



Privatization

A Quarterly Publication on Privatization Initiatives throughout the State • Mackinac Center for Public Policy • No. 2003-02 / Fall 2003

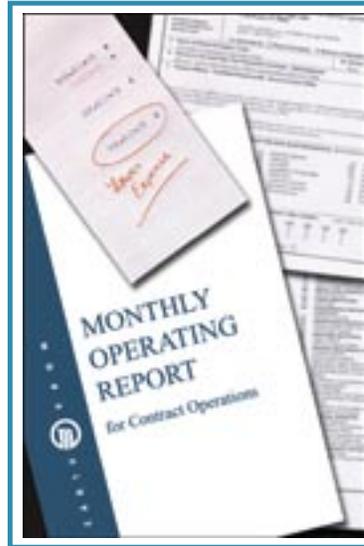
REPORT

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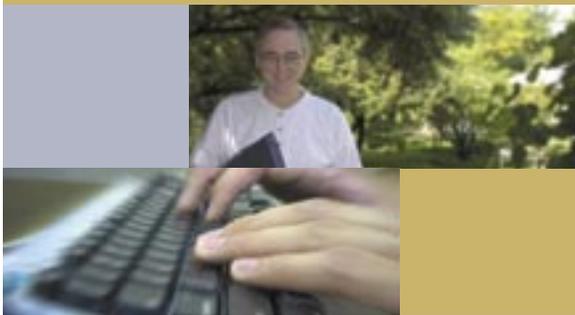
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MICHIGAN PRIVATIZATION REPORT

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Michigan Privatization Report is published bi-annually 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 22,000. Copyright © 2003 by the Mackinac Center. All rights reserved. Permission to excerpt or reprint is hereby granted provided that Michigan Privatization Report, the author, and the Mackinac Center for Public Policy are properly cited, and a copy of excerpt or reprint is sent to the editor. Please contact the Mackinac Center for Public Policy at 140 West Main Street, P.O. Box 568, Midland, MI 48640; Phone: (989) 631-0900; Fax: (989) 631-0964; e-mail: mcpp@mackinac.org; or World Wide Web: <http://www.mackinac.org> if you wish to receive Michigan Privatization Report.

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MICHIGAN REPORT

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4 Contract Out School Services Before Laying Off Teachers

Since 1995 a powerful law allows Michigan school districts to examine the privatization of noninstructional services free of interference from union demands in collective bargaining. Privatization — done right — can be an effective management tool for saving money and improving services. Before districts lay off teachers to solve budget problems they should consider competitive contracting.

5 County Police Can Patrol Highways For Less

As state legislators looked to balance Michigan's 2004 budget — which was \$1.5 billion in the red — they



might have considered handing county police departments the job of patrolling Michigan's roads along with the funding to do it. Counties could do as good a job as state police for \$65 million less per year.



7 Veterans' Homes: Privatization Could Mean Lower Costs, Better Services

Most states own and operate their own "veterans' homes." These are facilities that provide basic living accommodations or health-care services to men and women who have served in a branch of the U.S. military. But some states have reaped the benefits of outsourcing management of these homes to private companies. If Michigan were to do the same, it could maintain or improve services to veterans while saving taxpayers as much as \$20 million annually.

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The Michigan Education Association publishes a newsletter/magazine for its members called "MEA Voice." Its April edition was largely dedicated to why districts should not privatize.

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Constantine Public Schools, which serves more than 1500 students in southern Michigan, have outsourced their food services. The contract is expected to save the district \$40,000 annually while improving food quality and service for students.

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Feature

Contract Out School Services Before Laying Off Teachers

■ By Michael LaFaive and Robert P. Hunter

The Dearborn school district last spring announced its intentions to lay off 12 percent of its teachers to help close an anticipated \$4 million to \$7 million budget deficit. This amounted to 160 teachers that would lose their jobs — teachers who would not be there for the 17,000 children in Dearborn classrooms after summer break.

This drastic step, which took effect June 30 was unanimously supported by Dearborn's Board of Education. Similar layoffs reportedly are scheduled or being contemplated in Livonia, Plymouth-Canton, Utica, Taylor and other Michigan school districts. The district has since hired back all but 20 of the teachers it had dismissed.

Any decision to lay off teachers, however, begs the question of whether every cost-saving alternative was explored before choosing the one that arguably hits children the hardest.

The Mackinac Center for Public Policy has long encouraged school districts to consider the savings that can be gained by contracting with private companies for food, transportation, custodial and other non-instructional services such as technology and security.

Districts that do it right — write tight contracts, seek competitive bids, and closely monitor the performance of the contractor — almost invariably find they are paying significantly less money for higher quality service. In a non-comprehensive 2001 Mackinac Center survey, over 80 percent of responding

school districts reported saving money through outsourcing. The money saved can be put back where it belongs: in the classroom, keeping good teachers instead of laying them off.

Bob Cipriano, director of business services for Dearborn Public Schools, said a private company provides the district's security services. But the district has not privatized food, custodial or bus service. Cipriano said the district looked into privatizing custodial services four or five years ago, but decided against it. He said he is not sure it has ever considered privatizing bus service.

Cipriano emphatically contended that his district's food service "is run like a business," "is making a profit," and "is not a drain on the school budget." In fact, a number of Michigan schools are taking this route: As a last-ditch effort to resist increasing pressure to contract out, they are actually trying to run their own services in ways that no longer lose money hand over fist.

Thus, the mere prospect of privatization is imposing economic discipline where before there was none, spurring school districts to run their services more efficiently.

The fact that this argues in favor of privatization seems lost on the editors of the April issue of the Michigan Education Association's monthly magazine, which is devoted exclusively to "fighting privatization." Calling school districts that privatize "fool-hearty" [sic] and the companies that provide the services "privateers," the magazine showcases instances in which private companies have been fired for not delivering lower costs, or higher quality, or both.

Ironically, the union's argument supports privatization. The whole reason privatization is an issue is because schools want to be able to get rid of services that cost too much, do a poor job, or both. It's extremely diffi-

cult, nearly impossible, to fire unionized school employees. Schools can much more easily fire a private company that doesn't live up to its contract.

