

JAMES M. HOHMAN AND ZACHARY D. WOODMAN

A MACKINAC CENTER REPORT



MICHIGAN SCHOOL PRIVATIZATION

SURVEY 2014



The Mackinac Center for Public Policy is a nonpartisan research and educational institute dedicated to improving the quality of life for all Michigan citizens by promoting sound solutions to state and local policy questions. The Mackinac Center assists policymakers, scholars, businesspeople, the media and the public by providing objective analysis of Michigan issues. The goal of all Center reports, commentaries and educational programs is to equip Michigan citizens and other decision makers to better evaluate policy options. The Mackinac Center for Public Policy is broadening the debate on issues that have for many years been dominated by the belief that government intervention should be the standard solution. Center publications and programs, in contrast, offer an integrated and comprehensive approach that considers:

All Institutions. The Center examines the important role of voluntary associations, communities, businesses and families, as well as government.

All People. Mackinac Center research recognizes the diversity of Michigan citizens and treats them as individuals with unique backgrounds, circumstances and goals.

All Disciplines. Center research incorporates the best understanding of economics, science, law, psychology, history and morality, moving beyond mechanical cost-benefit analysis.

All Times. Center research evaluates long-term consequences, not simply short-term impact.

Committed to its independence, the Mackinac Center for Public Policy neither seeks nor accepts any government funding. The Center enjoys the support of foundations, individuals and businesses that share a concern for Michigan's future and recognize the important role of sound ideas. The Center is a nonprofit, tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. For more information on programs and publications of the Mackinac Center for Public Policy, please contact:

Mackinac Center for Public Policy 140 West Main Street P.O. Box 568 Midland, Michigan 48640
989-631-0900 Fax: 989-631-0964 Mackinac.org mcpp@mackinac.org

The Mackinac Center for Public Policy

Michigan School Privatization Survey 2014

By James Hohman and Zachary Woodman

©2014 by the Mackinac Center for Public Policy
Midland, Michigan



Guarantee of Quality Scholarship

The Mackinac Center for Public Policy is committed to delivering the highest quality and most reliable research on Michigan issues. The Center guarantees that all original factual data are true and correct and that information attributed to other sources is accurately represented.

The Center encourages rigorous critique of its research. If the accuracy of any material fact or reference to an independent source is questioned and brought to the Center's attention with supporting evidence, the Center will respond in writing. If an error exists, it will be noted in a correction that will accompany all subsequent distribution of the publication. This constitutes the complete and final remedy under this guarantee.

Contents

Introduction	1
Method	2
2014 Survey Results	2
Food Service	3
Custodial Services.....	4
Transportation	6
Insourcing.....	7
Satisfaction	8
Appendix A: Revisions to Previous Publications	9
Appendix B: Map of Survey Findings by School District.....	10

Introduction

In 2003, when it came to contracting out for common public school services, only outsourcing food provision could be considered a rather common occurrence in Michigan. And there was good reason for this: school districts are prohibited from making a profit from their cafeteria, but any deficits created in providing food for students must be covered by general school funds. When deficits occurred, school officials often looked for outside help from food service management companies.

Contracting out for the two other most common noninstructional school services — custodial and transportation services — was rare in 2003. Only one out of 15 districts contracted out for custodial services and even fewer for transportation — one out of 26.

Since 2003, however, there has been an explosion of privatization in these areas. This year, 47.5 percent of districts contract out for custodial services and 24 percent contract out for transportation services.

Districts have largely been propelled to contract out for these services based on a desire to save money. The more efficiently districts can provide these noninstructional services, the more resources they can devote to their core function — providing educational opportunities to students.

In addition to this rationale, spending pressures, created in large part by rising employee health insurance and retirement costs, compelled districts to find ways to stretch dollars further. All school district employees are mandatory participants in the state-run Michigan Public School Employees' Retirement System. Contribution rates for this program increased from 12.16 percent of payroll in 2001 to 34.54 percent of payroll in 2014.* Most private sector employers offer retirement benefits that cost between five to seven percent of payroll on average.

