

JAMES M. HOHMAN AND JANELLE CAMMENGA

MICHIGAN SCHOOL PRIVATIZATION SURVEY 2017



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Michigan School

Privatization Survey 2017

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Introduction

In 2001, contracting out for school support services by Michigan school districts was a rare practice. Less than one in three districts used private providers for food, custodial or transportation services. Today, 16 years later, the tables have completely turned: it is more unusual to find a district that does not outsource at least one of these support services than to find one that does.

The 2017 survey results contained in this report show that 71.5 percent of Michigan school districts outsource at least one of the three services, a slight increase from last year's 70.6 percent. While food service contracting stayed stable, the number of districts outsourcing custodial and transportation services increased slightly from last year. All have trended upwards in recent years, with custodial services showing the largest increase, growing from 6.6 percent in 2003 to 52.6 percent in 2017.

The survey was first conducted in 2001, then again in 2003 and every year since 2005, making this year's report the 15th edition. It covers all conventional school districts in Michigan, though the 2015 survey also included results from four additional states.

Private companies provide more for school districts than just these three support services. They often provide special education transportation, grounds maintenance, bus repairs and substitute teachers, among other duties.

There are many reasons why a school district may choose to contract out for certain services, but the most common is the price tag. Private companies specialize in the services they provide, meaning they are often more efficient than a school district. A school district's primary purpose is to provide educational services to students, and all other services they provide are secondary.

Not all privatization arrangements are the same. Some districts do not outsource the entirety of their services, but use private employee leasing agencies to supply them with employees. This means the agencies hire workers, oversee them and provide administrative duties, such as payroll. This frees school districts from these overhead costs and the extra expense of funding state-mandated retirement benefits for these workers.

Getting around retirement mandates can save a decent amount of money, considering that employer contribution rates amount to about 37 percent of payroll, though districts receive a supplement from the state to pay for 11.7 percentage points of that contribution.¹ Employer

¹ "FY2016-17 Employer Contribution Rates" (State of Michigan, 2017), <https://perma.cc/65QS-PYW7>.

contributions for private sector retirement contributions, on the other hand, are often just 5 percent to 7 percent of payroll.²

Quality of service is another advantage of contracting. A vast majority of school districts who outsource food, custodial or transportation services report that they are satisfied with their services. This makes sense: if the district is dissatisfied, they can shop around for a new provider.

Effective contracting helps school districts by letting them put more money and attention toward their primary purpose.

Method

Between May 23 and July 12, we contacted Michigan's 540 school districts by phone and followed up by email if necessary. We sent Freedom of Information Act requests only to schools that were difficult to contact or that requested them specifically.

We asked school officials whether or not they outsourced any part of their food, custodial or transportation services. If they did, we requested the name of these contractors in order to track and verify changes between this year's and last year's results. We also asked them about their satisfaction with the service they had received from these companies.

We counted a district as contracting out if they had at least one regular outsourced worker in the area in question, including leased employees. While we did not count special education transportation in the survey, we did include districts that contracted out busing for their sports programs.

2017 Survey Results

In 2017, 386 of Michigan's 540 conventional school districts contracted out for food, custodial or transportation services, which is 71.5 percent of districts. This is an increase from 2016 when 70.6 percent of districts contracted out for at least one of the services and a substantial increase from 2001 when only 31 percent of districts did.