The fact that poor-performing private companies have been fired — a point the MEA makes very clear — doesn't prove that privatization doesn't work. It proves that it does.

It's not as if MEA officials don't know the benefits of outsourcing. Not long ago the union itself employed private (even non-union) companies — not its own unionized employees — to provide food, security, custodial and mail service at its East Lansing headquarters.

So, why not privatize, if it can enable districts like Dearborn to retain its teachers? After all, private contractors often hire the same bus drivers, custodians and cooks who were formerly school employees. But the union might lose these workers as dues-paying members in the process. Apparently, the union — facing a \$10 million deficit this year — is willing to sacrifice a few teachers to ward off potentially bigger losses as privatization gains momentum. Does this display a primary concern for children and teachers?

School boards that put teachers and kids first have a powerful law on their side. Michigan law prevents the MEA from making privatization a bone of contention in contract negotiations. This leaves school districts free to save money for teacher salaries through privatization of non-instructional services.

They should do so, before laying off a single teacher. MPRI

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

Robert P. Hunter is senior fellow in labor policy for the Mackinac Center for Public Policy and a Former member of the National Labor Relations Board.

Any decision to lay off teachers begs the question of whether every cost-saving alternative was explored before choosing the one that arguably hits children the hardest.



Of the 513 Michigan school districts surveyed on privatization this summer by the Mackinac Center, 194 reported outsourcing at least one of three noninstructional services: food, busing and janitorial. Food service privatization exists in some form in 140 school districts.



County Police Can Patrol Highways For Less

■ By Jack McHugh

The next time you see a Michigan State Police trooper ticketing speeders on a major highway, ask yourself this question: Why is a routine traffic safety enforcement action being performed by a state trooper, when the same job could be done just as well for far less money by a county sheriff's deputy?

This is the sort of question the Granholm Administration should have been asking as it looked for ways to trim Michigan's looming \$900 million budget deficit. Like many other budget items, the answer to this particular question boils down to "that's how we've always done it."

Yet, Michigan could save around \$65 million each year by handing over highway traffic enforcement to county sheriffs — without reducing by a single officer the amount of road patrol activity, or its quality. This devolution of services from the state to counties is akin to inter-governmental contracting, where one unit of government contracts with another to provide a service. For instance, Hamtramck Emergency Financial Manager Lou Schimmel once considered hiring Wayne County to provide police services to Hamtramck.

It costs Michigan taxpayers some \$90,000 to keep a state trooper on the payroll for a year. This is not the "take-home" pay of officers, but the total compensation cost incurred by their employer, including benefits and the state's share of mandated taxes and fees. By contrast, county sheriff deputies cost taxpayers less than \$70,000 a year in most places — often much less.

To be sure, the Michigan State Police provide many law enforcement services that local and county agencies cannot. Among these are forensic science and lab services, criminal databases, special operations, including

canine and underwater units, bomb squads, and more. The State Police also perform multi-jurisdictional and large-scale criminal investigations. Because it serves the entire state and so enjoys economies of scale, it is logical for the department to continue providing these services as a backup to local police.

However, it is not logical to divert expensive State Police resources to functions local agencies are eminently capable



The state could maintain highway patrols and save approximately \$65 million annually by devolving responsibility for patrols to the county sheriffs' departments.

of performing for much less money, such as routine traffic safety enforcement.

Sheriff deputies and municipal police in Michigan are fully competent to take over this function. In fact, one of the functions performed by the State Police is to set standards and certify law enforcement training programs for all local peace officers. Some \$11 million is spent each year to do so, and to provide in-service training for local police. There's no reason why this training could not include traffic safety enforcement.

So how do we begin saving taxpayers \$65 million a year? The "uniformed services" line item in the state budget accounts for 40 percent of the annual \$410 million State Police budget. The lion's share of this money pays for road patrols. If that function

were transferred to the counties, other overhead expenses could be cut and the entire department downsized. In a March 2003 Mackinac Center analysis, the estimated total reduction would come to around \$195 million.

The average cost statewide to employ a county sheriff deputy is approximately 77 percent (or less) of the cost of employing a state trooper. Therefore, the state could give grants to county sheriff departments equivalent to 77 percent of the amount it currently spends for road patrols, or \$128 million. This would allow sheriff's departments to hire more deputies, and also to boost their overhead to support the expanded operations. The grants should have "strings" attached: Sheriffs should be required to provide the same amount of major highway road patrols as are currently provided by the State Police.

Given the large number of state trooper retirements expected in the next few years, now would be a good time to begin this transition. Instead, the current plan being put forward by the Granholm administration is to maintain State Police trooper levels and other functions despite revenue shortfalls. This it has done with \$70 million in new fees on the points accumulated on individual driving records, including a \$300 fee on those who fail to carry *proof* of insurance in a vehicle, even if they are insured.

Such "revenue enhancements" are not the kind of "outside-the-box" thinking Gov. Granholm embraced in her campaign. Fee increases may be unnecessary, especially when other money-saving options — such as allowing local law enforcement to perform routine traffic safety patrols — are available. MPRI

Jack McHugh is legislative analyst for the Mackinac Center for Public Policy. He runs the Mackinac Center site MichiganVotes.org, which is designed to give users a plain language description of every bill, amendment and vote in the state legislature.

Michigan could save around \$65 million each year by handing over highway traffic enforcement to county sheriffs — without reducing by a single officer the amount of road patrol activity, or its quality.

