

Michigan Privatization Harry Privatizer

A Quarterly

AND THE GOBLET OF FISCAL RESPONSIBILITY

Annual
Education
Edition



Inkster

Inside:

- Privatization Comes to Detroit Schools • The “Principals” of Privatization
- Managing to Succeed: Michigan’s National Heritage Academies
- Warren Public Schools Put Politics before Privatization • And MORE...

.....

H O W T O

.....

L O W E R

.....

E X P E N S E S



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.



800-748-0199

2851 Charlevoix Drive SE, Suite 117, Centennial Plaza, Grand Rapids, Michigan 49546

MICHIGAN PRIVATIZATION REPORT

Editor: David Bardallis

Guest Managing Editor: Ryan Oprea

Assistant Editor: Samuel Walker

Graphic Designer: Daniel Montgomery

Circulation Manager: Amy Kellogg

Fundraising Success!



We work with schools, recycling agencies, and other groups to raise thousands of dollars with paper drives! We help with the details and transportation. Then we buy all the paper they collect! Call today for an information packet!



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 © 2000 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: (517) 631-0900; Fax: (517) 631-0964; e-mail: mcpp@mackinac.org; or World Wide Web: <http://www.mackinac.org> if you wish to receive *Michigan Privatization Report*.



Privatization

MICHIGAN

REPORT

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2000-03 / Fall 2000

FEATURES

4

Privatized Dorms: Michigan Can Learn from Texas

Could private hotel chains better manage dorms at Michigan's public universities? Texas universities' experience suggests that privatized dorms might offer students better service and a better deal—and schools might profit, too.



5

Privatization 101: Public Schools Outsource to Student-Run Stores

An innovative program allows students at Southfield High to run a Kinko's copy center in school.

The school gets the services of a Kinko's store and the students get a hands-on education in business.

7

Competition Teaches Detroit Schools about Privatization

Competition from charter schools and other school districts has forced the Detroit public school system to become more efficient in order to attract students. The result is a new dedication to schools—and a wave of cost-saving privatization efforts.

8

The "Principals" of Privatization

Detroit schools' infamous office supply system, called a "disgrace" and "a horror story," may finally be on the road to efficiency. School principals are now allowed to order supplies directly from private office supply store Office Depot.

9

Privatization Comes to Detroit Schools

In January, Detroit Public Schools assembled teams of investigators to find

ways to make 15 of the district's non-instructional services more cost-effective. So far, privatization is hands-down the preferred method.

10

Students, Teachers to Profit from Inkster-Edison Partnership

Decades of declining student enrollment have forced the Detroit-area Inkster school district to make a bold move—to become only the third district in the country to contract out the management of all of its schools to a private firm: Edison Schools Inc.

12

Public Schools Learn Their Lesson about Competition

Competition for students among traditional and charter public schools is providing powerful incentives for public schools in Dearborn, Holly, Dearborn Heights and other districts to improve. Expanding school choice to include even more public—and private—schools could lead to even more positive education reforms.

13

The "Privatized" Cost of Remedial Education in Michigan

Michigan colleges, universities, and businesses spend over a half-billion dollars each year to teach high school graduates the skills they should have already acquired in 12 years of public schooling. Why is this so and what can be done?

14

Warren Public Schools Put Politics before Privatization

Warren is only one of several Michigan school districts caught illegally using public resources to campaign against a November ballot initiative designed to give parents more options when their local public schools fail. But there are good

reasons why school officials should embrace, not reject, school choice as a way to improve education.

17

The Wages of "Prevailing Wages": Less Money for Education

Michigan's so-called "prevailing wage" law forces school districts to spend hundreds of millions of dollars more than is necessary to build or update facilities. Repeal of this law would allow more education money to be spent in the classroom rather than on wasteful government mandates.

20

Managing to Succeed: Michigan's National Heritage Academies

Private, for-profit companies are managing more public schools than ever before. One of the most successful of these companies is Grand Rapids-based National Heritage Academies, which manages over 22 public schools in three states.

DEPARTMENTS

18

AROUND THE STATE

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

ADVERTISERS:

Applegate	
Insulation Manufacturing	2
Earth Tech	
Operation Services	2
Educlean Services	6
Privatization Watch	16

Privatized Dorms: Michigan Can Learn from Texas

■ **By Gary Wolfram, Ph.D.
and Anne Kirsten**

Many Michigan parents know all too well the high cost of their children's higher education, but as taxpayers, they are unlikely to realize just how much they pay to support the state's system of public universities.

And how much is that? The state of Michigan appropriates roughly \$1.5 billion annually in direct assistance to its 15 state universities, which currently enroll over 210,000 students.

All of Michigan's state universities privatize their food services to some degree, reaping dramatic financial savings. But have these universities overlooked the potential for further taxpayer and student savings through privatization of dormitory services?

The cost of room and board at Michigan's public universities ranges from a high of \$5,614 per school year at the University of Michigan-Ann Arbor to a low of \$4,298 at Michigan State University. At 10 of the universities, room and board actually exceeds tuition. Given that room and board is such a large part of the cost of college, it may be time for some state universities to consider contracting out this expensive operation to private firms.

Two reasons for universities to consider privatization of their dorm systems come to mind. First, privatization of dorms would allow the university system to concentrate on its core mission: providing higher education. Auxiliary enterprises, the majority being room and board, generate 10 percent of higher education revenues and expenditures in Michigan. Michigan taxpayers need not be funding what is essentially a state-owned hotel system.

Second, privatization, done correctly, is cost-efficient. All of Michigan's state universities save

money by contracting with private companies, such as Aramark, Gordon Food Service, or the Pepsi Cola Company, etc. Central Michigan University (CMU), for example, steadily lost money on its retail food services until it contracted in part with Aramark in 1994. Between



"The Towers" at Central Michigan University look and feel like a multi-building hotel. Why not have a hotel chain own and manage them?

1994 and 1999, CMU saved approximately \$890,000 while improving food services.

Using the private sector to provide housing for students is nothing unusual. Private apartment buildings and houses near any campus are filled with students. For entering students, there are transaction costs involved in obtaining housing, but the university does not have to own buildings in order to solve this problem. The university could offer living quarters as part of the tuition package and make the appropriate contract with a private developer or hotel chain to meet this demand.

For instance, the University of Texas at Dallas (UTD) offered the first on-campus privatized housing at a Texas

public university in 1989. With little risk on its part (if after 14 months they did not attain 85 percent occupancy, the developer could rent to university-approved tenants), UTD contracted with Lessee, a private company, creating Waterview Park Apartments. Waterview

contains about 1,000 units and 3,000 beds, ranging from efficiency apartments to four-bedroom, two-bath units. Waterview's most expensive one-bedroom apartment (approximately \$544 per month) costs less than the cheapest off-campus one-bedroom apartment.

According to Robert Lovitt, senior vice president for business affairs at UTD, the school has two types of management agreements in its privatized housing system. Under the first type, the university receives a commission based on gross revenues from those units built, owned, and operated on campus by a private developer. Under the second type, the university receives from the units it owns all income minus a flat percentage fee, which is paid to

See "Dorms" on page 6

All of Michigan's state universities privatize their food services to some degree.

Privatization 101: Public Schools Outsource to Student-Run Stores

■ By Elizabeth Moser

Students in the Detroit suburb of Southfield are learning more than just reading, writing, and arithmetic—they also are learning an important lesson in privatization. Through a pilot partnership program with the office-supply firm Kinko's, Southfield High School has opened its very own student-run Kinko's store, which provides services to the school district as well as to area citizens.

