



Privatization Remains a Popular Practice with School Districts

By James M. Hohman and Janelle Cammenga

Summary

School districts continue to contract out with private vendors for food service, transportation, and custodial services. A new survey shows that over 70 percent of Michigan districts contract out for at least one of those services, a practice that stretches funding dollars.

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The publication of the state's adequacy study a few months ago had school districts renewing their call for more money from the state taxpayers. But funding is only one side of the coin, and one that is often outside a district's direct control. Cost is the other side of the school finance coin, and one way that districts can save on costs is to solicit bids to contract out support services. A new survey finds that more districts than ever are doing this.

Privatization in Michigan's public school districts has increased drastically since the Mackinac Center for Public Policy started tracking its progress in 2001. At that time, only 31.0 percent of districts contracted out for at least one of the three main support services: food, custodial and transportation. Today, 70.1 percent of Michigan school districts — 379 districts out of the state's 541 conventional school districts — contract for at least one of these services. This is a slight increase from the 69.7 percent we found in 2015.

The privatization trend has grown within each of the services as well. This year, 42.7 percent of districts outsource their food service, compared to 27.3 percent in 2003. The use of outsourcing for custodial services increased from 6.6 percent of districts in 2003 to 51.2 percent in 2016 while in transportation it grew from 3.9 percent to 25.3 percent.

Fourteen districts started contracting for food and custodial services this year. But a similar number brought services back in-house.

Some districts that brought services back weren't necessarily upset with their vendor. Richmond Community Schools, for example, used leased employees to provide food services and then put them on its direct payroll.

While there has been a trend toward contracting out, the increase is sometimes inconsistent. For example, food service contracting steadily increased to 29.7 percent in 2007 but declined by 0.1 percent in 2008. The increase in contracting out from 2013 to 2014 was likewise very small.

But as long as district officials search for ways to stretch their dollars, they will solicit bids from private vendors to see whether they can beat the district for cost and quality.

There is one factor that plays to the advantage of private companies that offer their services to districts: Their employees are not in the state-mandated retirement system. That system costs districts between

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Private companies are providing needed services.

31 and 36 percent of their payroll. In contrast, retirement costs in the private sector are 5 to 7 percent.

Some people may worry that districts that contract out are simply choosing the cheapest option, whether or not the contractor provides shoddy service. But in the most recent survey, 89.3 percent of districts that contracted out reported they were satisfied with their contractors' services. This high satisfaction rate makes sense because the districts that are unhappy with their vendors can shop around for others. The fact that districts can choose from a number of alternatives gives vendors an incentive to deliver excellent service at a good price. It also means that if district officials are unsatisfied with a vendor, they don't have to stay unsatisfied; they can seek out someone else.

The growing use of contracting is good news for Michigan students and taxpayers alike. It means that more and more schools are using their funds wisely, taking advantage of the opportunities they have. They realize that the private sector is a legitimate option for providing support services. Once they begin contracting, they successfully consider which companies are best for them, as the satisfaction rate shows.

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