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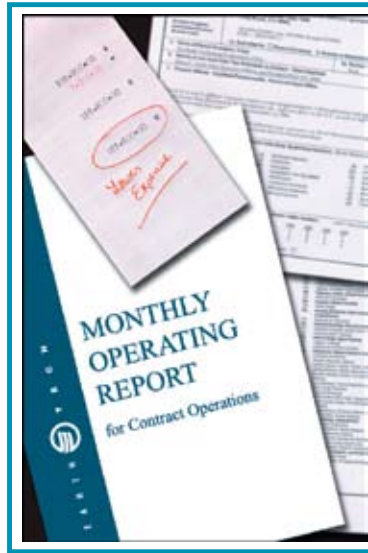
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A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2007-02 / Winter 2008

REPORT



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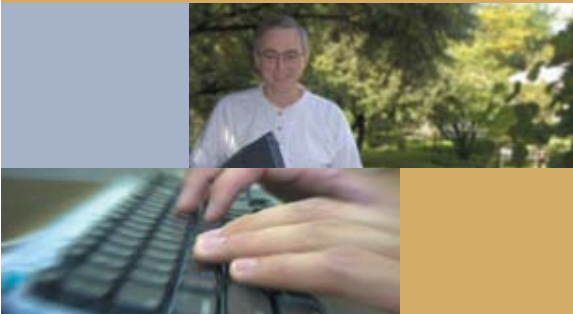
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Privatization MICHIGAN REPORT

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REPORT

EXPANDED EDITION

AROUND THE STATE Page 9

The latest privatization initiatives, controversies and news from around the Great Lake State.

Dear Reader:

You will notice that the format for this edition of Michigan Privatization Report has been revised. Around the State is not only our most popular feature, there are so many privatization initiatives to report on that we felt compelled to expand this section. We are still committed to in-depth privatization articles and essays — as you will find in the rest of this issue.

James Hohman
Fiscal Policy Research Assistant



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The state can sell the rental housing loaning programs of the Michigan State Housing Development Authority. By doing so, the state may generate more than \$600 million in new revenues.



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Across the country, states have successfully implemented competitive contracting for foster care services. A new reform should improve the way Michigan provides foster care.



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Cities like Pleasant Ridge in Oakland County are realizing the advantages of competitive contracts for city services. The mayor explains how consolidation and contracting have worked for his city.



Selling MSHDA Programs can Raise Millions

By James M. Hohman

State policymakers have been working to address the crises created by their overspending habit for half a decade now. Mostly, this has been accomplished through fee increases, revenue shifts, selling claims on future cash and, recently, major tax hikes. But should state government start looking for savings from within, an estimated \$600 million can be found by reforming and restructuring the Michigan State Housing Development Authority.

MSHDA's mission and programs distort the market for low-income housing. Generally, the housing market has a mechanism for providing low-income housing without government assistance. Rental housing complexes are built initially for people of higher incomes, but as the complexes become used, or as newer complexes are built, the older buildings become increasingly available for low-income tenants.

MSHDA's programs create a greater demand for the construction of new or renovated low-income

The Michigan State Housing Development Authority is a state agency that oversees a number of programs originally designed to help provide for low-income housing.

The previous issue of Michigan Privatization Report detailed how MSHDA has become more of a political operation, promoting the Cool Cities Initiative and financing broadband development (www.mackinac.org/8760). MSHDA is ripe for reform. Since the state is unlikely to eliminate MSHDA in the near term, this article looks at a number of reforms that would limit the political tendencies of MSHDA programs while generating revenues for the state.

housing. By doing so, capital is shifted from where it is needed most to where there is less need.

MSHDA is a 280-employee state government bureaucracy that is ultimately unnecessary and should be eliminated. But if the state chooses to continue operating these programs, it should at least operate them efficiently.

An article in the June 2007 issue of Michigan Privatization Report explained that MSHDA is ripe for reform. A good place to start would be for MSHDA to shed its multifamily loaning programs.

MSHDA sells bonds with low rates for its multifamily lending programs and writes loans for multifamily housing developments at higher rates. Interest from the bonds is usually exempt from federal income taxes. This arbitrage scheme allows the agency to operate without assistance from state tax money. Its bonding and loaning programs provide above and beyond the costs of administration. Multifamily loans make up 63 percent of the value of MSHDA's loan portfolio, so it represents a significant chunk of MSHDA's income.

Financially, multifamily loaning is a big money generator for MSHDA. Last year these loans were responsible for \$29 million of MSHDA's \$63 million net investment income.

MSHDA should sell its current assets and its ongoing lending operations, either bundled or separately.

Assessing the value of MSHDA's cash, investments and multifamily loan portfolio is fairly simple. However, apart from spending less in servicing the multifamily loans, there are not a lot of other efficiencies to be gained. Selling these would be like securitizing the state's tobacco settlement money or selling the lottery proceeds — the state gets a lump sum of cash for an asset. Net assets of multifamily loaning programs are \$127 million, which serves as a minimum the state can expect from a sale of its existing multifamily loans and bonds. An estimate on the net present value of the loan portfolio yields a value of \$177.6 million. To get a precise figure, MSHDA would simply need to bring it to market.

Efficiencies can certainly be wrung from MSHDA's ongoing operations. In order to implement a proper lending program, there are specific functions that need to be performed: credit analysis; underwriting and project analysis; construction loan servicing; plan and cost reviews; environmental analysis; and employing a lawyer to draft the loan documents and make sure everything is properly executed.

All of these functions can be done in the private sector. In fact, it is very likely that a private firm could do the job with fewer employees and would contract out for specific functions, such as environmental analysis. MSHDA transferred \$32.6 million from its multifamily programs to cover operating expenses for fiscal year 2007 and \$31.3 million the year before.



The McDonnell Towers in Southfield were built using MSHDA incentives. MSHDA finances low-income housing across the state, but could be operated more efficiently if leased to a private lender.

A contractor would be expected to incur only a fraction of that.

Contractors have leveled criticism of MSHDA for excessive bureaucracy and red tape in the administration of its multifamily loan programs. A private company that leases these programs could probably expect to expand them. With efficiency gains, and a modest increase in the average lending volume, MSHDA may be able to obtain \$432 million for a 20-year lease of its multifamily lending programs.

