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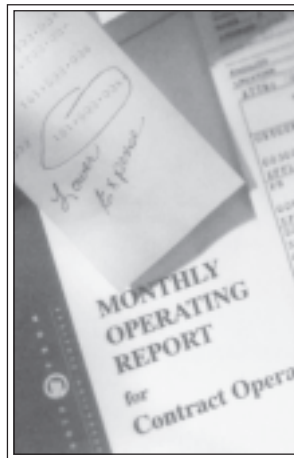


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- Faulty School Bus Privatization Can Take Districts for a Ride
- Urban Sprawl for Dummies?
- Computing the Savings: Detroit Schools Privatize Information Technology
- Privatization: The Life of the Party

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MICHIGAN PRIVATIZATION REPORT

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Emergency Financial Manager to Help Hamtramck Balance the Books

■ By David Bardallis

After teetering on the brink of insolvency, the Detroit-area city of Hamtramck is on its way back to financial health and stability following the state's appointment of privatization expert Louis Schimmel as the city's emergency financial manager.

Schimmel is recently retired from the Municipal Advisory Council of Michigan, a nonprofit statistical clearing house for investment bankers throughout the United States who underwrite and/or invest in Michigan municipal bond issues. He had planned to spend his retirement building houses in and around his home of Waterford Township, but state officials had other ideas.

Gov. John Engler and a five-member state review panel selected Schimmel in November 2000 to help the cash-strapped city of Hamtramck erase its enormous \$2.4 million debt. Mayor Gary Zych had requested state help after failing to gain economic concessions from the city employees' union, some members of which balked at performing such basic services as garbage collection.

In early December, Schimmel got to work by immediately shaving 30 non-essential city jobs from the budget, saving the small community \$600,000. More changes designed to make the city solvent again include the reduction of frivolous city employee benefits, such as "accumulated time off." Accumulated time off allows workers to be paid for unused time off at the end of their careers. This policy has cost the city a fortune because accumulated time off is paid based on an employee's final sal-

ary rate, which is almost certain to be higher than the salary rate at which the unused time was originally accrued.

Schimmel is currently attempting to gain the right to contract out for garbage collection, street and water system maintenance, and sewer services in the Department of Public Works. He may

ate contracts instead of setting them aside entirely. Consequently, Schimmel and the city employees' union appear to be at an impasse on several negotiation fronts. For instance, Schimmel wants to privatize 100 percent of the city's Department of Public Works (DPW), but the union representing DPW workers is only willing to part with half.



Photo courtesy of The Hamtramck Citizen

City provision of garbage collection has been so sporadic that the rat population has increased dramatically. Louis Schimmel, city emergency financial manager, has attempted to remedy the situation by contracting out, but has met with stiff resistance from the local union representing Department of Public Works employees.

also sell city-owned property such as Hamtramck City Hall and the current police headquarters as well as "lay off" one of the two local judges. He recently received permission from the Wayne County Commission to negotiate with the Wayne County Sheriff's Department over inter-governmental contracting for services. Ultimately, he may replace Hamtramck's city police force with Wayne County officers, and halve the cost of paying for police protection in the process.

Union opposition to Schimmel's efforts has delayed these changes because, under state law, an emergency financial manager may only renegoti-

Schimmel did have words of praise for the city's fire department, though. He reports that the fire department is comprised of "a very thoughtful group of people who work hard and want to do what is right for the city."

This is not the first time Schimmel has applied his expertise to a distressed municipality. In 1986, the state appointed him receiver of the bankrupt city of Ecorse, which was saddled with a \$6 million debt. By 1990, Schimmel had largely solved the problem and stepped down as receiver, continuing to watch over

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Union opposition to Schimmel's efforts has delayed changes because, under state law, an emergency financial manager may only renegotiate contracts instead of setting them aside entirely.

Computing the Savings: Detroit Schools Privatize Information Technology

■ By Elizabeth Moser

Detroit Public Schools has recently contracted with Compuware Corp., a computer software and services company, to manage the district's information technology services.

Detroit Public Schools is the tenth-largest school district in the United States, with over 165,000 students, 22,000 employees, and 260 schools. The district operates numerous computer networks, including 28,000 personal computers in administrative offices and classrooms. The district eventually plans to hook up each of its 8,400 classrooms for voice, video, and data transmission.

The deal between Detroit Public Schools and Compuware, which may exceed \$90 million, is expected to save the school district approximately \$10 million over the five-year term of the new contract. These savings will help the district reprioritize its spending and direct more money into classrooms. Last year, the district spent 68 percent of its budget at the school level; the rest provided for administration. This year, the district's budget slates 76 percent to be spent in schools.

New Detroit schools CEO Kenneth Burnley anticipates that the Compuware deal also will put a significant dent in problems with outdated hardware and software, payroll, the telephone system, cost overruns, and other technology-related issues, which have plagued the district for years.

Burnley says Compuware offered the best plan for overcoming these prob-

lems and providing a smooth transition from the current system. The company beat offers by Ameritech; Celt Corporation, an educational technology and services firm; and EDS, a business so-

efficient," Burnley told The Detroit News. "As educators, we need to look at what is our core mission. And that is students' instruction, learning, and teaching."



Public school students across Michigan will benefit if their schools follow Detroit's lead and privatize their computer services.

lutions company. Although Compuware's was not the lowest bid, Tom Diggs, chief information officer for the school district, told the Detroit Free Press that the positive recommendation of other businesses and school districts convinced officials Compuware was the way to go.

"The Compuware deal will get us up to speed pretty quickly, as opposed to taking several years rebuilding the department with what we have in place. Our kids don't have several years," School Board Chairman Freman Hendrix told The Detroit News.

The Compuware agreement is the second contract Detroit Public Schools has signed with an outside vendor this year. Earlier, the district struck a deal with Office Depot to take care of its school supply system. CEO Burnley is strongly considering hiring outside companies to provide food and groundskeeping services as well.

"We're looking at any and all things that would allow us to be more

The Compuware contract is only the latest development in a nationwide movement in which many government agencies and institutions are looking to outside, private vendors for services, resulting in substantial savings and improvements. Schools, especially, are finding that privatization can help districts provide superior programs and services. The information services realm is no exception.

Lack of qualified personnel and the constant advance of technological complexity often make it necessary for government institutions to contract their technology services out to information experts who can keep up with the ever-changing pace. One way technology companies are responding to this need is by offering "seat-based" computer management to schools and government offices: billing services by the number of computer stations in the building. This more precise measure of the costs involved in providing and servicing information systems can dramatically cut expenses and improve efficiency.

The Compuware contract may even avoid employee layoffs. Employees representing five different unions work in the district's information technology department, but many of them already are contract employees who could easily be integrated into the new Compuware system or given positions elsewhere in the district.

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The deal between Detroit Public Schools and Compuware, which may exceed \$90 million, is expected to save the school district approximately \$10 million.

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Photo courtesy of The Hamtramck Citizen

Louis Schimmel is the state-appointed emergency financial manager of Hamtramck.

