

**JAMES M. HOHMAN AND JOSIAH M. KOLLMAYER**

A MACKINAC CENTER REPORT



**MICHIGAN SCHOOL PRIVATIZATION**

**SURVEY 2012**



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The Mackinac Center for Public Policy

# Michigan School Privatization Survey 2012

By James M. Hohman and Josiah M. Kollmeyer

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## Introduction

Michigan's School Aid fund increased once more this year, but many school administrators in the state continue to hunt for effective measures to reduce spending due to increased pension costs and phased-out stimulus money. Many options available for trimming costs, such as enacting pay-to-play for sports, are extremely unpopular for districts and may reduce the quality of education available to students. However, privatization of support services such as food, custodial and transportation services is a promising opportunity for many districts to save money without reducing educational opportunity. Over 60 percent of Michigan school districts have now contracted out at least one of these three services and have saved Michigan taxpayers millions in the process.

335 of the state's 549 public school districts, or 61 percent, have now privatized one or more major support services. Sixty-six districts began a support-service contract within the past year. This growth continues a decade-long trend of increased contracting by Michigan schools, which the Mackinac Center has studied since 2001. Each of the three major support services saw a growth in privatization over the past year.

The vast majority of contracting districts — just over 90 percent — reported satisfaction with their vendors. Many districts report substantial financial savings as well. New contracting this year alone, including only those districts able to provide a concrete savings figure or projection, is expected to save Michigan school districts and taxpayers \$12.8 million. By introducing competition into the market for these services, administrators can purchase services at a lower cost without compromising quality. Even in districts which decide *not* to privatize, the act of soliciting bids often produces savings in the form of concessions from school employee unions. Financial savings remains the single largest reason for contracting, though many districts also cite contractor and personnel expertise as contributing factors.

In addition to privatization, many districts have turned to service consolidation as a method for saving money. Service sharing ranges from simple employee sharing — like Grant Public Schools and Newaygo Public schools sharing a maintenance staff — to districts contracting with another to provide a service, like Mackinaw City Public Schools, which contracts with Cheboygan Area Schools to provide food service. Many other services, including business offices, technology support and special education are also shared, particularly through Intermediate School Districts.

## Methodology

The Mackinac Center contacted every public school district in Michigan between May 14 and August 6. Most responses were received via a simple phone conversation, though e-mails, faxes and letters were sent out if requested or if a district failed to return repeated phone calls. If a district failed to respond to phone and e-mail contact, the Mackinac Center contacted the relevant ISD. Most of the respondents to the survey were superintendents, assistant superintendents and business managers; a few were CFOs, administrative assistants or school principals (in the case of single-school districts).

Districts were asked if they contracted out for any portion of their food, custodial or transportation services. If they did, follow-up questions included the private vendor used, whether the district was satisfied with the service received, and the scope of the contract. For instance, some districts contract out for only the manager of a support service, while others contract out all employees.

Because some districts provide this joint provision, we include any regular service provided via a contracted company in our count of those districts that privatized that service. Special services and substitute employees, however, are not considered as privatizers of the service. For instance, contracting for special education transportation would not be considered privatization of the district's transportation services. Likewise, contracting with another school district would not be considered *privatization*.

If a district had begun contracting out within the past year, or had brought a service back in-house, they were asked the reason for the change. If districts contracted out or ended a contract and brought the service back in-house to save money, districts were also asked to estimate those expected savings from new outsourcing or insourcing. These estimates were not provided by all districts. Other districts did affirm that they were saving money through new contracting, but did not estimate the savings amount.

Districts were also asked whether they had any plans of contracting out within the next year, what services they shared with neighboring districts or ISDs, and whether they had ratified a new teacher contract since August 2011.

## 2012 Survey Results

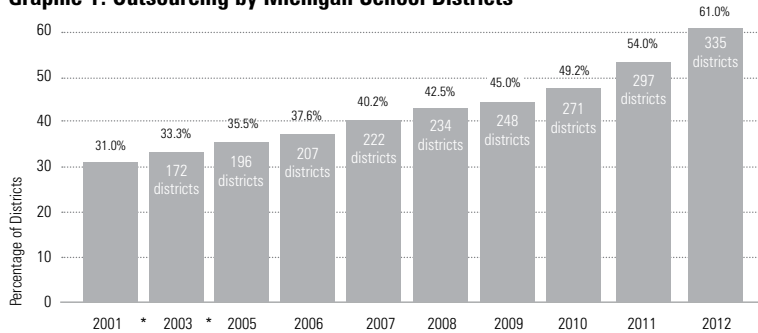
- 61 percent of districts (335 out of 549) contract out for at least one of their food, custodial or transportation services.
- 126 districts contract out for at least two major support services.
- Districts contracted out 85 total services.
- 11 districts brought a service back in-house.



