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**DOING MORE WITH LESS:
Competitive Contracting for School Support Services**

by
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I. INTRODUCTION

×School spending per-pupil increased 34 percent during the 1980s after adjustment for inflation. Why, then, must many teachers spend their own money to provide their classrooms with the most basic supplies such as books, paper, and chalk?

×The student-to-staff ratio has declined since 1970 from 13 students for every staff person (including non-teachers) to roughly nine to one in 1992. Yet a common complaint by parents is that their children don't receive enough individualized attention in public schools.

Paradoxes like these abound in public education. Despite decades of spending increases, the perception exists that when it comes to public education, we scrimp on our schools. To a certain extent, the perception is valid. After all, just 58 cents of every education dollar actually make it to the classroom, leaving local educators with far fewer resources than they might have otherwise.

But what hobbles our schools is not a lack of money, but a lack of money management. When resources are used inefficiently, when state and federal mandates hamstring local education budgets, or when onerous collective-bargaining agreements squeeze school finances, even a generous amount of funding evaporates by the time it reaches the classroom. (See sidebar on Page 2.)

The key question is not "how much" money is spent, but "how well" that money is spent. Across the country, school administrators are asking themselves that very question as they look for new ways to channel more dollars into the classroom. In the area of support services, administrators are finding some budgetary relief by turning to the efficiencies of the private sector for help. By contracting with private companies for busing, maintenance, and food service, schools can do more with less. Reducing costs, increasing revenues, and tapping new reserves of capital investment and expertise, can help school administrators focus on their core responsibility: educating children.

Non-instructional and support activities make up a sizeable portion of public-school budgets. Consider:

×Only about half of all public-school employees are teachers. Out of 4.6 million school staff employed in 1991 by the nation's public schools, just 2.4 million were teachers.

×Between 1960 and 1984, the number of nonclassroom instructional personnel in America's public-school classrooms grew by 400 percent, nearly seven times the rate of growth of classroom teachers.

×Public schools operate with five times more noninstructional personnel per student than parochial schools.

II. WHY CONTRACT?

Contracting allows our school district to focus on what we're really supposed to do which is to educate children. It means more resources in the classroom and less money spent on noninstructional services.

-Mark Tennant, Trustee and former President, Pinckney Board of Education, Pinckney, Mich.

Contracting for support services means turning over the management and/or operation of food service, bus transportation, custodial maintenance, or other support functions to an outside provider. In some cases, schools will contract solely for consulting services in which case the school district continues to supervise and operate its own services.

Contracting can provide a needed infusion of expertise, accountability, and cost effectiveness into the public schools. Central administrative tasks—such as payroll, insurance, and worker's compensation—are often reduced when a contractor handles management and operations. In the area of cost control, savings through competitive contracting have been well-documented.

×Several studies comparing in-house and contracted cleaning services find cost savings between 13 and 50 percent for contracted service.

×In a KPMG Peat Marwick survey of school districts in Washington and Oregon, over 60 percent of the districts reported lower costs through contracting than in-house provision. Another 15 percent of respondents indicated costs were the same.

Contracting enables schools to become customers in a market of competing providers. If schools don't like the price or service quality of one provider, they can take their business elsewhere. Alternatively, for a provider to stay in business and make a profit, it must attract and satisfy its customers. Such an incentive fosters accountability, because any provider can be replaced if it performs poorly. Through competitive contracting, schools can harness the efficiencies and expertise the private sector offers.

To do so, schools must evaluate what services they should "make," and what services they should "buy." Many states and districts have implemented programs giving students greater choice among schools; contracting gives schools greater choice among providers—an option that can help schools better meet the needs of their students. Case Study #1 gives a quick look at how one district, by tapping the efficiencies of the private sector, improved support-service operations, and the welfare of its students.

Competition among different providers, be they public or private, helps keep prices low and quality high. Even if a private provider is not chosen, and the schools remain with in-house services, just the existence of competition can often bring about savings and improvements (see Case Study #2).

CASE STUDY #1: How A District Got More for Less

"When the noninstructional costs of operating schools are reduced, more money can be spent on educating children," says Philip Geiger, superintendent of the Piscataway Public Schools in New Jersey. His school district has contracted out for everything from administrators to bus drivers. "We've shifted 10 percent of our school budget in the last three years from noninstructional to instructional purposes," says Geiger who attributes part of that shift to savings from support-service contracting.

With a district budget of \$60 million, contracting for support services saves the district well over \$1 million annually. Moreover, sale of the district's bus fleet generated an additional \$1.3 million one-time cash infusion—money the district used to install computers in the classrooms.

"We're not just talking about saving money, we're rechanneling it so more resources flow to the classroom," says Geiger. "We put guidance counselors in the elementary schools last year. Where do you think the money comes from? From God? The money comes from saying, 'We're not going to pay more money for bus drivers than we need to. Instead, we're going to do more for kids.'" Contracting with Ryder Transportation has reduced transportation expenses by 37.5 percent annually to \$1.5 million, says Geiger.