Ecorse’s finances until the city made its last loan repayment to the state in August 1999.

service providers, reaping tremendous savings and reversing Ecorse’s financial decline.

“Much of the deficit was eliminated by the privatization of nearly all city services,” Schimmel explained in the spring 1996 issue of *Michigan Privatization Report*. Within weeks of taking over Ecorse’s financial matters, Schimmel transferred responsibility for such services as trash collection and snowplowing from government to private

“Schimmel is credited with making the tough decisions that helped turn the city [of Ecorse] around,” a recent Detroit Free Press article concluded. Schimmel’s background in municipal finance, including his service on numerous boards and committees, and his experience with successful privatization, will certainly serve Hamtramck well as it struggles to get back on its financial feet. -MPRI

David Bardallis is managing editor of publications for the Mackinac Center for Public Policy.

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Faulty School Bus Privatization Can Take Districts for a Ride

■ By Michael LaFaive

Detroit-area parents who trust private school busing companies with the safety of their children each school day got a rude surprise recently. The results of a survey by the Detroit Free Press, published on Nov. 14, 2000, found that private bus firms hired by local school districts failed state inspections at a rate higher than that of their public-sector rivals.

Even though Detroit Public Schools buses were the worst—these buses failed inspections more often than their privately operated counterparts—the situation was serious enough to generate negative publicity for private firms.

Yet, privatization is just like anything else: It doesn't work well unless it is handled correctly.

The survey—involving Macomb, Oakland, Wayne, Livingston, and Washtenaw counties—was based upon records kept by the state police department responsible for school bus safety inspections. The Free Press found that of 801 buses operated by private contractors in the five counties, only 492, or 61 percent, passed inspection. Buses that were actually owned by private schools performed only slightly better, with 65 percent of 140 buses passing. This is well below the 86-percent passing rate of the 4,017 publicly owned and operated buses serving public schools in the same region.

Of the 22 contractual arrangements in which private companies were employed to transport school children, only three received passing grades for the entire fleet of buses. Six had a zero pass rate—not one of their buses passed inspection.

The “failure” designation is given to buses that inspectors give either a red or yellow tag—red meaning a bus must

be fixed before it can transport children again, yellow for some item (such as a ripped seat) that must be fixed within 60 days, even though the bus may continue to transport children.

When privatization is carried out without proper attention to performance standards—without explaining clearly and in detail what a contractor should do, how success will be measured, and making those terms a condition of the contract—no one should wonder when a privatization plan doesn't work.

Having clear performance objectives and standards written as conditions of the contract is the only way to ensure that contractors—who have a profit-based incentive to keep costs as low as possible—don't cut too many corners. For example, a pre-emptive safety clause written into a busing contract might read, “district reserves the right to revoke contract if more than 15 percent of a contractor's bus fleet fails state safety inspection.” Such an incentive would keep a contractor on its maintenance toes. While district contracts do have performance objectives, they are apparently not stringent enough—a condition that may be remedied as a result of publicity from the Detroit Free Press survey.

Moreover, a contract administrator's job does not end when the deal is struck. The performance of contractors must be monitored. Indeed, in a

Mackinac Center for Public Policy/Reason Foundation study on designing bidding and monitoring systems for



A state school bus inspector examines the latch on a public school bus. A recent analysis of state records by the Detroit Free Press suggests that public school buses are passing safety inspections at a higher rate except in the city of Detroit.

privatization contracts, author John Rehfus writes that without monitoring a contract, “there is no way of knowing whether the contractor's work is faithful to the contract terms or whether or not citizens and agency officials are satisfied with the service.”

While this may seem like common sense, it is a point that often eludes contract administrators. According to Rehfus, a comprehensive monitoring system should incorporate three components: contractor reports, inspections, and citizen complaints.

Contractor reports must inform the proper authorities of the status of

See “Buses” on page 14

Of the 22 contractual arrangements in which private companies were employed to transport school children, only three received passing grades for the entire fleet of buses. Six had a zero pass rate—not one of their buses passed inspection.

Cafeteria Privatization: Detroit Puts New Plan on the Table

■ By Michael LaFaive

One way the embattled Detroit public school district has tried to improve quality while reserving more education dollars for the classroom is through privatization of noneducational services. And one service it has been considering privatizing for some time is cafeteria management.

In the summer of 2000, however, Detroit school officials halted—at least temporarily—privatization of the district's cafeteria system in order to explore new options for contracting out the service. What happened?

Officials originally asked private vendors to submit proposals explaining how they would manage the district's cafeteria service and for how much. It's a big job: Any private contractor that signed on would have to feed as many as 70 percent of the district's 167,000 students each day.

The first request the district issued for private-sector proposals indicated a desire to operate under a "fixed-price" contract. A fixed-price contract is one in which a contractor promises to provide lunches (or breakfasts, if requested) on a per-meal basis at an agreed-upon price—\$1.20 each, for example.

There is not a single school district in the state of Michigan that outsources for cafeteria services under a fixed-price contract. The 150 school districts that already outsource for food services operate under "cost reimbursable" contracts. A cost reimbursable contract reimburses vendors for their expenses (including food provision and some direct management) and also pays vendors an agreed-upon fee for delivering the service.

One reason the cost reimbursable contract is favored by school dis-

tricts is because of their belief that it increases the likelihood that current district employees will be retained by vendors. Under such an arrangement, all 1,265 of Detroit's cafeteria employees would remain as employees of the district. After the union contract expires, the private food service provider could then hire district employees and let them keep the seniority they had established.

A Change in Plan

After receiving a number of fixed-price proposals, Detroit officials reviewed them and chose a winner based on quality and price. But the contract was never awarded. After months of inaction, the district informed all vendors that it was re-bidding the service. The official reason was that the district wanted to issue a new request for proposal (RFP) based on a cost reimbursable, as opposed to a fixed-price, contract.

During the first week of January 2001, the district posted a new RFP on its web site, reflecting the new criteria for bidding. Detroit Public Schools intends to solicit feedback from vendors before issuing a final copy of the RFP. Once the final RFP is issued, vendors can decide whether or not they wish to bid on the proposal.

But delays in awarding the food service contract have probably hurt Detroit's school children and district already. This is because of the fact that responding to an RFP is expensive. Contractors being forced to redouble their efforts for an indecisive school district not only results in greater costs being imposed on the process, but it hurts the reputation of the district as well. Vendors may think twice about dealing with a district that has a reputation for changing its rules in the middle of the game, or simply using vendor bids to beat union nego-

tiators over the head during contract talks, as some school boards have done. This could lead a district to being stuck with the same poor and expensive in-house service it had in the first place.

Money saved from contracting out could be reinvested in classrooms where it could do more to further the district's educational mission. Shaving just 10 percent from Detroit's \$45 million annual cafeteria budget could place a lot more textbooks, notepads, pencils, software, and other resources in the classroom.

