

“THE CENTER’S PRIVATIZATION SURVEY HAS HELPED PUBLIC SCHOOL OFFICIALS MAKE DATA-DRIVEN DECISIONS THAT HAVE SAVED DISTRICTS — AND TAXPAYERS — MILLIONS OF DOLLARS.”

Tom Watkins, former Michigan superintendent of public instruction

JAMES M. HOHMAN AND JOSIAH M. KOLLMAYER

A MACKINAC CENTER REPORT



MICHIGAN SCHOOL PRIVATIZATION

SURVEY 2011



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140 West Main Street P.O. Box 568 Midland, Michigan 48640

989-631-0900 Fax 989-631-0964 www.mackinac.org mcpp@mackinac.org

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989-631-0900 Fax 989-631-0964 www.mackinac.org mcpp@mackinac.org

The Mackinac Center for Public Policy

Michigan School Privatization Survey 2011

By James M. Hohman and Josiah M. Kollmeyer

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Contents

Introduction..... 1
Methodology 2
2011 Survey Results 3
 Food Service 4
 Custodial Service 5
 Transportation Service 8
 Service-Sharing..... 9
 Districts That Brought Services Back In-House..... 10
 Satisfaction With Contracting 11
Appendix A: Revisions to Previous Publications..... 12
Appendix B: Map of Survey Findings by School District 13

Introduction

Michigan school districts face tough choices allocating their resources to provide students with an education. Despite increased spending in Michigan schools, school boards regularly have to find ways to trim expenses, and sometimes that means lowering employment benefits, eliminating positions and other moves that few school board members enjoy. However, new results from the Mackinac Center for Public Policy's Michigan School Privatization Survey indicate that more than half of Michigan's school districts are improving services while spending less by turning to privatization of food, custodial and transportation services.

Out of the 550 public school districts in the state, 295, or 53.6 percent, have privatized at least one of these three major noninstructional services. This represents a 9.1 percent increase in contracting over 2010. There were 44 districts that newly privatized at least one major noninstructional service since the Mackinac Center's 2010 survey.

The single largest motivation for privatization is financial savings. New contracts from the past year alone are expected to save Michigan taxpayers roughly \$7.87 million annually. A 92.9 percent majority of contracting districts report satisfaction with the private-sector services they have received.

Currently, Lansing offers financial incentives to contract services. Gov. Rick Snyder's "best practices" initiative offers an additional \$100 per pupil in funding to any district that meets four out of five criteria, one of which is the solicitation of competitive, private-sector bids for support services (see Section 22f of Public Act 62 of 2011). Furthermore, Rep. Dave Agema, R-Grandville, has proposed House Bill 4306, which would mandate a competitive bidding process for most district support services. Note that neither piece of legislation requires privatization of services; each simply requires school boards to solicit competitive bids and thereby investigate whether cost savings are available.

Privatization is not the only factor that is changing how school districts do business. There has been a growing effort to consolidate services among districts and intermediate school districts; hence, this year's survey includes data on service-sharing. Rather than contracting with a private company, some districts choose to work cooperatively with other districts to obtain support services at a lower cost. Few districts actually use service-sharing to provide all of their food, custodial or transportation services, but services such as business, technology and special education are frequently done collaboratively between districts or shared via ISDs.

The Mackinac Center has conducted its school privatization survey since 2001 and continues to document a steady rise in the number of districts contracting noninstructional services to save Michigan tax dollars.

Methodology

This study was conducted between May 25 and Aug. 5, 2011. Each of the state's 550 districts was contacted individually. The questions were answered most frequently by superintendents and business managers, and occasionally by assistant superintendents, CFOs, administrative assistants and human resources directors. The majority of districts responded to our questions via telephone. If a district requested the survey be submitted in writing or could not be reached by repeated phone calls, surveys were administered by email, facsimile or mail. In the rare case that a district could not provide the information requested, or provided inconsistent information, the local ISD was contacted.

The survey primarily focused on contracting for food, custodial and transportation services. If a district contracted for any of these services, follow-up questions included the name of the private company contracted with, the district's satisfaction or lack thereof with that company, and whether that contract covered all or only part of the service in question (for example, many districts contract their food service manager while retaining the rest of their food service employees in-house).

