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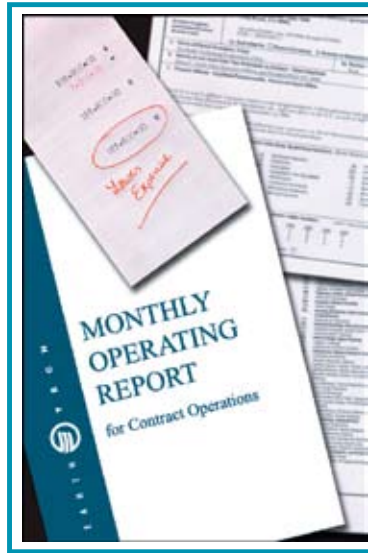
**REPORT**

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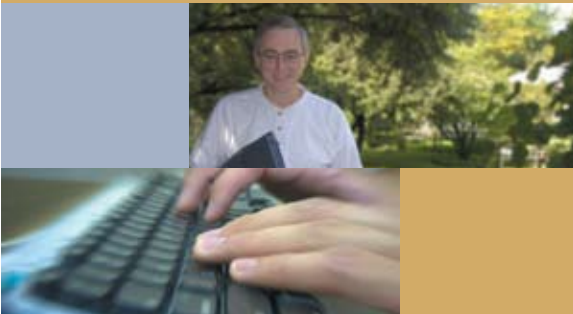
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## Michigan Privatization REPORT

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## REPORT



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# The City of Pontiac: A “Going” Concern?

*Editor’s Note: This article was adapted from the version published on the Mackinac Center for Public Policy Web site in August 2006. The city has been struggling with its fiscal monitoring and reporting and has hired a respected accounting firm to help improve its record keeping and accounting processes, meaning that all of Pontiac’s projected — as opposed to 2005 audited — budget numbers in this edition of MPR may be subject to change based upon new information.*



By Lou Schimmel

*Lou Schimmel is director of municipal finance with the Mackinac Center for Public Policy.*

IN A FINANCIAL REPORT detailing fiscal year 2005 expenditures for the city of Pontiac, auditors preface their findings with a warning:

“The accompanying financial statements have been prepared assuming that the City will continue as a going concern. ... (T)he City’s general fund has suffered recurring losses from operations and has a fund deficit that raises substantial doubt about its ability to continue as a going concern.”

In other words, each year the city spends considerably more than it receives in annual revenues. Combining the city’s 2006 losses and its 2005 deficit, the city’s current deficit is estimated to be \$60 million, excluding some of the city’s one-time budget cuts in 2006. Despite some operating reductions, the city’s losses mount day by day.

This means that the city may, at some point, run out of cash. Pontiac will have no way to pay its bills or its employees. This moment will arrive when the mayor and city council can no longer do the following:

- Continue to find cash in other city funds to borrow (or to transfer to the general fund);
- Find cash from some other source, such as deficit funding bonds, to delay the inevitable (the principal way the 2005 deficits were “eliminated”); or
- Negotiate the forgiveness of debt owed.

This is why privatization is so important to the city. It gives officials the chance to save money as well as generate new revenue to pay its bills.

Over the past few years, the city has managed to remain a going concern only by following the three strategies described above. For instance, as of June 30, 2005, the city had taken cash out of several city funds, such as the water and sewer fund, to put in the depleted general fund to finance core city operations. This borrowing has left the other funds dangerously low in cash and unable to fulfill their statutory missions.



*Pontiac officials have considered selling some city assets in a bid to reorganize its finances. The city may not generate much revenue from its two cemeteries, but that should not prevent their sale.*

The city also has issued bonds and deferred the settlement of a General Motors Corp. property tax dispute — the city’s principal ways of solving its deficits. In February 2006, the city issued a deficit elimination bond of \$21.5 million. In March 2006, one of the city’s five tax increment finance districts repaid the city’s general fund \$11.5 million for money that the district had inappropriately spent, but the money came from Oakland County’s issuing bonds on the district’s behalf. In addition, the city has numerous unpaid, overdue bills, which is simply another way of borrowing money.

**Many, including the city’s leadership, argue that the city of Pontiac simply needs more money.**

In 2002, the city of Pontiac settled a property tax dispute with General Motors Corp. The city had erroneously collected \$23.8 million in property taxes from the company, and the settlement permitted the city to repay GM only \$15.3 million, with the company forgiving the \$8.5 million balance. Unfortunately, the city failed to make payments on the settlement. In December 2005 Pontiac agreed to pay GM \$2 million in fiscal 2006 and another \$2 million in fiscal 2007 toward the debt owed.

The remaining amounts will be paid through city tax credits for projected property tax increases that would otherwise be owed by General Motors over the next several years. This move delays the city’s payments and temporarily eliminates the deficits in the city’s financial statements, but stunts the growth of the city’s future property tax revenues.

To make matters worse, in November General Motors announced that it would be moving 3,600 employees from Pontiac to sites in Warren and Detroit by 2008 to save money. Fewer people means fewer taxpayers at a time the city is already bleeding revenue.

The city cannot continue in this way. The question is, what should change? Many, including the city’s leadership, argue that the city of Pontiac simply needs more money.

But consider the following:

1) **The Whall Group audit.** In February 2006, The Whall Group, a risk management and fraud detection firm, released a report covering some, but not all, areas of concern in the city. The report clearly demonstrates a general lack of internal accounting controls and management in city activities, particularly in the purchasing, parking, banking and Strand Theater project areas.

The report goes to great lengths to identify such items as bank accounts opened by department heads; unresolved and unexplained adjustments in bank reconciliations; and financial reports that were prepared months late. Several of the bank accounts were unknown to the city's finance department.

