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Golf and the Government

Preserving Classroom Funding through Privatization

... and More!

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Michigan Privatization Report

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Michigan Privatization Report

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ADVERTISERS

Government Golf

How Unfair Competition Hurts Business and Taxpayers

By Michael D. LaFaive

Municipalities often own and operate businesses in direct competition with the private sector. According to the Michigan Golf Course Owners Association and Mackinac Center research, about 91 Michigan golf courses are owned by various units of government, including seven owned by state universities.

Government golf is unnecessary, unfair to private entrepreneurs and needlessly expensive. Proponents claim that government golf is necessary to ensure access to low-income duffers (and others), preserve green space and even generate income. Their arguments are belied by a host of evidence both anecdotal and empirical. Government golf courses hurt taxpayers and the owners of Michigan's 823 privately owned golf courses.

There are 22 government-owned golf courses in Oakland County — more than any other Michigan county — including one owned by the city of Detroit (Rackham). Oakland County is one of the wealthiest counties in the nation, which makes it difficult to argue that these courses are needed to keep the game affordable.

Oakland's $13.4 million Lyon Oaks Golf Course in Wixom opened in 2002. According to county officials, the acquisition of land for the course and park was made possible through three state grants worth $2.4 million, and the construction was financed through the parks department's capital improvement fund. Construction of the clubhouse, pro shop, and banquet and meeting space was financed with $5.1 million in bonds.

Competition from government golf courses is a frequent complaint among owners of privately owned courses. Consider two major problems with government golf.

First, government competition is unfair. A municipality may build or subsidize a golf course

with tax dollars taken from the private course owners they compete against. In addition, the government often has the option of assigning workers paid by one department to a municipal golf course run by another. Government golf courses are also not saddled with property tax burdens.

One former owner of a golf course in Commerce Twp. stated that he paid $200,000 a year in property taxes while the local municipal courses paid nothing. This made competing difficult enough, but his government-owned competitor also ran $10 specials for 18 holes of golf. He was effectively driven from business.

Among owners of golf courses in Southeast Michigan, Lyon Oaks Golf Course is a frequent topic of conversation and criticism. The most common complaint of this particular facility is its size and high quality, including amenities like its state-of-the-art clubhouse.

In the past, private owners have been able to better differentiate their golf courses from government ones by providing superior courses and other amenities, but Lyon Oaks strips away that comparative advantage. Municipal courses have also been adding beer and liquor sales to their services, giving customers another reason to choose government golf over private-sector operations.

Government golf is unfair to people who have no interest in playing the game but are forced to subsidize it with their taxes.

Government golf is also unfair to people who have no interest in playing the game but are forced to subsidize it with their taxes.

Second, government golf is unnecessary. Interest in the game has waned in recent years and some courses are closing simply due to insufficient demand.

Empirical evidence suggests that

"Golf" continued on Page 8

Privatization is Here to Stay

By James M. Hohman

While privatization of government services continues to increase, union opposition remains fierce. Public-sector unions, such as the Michigan Education Association and the American Federation of State, County and Municipal Employees, have opposed privatization — particularly when it involves the unions' own employees. AFSCME has even created a Web site devoted to fighting privatization. Surveys and studies, however, continue to show that as a management tool, privatization is both acceptable and effective.

One key survey, performed by the International City/County Management Association, polls municipal chief administrative officers roughly every five years. The association's most recent survey (2002-2003) produced a number of illuminating statistics about the efficacy of privatization.

The survey found that 58 percent of all municipalities investigated privatizing some service in the previous five years, and 88 percent of those responded that those investigations were driven by internal attempts to decrease the costs of service delivery.

The belief that privatization might lower government costs is well-founded. While the latest ICMA survey did not survey cost reductions, the ICMA's 1997 survey showed that savings from privatization generally hovered between 16 percent and 20 percent, depending on the service. A 1988 ICMA survey showed savings in roughly the same range.

Privatization has become so widespread and publicly acceptable that even the evaluations of a privatization initiative are frequently handled by private professionals and consultants. In fact, this strategy is employed in 53 percent of private service evaluations, according to the most recent ICMA data. For example, Flint once hired a firm from Indianapolis to evaluate privatization prospects for its historic Crossroads Village.

Family Fued

According to the ICMA 2002-2003 survey, only 41 percent of surveyed managers encountered an obstacle of some kind as they privatize. The most common obstacles involved objections from the city's own employees and restrictions in the municipality's current labor contracts.

Perhaps the most telling privatization statistic is found in a study of managers of America's largest cities performed by West Virginia University scholars. Of the 66 respondents to the survey, every single one was satisfied with their overall experience with privatization.

Genesee County has hired a firm to identify privatization opportunities for its Crossroads Village. Private firms are involved in 53 percent of all private service evaluations.

Survey Says

The 2002-2003 ICMA survey asked city officials about their quality controls both before and after the decision to privatize. The survey showed that 53 percent of local governments do not evaluate their private service delivery after it has taken place. This can be interpreted in various ways. One possibility is that such privatizations are commonly accepted and municipalities find little need for formal evaluations. After all, it takes time and resources to perform an adequate cost comparison or to conduct a citizen survey about the quality of the private service delivery. As long as government officials find that the services are being rendered as anticipated, officials may not see the need for closer inquiry. Another possibility, however, is that municipalities are missing opportunities to conduct more thorough analyses to ensure that their privatized services are delivered as efficiently as possible.

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James M. Hohman is a research assistant in the Mackinac Center's Morey Fiscal Policy Initiative.

Around the State

SCHOOL BOARD MEMBERS SURVIVE RECALL ATTEMPT

All four school board members at Lakeview (Macomb County) targeted for recall by opponents of competitive contracting retained their positions in a vote held May 2 in St. Clair Shores. The board members privatized custodial services in a move expected to save $423,000 in 2005 and another $553,000 in 2006, according to The Detroit News. The board also angered labor officials by purchasing health insurance directly from Blue Cross Blue Shield instead of using the Michigan Education Association's insurance arm, Michigan Educational Special Services Association (MESSA).