If a district had begun contracting out a support service or brought a service back in-house within the past year, they were asked the reason for the change (for the majority of districts new to contracting, financial savings were the primary motivation). Districts were also asked for documentation detailing the savings to be gained from the change in service providers. Unfortunately, especially in cases of small-scale contracts covering only a few employees, not all districts could provide such documentation.

Even one regular private employee working in a district's food, custodial or transportation services qualifies as privatization for the purposes of this survey. Such limited contracting is rare but does occur through retire-rehire programs. However, contracting for substitute employees does not count as privatization of a support service. In addition, contracting for limited, specialized support services is counted separately (contracting for special education transportation is not the same as contracting for transportation services in general).

The survey also included a question on service-sharing/consolidation. Many districts contract with neighboring districts or ISDs for certain services. While these contracts do not represent privatization (because no private company is involved), they do represent a valuable option for saving money in many districts.

Finally, districts were asked if they offered MESSA health insurance to any of their employees.

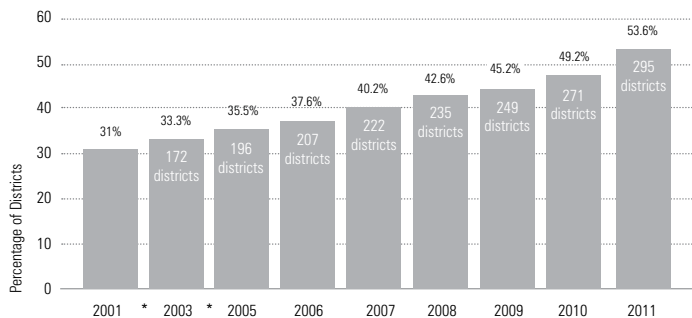
2011 Survey Results

- 53.6 percent (295 out of 550) of districts contract for food, custodial or transportation services.
- 57 total services were privatized in the past year.
- Six districts brought a service back in-house.

Statewide savings on support services as a result of the new contracts are estimated at \$7.87 million.

A total of 44 districts began new support service contracts in the past year. The majority of these districts chose to privatize only one service, but some chose to hire support staff in multiple areas using employee leasing agencies. One district, Ubyly Community Schools, began hiring all new support staff, including cafeteria workers, custodians and bus drivers, through PCMI. The district has saved 9.3 percent per contracted employee on its kitchen and custodial staff and 8 percent on its bus drivers thanks to this agreement

Graphic 1: Outsourcing by Michigan School Districts



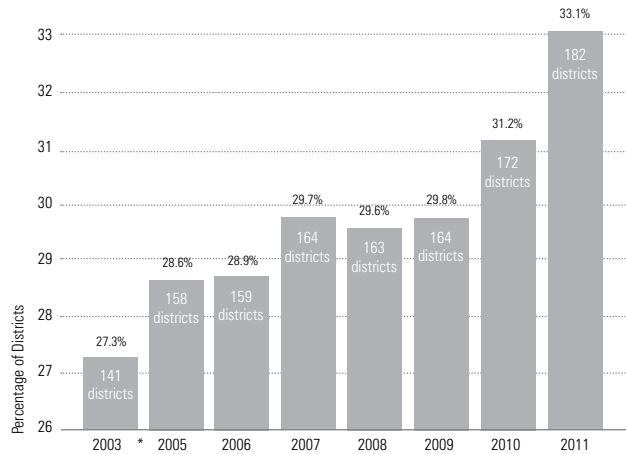
*Note: The number of districts that responded each year varied; response rates were essentially 100 percent by 2005.
* Data was not collected for the years 2002 and 2004.*

Total first-year savings from districts that provided savings information are estimated at \$7.87 million. Many other districts, particularly those that use employee leasing agencies, provided savings data as a percentage of money saved per contracted employee. In some cases, no concrete savings documentation could be obtained. However, when asked “did the contracting provide savings?” in reference to any new contracting, only two of the 44 relevant districts denied noticeable savings, and no districts reported noticeable losses. One of those districts reported that it contracted food services for the quality of its service provider. The other reported that transitional costs for the first year would negate savings, but that it expected to save money in the coming year. Savings details for individual contracts are included in the following sections.

Food Service

- 33.1 percent of districts (182 out of 550) contract for food services.
- Three districts began contracting out food service this 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.

