All Costs Considered:

A Report *on the* Contracting Out
of School Support Services
in Oregon

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Executive *Summary*

Faced with the ongoing prospect of diminished funding from the state, school districts throughout Oregon have been struggling to balance their budgets while continuing to provide students with a quality education. For a growing number of districts, hiring private contractors to manage and staff school support functions such as transportation, custodial, and food services has been presented as a possible cost saving option. With state funding for K-12 education likely to remain flat for the foreseeable future, pressures to consider contracting out are likely to continue and more districts will have to evaluate the merits of shifting from public to private provision of school support services.

This report seeks to provide school boards, parents, and the general public with information and analysis that will assist them in determining whether or not contracting out is an appropriate option for their district. In the event school districts decide to contract out, we provide recommendations aimed at ensuring that taxpayer dollars are well spent and the quality of school support services is maintained. We have especially focused on the issue of cost, which is one of the central issues in the debate over contracting out. We posed the following questions:

▸ This report seeks to provide school boards, parents, and the general public with information and analysis that will assist them in determining whether or not contracting out is an appropriate option for their district.

> To what extent will switching to a private contractor save money for a school district?
>
> What are the longer-range costs to workers and communities that need to be considered in addressing both the potential benefits and liabilities of contracting out?

During our research we have examined government reports, school budgets, requests for proposals (RFPs), and private contracts for school support services, with a special emphasis on the five districts that contracted out support services in 2003. We have reviewed the national literature on contracting out, surveyed workers whose jobs were contracted out in the past year, and interviewed school officials, school board members, parents, workers, union leaders, and state agency personnel who oversee school support services.

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Here are our principal findings:

I. Contracts for School Support Services May Not Deliver Promised Services and Savings to School Districts

In case studies of three contracts reached between school districts and private companies in 2003, we found that districts either incurred significantly greater costs or received significantly lower savings than school board members had initially anticipated. Even contracts that "guaranteed" savings to school districts often failed to deliver on that promise.

· ***In Rainier***, two clear problems of calculation—an inadequate accounting for bus depreciation reimbursement and an improper allocation of FTE for secretarial support staff—reduced the anticipated savings of $57,000 per year to nearly zero. Also, depending on how one accounts for future bus depreciation and replacement needs, the school district may actually face higher long-term costs than those they would have incurred had the service remained in-house.

· ***In Lincoln County***, the contractor for food services appeared to promise that the school district would receive a guaranteed return of $115,000 in addition to the $80,000 surplus it had carried over from the year before. Instead, it seems more likely that the district will receive only $78,000, plus lose half of its carry-over surplus. Together, the combination of a smaller return, unforeseen management costs, and reduced surplus represents a total loss to the district of $107,000 compared with what it expected to obtain from its agreement with the private contractor.

Lincoln County's custodial services agreement permitted the contractor, rather than the district, to determine the scope of services to be provided. The agreement also allowed additional costs to be passed on to the district above and beyond a "guaranteed" price and set low standards for employee qualifications.

In addition to these serious loopholes, our analysis suggests that the projected savings the district was to have received were greatly exaggerated. The fact that Lincoln County terminated this contract six months after its approval attests to fundamental flaws in its agreement with the private contractor.

II. Contracting Out Carries a Hidden Social Cost That Affects Both Workers and Communities

Our research found that private contractors tend to reduce wages and benefits substantially when they assume management of school support services. A review of the five school districts that contracted out in 2003 found:

· Of the 49 workers we surveyed whose jobs were privatized in 2003, slightly over half opted to work for the contractor. Only one of the workers who found a new job was earning a higher rate of pay than he/she had enjoyed previously, and most took wage cuts of 10–25 percent in their new positions.

· Although contractors often grandfather incumbent workers who elect to remain with the school district, they pay new hires anywhere from 10 to 40 percent less in hourly wages than these workers would have received as school district employees. Also, the agreement to maintain the employee's previous wage is generally guaranteed for only the first year after privatization.

· The private contractors we surveyed offered health care benefits that were more expensive and provided less coverage than workers had received when employed by school districts.

· In place of PERS (the state Public Employees Retirement System), contractors offered less generous 401K plans that featured limited employer contributions and required employees to assume primary responsibility for saving for their retirement.

· Using wage comparisons for contracted and noncontracted custodial services in Lincoln County as a basis for estimation, we calculate 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 money that would have been spent in the local economy. These figures suggest the demonstrable impact contracting out can have on a local economy, an impact that can be especially pronounced in communities where the school district is a primary source of employment.

· Contractors often claim that high percentages of incumbent workers opt to work for the private employer after jobs are contracted out.

In some districts, however, we found that less than half of the former school support employees elected to remain with the contractor.

· In another case, the contractor only offered employment to one-third of the incumbent employees. Other evidence suggests considerably higher turnover among contracted employees, in contrast to school districts where retention levels are markedly more stable. Higher rates of turnover may affect the quality of the services being provided.

III. National Data Reveals Chronic Problems Experienced by Some Districts Who Have Contracted Out

A review of the national experience with privatization reveals a series of recurring service-related problems in some school districts where contracting out has occurred:

· Problems with the quality of staff regarding qualifications, training, motivation, and retention.

· Problems with food safety associated with food bars and "a la carte" sales.

· Problems with food quality caused by use of central kitchens and warmed-over food.

· Problems with transportation service: late arrivals, missed routes, missed meals, and missed classes.

· Problems with quality of custodial service: insufficient cleaning, untrained personnel, unmaintained systems, and unfixed problems.

IV. Recommendations to Help School Boards and the Public Exercise Due Diligence in Considering the Appropriateness of Contracting Out

Prequalification of Bidders

Many public agencies across the country have adopted a procedure for "prequalifying" responsible bidders. This procedure entails requiring extensive background information on contractor performance and standards that can be used to determine a more select pool of truly "responsible bidders."

The board can then invite this group of contractors to bid on an RFP and choose the lowest bid from among this prequalified group. The information to be requested might include the following:

· Any contracts cancelled by school districts.

· Any litigation regarding contracted services.

· Any fines, penalties, warnings, or negative reviews by district or other public officials.

· Any employees fired for criminal activities or other activities affecting interaction with schoolchildren.

· Any disagreements over contract interpretation that were settled through arbitration.

· Reports of customer complaints.

· Any reports of drivers found to have motor vehicle violations.

· Record of all food safety, food health, or food-borne illness issues or complaints—whether formal legal complaints or informal complaints from students or parents, and regardless of how the complaints were ultimately resolved—at schools operated by this contractor over the past five years.

Model Contract Language

In order to help school districts avoid falling victim to hidden or unforeseen pitfalls that may endanger students, degrade the quality of services, or impose significant unanticipated costs, we offer the following recommendations for model language to be used in agreements with private contractors:

· *Financial penalties* for nonperformance of duties specified in the contract.

· *No Surprise*. Included in its bid submission, each contractor should be required to list items in the contract that might potentially end up costing more than what is initially projected.

· *"Me Too" clause*. Districts should seek to insert a "me too" clause, stipulating that if the contractor offers another district a lower rate for the same service (e.g., a lower per-meal management fee, as has happened within Oregon), the district will automatically receive the same terms—unless there is a substantial difference in the two districts' operating costs or material circumstances.

· *Specifying terms of contract renewal*. Contractor guarantees, if contract is renewed beyond initial term, that charges for subsequent contracts will only increase by the rate of inflation, unless contractor can document that its cost of providing services has increased, in which case fees may be increased to cover those costs.

· *Purchase of district assets*. Any district assets sold to the contractor will be priced at fair market value.

· *Measurable standards of service*. Make sure there are clear and measurable standards of service and realistic financial penalties for a contractor failing to meet them.

· *Measurable standards of employee competence.* Define clear and measurable requirements of employee competencies. Define the contractor's procedure for screening new hires and for training new employees, and provide a transparent means for district to monitor this process.

· *Rebates and discounts*. All rebates, discounts, or other economic benefits provided to the contractor by suppliers—whether private or government suppliers—must be passed on to the school district at 100 percent. Contractor must make all records available to district to verify this practice.

· *Employee turnover*. Contractors often promise to attract employees who will be committed for the long-term, but such statements should be subject to monitoring and evaluation. For this reason, it may be appropriate to include financial penalties if a contractor's employee turnover exceeds an agreed-upon rate.

V. Alternative Approaches to Contracting Out

In most of the cases that we analyzed, the committees designated by school boards to study and evaluate contracting out have not included formal input from district employees or their representatives who often have firsthand knowledge of how school support services operate. There are several ways in which school boards might consider taking advantage of this experience and insight.

· Formal representation of school support employees on committees that have been formed to study and evaluate the appropriateness of contracting out.

· Encouraging joint labor-management approaches that seek to develop strategies to improve the quality, efficiency, and cost effectiveness of school support services.

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The decision on whether or not to contract out school support services is one of the most difficult and important decisions that school boards and communities are likely to face. Our research underscores the need for school districts to exercise due diligence when they contemplate contracting out support services. We urge them to consider all potential costs in calculating the benefits of switching to private management and to develop clear practices and procedures to monitor the performance of private firms if they make the decision to contract out.

Introduction *and* Background

Faced with the ongoing prospect of diminished funding from the state, school districts throughout Oregon have been struggling to balance their budgets while continuing to provide students with a quality education.

For a growing number of districts, hiring private contractors to manage and staff school support functions such as transportation, custodial, and food services has emerged as a possible cost saving option. In 2003, five districts in Oregon (Gervais, Lake Oswego, Lincoln County, Pleasant Hill, and Rainier) contracted out at least one support service, and others seriously considered privatization before ultimately deciding to retain in-house control of these operations.

With the failure of Measure 30 and the likelihood that state funding for K-12 education will remain flat, pressure to consider contracting out is likely to continue, and more districts will have to evaluate the merits of shifting from public to private provision of school support services.

▸ The decision to contract out has far-reaching implications for many stakeholders served by school districts, including students, parents, teachers, support staff, and the community at large.

The decision to contract out has far-reaching implications for many stakeholders served by school districts, including students, parents, teachers, support staff, and the community at large. Public debate over contracting out is often heated and contentious, containing numerous claims and counter-claims that decision-makers and the public are compelled to examine and evaluate. In this challenging and frequently intense atmosphere, the school board and the community must determine if contracting out will produce significant cost savings, whether the quality and scope of school support services will remain comparable under private control, and how the community might be affected when support staff are placed under private management.

This report seeks to provide school boards, parents, and the general public with information and analysis that will assist them in determining whether or not contracting out is an appropriate option for their district. During our research we have examined government reports, school budgets, requests for proposals (RFPs), and private contracts for school support services, with a special emphasis on the five districts that contracted out support services in 2003. We have reviewed the national literature on contracting out, surveyed workers whose jobs were contracted in the past year, and interviewed school officials, school board members, parents, workers, union leaders, and state agency personnel who oversee school support services. We also contacted many of the private contractors who provide support services to school districts, but received no responses to our requests for interviews.

Throughout our research on this complex issue, we have attempted to tap diverse sources of information and talk to all parties with a stake in these decisions. We have especially focused on the issue of cost, which is one of the central issues in the debate over contracting out, and posed the following questions:

To what extent will switching to a private contractor save money for a school district?

What longer-range costs to workers and communities need to be considered in addressing both the potential benefits and liabilities of contracting out?

What types of practices and procedures can be employed to ensure that school districts exercise due diligence when considering the appropriateness of contracting out?

What steps can districts take to ensure quality service and cost-effectiveness once the decision to contract out has been made?

In our conclusion, we offer a set of recommendations for school boards that we believe would help safeguard the public interest when contracting out is either being considered or has been implemented. It is our hope that this report can contribute to a more informed and productive debate about the merits of contracting out and its implications for public education in Oregon.

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Background

During the early part of the twentieth century, concern over the inefficiency and corruption that often accompanied the private provision of public services (e.g., mass transit, garbage collection, public works) led to government assuming responsibility for overseeing many of these functions.

Over the last three decades, questions about government's appropriate role and function have increasingly led public entities at the state, county, and municipal level to turn to the private sector as a service provider, especially during times of serious budget shortfalls. Advocates of contracting out argue that introducing competition into the provision of public services and drawing on the expertise of private contractors can result in enhanced efficiency, improved quality, and cost savings. In the case of schools, contractors and their supporters contend that contracting out school support services allows educators to focus on their core responsibilities of teaching and learning by transferring the management and administration of these services to private hands.

Contracting with private companies to provide school support services is not a new phenomenon in Oregon, where some school districts have used private contractors for nearly three decades. Among school districts nationally, contracting out appears to have declined in recent years. According to the *American School and University* magazine's most recent privatization survey, the number of districts that did not contract out any school support services rose from 12.3 percent in 1997 to 23 percent in 2001. The survey cited public skepticism over the benefits of contracting out as well as accountability concerns as the principal reasons for this trend towards retaining services in-house.

Data from the Oregon School Boards Association (OSBA) and state agencies estimate that approximately 35 percent of Oregon's 198 school districts contract out for transportation, 16 percent for food services, and 8 percent for custodial, percentages that closely parallel national figures.

