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MICHIGAN

# Privatization

A Publication on Privatization Initiatives Throughout the State

• No. 2008-01 / Summer 2008

REPORT

How a **right-to-work** law would affect your city

Ann Arbor double bogeys

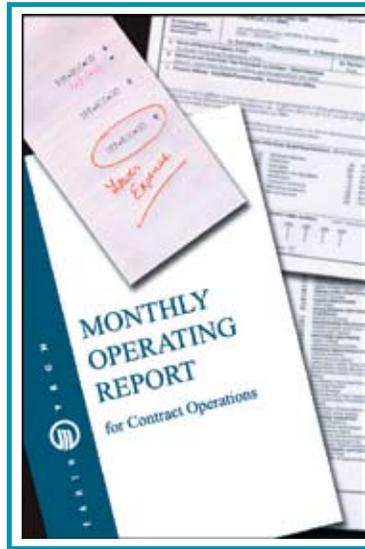
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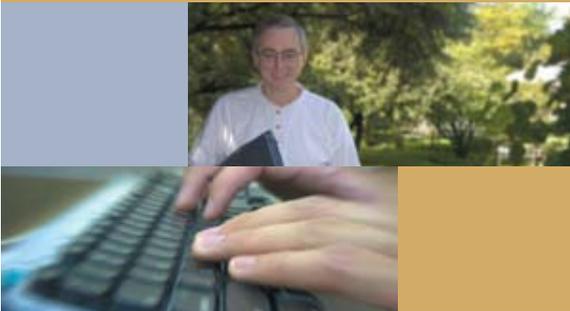
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## Privatization <sup>MICHIGAN</sup> REPORT

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# Privatization

A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2008-01 / Summer 2008

## MICHIGAN REPORT



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Running a municipal golf course can jeopardize a city's revenue sharing. This is exactly what has happened in Ann Arbor, which owns two courses that have lost money for nearly a decade. The city is looking for options.

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Student housing is a major cash cow for universities; it's also a major outlay. The University of Michigan, for example, is spending \$175 million to build a new facility. State universities should explore public-private partnerships as an efficient and cost-saving way to build and operate dorms.

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# Government Golf Slices City Revenue

*An Ann Arbor Tale*



By James M. Hohman

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

Cities that operate golf courses don't intend for them to drain resources, but because of the state revenue-sharing system, municipalities can see state payments lowered as a result of golf course operations. Earlier this year, the city of Ann Arbor narrowly escaped this predicament.

Ann Arbor owns two golf courses, Leslie Park and Huron Hills. The courses' financial situation is dire. The city essentially lost money on the courses every year for the past decade. Last year was the worst yet — course-related expenses were \$1,001,702 while revenues collected amounted to \$858,126, for a loss of \$243,576. Over the decade, the number of rounds played at the courses decreased by 60 percent.

Golfers may not have noticed, but Lansing did. To ensure that cities balance their budgets each year, the state requires them to send their annual financial report to the state treasurer. When the state saw that Ann Arbor's golf course fund was operating at a deficit, a treasury official sent a letter to the city threatening to withhold 25 percent of its revenue sharing until a plan was filed to eliminate the deficit. While the Department of Treasury sent out 53 similar letters to local units of government for 2007 audit reports, it is worth noting that more than a quarter of them — 15 — were because of enterprise funds like golf.

Ann Arbor hired a golf consultant — Golf Convergence — to study the city's options. It found many areas for improvement. "The combination of being overpriced and underfunded is a perilous mix that will lead to long-term losses," the consultant wrote (available at [www.a2.gov/parks](http://www.a2.gov/parks)). But even with proper implementation of the recommendations, the consultant added, "there is no assurance of success" and predicted that "losses will inevitably occur over the next three to five years." And while the courses have room for improvement, the consultants determined that only 22 percent of the decrease in rounds played is attributable to "internal and correctable factors."

The consultant also recommended that the city obtain liquor licenses for the courses, which are a commodity in this state. There are only so many that are allocated for each community and they are typically apportioned by population.

A municipality or business can buy an existing license, but that can be costly. If a business doesn't pay the annual fee to renew its license, the city government ultimately decides who should get it.



*Gilda Johnson, owner of Lake Forest Golf Club, says municipal golf courses have an unfair advantage over privately owned courses.*

When a liquor license became available in Ann Arbor, the city saw it as an opportunity. Rather than recommend that the license be given to the business that has been waiting the longest or made the best case for it — or using any other criteria to judge fairly — the city council voted 6-5 to recommend the license be given to the Leslie Park course.

Theoretically, a government golf course can offer lower rates than private courses because of the absence of property taxes and the lack of a profit necessity. No one goes hungry if a government course fails to make money. But that has not been the case in Ann Arbor. According to its consultant, plenty of competitors offer lower rates for the same or better quality of course.

In Ann Arbor's case, there are no public welfare gains from the city owning and operating these courses. There are already 14 other golf courses in the area that are open to the public. The city considers seven of them to be direct competitors in terms of quality and price. Indeed, the golf consultant found that the Ann Arbor area has an overcapacity of golf facilities.

The city's deficit elimination plan calls for increasing the number of rounds played at the courses by 36.5 percent

over three years. With an overcapacity of courses in the area and the market expected to be stagnant, this expansion comes at a cost to the local course owners. "Basically, they're trying to take golfers from us," said Gilda Johnson, owner of the local Lake Forest Golf Club.