Graphic 3

Districts new to food service contracting

Kingsley Area Schools
 Richmond Community Schools
 Mason County Central Schools
 Morley Stanwood Community Schools
 Ellsworth Community Schools
 Caseville Public Schools
 The Lamphere Schools
 Uby Community Schools
 Ashley Community Schools
 Sodus Township District #5
 Highland Park Public Schools
 Trenton Public Schools
 Waldron Area Schools

Of the 13 new food service contracts, seven were for employees leased through private vendors instead of turning over management of the service to a private firm monitored by district administrators. This often provides savings to districts because leased employees are not participants in the state's pension fund, which requires large contributions from both employers and employees. Currently employers must contribute 23.2 percent of a new employee's pay and employees are required to contribute up to 6.4 percent of their wages, depending on their annual wages, to the system. Private employers typically offer 401(k) benefits that cost employers around 5 percent to 7 percent of an employee's pay and employees are not mandated to contribute.

The other six contracts included management of a district's food services with private vendors.

While districts reported savings, few were able to provide bid sheets or other documents that listed expected savings from the move.

Richmond Community Schools was in need of a new food manager for the 2010-2011 school year following a retirement, and developed a plan to rehire a previous food manager through a contract with PCMI. The contract resulted in savings of \$30,000 for the year through a decrease in base pay and through offering less expensive retirement benefits.

Kingsley Area Schools hired a private manager from Chartwells to supervise its food services, which had been running at a substantial deficit. The district reports roughly \$30,000 savings and satisfaction with the service quality. According to the district's budget, these savings enabled Kingsley to shore up their food service fund balance while continuing a building improvement initiative.

Sodus Township District #5, a single-school district in Berrien County, just began offering food services for the first time. The district contracted with JA Food Service to provide lunches for its students. No savings estimate is applicable given the lack of any previous in-house service, but the school's principal reports being satisfied by the arrangement.

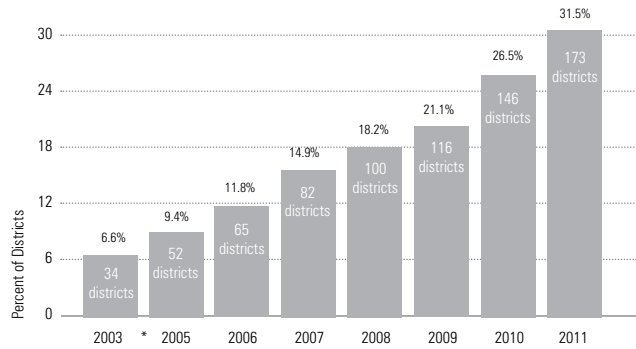
The Lamphere Schools, in Oakland County, began contracting in the 2009-2010 year for custodial workers through PCMI. In 2010-2011, it expanded contracting to include cafeteria staff as well. Each new hire through PCMI saves the district between 15 percent and 40 percent on the staff position contracted.

Morley Stanwood Community Schools contracted out its food service to Chartwells to seek greater efficiency, rather than savings. It expected minimal savings, but the district reports increased student participation in school lunch and breakfast programs and satisfaction with an increase in the menu options available to students.

Ashley Community Schools broke even this year on a new food service contract with Chartwells, as transitional costs offset the district's decreased regular expenses. The district reports satisfaction with the quality of service, and expects savings in future years.

Custodial Service

- 31.5 percent of districts (173 out of 550) contract out for custodial services.
- 29 districts began contracting the service this year.
- 16 of these districts provided dollar-figure savings estimates; these contracts are estimated to save Michigan taxpayers \$3,454,200 per year.

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 contracting Savings**

Woodhaven-Brownstown School District	\$1,358,700
Oakridge Public Schools	\$520,000
Livonia-Clarenceville School District	\$320,000
St. Clair Shores South Lake	\$300,000
Gull Lake Community Schools	\$170,000
Harper Creek Schools	\$167,000
Beaverton Rural Schools	\$157,000
Athens Area Schools	\$112,000
Okemos Public Schools	\$100,000
Armada Area Schools	\$60,000
Plainwell Community Schools	\$50,000
Vestaburg Community Schools	\$50,000
Pellston Public Schools	\$36,500
Fairgrove-Akron-Fairgrove Schools	\$30,000
Alma Public Schools	\$23,000
Blissfield Community Schools	17%
Fulton Schools	10%
Ubyly Community Schools	9.25%
Croswell-Lexington School District	*
Crawford AuSable Schools	*
Highland Park Schools	*
Lake Linden-Hubbell Schools	*
Lapeer Community Schools	*
Mendon Community Schools	*
Negaunee Public Schools	*
Newaygo Public Schools	*
Onkama Consolidated Schools	*
Sodus Township School District 5	*
Waldron Area Schools	*

*Denotes insufficient documentation

Woodhaven-Brownstown Area Schools recently won a major court victory over AFSCME and the American Federation of Labor about public-sector labor law and is expected to reap significant financial rewards from the battle.

