MICHIGAN

Privatization

REPORT

A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2009-01 / 2009

Michigan School District Privatization
PULLOUT POSTER — Center Spread

Michigan Privatization Report

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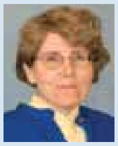
SPLITTING THE HEALTH INSURANCE BILL



By Lorie Shane

Lorie Shane is the managing editor of the Michigan Education Report, the Mackinac Center's online education policy journal.

Michigan House Speaker Andy Dillon sparked statewide debate this summer when he proposed combining all Michigan public-sector employees into a statewide health plan. The Redford Township Democrat said the plan would save money through economies of scale, and through bringing benefits public employees receive more in line with those in the private sector.

Though the debate over public employee health benefits is now occurring on the state level, it will sound very familiar in many Michigan cities, villages, counties and school districts. Governments at all levels face fiscal problems, and one cause of cost overruns has been employee benefits agreed to in collective bargaining.

In response, many school districts are finding ways to bargain for increasingly consumer-driven health care. Districts have negotiated cost-saving shifts to provider networks, office visit co-pays and higher prescription co-pays, as well as health savings accounts. A number of Michigan public school districts also have started sharing premium costs with their employees, a practice common in the private sector.

"We knew that to be fiscally responsible we needed to have employees share in insurance costs," Superintendent William Pearson of South Lyon Public Schools said in a telephone interview. The South Lyon district began sharing premium costs in the late 1990s.

Under longstanding contract language, the district pays the first 5 percent of the increase in health insurance premiums in a given year, while employees pay for any further increase. In 2008-2009, teachers and administrators paid a total of $1,235 per person, Pearson said.

In addition to capping the district's insurance costs, South Lyon's contract pegs salary schedule increases to state per-pupil funding and also requires employees to contribute to increased retirement costs, according to Pearson.

"That's always helped us to budget," he said. "It gave us stability, and that's what we were after."

A 2007 survey by the Mackinac Center, which publishes Michigan Privatization Report, showed that 75 of the 150 public school districts that participated had bargained contract agreements in which teachers or other employees paid a share of their annual health insurance premium. At the time of the survey, the monthly teacher share ranged from $20 to more than $125.

Some of those payments reflect only employees who choose voluntarily to "buy up" to a more expensive and extensive health care plan, typically the Super Care plan offered through the Michigan Education Special Services Association, a third-party insurance administrator affiliated with the Michigan Education Association. But in some districts, teachers are paying part of the annual premium for less-expensive plans, such as MESSA's Choices II.

Like South Lyon, some districts cap their expenses in the form of a "first 5 percent" limit. Others negotiate a dollar cap, sometimes benchmarked to state funding, while others split the total premium in 90/10 or 85/15 arrangements. One example is the Traverse Bay Area Intermediate School District, which recently settled a contract that continues a 10 percent health premium contribution from employees.

"Like many organizations, we're trying to create stronger wellness programs and consumer-based health care," Traverse Bay Area ISD Superintendent Michael Hill said. "When you're paying out of pocket, you pay attention to wellness."

Traverse Bay employees will switch from Super Care to Choices II, a preferred provider plan, and now will be responsible for certain co-pays in addition to the premium contribution. They will pay a deductible if they choose out-of-network providers.

Their monthly premium contribution will decrease, Hill explained, because the total annual cost for Choices II is about $257,000 less than for Super Care. That savings made possible a 2 percent pay increase in 2009-2010 and a 2.25 percent increase retroactive to the beginning of the 2008-2009 school year, he said.

"Any percent (salary) increase was based on movement to find that revenue," he said. In researching pay scales and health care plans in other districts, Hill noted, "We knew we had to hold firm with our 10 percent. We didn't see a lot of districts doing that."

Elsewhere in northern Michigan, Sault Ste. Marie Area Schools and its teachers recently negotiated a contract that puts a dollar cap on the amount the district will pay. Teachers will pay the difference between the cap and the premium total, Superintendent Daniel Reattoir said.

"Our goal was not only to control the cost, but to put ownership in their (employees') hands," Reattoir said, explaining that employees have paid part of their health care premium at least since 2001. In 2009-2010, teachers will pay about $118 in each of 20 pay periods for Choices II, or about $60 for dental and vision coverage only.

"This way it requires everybody to get involved, because if their co-pay is increasing, they want to know why," he said.

Putting these caps in place gives districts greater control over their expenses, but perhaps more importantly, it communicates to the employees themselves the cost of benefits they receive. A dollar saved in benefits can be a dollar spent on salary.

That's the point that arbitrator Donald Burkholder made when he recommended that Leslie Public Schools and its teachers come to terms on sharing costs for health insurance. Some of the anticipated savings should be spent to give teachers a raise, he wrote.

"(N)ot agreeing to some form of limit when selecting a preferred (health) plan would be irresponsible and illogical," Burkholder wrote last fall, as the fact-finder in a case between the school district and the Ingham County Education Association. "An additional advantage (to such an agreement) is that it motivates more attention to plan selection and use by the insured."

Teacher contributions in Leslie Public Schools rose significantly in 2007-2008 and 2008-2009, due to contract language requiring them to pay any premium increase in the interim period between contracts. When their contract expired in 2007, teachers were paying about $780 a year toward the MESSA TriMed plan. By 2008-2009, with no new contract in place, some teachers were paying up to $2,460 a year, according to Scott Blankinship, the district's former business manager.

The district and teachers signed a four-year pact early in August that puts teacher contributions at $1,040 per year and includes higher co-pays and deductibles.

Blankinship echoed South Lyons' concerns about budget stability and emphasized the need for predictable costs: "Without that cap, or some control, we're very vulnerable," Blankinship said in a telephone interview.

