

symphony of privatization



ISSN 1092-7999

MICHIGAN

Privatization

A Quarterly Journal of Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2003

REPORT

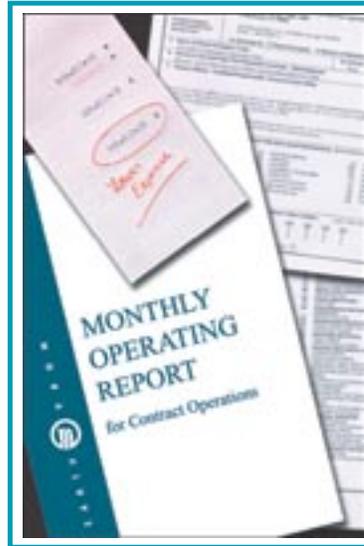


privatization.

catch it ← if you can

PLACE A BET ON LOTTERY PRIVATIZATION LOCK IN SAVINGS WITH PRISON PRIVATIZATION
FAIRS TO REMEMBER FRIEND OF THE COURT NOT VERY FRIENDLY 'PRIVATIZE FEDERAL LANDS' SAYS NEWEST NOBEL LAUREATE

HOW TO LOWER EXPENSES



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

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

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

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



A **tyco** INTERNATIONAL LTD. COMPANY

800-748-0199

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

MichiganVotes.org

Being an informed citizen has never been this easy.



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

MICHIGAN PRIVATIZATION REPORT

Editor: Samuel Walker

Senior Managing Editor: Michael LaFaive

Graphic Designer: Daniel Montgomery

Michigan Privatization Report is published quarterly by the Mackinac Center for Public Policy, a nonprofit, nonpartisan, tax-exempt research and educational organization devoted to analyzing Michigan public policy issues. *Michigan Privatization Report* is distributed to state senators and representatives and policy staff; department directors and staff; municipal officials and administrators; school superintendents and school board members. Additional copies are sent to Michigan radio and television news directors, print news editors and select industry leaders. Total circulation is over 14,000. Copyright © 2003 by the Mackinac Center. All rights reserved. Permission to excerpt or reprint is hereby granted provided that *Michigan Privatization Report*, the author, and the Mackinac Center for Public Policy are properly cited, and a copy of excerpt or reprint is sent to the editor. Please contact the Mackinac Center for Public Policy at 140 West Main Street, P.O. Box 568, Midland, MI 48640; Phone: (989) 631-0900; Fax: (989) 631-0964; e-mail: mcpp@mackinac.org; or World Wide Web: <http://www.mackinac.org> if you wish to receive *Michigan Privatization Report*.

Privatization

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2003-01 / Winter 2003



FEATURES

4 Place a Bet On Lottery Privatization

Could Michigan's lottery be run better by the private sector? The state lottery



could bring in a one-time windfall of more than \$1 billion to the state budget if sold to a private, for-profit firm. Michigan Privatization Report examines the potential costs and benefits of such a move.

5 Lock in Savings with Prison Privatization

States across the country have been grappling with how to operate their



respective prison systems as efficiently and effectively as possible. Many have turned to privatization. Michigan could save more than \$300 million annually if it outsourced management of its corrections system.

7 Fairs To Remember

Michigan should end its involvement with state fairs and sell the state land on which each of its fairs operate. Doing so could generate millions in revenue while eliminating the need for taxpayers to subsidize state fair operations.



8 Symphony of Privatization

In debates over government funding of the arts, the question is seldom asked,



“Should government decide what is, and is not, art? The reason the Michigan Council for Arts and Cultural Affairs should be privatized is because the answer is “no.”

10 Privatizing Byzantium

Managing the human resources necessary to keep government humming is a daunting and expensive task. That is why Michigan should take a page from Florida's playbook and consolidate and outsource its HR management duties.

11 Friend of the Court Not Very Friendly

Michigan's Friend of the Court, which administers the payment of child support, is notoriously bad at collecting from delinquent ex-husbands and wives — and collects its fee even when custodial parents go to the private sector for help.

DEPARTMENTS

13 AROUND THE STATE

An update of privatization initiatives, opportunities, and controversies from around the Great Lakes State.



16 NATIONAL PERSPECTIVE: “Privatize Federal Lands,” says Newest Nobel Laureate



The 2002 Nobel Prize in Economics was shared by two American economists in October. One of the winners, Vernon L. Smith, is an advocate of federal land privatization. Michigan's government could learn from the newest Nobel laureate's findings.

ADVERTISERS:

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



Feature

Place a Bet on Lottery Privatization

■ **By Michael LaFaive**

State-sanctioned lotteries are being forced to grapple with decreasing interest in their product — gambling — and a corresponding decrease in revenue derived from lottery games. This makes it a good time to consider privatizing Michigan's 30-year-old lottery, a move that could net the state a one-time payday exceeding \$1 billion.

In 1972 the state of Michigan unveiled a new gambling operation of its own creation, one designed, taxpayers were told, to provide public schools with a steady stream of badly needed revenues. Today, the Michigan lottery provides 5.4 percent, or \$613,500,000, of the school operating budget on \$1.6 billion in gross sales.

According to a recent study by Christiansen Capital Advisors (CCA), a Maine-based consulting company, 186 local, state, and national governments operate lotteries worldwide. As of 2000, global sales of lottery products exceeded \$122 billion, generating more than \$36 billion for the treasuries of governments around the world. According to CCA, in 2000 the United States alone generated \$57 billion in lottery sales, yielding \$18.35 billion in public revenues or "profits" to government treasuries in the United States.

But sales from lottery gaming — across states and nations — have stagnated as gamblers have grown bored with this form of wagering, and as lotteries are forced to compete with private casinos, Internet gambling, and sports wagering.

Several governments have responded by privatizing lotteries to some degree. In Greece, the government sold a 5-percent stake in its state lottery and raised \$83 million in capital. In Italy, the government contracted with a private firm, Lottomatica, to manage its official lottery. The result: Company officials report that they expect lottery

sales to increase by 38 percent between 2001 and 2004 — not bad, even as lottery sales dwindle in other nations.

In the United States, Connecticut has attempted partial privatization of its lottery system. The state converted its lottery system to a nonprofit corporation in 1996 — something Michigan Privatization Report refers to as "non-profitization" — in an attempt to reduce its operating costs.