As part of legislation passed in Michigan's application for extra federal money under the "Race to the Top" program, the state changed its law on prohibited subjects of bargaining. The law had stated that whether a district contracts out cannot be negotiated in union collective bargaining agreements. The change attempted to ensure that public-sector unions would stand on equal footing with private-sector companies if the district decided to seek bids. However, government unions argued that in order to do that they would need to set some of the terms for bidding. Eventually, an appellate court decided in an unpublished opinion that the law did not entitle unions to request bidding terms prior to the district seeking bids.

A new contract between GCA and the Woodhaven-Brownstown Area Schools is projected to save the district more than \$1.36 million per year on custodial services. With 5,093 students in the district, this translates into an effective \$267 per-pupil funding increase. District officials also remarked that this estimate does not include likely savings on "soft" costs, such as reduced time processing payroll. The district expects even more savings for the second and third years of this contract, up to \$1.5 million in the third year.

Oakridge Public Schools in Muskegon recently approved a new custodial contract with Enviro-Clean, service to begin in the 2011-12 school year. Savings for the first year are projected to reach \$520,000, well over half of the district's previous in-house costs. Without these savings, the school district fund balance would have plunged to only \$21,000.

South Lake Schools in St. Clair Shores is also ready to begin the 2011-12 year with a new custodial provider, Commercial Sanitation Management Services. The board expects savings between \$300,000 and \$340,000 in the first year. These savings are key to helping the district's fund balance: In January, the school board foresaw a roughly \$1.16 million fund deficit by the end of the fiscal year in June.

Athens Area Schools privatized the majority of its custodians with Hi-Tec over the summer. The district says a number of its employees utilized the state's early retirement incentive and the district turned to privatization to fill spots and employ its remaining employees. The district expects savings of \$112,000 per year throughout the three-year contract, with the savings primarily coming from retirement and insurance.

Okemos Public Schools needed to trim its custodial budget, and the board thoroughly investigated privatization. Although they did not decide to fully privatize custodial services, five retiring custodians were replaced by workers

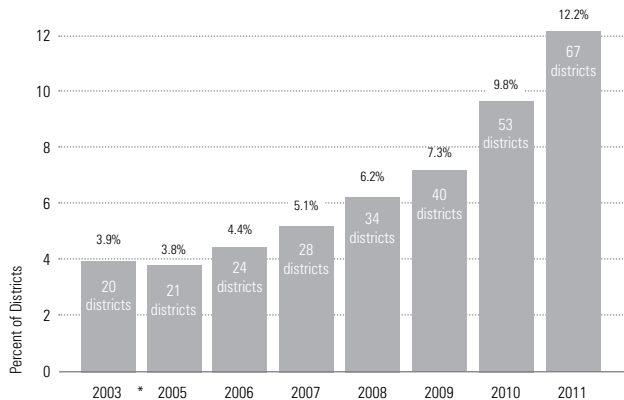
contracted through Hi-Tec. The district expects savings of roughly \$100,000 from these five positions, and will consider replacing future retirees with Hi-Tec workers as well.

Alma Public Schools needed to hire new custodians for only one of its elementary schools. The district chose to contract through Grand Rapids Building Services for the two custodians needed. In addition to an expected \$23,000 in savings, the district hopes to use this as an opportunity to compare the privatized service to in-house custodial services at a comparable elementary school nearby.

Transportation Service

- 12.2 percent of districts (67 out of 550) contract out for transportation services.
- 15 districts began contracting the service this year.
- Six of these districts provided dollar-figure savings estimates; these contracts are estimated to save Michigan taxpayers \$4,416,200 per year.

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.*

Transportation contracting continues to be the fastest growing area of support-service privatization, increasing this year by 26.6 percent, though it is starting from a smaller base. The number of contracted transportation services grew nearly triple in just the past five years.