MSHDA would still retain its bonding functions. In order for bonds to be tax-exempt, they must be issued on behalf of a state authority and used for an approved purpose. Financing low-income housing facilities under federal guidelines is one of those purposes. A buyer would have to request bond financing authority from MSHDA for any project to be financed.

Leasing MSHDA's multifamily lending may raise some eyebrows from the federal government, as well as state policymakers. But states have been given wide latitude from the federal government over how to implement these programs, though it appears that no other state has looked to contract out these programs. More importantly, there does not appear to be any legal statute that would prevent MSHDA from leasing this program.

There are issues in contracting that would need to be resolved, of course. There are programs that conflict with its lending, escape clauses and what to do if the federal government changes the program. These problems can be worked out in the contracting process.

see "MSHDA" on next page



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

Many MSHDA functions can be done in the private sector. It is very likely that a private firm could do the job with fewer employees and would contract out for specific functions.

“MSHDA” continued from page 5

For instance, MSHDA offers the Pass Through program to developers, whereby it authorizes a tax-exempt bond for a developer. Since this uses the limited amount of bond capitalization available to MSHDA, Pass Through would be in conflict with the program lessor’s interests. However, including in the contract rules for the amount of bond cap the contractor could write would be an equitable way of overcoming this conflict.

A key provision in contracts would be the requirement that any project that the contract company finances would be subject to the same requirements and oversight that MSHDA currently applies to its projects.

Leasing these programs and selling its portfolio would affect MSHDA’s current operations. MSHDA distributes \$15 million to subsidize nonprofit housing developers, and uses multifamily lending to support its general operations. Unfortunately, many of these nonprofit agencies spend more developing a property than private firms. Instead of being an automatic handout, the money that MSHDA uses for this program should be subject to legislative scrutiny. In other cases, some of this money is not used to develop low-income housing at all.

Two other major programs, the Low Income Housing Tax Credit and its federal low-income rental subsidies, are self-sustaining. Administration of the LIHTC program is covered by fees, which carry

federal restrictions limiting them to the costs of the program. Low-income rental subsidies are covered dollar for dollar by the federal government. While we should be skeptical of these programs, they are not likely to be attractive for competitive contracting without significant reforms.

MSHDA’s multifamily loaning programs are attractive for leasing, however, and policymakers should follow through with these reforms. MSHDA already has a longstanding relationship with the private sector — companies underwrite their bonds, MSHDA sponsors single-family programs with private banks, and the agency is constantly consulted by private firms. Selling multifamily loan programs would simply be one more private-sector interface.

If MSHDA does decide to sell its portfolio and lease the programs (there is a constitutional question over state control over MSHDA and whether the state can use its funds), it may also want to pare down some of the \$435 million it holds in escrow and reserves. This is the result of the ruling in the recent *Parkwood v MSHDA* case. With some of this money and the proceeds from the sale of the multifamily loan program, the state would receive an upfront payment which could be used to fund its employee healthcare benefits. The state is facing an estimated \$6.9 billion in unfunded retiree health benefits for state employees and \$13.5 billion in unfunded school retiree health benefits.

By selling or leasing MSHDA’s multifamily loan programs, the state will get more efficient services and a lump-sum payment that can start funding the promises that it has made to retirees. [MPPI](#)

The state is facing an estimated \$6.9 billion in unfunded health benefits for state employees and \$13.5 billion in unfunded retiree health benefits.

“Delivery” continued from back page

city to provide high-quality services of a nature that it could not otherwise afford given its small size (one-half square mile and approximately 2,500 residents). Contracting also provides a mechanism, through the procurement process, of maintaining a level of control over expenditures.

Police and fire protection constitute a major part of any city’s budget. Pleasant Ridge fire department services have been, for many decades, contracted out to the neighboring city of Ferndale. Emergency dispatch services after normal office hours have been contracted out to the city of Berkley for the last three years. The fact that these dispatchers physically sit at a police department building located elsewhere has posed

no impediment to dispatch services. One of the reasons often given for not contracting out such services is that dispatchers are often the ones responsible for watching jailed prisoners. As part of the dispatch contract between Pleasant Ridge and Berkley, prisoners are originally detained in the Berkley jail facility pending transfer to the county jail.

Public works are also generally a major budget item. In Pleasant Ridge, we were able to take advantage of the strengths of our neighboring communities’ public works services. Curbside leaf collection is contracted to the city of Oak Park with back-up offered by Royal Oak and Huntington Woods. Sewer and water line maintenance, as well as quarterly water meter readings and repairs, have been contracted to the city of Royal Oak.



Ralph A. Castelli Jr. is the mayor of Pleasant Ridge



Fire, leaf pickup, emergency dispatch, jails, libraries — The city of Pleasant Ridge contracts out to provide all of these services. Monitoring the contracts keeps costs low while providing quality services to city residents.

The remainder of the traditional public works functions have been contracted out to two separate private companies. Pleasant Ridge's Department of Public Works was first privatized in the mid-1990s, with the award of a contract covering all services, except garbage pickup, to a single contractor (see Privatization, March 1, 1998).

Pleasant Ridge has long been a member of SOCRRA and SOCWA, the waste management and water consortiums in southeast Oakland County. In an ambitious move, SOCRRA members bid out garbage collection services on a consolidated basis. The contracts resulted in substantial savings to the member communities. Each was promised a savings of at least 10 percent. In fact, Pleasant Ridge realized 24 percent savings as a result of this joint bid arrangement.

Under the contracts awarded in the last year, no single contractor is responsible for delivery of DPW services. Thus, Pleasant Ridge, to borrow computer terminology, now

has a virtual DPW — it has no physical buildings, just contractors to provide the services.

The contract for library services was awarded to the Huntington Woods under the competitive bid process in 2004. The contract allows Pleasant Ridge residents membership in the MichiCard system, which allows residents access to any participating library in the Michigan. The contract could have gone to any of the state's MichiCard libraries and Pleasant Ridge residents would have access. More than 300 libraries participate in the program, so Pleasant Ridge residents have access to books and materials from Houghton in the Keweenaw Peninsula to Monroe in Southeast Michigan.