According to the Christiansen Capital Advisors study, the Connecticut Lottery Corporation has helped that state save about \$1.25 million annually while increasing sales by almost 18 percent since 1996. This is particularly impressive given the expansion of privately run Casinos in the state. A large part of the savings — \$500,000 worth — came from the nonprofit's flexibility in contracting with instant-ticket providers.

From a historical perspective, Connecticut's lottery non-profitization should be of interest to Michigan taxpayers. Why? Because Michigan instant ticket lottery tickets used to be the most expensive lottery tickets in the country.

Prior to 1998, a Depression-era Michigan law, the State Printing and Bidders' Requirement Act, mandated that state printing be done by firms whose workers either belong to a printing trade union or that pay their workers the "prevailing wage." What this meant for the Michigan lottery is that companies that print the many colorful tickets for the various games must pay their workers union-scale wages, even if tickets of equal or better quality could be provided by lower, competitive-scale wages. The mandated high labor costs are passed on to the lottery, and indirectly to taxpayers. In 1993 Michigan had the most expensive lottery tickets in the country. The state paid \$21.99 per one thousand tickets, 33 percent more than the next-costliest state. The law was changed in 1998 to exempt lottery

officials from the 1937 Act, and lottery officials, to their credit, used their newfound flexibility to seek competitive bids for the printing of instant tickets.

How much money might Michigan's lottery system sell for if state officials chose to privatize? If recent lottery privatizations in Europe offer any guide, Michigan could reap one-time revenue in the range of \$1.3 billion to \$2 billion.

What would happen to gambling money now generated for schools if the state exits the lottery business? A simple analysis might suggest that schools could see a drop in gambling revenue, as profits from lottery gaming began accruing to the business that bought it. But the state could mitigate these losses by applying the state's 6-percent sales tax to each ticket and directing all the revenue derived from ticket sales the School Aid Fund.

Assuming conservatively that gross sales of lottery tickets never exceed \$1.5 billion, a 6-percent tax still would generate \$90 million in revenue. The state may also consider a special franchise fee that would be paid by the private lottery operator and that could be directed to the School Aid Fund. Other options include making up the lost funds from other budget sources. Of course, public schools could offset any potential loss in funds by outsourcing cafeteria, transportation, custodial, and other non-instructional services, as many districts already do.

Would privatizing Michigan's lottery solve the state's current budget problem? Not by itself. But it would make a significant dent, and for that reason alone it merits a closer review.

MPRI

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

As of 2000, global sales of lottery products exceeded \$122 billion, generating more than \$36 billion for the treasuries of governments around the world.



Lock in Savings with Prison Privatization

■ **By Lawrence Reed and John La Plante**

States across the country have been grappling with how to operate their prison systems as efficiently and effectively as possible. One option growing in popularity is outsourcing prison management. In Texas, Tennessee and also here in Michigan, private firms lowered the cost of running corrections systems. The idea should be further explored in the Great Lakes State, since taxpayers, state officials, and prisoners themselves could derive tremendous benefits.

The Michigan Department of Corrections (MDOC) is responsible for administering criminal penalties to 117,700 individuals who have been convicted of some crime under Michigan law. It operates 42 prisons and 11 camps and monitors parolees at “half-way” houses through electronic tethering, for which prisoners wear an ankle bracelet fitted with a transmitter whose signal is monitored by officials from a distance. The MDOC also contracts with counties to house certain inmates. In fact, in fiscal year 2001, the state of Michigan paid more than \$17 million to house some 4,700 prisoners in county jails rather than house them in the state’s own prisons. Operating the department is not inexpensive. The MDOC requires nearly 19,000 employees — half of whom are guards — and \$1.7 billion to operate annually.

Although state of Michigan has not engaged in privatization on a large enough scale to produce the kinds of savings potentially available, it has experimented with the idea with good results. In 1999, the state contracted with a private firm, Wackenhut Corrections Corporation, to build and operate a correctional facility in Baldwin. Opened in 1999, the Michigan Youth Correctional Facility has space for 450 men under the age of 20. The MDOC estimates that the facility saves between \$6,975 and \$19,125 per day based on comparisons with similar state-run prisons. This comes to between \$2.5 million

and \$6.9 million annually — and that’s just for one facility.

Such savings are not uncommon. An analysis of 28 studies of prison privatization found that virtually all private prisons save money, with costs typically running between 5 and 15 percent less than the cost of government prisons. In addition, the May 2002 Harvard Law Review references three recent studies that found cost savings from 3.75 percent to 14 percent with no decrease in the quality of services. One of those studies found that private prison construction costs in Florida were 24 percent lower than they would have been had the state built its own facilities instead.

Cost savings aren’t the only reason government uses privatization for building and/or operating correctional facilities. Other reasons include:

- **Relieves overcrowding.** Governments can obtain increased inmate housing capacity quicker by contracting with the private sector. Private firms in Pennsylvania, for example, built a prison in two years less than it took the state to build a similar prison nearby — and for \$38 million less — while saving the county in which it was built \$1.5 million in annual debt costs. In Houston, a new Immigration and Naturalization Service detention facility was expected to cost \$26,000 per bed and take 30 months through normal government construction procedures. A private firm did the job for \$14,000 per bed in less than six months.
- **Improves quality.** States need not sacrifice quality when they use contractors. A review of 18 prison quality studies by the Reason Foundation in 2002 found that 16 of the privately run prisons performed at least as well as government-run prisons. By some measures the private prisons do better. The American Corrections Association (ACA) is a

private, nonprofit group that is also, in part, a private regulatory body. In order to earn ACAs accreditation, which is the corrections equivalent of the “Good Housekeeping Seal of Approval,” a prison must meet guidelines that include staff training, fiscal controls, food service, sanitation, and safety and emergency procedures. The Association maintains 19 unique manuals of standards, each of which applies to a different type of correctional facility. While only 10 percent of America’s 48,000 government prison facilities are accredited by the ACA, an impressive 44 percent of privately run facilities are so accredited.

If this weren’t sufficiently compelling, Harvard Law Review also looked at studies of public and private prisons to determine whether the quality of prison services suffered when they were delivered privately. According to the authors, “... [N]one of the more rigorous studies finds quality at private prisons lower than quality at public prisons on average, and most find private prisons outscoring public prisons on most quality indicators.”

