

# **A Guide to Contracting Out School Support Services: Good for the School? Good for the Community?**

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**March 2008**



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One of a series of Policy Briefs made possible by funding from the Great Lakes Center for Education Research and Practice.

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### ***Executive Summary***

Contracting out—using private contractors to provide support services—has received increasing attention in the nation’s public schools. In a climate promoting market models and privatization, the increasing popularity of school choice and education management organizations has encouraged countless vendors to attempt privatizing a wide array of public school services. The largest and most visible efforts have targeted food, transportation and custodial services. International and national mega-corporations are increasingly consolidating the food services and transportation industries, in particular.

Virtually all school systems have historically used and continue to use private vendors to some degree. In many cases, contracting out is simply the most efficient, practical and prudent path. Yet, the appealing promises of commercial vendors to provide higher quality services at cheaper prices while relieving administrative headaches are not always realized.

This paper reviews critical considerations for school officials considering contracting out. These include hidden costs, quality control, impact on administrative time, social costs, and loss of control and restricted flexibility.

When deciding whether to contract out, it is recommended that school leaders first:

- Analyze the reasons for considering a private vendor and determine whether underlying administrative and cost issues might be more efficiently and economically resolved internally. Often, a consultant can expedite this review.
- Conduct a careful cost analysis of contractor proposals, including hidden, indirect, and administrative costs to the district. Such an analysis is essential to determine if contracting out is cost-effective.

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- Weigh the social costs of privatization, such as possible economic harm to employees and to the community and potential disruption of school-community relations.
- Determine if there are enough qualified potential bidders to provide the effective competition and substantial cost reduction that the market model promises.

When a decision to contract out has been made, school leaders should:

- Develop requests for proposals (RFPs) using independent resources and advice rather than a vendor's model contract or specification materials.
- Have an outside expert in the service area as well as legal counsel review the RFP and the proposals.
- Assure that sufficient quality control measures are in the contract. For example, effective monitoring, dispute resolution procedures, cost penalties and provisions for contract cancellation must be explicit, clear and free of excessive conditions.
- Check the contractor's performance with other districts and the appropriate state agency. It is important to look beyond the references on the vendor's list.
- Examine the contractor's plans and guarantees regarding the district's existing, new, and future employees. Determine whether a cost reduction will come at the expense of employees and the social well-being of the community.
- In the district's cost analysis, determine what new costs the district may incur as a result of contracting out. For example, will the district have to hire a program monitor, buy supplies, or provide maintenance?
- To avoid unanticipated and unbudgeted bills, check the vendor's cost estimates on staffing, wages, inflation, energy costs and the like for reasonableness. Assure that such costs are appropriately capped. Ascertain if the thresholds for additional billed services are realistic and fairly priced.
- Check cancellation provisions to prevent the district from being held captive to a contractor. Districts should avoid selling assets like kitchen equipment and bus fleets, which would effectively prevent their return to the district's own operation.

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### ***Introduction***

Across the country, school boards and school administrators are continuously barraged with demands from political groups and low-tax advocates for high quality education at the lowest possible price. Concurrently, the federal *No Child Left Behind* accountability system places pressures and penalties on already stretched school systems to introduce new, intensive and expensive programs, particularly for poor, special education, and minority students as well as English Language Learners. The costs of health care and utilities continue to explode, consuming ever-increasing shares of educational budgets. Increases in special education expenditures, coupled with federal under-funding, out-run inflation and now approach 20% of school budgets.<sup>2</sup> New and expanded mandates in areas such as air quality, allergy prevention, bus idling, bullying, equal opportunities, family leave, gender equity, hazing and harassment, school lunches, bookkeeping, sports, and still other areas all add costs to a district's bottom line. Into this context come privatization advocates and vendors, extolling how much money can be saved by contracting out school support services.<sup>3</sup>

Certainly such promises are exceptionally attractive to people in dire circumstances. But such promises must be examined carefully.

This brief is intended to help school leaders—superintendents, school board members, school business officials and principals—who are considering contracting out support services. The goal is to provide relevant background and context, discuss some potential problems, and pose critical considerations to help leaders make good decisions.

### ***Methods***

The recommendations made in this paper are based on a review of research literature related to the practice of contracting out support services in public schools. Studies were included in the review if they met one or more of the following criteria:

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- Addressed contracting out for student support services within a public school context, especially for the major contracting areas of transportation, food services and custodial support.
- Offered concrete data on the incidence of contracting out and trends over time.
- Presented empirical and objective evidence of the success or failure of privatized services in terms of cost savings and quality.
- Were relatively current, generally (though not exclusively) having been published within the past ten years.
- Had practical value for educational leaders relative to contracting out.

We found few research studies in peer-reviewed journals and literature that met our criteria. Typically, we found case studies.<sup>4</sup> Somewhat puzzling was the lack of research after 2000. Much more numerous were papers written by pro-privatization and anti-privatization organizations. Most of these, however, promoted a particular position without offering supporting empirical data. Some were nevertheless included in our review if they amplified the context of privatization or supplied specific examples that illuminated a particular discussion. Otherwise, they were excluded.

A few pre-existing literature reviews, surveys and case studies informed our work. Warner and Hefetz<sup>5</sup> present a comprehensive review of literature on privatized services. Although not specific to schools, they analyzed data from a large national survey administered every five years to local governments, and their work highlights the important issues of cost savings, transactional costs, community values and stability of contracts.

In addition, we frequently refer to a multiple-case study from Oregon.<sup>6</sup> This research is unique in that it explicitly examines the actual language within contracts and the data used in cost-benefit presentations. This work is specific to non-instructional school support services and is, therefore, especially relevant to our intended audience of school practitioners and board members.

Materials reviewed also included survey data published by the Mackinac Center, *American School & University* magazine, and *School Bus Fleet* magazine. We also found, and occasionally cite, media reports that provided examples of specific situations and concerns that school districts encountered.

Finally, though we were particularly interested in non-instructional, or student support services, we briefly review literature on the privatization of entire school systems. This literature is essential in placing the contracting out of support services within the larger movement to privatize education.