The city also has a cooperative agreement with the nearby city of Huntington Woods for our community pools. Any time either community's pool is closed due to a mechanical glitch, contamination problem or swim meet, residents have access to the other city's public pool.

By forming a circle of community strength that now includes all our surrounding cities, Pleasant Ridge residents can expect the high level of quality services to continue in the most cost-effective and efficient way.

The years to come will likely see more consolidation of the delivery of city services throughout the state. Certainly the provision of emergency services, which are among the most costly for a city to deliver, will be subject to review and consolidation. There currently are six cities in southeast Oakland County — Ferndale, Hazel Park, Madison Heights, Pleasant Ridge, Royal Oak and Royal Oak Township — exploring the feasibility of a regionalized fire department. It is the goal of the group to maintain high quality fire protection, while eliminating, over the long term, duplicative equipment and other costs given their physical proximity and size. Such endeavors will remain at the forefront of the efforts by cities to provide high quality services at an acceptable price. [MPRI](#)

CHILD SERVICES

Relying on private agencies has track record of saving money

State budget negotiations got stuck last September over a plan that would introduce competitive contracting with private agencies into foster care and juvenile justice services currently performed by state employees. Opponents charged that the bill could raise the cost of these services, but supporters were correct to anticipate lower costs and better services. Ultimately, the state Legislature adopted a meager portion of the proposed reforms as part of its fiscal 2008 budget deal.

Under the proposed legislation, state government would contract with nonprofit and for-profit agencies to care for troubled youth who are now enrolled in such juvenile justice institutions as the W.J. Maxey Boys Training School. The state also would contract the supervision of foster care services to such private organizations as Lutheran Social Services of Michigan, which is already under state contract to perform some foster care functions. As part of the compromise, private groups may now receive state resources to help foster families get licensed by the state. Typically these families are related to the child in some way. Private groups were allowed to help before this new legislation but now they can receive state resources to do so.

There was vociferous opposition to the Senate version of the bill, in large part because more than 800 state employees could have lost their government jobs. The changes to the legislation that were made in a compromise to ensure the Governor would sign the bill ultimately included an additional 190 full-time state employees. While this legislation may have made modest improvements to the availability of foster care families it may have come at a steep price. Another reason for the opposition was concern over

handing responsibilities for foster care and other human service-type functions over to the private sector.

But social services privatization is not new. Kansas, for example, is celebrating its 10th year of fully contracted foster care, family preservation and adoption services. Michigan's Kent County relies almost entirely on private agencies for foster care and adoption services.



State and local governments across the country are contracting with private companies to handle family adoptions. Above, parents work with a contracted adoption agency in Tampa, Fla., to adopt a teenager who had been in at least nine different foster homes. (AP Photo/Steve Nesius)

A 2006 literature survey financed by the Children's Bureau of the U.S. Department of Health and Human Services reported that in the 1990s alone, "Between 50 percent to 80 percent of states had increased their reliance on contracted social services...." In fact, some state and local governments contracted with the private sector for social services as far back as the early 1800s.

Moreover, a 1993 Mackinac Center study found that 63 percent of children in regular state foster care were managed by caseworkers in private social service agencies under contract with Michigan government. The study also found that these private agencies were doing a job comparable to or better than state employees, even as the private groups maintained a lower child-to-worker ratio.

Opponents note that privatization would lead to higher state contract monitoring costs, but they ignore the offsetting reductions in service costs that usually result from privatization. While we can all sympathize with the government workers who would lose their jobs, they may well find employment with the new private service providers. In any event, state government is not a jobs program.

Obviously, simply delegating state social service responsibilities to community-based organizations will not automatically produce guaranteed savings and improved outcomes. The success of this privatization initiative — the details of which are under negotiation — will



By Michael D. LaFaive

LaFaive is director of the Mackinac Center's Morey Fiscal Policy Initiative.

depend on a variety of factors, including the degree to which the state's contracting process encourages many different private (and even public) bidders to compete for the contracts and whether the contracts are carefully designed and monitored to require quality care.

But there has been a dearth of bold ideas in Lansing for balancing the state budget and improving state services. The foster care and juvenile corrections privatization plan is innovative and deserves a chance. Done correctly, it could transform children's lives and state government by improving services and saving money. [MPRI](#)

A version of this commentary was originally published in The Detroit News on Oct. 31, 2007.

AROUND THE STATE

School privatization survey shows increase in contracting

MIDLAND — The Mackinac Center for Public Policy's annual school privatization survey found that 40.2 percent of conventional public school districts in Michigan contract for one of the three major noninstructional support services. That is up from 37.4 in 2006. The largest increase in privatization came from custodial services — 16 additional districts signed contracts to provide these services.

Mid-sized districts were the most likely to privatize. More than half of the districts with between 2,000 and 4,000 pupils assigned to them contract for food, custodial or transportation services.

Overall, 89.2 percent of districts that contract report being pleased with their experience. Just under 10 percent were unsure and less than 1 percent said they were not pleased. About 79 percent of districts that contracted reported saving money.

You can view the entire survey at www.mackinac.org/8881. On page, 13, Around the State entries detail many of the individual school-related privatization stories that occurred between June and December of this year.

Policymakers reject expanded foster care privatization

LANSING — Under threat of a gubernatorial veto, legislators passed a Department of Human Services budget in October that excluded a plan to use more performance-based contracting for foster care services. The idea had been proposed as a way to improve services while cutting costs.

When a child is placed in foster care, a DHS field office worker determines whether to use a privately organized foster care service, like Lutheran Child and Family Services of Michigan, or one of the state's registered foster families. Foster families face the same oversight

requirements and regulations regardless of whether they are affiliated with public or private agencies.

There are currently almost 19,000 children in foster care, of which only 36 percent go to licensed foster care establishments. Of those, almost 60 percent are supervised by private agencies, according to DHS.

However, under the new budget private foster care providers will now be funded to assist unlicensed foster homes in becoming licensed. When a child is placed in foster care, Human Services tries to find one of the child's relatives to take care of the child. This is a foster care arrangement, although the home is not licensed.

