

# Privatization



MICHIGAN

A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2008-02 / Winter 2008

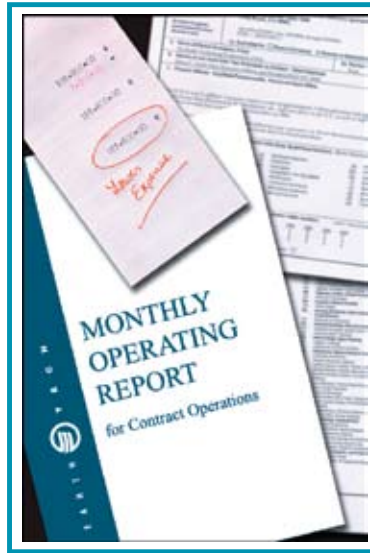
REPORT

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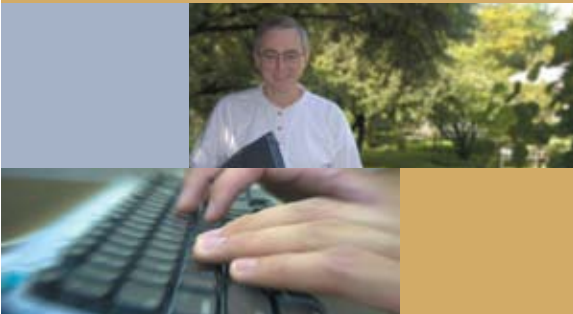
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## Privatization <sup>MICHIGAN</sup> REPORT

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# Michigan Privatization REPORT

A Publication on Privatization Initiatives Throughout the State • Mackinac Center for Public Policy • No. 2008-02 / Winter 2008

## 5 Private Initiative in a Detroit Neighborhood

Despite large-scale foreclosures in Detroit, the private initiative of some residents is helping clean up a neighborhood and sell houses. They're even chipping in to make sure the streets are safe — all without government assistance.

## 6 Recall Showdown in Reed City

Recall elections of school board members are underway or being threatened around the state for those school boards that put students ahead of union interests. A recall of Reed City board members passed by a slim margin, but had all the markings of an MEA campaign.

## 11 Remediate Tuition Hikes With Contracting

Tuition has been increasing at Michigan's public universities. These institutions can help control costs by looking at new ways to provide services. Jim Coleman at the Center for College Affordability and Productivity explains how controlling basic-level education expenses through outsourcing makes universities less financially burdensome.

## 12 Around the State

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

Michigan School District Privatization  
PULLOUT POSTER — Page 7



## School Services Privatization Rises for Fifth Consecutive Survey, page 16

*Contracting out for support services at Michigan schools is increasingly common. Check out the new pull-out map of districts that contract out for food, custodial or transportation services.*



# PRIVATE INITIATIVE IN A DETROIT NEIGHBORHOOD

*By John R. LaPlante*

In an era where government has embraced the idea of marrying taxpayer money with voluntary, non-profit organizations, the spirit of people coming together for common purposes, without the aid of government grants, continues in the city of Detroit.

You can find this spirit in the Boston-Edison neighborhood, four miles north of downtown Detroit. Once a wealthy suburb, it was home to Henry Ford and Sebastian Kresge (of Kmart fame). The 900-home, 36-block area was also the home of Motown Records founder Berry Gordy Jr. and boxer Joe Louis, among other notables.

In 2002, the Metro Times called it “one of the most appealing neighborhoods in Detroit,” and “a sort of residential oasis in a city that is far too often concrete and gray.”

If the neighborhood is an oasis, it’s in large measure because residents have worked to make it that way. In 1990, they created Boston-Edison Development Inc. (BEDI). “Betty,” as residents call it, is a 501(c)(3) organization dedicated to neighborhood improvement, buying and fixing up houses. It tries to sell the houses to families seeking to buy a home rather than investors wanting to flip or rent out the property.

Over the years the group has purchased, rehabbed and sold seven houses, most through the tax-foreclosure process. (An eighth, at 1403 Longfellow, is on the market.) The financing and fix-up costs on each house are significant, which sometimes requires a complete gutting and costs more than \$100,000 per residence. The group also has to pay delinquent taxes on the houses.

Where does BEDI get the money for its work? It would be understandable if you said “government grants,” but you’d be wrong. In a telephone interview, BEDI President Marilyn Mitchell said the group receives no taxpayer funding. Sometimes it has been able to turn a profit on its projects, but those have been meager.

The endeavor was seeded with loans, in \$500 increments, from residents and friends. Though the two-year notes earn interest at a rate of 3.5 percent per year, most people roll their investments over

when the notes are due. According to the most recently available IRS filing (2006), the organization’s loan pool was \$146,347.

(By contrast, Southwest Housing Solutions Inc. received \$883,931, or one-quarter of its income, from government grants during 2005. The Church of the Messiah Housing Corp., meanwhile, received over \$360,000 — more than half its total support — from government grants in 2007. Both groups also operate in Detroit.)

In addition to the loans given by friends and residents, BEDI has relied on the community development corporations of banks, sometimes taking out loans and sometimes going into equity partnerships with the banks.

In addition to rehabbing houses, residents promote the neighborhood through a Web site ([www.historicbostonedison.org](http://www.historicbostonedison.org)) that features other homes for sale. At the time of this writing, list prices range from \$5,000 to \$675,000, though some homes in the neighborhood have been listed for \$900,000 in recent years. The site provides a photograph for each home, as well as a link to the Multiple Listing Service and, when applicable, information about former owners of historic significance.