The report further indicates that cash receipting for the parking operations is totally out of control. Various means of checking and controlling the receipts are not in place, meaning that the cash could be inappropriately diverted.

Several items involving the golf course were cited, including the now-retired golf course manager's salary, which was high relative to other city employees and was roughly 32 percent higher than the salaries of golf course managers in the surrounding area. According to the report, the manager was entirely responsible for all of the golf course's receipting activities — which is not a generally accepted method of accounting .

Above all, the report states that the city's budget revenue estimates are greatly inflated and unrealistic. These findings are only a sample of the numerous concerns covered in the report.

The good news is that the city has hired certified public accounting firm Plante and Moran to help straighten out city finances. The audit of Pontiac's fiscal 2006 finances is due by Dec. 31.

2) **Public safety.** Police and fire operations accounted for 68 percent of the city's general fund expenditures for the fiscal year ending June 30, 2005. This amount is considerably higher than in most other cities. Over the years, the city has been generous to police and fire unions in the areas of pensions, lifetime health care benefits, days off, minimum manning and shift requirements, longevity, and overtime pay. With such a high percentage spent on public safety, only 32 percent of the city's general fund budget is left for everything else, including the Department of Public Works, city clerk, city attorney, district court, mayor and council, building department, library, community centers, human resource department and community development department.

3) **General fund reductions.** Because of generous spending, the city's annual general fund revenues are considerably less than they should be. For instance, the city has created five tax increment finance districts. This means that tax revenues that would have normally gone to the city's general fund are now going to five different boards or entities in the city for various purposes. Additionally, the city's general fund is reduced by subsidies to the golf course, district court and cemeteries.



#### **The Road to Insolvency**

*The city of Pontiac should sell assets to help right its financial ship. Parking would be a good place to start. The city owns one parking garage attached to the Phoenix Center and 13 lots that generate about \$900,000 in revenue annually.*

4) **City assets.** The city owns assets like the Silverdome, several community centers, a golf course, two cemeteries, a closed theater on which the city has spent more than \$7.5 million — and which will require at least another \$2 million for completion — and scores of other properties.

The city could save a considerable amount of money by not owning or operating these facilities. Selling them is known as load or asset shedding. The savings in maintenance and insurance costs alone would be substantial. If the city sold these assets to private investors, the properties would go onto the city's tax rolls as well. There is, however, some good news on this front. City officials are giving real consideration to selling such assets (for more information, see page 9).

The above issues demonstrate that finding more state or local public money for Pontiac would do little to improve the city's fiscal health. The problem is less about inadequate resources than it is about bad management.

Only major structural changes in how the city operates will bring a permanent solution to the city's financial problems. Given the unwillingness of city officials to come to terms with their fundamental managerial problems, nothing less than the state's appointment of an emergency financial manager to take control of city government will bring the necessary structural changes in Pontiac. [MPRI](#)

# Suppress Municipal Fire Costs



By Michael LaFaive

*Michael LaFaive is director of the Morey Fiscal Policy Initiative.*

IF PONTIAC WILL NOT ADDRESS its significant economic challenges with a bold reorganization of its structural spending, the state appointment of an emergency financial manager may be inevitable. An EFM with proper powers can take Pontiac where other municipalities have feared to tread — such as contracting for certain public safety services.

The Pontiac Fire Department is staffed with 119 personnel and operates on a budget of \$14.1 million according to the City Council Adopted Budget for fiscal 2007. All positions are funded from the general fund account of the city. Police and fire together account for more than 52 percent of general fund spending in Pontiac. The general fund is the account from which council members have the most spending



*The Pontiac Fire Department unnecessarily operates its own advanced emergency services. Private providers can and do provide identical services under contract. To its credit, Pontiac contracts with Star EMS to provide basic patient transport.*

discretion. Only the police (149) and public/utilities (153) departments have larger staffs than the fire department, which provides fire suppression and advanced emergency medical services as well. The question is, should it?

Outside-the-box policy thinking is becoming the rule across Michigan municipalities as each community grapples with increasing health care-related employment costs and decreasing tax revenue resulting from a less-than-robust economy. Pontiac cannot afford to be an exception.

One difficult but potentially lucrative area of city reform involves fire suppression and emergency medical services privatization. Pontiac should explore some combination of privatized public safety services to save money and possibly improve services, too. There is nothing special about fire suppression or emergency medical service that mandates government-employee-only provision. Both are provided privately, to some degree, elsewhere in the nation. Consider a few possibilities.

**Contract out.** Pontiac should investigate contracting for services with a private fire company. Three big players in fire fighting and other public

## *Outside-the-box policy thinking is becoming the rule across Michigan municipalities*

safety operations include Wackenhut Services Inc., of Florida, Rural/Metro Corporation of Arizona and Pro-Tec Fire Services of Wisconsin.

At the outset, it should be noted that awarding a contract to any of these companies would put all parties to the transaction in fairly new territory. None of these companies currently provides fire services in any community previously operated entirely by government firefighting employees. Companies such as Rural/Metro provide subscription fire services to communities that have not yet incorporated as a government entity. That does not mean that at least one of them couldn't be persuaded to do so.

Rural/Metro is a 50-year-old company that currently provides fire protection for 25 communities and other public safety services, such as ambulance operations, to more than 350 communities nationwide, according to the company's Web site. While it is an unlikely candidate to take over an existing municipal fire department, it represents evidence that a private firm can provide large-scale fire protection to people and businesses alike and do so cost effectively.

Wackenhut Services, Inc. also provides public safety related services, including fire suppression and emergency medical services. WSI has started and operated 25 fire departments and has 700 U.S. employees at military installations throughout Iraq, which may make Pontiac, or any American municipality, a comparatively easy place to do business.

