

JAMES M. HOHMAN AND JANELLE CAMMENGA

# MICHIGAN SCHOOL PRIVATIZATION SURVEY 2016



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# Michigan School Privatization Survey 2016

By James Hohman and Janelle Cammenga

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## **Introduction**

Public school districts are government entities, but they rely on the private sector to support their function of delivering educational services to students. Private contractors, for example, construct district buildings, write textbooks and manufacture the supplies necessary to keep the district operational, among other things. And over the past several years, there has been a slow and steady increase in the number of school districts tapping the private sector to perform services that were once performed directly by district employees.

The results of this latest survey show that 70.1 percent of districts in Michigan use private sector contractors to provide food, custodial or transportation services — a slight increase from last year’s findings. These supporting operations are performed by an array of businesses, some even specialize in providing services to public schools.

This is the 14th edition of this survey of school districts, which has been performed in 2001, 2003 and every year since 2005. It has documented a steady increase in contracting out, from 2001 when 31 percent of districts contracted out services to the more than 70 percent today. Also, it found that districts rarely contracted out custodial and transportation services when the survey began. Now more than half of districts use private vendors to provide custodial services and more than a quarter contract out transportation services.

The primary reason school districts contract out for these noninstructional services is so that school officials can stretch public dollars further. There is a powerful incentive to use private vendors if a competitive bidding process identifies that contractors can deliver quality services for less than the district can provide itself.

Michigan school districts also use employee leasing agencies to deliver services. Under this type of arrangement, a school district hires a private company to provide the employees the district needs for certain services. Since the employees work for the private firm, school districts are able to avoid having to pay the rising cost of state-mandated retirement benefits for such employees.

Private companies tend to offer retirement benefits that cost about 5 percent to 7 percent of an employee’s salary. Meanwhile, school districts have to pay between 31 percent and 36 percent of an employee’s salary to fund the state’s pension system (although some of these costs are paid directly by the state). While these high costs may seem to imply a more lavish set of benefits that could help attract high-quality employees, this is not necessarily the case. The majority of these costs — 87 percent — go towards paying for previously earned benefits that have been underfunded by the state. Essentially, school districts have to pay such a high cost for pension benefits because the state has repeatedly failed to fully fund the school employee pension system.

The steady move to private provision of school support services after a competitive bidding process helps districts drive more money towards their primary objective: delivering educational services.

## Method

We contacted all 541 districts by phone from May 11 to June 30. We submitted Freedom of Information Act requests if districts asked for one.

We questioned districts about whether they contracted out for food, custodial or transportation services. If districts contracted out, we asked about their satisfaction with these services. We compared the responses to surveys done in previous years to help ensure consistency.

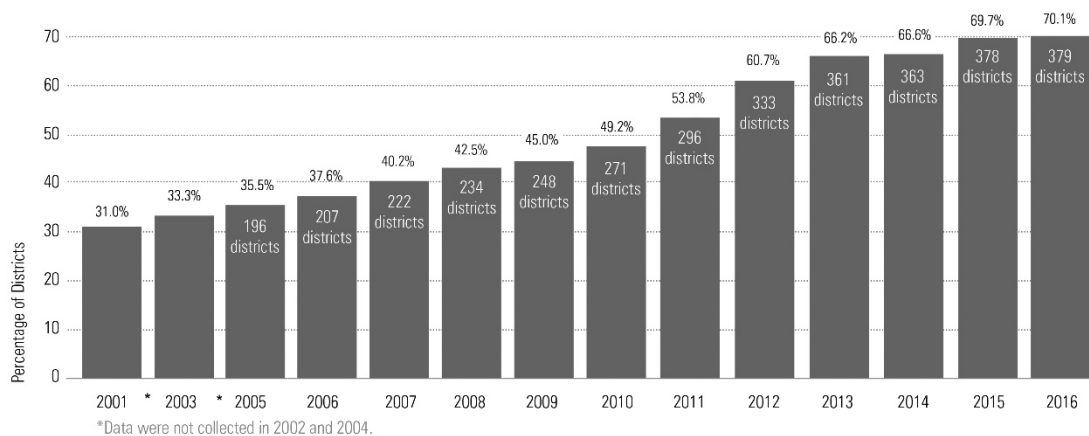
Districts are counted as contracting out for a support service if any part of the typical function of the service is provided by a private sector employee. A district using an employee leasing agency to fill positions in a nightly cleaning crew would be considered contracting out. We did not count contracting out for special education transportation, but a number of districts — and intermediate school districts — do contract out for this service as well.