However, prompted by serious reductions in state funding, contracting out does appear to be increasing in Oregon, especially in the area of pupil transportation, where the number of districts that have chosen to contract out has increased by approximately 9 percent over the last five years.[1]

Another important trend has been mergers and buyouts among the private contractors that provide school support services, which has resulted in growing consolidation within the industry, especially in transportation and food services. Eighty-four percent of contracted pupil transportation services in Oregon is provided by three companies: Laidlaw, First Student, and Mid-Columbia. Canadian-owned Laidlaw and United Kingdom-based First Student rank first and second nationally among transportation contractors as far as bus fleet size, while Mid-Columbia, an Oregon-based company, has the twenty-second largest fleet.

In food services, three large companies dominate: French-based Sodexho USA, Philadelphia-based Aramark, and United Kingdom-based Compass Group, whose Chartwells subsidiary serves school districts. Each of the companies has been aggressively expanding, with Sodexho capturing new accounts in 32 U.S. school districts in 2003 in both food services and facilities management.[2]

Custodial services tend to be handled more by local companies, but Sodexho is expanding in this area, and, in 2003, SBM Cleaning Services, a California-based firm specializing in providing janitorial services to corporate clients, made its first foray into a public school district by entering a contract with Lincoln County. Qualified Rehabilitation Facilities (QRFs) have also begun to enter the custodial services field. These nonprofit agencies employ mostly disabled people and, under state law, are granted preference in the bidding process. Clearly, large private contractors and some smaller concerns view public school districts as a market with substantial opportunity for growth and expansion. Consolidation within the private contracting industry also means that there are fewer companies bidding to provide school services. For example, in Pleasant Hill in 2003 and in North Lake just this year, only one contractor responded to the RFP issued by these school districts seeking bidders to provide pupil transportation. When Lincoln County recently requested bids for its custodial services after experiencing difficulties with its contractor, only two companies responded to the RFP. Even advocates of contracting out concede that a reduced number of bidders limits the benefits that districts might obtain from an RFP process in which more contractors are participating.

The *Hidden* Costs

There's No Such Thing as a Free Lunch Program: The Hidden Costs of Contracting Out School Services

When school board members are faced with proposals to contract out school services, they are often placed in the position of making important decisions without all the information they need to render an informed judgment. Because board members are volunteers with many other commitments and because school system accounting can be quite complex, board members may simply defer to district staff who in turn often rely on contractors themselves to provide reliable cost estimates.

Unfortunately, this system often results in districts signing contracts which they believe promise a certain level of service at a certain price—only to discover later that they are saddled with unexpected costs, inferior service, or both. This is particularly true in cases where districts have been promised that they are "guaranteed" to make money by privatizing a given service. In the Three Rivers District, for example, the board believed Sodexho had "guaranteed" that the program would at least break even—and then found themselves funding a deficit of over $100,000. One board member complained that "the language he thought was clear—now appeared that it was not. He had asked specifically and had felt that this program offered a 'no lose' solution to the food service program. Now it appeared the district would have to cover the deficits."[3]

▸ **There is no such thing as a contract with an ironclad guarantee to provide quality service while returning a net savings to the district**. For district staff and board members, these words should function as a warning signal, prompting them to examine the details of the contract language in order to find the loopholes that often lay behind the promises.

If board members were to read just one sentence of this report, it should be this: *There is no such thing as a contract with an ironclad guarantee to provide quality service while returning a net savings to the district*. It is fairly common for contractors to use the language of "guaranteed" or "promised" returns. For district staff and board members, these words should function as a warning signal, prompting them to examine the details of the contract language in order to find the loopholes that often lay behind the promises.

Why would contractor representatives use the language of "guarantees" and "promises" if the dollar amounts are not truly guaranteed? Because they are salespeople. They are pitching a product, just like any salesperson. This does not mean that they are dishonest or unethical. It simply means that board members need to treat contractors' claims with the same healthy skepticism and caution they would show towards any other salesperson—indeed, since taxpayer dollars and the welfare of children are at stake, they must proceed even more carefully than they would in other types of negotiations.

Like any business, food, custodial, or transportation contractors will seek as great an advantage as possible in negotiating contract terms. This is not an unusual situation or an ethical lapse—this is what businesses are *supposed* to do. The problem is that, in negotiations between contractors and board members, there is a very unequal balance of knowledge. Regional or national service companies have extensive experience negotiating such contracts and are already managing scores, if not hundreds, of similar contracts in other jurisdictions. Behind the individual company representative who deals with board members is a large professional staff of experienced businesspeople. They understand the small details, hidden meanings, possible interpretations, and open loopholes in every clause of standard contract language. Furthermore, they have years of experience, across a variety of school districts, in how the contracts evolve over both the short- and long-term. Where board members may be relying on faith, hope, or guesswork regarding which costs will end up being higher or lower than the contract terms suggest, contractors are not relying on guesswork—they have seen this scenario played out many times before.

By contrast, board members are unpaid, part-time volunteers. It is likely that they became involved in the school system out of an interest in what goes on in the classroom—not in the support service functions. Overwhelmingly, the RFP and contract negotiation process is the first experience they have ever had dealing with this type of company or negotiating this type of contract.

Because of this experiential imbalance between board members and contractor representatives, it is all the more critical that both board members and district staff 1) become aware of the most common pitfalls that occur in contracting out; 2) make sure to adopt contract language that protects the public interest (both in terms of dollars spent and services received); and 3) conduct a rigorous due diligence process to verify the financial claims made by contractors.

What follows are three case studies of recent privatization contracts gone wrong—one transportation, one food service, and one custodial, all in Oregon. In each case, the district ended up with significantly greater costs, or significantly lower savings, than board members were led to believe.

These cases are presented as an opportunity for board members, district staff, and interested members of the public to better appreciate how what looks like a good deal on the surface may turn out to be very different once all the details are accounted for. Following these case studies is a brief summary of some of the most common pitfalls in school contracting out, along with suggestions for steps districts can take to avoid them.

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Case 1 - Analysis of Potential Hidden Costs in Rainier School District Transportation Contract

Background

In 2003, the Rainier School District decided to sell off its bus fleet and contract out its student transportation services to the Mid Columbia Bus Co., Inc. Under the terms of the contract, Mid Columbia took over all transportation operations beginning in the 2003–04 school year. MidCo will use a combination of its own buses and the district's fleet, which it will lease for $1 per bus per year for the first three years of operation, and is expected to purchase entirely after the third year.

The Rainier School Board was presented with a spreadsheet document intended to compare the costs and benefits of contracting out. However, a number of items in the document contained significant errors. To the extent that board members relied on this document for making their decision, they may have been seriously misled.

While the document presented to the board showed that contracting out would save the district $57,608 per year, a close examination of the underlying data suggests the opposite: that contracting out is likely to cost the district more than keeping transportation services in-house.

The elements that change contracting out from a net money-maker to a net money-loser include the following:

- Depreciation of Buses: ***Miscalculation***

In the document provided to board members, "Bus Depreciation" is listed as an expense of $47,778. The RFP shows that this is, indeed, the amount of depreciation on the district's bus fleet that is allowed for the 2002–03 school year. However, not all of this should be counted as an expense. The state reimburses each school district 70% of its depreciation expense (based on depreciating the total purchase price over a ten-year schedule). Therefore, of the total $47,778 in depreciation, 70 percent will be reimbursed by the state. The district's true depreciation expense is only 30 percent of the total, or $14,334. Reducing the "depreciation expense" to this number would cut the projected savings due to contracting out from the projected $57,608 to the more realistic $24,163.

In addition, while the summary analysis is based on depreciation for the 2002–03 school year, the contract does not actually start until the 2003–04 school year. Depreciation in this year will be less, because one of the district's buses will have surpassed ten years of age and therefore will have been fully depreciated.

The unreimbursed depreciation expense for 2003–04 will be $12,783, thus lowering the realistic contract savings slightly further, to $22,612.

- Depreciation of Buses : ***General Concept***

Beyond the question of the proper amount of depreciation expense, it is unclear why "depreciation expense" should be included in the cost/benefit comparison at all. Depreciation is the district's method for setting aside funds for the future, so that money is available when buses have to be taken off the roads and new vehicles purchased.

If the district continues its relationship with MidCo into the future, at some point MidCo's buses will need to be repaired or replaced. And presumably, the company will pass this cost on to the district.

There are only two possible ways that contracting out could truly and permanently spare the expense of depreciation: **1)** if the contractor committed to providing the funding for depreciation itself; or **2)** if the contractor committed to providing its own bus fleet for the long-term future. Neither of these is the case.

The contract between Rainier and Mid-Columbia stipulates that "the contractor shall … provide and maintain the required number of school buses" during the life of the contract (Sec. 2). In addition, the contractor is required to establish a "superior preventive maintenance program" to take care of the buses (Sec. 8). The buses to be used include the district's current fleet of 20 buses, which the contractor will lease for $1 per bus per year, plus five new 71-passenger buses, one wheelchair lift bus, and two 14-passenger bussettes, all of which are to be provided by the contractor (Sec. 7B, 7C). At the end of three years, the contractor will be offered an option to purchase the district's bus fleet at fair market value (Sec. 7G).

There are no depreciation expenses in MidCo's current contract for one simple reason: this contract only covers the first three years of the district's relationship with this company. During that period, MidCo is providing six new buses and two new bussettes and otherwise is using the district's existing fleet for free. However, if MidCo's contract is renewed, some of the district buses will need to be replaced in the near future. It is unrealistic to assume that MidCo will absorb that cost rather than pass it on to the district — particularly since, after the first contract, the district will be negotiating from a weakened bargaining position as it will have sold off its fleet and have no option but to sign a contract with one private provider or another.

Essentially, the district's calculations assume that the cost charged by the contractor in years one and two—when the district's bus fleet is relatively new—will stay the same forever, even as the fleet ages and needs to be replaced. This is an extremely unlikely scenario that contradicts common business practice. The district will still need to set aside funds to purchase replacement buses—whether this occurs through district-owned vehicles or through increased payments to contractors.

Thus, the savings of "depreciation" is an illusion, and one that cannot last. To project that the costs of the contract in its first three years will remain unchanged in the future seems untenable. The costs of depreciation are back-loaded, but they are real. Indeed, the prudent course of action is for the district to continue to charge itself depreciation, and to put this money into a reserve fund to pay for eventual replacement needs. If the district does not do this, it may eventually need to raise large sums of money in subsequent years in order to pay for new buses. But it will almost certainly need to pay this cost one way or another.

A more accurate way to measure the costs and benefits of contracting out would assume that the district needs to continue to put aside depreciation/replacement funds every year. How should the board calculate the continuing need for depreciation/replacement expenses? The most conservative, minimal calculation would assume that the district's depreciation costs will simply continue to accrue as they do now. For 2003–04, this means that the $12,783 cost cited above should be treated as a continuing cost rather than a savings.

However, there is an even greater problem looming on the horizon. Assuming that the contractor passes on its own depreciation and replacement costs in future years, these costs will be passed on at 100 percent of their value. When transportation is an in-house service, the State School Fund reimburses the district 70 percent of its depreciation costs. However, if the district sells its fleet to MidCo, this 70 percent subsidy comes to an end. We do not have sufficient data to determine exactly how this cost will play out in the Rainier District. However, if the costs and benefits of privatization were projected ten or twenty years out—rather than just through the life of this first contract—it is very possible that the district will end up spending significantly *more* on the depreciation and replacement of contractor buses than it would have had it retained ownership of the fleet.

- Administrative Secretary

The board summary counts 100 percent of the Administrator's Secretary as being devoted to transportation, when in fact, this position (as the Administrator himself) was split between transportation and custodial services. If the Secretary's expense is treated as 0.5 FTE instead of 1.0 FTE, this "expense" is cut from $29,616 (plus $15,000 in benefits, based on the summary spreadsheet, showing benefits to be 50 percent of salaries), to approximately $15,000, plus $7,500 in benefits. In total, this expense should be cut in half, i.e. by $22,500.

Summary of Hidden Costs in Data Presented to Board

- Initial claim of annual costs saved by contracting out: $57,608.
- Adjustment for state reimbursement of depreciation: -$33,443.
- Adjustment for decrease in depreciation in 2002–03 to 2003–04: -$1,549.
- Continuing depreciation cost rather than writing it off: -$12,783.
- Adjustment for secretarial FTE: $22,500.
- Net Impact of Contracting Out: -$12,667.

Additional Issues Regarding the Cost of Contracting Out

The structure of Rainier's contract with MidCo stipulates charges per unit of service (mile, student, hour, or activity), and projects a total cost based on past history. But it does not guarantee any sort of cap on expenses. In any contract structured in this way, there is a danger that the projected level of activities is unrealistically low—in which case the district is locked into paying a larger total amount to the contractor than board members may feel they've signed on for. There is no way for a board to protect itself against this danger, other than going through the details of past and projected service levels.