## ***Background and Context of Contracting Out***

### **The Appeal of Privatization**

Contracting out is widely touted as a way for school districts to save money, increase efficiency and improve the quality of services. It also purportedly frees school leaders from non-instructional responsibilities so that they can concentrate on their primary mission of ensuring that children are learning.<sup>7</sup> On their face, these are compelling and appealing arguments.

Vendors, therefore, frequently find school leaders a willing audience. For example, district or school officials looking at costs for a subsidized hot lunch program are attracted to the idea of ridding themselves of this money-loser. Besides being costly, such lunch programs involve handling labor issues, recruiting employees, assuring well-balanced meals, and dealing with federal and state regulations—a major administrative headache.

As alluring as such promises can be, school boards and administrators must be extremely careful as they consider contracting out. It is true that in many cases service contracts have proven mutually advantageous and delivered the advertised advantages. However, it is also true that contracts have often produced lower savings and less freedom from administrative burdens than the salesperson promised. In fact, as illustrated below, many districts have experienced higher costs for a poorer product. In addition, private contracts may create new issues for school leaders who remain legally responsible for a vital public function but who have lost effective control of the domain. Further, school leaders may face a resentful public if individuals and the community are adversely affected by the change. Decision makers must consider all of these issues before they can decide whether the promised benefits are likely to materialize—and whether the gains outweigh the losses.

### **The Context of Schools in Communities**

Schools play a vital role in the life of a community that includes, but is much broader than, teaching children and improving test scores. The school is an integral part of the community. The school is not only *in* the community; it must be *of* the community.

Even free-market advocate Milton Friedman recognized that parental and community involvement is vital to the effectiveness of public schools.<sup>8</sup> Schools must involve parents and other community members in building and maintaining a mutually supportive environment. A school cannot be merely a collection of sub-contractors providing services at the same location. This fundamental consideration of community and of purposes necessarily influences decisions on contracting out school functions.

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Schools and their communities intertwine and support one another in various ways:

***Health, Safety and Nutrition.*** No factor is as vital as the health and safety of children. An increasing number of states require parental advisory committees on issues of health and safety. Such committees support effective interaction in areas such as providing a healthy, nutritious and balanced menu that exceeds minimum federal requirements. Schools, parents and the community all have an interest in ensuring children are well-nourished and safe. If a vendor's contract shuts school personnel and parents out of discussions of improvements in the quality of school food programs, however, an essential area requiring communication and cooperation is closed. As a result, the community can experience deep divisiveness and disempowerment.

***The Community's Economic Engine.*** In many communities, schools are the largest single employer in the region. More than 80% of school budgets are dedicated to personnel costs and benefits. Most of the operations and maintenance budget ultimately goes to school employees or small local vendors who provide such services as roofing, plumbing, repairs and maintenance. Thus, schools are an essential part of the community's economy, making the community itself an important stakeholder. If local parents and community members are put out of work by an out-of-state or international contractor, or if they suffer a cut in wages or health insurance, the community at large suffers. Public support and felt ownership of the schools is immediately damaged. Further, the welfare of the community is diminished.

***The School as Guardian of Community Social Health.*** While the United States is virtually the only developed country that does not provide universal health care, public schools provide this vital social requirement to almost all employees. Businesses increasingly do not provide adequate health insurance or retirement programs. Schools usually do, however. Teachers, aides, kitchen workers, bus drivers and custodians typically receive health and retirement benefits, with part-time employees often getting these benefits on a pro-rated basis.

In addition, besides their role as major employers, schools can help channel funds into the hands of community members who most need them. For example, one family may have had a contract to mow a school lawn for generations. The board and administration might be familiar with the family as one continually plagued by dire need for work and income. When the school maintains its mowing contract with the family, it is functioning as part of a community that takes care of its own.

Thus, simple ideological mandates that insist private sector capitalism is always the preferred practice or, to the contrary, that private vendors should never be employed, oversimplify an elaborate set of interactions. Decisions on whether to privatize a support function must be based on careful consideration of how the new arrangement will enhance



or detract from the complex and mutually reinforcing web of school and community interactions.

### **The Evolution of Privatization in Education**

*History.* Public school operations have always included some degree of privatization. In the late nineteenth and early twentieth centuries, community participation was essential to building, operating and maintaining schools. Hiring local workers or builders for such specific tasks has long been a common practice, particularly in rural areas. Such workers have typically handled such jobs as maintaining heating systems, carpentry and repairs, cleaning and painting buildings, and the like. Calling the local plumber was just more sensible than keeping a person on staff.

During the late nineteenth and early twentieth century, just as universal public education was becoming a reality, privatization was the dominant model. However, rampant corruption and inefficiency in the private provision of public services led to a backlash, leading to services being brought back under the umbrella of government.<sup>9</sup>

By mid-century, however, with the perceived failings of schools, particularly in the cities, the climate shifted.<sup>10</sup> Milton Friedman first espoused the full privatization of education in 1955. He claimed that privatizing schools would produce better education at lower costs by letting Adam Smith's invisible hand of the market assure efficiency and economy.<sup>11</sup> A few decades later, in 1981, Ronald Reagan provided significant impetus for a general privatization movement when he declared in his first inaugural address that "government is the problem" and that all things are best done through capitalist market models.<sup>12</sup>

From about 1980 onward, the political movement to reduce the size and scope of government dominated the political landscape. Pragmatic judgment gave way to a new partisan ideology.<sup>13</sup> In short, the capitalist, market-driven private corporate model was accepted as the best method for all things, including government operations—which, of course, included public schooling.<sup>14</sup> A vociferous debate about the issue continues, with passionate partisans on both sides.

*Privatizing Public Education* The growth of privatized support services must be seen within the broader political movement toward privatization, of which it is a part. Many believe that education would benefit if more services were transferred from public providers to private ones. They argue that competition for students will inevitably improve schools—in part by causing the failure of poor schools. They further contend that parents have a private right to choose schools for their children at public expense.