The store is part of the curriculum offered by the Global Business and Information Technology Academy within Southfield High. Students in business classes are assigned to work at the store, handling all areas of operation from marketing to management. The store provides office products such as business cards and services such as copying and flier production to its clientele. The equipment to establish the store is sold by Kinko's to the school district at cost, and all profits from the store are redirected into store operations and a scholarship program for seniors in the Academy. The school saves money on equipment, receives higher quality services and products, and the profits return to the school and students rather than to a vendor.

Tina Richmond, the Kinko's liaison for Southfield High, explained that the Southfield pro-

gram is a way for the company to advertise its name, while providing great service and educational opportunities to the school district and its students.

Southfield Public Schools administrators praise the program, saying it has improved education and office services

supply store. MacTech provides both services and supplies, including word processing, lamination, flyer design, resume creation, and business cards to school staff, students, businesses, community organizations, and even other schools. As with the Southfield-Kinko's partnership, the profits generated by MacTech are redirected to the school.

Although these business-school partnership programs are in their infancy stage, they nevertheless are a good example of how public schools can use the private sector to improve education for students. Schools can receive higher-quality products and services and reap profits by contracting with businesses that employ their students.

Meanwhile, students have the chance to learn valuable skills that will serve them well for years to come as well as opening doors to future internship and training possibilities with the firms. And isn't that what education is all about? MPRI

Elizabeth Moser is education research assistant at the Mackinac Center for Public Policy.



Kinko's and Southfield High school hit two birds with one stone. The student-vcmanged mini-Kinko's store in Southfield High teaches kids about business and fulfills office needs for the district.

within the district, and will continue to grow—taking on more of the district's office service needs and providing excellent, quality results.

"It's a win-win situation," says Margaret Holcomb, Southfield School District's business partnership director.

Southfield High is not the only school that has implemented the in-house office store idea. Mackenzie High in Detroit has teamed up with IBM to open MacTech, a full-service office-



Students in the Detroit suburb of Southfield are learning more than just reading, writing, and arithmetic—they also are learning an important lesson in privatization.

“Dorms” continued from page 4

the private developer that manages the units and pays the operating expenses.

UTD enjoys two major advantages as a result of dorm privatization:

- It can offer on-campus housing for its students without having to make the capital investment. This usually means facilities that are funded by bonds which are secured by revenues from the facility.
- It does not have to fund the infrastructure to manage a housing operation.

Lovitt estimates Waterview is saving UTD at least \$500,000 per year. The UTD model is being emulated in at least

nine University of Texas system institutions and more than 15 other universities within the state of Texas.

But Texas is not the only place where dorm privatization is being tried. From 1992 to 1998, Michigan State University leased Butterfield Dormitory to Thomas M. Cooley Law School in Lansing. The contract was dissolved when Cooley was able to provide housing closer to its campus. While this is an anecdotal and brief example, it does show that contracting out for housing does and can work in Michigan.

Dorm privatization, currently non-existent in Michigan state education, would save taxpayers money while increasing universities' ability

to focus attention and resources on education. It is currently working well in universities throughout Texas. The lesson for Michigan institutions of higher education is clear: Turn student housing over to the private sector and reap the benefits. MPRI

Gary Wolfram, Ph.D., is George Munson Professor of Political Economy at Hillsdale College. Anne Kirsten is a 2000 summer research intern at the Mackinac Center for Public Policy and a student at Bob Jones University.

CLEANING... FOR KIDS

We're dedicated to maintaining a healthy academic environment for students. Allow us to design a housekeeping program specifically for your school.

One call to Educlean Services brings over 150 combined years of cleaning experience to your management team.

We're nearby and hands-on...chances are that our regional offices are located just a short drive from your facility.



Flint • Detroit • Ann Arbor • Kalamazoo • Battle Creek • Grand Rapids
Saginaw • Lansing • Bay City • Marquette • Traverse City • Midland • Holland

800-632-1221

Competition Teaches Detroit Schools about Privatization

■ By Ryan Oprea

The Detroit public school district, once referred to by the *Detroit Free Press* as an “unwieldy monster,” recently announced that it is taking steps to control wasteful spending and explore opportunities to better use and manage its resources through privatization.

The district has long spent a disproportionate share of its funds on business administration, unproductively diverting resources that could otherwise be used in the classroom. Recent figures show that Detroit spends from 2 percent to 6 percent more of its budget on administration than any other large school district, leaving schools themselves only a 68 percent slice of the budget pie.

Over the past several months, former Detroit schools CEO David Adamany has introduced a new array of cost-saving measures and promised that at least 75 percent of the district’s budget would go directly to schools.

What provoked this sudden rush of fiscal responsibility from what has historically been a rigid and profligate bureaucracy?

The answer may be that more Detroit students than ever now have greater opportunities to leave Detroit public schools—and many are doing just that. Over the past two years alone, 15,000 students have left the Detroit school system to seek a better education in charter schools or other districts.

As students leave the Detroit system, state money allocated to Detroit schools on a per-student basis leaves with them. Accordingly, Detroit Public Schools has lost nearly \$100 million in

state money and is now facing a budget deficit of roughly \$60 million. In other words, more choices for students means Detroit can no longer take its funding for granted and will have to do things differently to attract and retain students.

Advocates of competition have always predicted this type of outcome for a number of reasons. Competition forces organizations to offer a better deal for their customers—whether those customers are taxpayers or vol-



Before stepping down June 30, former Detroit Public Schools CEO David Adamany introduced cost-saving privatization measures in response to competition from charter and other public schools.

untary consumers. Prices always drop when organizations are forced to bid for business.

Economists also have long argued that competition is necessary for an organization even to know if it is doing a good job. It is only when an industry can watch what consumers demand when choosing between options that they can know what consumers want

and don’t want. Companies serve customers best when they are forced to react to customers. Competition is as much a learning process as it is a drive towards excellence.

Competition, then, has provided Detroit Public Schools with an incentive to improve efficiency and quality. It has forced the district to do what businesses must routinely do: become more cost effective, channel money to services instead of into overhead and bureaucracy, and contract out services that others can do more effectively.

Already, the district has initiated two major reform projects detailed in this issue of *Michigan Privatization Report*. First, Adamany initiated a “loaned executives” program to deal with the legendarily inefficient office supply system of the district. Two executives—one each from automakers DaimlerChrysler and General Motors—analyzed the system and concluded that it should be outsourced.

The other project, called the Education First initiative, was an ongoing systematic analysis of the 15 non-education services provided by the district. Already, the committees assigned to analyze these services have enacted full-scale privatization of food services, grounds maintenance, and information technology systems. The reforms announced so far are projected to save taxpayers millions while putting more education dollars back into the schools.

A small amount of competition already has helped Detroit Public Schools reform and tighten its operations. More competition in education and elsewhere could further help Michigan’s public services excel. MPRI

Ryan Oprea is guest managing editor of Michigan Privatization Report, a senior editor with the Henry Hazlitt Foundation, and a Ph.D candidate in economics at George Mason University.

Competition, then, has provided Detroit Public Schools with an incentive to improve efficiency and quality. It has forced the district to do what businesses must routinely do: become more cost effective.

The “Principals” of Privatization

■ By Michael Nolan

Stocking classrooms and offices with pens, pencils, notepads, and other supplies just became easier—and cheaper—for Detroit public schools.