In the case of Rainier's relationship with MidCo, there is reason to believe that the ultimate contract costs may be significantly higher than those projected in the contract. For example, the contract calls for the use of 14-passenger busettes for sports and other activities involving smaller numbers of students. According to the RFP, in 2001–02 the district used such vehicles for only 10,151 miles.

However, its contract with Mid-Columbia guarantees payment for these two vehicles for a minimum of 16,000 miles per year. There is no change anticipated in the schedule of events for which such vehicles are used. Therefore, it seems likely, in the end, that the district will pay for up to 5,849 unused miles on these busettes. At the contracted rate of 85 cents/mile, this amounts to $4,971 in wasted funds.

We conducted a more extended analysis—not presented in detail in this paper—comparing the per-use rates stipulated in MidCo's contract with the expected mileage in various categories of usage that the district recorded in 2001–02 (listed in the RFP).

While this analysis is necessarily tentative without more complete data from the district, the result is not encouraging. In total, it appears that the cost of the contract is likely to be in the neighborhood of $690,000, or more than $80,000 per year above what board members were led to expect. This discrepancy is independent of, and in addition to, the hidden costs of depreciation and secretarial FTE documented above.

Summary and Conclusions

The Rainier District's plan for privatization of student transportation services was presented to board members as a significant and unambiguous cost savings. However, the analysis above suggests that the truth is, at the very minimum, much more uncertain.

Two clear calculation problems—accounting for bus depreciation reimbursement and the proper FTE for secretarial support staff—together reduce the anticipated savings of $57,000 per year to just about zero. In addition, a detailed examination of the RFP and the contract suggests that MidCo's operation may end up costing as much as $80,000 per year more than the figure projected in its contract with the district. Finally, depending on how one accounts for future bus depreciation and replacement needs, the district may be facing further significant costs in years beyond the first contract.

All of these issues merit serious study by board members, and perhaps reconsideration of the decision to sell the district's bus fleet and thereby commit the district irrevocably to privatization.

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Case 2 - Contracting Out of Food Services in Lincoln County: When is a Guarantee Not a Guarantee?

Background

In the spring of 2003, the Lincoln County School District signed a contract with Sodexho, America, LLC, to provide all of the district's food services, beginning in the 2003–04 school year.

Sodexho's proposal looks attractive for two reasons. First, the total projected costs under the proposal are just over $1.7 million, including the contractor's management fee. By contrast, the district's food service budget for 2002–03 was $1.86

million; thus, Sodexho's proposal appeared to represent a net savings of approximately $150,000.

Second, Sodexho actually guaranteed not only that all operating costs would be covered before it received its management fee, but also that the district would receive a guaranteed net return of at least $115,432 before the contractor was granted even one cent of management fees.

Given this guarantee, Sodexho's proposal may have seemed like a no-lose situation to school board members.

However, there are two big problems that make the Sodexho contract less attractive than it may have initially seemed. In 2002–03, the proposed budget in Lincoln County turned out to be a significant overestimate of actual costs. While Lincoln County budgeted $1.86 million for food services, it really spent $1.56 million in that year. Thus, while Sodexho's contract proposal was $150,000 below the projected 2002–03 food services budget, it is in reality nearly $150,000 *more expensive* than what the district spent on food in that year.

Second, while Sodexho's guarantee of a $115,000 net return to the district sounds ironclad, the actual terms of the contract provide a whole range of conditions and loopholes that, taken together, are likely to undo most of this "guaranteed" return.

The analysis that follows focuses primarily on the loopholes that make this "guaranteed" return disappear.

Section 5, Items #1 and #6 of the Sodexho contract specify that the "guaranteed" return is dependent on a specific set of assumptions. If any of these assumptions turn out to be false, the "guarantee" is off, and the terms of the contract are supposed to be renegotiated in order to account for the difference between the assumptions and the realities of the food service operation in 2003–04. Among the assumptions stated in the contract are the following:

· Usable commodities will be provided by the federal government, equal to a value of 18.02 cents per meal.

· Average daily membership (i.e., the number of students) will remain at or above 6,000 for the school year.

· State and federal minimum wage rates will not increase above the level they were at as of July 1, 2003.

Unfortunately, each of these assumptions appears to be incorrect.

In each case, they will result in higher charges to the district, which will come out of the "guaranteed net return" of $115,432.

- Federal commodity contribution rate

The contract states that the district's guaranteed return is dependent on federal commodities being contributed at a rate of $0.1802 per lunch.

However, this was a particularly optimistic assumption. In fact, the US Department of Agriculture has announced that its 2003–04 commodity contribution rate will be only $0.1575 per lunch.

Spread across the more than 500,000 lunches served per year, the difference is approximately $12,000.

- Average Daily Membership

Sodexho's contract with the district (Sec. V, Part 6) asserts that the finances of the contract are dependent on the Average Daily Membership of the school district remaining at or above 6,000 students for the 2003–04 school year. However, enrollment in 2001–02 was only 6,083, and the Superintendent's statement in the Adopted 2003–04 Budget states that the district "assumes a continuing decline for our district of 200 students for each year of the biennium." If enrollment falls by 200 students per year, this means that in 2003-04 it should be approximately 5,683, or 5.3 percent below the 6,000 mark.

This enrollment shortfall is likely to impact Sodexho's finances in two ways. First, if there are 5.3 percent fewer meals sold than the volume expected, this amounts to a lost management fee of $2,087. In addition, while lower enrollment presumably means less sales, not all expenses can be cut even when the number of meals served is less. It seems reasonable to assume if the number of meals falls by a little over 5 percent, food and labor expenses can be cut by the same amount. However, management and other fixed expenses cannot be reduced despite the drop in sales. Thus, total sales will decrease more than expenses, resulting in a decline in net revenues for the company. Based on the numbers provided in the company's proposal, if the number of meals served turns out to be 5.3 percent below the expected level, this will result in a loss of net revenue of approximately $20,000. Thus, the lost revenue combined with lost management fees total a loss of approximately $22,000, compared with the revenue expected under the scenario envisioned in the contract. This loss will come out of the district's "guaranteed" return.

- Minimum Wage

Sodexho's contract is based on the assumption that Oregon's minimum wage will not increase above its July 1, 2003 level. However, in November 2002, Oregon voters passed Measure 25, which mandates that the state raise its minimum wage each January 1 in order to adjust for inflation. Both Sodexho and the school district should have been aware of this fact, which makes it impossible for this contractual "assumption" to be met. Indeed, the state's minimum wage was increased on January 1, 2004, from $6.90 to $7.05. It is unclear how this will impact the contract in 2003–04, since Sodexho has pledged that the preexisting wage rates will remain in effect for those district employees that stay on as Sodexho employees in 2003–04. All of these employees were already making more than the minimum wage, so this change might not affect them. However, not all district employees chose to stay on with Sodexho. And many employers choose to raise the wages of their lowest-paid employees when the minimum wage increases—even if they are already making above the minimum—simply in order to maintain the desired differential between more and less valued employees.

This makes it hard to calculate the impact of the minimum wage increase with perfect accuracy, but it is possible to make a ballpark estimate. If Sodexho institutes a 15 cents/hr increase just for its lowest paid classifications—kitchen helpers and office helpers—this would increase its annual wage bill by roughly $3,000 for the year. Moreover, this rate will increase significantly in the second year of the contract, for two reasons. First, Sodexho's commitment to maintain the old wage rates of carryover district employees is only good for one year; in 2004–05, the company is free to cut all these positions down to minimum wage if it so chooses. Second, there will be another increase in the state minimum wage as of January 1, 2005, and this increase, like the first, will be passed on to the district. Added together, the financial impact of falling enrollment, a higher minimum wage and incorrect assumptions about federal commodities totals $37,000. All of this will come out of the district's revenue, cutting its "guaranteed" return from $115,000 to $78,000.

In addition to the impact of these changes, there is one more major issue that makes the Sodexho contract less of a good deal than it initially appears: the company's management fees are likely to be double what they appear in the contract. The contract states that Sodexho is to be paid a management fee of 4.3 cents for every meal served if they serve up to 915,944 meals. The 915,944 figure is the total number of meals served in the 2001–02 school year.

However, Sodexho's own promotional materials show that, despite falling enrollments, the company has been increasing the number of meals sold in the Lincoln County District at the rate of 12,500 per year. Since this contract will begin in 2003–04—two years after the 915,944 figure was established—it is likely that Sodexho's meal totals will exceed this number. If its past growth rate continues, it will serve 25,000 more meals than this. But even if it only sells a single meal more, its fees will be doubled.

According to Sodexho's contract with the district, if it serves even one meal above the 915,944 projected, it is entitled to an "incentive" fee of 4.3 cents per meal, doubling its total management fee to 8.6 cents per meal. Moreover, the contract explicitly commits the district to pay this higher rate not only for the meals served after the 915,944th, but retroactively back to the first meal of the year (i.e., as soon as they serve one meal over the quota, *all* their meals back to the first one of the year are given doubled management fees).

The problem with this is that the RFP's projected number of meals served is based on actual meals served in the 2001–02 school year. Since the number of meals served has been increasing each year, it is very likely that in 2003–04 (the first year of the contract, but already two years beyond the data used for the RFP's projections), the number of meals served will exceed the quota. In fact, Sodexho's own numbers (included in their proposal) show that the number of meals sold increased by a little over 25,000 in the two years between 1999 and 2001. If we assume that the same kind of growth has continued since then, we would expect 2003–04 meals to total not 915,000 but 940,000. Thus, Sodexho's per-meal fee will be doubled.

Assuming that in 2003–04 Sodexho serves at least one meal more than in 2001–02, its management fees will be approximately $80,000, rather than the $39,386 projected in the contract. Under the terms of the contract, the extra $40,000 cannot come out of the district's "guaranteed return." But it will come out of other sources of district money—most likely, the $80,000 in unexpended funds that was carried over in the district's food service budget at the end of 2002–03.

Finally, there is a range of food service costs that are simply unaccounted for in the Sodexho contract, and that therefore may be expected to come out of district funds. The district's 2003–04 budget contains no funding whatsoever for food service, apart from its contract with Sodexho. However, the contract itself stipulates a significant list of duties that remains the district's responsibility even after contracting out. These include:

· Repair and maintenance of all facilities and equipment involved in food preparation, storage, and delivery.

· Determining and verifying students' applications and eligibility for free or reduced priced meals and milk.

· Developing, distributing, and collecting parental letters and applications for subsidized food service.

· Signing all reimbursement claims.

· Establishing commodity processing contracts.

· Carrying out and monitoring contractual agreements regarding the National School Lunch Program, School Breakfast Program, Special Milk Program, reimbursement claims, and all other government contract issues.

· Resolving program review and audit issues.

· Monitoring food service operation and guaranteeing everything in the contract is being carried out.

· Setting up an advisory board of parents, teachers, and students to help plan menus.

· Reviewing weekly and/or monthly financial reports from contractor.

· Working with the contractor to utilize students or volunteers—who will be identified by the district—in food service operations.

· Providing contractor with office space, furnishings, and equipment, including telephone service.

These activities are completely unaccounted for in costing the Sodexho contract. As a rough estimate, if they were all carried out by a .5 FTE manager who was paid at the rate of $45,000 per year with 30 percent going for benefits, this would amount to a cost of approximately $30,000.

Summary

All told, there is a dramatic difference between the initial claims made about Sodexho's contract and the financial reality now facing the district.

Sodexho appeared to promise that the district would get $115,000, in addition to the $80,000 surplus it had carried over from the year before. Instead, it seems more likely that the district will get only $78,000, plus lose half its carryover surplus. In addition, the district must bear the estimated $30,000 cost of carrying out its remaining responsibilities under the contract.

Since this cost is not provided for anywhere in the district's food service budget, it makes sense to assume that it will be paid out of the district's "return" from Sodexho.

Together, the combination of smaller return, unforeseen district management costs, and lost surplus represents a total loss to the district of $107,000 compared with what it expected to get from Sodexho.

When we take all these added costs into account, the total cost of the contract in 2003–04 should now be expected to be approximately $1.81 million. This is still $50,000 less than the amount budgeted for in-house food service during 2002–03, but it is $250,000 more than what the district actually spent on food service in 2002–03.

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Case 3 - Lincoln County Custodial Services: The Problem With Loopholes

Background

In 2003–04, Lincoln County chose to contract out its custodial services to the SBM Cleaning Company. The Lincoln County Superintendent's 2003–04 Budget Message declares that the district will save $324,000 by hiring SBM.

The district's projected cost savings is based partly on SBM's repeated pledge that "the monthly billing will not exceed $105,000," or $1,267,000 for the year, unless the district approves otherwise.

Thus, the SBM contract offers an interesting comparison with the Rainier transportation contract discussed above. In the Rainier case, the district agreed to pay a certain amount per mile, student, activity, or hour of bus usage—but had no guarantee that the total annual cost would be capped at any given level.

In this case, the Lincoln County District does have a guarantee that costs will be capped at an agreed-on amount, unless the district expressly approves otherwise. This contract language may be understandably appealing to board members. However, it turns out that in this case, no less than in Rainier's, the district has not really guaranteed that its custodial service will be provided at a fixed price.