## 2016 Survey Results

There was a slight increase in the percentage of districts that contract out for food, custodial or transportation services. This year, 70.1 percent of districts, or 379, use a private vendor to provide at least one of these major noninstructional services, up from 69.7 percent, or 378, the year prior.

The level of privatization has increased substantially since 2001 when only 31 percent of districts contracted out these services. Over the last 15 years, privatization of noninstructional services has grown from a relatively rare practice to one that is used by most districts.

**Graphic 1: Percentage of School Districts Contracting Out for Noninstructional Services, 2003, 2005-2016**



**Food Service**

The same number of districts contracted out for food services in 2016 as they did in 2015, but the percentage of districts contracting out ticked upwards from 42.6 percent to 42.7 percent. The 0.1 percentage point increase in contracting out this service comes from reduction in the number of school districts in the state due to the consolidation of Albion Public Schools into Marshall Public Schools.

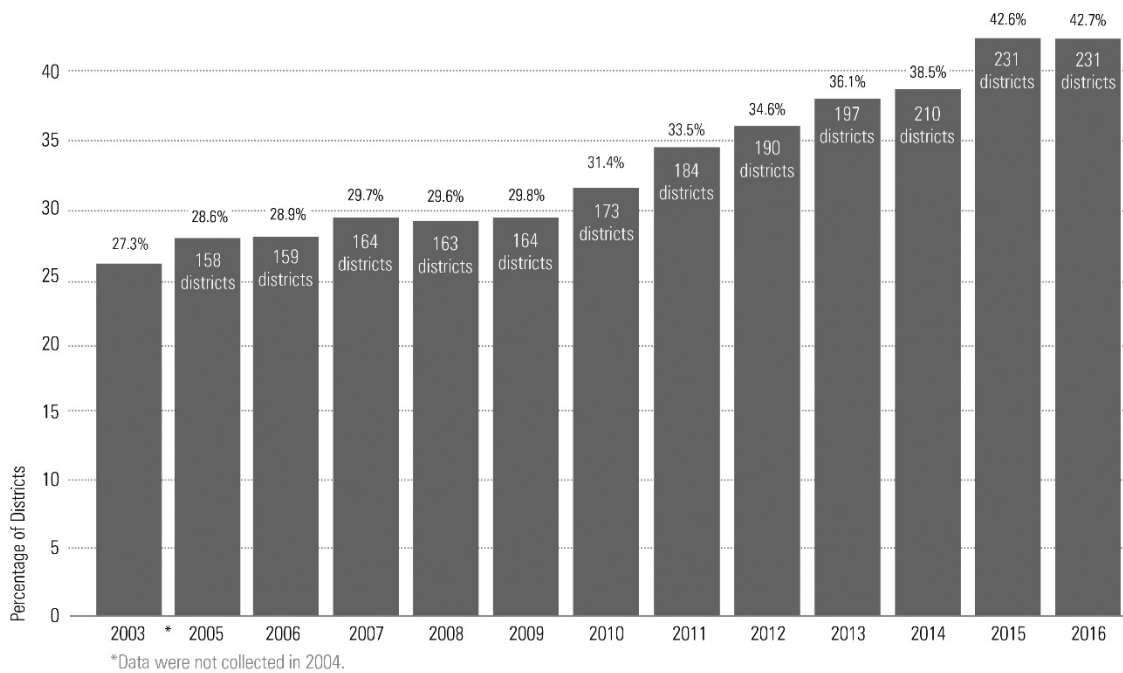
There were three districts that contracted out food services in 2016 and three districts that brought food services back in house.