Contracting out for school cafeteria services should not be difficult or time consuming. After decades of school contracting experience in other Michigan counties and American states, the issuance of a new RFP and award of a food service contract should be elementary. The Detroit school district should place a high priority on choosing a winning bidder before it's too late to outsource its cafeteria system for the 2001-2002 school year. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

Shaving just 10 percent from Detroit's \$45 million annual cafeteria budget could place a lot more textbooks, notepads, pencils, software, and other resources in the classroom.

Privatization, Not Regulation: Detroit Should Open Its Doors for Business

■ By Edward Hudgins

The city of Detroit supports one of the nation's most byzantine systems of permitting and licensing for its citizens' occupations and businesses. For instance, a Detroiters who wished to pursue a career as a landscape gardener would have to navigate a maze of regulations to obtain a license to do so. The city also maintains outright bans on some activities, including all home-based businesses and "jitney" car and van services (i.e., private individuals providing taxi service).

Detroit, in fact, regulates all manner of entrepreneurial activity, the effects of which are to stifle economic life and drive away businesses and people. A September 1996 editorial by The Detroit News cited 350 different

permits issued by 11 different agencies in the city.

But Detroit is not alone in throwing up ridiculous barriers to entrepreneurship. Many cities, from New York to Los Angeles, heavily regulate commerce at the local level. In New York, for example, city officials recently decided they didn't like street vendors. The result has been an ongoing regulatory assault against these vendors, who run legitimate businesses trying to provide food and other products to willing customers. In Baltimore, it is illegal to set up a newsstand. And a few years ago, officials in Washington, D.C. drove most vendors selling souvenirs to tourists off the Mall.

With this kind of attitude predominating in our urban centers, is it any

wonder that "urban blight" has become a cliché? The causes of urban decay are complex, but connect the dots: Government regulations are a major reason that businesses everywhere—and entry-level workers and entrepreneurs in inner cities especially—find fewer opportunities to translate their energy and initiative into productive commerce and trade.

Often under the guise of protecting consumers, city regulations unnecessarily stifle the entrepreneurial spirit that drives the economic growth and development essential to a city's prosperity. If cities like Detroit really want to improve their citizens' quality of life dramatically, they should instead conduct an across-the-board privatization of municipal regulations. Cities need

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Detroit is not alone in throwing up ridiculous barriers to entrepreneurship. Many cities, from New York to Los Angeles, heavily regulate commerce at the local level.

Regulation: An Ever-Widening Circle

Detroit's regulatory tentacles have now moved outside the city. Michigan state House Bill 5812, which amends Public Act 271, is more commonly known as the "Limousine Transportation Act." The bill would force certain suburban limousines who pick up or drop off clients in Detroit to adhere to rules and regulations that Detroit-based taxis and limousines must face.

Mayor Archer lobbied for this bill. He sent letters to state representatives asking for support, saying "Currently, most taxis and limousines operating within the city comply with the aforementioned ordinance, which among other things, requires operators to buy bond plates as part of their legislation. Still some carriers based outside the city continue to pick up passengers within the city absent proper registration. . ." "Furthermore, [T]he City of Detroit ordinance is more stringent than the state law by requiring an inspection by the city, as well as additional insurance coverage."

Not once in his letter did Mayor Archer mention the impact of such regulations on consumers. Had there been some evidence that Detroit consumers were being poorly served by less regulated suburban services, it would have no doubt been mentioned. Instead, the mayor makes the case that it is unfair to Detroit taxi companies to have to compete against suburban limousine companies because they operate under "a different set of rules."

Instead of using the state legislature to foist unhealthy mandates on suburban businesses, perhaps Detroit could simply reduce its own regulation.

Privatization Could Rescue Detroit Fire Service

■ By Michael LaFaive

A recent series of articles in The Detroit News exposed a tangled web of trouble besetting the city's fire department. The long and short of it is that the citizens of Detroit have a right to expect reliable protection from fire and other emergencies—but they're not getting it.

To remedy the situation, Mayor Dennis Archer is considering a host of options, including contracting with outside firms to deal with maintenance, bill paying, and driver training. But why not go even further? The problems outlined by The News are so deeply ingrained and bureaucratically entrenched that it may be time to try a completely or nearly completely privatized fire department.

The idea is not as radical as it sounds. In fact, it's been done in other cities, with positive results. Detroit could contract with a private company for virtually every duty currently performed by the city-run fire department, including fire-code enforcement, arson investigation, training, communications,

maintenance, emergency medical services, and fire fighting itself.

Would a private company perform as well as the city force? First, as The Detroit News reports, the current city-run department has many serious problems. Second, the city would have the option of mandating, as conditions of a private contract, performance standards such as response time, maintenance of vehicles, number of open fire houses, and cost of operations, just to name a few.

Detroit could even make it profitable for a private company to prevent fires, and unprofitable when it fails to do so. For example, Rural/Metro of Scottsdale, Ariz., a private fire-fighting company, actually loses money when fires break out. This creates a profit-based incentive for the company to prevent fires while adhering to its other contractual mandates. Last year alone Rural/Metro held 1,000 fire-prevention education events.

How has the profit incentive prevented fires in Scottsdale? Since 1997, there has been only one fire-related death in Scottsdale's Rural/Metro territory, which covers 183 square miles. By contrast, Detroit, which covers 140 square miles, has lost 18 lives in fires due to "failed fire equipment" or closed stations during the same time.

Granted, there are many technicalities to consider when contemplating privatization of an endeavor as complex as a large urban fire department, and the matter would have to be handled carefully. For example, municipalities too often ask for bids from private companies only as a threat to frighten firefighters' unions into submission during contract negotiations.

In order to demonstrate to private contractors that Detroit is serious about privatization, Mayor Archer would need to play a prominent role. He would need to announce that services will be privatized, award the contract himself, and make it clear that his office would be responsible for carefully monitoring the contract for compliance.

It is likely that privatizing Detroit's fire department could not only provide better service, but save money at the same time.

Fire departments and cities often express their rates of spending as an amount of money spent per unit of property value being protected. The techni-

cal term is SEV, or "state equalized value," and the rate of spending would be expressed as a dollar amount "per \$1,000 of SEV," which represents half a property's market value, which is what property taxes are based upon.

In fiscal year 1998, it cost Detroit \$16.78 per \$1,000 of SEV to operate its fire system. By contrast, Scottsdale's for-profit Rural/Metro spends only \$6.89 per \$1,000 of SEV. In other words, Scottsdale, by contracting out its fire-fighting service to a private company, not only gets better service, it gets fire protection for dramatically less.

Right next door to Detroit, in the city of Troy, fire protection costs just 57 cents for every \$1,000 in SEV. Troy has a tradition of relying heavily on fire-fighting volunteers, supervised by full-time fire personnel. It now maintains a complement of 11 career and 170 volunteer firefighters.

Oddly enough, Detroit isn't even spending all of the money it allocates for fire protection. Budget records show that despite being desperate for new and safer equipment, Detroit spent \$13.5 million *less* in 1999 than was appropriated for the fire department. In fact, the city spent only \$1.5 million more in 1999 on all public safety expenditures than it spent in 1990. This doesn't even keep up with inflation.