See what else is happening around the state on Page 12

Despite the success of privatization, there is room to improve many municipalities' privatization processes. Fifty-six percent of local governments do not undertake activities to ensure success in private service delivery before the decision is made. These activities can include benchmarking services with other municipalities, hiring consultants to analyze the feasibility of private alternatives, or establishing an advisory committee to guide the implementation of privatization.

Municipalities will generally benefit from improvements in their privatization process. The most common means of promoting success beforehand — adopted by 71 percent of governments that took preliminary steps — was looking for examples of successful privatization in other municipalities. The second-most popular activity was to hire consultants to perform feasibility studies.

A number of government units allow their own departments and employees to compete in the bidding process with outside firms. This allows municipal management to determine if privatization would provide more benefits than the existing system. Competitive bidding can also lead current employees to make concessions to improve the attractiveness of their bid.

The data show that privatization is a time-tested way to improve the efficiency of providing municipal services.

Unfortunately, many municipalities do not take a comprehensive approach to privatization, treating the idea as a way to make ends meet during difficult fiscal times. The 2002-2003 survey found that 50 percent of privatizations were spurred by external fiscal pressures.

And the Winner Is ...

Cities could benefit from a comprehensive approach to privatization. One way would be to maintain a regular schedule for investigating alternate ways of providing services. Knowing that certain services will be investigated in a timely and uniform process keeps competitive pressure on the city's current services and allows outside vendors time to plan for a formal bid, both of which can improve municipal services.

The data show that privatization is a time-tested way to improve the efficiency of providing municipal services. The data also reveal that more can be done. While cities continue to pursue privatization strategies, they should not let criticism from public-sector unions stand in the way. Instead they should inform the public about privatization's proven track record and forge ahead with practices that will help municipalities better serve the public.

Detroit Should Sell Tiger Stadium As Is

By Steven Thomas

Editor's Note: As MPR went to press, the city of Detroit announced its intention to use stadium property for a housing development.

In a recent budget address to Detroit's City Council, Mayor Kwame Kilpatrick preached the virtues of selling city-owned property. "I am pleased to inform you," exclaimed Kilpatrick, "that to date, we have sold or have commitments to purchase $36 million in [city-owned] property. This year we are developing whole new strategies, including bundling of properties as well as looking at the assets of city government that can be sold and placed back on the tax roles."

He's right. The best thing the city of Detroit can do with its massive hoard of property (more than 40,000 parcels at last count) is sell it. The city could do even more to shed such assets. It could, for instance, minimize hurdles

to privatization by removing unnecessary and expensive bureaucratic obstacles to acquisition. Case-in-point: Tiger Stadium.

For the past seven years, the city of Detroit has attempted to find a bureaucratic answer to the question: "What to do with Tiger Stadium?" Employees in the city's Planning and Development Department were charged with determining what constitutes a best use for the corner of Michigan and Trumbull instead of simply selling the property to the highest bidder in an open, fair auction and allowing the winner to do with the property as he pleases.

Regrettably, the city has paid the Detroit Tigers organization more than $2 million to maintain the stadium over the past seven years while "feasibility studies" have been conducted on what to do with the asset. Failing to be persuaded that Tiger Stadium holds value, city planners seem bent on tearing down the stadium before selling the land — if it is sold at all.

A lack of ideas, money or interested, capable developers is certainly not Tiger Stadium's problem. As a potential developer who met with city officials, I can say that there was never any serious consideration given to the proposals for an alternative use of the ball park.

The Navin Field Consortium (the group to which I belonged) proposed converting Tiger Stadium to its original 1912 configuration when the park opened as Navin Field. Our proposal was made privately to the Detroit Tigers with the suggestion that they follow the latest major league trend by locating one of their minor league affiliates nearby — in this case at the corner of Michigan and Trumbull.

We explained that the New York Yankees have a minor league team on nearby Staten Island and that the New York Mets have a team down the road in Brooklyn. In professional hockey, the Philadelphia Flyers have their top farm team located in their old arena adjacent to their new facility. Similarly, the Cleveland Indians, Toronto Blue Jays and several other teams have minor league affiliates within a short drive of the major league venue. For once, we felt that the Tigers could be ahead of the curve instead of behind it.

From a sports marketing perspective, the possibilities are endless: Cross-promotion and schedule coordination would assure that the two teams complement one another; the Tigers would be the only franchise in Major League history to preserve and utilize their former facility; Detroit would be preserving an internationally recognized baseball landmark; profits from the minor league operations could serve to bolster the major league team's competitiveness; and the Tigers could reconnect with disenfranchised fans who lost interest in the team when they moved out of Tiger Stadium.

The consortium also proposed that the stadium be privately financed without subsidies from the city of Detroit or the Detroit Tigers. The only expense would be a market rate for rent, no different than the rent the Tigers pay to house their minor league team in a city like Erie, Pennsylvania.

Because such a venue has the potential for multiple tenants, including concerts and special events, it is widely believed that the