Calumet-Laurium-Keweenaw Public Schools, Carson City-Crystal Area Schools and Ellsworth Community Schools started new food service contracts, with Calumet-Laurium-Keweenaw and Carson City-Crystal Area reporting savings through their new contracts.

Chippewa Valley Schools brought food services back in house because the leased employees whom they worked with retired. Richmond Community Schools was happy with their leased employees and decided to put them on the district payroll. Armada Area Schools brought their food service manager in house, reporting that it was more cost effective.

In 2003, food service was the most frequently contracted out service in Michigan public schools, with 27.3 percent of districts using private firms. This has grown steadily over time, but not as rapidly as custodial or transportation services.

**Graphic 2: Food Service Contracting, 2003, 2005-2016**



**Graphic 3: Districts With New Food Services Contracts**

Calumet-Laurium-Keweenaw Public Schools
Carson City-Crystal Area Schools
Ellsworth Community Schools

***Custodial Services***

Custodial service contracting was also level between 2015 and 2016, with 51.2 percent of districts using private vendors to provide cleaning services. Despite the lack of growth this year, this remains the most frequently contracted out service. Eight districts outsourced custodial services between 2015 and 2016 and seven districts brought services back in house.\*

Seven of the eight districts who started new custodial contracts reported that they expect to save money by doing so. Farmington Public Schools started a custodial contract with DM Burr this year and expects to save \$1.4 million, with a projected \$4.2 million in savings over their three year contract. Clawson Public Schools is saving \$288,856 this year through their contract with GCA.

While Adams Township School District still has a contract with an employee leasing agency for one worker, that worker is not currently providing services. Benton Harbor Area Schools, Whitmore Lake Public Schools and Roscommon Area Public Schools insourced services because of dissatisfaction with contractors. Big Jackson Public Schools responded that it insourced based on cost. Hancock Public Schools and Kelloggsville Public Schools also brought services back in house.

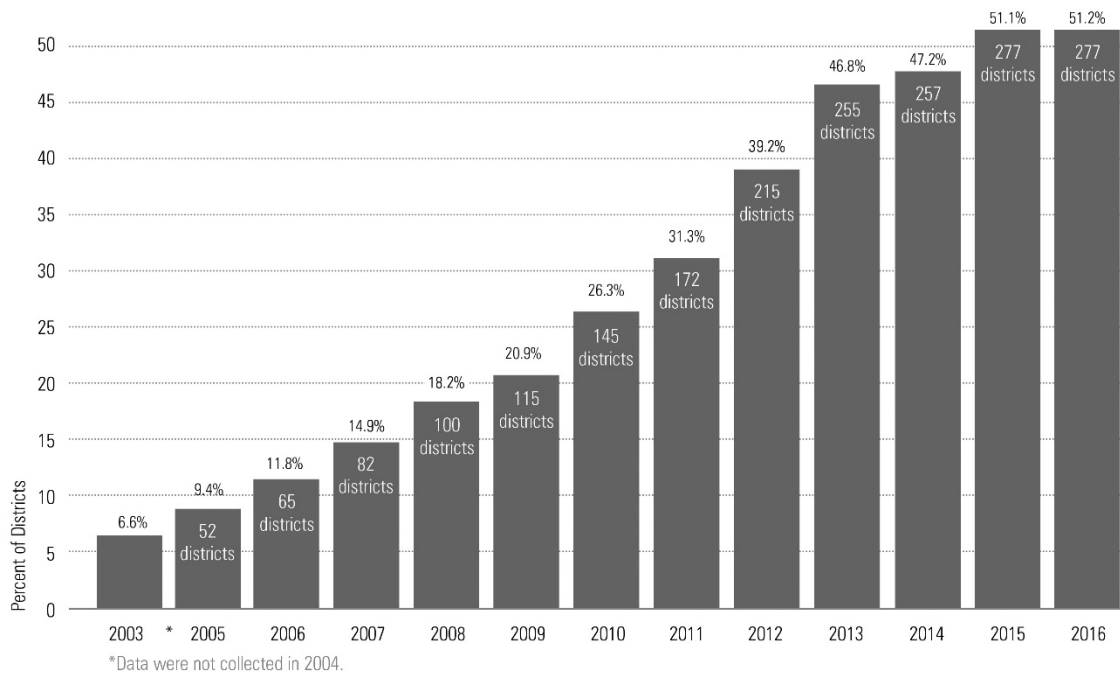
In 2003, only one out of 15 districts contracted out for custodial services. This has grown to one out of every two districts. There was slight growth in the number of districts that outsourced this service between 2014 and 2015, but none this year.