- **Fosters innovation.** Private firms can offer states more flexibility in planning and designing prisons and prison operations. Because they are “outsiders” conditioned by the profit motive to come up with innovative ideas as a matter of survival, they are better able to think “outside the box.” For instance, a private prison administrator discovered that the Virginia Department of Corrections maintained expensive warehouses for food out of fear that deliveries would not reach prisons. This was a long-standing custom begun when food was delivered to prisons by pack mules. The system simply had no motive to change until a private firm was hired to save the state money. In Florida, privately
- continued on next page

An analysis of 28 studies of prison privatization found that virtually all private prisons save money, with costs typically running between 5 and 15 percent less than the cost of government prisons.



“Lock In Savings with Prison Privatization” continued from page 5

run prisons have introduced more advanced locking systems, a greater use of camera surveillance, and a host of other innovations.

While Michigan has only experimented with prison privatization, other states have done much more and with great success. In New Mexico, for example, 44 percent of state and federal inmates are housed in facilities under private management. In Oregon the number is 43 percent. By comparison, only 0.9 percent of all Michigan inmates are incarcerated under a private management system.

No state in the union has privatized the management of its entire

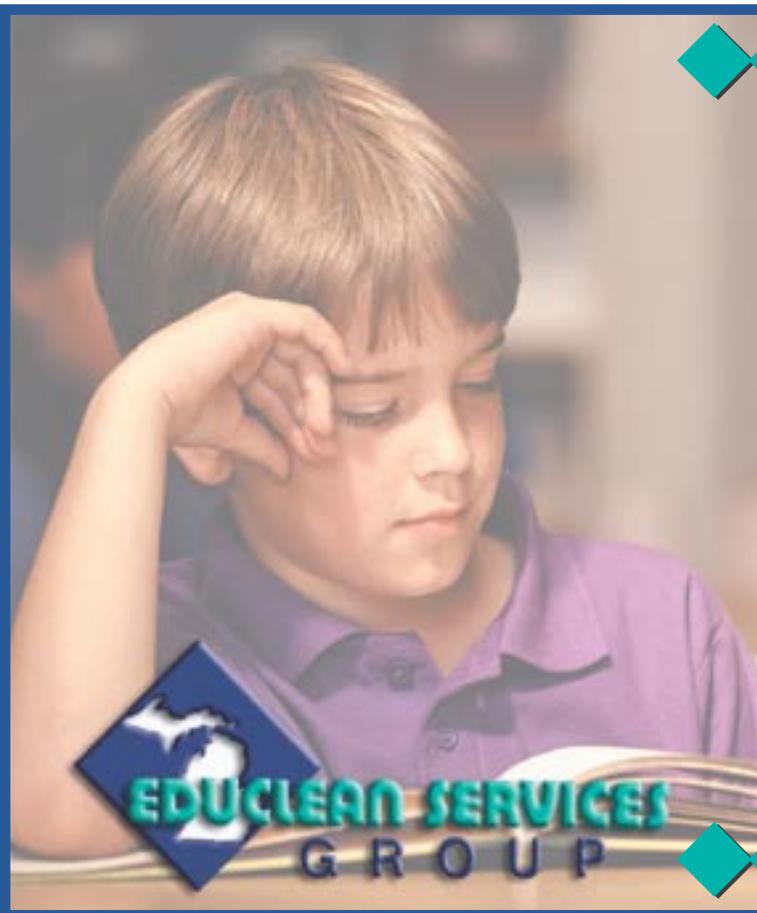
correctional system. In fact, one state, Tennessee, came close to being the first but was thwarted by political pressure to retreat from outsourcing in 1998. Tennessee expected to save more than 22 percent annually — or \$100 million — by contracting with Corrections Corporation of America, a private, for-profit prison management business. If Michigan were to contract with and shave just 15 percent from its corrections budget, the state would see annual savings of \$240 million.

Michigan faces a \$1.8 billion budget deficit in its next fiscal year, due in large part to tough economic times. But tough times call for tough

decisions. Will legislators choose to cut state spending or will they increase the tax burden on Michigan citizens? If they choose the former, outsourcing management of at least part of the state’s enormous criminal justice system could save taxpayers millions of dollars while simultaneously improving services.

MPRI

Lawrence Reed is president of the Mackinac Center for Public Policy. John La Plante has authored fiscal policy research articles for the Thomas Jefferson Institute in Virginia and the Oklahoma Council of Public Affairs. He is a graduate of Kalamazoo College in Kalamazoo.



Our Speciality... Clean & Healthy Environments For Learning

EDUCLEAN SERVICES

800-632-1221

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



Fairs to Remember

■ **By Michael LaFaive**

Besides mom, baseball and apple pie, what could be more American than the summer fair? When people think wistfully of our nation's history — especially our nation's earlier history — they remember a society centered largely around agriculture. For much of America's history, farming was the anchor of economic and social life, and it is from this life that state fairs evolved, more than a century ago.

Times have changed, however. Since 1910 the number of people making a living doing farm work has dropped 78 percent. In addition, today's Americans have a host of entertainment options to lure them from annual fairs. As a result, government sponsored fairs have been running in the red across the country. With state and local governments facing tight fiscal times, what will happen to this American tradition in Michigan and elsewhere? Some fairs may need to be privatized. Others will need to evolve and become more attractive to the people they wish to serve.

In Michigan we have several options: Retain the fair as it is along with indefinite taxpayer subsidies to support it; contract out for management and improvement of the fair; or sell it off entirely. A strong case can be made for the third option.

Michigan's state fairs (located in Detroit and Escanaba) are cases in point. Rather than continuing to subsidize them, Lansing should sell the state land on which the two fairs operate and give private entrepreneurs the opportunity to either run their own state fairs privately, or use the land for some other purpose.

According to the Michigan Department of Agriculture's official web site, Michigan had the first state fair. Originally held in a different city each year, it has been located at the corner of

Eight-Mile Rd. and Woodward Ave. in Detroit since 1905.

Covering the losses of this fair has required supplemental appropriations from state government. The state fair has been an almost unremitting drain on state coffers. Indeed, from 1970 to 1995 alone the state fair in Detroit lost an annual average of \$2 million. That's the bad news. The good news is that last year the state fair managed to eke out a \$28,000 profit — evidence that it may be able to survive as an entity independent of state government.