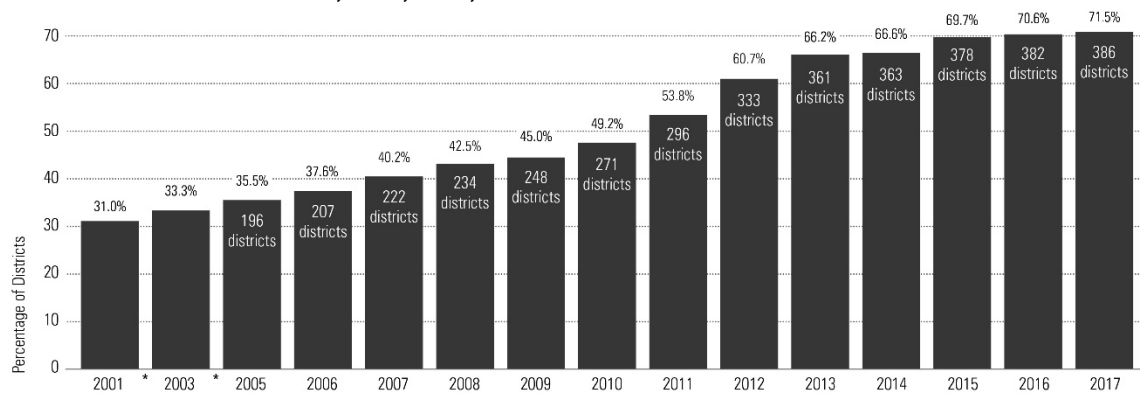
Custodial services are more frequently contracted out than food or transportation services. In 2017, 52.6 percent of districts used private sector vendors to clean and maintain district buildings and property. This is an increase from 51.6 percent in 2016 and up from only 6.6 percent in 2003.

² Richard C. Dreyfuss, "Michigan's Public-Employee Retirement Benefits: Benchmarking and Managing Benefits and Costs" (Mackinac Center for Public Policy, Oct. 25, 2010), <https://perma.cc/JE62-57M9>.

The proportion of districts contracting out food services remained steady in 2017, with 43.3 percent of districts using a private provider to prepare and serve meals to students. Contracting out these services has remained above 40 percent since 2015 and is up from 27.3 percent in 2003.

After a small decline in 2016, more districts are again using private sector contractors to provide transportation services. In 2017, 26.1 percent of districts contracted out regular transportation services with private companies, up from 25.5 percent of districts in 2016. But this is a much smaller increase in the proportion of districts that contract out this service. From 2008 to 2015, transportation contracting increased from 6 percent to 25.6 percent.

Graphic 1: Percentage of School Districts Contracting Out for Noninstructional Services, 2001, 2003, 2005-2017



*Data were not collected in 2002 and 2004.

Food Service

Schools typically operate their food service programs as a business-like service, relying on sales of food to cover their expenses.³ In addition, most districts participate in the National School Lunch Program run by the United States Department of Agriculture, which dictates the nutritional content of meals it sponsors.⁴ The NSLP also provides subsidies to districts on behalf of low-income students so that these students can receive free or reduced-price lunches, in addition to other support.⁵

Districts cannot use any gains generated by their food service programs to supplement their general expenditures.⁶ In other words, administrators can't take money out of the cafeteria to fund

³ "Food Service: Administrative Policy No. 17" (Michigan Department of Education, April 7, 2015), <https://perma.cc/WM8U-STG6>.

⁴ "Nutrition Standards for School Meals" (United States Department of Agriculture, Aug. 8, 2017), <https://perma.cc/8F33-2U5Z>.