Office Depot trucks will deliver school supplies to Detroit Public Schools on demand thanks to a new privatization initiative. The program will put to rest the grossly inefficient warehousing system previously used by the district.

Under a new purchasing plan that went into effect July 1, school principals can now order supplies directly from private office-supply company Office Depot rather than dealing with the district's byzantine bureaucracy.

The new privatization plan replaces a cumbersome system that former interim schools CEO David Adamany called a “disgrace” and Deputy CEO Jonathan Maples labeled “a horror story.”

Office Depot beat out 17 other companies to win the Detroit contract, promising the district a 20 percent discount on office supplies, which will produce an immediate savings of \$1 million.

But the savings do not end with less expensive office supplies. Detroit schools also will save on the costs of transportation, labor, and waste disposal. Office Depot is assuming the costs of maintaining a comprehensive inventory and removing obsolete or used up supplies, which allows more money to go directly into education.

School principals also are freed from the previous system, which, by its

very inefficiency, created a black market based on bartering with other schools using stockpiled supplies. In fact, *The Detroit News* reported that one school stored 80 mop buckets in a closet for the express purpose of trading them for other supplies.

Teachers who paid out of their own pockets for school art supplies and other basic school equipment for their classes when schools failed to meet their orders will be spared this expense by the new system.

In addition, privatizing the office supply system will allow for a heretofore unheard-of efficiency and flexibility for both teachers and administrators. The purchasing plan will allow market forces to apply competitive pressure on Office Depot to provide consistently high-quality products and services. If Office Depot fails to deliver, the district can go elsewhere.

Office Depot has been operating under market pressures for years, and, unlike Detroit Public Schools, is focused on the business of office supply distribution, warehousing, and accounting. Considerations basic to most business operations, such as efficiency, quality control, customer satisfaction, and competition for contracts, will revolutionize the experience of Detroit principals and teachers ordering supplies, and provide for a basic flexibility in the system, allowing it to change with the market and with principals' needs.

As a further boon to the district, Office Depot will assume the responsibilities for accounting for each principal's purchases, creating a means of measuring costs and holding principals responsible for their expenditures. Under the district's management, there was not even an office-supply inventory system. *The Detroit News* reported

that as many as \$7 million of surplus goods often sat unused in the central warehouse, gathering dust and becoming obsolete—if not stolen first. Office Depot now assumes responsibility for inventory, in effect submitting a report card on both principals' and its own performance.

Critics have raised questions about the wisdom of submitting something as important as school supplies to the “greed” of the marketplace. But it is the dependency of private companies upon profits which necessarily entails concern for service to the consumer. In public organizations complaints are often ignored or avoided by an inefficient and impassive bureaucracy which has no motive to improve.

The bottom line in the private-sector is service, and the new plan with Office Depot comes with service, a means of measuring that service, and a simple mechanism in the bidding cycle for reorganizing that service or simply going to another source, if service is unsatisfactory.

The *Detroit Free Press* noted that Adamany “basically had to blow up [the old purchasing system] and start over.” Adamany, who stepped down June 30 to become president of Temple University, expressed hope that the Office Depot and other plans will build momentum for his successor, Colorado Springs Superintendent Kenneth Burnley, to continue with further privatization in other areas.

At a time when the ideas of greater choice, competition, and decentralization are gaining ground in education, Detroit's plan to put more purchasing and decision-making power in the hands of local principals is a smart move.

MPRI

Michael Nolan is a freelance writer based in Indianapolis.

Office Depot beat out 17 other companies to win the Detroit contract, promising the district a 20 percent discount on office supplies, which will produce an immediate savings of \$1 million.

Privatization Comes to Detroit Schools

■ By Ryan Oprea

In January, the financially troubled Detroit Public Schools district announced a rigorous, focused plan to cut unnecessary costs from its support services in order to re-channel more funds into schools—and privatization is part of the program.

The plan, named “Education First,” aims to trim the fat from 15 non-educational district support services including accounting, benefits administration, busing, custodial services, the employee assistance program, food service, information technology, grounds maintenance, payroll, personnel records, personnel recruitment, risk management, security, single bank checking accounts for schools, and vending machines.

Teams of principals and administrators were assembled for the project and each team was assigned to one of the 15 services being evaluated. The teams were told to decide whether the services should be left alone, restructured, or completely privatized. To date, three of the teams have formally recommended privatization, and requests for proposals from private companies subsequently have been issued. Several other teams are currently mulling over privatization for other services as well.

The first of the three services to be privatized is information technology. This service includes maintaining business applications such as student information, financial data, and payroll and personnel processing as well as technical infrastructure including computer installation, maintenance, and access in Detroit schools. The district estimates a cost savings of between 10 percent and 20 percent as a result of privatization.

The second service to be privatized is food services. Former interim schools CEO David Adamany, who

stepped down June 30, openly criticized the district’s inefficient food service department, citing late or inadequate food preparation. He also questioned why 70 percent of students were eligible for the free lunch program, yet only 45 percent of high school students enroll.

“That costs us \$14 million to \$15 million in . . . [federal] educational funding each year,” Adamany told *The Detroit News*.

The third privatized service will be grounds maintenance. Detroit’s more than 267 schools have long been noted for their shoddy upkeep and appearance. The district hopes that a more efficient private company will be able to deliver better maintenance service for a lower cost. A request for proposals was sent out to potential contractors on June 12, and four companies submitted bids by the cutoff date of June 27. At press time, no decision had been reached.

Although the district’s privatization efforts could affect the jobs of 1,350 district employees, the Education First program has been remarkably free from political wrangling. Employee union leaders, for instance, were told flat-out that the decision to privatize the district’s information technology was “non-negotiable.”

“We have said all along that where services could be improved at a better cost in order to put more money in the schools, we would move in that direction,” Adamany said.

Contracted vendors will be encouraged to hire district employees, but will not be required to do so, and there has been a specific effort to avoid nepotism in the granting of contracts in areas where privatization has been adopted.

The no-nonsense orientation of Education First was adopted because

of the dire need of the district to shape up its operations in the wake of increased competition in the educational marketplace. Charter school and other school-choice laws have led over the past several years to an exodus of 15,000 kids from the struggling Detroit school system and a resulting loss of nearly \$100 million in state funds.

The willingness of Detroit Public Schools to contract out services to more cost-effective private firms may herald a stronger and more desirable school system for Detroit students in the future. Education First represents a decision by the district to focus on what it does best instead of trying to run secondary support services that it is not necessarily equipped to run.

Or, in the words of Thomas Diggs, the district’s chief information officer, “Our core competence is education. It’s not food service. It’s not transportation. It’s not information technology.”

MPRI

Ryan Oprea is guest managing editor of Michigan Privatization Report, a senior editor with the Henry Hazlitt Foundation, and a Ph.D candidate in economics at George Mason University.

In the words of Thomas Diggs, the district’s chief information officer, “Our core competence is education. It’s not food service. It’s not transportation. It’s not information technology.”

Students, Teachers to Profit from Inkster-Edison Partnership

■ By Peter T. Leeson

If critics of “for-profit” education were to stop and think about it, they might realize that they, like most people, depend on profit-driven businesses to meet many of their daily needs. Instead, they often take for granted the private provision of such essential goods and services as food, shelter, and clothing.

But the question then arises, if the profit motive can work to provide these necessary things, why not extend the power of profit to another vital area, education?