These ever-increasing costs help explain why many districts have begun using employee leasing agencies, which allow employees to be paid at the same rates while districts escape the MPSERS payments. Interestingly, this may be a win-win, as employees get to vest their retirement benefits much earlier than under the MPSERS plan. According to Bellweather Education Partners, less than half of all school employees vest in MPSERS's pension benefits.†

This survey finds that in 2014 more school districts contracted out for food, custodial and transportation services than ever before. However, the rate of annual increase in the number of districts that contract out was less than in previous years. Contracting increased from 66.2 percent of districts in 2013 to 66.6 percent of districts in 2014. The average rate of increase over the last five years was 4.3 percentage points.

There may be many factors contributing to this slowed rate of growth in school privatization. It could be that school support service privatization has topped out. In other words, there may

* This rate includes the "state stabilization" share of contributions for basic/MIP members with premium subsidies. According to the 2013 actuarial valuation, basic/MIP members comprise 87 percent of active members in MPSERS.

† Chad Aldeman and Andrew J. Rotherham, "Friends Without Benefits: How States Systematically Shortchange Teachers' Retirement and Threaten Their Retirement Security," 2014, <http://goo.gl/l6mJfN> (accessed Oct. 20, 2014).

come a time when all the districts that could contract out for quality services while simultaneously saving money have. However, while the percentage of districts grew only slightly from 2013 to 2014, the number of districts in each of the categories surveyed — custodial, food or transportation — that privatized increased at higher rates than the overall number of districts that contract out support services.

Method

The results of this survey are based on information provided directly by school district officials from May 13 to Sept. 15, 2014. Officials were contacted in all 545 school districts and asked if they contracted out food, custodial or transportation services. Responses were provided over the telephone, via fax and through email. Occasionally, officials asked that we make a Freedom of Information Act request. Typically, school business managers or superintendents responded to the survey questions.

Districts that began contracting for a new service or stopped contracting for a service (brought the service back in-house) were compared to the previous year in order to verify the change.

Contracting out any routine portion of a noninstructional service to a private sector entity is considered privatization for the purposes of this survey. This does not include all of the different types of contracting that districts engage in, however. Contracting with a county Dial-a-Ride, for instance, would not be included. It would also not count as privatization if a district contracted with another district to provide a service (as some do), unless that district itself used a private contractor. Only districts that are serviced by private companies count as having contracted out.

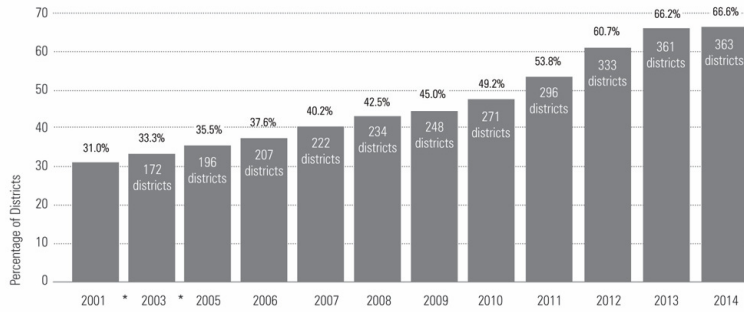
Employee leasing agencies are included as privatization, as would contracting out for only one bus route. Contracting out for some special education services, however, would not be included.

This survey was performed in 2001, 2003, and annually since 2005. Since 2005, we have received responses from every school district.

2014 Survey Results

- 363 of 545 school districts (66.6 percent) contract out for food, custodial or transportation services.
- 182 districts contract out at least two of these services, up from 160 in 2013. Districts began 55 new private contracts in 2014.
- Districts terminated 17 private contracts and brought services back in-house.