Statewide savings on the new support-service contracts, counting only those districts providing dollar-figure savings information, are estimated at \$12.8 million.

A total of 66 districts privatized at least one service within the past year. Some districts began contracting out for multiple services, including the West Bloomfield School District, which elected to privatize both its custodial workers and its transportation service. The district expects to save over \$5 million over the coming three years due to the move. The Saginaw City School District contracted out all three major support services this past year, intending to receive better expertise from the contractors while providing savings to the district. The district reported satisfaction with all three contracted services.

**Graphic 1: Outsourcing by Michigan School Districts**



\* Data was not collected for the years 2002 and 2004.

Some districts, especially those hiring staff through an employee leasing agency or gradually privatizing employees through attrition, chose to report savings as a percentage of money saved per contracted employee rather than as a total dollar figure. This is typically because the terms of employment are largely the same except for retirement benefits. All school employees are members of the Michigan Public School Employees' Retirement System, which currently cost employers 21 percent to 25 percent of an employee's payroll, depending on when they were hired and which benefits the employee chose. Retirement benefits in the private sector are not as expensive, though often still expressed as a percentage of payroll.

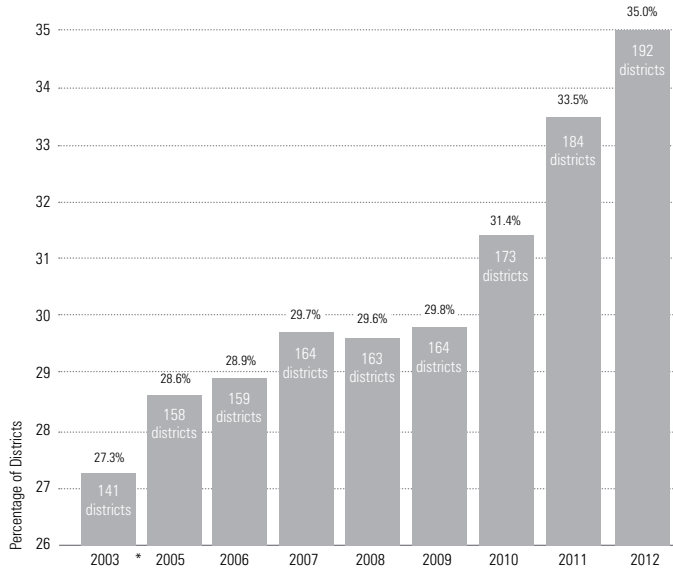
In other districts, no concrete savings figures could be obtained. However, 72 of the 85 new contracts this year reported savings, and no districts reported losses, even when figures were unavailable. On several of the 14 contracts which did not produce savings, districts stated that transitional costs, such as unemployment payouts, were negating this year's savings, but that they expect decreased operating costs in the long run.

Overall satisfaction with support-service contracting remained quite high, with districts reporting satisfaction on over 90 percent of contracts. Many of the remaining contracts had not been implemented long enough to allow for a proper evaluation and the districts declined to express an opinion.

## Food service

- 35.0 percent of districts contract out for food services (192 out of 549).
- 13 districts privatized food services within the past year.

**Graphic 2: Districts Contracting Food Service**



Note: The number of districts that responded each year varied; response rates were essentially 100 percent by 2005. \*Data was not collected for the year 2004.

Food service contracting continues to grow in Michigan, keeping with a steady upward trend over the past decade.

### Graphic 3

#### Districts new to food service contracting

Bridgman Public School District  
 Les Cheneaux Community Schools  
 Cheboygan Area Schools  
 Westwood Community School District  
 Flushing Community Schools  
 Gobles Public Schools  
 Hemlock Public Schools  
 Ionia Public Schools  
 Onkama Consolidated Schools  
 Potterville Public Schools  
 Rapid River Public Schools  
 Rogers City Area Schools  
 Saginaw City School District

Flushing Community Schools privatized the management of its food services this past year, choosing to contract with K-12 Nutritional Consulting Service. The district cited both savings and excellent personnel as factors in the decision to privatize. Flushing now reports savings of \$50,000 thanks to privatization, as well as satisfaction with the contracted service.

