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## Privatization: one approach to cost containment

According to the Mackinac Center's *Michigan School Privatization Survey 2011*, nearly 54 percent of schools contract out for food, custodial, or transportation services. Why are so many school districts heading in this direction? Because cost containment is a logical answer to a challenge that's been at the forefront of district's agendas over the past few years.

Privatization is a very painful process to undertake as it impacts the livelihood of district staff. Boards of education must grapple with the impact this has on staff that are frequently residents of the district and balance with the potential savings realized by privatizing. Our experience is that the typical savings associated with privatizing custodial services in Michigan is 40 to 50 percent, and the typical savings for privatizing transportation services is 20 to 25 percent, which equates to hundreds of thousands of dollars. As difficult as it is to undertake, it's hard to argue with numbers like these; if you're taking a comprehensive look at cost containment, you can't ignore privatization.

### What is privatization?

Privatization, known as "outsourcing" in the private sector, involves contracting out various school operations and



you can contract out management only, where a contractor assumes management of a district's staff.

The obvious benefit of outsourcing is cost containment. However, it also allows districts to optimize staffing and improve service levels. Other benefits can include an increased level of supervision, better equipment and better training.

### What can be privatized?

In theory, any function, service or product can be privatized. Traditional areas include food services, pupil transportation, custodial services, substitute teachers, facility maintenance services, grounds services and copy centers/print shops.

### How do you decide to privatize?

The key to making the right decision is undertaking a detailed analysis of your current service model and specifically identifying what the district needs. The decision to privatize

non-instructional services. You can either contract out the entire operation, where a contractor uses its own employees, or

must be based on detailed information (on both cost and level of service) before any changes should be made.

Privatization has its critics who cite loss of local jobs, loss of control and quality concerns as reasons to continue to provide these services internally. While these are understandable concerns, districts today find that the financial benefits during these times of financial crisis simply can't be ignored, and many of these concerns are unfounded. Additionally, districts receive incentives to at least consider outsourcing through recent legislation (MCL 388.1622f) in order to qualify for additional funding.

Specific financial savings include the elimination of legacy costs (health care and retirement benefits), lower salary structures, less overtime and staff optimization. It's also worth noting that, according to the Mackinac Survey, almost 93 percent of districts that have outsourced are satisfied with the services received.



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# New law changes how districts pay for employee medical benefits

Beginning Jan. 1, Public Act 152, popularly known as the Publicly Funded Health Insurance Contribution Act, limits the amount Michigan school districts and other public employers can pay toward employee medical benefit plans. The legislation specifies hard cap limits for single, two person and full family medical coverage, while also providing an option for school districts to enter an 80/20 cost sharing arrangement with employees.

The new law applies to medical benefit plans and associated medical insurance costs, including, but not limited to:

- Hospital and physician services.
- Prescription drug coverage.
- Expenditures toward premiums or illustrative rates.
- Employer reimbursement of co-pays and deductibles.
- Payments into health savings accounts, flexible spending accounts and other accounts used for health care expenses.
- Dental, vision, life, long-term disability and other benefits aren't affected by the Act.

Under the law, the hard cap limits on total annual medical insurance contributions are set at:

- Single coverage—\$5,000
- Employee plus spouse coverage—\$11,000
- Family—\$15,000

These limits will be adjusted annually based on the medical care component of the U.S. Consumer Price Index, which has ranged in the last five years from 3.2 to 4.4 percent annually.

The other option available to employers under the law is an 80/20 cost sharing arrangement where employers may pay up to 80 percent of medical benefit costs and employees contribute 20 percent or more of the remaining costs out of



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pocket. Districts opting to go this route must do so through a majority vote of their school board.

Under both arrangements, an employer can allocate contribution limits among employees as it sees fit. This means that contribution limits can be applied in the aggregate and not necessarily on an employee-by-employee basis.

Collective bargaining agreements are subject to the law as well. All agreements, contract extensions or renewals executed on or after Sept. 15, 2011, are required to comply with the law. However, if employees were covered by a collective bargaining agreement prior to that date, the contract is not subject to the law until it expires.

SET SEG strongly recommends that districts consult with legal counsel on how the new legislation impacts their specific situations. There are several areas of the law requiring careful legal interpretation. Districts are also urged to carefully weigh the hard cap option against the variable 80/20 cost sharing arrangement. In general, the hard cap offers districts the advantage of stability because costs are not subject to future insurance premium increases. Districts have flexibility in allocating the contribution limits under both options; however, districts that choose a uniform application of either option will simplify the administration of medical benefit plans.

This message brought to you by **SET SEG School Insurance Specialists**, 800.292.54245, [www.setseg.org](http://www.setseg.org).

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## In conclusion

The key to successful outsourcing is carefully developing a request for proposal (RFP) that outlines the general terms and conditions as well as details the services within and outside the scope of the project. Selecting the right vendor, developing the right contract and establishing an oversight/monitoring process are also critical success factors.

Our cost containment team can help with the RFP development and proposal and vendor evaluation. They can perform detailed analyses of the proposals and associated costs, conduct interviews, compare current costs against the proposed costs and calculate the cost of transition.



This message brought to you by Judy Wright, education consulting partner and Jeff Rahmberg, **Plante & Moran**.

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