Privatize the UNIVERSITY OF MICHIGAN

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# MICHIGAN Privatization REPORT

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2004-01 / Spring 2004

## Privatization Could Have Michigan Seeing Green

## High School Fiddlers' Group Goes Private

## Prison Privatization: A National Trend

## DNR Contracts out Ski Area Management

and more...

**MICHIGAN PRIVATIZATION REPORT**

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## FEATURES



## DEPARTMENTS




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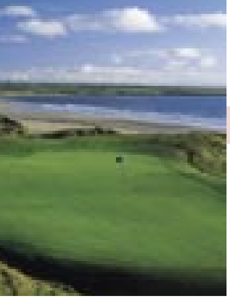


Feature

# Golf Privatization: Fieldstone Should Be Private

**By Michael LaFaive**

Since taking office Gov. Granholm has sliced more than 9 percent from the state's annual revenue sharing to counties, villages and townships to help balance the state budget. Michigan's local governments will need to make up the revenue shortfall somehow. One option is to privatize assets they own or services they provide, such as public golf courses.

> **Last year city officials stripped its police protection fund of $500,000 in surplus revenue to help finance a $1 million clubhouse for the course.**

Municipal golf courses are expensive endeavors that can bleed municipalities of much-needed cash. They represent untapped assets that could be sold, generating revenue from the sale, and adding property to a municipality's tax rolls. Perhaps most important, municipal courses compete directly with private, for-profit courses for customers, and do so using the tax dollars of private golf course owners. And from a "good government" point of view, government-run golf is, as Governing Magazine has said, "the most nonessential of nonessential services." Can anyone seriously claim "golf" as a legitimate government function?

The state of Michigan, despite its long winters, is a golf Mecca. According to the National Golf Course Owners' Association, there are 854 golf courses in Michigan — the third-highest number of courses in the country. In number of courses per capita Michigan ranks 14$^{th}$ in the nation. In other words, if every one of Michigan's 81 government courses vanished, there would still be enough courses to accommodate demand.

Yet there have been few public discussions about privatizing government golf courses to save money. Even when officials do discuss privatization it generally involves contracting with private management companies to operate facilities still owned by municipalities. While this may save taxpayer dollars and improve services it doesn't go far enough. Local units of government should sell off their golf courses completely.

Taxpayers should never have to foot the bill for facilities that serve no legitimate government function. Even courses that have long since been paid for and generate revenue exceeding their true expenses represent untapped assets with substantial opportunity costs. That is, the revenue generated by a sale of the property, plus all future annual tax payments generated by private owners, are forfeited so a few thousand golfers can enjoy one more golf option each summer.

Take the Fieldstone Golf Club of Auburn Hills as an example. It is situated on some of the most valuable land in the state of Michigan, just south of the Palace of Auburn Hills (where the Detroit Pistons play) near Interstate 75 in Oakland County. It cost the municipality $16 million to purchase in 1997 and, according to Tom McMillin, former Auburn Hills mayor, the course has officially bled the city of about $1.5 million in revenue since January 2000 by generating less income than was necessary to cover the cost of running the facility. The losses incurred at Fieldstone are paid for by loans from other areas of the city budget. Once the golf course starts making a profit it is expected to pay this money back. The city golf course officially owes $2,000,000.

The city of Auburn artificially brightens this negative picture by including property tax revenue generated by 100 acres adjacent to the course as revenue generated by the golf course itself. It's a complicated issue that requires some explanation.

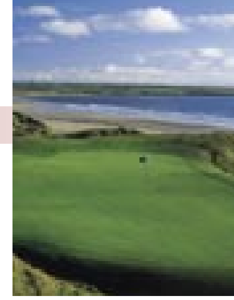
The city's logic is that, if it had not bought the course, the private development of the adjacent acres would not have occurred. This is unlikely given the demand for land in the area. In 2004, this adjacent property is expected to generate $385,000 in property tax revenue. Without this money on the city's books as golf course revenue, the actual deficit of the course would be much higher than $2 million.

Fieldstone also counts as revenue an "advance," or loan, equivalent to the property tax bill generated by the property from its owners. The property taxes and advance from the property owners totaled $770,000 in the city's 2004 proposed budget. This dramatically boosts Fieldstone's revenue profile, and makes the golf course appear like a better city investment than it actually is.

Why would a local business make such a loan? According to William Ross, city manager of Auburn Hills, such support evolved from a public-private partnership between the city of Auburn Hills and Cardell Corp., an automotive parts supplier. When the course originally went up for sale in the late 1990s it was purchased by Cardell Corp. which kept a portion of the property for its business and sold the course to the city of Auburn Hills.

Furthermore, last year city officials stripped its police protection fund of $500,000 in surplus revenue to help finance a $1 million clubhouse for the course. These revenues are not accounted for on the Fieldstone balance sheet as they would be if the course were privately owned. A for-profit operation would have to use capital it accumulated through its operation or borrow the money if it wanted a new clubhouse. What it couldn't do is force taxpayers to fund it, or legally conceal its true cost.

Some maintenance costs associated with municipal courses are shielded from public view because some courses use Department of Public Works employees or inmates from jail work-release programs to do landscaping, or pick up after



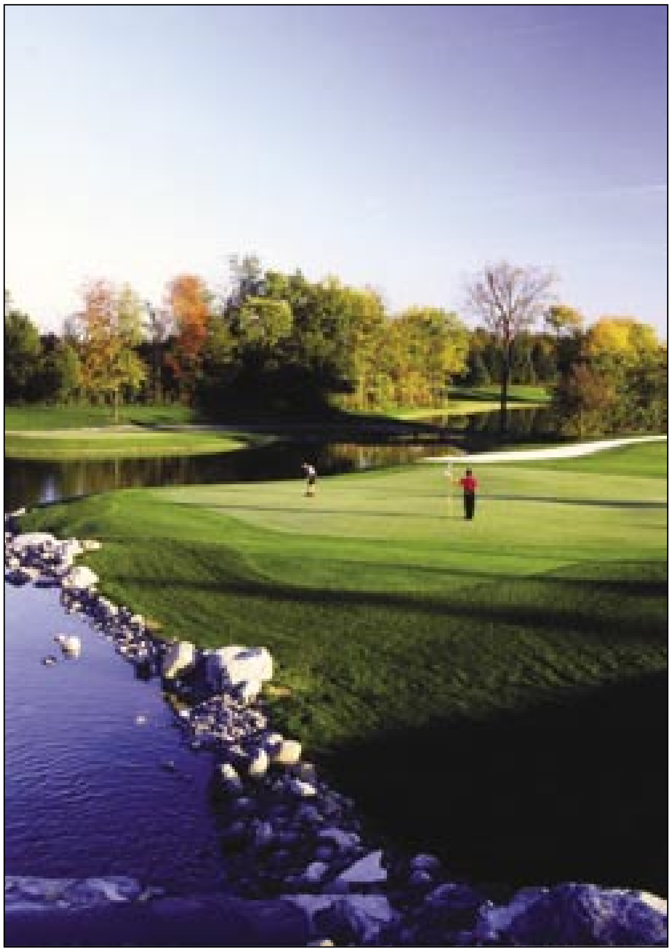
severe weather drops tree branches and leaves on the course. These costs do not show up as part of a municipal course's expenses, but they should.