It's usually not a matter of public concern whether one business gains at another's loss, but these aren't competing businesses. This is a case of government versus private business owners, and government plays on an uneven field. "It's very hard to compete with people that don't have to pay taxes," said Kathy Aznavorian, co-owner of the Fox Hills Golf & Banquet Center in Plymouth.

Cities can unduly burden specific individuals or businesses — in this case, business owners who weren't awarded the liquor license or owners of competing private courses. And if the city-owned courses continue to fail, they become a bigger drain on city finances. In fact, the consultant concluded that the courses were caught in what they termed a "death spiral." The golf courses have not been keeping up with payments to the city for the services received (the courses "owe" the city \$1.1 million, according to the city's latest financial report). Ann Arbor may determine this liability unrecoverable, which could lead to cuts in other areas of city services.

This is likely to occur. The golf consultant stated that the city could not turn around the courses "without substantial risk" and "significant investment." Since the city council is continuing city operation of the courses, the risk is borne by Ann Arbor taxpayers.

Government simply should not be in the golf business. Golf is a pastime that is already adequately provided by the private sector, especially in Ann Arbor. Taxpayer-funded competition is unfair to private course owners. Government golf promotes a private good to only a small segment of the population, but is a liability on the entire population. And, as Ann Arbor's courses show, they can be a drain on government finances. [MPRI](#)

*This is an edited version of an Current Comment that first appeared on April 15, 2008.*

# Universities Would Benefit from Private Sector's Expertise

The University of Michigan recently began construction of a new residence hall. The North Quad Residential and Academic Complex will house approximately 500 students, in addition to academic facilities for the School of Information and the College of Literature, Science and the Arts on the University's Central Campus. Initial project approval set the cost at \$137 million, but subsequent plans increased the cost to \$175 million. Funded in part by a debt service, the university expects residence hall revenues to fund operations.



Michigan's public universities could save money and time on construction projects, such as the business school building at the University of Michigan pictured above, by adopting a Public-Private Partnership model.

While the university's plan constitutes a commendable effort to keep up with increasing enrollment and student housing demands, the project remains an anachronism. Michigan's public universities have failed to consider the expertise and innovative financing mechanisms that other institutions of higher learning nationwide have used to privatize residence hall projects. In an economy of ever-increasing specialization, the U of M's housing services would

benefit from privatization. While universities certainly have expertise in academic pursuits, they should in turn recognize the expertise of others in the specialized field of residence hall facilities.

University residence hall privatization usually takes the form of a public-private partnership, or PPP. Pioneered in the U.K., these partnerships infuse traditional government infrastructure projects with needed private investment and expertise. PPPs typically involve an agreement in which a private company leases real estate from a government entity in return for constructing or operating an infrastructure project on the land. Toll roads and bridges in Europe often take this form. Generally in these cases, a university will enter into a ground lease with a nonprofit corporation established for the purpose of the partnership. The university may then issue tax-exempt bonds through the private corporation, secured by project revenues. A private developer will assemble the nonprofit corporation and handle project design, construction and financing in return for a development fee. Finally, a developer affiliate will often manage the residence hall itself.

A public-private partnership allows a university to obtain the benefit of a private developer's expertise. Specialization leads to time efficiencies, improved services and decreased costs. Contracting with a private developer also provides risk allocation. Debt remains on the nonprofit corporation's balance sheet, instead of the university's. This allows the university to maintain its own credit rating for other projects. Additionally, the government procurement regulations do not apply to private developers. Expediting the procurement process can advance the project by as much as two years.

State universities across the nation have already used public-private partnerships to complete new housing projects. Towson University in Maryland has chosen Capstone Development Corp. for three campus projects, including two residence halls totaling 635 beds. Academic Privatization LLC provided interim funding to the University of Louisville and completed construction of a privatized residence hall in a little over one year. Bluestone Land LLC contracted with Virginia's Longwood University in an arrangement to build a 400-bed facility that many expect will also lead to business development of the area. Indeed, the University of Michigan and many of the state's other public universities already have similar arrangements for their bookstores; they lease university space to private bookstores on campus in exchange for a percentage of gross sales.

Given the benefits of public-private partnerships, why does a university fail to choose the partnership structure? Many university administrators cite concerns about losing oversight of residence halls. However, the flexibility of PPPs and the creativity of the private sector enable a university to retain as much control as they desire. Other concerns involve developers taking advantage of universities, but that applies to any university project. A final concern is that universities want to create and maintain "living and learning communities" where they incorporate academics into residence hall life. But a university can still accomplish this within a public-private partnership by explicitly structuring the project to accommodate it.

While residence hall PPPs cannot supply a quick fix for the University of Michigan's current project, all state public universities should consider employing this innovative partnership for future housing projects. By drawing on the private sector's expertise, the state's universities can concentrate their resources to excel in their core mission. [MPRI](#)



By Laura J. Davis

*Davis is an adjunct scholar with the Mackinac Center for Public Policy and a graduate of the University of Michigan law school. Davis was a summer 2004 research assistant. She is coauthor of the study "Privatizing University Housing" with the Reason Foundation.*

# Privatization Rolls on Despite Rhetorical Opposition

In order to keep a finger on the pulse of school privatization in Michigan, Mackinac Center staff follows regular news coverage of school support service outsourcing. This year's news reports suggest more moderate privatization activity than last year. What has clearly increased, however, is the number of research papers published that attempt to cast privatization — and even Mackinac Center research — in a questionable light.