If the city were to contract with one of these firms for all the services it currently provides and save a conservative five percent, Pontiac could cut its fire department costs by almost \$706,000. In addition, the city could either sell its equipment and buildings to the winning bidder or come to some lease arrangement which would require payment equal to the "imputed" rent for use of city assets — that is, an estimate of what comparative equipment and buildings would cost to rent in the marketplace.

**Employ volunteers.** A second option for Pontiac would be the volunteer model employed by the Oakland County city of Troy, which employs only 14 full-time firefighters and as many as 180 authorized volunteers. Troy is comprised of 33.6 square miles and has the second largest State Equalized Value in Michigan at more than \$6.6 billion. By contrast, the city of Pontiac employs 119 personnel to protect just

*continued on page 8*



# Arrest Municipal Police Costs

THE CITY OF PONTIAC IS IN DIRE STRAIGHTS. It had an official fiscal 2005 operating shortfall of nearly \$11 million dollars and it technically mitigated an expected 2006 General Fund deficit by borrowing more than \$21 million last February. Moreover, financial auditors have questioned whether Pontiac can even remain a “going concern”. Bold changes must be made in order for it to do so.

The Mackinac Center has been following Pontiac’s deteriorating financial condition and has warned that an emergency financial manager — with proper powers — may be necessary to right Pontiac’s sinking financial ship. It is important to stress “proper powers” because without the ability to set aside union contracts, the manager’s work easily could be stymied. For the sake of argument, assume that an EFM could set aside union contracts. Where should he or she start making structural reforms? The answer is with city police.

The first official act of an emergency financial manager in Pontiac should be to negotiate a new agreement for law enforcement services. The EFM could demand cost-cutting reforms from the Pontiac Police Department or contract with the Oakland County Sheriff’s Department for law enforcement. According to the city’s fiscal 2007 budget, police represent the second largest employment unit in the city with 149 on the payroll. A competitively bid contract would likely lower costs to the city and improve services, too.

It is important to focus on public safety for two reasons. First, more than 52 percent of the city’s fiscal 2007 general fund expenditures are gobbled up by police and fire services. It makes sense to look at areas that cost the most. Second, basic services matter. People need and want public safety and at a good price. If they don’t get it they may vote with their feet and leave the city. Between 1990 and 2000, Pontiac lost 6.7 percent of its population, and even more since then.

Competitive contracting for policing is nothing new. In fact, Oakland County provides 11 townships and the city of Rochester Hills with full policing under contract. It also provides emergency dispatch services to others.

In neighboring Macomb County, Mount Clemens gave up its 118-year-old city police force in favor of a contract with the Macomb sheriff’s department. The city expects to save \$1.4 million a year as a result. According to Marilyn Dluge, the Mount Clemens finance director, that works out to a staggering 38 percent drop in the cost of providing such services in this fiscal year. The city, which approved the contract for July 2005, would have been bankrupt by year’s

end had the deal not been struck, says Dluge. Pontiac needs to look for similar savings.

According to Pontiac’s fiscal 2007 adopted budget, police expenditures amount to \$17 million, \$16.1 million of which is paid out of the general fund. If Oakland County took over the city’s police department and saved the city just 20 percent, it would translate into more than \$3.2 million in annual savings for the general fund, or nearly one-third of the city’s official fiscal 2005 \$10.9 million operating shortfall. The general fund account operations are where elected officials have the most control. When the 2006 financial audit of Pontiac is complete, it is likely to show an increase in the city’s general fund deficit.

By Michael LaFaive

*Michael LaFaive is director of the Morey Fiscal Policy Initiative.*



The city’s expenditures for fire suppression and medical services should also be reviewed for ways in which savings can be found. (See “Suppress Municipal Fire Costs” on previous page.)

There is some good news to report out of Pontiac. The city has contracted with Plante & Moran, LLC, to act as city controller. This is a prudent decision. Without a sound accounting system, the city does not know month-to-month how much money it has to pay its bills. Also, the city may lease or even sell its golf course and the Pontiac Silverdome. The outright sale of such assets will generate one-time revenue, and in addition, place them on the property tax rolls where they generate additional income.

Reforms need to be made that take Pontiac beyond the point of simply keeping its fiscal head above water. The city can start its long road to recovery by changing the structural nature of annual spending. Competitively contracting for policing services would be a bold start. [MPRI](#)

*Oakland County could take over Pontiac police duties as it has in other communities. The Macomb County Sheriff’s Department took over police services in Mount Clemens last year saving the city approximately 38 percent over the cost of city-run policing.*

**Fire Costs** from page 6

20 square miles, and has an SEV of \$1.9 billion. The SEV is equal to half the market value of property and is calculated by governments for taxing purposes.

Municipalities and fire departments often express the cost of providing fire and other emergency services in per-unit terms to help put expenditures in perspective. For example, Pontiac's fire department would be expressed as a dollar amount per \$1,000 of SEV. That is, in Pontiac the city spends \$7.43 per \$1,000 of SEV on fire protection and related services (\$14.1 million/(\$1.9 billion/\$1,000)). By contrast, Troy spends only \$1.57 per \$1,000 in SEV.

This does not mean that converting Pontiac to a volunteer force overnight would yield a 78 percent drop in costs. Transitioning to a volunteer service would no doubt result in vociferous union opposition that would likely hike the cost. Moreover, Pontiac may simply have a different tradition of volunteerism. Unpaid firefighters may be difficult to recruit. In addition, it would be expensive (and logistically difficult) to hire and train a cadre of 100-plus volunteers all at once.

It should also be noted that comparing Pontiac and Troy cannot be done perfectly. For instance, the Troy fire department does not operate EMS-type services while Pontiac does. If Pontiac spun this service off, its total costs would drop.