Selling Fieldstone to private developers would enable the city to re-deploy the annual property tax revenue it now uses to subsidize the golf course. And if a 100-acre business development adjacent to the course generates $385,000 in tax revenue, it is not unreasonable to suggest that the 280-acre course might produce double that amount annually, if it were converted to similar business enterprise.

The Fieldstone example is not unique. Consider the new Lyon Oaks County Park municipal golf course, with 18 holes and a 30,000 square-foot banquet and conference facility. According to Dan Stencil, administrator of park operations, the course cost $13.4 million to build (this price excludes other new park features such as the dog park). In 2003 the course had a built-in loss — in other words, the county expected the loss and budgeted for it — of more than $200,000, but was expected to make a profit of $84,000 in 2004. That is, it will "profit" if you exclude from the profit and loss ledger the cost of paying off its debt service, which Oakland County does to the tune of $400,000 annually.

Of course, excluding such costs makes the operation of the municipal course appear more cost effective than it really is.

There is another, perhaps more pernicious cost associated with municipal golf. It is unfair to private municipal golf owners to use their tax dollars to create golf courses with which they will have to compete — and on an unfair basis to boot. If for-profit ventures fail to generate revenue in excess of expenditures they eventually go out of business. Municipal operations just reach deeper into the pockets of taxpayers.



*Private golf course owners must compete for customers with courses subsidized by their own tax dollars. Aside from being unfair, this is economically counterproductive .*

As municipalities strain to pay the most essential bills common to operating a local unit of government, those that operate golf courses should consider selling them before raising taxes. Certainly they should stop complaining about state revenue-sharing cuts if they do not intend to cut a "government function" so clearly not essential to good government. Indeed, municipal golf courses represent an embarrassment of riches for the governments that run them.

Currently, all levels of government combined take about 40 percent of national income, jobs are leaving the state of Michigan, and local budgets are reportedly strained under the weight of a struggling economy. Under such circumstances, taxpayer funded golf seems both wasteful and unfair to taxpayers and entrepreneurs. There may be some benefits to government golf, but those are concentrated among a few golfers and city employees who work at or enjoy operating a golf course.

Private businesses provide golf services without reaching into the pockets of non-golfers to do so. Golf privatization is more than just smart economic policy. It is fair to real entrepreneurs who risk their own money in order to provide these services.

*Michael LaFaive is director of fiscal policy for the Mackinac Center for Public Policy and senior managing editor of Michigan Privatization Report.*

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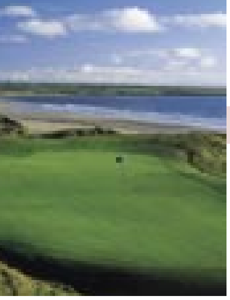

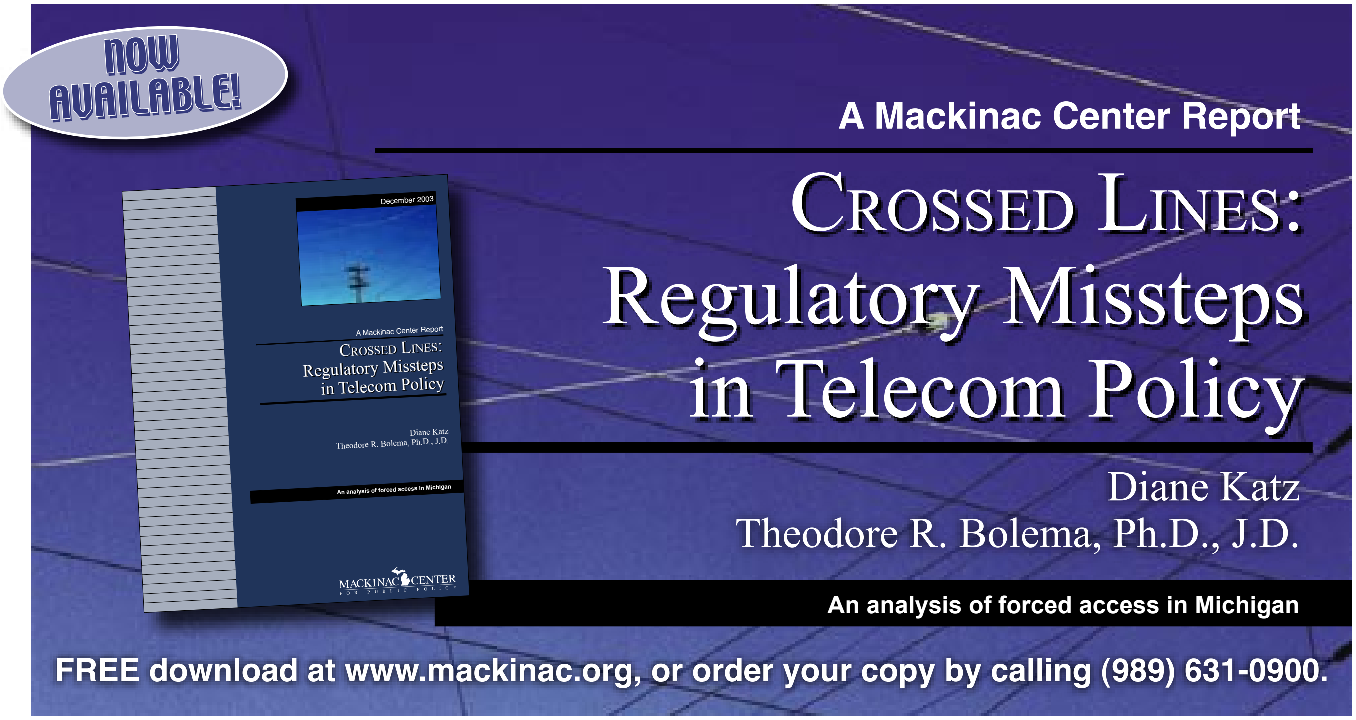
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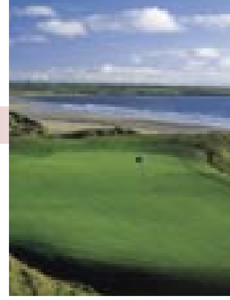