Now, faced with The Detroit News exposé, Mayor Archer has announced that the city will provide Fire Commissioner Charles Wilson with "an open checkbook" to improve the Fire Department. But if more money were the answer, Commissioner Wilson would have spent the money he already has.

Clearly the problem is not a lack of money, it is mismanagement and the danger this mismanagement poses to the citizens of Detroit, who die in fire-related deaths far more often than citizens in

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Since 1997, Detroit has lost 18 lives in fires due to "failed fire equipment" or closed stations.



Detroit may wish to consider outsourcing its fire department, as other cities have done.

Greasing the Privatization Skids: Detroit Outsources Police Oil Changes

By Michael LaFaive
and Joseph Lehman

In 1997, nearly four years after he left office, former Detroit Mayor and staunch privatization opponent Coleman Young surprised many when he suggested that one of the city's services might save money if it were contracted out to a private firm. He said the city could realize substantial savings if it contracted with Urban Management Corporation, a company for which Young served on the Board of Directors, to change oil in city police cars.

The city followed Young's advice. Has it saved money?

It could hardly fail to do so. While Detroit's Department of Public Works (DPW) never advertised its oil-change costs, some of its cost information can be easily deduced from published reports. The picture one can draw fits right in with other Detroit boondoggles uncovered in recent years—mismanagement in the public school bureaucracy, building and safety inspections, the Department of Transportation, etc.

According to *The Detroit News*, DPW charged about \$1 million in 1997 to change the oil in 500 police cars for one year. Each change commonly takes an officer and his car out of service for up to 45 minutes. Slower service notwithstanding, if DPW is at least as efficient as private garages, an oil change should cost around \$30.

Assuming a \$30 per DPW oil change, \$1 million worth of oil changes for 500 police cars buys about 67 oil changes per car per year—that's one for each car every 5 or 6 days, on average. To need that many oil changes in so short a time, the police cars would each have to be running 200,000 miles per year.

To drive that many miles in a year, each car must be moving, on average, just under 23 miles per hour, 24

hours per day, seven days per week. That allows no stopping to catch crooks, no sitting at traffic lights, and no time for oil changes.

Obviously, DPW was not running a smooth, efficient oil-change operation. What's more, the fact that expenses were so far out of whack was apparently common knowledge—so much so that even privatization opponents like Young felt safe in proposing a private contract. It is therefore little wonder that Detroit officials found the former mayor's offer appealing and contracted with his group to provide the maintenance for city police vehicles.

The city quietly gave Young and his business associates the contract. Young, now deceased, said his proposal would save the city nearly \$700,000 of the \$1 million yearly cost of changing the oil in its 500 police cars—a 70 percent savings. Officials from Urban Management indicated that the savings would come from a quicker oil changing technique that could be performed at 13 individual police precincts instead of at the current single Department of Public Works (DPW) location.

The contract, now being carried out by On Site Oil, which bought Urban Management Corporation in 1998, stipulates that Detroit will pay a per-car cost for maintenance of \$32.95. The price is higher for trucks and vans. The contract is limited to 7,325 oil changes annually.

In exchange for these fees Urban Management agreed to drain and replace up to five quarts of oil; provide new oil filters; lubricate each car's chassis; maintain and fill radiator coolant, brake fluid, transmission fluid, and windshield washer fluid;



The city of Detroit now saves \$750,000 per year thanks to privatization through a contract with a private oil change company.

and conduct a general inspection of hoses, belts, and air filters on every vehicle.

The contract, signed in November 1997, had four major objectives:

- To develop a computerized system to schedule and track police vehicles for routine maintenance in accordance with time periods and mileage levels established by the city of Detroit, Vehicle Management Division of the Department of Public Works;
- To provide routine on-site maintenance services to police vehicles at
See "Oil" on page 16

“Compuware” continued from page 5

In an information age, children must be taught to use computers and to access information electronically. Administrative systems that track grades, maintain confidential student and school records, and provide necessary services to districts must operate at maximum efficiency. Schools should not be bound to status quo systems or programs because of bureaucratic lethargy or be forced to choose the cheapest vendor without considering service quality.

Detroit officials are optimistic that the Compuware contract will provide

the district with reliable service, thus redirecting spending into the classrooms where it belongs. And successful, large-scale privatizations such as this could serve as a model for other school districts across the country that are seeking ways to streamline services and ensure cost-efficiency in all their administrative programs.

Editor’s note: As Michigan Privatization Report went to print the Detroit Free Press reported that Compuware Corp., had been forced to go back and re-bid parts of the contract it had previously won. Compu-

ware did so and was successful in their bid attempt.

MPRI

Elizabeth Moser is education reform project coordinator with the Mackinac Center for Public Policy.

“Regulation” continued from page 9

to take inventory of their stock of regulations and eliminate those not aimed at facilitating commerce. At the very least, cities should contract out their licensing and permitting departments to private, for-profit institutions.

Regulations are essentially hidden job killers. The problem is detecting how many jobs are being killed: There’s no reliable way to know how many jobs were “never created” because the regulatory environment was too hostile. Entrepreneurs often find it too difficult to get through a costly maze of regulations and either throw up their hands in frustration and leave, or else operate illegally. As one Detroit businessman noted, “We operate on the basis that we just do what we want and the permits will catch up with us sometime.”

Last year, ABC News journalist John Stossel contrasted what works and what does not with regard to city regulation of commerce. As a test, Stossel attempted to open small businesses in Hong Kong and New York City. He went to the appropriate Hong Kong city office first, to apply for a license to open a small retail outlet. He filled out one

form and the next day he was operating his business in a mall. By contrast, the process in New York City took weeks and required licenses, state and federal tax numbers, and building and zoning approval.

There is no reason why U.S. cities cannot once again become small-business friendly. And there are successful examples available of how to go about it. Former Mayor Stephen Goldsmith helped Indianapolis eliminate licenses and fees for 110 local businesses and movie and live entertainment theatre licenses at 30 locations. The result: Not only did the city not lapse into chaos from a lack of regulation, it continues to thrive. A September 1998 Mackinac Center for Public Policy analysis reported that these changes, combined with competition from contractors, helped save the city 40 percent on the cost of issuing permits.

If a city insists on maintaining tight regulatory control on occupations and businesses, it could at least contract out regulatory duties to private firms. There are at least eight companies in Michigan that perform private building

inspections, for example. Many of these also can conduct review and approval of construction and other development plans as well as zoning enforcement.

Because regulation constitutes an unseen tax that adds to the cost of doing business, it can easily cease to perform its proper function of facilitating commerce if it gets out of hand. Complex, duplicative, and expensive regulations send a signal to entrepreneurs that their talents are unwelcome; indeed, that they will be punished.

Cities could go a long way toward opening themselves to greater prosperity if they would encourage entrepreneurship and simply step out of the way.

MPRI

Edward Hudgins, Ph.D., is director of regulatory studies at the Cato Institute, a Washington D.C.-based think tank.

Make a Toast to Privatization: Repeal Michigan's Protectionist Liquor Law

■ By Lawrence Reed

Privatization is about taking assets and services that were once a part of government's domain and moving them—in part or whole—into the private sector.