Pontiac's fire department does not need to be in the ambulance business. Such services are provided privately on a routine basis. Fire departments across the country have been encroaching on emergency medical service territory to help protect firefighter jobs. The Mackinac Center has written about this mission creep in an article entitled "Ambulance Wars," which can be found on the Center's Web site at <http://www.mackinac.org/> Even if Pontiac refused private fire provision, it might consider ending its advanced EMS function in favor of contracted services.

That said, there is virtually no service being provided by the Pontiac fire department that isn't being provided somewhere in the country on a private, for-profit basis. Critics might roll their eyes at the very notion of some

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# Pontiac Should Sell City Assets

THE CITY OF PONTIAC is facing a fiscal crisis that requires innovative thinking and daring action. There has already been some movement in the right direction. Pontiac is contracting for some financial services and looking into doing the same with others, such as the management of the city golf course. Pontiac officials — to their credit — are looking at a number of potential asset sales to help shore up the city budget.

It is our hope that the sale of such assets would not be used to plug short-term gaps in the budget, but to pay down city debt and thus change the long-term, structural nature of the city's fiscal position. The city must adopt a bold strategy for privatizing its diverse portfolio of property.

Consider a few opportunities that Pontiac either is or should be investigating:

•**Pontiac Municipal Golf Course.** The private sector has been providing golf to the public since the earliest golfers laid the first greens. There is no reason the Pontiac course should not be sold.

Selling this course to the highest bidder would generate millions of dollars. According to the Detroit Free Press, Arthur McClellan Jr., Pontiac City Council president, reported "five potential bidders have inquired about the property." He thinks the city would want between \$3 million and \$4 million for the 125-acre course.

Assume a sales price of \$3.5 million. Not only would the city generate this revenue, it would begin collecting approximately \$31,400 in property taxes as the parcel moved from public to private ownership. Another \$31,500 would accrue to school operating millages with another \$31,700 being distributed to other entities. Lastly, it is possible that the quality of services could improve.



•**Pontiac Silverdome.** The city has been trying to sell this property for four years without success.

The property cost \$55.7 million to develop in 1975 (about \$210 million in today's dollars) and, according to published reports, the city currently appropriates more than \$2 million a year for the city's stadium fund and at least \$1.6 million is spent just maintaining the property.

The most recent attempt to sell has the city reviewing proposals submitted by companies seeking

to market the property, following a nationwide search that yielded nearly a dozen responses. While we applaud the effort to move forward, after four years of delays we question the need for niche companies. Brokers and attorneys are frequently involved in unusual and expensive real estate deals. The city may have been better off simply issuing an invitation to bid and advertising it in international and national newspapers and real estate magazines.

What could such a property fetch? One serious offer by developers was reported at about \$20 million. Left undeveloped, a property of this value might generate more than \$535,000 a year in new tax revenue (53.51 total mills) to the city, state and schools, among other areas. (In November, city voters approved property tax increases totaling three mills.)



•**Parking lots.** Many cities own and/or operate parking garages, as does Pontiac. Pontiac should sell these assets to the highest bidder.

In 2005, the Michigan Privatization Report surveyed the state's 20 largest cities and found that eight owned and operated their own garages while others own them but contract for their management. Pontiac controls 3,960 parking spaces in its garage and 13 lots and allows the Downtown Development Authority (an economic development group) to manage them. All should be sold to the highest bidder. Moreover, the DDA maintains more than 200 metered parking spaces. A contractor could be hired to manage use of the meters.

Jim Haugslund, senior vice president of sales for Duncan Solutions, Inc. told MPR that when his company installs multi-space meters and assumes responsibility for citations issuance, processing and parking debt collections, municipalities typically see their parking revenue increase as much as 100 percent. Pontiac could certainly use a boost like

*continued on page 11*

By Michael LaFaive

*Michael LaFaive is director of the Morey Fiscal Policy Initiative.*

# Pontiac Should Privatize its DPW

By Louis Schimmel

*Louis Schimmel is director of municipal finance with the Mackinac Center for Public Policy.*

THE CITY OF PONTIAC needs a dramatic reorganization. One area that is ripe for privatization is the city's Department of Public Works. All of the services currently provided by the DPW also are available from private vendors to varying degrees. Throughout the country, many municipalities already contract for these services.

The 2007 fiscal year budget calls for 153 employees, 10 fewer than fiscal year 2006. The city, to its credit, has been paring the size of its employment rolls in an attempt to dig itself out of a significant financial hole. It must do more.

It needs a sweeping privatization program that would place a wide array of services currently provided by the city into the hands of vendors who win contracts through open competitive bidding. The city has done it before (refuse collection, for instance) and is reviewing bids for other services.

The fiscal 2007 City Council budget allocates \$74.6 million for expenses to provide DPW services, including contracted refuse collection. It is impossible to tell how accurate this figure is from the cur-



*The city provides a number of services that fall under the heading of "Public Works," such as wastewater treatment, shown in the picture above. But public works duties are routinely contracted to the private sector. Indeed, Pontiac already contracts for the traditional DPW service of refuse collection. Officials should investigate other areas ripe for contracting.*

rent budget because it is not clear exactly how much of the insurance, material, supply, vehicle-purchase and maintenance costs, and depreciation generated by the DPW are accurately attributed to the DPW. Phone calls to the city finance and public works departments by this author were unreturned.

The DPW operates from several buildings and sites, including the city hall and four other locations, two of which are wastewater treatment facilities. The city maintains a large inventory of vehicles and equipment that could be sold if the city were to privatize its services.