Detroit-area Inkster Public Schools is doing just that. The troubled district’s decision in early February to contract with Edison Schools Inc. represents only the third complete school district in the nation to turn its management over to a for-profit company.

Edison, a New York-based management company with a reputation for turning around failing schools, beat out several competitors in the bid to manage Inkster’s schools. Edison currently operates nearly 80 public schools nationwide and boasts a 38,000-student enrollment. More than 20 of these schools are located in Michigan. Edison’s experience is largely in lower-income and minority districts, making it a perfect fit for Inkster.

Inkster’s troubles began in the late 1960s when student enrollment started rapidly declining. In 1968, Inkster had 4,900 students. By 1994, enrollment dropped 54 percent, dwindling to just 2,223. Today, enrollment stands below 1,500 students.

Inkster also is plagued by financial and personnel difficulties. Over the years, the district amassed nearly \$2 million in debt and suffered from a high superintendent turnover rate (the current superintendent is the fifth person to lead the district in the last four years). Mis-

erable test scores, a mere 38.7 percent graduation rate, and a 19 percent dropout rate round out the district’s woes.

Edison’s strategy for rescuing Inkster is twofold. The first step is to

reports will allow the board to closely monitor Edison’s actions and their impact on student progress. In addition, Edison is required to provide the board with monthly updates regarding management performance. If board mem-



This dilapidated building houses the Inkster Middle School. It is one of several failing schools in the district that will be taken over by Edison Schools Inc., a private company with a track record for building successful schools.

bring Inkster back to “ground zero” by wiping out the district’s massive debt. The second step is to transform Inkster schools through procedural and other changes. Edison will invest \$4.5 million for educational improvements in the district including a computer for every student in the third grade or above and a laptop computer for every teacher. The five-year contract between Inkster and Edison also creates a 200-day school year and an eight-hour day for students in the third grade and higher.

Edison’s deal with the district gives the company great flexibility in determining staff levels, (all current employees are expected to retain their jobs), school principals, a CEO and curriculum. But the board’s authority remains strong, too. Most changes require board approval, and year-end annual

members like what they see, they can renew the contract with Edison early in 2003 or when the agreement expires in 2005. If members decide they are unsatisfied with Edison’s work, they are free to terminate the agreement.

What results might parents and board members expect from a privatized school district? Edison’s contract with the district contains a guarantee that the number of passing MEAP scores in reading and math will increase by 3 percent in the first year, with a yearly improvement rate of 5 percent each year after that. It also guarantees that passing MEAP scores in writing, science, and social science will increase by a total of 10 percent by the end of the contract period.

But MEAP score improvements are not the only criteria the board will

But the question then arises, if the profit motive can work to provide these necessary things, why not extend the power of profit to another vital area, education?



This new, well-maintained building houses the administration services and elementary school for the Inkster school district.

use to evaluate Edison. Other measures of achievement outlined in the agreement include increased student enrollment; greater parent, teacher, and student satisfaction; more family and community involvement; and better attendance.

The Inkster-Edison partnership also is expected to be good for the district's teachers. Edison's renegotiations with the employees' union led to a pay scale based partly on performance and the possibility of stock options for teachers who excel. Edison also will provide teacher training and ongoing professional development programs.

Nevertheless, some people remain uncomfortable with idea of a private firm managing an entire school district. According to Michigan Association of School Boards member Anthony Derezinski, Edison is "not in it for the good of the school district. They're in it to make money."

Of course Edison intends to make a profit from the services it provides. But is this necessarily a bad thing?

In his famous 1776 treatise, *The Wealth of Nations*, Scottish economist Adam Smith first introduced the concept of the "invisible hand." Market participants, Smith reasoned, act out of a desire to make money. But the only way they can do this is by serving the interests of those with whom they interact. It is not the benevolence of the butcher, the baker, or the brewer that compels him to provide patrons with inexpensive, quality goods—it is his desire to earn a profit. In this way, Smith tells us, in their quest to make money, people in the market are guided "as if by an invisible hand" to promote the good of others.

Indeed, for-profit management firms like Edison have powerful incentives to provide low-cost, quality education that government-run districts simply do not have. If state-managed schools are poorly run, the curriculum sub par, or teachers inept, what can parents do? Charter schools offer some relief and private schools are an option for those who can afford them. But for the most part parents and students are stuck in a bad situation.

Private management, on the other hand, offers many more avenues of accountability. Private firms can be fired if parents are unhappy with the results. For-profit companies thus have a strong incentive to give parents what they want. Unlike government, private firms like Edison are likely to invest in cutting-edge technology, undertake research and development, and ensure the utmost quality of their service, because they stand to reap profits from doing so.

Under government management, schools have no special incentive to keep costs low, show concern for student futures, or retain talented educators. This does not mean that schools will not do these things, but it does mean they aren't likely to do them as consistently or diligently as an incentive-based firm.

By voting to harness the powerful incentives of the private-sector marketplace, members of the Inkster school board took a bold step toward improving education for the district's students. Time ultimately will tell if Edison delivers on all of its promises. But if it does not, Inkster can hire another firm to do the job—a firm that knows it profits only so long as students profit—from a better education. MPRI

Peter T. Leeson is a 2000 summer research intern with the Mackinac Center for Public Policy and an economics and mathematics student at Hillsdale College. This is his fourth summer at the Mackinac Center.

Edison's renegotiations with the employees' union led to a pay scale based partly on performance and the possibility of stock options for teachers who excel.

Public Schools Learn Their Lesson about Competition

■ By Matthew Ladner, Ph.D.

In 1993, when Gov. John Engler signed Michigan's charter-school law, Dr. Jeremy Hughes, superintendent of the Dearborn City School District, decided he wasn't going to wait to see whether his district would begin losing students to charters. "When the ink was barely dry on the charter-school legislation," Hughes says, he got his team together and came up with an idea that could compete with charter schools for students: "Theme Schools and Academies."

In the next few years, Dearborn City Schools adopted its own curricular themes such as character education, creative arts, history, engineering technology, extended school year, multi-age classes, gifted and talented, and more. Parents could choose the curricular theme that suited them so that they wouldn't have to look outside the district for those themes.

Did it work? Hughes believes it did. Today, despite competition from four nearby charter schools, other charters in the adjoining Melvindale and Detroit districts and "schools-of-choice" in the adjoining Dearborn Heights district, Dearborn City Schools has increased enrollment. The latest figures available show a rise from 14,229 students in 1994-95 to 16,263 in 1998-99. "We welcome competition," says Hughes. "The reforms we've enacted would not have happened, at least not as fast, without competition."

Today, over 170 charter schools are competing with traditional public schools in Michigan, serving more than 50,000 students across the state, and "schools-of-choice" are enjoying limited success. Have Michigan's charter-school law (passed in 1993) and its "schools-of-choice" legislation (passed in 1996) lit a fire under traditional public schools that decades of tougher standards and greater resources could not?

Recent research affirms what the Dearborn experience suggests.

A Western Michigan University study conducted in January 1999 states that "the greatest impact of the [charter schools] is that they are forcing more accountability upon the traditional public schools." The study reports that many metro Detroit school districts are offering new programs such as all-day kindergarten and before- and after-school programs. Many districts have stepped up efforts to involve parents and placed greater emphasis on foreign languages and state achievement test results.

Another report, sponsored by the Michigan Department of Education last year, admits that charters are spurring traditional public schools to offer more innovative programs and be more responsive to parents and students. And in October 1999, a team of Michigan State University (MSU) researchers recommended expanding the charter-school program because it had forced traditional public schools to be more responsive to parents. As Gary Sykes, one of the researchers, stated, "The debate over whether to have more choice in the public schools in this country is essentially over. The positive parts of choice are just too powerful."