# Private Companies Can Lock Up Jail Savings

**By Scott Walter and Michael LaFaive**

When lawmakers discuss privatization as a way to save money on our penal system, prison privatization gets the majority of attention from state officials, the media and political pundits. But county officials across the nation are becoming so interested in the idea of privatizing jails that private entrepreneurs are advertising for their business. Strangely, in Michigan it is currently illegal for local units of government to contract out for management of jails. But if the state allowed counties to privatize their jails, Michigan counties could lock up annual savings of as much as 10 percent to 15 percent.

County jails differ from state prisons in that jails are designed to incarcerate inmates with relatively short sentences — for a maximum of 365 days. For inmates who have cases working through the court process, jails serve as temporary detention centers.

In 1989, several legislators introduced a package of 16 bills that would permit jail privatization. The Michigan statutes that needed amending were up to 141 years old. The bid failed in large part due to opposition from public employee unions, which regularly oppose privatization because it can lower the number of workers who pay dues to the union. Michigan counties do have experience contracting out for management of their prisoners since many routinely pay other counties to house their inmates.

In August 2001, the Washington Policy Center, a Washington state-based think tank, published a policy brief entitled, "Private Prisons: A Sensible Solution." The paper focused primarily on prison privatization, but did include some important jail references. For example, it told the story of Whatcom County, Wash., which contracted with a private, for-profit company to oversee county prisoners on a work-release program.

The company, Security Specialists Plus (SSP), houses the prisoners and charges the county just $28 a day per inmate. Maintaining the same prisoners in the Whatcom County Jail costs $60 per day per inmate. It has been estimated that SSP has saved the county $3.9 million since 1991.

Jails have been privatized throughout North America. Corrections Corporation of America, one of the industry's best-known corrections businesses, manages jails from Bay County, Fla. to Tulsa Okla. and reports average savings of 10 percent annually. Dickson County, Tenn. may be the next American jail to adopt private management. In December 2003, Dickson officials voted to accept bids from private firms to manage the jail's inmates. Actual per-inmate savings have not yet been estimated, but the new private jail is expected to create a revenue stream for the county of $300,000 annually, from the taxes the private business will pay.

*Local units of government have recently faced cuts in state revenue sharing. Jail privatization offers county officials one opportunity to make up for those losses.*

Here in Michigan, Grand Traverse County is one unit of government that could benefit greatly from jail privatization. The county jail contains 155 beds. According to County Commissioner Larry Inman, demand for jail bed space has outstripped the supply, which has led the county to contract with other jails to house as many as 37 Grand Traverse County inmates every month. Grand Traverse County may pay out approximately $400,000 to $500,000 in 2004 for this service — much more than they pay to house their own prisoners, according to Inman.

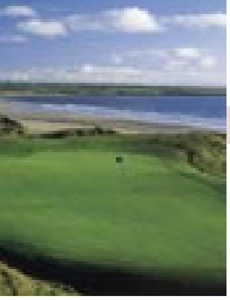
To solve the problem, Grand Traverse County enlisted consultants from other states, who produced two reports concluding that the county needs 192 jail beds today (37 more than it currently has) just to keep up with the current inmate population. According to Lt. David Spranger, deputy jail administrator, Grand Traverse County will need as many as 227 beds by the year 2007. The reports suggested that in order to take care of immediate needs and to start in on future needs, the county should add an additional 90 beds to its current jail. Such an addition was estimated to cost county taxpayers approximately $10.5 million.

**In 1989, several legislators introduced a package of 16 bills that would permit jail privatization. The Michigan statutes that needed amending were up to 141 years old.**

If Michigan's jails could be privatized no tax increase would be needed, and neither would Grand Traverse County need to find an additional $10.5 million. Private firms often build, own and operate jails and recoup their investments through contracts for management of prisoners. Often they can do all of this for less than it costs the government.

State officials need not mandate that counties turn to jail privatization — all they need do is change the law so the option is not prohibited. By doing so, lawmakers would not only help counties save money. They would enable them to be more flexible — and therefore more effective in dealing with the responsibilities of law enforcement. MPR!

*Scott Walter is a research intern and economics student at Northwood University in Midland. Michael LaFaive is director of fiscal policy for the Mackinac Center for Public Policy.*



Feature

# Prison Privatization: A Growing National Trend

**By Michael LaFaive**

Prison systems and their management represent the virtual "undiscovered country" of privatization in Michigan. The state has less than 1 percent of its prisoners under private management. Yet two studies released in 2003 show that states can save money by privatizing prisons and thereby slow the rate of growth in prison costs. State officials should take advantage of the savings available through outsourcing prisons, and save taxpayers money and improve services in the bargain.

**In 1998, Tennessee almost signed a deal to outsource its entire prison system, and officials there estimate the move could have saved as much as 22 percent of that state's entire correctional system budget.**

From Tennessee to New Mexico, states have been contracting with private, for-profit businesses to manage their prison populations. No state has privatized the management of its entire correctional system, but New Mexico comes closest, with as much as 45 percent of its prisoners housed under private management.

A 2003 study by the New Mexico-based Rio Grande Foundation showed that New Mexico spent $9,600 less per prisoner in 2001 than did states with no prison privatization. The state saved more than $50 million in 2001 over the previous year, by contracting out for management of less than half its prison system.

