

MICHIGAN SCHOOL PRIVATIZATION SURVEY 2009

By James M. Hohman and Eric R. Imhoff





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ISBN: 1-890624-90-X | S2009-10

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The Mackinac Center for Public Policy

Michigan School Privatization Survey 2009

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Introduction

With Michigan's public school districts facing a decline in per-pupil funding, more districts are contracting out for at least one of the three major school support services — food, custodial and transportation — than ever before. This year's survey of school districts found that 44.6 percent of all Michigan school districts contract out for at least one of these services, a 5.6 percent increase over 2008. This year, new contracts alone are expected to save \$6.9 million.

Since 2001, the Mackinac Center has surveyed public school districts in Michigan about their use of contractors in providing support services. Each year, more districts contract out to save money and improve services.

Contracting out is especially pertinent as districts face ongoing revenue crunches. As state-based tax revenue has declined in Michigan's receding economy, school revenue correspondingly declined. Consequently, based on average revenue of approximately \$13,000 per pupil, most schools face a 3 to 4 percent reduction in revenue in 2009-10 and prospects of a larger reduction in 2010-11.

Contracting out and managing a district's contractors has never been more important, and the Mackinac Center continues to provide the most detailed and comprehensive information about the use of support service contractors in the state.

Of course, districts have always used outside companies to provide goods and services, from constructing buildings to buying pencils to servicing copiers. But many districts did not use contractors to provide school support services until Public Act 112 of 1994 made contracting for these services a prohibited subject of bargaining. Before that, a union could negotiate a clause preventing a district from exploring contracting out non-core services, meaning the district would continue to employ workers covered by collective bargaining agreements that carried ever-increasing legacy costs.

While a number of districts had privatized some services before 1994, PA 112 allowed more flexibility for districts to begin soliciting bids for services and to gain additional leverage at union negotiating tables.

But the extent to which Michigan public school districts contracted out was unquantified. In 2001, the Mackinac Center began tracking districts that contracted out, first biennially and later annually. Seven surveys have been completed: in 2001 and 2003, and every year from 2005 to 2009.

Methodology

All 551 public school districts in Michigan cooperated with this year's survey. The number of districts decreased by one this year as White Pine Public Schools merged with the Ontonagon Area School District after experiencing low student counts over the past few years.

The privatization survey was conducted from May 26 through July 29, 2009, with the majority of responses received by telephone. The respondents were superintendents, business managers and assistant superintendents. Some districts requested a written copy of the survey questions, and others asked for a Freedom of Information Act request. These were submitted when requested.

The survey included questions on whether the district contracted out for support services and whether it had brought services back in-house.* If the district changed its service provision by either outsourcing or in-sourcing, they were asked to give their reasons, to name the company that provides the service (if applicable) and to define the differences in costs between the in-house and contracted services.

Districts that switched to a contracted service were asked to provide documentation on the cost savings. Not all provided comprehensive costs analyses, nor did they all use the same methods for estimating costs. Nevertheless, results provide context for annual cost differences between in-house and contracted services for the districts that contracted out this year.

We also asked districts whether they were satisfied with their contractors, regardless of whether they were new to contracting.

Determining whether a district uses private provision of services requires some judgment. Some districts use private contractors for only portions of services, as is the case for districts that contract out for food service management while keeping their own workforces to operate the kitchens and cafeterias. Districts also may hire companies for cleaning only certain buildings and grounds, or contract out for just special education transportation. Some districts contract with another school district or another governmental agency for all or part of a service. A district is only counted as having privatized when it hires a private company to provide all or part of a normal service to the district.

This also means that school districts that contract out with other districts and municipal governments are not included, as is the case when districts share a food service manager, as Adrian Public Schools and Blissfield Community Schools do. It would also exclude districts that contract with municipal transportation services for busing.

* As part of other Mackinac Center education survey work, we ask whether the district uses a MESSA plan to cover health benefits for teachers, whether recall petitions have been submitted against the district's school board members, and whether the district posts its checkbook register online.

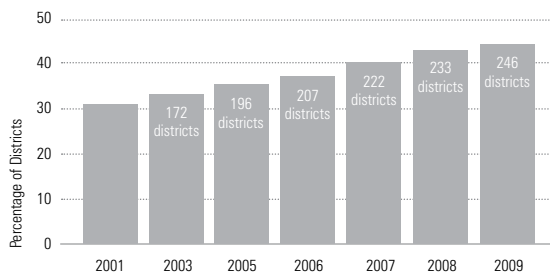
This year's survey found that 80 of the 162 districts that contract out for food service maintain their own food service labor force. Seven of the 38 transportation contracts are for management only, and four are for labor only.