The city's water supply is purchased from the city of Detroit system and residential trash pick-up is contracted to a private vendor, Veolia Environmental Services, Inc. The parking system is operated by the

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***The city needs a sweeping privatization program that would place a wide array of services currently provided by the city into the hands of vendors who win contracts through open competitive bidding.***

city's Downtown Development Authority and is not part of DPW operations. Included in the following list of DPW services is the maintenance of 24 city parks and recreation fields and six community centers, four of which are closed.

Current services provided through the DPW, according to its Web page, include community development, which oversees economic development, zoning issues and building safety; engineering (planning capital improvements to city owned buildings and roads); general services (administration); building maintenance (cleaning and repairing city buildings); equipment maintenance (cleaning and repairing tools and machinery used by DPW); highway maintenance (repairing potholes, etc., on 250 miles of city roads); electrical/sign shop (provides electrical maintenance and creates and maintains signs in the city; sanitation (under contract with Veolia); grounds/forestry (mowing, gardening, removing diseased trees); municipal golf course (up for management or sale now); cemeteries (up for management or sale now); wastewater treatment; water and sewer maintenance; and water billing and collections.

If all of the costs for providing these DPW services were tallied by function, they easily could be compared to the lowest bids of qualified contractors. It is not unreasonable to assume that the city could save at least 15 percent of what it currently pays for DPW services it provides. After subtracting costs for refuse collection, the city is left with \$66 million in budgeted expenses. Knocking 15 percent off the remaining cost of operating DPW would yield nearly \$10 million in annual savings.

This figure is probably understated for at least two reasons. First, there may be many costs of running the DPW that are not now properly attributed to it. Accurately identifying these costs would lift the cost of the public service and, thus, the amount that could be saved through contracting. Second, some services, such as cemeteries or the city golf course, could be "zeroed out" entirely by selling them, thereby increasing the overall savings rate.

Besides saving money, the city may benefit

from a higher level of service provided by private contractors.

In addition to reducing its annual costs by contracting DPW services, the city could realize a large one-time revenue gain by selling its DPW buildings, sites, vehicles and equipment. This one-time revenue could be used to reduce city deficits or pay down other debt. When I was emergency financial manager of Hamtramck, I sold the city's DPW building and site for \$860,000, DPW's vehicles and equipment for \$235,000 and I leased vacant land owned by the city for \$25,000 per year to Nextel for a cell tower.

Few people, other than some accountants and small circles of local government officials, realize the magnitude of the problems faced by Pontiac. Nothing the Mackinac Center could publish in a series of short articles could do the city's problems justice. Pontiac must start revolutionizing its fiscal landscape now or face takeover by a state-appointed emergency financial manager.

Other cities have saved substantial amounts of money by privatizing city services. Pontiac should do the same, and it should rank DPW services high on the list of privatization candidates. [MPRI](#)

### **Suppress Fire Costs** from page 8

of these proposals. But the fact that such ideas may seem implausible today does not mean that they lack credibility. Indeed, less than a generation ago school choice, Social Security (pension) privatization, and ending welfare as an entitlement were deemed beyond the pale of discussion. Today such ideas are mainstream.

Pontiac's problems are such that they will very likely require an emergency financial manager to solve them. Only an EFM with the ability to set aside union contracts and make other changes could remake the city as dramatically as suggested here.

Using competitive contracting, volunteers or entirely private contractors (or some combination) would give Pontiac an opportunity to creatively save money and stay solvent while providing the same or better services. [MPRI](#)

### **Selling City Assets** from page 9



*The golf course owned by the city could be managed privately or sold. Published reports indicate that the city is looking at both options.*

that. An audit by the Whall Group, a risk management and fraud detection business, indicates that the DDA maintained such poor internal controls on its meter money collection that 2005 revenue was as much as \$140,000 lower than it should have been.

How do businesses such as Duncan Solutions improve revenue collection?

New, high-tech meters are programmed to increase or reduce the price based on demand for space and charge higher fines the longer an auto overstays its welcome. Moreover, some meters today take credit cards or let you pay for your parking by cell phone. Cell phone users can get a text message to inform the user his meter is about to run out of time. Newer meters also can automatically reset to zero when a car pulls away, meaning no more free parking courtesy of the previous user. Lastly, these high-tech devices also come with valuable "internal controls" to ensure that every coin collected by the meter makes it to treasury. In cities with older meters this hasn't always happened.

What would the Pontiac parking garage and lots sell for? The 13 city lots, parking garage, and meters generate about \$930,000 annually, according to Dennis Scanlon of the DDA. That figure includes leases, daily fees and meters. Street meters account for about \$60,000 of the above revenue. Cash flow of this nature would

undoubtedly attract buyers, but to what degree will remain a mystery until the city actually collects bids.

The city is discussing a wider sale of property that includes its cemeteries and the Strand Theater. While every property sale may bring with it its own set of complications, the city should be applauded for investigating such opportunities and encouraged to cast the widest net possible.

In light of this idea, the Mackinac Center wishes to offer one piece of advice: Do not simply plug a single or series of deficits with the revenue generated from the sale of assets. Someday, the city will run out of assets to sell. It is incumbent upon Pontiac leadership to reshape the structural nature of the budget. One way to do that is to eliminate city debt (and thus, spending obligations) with the new revenue.

The city deserves a great deal of credit for exploring the sale of its assets including the Pontiac Silverdome, its golf course and other properties as well. The city would be well served if its officials sold every property that was not essential to the efficient functioning of its municipality, and altered the city's fiscal policy landscape with the resulting revenue. [MPRI](#)



# Around the State

The latest privatization initiatives, controversies and news from around the Great Lake State

## Pontiac Contracts for Controller

PONTIAC — The city of Pontiac contracted with Plante & Moran last summer to act as official controller for city finances. The contract, according to the Oakland Press, will cost \$155,000 through 2006 and \$351,000 for calendar year 2007. In each succeeding year the cost is \$326,000; however, the city intends to replace the firm with its own staff within two years.