Also, part of the DHS budget included lowering the number of children at the W.J. Maxey juvenile justice facility in Whitmore Lake by 80. It currently costs \$550 a day to house an offender at Maxey, compared to about \$225 to \$250 a day through private community-based agencies. The move is expected to save the state \$1.7 million.

Human Services will also phase in a single rate of compensation for foster care providers.

The Mackinac Center has followed Human Services privatization in Michigan and elsewhere for nearly 20 years and in 1993 published the report, "Child Foster Care In Michigan: A Privatization Success Story," available at www.mackinac.org/255, which discussed the state use of private foster care going back to 1981. More recently, MPR senior managing editor Michael D. LaFaive published the essay "Relying on Private Agencies Has Track Record of Saving Money" in the Oct. 31, 2007, edition of The Detroit News and reprinted on p. 8.

References: "Senate approves Department of Human Services budget" Sen. Bill Hardiman Press Release, Oct. 31, 2007. www.senate.michigan.gov/gop/readarticle.asp?id=889&District=29

Detroit shops around for incinerator savings

DETROIT — The Detroit City Council has approved a proposal to change its sewage incineration, a move that could lead to decreased costs and reduced emissions, according to the Detroit Free Press.

The proposition would save the city \$5 million annually, according to The Detroit News. The city's own incinerator costs \$52 million per year to operate and would require \$125 million in upgrades to bring it up to federal standards.

In 2001, the city entered into a contract with a company to build a new incinerator, but the company had financial trouble, according to The News.

The city plans to shut down its incinerator once a new plant is built. Current employees would be transferred.

The Winter 2001 edition of Michigan Privatization Report suggested that the city should get out of the waste business altogether. In his article "Detroit Could Collect Savings from Privatized Garbage Pickup," adjunct scholar Steve Thomas pointed out that municipalities across the nation have contracted for private refuse collection and disposal. He cited different reports showing savings from contracting for garbage collection running between 29 percent and a remarkable 50 percent in one example from Canada. The entire article can be read at www.mackinac.org/3155.

References: The Detroit News, "City considers private sludge burning deal," Sept. 18, 2007; Detroit Free Press, "Sludge disposal plan gets council blessing," Nov. 21, 2007

Judge rescinds Friend of the Court privatization request

DETROIT — Wayne County Chief Judge Mary Beth Kelly in September withdrew her request for privatized Friend of the Court functions, according to the court Web site. As chief judge, Kelly has the



One of the most important lessons to emerge from that experiment was the importance of gathering data by which to measure the success or failure of a privatization effort before entering a contract.

responsibility of operating the circuit court.

Friend of the Court collects and distributes child support money and works to enforce court orders on child custody. Judge Kelly wanted a 33 percent increase in staffing levels for the service while maintaining an overall budget of \$28 million for the service. There are currently 169 employees in the court's FOC office, according to Gongwer News Service.

The court's labor unions rallied against the move and in order to negotiate with the bargaining unit, the judge rescinded the request, according to Judge Kelly. In November, Kelly announced she would resign as chief judge of the Wayne County Circuit Court in 2008. Kelly, who served three terms in that position, told the Detroit Free Press that anonymous threats and a rumor campaign contributed to her decision.

References: Gongwer News Service, "Wayne Co. privatization controversy mimics foster care arguments," Sept. 12, 2007; Third Judicial Circuit Court of Michigan Web site, "Withdrawal of Request for Proposal for Friend of the Court Services," <https://www.3rdcc.org/>; The Detroit Free Press, "Wayne Co.'s Mary Beth Kelly resigns as chief judge," Nov. 13, 2007

Ottawa County extends contract for plowing

GRAND HAVEN — Ottawa County road commissioners voted to expand a contract with Countryside Snowplowing, The Grand Rapids Press reported.

The county spent more than \$95,000 for private plowing services last year, which was only slightly less than the county's in-house costs to provide the services. However, because of the contract, the county will not have to hire temporary workers in the winter

who would then be laid off in the summer, according to The Press. Snow removal employees have typically been assigned to local construction projects during the warmer months, although Ottawa County has seen a drop in those projects. Since officials have not used the layoff process in the past, they decided it may be best to contract out for some of their snow removal services instead. This saves the commission money in the summer months, even if the cost of snow removal is comparable.

The road commission originally hired the company to plow 82 miles of county roads. The new contract extends the area covered to 192.5 miles, according to The Press.

Officials have used the private sector to solve human resource problems, too. According to road commission Operations Director Gerald Diekema, the private snow removers can apply their services on a case-by-case basis to serve immediate needs. For instance, Muskegon County hired private contractors to plow its low-priority roads to get the streets cleared quicker than it would otherwise.

It's worth noting that in the past the state of Michigan contracted with a private company to provide snow plowing and maintenance for 24 miles of I-496, U.S. 27 and some Lansing roads. One of the most important lessons to emerge from that experiment was the importance of gathering data by which to measure the success or failure of a privatization effort before entering a contract. For more on this subject, see the November 1999 Around the State entry, "MDOT Snafu Could Halt Further Road Maintenance Privatization" at www.mackinac.org/2562 or the 2001 article, "State Ends Contract with ABC Paving Company" at www.mackinac.org/3515.

Reference: The Grand Rapids Press, "County expands plans for private plowing," June 15, 2007

Bay County investigates new public attorney contracting

BAY CITY — Bay County officials are now contracting out for a public defender position. The county sought bids to have contractors provide legal services for misdemeanor cases so that staff attorneys can focus more on felonies, according to Bay County corporate counsel Marty Fitzhugh. The county employs two departments of public defenders and contracted out additional work to in-county attorneys.

The bidding was started as a way to restructure and save money after an employee left the county.





The county will pay \$1,300 per month for the service.

The county sought bids to offer defense services to those accused of a criminal misdemeanors who cannot afford an attorney. It received nine bids in response, but only seven met bid point thresholds, according to The Bay City Times.