The notion of a "guaranteed" cost for contracted service is popular but almost always illusory. For services to truly be guaranteed, three assurances are needed: 1) the contractor must clearly guarantee that the scope of services provided will be the same as that provided by district employees; 2) the contract must spell out exactly what services will be provided, in concrete detail; and 3) the total cost for such services must be capped at a guaranteed level.

Contracts that have one or the other of these features, but not all three, leave the door open to "guarantees" unraveling.

In the case of Lincoln County custodial services, there are a number of troubling loopholes that leave the district unable to predict either what level of services it will receive or what additional costs it may bear for services that are necessary to the schools' operation but not provided by the contractor.

Among the questionable aspects of SBM's contract are the following:

- General Scope of Service

Lincoln County's contract (p. 10) states that "the contractor shall furnish all necessary custodial services and resources." So far, so good. But the definition of "necessary service" turns out to be imprecise. Indeed, the contract specifies that:

"Following award of contract, the CONTRACTOR shall conduct a Service Study and provide a thorough and comprehensive analysis of proposed and existing service standards and specifications, an operational model, staffing, and operational implementation plan(s) to support proposed service standards. This operational plan(s) shall include a methodology for verification and compliance with service standards and method of adjustment of the fee if/when standards are not met and corrections are not made timely. (p. 10)"

This language is almost akin to giving the contractor responsibility for writing its own RFP. *After* the contract is awarded, SBM is granted carte blanche for determining appropriate staffing and service standards.

In addition, the contractor is supposed to determine how its own work should be monitored, and what, if any, financial penalties it should have to pay in the event that it fails to meet its own standards. Under these conditions, it is hard to know how board members could evaluate the contractor's proposal, since the contract language doesn't answer the most fundamental questions of what service will be provided. Board members were given a guaranteed price, but left with the question: What are we buying for this price?

Vague, imprecise contract language should always raise questions for board members.

In Lincoln County's case, this concern was heightened by the fact that, prior to its Lincoln County contract, SBM had never provided custodial services to a single school district anywhere in the country.

The company's prior experience was primarily in nighttime cleaning of office buildings.

To hand such a company responsibility for putting together a detailed custodial plan for a school system appears to place an unwarranted level of confidence in a novice service provider.

- Standards of Service

At the heart of any custodial contract must be a statement of what services are to be provided, what standards of performance or cleanliness will be required, and how the district will be able to monitor and enforce these standards.

The Lincoln County contract, however, specifically absolves the contractor from meeting any particular level of service. In specifying the required "Custodial Standard" (p. 13), the agreement explains that "the ultimate objective of this contract would be to provide services to the schools in the district as defined in the Service Levels specified in Attachment 3. Limited manpower allowances are expected to prohibit the full provisions of those standards."

"During the first four months of the contract, the contractor shall establish with each school principal, with the approval of the district office, a defined service level, such service levels may vary from school to school."

Again, the only standard of service provided in the contract is the agreement that the contractor is expected to fail to meet the district's preferred standards. Beyond that, it is left to the contractor to determine what level of service each school shall receive. While the district is required to approve these plans, the contract is silent on the question of what happens if the district finds the plan to be inadequate. Without the power to require the contractor to meet more rigorous standards, the district has little choice but to approve the plans or to terminate the contract as a whole.

- "Added Services"

Any work that is not included in the contractor's scope of service—which is left to be determined by the contractor itself in consultation with each school's principal—will be billed to the district as an added cost above and beyond the "guaranteed" maximum monthly cost.

Since this contract was signed before any specific scope of services was agreed upon, the range of work that might fall into this category is unclear. However, the contract specifies some examples (p. 8)—such as responding to "emergency situations, such as flood, fire, or other physical damage to district's premises"—which are defined to fall outside the scope of services. If the district needs SBM staff to respond to these situations, it will be paying them for additional work—billed at a higher rate—above and beyond the "guaranteed" cap. It is noteworthy that responding to flood or fire is considered an "additional service" even if it occurs during the normal daytime work hours of SBM staff. This is one of many areas of work that district custodians carried out as part of their normal duties, without extra billing, which under the contract are treated as special add-on costs.

- Quality and skills of contract employees

SBM's contract with Lincoln County states (p. 15) that it will only hire people "of the highest moral character…. contractor agrees that it will not allow a person to serve as a custodian whose character is not of the highest level, or whose conduct might in any way expose a child to any impropriety of work or conduct whatsoever."

In addition, SBM states that it will train employees to be familiar with furnace, boiler, and other school infrastructure that may require routine maintenance or troubleshooting.

However, a low-wage employer who offers few, if any, benefits can expect to have difficulty attracting such high level employees. And indeed, SBM's own materials (dated 6/24/02, provided to the district as part of the contract bid) make it clear that its hiring qualifications for custodians are extremely low:

· Education &/or Experience: No prior experience or training.

· Language Skills: Ability to read 2-3 syllable words, recognize similarities and differences between words and series of numbers. Ability to print clearly and speak simple sentences.

· Mathematical Skills: Know how to add and subtract two digit numbers and to multiply and divide with 10's and 100's. Know the American measures of money, weight, size, length, shapes, distance, and measures.

This is not the job description of a high-quality custodian. If these are the standards by which employees are screened, it is hard to imagine how the contractor will provide the quality of staff it has promised.

Furthermore, at the wage and benefit level offered to new employees, it is likely that SBM will experience significant turnover, thereby increasing training and replacement costs and decreasing the likelihood that custodians will become a functioning part of a school management team. This may cause problems in the performance of the numerous duties that require custodians to interact with teachers, principals, administrative staff, and students. In addition, contract employees' skill limitations may impose significant costs on the district if they are unable to do the kind of troubleshooting and repair work that district custodians routinely carry out. This is all the more likely in schools with aging equipment—which should be expected in schools that contract out, since the same budget pressures that lead to contracting out often also lead to delaying equipment purchases or preventive maintenance. District custodians, many of whom boast very long tenure in their schools, know the idiosyncrasies of their buildings' systems. If contract employees cannot provide this same level of expertise, the district will likely end up hiring more expensive contractors from the outside to do what used to be custodial work.

Summary of Loophole Problems

Ultimately, Lincoln County's contract with SBM is not a contract for custodial services. It is, instead, a contract for a certain number of custodial staff hours.

When SBM guarantees that it will never bill more than $1.26 million for the year, it is simply promising that, for that amount of money, it will provide a given number of staff for a given number of hours. What those staff will be able to accomplish in that time, what tasks will be left undone, and what costs may be imposed on the district in order to get the rest of the work done—all of this is unknown. Of course, it's possible that the district will get good value for its money. But one cannot sign a contract like this and believe that custodial services have been "taken care of," or believe that one has effectively controlled the costs of those services.

Financial Summary—Did the District Save Money By Contracting Out?

Surprisingly, almost a year after the decision was made to privatize custodial services, it remains unclear whether the district saved or lost money by taking this step.

The Superintendent's 2003–04 Budget Message projects that the SBM contract would save the district $324,000. While there is no publicly available data against which this claim could be definitively measured, there are several factors that suggest that real savings may have been much more modest that the amount projected.

The $324,000 savings was based on a comparison of SBM's bid, which "guaranteed" a maximum cost of $1.267 million, against assumed costs of $1.59 million for providing in-house custodial services in 2002–03. However, the $1.59 million figure does not appear in any of the district's budget documents, and it's not clear where it comes from or what it represents. Indeed, the district's current manager for custodial services has explained that he inherited this number from a predecessor and does not have the exact calculations on which it was based.

The actual budget that the district published for 2002–03 allocated $1.49 million for custodial services. If we take this number as a basis of comparison, the "savings" from contracting out immediately shrinks from $342,000 to $224,000.

However, according to community activists testifying before the Board of Education, the actual cost of in-house custodial salaries in 2002–03 was $100,000 below the budgeted amount. If this is true, then the SBM savings would shrink again, now to $124,000. Furthermore, two of the district's schools (Delake and Siletz) were slated to be closed in 2003–04. In 2002-03, these two schools had a combined custodial budget of approximately $120,000. Since these are savings that the district would have realized with or without contracting out, SBM's savings would now be reduced to $4,000.

Again, community activists report that four senior custodians at the top of the wage scale were slated to retire in 2003–04. Simply replacing these retirees with entry-level custodians—even while remaining in-house district employees—would produce an automatic payroll savings of approximately $21,000. At this point, SBM's contract appears to be not a net savings at all, but rather a net *cost* to the district of $17,000.

Finally, the district's facilities manager reports that there have been additional charges from SBM above and beyond the basic cap, although the extent of such charges is not yet known.

In summary, if the above figures are roughly accurate, what started out looking like a net savings of over $300,000 ends up looking like a small net *loss* to the district.

Epilogue

In January 2004, the Lincoln County School District announced that it had decided to terminate its relationship with SBM only six months into a five-year contract. Neither SBM nor district officials have publicly explained the reasons for this decision. However, a number of potential causes have been presented in testimony before the district's school board.

According to board testimony from a representative of several former district custodians, only ten of the district's original 33 custodians remained employed under SBM. This representative reported that SBM 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 stated 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, she stated, 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.

While neither the district nor SBM have confirmed or denied these reports, it would be unsurprising to discover such a situation, given the terms of SBM's contract.

In any case, the Lincoln County School Board decided not to give SBM a second chance. In April 2004, the board approved a five-year contract with Sodexho to provide custodial services for the district. Although some board members voiced concerns with certain aspects of the proposed contract, the deal was adopted unanimously.

The *Social* Cost

In studying the five districts that contracted school support services in 2003, we found no complaints about the quality of service that was being provided by in-house employees.

Both in public settings and private interviews, school board members and school officials consistently expressed satisfaction with the performance of school support staff employed by their districts, although some complained about union grievance procedures that they believed inhibited management's freedom of action regarding disciplinary issues. Nor, for the most part, did districts make ideological arguments about the superiority of the private sector or contend that privatization would result in substantially greater productivity or efficiency. Rather, the districts that decided to contract out determined they could save money by switching to private providers and, by so doing, protect classroom instruction as their core obligation.

Earlier in this report, we raised concerns about the calculation of these savings and have noted some of the hidden costs not always accounted for in comparing in-house versus contracted services. Nonetheless, almost all observers agree there is one area where contractors can typically provide service more cheaply: labor cost.

As one analyst noted in an article on the Portland School District: "The most compelling argument for school districts to examine contracting out student transportation is the potential savings in labor costs." The Lake Oswego school superintendent made a similar argument during his district's debate on contracting out: "The reason a contractor can provide transportation services for reduced costs is because they do not offer a similar/comparable wage/benefits package." These statements, which also apply to other contracted services, are supported by national survey data showing that in both wages and employee benefits (including sick leave, holiday pay, vacation, retirement, and health insurance), contractors consistently pay lower wages than school districts and provide far less generous benefits.[4]

▸ Both in public settings and private interviews, school board members and school officials consistently expressed satisfaction with the performance of school support staff employed by their districts.

The experience of workers in the five Oregon school districts that contracted out support services in 2003 mirrors these national figures. In most cases, incumbent employees who decided to work for the private contractor were grandfathered (at least for the first year after the contract commenced) and retained their previous wage.

In Pleasant Hill, however, workers who elected to remain with the contractor found their wages cut by nearly 40 percent (from $14 an hour to $10 an hour). The average wage for regular custodians in Lincoln County was 24 percent less under the contractor and 11 percent less for head custodians. In all the cases we studied from 2003, contractors explicitly reserved the right to set wages for newly-hired employees at lower levels than they would have previously received under school district management. For example, a newly-hired bus driver in Lake Oswego would earn 15 percent less in starting pay than a newly-hired driver would have received as a school district employee ($11 versus $12.69 an hour) and 30 percent less at step five of the pay scale than under the union collective bargaining agreement ($12.69 versus $15.63 an hour). In Pleasant Hill, new drivers begin at $8 an hour under the contractor instead of the $11.37 they would have received from the district, a drop of 42 percent. And since most workers employed by contractors are not represented by unions, the employer exercises sole discretion over subsequent wage increases rather than negotiating them with employees.

It is in the area of employee benefits, however, where the savings for contractors are most striking and workers' standard of living is most seriously affected.

