to the north or an expanded I-96 between Grand Rapids and Grand Haven, then private toll roads could be considered. Since Michigan is not growing, it is generally not in need of major new roadways. Instead, from an expansion standpoint, it is more in need of new interchanges and lane additions to address the congestion already present in some areas.

This is where one extremely viable toll option comes into play for Michigan: adding lanes to existing southeast Michigan interstates under federal tolled "express" or "hot" lane programs. With urban congestion in southeast Michigan forecasted to increase by large percentages over the next 30 years, there is a critical need to address funding for additional lanes. These funding requirements are very large. For instance, six miles of reconstruction on I-94 has an estimated cost of \$1.4 billion, with I-75 in Oakland County costing \$1 billion. Coupled with the need for additional lanes on these and other roads, such as U.S. 23 north of Ann Arbor, it is clear that existing funding sources cannot begin to meet the need.

The new federal tolling option allows for up to 15 demonstration projects where the public or private sector can add a lane to an existing interstate and charge tolls to fund the investment. Previously, tolls were not allowed on federally funded interstates unless all previous public investment was paid back to the federal government.

These new toll lanes are not allowed to use traditional toll booths and must instead utilize new transponder technology to automatically invoice customers. Tolls can be fixed or variable for express lanes that do not require high occupancy vehicles. For Michigan's interstates it would be advisable that these tolls be variable and based on congestion levels at different times of the day. If the new lanes did not have to require high occupancy vehicles, they might generate more use.

Overall, the automated tolling program is a tremendous opportunity for Michigan to address major congestion problems along key routes while generating at least \$1 billion of additional highway revenue over time. Michigan needs to seriously consider this kind of tolling program. Minneapolis has already implemented a similar program on I-394. The Bush administration's budget proposal for fiscal year 2008 included \$130 million in grants to help states pursue this option. The proposal would make 10 grants to states under this program, and recommends an additional \$175 million in funding for fiscal year 2009.

There is always a danger that tolls will not generate enough revenue to make a project feasible. However, the idea should at least be explored.

Using a somewhat different program, the U.S. Department of Transportation announced a new "Corridors of the Future" congestion reduction program, which will make available new financing options and expedite permitting. Michigan should seek to have the interstates around Detroit designated as Corridors of the Future this summer. The Chicago area, with portions of I-80, I-90 and I-94 (including portions in Michigan), was just selected for this program. Michigan needs to be next, and such a designation might improve Michigan's odds of being picked for one of the express lane designations and grants.

It is time for Michigan to move forward with planning for southeast Michigan lane expansion and express/hot lane options with automated congestion tolling should be a key funding source. As part of this effort, Michigan should also enact comprehensive legislation outlining the way these toll programs would work, as a number of other states already have. [MIPRI](http://www.mipri.org)



DEFEATING PRIVATIZATION

The MEA's Legal Strategies

The Michigan Education Association is “standing strong against privatization,” according to the Spring 2007 MEA Voice, the newsletter of the school employees union. In the publication’s Letter to Members, the MEA leadership assures readers it is “committed to defeating privatization.”

The promise to forestall competitive contracting efforts is certainly borne out by the MEA’s efforts. The union employs two basic strategies in its fight: standard fare propaganda directed at the public and the school boards, and legal challenges to particular privatization decisions. The MEA utilized both tactics when Grand Rapids Public Schools decided to privatize its transportation services. The propaganda campaign was unsuccessful in stopping the school board, but the MEA did achieve moderate success with its legal efforts once the board had decided. It may be premature for the union to celebrate, however: one legal outcome was dependent on unique facts and is unlikely to be replicated in the future. Another ruling has been appealed, and ought to be overturned.

In 1994, the Legislature, in enacting Public Act 112, wisely ended the union’s ability to seek a ban on privatization during the collective bargaining process. That law states that “Collective bargaining between a public school employer and a bargaining

representative of its employees shall not include ... The decision of whether or not to contract with a third party for 1 or more noninstructional support services; or the procedures for obtaining the contract; or the identity of the third party; or the impact of the contract on individual employees or the bargaining unit.” In 1996, the Michigan Supreme Court rejected the MEA’s claim that the provision was unconstitutional. The court explained that even if a union were to get a school district to include a prohibition against privatization in the collective bargaining agreement, the promise would be unenforceable since it was an illegal subject of bargaining.