Capping district payments and sharing premium increases are both responsible ways for school districts to gain control of expenses.

Lansing Waverly also has negotiated an agreement with its teachers that caps the district's premium contribution in any given year, according to business manager Rob Spagnuolo. In the coming year, the district will pay a maximum of $1,280 for a two-person plan and a maximum of $1,375 monthly for family coverage.

Nationally, most workers who have insurance coverage through their employers contribute to the premium, according to the 2008 Employer Health Benefits survey conducted by the Kaiser Family Foundation. Only 7 percent of workers with family coverage and 20 percent of workers with individual coverage work for a firm that picks up the total cost, the survey showed.

On average, workers with family coverage pay about 27 percent of the premium, or $280 monthly, while those with single coverage pay about 16 percent, or $60 a month, the survey found.

As an occupational group, public school teachers "cost" more in compensation than other occupational groups in state and local government, according to a March 2009 Compensation Survey by the U.S. Department of Labor.

The survey found that all state and local government workers combined cost an average of $40 for every hour worked, made up of $26 in wages and $14 in benefits. Public school teachers at the elementary and secondary level, however, cost an average of $52 an hour, made up of $37 in wages and $15 in benefits.

The benefits packages negotiated by Michigan public school workers typically exceed those in the private sector. Despite receiving 9.5 percent more in state per-pupil revenues now than in 2004, public school districts continue to face budget trouble. Capping district payments and sharing premium increases are both responsible ways for school districts to gain control of expenses. MPR!

A Perfect Storm: Batten Down the Hatches or Drown

By Robert Daddow

Robert Daddow is deputy county executive for Oakland County and an adjunct scholar at the Mackinac Center for Public Policy.

As Oakland County deputy executive, I often speak with state and local officials. Most of them realize that with the auto industry in crisis and the nation in recession, they face rough weather ahead. What they often don't recognize is that they're optimists.

In fact, Michigan governments face a perfect storm — a convergence of economic trends that will depress government revenues for years to come. Accounting gimmicks and "revenue enhancements" will fail, forcing policymakers to transform the delivery of public services to remain afloat.

How bad is it? Let's start with the obvious: the auto industry meltdown. As of March 10, the total market capitalization of General Motors, Ford, Chrysler and several other major auto suppliers in Michigan was just over $6 billion. With GM and Chrysler in bankruptcy, Ford has rebounded to a capitalization of $16 billion, but to realize how small these numbers are, remember that Yahoo! recently rejected Microsoft's purchase offer of $47.5 billion. Toyota, the world's largest auto manufacturer, had a market capitalization of $120 billion in April, and its profit of $13.9 billion in 2008 alone equals almost the entire market capitalization of the Big Three.

Worse, the Big Three now face the double-whammy of a declining market share in a shrinking market. In the United States, about 16 million cars, vans, pickups and SUVs were sold in 2007, but the number will probably be about 10 million in 2009. Of these vehicles, the Big Three will be lucky to sell 4.6 million — just 60 percent of the 7.6 million they sold in 1981-1982, their worst year until now.

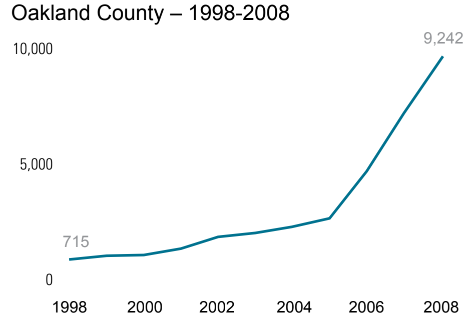
Other Michigan business sectors are in trouble too. Figures from the University of Michigan show that from 2002 to 2007, some 419 Michigan industrial sectors grew or remained stable, but another 641 declined. These 641 sectors shed 404,000 jobs, with an average income of $50,000 per year, while the growing or stable industries produced just 205,000 jobs, with an average income of only $36,000 per year.

These economic trends are hitting state government with lower revenues not just from income and business taxes, but from property tax revenues as well, since businesses and workers have less money to spend on real estate. In fact, because of state property tax laws and the sagging real estate market, it will be well into the 2020s before state and local governments collect the same property tax revenues they did in 2008.

Hence the storm: State government will lose revenue on three fronts, while local governments, which depend on property taxes and state revenue-sharing, will get less of both. Simultaneously, demands on government will grow. The state's 15.1 percent unemployment rate could go as high as 20 percent. The state unemployment trust fund, which has already borrowed $2.2 billion from the federal government, is sinking $200 million further into debt each month. This debt will force up unemployment payroll taxes on Michigan businesses.

Increase in mortgage foreclosure deeds

Oakland County – 1998-2008



Yet it won't make sense for state and local policymakers to raise the overall tax burden on businesses and residents. They are already struggling and underemployed.

Instead, government officials must focus intensely on restructuring their operations. This begins first with long-range planning: They should grapple right now with budgets for the next three years, not just this one. It's harder to deceive yourself when you're forced to look at a trend, rather than a single year's budget.

Second, employee pension and retiree health care benefits must be critically reviewed — the cost is too great to ignore. Many government units underfund these benefits or finance them on a pay-as-you-go basis. This just postpones the liabilities to future generations and makes them worse. Moving current public employees into plans with defined contributions, instead of defined benefits, can improve government balance sheets and give employees portable retirement benefits.

Third, government officials need to define their core services and consider ways to shed the rest, perhaps by getting out of certain areas altogether or by contracting with private firms to provide public services on a competitive basis. After all, if a government activity isn't strictly necessary and it's putting taxpayers in debt, it's not really a public service.

A perfect storm is easier to weather when your ship is trim. The key is to act now. Public officials who do that will face tough choices, but they will also be part of the solution — not part of a problem that residents pay them to solve. MPR!