Graphic 1: Outsourcing in Michigan School Districts

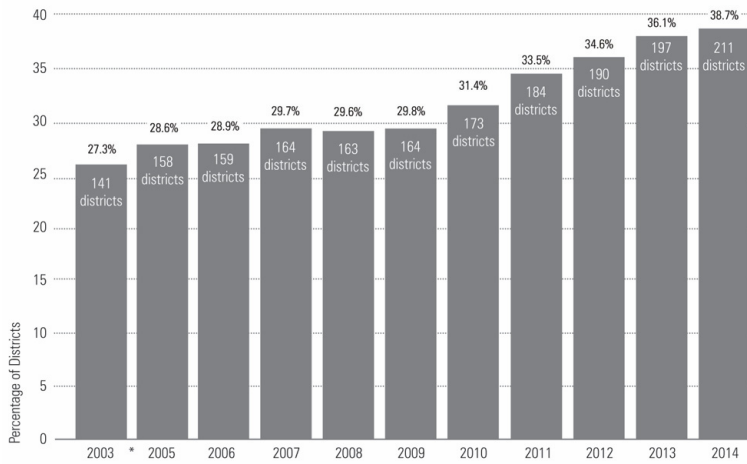


As Graphic 1 shows, contracting out increased from 31.0 percent of school districts in 2001 to 66.6 percent of school districts in 2014.

Food Service

- 211 districts (38.7 percent) contract out food services in 2014.
- 16 districts began new food service contracts in 2014.

Graphic 2: Food Service Contracting



Graphic 3: Districts With New Food Services Contracts

Flint Community Schools	Camden-Frontier Schools
Novi Community Schools	Alanson Public Schools
West Bloomfield School District	Bridgman Public School District
Richmond Community Schools	Benzie County Central Schools
Schoolcraft Community Schools	Negaunee Public Schools
Ishpeming School District No.1	Bloomingdale Public Schools
Pickford Public Schools	Hart Public Schools
Lincoln Park Public Schools	Gladwin Community Schools

After showing only slight increases in the past few years, more districts turned to food service management companies to operate school cafeterias than in any other year this survey has been conducted.

School officials mentioned that new federal regulations of school food selections might be reducing student participation. If students are not purchasing meals, it may strain a district's projected food revenue, potentially creating a deficit. Districts may have responded by turning to private management firms to handle the food provision services to avoid taking this risk.

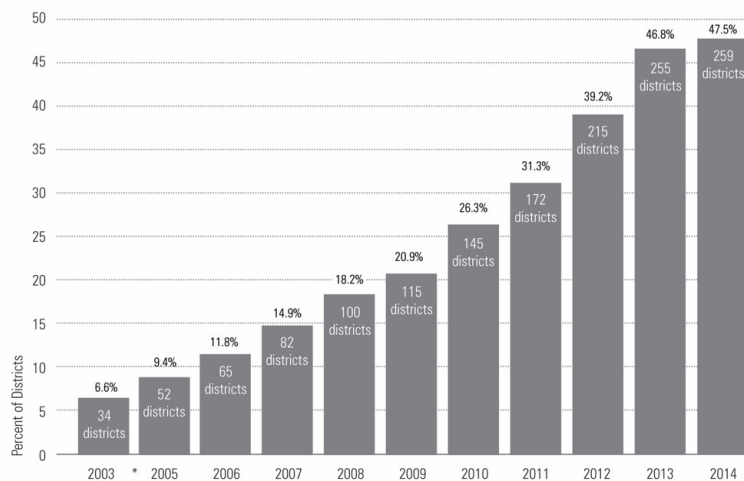
For example, Flint Community Schools began a new contract with SodexoMagic for food services. MLive reports that the contract is expected to save the district \$5 million.[‡]

Employee leasing agencies are being used in Bloomingdale, Bridgman, Lincoln Park, Pickford, Richmond and Schoolcraft to employ food service workers.

Custodial Services

- 259 districts (47.5 percent) contract out custodial services.
- 15 districts began new custodial service contracts.

Graphic 4: Custodial Service Contracting



[‡] Dominic Adams, "Flint Schools Outsources Food Service to Magic Johnson's Company," *MLive.com*, June 19, 2014, <http://goo.gl/WyuObc> (accessed Oct. 20, 2014).

Graphic 5: Districts With New Custodial Services Contracts

Dundee Community School	Grant Public Schools
Schoolcraft Community Schools	Romulus Community Schools
Ann Arbor Public Schools	Ludington Area School District
Lowell Area Schools	Ionia Township School District 2
Unionville Sebewaing Area Schools	Newaygo Public Schools
Cassopolis Public Schools	Bloomington Public Schools
Plymouth-Canton Community Schools	Au Gres-Sims School District
Hamtramck School District	

Custodial service remains the most frequently contracted service. However, there were remarkably fewer districts that began a new private custodial contract compared to past years. From the 2012 survey to the 2013 survey, 46 new districts contracted out this service. This year, only the 15 districts (listed in Graphic 5) began new custodial service contracts.