When the district switched to Daka Restaurants in 1992 to run the district's \$1.2 million cafeteria operation, it turned a \$500,000 operating deficit into a break-even operation. Daka guarantees that its food-service operations will pay for themselves and will absorb any financial losses involved in their operation, thereby minimizing risk to the schools.

Moreover, student participation in the food-service program at the high school increased from just 28 percent of enrollment to 77 percent with Daka Restaurants. (Participation refers to the number or percentage of students actually served.) Daka attributes the participation increase to the variety of food items it offers to students, and to the use of brand-name suppliers, such as Snapple and Pizza Hut, popular among students.

Geiger encourages school administrators to look at all their provider options. Says Geiger, "There's two questions to ask about the budget. Is this the right thing for children? And, if this were your own money, would you be spending it this way?"

CASE STUDY #2: Cherry Creek Cuts Costs, Keeps In-House Bus Drivers

Competition from private providers can help school districts enhance efficiency within the public sector, too.

Hoping to cut costs for its \$4.8 million in-house bus transportation operations, the Cherry Creek, Colorado School Board solicited bids from private busing companies. After Mayflower Contract Services returned a bid guaranteeing annual savings of \$800,000 in bus transportation, the school board got an unexpected contender: the district's own bus drivers.

Rather than let an outside provider win the busing contract, the district's drivers decided to compete by cutting the cost of their operations by \$500,000 (largely through salary and benefits reductions). That

was enough to convince the school board not to switch. The drivers saved their operations, and the district saved scarce dollars.

III. SUPPORT SERVICES: FOOD SERVICE, BUSING, MAINTENANCE

A survey of roughly 300 school districts by *American School & University* magazine (*AS&U*) found that most school districts responding to the survey (66 percent) use between one and four contracted services for support operations. Almost 20 percent of school districts said they are currently contracting for five or more services, while just 15 percent said they contracted for none of the services listed in Table 1 below.

Table 1	
Percentage of School Districts Using Selected Contracted Services	
Service	Districts
Computer Servicing	44.4%
Custodial	10.4%
Food Service	24.6%
HVAC Maintenance (Heating, Ventilating, Air Conditioning)	32.0%
Instructional Equipment Repair	35.4%
Maintenance	11.1%
Payroll Preparation	9.4%
Printing	32.7%
Security	17.5%
Transportation (Busing)	40.7%
Vending Machines	23.6%

Source: *American School & University*

"The trend is going to be toward more contracting for noninstructional support services," says Joe Agron, editor of *AS&U* magazine. "More and more school districts are having trouble passing bond levies; with salaries going up and prices going up, a lot of them are looking for ways to cut back on costs without harming services."

The following sections describe the nature and scope of food service, transportation, and maintenance and custodial services in America's public schools. In each section, case studies depict successful partnerships between the private sector and school districts for the provision of these services. Appendix I presents suggested performance measures to help school administrators evaluate the quality of their current operations, be they provided in-house or through private contractors.

A. Food Service

We've had excellent service from our operation and we've operated in the black ever since (contracting for food-service). We're able to stay ahead and buy equipment and improve our facilities at the same time. The best part is that our program is operating without any money from the general fund.

-Don Duncan, Superintendent, Ottawa, Kansas

1. Background

Each day, an estimated 25 million public-school children eat school-prepared lunches and five million consume school breakfasts. As a restaurant industry, the \$4.7 billion school-lunch program compares only second in size to McDonald's Corp.

Approximately 95 percent of all schools participate in the National School Lunch Program. These schools receive cash subsidies and donated commodities totaling \$6.8 billion from the U.S. Department of Agriculture (USDA), which administers the program. In exchange, the schools must

serve meals meeting federal requirements for food groups, and they must offer free or reduced-price meals to eligible children. More than 32 percent of all public-school students participated in federal free or reduced-price lunch programs for low-income families in 1992.

Despite public oversight, a lot of food being served in school cafeterias is unhealthy. A 1993 USDA study found that less than one percent of school meals served to children comply with the department's dietary guidelines. The study found that school lunches exceeded recommended levels of fat by over 25 percent, saturated fat by 50 percent, and sodium by nearly 100 percent.

There is some disagreement over the number of school districts using contract service to operate their cafeterias. A survey by *American School & University* magazine found that almost 25 percent of food-service operations were contracted. However, the survey measured the responses from just 300 districts of 15,000 nationwide, and industry experts contend that the 25 percent figure is too high.

An industry estimate puts the figure at approximately 10 percent of all districts, excluding small rural districts. And a study by the USDA found that nearly 1000 school districts—or roughly 7 percent of all districts nationwide—contract with a private company for food-service operations. The USDA study reports the states with the greatest number of food-service management contracts are New Jersey (195 districts), New York (113), Pennsylvania (96), and Michigan (73). Contracts with private food-service companies can include the provision of management, consulting, labor, menu items, or some combination of the four.

