

# PRIVATIZATION & CONTRACTING OUT



The cost of providing an education for our children continually increases, as does pressure to improve student achievement. As public education officials attempt to please constituents with improved student scores, school districts search for ways to get enhanced efficiency and quality within existing revenue. Some districts, especially in other states, are exploring privatization and/or contracting-out services, particularly those that provide non-educational support.

In school year 1999-2000, public education in Washington state cost taxpayers \$7,947,426,562, or \$8,266 per student. Of that amount, instructional program costs were \$4,565 per student (or 69.4 percent), leaving \$3,701 per student for support and other services.<sup>1</sup>

Since the public school system's primary purpose is to provide a quality education for students, the question arises as to whether or not the ancillary services

***Could privatizing some of these services result in more money being dedicated directly to the education of our children?***

required to bring instruction to the classroom can be more efficiently and economically provided another way. Could privatizing some of these services result in more money being dedicated directly to the education of our children?

Balancing the school budget can be an ominous task, and the industrious, intelligent administrator

must look at all areas to find efficiencies. Previous research, such as that provided by the Reason Public Policy Institute and the Mackinac Center for Public Policy, conclude that efficiencies and quality can be gained through contractual arrangements with private providers.

Reason Foundation lists seven reasons privatization may be advantageous. It can

- save money
- increase flexibility
- improve service quality
- increase efficiency and innovation
- allow policymakers to steer rather than row
- streamline bureaucracy
- improve maintenance

Obviously, every situation is different and must be carefully analyzed, but some contracting-out/privatization opportunities to consider include accounting, janitorial services, building maintenance and management, computer systems design and maintenance, data processing, printing, transportation, at-risk education and food services.

The largest obstacle to contracting-out or privatizing services in our public education system seems to be the usually unspoken sentiment that, in addition to accomplishing the weighty task of educating our young, our K-12 system must also create many jobs for adults within its own closed system. This dual expectation sets up an obvious conflict for the best use of limited funds.

For the purposes of this document, "privatization" refers to transferring to a private source the task of providing a service that could be, or is normally, provided by district employees. "Contracting-out" means district

employees compete with the private sector to provide contracted services or goods.

Included are examples of successful and unsuccessful privatization and contracting-out efforts of other districts around the country. It is hoped that examination of these other districts will reveal best practices that might be implemented here in Washington state.

## **Overview of privatization and contracting-out in Washington**

Responses to a recent survey by Evergreen Freedom Foundation of Washington state school districts (see survey at end of chapter)<sup>2</sup> reveal districts hold diverse approaches as to what services can/should be contracted-out or privatized and how the process should be implemented. While some districts choose to provide most services directly from in-house resources, others, especially small districts, find it necessary to look outside their walls for provision.

Sometimes a district may look to its Educational Service District (ESD) or to another school district for a service it cannot directly provide. The ESD or neighboring school district may be able to provide services from its in-house resources, or it may contract-out.

The contracting survey sent to Washington state school districts did not include services provided by an ESD or OSPI (Office of Superintendent of Public Instruction) since these services are still provided from within the public school system. Excluding ESD- and OSPI-provided services, however, does not take into account the possibility that an ESD or OSPI may use a private contractor to provide resources to the school district. The survey instrument used to procure information for this study was not designed in a way to directly identify these indirect privatization efforts.

That said, information provided to us by school districts and the OSPI indicate that both entities contract-out for some services, making privatization a practice at all levels of our state's educational system.

Most districts contract-out when special skills are required, such as providing legal services or therapy for special education students. North Thurston School District Chief Financial Officer Shawn Lewis expressed it this way: "We generally utilize these contracts when: (a) jobs require specialized skills where it would be too costly to train our current staff to perform the service, or (b) peaks in workload would otherwise require us to incur overtime or to purchase additional equipment to per-

form the service.” Implicit in this statement is the prevailing thought that most districts would rather have services covered by their own staff than to contract-out for services. Only the largest districts, however, can justify having such specialized individuals on staff.

A few school districts choose to contract-out or privatize larger delivery items, such as food services, student transportation, or school maintenance. Information obtained from OSPI indicates that only 46 of the state’s 296 school districts (15.5 percent) contract-out all or part of their food services. Fifteen school districts in Washington state (5 percent) contract-out for student transportation, in contrast to the national percentage of 30 to 40 percent of school districts.