The overall increase since 2003 is the largest increase among the services, however. In 2003, just 6.6 percent of school districts contracted out custodial services. The amount of districts privatizing custodial services increased 623 percent from 2003 to 2014.

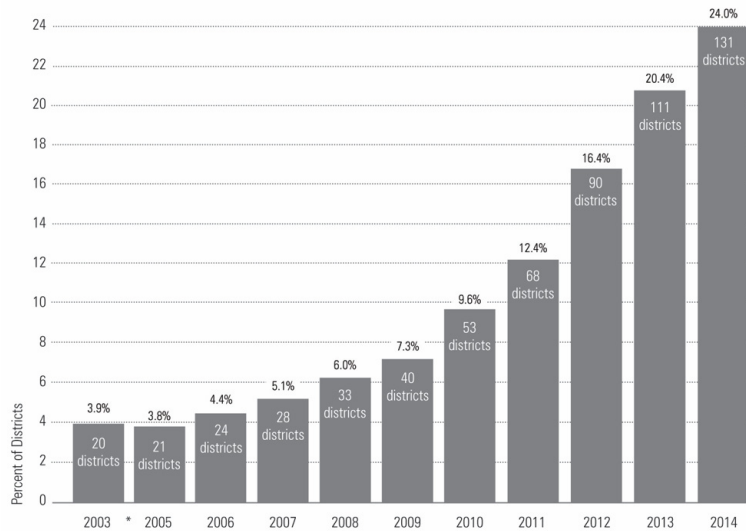
Lowell Area Schools reports that it only contracts out for one of its custodial employees.

Bloomington, Dundee and Unionville-Sebewaing schools use an employee leasing agency to provide this service. Au Gres-Sims School District and Schoolcraft Community Schools contracted out only portions of this service to an employee leasing agency.

Transportation

- 131 districts (24.0 percent) contract out for transportation services.
- 24 districts began new transportation service contracts.

Graphic 6: Transportation Service Contracting



Graphic 7: Districts With New Transportation Services Contracts

Carsonville-Port Sanilac Schools	Grant Public Schools
Jackson Public Schools	Beecher Community School District
Flat Rock Community Schools	Romulus Community Schools
Battle Creek School District	Lawrence Public Schools
Dundee Community School	Grand Blanc Community Schools
East China School District	Ravenna Public Schools
Lansing School District	Reed City Area Public Schools
Cadillac Area Public Schools	Bloomington Public Schools
Caseville Public Schools	Blissfield Community Schools
Camden-Frontier Schools	Grant Township School District #2
Comstock Public Schools	Muskegon Public Schools
Hamtramck School District	Algonac Community Schools

Transportation service contracting continues to expand in Michigan. It’s grown from just 21 districts in 2005 to 131 districts in 2014.

The 24 percent of districts that contract out is actually slightly higher than it would appear. This is because there are a handful of districts that do not provide regular school bus services. Largely, these districts are island school districts like Mackinac Island, Bois Blanc Pines and Beaver Island and a number of the remaining one-room school house districts.

Grant Township School District #2 is a small district on the Keweenaw Peninsula that does not provide its own transportation. However, the Calumet-Laurium-Keweenaw District provides transportation for them and that district contracts out its transportation services.

Some of the growth is due to the use of employee-leasing agencies. Bloomingdale, Camden-Frontier, Carsonville-Port Sanilac, Caseville, Dundee, Flat Rock, Beecher and Lawrence began using employee leasing agencies for some portion of their transportation services.

Insourcing

Fifteen school districts ended their contracts with private service providers and chose to directly supply food, custodial or transportation services once again. The same number of districts did this in 2013.