Les Cheneaux Public Schools, in Mackinac County, previously ran a food services deficit of \$20,000. After the district contracted for many of its food staff through the employee leasing agency PESG, the food services broke even. The district reports satisfaction and plans to continue privatizing the remaining employees by attrition.

Cheboygan Area Schools is now contracting with Chartwells for the management of its school cafeterias. Through savings on retirement contributions, insurance and other expenses, the district expects to save \$34,000 per year.

Rogers City Area Schools began contracting this past year for both cafeteria workers and custodians through the third party PCMI. The district also hires its substitute teachers in this manner. The district saves on ORS and FICA charges for all employees contracted out through PCMI. The district reports satisfaction with its privatized employees.

Gobles Public Schools is now contracting with Van Buren Research and Development, a nonprofit school-support group, for its cafeteria workers. The district previously used privatized labor for its custodial services, and has now expanded its contract. Each privatized employee costs the district roughly 16 percent less than an in-house employee, with most of the savings coming from employee benefits. Meanwhile, the district also saves money by sharing its food service director with Bloomingdale Public Schools.

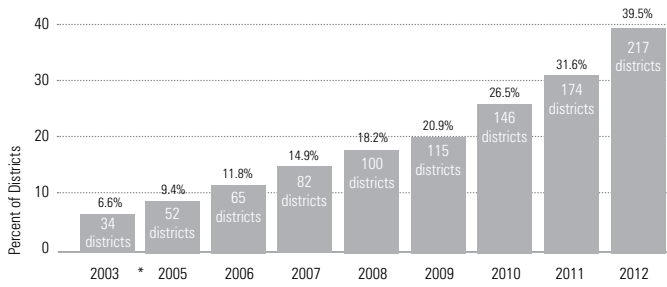
Rapid River Public Schools also expanded a contracting agreement to include cafeteria workers this past year. The district is now saving money by contracting with Superior Chem Dry for two of its food service employees, as well as its custodians. The district plans to continue privatizing workers by attrition over the coming years.

## **Custodial Service**

- 39.5 percent of districts contract out for custodial services (217 out of 549).
- 46 districts privatized custodial services within the past year.

Custodial service contracting surpassed food contracting this year to become the single most commonly privatized service. Since 2003, the portion of districts employing privatized custodians grew by an astounding 500 percent, and the growth has accelerated in recent years.

**Graphic 4: Districts Contracting Custodial Service**



Note: The number of districts that responded each year varied; response rates were essentially 100 percent by 2005. \*Data was not collected for the year 2004.

**Graphic 5**

**Districts new to custodial service contracting      Savings**

|                                       |                            |
|---------------------------------------|----------------------------|
| West Bloomfield School District       | \$2.8 million over 3 years |
| Lake Orion Community Schools          | \$1,500,000                |
| Northville Public Schools             | \$800,000                  |
| Southgate Community Schools           | \$560,000                  |
| Byron Center Public Schools           | \$341,759                  |
| Belding Area Schools                  | \$250,000                  |
| Holt Public Schools                   | \$250,000                  |
| Berrien Springs Public Schools        | \$240,500                  |
| North Branch Area Schools             | \$232,000                  |
| Parchment School District             | \$210,800                  |
| Flat Rock Community Schools           | \$200,000                  |
| Mio-Ausable Schools                   | \$167,000                  |
| Rudyard Area Schools                  | \$130,000                  |
| Hastings School District              | \$118,480                  |
| Gaylord Community Schools             | \$100,000                  |
| Suttons Bay Public Schools            | \$90,000                   |
| Hesperia Community Schools            | \$60,000                   |
| St. Joseph Public Schools             | \$30,000                   |
| Hartford Public Schools               | \$25,000                   |
| Hale Area Schools                     | \$23,000                   |
| Comstock Park Public Schools          | \$20,000                   |
| Essexville-Hampton Public Schools     | \$20,000                   |
| Port Hope Community Schools           | \$500                      |
| Mattawan Consolidated School          | 17%                        |
| East China School District            | 14% per worker             |
| Parma Western School District         | 10%                        |
| Rogers City Area Schools              | Just ORS/FICA              |
| Birch Run Area Schools                | *                          |
| Bridgman Public School District       | *                          |
| Westwood Community School District    | *                          |
| Ewen-Trout Creek Schools              | *                          |
| Ionia Public Schools                  | *                          |
| Morley Stanwood Community Schools     | *                          |
| Muskegon Heights Public Schools       | *                          |
| Redford South Redford School District | *                          |
| Saginaw City School District          | *                          |
| Shelby Public Schools                 | *                          |
| Spring Lake Public Schools            | *                          |
| Swartz Creek Community Schools        | *                          |
| Vanderbilt Area Schools               | *                          |