Inspection Competition: Townships Find They Have Options

Like businesses competing for customers, local units of government compete for "customers" — residents, nonprofits and business establishments. They also compete with other governments and private operators over the cost and quality of their services. Some townships in Isabella County are providing a great example of competition among governments.

Cities, villages and townships are responsible for ensuring building code compliance within their boundaries, but many townships are too small to provide inspections and other state-mandated services. To meet these requirements, local governments often share providers or contract with other municipalities. Fremont, Deerfield and Rolland townships in Isabella County use an interlocal government agency called the Joint Construction Code Authority, created to monitor compliance with building codes.

The JCCA was started in 1992 (and at the time included Nottawa and Sherman townships) to offer townships quicker and less expensive building code services. Prior to the code authority's inception, townships referred businesses and developers needing permits to the county, but long waiting periods for inspections and approvals frustrated many residents. In response, some Isabella businessmen worked to create the JCCA.

Townships that belong to the JCCA have options, since the JCCA competes with Isabella County to provide inspection services. Other Isabella cities and townships rely on the county for building code compliance. Some municipalities do offer their own building permitting, but the county provides all electrical, mechanical and plumbing code services.

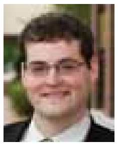
Recent construction slowdowns, however, have threatened the JCCA, since its only source of revenue is permit fees and townships can be held accountable for excess liabilities. Sherman and Nottawa townships left the JCCA in early 2009 — Sherman had issued only eight permits in 2008. Lack of building means lack of revenue, and some township officials were concerned about the JCCA's solvency.

Sherman Township's experience is typical for Michigan. The business of permitting has hit tough times as the state's economic malaise has slowed new construction to a trickle. In the first half of 2009, only 2,840 new home permits were issued statewide, down from 23,857 over the same time period in 2005.

To stay competitive and solvent in tough times, both the JCCA and Isabella County are responding. Isabella County cut one inspector from its staff and reduced the hours for a clerical position. The JCCA eliminated an office worker and per diem compensation for board members, allowing the authority to drop its rates. Since JCCA inspectors are contracted for and are paid a percentage of the building permit fee, the authority does not pay employee benefit cost increases for them.

The decision to form or remain in such a joint authority goes beyond just the dollars and cents: Stakeholders who receive these permits often have strong opinions. Last year, contractors in Iosco County voiced their opposition to a county commissioner's proposal to privatize its building department. Their opinions are valuable, since it is important for contractors to have good relationships with their regulators.

On the other hand, contracting with outside organizations lets governments make a fresh start in service provision. It also adds pressure to make sure the services are the best possible. Competition between multiple regulatory authorities gives individuals more options and allows townships to better serve residents. MPR!



By James M. Hohman

James Hohman is a fiscal policy analyst at the Mackinac Center for Public Policy.

School Privatization Survey Shows Gains in Support Service Contracting


By James M. Hohman & Eric R. Imhoff

James Hohman is a fiscal policy analyst and Eric Imhoff, a senior majoring in economics at Northwood University, is a research intern at the Mackinac Center for Public Policy.

More Michigan public school districts contracted out in 2009 for at least one of the three main support services — food, custodial or transportation — according to the Mackinac Center for Public Policy's annual privatization survey. Some 246 of the state's 551 districts, or 44.6 percent, contract with private companies for one or more of those support services, up from 42.4 percent a year ago. The Mackinac Center has surveyed Michigan school districts since 2001, when 31 percent of districts contracted out for one of the "big three" noninstructional services.

The survey found that 20.1 percent of districts contract for custodial service. That is more than double the 2005 total of 9.1 percent. Custodial service gained the most in 2009, with 16 additional districts contracting out for this service.

Districts saved substantial amounts of money by contracting out for custodial services. Richmond Public Schools expects to save $283,000, which is an effective per-pupil funding increase of $150. Dewitt Public Schools expects to save $255,591 this year, which is roughly equivalent to saving $86 per pupil, and its contractor expects to add six more jobs to provide this service.

Per-pupil savings estimates from privatization are significant as the state Legislature and governor have reduced the state aid foundation grant by nearly $300 per pupil.

There was a significant increase in transportation contracting as well. There are now 38 districts that have hired private contractors for regular transportation services, up from 32 districts last year. Benton Harbor Area Schools is privatizing the service and estimates it could save $2 million over the next five years, an average of $113 per pupil annually.

Districts are not mandated to provide transportation services, and some districts have stopped providing it completely to save on costs. River School in Berrien County is one, while other districts, like Grosse Pointe Public Schools, have never offered them.

While the Mackinac Center's 2008 survey showed a decrease in food service contracting, it increased in 2009 with a net gain of one district. Contracting for personnel and/or management in food services remains the most frequently used money-saving option, with 29.4 percent of districts participating. Glenn, Troy, Charlevoix, Sims, Okemos, Peck and Godwin Heights districts all began new food service management agreements.

District officials also commented on other ways they save on food services. Blissfield and Adrian expect to save $18,000 each by sharing a food manager. While there are new districts consolidating their food service programs, other districts have done so for a while. Swan Valley and Saginaw have shared food service for over nine years.

The district that saved the most from privatization this year was the Troy School District, which contracted out for food, custodial and transportation services. Troy expects to save $3.8 million in the first year alone, or $310 per pupil. The largest savings come from custodial services, at $2.7 million. While custodial contracting sometimes involves layoffs, Troy's contractor expects to hire the equivalent of 22.5 more workers to serve the district. Troy also expects its food service provider to run the program at a surplus of $414,625. Under last year's in-house staff and management, the district spent $100,000 more than revenues when indirect costs were considered. The district also privatized its transportation services and expects to save $7.4 million over the next six years.