2009 Survey Results

- 44.6 percent of districts (246 out of 551) contract out for food, custodial or transportation services.
- 29 food, custodial or transportation services were outsourced this year.
- Eight districts insourced services this year.
- New contracts alone were estimated to save taxpayers \$6.9 million statewide.

Privatization continues to increase this year as 246 districts contracted out for food, custodial or transportation services. Contracting has increased 44 percent since 2001 and displays a steady trend, growing an average of 6.3 percent each year.

Graphic 1: Outsourcing by Michigan School Districts



Note: The number of districts that responded each year varied.

There are 306 districts that did not contract out for any of the three main support services. Five of those districts ended previous contracting arrangements. Three other districts brought services back in-house but had contracts in place for other services.

The relatively small increase in the percentage of districts that contract out services hides some of the growth in contracting that is occurring in Michigan school districts. If a district contracted out food services when it already had a custodial service contract, for example, it would still count only once in these figures. Overall, there were 29 new contracting arrangements.

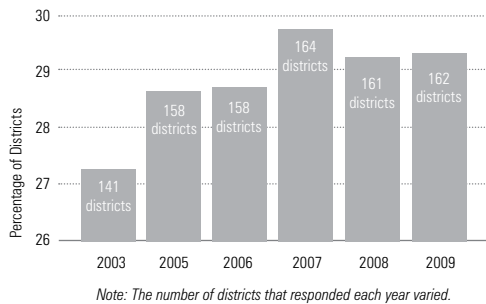
This year, the Mackinac Center requested cost analysis sheets from districts that began new contracting arrangements to see how much outsourcing is expected to save districts. Altogether, contracting was expected to save Michigan taxpayers nearly \$7 million.

Food Service

- 29.4 percent of districts (162 out of 551) contract out for food service.
- Seven districts began contracting out the service.
- New food service contracts are expected to save districts \$649,600.

Food service continues to be the most frequently contracted, with 162 districts using private contractors. Seven new districts contracted out this year.

Graphic 2: Districts Contracting Food Service



There was a slight increase in the percentage of districts that contracted out for food service this year. This stands in contrast with the 2008 survey, when food service contracting numbers decreased.

Overall, new contracts for food services are expected to save Michigan school districts \$649,600 this year. Districts' expected savings range from \$9,300 for Charlevoix Public Schools to \$414,600 for Troy School District. In Charlevoix and Okemos public schools, the food service contractors will not manage the district's food service staff, but will employ the former in-house staff, thereby foregoing the necessity of the districts contributing to the state's public school employee pension fund. Savings will depend on how many employees are hired.

Glenn Public Schools is a 48-pupil district in southwest Michigan. It began an arrangement with a local restaurant that cooks hot meals for students to buy once a week. The district had not provided food services at all before this, and students had simply brought their own lunches.

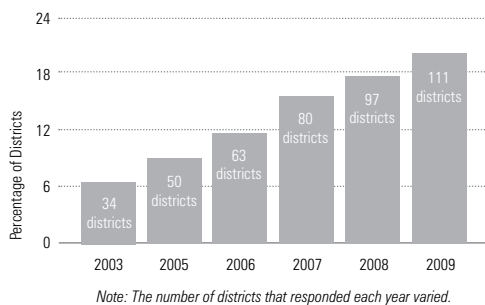
Districts new to food service contracting	Savings
Troy School District	\$414,600
Godwin Heights Public Schools	\$163,800
Au Gres-Sims School District	\$16,800
Charlevoix Public Schools	\$9,300
Peck Community Schools	\$45,000
Okemos Public Schools	\$1,000
Glenn Public Schools	\$0 (new service)

Custodial Service

- 20.1 percent of districts (111 out of 551) contract out for custodial service.
- 16 districts began contracting out the service.
- Contracting out custodial services is expected to yield districts \$4.4 million in savings.

Custodial service contracting grew substantially from 2003, from 6.6 percent of districts to 20.1 percent in 2009.

Graphic 3: Districts Contracting Custodial Service



This year more districts contracted out custodial services than in 2008. This was the largest gain in contracting among the three noninstructional services covered.

Savings ranged from \$10,000 to \$2.7 million.