In 1998, Tennessee almost signed a deal to outsource its entire prison system, and officials there estimate the move could have saved as much as 22 percent of that state's entire correctional system budget. If the state of Michigan saved just 20 percent of its entire General Fund/General Purpose (GF/GP) budget contribution to prisons, this would come to savings of $326 million annually.

In addition, a study published by Vanderbilt University researchers in August, 2003 showed that states using privately owned and/or run prisons saw their daily cost of housing prisoners grow almost 9 percent slower than states not using the privatization option. This point cannot be overstated. By slowing the rate of spending growth through prison privatization state officials change the fundamental structure of government spending in future years. One of the reasons Michigan's budget has been so hard to balance is that a lot of its spending is mandated by law. So, regardless of how well the economy is doing, or how much money is flowing into the treasury, the state must meet certain spending obligations. When officials can slow the rate at which those spending obligations expand, it will be easier to balance the state budget — without increasing taxes.

This is particularly compelling when one considers the degree to which prison costs in Michigan have expanded. According to House Fiscal Agency analyst Marilyn Peterson, in the last two decades the portion of total GF/GP spending dedicated to "prison population, inflation-adjusted corrections General Fund spending, and Corrections" has more than tripled. Prisons are expected to absorb an increasing share of the state's revenues unless changes are made.

Russ Marlan, spokesman for the Michigan Department of Corrections, reports that by the end of 2008, Michigan will need about 4,500 more prison beds than it has now. Barring any changes in state sentencing guidelines that would reduce the inflow or increase the outflow of prisoners, the state may have no other viable choice but to privatize.

Michigan does have experience with prison privatization. In 1999, it contracted with the Wackenhut Corporation (now Geo Group, Inc.) to build, own and operate a youth correctional facility in Baldwin, which is located in Lake County. According to Frank Elo, warden of the Michigan Youth Correctional Facility, a conservative estimate of the savings resulting from the contract with Geo Group comes to 20 to 22 percent a year compared to what it would cost the state to run the prison.

The privatized facility has been a boon to local and state units of government for several reasons. First, the state didn't have to finance construction of the facility, which probably saved millions. Michigan Privatization Report attempted to ascertain precisely what it would have saved, but state corrections spokesman Leo Lallonde was unable to provide an estimate. Second, the annual cost of running the prison is less than that of state-run facilities. Frank Elo says the facility pays more than $1 million in taxes every year to state and local government.

There is another benefit to having privately owned and operated prisons: truth in spending. Most of the costs associated with the Michigan Youth Correctional Facility are part of a private-sector business contract and, therefore, easily identifiable. For instance, the Geo Group must spend money on legal expenses (attorney's salaries, for instance) that are factored into its overall cost structure, which can be examined easily, and at any time. By contrast, the cost of salaries earned by lawyers at the Attorney General's office doing work on cases involving the Michigan Department of Corrections are not charged to Corrections, thus making the true cost of providing state correctional services appear less than it actually is.

Some goods and services that governments provide — such as national defense and the judicial system — should remain the exclusive preserve of government. They are much closer to the economist's definition of true "public goods." There is little if anything inherent in the operation of pris-

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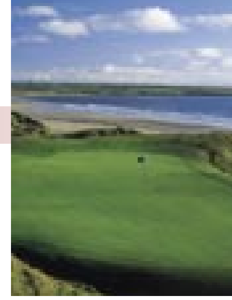

# DNR Contracts Out Management of Ski Area

**By John R. La Plante**

In 2002, Michigan Privatization Report brought the first public attention to the fact that the state of Michigan was operating a ski area at the Porcupine Mountain Wilderness State Park. The park is located on Lake Superior in Ontonagon County in Michigan's Upper Peninsula, and competed with three privately owned areas in nearby Gogebic County. (See "Privatize the 'Porkies?,'" MPR, July 2002, and "No Business in Snow Business," MPR, October 2002).

The cost of operating the ski area was a continual financial drain on the state budget, and in 2001 the state had even considered a partial closure of the hill. MPR recommended that Michigan sell the Porkies outright — but that the second best option would be to contract out management to a private company.

In June of 2003, stopping short of selling the resort outright, Michigan's Department of Natural Resources (DNR) solicited bids for a private operator. So what's happened since?

Initially, the prospect of change brought some fear to western Upper Peninsula residents, who thought the Porkies might change drastically under private management, or worse, close altogether. Some feared privatization would effect their employment.

Shortly after the DNR sent out requests for proposals, Sen. Mike Prusi D-Ishpeming, inserted an amendment to the DNR budget requiring the department to prepare an economic impact statement. That is, Prusi wanted a study that would detail the positive or negative effects of privatizing the hill. This was likely a political move simply to slow down the move to privatize. He touted his amendment by saying "My amendment requires the continued operation of the ski area through the next season should the DNR require additional time to find a lessee." If his amendment had passed, the economic impact study would have lasted through the 2004 ski season, mandating that the state continue to run it at a loss for one more year. Fortunately, the amendment didn't pass.

*The state of Michigan contracted with a private, for-profit company to manage the ski area it owns in the Upper Peninsula. The contract is expected to save taxpayers as much as $200,000 during the 2003-2004 ski season.*

Besides, legislative delay was not necessary. In October, the DNR announced that it had found a way "to preserve the skiing opportunity in light of ongoing state budget constraints." It awarded a one-year contract to Porcupine Mountain LLC, a private, for-profit company that was created for the purpose of managing the ski area. The company was put together by the same people who own and operate neighboring Mt. Bohemia. The contract is expected to save the state as much as $200,000 in 2004. Lowen Schuett, who was at the time the acting chief of the DNR's Parks and Recreation Bureau, said that

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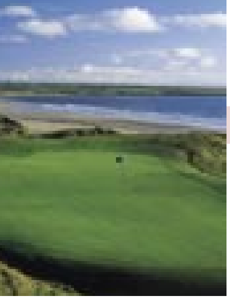


contracting out let the department "focus its resources on the DNR's core mission," rather than waste taxpayer dollars on a money-losing ski resort. Negotiations for a 15-year contract are ongoing.

The transition from reliance on a state subsidy to reliance on skier demand involves some trade-offs. The 43 kilometer cross-country trail system, for example, is not groomed as frequently or as extensively as it was when the presence of actual skiers made no difference to the bottom line. While cross-country skiers can now use the trails for no charge, some argue that the system is now unusable. There has been some talk of local skiers taking over grooming.