Of school districts responding to EFF’s privatization survey, 74.5 percent contract-out for at least one non-instructional service (not including a few districts that rely on their ESDs for provision of at least one service). Many smaller districts indicated they have joined with other school districts and public entities in local cooperatives to provide services that the district would otherwise be unable to manage.

## Examples from around the country

School districts from around the country have turned to private companies for many goods and services in hopes of saving money and improving quality. Money saved by privatization may then be spent on classroom instruction. In 1994, a Reason Foundation study noted that more than 10 percent of school districts contracted with private companies for custodial services, and more than 20 percent contracted for food services and pupil transportation.<sup>3</sup> Privatizing pupil transportation has increased by an additional 10 to 20 percent over the last seven years.

Examples of privatization from school districts in other areas of the country show the potential benefits to our state school system if privatization and contracting-out are seriously implemented.

### Tennessee

Memphis City Schools (MCS) first contracted for regular bus service in 1972. Parents and other members of the public were concerned about quality of service. Drivers worried about maintaining their jobs. Concerns quickly subsided when it became evident that service was not degraded and most drivers retained their jobs. The district uses periodic surveys to measure the level of service provided by the contractor, but because sur-

veys are not used prior to contracting-out the service, there is no baseline from which to measure overall improvement.<sup>4</sup>

After 30 years of privatized regular bus service and the recent addition of transportation for special education students, MCS, parents, the public, and bus drivers are satisfied with the privatized service.

MCS contracts-out about 80 percent of its school security (including guard service for special events, after-hours building security and routine patrols) through a competitive bidding process. For other security services, the district finds it can achieve greater quality and cost reduction by hand selecting in-house guards. Using this mix, MCS meets its security needs while obtaining greater efficiency.

MCS also contracts-out management of maintenance and custodial services. When the current contractor won the bid in 1993, no employee lost his/her job. The principal aims of the contract are better utilization of the district’s limited resources, improved productivity and morale, and superior training for employees. Progress toward achieving these goals is measured through surveys completed by school principals.

MCS realized cash savings from the maintenance management contract during its first year and made that savings part of its baseline for subsequent budgets, adding in an annual cost-of-living adjustment. Money saved in these contracting-out services is spent on building repair and maintenance.

Quality is an enormous part of the decision regarding whether to contract-out for goods and services. MCS operates on the principle that quality includes responsiveness by the contractor to the needs and desires of the customer. When a contractor perceives he or she has a monopoly on providing the service, the level of quality may decrease. MCS seeks to preserve cost savings and quality by soliciting active competition and including strong language in its contracts.

***Concerns quickly subsided when it became evident that service was not degraded and most drivers retained their jobs.***

## Michigan

Privatization continues to change the face of education in Michigan schools. More than 170 charter schools operate throughout the state, thus increasing the competition to attract and retain students. Schools are scrambling to make budgets efficient so that a greater portion of their budgets will be available for classroom instruction. Districts throughout the state have contracted-out or privatized food services, transportation, building and grounds maintenance, information technology, and many administrative services.

***“The important thing is ensuring that every possible dollar goes into classrooms . . . not into ensuring that the school district remains the jobs machine of first resort.”***

—Detroit Free Press

Inkster school district has actually contracted-out management of all its

schools to a private education management firm. Detroit Public Schools District, the tenth-largest school district in the United States and dubbed an “unwieldy monster” by the *Detroit Free Press*, has recently taken measures to streamline operations. It began by privatizing information technology at an expected savings of \$10 million over the five-year term of the contract.<sup>5</sup>

Mt. Pleasant Schools privatized its food service management and saved the district \$113,000, during the first year of the contract.<sup>6</sup>

But privatization and contracting out is not always a bed of roses in Michigan. An article by the Mackinac Center for Public Policy pointed out that “privatization is just like anything else: it doesn’t work well unless it is handled correctly.”<sup>7</sup> The administrator must hold the contractor accountable to perform agreed-upon terms during the life of the contract. Without this accountability, profit-driven contractors might be tempted to cut corners, providing the district with an unsafe service. For example, a recent *Detroit Free Press* survey revealed school buses owned by private companies in selected Michigan counties have passed the state safety inspection less often than those of the public-sector school buses in the same area.<sup>8</sup>