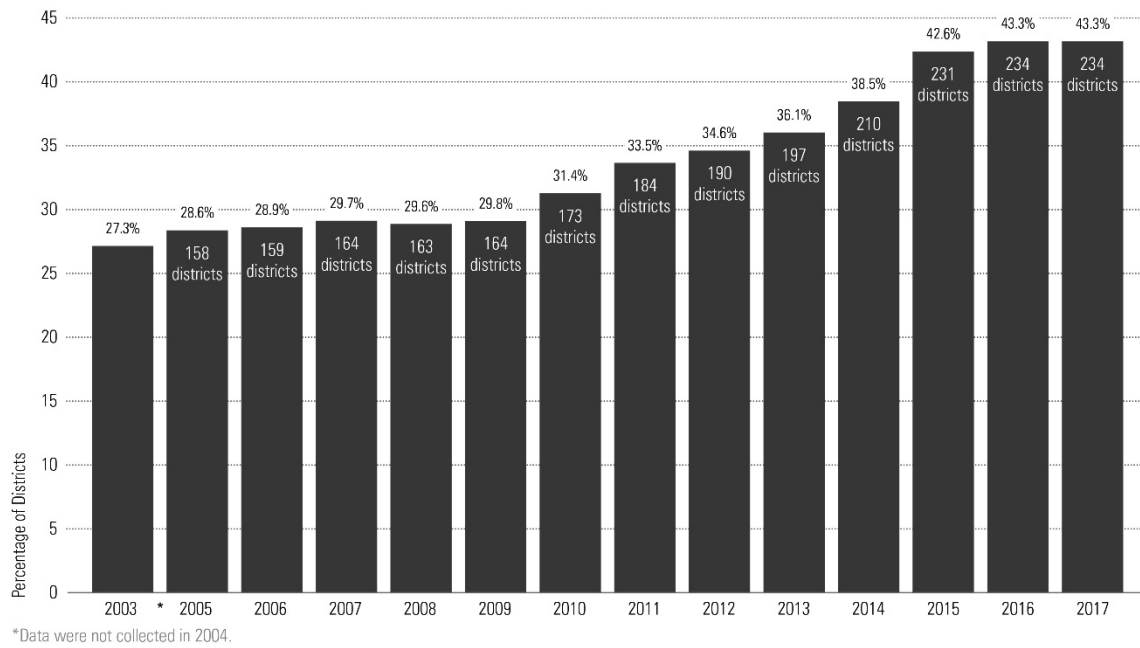
⁵ "Nutrition Standards for School Meals" (United States Department of Agriculture, Aug. 8, 2017), <https://perma.cc/8F33-2U5Z>; "Food Distribution Programs" (Michigan Department of Education, 2017), <https://perma.cc/QQ7P-BT9U>.

⁶ "Food Service: Administrative Policy No. 17" (Michigan Department of Education, April 7, 2015), <https://perma.cc/WM8U-STG6>.

the classroom. Districts that have lost money on their food services have looked to see whether private companies can help them break even.

Food service was the most frequently contracted service in 2003 but has not increased as much as transportation or custodial services. Food contracting remained at 43.3 percent of districts for 2016 and 2017. Two new districts contracted out services, but two districts brought services back in house.

Graphic 2: Food Service Contracting, 2003, 2005-2017



Graphic 3: Districts With New Food Services Contracts

Ewen-Trout Creek School District
Spring Lake Public Schools

Spring Lake Public Schools contracted out their food service after running deficits for a number of years and officials hope to break even now. The Ewen-Trout Creek School District began using their employee-leasing agency to provide a food service worker this year and expects to save \$4,800 from the move.

Cass City Public Schools had leased out for one food worker, but the employee will not be returning in the fall. The outsourced food service director of Homer Community Schools retired and the district sought to hire and employ a director themselves.

Custodial Services

Districts more frequently contract out for custodial services compared to the other two noninstructional services covered in this survey. In 2017, 52.6 percent of districts used private sector vendors to clean and maintain district property. This is an increase from 2016 when 51.6 percent of districts contracted out the service.

Districts did not often contract out for cleaning and maintenance in 2003. The practice grew from occurring in 6.6 percent of districts that year to 46.8 percent in 2013. Since then more districts have contracted out, but the rate of growth has slowed. In 2017, 14 districts outsourced their custodial workers and nine brought those services back in house.