These changes are occurring despite severe limits on competition. Currently, only schools that wish to do so need participate in the "schools-of-choice" program. And Gov. Engler's efforts to remove the "cap" on the number of charter schools have so far failed. Competition has yet to truly affect the vast majority of Michigan students the way it would under a more widely applied school-choice program. But competition, even within these restrictions, is starting to change the incentive structure of education in Michigan.

In Inkster, the school board has contracted with a private firm to man-

age its schools and improve the curriculum. In Dearborn Heights, where enrollment was dropping prior to 1996, the "schools-of-choice" program allowed the district to attract more students and avert a financial crisis. And in Holly, school leaders and parents recently reached consensus on what to do about the loss of 113 students and a \$767,000 budget deficit: The district must compete with charter schools and schools-of-choice by offering a better program and aggressively recruiting students.

As a recently released Mackinac Center for Public Policy report on the effects of school competition in Wayne County states, "Making parents happy isn't just good public relations anymore. It means prosperity and survival."

Competition is creating an atmosphere in which solutions unheard of a decade ago can be tried. It is prompting administrators and teachers to think of new ways to better serve their customers, and Michigan children are the prime beneficiaries.

Ultimately, changing incentives through competition promises more progress in schools than has been accomplished by decades of tougher standards, more books, more teachers, and more money. MPRI

Matthew Ladner, Ph.D., is president of Capitol Research and Consulting in Austin, Texas, and co-author of The Impact of Limited School Choice on Public School Districts, a Mackinac Center for Public Policy report on competition in education.

Making parents happy isn't just good public relations anymore. It means prosperity and survival.

The “Privatized” Cost of Remedial Education in Michigan

■ By Jay P. Greene, Ph.D.

Privatization in education takes on many forms, from contracting out the management of all schools in a district—as Detroit-area Inkster has done—to turning over non-instructional services such as transportation to private providers.

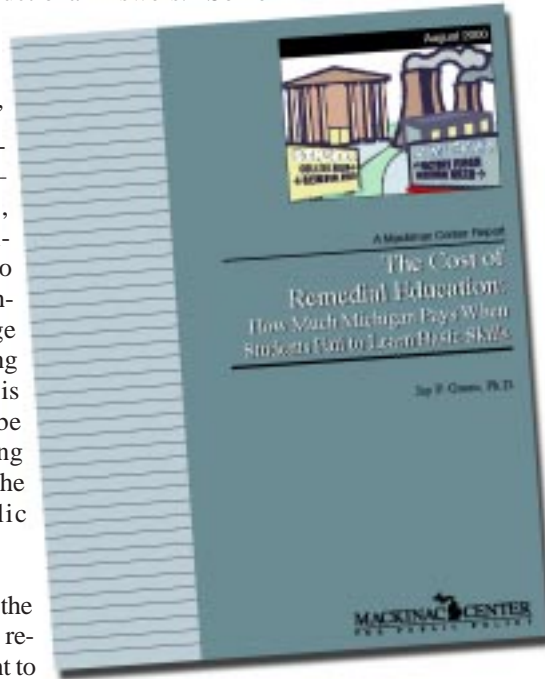
One form of “privatized” education that is often overlooked is remedial education—training that colleges, universities, and private businesses provide to students who graduated from high school without mastering basic knowledge and skills. The cost of training and educating these graduates is conservatively estimated to be \$601 million annually, according to a forthcoming report from the Mackinac Center for Public Policy.

In addition to estimating the cost of remedial education, the report seeks to determine the extent to which employers perceive Michigan high-school graduates as requiring remedial education. One medium-sized manufacturing firm said that it had begun mandatory basic skills testing of all job applicants. According to this employer, 40 percent of applicants fail to perform at an 11th-grade level. A health care company with fewer than one thousand employees reported that “lower-level employees lack the ability to read and write.” Another company with several thousand employees said, “We reject 70 percent of applicants due to not having basic skills of math and reading at an 8th-grade level.”

While \$601 million pales in comparison to the nearly \$12 billion per year spent in Michigan on public elementary and secondary education, it is still quite a large expenditure to fix that which the \$12 billion was supposed to provide. Why the need for an ad hoc system of

“privatized” remedial education for many public high school graduates?

Interviews with remedial education experts at Michigan colleges and universities produce a variety of answers. Some



The Cost of Remedial Education: How Much Michigan Pays When Students Fail to Learn Basic Skills., a new study from the Mackinac Center for Public Policy, demonstrates that private businesses in Michigan have to spend \$601 million annually to make up for the failings of the public school system.

say that social problems beyond the reach of elementary and secondary schools account for the widespread lack of basic skills. George Swan, dean of arts and humanities at Wayne State Community College, says, “We cater to students who lack the skills to compete for a variety of reasons—age, money, lack of confidence. I can’t blame it on the public school system.”

But other experts do criticize Michigan public schools for not being rigorous enough. Steve Carlson, chair of the science and mathematics division at Kellogg Community College, comments, “Largely, it’s the public schools’ [fault.] Ideally, remedial programs

should not exist at the college level. Public schools should prepare people to compete at that level, but they do not.” A number of remedial educators identified what they considered to be specific failings of the public schools. Sidney Graham, chair of the department of mathematics at Central Michigan University (CMU), blames public high schools for assigning “little homework.” Mitzi Chaffer, also of CMU, complains of “lax standards in most high schools.” Steven Holder, chair of CMU’s English department, finds fault with grade inflation in public schools.

While remedial educators are not able to agree on who or what is responsible for the widespread lack of basic skills among high school graduates, they do seem to agree that their own efforts significantly improve student skills. These assessments, while self-serving, also appear to be accurate, according to independent sources. Researchers David Breneman and William Haarlow note in their study of remedial education that “remediation is surely a good investment.”

If, as these observations suggest, remedial education programs are effective and relatively inexpensive, might it be because they compete with one another in the open marketplace of higher education? If students or employers are free to choose from a range of remedial programs, only those programs that produce results at a minimum of expenditure can expect to receive the “business” of students in need of remedial education and therefore continue operations.

By contrast, the public K-12 education system, which some experts believe is the reason remedial education is in such high demand, operates as a near-monopoly. Many students who are not learning the skills they need in their local, assigned public school often have nowhere else to go.

See “Remedial” on page 16

According to one employer, 40 percent of applicants fail to perform at an 11th-grade level.

Warren Public Schools Put Politics before Privatization

■ By Michael LaFaive

Successful privatization—the transfer of responsibility for government-owned or managed assets or services to more efficient, cost-saving private firms—can run into many pitfalls, not the least of which is politics.

The latest example of this pitfall came in June, when officials with Warren Consolidated Schools in Macomb County announced that their district would no longer do business with any private service providers who financially support a group called Kids First! Yes!

Kids First! Yes! is promoting an initiative approved for the November ballot that would allow families in qualifying districts to use roughly \$3,100 in tax-funded vouchers to send their children to K-12 private schools.

Many public school officials disagree with proponents of vouchers and other reforms aimed at offering parents more educational choices, believing that the result of such reforms will be students leaving public schools. But why is Kids First! Yes! a factor in determining which firms should provide services to Warren students?