In California, Marriott School Services is the largest provider of food-service consulting to the state's public schools, serving roughly three-fourths of the districts which contract with private companies for food-service consulting. California law prohibits private food-service companies from managing or operating school cafeterias; such companies may only provide consulting. Despite these limitations, the impact of private consulting has been significant. The company has demonstrated that well-run, customer-oriented cafeterias can not only pay for themselves, they can also generate surplus revenues for schools. The following are results from 28 districts for which Marriott provided consulting services in 1994:

- ×Before Marriott was hired, 22 districts operated their food-service programs at a deficit. Today, all but one program pay for themselves.

- ×Twenty-five programs generate surplus revenue between \$1,000 and \$250,000 for the schools, with a median surplus of \$20,000.

- ×Student participation in school food programs increased in 26 districts after hiring Marriott.

- ×In 19 districts, more jobs were created than existed before Marriott was hired because of the increase in student participation.

Why are private food-service companies often so successful at what they do? "Companies can offer more resources. You get the clout and economies of scale in purchasing. You get research and insights into products such as milk and biodegradable materials," says Paul Kelly, Business Manager for the Pocono Mountain School Board in Sweetwater, Penn. His district has contracted with private companies for food service since 1980.

CASE STUDY #3: Hungry for Savings, A School District Hires Private Food Service

"We would have had to cut ten to fifteen teachers if we hadn't saved \$500,000 by privatizing cafeteria services," says Robert Winter, superintendent of the Wayne Township Public Schools in New Jersey.

ARA School Nutrition Services, which manages and operates the district's cafeterias, turned a deficit operation into a break-even operation. More importantly, after the company was brought on, students began dining-in, buying their lunches at school. Participation jumped from 40 percent of enrollment to 60 percent due to quality improvements introduced by ARA, says Winter.

"We have to compete," says Winter, noting that, "kids can go across the street to Wendy's."

ARA is responsible for administering the food-service program, making sure revenues cover all costs. The district pays ARA a flat management fee of \$27,000 on total sales of roughly \$1.1 million. Any surplus revenues revert to the school district.

"We have expertise in our lunch program that we wouldn't have had. How could our district afford experts to run our nutrition program, and our marketing program? It's easier to contract it out," Winter concludes.

B. Pupil Transportation

1. Background

Each day, over 22 million students are transported in more than 380,000 yellow school buses at a cost of \$8.6 billion annually (excluding capital outlay). The most common types of school-bus transportation service are: regular home-to-school, special education, extracurricular, and desegregation.

Pupil transportation is a growth industry. Not only are greater numbers of students taking the bus to school (both as a proportion of total enrollment, and in absolute terms), but the cost of transporting each pupil has increased significantly. In 1960, 12.2 million students, or 38 percent of all students were transported at public expense at a cost of \$181 per pupil. Three decades later, in 1990, a majority (58 percent) of students took the bus to school. In total, 22 million students rode the bus in 1990 at a cost of \$394 per pupil—representing an inflation-adjusted cost increase of 117 percent.

That growth is likely to continue throughout the 1990s, according to *School Bus Fleet* magazine, which projects expenditure growth between 5.3 and 9.3 percent annually. Figure 2 shows the most conservative projected rate.

In the 1991–92 school year, private contractors owned and operated more than 110,000 buses of the 390,000 school buses serving public schools. In other words, just under one third of bus service was contracted out in the United States. By contrast, virtually all school-bus service in England and New Zealand is provided through contractors, as is 80 percent in Canada.

More than cost, safety should be of paramount concern to the school community. Because of differences in data collection methods and classification procedures, accident statistics for school-bus transportation are often unreliable or may not be comparable across states. However, a number of regional studies find public and private bus providers have very similar—and very good—safety records.

×A 1994 study of safety records for public and private school-bus fleets in Connecticut found little difference in accident rates. In that state, just 6 percent of the buses are publicly owned and operated; 94 percent are in private hands. Of the 654 accidents occurring during the time period studied, just over 8 percent involved public buses, and just under 92 percent involved private buses. In other words, accident rates are directly proportional to the number of public and private buses in service. Private bus operators may actually have better safety records considering they operate in more high-density areas and so are more exposed to potential accidents compared to public buses. Public fleets primarily serve rural areas where accidents are more infrequent; they are also less active in the summer months and so limit their risk of accidents.

×The California Highway Patrol reports contractors have a higher incidence of accidents compared to district operators for the larger Type I buses, with 11.8 collisions per million miles versus 7.15 collisions for district operators in 1993. However, contractors have a lower accident rate for the mid-size and small Type II buses (6.2 collisions per million miles) than public operators (6.0 collisions). It should be noted that proportionately greater numbers of contractors operate in dense urban settings, and thus, under more accident-prone conditions. San Francisco Unified contracts for 100 percent of its bus service; in the Los Angeles Unified School District, 43 percent of bus service is contracted. Contractors serve roughly one-third of the state's public schools.