Its broad legal attack having failed, the MEA was left to file legal challenges against individual district’s privatization decisions. The three basic claims that the MEA has are: (1) a state tort action against the private company; (2) a federal unfair labor practice claim against the private company alleging a violation of the “successorship doctrine;” and (3) a state unfair labor practice claim against the school alleging repudiation of a collective bargaining agreement.

The MEA used all three claims in challenging the Grand Rapids decision to contract out for transportation. While the MEA obtained a settlement in one of its actions, an examination of the facts suggests



By Patrick J. Wright

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that success will be difficult for the MEA to replicate.

A detailed analysis of these strategies is available in the Mackinac Center for Public Policy's "School Privatization Primer for Michigan Policymakers, School Officials, Media and Residents."

However, an overview of these issues is pertinent for any district looking to contract out.

State tort action against a private company

In Grand Rapids' situation, the district had contracted with a private company to manage its transportation. The company later recommended that the district contract out all of its transportation services, and the district agreed. Both the management company, Dean Management Services, and the transportation company, Dean Transportation Inc., are owned by the same person.

The MEA alleged that the private company's actions constituted a "tortious interference" with the employees' contract. Dean Transportation decided to settle the matter out of court. A trial court had held that if the private company solicited the district while the collective bargaining agreement was in place, the private company could be held liable. But where the private company merely accepts a school's offer, no liability would follow.

The company may have had some strong arguments had it chosen to appeal, but it would have risked the possibility of a jury award. Given the costs of litigation, its decision to settle was pragmatic.

Having a company manage a district's transportation is a fairly unique situation among school districts, which explains why the case advanced as far as it did. In most situations, no suit against the private company would be possible since it would be the district initiating the contact. But whatever the risk to the private company, this type of claim is not possible against school districts and should not be a factor in a district's decision to privatize.

Unfair labor practice/successorship doctrine

Another risk faced primarily by private companies is that the MEA

will claim to represent former district employees that they hire. In a Sept. 27, 2006, ruling by a National Labor Relations Board administrative law judge, it was held that since Dean Transportation hired a sufficient number of former district bus drivers, the Grand Rapids Educational Support Personnel Association union still represented those workers. This ruling was recently affirmed by the NLRB.

In the cases related to Dean, the NLRB administrative law judge held that the successorship doctrine applied, meaning that the union that represented GRESPA carried over to the new employer. The decision is being appealed both on the technical application of the successorship doctrine and the broad issue of whether the doctrine should ever apply where the union lacked the ability to strike under state law.

Public-sector unions in Michigan do not have the option to go on strike, while private-sector unions governed by the National Labor Relations Act do. However, the administrative law judge offered no analysis regarding the new right that the bus drivers were obtaining. Neither the NLRB nor the federal courts have addressed the broader issue, so this case may eventually serve as a national precedent.

State unfair labor practice charge/interference with collective bargaining agreement

The third typical manner in which the MEA can legally challenge a particular privatization decision is to file an unfair labor practice charge alleging that the school's decision to privatize repudiates the collective bargaining agreement.

However, in no case has the MEA allowed the issue to be decided, not even before a Michigan Employment Relations Commission administrative law judge. In the Grand Rapids bus privatization matter, the MEA withdrew its charge before there was a hearing. The MEA also challenged the decision by the Albion Public Schools Board of Education to privatize food service. In this case, the administrative law judge held a hearing and informed the MEA that she was going to rule against the unfair labor practice charges, prompting

the MEA to withdraw them.

In another case, dealing with the Hartland Community Schools custodial privatization, the MEA settled for a mere \$20,000, a sum low enough that it made more financial sense for the district to settle than to pay attorney fees to fight the charge.

The MEA's voluntary withdrawal of its unfair labor practice charges in the Albion and Grand Rapids cases hint at a conclusion that the union believes these types of claims are unlikely to prevail. But as long as the general threat is still viable, by avoiding a definitive MERC or court decision, the MEA might be able to extract small amounts from districts that don't have the financial resources for a long legal battle (the MEA's coffers dwarf that of many Michigan school districts). But the MEA's past actions are no guarantee of its future conduct; the union may decide to fully pursue the next unfair labor practice charge it files.