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\* Albion Public Schools had contracted out custodial services but merged with Marshall Public Schools. This merger worked to level the rate of contracting between 2015 and 2016.



**Graphic 4: Custodial Service Contracting, 2003, 2005-2016**



**Graphic 5: Districts With New Custodial Services Contracts**

Clawson Public Schools
Dearborn Heights School District #7
East Jordan Public Schools
Farmington Public Schools
Iron Mountain Public Schools
North Huron Schools
Manistique Area Schools
Schoolcraft Community Schools

### *Transportation*

Transportation services remain the least frequently outsourced service among Michigan public school districts. In 2016, 25.3 percent of districts contracted out bus services to private sector vendors. Between the 2015 and the 2016 surveys, three districts contracted out transportation services and four districts brought them back in house.

This was the first year since 2005 that the survey did not show growth in contracting out for transportation services. Outsourcing in this area increased from 21 districts — one out of 26 — in 2005 to 137 — one out of four — in 2016.

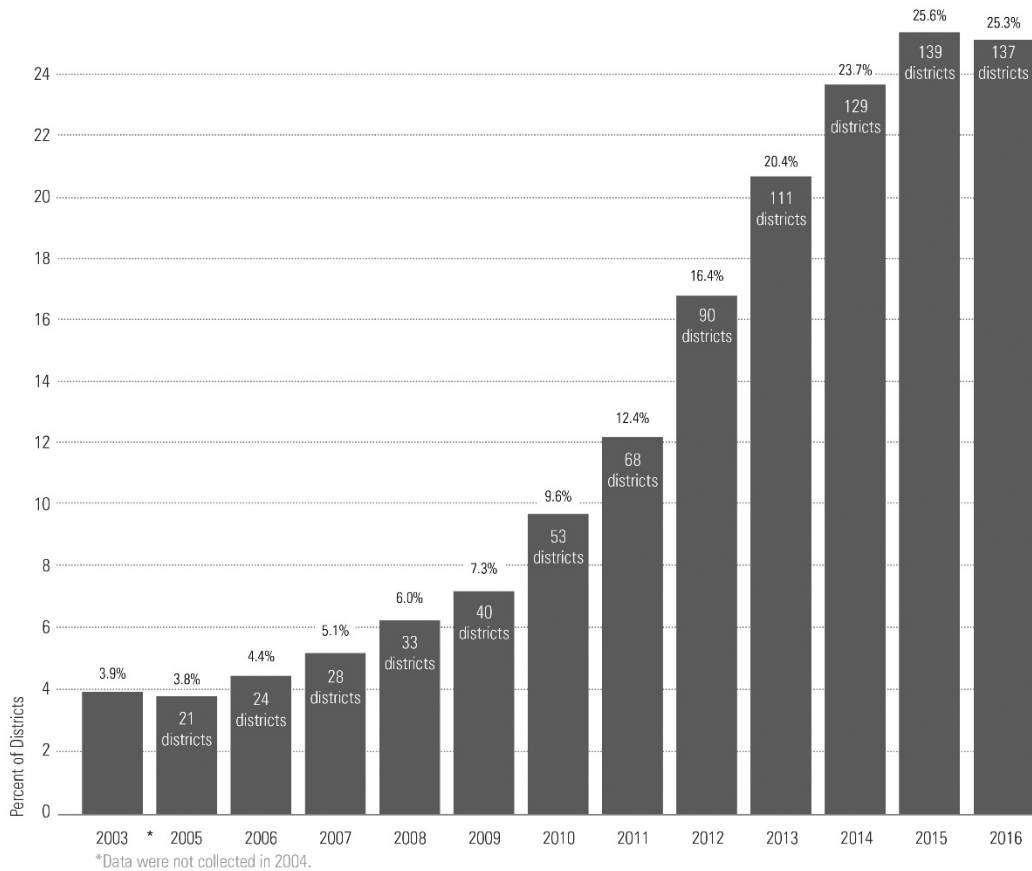
Some districts do not provide regular transportation services. Many of these districts are island school districts, such as Mackinac Island Public Schools and Beaver Island Community School,