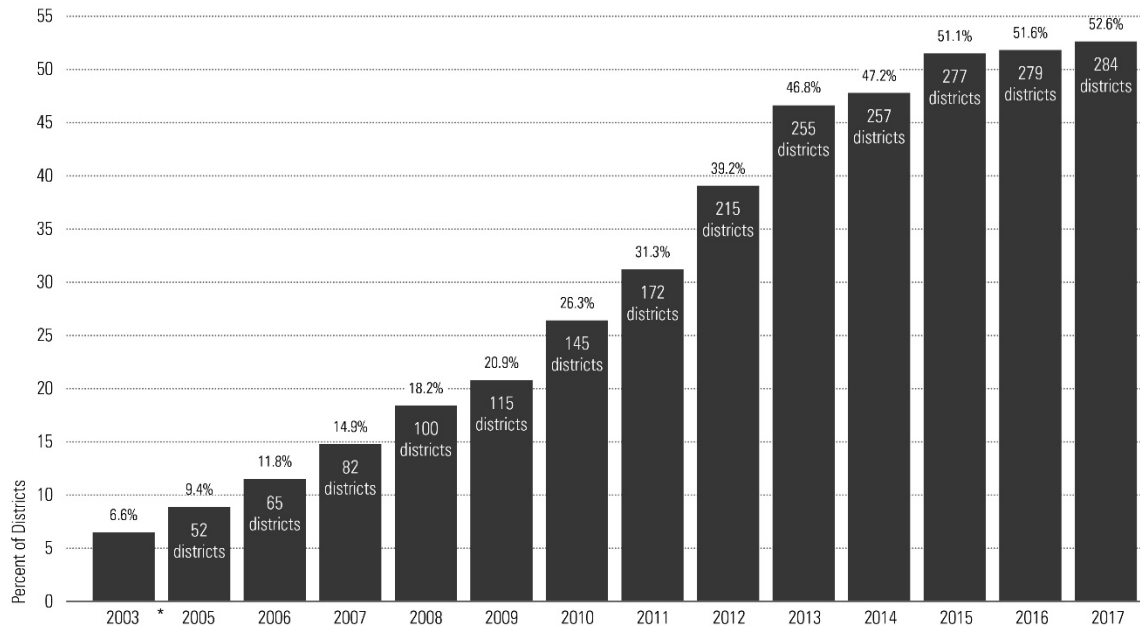
Many districts with new custodial outsourcing report savings. Northwest Community Schools reports that it stands to save over \$650,000 through its new custodial and transportation contracts. Sault Ste. Marie Area Schools expects to save \$400,000 through their contract. Beecher Community Schools is also outsourcing both custodial and transportation services, and they estimate they are saving over \$315,000. Constantine Public Schools reports savings of \$200,000 for their new three-year custodial contract. The districts of Michigan Center Schools and Allegan Public Schools will save \$94,400 and \$25,000, respectively. Some of the other districts reportedly outsourced in the hopes that it would improve the quality of service.

Several districts who brought custodial services back in house — Whitefish Township Schools, Tecumseh Public Schools, Wyoming Public Schools and Ypsilanti Community Schools — believed they could provide higher quality services with an in-house staff. Atlanta Community Schools insourced custodial services because they felt they could do it more efficiently themselves. Eau Claire Public Schools tried two different companies, but decided to bring services in house again. Berlin Township School District 3, a two-room schoolhouse, decided to let their paraprofessionals take over custodial duties. Marysville Public Schools outsourced only their custodial director, but since he is retiring, the district decided to replace him with a district worker instead of hiring a new one through a leasing agency.

District officials also reported that it was getting more difficult for both in-house providers and for contractors to draw from a consistent, quality workforce. This could be due to a tightening labor force. The state unemployment rate has declined from 14.9 percent in 2009 to 3.7 percent, and there may be more competition for these kind of jobs and more difficulty in retaining quality workers.⁷

⁷ Based on data from the Bureau of Labor Statistics, <http://www.bls.gov/lau>.

Graphic 4: Custodial Service Contracting, 2003, 2005-2017



*Data were not collected in 2004.

Graphic 5: Districts With New Custodial Services Contracts

Allegan Public Schools	Corunna Public Schools
Battle Creek School District	Lansing School District
Beecher Community Schools	Mayville Community Schools
Benton Harbor Area Schools	Michigan Center Schools
Bois Blanc Pines School District	Northwest Community Schools
Carman-Ainsworth Community Schools	Sault Ste. Marie Area Schools
Constantine Public Schools	Wells Township School District

Transportation

Districts are not required by law to provide transportation, but most do. Of the 540 districts in the state, 518 bus students to and from school. And more districts are contracting out with private vendors to do it.