Conclusion

School districts considering the privatization of nonessential services should consult with their attorneys. As long as the district approaches the private companies, and not the other way around, damages from state tort suits can be avoided. Also, there is a good chance that federal courts will hold that the successorship doctrine does not apply where the public sector union lacked the power to strike, since private-sector unions have that power and it is not clear that the former public employees would want to be represented by a union that could strike. Whether a district can privatize in the middle of a collective bargaining agreement is an unsettled matter and the MEA appears unwilling to risk a definitive ruling at this time, but that is no guarantee that its strategy will not change in the future. [MPRI](#)

Privatization Bears Fruit in the Big Apple

A Book Review by Lawrence W. Reed

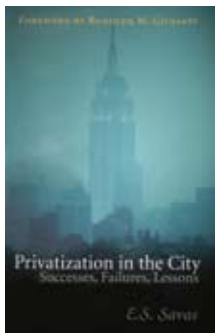
Privatization in the City: Successes, Failures, Lessons

Author: E.S. Savas
CQ Press
Washington, DC, 2005
335 pages



By Lawrence W. Reed

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



New York City's 107th mayor hopes to become America's 44th president. When most Americans think of Rudy Giuliani, they recall his leadership in the aftermath of the Sept. 11, 2001 attacks. They might also know him as a tough prosecutor who brought crime rates down and cleaned up the city, or as the mayor who slashed the number of people on welfare by 60 percent. What is much less known outside of the Big Apple is the remarkable extent to which he deployed the private sector to fix day-to-day problems in city services. The Giuliani record from 1994 to 2001 is loaded with powerful lessons for cities big and small.

One of the country's foremost authorities on privatization, E.S. Savas, sheds light on all forms of private delivery of public services in pioneering cities like Phoenix and Indianapolis. Anaheim, Calif., the reader learns, contracts out for no fewer than 122 activities. But the main focus of the author's attention is New York. "Privatization in the City" is, without a doubt, the most complete and readable account available of how the Giuliani administration pulled New York's public services from the municipal dumpster, spiffed them up and cut their cost.

Who should read this book? Any mayor who wants to get things done and doesn't believe they must be done the same as ever. Any city council member who wants to improve services and avoid raising taxes. Any city manager who wants to know how to use competitive forces to modernize the way a city runs. Any union member who still mistakenly thinks privatization can't work. And any frustrated citizen who needs facts and examples to encourage local officials to get off the dime.

Of 82 privatizations proposed by the Giuliani administration, 66 were accomplished, benefiting both service users and the taxpayers who paid for them. The city was able to cut costs by more than \$6 billion, saving the average family of four nearly \$3,300 over eight years. Twenty-three city taxes were reduced or eliminated. Giuliani proved the city could be governed, something many observers had come to doubt by the early 1990s. Giuliani, says Savas, "abandoned New York's failed policies and infused new values, making government work for the benefit of the public in a city long ruled by narrow interests."

When the administration opened up the city's Department of Parks and Recreation to competition, just the threat of it prompted city unions to dramatically improve operations. Voluntary support for cultural institutions increased when the city cut its subsidies. A private, nonprofit group called the Central Park Conservancy now manages the world's premier urban park. The sale of city-owned assets including gas stations, parking garages, residential buildings, two radio stations, a television station, a luxury hotel and even the Coliseum exhibition center generated one-time revenues and stopped the flow of annual subsidies for loss-incurring enterprises. Competitive bidding saved millions of dollars for fleet management, school custodial operations, water-meter reading and dozens of other services.

Who should read this book?

Any mayor who wants to get things done and doesn't believe they must be done the same as ever.

Not so successful were Giuliani's efforts to privatize hospitals, prisons and the city's Off-Track Betting Corporation. Among the lessons Savas gleans from those experiences are these: the process of privatization must be open and transparent; union opposition can deter firms from bidding and sabotage the effort from the start; and a campaign to educate the public can sometimes be crucial to success. Nonetheless, Giuliani was able to summarize his privatization accomplishments with these words:

"We now have a broad array of privatization programs that impact nearly every aspect of the city government. ... We divested ourselves of businesses that more appropriately belong in the private sector ... Now these properties generate tax revenues and private-sector jobs."