or one-room school house districts, such as Glenn Public Schools and Verona Mills School. But overall, only 4.6 percent of districts opt not to provide busing.

Mid Peninsula School District estimates that they will save \$49,000 for the year through their agreement with R&A Transportation. Montrose Community Schools also reported savings for their district. While East Grand Rapids Public Schools did not experience savings, they reported that the new contract will nullify their need to purchase new buses and will increase the efficiency of their transportation administration.

As with their food service contract, Richmond Community Schools was happy with their leased employees and decided to hire them directly. Flat Rock Community Schools, South Lyon Community Schools and Harbor Springs Public Schools also brought their transportation services back in house.

**Graphic 6: Transportation Service Contracting, 2003, 2005-2016**



**Graphic 7: Districts With New Transportation Services Contracts**

East Grand Rapids Public Schools
Montrose Community Schools
Mid Peninsula School District

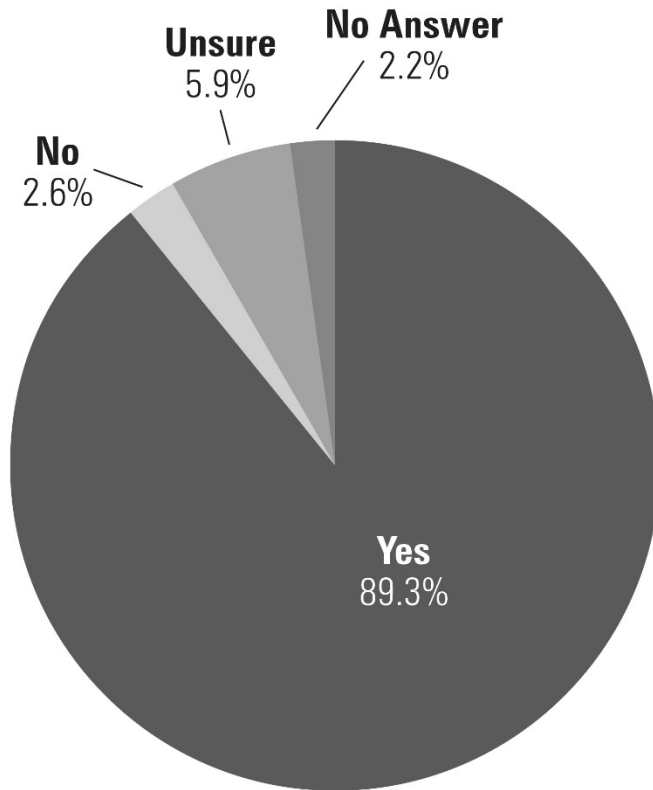
### Satisfaction

Districts continue to report being satisfied with their private service providers. Of the districts that contract out, 89.3 percent report that they are content with their vendor’s performance. Only 2.6 percent reported that they were dissatisfied. Of the remainder of districts, 5.9 percent said they were uncertain about satisfaction — typically because the contractor is either too new or has been there for a long time and so there is nothing to compare their service to. Finally, 2.2 percent of districts abstained from answering whether the quality of services were satisfactory.