Under collective bargaining agreements in Lake Oswego, Rainier, Gervais, Pleasant Hill, and Lincoln County, full-time school support workers received comprehensive health insurance coverage (medical/hospitalization, prescription drugs, vision, dental), and part-time workers obtained benefits on a prorated basis. Workers in Pleasant Hill employed for 600 or more hours annually were given $550 a month in health care benefits. Those who worked at least six hours a day were provided $620 per month in Lincoln County, and in Rainier, workers employed for as little as one to three hours a day received $217 in monthly benefits (in the latter case, after July 2002, employees had to work four hours a day to qualify for benefits). And in most cases, part-time workers received benefits on a prorated basis.[5]

In contrast, Laidlaw's contract in Lake Oswego provides a $50 per month employer contribution for workers who were employed for 40 hours or more per week and a pro-rated benefit for employees who work 20–39 weekly hours. In Gervais, Mid-Columbia offered those employees working four hours or more a day a payment equal to the previous amount the district provided for individual coverage, but spousal or family coverage would now have to be paid by the employee. First Student, which describes its coverage as "a basic affordable plan and not as a comprehensive medical coverage for catastrophic illnesses or injuries," offers a $170 monthly contribution towards individual medical and dental coverage. And in Lake Oswego and Lincoln County, the contractors guarantee insurance and 401K coverage only for the first year of the agreement, leaving open the possibility that even this diminished coverage could be reduced. Invariably, workers we interviewed who stayed on with private contractors described their new health insurance options as inferior to what they had enjoyed previously, citing high deductibles, substantially hiked employee contributions, and more limited coverage.[6]

The retirement benefits offered to employees also differ dramatically from those provided by school districts. Prior to contracting out, each of the districts we studied paid its workers retirement benefits under the state Public Employees Retirement System (PERS), fully picking up the six percent contribution of a worker's salary and often providing an additional employer payment equaling that six percent. Contractors typically offer 401K plans that feature much lower employer contributions. For example, First Student's 401K plan matches employee contributions up to a $225 annual maximum. Mid-Columbia is more generous, providing up to a maximum of four percent of a worker's salary when the worker contributes eight percent of his/her earnings. It is clear, however, that under these arrangements, the responsibility shifts to the workers, who face a much greater burden in accumulating resources to fund their retirement accounts.

The downgrading of school support service jobs comes at a social cost that is often not fully acknowledged in the public discussion over contracting out. The wages and benefits enjoyed by school district employees covered by collective bargaining agreements enabled many workers to establish a middle-class standard of living for themselves and their families.

In almost every district that contracted out support services in 2003, starting wages prior to contracting out exceeded the county median wage, and the benefits were certainly competitive if not superior to those offered by other area employers. It is also worth noting that many school support workers, especially in food service and transportation, are women, and anecdotal evidence suggests that a significant number of them are heads of households whose job supports a family. As one female bus driver in Lake Oswego explained to a reporter when the district was debating contracting out: "When I started working here, I was hoping for security, looking for benefits. I was newly divorced, and I really thought I would have a job that would last." Another driver expressed a similar sentiment: "I'm a widow, and I need benefits and I need job security and I don't think I would have that with Laidlaw." These comments are supported by research that shows public sector jobs tend to provide women, especially those lacking a college education, with better wages and benefits than the private sector. Especially for women who work part-time and balance work with family obligations, the benefits provided by school support jobs are vital to their well-being and are not easily replicated elsewhere.[7]

The reduction of health care benefits by contractors deserves special attention in assessing both the personal and social costs of contracting out school support services. To be sure, we would need to survey a much larger sample of workers whose jobs were contracted out and track their subsequent employment experience over a longer period to speak with precision about the social cost of reduced health care coverage.

Our small sample does, however, raise legitimate concerns. Of the 49 workers we surveyed whose jobs were privatized in 2003, slightly over half opted initially to work for the contractor. Five retired (most before they had wanted to), nine found new jobs, seven were not looking for work or were unemployed, one was self-employed, and another was attending school. Some workers were able to obtain health coverage under their spouse's insurance plans. Others who remained with the contractors reported that the cost of their new health care coverage was prohibitively expensive, with several indicating they could no longer afford to cover their children under the contractor's insurance plans. There is considerable research suggesting that losing health coverage or suffering reduced coverage can have a powerful effect on both individuals and families, resulting in people going without needed medical care, incurring considerable debt over medical expenses, and relying more heavily on emergency room care or social services. And in smaller, rural communities where job prospects are more limited, the effects of reduced wages and health benefits might well create additional demand on publicly-funded social services.[8]

Of the nine workers we surveyed who found new jobs, only one was earning a higher rate of pay than he/she had enjoyed previously, and most took wage cuts of 10–25 percent. Only three of the 49 were represented by a union, leaving it up to the employer and the market to set the level of wages and benefits for these workers. Clearly, whether workers remain with a contractor or find a new job, their standard of living almost always declines as a result of the decision to contract out.

We recognize that most school boards who have contracted out are not oblivious to these consequences but often have not attempted to calculate more precisely the social impact of their decision. However, the broader social implications and community impact of turning public jobs into private ones should be considered in a thorough weighing of the benefits and costs of shifting from public to private management of school support services.

In order to bring these implications of contracting out into sharper focus, we offer the custodial unit in Lincoln County as an illustration. Although this is a small unit of approximately 30–35 employees and our data is somewhat limited, we still have sufficient information to quantify the impact that contracting out can have, not only on individuals but also on a local economy.

When custodial services were provided by the Lincoln County School District, workers collectively earned $898,004 in the last school year before their positions were contracted out to SBM Cleaning Services. Under SBM, total wages declined to $677, 488, a decrease of $220,586 or 25 percent. On this decreased collective wage, workers would pay a total of $24,118 less in state income taxes. There is also a negative multiplier effect on the local economy that arises from diminished wages. For every new dollar of earned income, economists note a positive multiplier or ripple effect when that dollar is spent in local businesses and those businesses in turn make purchases from other local service providers or suppliers.

Conversely, when income declines, the multiplier functions negatively and drains money from the local economy. Economists estimate the multiplier effect as ranging from 1.4 to 1.65 dollars in additional income being generated by one dollar of earnings. Using the lower figure, the decreased wages paid by SBM to Lincoln County custodians result in a negative multiplier of $308,821 less being spent in the local economy. For a small, largely rural county where the school district is Lincoln County's second largest employer (according to 2001 statistics) and job creation has markedly shifted towards the lower-paying service sector, the loss of $308,821 to the local economy is not insignificant and should be considered as an unintended consequence of contracting out.[9]

Assessing the impact of lost retirement and health care benefits is a more difficult calculation. We know that the 33 custodians employed by the school district would have received approximately $107,760 in retirement benefits in 2003–04 had custodial services remained under district control based on an employer contribution of six percent and the employer's pickup of the employee's six percent contribution. According to workers, SBM only offers a 401K plan with no employer contribution; it is apparently up to the employee to fund his/her own retirement. Based on the wages that SBM pays, workers would presumably be constrained in contributing substantially to their 401Ks and might well lack the resources they would subsequently need to support themselves once they retired.

A similar deficit faces Lincoln County custodial workers when it comes to health care benefits. If they had remained district employees, custodians would have collectively *received* $235,327 in benefits in 2003–04 covering medical, dental, and vision care. Under SBM, the ten rollover employees with five years or more of service would have *paid* $9,600 for individual coverage and $32,880 for family coverage. We don't know how many of the rollover employees took individual or family coverage, if they decided to opt for coverage under their spouse's insurance (anecdotal evidence suggests some rollover custodians made this choice), or if they chose to go without health coverage. And we lack information on those workers subsequently hired by SBM, although we know they were required "to pay 100% of the premium [for health insurance] for the entirety of their employment."

It is clear, however, that spiraling health care costs represent a national crisis that places considerable stress on families, communities, and local health care systems. Coupled with the losses in retirement benefits, tax revenue, and wages, and the ensuing negative multiplier effect, the social and economic impact of contracting out becomes even more apparent. And if one were to factor in the negative multiplier effect of diminished wages in pupil transportation and food services that were also contracted out in Lincoln County along with the lower retirement and medical benefits those workers have received (we lacked the data to make these precise calculations), the effect of contracting out on the local economy would be further magnified.

However, if we take the wage data on the Lincoln County custodial unit as a rough benchmark, it can be estimated 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. Clearly, this estimate would vary depending on the type of service contracted out, the specific locale, and the particular contractor, but these figures provide some quantitative measure of the impact that contracting out can have on a local economy. These hidden and long-range costs caused by the diminished wages and benefits paid by private contractors should be fully considered by school boards in determining if contracting out is an appropriate decision for their communities.

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Turnover, Retention, and Quality of Service

There is yet another social cost associated with contracting out that revolves around the issues of turnover and retention. The level of wages and benefits provided by school districts has clearly enabled them to retain the services of support staff and create a stable work force. School district support service managers that we interviewed noted high seniority rates and relatively low turnover among their staffs. Our random survey of 49 workers (26 bus drivers, one mechanic, 13 custodians, and nine food service workers) whose jobs were contracted out, found a median seniority of 14 years, and ten of those we interviewed had logged over 20 years of service. Although this sample is small, it is supported by a larger 2003 national survey that found the average tenure among school bus drivers was 14 years (notably, three-fourths of those responding to the survey were employed by school districts and only one-fourth by contractors). Sixty-five percent of the food service workers in Lincoln County were at the top step of the pay scale, indicating they had amassed considerable job seniority.

In smaller communities, such as Rainier and Pleasant Hill, over three-fourths of the district-employed drivers and custodians lived in town, and many reported sending their children and, in some cases, their grandchildren through the district's school system. Workers often spoke in emotional terms about their deeper connections to "the kids" and the community. As one driver asserted: "I raised those kids. Those kids were mine."[10]

Contractors and their supporters insist they are sensitive to the issue of retention and claim success in persuading incumbent employees to stay on once jobs are contracted out.

Responding to questions about retention rates, a school district official in Rainier declared that "approximately 80 percent of a district's drivers accept jobs with the contractor."

Laidlaw has made an even bolder claim in vying for school district business: "When a conversion occurs, Laidlaw does everything possible to retain a district's existing drivers and support staff. In fact, we have retained more than 90 percent of the existing employees in the districts we currently serve."[11]

These claims did not materialize, however, in most of the districts we studied. In Lake Oswego, approximately 13 of the current 28 drivers had been previously employed by the school district, and only three of Pleasant Hill's 14 transportation employees elected to go with the contractor.

In Lincoln County, the contractor chose to retain only one-third of the incumbent custodial employees. There is also considerable evidence to suggest that contractors face ongoing difficulty in retaining employees. Bus drivers in the Bethel and

Coos Bay districts who are employed by Laidlaw show median seniority rates of two and three years respectively, and between November 2002 and October 2003, there was a 218 percent turnover rate among bus drivers in Bethel! In the Portland School District, which uses both contracted and in-house workers to provide pupil transportation, annual turnover averages approximately 30 percent among contracted workers but only 5 percent for those employed by the district.

It should be noted that turnover is a reoccurring problem in school transportation, where the need for part-time and split-shift workers makes the job less palatable. Yet a 2000 national survey in *School Bus Fleet* magazine found that "private operators apparently are having a harder time finding and keeping drivers than their public counterparts," with 13 percent more contractors reporting their driver shortage as "severe." Presumably, since contractors tend to offer lower wage and benefit packages, they provide workers with less incentive to make a long-term job commitment.[12]

High rates of turnover may affect the ability of contractors to provide a quality service to school districts. As management and transportation consultant Mark Walsh explained in a 2002 article in *The School Administrator:* "As contractors run short of drivers, districts continue to demand a consistent level of service. However, unless the wage and benefit levels can increase to the point of bringing the supply and demand into balance, the contractor will not be able to continue to meet the district's expectations."

This was apparently the case in Tigard-Tualatin, which terminated its contract with Laidlaw in 1999 and switched to Ryder, now First Student. As the school board chair explained, Laidlaw's low pay scale made it difficult to retain drivers and led to substantial turnover. Inexperienced drivers frequently got lost on their routes, children were not getting picked up or dropped off in a timely fashion, and a sports team even found itself stranded when the driver went home after leaving them at an event. Apparently this scenario also materialized with Lincoln County's recent contracting out of custodial services. According to published accounts and worker testimony, the contractor's inability to meet staffing levels, in part because of its low pay and benefits, resulted in an unacceptable quality of service that led the school board to cancel its contract with SBM Cleaning after just six months of operation.[13]

There is another less quantifiable but noticeable effect caused by instability and turnover that workers and school officials repeatedly stressed to us when we interviewed them. Workers who have a history with the school district are more likely to have relationships with parents and children, can serve multiple roles (counselor, disciplinarian, advisor, troubleshooter) within the school, and provide a sense of reassurance and continuity that is invaluable to the emotional security and stability of children. For example, the bus driver who has driven a route for years has vast knowledge about children, parents, and neighborhood relationships that helps ensure the safe, timely delivery of children to and from school.

The food service worker who is a mainstay in the cafeteria knows about a child's eating habits and special dietary needs. And for some children, the custodian, in the words of one former school board director, "may be the only adult in the school a child might identify with." Often it appears that school boards do not fully take into account the fact that bus drivers do more than drive, food service workers do more than serve food, and custodians do much more than simply clean. This point was underscored when we asked a group of custodians employed by the West Linn-Wilsonville School District to describe the noncleaning duties associated with their job, and they were able to identify over twenty noncleaning tasks that they performed as part of their normal duties.

This is not to say that contractors are incapable of providing quality service or that school districts are inherently superior to contractors. Our point is that the lower wages and benefits paid by contractors often result in higher turnover rates and complicate efforts to retain employees, thereby running the risk of creating instability among the work force that transports and feeds children and which keeps their schools tidy, secure, and well-functioning. At the very least, we strongly encourage school boards and communities to carefully scrutinize contractor claims about turnover and retention and consider their possible impact on the ability of contractors to provide an acceptable level of service.