Nearly 70 pages of the Savas book are consumed by Appendix B: Privatization Initiatives in Detail. This valuable addition provides short descriptions of functions, services and assets; the date when they were privatized and by what method; and a word about the benefits and implementation.

Rudy Giuliani was by all accounts, from friend and foe, an extraordinary mayor. He set about to fix a nearly dysfunctional city and succeeded by pursuing what made good management sense. Privatization was a core component of his strategy. That doesn't necessarily mean that he'd make a good president, but saving a major city is a qualification most candidates can only envy. **MPRI**

AROUND THE STATE

Anti-privatization bill introduced

LANSING — Sen. Michael Prusi introduced a bill that would allow school unions to bargain for privatization bans. Currently, the decision on whether to contract out is a prohibited subject of bargaining. (For more details, see related stories on pages 8 and 16.)

State officials investigate lottery privatization

LANSING — Earlier this year, lawmakers discussed an issue first promoted in the winter 2003 issue of Michigan Privatization Report — selling Michigan's lottery. State officials were considering this step to help resolve the projected state budget deficit, according to the Michigan Information & Research Service.

The lottery is currently being used to supplement the School Aid Fund. Since the creation of the lottery, it has added almost \$13 billion to schools, MIRS noted.

Illinois plans to lease its lottery for \$10 billion, according to the Associated Press. Data from the Census Bureau shows that Michigan's lottery provides 37 percent more proceeds than Illinois receives from its lottery.

There are logistical hurdles to selling the lottery, however. Proposal 1 of 2004 may require that a statewide vote be held if officials wanted to sell the asset, MIRS reported. Prop 1 dictates that the state cannot expand gambling without a statewide vote.

State is looking to contract out foster care

LANSING — The Senate Human Services Appropriations subcommittee has recommended that the Michigan Department of Human Services contract more of its foster care and juvenile justice services

to private companies, according to the Associated Press. Proponents say that the move will save the state \$36 million.

Department of Human Services officials contended that the state would have to extend its oversight of the private providers, which may end up costing the state more, according to Gongwer News Services.

Corrections support service contractors testify to savings

LANSING — Contractors testified before the Senate Judiciary Committee that outsourcing food services in the Department of Corrections to private entities could save the state millions of dollars, according to the Michigan Information & Research Service. Contractors also testified that contracting for some mental health services within the department could attain savings.

Corrections facilities across the state offer food services to inmates that are often run by private companies. Many jails also offer commissary services — additional snacks, toiletries and clothing that can be purchased by inmates — that are operated by an outside vendor.

One company, Canteen Services, provides services to 22 Michigan county jails already, according to MIRS. A company representative estimated that it could save the state more than \$54 million if it provided services throughout the corrections department, MIRS reported.

The company representative also read a letter from Oakland County Sheriff Mike Bouchard, who stated that contracting at state prisons would save \$40 million.

A representative of MHM Services testified that contracting for mental health services will save the state some money in prescription costs and in outsourcing the litigation costs.

An MDI Healthcare representative testified that hiring a company to oversee

billing costs could save roughly \$27 million, MIRS reported.

Oakland County jail saves with hospital partnership

PONTIAC — The Oakland County Office of the Sheriff has agreed to a deal with North Oakland Medical Centers to provide comprehensive health care to inmates, according to a press release from Sheriff Mike Bouchard. The deal is expected to save the county \$300,000 in the first year alone.

Inmates needing medical care will be housed in a secure hospital wing. Sheriff deputies will provide security to the wing as well as for the hospital.

Milan contracts for groundskeeping and wastewater management

MILAN — The Milan City Council contracted for lawn maintenance and the operations of its wastewater plant, moves that are expected to save the city \$500,000 annually, according to city administrator Dan Bishop.

Milan had borrowed \$13.6 million to expand its wastewater treatment infrastructure to cover the needs of four new housing developments. However, those developments did not produce as many houses as expected and the city did not have the additional revenue from tapping fees to cover the \$932,000 bond payment due June 1.