×School administrators in Washington and Oregon believe contracted bus service to be safer than district operation, according to a 1993 survey by the consulting firm KPMG Peat Marwick. Fifty-four percent of respondents thought contractors had a better safety record; the remaining 46 percent thought safety records were the same for contract and in-house service.

Private companies may be hired to take on a number of responsibilities in bus operations including:

- ×maintenance;
- ×management, operations and dispatch;
- ×routing and scheduling;
- ×driver training; and
- ×fleet and terminal facility ownership.

Schools can avoid the high costs of fleet acquisition or can enjoy a one-time capital infusion from sale of an existing fleet, through private contracting. However, selling off a bus fleet is not a decision that should be undertaken lightly. Reacquisition, should the district decide at some later time to resume ownership of bus operations, will likely be costly and difficult.

Some districts choose to retain ownership of their bus fleet and contract out for driving and maintenance only. The Hart Union High School District in California leases its fleet to a private operator which then supplies the district with all other bus operations. The arrangement has saved the district \$250,000 annually since it began contracting in 1984. A decade later, "we're still experiencing

reductions in costs," says Gary Smith, director of transportation. "If we got rid of our contractor today and had to go back to running our own operations, I have no doubt our costs would increase."

Smith notes that, "The biggest cost savings is in labor. Contractors do not have to pay their drivers what a district does." Contracting does not mean abdicating all responsibility for school-bus operations, says Smith. "It's incumbent on the school district to monitor and make sure the carrier is in compliance with all regulations, because the liability is horrendous."

CASE STUDY #4: District Contracts for Bus Service and Peace of Mind

School bus safety is paramount in the Wichita Falls Independent School District in Texas, says school superintendent Dr. Leslie Carnine. Over a decade ago, two separate bus incidents claimed the lives of two children, and the Wichita Falls community has never forgotten it. So when the school board considered contracting for bus service for the district's 15,600 students, it looked closely at company safety records before choosing Mayflower Contract Services in 1988.

Carnine is satisfied with Mayflower, citing the company's "outstanding record of safety," while under contract with the district. With in-house provision, he says, the district faced tricky legal questions over mandatory drug testing—something it wanted to implement after a driver came to work intoxicated. "With a private company, we're on better legal grounds in making sure that drivers are not using drugs or alcohol," says Carnine.

"Safety is the most important. But we also ran the numbers and found that we could save money," says Carnine, who estimates costs would increase by 10 percent if the district were to return to in-house bus transportation. The district spends roughly \$1.95 million on transportation operations and an additional \$260,000 on capital investment.

"As someone who's spending taxpayer money, we want to make sure we provide the best quality at the least cost," says Carnine. He adds that contracting is not always the answer. He encourages administrators to review school operations on a regular basis looking for ways to provide better, more cost-effective services. If the best provider is the district, stick with it, he says. But if not, contract it out. "These people have more expertise; it makes sense to go to the people for whom that's their business."

C.Maintenance, Grounds, and Custodial Services

The level of satisfaction has gone up significantly. (With private management), we have cleaner buildings, better equipment, better training, and it's costing us less. We're working smarter now, not harder. It's a win-win all the way around.

—Glenn Capps, Senior Director of School Plant and Facilities,

Norfolk City School District, Virginia.

1. Background

There are roughly 83,000 K-12 public-school buildings in the United States. All of them require cleaning, maintenance, and repair. The market for such services is estimated to be \$22 billion annually. Approximately 10 percent of this work is currently contracted.

The cost of school upkeep is a major one. In 1993–94, roughly 9.2 percent of school-district expenditures were allocated for maintenance and operations (M&O), representing a cost of \$515 per student, or \$3.64 per square foot of building, according to a nationwide survey by *American School & University* magazine. (Note: the above figures encompass the total cost of M&O including energy retrofits, controls, and equipment. The cost just for routine maintenance, custodial, and grounds services totals \$13 billion annually, or approximately \$300 per student.)

What's more, M&O budgets appear to be on the rise. National median salaries for custodians, responsible for building upkeep and cleaning, rose 6.6 percent between 1993 and 1994 to \$19,311. For maintenance personnel, who are skilled in areas such as electrical or plumbing repair, salaries increased 1.5 percent to \$24,799 on average. Overall, total M&O costs per pupil rose 7.8 percent in the one year between 1993 and 1994.

Contracting for maintenance services can help schools reduce the cost of cleaning and maintaining schools. According to the Association of School Business Officials International (ASBO):

A professional organization will probably use fewer staff-hours and more sophisticated equipment and materials to perform required tasks. Furthermore, such a firm will usually work on a fixed price contract which provides a known cost for the operation and often provides a savings over current costs. Most contractors work on a predetermined schedule to insure that all required tasks are performed. Generally, new equipment, training, better materials and better supervision are also viewed as advantages of contractor's service agreements.