BEDI grew out of the Boston-Edison Neighborhood Association, which was started in 1921. Today members pay \$40 a year to support the association, which holds a number of events throughout the year, including picnics and a holiday home tour of selected residences.

In October 2008, the neighborhood drew the attention of the Wall Street Journal. Staff writer James R. Hagerly noted the challenges now facing the association. As far back as 2005, he wrote, residents started to note a rising number of vacancies. Today, one in five houses is vacant.

The “broken windows” theory of policing says that minor signs of neglect and disorder can lead to more serious trouble. Residents have acted on that premise, taking steps to make sure that empty houses don’t look neglected. Among other things, they park cars in

neighboring driveways and install motion detectors in vacant homes.

Desiree Cooper, a reporter from the Detroit Free Press, called Ava Tinsley “a dose of hope.” Tinsley organized a neighborhood cleanup that benefited from the help of non-violent drug offenders who needed a project for their community-service requirements. The convicts helped clean up trash, an exercise that might also yield fruit elsewhere. One convict who participated in the cleanup told Cooper that it helped change his attitude: “It made me realize that I can’t just go around throwing my garbage out of the window — somebody has to clean it up.”

The association also provides residents a way to enrich their lives. For example, it encourages residents to sign up with a private security firm that fills in the gaps left by the city’s police force. Residents who subscribe (\$30 a month) can call on the service to escort them home during late hours. They can also receive electronic monitoring of their home and know that the firm will also patrol nearby. One resident even provides home-cooked meals to neighbors who move in and start renovating.

The neighborhood association, for all the good it does, faces obstacles, many of which are created or aggravated by poor public policy. These include the meltdown of the financial industry, the collapse of the housing market, high property taxes and the abysmal quality of Detroit’s government and public school system.

Politicians of all stripes like to think that they can revitalize communities through creating new bureaucracies (VISTA, Americorps) or doling out taxpayer money. But ordinary people, such as those of Boston-Edison, are perfectly capable of promoting the common good. Even when government can’t act. **MPRI**

*LaPlante, a Michigan native and graduate of Kalamazoo College, is a policy consultant and freelance writer who blogs for The Detroit News. He has written for Michigan Privatization Report about employee leasing and government-owned ski resorts.*

# Recall Showdown in Reed City

The Reed City Area Public Schools Board of Education last June voted unanimously to contract out its food and custodial services. The move was expected to save the schools \$300,000 — on top of the \$5.2 million in cost savings the board approved over the past few years.

But eliminating dues-paying union jobs has repercussions. Under the guidance of the Michigan Education Association, a recall was organized by Debbie Todd, a former school board candidate, against four school board members who voted for privatization. All four — Rich Saladin, Mary Lou Proefrock, Sheri Thompson and Brian Zias — were recalled.

This strategy is common in MEA districts. The union also tried getting recalls off the ground in Southfield, but that effort fizzled when organizers failed to submit signatures. A 2007 petition against a Grand Rapids Public Schools board member failed after receiving only three signatures. A recall has been put into motion in Gladstone as well. In November, Wayne-Westland had recall petition language approved.

Prior to Reed City's decision to contract out, the MEA worked its box of anti-privatization tools. It bought and distributed yard signs, had members and friends write letters to the editor in local papers, and packed board meetings with people opposing privatization. These tactics have long been used to battle privatization in districts across the state.

The MEA even purchased ads in local papers, claiming that the move would lead to: "permanent loss of 40 Reed City jobs," "No guarantee of promised savings," and "No school control over private companies."

The anti-privatization campaign failed. Without providing concessions at the bargaining table, Reed City, which was facing expenses exceeding revenue by \$890,000 at the time, voted to contract out its custodial services to Grand Rapids Building Services and its food services to Chartwells School Dining.

Looking back, the MEA's claims have proven false. There were only 26 employees affected by the move, instead of 40 listed. And those jobs weren't lost — most of the positions were filled by the contractors. In fact, the contractors are using more full-time equivalent employees than the district had been using. And some of the former school employees were hired by the contractors. Of the custodial employees, two applied to the contractor and were hired, and six of the food service employees were hired. Indeed, one rehired employee even told *The Big Rapids Pioneer* that, "I like it working with food service, and I think (the students are reacting) fairly well. There's positive things about it." Savings are starting to materialize as well. Reed City's food service program has listed a September

and October profit of \$30,700, and the district expects its food services to break even — something that it hasn't done in more than eight years. Typically, the district provided a \$25,000 to \$35,000 annual subsidy for the program.

The MEA took that as a sign that it needed to send a message to the school board and other boards thinking of privatizing. The MEA has a vested interest in maintaining school boards that do not consider altering the employment situation of its members, regardless of its effect on school finances. In this case, Reed City used the savings from contracting to hire a new kindergarten teacher, a new second-grade teacher, and a physical education teacher. The last allows elementary students to take physical education every day.

But organizers worked to approve a petition, gather signatures and advertise the recall vote (including radio ads). The Education Action Group, which is devoted to helping school boards fight union interests, took out ads in local papers highlighting union motives. The Nov. 4 recalls, however, succeeded by an average of 51-49 percent.

"All this recall does is make the school boards in this ISD afraid to make tough decisions," said Rich Saladin, one of the recalled board members.