To deal with its problems, the city has also cut subsidies for its Downtown Development Authority, its parks commission, and is looking at eliminating its transit department. It also issued an RFP to privatize its department of public works, but decided to keep that in house. "We do realize that we are dealing with people here, it's not just all numbers," said Bishop.

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Bay City holds off bridge contracting

BAY CITY — Bay City's mayor vetoed a 5-4 city council vote to privatize bridge operations, according to The Bay City Times. The move would have saved the city, which is facing a \$1.2 million deficit, \$193,000 in the first year.

The city owns two drawbridges that are operated from March 15 to December 15 to coincide with the shipping season, according to The Times. The contract would have provided savings by laying off bridge operators between December and March, The Times reported. Those employees currently are given other jobs by the city during the off time.

The city is estimated to spend \$1.2 million to operate the bridges, the bulk of which is in labor compensation. The private firm was planning on offering comparable wages and benefits, The Times reported.

Detroit looks to sell golf courses

HUNTINGTON WOODS — The Detroit-owned Rackham golf course will be back on the auction block after an agreement with a potential buyer dissolved, according to The Detroit News. The city of Huntington Woods is now offering \$4.91 million for its purchase.

Last year, Premium Golf LLC had offered to purchase the course for \$6.25 million and promised an extra \$5 million to the city if it could repeal a deed restriction that prevented the course from being developed into other uses, according to The News.

A competing bid came from Huntington Woods, which bid \$6.25 million for the course.

Premium Golf pulled its bid before the sale was finalized and Detroit looked for new offers for the property, The News reported.

Huntington Woods lowered its bid after an appraisal pegged the value of the course at \$4.91 million, according to The News.



Detroit has already sold one of its golf courses this year. The Greater Grace Temple purchased the Rogell Golf Course for \$2.5 million, The News reported. A spokesman for Mayor Kwame Kilpatrick told The News, "We said, 'OK, what's our core mission? What do we do well at and what don't we do well at?' Running a golf course just isn't part of the core mission."

Royal Oak to sell golf course to balance budget

ROYAL OAK — City officials in Royal Oak are planning on selling one of its money-losing golf courses, according to the Oakland Press. The two courses combined have lost more than \$500,000 since 2002, the Press reported, but the city is only considering selling Normandy Oaks Golf Course.

The city has received 17 bids from developers with bids ranging up to \$18 million for the property, the Press reported.

The city has been trying to reconcile a string of general fund deficits. In the last year alone, the city's financial report showed that its general fund revenues were about \$1 million less than expenses.

Kentwood votes against private custodians

KENTWOOD — The Kentwood City Commission voted 4-3 against contracting with Grand Rapids Building Services to provide custodial services. The contracting was estimated to save the city \$150,000 annually, according to the Kentwood Advance. The city is looking to save in order to close a budget deficit of \$290,000.

The city currently has five full-time custodians that receive an average of \$17.11 per hour while GRBS pays an average of \$9.24, the Kentwood Advance reported.

Buchanan Community Schools explores contracting

BUCHANAN — After finishing its fiscal year with an amended \$228,000 deficit, Buchanan Community Schools began soliciting bids for custodial and transportation services, according to the St. Joseph Herald-Palladium.

The district issued a request for proposals to provide these services. Five companies responded to the RFP for custodial services, but none for transportation.

The agreement will still save the district \$170,000 annually from its estimated in-house custodial costs.



The savings from the prospective custodial firms range from \$358,000 to \$561,000, the Herald-Palladium reported.

A decision whether to accept a contract is estimated to occur in early May, according to district business manager Rick Bell.

“We cannot raise taxes locally to get more money, and we are required to have a balanced budget at the end of the school year. Funds must be spent wisely to prepare our children for their futures,” school board members wrote in the Berrien County Record.

Recall petitions against board members have been circulated, the Herald-Palladium reported.

Les Cheneaux Community Schools receives contractor proposal

LES CHENEAUX — Contracting out for custodial services could save Les Cheneaux Community Schools \$23,261 annually, the St. Ignace News reported. The district currently pays \$104,861 for its current services.