In many instances, privatization and contracting-out services has had good success in bringing efficiencies to public education. But it has not been without a

struggle. In Arvon Township, Michigan, the school board unanimously favored a contracting-out plan touted to save the district 30 percent on the cost of some non-instructional services. However, the union put up so much opposition publicly and personally against the effort that one board member called a special meeting to rescind his yes vote following a series of threats against his person and business.<sup>9</sup>

Another clash between school administrators and union workers occurred in June of this year when 150 Detroit public school workers and their supporters mourned over the potential loss of their jobs through privatization. A union representative claimed that 3,000 jobs could be lost due to the privatization effort, a number proponents said was grossly exaggerated. A *Detroit Free Press* editorial on the matter stated, “Privatizing school support services is not an answer unto itself, but the district owes it to taxpayers and students to seek the most efficient blend of inside and outside operations. The important thing is ensuring that every possible dollar goes into classrooms and other activities that benefit children, not into ensuring that the school district remains the jobs machine of first resort.”<sup>10</sup>

## Illinois

In 1999, the Illinois Association of School Business Officials, the Illinois Institute for Rural Affairs, and the Illinois Center for Competitive Government conducted a “comprehensive survey of contracting support services in nearly 500 Illinois school districts.” Reason Public Policy Institute (RPPI) included some of the key findings in *Privatization 2001*, its fifteenth annual report on privatization. Key findings cited by RPPI were:

- Certain services can only be provided by contracting
- Roughly 25 percent of school districts plan to increase privatization
- Contracting impacts few employees; and
- Rural districts have more difficulty attracting service providers<sup>11</sup>

## Maryland

In 1992, Baltimore contracted with a school management firm based in Minnesota to operate nine inner-city schools for five years. Education Alternatives, Inc. (EAI) promised to raise standard test scores as part of their contractual obligation. Critics were quick to point out that this goal was not achieved in the first two years. EAI did, however, significantly lower the number of students eligible for “learning disabled” classification,

thus including a new student population in the standard testing pool—a group not included in the two previous years. Further, even with these former “learning disabled” students included in the testing, the schools operated by EAI actually showed a greater increase in test scores than other schools in Baltimore.<sup>12</sup>

The city canceled EAI’s contract on November 20, 1995 and the press coverage pronounced doom for EAI and private management of public schools. What went mostly undiscussed in the press reports is that EAI had rejected an ultimatum issued to them by city officials that the company accept \$7 million less a year, or 16 percent of its \$44 million-a-year contract, to help Baltimore close a deficit in its municipal budget.<sup>13</sup>

### Rhode Island

In 1995, school districts in Rhode Island began replacing their self-operated food services plans with contracts with food service management companies. Initially, the state traded an \$11 million annual food program appropriation for a less than \$200,000 program.<sup>14</sup> Not only did the change save state dollars, but students tired of “macaroni surprise” and “hash-on-a-bun” type offerings began buying food . . . and eating it. Today 29 of Rhode Island’s 36 school districts contract with food service management companies.<sup>15</sup>

## Washington state school districts

### Transportation

The average cost per pupil for student transportation in Washington for the 1999-2000 school year was \$262.63. The range goes from a low of \$62.32 per student at Kalama School District to a high of \$5,651.52 per student at Star, the smallest school district in the state.<sup>16</sup> For the 15 school districts that have partially or completely privatized student transportation, the price ranged from \$184 to \$574 per student for an average cost of \$356 per student.<sup>16</sup> See *Table PC-1*.

On its face, some of the districts that contract-out student transportation appear to be paying higher costs because the totals exceed state averages. In reality, these 15 districts are saving money through privatizing student transportation because of unique circumstances faced by each. For example, because of Star’s small and rural nature, the district probably would not realize substantial savings if it chose to privatize its student transportation. Because Kalama School District’s students are geographically compact, it already experiences low costs which would probably increase if the district were to

privatize transportation. But if experiences in other states are an indication, other districts might well enjoy savings over their current transportation costs through privatization.