Adams Township School District's savings may appear small, but it had a fairly unique experiment with privatization. It hired two contractors to clean different wings of its elementary school. In analyzing the services provided to these wings, the district found that one company cost less than the other, but did an average job, while the other spent more time and performed to a higher standard. The district expects to offer the higher quality company a contract to clean its elementary school.

While Detroit Public Schools responded to the survey and stated that it had new custodial service contracts, it was unable to produce documents showing the district's previous costs or any expected savings from the contract.

Ann Arbor Public Schools sent documents, but was unable to inform us of proper methods for calculating comparable cost savings.

Lake Fenton Public Schools contracted with a supervisor for the district's custodial services and hired him to provide services for the entire year. The district's previous supervisor did not work in the summer. As a result, the district expects to pay \$10,000 more for custodial services next year.

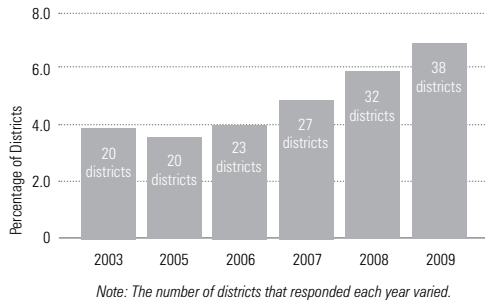
Districts new to custodial contracting	Savings
Troy School District	\$2,698,400
Jenison Public Schools	\$523,700
Richmond Community Schools	\$283,000
Dewitt Public Schools	\$255,600
Kelloggsville Public Schools	\$191,000
Delton-Kellogg Schools	\$173,000
Stephenson Area Schools	\$151,900
Public Schools of Petoskey	\$108,000
Leslie Public Schools	\$107,100
Ishpeming School District #1	\$67,000
Williamston Community Schools	\$50,000
Baraga Area Schools	\$11,700
Adams Township School District	\$10,000
Lake Fenton Community Schools	(\$10,000)
Detroit Public Schools	insufficient documentation
Ann Arbor Public Schools	insufficient documentation

Transportation Service

- ◆ 6.9 percent of districts (38 out of 551) contract out for transportation service.
- ◆ Six districts began contracting out the service.
- ◆ Contracting out for transportation services is expected to yield districts \$1.7 million in savings.

While not as prevalent in Michigan districts as the other two services, transportation contracting has grown substantially. In 2005, only 3.6 percent of districts contracted out the service; today, 6.9 percent do.

With six districts new to contracting out this service, transportation privatization grew by 18.5 percent this year, and savings estimates for districts new to transportation contracting range from \$21,200 to \$965,300.

Graphic 4: Districts Contracting Transportation Service

Montabella Community Schools uses a private company to provide its services, but the district decided to purchase its own school buses for the company's drivers to use. Some districts' officials may be concerned about the high cost of purchasing buses if a transportation contractor doesn't work out. Montabella avoided this risk by maintaining ownership of its transportation equipment and leasing it to the contractors.

Westwood Community Schools did not offer transportation to students in previous years, but to make the district more attractive, it began offering the service and uses a contractor to provide it.

Benton Harbor expects to save \$70,000 annually through differences in the costs of employment with its contractor. But those savings were only one factor in its decision to contract out: The district had an aging bus fleet, and with projected deficits, it did not expect to have the funds to make the necessary replacements. Its contractor bought the district's fleet for \$400,000, which gave the district an influx of cash, and the contractor bought new buses to serve the district.

White Pigeon Community Schools is hiring its transportation director through an employee-leasing service.

Districts new to transportation contracting	Savings
Troy School District	\$965,300
Albion Public Schools	\$200,000
Adrian Public Schools	\$168,838
Benton Harbor Area Schools	\$70,000
White Pigeon Community Schools	\$21,200
Dearborn Heights-Westwood Community Schools	\$0 (new service)

Districts That Brought Services Back In-House

- Eight districts brought services back in-house.
- Six were food service contracts and two were custodial service contracts. No district brought back transportation service.
- Cost savings from bringing services back in-house are not available for all of these districts.

All contracts have an expiration date, and most contain termination clauses. Despite the best efforts of district officials and contractors, arrangements sometimes wind up being overly burdensome or costly. When this happens, districts have the option of taking on the service and directly hiring workers to provide it.

This year, eight districts brought services back in-house — six for food services and two for custodial services.