Of course, this meager and rare profit is not enough to cover all the state fair's costs. The state fair also requires capital improvements — new buildings, for instance — which are not part of the fair's official state appropriation. This means that fair officials would need to make far more money than they do now to cover physical improvements to fair grounds.

One reason the state fair has improved its bottom line in recent years is then-Gov. Engler's 1993 appointment of Macomb County Commissioner John Hertel, a Democrat, to run it. His mandate was to improve the event and keep it self-sustaining. The situation forced Hertel to innovate, which led him to privatize maintenance, a move that saved the fair \$500,000 annually and improved the appearance of the grounds.

Hertel took an even more dramatic step. In April 2000 the state approved a

management deal with southeast Michigan developer Joseph Nederlander that would reshape the state fair with \$200 million in new investments. According



Michigan's state fair has lost money in 22 of the last 25 years. It made a \$28,000 profit in 2002 but may be on the hook for an additional \$900,000 in maintenance and utility expenses in 2003. Why not privatize?

to reports in Crain's Detroit Business, the state and Nederlander envisioned \$80 million in fairground redevelopment and an additional \$120 million in related investments that would bring "new housing, theaters, hotels, restaurants, and stores" to property adjacent to the fair.

The lease agreement fell apart and the state is back to managing the fair. The Michigan Department of Agriculture (MDA) has not given up on the idea of a public-private partnership and is currently examining other possible lease relationships with private developers.

Even if the state were to remove itself from fair involvement, it would see "Fairs to Remember" on page 12

The situation forced Hertel to innovate, which led him to privatize maintenance, a move that saved the fair \$500,000 annually and improved the appearance of the grounds.



Feature

Symphony of Privatization

■ By David Bardallis

The Michigan Department of History, Arts, and Libraries is one of the most recent additions to state government, having been created under Public Act 63 of 2001. It consolidates the administration of a number of pre-existing state functions and programs.

The department's five main agencies are the Michigan Council for Arts and Cultural Affairs (MCACA), Michigan Historical Center, Library of Michigan (formerly known as the State Library), Mackinac State Historic Parks, and the Michigan Film Office. At the very least, the agency known as Michigan Council of Arts and Cultural Affairs should be wholly privatized, that is, ended altogether as a government function.

Before proceeding into an analysis of what MCACA is and why it is a harmful component of state government, the reader may find it useful to review the following brief explanation of the philosophy undergirding such a recommendation.

American traditions of law and liberty recognize a fundamental distinction between the activities of government and those of society at large. Since the colonial era, the coercive institutions of government have been widely understood to be appropriate to the protection of life and property from criminal violence and fraud.

Other concerns, however basic or vital, historically have been addressed by voluntary civil institutions. This theoretical understanding of, and practical distinction between, the different roles of state and society — spelled out in the federal and state constitutions — have been key to unleashing the vibrant cultural and economic life that has flourished in this country since its inception in the 18th century. In other words, America's Founders understood that



Among its other works, the Detroit Symphony Orchestra also runs a civic orchestra, comprised of local youth. The civic orchestra is a pre-professional training orchestra. In this photo, world-renowned musician Itzhak Perlman conducts a "master" rehearsal.

while government may serve, in some ways, as the *protector* of a society's culture, it is but a product, not the *source*, of that culture.

Within a free, or *civil*, society, government is just one of many threads in the broad and colorful tapestry of human life. It has the narrow and limited role of guardian, and when it steps outside of that role, its growth into other spheres of life soon results in an increasingly unfree, or *political*, society. The difference for the average citizen is this: In a civil society, citizens make the decisions affecting their lives for themselves. In a political society, government officials make many or even most of those decisions for citizens. The citizen's judgment about what is in his or her own best interest is supplanted by the judgment of others, who may not have the citizen's best interests at heart — or even know what those best interests are.

The types of decisions made by bureaucrats in a political society run from the most vital — such as where one should (or is allowed) to live, how

one's children are to be educated, or how one is to spend one's own money.

But perhaps the most dangerous aspect of a political society is when the state sets itself up as the very *definer* of a society's culture rather than its simple guardian. In such a situation, there comes to be an "official line" on everything. This official line, instead of being reached by open academic inquiry and consensus, is instead asserted and enforced by a bureaucratic minority operating coercive machinery of the state.

Instead of being open to challenge and revision as new nuggets of truth are gleaned by scholarly prospectors, the government-enforced official line is relatively impervious to new evidence or interpretation. Thus there is the spectacle, in some countries, of a "Ministry of Culture," that may actually criminally prosecute those who hold the "wrong," i.e., governmentally disapproved, opinions. This country is not yet that far down the road to censorship and statism, but the persistence of the phenomenon known as "political

But perhaps the most dangerous aspect of a political society is when the state sets itself up as the very *definer* of a society's culture rather than its simple guardian.



correctness” reveals the ever-present danger that exists to intellectual and academic freedom should citizens ever cease their vigilance.

Former Gov. John Engler created the Michigan Council for Arts and Cultural Affairs (MCACA) in 1991 “to encourage, develop, and facilitate an enriched environment of artistic, creative cultural activity in Michigan.” The council is made up of 15 gubernatorial appointees, each of whom serve three-year terms, and a staff of nine individuals, who oversee the awarding of grants to a variety of organizations and projects throughout the state. The MCACA’s fiscal year 2003 appropriation is \$12,481,700, with \$700,000 of that amount coming from federal sources. In addition, the MCACA received an



The Detroit Symphony Orchestra is Michigan’s second-largest recipient of art subsidies, receiving \$1.5 million in fiscal year 2002-2003. Only the Detroit Institute of Art received more — two grants totaling \$4.8 million. The Great Lakes State should privatize state involvement in the arts.

additional \$11,900,000 from the state’s general fund as a result of the August 2002 cigarette tax increase, for a total budget of \$24,381,700.

In September 2002, then-Gov. Engler announced \$22.6 million in MCACA grants to 368 organizations and projects in 69 counties for the current fiscal year. Some of these grants go to regional or local government arts councils, which in turn “re-grant” some of their funding to other organizations and projects of their choosing.