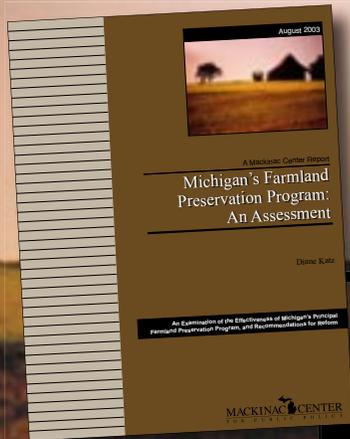


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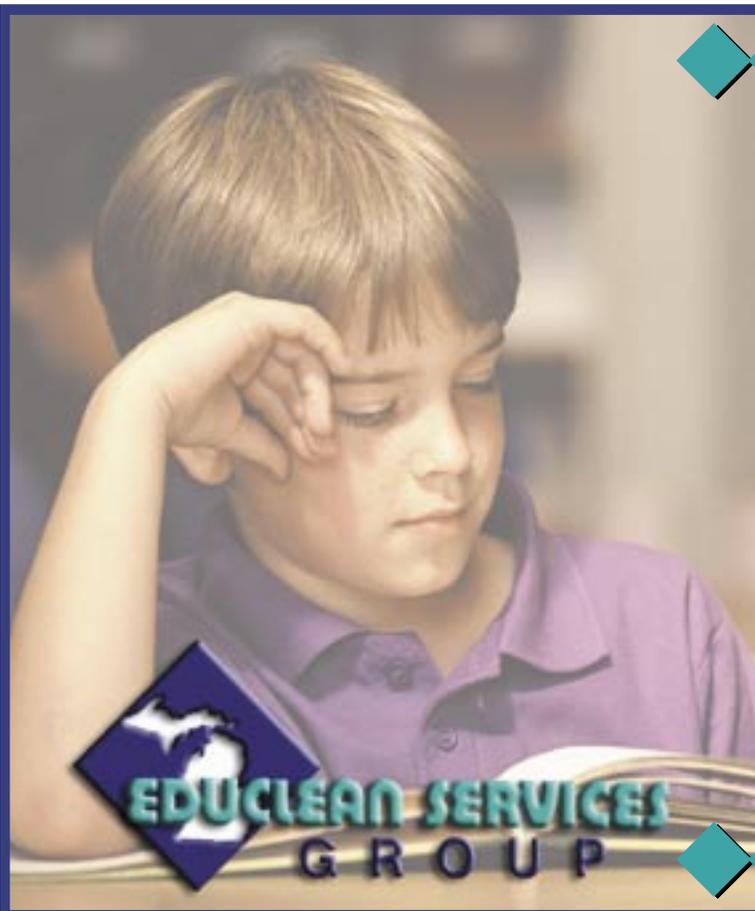
Michigan's Farmland Preservation Program: An Assessment

by Diane Katz



An Examination of the Effectiveness of Michigan's Principal Farmland Preservation Program, and Recommendations for Reform

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Veterans' Homes: Privatization Could Mean Lower Costs, Better Service

■ By Michael LaFaive

Although the war in Iraq is over, fulfilling government promises made to veterans of this and other wars will take many decades. Both federal and state governments are deeply involved in providing healthcare and other services to active and former members of the military.

Most states operate at least one veterans' home to provide highly specialized medical care to veterans. They also provide residential services — places to live — for those who qualify for state services. The state of Michigan should consider contracting out for management of its two veterans' homes, as other states have done, to save money in this tight budget year, and possibly to improve the quality of services for Michigan veterans.

For admission to most homes, veterans must have served during specific war periods, and must be an official resident of the state in which the home exists. Providing these homes and care is very expensive, especially relative to competing alternatives, such as privately run nursing care facilities.

The Great Lakes State has been in the veterans' nursing care business since 1885, when Gov. Russell Alger signed legislation establishing a home for disabled veterans. The first home, known as the Grand Rapids Home for Veterans, still operates on the its original 132-acre parcel today.

Nearly a century after its creation the state opened a second home in 1981 — this time in Marquette in the Upper Peninsula. The Dominic J. Jacobetti Home for Veterans is named for the former state representative and appropriations committee chair.

Only three states do not have state veterans' homes and one of those

— Delaware — is looking to get into the business.

States do not operate veterans' homes because they are low-cost means to serve veterans. Michigan's facilities

panies; nonprofit groups; or hospital or authority "districts," which are entities created by government, but remain one step removed from government's operational oversight.



The Grand Rapids Home for Veterans provides advanced nursing care to Michigan veterans, among other services. To its great credit, the home has low rates of avoidable health problems such as pressure ulcers (bed sores), which are common to nursing home patients.

cost \$55 million to operate during the 2003 fiscal year, which represents 63 percent of the state's Department of Military and Veterans Affairs budget. More than one-third of the revenue used to fund these facilities is appropriated from the state's General Fund/General Purpose budget (GF/GP). The GF/GP is that portion of the budget over which legislators have the most discretion. Since Michigan is facing a \$900 million deficit in 2004, legislators should consider alternative ways to deliver services to veterans. In March, the Mackinac Center for Public Policy made a modest proposal: Outsource management of the homes to a for-profit company.

According to a recent 50-state survey of state veterans' homes conducted by the Mackinac Center, 11 other states allow at least one of their veterans' nursing homes to be managed under contract. The management in these states is provided by private, for-profit com-

Based on the survey, seven states contract with private, for-profit businesses. They are:

- Illinois. The Illinois Veterans' Home in Anna is managed under contract by the Tutera Group, of Kansas City, Mo.
- Utah. The state of Utah currently has one veterans' home. It is managed by the for-profit firm, Traditions Health Care, Inc. Utah currently is planning two more veterans' homes. No determination has been made as to whether or not it will be operated under contract.
- South Carolina. The Campbell State Veterans' Nursing Home in Anderson S.C. is managed by Health Management Resources, Inc.
- Maryland. Health Management Resources, Inc. manages the Charlotte Hall Veterans' Home in St. Mary's County, Md.

see "Veteran" on page 10

According to a recent 50-state survey of state veterans' homes conducted by the Mackinac Center, 11 other states allow at least one of their veterans' nursing homes to be managed under private contract.



Feature

Privatization, Profits, and School Unions

■ By Michael LaFaive

The April 2003 issue of MEA Voice, the official magazine-style newsletter of the Michigan Education Association (MEA), was largely dedicated to refuting the idea that school districts can save money and/or improve quality, or both, by privatizing food, transportation, janitorial and/or other non-instructional school services.

While some articles highlighted examples in which “privateers” (the magazine’s term for private companies that provide services for schools) failed, others featured examples in which public employees “make a profit” without resorting to privatization.

The universal conclusion, contrary to the experience of many school districts throughout Michigan, was that privatization is always a bad idea, never a viable option for schools seeking better service and budget savings.