In each of the last four privatization surveys conducted by the Mackinac Center, the rate at which Michigan's school districts outsourced at least one of the big three noninstructional services (food, janitorial or busing) had increased over the previous year. In 2001, 31 percent of conventional public school districts were contracting out; today it is 40 percent. According to the federal government's Centers for Disease Control, the number of conventional and charter public schools nationwide contracting with food service management companies alone has leapt from 15.2 percent in 2000 to 20.4 percent in 2006. That is a staggering 34 percent rate increase.

The growing use of private vendors in public schools and the 2007 Mackinac Center privatization "how-to" manual, "A School Privatization Primer for Michigan School Officials, Media and Residents," may have spooked opponents of school contracting. No less than three papers — all of which reference Mackinac Center work — have been released this year alone.

The first and arguably most enjoyable paper of the three was written by New York-based scholar Clive Belfield and published by the Great Lakes Center for Education Research and Practice in Lansing. The seven-page report by Belfield is a somewhat flattering quasi-rebuttal to the Mackinac Center's 107-page privatization primer. It concludes in part by saying: "This report is useful. It presents credible surveys of current policies across states showing that contracting out of food, transportation, and custodial services is widespread, although public provision is still more common."

This is not the entirety of his conclusion. He also argues, among other items, that the Center failed to examine such things as "transaction costs" in its analysis. This and other arguments made by Belfield are addressed in my rejoinder to his paper, "Privatization Review a Mixed Bag," which can be found online at [www.mackinac.org/9353](http://www.mackinac.org/9353).

The other studies released this year are also easily refuted, but detailed analysis of each goes

beyond the scope of this essay. One consistent suggestion made in each paper, however, is that support service privatization may not yield savings. That's true enough. Virtually every human endeavor presents the possibility that results will fall short of expectations. The question before us, however, is, "Are savings from effectively implementing privatization probable?" I believe the answer is a resounding yes.

Consider the increasing amount of anecdotal evidence in favor of savings. The Mackinac Center keeps a tally on per-pupil savings from privatization when the data is reported to us in various formats. We have recorded savings in all three categories from food service in Pinconning (\$5.63 per pupil) to janitorial service in Harrison (\$232 per pupil). Done right, contracting should save money every time.

Since our last survey, media reports from around the state indicate that additional schools are using privatization to yield savings. This year Southfield Public Schools outsourced for custodial (including maintenance) and transportation services and are on the cusp of contracting for food services, too. They expect to save \$21 million over three years for all three services. For more information on this and other anecdotal evidence, see "Statewide School Contracting Could Save As Much As \$500 Million" on the Mackinac Center web site at [www.mackinac.org/9012](http://www.mackinac.org/9012).

The Mackinac Center recognizes that no single metric, methodology or source is perfect. But to argue that privatization may not save money because there are no peer-reviewed empirical studies that say so, or that savings may not really and consistently accrue to schools because of "transaction costs," defies logic. It suggests that scores of school district employees and elected officials from around the state and country are unwilling or incapable of making sound financial decisions, or that they somehow conspire to waste money. The Mackinac Center gives school boards more credit.

In the coming months readers will be able to find more detailed responses to published criticisms of support service privatization — as well as more survey research — involving rates of privatization and financial savings or losses where the data is available. [MPRI](#)

*This is an edited version of a Viewpoint that was first published on June 9, 2008.*

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**Since our last survey, media reports from around the state indicate that additional schools are using privatization to yield savings.**



By Michael D. LaFaive

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

# What a Right-to-Work Law Would Mean for Cities

**Right-to-work status is a proven job creator; over the last five years right-to-work states have consistently seen payrolls increase at twice the rate of non-right-to-work states.**



By Paul Kersey

*Kersey is director of labor policy for the Mackinac Center for Public Policy.*

There is a distinct likelihood that Michigan voters will be presented with a right-to-work ballot initiative or constitutional amendment over the next few years. Assuming that such a law passes, what would the effect be for local governments and their employees? While a right-to-work law would not have a large, immediate or direct impact on the operation of county and municipal governments, over the long term such a law could do much to indirectly improve their financial situations.

Right-to-work protections would not change the basic process of collective bargaining: governments throughout Michigan would still be expected to bargain in good faith with their unionized employees, and existing collective bargaining agreements would remain in effect. Nor would a right-to-work law affect the binding arbitration procedure for police officers and firefighters. What would change is the status of “agency fee” clauses that require all workers covered by the contract to either join the union or pay an agency fee in lieu of membership dues. Under right-to-work legislation, a collective bargaining agreement could no longer include this requirement; union membership and financial support would be left to the discretion of the individual employee. (Depending on the specific proposal, agency fee clauses might be rendered inoperative immediately, or they might be allowed to remain in place for the remainder of the existing contract but prohibited in subsequent agreements.)

So while the immediate effects of right-to-work laws for municipal governments and their employees might be minimal, the longer-term effects are likely to be substantial. Right-to-work status is a proven job creator; over the last five years right-to-work states have consistently seen payrolls increase at twice the rate of non-right-to-work states. Right-to-work states have shown much stronger growth in home prices as well. In 2007 the average home in a right-to-work state appreciated at twice the rate of a comparable home in a non-right-to-work state. For cash-strapped municipalities throughout Michigan confronting steadily-declining tax bases and increasing pressure on social service agencies, such an atmosphere offers the possibility of stabilized economic conditions.