### Nine Mile Falls School District

Nine Mile Falls School District began contracting-out student transportation prior to 1980. While they have no prior data from which to compare before and after costs, a conversation with the district’s Director of Business, Floyd Smith, revealed the key elements that clinched their decision about student transportation systems:

*School district transportation funding is provided by the state based upon the straight-line distance from the school to the student pickup point. A river runs through it—the Nine Mile Falls School District, that is, limiting access from side to side and increasing actual transportation mileage. The cost per student for transportation is driven up, forcing the under-funded district to subsidize its straight-line state funding by \$140,000.*

*Due to the high cost of buying new buses, districts experience tremendous maintenance costs for school buses compared to that of a private contractor. Due to its geography, the Nine Mile Falls District is already cash strapped for transportation funding and has no money to put into a sinking fund for bus replacement and repair. Nine Mile Falls School District’s transportation contract provides that the district will get new buses every five years, giving the district safer, more reliable equipment.*

*Privatized transportation removes school district concerns about transportation personnel issues. From a management perspective, officials at Nine Mile Falls School District are no longer responsible for transportation personnel issues. The contractor provides staff training and addresses personnel*

Pupil Transportation District Cost Per Pupil	
Adna	\$373
Battle Ground	\$340
Colville	\$326
Everett	\$237
Hockinson	\$388
Newport	\$545
Nine Mile Falls	\$317
Riverside	\$574
Rochester	\$491
Seattle	\$544
Spokane	\$184
Steilacoom	\$368
Tacoma	\$292
Tenino	\$442
Vashon Island	\$328
Average	\$356

*Table PC-1: Source: Superintendent of Public Instruction*

grievances for transportation staff, freeing school district officials to address other school district issues.

Floyd Smith explained, however, that once a district privatizes student transportation, it virtually locks itself in to continually contracting-out the service. If a district wants to return from privatized transportation to providing the service in-house, the cost of acquiring new buses would make it all but impossible. This dependence makes it imperative that competition to provide the service be available, otherwise the district is placed in the tenuous position of bowing to the demands of a monopoly.

### **Lake Washington School District**

When Lake Washington High School changed its daily start time, school officials needed more buses to transport students. Normally, the district's buses provided service to high school students first, followed by junior high and then elementary students. The change in start time for the high school conflicted with transportation for junior high students. The district began purchasing passes for eligible Lake Washington High School students to ride to school on King County Transit. This allowed the district to avoid incurring the cost of adding buses and staff to its operation. It also keeps its transportation cost per pupil to just 92 cents over the state average.

### **Food Services**

In school year 1999-2000, Washington state school districts spent an average \$222 per pupil to provide food services. Small school districts often lack buying power and are presented with the unique problem of being unable to provide food service on a cost-effective basis.

### **White Pass School District**

White Pass School District could not afford to provide food service prior to contracting with a private company. School district employee Tina Barnes says the district provided food service to all 813 students in its four schools for a per pupil cost of \$310.93 during the 1998-99 school year.

### **Coupeville School District**

Like White Pass, Coupeville School District's food service program had been out of operation for 15 years prior to contracting-out the service. The district now provides food service to its students, through its contractor, at a cost of \$208.80 per pupil.

### **Lake Washington School District**

Lake Washington School District has been contracting-out its food service for several decades. The district is currently paying an average of \$184.79 per pupil for food service.

### **Toledo School District**

When Toledo School District privatized its food service program in 1998, it faced normal employee fears regarding job security. These fears subsided when all district employees were retained. This is not an exception to the rule; in many cases a school district contract to privatize food services contains a stipulation that all existing employees be retained with no erosion of salary or benefits. Comparing year-end reports from the 1997-98 school year to those of the 1999-2000 school year demonstrates Toledo School District saved about \$6,000.

Many school districts contract out only for the *management* of their food services programs. Food preparers and servers remain school district employees and the contracting company provides both training to workers and the purchasing power of a large company. Savings in food service costs are passed on to the school district, leaving it with a better-trained workforce, increased food quality with greater selection, and more money to dedicate to instruction-related programs.

When a district first contracts-out food service management, it may experience an implementation gap. Extra time may be required for the district and the management service to work out the most efficient way of working together.