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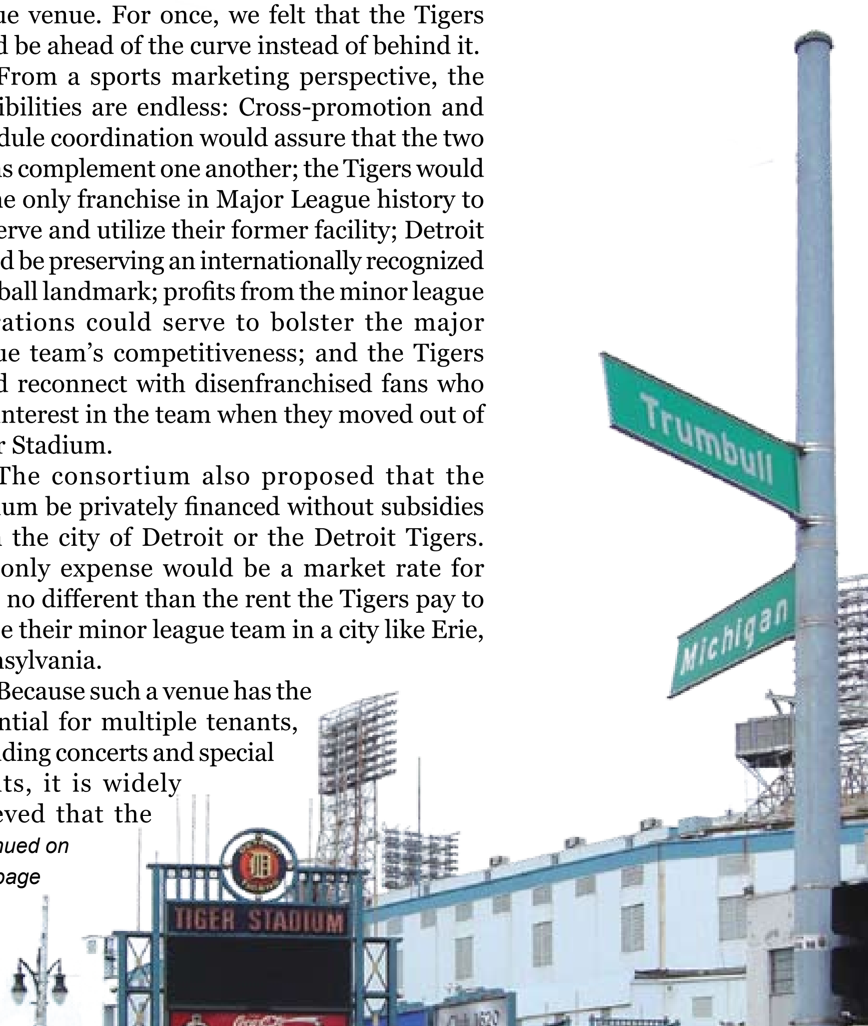
Steven Thomas is the owner of Detroit Athletic Co., a memorabilia store located just west of Tiger Stadium (www.detroitathletic.com). He is also an adjunct scholar with the Mackinac Center for Public Policy.



Baseball fans could enjoy a less-expensive night out at the ballpark if the City of Detroit would sell, or at least privatize, Tiger Stadium to a Tiger-associated minor league baseball club.

site could become a real money-maker. Cooperation from the city and the team would undoubtedly assure that raising capital would not be an issue. We also proposed that the stadium be purchased from the city at a market rate or at auction.

The consortium included architects and builders who presented detailed cost estimates for a partial demolition and reconstruction of the old park. They determined that it would be less expensive to convert Tiger Stadium to its original form than to build a new minor league ballpark.

Incidentally, metro-Detroit is the largest metropolitan area with only one professional baseball team. It is only a matter of time before a minor league team locates in the Detroit area. More than likely, an independent league team will locate in a Detroit suburb, and the Tigers will have a competitor instead of a partner.

Shortly after the Detroit Tigers departure in 1999, developers made proposals to the city's planners for alternate uses for Tiger Stadium. One such party is McCormack Baron, a real estate development firm from St. Louis.

It didn't take long before principals at McCormack Baron were disenchanted with the way Detroit does business. In an April 2000 interview with The Detroit News, the firm's vice president, Jack Hambene, announced that he had heard no response from the city in the eight months since his firm had submitted its proposal.

The city's reply? "We are not obligated to get back to McCormack Baron," Sylvia Crawford, the Planning and Development Department's spokeswoman, told The News. "We are putting a contract together for a predevelopment study. We are doing a study to see if it's feasible to renovate Tiger Stadium."

But city feasibility studies are unnecessary. Detroit could privatize (that is, sell) Tiger Stadium by issuing a relatively simple Invitation to Bid. An ITB is used by units of government primarily when it is easy to define the service or asset being contracted or sold outright, and the bids are almost always opened at a very public meeting.

The highest bidder for Tiger Stadium would win the land and building, and do with the property as it saw fit: construct a Wal-Mart, residential lofts, a parking lot, or use it as a sports stadium. The possibilities are endless. Selling it in this fashion would constitute the highest valued use of Tiger Stadium by the marketplace.

All too often politicians and their lieutenants view publicly owned assets as pawns in power struggles. How city "jewels" are valued by municipalities are often wildly different than how free people spending their own resources would value them. But city-owned property does not exist to advance the interests of a bureaucracy.

Selling Tiger Stadium would generate a one-time cash flow, end subsidies for its annual maintenance and likely provide new property tax revenue. In baseball vernacular, we're talking a financial home run for the city. MPR!

"Golf" from page 4

the sport would benefit if government stayed out of the business. In the 2004 edition of "International Journal of the Economics of Business," a study by Stephen Shmanske — economist and author of the book, "Golfonomics" — assessed the impact of 104 golf courses in the San Francisco Bay Area between 1893 and 2001. Shmanske found that municipal golf courses deterred the entry of other courses, and that government golf reduced the number of golf courses in San Francisco. Shmanske recommends privatization to increase the number of golf courses and golfers.

The state legislature should step in and protect taxpayers and private businesses from future losses and from unfair competition.

In 2006, the Michigan Legislature should draw a legal line in the sand trap. First, it should outlaw direct competition between government and legitimate business, as Pennsylvania is trying to do. Second, it should mandate cost accounting techniques for all units of government operating golf courses so taxpayers could more easily understand the true cost of the activity.

Government golf is unfair to taxpayers and golf course owners, and may actually lower the amount of greens and golfers in the state. Municipal courses should be sold to the highest bidder. Short of that, the state legislature should step in and protect taxpayers and private businesses from future losses and from unfair competition. As citizens and taxpayers, we should be asking ourselves: Is golf one of the legitimate functions of government? MPR!

This article originally appeared as a Mackinac Center Viewpoint commentary (V2006-04). Michael D. LaFaive is director of fiscal policy for the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy.

Michigan Schools Continue to Privatize

By Ted P. O'Neil

Every week there are reports of new cost-saving developments from around Michigan as public schools try to preserve classroom funding and protect teachers' jobs by outsourcing non-instructional services.

"I think you're going to see this happen more and more," said Lisa Brewer, a spokeswoman for Michigan School Business Officials, a professional association of school financial administrators. "It's been going on for a while now, but it seems people are more aware of it."

Michael D. LaFaive, director of the Mackinac Center's Morey Fiscal Policy Initiative and senior managing editor of Michigan Privatization Report, could not agree more. "We're stunned by the amount of contracting activity we're seeing around the state," LaFaive said. "I've been following privatization in Michigan since 1991 and have not witnessed this much activity since the proposed sale of the Accident Fund." The Accident Fund, the state-owned and -run worker's compensation insurer, was sold to a private company for more than $225 million in 1995.