While Michigan Privatization Report has always been a defender and advocate of privatization, our presentation of the issue has always contained counterbalancing caveats. For example: 1) Privatization carries the same risks and benefits businesses assume when they subcontract to outside firms; 2) Privatization of services without competitive bidding and proper monitoring can become fertile ground for political kickbacks and cronyism; etc. (see an entire issue of MPR devoted to “Privatization’s Pitfalls,” the Spring 1997 issue at www.mackinac.org/288).

The MEA Voice’s depiction of privatization, on the other hand, contains no such counterbalancing views that might challenge



Contracting out for food services is an increasingly popular option for district. One company, Chartwells School Dining Services of Ada, works under contract in over 100 Michigan school districts.

the reader to think on his or her own. A “Pro & Con” section offers one-sentence “pro” arguments framed by the anti-privatization authors themselves. Each of these straw men are then knocked over with at least three and sometimes seven anti-privatization arguments.

Overall, the authors of the publication seem either not to understand that their blanket condemnation contains a fundamental fallacy, or not to expect their readers to detect it. The fallacy of the MEA Voice’s position is that the failure of individual private-sector companies to fulfill their promises constitutes an argument against privatization per se. To offer such an argument, in article after article, misses practically the main point of the entire exercise, which is for school districts to be able to replace service providers that don’t do a good job.

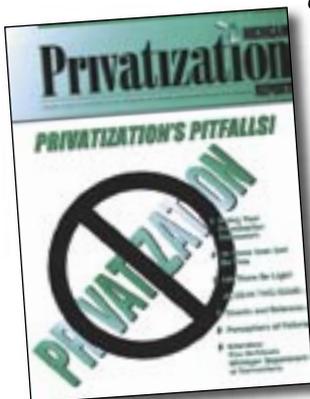
Practically the whole reason privatization has taken hold, in addition to higher service quality and cost savings, is because schools don’t want to be locked into services that cost too much, do a poor job, or both. It’s

extremely difficult — nearly impossible — to fire unionized school employees. Schools can much more easily fire a private company that doesn’t live up to its contract.

In short, the fact that poor-performing private companies have been fired — a point the MEA makes very clear — doesn’t prove that privatization doesn’t work. It proves that it does. It shows that with privatization, schools are no longer forced to pay exorbitant salaries to workers who do a poor job, as under the public-sector model. They can take action when school lunch or other services are poor, fire those responsible, and find someone who will do the job the way it’s supposed to be done. And if that one fails, they can hire another. And districts can take the money they save, if any, and put it back into the classroom where it belongs.

That an increasing number of Michigan schools are taking advantage of the opportunity to do just that is evidenced, at least anecdotally, by requests for assistance to the Mackinac Center see “Privatization, Profits ...” on page 11

The fact that poor-performing private companies have been fired — a point the MEA makes very clear — doesn’t prove that privatization doesn’t work. It proves that it does.





MEA Praises Profit-Making in Schools (for MEA Members)

The April, 2003 MEA Voice was largely dedicated to denouncing privatization and is sharply critical of profits, save for those generated by MEA members. We have placed several comments side-by-side to highlight inconsistencies in the publication's arguments. Words in bold represent MPR's emphasis.

MEA Voice, on Profits for Non-MEA Members

MEA Voice, on Profits for MEA Members

Page 12. Lu Battaglieri, MEA President: "Private companies don't care about our students or our communities. They are in the business for the money. They aim **to turn a profit** and that's not in the best interest of public education."

Cover: "Adrian food service staff fight privatization by **turning big profits** for district."

Page 13. Dan Haske, MEA-ESP caucus president: "It is time to **put an end to profit taking** in the public school system." "We need to focus our limited education dollars on our children's education."

Page 14. Jennie Zubke, head cook at Adrian High School: "We had to guarantee to make a profit." "If we failed **to make a profit** for the district, we would not receive salary increases. We'd either be making money, or we wouldn't be getting raises."

Page 15. Paul McBride, quoted by the MEA Voice as a privatization expert: "'They advertise a cost savings,' McBride says of districts. 'But, it's really a cut in services. It's a for-profit game. How anyone thinks that you can provide the same service and **save money for the district and have a profit** for the private company is just amazing. It's a sham.'"

Page 14. Karen Schulz, MEA Voice author: "It was a risky guarantee, but one that paid off for the district and the employees. In the first year, **employees helped the district clear a profit** of more than \$140,000." *Editor's Note: According to the Adrian Board of Education's agreement with its district food service group, revenue exceeding \$100,000 goes to district food service employees in the form of "profit to be distributed."*

Page 16. In a section entitled, "Your guide to fighting privatization": "Know this — the only reason private companies want a slice of your public school district is to **MAKE MONEY.**" [Emphasis, MEA Voice]

Page 18. In an article entitled, "Bus drivers go on offense," Steve Spica, President of the Grand Rapids Educational Support Personnel Association is quoted favorably, saying, "Let's say a boiler needs repair in another district's school building. Our members could make those repairs for a lot less money than private contractors. It's a win-win — the district with the bad boiler saves money in the repair and we **make some money** for doing the work."



“Veteran” continued from page 7



- Texas. The Lone Star State outsources management of all four of its veterans’ homes. There are two more homes being built, one for McAllen and one for El Paso. It has not yet been determined whether or not these will be privately managed. One of the four existing Texas homes is managed by the Wilson County Memorial Hospital District. The other three are run by the private, for-profit firm, “Care Inns of Texas, Ltd.” of San Antonio, Texas.
- North Carolina. The state’s single veterans home is managed by Priva-Trends, which also manages a home in Georgia. The state is building a second home now, which is due to open in the fall of 2003, but there is no word on whether or not it will be privately managed.
- Georgia. The Georgia War Veterans Home is run by Priva-Trends, a subsidiary of UHS Pruitt, of Toccoa Ga. Priva-Trends has helped lower the cost of providing daily care to veterans by 40 percent to 44 percent, depending on the type of patient care. The U.S. Department of Veterans Affairs has shown that Georgia veterans are now getting better care under the Priva-Trends contract than they did when the home was state managed.

Prior to the Priva-Trends contract the state of Georgia was spending \$164 per patient per day for advanced daily (or “nursing”) care. As a result of the contract the cost dropped to \$92. By contrast, the Grand Rapids Home for Veterans costs Michigan taxpayers their \$172 per day per patient for nursing care.