The Warren district currently contracts with private companies to provide scores of services, including garbage pickup, architect services, legal services, landscaping, grass cutting, and copier maintenance. Presumably, the district selected particular companies because of their ability to deliver quality services at lower costs. If those companies supported Kids First! Yes!, would Warren hire other firms to replace them, even if the new firms provided worse service or charged more?

Warren's policy, if adopted as a model for districts, could pose a threat to beneficial privatization efforts in Michigan schools. Contractors who

could help schools provide better services and direct more resources to the classroom would be suddenly forced to choose between public service and their political opinions.

Companies' support for, or opposition to, ballot initiatives is not an indicator of whether or not those companies can provide quality services efficiently. Districts that limit the pool of potential bidders for contracts according to strictly political criteria could wind up paying more for services rendered. It is vigorous competition—not political belief—that increases quality and lowers prices. As the pool of bidders is narrowed by political decisions instead of market forces, competition is lessened and vendors may find a greater opportunity to raise prices.

Nevertheless, John Green, president of the Warren school board, encouraged his colleagues in other districts to review their contractors' stances on the voucher ballot initiative. Brian Whiston, a legislative affairs director for Oakland County Intermediate Schools, also defended the Warren policy.

"Why should we do business with people who are trying to put us out of business?" he asked.

Matthew Brouillette, director of education policy with the Mackinac Center for Public Policy, says Whiston and other officials are missing the point. He described Warren's position as a "political litmus test that could hurt kids and their parents."

"School districts have no right to use their powers as government entities to influence or affect the outcome of reform measures the taxpayers may deem necessary and right," Brouillette said, noting that nearly 460,000 Michigan citizens signed the petition to put the voucher proposal on the November ballot.

In July, the Michigan Secretary of State's office agreed when it cited two individual school districts and one intermediate school district (ISD) for violating state electioneering laws. The districts were Grand Haven, Flint's Kearsley schools, and the Oakland ISD. The Secretary of State is reviewing electioneering complaints filed by Kids First! Yes! against officials in 10 other school districts, according to the *Detroit Free Press*.

School officials considering privatization should remember their primary duty to students and taxpayers is to find vendors who can provide the best service at the lowest possible cost. By utilizing its position as a governmental authority, the Warren school board instead illegally misused taxpayer resources to intimidate private contractors and limit potentially beneficial privatization options based on purely political reasons.

Strong competition among vendors is key to public schools' ability to reap the greatest benefits from privatization—better services, lower costs, and more resources freed to improve education for students. Reducing competition by putting politics before privatization is a sure way to hamper these benefits. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

Companies' support for, or opposition to, ballot initiatives is not an indicator of whether or not those companies can provide quality services efficiently.

SET OF 7 PRIVATIZATION GUIDES

SAVE \$ WHEN YOU BUY ALL 7 MANUALS! OVER 130 PAGES OF HELPFUL INFORMATION!

These seven manuals were produced and have been made available to Michigan officials by the Mackinac Center for Public Policy in cooperation with the California-based Reason Foundation.

Set of 7 Manuals #PM93-8 \$35.00

Designing a Comprehensive State-Level Privatization Program

by William D. Eggers

This manual addresses privatization opportunities at the state level and offers suggestions for identifying opportunities, employing techniques, and minimizing opposition. 20 pages.

July 1993 #PM93-1 \$10.00

Designing Comprehensive Privatization Programs for Cities

by John Stainback

This guide explains how privatization programs can help cities cut costs. Topics include identifying appropriate privatization opportunities, developing programs, and overcoming obstacles. 20 pages.

May 1993 #PM93-2 \$10.00

Designing an Effective Bidding and Monitoring System to Minimize Problems in Competitive Contracting

by John Rehfuss

Problems can be avoided in the privatization process if the proper guidelines are followed—performance bonds, competitive bid process, comprehensive monitoring, and judging contractor effectiveness. 12 pages.

August 1993 #PM93-3 \$10.00

How to Compare Costs Between In-House & Contracted Services

by Lawrence Martin

Public officials need accurate cost comparisons of in-house vs. out-sourcing to make informed decisions. This guide presents a step-by-step approach for assessing the true cost of providing services. 18 pages.

August 1993 #PM93-4 \$10.00

Competitive Contracting of Transit Services

by Jean Love and Wendell Cox

This manual provides answers to the costly woes of transportation. If transit bus service, for instance, is competitively contracted out to private firms, savings range from 30 percent to 60 percent with no reduction in safety or service quality. 20 pages.

October 1993 #PM93-5 \$10.00

Privatization Opportunities for States

by William D. Eggers

State leaders need ways to streamline government and reduce budgets. This guide will give information on privatization in corrections, education, state parks, health, social services, agriculture, and transportation. 28 pages.

October 1993 #PM93-6 \$10.00

Cost Savings from Privatization

by John Hike

This compilation of findings documents significant savings from privatization. Citing 100+ studies, this report demonstrates cost savings from the privatization of dozens of government services. 20 pages.

November 1993 #PM93-7 \$10.00

Teacher, Inc.: A Private-Practice Option for Educators

by Janet R. Beales

This study profiles the experiences of a number of educators in private practice, and discusses the benefits that teachers, students, and schools may realize by contracting for instruction. Included are results from two national surveys about the legal authority of school boards to contract for instruction, and a chart to help administrators identify the fully allocated costs of in-house and contract service. 24 pages.

August 1995 #S95-05 \$5.00

THE
HELP
SHELF



TO ORDER:

Please call the Mackinac Center for Public Policy at (800) 22-IDEAS or (517) 631-0900 to order the publication of your choice. Visa, MasterCard, and Discover accepted. You can also order via our website at www.mackinac.org. Request your free copy of the Mackinac Center's Publications Catalog when you order!

“Remedial” continued from page 13

Perhaps the same incentives that work for remedial education programs could help K-12 public schools improve, with the result that more students would graduate with the basic skills they need to succeed in their careers. This would allow colleges, universities, and employers to invest the capital they now spend on remedial education on other things.

Currently, market incentives are being harnessed to improve many non-instructional services within the public K-12 education system. Private firms provide for many Michigan school districts such things as food service, grounds maintenance, busing service, office supplies, and more.

Even education itself is starting to yield to the demands of a new competitive marketplace. In the public system, Michigan families can now choose from among schools in their local school district, charter schools, and schools in other districts.

Time will ultimately tell how public schools fare when competition is the norm rather than the exception in education. But for now, private businesses and institutions of higher education will continue to take up the slack for students in need of basic academic skills. **MPRI**

Jay P. Greene, Ph.D., is a senior fellow with the Manhattan Institute for Policy Research and author of the Mackinac Center for Public Policy study, The Cost of Remedial Education: How Much Michigan Pays When Students Fail to Learn Basic Skills.

In the public system, Michigan families can now choose from among schools in their local district, charter schools, and schools in other districts.



Check out **Michigan Privatization Report** on-line at www.mackinac.org/pubs/mpr

Taking the Pulse of Privatization Privatization Watch

A fact-filled monthly newsletter that keeps government officials and others informed about the latest developments in privatization. It includes latest trends, how-to tips and best practices, and breaking news.



Relying on the data, sources, and expertise of the world-renowned RPPI Privatization Center, *Privatization Watch* provides insightful analysis on a broad spectrum of privatization policy areas.

Order *Privatization Watch* Today. One year (12 issues) is \$135 for private business or \$75 for governments and nonprofits. Call or visit our website to order or for more information.