Graphic 8: Districts That Brought Services Back In-house

District	Noninstructional Service
Armada Area Schools	Food
Mattawan Consolidated School	Custodial, Transportation
Mendon Community Schools	Custodial
Lapeer Community Schools	Custodial
Michigan Center Schools	Custodial, Transportation
Shelby Public Schools	Custodial
Waldron Area Schools	Custodial
Clintondale Community Schools	Transportation
Stockbridge Community Schools	Food
Bellevue Community Schools	Custodial
Romeo Community Schools	Transportation
Springport Public Schools	Custodial
Algonac Community Schools	Custodial
Petoskey Public Schools	Custodial
Port Hope Community Schools	Custodial

Algonac, Bellevue, Waldron, Petoskey, Mattawan, Mendon, Michigan Center, Port Hope and Stockbridge had been using employee leasing agencies for some support service employees and no longer do so.

Romeo schools had been contracting out for a transportation dispatcher and no longer does. The buildings that Shelby Public Schools used to have cleaned by a private individual have since been closed.

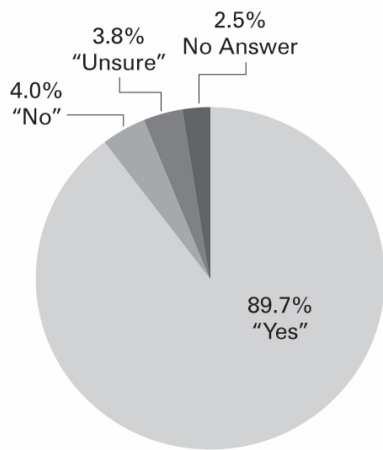
Springport Public Schools reports that they are now using part-time employees to clean the district, making the savings from a former private contractor negligible. Clintondale Community Schools no longer uses a transportation vender. However, it consolidated its bus services with Warren Consolidated Schools to provide the service.

Satisfaction

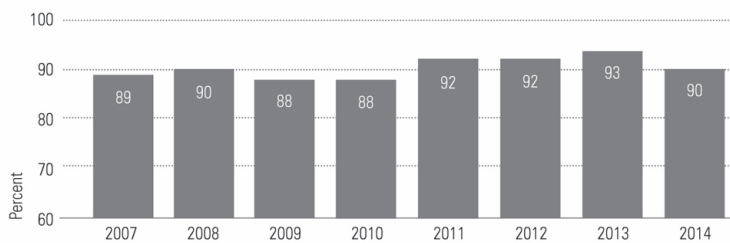
Districts reported satisfaction with their private service providers. Of the 601 contracts for food, custodial and transportation services, districts reported satisfaction with 539 contracts (89.7 percent). Dissatisfaction was reported for 25 of the contracts (4 percent). Districts were unsure about 22 of the contracts, mainly due to the service being recently contracted. Districts did not answer regarding their level of satisfaction with 15 contracts.

There is a long history of heavily positive satisfaction reports. This is unsurprising since most districts are able to end contracts if they are displeased with their service providers.