The state veterans’ home in Grand Rapids works to keep its veterans active. Privately managed homes do, too, and for less money.

The savings figures are impressive by themselves, but what is more impressive is that Priva-Trends also has been able to improve the quality of care given to patients. According to Priva-Trends, the firm was able to a) reduce the number

of bedsores among its patients by 86 percent; b) reduce the number of patients suffering from severe weight loss by 88 percent; c) eliminate all restraints used on patients; and d) increase the number of patients served by 11 percent during the first year of its contract.

In addition, Priva-Trends invested \$1 million of its own funds in the facilities under its care on the 17-acre complex. It built a new dental services office complete with laboratory, oral surgery space; and new x-ray equipment. In 2002 every one of the skilled nursing facilities Priva-Trends operates for the state of Georgia was found to be “deficiency free” by the state licensure survey teams that inspect such facilities unannounced.

If Michigan could save 40 percent by competitively contracting management of its veterans’ home operations — less than was saved in Georgia — state taxpayers would save more than \$20 million annually.

Michigan’s Legislature should embrace privatization. Done properly, it can save state taxpayers money and improve services for veterans. The state should invite companies to propose what they would charge to Michigan’s veterans’ homes under very specific guidelines. And even if the state does not accept a proposal, collecting them will at least give officials an idea of whether or not state veterans’ homes are charging patients and taxpayers too much for services rendered.

With Michigan facing a \$1.5 billion deficit in 2004, asking the Legislature to investigate this idea is not too much to ask.

MPRI

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

Priva-Trends has helped lower the cost of providing daily care to veterans by 40 percent to 44 percent, depending on the type of patient care.



“*Privatization, Profits ...*” continued from page 8

by district officials, and by reports from private, for-profit companies that provide noninstructional services to schools, such as food management. A steady increase in the number of schools outsourcing non-instructional services would not be taking place if the negative examples offered in the April MEA Voice were representative of privatization experiences in the state of Michigan.

There are other matters the authors of MEA Voice seem not to expect their readers to notice. For example, on numerous occasions the authors use the fact that “privateers” make a profit from their services to suggest contractors could hurt school districts. The argument put forward seems to be that because companies are trying to make a profit they cannot possibly care about a) doing a good job; b) the kids themselves; or c) both.

Yet, in another MEA Voice article featuring public workers who have taken over following the failure of a private company, the fact that these public workers “turned a profit” is offered as an example of success and good will. The April issue’s cover reads, “Adrian food service staff fight privatization by turning big profits for district.” According to the author, Adrian school district employees persuaded the district to end its relationship with a food contractor in favor of in-house staff on the promise that district employees would “guarantee to make a profit” off the kids. The district employees have reportedly done just that, generating \$140,000 more than expenses, according to the union.

Under the Adrian deal, the unionized district employees are allowed to keep profits above \$100,000 in the form of bonuses for themselves, or “profit” sharing. In other words, MEA-unionized school employees are being encouraged to take profits from the district — not-reinvesting them in

the food service they are providing or in the classroom — just like the private contractors the MEA denounces.

Yet the profit motive is criticized by MEA officials in the same publication. Lu Battaglieri, MEA president, is quoted on page 12 of the April MEA Voice as saying, “Private companies don’t care about our students or our communities. They are in the business for the money. They aim to turn a profit and that’s not in the best interest of public education.”

The question that should occur to any attentive reader is: How can “making a profit” constitute an argument proving the perfidy of private companies, when it is offered as proof of success and good will when applied to public-sector workers? Why is it bad when private firms make a profit but good when district employees use public resources to do so? The April issue of MEA Voice contains several such contradictory statements; see the box on pg. 9 for more.

Of course, this is a classic example of a double standard. And double standards are usually indicative of some form of prejudice. In this case, the authors go to great lengths to show the evils profit making can inflict on a school, when they are inflicted by “privateers.” But when school employees make the profit, the character of profit-making changes from bad to good.

Hence, it isn’t profit-making per se that is the evil to be avoided, but private entrepreneurs and private enterprise.

But there is another point that eclipses the preceding ones in importance. It is the implication behind the fact that public-sector workers in Adrian or anywhere else would get together, make an offer to take back their food service, and do a better job than their private-sector counterparts.

Does anyone actually believe that these workers would have made the same offer had they not been faced with competition from the private sector — that one day they would have simply decided, “Hey, we’re going launch a campaign to do a better job?”

Again, the authors seem to expect readers to be unable to connect the dots: Even when public-sector workers perform at the efficiency and quality level of the private sector, it’s because they are facing competition from the private sector.

Thus, the prospect of privatization is imposing economic discipline where before there was none, spurring school districts to run their services more efficiently. Another way to put it is that the operating principle of privatization — competition — works, even when private sector companies aren’t providing the actual services.

Does all this mean privatization is a panacea for what ails school districts in financial trouble? Of course, not. Michigan Privatization Report would never make such a sweeping claim. But because the MEA Voice sees fit to issue such a sweeping condemnation, we do not recommend it for those seeking a balanced view on privatization. [MPRI](#)

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

Around the State



Think Tank Leader Dies In Plane Crash



Joseph P. Overton
(1960-2003)

Joseph P. Overton, 43, of Midland, passed away Monday, June 30, 2003, as a result of injuries sustained

in a plane crash. Joe was born on Jan. 4, 1960 in South Haven, Mich., to Kathryn J. Overton and the late Lawrence G. Overton. Joe Overton was senior vice president of the Mackinac Center for Public Policy, which publishes Michigan Privatization Report.

Joe served as a volunteer for the Mackinac Center early in its history and joined the staff full-time in January 1992, eventually attaining the position of senior vice president. Most Mackinac Center for Public Policy programs, publications or procedures at the Center carry his imprint.

Overton's contributions to the Mackinac Center's remarkable growth and influence, and to the larger public policy debate in the state of Michigan, will be long lasting. He came aboard the Center when there were just two other employees and was a prime mover in the organization's growth, helping it to

become the largest of some 40-research institutes of its kind outside Washington, D.C. His many accomplishments can be found on the Mackinac Center's Web site, at www.mackinac.org, and they include many publications and concepts that advanced the cause of school choice and education reform, which included privatization.