There is a bright spot for cost-conscious board members: the recall language never mentioned privatization. It instead pointed at board members approving the superintendent's contract, not cutting administrative pay (a claim that was inaccurate), and not considering input at board meetings. But in effect, this was about retribution against Superintendent Steven Westhoff and fueled by the decision to contract out. A spokesman for the support staff negotiating team told *The Big Rapids Pioneer*, "We didn't want to recall the four board members. We wanted to recall Westhoff."

Indeed, before the recall issue arose, the organizer even praised the superintendent publicly at a board meeting for his understanding of special education issues. And since the superintendent also performs collective bargaining agreement negotiations, the superintendent helped save the district approximately \$25,000 in legal fees per contract.

The big question is what the students at Reed City get out of this recall. It doesn't look like anything positive will result. The school board will be without experienced and understanding board members who provided a combined 47 years of service. They have also lost members who have put educating students ahead of both their professional careers and their public esteem. [MPRI](#)



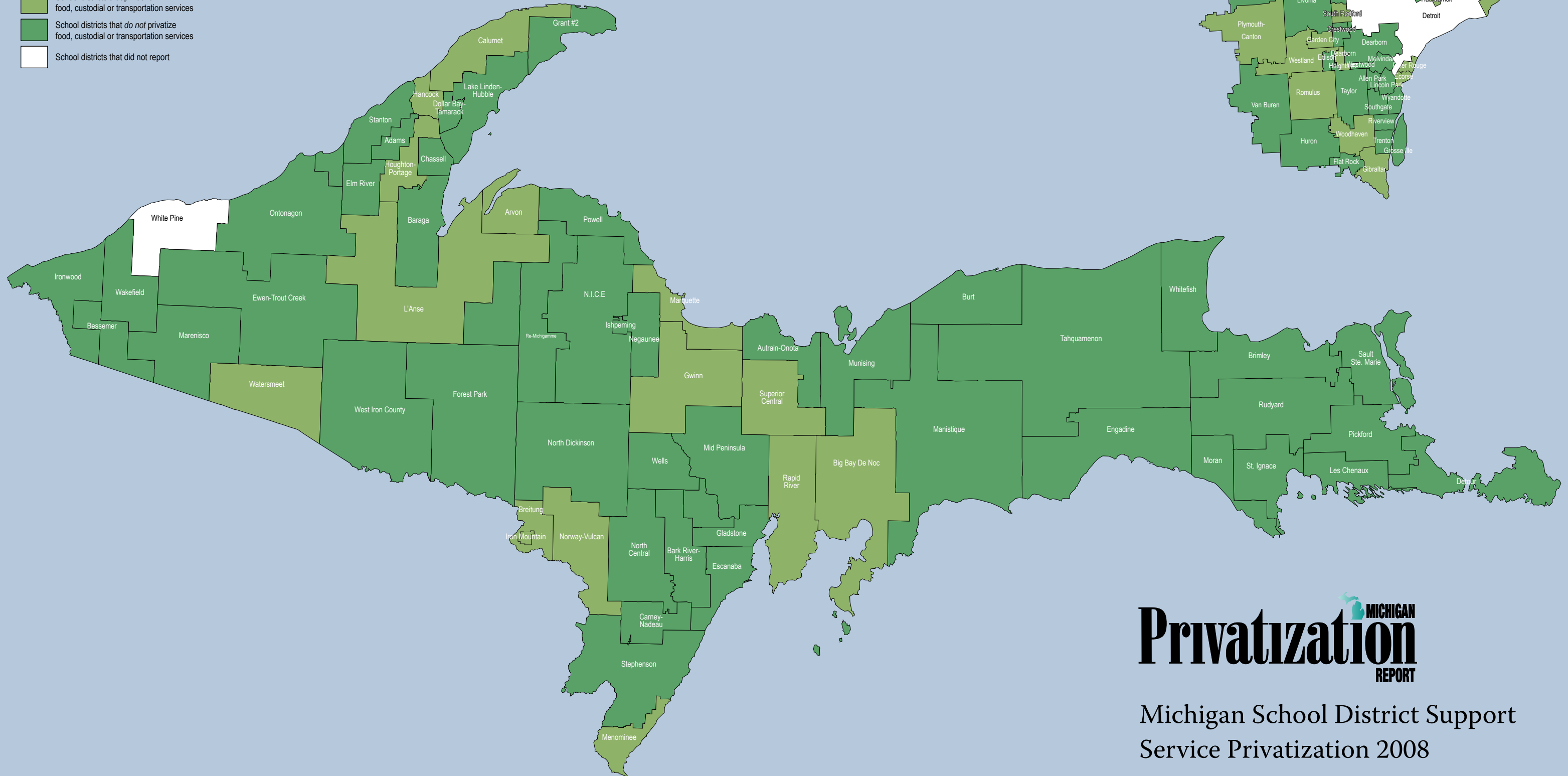
By James M. Hohman

*Hohman is a fiscal policy research assistant at the Mackinac Center for Public Policy.*

The Detroit Public Schools district is excluded because it did not respond to the survey before publication of the survey data. DPS later confirmed that it contracts out for food management services and some bus routes.