The company presented its proposal at a school board meeting in April, including plans to staff buildings more hours per week than current district employees do. A company representative stressed that their workers use the latest cleaning methods to provide a time-efficient and effective job, according to the St. Ignace News.

Les Cheneaux looked at privatization for savings. “When we’re talking about giving pink slips to teachers, we can’t leave a \$24,000 savings on the table. The picture right now is very bleak,” school board member Dave Sudol said, according to the News. “That \$24,000 savings could be part of a teacher’s salary.”

Brandywine district switches service providers

NILES — Brandywine schools in southwest Michigan has changed custodial companies, according to the Niles

Daily Star.

The new firm, D.M. Burr, already performs services in two Flint-area districts. At the board’s request, the district agreed to increase the hourly wage of its workers by \$1, according to the Daily Star. The district will also increase the amount of time that the buildings are serviced, the Daily Star reported.

“We’re hearing rave review from classroom teachers,” director of business and finance Sue Furney told the Daily Star.

The agreement will still save the district \$170,000 annually from its estimated in-house cost, according to Furney. The contract with D.M. Burr came within a few dollars of its previous contract.

Monroe Public Schools votes against privatization possibility

MONROE — Monroe Public Schools Board of Education voted 4-3 to deny the investigation of custodial service contracting that could have saved the district up to \$1.2 million, according to the Monroe Evening News.

Contracting with an outside vendor had been suggested as a way for the district to save money, the Evening News reported. The district already contracts for food services, according to the Mackinac Center’s 2006 school privatization survey.

The district is facing a projected deficit of \$5 million for its next fiscal year. Officials have looked into closing schools, moving school elections and selling land, the Evening News reported.

However, additional moves have not been enough to close its deficit and privatization may be revisited. “When we start closing schools, we really need to consider options that are not tied to instruction,” school board Vice President Aaron Mason told the Evening News.

Cedar Springs contracts for cleaning

CEDAR SPRINGS — The Cedar Springs Public Schools will save about \$190,000 a

year after voting to approve a competitive contract for its custodial services, according to the Rockford Advance.

The district is facing a \$1.6 million deficit for the upcoming fiscal year, the Advance reported.

According to the Mackinac Center’s 2006 school privatization survey, the district already was contracting to clean its middle school.

The district’s custodians make between \$10.94 and \$18.13 per hour, according to information obtained by the Cedar Springs Post. Less than half of the district’s 24 custodians live in the community and two-thirds have been employed by the district for seven years or less, the Post reported.

“The board is in a very difficult position,” Superintendent Andrew Booth told the Advance. “We’ve got to cut something. Do we increase class sizes and cut teachers? The priority has to be the kids at this point.”

Ann Arbor schools looks to food service contracting

ANN ARBOR — The Ann Arbor Public Schools has issued a request for proposals to re-contract its food services, according to The Ann Arbor News. The district currently contracts with Chartwells for the food service management.

The school board is also asking that companies bid for staffing the food service program. Currently, the district employs 76 workers to provide the service, The News reported.

School board President Karen Cross told The News, “Everything has to be on the table, at least for observation, and then we have to make wise decisions. Those decisions don’t always come down to just money.”

The school board is facing an estimated general fund deficit of \$11 million over the next two years, and has been providing food service at an average annual loss of





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\$200,000, The News reported.

Food service programs are regulated by the United States Department of Agriculture and any profits cannot be transferred to a school's general fund.

Dowagiac Schools are investigating private custodial services

DOWAGIAC — The Dowagiac Union Schools is looking into privatizing its custodial services, the South Bend Tribune reported.

The district has received six bids to serve the district in response to its request for proposals, according to Hal Davis, assistant superintendent of business services. The bids show savings of between 13 and 32 percent of the cost of the services.

The next step in the contracting process is checking the financial circumstances and the references for the bidders.

"We don't want to be in the business and then have to retract," Davis said.

The district currently contracts for food services, according to the Mackinac Center's 2006 school privatization survey.

Jackson Public Schools renews cleaning contract; privatizes subs

JACKSON — Jackson Public Schools extended its contract with Enviro-Clean Services for two years, according to The Jackson Citizen Patriot. The contract will extend through end of the 2009-2010 school year.