**The new arrangement also means the resort's managers can experiment with innovative marketing strategies.**

Also, Porcupine Mountain, LLC has shortened operational hours and deactivated one of the lifts on weekdays to put the resort's operations more in line with current skier demand.

But to increase that demand, the management has set up a new web site, and within days of winning the contract, printed 20,000 magazine inserts touting the hill and its features. Also, it has run television commercials in markets as far away as Wisconsin, something the state never did.

Another new promotion, "the Rubber Ducky Challenge," invited skiers and snowboarders to find rubber ducks hidden throughout the hill, with a top prize of $5,000 for finding the most ducks, said the Porkies' new manager, Lonie Glieberman. "There are many people throughout the Midwest who intend to try the Porkies, and we want to make it especially attractive for them on Feb. 15 — the day of the challenge — to give us a try," he said. The top prize was actually won by a member of the local "Friends of the Porkies" organization.

The new arrangement also means the resort's managers can experiment with innovative marketing strategies. For example, people who took advantage of a special pre-season sale could buy a season pass for only $99. The move increased the sale of passes approximately 12-fold. It's also possible now to buy a season pass good for both the Porkies and Mt. Bohemia, which is also run by Glieberman, but is owned by a different firm.

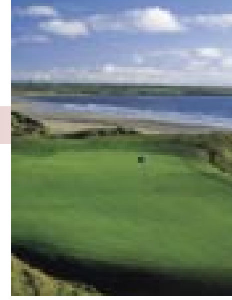
While children under 9 must now have a paid lift ticket, a family of four who bought the discounted tickets could actually save money over the previous season. Nearby Indianhead resort offers free lift tickets to children 6 and under, so perhaps competitive pressure will bring a change over time. The discounted pass also encouraged destination skiers — skiers who aren't locals — to come more often, a move that could benefit other merchants in the region.

Jim Bradley a resident of nearby of Ontonagon since 1976, and president of Friends of the Porkies, gives Porcupine Mountain, LLC, mixed marks. He says "management has been finding its way" in what hills should be groomed and when. Previously, he says, the state groomed on a set schedule, regardless of the snow conditions. He faults the new management for not grooming enough during the week, when attendance is sparse. "When it snows as often as it has this season — 32 days in a row — you will have a problem if you slack off in the middle of the week," Bradley said.

On the other hand, some of the new practices have added variety to the terrain. One trail, for example, is turning into a mogul run now that it is not being groomed, something Bradley says "was probably a good decision." Moguls are a series of small and solid snow hills covering the larger hills. Skiers enjoy moguls because of the added challenge they represent. Many skiers consider powder (new snow) to be the best snow for skiing, and a less automatic schedule for grooming allows the powder to linger. Powder was often eliminated under the state's rigid grooming regimen.

As for the future, Bradley hopes to see more chair lifts and some snowmaking equipment added. Unlike other ski areas in the region, the Porkies has no snowmaking capacity, meaning that the hill has often had to be closed during the vital Thanksgiving-to-New Year's season. Given the sudden popularity of snowboarding, there may eventually be room for a "halfpipe" run. Halfpipes are narrow runs with sides of snow that are highly banked so snowboarders can do dramatic twists and turns as they make their way down the hill.

see "Privatized Porkies" on page 12



# Privatize the University of Michigan

**By Lance Wieslak and Michael LaFaive**

Since its founding in 1817, the University of Michigan has attained a global reputation as an academic and research powerhouse, attracting some of the world's brightest students and top faculty. Its ranking among other universities, however, has dropped sharply in recent years, and the school has seen top faculty lured away by more generous offers from private universities.

One way to reverse this trend, and perhaps to beat the private competition, is for the University of Michigan to go private itself. The idea isn't as drastic as it may sound. While the amount of state money going to the University is substantial — some $320 million per year — this amounts to less than 8 percent of the 2004 operating budget of the university and its health system. This fact has led James Duderstadt, U of M's president emeritus, to describe the school as "a privately supported public university."

Were U of M to go private, taxpayers would save that $320 million per year, plus millions in construction costs. Capital outlay expenditures by the state for the Ann Arbor campus have totaled $160 million since 1993.

Converting the university to private status would place Michigan on the forefront of what appears to be a developing trend. In December 2003, South Carolina gave all 13 of its universities permission to go private; Colorado's university system is preparing a contingency plan to convert all four of its universities to private status in 2009; and the trustees of Michigan's own Lake Superior State University have discussed the idea.

Though it would require a change in Michigan's Constitution, privatization would liberate U of M from many of its political hassles with Lansing. State-sponsored universities are coping with deep cuts in state subsidies and find it difficult to plan not knowing what state governments are going to do. During 2003, the Granholm administration cut state university general operations support by $193 million. At the same time, private universities have been poaching professorial talent from the best public universities. In the past decade, New York University alone has spent close to $1 billion to attract star faculty from other institutions and establish prestigious research institutes.

Both of these reasons may be contributing to U of M's recent decline in rankings among other universities and colleges. In 1987, U of M was ranked the No. 8 national university by US News & World Report, ahead of such schools as Columbia and the Massachusetts Institute of Technology. In 2003, and in the same category, U of M ranks No. 25.

A privatized University of Michigan would almost certainly raise its tuition rates to help compensate for the loss of state revenue, as well it should. It is not unfair to ask those who benefit directly from earning the highly valued U of M degree to bear a greater burden to pay for it, especially considering the financial background of most of the school's students.

A 2003 Detroit Free Press story reported that over 51 percent of the University of Michigan's freshman class comes from households with incomes above $100,000 per year. Yet, only 12.7 percent of Michigan households earn such incomes, according to calculations using 2000 Census figures.

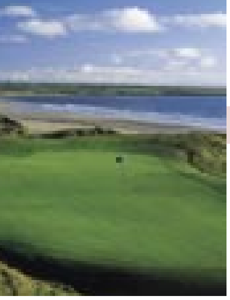
Tuition hikes could actually help those students who truly need help — by enabling the school to offer greater outright gift aid and tuition reductions to students from low-income families, as is often the practice at private universities. Needy students at public institutions currently rely more on loans and work study programs.