In addition, contractors can also draw upon a range of back-up support personnel, including electricians, plumbers, and other experts to handle nonroutine maintenance problems.

Because of the advantages it offers, maintenance and custodial contracting is being seriously considered by the Chicago Public Schools. A 1994 audit found the district spends 55 percent above the nationwide norm on school maintenance, yet conditions at many of the district's 552 schools are deplorable. Leaking ceilings, bathrooms with no doors, crumbling walls with exposed asbestos and loose wires, unsanitary conditions, and gross mismanagement were some of the examples cited. The audit, conducted by KPMG Peat Marwick and Washington, Pittman & McKeever management consultants, recommended completely revamping the district's \$2.4 billion facilities department, which it described as "broken." Martin Koldyke, chairman of the Chicago School Finance Authority, which commissioned the audit, said, "[Y]our report indicates the need for the Board to examine privatization. There's little doubt in my mind that the Board would save money and have a far better work product."

One big-city school district that did switch to private contracting for facilities maintenance is the Memphis City Schools. A 1994 survey conducted by the district found that service quality increased significantly at each of its schools after contracting with a private company for custodial, maintenance, and grounds services. The 130 school principals surveyed rated the private company, ServiceMaster, higher in *all areas* assessed by the survey—including leadership, training, equipment quality, and general cleanliness and appearance of the schools—compared to the services received one year earlier with in-house operations.

CASE STUDY #5: How One District Cleaned Up with Contracting

By contracting for maintenance and custodial management, the Union Public Schools in Tulsa, Oklahoma trimmed \$75,000 a year from their upkeep costs. The district turned to ServiceMaster in

1992 hoping to improve service quality and employee training. ServiceMaster trained district employees how to work more efficiently and cost effectively. Before private management, mowing the lawn—all 300 acres of it—required ten district employees and 14 days. With better equipment and improved labor techniques, the process takes just eight people and five days, says Timothy Raymer, Chief Financial Officer of the Union Public Schools.

The financial backing of a private company proved essential when a heat-generating boiler shut down mid-winter. With just one replacement boiler in town, the school district had to move fast to get the vendor to hold it. "But we couldn't issue a purchase order because the school board didn't meet until the following Monday," says Raymer. Without the purchase order, the vendor would not hold the boiler.

That's when ServiceMaster stepped in, guaranteeing payment for the heating equipment so the district could take delivery immediately.

Raymer likes the accountability contracting with a private management company brings. "ServiceMaster requires people to be accountable, no matter what. With marginal (underachieving) employees, it's been a problem, but with our other employees, it's worked out really well." He shrewdly notes that accountability applies to management as well. "If we have a problem with ServiceMaster, we call up and say, 'Hey, this just isn't working.' That's their problem. If they don't do something about it, they're going to lose a multi-thousand dollar contract."

The Union Public Schools operate a \$6.0-million maintenance and capital improvement budget. Of that, it pays ServiceMaster a flat \$350,000 management fee which includes the cost of training, supervision, supplies, and some equipment.

IV. THE MAKE OR BUY ANALYSIS: A STEP-BY-STEP GUIDE

If everything in the budget is a zero-sum game, the only way you can provide new programs for kids is to run things more efficiently. Private enterprise can help us do that.

—Dr. Robert Winter, Superintendent, Wayne Township

Public Schools, Wayne, New Jersey.

Make or buy? That is the question school administrators must first answer. Cost is not the only consideration when thinking about contracting for services; factors such as service quality, managerial flexibility, and community support should be weighed as well. School administrators contemplating alternative methods of service provision should begin by assessing the following:

Step One: Identify Costs

The reason most often cited by government agencies for contracting is cost savings. For administrators to make informed judgements, valid comparisons must be made between the costs of in-house and contracted service provision. It is not an easy task. Few school districts have formal accounting methods for making cost comparisons. Frequently, cost estimates fail to fully allocate overhead costs such as payroll processing time, accounting, purchasing, supervisory management, and utilities. Pension costs, benefits, and facility and equipment costs are often overlooked as well. In fact, in-house costs are routinely underestimated by 30 percent, according to public-finance expert Lawrence Martin.

A guidebook by the consulting firm KPMG Peat Marwick encourages administrators to ask the following:

If the district stops providing its own support services and relies on a private provider, will a given cost continue?

In addition to identifying the fully allocated cost of current services, districts must also ask themselves what additional costs might be incurred by contracting out. Additional costs could include the cost of bidding, monitoring and administering the contract. Once the total costs of both in-house and contract services have been identified, appropriate cost comparisons can be made.

For assistance in comparing costs, consult the Reason Foundation's How-To Guide #4, *How to Compare Costs Between In-House and Contracted Services*.