A small number of districts brought services back in house this year. Two districts brought custodial services in house and six brought back food services. No district brought back transportation services, although Montabella Community Schools decided to buy back buses from its contractor.

The Mackinac Center was able to receive and confirm responses from every district in the state this year, marking the third time that 100 percent of school districts cooperated with the survey. Despite obstacles, especially opposition from unions afraid of losing dues-paying members, privatization continues to increase in popularity for school districts trying to save money.

A pull-out map of privatization in Michigan school districts is available in the center of this magazine.

Change Coming to Michigan Highways: Public-Private Partnerships

With Michigan battling economic and financial woes, state legislators introduced a bill to authorize public-private partnerships for transportation projects in order to address Michigan's deteriorating roads. House Bill 4961 would allow the state to enter into agreements with private entities to finance and operate highways and expansion lanes in Michigan.

A public-private partnership, or PPP, is a comprehensive agreement by which a government contracts with a private entity to finance an infrastructure project through risk-sharing. PPPs take a variety of forms. In one such arrangement, a private entity may design, build and operate the project for a specified period of years, earning a return on its investment through user fees or a contractual payment, and then transfer the project back to the government.

The Michigan Department of Transportation has already concluded two agreements with private construction contractors; under these agreements, the contractors put up the money for projects themselves, and the state repays them with interest over time. Public-private partnerships would further tap private-sector financing, specialization and business acumen to improve such traditionally governmental projects as highways and sewers. PPPs may also attract more capital, as private equity funds, banks and other investors are more likely to invest in a private firm, which will bring its own expertise to the project, than to give funds to the government for the same transportation project.

Should the Legislature pass the bill, Michigan would join the approximately 25 states in the U.S. that have passed similar legislation. Virginia, Indiana and Texas, for instance, have used PPPs specifically for road projects, and Virginia saved its taxpayers $2 billion on an expressway expansion. In fact, countries around the world have long used such partnerships in transportation projects, such as London's Underground, a transcontinental railroad in Australia and many of the freeway systems of Spain, Italy and France.

Governments generally view PPPs as a way to deal not only with funding shortfalls, but also with congestion, aging roads and antiquated technology. A 2007 Mackinac Center report found that Michigan has a $13.8 billion backlog in transportation needs, including reconstruction, resurfacing and lane expansion. Moreover, PPPs can enable the government to better serve the public interest by building roads more quickly and providing increased

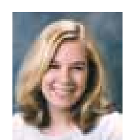
transparency as the public is privy to the terms of the contracts. Finally, residents can benefit from the private sector's expertise in technology, pricing and customer service.

Despite their many advantages, however, PPPs can fail without responsible fiscal policy, as evidenced by high-profile PPP failures in other states. Though the Michigan bill would permit unsolicited bids, the state should take care to observe good competitive-bid solicitation habits, particularly to hold the private sector accountable and to counteract the formation of monopolies. It will also be key to have well-negotiated agreements underlying the PPP to ensure smooth and efficient provision of transportation infrastructure.

The Michigan bill would authorize the director of the Department of Transportation to enter into PPPs on behalf of the state. A public entity would retain all ownership over any public transportation assets. Unlike some states' legislation, the Michigan bill does not contain specific road projects. Tolls would be set by the terms of the contract rather than by the state. The bill also requires all revenues to be used for additional transportation projects, which prevents the Legislature from turning road tolls into taxes for general spending, but does not prevent road tolls from being used to finance transit projects elsewhere in the state.

The bill does not go as far as it might toward tapping the benefits of PPPs: It does not permit tolls or other charges on existing highway lanes, though it would permit tolling or congestion-based pricing for newly constructed lanes. This means the money generated by PPP projects may not be available to maintain, reconstruct or expand Michigan's other aging transportation infrastructure.

While the Legislature will need to observe good contracting practices in order for PPPs to be successful, House Bill 4961 is a good step toward addressing Michigan's growing transportation woes. MPRI



By Laura J. Davis

Laura J. Davis is an adjunct scholar with the Mackinac Center for Public Policy and a graduate of the University of Michigan law school. Davis was a summer 2004 research assistant.

If You Build It, They Won't Come (or Stay)

In 2002, the Michigan Privatization Report dedicated an entire issue to dismantling the state's economic development complex — the myriad programs designed to create jobs where central planners think too few exist. One of the articles, "If You Build It, They Won't Come," critiqued a government effort to create a shopping plaza anchored by a grocery store in the Northside neighborhood of Kalamazoo. Northside's experience shows that a business won't stay just because government builds it.

The grocery store project was well-funded: The Michigan Economic Development Corp. — the state's official "jobs" department — promised $1 million; the federal government contributed $300,000; and the city of Kalamazoo dedicated $200,000 to the project.

After more than three years of planning and delays, the grocery store finally opened and was met with great fanfare. Indeed, public interviews and comments suggested that the deal had panned out nicely and was bringing much-needed direct and indirect jobs to the neighborhood. The new grocery store and plaza even got positive coverage in the Congressional Quarterly, a popular periodical read by members of the U.S. Congress and other "movers and shakers."

But a funny thing happened on the way to economic nirvana. Despite generous subsidies, the grocery store closed in May of this year, less than six years after opening.

The tale of this economic "winner" is really one of government economic development work in the Great Lakes State. It involves the redistribution of tax money in the name of jobs; government officials' false belief that they can increase total jobs in specific geographic areas; and a disregard for past experience and evidence.

In the first MPR article on the Kalamazoo grocery store project, we argued that:

- Three previous attempts by private vendors risking their own money had already failed at this precise location. Why would the fourth time — with taxpayer dollars — be the charm?
- The neighborhood in question had high crime rates, and thus it was difficult to attract shoppers, let alone service-providing vendors.