A private U of M could also strengthen its financial outlook by selling its hospital— hospital assets alone are valued at more than $600 million — and adding that revenue to its $3.5 billion endowment. Further, campus institutions such as the Nursing and Kinesiology schools could continue to be taxpayer supported, under contract with a privatized U of M.

*Burton Tower is the centerpiece of the central campus of the University of Michigan.*

Cuts in state support are pushing public universities toward more private models of operation whether they like it or not. It would show rare leadership and practical savvy if Michigan lawmakers were to come up with a plan for making the University of Michigan a private institution, for the benefit of students, professors, and taxpayers alike. MPR!

*Lance J. Weislak, a University of Michigan graduate and MBA candidate at the University of Chicago, is an adjunct scholar with the Mackinac Center for Public Policy; Michael LaFaive is director of fiscal policy at the Mackinac Center.*





***"Privatized Porkies"*** continued from page 10

Of course, purchasing, installing, and running snow guns costs a lot of money, as does laying new pipes. Acquiring the required permits from various government agencies could be a lengthy, expensive task. Finally, it's not clear that even a 15-year contract is long enough to allow any private operator enough time to recoup the substantial investment required for snowmaking. The U.S. Forest Service, by contrast, typically offers 40-year leases for ski operations in the western United States.

**The U.S. Forest Service, by contrast, typically offers 40-year leases for ski operations in the western United States.**

The point is that consumer demand is now in the driver's seat, and according to Glieberman, the prospects are looking good. "We're excited," he said. "It's going well, expenses are lower, revenue is up, and season pass sales are phenomenal. We are on track to grow the numbers; it's a long-term proposition. We can make a difference for the taxpayers, too."

It's possible that the western U.P. is oversupplied with ski area. There already are three privately owned and operated facilities in Bessemer and Wakefield, not too far from the Porkies. If that's the case, there's no reason for the taxpayers of the whole state to be on the hook for the pleasures of a few. Thanks to the state's new contract this season, they won't be. MPR!

*Frequent Mackinac Center contributor John R. La Plante is a native of Muskegon and a graduate of Kalamazoo College. He is a skier and creator of a web site (graysontrays.com) dedicated to adults learning how to snowboard.*

### The Story of Granite Peak

Given the closure of the copper mines, Ontonagon County and the western U.P. could use a boost from enhanced tourist trade. The Porkies have always gotten good press in the ski industry for their hardwood forests and spectacular views of Lake Superior. For a look at the ways in which a private operator can bring new benefits to winter sports enthusiasts and the local area, consider the case of Granite Peak, a ski area in Wisconsin's Rib Mountain State Park.

Established in 1937, the ski area at Rib Mountain was unremarkable until a private operator took over in 2000. Since then, a number of renovations and improvements have brought praise from Ski magazine, which has called Granite Peak "an energetic destination resort."

Charles Skinner Jr., who already had a record of success as part owner of Minnesota's Lutsen Mountain, signed a 30-year lease for Rib Mountain, and started to turn things around. Since then, his company has purchased 1,000 new rental skis and snowboards. It also renovated the tired chalet. Chairlift capacity has more than doubled, a new snowmaking system has been installed, and grooming greatly improved. Skinner's company has created over 50 new trails, bringing the total to 72.

These changes have brought improved revenue; by the start of this most recent season, skier days were up 20 percent. Destination travel was up 70 percent, and the number of season-pass holders up 100 percent. Thanks to the improvements to the site, it's now possible to spend the better part of a day without repeating a run. A sextuple chair whisks visitors to the top, and Skinner hopes to build new lodging nearby.

While Granite Peak has some advantages over the Porkies, such as proximity to metropolitan areas, Michigan could give Porcupine Mountain, LLC greater incentive to invest in the Porkies ski area by awarding the company the type of long-term lease (40 years) afforded Granite Peak's manager.

***"Prison"***
continued from page 8

ons, however, that should mandate they remain government-run facilities.

Governments around the globe have been hiring private companies to manage prison populations for decades now. Both companies and governments have acquired the expertise necessary to negotiate, write and manage contracts for management. It is time for the state of Michigan to more aggressively pursue this option in order to save taxpayer dollars and improve prison services. MPR!

*Michael LaFaive is director of fiscal policy for the Mackinac Center for Public Policy.*

# High School Fiddlers' Group Goes Private

**By Michael LaFaive**

A public school-affiliated musical group originally organized by a teacher and students from Saline High School may have hit the right notes recently when students and parents voted by a 3-to-1 margin to make the ensemble a private venture. The decision to privatize was supported by district officials.

The ensemble began in 1994 when Saline High School teacher Bob Phillips collected more than 20 high school string musicians and persuaded them to be part of a new musical group. The group, according to its official web site, "… would have two primary goals: to learn traditional American fiddle music and perform for small audiences, thus perpetuating this rich musical heritage."

The Fiddlers play a wide variety of music, "with styles as diverse as classical, jazz, country, rock, old-time, Texas-style, bluegrass, gypsy, eclectic, Celtic and electric." They are currently negotiating to provide entertainment for events hosted by at least one Fortune 500 company, and to be the opening act for a well-known country music artist. (The Fiddlers have asked the Michigan Privatization Report not to divulge the artist's identity until the deal is finalized.)

Due to demand for their services, the Fiddlers have traveled frequently. According to their official web site, www.salinefiddlers.com, the group has performed more than 600 times in 11 states, Washington, D.C. and four foreign countries.

Officially part of the Saline Area Schools, students were recruited at Saline High School and were required to try out for the ensemble. Like tryouts for sports teams, not everyone who auditions makes the cut due to talent and character requirements.

A few Fiddler students and their parents complained that the move to privatize the group came too fast, and that it was unfair for the group to take the name and any other assets of the famous ensemble away from the school district. But the Saline Fiddlers have always been quasi-private and self-funded.

The group has been supported through private efforts such as individual donations, volunteer assistance, and revenue derived from hosting concerts. And those efforts have paid off. The group's assets — including instruments, lighting, and sound equipment — are worth an estimated $100,000.

This success ended up being a major catalyst for the vote to go private. The founder of the group, Bob Phillips, and his wife retired two years ago. When they left they took with them institutional knowledge and management skills that were difficult for a school district to replace. Managing the group was deemed unwieldy and something of a distraction for district officials.