Graphic 9: Reported Satisfaction With Outsourcing



Graphic 10: Satisfaction with Privatization Over Time

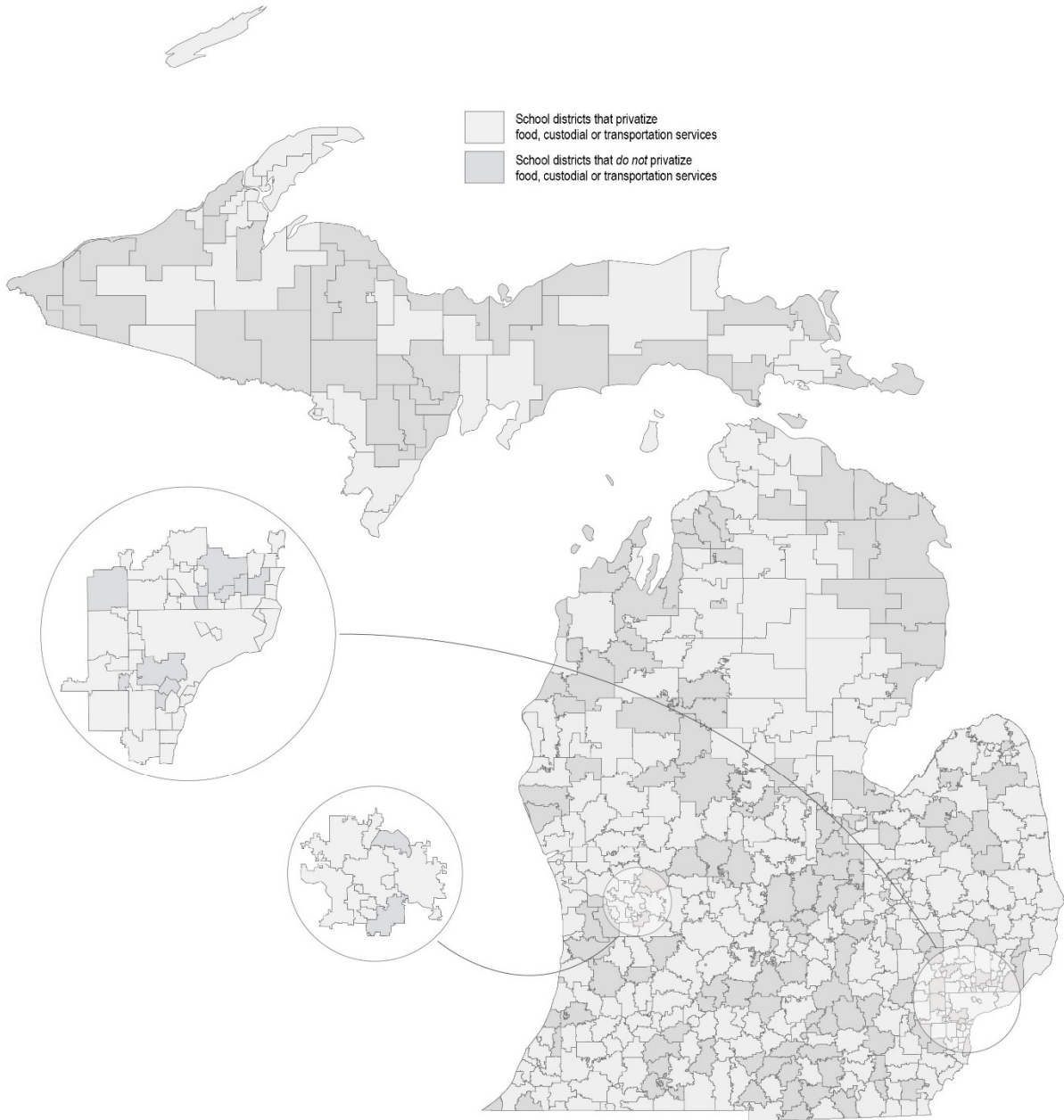


Appendix A: Revisions to Previous Publications

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

- Huron County contains a number of smaller school districts. These districts began using a private individual to clean their districts in 2013. This affected Church School District, Colfax Township School No. 1F, Sigel Township School District No. 3, Sigel Township No. 4, Sigel Township No. 6 and Verona Mills School District No. 1F.
- Buckley Community Schools is part of a consortium that uses a contractor to provide transportation. The district remarked, however, that it provides only special education transportation through this consortium.
- Capac Community Schools remarked that its employee leasing agency had been providing some custodial services prior to last year's survey.
- Charlevoix Public Schools remarked that it had used a private contractor for transportation prior to last year's survey.
- In the previous survey, Ellsworth Community Schools stated that it contracted out transportation services. This year it clarified that it was contracting out for substitute employees.
- Frankenmuth clarified that its transportation contractor is only providing maintenance services.
- Frankfort-Elberta contracts with its local intermediate school district to provide transportation services, and the ISD uses a private contractor to provide these services. However, the district only receives special education transportation through its ISD.
- Genesee School District had been using an employee leasing agency to provide one of its transportation employees prior to the 2013 survey.
- Highland Park Schools contracted with the Detroit Public Schools instead of its charter management company to provide food services in 2013.
- North Huron Schools used a transportation contractor prior to last year's survey.
- Pine River Area Schools remarked that it had contracted out custodial services in the previous survey. This year they stated that it had not.
- Monroe Public Schools clarified that it only used its contractor for bus maintenance.
- Montrose Public Schools clarified that it was using an employee leasing agency for only new custodial employees.
- South Haven outsourced custodial services through an employee leasing agency prior to our 2013 survey.