Woodhaven-Brownstown's attempt to privatize bus drivers was also delayed by a big-labor lawsuit, but the school board stood strong and won the case. The resulting contract with First Student is expected to save the district \$331,200 in its first year.

The largest amount of savings from a single new contract came from Plymouth-Canton Community Schools, which hired Michigan Educational Transportation

Services. The district expects to save \$3 million over previous in-house costs in the first year of the contract, and future years are projected to save an additional \$600,000 once transition costs are paid in the first year. The first year's savings translate to an effective \$157 per-pupil funding increase.

Reeths-Puffer Public Schools contracted for its bus drivers through METS beginning in the 2010-2011 school year, and savings were estimated at \$200,000, or roughly \$51 per pupil.

Ellsworth Community Schools is now privatizing its bus drivers through attrition with PCMI. As in-house drivers retire, the district will hire privatized workers to fill their positions. The district saves roughly 25 percent on each privatized employee, largely on retirement and benefits.

Graphic 7

Districts new to transportation contracting Savings

Plymouth-Canton Community Schools	\$3,000,000
Northville Public Schools	\$425,000
Crestwood School District	\$400,000
Woodhaven-Brownstown School District	\$331,200
Reeths-Puffer Public Schools	\$200,000
Freeland Community Schools	\$60,000
Ellsworth Community Schools	25%
Lamphere Schools	15%
Fulton Schools	10%
Uby Community Schools	8%
Croswell-Lexington School District	*
Highland Park Public Schools	*
Lake Linden-Hubbell Schools	*
Onkama Consolidated Schools	*
Taylor School District	*

**Denotes insufficient documentation*

Service-Sharing

Most districts work with others to provide support services. Nearly 250 school districts contract with neighboring districts or ISDs for pieces of the three major support services. The shared service can be as small in scope as a single business manager or transportation supervisor dividing their time between two districts or as large as the complete provision of food service in one district by another. The survey found that complete sharing of food, custodial or transportation services between districts is fairly rare, but single positions (such as food service managers) are more commonly shared. Services which only affect a relatively small number of students, such as special and adult education, are frequently shared via ISDs.

More than 100 of Michigan's school districts share at least some portion of their food services. In the majority of these arrangements, a single food service director divides their time between two or three districts.

Reading Community School shares a food manager with Jonesville Community Schools, while contracting for their cafeteria staff with PESG. Similarly, Lamphere Schools shares a food service director with Madison District Public Schools.

Saginaw Township Community Schools runs an efficient food program and has entered into contracts to share this food service with nearby schools. Swan Valley School District and two local parochial schools contract for food service with Saginaw Township, rather than providing their own food service. Both districts involved report satisfaction with the agreement, which has lasted multiple years.

Bronson, Coldwater and Quincy Community Schools, all located within Branch County, have formed a consortium to share special education transportation services.

Districts That Brought Services Back In-House

A half dozen districts brought services back in-house within the past year.

Of those, three of the contracts were for food services, two for custodial services, and one for transportation services.

Coleman Community Schools, Gobles Public Schools and Martin Public Schools reported financial savings obtained through insourcing. The combined savings for these three districts is estimated at \$70,000 per year.

Coleman Community Schools previously contracted for its food service manager with Chartwells, but found savings by instead entering into a service-sharing arrangement with Bullock Creek School District. The new arrangement is expected to save Coleman \$15,000 annually.

Gobles Public Schools similarly entered into a service-sharing arrangement with Bloomingdale Public Schools for its food service, which had previously been outsourced to Chartwells. The district said that it considered Chartwells' service adequate, but they expect to save \$25,000 a year through the consolidation.

Reading Community Schools contracts for support employees in multiple areas through the employee-leasing agency PCMI. The district previously had one custodian contracted this way, but the employee retired. Although the support service contract and option to hire more workers remains in place, this is recorded as insourcing because no private employees are now providing custodial services to the district.

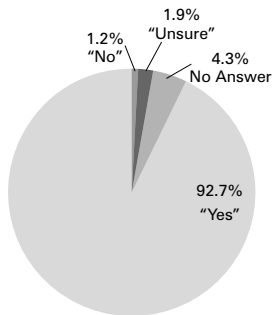
Whittemore-Prescott's transportation manager, previously an employee at METS, had retired from his private-sector job, but the district wanted to keep his services for one more year. The district ultimately hired the manager directly, enabling him to work the additional year at no financial difference to the district.