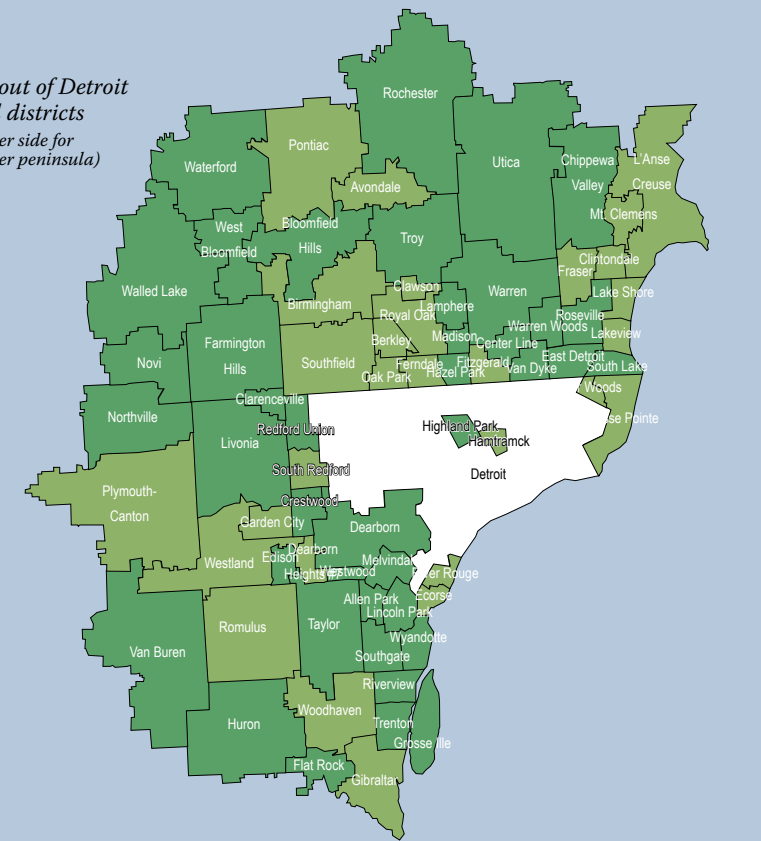
Since concluding the survey in September, at least seven additional districts have contracted out for either food, custodial or transportation services.

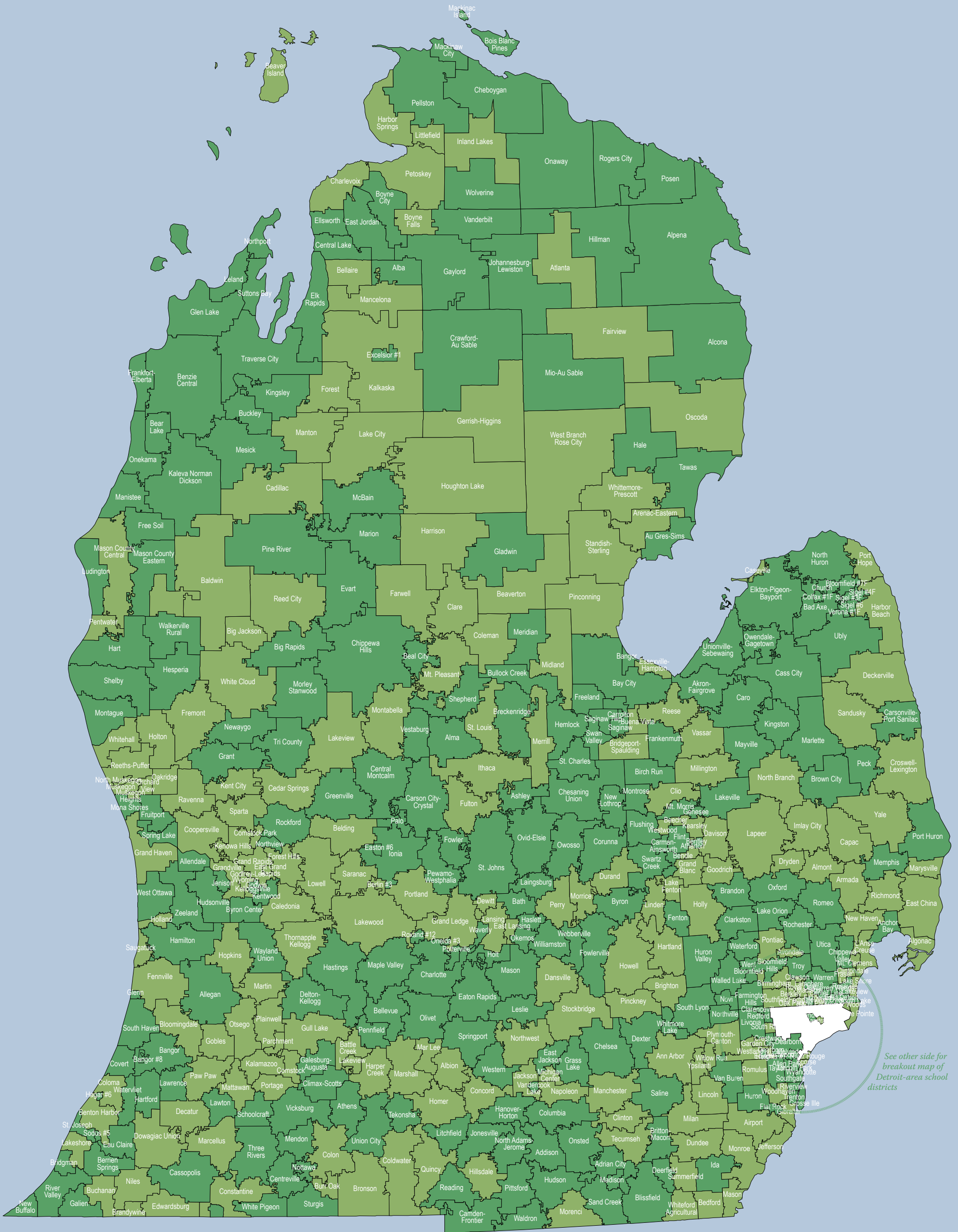
- School districts that privatize food, custodial or transportation services
- School districts that *do not* privatize food, custodial or transportation services
- School districts that did not report