Cedar Springs Public Schools had a private food service manager and was not happy with the company's management fee. It expects to save \$30,000 by bringing the service back in-house. Lakewood Public Schools went from a \$20,000 deficit under its contractor to a projected \$38,000 surplus by bringing food service in-house. Thornapple Kellogg Schools ended its contract and is sharing a food service director with a nearby district. Officials expect to save \$40,000 from the move.

The board of education for Plymouth-Canton Community Schools ended its private contract for food service because it preferred to have direct oversight and management of its food service provider. Richmond Community Schools officials said they did not think that its food service contractor was adding value to the district.

Fairview Area Schools had used a contractor to provide custodial services, but opted to end its contract and hire its own employees. Forest Area Community Schools had only contracted for the cleaning of a single building and now requires its teachers to provide the service.

Detroit's spokesman did not indicate that the district had brought services back in-house, but it was stated that the district did not have a food service contractor. Follow-up calls for a response have not been returned.

Districts that brought services back in-house	Service
Cedar Springs Public Schools	Food
Detroit Public Schools	Food
Fairview Area Schools	Custodial
Forest Area Community Schools	Custodial
Lakewood Public Schools	Food
Thornapple-Kellogg Schools	Food
Plymouth-Canton Community Schools	Food
Richmond Community Schools	Food

Other Services Contracted

- 219 districts (39.7 percent) contract out for coaching services.
- 417 districts (75.7 percent) contract out for substitute teaching services.
- 236 districts (42.8 percent) contract out for snow removal.
- 144 districts (26.1 percent) contract out for lawn care.

In addition to the three main support services, private contractors provide other services to districts on a regular basis. This year, we began counting districts that contract out for lawn care, snow removal, substitute teaching and coaching services.

While markets for lawn care and snow removal exist beyond school services and therefore are easy to contract for, only recent legal actions have opened the door for districts to contract out substitute teaching and coaching to private vendors. A district can now use a private contractor to employ its previous roster of substitute teachers and coaches. The company then manages and coordinates the employees and handles scheduling and payroll. Significant savings accrue to the district, since it does not have to contribute money for these positions to the school employee retirement fund (which now stands at 16.94 percent of payroll). As part-time employees, most substitutes and coaches may never become fully vested in the system.

Satisfaction With Contracting

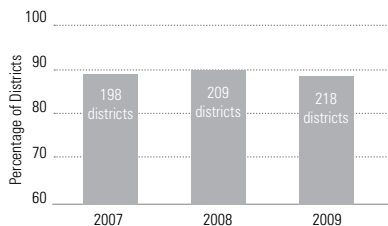
- 217 districts (88.2 percent) were satisfied with their private contractors.
- 13 districts (5.3 percent) were unsure.
- 14 districts (5.7 percent) did not answer.
- Two districts (0.8 percent) were not satisfied with their services.

By and large, districts were satisfied with the services provided by contractors. This should not be surprising, as unsatisfied districts can end their contracts if they included no-cause clauses.

Some districts and contractors resolve their problems; two of the three districts that responded as unsatisfied in the 2008 survey now report being happy with their contractors. The other district, Richmond Community Schools, brought its food services back in-house, but also began contracting out for custodial services this year.

Dissatisfaction is fairly rare over the history of the survey. Reported satisfaction has remained in the 88 percent to 90 percent range in each of the past three surveys.

Graphic 5: Satisfaction From Outsourcing



Note: The number of districts that responded each year varied.

Opponents of privatization have criticized self-reported satisfaction measures as improper for judging the performance of contractors. However, such measurements are prevalent in privatization literature. Surveys in Virginia and New Jersey and of large American cities have included self-reported satisfaction measures and generally found satisfaction with contractors.*

Moreover, satisfaction is an important part of any service provision. While school service decisions are largely made due to monetary concerns, the quality of service as judged by administrators and captured in satisfaction measures is an essential indicator of proper school management.

Revisions in Results and Population

There were changes in the number of Michigan school districts this year as White Pine, which had a minimal number of students, was dissolved into Ontonagon Public Schools.