The Michigan Legislature should zero out state funding for the Michigan Council for Arts and Cultural Affairs. The reasons for this move include the following:

- **Government art subsidies are inherently politicized and unfair.** Having a government “arts council” enables politicians and their appointees, not the art-consuming public, to decide which art forms and artists are worthy of support and which are not. The artistic judgment of the “common folk” may not always be agreeable to the connoisseur, but the judgment of the elite minority who control government arts funding is far from infallible. The MCACA awarded \$22,200 to one elementary and one middle school in the Lansing School District to bring “teaching artists” from nearby BoarsHead Theatre (which received \$72,700 from the MCACA) into the classroom. One of the artists’ homework assignments last year consisted of directing students “to brush their teeth with the opposite hand to illustrate it’s possible to learn new skills.” Another assignment included having a “teaching artist” dressing up as Cortez and “barking out orders in gibberish so the students would understand the language problem the Aztecs faced, and how threatened they felt.”

It is at least debatable whether citizens allowed to keep their own “arts dollars” would choose to spend it in such ways; but even if they did, at least it would be their own money and their own choice. As author John Updike, two-time winner of the Pulitzer Prize, declared, “I would rather have as my patron a host of anonymous citizens digging into their own pockets for the price of a book or a magazine

than a small body of enlightened and responsible men administering public funds.”

- **Government art subsidies often take from the poor and give to the rich.** Supporters of government art subsidies like to argue that the subsidies are needed to bring art to lower-income people who otherwise would not have the resources to enjoy it. However, evidence suggests that art subsidies flow from the poor and middle-class to wealthier citizens — those who tend to frequent museums, operas, and symphonies in the first place. For example, Wayne County projects received the largest dollar amount of fiscal year 2003 MCACA grants at \$9,718,300. Oscoda County residents saw \$5,000 in MCACA grants come their way. According to census data, Wayne County has a population of 2,045,473 people and a per-capita income of \$20,058; Oscoda County, by contrast, has 9,558 residents and a per-capita income of \$15,697. As a ratio of grant funds to population, wealthier Wayne County receives back from the state \$4.75 per citizen while poorer Oscoda receives only 52 cents. (Over half of the Wayne County grant money, \$5,943,900, went to just two organizations: the Detroit Symphony Orchestra and the Detroit Institute of Arts. Economist Robert Samuelson seems to have had it right when he called government arts funding “high-brow pork barrel.”)
 - **Government art subsidies corrupt artists.** Subsidies gradually but inevitably lead to the “dumbing down” of art as the hopeful beneficiaries of government grants tailor their craft in such a way as to make them most likely to receive state money. In other words, because there will never be as much government money as each aspiring artist desires, the state must always have a particular
- see “Privatize Arts” on page 15

It is at least debatable whether citizens allowed to keep their own “arts dollars” would choose to spend it in such ways; but even if they did, at least it would be their own money and their own choice.

Feature

Privatizing Byzantium: Outsourcing HR Can Improve Michigan's Bottom Line

■ By Michael LaFaive

When you think of employment opportunities in Michigan, what first comes to mind? Is it assembling stamped parts on the assembly line at Ford? Is it counting cash at a teller's window at Comerica Bank? It may be a surprise to people that state government is actually the Great Lakes State's second largest employer. In order to maintain an enormous workforce to interview and screen potential employees — "human resources" (HR) — it must also operate an enormous HR system.

Maintaining the human resources necessary to keep government humming is a daunting and expensive task. That is why Michigan should take a page from the State of Florida's playbook and consolidate and outsource numerous HR duties.

The state of Michigan has grown to employ 53,000 people, spread across 20 different departments and 50 office locations. Organizing and managing employees necessary to run a sprawling bureaucracy is not a small task. Years of increased federal and state laws and regulations and administrative rules relative to employment alone have made human resource management Byzantine in its complexity. As a result, chief executives in business — and now government — are turning to outside, for-profit firms that specialize in hiring and managing people.

In August 2002 the State of Florida signed a 7-year, \$280 million deal with Convergys Corporation, a private, for-profit business headquartered in Cincinnati, Ohio. In doing so, Florida officials expect to save an average \$24 million per year plus an additional \$65 million to \$90 million by avoiding updates of 20-year-old state-

owned HR software. The deal will affect 800 state HR employees, each of whom will receive special consideration for open positions in state government or with Convergys directly.

According to Cynthia Henderson, secretary of department and management services for the state of Florida, outsourcing HR activities began with an order to all department heads from Gov. Jeb Bush. Bush wanted his top officials to find out what business practices were being used in the "real world" that could make state government more efficient and effective in Florida.

The motivation for outsourcing HR was three-fold. First, state lead-

the software being used to track state employees and generate paychecks was in such bad shape that Florida officials feared "payless paydays." Lastly, the terrorist events of Sept. 11, 2001, focused attention on the fact that all of Florida's state employee data were housed in a central location. What would happen if a catastrophic event — such as a hurricane — whipped through and destroyed all of the state's employment and pay records? By outsourcing, the state of Florida could contract with a firm that had multi-state locations, where vital information could be transferred in the event of threats to important data.

The precise services that are being contracted include, but are not limited to, a) applicant management including recruiting and selection, and payroll preparation; b) collection and reporting of worker time, leave and attendance; c) administration of workers' compensation; d) retirement and insurance benefit enrollment; and d) care of state organizational charts. For a full list of every outsourced duty, see the state's official web site at www.myflorida.com/dms/hrm/hrout/HR_Outsourcing_Project.html.

Transferring all of the duties once held by state officials to Convergys will occur in a multi-step plan during 2003. On the first day of June, Convergys will begin its administration staffing duties which include recruitment of new employees. One month later it will assume payroll preparation duties for state employees. To the state's credit, it insisted that the first paychecks be run by the new Convergys system and also duplicated by the old state system to ensure that the new system run by Convergys works as planned. Once the Convergys system proves that it can accurately produce a payroll, the state's old software system will be shut down.

What lessons can Michigan officials learn from Florida? They could learn about the opportunities see "Byzantium" on page 15



The state of Michigan could save millions of dollars by privatizing the human resources management function of state government. Employees at Michigan-based Kelly Services, such as the one shown here, provide HR solutions to government and business for profit, and should be invited to compete for the right to provide HR work on behalf of the state.

ers recognized that HR outsourcing was common practice in the private sector. "If Fortune 500 firms could outsource their HR units, save money, and improve services, why couldn't the state?" officials reasoned. Second,

The State of Michigan has grown to employ 53,000 people, spread across 20 different departments and 50 office locations. Organizing and managing employees necessary to run a sprawling bureaucracy is not a small task.