There are many ways to privatize. For instance, the state government may choose to sell one of its parks to private developers to own and manage as they please. Or the state could contract with a private company to manage the park's operation.

Other privatization efforts simply devolve the decision-making process from government officials to people in the private sector. School choice is a good example. Instead of assigning students to schools geographically closest to their homes, vouchers or tax credits let parents decide which school is best for their children.

Eliminating bad laws is another way to devolve decision-making authority to citizens. Take interstate alcohol sales, for example. It's been nearly seven decades since the failed war against alcohol during America's Prohibition period (1920-33) came to an end. But 29 states including Michigan still prosecute a kind of mini-Prohibition of their own: They forbid consumers from buying alcoholic beverages from other states unless the products are shipped through a state-licensed liquor authority.

The Michigan law is a relic from 1934, when states took over the regulation of alcohol sales after Prohibition was repealed. The thought then was that states that want to discourage drinking should have the power to determine the sources of legal beer, wine, and spirits. Whether that made sense then or not, the law today does little more than bestow a monopoly privilege on domestic sellers, raise prices, and limit choices for Michigan consumers.

Imagine if the state passed a law declaring that citizens of Michigan could not buy cherries from producers in any of the other 49 states. Does anyone really believe that it would benefit anyone other than Michigan cherry producers, assuming it could be enforced and that people would pay any attention to it?

Undoubtedly, people who ignore the law transport lots of illegal alcohol from other states into Michigan. Short of searching every car and truck at the borders, the state can't possibly expect to stop the flow. The primary effect of the law is probably to restrict sales over the Internet. If you've ever attempted to purchase wine from one of hundreds of web sites of wineries in other states, you discovered that all but a handful send back a reply, "Sorry, Michigan is not a ship-to state. We can't sell to you." The few exceptions are those that agree to comply with state regulations that do nothing more than jack up the price by about 25 percent.

Of course, Michigan wineries that have web pages can and do sell wine legally over the Internet to Michigan residents.

Defenders of these protectionist laws argue that opening up the market to Internet sales would make it easier for underage minors to get alcohol. James Rodney of Birmingham has a common-sense answer to that: "I really think a minor who wanted a bottle of good wine would find someone to buy it for him instead of using a credit card over the Internet and waiting for delivery at his parents' residence or even a college post office box." Like thousands of Michigan citizens who don't abuse alcohol and would simply like to get an occasional bottle from a favorite out-of-state winery, he wonders what makes the state think its law does any good.

Nonetheless, the Michigan Liquor Control Commission does make an en-

forcement effort. In a state of nearly 10 million residents, the commission seized more than a hundred packages of illegally shipped beer, wine and liquor in the first 11 months of last year. And it's been fighting a lawsuit filed by Michigan residents who claim the law is unfair and violates the interstate commerce clause of the U. S. Constitution.

No matter what happens in Michigan courts, the state's ban on interstate shipment of alcohol may run afoul of events elsewhere. The Institute for Justice, a Washington, D.C.-based legal advocacy group with a track record of getting special interest legislation thrown off the books, is litigating a challenge to a similar state law in New York. In refusing to dismiss the case last September, a U. S. District Court judge noted that the repeal of Prohibition in 1933 was not intended "to empower states to favor local liquor industries by erecting barriers" to competition. If the case goes all the way to the U. S. Supreme Court, the states may be hard-pressed to defend discriminatory treatment of each other's products in interstate commerce.

Michigan legislators don't need to wait for the courts to work this out. They should recognize the futility of this throwback to Prohibition and strike a blow for choice and competition—by repealing the 1934 law and once again allowing private citizens to make their own decisions.

Lawrence Reed is president of the Mackinac Center for Public Policy.



Wine, seized by state officials, remains locked in a Lansing evidence room. A Prohibition-era law stops the purchase and shipment of wine across the Michigan border unless it complies with a host of state regulations.

The Michigan law is a relic from 1934, when states took over the regulation of alcohol sales.

Privatization: The Life of the Party

■ By Michael LaFaive

The *pursuit* of happiness—not happiness itself—is one of the unalienable rights of citizens listed in America’s Declaration of Independence. This distinction between happiness and its pursuit was intentional on the part of America’s Founders. It marks the difference between a government that imposes results that it considers desirable and a government that preserves individuals’ freedom of opportunity to pursue what they desire as long as their activities don’t obstruct the freedom of others.

Americans have been fighting over the distinction between results and opportunity ever since. In fact, over the past several decades, the distinction has become increasingly obscured in the minds of those who view government as society’s primary problem solver.

Today, we see government trying to guarantee the “right” result in matters large and small, from economic prosperity to education—and even to old-fashioned neighborliness. That’s right: The Detroit News reported recently on just two examples of government-imposed neighborliness, one in Canton Township and another in Sterling Heights.

Canton officials are looking to purchase a \$20,000 “Mobile Recreation Unit.” According to The News, this recreation truck will come “chock full of yard games and grills.” The idea behind the truck is to facilitate neighborly interaction. The township already employs a “neighborhood specialist” to help throw parties and settle small disputes. Meanwhile, in Sterling Heights, senior citizens are treated to an annual “Older American Festival,” which costs county taxpayers \$30,000 for a single day of food, dancing, and camaraderie.

Of course there is nothing wrong with wanting to express neighborliness

or celebrate the contributions and achievements of older citizens. But taxpayers ought to wonder whether it is the place of government to decide when neighborly interaction is lacking, in what ways it is lacking, and what ought to be done about it. After all, government action carries the force of law behind it. Empowering the local neighborhood cheerleader with the force of law is bound, sooner or later, to yield results at variance with what might be voluntarily hosted by associations such as churches, the local PTA, Kiwanis and Rotary clubs, and private citizens.

Leon Drolet, a Macomb County commissioner, is a long-time opponent of the Older American Festival. He says that many of his colleagues on the commission and in county government refer to the festival as “the absentee voter picnic,” illustrating the types of abuses to which such civic lapses lend themselves. He says the festival is simply a political program for local politicians. Using tax dollars, politicians are able to gather 5,000 likely voters in a small park and work the crowd for votes.

The civic problem government officials encounter with all programs like the party truck and Older American Festival is that such programs redistribute the earnings of people who

may or may not desire the particular form of entertainment provided. Governments have subsidized everything from community swimming pools, ice rinks, golf courses, sports stadiums, theatres, concerts, and art exhibits, just to name a few. But it is fundamentally unfair to force one person to subsidize the recreation of another. If the citizens of a community want to organize large festivals, the success of those festivals should be derived solely from the voluntary contributions of those who support them.

Local governments across Michigan have been subsidizing entertainment for years. But is throwing parties a proper role for any unit of government? *Michigan Privatization Report* has reported time and again on city, county, and state governments using tax money to entertain their citizens. A better approach is to leave entertainment to private initiative, where the market can cater to citizens’ diverse tastes without unfairly burdening some people with the bills for others’ leisure activities. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

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efforts to meet the terms of the contract, including standards and project objectives. Inspections by the contract administrator or his staff, which may be scheduled or not, should be aimed at checking whether the contract’s requirements are being fulfilled. Citizen complaints should be formally documented and researched, and when valid, should be taken seriously. On the other hand, contract administrators should be on the lookout for complaints generated by disgruntled employees or their friends and relatives.