Moreover, throughout Michigan Privatization Report and other Mackinac Center work, analysts have pointed out that taxing some to give to others does not create new jobs, but at best just shifts them around.

The grocery store's operations may have ceased, but government efforts have not. The Kalamazoo Gazette reports that the Northside Association of Community Development would like another grocer to take over the building. In June 2009, the Kalamazoo City Commission allocated $250,000 of federal stimulus funds to help "resurrect a grocery store in the city's Northside neighborhood," according to The Gazette. The first $50,000 is slated for maintenance on the empty grocery store.

One has to wonder how many of these development initiatives need to fail before officials at all levels of government get the picture. Even if AutoWorld's inglorious implosion — both figurative and literal — wasn't enough to dissuade policymakers from such gambits, examples of failure abound. A quick summary shows this folly:

- Some $35 million in local, state and federal funds was invested in AutoWorld, a seven-acre theme park in downtown Flint. The park, which opened in 1984, was supposed to draw 900,000 visitors annually and revive the beleaguered city. It closed after only two years.
- Construction of Cereal City USA in downtown Battle Creek, was made possible by a $900,000 loan the city secured from the state. The attraction, which opened in 1998, was billed as "a land of wonderful, interactive experiences and entertainment for the entire family, as they explore the birth, development and global impact of the cereal industry." Officials estimated that the park would draw 400,000 visitors annually, but it was shuttered in January 2007 after years of dismal attendance.
- The Kalamazoo Aviation History Museum secured a $3 million state grant to launch construction of an aviation theme park. The attraction was touted as "a centerpiece for economic development and tourism in southwestern Michigan," and local officials hoped that the state would finance half of the $80 million construction cost. A 25 percent hike in the local hotel tax also was considered. Ultimately, the grant money was returned to the state after the project was scaled back for lack of support.
- The city of Pontiac invested $55.7 million to build the Silverdome in 1975. The Detroit Lions relocated to Detroit's Ford Field in 2002. Although the team paid the city $26 million for breaking its contract, Pontiac continues to incur a hefty deficit in maintaining the 127-acre site.

A better economic development approach would be for local units of government to make sure their public services are effective and efficient and then roll back the costs of living, working and investing in the community. The likely result would be a far stronger economic base, and one that can easily induce grocers to open stores without targeted subsidies or other incentives. MPR

Michael D. LaFaive is fiscal policy director at the Mackinac Center for Public Policy.

Prison service privatization bills introduced

LANSING — The Michigan Senate Judiciary Committee recently heard testimony on Senate Bill 476, which would require the Department of Corrections to competitively bid out services including food, transportation and more.

Critics of the plan include the Michigan Corrections Organization, the union that represents prison employees.

Bill supporters, however, argue that the state could save $100 million by contracting, according to the Michigan Information & Research Service. Sen. Wayne Kuipers, R-Holland, stated, "Until we figure out why our costs are out of line with other states, we need to explore everything," according to MIRS.

Reference: "DOC Competitive Bid Bill Debated," Michigan Information & Research Service, June 9, 2009

State recontracts prisoner health care

LANSING — The state selected a new vendor, Prison Health Services, for management of the health services for its prisons, the Michigan Information & Research Service reports. The contract expires March 31, 2012, and will pay the company $326 million, according to the state's Web site.

Prisoner health care had been provided by Correctional Medical Services since 1998. That company was selected after the state's previous vendor did not provide the performance it promised.

A December 2007 report by the National Commission on Correctional Health Care made 54 recommendations to improve Michigan's services. The new contract reflects those recommendations, and the company will be held responsible for maintaining NCCHC standards.

Michigan is not alone in contracting for inmate health services. In 2004, the Mackinac Center found that 32 states contracted with private firms to provide these health services.

References: "Choice of prison health company angers some," The Grand Rapids Press, Dec. 23, 2008

"DOC Changes Health Care Provider," Michigan Information & Research Service, Feb. 10, 2009

"Privatization for the Health of It," Michigan Privatization Report, December 2004

State may privatize fairs

LANSING — The state may eliminate its subsidy of state fairs and solicit donations as a replacement. The fairs — one in Detroit and another in Escanaba — have been perennial money-losers and required $350,000 in state money last year, according to the Detroit Free Press.

Gov. Jennifer Granholm highlighted the fairs in her State of the State address. "[W]hile they are a wonderful tradition, the state fairs are not an essential purpose of government. I'm grateful that others are stepping forward to continue this tradition," she stated.

While the Legislature voted to fund the state fair, the governor vetoed the move. "Government in these times cannot be all things to all people," stated gubernatorial spokesperson Megan Brown to the Michigan Information & Research Service in reference to the fair.

The annual fair concluded in September, but the state fair board is exploring possibilities of staying open without direct state support, according to meeting minutes.

The Mackinac Center has called for the elimination of the state subsidy for the fairs since 1996, when authors Joe Overton and Aaron Steelman argued, "[T]here is no reason to believe that we need the state to run the Michigan State Fair in order for there to be one." Mackinac Center scholars argued in 2003 that selling the fairgrounds may bring the state $59 million, although the real estate market has changed since then.

References: "Money sought to keep State Fair alive," Detroit Free Press, Feb. 3, 2009

"Alice Cooper too pricey for State Fair," The Detroit News, July 15, 2009

"Gov Likely to Veto State Fair $," Michigan Information & Research Service, Oct. 2, 2009

"Fairs to Remember," Michigan Privatization Report, February 2003

"Advancing Civil Society: A State Budget to Strengthen Michigan Culture," Mackinac Center for Public Policy, April 1996

The state selected a new vendor, Prison Health Services, for management of the health services for its prisons.

Emergency financial manager selected for Pontiac

PONTIAC — Gov. Jennifer Granholm appointed an emergency financial manager for the city of Pontiac after officials there failed to abide by an agreement with the state to address its financial disarray. Fred Leeb, a nonprofit consultant, was put in charge.