Step Two: Determine Availability

While there are many companies supplying school services, they may not be available in every geographic area and in the same number. Districts situated in areas with large numbers of providers will have greater choices in the type of service provided, the level of service provided, and the quality of that service. Administrators should check the availability of quality service providers before making plans to contract for a given service.

In addition, some states heavily regulate the use of school contracting. Such restrictions may prohibit contracting for certain kinds of support services, or allow it only in certain circumstances. Legal counsel can advise school administrators about local restrictions.

Step Three: Assess Quality

School officials should also examine the quality of available services, for both in-house and private-sector providers. Are the schools getting the most value for their dollar with in-house provision? Or are services costly and unreliable? What is the level of customer satisfaction? Similarly, when looking to outside providers, school administrators must not neglect quality in the quest for efficiency and cost savings. School administrators should make site visits to other schools using the contractor under consideration. Bid proposals specifying the level of service to be delivered should be scrutinized and carefully selected. Once the contract has been awarded, to verify that quality services are actually being delivered, the contractor's performance should be measured and monitored on a regular basis.

Says Dr. Robert Winter, superintendent of the Wayne Township Public Schools in New Jersey, "It's a tradeoff. You don't always want the lowest bid. You want to make sure that you achieve your goals and still have services that provide quality for children. You need to be very careful about guidelines, and be selective."

Step Four: Communicate with Employees and the Community

Despite evidence of considerable benefits, school boards and school administrators often face strong opposition to competitive contracting. Public employees and their unions may view it as a threat to their jobs; the local community may not be receptive to a change in a familiar routine.

Those wishing to introduce school contracting should consider its appropriateness within their own local community. If the decision is made to solicit bids, strong leadership will be essential for success.

"It's very threatening to people to have an outside management company come in," says Dr. Richard Schilling, Assistant Superintendent of the New Rochelle City School District in New York. "You have to have commitment from the very top, from the Board of Education and the Superintendent, because you're going to take a lot of flak," he says.

The most effective strategy in dealing with these concerns is to communicate. Be open and honest about any potential changes. Often times, objections to school contracting are the result of disinformation or a lack of information. If the contracting arrangement will involve unionized employees, school administrators should meet with union leadership to discuss how it will affect staffing levels, compensation, and current union agreements. Many districts require the contractor to offer employment to any public employee displaced by the transition.

Remember, however, that schools exist to serve students, not school employees. If schools can obtain quality services at a lower cost by contracting with the private sector, they should be allowed to do so. Consult Appendix II for suggestions on working with public employees.

V. CONTRACTING FOR SERVICES

If the "make or buy" analysis leads school administrators to consider hiring an outside provider, the next step is to prepare a Request for Proposal (RFP). The RFP invites contractors to submit bids, or proposals, for performance of the service under consideration. The RFP describes the service needs of the school district and any unique circumstances it wishes the respondent to accommodate. In order for respondents to have the best chance at drafting a proposal that meets the needs of the schools, school administrators must be open and upfront about their needs, resources, and capabilities. The RFP should strive to be informational, not exclusive. It should be specific enough to elicit useful proposals, but not so narrowly focused that it eliminates creative service options or leads to the potentially corrupt practice of benefiting a single, predetermined vendor.

"A good RFP will detail what is wanted in the proposal. Otherwise the public agency will get a myriad of different proposals from everyone," advises John Donlevy, of Donlevy Administrative Services. Not only that, specificity in the RFP will make the evaluation process easier later on. Donlevy describes one poorly designed RFP which resulted in a contractor submitting a proposal that was 600 pages long.

Space does not allow for a complete description of model RFPs, but in general, an RFP should include the following components identified by John Donlevy. Legal counsel should be consulted before entering into any legally binding agreement.

A.Soliciting Proposals: Key Components of the RFP

Introduction and Overview. This section briefly describes the services to be contracted. It also includes the following:

- ×Background (the reasons why the contracts are being solicited).
- ×Definitions commonly used within the text of the RFP.
- ×Program Objectives describing what the school district wants to accomplish.

Service Description. This section tells the contractor exactly what services are wanted. Descriptive elements are often included as appendices when a lot of detail is related to the service. In addition, this section includes:

- ×Term of the contract and renewal provisions.
- ×Location where the service will be performed.
- ×Participation, or who can participate in the bidding process.
- ×Exclusivity, which often refers to whether the company awarded the contract will become the exclusive provider of a service.
- ×Procedures which must be followed by the contractor.
- ×Statistical data related to the service such as current utilization of the service, square footage of building and grounds, and student enrollment.