A biennial study by Michigan Privatization Report found that more than one-third of Michigan public schools now privatize at least one service. That figure has steadily risen, from 31 percent in 2001 to 34 percent in 2003 and 35.5 percent in 2005.

> **"I think you're going to see [privatizing] happen more and more."**
>
> -Lisa Brewer, Michigan School Business Officials

The most common services privatized by schools are janitorial, food service and busing. Some school districts, however, are starting to look at other operations where costs can be cut. Faced with large annual increases in the state-run pension system for school employees and high-cost employee health insurance plans, districts are becoming more creative.

Ithaca Public Schools, for example, now privately contracts for psychological services, a move that saved $32,000 a year. Lakeview Public Schools, in suburban Detroit, is spending $1 million less on operations and maintenance after privatizing its custodial work. The decrease takes into account money not spent on increased wages and benefits, inflationary costs, and equipment and supplies. (Editor's Note: For more information on the efforts of Lakeview and several of the schools mentioned below, see "Around the State," starting on page 12.)

"We are starting to see this approach in a number of different ways," Brewer said. "Administrators and school board members are focused on how to get the best value out of whatever service they're looking for."

Among the most creative approaches to privatization is a plan to contract out the jobs of three top administrators in the Ypsilanti Public Schools. The positions of chief financial officer, director of human resources and superintendent were being considered for just such a move, which the district said would reduce annual costs by about $130,000.

Over the past year, school districts have reduced expenses by as much as $250,000, as was the case when Albion privatized custodial services. In Grosse Pointe, a potential $50,000 loss was turned into $90,000 in revenue when food services were privatized.

Cooperative approaches also are being pursued. The Muskegon Area ISD has investigated privatized busing for six local districts that could reduce costs by up to $280,000. Ypsilanti and neighboring districts Willow Run and Lincoln have also joined together to investigate cost reductions through privatized busing.

When considering such a decision, schools can look to the success of Pinckney for direction. Pinckney Community Schools privatized its busing operations in 1994 and, according to The Ann Arbor News, has renewed the contract four times. Linda Moskalik, assistant superintendent for finance, said the contract will be renewed again this year.

Union activists say privatization puts custodians and bus drivers out of work, although in Pinckney's case, 90 percent of the drivers went to work for Laidlaw Transit, all at the same hourly pay rate they had received from the school district.

Aside from the revenue generated by selling its buses to Laidlaw, Pinckney no longer must deal with the expenses of union negotiations or grievances from transportation staff.

"We're saving a lot of administrative work," Moskalik told The News.

As Ypsilanti, Lincoln and Willow Run discussed potential savings through privatized busing, the issue of job losses again came up. John Fulton, Ypsilanti's director of human resources, told The News that such fears were unfounded.

"If they take over three districts, they need to hire drivers," Fulton said. "So they're going to be looking at the three districts to hire the best drivers." MPRI

Ted P. O'Neil is an education research associate with the Mackinac Center for Public Policy.

The following is adapted from Michigan Education Report, a quarterly publication of the Mackinac Center for Public Policy. www.educationreport.org

Around the State

SOUTH HAVEN MARINA

In the January 2006 edition of Michigan Privatization Report's "Around the State," it was noted that the city of South Haven was investigating outsourcing the management of its marina.

In a February meeting, the city decided to keep management of the marina in-house. The decision was largely based on the city's belief that operating the marina "with city employees will generate the greatest return on investment at this time." According to city council meeting minutes, there were three proposals by private entities to run the marina, although one was dismissed for lack of detail.

See what else is happening around the state on Page 12

Detroit Can't Afford to Stall Privatization

Other Cities Save Millions by Forcing Government Services to Compete

By Geoffrey F. Segal

Geoffrey F. Segal is the director of government reform at Reason Foundation in Los Angeles.

This is an edited version of a commentary that originally appeared on April 20, 2006 in The Detroit News. Reprinted with permission.

Detroit's elected officials should consider every possible alternative to cut costs, especially with a $63 million deficit. Unfortunately for Detroit's taxpayers, Mayor Kwame Kilpatrick is closing the door on a proven tool: applying competitive pressures to government services.

In March, Kilpatrick suggested he would seriously consider spinning off services to other providers. But in April he told The Detroit News that privatization does not generate substantial savings. Kilpatrick said Detroit's peer cities aren't privatizing either — opting, instead, to beef up in-house operations.

Unfortunately for the mayor, history and facts don't seem to agree with his statement. Countless cities of all sizes, with mayors of either political party, have used competition and privatization to save millions of dollars.

Why? Because competition makes people work harder and more creatively.

The Philadelphia story

When Democrat Ed Rendell, the governor of Pennsylvania, was mayor of Philadelphia, he privatized 49 city services, saving $275 million. The list of services privatized included golf courses and print shops to parking garages and prison services. By privatizing one nursing home, for instance, the city saved nearly $27 million — a 54 percent reduction.

Indianapolis is often considered the leader in competition and privatization. As mayor, Stephen Goldsmith, a Republican, solicited competitive bids on dozens of services. Public employees managed to keep some services — but at huge savings to city taxpayers.

Indianapolis saves $15 million annually by privatizing trash collection — which Kilpatrick has declared off limits to privatization until 2009. Privatizing the city's sewer plant saved an additional $68 million — a 44 percent cut.

Chicago's Daley an advocate

Chicago's Democratic Mayor Richard Daley has privatized more than 40 services. In fact, he was so satisfied after the privatization of Skyway, one of Chicago's major highways, that he is lobbying for similar deals for city-owned parking lots and the Midway airport.

Former Cleveland Mayor Michael White, a Democrat, launched "Cleveland Competes" to allow private vendors to bid on contracts, including pothole repair, downtown trash collection and payroll services, resulting in millions of dollars in savings. Milwaukee, Jersey City, N.J., and Atlanta have posted similar results.

Nearly every service, short of police and fire, has been successfully privatized by a government. For the time being, Kilpatrick has dismissed privatized trash collection. But fewer than half of all local governments provide waste services to their residents through a government-operated solid waste department.