(310) 391.2245
www.rppi.org/privwatch.html

The Wages of “Prevailing Wages”: Less Money for Education

■ By Michael LaFaive

Should Michigan public schools be forced each year to pay millions of dollars more than is necessary to build new facilities or update old ones?

Everyone agrees that wasting public resources earmarked for the education of students is a bad thing, yet that is often the result of Michigan’s so-called Prevailing Wage Act of 1965. This law, which is patterned after the federal Davis-Bacon Act of 1931, forces all contractors who take on government projects to pay workers at or near artificially high union-scale wages, even if they can do the job for less.

The “privatization,” or repeal, of Michigan’s prevailing wage law could open up greater competition for government construction projects, driving costs down and saving over \$275 million annually. Removing such an anti-competitive law from the books is especially important in school construction, where every dollar spent on government-mandated wages is a dollar not devoted to the education of Michigan children.

Ignoble Beginnings

The original “prevailing wage” law, the federal Davis-Bacon Act, emerged as a legislative response to the mass unemployment of the Great Depression and was billed as a way for America to spend its way back to prosperity. The politicians who promoted it (most notably Presidents Herbert Hoover and Franklin Roosevelt) noted that if construction workers were paid more, they could spend more and thereby boost the economy. Of course, when workers are paid more than the market can bear, the difference has to be made up through taxes. If workers are paid more via taxes taken from the paychecks of other workers, net spending does not increase, since other taxpayers then have less to spend themselves.

Faulty economic reasoning aside, there was another and more ignoble rea-

son for the Davis-Bacon Act: Some congressmen wanted to keep more competitive black laborers out of the market for good construction jobs. Rep. Robert Bacon, in fact, introduced his bill in the House after witnessing one contractor’s use of black workers to construct a government hospital in his district. Another supporter of Davis-Bacon referred to “the problem” of “cheap colored labor” on the floor of the U.S. House of Representatives.

Harms the Economy

Today both empirical and anecdotal evidence exists to show that Michigan’s prevailing wage law unnecessarily boosts government spending, costs jobs, and drains resources from schools. In 1994, a federal district court judge effectively suspended the state’s prevailing wage law. It was reinstated in 1997, but for nearly three years, state and local governments were free to contract for construction unencumbered by the old statute. As a result, we may now compare pre- and post-prevailing wage data.

As outlined by a 1999 Mackinac Center for Public Policy study, *Michigan’s Prevailing Wage Law and its Effects on Government Spending and Construction Employment*, during the 30-month period when the law was inoperative:

- More than 11,000 jobs were added to Michigan’s payroll as a direct result of the law’s invalidation;
- There were 116.7 construction jobs per 1,000 total new jobs (an increase of almost 48 percent); and
- A disproportionate number (i.e., more) of the new jobs created during this period went to blacks and other minorities.

Prevailing Wages and Public Schools

In 1997, U.S. taxpayers spent over \$27 billion for new government school

buildings, additions, and repairs. Last year at this time, there were more than 1,200 construction and renovation projects operating in Michigan alone. These projects carry a \$2 billion price tag.

Data from several subcontractors for their work on 26 Michigan school construction projects from Wayland Middle School in Wayland to Kentwood Elementary in Kentwood to Muskegon public schools show that government-mandated wages were from 12 percent to 19.5 percent higher than wages paid voluntarily at going market levels. In Wayne County, mandated wages were as much as 52 percent higher for construction laborers such as ironworkers, bricklayers, and carpenters. This is particularly important given the 159 school construction, addition, and renovation projects valued at \$540 million that are under way in Detroit.

Assuming a highly conservative estimate of 10 percent higher mandated wages over market wages on building projects, Michigan communities may be spending as much as \$200 million more than is necessary per year on school construction. Money spent on high wages mandated by the state is ultimately money not spent directly on educating children, improving infrastructure, or providing needed tax relief in overburdened districts that are driving residents and businesses away and shrinking the tax base.

Michigan’s “prevailing wage” law was born of bigotry, is economically destructive, and ultimately takes resources away from public schools. Allowing the competitive private sector to freely operate in the construction industry enables schools to spend more money on what they are all about: education. It is time to repeal the wasteful prevailing wage law. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

Michigan communities may be spending as much as \$200 million more than is necessary per year on school construction.

Around the State



Rats! Privatization on Hold in Hamtramck

HAMTRAMCK—Mayor Gary Zych of Hamtramck continues to fight an uphill battle with the city council and employee unions over privatization of his city's garbage collection. Citizens are currently in the grip of a "garbage crisis" as rats have begun to infest trash that has not been picked up by city employees.

Why the crisis? According to Zych, union members are trying to protest low staffing levels in the trash collection department. A recent audit of Hamtramck says that the department is actually overstaffed. Workers for garbage collection often do not come into work and have been discovered in bars in the middle of the day and sitting in alleys for hours at a time—the real reason the garbage is not being taken out, Zych's office contends.

Zych's proposed solution is to privatize the city service. The city council refuses, claiming that union rules will not allow it. Zych also has proposed short-term contracting to take care of the work that unionized employees refuse to do. Councilman Michael Witkowski has expressed concern that the union will sue the city for bringing in outside help. "It'll cost the taxpayer a lot more money," Witkowski said. Meanwhile, garbage is piling up. Zych himself recently discovered a garbage truck sitting in his own alley for several hours during the workday, ignoring its route. Reporters from Hamtramck's newspaper, *The Citizen*, report garbage collectors screaming and spitting at them, threatening them, and putting a dead rat on their equipment.

The garbage woes come amidst a budget crunch arising out of a policy stalemate between the city council and the mayor's office over the city's \$1.5 to \$2 million debt. At press time, Gov.

John Engler is considering whether or not to put Hamtramck into receivership and appoint a manager to take over the city's finances temporarily.

Detroit in the Dark over Privatization

DETROIT—In the wake of summer power outages, the city of Detroit is considering privatizing its public lighting department. Traditionally a taboo subject in heavily unionized Detroit, privatization is fast becoming a more palatable option for many Motor City residents. Major outages in June prompted city council members to express openness to the idea of letting private companies manage or take over lighting service. The department, whose annual budget is \$67.7 million, is running a \$10-million deficit and receiving heavy complaints for poor service from major clients like Wayne State University. Moves to privatize utilities in other cities have met with great success and are being considered nationwide.

Privatization Paint-by-Numbers

JACKSON—The Jackson Board of Education voted recently to privatize certain school building maintenance services in order to save more money for education. "The bottom line is we're privatizing the painting of the buildings," said school board member Jim Rice, following the vote. The vote is part of the district's overall strategy to give school principals more autonomy and control over the maintenance and management of their individual schools. Privatization of painting services is expected to save taxpayers an estimated \$150,000.

Saginaw Entertains Idea of Privatization

SAGINAW—The Saginaw Civic Center may be headed toward a rendezvous with privatization. This year the city spent \$739,000 to keep the ailing

28-year-old entertainment complex afloat—while simultaneously considering cuts in essential services like the police department.

City Manager Reed D. Phillips believes that this situation demonstrates that Saginaw has its priorities backwards. Phillips has called for a county takeover of the Civic Center, pointing out that 80 percent of its patrons come from outside the city of Saginaw.

Others are calling for privatization of the Center. One approach being considered is to have a private management firm take over operation of the facility. Another is to sell off the facility completely. The city has formally asked Saginaw County commissioners to put a county-wide millage vote on the ballot to keep the facility open with county funds. If the county decides to put the issue to a vote, it will appear either on the November ballot or a ballot in the spring. If the county decides against a vote, the facility will close on January 1, 2001, to be either sold or demolished.