Friend of the Court Not Very Friendly

■ **By Michael LaFaive**

Michigan's next Attorney General Mike Cox says the reason he wants to pursue "deadbeat" parents and get them to pay their overdue child support is because he wants to help the kids. A great way to do that would be to make it easier for custodial parents to fire Michigan's "Friend of the Court," the state's official child support collection agency, and hire a private attorney or collection agency to do the same job.

If you're a custodial parent whose deadbeat ex-spouse owes child support, be careful: Once a relationship with the Friend of the Court has been established, custodial parents cannot choose to end it. Indeed, it is easier to get a divorce than to close a case with the FOC. Try to hire someone in the private sector to collect, and you'll discover what many parents already have: Michigan is among the few states that make this option difficult if not impossible.

A lawyer or collection agency can obtain records or files only through the parent: The FOC refuses officially to deal with anyone else. This includes payment: Any delinquent child support money collected — to be recognized legally — must come to the FOC first, which pays the parent after taking its cut. In other words, having failed the custodial parent, the FOC takes its pay anyway, leaving the parent to pay the private collector — which did the real work — from his or her own cut.

FOC spokeswoman Marcia McBrien does not defend the fairness of this practice, but says FOC's policy is based on its "interpretation of state law."

If the FOC had a sterling record with regard to collections, this arrangement would still reduce parents' choices with regard to what is best for their children, and create additional work for already burdened single parents. And it presumes that government offi-

cial know what is best for parents and children using the FOC. But the FOC is commonly delinquent in collecting delinquent child support.

Washtenaw County resident Nancy Fox is a case in point. Her ex-husband left Michigan one year after a 1990 court order mandated his level of child support, and stopped making payments. Twice a year for 10 years, Fox traveled to Ann Arbor's FOC office and filled out its many forms in the hope that officials would find her ex-husband, collect what was owed her, and ensure that future support payments would be forthcoming. Nothing worked until she turned to Supportkids, a private, for-profit collection agency based in Austin, Texas.

Fox signed an agreement with Supportkids, promising the collector 34 percent of the money collected under her contract. She figured that, "getting most of what I was owed was better than getting 100 percent of nothing." It took Supportkids just two months to obtain the decade of missing payments from her ex-husband. The collection agency also made arrangements for his quarterly payments to resume immediately.

The story does not end there. As per official policy, when the same FOC office that failed to collect for Nancy Fox for a *decade* got wind of the private agency's success, it mandated that Supportkids route the ex-husband's payment through the FOC, at which time it would take its "processing fee." In other words, having been bested by its private rival, the FOC demanded a piece of the

financial pie anyway. Even worse, the agency took its cut from a single mother who already had given up a third of what was originally owed her.

According to a March 2002 report by the U.S. General Accounting Office, state and local governments elsewhere have been turning to private collec-



Nancy Fox and her son Casey tried unsuccessfully for 10 years to collect child support through Michigan's Friend of the Court. She finally hired a private company, and the Friend of the Court demanded a "cut" of the private firm's success.

tion agencies to help address growing caseloads. The report states that, of the parents who hire private enforcement agencies, 64 percent do so because state agencies fail to collect for them. Another 28 percent cite frustration with the "customer service" aspect of their government collection agency. Nationwide, child support in arrears through August 2001 amounts to \$89 billion, \$5.5 billion of which is owed to Michigan parents, mostly moms, and children.

Attorney General Cox and the Michigan's Legislature should put their heads together and make it easier for parents to divorce themselves from the FOC and seek superior private alternatives. A government bureaucracy may lose a little turf, but it's what would be best for Michigan's children. MPRI

Michael LaFaive is director of fiscal policy and senior managing editor of Michigan Privatization Report.

Nationwide, child support in arrears through August 2001 amounts to \$89 billion, \$5.5 billion of which is owed to Michigan parents, mostly moms, and children.



Clearly, fairs need not remain a province of government for people to enjoy this tradition. Why not sell the state fair in Detroit to the highest bidder?

“Fairs to Remember” continued from page 7



The world's largest stove, built in 1893 and restored in 1998, is on permanent display at the Michigan State Fairgrounds.

hardly result in a dearth of fair fun. Seven Michigan counties and another 80 communities and associations run their own fairs, too. Indeed, Ottawa County alone has three different community fairs.

In addition, Barry County's Bill Ackerman has run a private, *for-profit* fair for 24 years. The “Prairieville Old Fashioned Farm Days Show Grounds”



plays host to nearly every imaginable fair event every August. Animals are on display for show and racing; there are craft shows, dancing, live country music, and a “National Truck Pull” competition. It even hosts a cow-chip golf-ball driving contest. Private

fairs outside Michigan draw large crowds, too. Ackerman's private fair is held on 140 acres of land he owns. His fair is so popular it often fills the 3,000-space camping area set aside for overnight guests.

Clearly, fairs need not remain a province of government for people to enjoy this tradition. Why not sell the state fair in Detroit to the highest bidder? It is impossible to tell precisely what the state fair property would sell for without actually offering it for sale, but we can form a general idea of possible sales prices by examining data from purchase offers made on properties adjacent to the fairgrounds.

The state's 2000 investment deal could have netted \$10.5 million for the sale of 36 adjacent acres. The fairgrounds are 5.5 times larger. Is the potential for a \$57 million payday worth exploring a sale of the fair land and its buildings?

Michigan also could sell its Upper Peninsula State Fair in Escanaba. This fair was created by the Legislature in 1927 and its 2002-2003 appropriation is \$1,214,400. This figure does not reflect the likely supplemental appropriation the U.P. fair will need to stay afloat. In the last fiscal year the U.P. State Fair required a General Fund/General Purpose subsidy of \$177,900.



Although the sale of the U.P. fairgrounds would generate far less revenue than the fair in Detroit, its sale still would generate a sum worth considering. According to Kevin Dubord, assistant assessor for the city of Escanaba, land just across the street from the fair sold two years ago to Gordon Foods for \$2,000 per lineal foot of street frontage. The U.P. fair has 1,300 lineal feet along the same road. At \$2,000 per lineal foot the U.P. fair land might fetch \$2,600,000.