Private trash collectors are often more productive than their public counterparts because they use larger, more automated trucks that cut personnel, operating and capital costs. Keeping the service in city hands would mean a larger-than-necessary labor force that resists cost-saving technologies.

Privatization would allow Detroit to shrink its bloated bureaucracy. In the last year for which there are comparative statistics, Detroit had 18,600 employees, a resident-per-city-employee ratio of more than 48-1. Indianapolis, which has aggressively privatized, has a ratio of about 203-1. Although Detroit's work force is now down to about 15,500 workers, its ratio of residents to employees remains worse than that of Indianapolis.

Detroit contracts out services

Privatization isn't new to Detroit. The city privatized several golf courses in the 1990s and has historically contracted for some services, including oil changes in police cars and parking meter collection. However, some contracts have been brought back in-house.

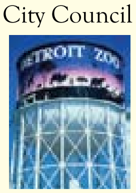
And who can forget Ecorse and Hamtramck, which under a court receiver and an emergency financial manager, respectively, aggressively used privatization, including of nearly all "public works," to rescue themselves from insolvency.

But the biggest advantage of privatization is that it generates new ideas for getting things done. In 1994, the mere threat of privatization by then Flint Mayor Woodrow Stanley led to a 31 percent reduction in trash collection costs — all the more reason not to take privatization off the table.

The mayor owes it to Detroit's taxpayers to force government services to compete. MPR!

Around the State

DETROIT CITY ZOO GOES NONPROFIT



The Detroit City Council has voted to hand over operation of the city zoo to the private, nonprofit Detroit Zoological Institute. The Institute is the arm of the zoo that does independent fundraising. A key component of the official transfer is a $4 million subsidy from the state of Michigan to facilitate the transaction.

See what else is happening around the state on Page 12

Russ Harding on State Parks

Last fall, Mackinac Center for Public Policy Senior Environmental Policy Analyst Russ Harding published an article entitled "Privatization in Michigan State Parks," in which he recommended selling 14 of Michigan's 97 parks. The response was dramatic. Over the course of the next six months Harding conducted scores of media interviews and provided legislative testimony on the subject. The Legislature responded by passing a state park anti-privatization law. ¶ The following is an edited excerpt of an interview with Mr. Harding on recent park privatization discussions, state officials' reaction to the idea and what the future of park privatization may hold.

MPR: What is the status of the parks privatization concept?

RH: There are two aspects. First, it is now harder to privatize state parks. After my article was released, state lawmakers introduced legislation that would require two-thirds approval by the state Legislature in order to sell state park property. This was not the type of response I had hoped for. There is some good news. Lawmakers have long been delegating too much power to agencies with little oversight. This new legislation has drawn attention to the bureaucracy instead of simply allowing agency officials to interpret statutes as they see fit.

MPR: When your article ran in MPR last year, did you expect the type of reaction you got from Lansing politicians?

RH: I wasn't surprised by resistance to selling state park property. I was surprised by the speed and intensity of the opposition; opposition that lead to quick passage of legislation restricting park property sales.

MPR: Why do you think legislators actually went in the opposite direction and made the sale of virtually any state park land more difficult than it was before you wrote the article?

RH: I suspect it was a political response. The Legislature is playing to populist notions of protecting the environment by ensuring state ownership of all land currently on the government rolls. It is a pretty safe place for legislators to go but it is not necessarily the best action for the future of the park system. Revenue generated from the sale of a handful of park properties could be invested in the remaining park infrastructure itself.

MPR: As former DNR parks director, can you shed some light on the inner-workings of the parks department? After all, the DNR itself is interested in shedding some park land.

RH: There has been an evolution on the thinking of park managers, due primarily to the fact that they no longer enjoy General Fund support. The revenues are now derived largely by dedicated funds and camping fees. When GF monies were flowing to parks at higher rates, there was less incentive to look for efficiencies, such as selling some property and reinvesting it in the remaining system. Now that parks have to earn more of the revenue that they use to operate, the managers have a greater incentive to look for innovative solutions.

MPR: If the state took your advice and sold the properties, what would you do with the proceeds?

RH: I would recommend reinvesting them in the state park system, but not in operational expenses. The money should be spent on infrastructure that would provide for greater customer service and operational efficiencies in the long run. For instance, there is an opportunity to cut energy costs at the state parks by installing solar powered energy for shower houses. It's a good fit for state parks because they are primarily used in the summer. It's more expensive up front but over time the savings will pay for that initial investment — especially in light of rising fuel costs. It's also environmentally sound.

What our park system is suffering from is what the state of Michigan is suffering from. We have little vision for being able to adapt to a changing world. We keep talking about how great the park system is yet things are changing. Other states, for instance, have moved in certain selected parks to hire private, for-profit contractors to operate lodges. This is an example of how government can raise the productivity and popularity of their state park system. Lodges provide a camping-like experience, but with greater comforts. As the population ages, these will be more attractive to future park users.

I started the process of implementing this change and attempted to contract out janitorial services, but I was fought by many "camps" inside and outside of state government. Not only is there an inherent fear of change, there are narrowly focused special interest groups with an emotional investment in maintaining the status quo. MPR!

Around the State

Lakewood District (Ionia County) Debates Privatization

GRAND RAPIDS — Ionia County's Lakewood School District met on March 13 to hear public comments on a proposal to privatize custodial services, according to Grand Rapids-based WOOD-TV. This was apparently just one step in a series that could have ultimately led to privatization. The district, however, decided to keep services in-house after reaching an agreement with its custodial bargaining unit. The agreement provided budget savings that made privatization unnecessary.

Prior to that agreement, however, the school board had accepted bids for a three-year contract to provide custodial services, according to the Hastings Banner in Hastings, Mich. The board was scheduled to interview companies interested in winning a custodial contract between March 27 and March 30, the Banner reported.

According to the specifications laid out by the district and reported by the Hastings Banner, privatized custodians:

- Must not have relatives or other personal visitors at the site;
- Must not consume food or beverages while on duty;
- Must not smoke or drink alcoholic beverages while on duty;
- Must not receive or initiate personal calls from Lakewood phones;
- Must not play radios or other sound equipment a [sic] loud level; and
- Must not fraternize with Lakewood Public School staff, clients, tenants or visitors to the building nor unnecessarily disrupt tenants from their work while performing contractual duties.