Clearly, one of the benefits of privatization is saving money. But those savings should never come at the expense of the safety of school children. Private contractors—and public school employees—must be held to strict standards of safety or risk losing work to someone who will do the job safely. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

In Sterling Heights, senior citizens are treated to an annual “Older American Festival,” which costs taxpayers \$30,000 for a single day of food, dancing, and camaraderie.

Urban Sprawl for Dummies?

■ **By Samuel Walker**

It's difficult for officials and citizens to deal with an issue when the terms have been pre-packaged by one side in the public debate. By drum-beating the term "urban sprawl" for years now, policy-makers and activists who favor government solutions to perceived problems have been able to take much of the public focus off some of their own most persistent urban failures.

Par for the course is that the term used to describe the solution to "urban sprawl" places a negative label upon all those who notice the sleight of hand. After all, the only people who would be against "smart growth" must be, well, dummies. So maybe it's time for a short lesson entitled, "Urban Sprawl for Dummies."

Market-oriented policy-makers and proponents are wrong to say that aesthetically ugly housing developments spreading across the countryside are "no problem." But the real problem has always been deterioration of the quality of life in our cities, and a refusal to acknowledge their causes in policy. Public school systems are willing to fail generations of minority youth rather than admit that market-oriented reforms like school choice might work. City governments are allowed to deliver services incompetently decade after decade rather than adopt more efficient, private-sector alternatives. Lawless, dangerous city environments are only now being changed, slowly, against determined resistance, through older, more traditional law enforcement methods—methods government planners discarded as anachronistic decades ago.

Think about it: U.S. cities are being deluged with proposals aimed at reversing 40 years of failure. How would you like it if your political opponents could credibly cite 40 years of living testimony against your policies and positions?

You'd be extremely grateful to anyone who came up with a way to divert attention from these failures. In the concept of "urban sprawl," those favoring government solutions have found a way to: a) refocus attention away from the real problems; b) avoid having to admit they were wrong about many things; and c) not just *keep* their coercive government powers, but actually *expand* them.

According to Albany Law School professor Patricia Salkin, the concept of urban sprawl inspired more than 1,000 legislative bills in 1999 alone, and 20 percent of these passed. The idea has empowered city governments and state legislatures to impose a host of growth control policies that limit private, individual, and community choices in favor of vast, restrictive government directives.

But the same people who gave us the problems aren't likely to come up with the solutions. After all, we've added 120 million people to America's population since 1950. That works out to about 55 million new homes. They have to be built somewhere.

Perhaps "New Urbanist" developments like Cherry Hill Village in Canton Township are the way to go. Developers—without either coercion or subsidies from government—were able to build high population density housing that minimizes the need to use automobiles because of mixed-use zoning that allows both residents and commercial properties to be built side-by-side.

The point policy-makers should understand about what they refer to as "sprawl" is that it's not wrong for individuals, families, and businesses to choose the most viable options open to them. Whenever an alarmist shows a picture of ugly housing developments "encroaching" upon pristine farmland, it might be appropriate to show him a picture of a typical inner-city neighbor-

hood and ask which he would prefer, if his living arrangements were at issue. In fact, ask him where he lives now.

Policy-makers must look at the factors that cause families to leave cities. It's time to focus on such things as making schools not just tolerable but great. There are a number of ways to do this, whether through charter-school expansion or some kind of school choice program that gives parents a tax credit for tuition at public or private schools.

City officials also could do other things to fix the schools, improve the quality of city services, and lighten the tax load on citizens. They could open teacher certification so top-notch professionals who want to can become teachers. They could contract out to private firms garbage pickup, water and sewer services—even rodent control—so service providers will go out of business if they fail to show up on time to fix a problem. They could post a friendly, neighborhood patrolman on foot to walk the precinct. They could avoid traffic problems in the city and avert "sprawling" developments outside it by easing tough zoning requirements so stores can be built close enough for people to walk or ride a bike there.

In short, the solution to "urban sprawl" lies in fixing the problems that cause people and businesses to leave cities in the first place. But people must be allowed to come up with their own solutions. No one-size-fits-all solution policy-makers try to impose has worked or is likely to work, even if they do think it's "smart." MPRI

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Market-oriented policy-makers and proponents are wrong to say that aesthetically ugly housing developments spreading across the countryside are "no problem."

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police precincts so designated by the Vehicle Management Division of the Department of Public Works;

- To provide transportation for all personnel, supplies, and equipment to be used in the servicing of the vehicles to and from the police precincts; and
- To dispose of all items used in the servicing of the vehicles (oil, etc.) using methods that comply with local, state, and federal requirements.

What are the results? For the computerized system and services involved in the first objective, the city was to pay Urban Management \$17,000. For all other services the city agreed to pay “a maximum not to exceed” \$242,208. This price represents a 75-percent drop in the price paid by the city of Detroit to change the oil in its police cars. And the savings are even greater when one considers that the company must return a portion of this money back to the city in the form of income tax. The contract with Urban Management and On Site Oil has saved Detroit at least \$750,000 annually since it was implemented.

Probably no one knows how many other city services are being similarly mismanaged and could save vast amounts of money through private contracts. Imagine what the city might save if it contracted out every other DPW operation. MPRI

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Troy or Scottsdale. Indeed, combined, these smaller cities have experienced only two fire-related deaths since 1992.

In one year, 1999, the value of residential property destroyed by fire in Detroit was more than the value of all new residential property built in the city during the entire decade of the 1990s. What type of message do these numbers send to the people and businesses considering a move to the Motor City?

A reputation for providing poor services hurts the city of Detroit and discourages those families and businesses

that might consider locating there. If Detroit wants to experience the economic renaissance it has yearned for, it must become willing to do things differently. One way to begin might be to privatize its failing fire department. MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

The contract with Urban Management and On Site Oil has saved Detroit at least \$750,000 annually since it was implemented.

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Oakland Saves Taxpayers Millions by Contracting Out

■ By Michael LaFaive

The suburban communities of Oakland County are generally known for their remarkable economic growth and prosperity. What sets Oakland, one of the nation's wealthiest counties, apart from its less wealthy but more populous neighbor to the south, Wayne County?

One major difference is the privatization efforts that have saved Oakland County job providers and taxpayers almost \$9 million since 1993. Most of the services contracted out by Oakland County Executive L. Brooks Patterson and his staff have been small, so few privatization efforts have been publicized by the media. That does not mean, however, that they are not important. Below is a brief timeline of Oakland County's impressive privatization accomplishments.