Three forms of school privatization dominant the debate:

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- *Vouchers or “Choice.”* In practice, school choice means parents can choose the school within the system they want the child to attend. Few of the myriad systems tried from 1970 to 2008 operated in such a pristine fashion. Enrollment limits, transportation and a host of other factors complicate realities. Despite intense examination, there is no consistent body of evidence that show vouchers or choice systems provide higher test scores. Evidence to date suggests social segregation is the result and cost-savings have not been established.<sup>15</sup>
- *Charter Schools.* In theory, the state provides a charter to a school to provide defined educational services in exchange for public funding. Often these schools have an organizational theme. Again, the variations are considerable and no clear evidence has emerged that academic outcomes are increased, while many studies find the result is greater segregation.<sup>16</sup>
- *Educational Management Organizations (EMO).* An EMO is contracted to manage and govern the schools under the theory that private management is more efficient than public management. Chris Whittle is the most prominent actor in this area. However, the results from EMO efforts in major cities such as San Francisco, Baltimore and Philadelphia have been highly controversial and benefits have not been conclusively established.<sup>17</sup>

Readers who wish to further review independent and non-partisan research on school privatization would be well served to go to the National Center for the Study of Privatization in Education ([www.ncspe.org](http://www.ncspe.org)).

***The Privatization Continuum.*** Currently, privatization of school services occurs along a continuum. On one end, entire school systems are managed by private entities (see EMOs above). On the other, some schools contract only for specific purchases, such as cleaning supplies, copier maintenance, instructional supplies or furniture. In the middle of the continuum, contracts are issued for sporadic needs or in emergencies. For example, an outside contractor might be scheduled to service the heating system, or might be called upon to repair a flooding sewage system. Districts have also typically paid tuition for special-needs students to attend other private or public institutions when their needs could not be met in a regular environment—essentially contracting out educational services for those students.

In contrast to such support activities or special needs, contracting for services integrated into the daily life of a school is a relatively new and qualitatively different arrangement. Day-to-day tasks like transportation, food services, and custodial services are essential school functions. They tend to require a number of minimally supervised people ranging about the school and they consume a considerable portion of the budget. Most importantly, daily service providers have regular direct contact with

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students and staff. Safety and proper role models become more imperative considerations than financial savings or efficiency.

Thus, the term “privatization” might include anything from hiring a plumber to unplug a drain to completely turning the management of a school over to a for-profit organization. Obviously, there are great differences in management implications at different points along the continuum, each with its own unique complexities.

### **Forms of Privatized or Contracted Support Services**

The Education Industry Association reports 800 corporate and individual members. The range of activities includes management, bookkeeping, special education, tutoring, professional development and a host of other areas.<sup>18</sup> Not all of these forms are equal in frequency or intensity, however. According to a 2001 survey,<sup>19</sup> the ten most common services that public schools secure from private vendors include:

1. Transportation
2. Vending
3. Heating, ventilating and air-conditioning (HVAC) maintenance
4. Computer servicing
5. Office-equipment upkeep
6. Food service
7. Printing
8. Security
9. Grounds maintenance
10. Custodial service

Source: American School & University Magazine, 2001

All of these services can be considered “non-instructional.” Only three of them, transportation, food service and custodial, are needed on a daily basis. (Depending on the context, “ground maintenance” and “security” may also be services needed every day.) None of them are “instructional” and consequently would not typically intersect with what is taught and by whom.

That situation, however, is changing. New state and federal mandates and policies exert enormous pressure on districts to raise test scores. They are also increasingly prescriptive about curricular content. These policy shifts, among others, have generated a new array of vendors. It has become common to privatize not merely non-instructional services, but other services directly related to teaching and learning processes. The following list offers some idea of the range of instruction-related services now being marketed to public schools.

**Curriculum.** High accountability systems and technologies have encouraged textbook manufacturers to expand their traditional (and already influential) products with a wide range of new ones, including

scripted lessons, professional development activities, and electronic record keeping.

**Professional Development.** The line between professional development and commercialization has been blurred by the availability of paid platform speakers, school success recipes, and commercial programs like Reading Recovery, Success for All, and Total Quality Management. When schools employ heavily prescriptive pedagogical products, they move closer toward EMO management and substantive privatization. This product area has provoked much controversy and many lawsuits.<sup>20</sup>

**Tutoring.** The *No Child Left Behind* law has established a new niche for state-approved “supplemental service providers.” These vendors essentially tutor children from schools with inadequate scores on a state’s annual tests. About 12% of the nation’s districts have been required to fund supplemental services, although only one-fifth of eligible children have enrolled. Since half of the providers in this rapidly expanding area have been for-profit corporations, it is not surprising that 41 states have reported that monitoring these programs presents a serious or moderate challenge.<sup>21</sup>

**Substitute teachers.** Personnel firms like Kelly Services have become engaged in securing, screening and training substitute teachers.

**Special education.** For many years, some schools have dedicated themselves to serving children with special emotional or physical needs (or both). They are generally non-profit institutions with a history beginning before mainstreaming became the law of the land.

**Specialized teachers.** Particularly in special education, teachers are contracted to provide occupational therapy, physical therapy, speech language, and the like.

This paper focuses primarily on the three most prominent outsourced areas: transportation, food services, and custodial services. The reader should note, however, that the scope and frequency of contracted services is growing significantly. Thus, contracting decisions are becoming a much more frequent—and important—responsibility for school leaders.

## Research on Contracting Out

“There is almost no published literature in academic journals on potential cost-savings from contracting out . . .” Belfield wrote, based on an extensive search of social science literature.<sup>22</sup> The Cornell Center on Restructuring Local Governance similarly reports that research on contracting out consists primarily of case studies. The Center further predicts that the lack of empirical data is unlikely to slow the growth of privatization: “Although empirical studies do not provide clear evidence on the costs and benefits of privatization, public perception and pressure for improved government efficiency will keep privatization on the government agenda.”<sup>23</sup>

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A study by Sclar<sup>24</sup> underscores the fact that research on contracting out is inconclusive. Based on three case studies, Sclar's research found privatization producing a wide range of cost outcomes. In Albany, N.Y., outsourcing municipal vehicle maintenance increased costs by 20%. Similarly, in Massachusetts, outsourcing highway maintenance increased costs by 9% to 20% (the difference depends on costing assumptions). In Indianapolis, however, outsourcing vehicle maintenance reduced costs between 8% and 29% (again, depending on costing assumptions). It is interestingly to note that, despite these savings, Indianapolis later returned to internal servicing.