Joe believed that privatization could be a powerful management tool for school districts. He recognized that, done properly, schools could free themselves of ancillary duties — such as running busing or cafeteria operations — and save precious financial resources in the process. Those resources could then be reinvested in the classroom. This was far more than a theoretical exercise for Joe. He was always looking for ways to get ideas into the public square. For instance:

- In 1994 Overton read a short document entitled "Parameters," which was published by the Michigan Education Association (MEA) and detailed the organization's opposition to outsourcing. The MEA is the state's largest union of cooks, janitors, bus drivers and teachers. It occurred to him then that the MEA likely outsourced for services at their headquarters despite opposing the practice in districts with whom the MEA bargains. He was right. As it turns out, the MEA outsourced for cafeteria, food, security and mailing services — and in three out of four cases with nonunion firms. It was the publicity surrounding this discovery that helped lawmakers pass Public Act 112, which took privatization off the table of subjects that could be bargained over by the unions.
- In August 2000, Overton helped Arvon Township school district develop and implement a school excellence plan that included competitive contracting for transportation, food and janitorial services. The plan would save the 13-student, one-school district more than \$20,000, which was reinvested in the school itself. While the Michi-

gan Education Association put up a debilitating fight to defeat the district, it eventually lost, and services were privatized.

He married the former Helen Rheem on March 29, 2003. The institutions and organizations in which he actively participated over the years include the Midland Morning Rotary Club, the State Policy Network, and the Michigan Appellate Defenders Commission. He also founded the Michigan Legal Foundation and USAVotes.org.

Troy Can Switch Ambulance Companies When It Wants To

TROY — Why privatize? One reason is so that you can reorganize a service when you think it's the prudent thing to do. That's what the city of Troy has done with its ambulance service, firing Southfield-based Community Emergency Medical Service, a company Troy has used for six years, and hiring instead Alliance Mobile Health, based in Rochester Hills.

The Troy City Council voted five to one for the move, which will take effect when Community EMS's contract runs out on Oct. 1. The change will save the city only \$3,000 per year. But saving money isn't the only reason to switch from one company to another. Councilwoman Cristina Broomfield told the Detroit News that she supported switching ambulance service on the recommendation of those who probably know best: the police and fire departments, who have to work closely with whomever handles medical emergencies.

Granholt Campaigner's Company Nabs Contract, Backs Out

DETROIT — Despite public warnings by the Detroit News and others advising the administration of Gov. Jennifer Granholm to avoid the appearance of "cronism," the state of Michigan awarded the sale of a state property to a company employing the governor's campaign manager, David

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Katz. Even worse, the bid offered by the company employing Katz, Grand Sakwa Northville Seven Mile LLC, was not the highest bid offered. In fact, the “winning” bid was an incredible \$700,000 lower than the one offered by Rock Construction Co., Inc., which appealed the state’s decision.

The state’s move ignored one of the admonitions repeatedly offered by privatization experts with regard to the pitfalls to be avoided when putting together a plan for privatization: Avoid conflicts of interest. Never hire a private contractor with ties that might constitute a conflict of interest, or that would even create the appearance of one.

The deal in question had to do with 400 acres of state land in Northville, which was previously the site of Northville Psychiatric Hospital, and was sold for \$76 million. In June, the Detroit News pointed out not only that hiring a company employing Katz could create the perception of a conflict of interest, but that Katz is also being investigated by the federal government for contracting irregularities and other misconduct by the administration of former Wayne County Executive Edward McNamara.

“He should not be allowed anywhere near state business,” the News wrote, “at least until the federal investigation is concluded.” The paper added that “Had Grand Sakwa won the bidding, it would have been tough to convince the losers that Katz’s connection to the governor played no role.” As if on cue, Rock Construction said in an appeal filed July 18 that the deal “smacks of political favoritism and cronyism.”

Katz’s company backed out of the deal on Sept. 4. The land was subsequently sold to Real Estate Interest Group, Inc. of Bloomfield Hills for \$76.5 million.

Detroit News Favors Contracting Out Police Services

OAKLAND COUNTY — Citing numerous instances in which money has been saved without a corresponding lowering of performance standards, the

Detroit News in a June 30 editorial advocated intergovernmental contracting out of police services — particularly dispatch services — as a cost-saving measure.

The News cited the example of tiny Pleasant Ridge (population 2,600) in Oakland County, which is saving an estimated \$35,000 per year by having the nearby town of Berkley provide its emergency dispatch services. Not only does Pleasant Ridge expect to maintain the same level of service for less money, but by taking over the city’s business, “Berkley expects to net thousands of dollars ... even after it buys a new radio transmitter with greater broadcasting power and installs more phone lines,” according to the News editorial.

The News cites the city of Southfield, which replaced higher-paid police dispatchers with civilians without suffering a drop in service, and the Macomb County Sheriff’s Department, which did the same thing. It also says the community of Clawson, between Troy and Madison Heights, is looking at having its police officers become Oakland County sheriff’s deputies, joining the other 14 Oakland communities that currently have deputies handle their police services. While the officers would still be paid by Clawson, the community would save the money needed to supply vehicles, insurance, equipment, gasoline and other costs. Clawson’s police union is opposing the move, which is headed for arbitration.

East Lansing Schools Privatize Custodial Services to Save Teachers’ Jobs

EAST LANSING — School district leaders in East Lansing have convinced the school board to reconsider privatizing custodial services after the board rejected a similar proposal only a month earlier. On June 9, the seven-member East Lansing School Board agreed on a 4-2 vote to work out a privatization plan that district finance chief Maria Bolen says would save the 3,600-student district \$560,000 in the first year. The move comes as district

leaders try to come up with ways to pay of a looming \$4.2 million budget deficit projected for next year. On June 23 the East Lansing School Board voted to privatize their custodial services. This is a change the Mackinac Center for Public Policy recommended in the district in 1993.