- **May 1993.** County officials contract with a private firm to serve and process civil papers. The firm is paid through fees generated by the court. Last year the company served 5,851 papers and received fees totaling \$480,000. **Annual savings: \$208,588.**
- **August-October, 1993.** Oakland County enters into three contracts with private firms for food, janitorial, and medical services through its Medical Care Facility, a 120-bed long-term nursing home that serves Medicaid, Medicare, and Blue Cross/Blue Shield recipients. **Annual savings: \$376,349.**
- **January 1996.** Oakland County contracts with an automobile dealer to provide "bump shop" services to county-owned vehicles. A bump shop is responsible for removing the many dents and dings inflicted on automobiles in the normal course of their useful lives. **Annual savings: \$86,300.**

- **July 1996.** Oakland County contracts with Staples Inc., for the purchase and delivery of office supplies to all departments. **Annual savings: \$132,200.**

Prior to this contract, county departments ordered supplies directly from the county's Materials Management Division. The division then ordered supplies directly from a vendor, who delivered supplies twice per week. This middle management was reduced by allowing individual departments to order from Staples directly, via the Internet. In addition, the county was able to avoid construction costs for a new Materials Management Division building. Ultimately, however, Oakland County became dissatisfied with the Staples vendor and terminated the contract in favor of a new one with the vendor Boise-Cascade. One of privatization's great virtues is that if a vendor fails to perform it is easy to get a new vendor. A poorly performing county unit is much harder to replace.

- **October 1997.** The county contracts with a private dental organization to provide dentistry services to 3,000 low-income adults. **Annual savings: \$742,988.**

For more on this subject, see "Oakland County Fills A Cavity: Privatizing Dental Work" in the winter 1998 issue of *Michigan Privatization Report*.

- **October 1999.** Oakland County contracts with private physicians to conduct breast and cervical cancer screenings for Medicaid patients. **Annual savings: \$138,675.**
- **August 2000.** County officials contract with a private firm for purchase and preparation of inmate meals. **Annual savings: \$1,656,765.**

These privatization efforts re-

duced needless bureaucracy in county departments by 67 full-time positions. Few employees, however, had their jobs terminated. Positions that were vacant at the time of privatization were never filled, some employees retired, and still others were transferred to different positions within the county.

In addition, Oakland County has given its Wixom-based sewerage plant to the city of Wixom. The city then contracted with EarthTech for operations and maintenance of the facility. EarthTech is a Long Beach-based provider of water and wastewater management with offices all over the states, including Grand Rapids.

Looking to the Future

The next big public-private contract under consideration between Oakland County and a private, for-profit firm involves Oakland's "806 Megahertz" system, which is a radio communications system used primarily for the county's emergency personnel. Oakland may outsource the system's operation and maintenance over to a mobile communications company such as Motorola Inc. or ComNet Ericsson. The county would retain the system's towers and issue radio licenses, while all other services would be provided by the private firm.

The Patterson administration in Oakland County has not been a vocal champion of privatization; however, it has worked quietly behind the scenes to ensure that what privatization efforts it took were worthwhile and resulted in better services and lower costs for residents.

MPRI

Michael LaFaive is managing editor of Michigan Privatization Report.

One of privatization's great virtues is that if a vendor fails to perform it is easy to get a new vendor. A poorly performing county unit is much harder to replace.

Around the State



Detroit May Privatize 13 Schools

DETROIT—Detroit Public Schools is in search of private companies willing to take over 13 of the city's schools. The district has drafted a request for proposals from private firms. The Chief Executive Officer of the district, Kenneth Burnley, may select one or more firms to manage the schools. The contract could start as early as August.

When charter school legislation was passed in the early 1990s, this is what the Mackinac Center for Public Policy had envisioned: allowing whole portions of a district, if not the entire district, to convert to charter status.

private vendor of their choice for removing snow from sidewalks, playgrounds, parking lots and roads. The usual result was deep snow covering everything for days following a heavy snow—six snow days off for students in 1999 alone.

This winter, the school district decided to sign a contract with B&L Landscaping and Torro & Braglio Landscaping to clear away the snow at all of the district's 260 schools. The streets and thoroughfares that students, school buses, and moms and dads must brave are now neatly plowed.

"Everything is just fantastic," Zelma Stinger, principal of Holcomb Elementary School, told The Detroit News. "The sidewalks are clear. The streets are clear. It's just amazing."

MDOT Sells Lenawee County Railroad System

ADRIAN—In a move the Mackinac Center called for back in April 1995, the Michigan Department of Transportation (MDOT) has sold the state's oldest piece of railroad, the Lenawee County Railroad System, to a private company, the Adrian & Blissfield Rail Road Company, for \$1.7 million.

Originally built in 1836 by the Erie and Kalamazoo Railroad, the Lenawee was the first railroad west of the Allegheny mountains.

MDOT has owned the 19.5-mile system since the 1980s and since then has contracted with several private railroad companies to provide rail service to shippers. But ownership of the railroad stayed with MDOT until recently, when officials decided to offer the property for sale to "the bidder that exhibited the greatest potential to provide efficient and reliable rail service," according to MDOT Director James DeSana.

In the Dark about Sale of Detroit's Public Lighting Department

DETROIT—There is still no word on which power company has expressed

interest in taking over Detroit's Public Lighting Department and taking a crack at running the trouble-laden system.

Although Mayor Dennis Archer told The Detroit News he would "seriously entertain any offer" from a private company to run the utility, neither his office nor any private company has stepped forward with details on the deal, which would represent the largest sell-off of a city agency in recent Detroit history.

The Public Lighting Department suffered a terrible year in 2000, including two major power outages that shut down schools, hospitals, and government offices. This and a major electrical explosion at Detroit's main library have elicited calls for privatization and apparently opened the door for offers from private companies that believe they could handle the job.

The only things known at this point are that the company that came forward with an offer is not Detroit Edison, and that city government was given "about a month," according to Archer, to come up with an assessment of just what a sale deal would entail and how it should work.

The department provides lighting to 4,500 public buildings in Detroit, including schools, libraries, fire stations, police precincts, hospitals, and colleges and universities.

Garden City Holds Private Garbage Contractor Accountable

GARDEN CITY—In most places, when public service is bad, citizen complaints pile up and the terms of public employment shield those responsible from suffering any real penalty. But in Garden City, officials impose a stiff fine—\$750 a day—when Abcor Enterprises, the city's private garbage pickup service, fails to fulfill the terms of its contract.

Abcor was hired in October 2000 to haul trash for 11,500 homes and

The Public Lighting Department suffered a terrible year in 2000, including two major power outages that shut down schools, hospitals, and government offices.

Novi Ice Arena Skates toward Financial Stability

NOVI—When the city of Novi opened an ice arena in August 1998, officials expected to reap a \$70,000 profit in its first year. Instead, construction delays and poor management drove the arena into what now amounts to a \$350,000 debt.

But last fall the city hired a private management firm, and, as the result of a deal to allow the telecommunications company Sprint to build three cell-phone towers on the arena's grounds, the Novi Ice Arena is finally on target to make a profit. In December, the City Council unanimously approved the deal, which will give the city an initial \$100,000 payment and yearly payments starting at \$15,000 and rising to \$25,000 per year over 25 years. Officials expect the Sprint deal to raise at least \$585,000 over the life of the contract.