\*Denotes insufficient documentation

Berrien Springs Public Schools saved roughly \$112 per student, and \$240,500 overall, by contracting with Enviro-Clean for its custodians; it reported satisfaction with its vendor.

After realizing substantial savings through privatizing its transportation services last year, Northville Public Schools in Wayne County outsourced its custodians this year. A new contract with Grand Rapids Building Services is expected to save the district \$800,000 per year. Northville now reports satisfaction with both the custodial and transportation private workers.

Gaylord Community Schools, in the northern Lower Peninsula, also chose to contract with GRBS for its custodial services this past year. Even after accounting for retirement and unemployment costs, the district saved \$100,000 this past year, and expects to save a total of roughly \$1 million over three years. This represents the first privatizing of a major support service by Gaylord, though the district has contracted out for technology services for several years.

Comstock Park Public Schools outsourced its custodial services to Grand Rapids Building Services this past year, primarily for financial savings. The district expects to save \$20,000 on the first year of the contract even after taking unemployment payouts into account. In the long run, the district projects savings of \$100,000 next year alone thanks to privatization.

Hastings School District, in Barry County, chose Key Cleaning to provide and manage custodians for the district. This is expected to save the district \$118,480 per year; a 16.9 percent decrease in the cost of the service. The district contracted primarily for savings, and also reports satisfaction with the quality of the privatized service.

North Branch Area Schools, in the Thumb, outsourced its custodial services to Hi-Tec, Inc. The district reports savings of \$232,000 in the first year, as well as satisfaction with the vendor.

After several years of satisfaction with privatized food service, the Parchment School District chose to contract with DM Burr for its custodians this year. Over the 11 months which the new custodians will work per year, the district predicts savings of \$210,800 from providing the service in-house.

St. Joseph Public Schools in Berrien County reported savings of \$10,000 on each new custodial employee hired through Enviro-Clean. They have already hired three Enviro-Clean workers, report satisfaction with the privatized service and plan to continue privatizing their staff through attrition over the coming years.

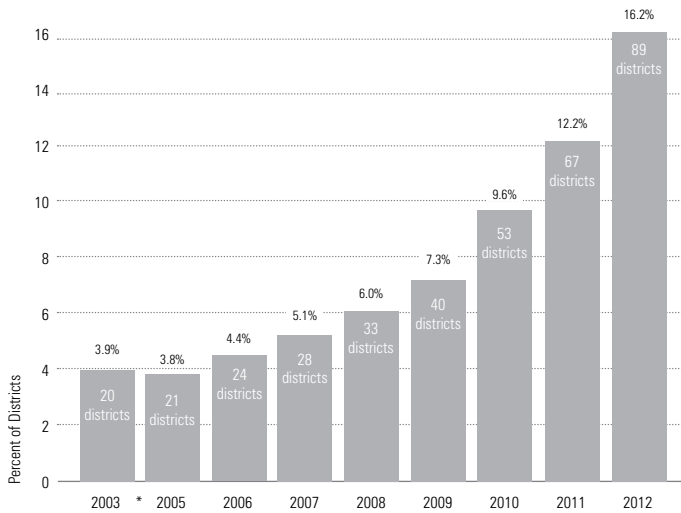
## Transportation Service

- 16.2 percent of districts contract out for transportation services (89 out of 549).
- 26 districts privatized transportation services within the past year.

Though not as common as privatization of food or custodial services, transportation contracting is growing rapidly and provides an opportunity for substantial savings to many school districts. The number of districts contracting for transportation grew by 33.1 percent last year — the largest percentage gain of any of the three services.

Note: Contracting only for Special Education Transportation is **not** counted as transportation contracting in this survey, but does represent a popular option. Due to the relatively low density of special education students to be picked up, many districts contract for their transportation collaboratively through their ISDs.