Each of the services posted similarly high satisfaction numbers, with food service reporting the highest at 92.2 percent, transportation at 92.0 percent and custodial services at 85.9 percent.

Likely, districts tend to report that they are satisfied with their services because they can shop around to other vendors if they are dissatisfied. As one district responded bluntly, “We’ve had them for many years, so if we’re unhappy with them, we just yell at them.”

**Graphic 9: Reported Satisfaction With Outsourcing**

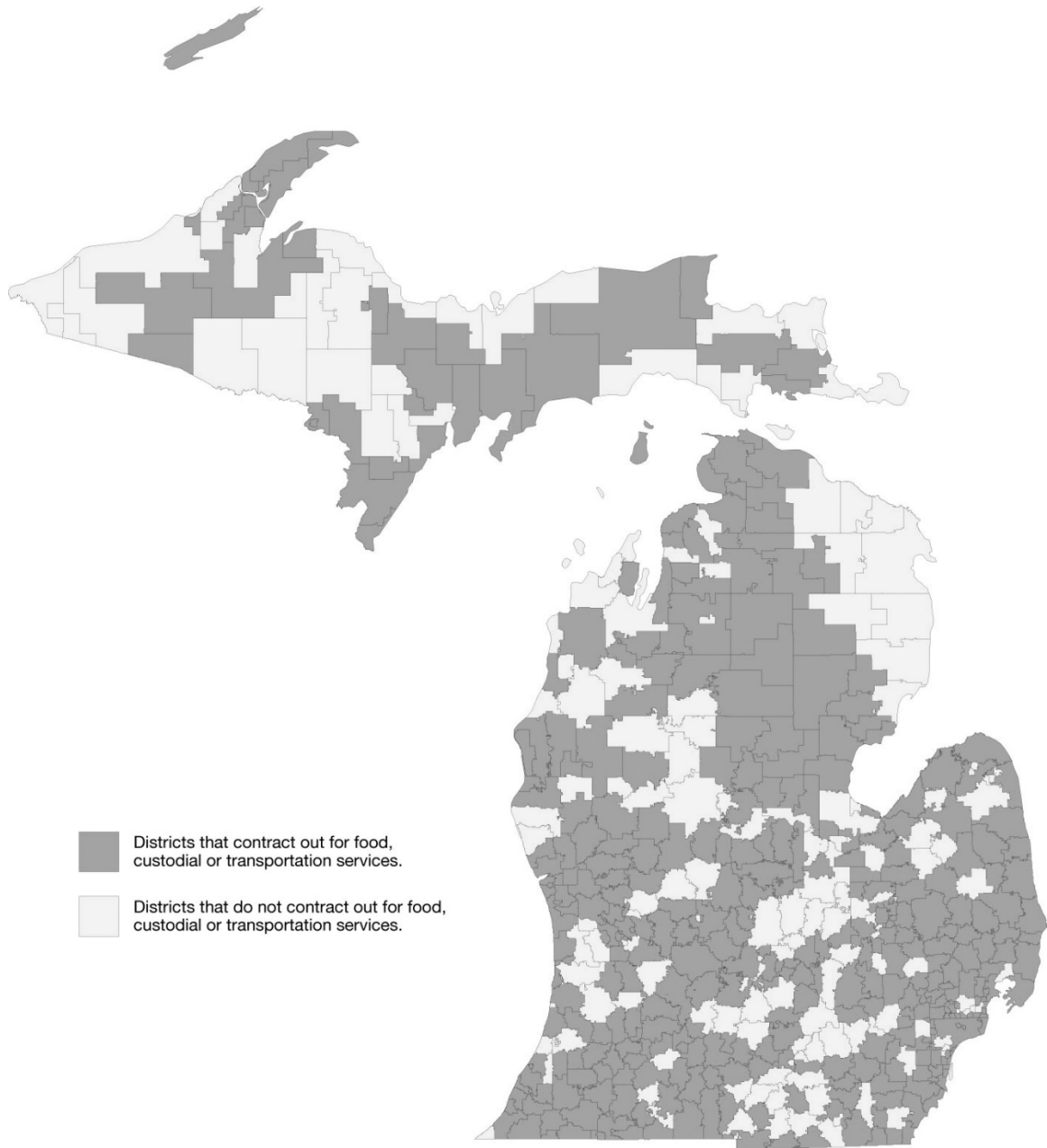


## **Appendix A: Revisions to Previous Publications**

Some districts provided information about their contracts with private providers of food, custodial and transportation services that require us to make some corrections to the way these districts' previous responses were categorized. These are listed below.

- ◆ The following districts were mistakenly marked as contracting out in previous surveys because some of their substitute employees were contractors: Genesee School District, Beal City Public Schools and Beecher Community School District.
- ◆ The following districts were mistakenly marked as contracting out for transportation services even though they only outsourced special education busing: Grosse Pointe Public Schools, Royal Oak Schools, Charlotte Public Schools and Wolverine Community Schools.
- ◆ Lawrence Public Schools, Excelsior Township School District #1 and the Huron County Rural Schools clarified that an employee providing one of their services was a direct employee and not a contractor.
- ◆ The Crawford AuSable School District uses an employee leasing agency for some food and custodial service but not for transportation services as was counted in last year's survey.
- ◆ Tahquamenon Area Schools, St. Charles Community Schools, Elk Rapids Public Schools, Mattawan Consolidated Schools, Chassell Township Schools and Dearborn Heights School District #7 had not reported contracting out some services in last year's survey when they were using private contractors.
- ◆ Memphis Community Schools did not have a food service contract in 2015, but was counted as having privatized.
- ◆ Swan Valley School District was mistakenly marked as contracting out with a private firm, but the district was contracting with a district to provide food services.