Chronic *Problems*

And What School Districts Can Do About Them

In Oregon and around the country, many school boards have learned the hard way that contracting out school services often comes with hidden costs and unanticipated pitfalls. Time after time, board members believed they had washed their hands of a problem by contracting services out—locking in quality service at a lower price and avoiding the administrative headaches of having to manage support services—only to find that they had unintentionally created a new set of headaches and hazards.

What follows is a brief summary of the type of problems that districts have experienced in contracting out custodial, transportation, or food service operations. This is not a comprehensive list, but rather a small sampling of case studies to illustrate the issues that school districts must become aware of.

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Of course any service, whether operated in-house or contracted out, can suffer from substandard performance or fluke accidents. But each of the situations related represents a type of problem that is more likely to occur when for-profit enterprises operate school support services.

Furthermore, many of the incidents we describe come not from small, local shops but from large national contractors. The fact that even the largest, best-financed, and most experienced service contractors generate such problems points to the need to understand these as systemic pitfalls which school boards must anticipate and take proactive steps to avoid.

While such problems may occur in only a small minority of school districts, they are problems that should not surprise us, because they come from a logical understanding of how contractors operate. For this reason, these are also preventable problems. Following the discussion of these chronic problems, we outline steps that school districts can take in order to protect themselves, their budgets, and their students against such pitfalls.

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Problems With Quality of Staff:
under-qualified, under-trained, improperly screened, unmotivated, or prone to high turnover

Many members of the public think of school services as low-skill work that can be done by more or less anyone. Mopping floors, serving sandwiches, even driving a bus for a few hours a day may be popularly imagined as jobs in which training is unimportant and turnover doesn't matter because the work is so rote that experience is unnecessary. For this reason, board members may be encouraged to believe that there is no reason to worry about the quality of employees hired by low-wage contractors.

However, anyone who has firsthand knowledge of these jobs knows that such public perceptions are false, and that experience, training, commitment, and long-term relations with students, teachers, and other school staff all make an important difference in the provision of quality services. Unfortunately, sometimes this truth is only realized after the fact, when school districts suffer what should have been avoidable problems.

It is critical to realize that low-quality staff is not a result of unethical contractors; it is a logical result of the decision to contract out. As we outlined earlier in this report, contractors generally see it in their interest to cut workers' wages and benefits. This often means that they will attract a lower quality workforce, which will experience relatively high turnover. Contractors may also provide only the minimal amount of training they believe is required since training is an expense that generally comes out of the contractors' profits. Similarly, the processes of interviewing and screening job applicants eat into contractors' profitability, and therefore they may be tempted to screen less rigorously than a public employer in the hiring process. When low wages make it difficult to attract sufficient numbers of employees, there is an additional incentive for contractors to loosen their hiring criteria and allow less desirable employees into the school.

This incentive structure has produced a regular stream of problems with contracted employees. Here are just a few examples:

· In Appleton, Wisconsin, in December 2001, a Board of Education committee recommended terminating an Aramark custodial contract after an Aramark employee was charged with indecent exposure at an elementary school. Although Aramak had assured the board that the employee had been screened and had no criminal record, a follow-up investigation revealed that the employee had an extensive criminal history.[14]

· The Chicago Public Schools similarly discovered in 1999 that their contracted custodial crews had stolen computer equipment and that the contractor had hired convicted felons to work as cleaners.[15]

· In 2000, a special master appointed by a federal judge to oversee the Washington, D.C. school system's transportation service found that at least 40 of the 200 drivers hired by its contractor (Laidlaw) had previously been charged with serious criminal offenses—and that Laidlaw never took the steps to determine what happened with these charges. Investigation revealed that one driver had been convicted of possessing both crack cocaine and a bomb. Another driver had four convictions for traffic offenses and was involved in two bus accidents.[16]

· Turnover may be a problem with managerial employees as well as line workers. In 1999, when the Wenatchee School District in Washington decided not to renew its Sodexho contract, one board member explained that, in addition to complaints about quality of food, there was also a problem of lack of managerial continuity. Over the previous ten years, the district had been sent a new food service manager every 18 months.[17]

· Here in Oregon, the Scio School District reported that high levels of employee turnover and concerns over inadequate training were among the reasons it decided to bring transportation back in-house rather than renew its contract with Laidlaw.

· In 1999, the Tigard-Tualatin School District terminated its contract with Laidlaw over similar concerns. As the school board chair explained, Laidlaw's low pay scale made it difficult to retain drivers and led to substantial turnover. Inexperienced drivers frequently got lost on their routes, children were not getting picked up or dropped off in a timely fashion, and a sports team even found itself stranded when the driver went home after leaving them at an event.

· In Corvallis, a Laidlaw driver with less than six months' experience was reprimanded and ordered to undergo retraining after colliding with a child on a bicycle. According to local press reports, "the company has had trouble keeping experienced drivers and has been criticized for overcrowding buses when it lacked enough drivers to operate a full schedule of buses."[18]

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Problems with Food Safety:
food bars and "a la carte" sales

Food service contractors look to increase profits, in part, by cutting staffing levels and creating more self-serve or student-served meals. Unfortunately, this practice brings a serious danger of undermining food safety.

A common strategy of contractors is the introduction of self-service "food bars." Food bars make economic sense for the contractors for two reasons. First, they require less staff than a meal that is served by employees. Secondly, they promote the purchase of "a la carte" items which, in most contracts, increase contractor profits. However, food bars are inherently less safe than served meals.

The largest scale food-bar crisis to date occurred in the fall of 2000 at a Waukesha Elementary School in Wisconsin, where 21 students aged five to nine contracted E. coli from a food bar operated by Sodexho.

Four of the children were hospitalized, three of whom suffered from hemolytic uremic syndrome (HUS), a complication from E. coli that can lead to kidney failure and/or death. In addition to the medical problems, this outbreak also involved both Sodexho and the school district in multiple and costly lawsuits with the children's parents.[19]

After an investigation, the county Public Health Division concluded that "[t]he most plausible hypothesis is the contamination of the food on the self-service food bar while the children were serving themselves." The county explained that, "Food from the open containers on the food bar could have been handled directly by bare hands and taken or rejected and placed back on the food bar. The food was eaten shortly after it was obtained from the food bar, likely with hand to mouth contact, given the age group involved in the outbreak."[20]

This same report found that there were only two workers in the cafeteria at the time, one working at the food entrée window and the other as a cashier, collecting money and supposedly monitoring the food bar from a distance. Nancy Donley, president of the national food safety advocacy group Safe Tables Our Priority, spoke out against this practice, noting that "when kids are involved, there should be more control over who handles food. With the very nature of food bars, there are far too many people touching the food, and you don't know where their hands have been. You can give children training on washing their hands and being careful when handling foods, but the opportunity for illness is just too great. The safer route would be to ban food bars altogether."[21]

This "safer route" is often resisted by contractors because of the added expense. Indeed, a U.S. Department of Agriculture study found that food service contractors were significantly more likely than in-house cafeteria programs to rely on food bars and a la carte sales as strategies for boosting profits.[22] Clearly, if this aspect of food safety is to be protected, the initiative must come from the school boards themselves, rather than relying on the contractors.

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Problems with Food Quality:
central kitchens, warmed-over food

In April 2004, the West Linn-Wilsonville School District decided to cancel its food service contract with Sodexho after an independent consultant concluded that Sodexho's practices resulted in substandard food quality.[23]

The problems that surfaced in West Linn-Wilsonville are especially noteworthy for two reasons. First, the evaluation was conducted (at a cost of $28,000) by one of the nation's premier food service consultants, the Cornyn Fasano Group, based in Portland. It is rare to have such a high-profile independent examination of school food services. Secondly, because the West Linn-Wilsonville School District is relatively affluent, only nine percent of students participated in the federal free- and reduced-price lunch programs, compared with a statewide average of 38 percent for Oregon school districts. Students who participate in these programs are like guaranteed customers – they have no choice but to take whatever food is provided.

Wealthier students, however, have the choice of whether to buy the school's lunch, bring their own, or just wait till the school day is over and eat elsewhere. "These students are not starving and will simply not eat unless it is something that they like," the consultants' report explained. "That said, it is very important to offer the children quality, healthful choices alongside of the other foods and attempt to educate them as to what is the better choice." Under these conditions, Sodexho was unable to provide sufficiently attractive food for students. In short, the report concluded that Sodexho's program simply focuses too much on cost-cutting, to the detriment of food quality. Among the problems documented in West Linn–Wilsonville are the following:

· Sodexho manages costs, in part, by relying on a central kitchen rather than making food at each school. District students don't buy school lunch because the food lacks quality, especially after sitting for hours in warming trays shuttled from the district's main kitchen at Wilsonville High School to the primary and middle schools. The main kitchen system has "a direct impact on food quality, especially when food is cooked at 7:00 a.m. and held in carts for several hours before it is served," the report stated. It also noted many foods are convenience foods rather than foods cooked from scratch.

· The district's practice of letting students earn hot meals by serving others may be unsanitary because kids touch their faces and hair, even while wearing plastic gloves.

· Some administrators and staff are concerned about high-fat or nutritionally questionable cafeteria foods. At the primary schools in particular, administrators have asked that certain foods, such as nachos, not be served. The consultant's report said that higher quality food—such as unprocessed meats and cheeses, fresh produce, and authentic ethnic foods—could raise prices, but would provide food that is both more attractive and healthier.

· Sodexho staff suffer from "low morale" that emerges from conflicts between staff who work in the main kitchen and those who work at satellite kitchens.

· The poor food quality has led to a loss of sales, which in turn created a deficit in the food service program. "It's become a bit of a joke that nobody wants to eat in our lunchrooms," the district's operations director said. This school year, the district transferred $70,000 from its general fund—money that could have gone into the classroom, administrators lament—to the food service program to cover expected losses.

The West Linn-Wilsonville case is important because it points to food quality problems that may exist in less affluent districts where the issues have simply not come to the surface because contractors have a captive market or because districts cannot afford such a consultant study. Thus the findings in this case point to issues that other districts need to monitor even if they have not yet surfaced.

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Problems with Transportation Service:
late arrivals, missed routes, missed meals, missed classes

As transportation contractors seek to cut costs and boost profits, they often cut corners that are critical to the quality of service. If the wages and benefits are too low, contractors may face both high turnover and a simple shortage of drivers. In both cases, the results can be far-ranging for students who depend on these drivers. Examples of such problems follow:

· In 1999, the Charleston School District in South Carolina suspended its payments to Laidlaw after multiple problems with drivers. The local press reported that "according to disgruntled parents, students were regularly late getting to school and returning home on certain routes. As a result, students participating in the free breakfast program were arriving too late to eat. One angry parent reported that Laidlaw had disconnected its parent hotline and employees answering the company's regular phones were unresponsive."[24]

· In 2000, the Washington, D.C. School District found that, in the first two months of the year, at least one-tenth of the district's special education students had missed significant parts of their morning classes due to problems with bus service operated by Laidlaw. In addition, district reports showed that within the first few months of the school year, more than 1,000 individual routes had been missed altogether.[25]

· Here in Oregon, parents and school board members in the St. Helens School District expressed concern in 2003 over First Student (formerly Ryder) drivers swearing at students, confusion over routing and scheduling, and unresponsiveness by the contractor to parental complaints. A transportation committee was appointed to work with First Student and apparently has made progress in addressing these issues. However, the need to create such a committee points to the importance of districts anticipating these types of problems before contracting out.[26]

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Problems with Quality of Custodial Service:
insufficient cleaning, untrained personnel, unmaintained systems, unfixed problems

Custodial contractors commonly replace "custodians" with "cleaners." Where in-house district employees often have extensive knowledge of a school's heating, cooling, plumbing, and electrical systems, and function as part of a school-wide administrative staff, contractors often operate with a model of cleaning crews who are equipped to do cleaning only and who rotate from school to school without establishing ongoing relations with any particular school's staff. In addition, contractors often look to cut labor costs by reducing staffing levels. The corners that are cut may only show up over time or in times of crisis, but there is generally no way to "do more with less" when it comes to custodial services. Some examples of the problems that school districts have encountered are as follows:

· In 2002, the Georgetown-Ridge Farm School Board (Danville, Illinois) called for a review of its contract after a number of boiler problems during the Christmas season. The district's high school principal reported that the contractor did no preventive maintenance before the winter season, even though the contract called for it. She also reported that the cafeteria and gym had chronic problems, including leaks that periodically required ball games to be interrupted while the floor was mopped.[27]

· In 2000, the Palm Beach County School Board canceled its ServiceMaster contract after just 18 months.[28] The school had to pay $1.8 million to cancel, including absorbing $1.2 million to purchase the company's equipment, but opted to assume these costs in order to terminate its contract. In the first year of the contract, the district spent $4.2 million more than the year before on maintenance, but only ten percent of principals surveyed said they were pleased with the quality of service. "Many principals stated that schools were dirty and short of personnel, equipment, and supplies."