The state cited a number of factors when declaring that the city was in a financial emergency. The city's cash reserves decreased from more than $60 million in 2003 to less than $20 million in 2007, and it has a general fund deficit of $6 million.

> Trying to avoid a general fund subsidy, Garden City contracted its building department.

The mandatory personnel requirements of the city were also cited as problematic, with the state saying they pose "a significant limitation upon the ability of City officials to weigh competing budgetary needs from one year to the next and to allocate scarce financial resources accordingly."

The Mackinac Center detailed Pontiac's finances in its winter 2007 issue of Michigan Privatization Report. It highlighted a number of issues that an EFM may have to address. These issues included Pontiac's then-decreasing cash position and a general fund that spent 68 percent on police and fire expenses — meaning that addressing these major expenses would result in a lengthy and uncertain binding arbitration process. MPR argued that structural reforms were necessary, including selling city assets, privatizing city public works services and contracting with local governments for police and fire services.

References: "Financial manager faces difficult task," The Oakland Press, Feb. 27, 2009

Correspondence between Gov. Granholm and Pontiac Mayor Clarence Phillips, Feb. 20, 2009

Pontiac sells Silverdome

PONTIAC — A Canadian company was selected to purchase the Pontiac Silverdome for $583,000 and may use the facility for professional soccer, according to The Detroit News. The company and the city have until the end of 2009 to close the deal.

Emergency Financial Manager Fred Leeb contracted with a professional real estate auction firm to sell the Silverdome, Pontiac's 80,300-seat arena. The facility has largely sat empty since the Detroit Lions relocated to Ford Field in 2002.

Williams & Williams received four bids for the facility and all of its lands.

A previous deal to sell the Silverdome for use as a multi-use entertainment complex collapsed last year after its buyer did not make payment. Ongoing negotiations proved fruitless, and Leeb decided to hold an auction, according to The Oakland Press.

In this attempt, city officials will not select vendors based on the appeal of proposed projects, but will simply sell the facility to the highest bidder. Interested parties must make a $250,000 deposit in order to be considered, and the deadline to make an offer is November 12th. The city has the option to invite the highest five bidders to a "best and final" outcry auction to be held in the week following the deadline, according to the auction group's web site.

References: "Pontiac Silverdome," Williams & Williams Web site, www.wiliamsauction.com/silverdome, accessed Oct. 12, 2009

"Public hearing to be held on Silverdome auction," The Oakland Press, Aug. 28, 2009

"Silverdome sale price disappoints," The Detroit News, Nov. 17, 2009

Detroit mayor looks to privatize city finances, comments on privatizing city power department

DETROIT — Mayor Dave Bing is discussing contracting out two city finance department functions, according to the Detroit Free Press. There are about 100 city workers currently providing tax collection and payroll services, according to the Free Press. The city uses an antiquated system that requires manual processing.

This is not the only function the mayor is looking to contract out. Bing stated on the PBS "Tavis Smiley" program that the city's Public Lighting Department is an example of a service that is not a core government service and may be considered for privatization.

"I can't say that everything has to be privatized, but there are some things that, in this city, we ought not be doing as part of government," he stated.

Bing expressed concern for current employees, possibly suggesting that they may find new jobs in a contracting company, but he emphasized, "When we find out that we're not competitive, it ought to go out."

The city's Public Lighting Department generates electricity for the city's streetlights, utility poles and traffic lights, as well as 890 other buildings in Detroit, according to the Detroit Free Press. The city's power station is also in need of major upgrades.

The mayor is following through on these ideas. In an action plan posted on the city's Web site, the mayor expects to outsource the management of the city airport and parts of its financial operations. He also plans on closing the city's Mistersky Power Plant.

The Mackinac Center recommended privatizing the department in 2001, pointing out that its costs were 160 percent higher than private-sector operators and that a sale of its assets at that time may have resulted in a payment of $301 million to $501 million.

References: "Bing: Privatizing can save city cash," Detroit Free Press, Aug. 14, 2009

"Bing wants to privatize lighting," Detroit Free Press, June 10, 2009

Tavis Smiley show, www.pbs.org/kcet/tavissmiley/

"Bing Administration Crisis Turnaround Action Items," City of Detroit web site, accessed Oct. 13, 2009.

"Time to Privatize Detroit's Public Lighting Department," Michigan Privatization Report, Winter 2001

Ecorse officials arraigned on corruption charges

ECORSE — The Ecorse mayor and city controller were arrested and charged with conspiracy, bribery and fraud, according to The Detroit News. The two allegedly contracted out some city services because of financial kickbacks offered by the contractor, including at least $10,000 in payments and a Lexus.

The contractor pleaded guilty to bribing city officials, and had been working with FBI investigators since September 2008 in gathering evidence against the city officials, according to the Detroit Free Press.

References: "Businessman pleads guilty in Ecorse scheme," Detroit Free Press, Oct. 16, 2009

"Ecorse mayor, controller arraigned on bribery, fraud charges," The Detroit News, Sept. 25, 2009

Wexford County contracts management of its civic center

CADILLAC — In order to decrease spending by the necessary $350,000 to $1 million to balance its budget, Wexford County is looking at a number of privatization opportunities and other cost-saving ideas, including contracting for management of its civic center.

The county awarded a 10-year contract to Conerly Management in June. The company will assume any profit and loss over the first three years, and return 15 percent of its profits to the county afterward, according to the Cadillac News.

The county also contracted its payroll to a private company for a savings of $70,000, according to the Cadillac News. It received bids for the service from three vendors, including one of its own employees. The employee's bid was the lowest of the three, but she did not have a certified public accountant's license, which was a requirement of the bid, according to the News.