When a reporter recently asked Gov. Jennifer Granholm if she favored the sale and privatization of Michigan's State Fairs, she replied like a state governor facing a \$1.8 billion budget deficit. “Everything is on the table,” she said. To help close the deficit, the new governor and Legislature may be looking more closely at fairs, to decide whether they truly are a legitimate function of government. MPRI

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



Detroit Medical Center to privatize all 11 primary-care clinics

DETROIT—By April 1, 2003, Detroit Medical Center (DMC) expects all 11 of its primary care clinics to be in private hands. The clinics will be put up for sale to private buyers “for fair market value,” with doctors currently working there having first crack at purchasing or leasing the facilities. During the transition period, the DMC is working with a professional consulting firm that is teaching clinic doctors things they would have known, had they been operating on their own, such as how to bill for services.

Why the move to privatization? Because of poor economic performance, say officials. 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. The details appear in the final paragraph of the Nov. 21 Detroit Free Press story: “Under the DMC’s ownership, the clinics have never been profitable and are expected to lose \$21.6 million this year.”

Needless to say, a private venture that performed thus would not be described as “never profitable.” In fact, it couldn’t be described at all, since it would be “non-existent.”

Privatization blamed for water supply security breach

DETROIT—Union sleuths have fingered the culprit in an incident affecting the security of Detroit’s water supply. On Tuesday, Sept. 10, a Mr. Anthony Bradford, 43, was picked up drunk by police 20 minutes after finishing his patrol of suburban drinking water reservoirs. He had rear-ended a car and fell down during a field sobriety test.

Obviously, a man this drunk must have been drinking as he made his patrols, if he made them at all. The

perpetrator of the security breach having been apprehended, one would think the matter could be put to rest by firing Mr. Bradford. But a question remained to be solved: Whose fault was it that Mr. Bradford was drunk?

Normally in such cases, the individual is saddled with the blame. But it so happened that after the terrorist attacks of Sept. 11, the Detroit water department had hired a private company—JOWA Associates, which employed Mr. Bradford — to beef up water supply security. It took one John Reihl, president of AFSCME Local 207 — still smarting from the fact that the city had gone to the private sector instead of hiring his unionized workforce — to put the finger on the real culprit.

The privatization was to blame. Lack of training and low pay, Reihl claimed, “left little incentive for guards to do a good job,” according to a report by the Detroit News. Reihl added that the city could have doubled the size of its internal security force for the \$3.7 million cost of the private firm, unaware of the contradiction: Twice the number of workers for the same amount of money means workers being paid even less — with less incentive to do well.

Presumably, union workers also would be less likely to be discovered drunk on the job.

Privatize Detroit’s water system

DETROIT—In a Sept. 29 point/counterpoint in the Detroit News’ Sunday edition, Michigan State Rep.

Leon Drolet, R-33rd district, debated John E. Mogk, a law professor at Wayne State University, over whether Detroit should share control of its water board with surrounding suburbs. While nei-

ther argued for total privatization of the system (which has become so costly and inefficient, virtually no one is denying



the need for change) both offered proposals that could utilize privatization at some level.

Drolet makes the case for adding suburban representation to the Detroit water system, which now serves 4 million people, with less than 1 million of them actually living in Detroit. He claims the 3 million suburban customers are effectively held hostage to the whims of the Detroit Water Board, which has been passing along large cost increases to suburban customers. Those customers and public officials rightfully feel as though they face a form of taxation without representation.

Appointing officials from the suburbs to the Board would be fairer. And if officials in the suburbs could wrest control from the city they might have a better chance at privatizing the system to some degree — either by outsourcing management of the system, or by selling it outright, which is the position Drolet’s debate opponent takes.

John Mogk argues that Detroit needs to have neither suburban control, nor urban control — but a “regional authority” to whom the city can sell the entire system. He also offers as an alternative, selling the system to a private company and just letting it be regulated “as a state-regulated private utility.”

First, “regionalization” of the



Detroit’s northeastern water plant.

“Under the DMC’s ownership, the clinics have never been profitable and are expected to lose \$21.6 million this year.”

Around the State



water system would effectively turn it into a quasi-governmental agency regulated by officials from Detroit and the suburbs, which is effectively what Drolet argued for in the first place. The debate between the two men at this point is largely a matter of semantics.

Selling off the system is where the men differ in their debate.

Michigan Privatization Report has recommended selling off the Detroit water system in the past and even estimated a sales price between \$1.7

billion and \$2.8 billion. The advantages: Privatization would result in substantial savings to the city; would create a new source of revenue, since its owners would pay substantial property and income taxes; and would eliminate any costs to the city for repairs and upkeep.

Detroit Public Library audit raises contracting questions

DETROIT—An audit of Detroit Public Library's finances by the city Auditor General has revealed that the institution issued contracts without bids, as well as other irregularities that are attracting the attention of federal and city officials.

The Auditor General reports that the library maintained 35 different bank accounts, used money for improper purposes such as a luxury car for the use of (now) former Library Director Maurice Wheeler, and repeatedly overpaid for services because there was limited oversight of the process of awarding contracts.

The findings are being reviewed by the U.S. Attorney's office and the IRS, and the city council has asked for a review by the Ethics Commission and the Detroit Police Department's Public Corruption Task Force.

"Procurements were made without following good procurement practices, such as competitive bidding," the report



The Detroit Public Library is one of the largest public libraries in the country.

stated. "In some cases, the DPL purchasing department was not included in the process to procure major goods and services."

One questionable item was the approval of a no-bid contract for a planned renovation of the main branch library, a contract that showed up \$1.1 million over budget — even before work on the project had begun.

Genesee Parks Commission considering selling off land

GENESEE COUNTY — Genesee County has the largest county parks system in Michigan — so large, in fact, that county commissioners don't even know how much land the county owns.

A Flint Journal article dated Sept. 22 states that the commissioners are "compiling a list of all the properties" for purposes of deciding whether they should sell off "extra parcels" not currently being used as park land. But not knowing how much land one owns, how does one figure out what constitutes "extra?"