Equally important, though further down the road, right-to-work protections may go a long way

towards establishing a better balance of political power at city hall. One of the worst-kept secrets in Michigan politics is the extent to which unions have invested in political activism. While union membership is dwindling in the private sector, it remains strong among government employees.

As a consequence, local government decision making is distorted by the demands of influential unions. Much of that influence is bought, directly or indirectly, with union dues withdrawn from the paychecks of government employees and controlled by unions with a fairly direct stake in government expenditures. Because union dues revenue depends directly on union membership — but not the satisfaction of individual employees — government employee unions have a direct stake in expanding government payrolls. In a right-to-work environment, union officials could not assume that new unionized government employees would pay dues, and would be obligated to ensure that existing members are satisfied with the representation that they receive and are willing to pay union dues voluntarily.

There are tradeoffs involved. Union officials would be less likely to support expanded payrolls, but would be more likely to pursue more lucrative contracts for existing workers after the enactment of a right-to-work law. Collective bargaining would remain contentious, but otherwise a right-to-work law would probably reduce the funds available to union officials for political activism, giving local officials more room to focus on matters of policy.

Being a right-to-work state is not a panacea. Michigan government will still need to contain costs and reduce the burdens of both taxation and regulation on families and businesses. Investigating privatization and outsourcing of city services can and still should be a priority for municipalities regardless of Michigan’s right-to-work status, but a right-to-work law is likely to make the state more attractive to job-creating businesses while reducing the political influence of unions, making needed government reforms easier to implement. [MPRI](#)

## BOOK REVIEW

# Plans, Plans and More Plans

They are adorned with audacious titles: Cool Cities, Smart Growth, Economic Growth Authority, Development Corporation, 21st Century Jobs Fund, New Urbanism, etc. etc., ad nauseum. Highly paid “experts” are hired to work up the details. Hollywood actors may even be hired for expensive ads to sell the program, or at least to make the taxpayers think their elected leaders are on top of things. Ribbon cuttings are scheduled for the projects chosen for public subsidy (usually with interesting names such as “AutoWorld”). Press releases flow like water, announcing a few “new” jobs here and a plant opening over there.

What am I talking about? The trappings of government planning — especially the kind where the object of the planning is other people. That means *you*. It’s a growth industry to be sure. The one thing that’s certain about it all is that government will be bigger after all is said and done, even when the planners fall short or fail, which they almost always do. That’s one important lesson among many from an important new book by researcher and Cato Institute scholar Randal O’Toole, “The Best-Laid Plans: How Government Planning Harms Your Quality of Life, Your Pocketbook, and Your Future.”

O’Toole provides abundant evidence, case studies and examples from the United States and abroad, but if he had chosen to focus on Michigan alone, he would have found a cornucopia to demonstrate his points. Since Kim Sigler was governor 60 years ago, state government has piled one plan on top of another to “diversify” the economy, “stimulate” growth, attract this or that industry, or achieve some other grand design. Michigan law books contain nearly 58 separate statutes that have “economic development” purposes, replete with overlapping or duplicative policies that are scattered across state government. The Legislature almost never examines what’s in the books because that’s just not as attention-getting as piling on the next program.

In recent years, the centerpiece of such efforts in Michigan has been the Michigan Economic Development Corp. With the country’s highest outbound migration and unemployment rates, many Michiganders are wondering if the MEDC has been asleep at the switch.

Actually, one learns from O’Toole that although such planners are rarely sleeping, we would likely be better off if they were. Like so many other presumptuous agencies, the MEDC is less about ED (economic development) than it is about PR and self-

promotion. As its agencies hold news conferences to pat themselves on the back, state government largely ignores the fundamentals of real growth. Last fall it even slapped a beleaguered state economy with a whopping tax hike.

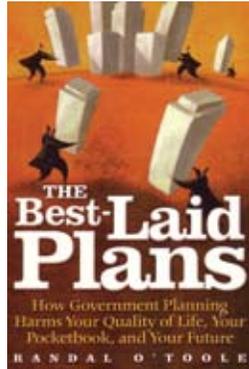
Think of a state as a gigantic bad restaurant hemorrhaging customers. On the one hand, it can offer discounts or subsidies to a handful of customers if only they’ll stay and eat bad food at a high price. A better option would be to improve the menu and the service and cut the prices for everybody. Planners prefer the former approach because it empowers *them* to dole out favors to a few. But if that actually worked, Michigan’s sour economy is hardly evidence of it. O’Toole documents the jeopardy to our national forests

from Forest Service planners; the exasperating traffic congestion motorists suffer because of urban planners; the displacement of inner-city families by housing planners; the threat to the environment from eco-planners; and a host of other errors writ large. “The bitter irony,” he writes, “. . . is that many if not most of the problems the planners propose to solve were caused not by the free marketplace, but by past generations of planners and government bureaucrats.”

It’s never enough, however, to simply find blame. One must offer solutions. O’Toole does precisely that, calling not only for repeal of many federal, state and local planning laws but also suggesting specific reforms that can fix stubborn problems without the heavy hand of mandates, edicts and bureaucracy. Privatization of services previously provided inefficiently by government is one such reform that many local governments and school districts have found to be a good economic development tool. Just as his earlier book, “The Vanishing Automobile and Other Urban Myths,” has influenced decisions in important places, “The Best-Laid Plans” will likely prompt a rethinking of seldom-questioned planning myths across the country.