According to the Saline Fiddler's Winter 2004 newsletter, "The Fiddlers have grown beyond what can reasonably be operated as an extracurricular program of the schools. With the support of the school system, Fiddler parents created a private, nonprofit corporation for the sole purpose of perpetuating the group for future generations of Saline High School Students."

There were other reasons for going private as well. For instance, district officials feared that the high-profile nature of the group might begin to cause animosity toward its participants from other school clubs if the group retained its school affiliation. Officials suggested the group consider privatization, but promised continued support for the program by using the school's music classes as something of a farm club for the Fiddlers.

It didn't take long for the group to decide that going private was the best option. Only about a month transpired from the time administrators suggested the Fiddlers go private. The privatization idea was first floated in November, 2003, and the vote to privatize took place December 15.

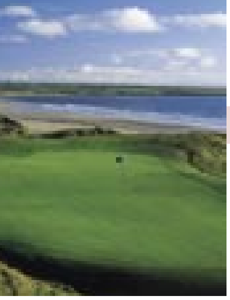
The Saline School District and Fiddler participants recognized that the benefits of going private would likely outweigh any costs associated with it.

*Student fiddlers must try out for the group much the same way student athletes try out for football or other sports.*

While this is often the case with privatization, arts-related groups that are supported by government funding or are part of government institutions seldom recognize the benefits privatization can produce.

Generating public enthusiasm can bring in far greater funding — and far greater artistic satisfaction — than having to curry favor with legislative committees year after year in order to receive a fraction of what they might otherwise generate through private community efforts. MPR!

*Michael LaFaive is director of fiscal policy for the Mackinac Center for Public Policy.*



# Around the State

## Detroit Medical Center Needs Private Turnaround, Says Former Bankruptcy Judge

DETROIT—In a Feb. 13 commentary in the Detroit News, business consultant and former Detroit-based U.S. bankruptcy judge Ray Graves wrote that the floundering Detroit Medical Center needed a "well-planned private turnaround, restructuring the operation outside of the Bankruptcy Court." The Center has lost more than $500 million in the last six years and is in the process of selling five health clinics to private physicians, a move some DMC employees oppose.

Graves suggests that going private would help return DMC to sound financial status because it may: a) provide creditors with payments superior to what would be manddated in bankruptcy court; b) provide an impetus for discussing the hard issues, such as employee pay cuts and consolidation; and c) restore public confidence by giving interested parties an additional reason to examine potential conflicts of interest.

Last February, Michigan Privatization Report reported that clinics were up for sale because of poor economic performance. And while it's good — and a sign of progress — that privatization now seems to occur to public managers as an option when faced with such performance, the most amazing thing about this story is the level of catastrophe that must overtake a public venture in order for its managers to take action. A November 2002 Detroit Free Press story explained just how bad the management of DMC has been: "Under the DMC's ownership, the clinics have never been profitable and are expected to lose $21.6 million this year," the paper reported.

Of course, a private venture that performed thus would have gone out of business long ago. But when public ones fail to deliver, they simply ask for — and often receive — more money. Indeed, just last year the DMC received a $50 million government subsidy. But apparently, not only the financial till, but the till of political good will, is now empty. The DMC simply has no other choice but to sell its assets.

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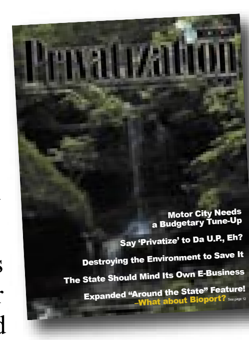
## Granholm Budget Proposal Includes Asset Sale

LANSING—Gov. Granholm's new budget proposal includes the sale of state property to the private sector. The Western Wayne Correctional Facility near Plymouth will redistribute its prisoners to other facilities, and structures on the 127-acre property will likely be bulldozed to make way for the sale of the land to private investors. The move is expected to save the state $22 million annually, and generate a hefty one-time cash payment as well.

## Hamtramck Further Down the Road of Privatization

HAMTRAMCK—As MPR readers may remember, a state-appointed Emergency Financial Manager runs the city government of Hamtramck. Such managers have state authority to run the day-to-day operations of a municipality, including the power to negotiate labor and service-provider contracts. Three years ago then-Gov. John Engler appointed Lou Schimmel to run the city of Hamtramck.



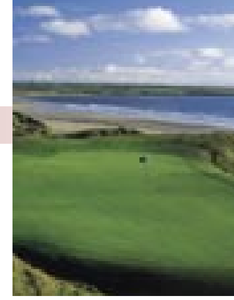

Since his appointment Schimmel has negotiated all city union contracts, sold assets, and contracted out all city Department of Public Works services. Schimmel's work in Hamtramck was highlighted in MPR in 2002. This year, prior to the expiration of the city's original 3-year contract with a private company for refuse collection, Schimmel issued a request for proposals from seven companies to pick up rubbish for the city. Rizzo Services of Warren, Mich. won the contract, which will shave 23 percent off the city's current trash bill. And that trash bill is well over $1 million dollars less per year than Hamtramck was paying when it had city employees and equipment doing the trash work. Rizzo Services is a familiar vendor in Hamtramck, since it provides snow removal services for the city, as well.

## Western Michigan University Studies Privatization

KALAMAZOO—Western Michigan University (WMU) is bidding out custodial and food services at its main campus in Kalamazoo. The new contracts would affect 51 unionized university employees, according to the Western Herald, a publication of WMU. American Federation of State, County, and Municipal Employees (AFSCME) President Dan Birch has said that if private firms provided those services, university employees now providing the work would lose their jobs. He also told Herald News Editor Karolyn Glowe that he believes AFSCME employees could do a better job, adding that "the union would be happy to discuss ways to improve efficiency."

Don Alexander, professor of economics at Western Michigan University and adjunct scholar with the Mackinac Center for Public Policy disagrees with Birch over the job losses. "It is likely that most of the current AFSCME employees would not lose their jobs, per se, but would simply switch employers. Nationwide, we've seen for-profit vendors hire many, if not most of formerly public employees because of their expertise," Alexander told MPR. Professor Alexander also pointed out that just the prospect of competitively bidding these services has already worked to improve them.