A few more extensive studies do exist, consisting primarily of surveys; their results are also inconsistent. For example, one survey by LaFaive, who is associated with the pro-privatization Mackinac Center, suggests that most districts are pleased with their outsourcing arrangements. LaFaive's study indicated that 90.9 % of districts "said they were satisfied with the results of their contracting."<sup>25</sup> LaFaive also proposes that general satisfaction can be inferred, at least in Michigan, because the rate of contracting out is increasing. Other surveys contradict this trend, however. A 2001 national survey published in *American School & University* found that since 1993, the percentage of schools opting to outsource services has dropped.<sup>26</sup> Similarly, annual national surveys by a bus outsourcing trade publication, *School Bus Fleet*, indicate that the percentage of privately owned school buses decreased between 1996 and 2005.<sup>27</sup>

Most contracting out literature appears in articles in trade magazines that enjoy heavy sponsorship by the larger vendors.<sup>28</sup> Many "testimonial" pieces favoring privatization appear in such periodicals, and serve essentially as policy advocacy pieces.<sup>29</sup> More even-handed informational brochures have been published by professional groups (the American Association of School Administrators and the National Association of Elementary and Secondary Principals, for example). While the professional association articles more objectively tally the pluses and minuses of outsourcing, they are not research documents.<sup>30</sup> Objective analysis of the issue overall is limited.

Extensive anecdotal evidence suggests that, despite vendors' predictions, some districts have not saved money by privatizing. In fact, some districts have lost money. Cost-cutting is not a certain outcome. The Mackinac report itself says that privatized bus contracting in Louisiana cost 10% more than district-operated systems.<sup>31</sup> In addition, as Belfield noted, since Mackinac did not survey non-outsourcing districts, there is no way to know whether districts relying on internal personnel are more or less satisfied than contracting districts. Some of these districts might even be former "customers" that tried privatizing but reverted to in-house arrangements. Similarly excluded might be districts that considered outsourcing but found the expected price or quality of the services to be

unsatisfactory.<sup>32</sup> Thus, the exclusion of non-outsourcing districts leaves claims about near-universal district satisfaction open to some question.

In the absence of conclusive research evidence, school leaders are wise to be cautious about claims made by privatizing companies and advocates. They should also note that virtually all analyses of privatization have found that transaction costs— costs for writing, evaluating, monitoring, staffing and supervising the contract— are ignored in cost analyses. Yet, these costs often prove the tipping point between a perceived cost savings and a loss.<sup>33</sup> Indeed, even pro-privatization advocates suggest that superintendents and school board members must be vigilant in critically examining all elements of a contract.<sup>34</sup>

Readers interested in deeper examination of the research may want to examine the Cornell Center's annotated privatization bibliography ([http://government.cce.cornell.edu/doc/viewpage\\_r.asp?ID=Privatization](http://government.cce.cornell.edu/doc/viewpage_r.asp?ID=Privatization)). Although a number of references are old, the listings are comprehensive.

### *Critical Considerations in Contracting Out*

At first, contracting out may appear an ideal arrangement. Someone else provides services. Administrative problems disappear. Costs drop. The vendor guarantees quality and cost savings. Newly freed from responsibilities in contracted areas, superintendents, principals and school boards have more time to focus on educating children.

Unfortunately, the ideal does not always translate to the real. Many districts find that contracting out brings negative effects as well— sometimes serious ones. Potential problems generally fall into five categories: hidden costs; quality control; impact on administrative time; social costs; and loss of control and restricted flexibility.

#### **Hidden Costs**

*“We've been duped, we've been had, we've been hoodwinked, we've been suckered.”*

Those were the sentiments of a school board member in Richmond, Va., in 2005, just before the board voted to cancel a contract with Chartwells, a large international food service provider. District officials found that after less than one year, contracting out had caused the district to lose over \$900,000.<sup>35</sup> Other examples confirm that this is not an isolated case.

- When it contracted out custodial services to Sodexo, the Guilford County (N.C.) school district originally expected to save \$1.2 million over four years. Instead, it actually saved only \$120,000 the first year—and then lost money the following year.<sup>36</sup>

- In Texas, the Carroll School District contracted out food services to Aramark. A district audit subsequently uncovered an \$80,000 deficit due to contract overruns.<sup>37</sup>

At the end of a billing cycle, a district may experience “sticker shock,” when contracting a vendor submits a much higher invoice than expected. Cost overruns, which are fairly common, come from several areas. Contract language can contain loopholes. Cost-benefit analyses may be misleading. Indirect costs may be ignored. Monitoring costs may be disregarded. Contractors may present initial “low-ball” bids. A lack of competition may curtail theoretical market-based benefits.

***Loopholes in the Contract.*** Typically, contract loopholes take the form of specific contractual conditions that allow private service providers to bill districts for more than the base amount. These are not always obvious or clearly explained when the vendor pitches the contract.<sup>38</sup>

Some contracts place no caps on costs, so that there is no maximum on what a provider can charge. Many contracts cap services, giving vendors a right to impose additional charges after a certain point. Service caps are especially problematic. Districts have experienced higher costs when they unexpectedly needed additional work. While rates for special events, like an annual picnic, may be included in the contract, vendors often charge a much higher rate for services that are unexpected, “uncovered,” or both.

Other possible loopholes include charging retail rates for supplies, or charging a non-contracted, walk-in rate for uncovered services. Myriad possibilities for loopholes exist. Thus, careful contract review by qualified attorneys and business officials is essential.