A copy of O’Toole’s book should be part of the severance package for MEDC planners. [MPRI](#)

*State and local officials across Michigan can secure a copy of “The Best-Laid Plans” from the Mackinac Center for Public Policy for a special, discounted price of \$15 postpaid. Limit one per person. Send check to Mackinac Center for Public Policy, P. O. Box 568, Midland, Mich., 48640.*



*The Best-Laid Plans:  
How Government Planning  
Harms Your Quality of Life,  
Your Pocketbook, and Your  
Future*

By Randal O’Toole  
418 pages

Cato Institute  
Washington, D.C., 2007



By Lawrence W. Reed

*Reed is president of  
the Mackinac Center for  
Public Policy*



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### Proponents of privatization may have a model in Chicago's Midway Airport.

#### State looks for options on fairgrounds

LANSING — The Michigan Department of Management and Budget is seeking proposals for the use of the state fairgrounds in Detroit. The state will still own the fairgrounds and operate the two-week fair, but looks to lease the land to someone for use the rest of the year.

The state received requests from interested parties and is establishing a process for awarding a contract. The grounds themselves are “in excess to fair needs,” according to the state’s request for proposals.

The grounds are zoned for business development, and the state will judge proposals based on four selection criteria. The state would like to select a partner in July and finalize a grounds lease agreement in October, according to the RFP.

The Mackinac Center has argued that the fairgrounds may be better run as a nonprofit and off of state assistance. For more information on that, please see this commentary [www.mackinac.org/5853](http://www.mackinac.org/5853) from October 2003.

#### Report recommends reform of outsourced prison health care

LANSING — After nine months of study, the National Commission on Correctional Health Care, a contractor hired by the state, offered numerous recommendations for improving health services in Michigan prisons, according to the Associated Press.

Currently, most health services for inmates are provided under a central contract with Correctional Medical Services, a large multi-state provider of services to prisons. One of the recommendations is that there should be stricter monitoring by the state of the contract provisions.

Productivity concerns were also raised. Prison doctors see an average of eight to 12 patients a day, but the study’s authors recommend that they see 20. The lack of productivity is partly due to electronic documentation that takes far too long, the AP reported.

The Department of Corrections has responded to a number of these suggestions and will adjust some of its contract policies. The department met with more than 50 vendors for input on structuring a request for proposals.

The annual cost of prison health care is nearly \$300 million, according to the AP. Health care costs have been increasing and are up by 40 percent from fiscal year 2003.

*Reference: “Health care in the big house,” The Big Rapids Pioneer, Jan. 23, 2008*

#### Detroit city airport may be outsourced

DETROIT — Detroit Mayor Kwame Kilpatrick is looking to contract out for the management of the Coleman A. Young International Airport, according to The Detroit News. The mayor would like the private management firm AvPorts to operate the facility.

The plan includes renovating the airport terminal and exploring extending the airport’s runways. Doing so may make the airport more attractive, as the current runway length is prohibitive for use by large jets, according to The News.

The mayor would like to spend \$6 million to purchase lands and homes adjacent to the airport, and the company has pledged \$50 million for renovations, The News reported.

In 1998, the Mackinac Center recommended selling the facility or contracting out for its management. The airport needed a \$1.9 million annual subsidy to operate at the time. The city’s subsidy has increased to \$3.4 million, according to The News.

Proponents of privatization may have a model in Chicago’s Midway Airport. Chicago city officials are looking for a long-term lease with a private operator, which could bring the city \$3 billion, according to Budget & Tax News. Proceeds from the lease would go toward the city’s \$1.2 billion debt on the facility.

*References: “Privatizing City Airport studied,” The Detroit News, April 12, 2008*

*“Airport Privatization is Taking Off,” Michigan Privatization Report, Spring 1998*

*“Chicago Midway Airport Privatization Takes Wing,” Budget & Tax News, June 2008*



## Traverse City to sell power utility

TRAVERSE CITY — Traverse City Light & Power, a city-owned utility, may be purchased by Cherryland Electric Cooperative, according to The Leelanau Enterprise.

TCL&P has a stake in a number of power-generating facilities and owns the transmission and distribution lines. It is also responsible for billing customers.

In a memo, Cherryland stated a number of benefits of purchasing TCL&P, including the elimination of some duplicative distribution lines — there are areas where one company's lines run across the street from the other's — increased customer base, and a distribution of Cherryland profits to Traverse City residents.

City officials believe a sale could lower city property taxes, perhaps by as much as half, according to The Enterprise.

"I'd like to cut taxes for downtown businesses, and my next door neighbor, too," Mayor Michael Estes told The Enterprise.

*Reference: "Cherryland makes bid to purchase T-C utility," Leelanau Enterprise, April 14, 2008*

## Bay City to rebid bridge contract

BAY CITY — Bay City commissioners recently voted to solicit bids to operate its two drawbridges, according to The Bay City Times. Commissioners attempted to do so in 2007, but the action was vetoed by the mayor.

The move was expected to save the city \$193,000 in the first year alone, according to The Times.

*Reference: "Staff directed to revisit bridge privatization issue," The Bay City Times, March 19, 2008*

## Belding contracts out ambulances

BELDING — After losing \$137,000 in its ambulance services last year, the Belding City Council explored privatization possibilities and approved a contract with Life EMS, according to the Greenville Daily News.