**Graphic 6: Districts Contracting Transportation Service**



Note: The number of districts that responded each year varied; response rates were essentially 100 percent by 2005. \*Data was not collected for the year 2004.

**Graphic 7**

| <u>Districts new to transportation service contracting</u> | <u>Savings</u>                      |
|--|-------------------------------------|
| West Bloomfield School District                            | \$2.5 million over three years      |
| Port Huron School District                                 | \$533,000                           |
| North Branch Area Schools                                  | \$203,000                           |
| Dansville Schools  | \$188,000 including capital outlay  |
| Webberville Community Schools                              | \$180,000 savings in capital outlay |
| Norton Shores Mona Shores Public Schools                   | \$91,000                            |
| Hancock Public Schools                                     | \$40,000                            |
| Essexville-Hampton Public Schools                          | \$15,000                            |
| Bad Axe Public Schools                                     | \$11,160                            |
| Mattawan Consolidated School                               | 17%                                 |
| East China School District                                 | 14%                                 |
| Cass City Public Schools                                   | 10-13% per employee                 |
| St. Joseph Public Schools                                  | 12% per employee                    |
| Muskegon Oakridge Public Schools                           | Retirement/benefits only            |
| Birch Run Area Schools                                     | *                                   |
| Bridgman Public School District                            | *                                   |
| Ionia Public Schools                                       | *                                   |
| Saginaw City School District                               | *                                   |
| Sand Lake Tri County Area Schools                          | *                                   |
| Sparta Area Schools  | *                                   |
| Vanderbilt Area Schools                                    | *                                   |

\*Denotes insufficient documentation

The Port Huron School District, after sharing Special Education transportation through its ISD for many years, contracted out its general pupil transportation with First Student this past year. This represents the first privatization of a major support service by Port Huron. The district expects to save \$533,000.

Hancock Public Schools outsourced its transportation this past year to R&A Transportation. Savings from this past year add up to \$40,000, roughly \$48 per student in this small Upper Peninsula district. The district also reported satisfaction with the private bus drivers.

Mona Shores, in Muskegon County, began contracting with METS for its bus drivers, and contracts out for some portion of each of the three major services. The new transportation contract itself is expected to save the district almost \$91,000 per year. The district reports that it is satisfied with all three of the private vendors.

Dansville Schools contracted out all of its transportation services to Dean Transportation. The district expects major capital outlay savings for the next few years, with total savings of \$188,000 during the first year alone. These capital outlay savings will taper off over time, but the district's projected long-term costs are still lower than the cost of providing transportation service in-house.

Sparta Area Schools used a combination of privatization and service downsizing to save \$50,000 on transportation. The district consolidated and eliminated a few bus routes, and also began contracting some of its drivers through METS.

Bad Axe Public Schools students are now riding Thumb Area Transit buses to and from school. The district projects lower operating costs in the amount of \$11,160 per year thanks to privatization, and reports satisfaction with Thumb Area Transit. In addition, the move will save \$95,000 that the district would have spent on buying a new bus for this coming school year.

Cass City Public Schools in Tuscola County is now privatizing its bus drivers through attrition, while retaining ownership of its bus fleet. The district saves 10 to 13 percent on each employee contracted through METS. Cass City now reports satisfaction with both its bus drivers and its privatized custodial services.

## **Service Sharing**

In addition to privatization, many school districts use service sharing in order to provide support services. This essentially means contracting out a service to another school district or ISD rather than a private company. The vast majority of districts share at least part of one support service, even if the sharing amounts to just a single employee dividing their time between two districts. 497 districts are now sharing at least some portion of their food, custodial or transportation services specifically. In many of these cases, the supervisor or manager of a department is shared; completely outsourcing a major service to another school district is rare. Support services which affect only a fraction of students, such as special and vocational education and associated transportation, are often shared via ISDs to eliminate duplication of specialized equipment or to get a larger base of students for limited programs.

Of the three major support services, transportation service is the most commonly shared, with 194 districts participating in an agreement at some level, most frequently for special education transportation. 104 districts share food services at some level, often management only.

One example of large-scale service sharing comes from the northern Lower Peninsula, where Alcona Public Schools contracted out its food service to Alpena Public Schools this past year. The two districts also share information systems and participate in ISD agreements for other shared services.

Hudsonville Public Schools and Jenison Public Schools, in Ottawa County, have been sharing food services for over 25 years.