Satisfaction With Contracting

Satisfaction was determined on a contract-specific (not district-specific) base for this year's survey. There are a total of 422 food, custodial and transportation services contracted out this year.

- “Yes” on 391 contracts (92.7 percent).
- “No” on five contracts (1.2 percent).
- “Unsure” on eight contracts (1.9 percent).
- Districts declined to answer regarding 18 contracts (4.3 percent).

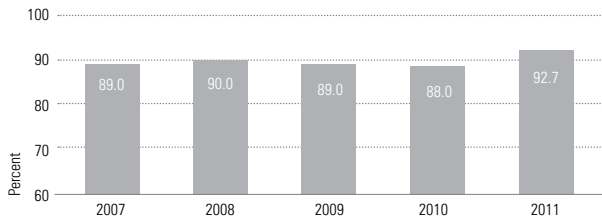
Graphic 9: Satisfaction From Outsourcing



Note: Total exceeds 100 percent due to rounding.

Many of the “unsure” and “no answer” responses came from districts new to contracting, where the limited time spent with a contractor does not allow for a proper evaluation of services. This year continues a long-term trend of general satisfaction with competitive contracting:

Graphic 10: 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

These findings update surveys from earlier years based on information gathered in 2011.

Oneida Township School District #3 began contracting over a year ago with a local individual for custodial services.

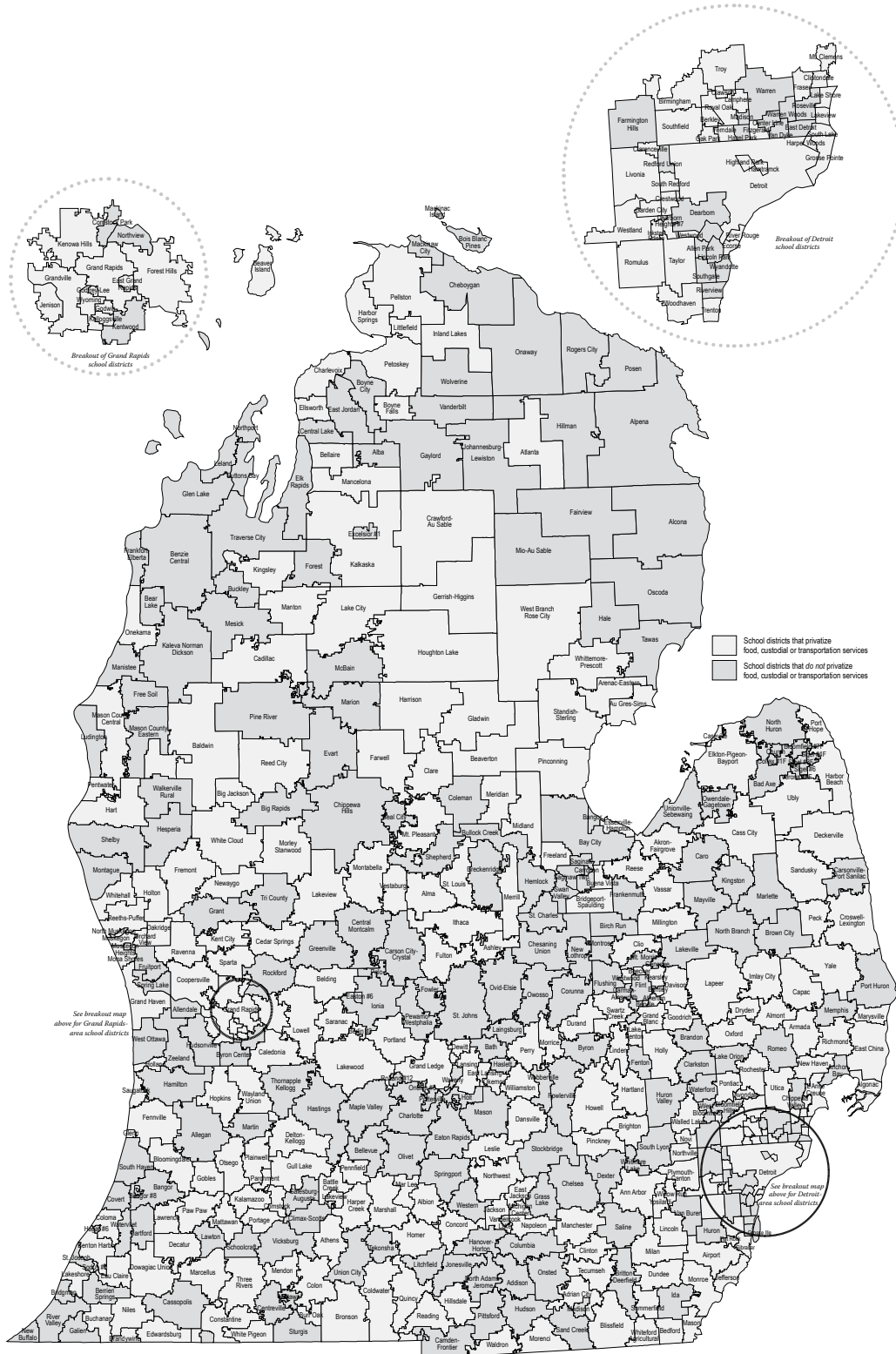
Muskegon Heights Public Schools uses the employee-leasing agency Good Marks for Schools, but only hires administrators through that agency, not its custodial director, as we reported last year. The building services administrator, who oversees custodial, maintenance and similar services, is contracted through Good Marks, but custodial supervisors are in-house.