Michigan School District Privatization  
PULLOUT POSTER

*Breakout of Detroit school districts  
(see other side for full lower peninsula)*





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# Remediate Tuition Hikes with Contracting

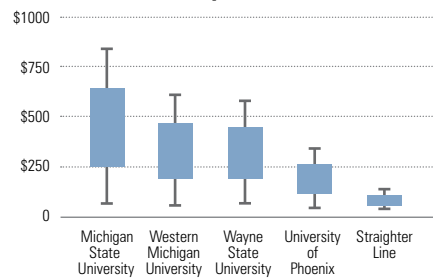
Higher education in Michigan has become increasingly inaccessible to disadvantaged socio-economic groups and an increased financial burden on middle class families. Since 2000, net tuition (the inflation adjusted price students pay after accounting for aid) at Michigan's four-year public universities has increased 54 percent. The result: Michigan's four-year public universities charge residents roughly between \$750 and \$1,300 per course or \$250 to \$480 *per credit*, and that is not counting the state subsidies already collected through taxes. Given that the private sector, as discussed below, has demonstrated it can provide the same services at a lower cost, it is hard to see how the state is justified in charging its own residents so much.

The National Center for Education Statistics estimates that 20 percent of all students attending four-year public schools take at least one remedial course. In addition to remedial courses, colleges also offer a large array of introductory courses designed to prepare students for the heavier, more demanding upper-level college work. This past fall Michigan State and Western Michigan universities together had more than 5,700 students enrolled in what can be considered either remedial or introductory math and English courses. While not particularly resource intensive, these courses are very costly to students, ranging from \$750 to \$1,300 for a three-credit hour course.

This raises two important questions. If beginning students are taking rudimentary courses that do not require the expertise of a Ph.D. to be taught well, why are students being charged so much? Also, if the content of these courses is fairly basic, why do colleges think they are in the best position to deliver these courses in-house? It is plausible that a third-party provider could deliver courses with comparable — or higher — quality at a much lower cost, with the savings being passed on to students, taxpayers and the universities.

The Center for College Affordability & Productivity (CCAP) estimated the cost to the university to deliver one credit hour of instruction to a student from both Michigan universities and alternative providers. Michigan schools have a fairly opaque

**Cost per credit hour of remedial/introductory course**



system of budget disclosure when it comes to this level of detail. From public records one can see how funds are generally divided up among departments, but the data is not sufficient for a detailed marginal analysis. Therefore, we are forced to employ several techniques to determine a range of possible costs, as depicted in the chart above. The upper bound for each university's estimated cost is based on the out-of-state credit hour fee; this calculation assumes that as non-profit entities, the schools would charge what it costs on average to provide one credit hour of instruction. A midpoint was generated dividing the total expenditure on instruction by the number of credit hours generated by a school. Lastly the lower bound was generated by assuming the marginal cost of offering a remedial or introductory course is the cost of the salary of lecturers, who are the lowest paid instructor group; assuming a teaching load of 15 credits a semester and average class size of 25.

The difference between the upper and lower bounds are severe, but the lack of budget transparency in Michigan's public universities makes a more accurate analysis difficult, and with the accounting practices in use it is quite probable that even the universities *themselves* do not have any better idea of what their marginal costs for a remedial course are. The implications for students are particularly disturbing. If our upper bound is right, universities are terribly inefficient in that they are failing to deliver courses in a cost effective manner, costing the state in excess of \$500 per credit hour. If our lower bound is correct, the situation is even worse. It implies the schools spend very little, less than \$65 per credit hour to provide the course, and are charging their students much more than the cost of

provision. The schools would essentially be fleecing their own students to generate extra revenue, using the extra income to subsidize student recreation centers and out-of-state graduate students, among other things. Either scenario is unacceptable. Fortunately, there is a solution.

Firms in for-profit education have proven to be able to deliver consistent, high-quality education at a fraction of what it costs non-profit institutions. Richard Ruch, who served as a dean at both not- and for-profit schools, estimates the cost *to the institution* of educating a student at a for-profit school is 59 percent cheaper than at public schools. CCAP looked at two for-profits that could be utilized in Michigan. Straighter Line offers Web-based courses and personalized tutoring. Students who are in need of remedial instruction to get their math skills up to speed can get the same course content from Straighter Line for a mere \$99 a month, without any subsidy from the state. Moreover, Straighter Line offers 24/7 one-on-one tutoring with its courses. Charter Oak State College and Fort Hayes State University are two public schools that have implemented Straighter Line with success. For those opposed to the online approach, University of Phoenix has brick and mortar establishments in Michigan and also provides education more cheaply than the public universities. These two for-profits are just examples of the many for-profit providers who could help Michiganders save money on remedial and introductory college credits.

College administrators will likely balk at this proposal, claiming that their costs and pricing are, in fact, competitive or that a for-profit operation could never replicate what they offer in the classroom. But that claim is tough to evaluate because opaque accounting keeps the public in the dark as to what the true costs of remedial college education. Given the results of our analysis, colleges and universities should look into these costs to ensure that they are not fleecing their students or being wildly inefficient, especially when affordable alternatives are so readily available. [MPRI](#)

*Jim Coleman is a research associate at the Center for College Affordability and Productivity.*

# AROUND THE STATE

## State looks to hire privatization expert

LANSING — The state has hired KPMG to be its privatization expert. The firm is expected to provide the state with 12 ideas for privatization and better public-private partnerships each year, and anticipates working on implementing three to six of them.