Examples of food management sharing between districts include Addison Community Schools with Hudson Area Schools, Allegan Public Schools with Martin Public Schools, and Allendale Public Schools with Spring Lake Public Schools. Allendale and Spring Lake also share a business manager.



Albion Public Schools and Homer Community Schools share a privatized food manager through a contract with Chartwells. Both districts also participate in ISD consortiums for technology and other support services.

Manchester Community Schools and the Chelsea School District share a transportation director, and participate in Washtenaw ISD agreements for other shared services.

### **Districts that Brought Services Back In-House**

While 66 districts contracted out services this past year, 11 chose to bring a service back in-house. Only 4 of these decisions resulted from dissatisfaction with the private vendor — the remainder involved districts which had privatized one or two employees who retired this past year.

The Au Gres-Sims School District, Burr Oak Community Schools, and East Jackson Community Schools had privatized single transportation directors through an employee-leasing agency. Each had their director retire this year and chose to fill the position with an in-house employee.

Marquette Public Schools and the Pontiac School District both brought their custodial services back in-house this past year. Both cited cost savings as an important factor in the decision; Marquette also cited consistency of service.

Kent City Community Schools and Concord Community Schools both recently insourced their food service management. Kent City plans to manage its own food service this next year, whereas Concord plans to share a food manager with nearby Hanover-Horton Schools.

Ellsworth Community Schools uses the employee leasing agency PCMI to hire their transportation workers, and last year they also contracted for a few food service workers through PCMI. This year, no food workers are privatized; therefore, we do not list the district as contracting for food services. However, the district remains open to the possibility of hiring future food workers through PCMI if vacancies arise.

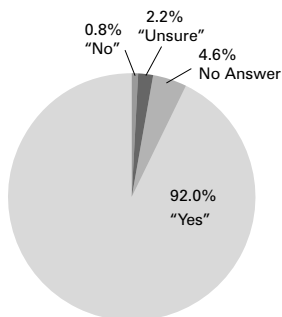
## Satisfaction with Contracting

Satisfaction was measured on a contract-specific basis for this survey, to most accurately reflect the possibility that a district contracting for multiple services might be satisfied with certain vendors and not with others. There are 499 total food, custodial and transportation services privatized this year.

When asked if they were satisfied with their contracting experience(s), districts responded:

- “Yes” on 458 contracts (92.0 percent).
- “No” on 4 contracts (0.8 percent).
- “Unsure” on 11 contracts (2.2 percent).
- Districts declined to give an answer regarding 23 contracts (4.6 percent).

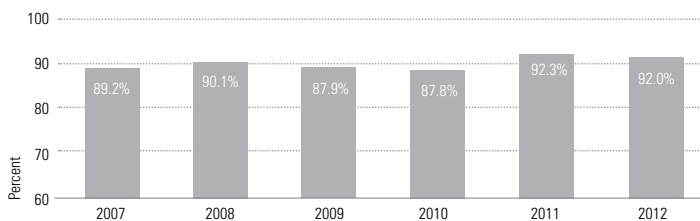
**Graphic 8: Satisfaction From Outsourcing**



*Note: Total does not equal 100 percent due to rounding.*

While the responses “Unsure” and “No Answer” occasionally reflect marginal or partial satisfaction, they more commonly show a district that has recently begun contracting out, where limited experience with the vendor does not allow for a full evaluation of service quality. This year continues a long-term trend of general satisfaction with contracted services.

**Graphic 9: Satisfaction Over The Years**



*Note: The number of districts that responded each year varied, but the response rate was essentially 100 percent.*

## **Appendix A: Revisions to Previous Publications**

Capac Community Schools and Huron Valley Schools both contracted out their transportation supervisors for over a year now. Capac used a retire/rehire plan to keep an existing director on the job by going through a third-party agency.

Stockbridge Community Schools has contracted with EduJobs for a single cafeteria employee for the past three years.