The company was hired by the district in December 2004 with only six days notice.

The services have saved an estimated \$1.2 million per year, Deputy Superintendent of Finance Bill Hannon told The Citizen Patriot. The newspaper calculated this to be the equivalent of \$179 in savings per pupil.

The Board also voted to use Professional Educational Services Group to

dispatch its substitutes, according to The Jackson Citizen Patriot. The move is expected to save the school district \$163,000 annually.

The district currently employs around 300 substitute teachers, The Citizen Patriot reported.

Districts save money through substitute contracting because teachers employed by the private firm do not participate in the Michigan Public School Employee Retirement System and instead can contribute to a 401(k) plan based on their own retirement needs.

Mattawan Schools considering food privatization

MATTAWAN— The Mattawan Consolidated School District is considering food service privatization, according to The Kalamazoo Gazette. The district's food manager plans to retire and the district is looking to replace her with a contracted manager.

The district has issued a request for proposals and is currently considering bids for food service management.

Superintendent James Weeldreyer told The Gazette that the advantages of using a food service contractor include greater buying power, more food marketing and the use of a company's nutritionist.

Bullock Creek employees agree to concessions to stave off contracting

MIDLAND — The Bullock Creek custodian's union agreed to benefit concessions that will save the school district \$60,000, according to the Midland Daily News. The school board was exploring the possibility of contracting for custodial services. The district also will offer retirement incentives that may save the district up to \$150,000, the News reported.

Holly starts aggressive privatization program

HOLLY — Holly Area Schools is looking to privatization as part of its plan to close a projected \$2.15 million deficit, according

to the Tri-County Times.

Superintendent Kent Barnes gave budget recommendations that included outsourcing for food, custodial and counseling services that would save the district \$715,000. The bulk of the savings — \$625,000 — would come from janitorial services.

The district already contracts for the management of its food services with Chartwells and is exploring extending the contract to include labor. If it proceeds, it will be one of only 21 districts in Michigan that contract for both food and custodial services.

Other changes include eliminating some teaching positions. This will save the district \$300,000, but also push the district to the edge of the maximum class size allowable in its labor contracts.

Northville investigating support service contracting

NORTHVILLE — Northville Public Schools has hired a consultant to see whether it makes sense for the district to contract out for its food, maintenance, custodial and transportation services, according to the Plymouth Journal.

The district hired Rahmberg, Stover & Associates to perform the analysis. The firm gathered information about the district's costs of providing these services and solicited information from vendors to show if savings could be found in privatizing its support services.

Its food service budget had a deficit of more than \$40,000 last year due to an unexpected increase in food costs. It had been meeting expenses for around a decade prior to that, according to Assistant Superintendent Dave Bollitho.

The decision about whether to contract or not will be made for the 2008-2009 fiscal year.

Midland Public Schools moving on custodial and food service contracting

MIDLAND — Midland Public Schools has contracted out for food and custodial



services. The district had been facing a deficit of \$5 million.

The district chose Grand Rapids Building Services to operate its custodial services. The contract is expected to save the district \$880,000 in the first year alone. Custodians would start at a wage of \$9.25 per hour and the company will offer employees a benefits package, according to the Daily News.

The district contracted with Chartwells for its food service. Increased participation and lower labor costs are expected make the district's \$260,000 subsidy to its food services unnecessary.

Ishpeming considering custodial contracting

ISHPEMING — Ishpeming Public Schools has started to explore contracting for custodial services. The district has been operating at a deficit and without change, its reserve funds are expected to be depleted at the end of this school year, according to the Marquette Mining Journal.

The district is still acquiring information and may be looking to contract out for the 2008-09 school year.

Custodians attended a recent school board meeting and voiced concern over possible privatization. Their union contract with the district ends this summer, according to the Mining Journal. Under state law, outsourcing is a prohibited subject of bargaining.

Sparta looks to save with custodial privatization

SPARTA — Sparta Area Schools has contracted with CSM Services to provide custodial services. The district is facing a \$1.2 million projected deficit for next year. Contracting this service is expected to save the district approximately \$275,000, according to The Grand Rapids Press.