Appendix B: Map of Survey Findings by School District



BOARD OF DIRECTORS

Hon. Clifford W. Taylor, Chairman

*Retired Chief Justice,
Michigan Supreme Court*

Joseph G. Lehman, President

Mackinac Center for Public Policy

Joseph J. Fitzsimmons

*Retired President,
University Microfilms*

Dulce M. Fuller

Owner, Woodward and Maple

Richard G. Haworth

*Chairman Emeritus,
Haworth, Inc.*

Kent B. Herrick

President and CEO, Thermogy

J.C. Huizenga

President, Westwater Group

Phil F. Jenkins

Chairman, Sweepster Inc.

R. Douglas Kinnan

*Senior Vice President and CFO,
Amerisure Insurance*

Edward C. Levy Jr.

President, Edw. C. Levy Co.

Rodney M. Lockwood Jr.

*President, Lockwood
Construction Company, Inc.*

Joseph P. Maguire

*President, Wolverine
Development Corporation*

Richard D. McLellan

Attorney, McLellan Law Offices

D. Joseph Olson

*Retired Senior Vice President
and General Counsel,
Amerisure Companies*

BOARD OF SCHOLARS

Dr. Donald Alexander

Western Michigan University

Dr. William Allen

Michigan State University

Dr. Thomas Bertonneau

SUNY - Oswego

Dr. Brad Birzer

Hillsdale College

Dr. Peter Boettke

George Mason University

Dr. Theodore Bolema

Mercatus Center

Dr. Michael Clark

Hillsdale College

Dr. Stephen Colarelli

Central Michigan University

Andrew Coulson

Cato Institute

Robert Crowner

Eastern Michigan University (ret.)

Dr. Richard Cutler

University of Michigan (ret.)

Dr. Chris Douglas

University of Michigan - Flint

Dr. Jefferson Edgens

East Georgia College - Statesboro

Dr. Ross Emmett

Michigan State University

Dr. David Felbeck

University of Michigan (ret.)

Dr. Burton Folsom

Hillsdale College

John Grether

Northwood University

Dr. Michael Heberling

Baker College

Dr. Michael Hicks

Ball State University

Dr. Ormand Hook

Mecosta-Osceola ISD

Robert Hunter

Mackinac Center for Public Policy

Prof. Harry Hutchison

George Mason University School of Law

Dr. David Janda

Institute for Preventative Sports Medicine

Annette Kirk

Russell Kirk Center

David Littmann

Mackinac Center for Public Policy

Dr. Dale Matcheck

Northwood University

Charles Meiser

Lake Superior State University (ret.)

Glenn Moots

Northwood University

Dr. George Nastas III

Marketing Consultants

Dr. Todd Nesbit

College of Charleston

Dr. John Pafford

Northwood University

Dr. Mark Perry

University of Michigan - Flint

Lawrence W. Reed

*Foundation for
Economic Education*

Gregory Rehmke

*Economic Thinking/
E Pluribus Unum Films*

Dr. Steve Safranek

Private Sector General Counsel

Dr. Howard Schwartz

Oakland University

Dr. Martha Seger

Federal Reserve Board (ret.)

James Sheehan

Deutsche Bank Securities

Rev. Robert Sirico

Acton Institute

Dr. Bradley Smith

Capital University Law School

Dr. John Taylor

Wayne State University

Dr. Richard K. Vedder

Ohio University

Prof. Harry Veyser Jr.

University of Detroit Mercy

John Walter Jr.

Dow Corning Corporation (ret.)

Dr. William T. Wilson

The Heritage Foundation

Mike Winther

Institute for Principle Studies

Dr. Gary Wolfram

Hillsdale College

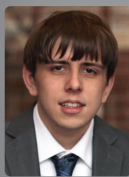


About the Authors



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.



Zachary D. Woodman

is an economics student at Hillsdale College.



© 2014 by the Mackinac Center for Public Policy, Midland, Michigan

ISBN: 978-1-890624-37-8 S2014-05

140 West Main Street PO. Box 568 Midland, Michigan 48640

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