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Problems with Contractor Business Practices: *over-charging, price collusion, inflated charges, antitrust violations, federal commodity rebates, supplier kickbacks*

When school boards enter negotiations with service contractors, they are often negotiating with national or multinational corporations with much greater business savvy and contract experience than the board members themselves—or even than district business staff. Unfortunately, contractors may take advantage of this situation not only by cutting corners on the quality of services provided, but by manipulating the financial terms of the contracts themselves.

The examples that follow are mostly drawn from practices of nationally known contractors. Whether such cases reflect the abuses of individual rogue managers or a broader practice of corporate managers, it is critical that board members in every district adopt due diligence procedures and insert model contract language in order to protect against such practices.

· ***Antitrust:*** Some school districts have encountered antitrust problems, in which multiple contractors collude in order to agree on bid prices and force districts to pay higher fees than they would in a competitive bidding process. In Chicago, the school district found that a $35 million custodial contract had to be rebid because of concern that the bidders were talking to each other in violation of antitrust rules.[29] In Connecticut, the state Attorney General opened an investigation into several bus companies in 1999, based on suspicion that they had met to coordinate bids in violation of antitrust laws.[30]

· ***Contract renewals:*** Districts have often faced the experience of signing a competitive first contract and then facing demands for significant price hikes when the contract came up for renewal—in many cases after the district had dismantled its own staff and equipment and no longer had the option of keeping these services in-house. For example, the Pekin Elementary School District in Illinois heard complaints in 1999 when Aramark, the only company to bid on providing food services that year, increased its charges by 11 percent over the previous year. One board member said they felt they'd been "taken advantage of," but the district's finance director reported that there wasn't time to find an alternative provider before the start of the next year, so the contract was rolled over with the district being forced to absorb the increased cost.[31]

· ***Hidden data:*** Contractors may hide or withhold data that districts need to evaluate their service. In July 2002, for example, the Oregon Trail School District demanded a new transportation supervisor after an accident in which ten children were slightly injured. Apart from the seriousness of the incident itself, the contractor failed to report the accident to district management. In this case, the superintendent was disturbed that she first learned about the accident from the news media rather than the contractor. Similarly, the West Linn-Wilsonville study was hampered to some degree by Sodexho's refusal to provide financial records, which made it impossible for the district to analyze the program's spending and receipts. As the consultant's report cautions, audit difficulties can arise when "the controls and reporting checks and balances are not in place."

· ***Food commodity rebates:*** Food service contractors with fixed-price contracts (as opposed to per-meal management fees) are required to credit the value of federally-donated food commodities back to the district. However, this is often insufficiently enforced by school districts. During an audit of the East St. Louis School District, Aramark was found to have failed to credit commodities back to the district. A subsequent investigation by the USDA inspector general found that Aramark had been pursuing this practice at all of its K-12 accounts throughout Illinois.

· ***Suppliers' rebates:*** Many districts' food service contracts are designed on a cost-reimbursable basis, i.e., the contractor submits all legitimate costs to the district, and the district honors these costs in addition to whatever management fee or profit is agreed upon. All major contractors enjoy substantial volume discounts or rebates from food suppliers—indeed, this is part of their selling point to school districts. But when the contractors send in their monthly bills for reimbursement, they often bill the schools at the pre-rebate prices. This is clearly against USDA regulations, and yet it is rampant throughout the industry, in large part because the schools do not understand the regulations, there is rarely any effective local or state oversight, and the value of the hidden profits deriving from rebates is soaring.

· ***Inflated tax and benefit charges:*** When costs are reimbursed, districts must be particularly cautious about line-item costs that are not broken down or not clearly understood. A common way that some contractors have cheated on management fees is on the tax and benefits charge. Typically this cost item should be in the range of 23–25 percent, but according to one well-known food service consultant, it is not unusual for contractors to report this item to clients in the 30–32 percent range. Clients often have no idea how this line item works, and therefore end up paying excessive costs for benefits. Contractors may also derive hidden profits from self-insurance plans. That's because with 15–20 percent turnover, many workers pay premiums into the fund but don't remain long enough to draw benefits. Depending on how this is billed to the district, the district may be supporting costs for insurance schemes that rebound to the benefit of contractors but not their employees.

In all these cases, private contractors may have an incentive to take advantage of less experienced negotiators representing school districts. But whether problems such as those described above stem from unscrupulous individuals or systemic corporate practices, the implication for school districts is the same. School boards must adopt safeguards guaranteeing that taxpayer funds and student services will not suffer as a result of problems that surface in the contracting out process.

Common *Pitfalls*

Summary of Model Due Diligence and Contract Language

What follows below is a brief list of common pitfalls that school districts experience in contracting out. This is not an exhaustive list and is no substitute for careful review of any particular proposal from a private contractor. But the list is intended to alert school board members to some of the most common issues that, in the past, have undercut the pledges of contractors to deliver quality services at reduced costs.

Along with identifying common pitfalls, this section includes recommended steps that will help boards protect their constituents against unforeseen problems in contracting out school services.

We also highlight and describe these problems in further detail. It is not a comprehensive list, but should be considered in addition to the many problems outlined in the sections on "The Hidden Costs of Contracting Out" and "Chronic Problems With Contracting Out."

▸ This report contains extensive discussion of the unforeseen problems involved in contracting out school services... Along with identifying common pitfalls, the section that follows **includes recommended steps that will help boards protect their constituents against unforeseen problems** in contracting out school services.

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Common Pitfalls: *Transportation Services*

Selling off bus fleets

This is an attractive option for districts that want an immediate infusion of cash. However, it leaves districts vulnerable to steep hikes in contractor fees after the first contract cycle, because the district will be in a weak bargaining position, having no choice but to contract with one company or another.

It is wiser for districts to rent or lease their fleets to contractors, but retain ownership. This way the district can negotiate subsequent contracts from a position of strength, since it still possesses the option of deciding to operate the buses in-house.

Selling off bus fleets—
correct calculation of depreciation costs

In the event that a district does sell its fleet, it is critical to correctly account for depreciation. Foregone depreciation "expenses" should not be treated as a benefit of contracting out. More importantly, district staff must project 10–15 years into the future and assume that, if contractors own the buses, at some point the contractors will incur depreciation, repair, and replacement expenses that will be passed on to the school district. If these expenses will be passed on at 100 percent of cost, without the 70 percent depreciation subsidy that Oregon districts receive from the state, this is a significant added expense that must be accounted for in the decision to contract out.

Defining "fair market value"
for selling bus fleets

Districts may be encouraged to price fleets according to either their "blue book" value or their depreciated value according to the state reimbursement formula. However, both of these formulas underestimate the real market value of the buses.

The "blue book" value of older buses may be close to zero—even though these buses remain in service and would be costly to replace. Similarly, the state uses accelerated depreciation as a way of front-loading financial assistance to districts. Under the depreciation schedule, buses become "worthless" (on paper) after ten years. But buses commonly have a useful life of 20 or more years. "Fair market value" should *not* be equated with depreciated value—this results in giving away valuable assets to contractors. Instead, contracts should rely on the *replacement* value of buses for the remaining number of years that they can be expected to continue in use.

Legal and ethical questions around deprecation/bus replacement funds

In the event that districts enter a lease-to-own agreement regarding bus fleets, it is not clear whether they should continue to collect state reimbursement payments for the depreciation of the fleet. These payments are intended to be set aside by districts in a fund designated for future purchase of replacement vehicles. If the district has already indicated that it will never purchase replacement vehicles, it may be ineligible to receive ongoing payments into this fund. And when districts sell their fleets and still have funds remaining in their bus replacement accounts, it appears as if these funds should continue to be earmarked for this purpose rather than being merged into the general fund. Whatever the case, the district might be obligated to return to the state whatever balance remains in its depreciation/replacement fund.

Continuing district administrative costs

Many districts have contracted out bus services in the hopes of shedding all administrative responsibility for this complicated service. However, even if bus service is contracted out, districts generally remain responsible for planning and approving routes (including modifying routes when student enrollment or residential patterns change), notifying parents and students about bus and route times, and monitoring contractor performance. This includes guaranteeing that drivers have the proper background, character, and training. This is not a job that an administrator can do quickly or casually on top of their current responsibilities. When this happens, it becomes more likely that the quality of service suffers, substandard drivers are hired, or the district loses money because unmonitored contractors expand their routes in order to increase fees charged. The district's continuing oversight responsibilities must be treated seriously and must be accounted for in the cost/benefit analysis preceding the decision to contract out.

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Common Pitfalls: *Food Services*

As detailed in the earlier example, "guaranteed" returns on food service contracts typically appear to contain some hidden backdoor through which the district's costs may increase and savings may decrease. If the contractor is getting rebates from suppliers, there should be a guarantee that these rebates be passed on to the district.

Continuing district administrative responsibilities

Even when food services are contracted out, the district remains responsible for all of the administrative work surrounding determination, notification, and tracking of student eligibility for government-subsidized meals, along with ultimate responsibility for guaranteeing food quality. This is a significant amount of work and must be included in the cost/benefit analysis preceding the decision to contract out.

Quality of food

Contractors generally seek to increase earnings, in part, by shifting menus to emphasize items that "the kids like." It is not enough that the menu presented to the board is nutritionally balanced—it doesn't matter if tuna salad is on the menu if the kids are all ignoring that option and choosing pizza instead. If contractors rely on encouraging consumption of popular but less healthy food, this may lead to obesity or other health issues for district students.

Food safety

Contractors may cut staff or rearrange cafeteria design—e.g., relying more heavily on self-service food bars—in ways that increase the risk of food contamination or food-borne illnesses.

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Common Pitfalls: *Custodial Services*

Scope of service

The most common pitfall in contracting out custodial services is that contractors do not provide the same scope of services as those performed by in-house district employees. Before contracting out, boards should demand a complete list of the duties carried out by district custodians (a sample of such a list of duties, in addition to obvious cleaning tasks, based on interviews with several OSEA custodians, is attached at the end of this report). They should also be provided with the current standards of performance for in-house custodians. The contract should be written to guarantee this same level of service.

"Additional services"

Contracts typically specify that contractors will be paid extra (often at a higher rate) for work outside their defined scope of services.

If the scope of service is less than that carried out by in-house employees, then it should be expected that the district will incur a certain amount of such costs. These expectable "additional" costs must be included in the cost/benefit analysis, rather than left as an unwelcome "surprise" for the district to discover after it has already signed a contract.

Quality and longevity of custodial employees

Much custodial work depends on being able to function as part of a school-wide administrative team, interacting reliably with teachers, principals, and other staff. This requires that custodians have adequate communication skills and personal maturity and that they stay attached to a given school long enough to develop such relationships. In addition, many custodians perform routine maintenance on heating, cooling, and ventilation systems.

Often, the same districts that are considering privatization have also deferred maintenance or replacement of equipment such as boilers or furnaces. This makes it all the more important to have custodians who are qualified to do such maintenance and who have sufficient longevity on the job to become familiar with the idiosyncrasies of each school's equipment. If this is not the case, the district will end up facing costly expenses for bringing in outside contractors to do this maintenance. This means that contractors must specify the minimum qualifications they will impose in hiring—beyond simply a good faith promise to attract good people.

Custodians vs. "cleaning crews"

Commercial cleaning contractors are used to having "cleaning crews" who sweep through office buildings late at night, cleaning multiple units and interacting with no one but themselves.

This model is generally inappropriate for a school setting, where it is important for custodians to be devoted to a single school and to develop significant relationships with the rest of that school's staff. Low-wage, high-turnover, and inexperienced employees with limited English and communications skills, moved from school to school on a rotating basis, are no replacement for district custodians.

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Common Pitfalls: *General Terms of Contract Enforcement*

In addition to the many issues of contract language discussed, one common pitfall of contracts is the failure to include intermediate-level penalties for contractors' failure to meet performance standards. In many contracts, the only real remedy that school districts have at their disposal is the right to cancel the contract as a whole. For violations such as an incident of spoiled food being served, roof leaks going unrepaired, or bus drivers missing routes, it is inappropriate to cancel the entire contract as punishment. However, if such behavior has no repercussion beyond a verbal warning, the district has no effective means of ensuring contract performance.

It is critical, therefore, that districts establish financial penalties that will be levied against the contractor for failure to perform at contract standards.

The level of financial penalty should be commensurate with the violation, so that the district has a meaningful recourse to obtain corrective action.

Recommended *Procedures*

For Due Diligence

Due diligence is the process that private sector businesses go through before making an acquisition or entering into a significant contract relationship. School boards must do the same in order to guarantee that taxpayer dollars are not wasted and that quality of services are not undermined.

These recommendations for due diligence procedures should precede any decision to contract out and model language should be inserted into contracts in order to guarantee quality and cost accountability.

The discussion that follows is divided into two sections. First, we outline standards that we believe should be used to prequalify bidders on RFPs. In the second section, we outline information that school districts should collect as part of the due diligence process for those contractors that have qualified as responsible bidders.