Reference: The Bay City Times, "Officials looking at public defender bids in attempt to find savings," Sept. 11, 2007

Williamston contracts for planning positions

WILLIAMSTON — In order to take advantage of professional services, a small town east of Lansing decided to contract for its community development and planning directors, according to the Williamston Enterprise. The city council has agreed to hire McKenna Associates Inc. to provide the services.

Officials expect the move to save money. Filling the positions directly would cost approximately \$140,000. The contract calls for a base payment of \$116,880 per year, the Enterprise reported.

The city's neighboring township already has a contract with McKenna. "For us, it works out better because we could never afford an on-staff planner. They have so many resources they can tap into at their office for design and any type of ordinance from landscaping to cemeteries to ballparks and everything. It's like having 20 people working for you, but you only pay for the one that's here for the day," Williamston Township Supervisor Mickey Martin told the Enterprise.

If the city is dissatisfied with the contract, it can immediately terminate it, the Enterprise reported. Almost a half year into the contract, City Manager Lisa Hitchcock reports being very satisfied with the arrangement.

Many Michigan residents may not realize the degree to which such functions can be provided to units of government by for-profit enterprises. Zoning reviews, fire inspections and mechanical, plumbing

and building code enforcement are all services provided under contract with units of government somewhere in the United States, if not in Michigan. For more on this subject, see the MPR article "Looking Over Private Inspections" at www.mackinac.org/3161.

Reference: Williamston Enterprise, "City hires firm for planning, development," July 1, 2007

Port Huron looks to privatize recreation center and marinas

PORT HURON — The city of Port Huron projects it will overspend its budget by \$42 million over the next five years if it doesn't act to improve its finances, according to The Port Huron Times Herald.

The city has been providing an annual subsidy of \$350,000 to its ice arena and recreation center, McMorran Place, according to city attorney John Livesay. The facility was built in the 1950s and is operated by the McMorran Authority. The agreement to operate the facility is set to expire in 2008, so the city is looking into whether a private-sector firm can manage the facility more efficiently. Officials would like the center to operate without a subsidy.

City council members in November advised the city manager to prepare a request for proposals to operate the facility. The general manager of the facility stated that he had been approached by two companies to manage the center, the Times Herald reported.

The city is also looking at contracting out the management of its River Street Marina and selling its Water Street Marina according to the Times-Herald. The city already has a buyer for the former and is looking for proposals to operate the latter. The city's financial statements show that the city's marinas and docks cost nearly \$1 million a year to operate, but have revenues of only \$561,000.

References: The Port Huron Times Herald, "City, residents face tough budget

questions," Sept. 5, 2007 The Port Huron Times Herald, "City: Marina needs better marketing," Dec. 4, 2007

Village contracts for police services

CLAYTON TOWNSHIP — Officials for the village of Lennon, located partially in both Shiawassee and Genesee counties, decided to keep its police services in house after contemplating a bid by a neighboring township to provide police services to the village, according to the Swartz Creek News. The village has its own police force of four — one full-time officer and three part-time officers.

Clayton Township offered to provide the services for \$67,000, but may have added \$4,000 to \$5,000 in startup costs, according to the News.

Currently, the village and township provide patrols and backup coverage of the other's area, the News reported.

In the end, village officials decided to reject the bid, citing a desire to maintain control over the police force.

Intergovernmental contracting for police services is an increasingly popular option among local units of government. In the December 2006 MPR article, "Arrest Municipal Police Costs," the Mackinac Center maps out how several municipalities have turned to other governments for protection. The most dramatic savings came in Mt. Clemens, where the city hired the Macomb County sheriff's department to provide policing services. The city estimates that their policing costs fell 38 percent as a result. The article can be found on the Mackinac Center Web site at www.mackinac.org/8127.

Reference: Swartz Creek News, "Clayton cops may patrol Lennon," June 10, 2007

Hospital privatization explored in Saginaw County

SAGINAW — Saginaw County commissioners have formed a committee to look



AROUND THE STATE



Detroit has been trying to shed its Rackham golf course since the summer of 2006. Huntington Woods made a bid for the course, but is haggling with Detroit over the details.

The proposal to sell Dearborn Towers was supported by 58 percent of voters.

at selling HealthSource hospital, according to The Saginaw News.

Complaints against the facility include a renovation project that ballooned \$8.5 million higher than its expected \$35.5 million price tag and additional operation costs from health care for its unionized work force.

However, county commissioners have little legal authority over the hospital, although it does receive county millage support. The hospital is directed by trustees appointed by the county board.

In order to sell the facility, officials would have to pay off the hospital's debt and seek approval from a number of regulatory agencies, according to The News.

The committee is expected to put forth a recommendation in early 2008.

In 1996, MPR recommended a number of solutions to Saginaw's fiscal problems in an article entitled, "Saginaw Needs Privatization." In it, MPR detailed recommendations for the city, including the privatization of its rubbish collection, cemeteries and wave pool.

References: The Saginaw News, "County may sell hospital," Aug. 22, 2007 The Saginaw News, "Attorney: County can't sell hospital," Sept. 14, 2007; The Saginaw News, "CEO: Privatize mental health facility," Oct. 21, 2007

City of Dearborn to Sell Apartment Building in Florida

DEARBORN — Dearborn voters in November approved a plan to sell the city's 88-unit apartment building in Clearwater, Fla., a move that was spurred by city finances. Dearborn Towers was purchased in the 1960s and had been used mainly for senior citizen housing for Dearborn residents with moderate incomes. The proposal to sell the building was supported by 58 percent of voters.

The proposal commits the city to appraise the building and sell it to the highest bidder, but does not set a strict deadline for the sale. According to the Dearborn Press and Guide, the building is mainly self-supporting, but had only \$880,000 in reserves, an unacceptable amount in the opinion of Dearborn Housing Director Floyd Addison. In addition, the building is likely to need a new roof in 2008. The sale was proposed and supported by Mayor John O'Reilly, who argued that the cash-strapped city could not afford to hold on to the building.

References: The Detroit News, "Dearborn voters vote sell apartment towers in Florida," Nov. 6, 2007

Dearborn Press and Guide, "Question of selling Dearborn Towers may go to voters," May 20, 2007

Rackham Golf Course sale delayed

HUNTINGTON WOODS — More than a year has gone by since Detroit opened bids for its Rackham golf course — a city-owned course outside the city limits — and the sale has yet to be completed.