Privatizing services is necessary to avoid teacher layoffs, Barbara McMillan, the board president, told the Lansing State Journal. Yet, the move was opposed by the Michigan Education Association (MEA). “One of the advantages of not privatizing is that the district has direct control over the quality of services provided,” Mike McEachern, the regional MEA representative, told the Journal, although it is difficult to imagine what could be more difficult than trying to fire public employee union members who aren’t doing a good job. One of the most powerful rationales for privatization is that you can fire a company that doesn’t perform.

Let a Private Company Run Detroit’s Lighting Department

DETROIT — The Detroit News’ discovery in May that five Detroit lighting employees had collected \$1.6 million in overtime pay in three years was just the latest in a series of scandals observers say add up to one thing: The city lighting department should be sold to the highest bidder.

“What makes Detroit’s situation so remarkable is that the city can’t hire and keep enough engineers and supervisors to do the dangerous, highly specialized electrical work that requires overtime,” the News wrote in an editorial May 12. It quoted Jamaine Dickens, a spokesman for Detroit Mayor Kwame Kilpatrick, saying that the city has trouble keeping these workers because the private sector pays more.

“That’s all the more reason to privatize the system,” notes Michael LaFaive, senior managing editor of Michigan Privatization Report. The private sector has innumerable advantages

continued on next page

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Around the State



Privatization is being considered because of the county's \$46 million budget deficit.

on their public-sector rivals, but one of the biggest is flexibility in distributing resources to their highest and best use — such as to talented engineers.

The News cited “an antiquated power system that frequently breaks down and leaves too many residents in the dark.” In response to Kilpatrick’s claim, in opposition to privatization, that it isn’t necessarily less expensive, the News pointed out that “At this point, the system may have little real value left and may have to be virtually given away. That would be better than continuing to subject residents to such poor service.” The paper emphasized its point “...giving up the power business would only recognize what is already happening — the city needs outside help to keep its lighting system from blacking out.”

More Municipal Golf Courses Could Be Sold

WAYNE COUNTY—Two publicly owned and run golf courses in Wayne County are losing hundreds of thousands of dollars every year and may be sold to private companies or their

maintenance contracted out to private firms. Since 1998, the courses, Warren Valley in Dearborn Heights and Inkster Valley in Inkster, have lost a combined \$5 million.

The county parks department is studying ways to curb losses at the courses and plans to bring in golf management experts to make recommendations after assessing the situation over the next three or four months. In the meantime, the strategy is to generate more revenue by improving services and bringing in more corporate events.

Privatization is on the table due to the county’s \$46 million budget deficit. The Wayne County courses, if they went private, would be following in the footsteps of four of Detroit’s six courses, which went private 13 years ago, and Livonia’s three courses, which did so two years ago.

Clare Schools Privatize Food Service

CLARE—Public schools in the Mid-Michigan city of Clare recently privatized their food service, for estimated savings of \$180,000 per year, in

the face of strenuous opposition by the Michigan Education Association, which sent representatives to organize protests against the move.

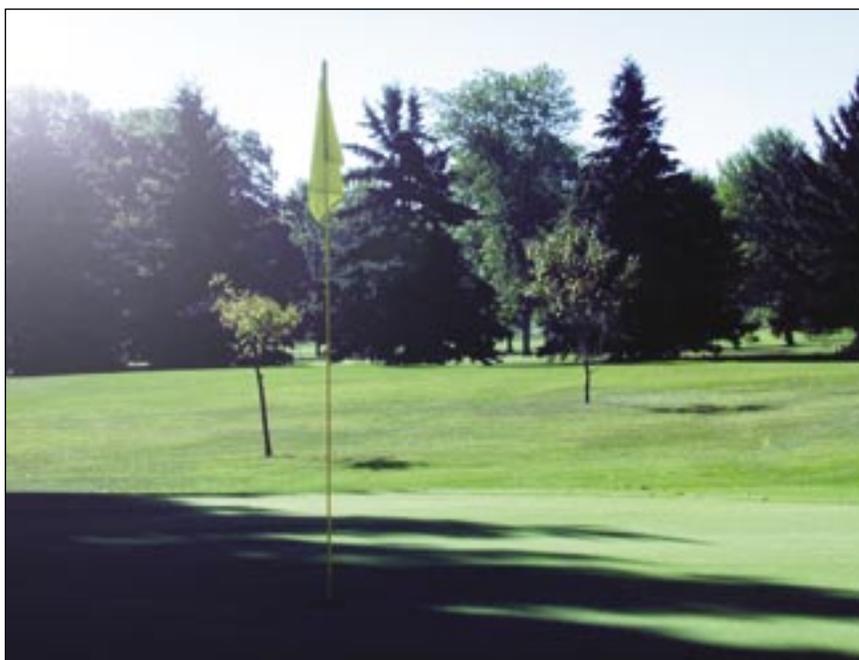
Taking over food service for Clare Public Schools is Chartwells School Dining Services, a subsidiary of an international food service vendor. Superintendent Thomas Moline reports that the contract with Chartwells is for five years, renewable annually, and will offer students a range of five different school lunches daily, instead of the single lunch offered to all students before privatization.

In a letter to the editor of the Review, Clare’s newspaper, Clare High School alumnus Louis Blouin characterized the move as being motivated by a desire to “undermine the rights of workers ... and hand over even more of our taxpayer dollars to yet another huge multinational corporation.”

Ann Arbor to Privatize Traffic Ticket Collection

ANN ARBOR — For more than a decade, according to City Administrator Roger Fraser, who was elected only last year, the city of Ann Arbor has done nothing about collecting traffic ticket fines from people who have neglected to pay them. Fraser wants to hire a private company to do the collecting, since private contractors tend to obtain payment from about 80 percent of people with outstanding tickets.

The Ann Arbor News thinks it’s about time. “Certainly, the city couldn’t do much worse using a private contractor than it has done on its own,” the editors wrote in the April 25 issue. For just one egregious example, the paper told about an effort the city kicked off in mid-April to collect on outstanding tickets. More than 60,000 notices were sent out—many to people who had already paid their tickets in full. Then, to make matters worse, city Treasurer Mary Siefert responded to complaints by saying those claiming they had already paid would have to prove it themselves.