***Misleading Cost-Benefit Analyses.*** Projected savings for districts can prove unrealistic if the vendor’s—or the district’s—analysis uses questionable financial data, ignores additional costs for uncovered services, or makes inaccurate assumptions about future trends.<sup>39</sup>

When district officials in Brandon, Vt., examined a Honeywell proposal for privatizing energy management they found that the vendor assumed the district would save \$46,000 per year in avoided maintenance costs. There was no basis for this assumption in the district’s maintenance records or in the vendor’s proposal. Thus, rather than realizing the proposal’s projected savings of \$23,995 per year, the district was more likely to incur a \$22,000 annual loss.<sup>40</sup>

In another example, a Sodexo food service contract estimated management fees of \$40,000, a figure based on the number of meals to be served. However, the estimate was based on old data, and it did not account for enrollment growth in the district. A more realistic estimate showed management fees far more likely to reach \$80,000, or double the amount the contractor estimated.<sup>41</sup>

Another Sodexo contract offers a case of inaccurate assumptions. Service costs were projected, at least in part, on the assumption that

Oregon's minimum wage would remain fixed. Existing Oregon law, however, already specified that the minimum wage would increase annually with inflation. Because the contract specified renegotiation would be required if any costing assumptions proved inaccurate, eventual renegotiation—and higher costs—were certain.<sup>42</sup>

**Indirect Costs.** Indirect costs, often called transaction costs, are expenses the district must pay in addition to contracted service fees. Typically, indirect expenses average an additional 20% of the “bottom line” of the contract.<sup>43</sup> For example, someone—perhaps district administrators or attorneys—must prepare the request for proposals (RFPs), publish them for bids, review competing proposals, check references, and carefully and continuously monitor the services. The district's costs for the time and expertise necessary for such work are seldom included in cost-benefit analyses. In addition, many contracts require that districts supply equipment, facilities and custodial services in addition to specific administrative work.

The Sodexo contract for food services in Lincoln County, Ore., for example, includes these district responsibilities (among others):<sup>44</sup>

- Repair and maintenance of all facilities involved in food preparation, storage and delivery
- Determining and verifying students' application and eligibility for free or reduced priced meals and milk
- Developing, distributing and collecting parental letters and applications for subsidized food service...
- Resolving program review and audit issues
- Monitoring food service operation and guaranteeing everything in the contract is being carried out
- Providing contractor with office space, furnishings and equipment, including telephone service...<sup>45</sup>

**Monitoring Responsibilities.** Oversight cannot end simply because a contract has been awarded. Even the pro-market Mackinac think-tank cites the crucial need for districts to “Monitor, Monitor, Monitor.”<sup>46</sup> Mackinac suggests that a “centralized monitor,” a district employee in charge of contract compliance, might provide impartial oversight.<sup>47</sup> A large urban district with multiple contracts might reasonably support such a position. However, the same cannot be said for small districts, rural districts, and districts with only a few contracts. Since the average U.S. school district has fewer than 3000 students, the question of who will monitor contracted services is a common one. The task might fall to the superintendent or building-level principal, or it might require a new hire. In any event, personnel costs for monitoring reduce, and in many cases eliminate, the potential savings of contracting out.

**Unrealistic Introductory Rates: “Low-ball bids.”** Like credit card companies, school service vendors frequently offer reduced rates for a first



contract cycle in order to attract new customers. Typically, these initially low contracts can be renewed only at much higher rates in later years. This practice, often called low-balling, is used across many fields, including, but not limited to, health care, construction, insurance, and communication. The premise behind this approach, though usually unstated, is that privatization creates a dependency on outsourcing. Reverting to in-house services can become inconvenient or very difficult; and, if there are no other vendors in the area, the school district is captive.

***Lack of Competition.*** At least in theory, competition is claimed to be the vital force that enables a free market to produce high quality at a low cost. Without adequate competition, there is little reason to expect that privatization will produce significant savings. Two factors work to decrease the level of competition for school districts when contracting out. First, in many rural or small districts, few, or even no, qualified vendors respond to RFPs. Larger companies often consider profit margins in less-populated areas too small to warrant the investment.<sup>48</sup> Second, the school service industry has experienced an increasing number of mergers and consolidations.<sup>49</sup> This trend has reduced the number of private contactors and lessened competition. For example, FirstGroup recently acquired Laidlaw Education Services. As a result, a FirstGroup subsidiary (FirstStudent) will now operate 12% of all school buses in the United States and Canada.<sup>50</sup> Not surprisingly, this consolidation sparked an 11-state antitrust suit, with states asserting they faced a virtual transportation monopoly, sure to increase bids and higher education costs. A settlement in a Massachusetts federal court required FirstGroup to pay \$1.1 million for the states' legal costs and to offer concessions to various states. Such concessions included transferring property to local districts<sup>51</sup> and selling existing contracts to local bus operators.<sup>52</sup>

### Quality Control

Ensuring quality is another major concern in contracting out. Again, it would be wrong to imply that all contracting out arrangements lead to lower and/or poor quality services. Some districts are undoubtedly pleased with vendors' performance. On the other hand, there are numerous examples of districts finding that the quality of services provided by outside vendors is disappointing—in some cases, so poor that they present serious health and safety concerns.

For example:

- In Western Oaks Middle School, located in suburban Oklahoma City, a contractor left meals in food warmers over a winter break, resulting in several students becoming ill.<sup>53</sup>
- In New Orleans, human feces were found in sinks in the gym facility after the private contractor finished cleaning the area.<sup>54</sup>

- In Richmond, Va., parents and students complained about food quality after a private vendor took over. One lunch meal consisted of “a pretzel, vegetable and fruit.”<sup>55</sup>

**Personnel Practices.** In these labor-intensive areas, private companies reduce their costs and increase their profits primarily by reducing personnel expenses. As the Social Costs section below details, contractors often pay low salaries and offer few benefits. In addition, private service providers sometimes hire too few employees, fail to hire replacements when an employee leaves, and insufficiently screen or train new hires. While such strategies reduce the vendor’s overhead, they are potentially disastrous for school districts.

What develops is a circular process: Privatization reduces salary and benefits, which leads to high turnover, which creates the frequent need to fill vacancies quickly, which leads to hiring workers without adequate background checks, or training, which increases turnover...and so on.