The city of Huntington Woods made an offer on the property, which was accepted after its main competitor dropped its bid. Huntington Woods also won a designation of the land as an historic area, which will prevent it from being developed.

Disagreements over ownership, rights to a cell phone tower located on the property and items included in the sale have stalled the agreement.

A conservancy has also been meeting with Detroit officials to discuss an alternate sale or lease of the property, according to The Detroit News.

It may be difficult to imagine golf as a necessary government-provided service, but it still happens with great regularity. In July 2006, the Mackinac Center reported that there were around 90 golf courses statewide owned by some unit of government. In his 2006 article, "Government Golf," Senior Managing Editor Michael D. LaFaive argued that municipal golf courses aren't just poor uses of taxpayer dollars, they're unfair to private providers whose taxes are used to finance a government-run competitor. His article can be read at www.mackinac.org/7824.

Reference: The Detroit News, "Lawsuit stalls Rackham land deal," Sept. 19, 2007

Pontiac receives bids for Silverdome

PONTIAC — The city of Pontiac has received seven proposals for the sale and redevelopment of the Silverdome, according to The Detroit News.

The Silverdome has been largely unused since the Lions left the facility in 2002. The city attempted to sell it in 2005, but most of the bids did not meet the proposal specifications, according to The News. It is up to the city council to decide whether to exclude any of the bidders due to lack of information.

The proposals range from turning the dome into a horse-racing track, a spiritual center or a concert venue. Pontiac officials will decide which bidders will be allowed to make a public presentation. The city council will then decide whether to accept or reject the bids.

For more on Pontiac, see the Michigan Privatization Report edition dedicated to the city and its



operations. "Pontiac, Driving (Privatization) Excitement" can be found online at www.mackinac.org/8122.

Reference: The Detroit News, "Silverdome plans disappoint officials," Oct. 20, 2007

Temporary employees hired to prevent leaf pickup privatization

BUCHANAN — Buchanan city officials needed to hire seasonal workers or else use a private company to provide leaf pickup services, according to the St. Joseph Herald-Palladium.

The city typically hires seasonal labor to help full-time staff with leaf removal, but some council members wanted to explore contracting to save money, according to Assistant City Manager Joe Vander Meulen. However, council members voted to stick with seasonal labor this year.

Temporary employees are paid \$8 per hour for seven weeks of work as needed. They are also eligible for unemployment compensation at the end of their term.

An analysis performed by Vander

Meulen showed that contracting out for this service could have saved the city an estimated 14 percent in providing the service for this year. It would also free public works employees to provide other services around the city, such as maintaining parks, repairing signs and more street sweeping, according to Vander Meulen.

Reference: St. Joseph Herald-Palladium, "Privatizing city leaf pickup is off the table," Oct. 10, 2007

Mental health authority looks to privatization

SAGINAW — The CEO of the Saginaw County Community Mental Health Authority recommended the privatization of its Community Ties North and Community Ties South facilities as a way to save the county \$1.1 million annually, according to The Saginaw News. The facilities offer day care and training for the developmentally disabled. CEO Sandra Lindsey recommended that the authority contract with Michigan Community Services Inc. to operate the two facilities, The News reported.

In response, union officials repre-

senting the current employees made concessions that would save \$700,000 annually. Concessions included switching some full-time employees to part-time, reducing the number of paid holidays and offering early retirement.

Lindsey stated that contracting out is unlikely and that the authority will be exploring other cost-cutting alternatives.

However, the authority did contract out for its skill building and transportation services, which is expected to save \$4.47 million over the next three years, according to The Swartz Creek News. "My two most important responsibilities are providing the best possible services for our consumers and managing the long-term fiscal stability of the organization. Outsourcing the skill building program is really the only way we can do both," Lindsey told The Swartz Creek News.

References: The Saginaw News, "Outsourcing 'the right decision,'" Aug. 31, 2007 The Swartz Creek News, "Firm lands contract with Saginaw County," Oct. 28, 2007

SPECIAL SECTION AROUND THE STATE SCHOOL UPDATES

School Privatization Primer Released

MIDLAND — Last June, the Mackinac Center for Public Policy released "A School Privatization Primer for Michigan School Officials, Media and Residents," the third book in the Center's Michigan School Management series.

The primer discusses the scope of privatization across the country, reviews the academic literature on school districts that contract out and discusses the "request for proposals" process districts can use to solicit bids for food, custodial and transportation services.

The primer is posted on the Mackinac Center Web Site at www.mackinac.org/8691.

Editor's note: The following stories involve privatization of school services

Napoleon schools contracts for custodians

NAPOLEON — Napoleon Community Schools, a district of 1,600 pupils in southwestern Michigan, expects to save about \$305,000 annually after contracting for custodial services, according to The Jackson Citizen Patriot.

The district has an annual budget of \$12.8 million and is expecting to use \$244,000 from its reserve funds, according to the Brooklyn Exponent.

Superintendent Jim Graham told The Patriot, "We have no choice. This happens to be one area that we can cut that does not affect our commitment to students."

References: The Jackson Citizen Patriot, "District hires firm to replace workers," May 30, 2007 Brooklyn Exponent, "Teaching positions dropped," June 26, 2007

Lincoln holds off contracting

YPSILANTI — In July, Lincoln Consolidated Schools was exploring contracting with a private vendor for custodial and maintenance services, and passed a budget that required \$1.2 million in savings those areas, according to The Ann Arbor News.

Due to a combination of lower-than-expected costs in operating the district's buildings and grounds, and late-hour union concessions, the district chose to keep the work in-house. The district signed a one-year collective bargaining agreement with its custodial union.

The district may look to contract privately for the 2009 fiscal year, depending on state school aid spending.

Reference: The Ann Arbor News, "Lincoln school district delays decision on privatization," June 16, 2007

Marshall Public Schools expects to save \$1.1 million over three years after signing a contract with Grand Rapids Building Services for custodial work

Fraser looks to contract substitute teachers

FRASER — As part of a plan to cut \$718,000 from its 2008 budget, Fraser Public Schools will be contracting for substitute teacher services and other support staff. The move is estimated to save the district \$87,000, according to The Macomb Daily.