Scope of Services. This section should define the services to be provided and the school district's expectations of the service provider. Included are:

- ×Service Parameters that provide a detailed description of the specific services requested. For example, a contract for custodial services might specify that the contractor provide cleaning equipment and supplies, a certain number of employee-training hours, and supervisory personnel.
- ×Quality Standards that describe the level of quality which must be met by the provider. For example, a contract for food service would specify requirements such as minimum nutritional requirements for meals, sanitary conditions, and menu variety.
- ×Backup or substitute requirements if the contractor is unable to provide a service.
- ×Insurance and Bonding Requirements. Performance bonding is a type of financial insurance for schools should the contractor fail to perform and the school be forced to obtain replacement services.
- ×Permits and Licenses.
- ×Reporting and data requirements.
- ×Personnel Requirements.
- ×Quality Assurances. This is often expressed as a guarantee to the school district by the contractor that certain expectations will be met. For example, a food-service contract may specify that the contractor will absorb any losses related to the operation of the schools' cafeterias.

Submission of Proposal. This section describes the conditions under which proposals must be submitted, and describes their form. Provisions might include statements on:

- ×Acceptance and Terms of Conditions.

- ×Rights of Rejection for the Agency.
- ×Financial Responsibility or a statement explaining that the school district will not pay for costs of developing the proposal.
- ×Award of Contract or who will pay, how it will be awarded, when and how many will be awarded the contract.
- ×Number of Copies of Original Proposal.
- ×Proposal Limitations.
- ×Execution of Proposals (typically the president or principals of the company are required to sign the proposal).
- ×Non-collusion Statements.
- ×Affirmative-Action requirements.
- ×Terms of Withdrawal or Cancellation (90 days from submittal date is typical).

Content of Proposal. The RFP also directs contractors what to include in the proposal itself. See Section C below.

B.Bidders Conference

Early in the bidding process, the school district should bring prospective contractors to the school site to discuss the services described in the RFP. The purpose of such a meeting is to give bidders as much information as possible about the particular needs of the school district so appropriate proposals may be drafted. Prospective contractors should have open access to relevant school records, equipment, and facilities for inspection purposes.

C.Content of Proposal

The contractor responds to the RFP, usually within a specific time period set by the district, with a written proposal. At a minimum, the proposal should contain the following information:

- ×Cover Letter and Table of Contents.
- ×Areas of Interest, if multiple contract areas are included.
- ×Background and Experience in providing such a service.
- ×Description of Services to be provided.
- ×Financial Plan, including pro forma, and fees.
- ×Description of Implementation Plan.
- ×Identification of Personnel on the project, for example, the qualifications of staff to be involved.

×Internal Quality Assurance Provisions. The contractor describes how it will achieve and protect service quality. This could include, for example, drug-testing of personnel, or company licensing or certification requirements. It may also describe the type of equipment, supplies, or ingredients used by the company.

×Equipment and Maintenance Practices.

×Financial Background (fiscal health of the contractor).

×References to other customers/clients.

D.Evaluating Proposals and Awarding the Contract

Once the proposals have been collected, the important process of selecting a contractor begins. Appendix III describes the essential principles which should be followed in any contracting process. Typically, a team of school administrators is involved in the review process. Cost is just one of many factors to be considered. Other common evaluation criteria include:

×Adherence to submittal format described in the RFP (see Section A above).

×Professional/technical competence (the ability to perform the work).

×Record of past performance.

×Capabilities to meet required schedules and standards.

×Approach to work. This is a catch-all that describes the general managerial approach, or "feel" of the company. School-decision makers should look for a company that provides the best "fit" with the local school district's environment and goals.

Federal law requires school districts and other public agencies to be objective in how they evaluate contractors in a public bid. To assist in this process, some school-decision makers may wish to use a weighting system to help them evaluate the various proposals before them. A weighting system is also a good evaluation format when the proposal must be assessed against a number of different criteria. Table 2 presents a hypothetical example of how such a system would work.

As soon as it has selected a provider, the evaluation team should announce the bid award at an open, public meeting in keeping with the transparent nature of the bidding process. School administrators may wish to schedule further meetings with the private contractor to discuss any details overlooked in the bidding process. Ultimately a contract is signed by both parties binding them to the terms of their agreement.

The contracts themselves tend to be standardized documents, and may contain far less detail than the RFP or proposal. Therefore, the RFP and/or proposal are often included as addenda to the contract, providing the specific details of the agreement.

Table 2			
HYPOTHETICAL RFP WEIGHTING SYSTEM			
Criteria	Score	Weight	Weighted Score
Contractor Qualifications			
Experience	1	20%	.20
Employees to be Assigned	3	20%	.60
Technical Value of Proposal	5	35%	1.75
Fee	5	25%	1.25
Total		100%	3.80
Note 1=low, 5=high			
Source: Designing an Effective Bidding and Monitoring System to Minimize Problems in Competitive Contracting, by John Rehfuss, Reason Foundation How-To Guide No. 3, February 1993.			

VI. AVOIDING THE PITFALLS

Be clear on outcomes and only pay for performance. I've found private companies very willing to do that. They come in and if they don't perform well, you don't pay them.