Detroit Schools Clear Path for Efficient Snow Removal

DETROIT—Before the winter of 2000-01, Detroit's school district relied on school principals to contract with the

businesses in Garden City. If the company fails to do its job, it is fined. In October alone, Abcor paid out nearly \$7,000 in fines for offenses such as missing entire city blocks and showing up to collect trash from houses as late as 11:30 p.m.

In late November, even though the company was doing better, a Detroit News article on Garden City's poor garbage service didn't do Abcor's reputation any good at all. "If they don't do what the contract stipulates, we'll continue to fine them," City Manager David Kocsis told The News, neatly encapsulating the rationale for privatization.

Reports now are that Abcor has shaped up and won't be fired, even though this remedy is always lurking in the background as the ultimate motivation for a private company to improve.

Oakland County Privatizes Direct Care for Mentally Ill

OAKLAND COUNTY—The Oakland County Community Mental Health agency, one of the largest in the state, has gotten out of the business of providing direct care for around 14,000 people with psychiatric and developmental disorders.

Instead, it has contracted out this care to Macomb-Oakland Regional Center (MORC) and Easter Seals, which will use the same 240 direct-care staffers used by the old system, to assure continuity of care for the patients.

Unlike the old system, both contractors will face heavy fines if they fail to meet clearly stated contractual standards of care. The contract also contains monetary incentives for meeting desired objectives, such as placing patients in community settings. "No other Community Health Service in the state has a performance contract," John Torrone, MORC public affairs director, told the Detroit Free Press.

Consultants to Saginaw: Privatize Civic Center

SAGINAW—The best way to give a new lease on life to the financially struggling Saginaw Civic Center, according to a 120-page report released in November by international consulting firm Deloitte & Touche, is for the city to hire a private management company.

A management company, according to the \$81,000 study, would be able to devote itself to networking with a larger range of contacts to lure events to the 28-year-old facility. In addition to privatization of management, Deloitte & Touche reported that to avoid closing in June, the Civic Center needs to initiate a public relations blitz to change "negative connotations" about the center and downtown Saginaw, upgrade the "worn and dated" appearance of the conference meeting area, and make as much as \$6 million in renovations and repairs. The study projects that the Center will rack up a monetary shortfall of anywhere from \$194,500 to \$467,800 over the next five years.

Public-Private Partnership Brings in the Recycling Green

ANN ARBOR—The private company that operates Ann Arbor's Materials Recovery Facility brought in more money for the city in 2000 than it has in any year since the facility was built five years ago.

In the 1998-99 fiscal year, Casella Waste/FCR, the company that runs the facility, brought Ann Arbor a profit on its recyclables of \$2,818. Not a bad profit on crunching up plastic bottles and pop cans. Not bad, that is, until one considers how much the firm placed in city coffers this year: \$269,733.

"The market conditions were really good," explains Bryan Weinert, Ann Arbor's manager for resource recovery and waste reduction. "We're extremely happy with the job our pri-

vate contractor is doing, and expect even greater results in the coming year," Weinert said.

The firm's most recent fiscal performance got rave reviews from the White House Task Force on Recycling, which recently recognized Ann Arbor for meeting the National Recycling Challenge started by then-Vice President Al Gore in 1998.

Private Group Wants to Manage Detroit Children's Museum

DETROIT—A private group made up of professionals, business leaders, educators, media people, and parents from across Metro Detroit have launched a fundraising campaign to finance either a total renovation or a total remake, at a new location, of Detroit Children's Museum.

The group, which calls itself Detroit Discovery Museum, is responding to a growing concern that the museum, currently run by Detroit Public Schools, is ineffective and substandard, especially compared to children's museums in other cities such as St. Louis and Indianapolis.

One option being considered would be for the school district to turn the facility over to the nonprofit group, which would refurbish the museum in its current location. Another would be for Detroit Discovery Museum and the school district to form some sort of cooperative partnership. Yet another way is to begin a new facility in a new location. Whichever option is chosen, fundraising for the effort is ongoing.

As Amy Roth, a volunteer for the nonprofit group, told Detroit News columnist Bill Johnson, Detroit Public Schools already has its hands full trying to take care of the catastrophic financial and educational woes that have plagued it for decades, without the added responsibility of running a children's museum.

"I think they have more pressing priorities," Roth said. MPRI

A management company, according to the study, would be able to devote itself to networking with a larger range of contacts to lure events to the 28-year-old facility.

Cities' Budget Woes Could Be Preview of Detroit's Future

■ By Alicia Sikkenga

The financial turmoil facing the Wayne County cities of Highland Park and Hamtramck may offer a glimpse into Detroit's future—if officials do not take measures to put the Motor City's fiscal house in order.

Highland Park and Hamtramck, both surrounded entirely by Detroit, recently made headlines when their financial woes triggered a state appointment of two "emergency financial managers" to bring the cities' municipal budgets back into line. Hamtramck is facing a \$2.4 million debt while Highland Park was delinquent in making a \$525,000 payment to the Michigan Employee Retirement System, as it is required to

do by law. In December, Wayne County judge Louis Simmons reversed the state's decision to appoint a financial manager in Highland Park. The city is now back under the control of its democratically elected leadership.

Emergency financial managers are appointed under a 1990 state law

known as the Local Government Fiscal Responsibility Act, or Public Act 72. The law effectively confers the combined power of mayor and city council upon financial managers, allowing them to unilaterally take measures—including privatization of city services—to balance the books of troubled cities.

What does Highland Park and Hamtramck's experience with emergency financial managers mean for Detroit? A strict interpretation of Public Act 72 suggests that Detroit's financial condition is similar to that of the two smaller cities. Under the law, the process of appointing a financial manager may be triggered if a city "fails to provide an annual financial report or audit that conforms with the minimum procedures and standards of the state treasurer and is required under the uniform budgeting and accounting act." As of Jan. 2, De-

troit violated this condition when it failed to complete its annual audit on time. This should subject the city to a financial review by the office of the state treasurer.

If the state treasurer does conduct a review of Detroit's financial situation, he must inform the governor whether or

not a "serious financial problem may exist" within 30 days after beginning his review. If the treasurer determines that there is a problem, the governor may appoint a review team to examine the city's fiscal health in greater detail.

The review team must examine city financial documents to determine if one or more financial conditions have occurred and whether or not the city can solve its own problems. Specific financial conditions that the review team looks for are highlighted in the law. They include, but are not limited to

- Failure (by the city) to pay wages and salaries or other compensation to employees or retirees for more than 30 days;
- Failure to eliminate an existing deficit in any fund of the local government within the two-year period preceding the review team's report to the governor.

The second condition is bad news for Detroit because two of its funds are currently in deficit.

Now is the time for Detroit officials to seriously consider money-saving privatization options—before it's the Motor City's turn for a state-appointed fiscal manager. MPRI

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Louis Schimmel is currently the emergency financial manager of Hamtramck. Is there one in store for Detroit?

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