Michigan policymakers have been interested in using more public-private partnerships, but recognized that it needed to look outside for expertise. As of Dec. 5, the administrative board approved the contract, but the state has not yet finalized the deal.

KPMG will be paid \$3.2 million over three years for its services. Its fees are expected to be paid by proceeds set aside by public-private partnership transactions, according to Treasury spokesman Terry Stanton.

## Possible Ann Arbor golf course sale spurs ballot proposal

ANN ARBOR — Afraid of the city's possible sale of its Huron Hills golf course, Ann Arbor residents passed a Nov. 4 proposal to require a city vote of any attempt to sell city parkland, according to The Ann Arbor News.

The city owns two golf courses, Huron Hills and Leslie Park. The courses essentially lost money in each of the past 10 years. It was suggested in 2005 that Ann Arbor sell parts of the Huron Hills course, according to The News. However, city council members rejected the idea.

The measure passed 65-35.

*Reference: "Ann Arbor ballot measure would require future sale of any parkland to be approved by city voters," The Ann Arbor News, Oct. 31, 2008*

## Anti-school support service privatization bills introduced

LANSING — Bills have been introduced in the Michigan House of Representatives to make it more difficult to contract out support services in school districts.

House Bill 6342, introduced by Rep. Jeff Mayes, would require districts to perform a cost analysis of a privatization decision that includes "noneconomic" effects. Exactly what is considered and how large of

a weight would be given to "noneconomic" effects is not included in the initial bill language.

House Bill 6270, introduced by Rep. Doug Bennett, would prevent districts from contracting out if the move is expected to save less than 10 percent.

Mayes' bill was sent to the House Labor Committee, while Bennett's was sent to the House Education Committee.

According to the Mackinac Center's 2008 school support service privatization survey, 42.2 percent of school districts in Michigan contract out for food, custodial or transportation services.

While these bills may die when this Legislature closes, the sponsors of the bills both won re-election in November and may reintroduce them.

## Rackham golf course remains in legal limbo

HUNTINGTON WOODS — A deed restriction that prevents the Rackham golf course from being sold for another use was upheld by the Michigan Court of Appeals, according to The Detroit News.

Detroit has been trying to sell Rackham, located in Huntington Woods, since 2006. One possible bidder for the property intended to build a housing development on the course. The City of Huntington Woods, which bid for the course, claimed that the rival bidder's proposal was not acceptable under terms of the deed. A deed restriction put in place when the Rackham family donated the course to the city prevents the property from being used as anything but a public golf course.

The matter was decided in an Oakland Circuit Court and appealed to the Michigan Court of Appeals, which ruled that the deed restriction remains. Detroit filed an application for the Michigan Supreme Court to hear an appeal, according to the Citizens to Save Rackham Web site.

Huntington Woods' offer for the property expired. However, the city is "committed to the preservation of Rackham Golf Course," according to its Web site.

*References: "Rackham must remain a golf course, appeals court rules," The Detroit News, July 16, 2008*

*Citizens to Save Rackham Web site, <http://www.saverackham.com/>*

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**The state has hired KPMG to be its privatization expert.**

## Pontiac seeks asset options

PONTIAC — Pontiac is trying to sell a number of assets, including two cemeteries and a hospital, in order to help balance its budget.

The city owns two cemeteries, Oak Hill and Ottawa Park. The cemeteries are operating at a deficit — revenues covered only 54 percent of expenses, according to its most recent financial report — and needed \$486,732 from the city's general fund to stay afloat. The Mackinac Center recommended selling the cemeteries in its Winter 2007 Michigan Privatization Report.

The city tried selling its North Oakland Medical Centers to the Oakland Physicians Medical Center. NOMC filed for bankruptcy protections from its \$38 million debt in August. OPMC offered the city \$2 million for the facility, but was unable to get financing, according to The Detroit News.

Pontiac is also trying to sell the Silverdome. As many as four buyers had been identified, but environmental concerns at the site have delayed the \$20 million deal.

The State of Michigan has assembled a team to review the city's finances. The team has located a number of issues that need to be addressed, including receiving reimbursement for police services offered to Pontiac schools, and delays in receiving revenue from taxes, public works services and fire transport services, according to The Oakland Press.

*References: "Financial review team report: No glaring flaws," The Oakland Press, Oct. 21, 2008*

*"City on right track with sale of cemeteries, NOMC," The Oakland Press, Sept. 4, 2008*

*"North Oakland Medical to close today due to money problems," The Detroit News, Oct. 28, 2008*

*"Unnamed companies inquire about Dome," The Oakland Press, Nov. 13, 2008*

## Iosco County explores inspection contracting

TAWAS CITY — Iosco County officials are exploring possibilities in reforming how its building inspections are handled, according to the Iosco County News.

Revenues for its building inspection team — the main source of which is inspection fees — have not been keeping up with the department's expenses, according to the News. The 2007 revenues were \$269,735 and expenses were \$293,461, according to its most recent financial report.

The county has raised its fees to help meet program expenses. Overall in Michigan, the number of new home permits issued has decreased 42 percent from 2007, according to Census Bureau figures.