The city hired the public accounting firm because its own books were in such disarray that officials were unable to determine the precise financial position of the city. In addition to Pontiac, Plante & Moran “also performs day-to-day operations” for communities such as Highland Park and River Rouge, according to the Oakland Press.

The city of Pontiac has seen deficits that range between \$50 million and \$60 million. The city has sold bonds to mitigate the deficit and is currently weighing privatizing its golf course, selling the Silverdome and other assets, and even contracting for janitorial services within its police department headquarters, among other facilities.

The next financial audit is due by Dec. 31, at which time the world will know much more about Pontiac’s financial position and its need for additional cuts or privatization.

## Lansing Schools Contract with Aramark

LANSING — The Lansing School District in October picked Aramark School Support Services to provide management of its food program. Aramark beat out two other companies for the contract, including SodexoMagic, of which Earvin “Magic” Johnson — the former Michigan State University and Los Angeles Lakers basketball stand-out — is a partner.

According to the Lansing State Journal, the contract is expected to save “up to \$2.25 million over four years by enticing more students to eat at school

and making the system more efficient.” Apparently, students and their parents have complained about the district’s in-house program, which lacked the quality and choices offered by a private vendor. According to the Journal, the contract with Aramark means:

- More than \$440,000 in new cafeteria décor, equipment and marketing efforts;
- A breakfast program for all elementary school pupils at no cost; and
- A greater choice in food selection.

According to the school privatization summer survey conducted by the Mackinac Center in 2006, 37.8 percent of all 552 districts surveyed reported contracting out for at least one of the three major noninstructional services.

*Editor’s Note: This contract was not counted in the 2006 summer privatization survey because the deal was made after its conclusion.*

## Whitehall Hires Custodial Contractor



WHITEHALL — The district of Whitehall has seen its fair share of school privatization debates in 2006. As MPR reported earlier in the year, Whitehall had considered joining forces with five other school districts and entering into one large, overarching contract for school bus services, but ultimately decided against it.

Now, just five months later, the Whitehall District School board has voted 4-3 to contract for custodial services, according to the Oct. 1 edition of the White Lake Beacon. The contract is expected to save at least \$40,000 annually.

*This contract was not counted in the 2006 summer privatization survey because the deal was made after its conclusion.*

## Midland Public Schools Investigate Outsourcing

MIDLAND — Officials from the Midland Public Schools district have been investigating outsourcing involving both cafeteria and custodial services, according to the Midland Daily News. In October, 2006, the district heard from opponents of outsourcing, which included teachers, custodians and cafeteria workers.

The idea to outsource noninstructional services came from the district’s Program Analysis Committee, which met from January to April, 2006, to review ways to reduce expenditures in the district.

The superintendent has said any savings generated through privatization would be reinvested in the classroom.

The district intends to issue requests for proposals in 2007 to help determine the most cost-effective way of providing cafeteria and custodial services.

## Outsourcing Broached at Bullock Creek

MIDLAND — The Midland Daily News reported Nov. 21 that local school district Bullock Creek is giving thought to privatization of district custodial services. The suggestion was made at the Nov. 20 school board meeting at which time best-and-worst case financial scenarios were presented for what will become the fiscal 2008 budget. Even under the best-case scenario the district’s fund balance is expected to drop.

## Buchanan Discusses Private School Buses

BUCHANAN — The Buchanan school district used its Nov. 20 school board meeting to collect comments on a proposal to contract out busing services to help save



money, according to the South Bend Tribune.

The atmosphere was tense as the audience appeared to be dominated by school district employees and their supporters, there to oppose what they deemed to be a threat to their livelihood.

“But at Monday night’s end, the message from almost 140 Buchanan residents, bus drivers and custodians remained clear to the Buchanan community Schools Board of Education — a message that was sent by several wearing lime green T-shirts and making irate retorts during a mildly heated session on the subject of privatization,” the Tribune reported.

Buchanan has lost 200 students in recent years and the district is facing a possible deficit of almost \$229,000.

Jim Palm, assistant superintendent of the local Intermediate School District in Berrien Springs noted that Laidlaw Education Services, a transportation company, was expected to save his district \$1 million annually for five years and students had been delivered to and from school safely by a different contractor 20 years.

### Houghton Lake Schools Contracts for Food Service

HOUGHTON LAKE — Houghton Lake schools will be reaping savings for this school year by contracting for food service with Chartwells.

The district had been operating under a contract with the company for the management of the district’s food service. This year it believed that more savings could be obtained by contracting for the entire food service operation.

The district is going through some tough fiscal times. It is losing enrollment, has closed two elementary schools and has reduced its workforce by roughly 100 employees. The district has also had four



superintendents in one year, according to current Superintendent Peter Injasoulian.

Among the three chief support services — transportation, janitorial and food service — food is the most commonly outsourced. In Michigan, 158 school districts contract for this service. Houghton Lake has gone beyond many of those to contract for labor as well as management.

The district also contracted its substitute dispatching to Professional Educational Service Group. PESG will save the district from having to pay into employee retirement funds for substitutes. The move is expected to save the district \$16,000, according to the Houghton Lake Resorter.

*This contract was counted in the Mackinac Center’s 2006 summer privatization survey because the district had contracted for management services.*

### Gwinn Area Community Schools Save Through Privatization

GWINN — Gwinn Area Community Schools may see lower costs and improved services for its custodial work this fall. It contracted the work to Hi-Tec Building Services, a Jenison company that will use two more custodians and serve the schools nine more hours per day, according to Superintendent Steven Peffers.