The district may also cut two teaching positions, cut back on special education and cut a few administrative positions to balance its budget, according to the Sparta/Kent City Advance.

Carrollton Schools considers contracting

SAGINAW — Carrollton Schools is looking to contract out for cleaning and daycare services.

The district is considering bids from three companies that could save the district between \$80,000 and \$120,000 per year.

It is also restructuring its daycare, which will include a private firm handling some of the operations. The daycare move is expected to save the district \$30,000 annually, according to The Saginaw News.

District officials are looking at any support operations for savings in order to be prepared for funding problems from the state.

Fenton receives concessions after privatization initiative

FENTON — The Fenton Area Public Schools support union offered concessions worth \$600,000 after the district looked at contracting out for some services, according to The Flint Journal. The district had been looking to contract for transportation and custodial services to close its budget deficit.

These concessions are only part of the district's budget balancing moves. The district hopes to cut \$1.6 million to \$2.3 million out of next year's budget, The Journal reported.

Other plans included laying off 18 full-time teachers and shifting grades to different buildings, according to The

Journal.

However, the budget-cutting moves do come with some cuts that may affect the quality and service of the support duties. The concessions include the elimination of two bus routes. Also, two maintenance positions will not be replaced, according to The Journal.


Morenci Area Schools privatizes substitutes

MORENCI — The Morenci Area Schools contracted its substitute dispatching services to a private company, according to the Morenci Observer. The move is expected to save the district approximately \$6,000 annually.

The company, Professional Educational Services Group, provides these services to a number of school districts across the state. The district will continue to set pay rates for substitutes, according to the Observer. The main area of savings is that districts will not have to contribute to the Michigan Public School Employee Retirement System.

The district will allow substitute teachers that have accumulated several years of experience to stay as district employees, the Observer reported. [MPRI](#)

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“ .. an invaluable and comprehensive guide to school privatization. ... ”

The Mackinac Center for Public Policy in July published a school support service privatization primer designed to help Michiganians better understand the competitive contracting process in public schools. “A School Privatization Primer” marks the third and final publication in a series of Center guides designed to aid those with an interest in public school policies.

The primer is available at no charge via the Internet at www.mackinac.org

Don't Let Teacher Unions Ban Privatization

School Outsourcing Continues to Grow

Editor's note: This editorial ran in The Detroit News on May 1, 2007. Reprinted with permission.

Further proof that the teacher unions in Michigan — and their lackeys in the Legislature — have little concern for anyone but their members comes to us from legislation introduced by state Sen. Michael Prusi.

The Upper Peninsula Democrat wants to let teacher unions bargain for a ban on privatization. It doesn't matter if hiring outside contractors to serve food, drive the buses or clean the school saves money. He wants the practice to be illegal and has introduced a bill to repeal the law that gives districts the freedom to find the best price available for noninstructional support services.

Prusi joins a long list of Democrats starting with Gov. Jennifer Granholm, who are beholden to the teacher unions first and students second.

Instead of looking at ways to reform the system to make it more efficient and ensure that limited dollars actually go into the classroom, they've decided it's better to continue supporting outdated and exorbitant pension and benefit systems. Teachers in Michigan are the eighth-best paid in the nation and enjoy benefits better than what is offered in most of the private sector.

This legislation is so shamefully protectionist that Prusi's co-sponsors — Irma Clark-Coleman, John Gleason, Raymond Basham, Deborah Cherry, Mark Schauer, Michael Switalski, Gilda Jacobs, Martha Scott, Gretchen Whitmer — deserve equal exposure.

Voters ought to take note of these 10 names. In taking away from school boards the ability to manage their district's tax dollars as they best see fit, these legislators would guarantee tax increases in perpetuity to pay the inordinate costs that would come from a ban on privatization.

Competition is clearly a concern for unions and that's not a surprise. But that's precisely why more — not less — is in order.

When forced to take a close look at costs and delivery of services, vendors find savings and not always by getting rid of people. Union bidders can do this too by loosening work rules, juggling scheduling to eliminate overtime and working more efficiently. Some unions have beaten private vendors for contract.

That's as it should be. And how it should stay. [MIPRI](#)