References: "Management group to begin Wex operations," Cadillac News, June 18, 2009

"Accounting firm recommended for Wexford payroll," Cadillac News, Feb. 25, 2009

"County axes three positions, accounting office," Cadillac News, Feb. 26, 2009

Garden City contracts its building department

GARDEN CITY — Trying to avoid a general-fund subsidy, Garden City contracted its building department, according to city officials.

The city's building department issues permits for all new residential and commercial construction projects in its jurisdiction. Fees for permitting are used to defray the costs, but the department still needs $100,000 from the city's general fund to operate, according to the Garden City Observer.

The city also issued a request for proposals to administer its Community Development Block Grant program. Work the city requires would include monitoring projects and working with Wayne County in preparing grant application materials, vouchers and activity reports.

Reference: "Reorganization, privatization: Council looks to save money," Garden City Observer, Feb. 19, 2009

Detroit Mayor Dave Bing is discussing contracting out two city finance department functions.

MICHIGAN PRIVATIZATION REPORT's

AROUND THE STATE

Mackinac Center releases privatization survey

MIDLAND — The Mackinac Center for Public Policy released its 2009 survey of school districts, showing that privatization of support service increased by 5.4 percent. Overall, districts outsourced 29 more services while eight services were brought back in-house, increasing the percent of districts that contract to 44.6 percent.

Custodial services increased the most, with 12 districts beginning new contracts. Over 20 percent of districts contract out custodial services. Transportation contracting grew from 5.8 percent of districts to 6.9 percent. Food service increased slightly from 29.3 percent to 29.4 percent of districts.

For more information on the survey, see the article on Page 8 and the privatization map at the center of this magazine.

After seeking bids from companies to provide its custodial and transportation services, Bloomfield Hills Schools accepted union concessions that may save the district $2.1 million.

Benton Harbor schools privatize transportation

BENTON HARBOR — Benton Harbor Area Schools selected First Student Inc. to provide busing services to the district, according The (Benton Harbor) Herald-Palladium. The move is expected to save the district $2 million over five years, district officials report. However, a recall campaign was launched against three school board members after the move.

The district has 40 school buses and plans on selling the majority of them to the company for $400,000, according to The Herald-Palladium. All school buses, public or private, must be inspected annually by the state. Last year, the district received only one yellow flag, which means that the bus was safe for operation but required a repair. Flagged buses must be fixed within 60 days.

The district will rent its transportation garage to the company for $150,000 per year, The Herald-Palladium reported.

Reference: "Privatization vote may come Tuesday," The (Benton Harbor) Herald-Palladium, May 10, 2009

"Petitions seek recall of 3 board members," The (Benton Harbor) Herald-Palladium, July 9, 2009

Bloomfield Hills district receives union concessions after seeking bids

BLOOMFIELD HILLS — After seeking bids from companies to provide its custodial and transportation services, Bloomfield Hills Schools decided to accept concessions from its support service union, according to the Rochester Eccentric. The savings the union offered were commensurate with offers from private firms.

The district signed a five-year contract with its union — which is represented by the American Federation of State, County and Municipal Employees — that may save the district $2.1 million. Savings come from a wage reduction and freeze for the first three years of the contract, an increase in employee health care contributions and changes in vacation and holiday schedules, according to the Eccentric.

In February, the district also decided to consolidate its buildings for an anticipated savings of $2.3 million.

Reference: "Bloomfield Hills Schools won't privatize services," Rochester Eccentric, April 5, 2009

Jenison schools contract for custodial work

JENISON — Jenison Public Schools contracted its custodial service as part of cuts expected to save the district $1.1 million. The move is expected to save the district $185,585 in the first year and $425,000 annually thereafter, according to The Grand Rapids Press. The district selected CSM Services, which is owned by two Jenison High School graduates.

Other key parts of the spending reductions include a switch in the district's MESSA insurance that covers teachers and administrators. Higher co-pays for prescription drugs are expected to save the district $320,000, and eliminating unfilled job vacancies will save $660,000, The Press reported.

Even with the savings, the district expects to overspend revenues by $1.1 million for the upcoming fiscal year. The district's reserves will cover the difference.

Reference: "Jenison Board of Education approves privatizing custodians to prevent program cuts," The Grand Rapids Press, June 16, 2009

Whiteford schools extend contract to cover food-service labor

OTTAWA LAKE — Whiteford Agricultural School food-service employees may sue the district, according to The Toledo Blade. The district uses Sodexho to manage the district's food services, and in June, the district's school board voted to extend that contract to cover employees as well.

Food service programs may be self-sustaining — that is, revenues from food sales can cover all the expenses — but when there is a deficit, a district may have to transfer money from funds meant to support instruction services to cover it. Whiteford transferred $19,000 to cover its food-service expenses during the 2007-2008 school year.

But the Michigan Education Association officials who represent the affected employees argue that its collective bargaining agreement, which will not expire until June 2010, prevents the district from contracting, and the MEA is likely to file a grievance and lawsuit against the district, The Blade reported.

Reference: "Whiteford Agricultural district trims staff, cuts hours?" The Toledo Blade, June 17, 2009

Adrian schools contract for transportation

ADRIAN — With a budget projected to overspend revenues by $1.7 million and collective bargaining agreements for its transportation expiring, Adrian Public Schools contracted for its transportation services.

An analysis by The (Adrian) Daily Telegram compared Adrian's in-house costs with those of a district that uses a private firm to provide the service. While the analysis found that Adrian's costs per mile appear to be less than the privatized district, it did not include costs for new equipment.

The Daily Telegram reported that Adrian has 30 buses which will require replacement "on a reasonable schedule" and that the district has not made any general-fund purchases of buses since 1993 at the latest.

The district also looked at custodial service contracting.