"It's a result of not being able to afford our own ambulance service," City Manager Randy DeBruine told the Daily News, "We've tried a few things to keep it going and found ourselves not being able to afford it." The city will pay the company \$26,505 a year for the service. The company was expected to start on April 15.

"The people shouldn't see a difference. The level of response times and destinations, everything will be the same as it was, other than the uniforms and the color of the ambulance," Life EMS operations manager Jani Millard told the Daily News.

*References: "Belding to privatize ambulance service," Greenville Daily News, Jan. 17, 2008*

*"Life EMS to Belding in April," Greenville Daily News, Jan. 29, 2008*

## Saginaw outsources finance while looking for new finance director

SAGINAW — The city of Saginaw signed a contract with Plante & Moran to oversee the city's books while it looks for a new finance director. The council will pay the company \$73,200 for the year. It also hired a firm to perform a search for a new finance director.

The previous director resigned and the city expects to name a new director in July.

The city is also looking at hiring Plante & Moran to operate its controller's office, which processes payrolls and checks, and supervises its annual audit. The move is expected to save the city \$150,000, according to The Saginaw News. "Our audit costs have been exorbitant. That's a cycle that needs to be broke," City Manager Darnell Earley told The News.

*References: "City outsources finances temporarily," The Saginaw News, Jan. 29, 2008*

*"Proposed Saginaw budget includes cuts, outsourcing," The Saginaw News, May 8, 2008*

## Midland looks for options on municipal golf course

MIDLAND — At a February meeting of the Midland Parks and Recreation Commission, attendees brought up the possibility of hiring a private firm to manage the city's municipal golf course, according to the Midland Daily News. One of the items on the agenda was to raise greens fees at the course.





## AROUND THE STATE

The Currie Municipal Golf Course operated at a deficit of \$356,150 last year, the Daily News reported. To overcome operating losses, the city voted to raise fees.

The Midland Daily News editorialized that the city should explore contracting with a private firm to manage the course. The city instead hired a new manager with experience managing other area golf courses.

*References: "Parks commission recommends council approve golf fees," Midland Daily News, Feb. 6, 2008*

*"Our View: City should consider private firm to run Currie," Midland Daily News, Feb. 11, 2008*

### Dean Transportation case moves to U.S. Appeals Court

MIDLAND — A case that may set a precedent regarding the successorship doctrine is headed for the U.S. Court of Appeals. In 2005, the Grand Rapids Public Schools contracted with Dean Transportation to provide transportation services to the district, but questions remained as to whether the union that represented the transportation employees would remain with the employees if they transferred to the new company.

The dispute landed in federal appellate court following a ruling by the National Labor Relations Board that Dean must bargain with the Grand Rapids Educational Support Personnel Association — the public-sector union that previously represented the district's transportation workers — without a vote by the new Dean employees. The NLRB based its ruling on a doctrine meant to prevent unions from being circumvented by corporate shell games.

The Mackinac Center is one of five parties that filed a joint friend of the court brief in the case. It can be read by visiting [www.mackinac.org/9460](http://www.mackinac.org/9460).

### Birmingham schools privatizes three main support services

BIRMINGHAM — As part of a plan to eliminate a projected deficit of \$3.2 million for the next school year, Birmingham Public Schools voted to contract out the district's custodial and transportation services, according to The Oakland Press. The move is expected to save the district \$2.7 million.

In order to balance its books, the district explored cutting 26 full-time equivalent positions. With contracting, however, the district will add 15 positions, according to the Birmingham-Bloomfield Eagle.

The district selected Durham School Services to provide transportation services and GCA Services Group to provide custodial services, the Press reported. According to the Mackinac Center's 2007 school privatization survey, Birmingham is the first Michigan school district that has contracted with GCA.

The district already has experience with contracting out support services. Its food service is managed by Sodexo. If the contracts are signed, Birmingham will join just five other school districts in the state that contract out for food, custodial and transportation services.

*References: "BPS to privatize school services to save nearly \$3 million," Birmingham-Bloomfield Eagle, April 2, 2008*

*"School support workers going private," The Oakland Press, April 3, 2008*

### Alma looks at custodial contracting for savings

ALMA — Alma schools issued a request for proposals to seek custodial services for the district. The move is being driven by a projected deficit of \$400,000 for its upcoming fiscal year, according to the Mount Pleasant Morning Sun.

The district investigated contracting out this service three years ago. The process showed that privatization would provide savings, but the district opted to only contract out mowing, the Morning Sun reported.

*Reference: "Alma schools may privatize custodial services," The Mount Pleasant Morning Sun, May 29, 2008*

### Comstock Park schools privatizes custodial job

PLAINFIELD TOWNSHIP — The Comstock Park Board of Education voted to hire a private company to clean its Greenridge Elementary School, one of the district's six schools. The district awarded a contract to Grand Rapids Building Services.

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**The move is expected to save the district \$2.7 million.**

After the retirement of a custodian in January, the district used GRBS on a short-term basis to clean the building, according to The Grand Rapids Press. The district then decided to have a formal bidding process to award a one-year contract for the school.

Other districts around the state mix their custodial services between contractors and district employees as well. Six districts contract out custodial services for a single building, according to the Mackinac Center's 2007 school privatization survey.

By the district's analysis, it would cost \$50,823 for district employees to clean the school for the next year. Savings offered by the five bidders ranged between 6 percent and 32 percent, according to The Press. The district spent \$8 million on support service activities in its 2006-2007 fiscal year, according to its most recent financial report.