Just such a cyclical downward spiral was described in school board testimony about a custodial contract in Lincoln, Ore.:

This representative of the contracting company reported that SBM [a large California-based national custodial/facility management company] admitted it had a 50 percent turnover rate, compared with average tenure of 13 years on the job for the district custodians who were replaced. She states that the company had faced trouble filling vacancies and, as a result, had reduced training and had hired unscreened temporary employees, some of which were found to have criminal records after placement on the job. Similarly...employees were hired from temporary agencies and allowed to work prior to drug testing, following which at least one employee was dismissed for drug use.<sup>56</sup>

Portland, Ore., offers further illustration of the high turnover that plagues contracted-out operations. That district uses both in-house and outsourced buses. Turnover rate among outsourced bus drivers is 30%—compared with 5% for district-run bus services.<sup>57</sup> National data also confirms the chronic difficulty private vendors have in retaining employees.<sup>58</sup>

**Impact of Non-qualified Employees.** In schools, it is critical that individuals who interact with children be good role models and not pose potential harm to students, staff or property. Unfortunately, the hiring merry-go-round described above that funnels non-qualified persons into the school environment can have serious consequences for districts. A few specific examples indicate the nature of this problem.

- In New Jersey, an audit revealed that a custodial vendor failed to complete criminal records checks on employees. The audit occurred after workers were caught stealing laptops. The same company later fired 39 employees for drug use and other problems.<sup>59</sup>
- In New York State, a Laidlaw school bus driver was arrested for possession of child pornography.<sup>60</sup>
- In New Haven, Conn., when school officials decided not to renew a contract with Aramark, they cited poor quality service, inadequate staffing, lack of hiring for empty positions, and failure to “rectify equipment shortages.”<sup>61</sup>

These examples should cause concern for school leaders when contemplating privatization. And while cost overruns may be somewhat avoided by scrutinizing contract language, ensuring quality is much more difficult. Once a contractor takes over a service, the locus of control for quality is removed from the district, though the district still maintains the ultimate legal (and moral) responsibility. It is very difficult to assure a high quality operation when you have no control over the hiring, training and supervision of those who actually do the work.

***Quality of Vendor Products.*** Because vendors maximize profit by minimizing their expenses, they may cut costs in areas that are invisible—but essential—to the district. For example, the vendor might use a lower quality and less expensive school bus brake lining than the district would have chosen itself. Or, lower quality custodial supplies might lessen a school’s overall cleanliness. Of even greater concern is whether the custodial supplies are noxious; carpet-cleaning materials, for example, must be safe for the children who will lie on the carpets. A national recall of improperly slaughtered beef in February 2008 revealed much of the meat had already been consumed by children in schools. In Leicester, Vermont, a food contract was cancelled because of an over-reliance on government commodities and starches. In this instance, the international company was unresponsive to requests for a high-quality menu.<sup>62</sup>

This is not to suggest that all vendors, or even most vendors, would use such dangerous practices. Nevertheless, such documented incidents indicate that contractual arrangements must assure quality products, and the district must have an effective way to monitor this quality.

### **Impact on Administrative Time**

As appealing as freedom from administrative burdens may be, contracting out still requires significant and ongoing administrative work. Carefully specifying tasks, writing RFPs, evaluating bids, writing and revising contracts, evaluating services, and continuous monitoring all consume time and resources. Often, program monitoring can be complex

and time-consuming, especially in such highly regulated domains as transportation and food services.

In transportation, for example, bus drivers must be trained in school disciplinary procedures, first aid, bus accident protocols, school bus inspections, emergency preparedness, evacuations, driver drug and alcohol screening, state laws such as prohibitions against idling, restraint procedures, special education needs and proper methods, student drug and alcohol behaviors, bullying, hazing and harassment. The school either has to provide this training or ensure that the contractor provides it and meets all other regulatory requirements. And clearly, either way, the district is liable for shortcomings. Thus, although administrators may expect a decrease in demands on their time, a contracting agreement may make “risk management” significantly more complicated and time-consuming than anticipated.

Although the district receives complaints, it may be unable to easily remedy the problem. Principals find themselves in an awkward position when parents demand a cleaner school but the custodian reports to an unresponsive, out-of-state mega-company that will not allocate sufficient personnel resources. Likewise, administrators may spend a great deal of time trying to change a lunch menu that includes three carbohydrates per day when corporate commodity buyers are dictating menu decisions. And, as previously noted, some contracts specify that the district continue to handle significant administrative work. Typically, districts complete state and federal reports, keep financial records, and communicate with parents. These continuing responsibilities require some administrator’s time, or may even require the district to hire additional personnel, such as a food service coordinator or transportation director.

Outsourcing, then, neither automatically nor assuredly lessens demands on administrative time or administrative costs.

### **Social Costs**

Problems associated with contracting out go beyond the district’s cost, quality and time considerations. Contracting out can have significant negative impact on society itself. Although sometimes difficult to quantify, social costs must also be considered during decision-making.

***Low wages and poor benefits.*** The low wages and poor benefits contractors typically offer employees, as noted above, have consequences beyond high turnover and other staffing problems. Impact on the community’s workforce can be severe, as is evident in the following examples.

- In Pleasant Hill, Ore., average wages for new bus drivers fell 42%, from \$11.37/hour to \$8/hour.<sup>63</sup> Since bus drivers work only about four hours per day, income from the new wage fell far below any subsistence standard of living.

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- In Collinsville, Ill., a Sodexo food service contract promised to save the district \$225,000. The anticipated savings were to come primarily from a 53% reduction in salaries, from an average of \$16 to \$7.50 per hour.<sup>64</sup>
- In Lake Oswego, Ore., full time employees of a privatized provider received \$50 per month towards health insurance. Prior to privatization, they had comprehensive coverage for physician, prescription, vision and dental services. In addition, the contract only guaranteed “insurance...coverage for the first year...leaving open the possibility that even this diminished coverage could be reduced.”<sup>65</sup>

Offers of low salary and reduced, or non-existent, benefits place veteran employees in difficult situations. They must choose between continuing to work in the district under significantly reduced conditions or seeking a new job, perhaps in a new community. Knowing that contracting out will place employees in this difficult situation, districts must decide how important the social good, goodwill and loyalty to veteran school employees is compared to the size of the anticipated savings.