Grand Rapids Public Schools has contracted with West Michigan Janitorial for some part-time custodial services since 2005. These custodians work alongside in-house staff; hence this is a (partial) privatization of custodial labor in the district.

Houghton Lake Community Schools and Romeo Community Schools both leased their transportation directors from private firms starting in the 2009-2010 school year. The two districts used PESG and PCMI, respectively, to fill the position.

Appendix B: Map of Survey Findings by School District

Upper Peninsula on Page 14




ADDITIONAL RESEARCH

Reports and Studies

Michigan School Privatization Survey 2010

\$10.00  [S2010-06](#)  www.mackinac.org/S2010-06

Michigan School Privatization Survey 2009

\$10.00  [S2009-10](#)  www.mackinac.org/S2009-10

Michigan School Privatization Survey 2008

\$10.00  [S2008-13](#)  www.mackinac.org/S2008-13

A Teacher Quality Primer

\$10.00  [S2008-05](#)  www.mackinac.org/S2008-05

Survey 2007: More Growth in School Support Service Privatization

\$10.00  [S2007-10](#)  www.mackinac.org/S2007-10

A School Privatization Primer


\$10.00  [S2007-07](#)  www.mackinac.org/S2007-07

Other Analysis

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.

 www.MichiganVotes.org.

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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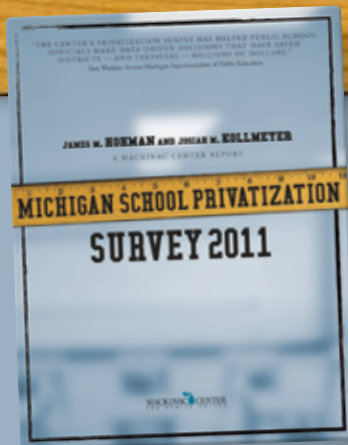
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Praise from Tom Watkins

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- *Michigan superintendent of public instruction, 2001-2005*

“Change is avoided, until it can be avoided no longer. We have been approaching that day for some time in Michigan and our schools. The Mackinac Center has been consistent in its philosophy of less government and maximizing our public resources for the public good.

“The Center’s privatization survey has helped public school officials make data-driven decisions that have saved districts — and taxpayers — millions of dollars. Research by Center scholars has helped advance privatization from a seldom-used practice to an effective tool that has now been accepted by over half of Michigan’s school districts. Their work has helped redirect limited educational resources to the classroom. This is a benefit to our children and our collective future. This is good news for our kids and the taxpayers!”

About the Authors



James M. Hohman is assistant director of fiscal policy at the Mackinac Center for Public Policy. He holds a degree in economics from Northwood University in Midland, Mich.



Josiah M. Kollmeyer was a 2011 research intern at the Mackinac Center.



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140 West Main Street P.O. Box 568 Midland, Michigan 48640

989-631-0900 Fax 989-631-0964 www.mackinac.org mcpp@mackinac.org