▸ These recommendations for due diligence procedures should precede any decision to contract out and model language should be inserted into contracts in order to **guarantee quality and cost accountability.**

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PreQualifying Bidders

Under current state law, there is very little meaning to the term "responsible bidder." Generally, the only behavior that prevents a contractor from being considered a "responsible bidder" is a significant history of either legal violations or violation of commercial contracts. While this standard may meet the minimum requirements of the law, Oregon's school children deserve something more.

Many public agencies across the country have adopted a procedure for "prequalifying" responsible bidders. This entails requiring background information on contractor performance and standards that can be used to determine a more select pool of truly "responsible bidders." The board can then invite this group of contractors to bid on an RFP and choose the lowest bid from among this prequalified group.

We strongly recommend that Oregon school districts adopt such a policy of prequalifying bidders. As part of the bid submissions and in order to qualify as responsible bidders, contractors should be required to provide school boards with detailed information on their past performance.

Listed below are recommended information requests that school boards might find useful in determining a contractor's qualifications to provide a school support service.

Each item should apply to all company contracts in schools over the past five years, whether in Oregon or elsewhere in the US:

- Any contracts cancelled by school districts.
- Any litigation regarding contracted services.
- Any fines, penalties, warnings, or negative reviews by district or other public officials.
- Any employees fired for criminal activities or other activities affecting interaction with schoolchildren.
- Any disagreements over contract interpretation that were settled through arbitration.
- Reports of customer complaints.
- Any reports of drivers found to have motor vehicle violations.
- Record of all food safety, food health, or food-borne illness issues, or complaints—whether formal legal complaints or informal complaints from students or parents, and regardless of how the complaints were ultimately resolved—at schools operated by this contractor over the past five years.

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Due Diligence

In order to exercise due diligence, school boards should consider the following recommendations in developing their requests for proposals and structuring their decision-making processes:

· Contractors should be required to report on equivalent rates charged (for each aspect of the contract) to other school districts with which they have contracts for this service. The report should include all other contracts in Oregon and Washington.

· If they have this experience, contractors should be required to provide a table tracking their fees where they have enjoyed long-term relationships with school districts.

For any contracts going back more than one contract cycle, contractors should either provide copies of the contract or a table summarizing how the contractual terms changed each time the contract was renewed.

Such information should be required for all contracts in Oregon and Washington. This will enable school boards to anticipate whether contract charges are likely to increase significantly following the first contract.

· Contractors must provide data on employee turnover in all of their OR and WA contracts over the past three years.

· Food contractors should be required to provide not only their proposed menus, but also a summary of patterns of actual food consumption for the last school year at the three geographically closest schools where they have operated food programs. This information will enable board members to intelligently consider the impact of privatization on issues of obesity, nutrition, or food quality.

· "No Surprises." Included in its bid submission, each contractor should be required to list every item in the contract that might potentially end up costing more than what the contract projects.

For each such item, they must list the specific conditions under which this cost might rise and the amount by which it might increase. The intention here is to essentially require contractors to provide board members a "roadmap" to any potential loopholes or hidden costs in the contract.

· Make sure the district has adequate administrative staff to oversee, coordinate, monitor, inspect, and penalize the contractor as needed.

· If the contract includes the definite or possible sale of district assets to the contractor, each bidder should be required to provide documentation showing how they have handled equipment replacement, depreciation, and maintenance costs in other districts. Specifically, when the contractor faces the need to repair or replace equipment, how and to what degree have these costs been passed on to other districts?

· If the contract includes selling district assets—such as bus fleets, kitchen equipment, or heavy cleaning equipment—the long-term costs of this decision must be included in the deliberations of whether or not to privatize. Board members must not be presented with a cost-benefit analysis that looks only at the initial contract cycle, in which the district will receive a cash infusion for selling off its assets and will not yet incur expenses for the depreciation or replacement of the contractor's equipment. Board members must be presented with a cost analysis that, at a minimum, projects far enough into the future to cover the stage at which the contractor's equipment can be expected to need repairs or replacement. These are costly expenses that must be passed on to the school district and; therefore, must be taken into account, even if they will only be incurred after the first contract cycle. This is particularly important regarding bus fleets if the district will incur replacement expenses at 100 percent of cost rather than at 30 percent of cost under the state subsidy program.

· Part of the due diligence process within the school district itself must be an accounting of what administrative responsibilities will remain in the district, which personnel will carry them out, and what FTE and expense will be required for this work.

Model Contract Language

Each of the following contract clauses is designed to guarantee the quality of school services, to avoid waste of taxpayer funds, and to make contract monitoring and enforcement as easy and efficient as possible. Above all, they are designed to help school districts avoid falling victim to hidden or unforeseen pitfalls that may endanger students, degrade the quality of services, or impose significant unanticipated costs on the district.

The clauses below are written not in legal terminology but as common sense proposals. Districts may find some more relevant than others depending on what services they are considering contracting out. We believe that each one represents an important improvement in guaranteeing that school districts get the service they need at a price they can afford.

· *Financial Penalties for Non-Performance:* One common pitfall of contracts is the failure to include intermediate-level penalties for contractors' failure to meet performance standards. In many contracts, the only real remedy that school districts have at their disposal is the right to cancel the contract as a whole. For violations such as an incident of spoiled food being served, or roof leaks going unrepaired, or bus drivers missing routes, it's not appropriate to cancel the entire contract as punishment. However, if such behavior has no repercussion beyond a verbal warning, the district has no effective means of ensuring contract performance. It is critical, therefore, that districts establish financial penalties that will be levied against the contractor for failure to perform to contract standards—whether it is a missed route, unreported accident, inappropriate interaction with children, or other violation. The level of financial penalty should be commensurate with the violation, and should obviously be at a level that will have an impact on contractor behavior without being excessively punitive.

· *No Surprises*: Included in its bid submission, each contractor should be required to list every item in the contract that might potentially end up costing more than what the contract projects. For each such item, they must list the specific conditions under which this cost might rise and the amount by which it might rise. The intention here is to essentially require contractors to provide board members a "roadmap" to any potential loopholes or hidden costs in the contract. The contract itself should contain language stating that such a "roadmap" has been provided, and that any unanticipated costs not included in that roadmap will be borne exclusively by the contractor.

· *"Me Too" Contracts:* Districts should seek to insert a "me too" clause, stipulating that if the contractor offers another district a lower rate for the same service (e.g., a lower per-meal management fee as has happened within Oregon), the district will automatically receive similar terms—unless there are major differences in the two districts' operating costs or material circumstances that would justify the disparity. In the event of disagreement over whether a higher charge is warranted, the parties might agree to arbitrate any such disputes.

· *Specifying Terms of Contract Renewal:* Contractor guarantees that if contract is renewed beyond the initial term, charges for subsequent contracts will only increase by the rate of inflation, unless contractor can document that its cost of providing services has increased, in which case fees may be increased to cover those costs. There is some evidence that school districts are beginning to insert this type of clause in their contracts as a protective measure. This clause is particularly important in cases where the district sells off its assets—such as the bus fleet—in the first contract cycle and may be vulnerable to pressure bargaining in subsequent contract cycles.

· *Purchase of district assets:* Any district assets sold to the contractor will be priced at fair market value. For the purposes of this contract, "fair market value" is defined as the *replacement* cost of the assets, adjusted by their expected remaining useful lifespan.

· *Measurable standards of service*: Make sure there are clear and easily measurable standards of service and realistic financial penalties for a contractor's failure to meet them.

· *Measurable standards of employee competence:* Define clear measurable requirements of employee competencies. Define the contractor's procedure for screening new hires, training new employees, and providing a transparent means for district to monitor this process.

· *Overtime rates:* If overtime work is performed such that employees are paid at time and a half, the district will pay this higher rate to the contractor. However, in no case will the district be charged 1.5 times for benefits or administrative costs. These will be charged at the "straight time" hourly rate.

· *Rebates and discounts:* All rebates, discounts, or other economic benefits provided to contractor by suppliers—whether private or governmental suppliers—must be passed on to the school district at 100 percent. Contractor must make all records available to district to verify this practice.

· *Self-serve food*: Food contracts should include an explicit ban on food bars or other types of self-service in which students have the opportunity to directly handle food that other students may then consume.

· *Employee turnover:* For many reasons, employee longevity adds significant value to school services.

The decision to contract out often entails displacing long-term district employees. Contractors promise to attract employees who will be committed for the long-term, but such statements are meaningless in the absence of monitoring and enforcement. For this reason, it may be appropriate to include financial penalties if a contractor's employee turnover exceeds an agreed-upon rate.

Alternatives to Contracting Out

In most of the cases that we analyzed, the committees designated by school boards to study and evaluate contracting out have not included formal input from workers or their representatives. Nonetheless, because the decision to contract out school support services is often quite controversial and can carry serious social costs, many school districts have provided workers the opportunity to offer alternatives to privatization. As we have seen, school support workers are often long-time employees and have considerable knowledge of both the jobs they perform and the communities they serve. There are several ways in which school boards might consider taking advantage of this experience and insight. They can allow workers greater involvement in the deliberations that ensue once contracting out is being considered. This involvement could include formal representation on committees that have been formed to study and evaluate the appropriateness of contracting out. There is also the option of encouraging joint labor-management approaches to develop strategies that could improve the quality and efficiency of school support services.

▸ **School support workers are often long-time employees and have considerable knowledge of both the jobs they perform and the communities they serve.** There are several ways in which school boards might consider taking advantage of this experience and insight.

The past three decades have witnessed a proliferation of such initiatives in the public sector that aim to redesign government through labor-management cooperation and partnership. These efforts have the added benefit of providing employees with a deeper level of involvement in shaping workplace practice and underscoring their value to the entire school community.

There are several recent examples of school districts in Oregon that have utilized employee input in their discussions of contracting out. In Eugene, the school district and OSEA have a clause in their collective bargaining agreement providing for an interest-based bargaining process to be followed in the event the district wishes to consider contracting out. The agreement calls for a task force comprised of labor and management representatives to collect and analyze pertinent data and make recommendations to the school board based on their findings.

To date, this process has proven successful in allowing the parties to work jointly on improving service without the need to resort to privatization. Last year in Corvallis, a broadly-based committee explored alternatives to contracting out custodial services and found sufficient savings to convince the district not to proceed further with its RFP. There are also numerous examples of proposals that unions have developed to improve the quality and efficiency of school support services. Several years ago, the Dearborn Federation of School Employees in Michigan advanced a comprehensive plan to establish a Food Service Management Team that would oversee the administration of the school district's food services program. The team includes management, workers, a school board member, a PTA representative, and a union official. Together, they make decisions about staffing, menus, purchasing, and ordering.

The Escambia Education Association in Florida developed a plan to improve custodial services in its school district that included ideas on cost savings, training, purchasing practices, staffing, and evaluation. There have also been instances where joint labor-management teams have prepared proposals during the RFP process outlining their own ideas about changes that would allow the district to keep school support services in-house.[32]

These examples offer school districts the opportunity to make the contracting out decision-making process more inclusive, create a wider set of policy options, and limit the divisiveness that often accompanies discussions about privatization. Although controversy will inevitably accompany any consideration of contracting out by a school district and a community, the strategic options outlined above can make the process more transparent, accountable, and sensitive to the needs of all stakeholders.

Conclusion

The decision on whether or not to contract out school support services is one of the most difficult and important decisions that school boards and communities are likely to face. As our research suggests, there are no guarantees that switching to private management will ensure quality services and lowered costs. We cannot emphasize enough the need for school districts and communities to be critical consumers and exercise due diligence when they consider the contracting out of support services. When issuing RFPs, districts need to attract a sufficient number of bidders to make the process truly competitive. They should ask probing questions about the past performance of contractors and insist on obtaining pertinent information that will allow them to assess claims of cost savings and the ability to provide quality services. They must recognize the importance of strong oversight once the decision to contract out has been made and devote the necessary time and resources to monitor contractor performance. And they must consider the short- and long-term social costs of reducing wages and benefits for workers that so often accompany the move to private management.

Although the information and analysis contained in this report will not eliminate the controversy and divisiveness prompted by the debate over contracting out, ***we hope that it will provide all stakeholders with new ideas, perspectives, and tools they can use in making the best possible public policy decisions for their districts.***

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Attachment: *Custodial Duties*

The following are custodial duties described by OSEA custodians in addition to cleaning:

- Help with discipline.
- Playground monitoring.
- Lunchroom monitoring.
- Help kids who come in late.
- Help injured or handicapped kids get around.
- Service and repair boilers and furnaces.
- Receive and distribute shipments of towels, soap, and other goods and supplies.
- Deal with leaks in gym room.
- Snow removal.
- Trained to identify and deal with asbestos problems.
- Trained to identify and deal with problems with septic and pump systems.
- Building security in lockdown, fire, other emergency, and fire drills.
- Work with fire inspectors to make sure school is up to code.
- Trained in CPR and first aid.
- Set up and take down for assemblies, plays, big programs, and community activities.
- Move furniture at teachers' request for special classroom setups.
- Change light bulbs, deal with minor maintenance or repair problems.
- Train and mentor troubled kids who do service work with custodian.
- Monitor kindergarten toilets where kids don't know how to flush.
- Help homesick, upset, or distraught kids.
- Work closely with teachers and principals.

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