State law allows school districts to use the services of a private company to dispatch substitutes as they are needed. This saves districts 17.7 percent of payroll cost for substitutes by eliminating the need for pension fund contributions. Since substitutes typically do not work full-time, few ever become fully-vested in the school pension fund.

Most private companies offer 401(k) retirement accounts instead of the defined-benefit plan provided by school districts.

In addition to contracting for substitutes, Fraser may eliminate some teaching positions and reduce its support staff.

Reference: The Macomb Daily, "Fraser schools outlines cuts to trim budget by \$718,000," July 5, 2007

Petoskey expands food service contract

PETOSKEY — After forecasting a loss of \$52,000 in its food service program for this fiscal year, the Petoskey school board voted to expand its private food service contract to include labor, according to the Petoskey News-Review. Its provider had previously been handling only the management of the district's food services.

"They fully anticipate to hire 100 percent of their workers in the Emmet-Charlevoix area," school business manager Kent Cartwright told the News-Review.

Under the new arrangement, revenues are expected to exceed costs by \$150,000, according to school board member Jack Waldvogel.

Reference: Petoskey News-Review, "Privatizing Petoskey school food services will cost local jobs," Aug. 1, 2007

MEA receives injunction that stops aide contracting

HARRISON — The Michigan Education Association school employee union received a court injunction to stop the Harrison Community Schools from contracting its teachers aides, according to the MEA.

Under current labor law, school districts are able to contract out for noninstructional services,

but not for instructional employees. The positions in question include recess aides, special education aides and clerks.

The district is appealing the injunction to the Michigan Court of Appeals. The Michigan Employment Relations Committee may also decide on the matter. A ruling from either the court of appeals or MERC can set the precedent for whether teacher aides are noninstructional employees or not.

Establishing a clear precedent will relieve districts of uncertainty in these contracting decisions. If the ruling stands in favor of the MEA, schools would be left without a cost-saving tool.

References: Mount Pleasant Morning Sun, "Teacher's aide change leads to suit," Aug. 2, 2007 Michigan Education Association web site, "Harrison parapros score major victory against school board's effort to privatize their jobs," Nov. 6, 2007

Hanover-Horton explores custodial contracting

HANOVER — The Hanover-Horton Schools received concessions from its custodial service union after looking at contracting out for janitorial services, according to Superintendent Linda Brian.

The lowest private bid came in at \$295,525, which is 36 percent less than it would cost for union employees to provide the service, according to The Jackson Citizen-Patriot.

However, the custodial unit offered concessions, including position cuts and higher insurance co-pays, which the district accepted, according to the Jackson County Press. The concessions made the cost of union-provided service comparable to the low-bid.

References: The Jackson Citizen Patriot, "District considers privatizing custodial services to cut costs," Aug. 3, 2007 Jackson County Press, "Board passes on privatizing custodians," Aug. 22, 2007

East Lansing recontracts food

EAST LANSING — The East Lansing school district switched its food service provider from Aramark to Chartwells, according to the Ingham County News.

Contracting for food service is a regulated business, with a number of recommended nonprice factors included in the state's prototype request for proposals. While Aramark provided the lowest bid for the service, other factors secured the recommendation to contract with Chartwells.

Reference: Ingham County News, "School board OKs new food service contract," Aug. 5, 2007



Marshall contracts for custodial service

MARSHALL — Marshall Public Schools expects to save \$1.1 million over three years after signing a contract with Grand Rapids Building Services for custodial work, according to The Battle Creek Enquirer.

For \$10 a week, an employee may buy an individual insurance plan through the company. Also, hourly pay rates from GRBS will only be a dollar less than what the district currently pays.

“It’s been tested in dozens of schools in dozens of states. It’s growing each year because it works,” board Treasurer Dan Stulberg told the Battle Creek Enquirer.

The district was also able to sell \$10,750 in equipment that GRBS did not need to perform its duties, according to the Marshall Chronicle.

References: The Battle Creek Enquirer, “District outsources custodial services,” Aug. 14, 2007 The Marshall Chronicle, “District hires new facilities director,” October 13, 2007

Grand Rapids recall signatures deemed invalid

GRAND RAPIDS — Last July, organizers turned in three signatures — all of which were declared invalid — in an attempt to recall a Grand Rapids Public Schools board member after he voted to privatize transportation and substitute teacher services, according to The Grand Rapids Press.

The effort needed 15,960 signatures in order to force a recall vote of David Allen.

Reference: The Grand Rapids Press, “Recall effort garners just 3 signatures,” July 24, 2007.

Privatized coaches expected to save money in Montague

MONTAGUE — Montague school board members voted to contract out the district’s athletic coaching services to Professional Educational Services Group, according to The Muskegon

Chronicle. The district expects to save between \$1,000 and \$10,000 annually from this move. By using PESG, the district will avoid making a mandatory contribution to the school employee retirement fund, since coaches are unlikely to draw a pension.

Reference: The Muskegon Chronicle, “Some coaches will work for private firm,” Aug. 27, 2007

Muskegon ISD consolidates and privatizes substitute services

MUSKEGON — All but two districts in the Muskegon Area Intermediate School District have joined a consortium of county schools to privatize their substitute teacher services, according to The Muskegon Chronicle.

One district, Whitehall, did not sign up for the privatization because it is implementing a new automated system to call subs and did not want to change the provider until it is familiar with the system. Districts estimate they will save an average of 9 percent under the new format, The Chronicle reported.

Reference: The Muskegon Chronicle, “Private firm to supply substitute services,” Aug. 24, 2007

Coaching services privatized in Atherton

BURTON — The Atherton school district in Genesee County contracted out its coaching services and paraprofessionals to PCMI, according to The Flint Journal. The move will save the district \$50,000, The Journal reported.