References: "Private or public: Which bus service is more cost-effective?" The (Adrian) Daily Telegram, April 8, 2009

"Adrian bus decision difficult, but correct," The (Adrian) Daily Telegram, May 6, 2009

Custodial contracting explored in Algonac schools, transportation privatization rejected

ALGONAC — Facing expiring collective bargaining agreements for custodial and transportation services, Algonac Community Schools considered privatizing them to save between $150,000 and $200,000 annually. Algonac asked private vendors to bid on transportation provision, but ultimately accepted union concessions amounting to about $20,000, according to The (New Baltimore) Voice.

The union's concessions included cutting allowable sick days, cutting paid holidays and changing overtime rules. "The concessions they made were difficult but we appreciate them," said Superintendent Michael Sharrow.

Bus drivers for the district did not bargain to receive health benefits, as was the case in many districts in the state. The district, however, provides 16.94 percent of its payroll to the school pension fund. Contracting typically switches the employees from pension funds to defined-contribution retirement plans.

School administrators have discussed concessions with the custodial union, but have not sought contracting bids for that service.

References: "Algonac schools considers privatization for bus drivers, custodians," The (New Baltimore) Voice, June 31, 2009

"Algonac schools bus drivers keep jobs," The (New Baltimore) Voice, Aug. 5, 2009

Portage schools explore expanded contract

PORTAGE — Portage Public Schools' attrition contract for custodial services was expanded at the school board's June 15, 2009, meeting, according to board minutes. The district already has an arrangement with a private firm to bring in contractors to replace nighttime custodians who leave employment.

But with a tight budget, the district chose to contract out its second and third custodial shifts to Grand Rapids Building Services. MPR!

Reference: "Portage schools to privatize some custodial work," The Kalamazoo Gazette, April 14, 2009

Special and Regular Business Meeting Minutes, Portage Public Schools Board of Education, June 15, 2009

Benton Harbor Area Schools selected First Student to provide busing services to the district. The move is expected to save the district $2 million over five years.

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Michigan Should Commercialize Its Rest Areas

Driving on I-75 on a cold day while running late and low on gas, you might ponder why the state's rest areas don't offer a place to fill up or grab a bite to eat. The answer is that business endeavors on Michigan highways are prohibited by state and federal law. While removing these restrictions may be politically difficult, doing so would help motorists looking for convenience and a state looking for revenue.

Rest areas can be traced back to 1929, when the manager of the Ionia County Road Commission created the nation's first "roadside park" after seeing families stop on the roadside to have a picnic.

The Interstate Highway Act of the 1950s stipulated that more of these "Safety Rest Areas" be included in the construction of the interstate highway system. These areas were put in vast stretches of land and wilderness between cities, where common services might not be available, according to historian Joanna Dowling. State and federal law, however, did — and still does — prevent commercial endeavors along interstate right-of-ways.

Little has changed since the Highway Act's inception. According to federal regulations, rest areas exist to "provide facilities reasonably necessary for the comfort, convenience, relaxation, and information needs of the motorist." Michigan law echoes the federal law: "The state transportation department shall allow only the installation of vending machines at selected sites on the limited access highway system to dispense food, drink, and other articles that the state transportation department determines appropriate."

Drivers may be aware that other states have turnpikes with multiple food vendors, gas stations and other commercial endeavors. Different laws govern service plazas on toll roads, and they allow for business activity. That the law treats rest areas as safety features on the highway ignores the use that most people get out of them.

We don't live in that 1950s world where there is pent-up demand for a roadside picnic. There are lots of opportunities to eat at local parks and public forests. In fact, it's likely that rest areas that offer more services, such as food and fill-ups, would be quite popular. Speculators have even purchased options to buy land adjacent to rest areas just in case the state permits commercialization.

Obviously, there's going to be pushback for selling rest area assets. Converting Michigan's 81 rest areas to commercial convenience areas would mean that all of the off-ramp gas stations, truck stops and fast-food restaurants would face new competition from places with easier access.

Also, many of the rest areas may not be big enough. Current rest areas are designed to accommodate motorists' habits — average stops of 15 minutes or less. If people are also getting food and gas, however, additional parking may be needed, and expansion might not be possible in some areas. But like an autographed baseball, you're never quite sure what it is worth until you try to sell it.

Of course, beyond the benefits of offering drivers new and attractive services, commercialized rest areas could serve as a revenue source for the state. The restaurants and retail establishments at Ohio's 14 turnpike service plazas returned $13.6 million to the state last year, and there were additional revenues from its other commercial endeavors. While Michigan's potential revenues are difficult to estimate, they could easily be in the millions of dollars. Because the rest areas are in locations all around the state, however, a quick analysis of their expected market value is unavailable.

Since the state is prohibited by state and federal law from commercializing its rest areas, it has three options.

First, the state could theoretically convert its roadways to turnpikes and reclassify its rest areas as toll plazas. That is unlikely, and revenues from commercialized rest areas should not be the impetus for making such a drastic change in how Michigan finances its highways.

Next, the state could apply for a waiver of rest area commercialization regulations from the Federal Highway Administration. A Special Experimental Project (SEP-15) waiver was created to allow public-private partnership experiments and may allow the state to waive commercialization restrictions. However, it is up to the administration to approve these waivers, and no waivers for rest area commercialization have yet been approved.

Finally, Michigan's congressional delegation could work to eliminate commercialization restrictions. Congress looked at removing these restrictions in the past two highway spending reauthorizations, but have not done so. Eliminating the restrictions would be the most straightforward way of opening Michigan's rest areas to privatization.

All three options would require changes in Michigan's law as well.

Allowing commercial service plazas would help state legislators meet current road construction needs. Travelers, too, would benefit from a wider selection of roadside services. MPR!

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