Privatizing inspections was suggested by a county commissioner who was a builder himself, according to the County News.

*Reference: "Contractors: Do not privatize building inspection," Iosco County News, Sept. 24, 2008*

## Macomb County rejects nursing home privatization

MOUNT CLEMENS — A Macomb County Commissioner's committee voted 5-4 against privatizing its Martha T. Berry Medical Care Facility, according to the Detroit Free Press. The facility operated at a \$2.9 million loss last year, and is projected to cost taxpayers an additional \$5 million next year. The county expects spending to be \$33 million over revenue, according to the Free Press.

The facility is unionized and the commissioners voting to continue the status quo did not want to break apart the union, the Free Press reported.

The commission received proposals to take over the facility, looking for an arrangement similar to Oakland County's lease of its Golden Oaks Medical Care Facility, which had been losing money and was in need of capital improvements. Oakland County signed a lease with Ciena Healthcare Management, which became the operator of the facility and took the risk of profit and loss for the facility in exchange for an annual fee of \$500,000, according to the Michigan Privatization Digest.

*References: "Panel keeps Berry center," Detroit Free Press, Oct. 3, 2008*

*"Oakland County leases nursing home," Michigan Privatization Digest, Jan. 19, 2007*

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**The Martha T. Berry Medical Care Facility operated at a \$2.9 million loss last year, and is projected to cost taxpayers an additional \$5 million next year, yet the Macomb County Commissioner's committee voted 5-4 against privatizing its operation.**

# AROUND THE STATE

**Ten net new school districts are now contracting for at least one support service, a 4.9 percent rate increase from 2007.**

## Union files lawsuit to prevent Detroit incinerator deal

DETROIT — A Detroit affiliate of the American Federation of State, County, and Municipal Employees has legally challenged Detroit's deal with Synagro to provide sludge incineration, according to *The Michigan Citizen*. This is part of an ongoing dispute over the city's dealings with the company, which the FBI is investigating.

The council voted 5-4 to approve a deal without soliciting bids in November of 2007. The deal was expected to save the city \$5 million annually.

The suit alleges that the city charter prevents privatization without voter approval and alleges corruption in the bidding process, according to *The Michigan Citizen*.

A federal investigation is occurring, but at the moment news stories have only reported that people have been called to testify before a grand jury on the issue.

*References: "People must vote on Synagro," The Michigan Citizen, Aug. 17, 2008*

*"Detroit businessman testifies before grand jury in Synagro probe," Clickondetroit.com, Sep 17, 2008*

## Mackinac Center releases 2008 school privatization survey

MIDLAND — The Mackinac Center for Public Policy's sixth survey of school support service privatization shows that more than 42.2 percent of 550 conventional public school districts surveyed in the Great Lakes State contract out for at least one of the three primary noninstructional services — food, custodial and transportation. "Survey 2008: School Service Privatization Grows Again" found that 10 net new districts are now contracting for at least one support service, a 4.9 percent rate increase from 2007.

Custodial service privatization continues to show dramatic year-over-year growth. Statewide, 17.6 percent of districts have private firms doing all or part of their janitorial work, a 20.2 percent rate increase in just one year.

Busing services also show an increase in this year's survey to 5.5 percent of the 550 districts successfully surveyed, up from a revised 4.7 percent. That represents a 15.8 percent increase in the rate of

transportation-related contracting, though the total number of districts is relatively small. The Mackinac Center excludes all special education privatization and field trip contracting from its survey tally.

Food service remains the most frequently outsourced function with 29.1 percent of districts reporting having contracted either management or operation of their program. For the first time in the survey's history, food service contracting *declined* in net terms, although by a modest rate of 2.1 percent.

More details on the survey are available at [www.mackinac.org/9726](http://www.mackinac.org/9726). For more information on school privatization in Michigan, visit [www.mackinac.org/8691](http://www.mackinac.org/8691).

## Reeths-Puffer privatization agreement includes no cost increases

MUSKEGON — Reeths-Puffer Schools renewed a contract with EnviroClean to cover custodial service to the district. The contract included no increases in its expense to the district.

Employees facing a privatization attempt often argue that contractors' first-year bids are artificially low to make the initial decision to contract easy and then increase rates after the district loses its employees. However, Reeths-Puffer's agreement is an example contrary to this argument.

When the district contracted out the service in 2006, the move was expected to save the district \$480,000 a year over the contract's life. Opponents of the move distributed fliers calling for boycotts of the companies employing school board members.

## Brighton contracts out custodial management, but rejects transportation

BRIGHTON — Facing a \$3 million projected deficit for the upcoming school year, Brighton Public Schools decided to contract out the management of its custodial services to Aramark. The district had also been considering contracting out its transportation services, but rejected the idea.

The district only expects to close \$1.2 million of the gap and make cuts through the fiscal year if necessary, according to *The Detroit News*.

*Reference: "School bus cuts put on hold," The Detroit News, Aug. 13, 2008*

## Grand Ledge looks at contracting support services

GRAND LEDGE — With expected spending to be \$1.8 million beyond revenues for the next year, Grand Ledge is considering contracting out for support services, including transportation and custodial services, according to The Lansing State Journal.

The superintendent has formed an advisory group to look at the issue, the Journal reported. With the exception of its transportation workers, all the district's employee bargaining units are affiliated with the Michigan Education Association.

Anti-privatization yard signs have appeared in the district, according to the Journal.