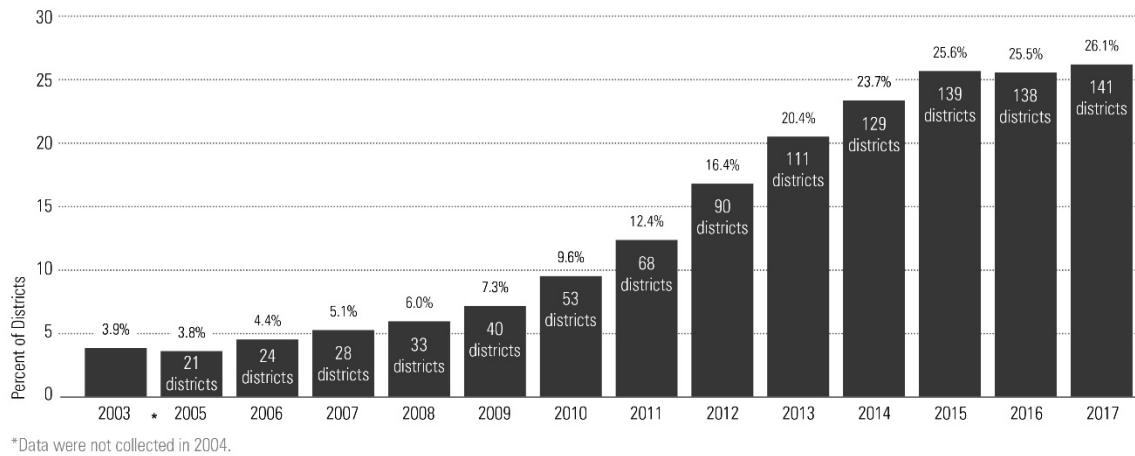
This year, 26.1 percent of school districts contracted out transportation services, up from 25.5 percent the year before. In 2003, only one in every 26 districts used private vendors to transport students and now over one in four do it. This year, seven districts started transportation contracts and four insourced the service.

Out of the seven districts who began outsourcing their transportation services, five reported saving money through the contracts. Cedar Springs is reportedly saving between \$350,000 and

\$400,000 for the first year of their contract. Kent City Community Schools reports that the combination of their regular and special education contracts will save the district \$150,000 a year. Marion Public Schools reports that they will save \$34,000.

Carney-Nadeau Public School had two contracted bus drivers last year, but one retired and the other left for a different job and the district does not plan to replace these employees with contract labor. Lake Linden-Hubbell Public Schools insourced their bus drivers because the leasing agency they were using no longer insured the bus drivers they were supplying the district. Whitefish Township Schools brought their bus drivers back in house in the hopes that their employees would “put more pride in their work.” The company that provided Vanderbilt Area Schools with a transportation worker closed, and the district did not hire a contracted worker as a replacement.

Graphic 6: Transportation Service Contracting, 2003, 2005-2017



Graphic 7: Districts With New Transportation Services Contracts

Beecher Community Schools
Cedar Springs Public Schools
Clarenceville School District
Frontier Schools
Kent City Community Schools
Marion Public Schools
Northwest Community Schools