"The university's announcement that it may pursue a private vendor to provide custodial and food services has already led the union that represents them to talk about 'improving the efficiency of their operations,'" Alexander said. "This probably wouldn't have happened without some competition knocking at the AFSCME door," he added.



## State Adopts Another Mackinac Center Idea

LANSING—In 1998 the Mackinac Center for Public Policy reported that the state of Michigan had ended a 40-plus-year history of mandating that public schools provide driver's education classes to its students. Several districts opted to drop their programs, as it was something of a distraction from teaching the basics.

Last year, in a Mackinac Center report entitled, "Recommendations to Strengthen Civil Society and Balance Michigan's State Budget," the Center encouraged the state to stop subsidizing such programs altogether and the state did just that, saving taxpayers more than $7 million annually.

With so many students turning to private providers of driver's education services, competition between companies will likely result in better, cheaper services. Blake Erickson, President of Student Driver's School Corporation, a private company located in Freeland, Mich., agrees. His company, which has been in business for 25 years through word-of-mouth referrals, offers its customers convenience they couldn't get when schools provided the service. "School districts offer the program only in the summer, we offer the program year round," stated Erickson. Many families travel during the summer and are willing to pay more to take the class at different times of the year.


## Mopping up Savings at Metro Airport

ROMULUS—As of April 1, 2004, Detroit Metro Airport will contract with Knight Facility Management Services, Inc. to provide janitorial services at the Smith Terminal. The Detroit News reports that the contract will save the airport about $1 million in 2004 and $6 million over a three-year period. Passengers will likely benefit from the change because the savings will be passed on to the airlines that operate in the terminal, such as Northwest and Spirit Airlines. Because the airlines are so competitive, such savings are often passed on to passengers in the form of lower airfares. MPR!

***"Rest Area"*** continued from back page

sell just about anything. Unattractive, old, inconvenient rest areas could be sold if the price is right. If the state could tolerate the closing of some rest areas it could make currently unappealing sites more saleable because the new owner would have more options for employing the property.

The American Association of State Highway Transportation Officials (AASHTO), an organization of transportation officers, is currently working to see the law amended to accommodate privatization. "With the overall shortage of highway funds not meeting current needs, the AASHTO member departments have supported commercialization as a way to help rebuild and maintain the facilities in order to remove this continued expense to the public," states Ken Kabetsky, Program Director for Engineering at AASHTO.

Rep. Frances Amos, R-Waterford, introduced House Bill 4883 into the state Legislature in 2003, which would amend the 63-year old statute that currently prohibits commercial activities at rest areas on Michigan highways. (See www.MichiganVotes.org to track progress on the bill.)

A state House Fiscal Agency (HFA) bill analysis reports that the 16 "service plazas" along the Ohio Turnpike generated $12.3 million in revenue to the state of Ohio in 2002. The Commission that operates the Ohio Turnpike bids out the right to provide services (such as food) to vendors. The vendor's rent is, according to HFA, based on the percent of total sales generated by the vendors at each location — the higher this percentage, the lower a vendor's rent. Ohio can engage in these commercial activities because the businesses are part of a turnpike and not a state highway. If Michigan were to commercialize its rest areas it could turn them from money losers to money winners.

As with any privatization, conditions of a sale or lease can dispose of many objections to privatization. In this case, if the state wanted to ensure a minimum number of bathrooms and parking spaces for use by the public it could do so by making these conditions of any sale or lease of the properties to the new owner or manager.

Michigan need not even relinquish management and ownership of every property to achieve savings through privatization. The state could decide the best approach is to privatize its most attractive properties, retaining the rest. Regardless of which approach lawmakers choose, privatization of Michigan's rest areas would allow the state to save money, generate additional revenue, and concentrate more on keeping roads maintained, while leaving such ancillary duties as bathroom maintenance to others. MPR!

*James Hohman is a research assistant with the Mackinac Center for Public Policy.*

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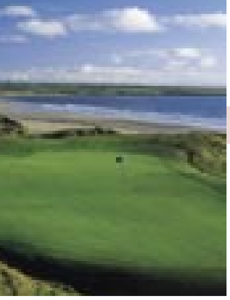

Feature

# Give MDOT a Potty Break: Privatize State Rest Areas

■ **By James Hohman**

When Michigan's snow and cold give way to summer, people from across the state and nation take to state roads hoping to enjoy a few months of comfortable outdoor recreation. Along the roads they travel from Southeast Michigan to the Tahquamenon Falls — and everywhere in between — are restroom areas owned and run by the state. Michigan could reap great benefits from selling or leasing these rest areas to for-profit firms. Either route would require a change in the law, which currently prohibits such sales.

*Rest areas and Michigan Welcome Centers (such as the one shown above, near Clare) have the potential to generate significant revenue for the state, and improve service for travelers.*

The best solution would be to sell off all 68 rest areas and 13 "Welcome Centers" owned and operated by the state. The value of the land itself may represent a gold mine for state coffers. Selling the rest areas could generate substantial one-time revenue, eliminate the $6.7 million annual cost of operating the sites and avoid repair costs. In addition, the sale would create new property tax revenue streams for local and state governments.

Selling every one of Michigan's rest areas and welcome centers would also eliminate any "capital outlay" costs the rest areas may incur. Capital outlay is an expenditure made to improve old buildings or create new ones. This is an important factor to remember because many rest areas were built in the 1970s and 1980s and are in need of major repairs. The money otherwise spent on these facilities could be reinvested in some of Michigan's roads.

Selling Michigan's rest areas also could improve services. Many of these properties are in ideal locations that would be coveted by for-profit companies. A developer could bring in a Pizza Hut restaurant, Speedway gas station, and Starbucks coffee shop — and the developer would be responsible for maintaining the lavatories, lawn, parking facilities and every other component of the rest area.

There are a number of hurdles that would have to be cleared, and questions answered, before the state should and/or could proceed with such a plan.

Both federal and state statutes currently prohibit using state rest areas for commercial purposes. The one exception to this is for vending machines, and even those may be operated only by the Michigan Commission for the Blind.

Of course, some of the rest area properties are not in ideal locations, or are relatively small, and the state might have trouble finding a vendor willing to purchase such a property. The state may overcome objections to poorly located or small properties with the simplest of economic mechanisms: price. There is a price at which the state (or anyone) can

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