*Reference: "Comstock Park: School custodian job goes private," The Grand Rapids Press, March 25, 2008*

### Reed City schools investigates food and custodial privatization

REED CITY — With a projected budget deficit of \$750,000 for next year, Reed City schools is investigating food and custodial service contracting.

The school board approved a request for proposals in February and was to make a decision at the board's May or June meeting, according to The Cadillac News.

*Reference: "Reed City schools may privatize some jobs," Cadillac News, March 22, 2008*

### Holly schools look to contract out

HOLLY — Holly schools is facing a projected deficit of \$225,000 for its next fiscal year, and the district is looking at food service contracting to fill the gap, according to The Flint Journal. The move is expected to save \$60,000.

The district currently contracts with Chartwells to manage its food service program, but is looking to rebid its contract to include all labor as well. Since 2004, cafeteria employees who end their employment were replaced with employees from Chartwells, according to an Op-Ed by Superintendent Kent Barnes in the Tri-County Times.



Food service programs are prohibited from contributing to a school's general fund — a district cannot use lunch money to pay for teachers — but a district must subsidize its food service programs if they run at a deficit. Holly's food services ran at a \$58,823 deficit for the 2006-2007 fiscal year, according to its financial reports.

The district also plans on contracting out its social work services, which could save an additional \$161,000, according to the Op-Ed.

*References: "Holly School District looks to privatize food service to address \$225,000 deficit," The Flint Journal, April 14, 2008*

*"Guest Viewpoint," Tri-County Times, April 6, 2008.*

### Northville looks to contract out big three noninstructional services

NORTHVILLE — The Northville board of education is reviewing bids from custodial, transportation and food service companies. The district could save between \$400,000 and \$1 million in custodial services alone, according to The Detroit News. The cost to provide the three services is around \$7 million, The News reported.

The district sent out its request for proposals in September and is currently reviewing the bids, according to the Detroit Free Press.

*References: "Northville schools assess privatization," The Detroit News, April 17, 2008*

*"Talk of outsourcing heats up Northville school board meeting," Detroit Free Press, April 16, 2008*

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**In a cost savings effort, the district decided to close Hamburg Elementary School, saving \$350,000 annually.**



## AROUND THE STATE

### Pinckney schools weighing privatization

PINCKNEY — Pinckney Community Schools is considering contracting for custodial services as a way to help eliminate a \$1.9 million deficit for the next fiscal year, according to The Livingston Daily Press & Argus. Switching to a private provider could save up to \$430,000, the Press & Argus reported.

In a cost savings effort, the district decided to close Hamburg Elementary School, saving \$350,000 annually.

The district told its custodial union it had to offer concessions by June 30 or it will proceed with privatization, according to the Press & Argus.

*References: "PRIVATIZATION: Contracting custodial services in Pinckney might be right move," Livingston Daily Press & Argus, March 18, 2008*

*"Custodians fighting for jobs," The Livingston Daily Press & Argus Press, March 10, 2008*

### Niles schools contracts out transportation

NILES — The Niles Community Schools Board of Education voted to privatize its transportation services to First Student. The district had been facing a deficit of between \$750,000 and \$1 million, according to the Niles Daily Star.

First Student will also invest \$1 million in the district's bus fleet.

"It will help us reduce our operating costs and free up funds for use in core educational activities," Scott Tyler, president of the Niles school board, told the Daily Star.

*Reference: "Niles votes to privatize busing," The Niles Daily Star, March 4, 2008*

### Southfield contracts out custodial and transportation services

SOUTHFIELD — Southfield schools decided to contract out its custodial and transportation services, rejecting last-minute concessions offered by its service unions, according to the Detroit Free Press. The move is expected to save the district \$21.5 million over three years. The district had an

estimated budget deficit of \$4.3 million, according to The Detroit News.

Because schools are funded largely on a per-pupil basis, districts that are losing population see significant revenue declines. Southfield's enrollment decreased by 279 students from last year, which caused revenue to decline by nearly \$3 million, according to the Southfield Eccentric.

A consultant hired by the district managed its request for proposals, a committee of Oakland ISD and Southfield staff identified a pool of recommended bids, and the district's administration chose Durham School Services to provide transportation and GCA Services Group to provide custodial services, according to school board member Karen Miller.

For the 2006-2007 fiscal year, the district spent \$14 million on operations and maintenance and \$7 million on transportation. It had a positive balance in its food service fund, according to its financial reports.

*References: "Southfield school board moves towards privatization," The Oakland Press, April 10, 2008*

*"Southfield schools to privatize bus, cafeteria services," Detroit Free Press, April 23, 2008*

*"Emotions, numbers fly at privatization hearing," The Southfield Eccentric, Dec. 20, 2007*

*"School district plans to privatize service jobs," The Detroit News, Jan. 21, 2008*

### Copper Country ISD to study transportation contracting

HANCOCK — As part of the consolidation study mandated by a law passed last September, the Copper Country Intermediate School District looked at the consolidation and privatization of transportation services for all 13 districts in its three-county region, according to The Daily Mining Gazette.

"It probably will save a lot of money but it will also probably displace some people. It will be extremely controversial if we pursue it," ISD superintendent Dennis Harbour told the Mining Gazette.