For most coaches in the Atherton school district, the school board’s decision to contract out for their services simply means that their paychecks will come from a different source. But having a different entity sign the checks allows the district to avoid paying an additional 17.8 percent to the Michigan Public School Employee Retirement System. Coaches who are also teachers will opt-out of the contracted company three years before

retiring in order to get a full draw on their retirement, according to The Journal.

Reference: The Flint Journal, “Atherton privatizes athletic coaches, causing stir in school district,” Sept. 19, 2007

Howell contracts out custodians and administrators

HOWELL — The Howell board of education overcame a \$2.1 million budget deficit in part by contracting out custodial and administrative services.

Contracting out for custodial service is expected to save the district \$400,000 this fiscal year alone. The district’s custodial union offered concessions that would have saved \$242,000, but the district went with the private vendor, according to The Detroit News.

The district also contracted out four of its administrators, a move expected to save \$135,000, according to The Detroit News. Administrators can retire and draw pension funds in addition to a salary from the contract company by returning to work in their previous capacities. The district will avoid paying pension contributions for the employees and additional payroll costs like Medicare and Social Security, according to The News.

The administrators who retire will be hired by Professional Education Services Group and will start in January as contract employees. The board is also looking at contracting out 38 childcare positions through PESG, which could save the district \$82,000 annually, the News reported.

References: The Detroit News, “District looks at expanding privatization,” Dec. 4, 2007 The Detroit News, “Howell school board may outsource administrators,” Oct. 16, 2007 The Livingston Press, “Howell schools’ deficit could affect custodians first,” June 21, 2007 The Livingston Press, “School officials to discuss cuts in budget tonight,” June 19, 2007 The Detroit News, “Howell school board lays off 38 custodians,” Aug. 14, 2007 [MPRI](#)



For a list of schools that have contracted out and how much they have saved, go to www.mackinac.org/9012

FEATURE

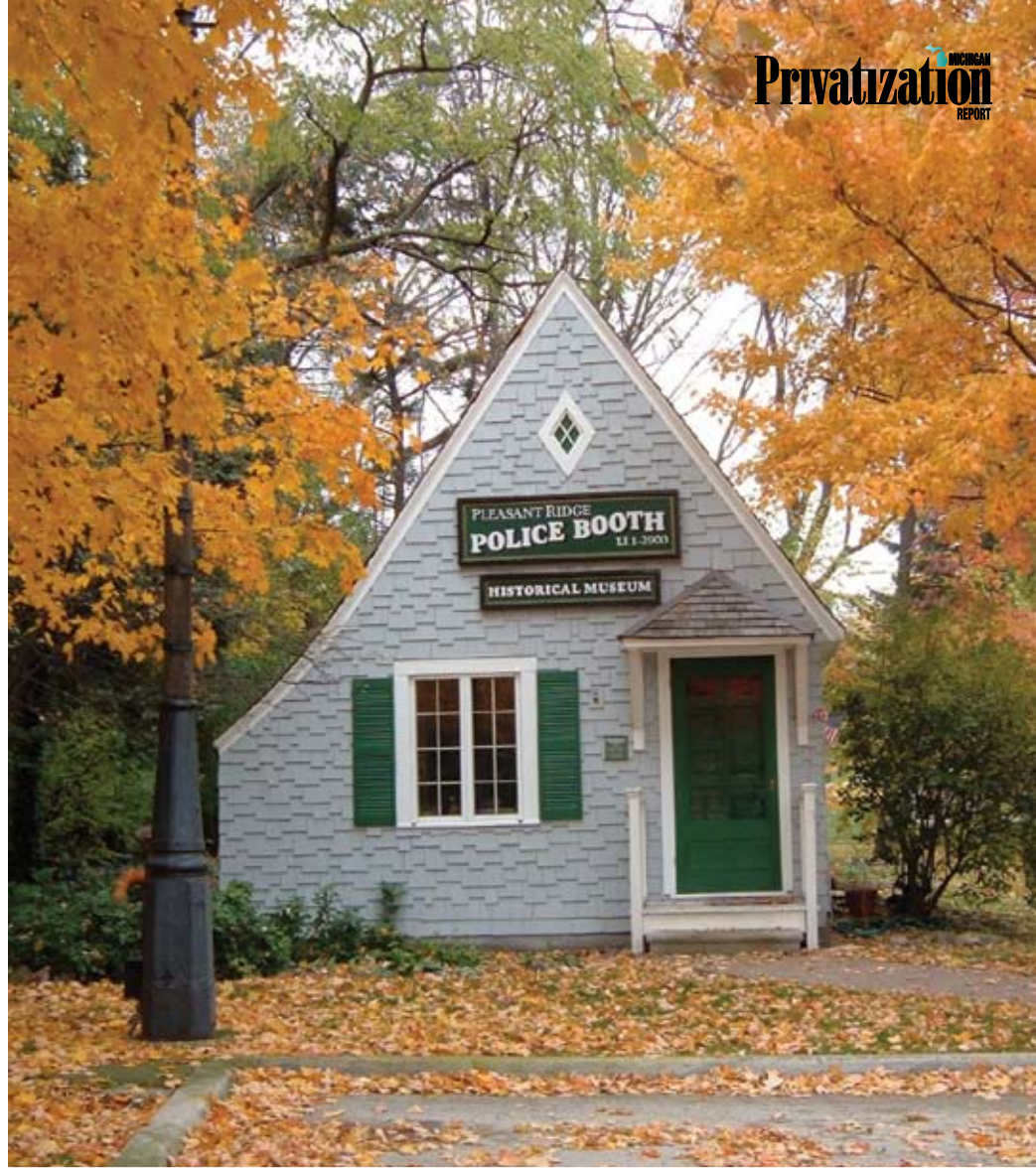
The Changing Face of the Delivery of City Services

By Ralph A. Castelli Jr.

Given Lansing's inability to work out a coherent budget, many Michigan cities face the prospect of having to redesign the manner of delivering municipal services. They can find a model in the city of Pleasant Ridge, which has experimented with efficient and innovative ways of providing services for years.

While Pleasant Ridge, in Oakland County, has its own city manager, treasurer, police department, recreation department and other staff, many of the services which it delivers or makes available to residents are handled on a contract basis. This allows the

see "Delivery" on page 6



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