Gwinn had been facing a \$740,000 deficit for the upcoming school year. This contracting will reduce that by \$186,000 in the first year, save \$250,000 in the second, and \$280,000 in the year after, according to the Marquette Mining Journal.

In addition to custodial privatization, the district is using a firm for substitute and coaching services, has switched its administrators to a less expensive health care plan, and decided to leave its pool unused for the year.

But even with the privatization and other moves, the district will not be able to balance its budget and is expecting to incur a \$550,000 general fund loss.

The community will vote on a special bond in February to address some of its capital improvement needs. The district’s buildings are all more than 40 years old and in need of new roofs, Peffers stated. However, the bond proceeds cannot be used to cover any general fund expenses.

As with many contracting experiences, there is a question over what to do with current employees. The district has a number of vacancies in other positions, including bus drivers and lunchroom supervisors. The current employees will have priority for those jobs, according to the Mining Journal.

The support staff union filed a grievance against

**Buchanan has lost 200 students in recent years and the district is facing a possible deficit of almost \$229,000.**





the school board. It alleged that its contract with the district bars the school district from using nonunion labor for the service. The school board responded that there was no such provision in its contract, and that state law bars such clauses.

*This contract was not counted in the 2006 summer privatization survey because the deal was made after its conclusion.*

The district had wanted to contract for the service in early August, but gave its current employee union more time to present a bid. The contract has since been approved.

*This contract was not counted in the 2006 summer privatization survey because the deal was made after its conclusion.*

**The Garden City district expects to save between \$260,000 and \$510,000 in the coming school year.**

### Ottawa County Outsources Plowing

GRAND HAVEN — The Ottawa County Road Commission has contracted with Countryside Snowplowing to clear and salt some of its roads for this winter, the Grand Rapids Press reported. The company will provide services to roads in Sheldon, Olive and Park townships.



The road commission will pay the company \$72 an hour which is \$8 less than it would cost the road commission to do it, the Grand Rapids Press stated. As a result, the road commission will not have to hire additional employees.

### Lakeshore Expands Contracted Staff

STEVENSVILLE — Lakeshore Public Schools replaced two retiring members of its custodial staff with employees from Enviro-Clean, a cleaning service from Holland.

The move is expected to save the district \$50,000 of the \$100,000 it had been paying for these services, the St. Joseph Herald Palladium reported.

The district has had to cut its budget in each of last four years. “Our focus is to keep the cost-cutting away from the students,” stated Superintendent Don Frank.

The district has no plans to contract for further employees. This initial contract is seen as a trial run for providing these services. “We’re not tied to this; if it’s working, then that’s fine. If it’s not working, then we’ll hire our own employees,” Frank remarked.

*Editor’s Note: This contract was not counted in the 2006 summer privatization survey because the deal was made after its conclusion.*

### L’Anse Area Schools Contracts for Custodial Service

L’ANSE — The L’Anse Area Schools has contracted for janitorial services. The district solicited bids to clean and maintain its middle and high schools. It had been spending more than \$100,000 for those services, but UP Janitorial was awarded a contract that would cut that cost in half, according to the L’Anse Sentinel.

The district had been facing a \$120,000 deficit. Like many school districts across the state, its contractual obligations to its workforce squeezed its budget. Contracting was seen as a way to keep cost cutting away from students. “My focus is to provide an education to the students, and we want to provide it as efficiently as we can,” stated Superintendent Ray Pasquali. “Thirty-four percent of Michigan school districts are contracting out to some degree,” Pasquali told the L’Anse Sentinel.

### Garden City Schools Clean Up With Privatization

GARDEN CITY — The Garden City school district selected Grand Rapids Building Services to provide custodial services to help reduce its projected \$1.7 million deficit.

In April, 2006, the district issued a “request for proposal” for its custodial services. It received bids from six companies, offering annual costs from \$1 million to \$1.2 million. The district currently spends \$2.1 million. However, severance costs for the first year are expected to offset some of the savings. The district expects to save between \$260,000 and \$510,000 in the coming school year, depending on how many custodians accept positions under the new management.

The district already has contracts with Aramark for food service. This year, the district expanded its contract with the company to cover its cooking positions — a move that is expected to save the district an additional \$70,000.

*This contract was counted in the Mackinac Center’s 2006 summer privatization survey.*



## Concessions Won In Jackson After Investigating Competitive Contracting

JACKSON — Jackson Public Schools received concessions from its support unions after the district looked into private contracts for special education bus drivers and monitors. The district was facing a \$1.76 million deficit for coming school year, according to the Jackson Citizen Patriot. The district has cut \$14 million out of its budget over the last five years.

By switching insurance plans for several employee groups, the district was able to save \$700,000 in the coming fiscal year. To attain some additional savings, Jackson agreed to maintain the local Catholic school's buses.

Jackson Schools hired Enviro-Clean for fiscal year 2005 to handle its custodial services. Before contracting, the service cost the district roughly \$3.5 million annually. Enviro-Clean performs the service for roughly half as much, according to Superintendent Dan Evans.

*This contract was counted in the Mackinac Center's 2006 summer privatization survey*

## Ypsilanti School District Avoids Privatization

YPSILANTI — The Ypsilanti School District rejected privatizing transportation as a way of eliminating its \$4.6 million deficit. Instead, the district sold its Ardis Renaissance Academy to the Salvation Army for \$3.85 million. The district also addressed some safety issues that helped reduce worker compensation costs by \$160,000, according to Superintendent James Hawkins.

Ypsilanti had previously explored privatizing and consolidating its transportation services with Willow Run and Lincoln school districts. However, the deal fell through after meeting stiff opposition in Willow Run and after an accelerated request-for-proposal schedule left vendors struggling to meet deadlines.