Union Sues over Prison Health Care Privatization

DETROIT—In May, the United Auto Workers filed a lawsuit claiming that the Michigan Department of Corrections' practice of privatizing mental health services for inmates will hurt the prisoners' health. The UAW charged that the company awarded the Michigan contract, Missouri-based Correctional Medical Services Inc. (CMS), is a danger to prisoners. The lawsuit cites a prison death in North Carolina, which a grand jury there argued was the result of negligence by CMS. The North Carolina prison where the incident took place has maintained its contract with CMS despite the death.

John Truscott, spokesman for Gov. John Engler, said "Once the Legislature or a judge realizes this is about preserving the jobs of a few doctors rather than dealing with adequate care of prisoners, I think [the lawsuit] would

Workers for garbage collection often do not come into work and have been discovered in bars in the middle of the day and sitting in alleys for hours at a time.

be dismissed.” Since 1998, CMS has had a \$37-million-per-year contract with the Michigan Department of Corrections. Its new contract will expand its services, which include off-site hospitalization and specialty care, to include primary mental health care for prisoners.

No Such Thing as a Free Lunch?

DETROIT—Nearly 83 percent of Detroit high school students do not take advantage of the federal free or reduced-price lunches program, and this has some school officials worried.

It’s not that children are not eating (they seem to prefer vending machine snacks to their schools’ cafeteria food); it’s that \$88.8 million in annual federal aid is based in part on how many students avail themselves of the subsidized lunches.

Detroit officials hope that the new plan to privatize the district’s food services under former schools chief David Adamany’s Education First initiative will result in cuisine that students will find more agreeable to their taste buds.

Arvon Looks to Privatize Functions

ARVON TOWNSHIP—The Board of Education of the Upper Peninsula’s Arvon Township School District has announced that it is implementing a School Excellence Plan designed to make the small kindergarten through sixth grade school the best in the state. The one-school district has 13 students enrolled for the upcoming school year.

In order to ensure ample financial resources to meet its high academic standards, the district is looking to privatize its school lunch program, busing, and janitorial functions. “The Board shares the concern of many local parents and taxpayers that our noninstructional costs are high. For example, without changes we would be paying over \$11.00 per school lunch,” said board treasurer James Harden. “We

could send the kids to Tony’s Steak House every day for that amount.”

The district has issued “requests for proposals” to private businesses to handle these functions and bid openings were scheduled for August 11.

Privatization may help “students [get] a level of individual attention and encouragement that other schools only dream about,” said Mary Rogala, school board president and a former L’Anse



Despite only having 13 students enrolled, the single-building Arvon Township school district is saddled with heavy administrative costs. School board members are embracing—over union objections—privatization as a way to avoid financial disaster.

business owner. Why? Because contracting out allows teacher-administrators to concentrate on education, not ancillary functions of school operations. “Our teacher can get to know each unique child and his or her parents, assess the student’s abilities and needs, and tailor a learning program that will help that child excel,” said Rogala.

The School Excellence Plan will create new benefits for both parents and children in the District. Instead of costing parents \$1.00 per day, nutritious lunches will be provided free of charge. An expert teacher will provide specialized instruction in computers, foreign language, music, and art, among other subjects. Careful use of precious district resources may allow Arvon to pay the highest salary in the Baraga-Houghton-Keweenaw County area in order to recruit top talent. “We want Arvon Township School graduates to be

the valedictorians at L’Anse and Baraga high schools,” said Rogala. “And we want every child to have the opportunity for a genuine world-class education.”

Another major change for the district is having a teacher be principal or chief executive officer as well. “To date, the 5-member school board has been too involved in day-to-day operations,” said Rogala. “We need our administrator/teacher to exercise dynamic leadership

and management ability that drives the entire operation to excellence.” The Arvon plan calls upon the teacher/administrator to go beyond academic excellence to engage parents, community volunteers, and local organizations in support of the school.

The plan has drawn fire from the local union representing current district employees. At one school board meeting

a local union representative argued that contracting out does not work and may cost the district more money. Board president Rogala was quick to respond that the Michigan Education Association, the state’s largest union for bus drivers, cooks, janitors, and school teachers, has and continues to contract out at its own headquarters. While that argument ended the debate abruptly, it did not end the opposition to Arvon’s School Excellence Plan.

On August 3, the district’s teacher, bus drivers, cook, and custodian issued a letter detailing their concerns. The staff believe that education will suffer, the safety of children will be at risk, food service may not be as good, and that the high standards of cleanliness provided by the district will be affected negatively.

MPRI

In order to ensure ample financial resources to meet its high academic standards the district is looking to privatize its school lunch program, busing, and janitorial functions.

Managing to Succeed: Michigan's National Heritage Academies

■ By Tara Thelen

One of the most exciting developments in education in recent years has been the emergence of private, for-profit

"education management organizations" (EMOs). One Michigan-based EMO has been at the forefront of this growing privatization trend.

National Heritage Academies, founded in 1995 by self-described Christian businessman J.C. Huizenga, has grown in nearly six years from serving a handful of

Michigan schools to privately managing over 22 charter and traditional public schools in three different states. Its revenue for this year is expected to reach \$50 million.

Huizenga was motivated to act on his longstanding desire to improve education following the birth of his son. He says his experience as a successful businessman in the financial and manufacturing sectors taught him that competition is the best way to help schools offer their students the best education possible.

"American public education today is monolithic," notes Huizenga. "It tends to be patterned after the old Soviet system: It's centrally planned,

driven by mandate, absent of competition, and doesn't provide any motivation to succeed. Its quality is decreasing while its cost is increasing."

Huizenga explains that the goal of National Heritage Academies is to teach children not only the hows and whats of education, but also the whys of what they are doing. National Heritage Academies allows parents to be a part of their child's educational experience by encouraging direct parental involvement in classrooms where teachers uphold high academic standards, morality, and a caring environment, he says. A 1997 survey of National Heritage Academies parents revealed that 85 percent volunteer at their children's schools in some capacity.

The same survey also showed parents to be pleased with National Heritage Academies schools: 95 percent said their children were receiving a better education and indicated they would recommend the schools to friends. And many of them may have done just that: The schools currently have a waiting list of nearly 1,500 students.

Huizenga brushes aside critics' concerns about introducing the profit motive into education by noting that profit is already inherent in any system. He explains that there must be incentives for people to invest in anything, education included. National

Heritage Academies operates on the principle that people need a return on their investment. Once they have that, they are willing to invest in an honorable cause. Charter schools have made it possible for a quality education to coincide with the self-interest of potential investors, and both come out as winners, according to Huizenga.

Teachers come out as winners, also. Huizenga says National Heritage Academies frees its teachers from crippling public bureaucracies, allowing them greater liberty to innovate, take risks in their teaching styles, and challenge their students to achieve excellence. Employees also are eligible for stock options as part of their bonuses. As a result, Huizenga says he has encountered no shortage of teachers eager to apply for positions (the schools employ 488 full- and part-time teachers).

Huizenga envisions an educational system driven to success and fiscal soundness through the use of competition. When this happens, he says, "We will look back on those teachers who first began this liberation movement and say, 'They were part of the vanguard that saved our education system.'" MPRI

Tara Thelen is a 2000 summer research intern with the Mackinac Center for Public Policy and a student at Hillsdale College.



This National Heritage Academy charter school under construction, promises quality education to students in Romulus.