## Appendix B: Map of Survey Findings by School District



## ADDITIONAL RESEARCH

### *Reports and Studies*

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**Michigan School Privatization Survey 2015**  
\$10.00     ↗ [mackinac.org/S2015-06](http://mackinac.org/S2015-06)

**Michigan School Privatization Survey 2014**  
\$10.00     ↗ [mackinac.org/S2014-05](http://mackinac.org/S2014-05)

**Michigan School Privatization Survey 2013**  
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**Michigan School Privatization Survey 2009**  
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**Michigan School Privatization Survey 2008**  
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**Michigan School Privatization Survey 2007**  
\$10.00     ↗ [mackinac.org/S2007-10](http://mackinac.org/S2007-10)

**Survey 2006: School Outsourcing Continues to Grow**  
\$10.00     ↗ [mackinac.org/8130](http://mackinac.org/8130)

**Survey 2005: School Outsourcing Grows**  
\$10.00     ↗ [mackinac.org/7395](http://mackinac.org/7395)

**Privatization Survey Shows Outsourcing is a Popular Management Tool**  
\$10.00     ↗ [mackinac.org/6913](http://mackinac.org/6913)

**Survey Says: Privatization Works in Michigan Schools**  
\$10.00     ↗ [mackinac.org/3721](http://mackinac.org/3721)

### *Other Analysis*

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↗ **MichiganVotes.org**, a free public service of the Mackinac Center for Public Policy, is a continuously updated Web database in objective, concise, plain-English descriptions of every bill and amendment in the Michigan Legislature. Complete voting records are instantly accessible for every legislator on every bill and amendment. Users may search the database by bill number, legislator, keyword or any of nearly 100 policy areas.

↗ **MichiganCapitolConfidential.com** spotlights the votes and proposals of the Michigan Legislature. It contains a review and analysis of important state and local public policy issues that do not always receive attention from the general media. This site makes it easier to keep tabs on local government and your elected representatives in Lansing. It is updated daily with current events from around the state.

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