*Reference: "School officials look at privatizing services," The Lansing State Journal, Nov. 22, 2008*

## Reed City school board recall passes

REED CITY — After voting to contract out for food and custodial services, four members of the Reed City school board were recalled (See story on p. 6)

The recall petition included three reasons: extending the superintendent's contract by two years, cutting nonadministrative positions and failure to consider "taxpayers' input," according to The Big Rapids Pioneer.

The Nov. 4 general election vote was close — the average of the votes was 51 percent in favor and 49 percent against.

*References: "Reed City recall launched," The Big Rapids Pioneer, July 16, 2008*

*"Info in Todd letter was misleading," The Big Rapids Pioneer, Aug. 20, 2008*

## Southfield recall election, anti-recall campaign launched

LATHRUP VILLAGE — Employees of Southfield schools launched a recall campaign against its school board members, but did not submit the necessary signatures to place the recall on the ballot. The union had initiated its campaign after the board voted to contract out its food, custodial and transportation services, a move that is expected to save the district \$21.5 million over three years.

Lathrup Village resident Thom Bainbridge called a town hall meeting to counter the recall campaign, according to C&G Newspapers.

While supporters claim to have gathered enough signatures, they were not submitted. The district is now facing contentious labor contract negotiations, according to the MEA Voice.

*References: "Residents rally to thwart recall effort," C&G News, July 15, 2008*

*"Southfield vigil draws more than 200," MEA Voice, Nov. 18, 2008*

## Houghton Lake enters into privatization arrangement

HOUGHTONLAKE — Houghton Lake Community Schools hired D.M. Burr to manage its non-district custodians, according to the Roscommon County Herald. The contractors are expected to save the district \$60,000 annually.

The district accepted concessions from its employees that included replacing two retiring custodians and one resigning custodian with contracted employees. The district had accepted bids for completely outsourcing the service earlier this year, according to the Herald.

*Reference: "Firm will oversee HLCS's non-district custodial staff," Roscommon County Herald, July 20, 2008*

## Leland schools join consortium

LELAND — An IRS regulation on investment tracking led the Leland Public Schools to join a consortium of districts that outsource the job, according to the Leelanau Enterprise.

Part of the regulation requires districts to track the investments made by employee-sponsored retirement funds. In response to the requirements, districts across the state formed a consortium to contract out this responsibility. The consortium selected TSA Consulting, which specializes in 403(b) plan compliance.

*Reference: "Leland joins school consortium," Leelanau Enterprise, Sept. 8, 2008*

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**With expected spending to be \$1.8 million beyond revenues for the next year, Grand Ledge is considering contracting out for support services.**

# Survey 2008: School Service Privatization Grows Again

The Mackinac Center for Public Policy's sixth privatization survey of Michigan's 552 conventional public school districts found that the percentage of districts contracting for the management or operation of at least one of the "big three" support services — food, janitorial or busing — increased for the fifth survey in a row to 42.2 percent, up from 40.2 percent in 2007. That is a rate increase of almost 5 percent.

According to this year's survey respondents:

- Custodial services made relatively large gains over the last year, increasing from a revised 14.7 percent of districts surveyed to 17.6 percent of districts surveyed — a 20.2 percent rate increase over last year. In 2003 only 6.6 percent of districts were contracting for custodial services.
- Food services remain a favorite area for contracting out. We found that 160 of 550 districts (29.1 percent) currently contract for management or operation of food services in their districts. This represents a year-over-year *decline* in the food service contracting rate from 2007 of 2.1 percent, the first year-over-year decline in food service contracting since the survey began in 2001.
- Contracting for school busing management or operation grew from a revised 4.7 percent to 5.5 percent

between the 2007 and 2008 surveys. That represents a year-over-year rate increase of nearly 15.8 percent, a significant leap in percentage terms, but still a relatively small amount compared to the number of school districts in the state. We exclude all special education-related busing and those contracts solely for field trips from its tally.

During the survey, literally hundreds of superintendents and business managers were interviewed, dozens of whom volunteered that the mere discussion of privatization allowed them to wrest significant cost-saving concessions from different bargaining units. Some districts, on the other hand, said they were too small to privatize because they could not attract vendors. But we have seen privatization take place in districts that have only 14 students. It is possible.

No single story from this year's survey stands out like that of the Southfield Public Schools. Since our last survey, Southfield has privatized food, janitorial and busing services and estimates three-year savings of between \$14.7 million and \$21.5 million. Dividing the 2008-2009 expected enrollment of 8,800 students in the district into expected savings, these figures translate into projected annual average savings of \$557 to \$814 per student per year. These are huge savings for any school district.

The district tried to avoid privatizing

these large services, but its back was against the proverbial wall. Ken Siver, deputy superintendent, reports that the district attempted to obtain sufficient concessions to keep the work in house, but was rebuffed each time, leaving the district no choice but to privatize.

This year's survey includes 550 of the 552 conventional public school districts in Michigan. Despite aggressive attempts to get answers from Detroit Public Schools by phone this summer, and despite invoking the Freedom of Information Act, no one in the district was willing to respond to the survey. This was also the case with DPS in 2006. We also chose to exclude the Upper Peninsula district of White Pine because, as in 2006, it has no students.

Done right, school support service privatization can save money and improve services — even if the privatization option is used solely to persuade public employee bargaining units to sharpen their pencils. This year's survey findings indicate that contracting out not only remains a widely accepted practice, but one that will likely grow in the future. **MPRI**

*A pull-out map of privatization in Michigan school districts is available on pages 7-10.*

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