The privatization option generated controversy in the community, stirring up anti-privatization protests, placards, and Op-Eds and letters in local newspapers. There was even a community petition circulating that included the signatures of two school board members.

Custodial service is a rapidly growing area of non-instructional privatization in the state of Michigan.

Rare Privatization Triple Examined, Avoided with Union Concessions

MUSKEGON — The Reeths-Puffer school district in Muskegon had been giving serious consideration to outsourcing all three of its major non-instructional school services: busing (see story directly below), food and custodial service. The changes were intended to help balance the district's 2007 fiscal year budget.

In April, the district's board of education voted unanimously to privatize its custodial services. According to television station WZZM, nearly 500 people attended the board meeting, many in opposition to the change. As the meeting concluded, many in the audience chanted, "shame on you" to board members. For their safety, board members were escorted from the school auditorium by police officers.

The agreement provided budget savings that made privatization unnecessary.

The Reeths-Puffer school board efforts have been an ongoing story in West Michigan.

On Feb. 14, The Muskegon Chronicle reported that Superintendent Steve Cousins confirmed that all three services were potential candidates for privatization. The hope was that savings from competitive contracting could help the district reduce an $830,000 deficit. The district currently employs 92 bus drivers, custodians and cafeteria staff.

In a March 15 letter from the Reeths-Puffer Board of Education to the local community, the board detailed tough fiscal problems facing the district and stated that it was considering outsourcing custodial and transportation services to save money. The letter also contained a table of financial data showing the current hourly rate in salary and benefits for district custodians ($31.52); what the union wanted ($31.83); the board's offer ($26.77); and what the district would pay if the work were contracted out ($16.42). The letter said that outsourcing was a viable option to save money and avoid program cuts.

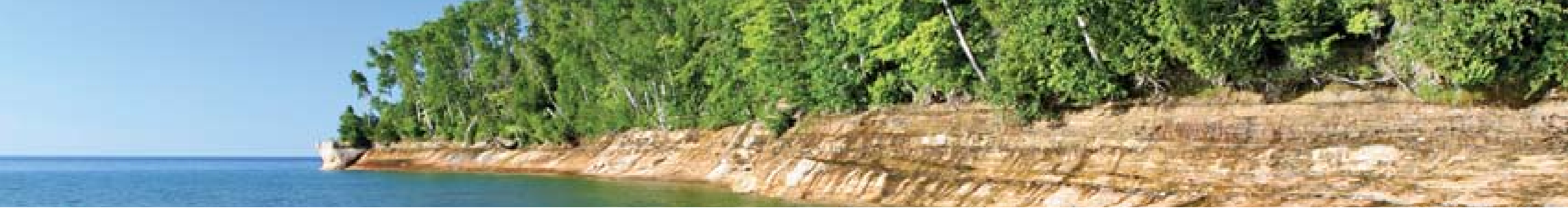
The privatization debate has not been without rancor, some of which appeared to be highly organized. One unique perspective that arose during the debate was that immigrants who were unfamiliar with the English language would be hired as replacement bus drivers.

The March 21 edition of The Muskegon Chronicle reported that the March board meeting featured one parent who said, "We all know what happens when you outsource. It will be hard for me to communicate with my daughter's bus driver if they speak a different language."

These exact sentiments were repeated and amplified by state Rep. Doug Bennett who represents the area. The story, explained in detail by the Michigan Education Digest, is worth retelling here:

Several hundred people protested before the meeting, and a uniformed police officer was needed, The [Muskegon] Chronicle reported. Michigan Education Association President Iris Salters attended the rally and told the protestors to "hang tough," according to The Chronicle. Also at the rally, state Rep. Doug Bennett, D-Muskegon, said school districts in West Michigan would get rid of "everyone you trust," and give the jobs to "illegal immigrants," by privatizing custodians and bus drivers, The Chronicle reported.

Bennett was heard to tell Kathie



Oakes of the teachers union, "We all know what's going to happen – they are going to hire illegal immigrants to fill the jobs," according to The Chronicle. The newspaper said Bennett attempted to clarify his remarks when he realized a Chronicle reporter was standing next to Oakes.

The Chronicle said Bennett explained himself by saying Holland, home of Enviro-Clean, also is home to many illegal immigrants. The Chronicle also reported that Bennett repeated his remarks to the entire crowd a few minutes later and was met with a "somewhat muted response."

Reeths-Puffer and several other Muskegon County schools still are considering a move to privatize bus drivers as a way to save more money, The Chronicle reported.

"Very few districts in the state have private contractors working in all three of the major non-instructional service areas," said Michael LaFaive, senior editor of Michigan Privatization Report. LaFaive is the co-author of a 2005 survey which found that only two of Michigan's school districts contract for busing, cafeteria and custodial services at the same time.

In June, the district reached a tentative agreement with the bargaining groups for its transportation, food and maintenance services. The proposed agreement included $144,000 in financial concessions.

Six West Michigan Districts Considered Combining Privatization Forces

GRAND RAPIDS — Earlier this year, in a move long recommended by Michigan Privatization Report, six Muskegon-area school districts began analyzing ways to save money by jointly contracting out for services, according to WOOD-TV. Originally, 11 Kent County districts were intrigued by the idea, but that number was whittled down to six as the county's intermediate school district began preparing a formal "request for proposal."

The six districts (Fruitport, Oakridge, Reeths-Puffer, Holten, Muskegon Heights and Whitehall) were looking to privatize their busing services as a group. Several of Kent County's districts have combined their special education busing and are happy with their contracted services. This consortium has since unraveled, but the size of the group and the willingness of each district to work through a request-for-proposal process may signal that more and larger consortiums could be coming.

The March 25 edition of The Muskegon Chronicle reported that only one firm had submitted a bid to operate busing at all six school districts. Bids were solicited by the local intermediate school district on behalf of the consortium. Initially, eleven organizations were contacted about providing the service. Only one company, Pioneer Resources, responded. Pioneer Resources is a 50-year-old not-for-profit that provides busing services for the elderly, handicapped and children involved in Head Start, according to The Chronicle. Head Start is a program designed to get disadvantaged children on the road to learning earlier than other students.