Some privatized service providers try to sidestep the employee replacement problem by including provisions in the contract that “grandfather in” former employees. These contractual elements may guarantee previous workers wages at least equal to what they previously earned, if hired. However, this is an area where school leaders need to be particularly cautious about contract language. It is important to determine whether former employees are guaranteed employment or just given preference; whether benefit packages are equal; whether the contractor can reduce salaries and benefits in later years; and whether new employees will be paid at an unconscionably low rate.

Cafeteria staff, bus drivers and custodians—the three groups of employees most likely to be affected by contracting out—are not high-wage professions. District-operated employment in these areas provides good, stable jobs for community people looking for part-time work, for those with less formal education, for single parents etc., coupled with reasonable salaries and good benefits. Mistreatment of local employees not only creates a public relations nightmare for the district, but also harms the social well being of the community. Other social and health problems follow.

The economic fallout of low wages and benefits extends beyond the individual worker to many facets of society. Minimum- and low-wage jobs sustain a struggling disadvantaged underclass and create conditions that eventually are costly to society. Those at the bottom of the salary scale pay less income tax, are more dependent on social services, have higher health costs due to underinsurance, and contribute less to the local economy.

An economic analysis in Oregon found that

For every 25 jobs that are contracted out, there is a loss of \$165,000 in wages to local employees, a loss of \$18,000 in state income tax revenues, and a loss of \$233,000 in earnings that would have been spent in the local economy.<sup>66</sup>

**High Turnover.** Similarly, the high turnover that accompanies low salary and poor benefits has an impact beyond the training and screening issues discussed earlier. High turnover leads to low morale, loss of institutional knowledge, and lower overall service quality.

Moreover, this revolving door of school service providers precludes establishing long-term, trusting relationships among school staff, parents and students. Prior to outsourcing, many custodians, bus drivers and cafeteria workers have extensive employment history in their districts. Most live in the local community. And through these sustained interactions, these school employees have become more than bus drivers, custodians and food servers. One veteran custodian described her relationship to the students this way, “I’m mother, father, sister, brother, aunt, uncle, counselor.... if you need me, I’m here. We can talk. I feel like it’s a village and everybody has a part.”<sup>67</sup>

**Corporate Implications for the Community.** The growing incidence of mergers, buyouts and consolidation of outsourcing corporations frequently affects who responds to district RFPs. A mega-company or competing mega-companies may prove the only bidders. Service providers are increasingly large, multi-service corporations, with central offices far removed from the school district. While many of these corporations have regional offices and are responsive to customer complaints, greater centralization reduces both competition and incentive for high quality. In many cases, vendors hold a *de facto* monopoly.

The largest food-service company in the country is Sodexo, whose corporate headquarters are in France. Likewise, the largest school bus company, Laidlaw, is a Canadian company; its recent acquisition by FirstStudent removes its central office still further, to the United Kingdom. And Chartwells, another food service giant, which operates in Mexico and Canada as well as the U.S., is a subsidiary of the Compass Group, also headquartered in Great Britain.

The size of some of these operations is astounding. Compass, for example, also operates franchises for Burger King, Wendy's, Starbucks and twenty other brands. And Sodexo, now rapidly branching out from food services, offers facility maintenance, senior services, laundry operations and stadium concessions, among many other services. Aramark, with a main office in Philadelphia, similarly contracts out a wide variety of services ranging from uniforms, facility and ground maintenance, and vending machines to the operation of conference and recreation centers. These are all obviously high-revenue businesses. Last

year, Sodexo had consolidated revenue of \$17.7 billion dollars, while Aramark says it is an \$11 billion operation.

There are at least two potential social disadvantages to contracting out with such very large, and often international, companies.

Responsiveness. Far-removed, huge organizations have limited ability to respond to local concerns and contexts. Districts are unique in the services they want and need and in the innate resources and strengths of their communities. Providers need to be knowledgeable and sensitive to local values—something that becomes increasingly unlikely as the locus of corporate control is further removed. For example, a district may want to serve locally grown food in its cafeteria. A mega-company is unlikely to agree, however, when its profits depend in part on standardizing menus and buying supplies in bulk. These “efficiency” practices limit the ability of businesses to be mindful of local traditions and responsive to local needs.

An extraction industry? Mega-businesses can be viewed as a form of extractive industry. Outsourcing to mega-companies takes local resources, in this case, taxpayer dollars and local manpower, and generates profits that go elsewhere—in some cases, out of the state; in other cases, out of the country. Locally owned small businesses typically can’t compete with these huge conglomerates and are frequently forced out of business or subsumed in buyouts. For example, Atlantic Express, the fastest growing bus company in the country in 1999, acquired Mountain Transit in rural Vermont. At the time, Mountain Transit was operating 100 buses and had been named *School Bus Fleet*’s “contractor of the year” in 1998.<sup>68</sup>

School district leaders contemplating outsourcing, therefore, need to consider the size and location of providers in order to anticipate and assess possible negative impact on the local economy and reduced responsiveness to the local context.

### **Loss of Control and Restricted Flexibility**

The efficient operation of schools demands both reliability and stability of support services—and simultaneously, the ability to respond quickly and appropriately to unanticipated day-to-day situations. The unexpected does occur. Outsourced control may impede a district's ability to make quick modifications.

For example, a leaky roof may require immediate and additional cleanup. Some contracts, however, exempt their employees from performing these non-specified duties, even during regular hours. Likewise, a school might have a last-minute opportunity for a valuable field trip but be unable to arrange bus service. When services are contracted out, districts may find themselves unable to make quick adjustments in a timely manner—at least without incurring additional, and sometimes prohibitive, costs. Similarly, contracts can restrict more long-

term policy shifts. For example, a school district may find itself unable to change its daily class schedule in response to new research on adolescent sleep needs because of a restrictive transportation contract.

***Inability to Terminate Contracts: The Black Hole Contract.***

Districts experience the ultimate lack of flexibility and loss of control when districts cannot get out of contracts once they are initiated. Districts may wish to terminate contracts prior to the end of the contract cycle, but find themselves sucked into the “Black Hole” of privatizing, with no available or affordable exit route.