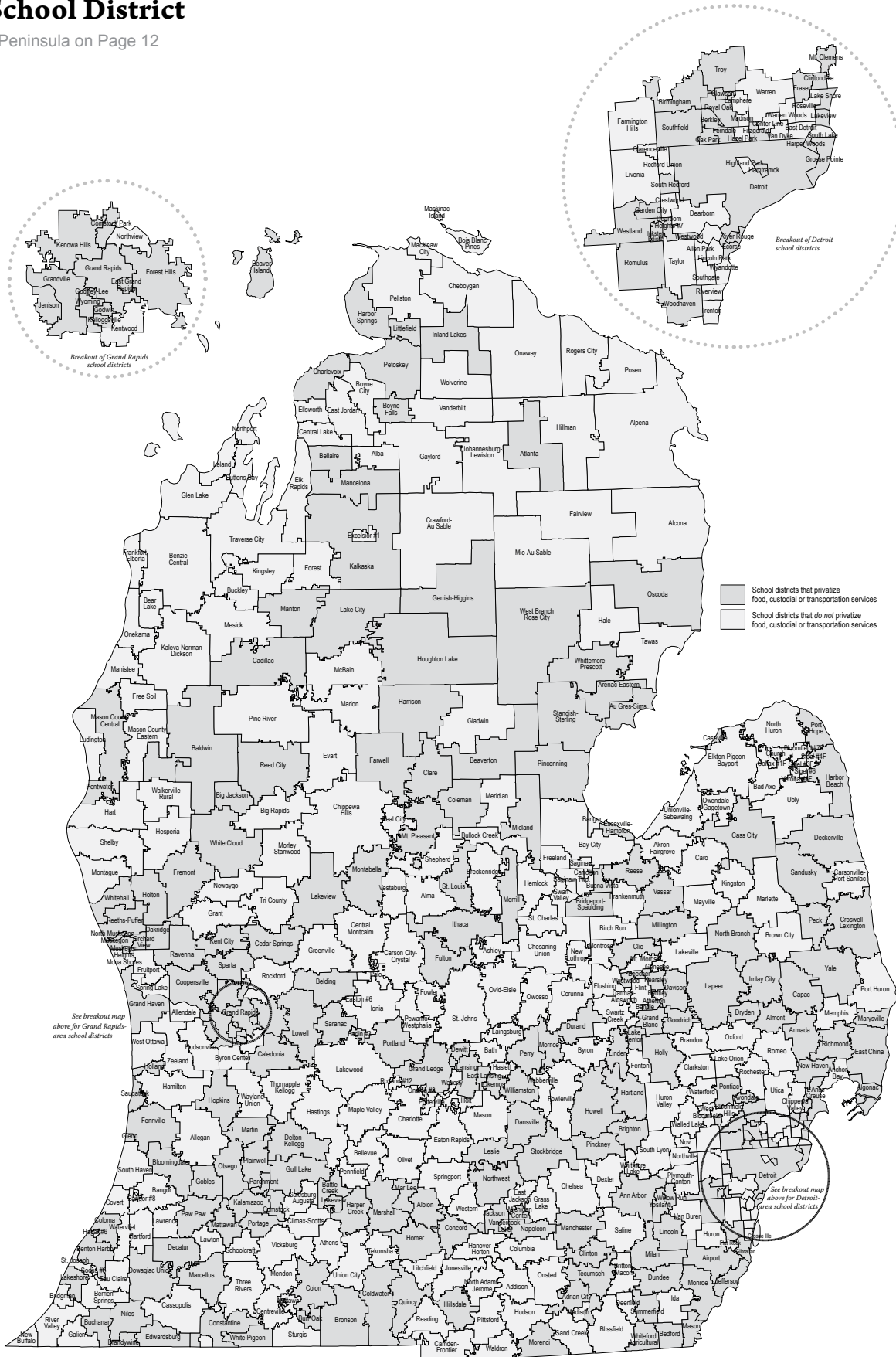
Detroit Public Schools responded to this year's survey and its results were updated for last year. This increased the 2008 survey's population size by one.

We also found that Grand Ledge Public Schools uses a transportation contractor. The results for last year have been corrected.

* Yost, Barry D. "Privatization of Educational Services by Contractual Agreement in Virginia Public Schools," Ed.D., Virginia Polytechnic University, 2000; May, Kenneth P. "An Investigation into the Role of the Privatization of Non-Instructional Services Provided by New Jersey Public School Districts," Ed.D., Seton Hall, 1998; Dilger, Robert Jay, Moffett, Randolph R., and Struyk, Linda. "Privatization of municipal services in America's largest cities," *Public Administration Review*, Vol. 57, 1. 1997.

Appendix A: Map of Survey Findings by School District

Upper Peninsula on Page 12



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ISBN: 1-890624-90-X | S2009-10

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