Even so, the district had entertained an offer from Durham Transportation that was expected to save \$500,000, but the proposal was rejected when the company would not take over operations until the middle of the school year.

Budget problems are likely to persist for Ypsilanti Public Schools, however. Increased health insurance and retirement costs are expected to create a deficit of \$3.9 million that will have to be addressed in next year's budget, according to the Ypsilanti Courier. Privatization is expected to remain an option.

## Fremont Public Schools Embrace Custodian Contracting

FREMONT — Over the last three years, Fremont Public Schools have experienced declining enrollment and increased expenses for employee retirement and health insurance. To address budget deficits in recent years, the district already has eliminated 22 teaching positions, reduced athletics, cut bus routes and even sold timber from some of the trees on its properties.

This year, in addition to early retirements and layoffs, the district has privatized its custodial services.

The move is expected to save the district \$100,000 in the first year alone. School board member Jim Featherstone told the Fremont Times Indicator, "As a board with no fund balance, we look at: Do you put in a teacher or a custodian?"

*This contract was counted in the Mackinac Center's 2006 summer privatization survey.*

## Avondale Adopts Privatization

AVONDALE — The Avondale Public School district contracted with Enviro-Clean to provide custodial service, a decision that is expected to save the district \$450,000 in the first year alone and \$3 million over the next five years, according to the Rochester Eccentric.

Custodians from Enviro-Clean are expected to earn between \$9 and \$11 per hour, while Avondale's employees had been earning an average of \$18 an hour, the Rochester Eccentric reported.

*This contract was counted in the Mackinac Center's 2006 summer privatization survey.* [MPRI](#)

## Survey 2006 from page 16

The number of school districts that secured competitive contracts for transportation services this year grew to 24, an addition of three new contracts to the survey. This was a significant turnaround; between 2003 and 2005 district contracting for busing had fallen by three.

The reality is school privatization is here to stay. By adopting privatization to some degree — and at greater percentage rates than ever before — school officials are showing a "revealed preference" for a particular management technique. In other words, privatization appears to save money and/or improve services more often than not. Otherwise, why would officials be willing to endure the special-interest opposition that inevitably accompanies it?

Officials who choose the privatization route are apparently doing so because it provides an expected real benefit. [MPRI](#)

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**By switching insurance plans for several employee groups, the district was able to save \$700,000 in the coming fiscal year.**

# SURVEY 2006: School Outsourcing Continues to Grow



By Ben Stafford  
and Michael LaFaive

*Ben Stafford is a research assistant with the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich. Michael D. LaFaive is director of the Morey Fiscal Policy Initiative.*

*Authors' Note: This essay was originally published in September. Since concluding the survey in August seven other districts have contracted for support services, and others, such as Bullock Creek and Midland Public Schools, are currently considering doing so. The numbers cited in the article do not reflect these new initiatives. To review a partial list of privatization efforts that occurred after the completion of the 2006 summer survey see "Around the State," beginning on page 12.*

WITH MORE AND MORE PUBLIC EDUCATION DOLLARS going toward employee retirement and benefit plans, many Michigan school districts are turning to privatization as a way to secure more funds for their core mission. By privatizing noninstructional services — janitorial, food and busing — districts can more easily balance budgets without laying off teachers or eliminating programs. As of August, 37.8 percent of school districts surveyed by the Mackinac Center for Public Policy contracted out at least one of these services.

Over the summer, the Mackinac Center contacted all 552 school districts listed in the Michigan Education Directory, which has published school district data since 1936. Only one district, Detroit, did not respond to the Center's inquiries during the survey period. The White Pine school district in the Upper Peninsula was excluded from the survey because its schools have closed. Each district that reported contracting out for one or more of the three services was contacted at least twice to ensure accurate reporting.

The total number of districts that contract out for at least one service — 208 of 550 surveyed — rose from 35.7 percent in 2005 to 37.8 percent. Only five districts brought a contracted service back in house since completion of last summer's survey.

Food service outsourcing is something of a perennial favorite among school districts seeking to hire private vendors. Across the Great Lake State, 158 school districts (28.7 percent of districts surveyed) contract for some type of food service. This total is unchanged from last year. Some districts contract for management of their existing program and district staff, while others remove themselves from the service altogether by allowing a private firm to provide

everything from employees to menu design.

For the second year in a row, there was significant growth in custodial privatization, increasing from a revised 50 districts in 2005 to 63 this year, a percentage increase of 26 percent. The savings school districts can achieve with competitive contracting is substantial. Officials at Muskegon Reeths-Puffer expect to save about \$480,000 a year with private custodians over the life of the contract. That works out to about \$114 per student. In Auburn Hills, a new contract may save the Avondale School District

up to \$490,000 — \$128 per student — in fiscal 2007. In Jackson, a new custodial contract is expected to save \$1.3 million annually, or about \$193 per student.

With savings of this magnitude, it is not surprising that superintendents are investigating privatization. It is hard to imagine any district turning down an extra \$100 to \$200 per-student in state funding were it offered. Why then are competitive contractors providing these services in only 37 percent of Michigan school districts? Center researchers have been given answers ranging from fears of increased costs to union opposition.

One school official, who asked to remain anonymous, said "The contracts certainly make us more efficient and provide a level of expertise that (the district) could not otherwise expect. We are currently satisfied with both of our contractors. In my opinion the largest barrier to privatization is the highly effective MEA (Michigan Education Association) campaign against contracting. I think that good arguments can be made for contracting and that efficiencies can be achieved, but it is a hard sell against the MEA public relations machine." The school district he works for contracts out for food and transportation services.

*continued on page 15*

## PULLOUT POSTER INSIDE