These contracts are legal agreements and breaking them can be time-consuming, unpleasant and costly. For example, in 2001, the Dayton, Ohio, school district paid \$1.5 million to break a contract with ServiceMaster that was costing the district an estimated \$1million extra per year.<sup>69</sup>

In addition to the deterrent of legal expenses incurred in trying to void a contract, districts may have made decisions that effectively make it nearly impossible to reinstate in-house services. This is especially so when a district outsources transportation and sells its bus fleet, or when it contracts for food service and sells its kitchen equipment. In such cases, the cost to restore in-house capacity may be prohibitive, and former employees may also be unavailable or unwilling to return. The loss of the institutional knowledge in former employees adds new start-up costs if the district returns to an internal operation.

Thus contracting out may lead to inflexibility and an inability to implement positive modifications either in the short or the long term. And terminating the contract earlier (or not renewing it) may be problematic. These constraints are certainly not in the best interest of the students or of the school district.

### ***Summary and Conclusions***

Virtually all school districts contract for some types of services. It is practical, expedient and fiscally prudent to do so. In recent years, however, the dynamic has shifted toward major national or international corporations marketing long-term contracts to provide school support services. This is different in kind and in implications. The number and types of support services now being marketed continues to expand, but transportation, food and custodial services are the major areas of attention.

For some districts, for some services and with specific vendors, contracting out might make sense and provide good service for reduced costs. But in many cases, contracting out is not good for either the school district or the community.

Making a wise decision depends on the degree to which school leaders dispassionately, objectively, and wisely review the circumstances. They must distance themselves from undue influence, particularly by vendors. Such distancing is simply good management. In some



circumstances, it is a legal requirement. Careful review of financial terms and conditions, along with a close review of potential cost savings, is mandatory. Hidden or supervisory costs, along with optimistic projections of savings, can turn what was an attractive proposal into a financial sinkhole.

The social costs to the community are frequently overlooked in vendor proposals. Saving the schools money is important, but not always at the cost of the social health of the community or at the cost of the complex inter-relationship between a school and a community. School leaders, in conjunction with their communities, need to closely examine the considerations posed in the preceding section and weigh all anticipated benefits against potential problems.

There is a fundamental clash between the primary mission of schools and for-profit enterprises. Schools exist to enhance the common good through teaching children. They also teach by modeling healthy social behavior as an institution and being a vital member of their community. Private companies focus on increasing profits. Their incentive is to expand revenues and decrease costs. Responsible corporations pay attention to customer need and community values, but that is typically a secondary focus.

In some situations, with some vendors, and around some tasks, the two purposes may be mutually supportive. But in many cases, the goals may prove too divergent and basically incompatible. It is the requirement of school leaders to take a broad, expansive and careful look when considering these decisions.

### ***Recommendations***

As this discussion has demonstrated, school leaders need to carefully consider a wide variety of issues when contemplating contracting out. If outsourcing appears to be the best solution for your circumstances, then further considerations come into play. The following sections offer recommendations to guide school leaders through this process.

#### **Recommendations for decision-making**

- Analyze the reasons for considering a private vendor. Determine whether underlying cost and quality issues might be more rapidly and economically resolved in another way. While contracting out may appear to be a simple way to resolve a personnel or management problem, it may actually be faster, less costly, and more efficient to have an outside auditor or investigator evaluate a program and offer suggestions. Often, state departments of education can perform such audits. State school board associations or superintendent associations can often direct you to a qualified outside expert.

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- Conduct a careful cost analysis of the existing program as well as the contractor's proposed costs. Close attention must be paid to hidden and indirect costs under both scenarios. When considering the contractor's offer, determine what additional costs the district will incur for tasks it will have to accomplish such as administration, legal and regulatory compliance, and on-going program monitoring.
- Evaluate the social costs of privatization. Weigh the degree of disruption to school-community relations. Take special care to examine long and short-term impacts on current and future employees. Determine if salary and benefit reductions will occur and analyze the impact on the health and well-being of the community. Determine whether the cost reductions and tax savings are really a shift of the community's tax burden onto low-paid workers.
- Consider whether there are enough qualified potential bidders to provide the effective competition and substantial cost reduction that the market model promises.

### **Recommendations for Contracting**

- Use a request for proposals (RFP). Develop the RFP using independent resources and advice, not a vendor's materials. Many states have bidding laws, and it may be not only unwise but illegal to accept an unsolicited proposal or have a vendor define RFP specifications.
- Secure expert review of your RFP. Have either your school district's attorney or an outside attorney with experience in outsourcing review the RFP and the contract. Make sure your business office and other internal experts carefully review contract terms for practicality. If your district lacks unbiased expertise in the service area, call on an outside expert.
- Insist on sufficient contract control measures. Contract monitoring, evaluation, complaint resolution, cost penalties and provisions for contract cancellation are all necessary elements for ensuring effective quality control.
- Check the contractor's prior performance with other districts and with appropriate state agencies. Since the contractor's incentive is to provide glowing references, make sure to check with previous customers who are not on the contractor's reference list.
- Evaluate the contractor's specific plans and guarantees in relation to employees. Examine the contract provisions for how the vendor will address salaries and benefits for existing employees both for the short term as well as in future years. Determine how new employees will be compensated. See if the contract specifies a sufficient number of employees to successfully accomplish the tasks. Ensure that personnel screening procedures are timely and meet requirements of state and federal law as well as standards of good practice.

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- Consider any new costs the district may incur as a result of contracting out. See if the district will have to hire a new food supervisor(s), transportation coordinator(s), record-keeping personnel, etc. Determine how the district will meet safety, health and supervision responsibilities. Examine the effects of these costs on the vendor's cost-savings proposal.
- If questions remain about a contractor's proposal, do not hesitate to hire an expert to check a vendor's cost estimates for realistic assumptions about such areas as wages, inflation, and energy costs.
- Determine if the caps on services and the provisions allowing excess billing are based on realistic figures. Be especially wary of guaranteed savings and of the conditions which the district must meet to be able to realize these savings.
- Be sure cancellation provisions are feasible and that district actions don't undermine them. Avoid excessive cancellation fees, guaranteed future payments, and lengthy cancellation timelines. Think carefully before taking actions such as selling assets like kitchen equipment and bus fleets. Replacement could be so expensive that contract cancellation would become impractical.

## *Notes and References*

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