When Bridgeport School District contracted-out for the management of its food service program, it initially experienced this implementation gap, but after the first year, the district realized an increase in food quality and a savings of more than \$4,000 over the previous year's costs.

### **Energy consumption**

Bellingham School District has found it can save money by contracting out energy consumption monitoring. The district noted on its contracting survey that "the energy consumption monitoring has validated savings realized from capital improvement and has identified problem areas where savings were not realized." It has reduced its energy consumption bills by \$146,000 annually. Considering the rapidly increasing energy rates over the last year, this is remarkable and worth modeling.

## Contracting model

Privatizing and contracting-out services can be economically advantageous, but simply finding a contractor, signing a contract, and going on with business does not guarantee success. Unprepared school districts have experienced the pitfalls that privatization and contracting-out potentially hold.

To help school districts avoid these traps, the Reason Foundation hosted a *Making Schools Work* conference on implementing competitive contracting for school services. In a presentation on assessing the feasibility of privatizing or contracting-out a service, Gail Ostler, a certified public accountant with many years of financial management experience, noted, “if you really do the up-front planning, the rest of the RFP [request for proposal] kind of falls into place, and it really provides you a good foundation for making decisions... . The lesson that I’ve learned over the years is that the better prepared you are, the more homework you do up front, the better chance you have that your venture will be a success.”<sup>18</sup> She provided seven questions planners should answer to ensure a sound basis upon which to make a decision whether to privatize a school service:

1. Why is a function or activity being considered?
2. What specifically are the measurable goals and objectives to be achieved through contracting?
3. Is there competition in the market or are there a limited number that can provide this service?
4. What are the costs of performing the function internally, both one time and operating, associated with contracting?
5. Are there any laws or labor agreements that limit or prohibit the authority to contract for this function?
6. If contracting is to be pursued, what are the specific actions that need to be taken, and by when do they need to be accomplished to assure a successful transition?
7. What support can I realistically expect from the school board and from the community?

Union officials adamantly oppose any form of privatization or contracting-out, even though few, if any, jobs are lost in privatization efforts. (Employees may retain their jobs, but through a non-union company.) No job loss or pay reductions were noted in the Wash-

ington state school district contracting survey. When districts write the RFP for a complete service contract, they usually include the stipulation that all existing employees must be protected. (Prospective contractors should review a copy of the bargaining contract the district has negotiated with the union.)

***Competition is necessary in order to successfully privatize a service.***

One might ask how contracting-out saves the district money when all employees are retained at their current pay either by the district or by the incoming contractor? Often, current employees know best how to do the job and just need to be free from excess management and unnecessarily restrictive practices. Savings may be found in other benefits the contractor brings, such as increased purchasing power and quality staff training. The resulting team of better-trained employees reduces the need to hire outside expertise to handle difficult problems and creates increased efficiency in day-to-day work. Also, the private contractor need not maintain long-range, artificial hiring quotas (number of employees).

As already stated, competition is necessary in order to successfully privatize a service. In the event a service provider becomes the only resource available, the efficiencies of a “well-oiled machine” tend to erode, making the district pay more for the service. Before contracting out for a service, the district should ensure adequate competition exists in the private sector to provide the service.

### Important Considerations

Each opportunity will present a different set of circumstances that must be considered individually. Key questions to ask are:

- Is this a task or program suitable for a long-term contract or does it need to be kept on a short leash?
- Can objective performance measures be determined?
- If the contract needs to be monitored, will contracting-out the service allow this to occur? If so, how?
- Can more than one firm provide the service to ensure competition and to guarantee an option should the first firm have trouble completing the contract?

## Conclusion

All research undertaken for this study indicates that savings are available for school districts that choose to privatize or contract-out for certain services. Privatization and contracting-out often bring savings, higher quality service, and greater efficiencies to the daily tasks associated with educating children in Washington public schools. While several school districts have adopted this avenue for providing service, many have not.

A non-competitive environment, no matter what the cause, breeds complacency and inefficiency. Privatization and contracting-out can and should result in increased efficiency and improved quality as long as competition prevails. District officials, local school board members and state legislators must do their part in making our schools a fruitful experience for our children—an experience that prepares them in the best possible way for the challenges that face them in the workplace and in our communities.