Under the bid specifications, the district would have continued to own the buses and employ the mechanics that maintain them, as well as determine the bus routes. The private firm would have managed the employees and handled compensation issues.

As long as schools continue to face declining enrollment they will face cost pressures. It is very likely that group privatizations will become the "undiscovered country" of competitive contracting among government institutions.

Privatization Voted Down in Lakeview (Montcalm County)

LAKEVIEW — Lakeview Community Schools in Montcalm County recently considered privatizing non-essential services as one way of grappling with an expected $1.2 million budget deficit for the fiscal 2007 school year. At an April 17 special meeting of the Lakeview school board, the idea was shelved.

Dixie Pope, business manager for the district, told Michigan Privatization Report that the district would instead shed employees and added that progress had been made on deciding precisely where to cut. The district intends to lay off six teachers, one counselor, one social worker, three secretaries and many paraprofessionals who work as classroom and library aides.

Greenville's Daily News reported on Feb.10 that the district is struggling as a result of a 6.9 percent drop in student enrollment and the resulting decline in state aid. In a subsequent editorial, The Daily News asked rhetorically, "If not privatization, then what, Lakeview?" The editorial juxtaposed opposition to privatization with the financial reality facing the district. Privatization of custodial and food services may have saved the district $180,000 annually.

Ionia County's Lakewood School District, after investigating a proposal to privatize custodial services, decided to keep services in-house after reaching an agreement with its custodial bargaining unit.

In addition to the numerous layoffs, three of the nine district custodians have retired and will not be replaced.

Substitute Teachers Outsourced

GRAND RAPIDS — The Kent County Intermediate School District has approved a deal with a Caledonia-based firm, Professional Education Service Group, to handle substitute teacher recruitment, training and placement.

Three other West Michigan counties may join forces and contract with a single provider of such services. Districts within the three counties could opt in if they so choose. Savings resulting from this approach could range from $100,000 to $235,000 annually, depending on the size of the district.

The Grand Rapids Press reported that unions are nervous that the outsourcing of substitute teachers could lead to privatization in other areas of school support services, such as secretaries.

Secretarial and other administrative work have long been untapped areas of school privatization, but as budgets continue to tighten, districts find themselves more willing to try new management practices.

Custodial Privatization Comes to Hartland

HOWELL — The Hartland Consolidated Schools Board of Education has voted to privatize janitorial services, expecting to save at least $600,000 in fiscal year 2007.

Officials in Hartland issued a "request for proposal" earlier in the year, asking private firms to bid on the service. As of March 30 the district had received and reviewed four offers. At the May 8 board meeting, district officials refused a last-minute offer of concessions worth $250,000 from the union representing district custodians to keep the work in-house.

As has been the case in Michigan school districts all spring, the meeting drew a large crowd to witness the debate and ensuing vote on whether to privatize. According to The Detroit News, the total savings expected on the five-year outsourcing deal is $5 million. The contract was awarded to Grand Rapids Business Services.

The board is also considering a host of other cuts to close a projected $1.5 million fiscal 2007 budget deficit.

Reed City Schools Avoid Privatization

REED CITY — On April 17, the Reed City Area Public School District approved a smattering of budget cuts through layoffs, transportation cuts and employee buyouts in an effort to balance its fiscal 2007 budget, according to the Cadillac News. The district had entertained proposals to privatize food and custodial services, but those options now appear to be off the table.

Instead, the district will erase its expected $1.6 million deficit by offering severance packages to 11 educators who are willing to leave their jobs. The News reported this will save the district $890,000. The board also eliminated another 11.5 jobs involving teaching assistants, as well as adult alternative education program, high school library, accounts receivable, custodial and secretary positions.

The school board is implementing these cuts while also eliminating two bus routes, instituting a fee for high school and middle school sports programs, and mandating 10 percent cost cutting at each school site in the district.

Golf Courses in Lansing, Ann Arbor, Royal Oak May Face Privatization

Tight municipal budgets throughout Michigan have officials examining their balance sheets for ways to save money. Government golf courses — many bleed revenue each year — may be privatized in at least three Michigan communities. The cities of Lansing, Ann Arbor and Royal Oak have all had discussions about either selling off their properties or contracting out for their management.

In Lansing, the potential closure of two courses almost led to a court battle between Mayor Virg Bernero and the City Council, but that was avoided in April with a short-term agreement that would raise fees at all four courses. As part of the deal, the City Council promised Bernero a thoughtful review of his proposal to sell two courses (Red Cedar and Waverly) outright.

In Ann Arbor, the city's two golf courses have been bleeding revenue as the number of rounds played by local residents has plummeted 57.6 percent since fiscal year 2000. City Administrator Roger Fraser told The Ann Arbor News in April that the city would be happy if the courses just broke even financially. In just the last few years the courses cost the city "about $1 million," according to Fraser. Such losses will not likely be tolerated ad nauseum, which brings some sort of privatization option to the forefront of the debate.

In Royal Oak, the city is debating whether to sell Normandy Oaks Golf Course to help eliminate an expected $3.9 million deficit. While the city-owned course currently generates positive cash flow, the lump sum expected from the sale is attractive to officials who would use it to close the deficit and establish an endowment that would pay the city interest in the future.

As of May 10, a subcommittee of the city council was reviewing proposals from interested purchasers to determine whether or not the sale of the course would be in the city's best interests.

Muskegon County Nursing Home May Be Sold

Muskegon County can no longer afford to keep the doors of Brookhaven Medical Care Facility open. The county-owned and -operated nursing home has been hammered recently by state-imposed fines and penalties totaling approximately $350,000, according to The Muskegon Chronicle, and these are not its only troubles.

Even without the penalties, Brookhaven was expecting to finish the year with a deficit, which would mean that the county would have to subsidize its operation through a general fund appropriation. The general fund is the portion of the budget over which county officials have the most discretion. After Brookhaven was cited for safety violations by the state, the county facility took five months to correct them, resulting in the loss of state health program reimbursements.