Six companies responded to a request for proposals sent out by the city April 17. Prospective vendors made their presentations and a decision on the contract was reached August 18. The Hawthorne, New York-based Complus Data Innovations has won a two-year contract with the city of Ann Arbor to manage the city's traffic fines and collections. The contract is expected to save the city at least \$145,000.

Portage Water and Sewer Privatization Has Saved \$4.3 million in Six Years

PORTAGE — After approving slight increases in water and sewer service rates starting July 1, the Portage City Council applauded the city's move in 1997 to privatize its water and sewer services. The city contracted with Earth Tech, an international company that handles water management and environmental services.

"These cost savings have enabled the city to keep annual rate increases for water and sewer users to a minimum," City Manager Michael Stampfler told the Portage Gazette. "It's pretty obvious privatization has saved the city big time," added Mayor Pro-Tem Ted Vlieg, Sr. Councilman Peter Strazdas agreed: "The \$30 a month you pay for water and sewer is less than the telephone bill, less than the cable TV bill. I commend the administration for keeping costs down.

Earth Tech Senior Vice President F. Keith Oldewurtel told MPR his company is in the midst of several important contract renewals in the state of Michigan, and that it had new water/wastewater treatment deals with the government of Alberta, Canada, the cities of New London, Conn., and Pawtucket, R.I.

Business Association Disputes State Government Savings Claim

LANSING — When state officials claimed at the beginning of June that they could save more than \$11 million

by hiring 94 new state employees and shifting computer work from private contractors back to the state, the Small Business Association of Michigan (SBAM) challenged the Granholm administration to prove the claim.

"We are trying to reconcile how, in a time of tight state budgets, and not long after many state employees were offered early retirement packages, the Granholm administration is proposing to add 94 jobs in the Department of Information Technology," said Barry Cargill, vice president for government relations for SBAM. "It's hard to understand the administration's math when it asserts that 94 additional state jobs is a net cost savings."

The Granholm administration engaged in an aggressive review of contracts as part of its efforts to deal with a projected budget shortfall. But a review of contracts — to see whether the companies involved are doing the job they should, and if not, firing them and hiring other companies — is not the same as having state employees resume performance of those duties. "Granted, if a private contract is not saving the state money, then it should be renegotiated or cancelled," said Cargill. "What should not be done is a rollback on privatization simply in the name of adding more state employees."

The Granholm Administration did not respond to the SBAM's challenge.

Cops Not On Public Safety Beat Could Be Replaced by Civilians

An analysis by the Detroit Free Press in March revealed that "in a city where police say emergency response times average 19 to 20 minutes, more than 400 officers are in jobs far removed from crime scenes." Some, like Dwight Featherstone, provide chauffeur service for city officials. Others work in print shops, take photographs, ferry cars, track payroll, hand out uniforms, fix computers, even run youth athletic leagues — all duties not requiring the

specialized training of a police officer; all duties that could be performed by civilians, in most cases for less money. Even Police Chief Jerry Oliver concurs with this assessment, telling the Free Press that by his count, 250 of the department's 3,900 cops could be replaced by civilians.

The Free Press put the number 250 in perspective: "That figure is four times the number of officers budgeted to solve homicides, and 12 times the number budgeted to investigate auto thefts ... adding 250 beat cops would nearly double the number of police cars cruising the streets."

Could civilians be hired for less money? The Free Press found three officers working in the department's print shop being paid \$45,488 annual salaries for performing duties essentially the same as clerks at Kinko's, where the starting wage is about \$7.50 per hour.

"They have police officers who are assigned as clerks who do nothing but read reports," Oliver said. "That's the dumbest thing I ever heard," he told the Free Press.

So what stands in the way of reorganization that would save money for Detroit's police department? "The biggest stumbling block with utilizing civilians instead of sworn personnel is probably union contracts," Thomas Hendrickson, executive director of the Michigan Association of Chiefs of Police told the Free Press. "Some Detroit police and union officials whose membership ranks might dwindle, oppose replacing police with civilians," the paper reported. MPRI

The Granholm administration is engaged in an aggressive review of contracts as part of its efforts to deal with a projected budget shortfall of \$1.5 billion.



Feature

Constantine School District Reaps Rewards from Outsourcing Food Service

■ By James Hohman

Constantine Public Schools, which serves more than 1500 students in southern Michigan, is partaking of the fruits of outsourcing. Constantine’s board of education decided recently to sign a contract for the district’s food services with Chartwells’ School Dining Services. At the time, Chartwells officials claimed they not only could save the school system an estimated \$40,000 annually, but could offer better services to students.

One month after privatizing its food service, the district reports that the new service has served more meals, lowered labor costs, and reaped a \$12,000 profit for the district. Chartwell’s says the school district has seen a daily increase of 116 meals served, with four fewer employees.

“We believe this was an opportunity. We wanted to take advantage of Chartwells’ purchasing power, better management, and increased student

participation,” said Norman Taylor, superintendent of the school district.

One way Chartwells pleases is by providing students with an environment similar to dining out. “Some of our food stations are ‘Sandwich Central’ where subs are made to order just like Subway, ‘Menutainment’ where sandwich wraps or stir fry are made to order, ‘Trattoria’ where Italian foods are highlighted, ‘Garden Emporium’ for salads,” said Leikert.

Chartwells offers better services at lower prices because it is a private company with a bottom line. “Typically, when we are brought into a district we are under a microscope to perform qualitatively and financially,” stated Howard Leikert, regional vice president for Chartwells, “If we don’t perform as well or significantly better in these areas, we won’t be around.”

Chartwells is able to buy its supplies in greater bulk than the school district can, because it provides food

service to more than 500 school districts in the United States. Chartwells estimated that Constantine schools alone would purchase \$170,000 worth of food annually. By contrast, Chartwells buys \$40 million worth of food supplies in Michigan alone, and more than \$1.5 billion nationwide — enabling it to charge less per unit of cost. “Just as important as a strong purchasing program is having other tools available that help to control costs — production records, inventory control, pricing guidelines, and financial reviews,” added Leikert.

Because the company can focus on just one task — food service — it is able to maximize meal and service quality as well. But perhaps the greatest benefit schools derive from privatizing food service is that it allows them to focus both their funding and their expertise on their most important task: teaching children. MPBI

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

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