## Recommendations

- **Legislators must change laws** (especially the Spokane Community College law)<sup>18</sup> **to allow districts to privatize** or contract-out whenever it is beneficial to the goal of providing an excellent education for students. School officials need not “make” all the products; they can “buy” them.
- **School administrators should build bridges with public employee unions** by developing an incentive program for areas that may be privatized or contracted-out. Some contracts can stipulate that private firms, if selected, must give current employees first consideration. In other cases, this provision would be counterproductive.
- **Publicize successes and failures** so other districts can benefit from the experience gained.
- **Develop a complete financial analysis of each proposal.** Assess all direct and indirect costs.
- **Appoint a Competitive Contracting Committee** (district-driven) to look for contracting-out and privatization opportunities in each district.

## Endnotes

1. Office of Superintendent of Public Instruction (OSPI), *School District Financial Reporting Summary 1998-1999*, Table 9 and *School District Financial Reporting Summary 1999-2000*, Tables 9 and 11.
2. All 296 school districts received a request for information. Evergreen Freedom Foundation received only 132 responses for a 45% response rate.
3. Janet Beales, *Doing More with Less: Competitive Contracting for School-Support Services*, (Reason Foundation, 1994)
4. Mike Frey, Memphis City Schools Service Master, conversations with Don Brewer, Jr., EFF research analyst.
5. Elizabeth Moser, “Computing the Savings: Detroit Schools Privatize Information Technology,” *Michigan Privatization Report*, Spring 2001, 5.
6. Michael LaFaive, “Mt. Pleasant Schools Taste Success with Cafeteria Privatization,” *Michigan Privatization Report*, Summer 2001, 11.
7. Michael LaFaive, “Faulty School Bus Privatization Can Take Districts for a Ride,” *Michigan Privatization Report*, Spring 2001, 7.
8. *Ibid.*
9. Matthew J. Brouillette, Executive Editor, “School board president recounts struggle to increase classroom spending: Privatization of non-educational services derailed,” *Michigan Education Report*, Spring 2001.
10. Opinion Editorial, “School Jobs: Students forgotten in political posturing,” *Detroit Free Press*, 15 June 2001.
11. “Public-sector Trends,” *Privatization 2001*, (Reason Public Policy Institute), 7.
12. Lawrence W. Reed, “Ideas and Consequences: Mixing Public and Private,” *The Freeman*, July 1996.
13. *Ibid.*
14. S. Glass, “Happy Meals,” *Policy Review*, Summer 1995, No. 73, 84-85.
15. Email from E. Richard Morrell, Rhode Island Department of Elementary and Secondary Education, 2 October 2001.
16. School Financing and Apportionment Services, “Washington State School Districts Per Pupil General Fund Expenditures by Program Group - Fiscal Year 1999-2000,” *School District Financial Reporting Summary*, (OSPI, 2001).
17. All Washington school district data is from district responses to the privatization survey conducted by the Evergreen Freedom Foundation.
18. Presentation by Gail Ostler, “Using Contractors to Cook, Clean, and Drive the Bus,” (Reason Foundation’s *Making Schools Work* conference, December 1996), <<http://www.rppi.org/ps221.html>>.
19. RCW 41.06.380 and 382 prohibits contracting out services if it would result in the elimination of current employee positions.



5. Which areas are you considering contracting out and when?

**If you have contracted out any services, please comment on some or all of the following questions.**

6. Was the initial reception to contracting out favorable among affected personnel? If not, please describe employees' concerns.

7. Were affected personnel fearful of losing their jobs?

8. Were all affected personnel able to keep their jobs? If not, what percentage changed jobs?

9. Has contracting out services improved the quality of service? How do you measure quality?

10. Has contracting out saved the district/program money? If so, how much?

11. If transportation was contracted out, did the district maintain ownership of the buses or did the private company purchase them?

If the company purchased them, did the district realize cash for the transaction?

12. What problems, if any, have you encountered in any of the areas contracted out?

**Other comments or additions:**

**Evergreen Freedom Foundation, PO Box 552, Olympia, WA 98507  
(360) 956-3482, fax (360) 956-1874, [effwa@effwa.org](mailto:effwa@effwa.org)**