Several county officials have argued that general fund subsidies are worthwhile because the facility provides care to indigents who may not otherwise have access to such nursing homes. Local public human services officials are considering ways to generate more revenue to keep the doors open.

Ice Arena Privatization Draws Threat of Recall; $4 Million Bid Rejected

GEORGETOWN TWP. — The western Michigan community of Georgetown Township mailed out 150 requests to bid on ownership of the township's ice arena, according to a March 2 article in The Grand Rapids Press. The move drew howls of protest from arena enthusiasts, 60 of whom showed up at a township board meeting. Township Supervisor Bill Holland was "seeking a minimum offer of $4 million." Local resident Mark Nanninga, told The Grand Rapids Press that there may be an "army" of people seeking recall petitions if the rink is sold.

As it turned out, a recall wasn't necessary. Despite receiving one bid for $4 million, the township chose to reject the offer on the grounds that certain specifications of the bid had not been met.

Detroit Mayor Alludes to Privatization of City Services

DETROIT — Mayor Kwame Kilpatrick surprised many observers by delivering a "State of the City" speech with allusions to competitive contracting. Consider an excerpt from his remarks as quoted by the Detroit Free Press: "Is trash collection a core service? Again, I believe the answer is, 'Yes.' Does city government need to provide that core service? Frankly, at this moment I don't know. I don't know that it requires that workers be on the city payroll to insure that trash is picked up on time every week."

The mayor went on to promise that the city would investigate how best to provide services to citizens in its police, fire, recreation and public works departments, among other areas. He asked rhetorically, "Does it cost the city more to provide that service than it would cost someone else to do it for us?"

In 2000, the Mackinac Center for Public Policy published an entire edition of Michigan Privatization Report covering Detroit-specific fiscal policy and privatization-related topics.

Arenac County Jail Contracts with State for Food Services

ARENAC COUNTY — The Arenac County Board of Commissioners has outsourced provision of food services in the county jail by contracting with the state's Department of Corrections.

The three-year contract allows the jail to send county corrections officers to the local state prison three times a day to pick up meals and bring them to inmates in the county jail. The contract is expected to save the county $50,000 annually, according to the Arenac County Independent.

Update: Owosso Township Recall Effort

OWOSSO TOWNSHIP — Husband and wife public servants Richard and Judy Gute survived a Feb. 28 recall effort in Owosso Township. The supervisor and clerk of the township board were under fire for competitively contracting with a private firm to provide emergency ambulance services. The couple overcame what appeared to be a highly organized and concerted effort to remove them.

The Flint Journal reported on Feb. 19 that the Gutes were standing their ground and were prepared to overcome the opposition "with truth and facts." The Journal article also noted that three other township trustees voted to contract with Mobile Medical Response of Saginaw, but were not targets of the recall.

Michigan Privatization Report first covered the recall effort in January 2006. MPR!

In Muskegon, the county-owned and -operated nursing home has been hammered recently by state-imposed fines and penalties totaling approximately $350,000

Unfair Competition Should Be Outlawed

By Michael D. LaFaive

The state Legislature is considering two bills that may effectively eliminate the unfair competition between municipalities and private businesses, such as golf courses. House Bill 5975 and House Bill 5976 are designed to a) mandate accounting procedures that prevent government from spreading the true cost of operating certain businesses across bureaucratic departments; and b) prohibit the creation of additional public enterprises that unfairly compete with private businesses.

The two bills have been referred to the House Government Operations Committee chaired by Macomb County lawmaker Leon Drolet. House Bill 5975 is described as follows on MichiganVotes.org, a Web site of the Mackinac Center for Public Policy:

> Introduced by Rep. Rick Jones on April 25, 2006, to require audited financial disclosure reports from government entities engaged in commercial activity, which means providing goods or services that can normally be obtained from private enterprises. The disclosure would have to show all income and expenditures. Grants (subsidies) from the public entity could not be counted as income, and expenses would have to show a proportionate share of common expenses shared with other government agencies, such as utility costs, supplies, repair and replacement costs, insurance of all types, employee compensation, employee benefits, payroll taxes, debt service and depreciation of all types.

This is what some might consider a "sunshine" law that forces a unit of government to account for the true cost of providing a particular service. All too often such costs are spread across bureaucracies, making it impossible to determine if an activity actually generates more revenue than expenses each year. For example, some municipalities may charge golf course lawn maintenance to their department of public works, making golf course operations appear less expensive than they really are.

The Mackinac Center recommends the use of cost accounting techniques in government budgeting for a simple reason: the more information policymakers and voters have, the more likely it is that better public decisions will be made.

House Bill 5976 specifically outlaws unfair government competition against existing businesses. The MichiganVotes.org description of the legislation is as follows:

> Introduced by Rep. John Garfield on April 25, 2006, to prohibit government agencies from competing against private enterprises, or subsidizing any charitable or not-for-profit institution that would use the support to compete against private enterprises. Activities normally provided by government would be exempted, including "essential services" and "necessary services," both defined in the bill. "Vital services," including things like food stores, drugstores, child care, elder care and telecommunications services could only be provided if there were no private sector alternatives. Privatization of essential and necessary services would be explicitly allowed, including water supply, sewers, garbage and trash removal, recycling, utilities, streets and roads, public transportation, correctional facilities, fire departments, emergency services and medical services. A private enterprise could sue to obtain an injunction forcing the government competitor to stop, and would only have to show prima facie evidence that the government entity is or is planning to compete, not that the private enterprise has been damaged. Governments already providing commercial goods or services would be grandfathered, but could not expand.

This legislation also represents an idea the Mackinac Center for Public Policy called for years ago. In 1992, Center President Lawrence W. Reed wrote, "This problem of public-sector competition has crept up on us with little legislative consideration of the implications. The issue is overdue for some serious scrutiny, the kind that will find answers to questions like these: What activities can we tolerate as legitimate for the state or its entities to be engaged in and which ones ought we put a stop to? How many jobs are lost in the private sector because the state unfairly 'dumps' its competing product?"

Government regularly sticks its nose into the business of business; but that does not mean it should. These bills are long overdue and will provide taxpayers a service on two levels: information and legislative protection from unfair government competition. MPR!

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