*Reference: "Transportation consolidation a political football," The Daily Mining Gazette, Jan. 24, 2008*

**The move is expected to save the district \$21.5 million over three years.**

**Davison schools uses private custodial services for nighttime cleaning**

DAVISON — The Davison board of education voted to hire D.M. Burr Facilities Management Inc. to provide nighttime cleaning services to the district, according to the Davison Index. None of the district’s current custodians will be let go, but instead will be moved to daytime positions.

Cleaning schedules at several buildings had been reduced to less than once a day prior to the move. The district did not have enough staff to provide the services, as previous employees who retired or resigned were not replaced.

“We’re actually going to get some services back, and we’re not going to have to cut instructional services. Our first priority is teaching kids,” school board President Kim Lindsay told the Index.

*Reference: “Board votes to privatize custodians” Davison Index, Feb. 13, 2008*

**Genesee County ISD outsources substitutes**

GENESEE COUNTY — The Genesee County Intermediate School District contracted out its substitute teacher services with the Professional Education Services Group. Savings are expected to be passed on to individual districts. For instance,

it is expected to save the Davison Community Schools between \$40,000 and \$50,000 annually, according to The Flint Journal.

“It saves school districts money, and it actually puts a little more money in the pockets of substitute teachers because they don’t have to pay their contribution towards the retirement system,” Davison Superintendent Clay Perkins told The Journal.

*Reference: “Privatizing Substitutes,” The Flint Journal, Jan. 22, 2008*

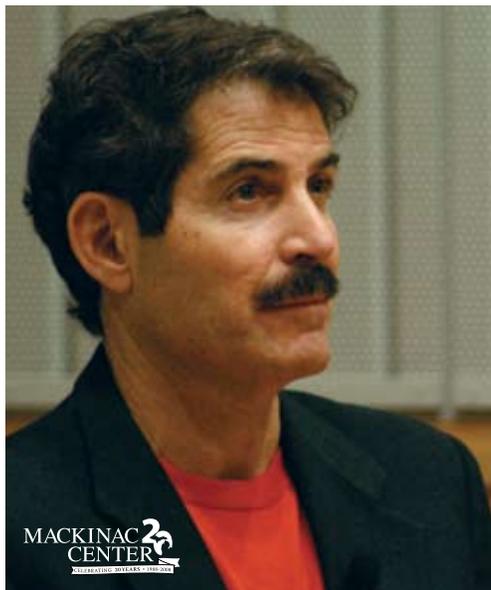
**Holton schools outsources coaches**

HOLTON — Holton Public Schools signed a contract with Professional Education Services Group to have PESG employ its non-teaching coaches. It allows the district to utilize the same people but save money because it will not have to contribute to the school employee retirement system.

“If our non-school employee coaches will not ever take advantage of the Michigan retirement system, why would we pay into it?” Superintendent John Fazer told The Muskegon Chronicle.

*Reference: “School coaches to work for private firm,” The Muskegon Chronicle, Jan. 31, 2008 [MPRI](#)*

**For instance, it is expected to save the Davison Community Schools between \$40,000 and \$50,000 annually, according to The Flint Journal.**



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# Tax Increment Financing: The Undoing of Pontiac



By Louis Schimmel

*Schimmel is director of municipal finance for the Mackinac Center, and a member of its Board of Scholars.*

By nearly anyone's admission — including the mayor, council, employees and residents — the city of Pontiac is in dire financial straits. The city has immense general fund revenue and expense structural problems that are the result of a long list of bad decisions by city management over the past several years. When adding Michigan's economy to the mix, the city's financial status becomes one of desperation. For example, the city police department that employed 170 officers in 2004 is now down to 65 officers.

Rarely mentioned, and possibly the most devastating mistake made by past city leaders, was the creation of five tax increment finance authorities in the city. When a tax increment financing authority is formed, the property taxes that go to the city are locked in place with annual increases going to the authority. Pontiac's authorities, which are their own little empires with their own board members, have spent millions of dollars over the past several years on items like the Phoenix Center; a golf course and related housing development; the Centerpoint projects including infrastructure and buildings; brownfield projects; Clinton Valley housing; a proposed mall renovation; and various other projects. While some of these efforts have been — at best — moderately successful, others have been financial disasters.

While the city's general fund is in deficit to the tune of millions of dollars, the tax increment finance authorities have been, and continue to be, flush with money to spend on what many would consider extremely questionable projects. The city's June 30,

2007, audit reports the five combined tax increment finance districts received \$10.6 million for the year. It must be pointed out that approximately 25 percent of that amount (\$2.7 million) was generated from government entities other than the city; namely Oakland County, Oakland Community College, Huron/Clinton Metro Parks and SMART (regional public bus system). These governmental units turn money over to Pontiac that otherwise would be available for their own use.

Doing the math reveals that Pontiac's tax increment finance authorities divert \$7.9 million annually (based on the city's June 30, 2007, audit) from the city's general fund. The question the current mayor, council, employees and city residents should consider is whether this diversion is worth it, or whether it would be a better idea to have an adequately staffed police department and other essential city services.

The fortunes of Pontiac will not change as a result of grandiose projects coming from politicians or from the city's economic development department. Pontiac can only turn things around if it provides good basic services, such as police, fire, water, sewer and roads, privatizing entirely losing ventures such as the Silverdome, Strand Theatre, Phoenix Center, golf course, and transportation center, and eliminates the city's income tax and tax increment finance authorities. [MPRI](#)

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