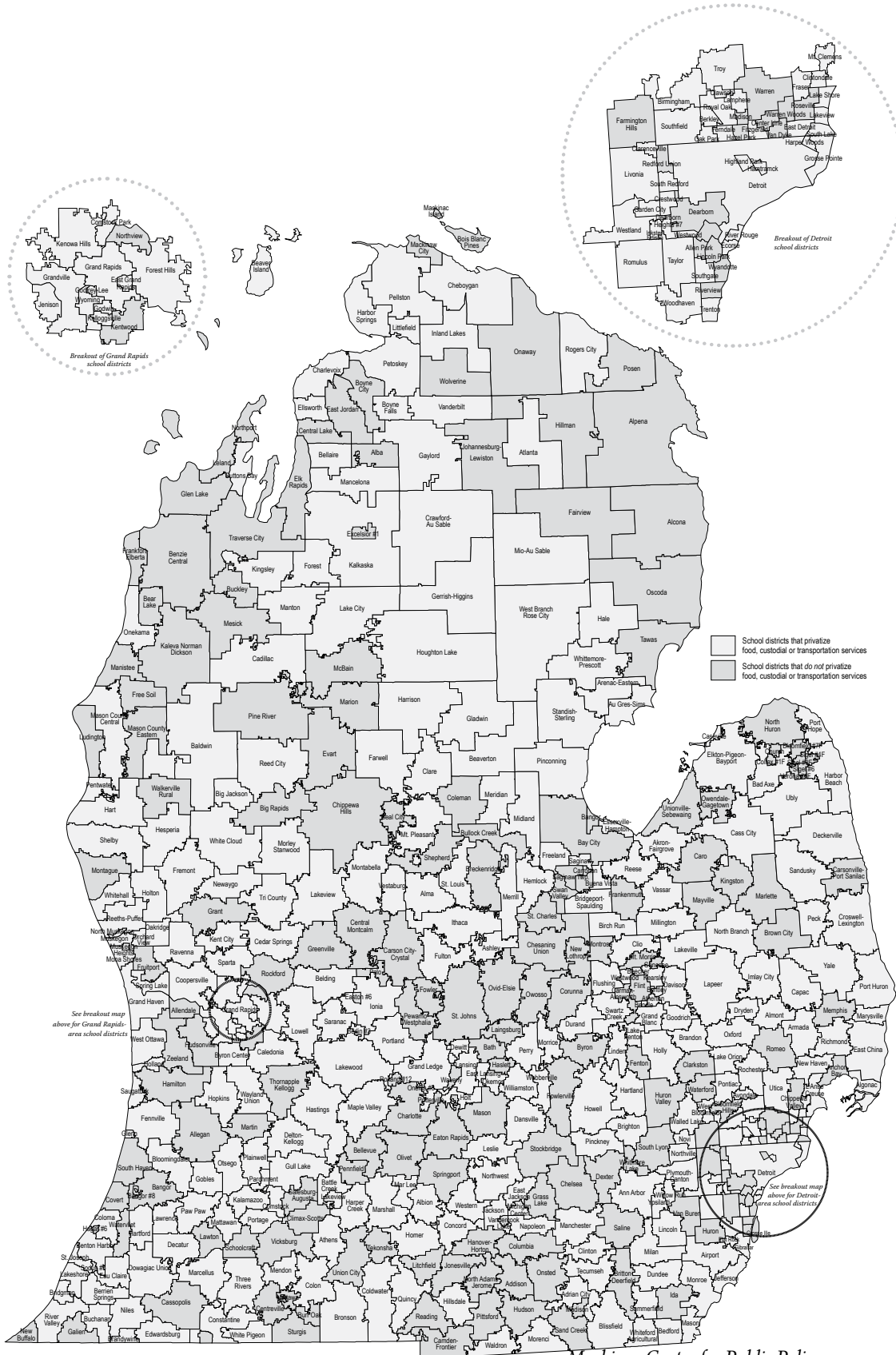
Mayville Community Schools has outsourced a single food service director through PCMI for over one year.

Fulton Schools and Saranac Community Schools both reported transportation contracting last year, but neither has actually privatized their general transportation drivers. Fulton contracts only for Special Education transportation, while Saranac contracts for substitute drivers.

Finally, Arenac Eastern began some small-scale contracting over a year ago. The district now employs one custodian through PCMI, and one bus driver through METS.

# Appendix B: Map of Survey Findings by School District

Upper Peninsula on Page 15





## ADDITIONAL RESEARCH

### *Reports and Studies*

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#### **Michigan School Privatization Survey 2011**

\$10.00       S2011-06       [www.mackinac.org/S2011-06](http://www.mackinac.org/S2011-06)

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#### **Michigan School Privatization Survey 2008**

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#### **A Teacher Quality Primer**

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#### **Survey 2007: More Growth in School Support Service Privatization**

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### *Other Analysis*

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