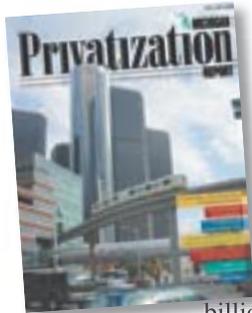
"Our next step is to verify all our holdings so we have a clear, accurate and current picture of what we've got," said Director Amy McMillan told the Journal. Board of Commissioners Chairman Richard E. Hammel told the Journal, "It's obvious to me we have way more than we can [take care of]....Maybe we are stretched way too thin."

It's good that the commissioners

are considering both selling off some parcels and allowing municipalities to take others over. In 2000, they raised more than \$1 million by selling parcels ranging from less than an acre to 20 acres in Genesee and Richfield townships.

But in the meantime, why not do what the state of Michigan does every two years: conduct an audit of how much land it owns where, so that at the very least, government officials know the full extent of opportunities for land privatization? MPRI

Michigan Privatization Report has recommended selling off the Detroit water system in the past and even estimated a sales price between \$1.7 billion and \$2.8 billion.



MACKINAC CENTER
FOR PUBLIC POLICY

How will the
state budget
crisis affect you?

See
www.mackinac.org.

HOT TOPICS
Now Making News -
Michigan's Budget Challenge



“Privatize Arts” continued from page 9

selection process; thus artists applying for grants will invariably pursue some work palatable mainly to their government patrons. Some writers have recognized the artist’s need for independence and warned against this dynamic. Nobel Prize-winning novelist William Faulkner remarked, “I’ve never known anything good in writing to come from having accepted any free gift of money. The good writer never applies to a foundation. He’s too busy writing something.” Faulkner’s fellow Nobel laureate, one-time Michigan resident Ernest Hemingway, said that a writer who uses politics to advance his career might “get to be an ambassador or have a million copies of his book

printed by the government,” but he is betraying his craft.

Even if government arts programs did not hurt artists in general, should programs such as the MCACA be off limits as a target of spending cuts? At the very least, there is value in having the legislature examine this program to see whether or not it should be pared back. Indeed, in times of tight budgets it is going to be important for legislators to inquire openly about the value of such programs, before raising taxes of people who may or may not have an interest in art. Is paying an artist to dress up as Cortez and bark gibberish at children more important than let-

ting low-income people determine for themselves how much they would like to spend on the arts?

The arts are too important to be left to the whims of politics and politicians. The MCACA program should be privatized, and artists should be prepared to thrive without the heavy hand of government. MPRI

David Bardallis is an adjunct scholar with, and former managing editor for the Mackinac Center for Public Policy.

The arts are too important to be left to the whims of politics and politicians.

“Byzantium” continued from page 10

to improve government management of state staff while saving money in an area not customarily examined for privatization. Currently, every state department in Michigan runs its own Human Resources department, employing between 1 (Senate Fiscal Agency) and 70 (Family Independence Agency) who are responsible for typical human resource duties, such as processing paperwork on new hires.

It is very difficult to calculate precisely how much Michigan’s human resource apparatus costs state taxpayers every year because the state’s civil service system does not conveniently designate every HR worker as an HR employee. For instance, an executive secretary may work in the HR division of Consumer and Industry Services, but be defined as an executive secretary, not an HR employee.

The Mackinac Center for Public Policy informally surveyed each

department and agency listed in the state government telephone directory to estimate how many staffers work in HR, regardless of their Civil Service designation. The total figure came to 559 — including every member of the state’s Civil Service department. This total is slightly less than 1 percent of the state’s workforce, but almost twice Florida’s ratio of HR employees to total state employees.

The average compensation for full-time Michigan state employees, including health benefits, comes to \$60,996 per year. Multiplying this figure times 559 employees yields an estimate of what it costs the state just to employ its HR workforce: \$34 million. Shaving just 15 percent of this cost by outsourcing — a reasonable goal — would net the state more than \$5 million annually.

There is nothing so unique about state-employee HR that makes it imperative that government jobholders perform

this duty. In a time of declining state revenues and increasing demands on state programs, wouldn’t it make sense to explore outsourcing of nonessential functions? If so, then state Human Resource management clearly is a candidate. State officials need look no further than Florida for an example of how to do it. MPRI

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



National Perspective

‘Privatize Federal Lands,’ Says Newest Nobel Laureate

■ By Michael LaFaive

The 2002 Bank of Sweden Prize in Economic Sciences (more commonly known as the Nobel prize in economics) was awarded to two American economists on Oct. 9, 2002. One of the winners, Vernon L. Smith, is an advocate of federal land privatization. Michigan’s government, which owns 12 percent of the state’s land, could learn from the newest Nobel laureate’s findings.

In 1999 Smith co-authored a Cato Institute study, “How and Why to Privatize Federal Lands,” which describes in detail how government ownership results in economic and ecological mismanagement of public lands. The solution, say the authors “is to get the incentives right for both the treasury and the environment” by privatizing federal land holdings.

Former Mackinac Center for Public Policy researcher and author Peter T. Leeson wrote a related article also in 1999 for Michigan Privatization Report, the nation’s largest quarterly privatiza-

tion journal. The article, “Land Ho! Should Government Be Landlord?” described the extent of state landholdings and concluded that the state should sell off some of its property.

Smith, 75, is Professor of Economics and Law at George Mason University in Virginia. He received his Nobel award for path-breaking work in experimental economics, demonstrating the importance of “alternative institutions,” in such matters as privatization.

Alternative institutions show how tests could be conducted on public policies in a laboratory setting before



Vernon L. Smith, shown here, is the 2002 winner of the Nobel prize in economics. A scholar associated with George Mason University, Smith’s research shows the benefits of land privatization, an idea examined by Michigan Privatization Report in past issues.

being applied in practice. The Swedish Academy specifically cited his research with respect to public utility privatization when announcing his award. Smith co-authored a paper on this subject in the Cato Journal, a publication of the Cato Institute.

It is refreshing to see the Royal Swedish Academy pick winners from among men and women who have studied privatization’s effects, even controversial privatization such as the sale of public land. To its credit, the Academy has surveyed Smith’s record of accomplishment with policy research institutes and universities, and found his work deserving. Hopefully, Michigan officials will apply sound economic principles to the question of how much land the state needs to own. MPRI

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