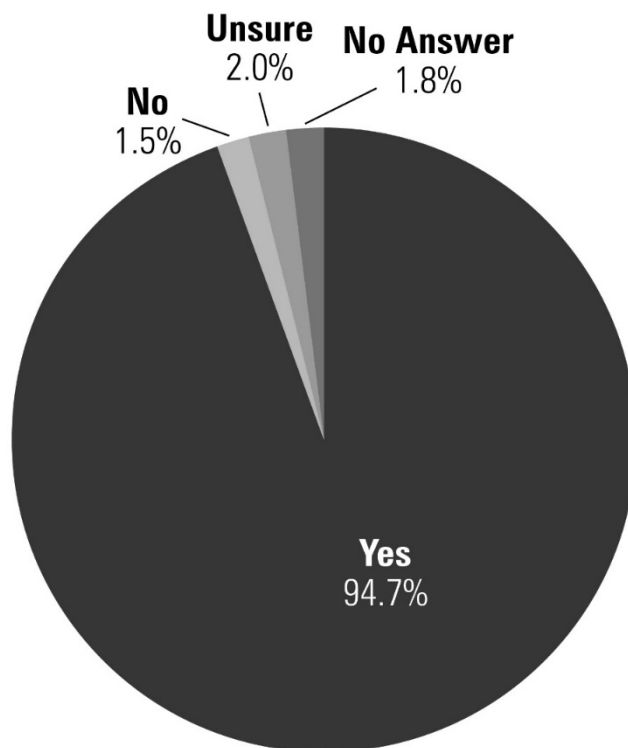
Satisfaction

Contracting out is especially valuable when districts are able to provide better services at lower costs. This is why the survey asks about the district's satisfaction with their service providers.

The results show that districts are happy with the services provided by private companies. Districts report satisfaction with 94.7 percent of these contracts. In 2 percent of cases, districts said they were unsure of their satisfaction, largely because these contracts were very new. School officials reported being dissatisfied with only 1.5 percent of contracts. Districts provided no response for 1.8 percent of contracts.

Even with the large levels of satisfaction, some school officials noted that there were newer challenges retaining quality custodial staff.

Graphic 9: Reported Satisfaction With Outsourcing



This may seem like a remarkable record of satisfactory performance, but there may be a simple explanation for it. Districts tend to let the contracts that they are dissatisfied with expire, so it may not be surprising to see a lot of districts reporting that they are satisfied with the contracts they have agreed to.

Appendix A: Revisions to Previous Publications

Some school districts answered survey questions in ways that made it necessary to recategorize their responses from 2016. These districts and the accompanying revisions are listed below:

- ◆ Beaver Island Community Schools clarified that their custodial worker was employed through the district and not through an employee leasing agency.
- ◆ Chelsea School District outsourced their food service starting in January of 2016.
- ◆ Detour Area Schools clarified that they outsourced one regular custodial worker last year.
- ◆ Fenton Area Public Schools contracted out a few regular custodial workers in addition to substitutes last year.
- ◆ Hale Area Schools outsourced a few regular bus drivers and a few regular food workers last year.
- ◆ Hancock Public Schools reported bringing their custodial worker back in house last year, but the employee was still contracting with them.
- ◆ Houghton-Portage Township Schools clarified that they had a few regular contracted food service workers in addition to substitutes.

Appendix B: Map of Survey Findings by School District



ADDITIONAL RESEARCH

Reports and Studies

Michigan School Privatization Survey 2016

\$10.00 ↗ mackinac.org/S2016-04

Michigan School Privatization Survey 2015

\$10.00 ↗ mackinac.org/S2015-06

Michigan School Privatization Survey 2014

\$10.00 ↗ mackinac.org/S2014-05

Michigan School Privatization Survey 2013

\$10.00 ↗ mackinac.org/S2014-01

Michigan School Privatization Survey 2012

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\$10.00 ↗ mackinac.org/S2011-06

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Michigan School Privatization Survey 2009

\$10.00 ↗ mackinac.org/S2009-10

Michigan School Privatization Survey 2008

\$10.00 ↗ mackinac.org/S2008-13

Michigan School Privatization Survey 2007

\$10.00 ↗ mackinac.org/S2007-10

Survey 2006: School Outsourcing Continues to Grow

\$10.00 ↗ mackinac.org/8130

Survey 2005: School Outsourcing Grows

\$10.00 ↗ mackinac.org/7395

Privatization Survey Shows Outsourcing is a Popular Management Tool

\$10.00 ↗ mackinac.org/6913

Survey Says: Privatization Works in Michigan Schools

\$10.00 ↗ mackinac.org/3721

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.

↗ **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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