—Dr. Richard Holzman, Superintendent, Lindenhurst Public Schools, New York.

Procurement pitfalls exist in both the public and private sectors. But there are steps schools can take to avoid them. In evaluating any potential provider, school administrators should take the time to visit another school that is using the contractor's services. Talk with the school staff to find out their level of satisfaction with the provider. Ask what they would do differently, or find out what has been especially beneficial.

Once school administrators decide to contract for services, time should be taken to prepare carefully written contracts to reduce the likelihood of problems. Consult legal counsel: contracts are legally binding. Of great importance is the bidding process itself. Contracts with the private sector must be thoughtfully designed, carefully monitored, and competitively bid.

"The single most important technique for preventing contracting problems is to promote competition between service providers," writes public-administration expert John Rehfuss. He continues:

Competition encourages bidders to lower their bids through concern that a competitor will bid lower. Furthermore, in a competitive process unsuccessful contractors are quick to raise legal objections, thus discouraging sweetheart deals and other forms of collusion between contractors and public officials. Frequent competitive rebidding of contracts ensures that ineffective contractors who may have developed cozy relationships with public officials are replaced by new firms if they fail to provide quality services.

Structuring a privatization effort to assure fair treatment for current workers is also important. Superintendent Ken Hendriksen of the Mt. Zion Community Union School District No. 3 in Illinois says, "It's a tough and turbulent decision when a district decides to contract because many of the people employed by the district live in the community. It's emotion versus dollars and cents." His district smoothed the transition by requiring the private bus contractor to offer employment to affected employees. About three-quarters of the roughly 25 drivers accepted employment under the new arrangement, which involved a reduction in compensation.

Administrators should think strategically about the long run, and avoid getting into a situation where they become so dependent on a single provider—be it public or private—that switching to another provider becomes cost prohibitive. While cancellation clauses are essential, they may not provide protection once a district has become deeply invested in a particular provider. Contracts can be structured to avoid being captured or monopolized by a single provider over time. Education consultant Eric Premack suggests including an option in contracts to lease back or buy back essential school equipment, for example, should the arrangement with the contractor not work out.

Whether school administrators decide to purchase services or provide them in house, ultimately the responsibility for student services lies with the school itself. Administrators should take care to see that the services they provide are cost-effective, customer-oriented, and of high quality. One of the best ways to monitor the quality of services is to consult the people who use them most: students and teachers. When asked how he measures the performance of his school's maintenance contractor, Dr. Richard Schilling of the New Rochelle Schools in New York responds, "Oversight comes from the people who live in the buildings—the teachers and students. The complaints I get are virtually nonexistent with respect to cleanliness. The buildings really sparkle."

CASE STUDY #6: Avoid the Pitfall of Non-Competitively Bid Contracts

Just because the private sector is involved it doesn't mean there is competition. Contract in hand, private companies are just as eager to avoid competition as anyone else.

Dr. Richard Holzman inherited a \$50,000 budget deficit in food-service operations when he became school superintendent of the 10,000-student Middletown School District in New Jersey. Although the district used a private company for food-service operations, the contract had not been reviewed in nearly a decade. Protected from being held accountable for results, the contractor had grown lax and inefficient.

To remedy the problem, Dr. Holzman, now superintendent of the Lindenhurst Public Schools in New York, threatened to look elsewhere for a new food-service operator, getting the contractor to accept new terms. Instead of absorbing the company's losses, the district pays a flat management fee and holds the company responsible for losses. "If you don't make a penny, that's your problem," said Dr. Holzman. The restructuring of incentives led to immediate improvements. "As soon as he (contractor)

knew it was going to cost him, he improved services and efficiency. Now food service generates a substantial surplus."

VII.CONCLUSION

We have enough to do to focus on the central core of teaching and learning. Wherever we can privatize and get good accountable results, we should do it. It's the way to go for the 21st Century.

—Dr. Richard Holzman, Superintendent, Lindenhurst

Public Schools, Lindenhurst, New York

As schools are being asked to take on greater responsibilities for the education of children, the challenge will become how best to marshal existing resources to make every dollar go further. Saving money without compromising services ought to be a chief concern of administrators in the 1990s. Contracting for services is a practical solution that can help administrators make the most of limited resources.

Although introducing competition into a system that has long been protected from such challenges is not easy, the rewards are usually well worth the effort. Cost savings from competitive contracting have been well documented. In addition, the contract itself enhances accountability by tying performance directly to compensation. Providers who fail to deliver will not have their contracts renewed. Providers who succeed in serving schools and students will see their businesses grow.

Properly designed and monitored, contracts between the public schools and private providers can help school administrators do more with less. For administrators looking to provide their students with the best education possible, that's the bottom line.

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ABOUT THE AUTHOR

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APPENDIX I: SUGGESTED PERFORMANCE MEASURES

Food Service

General

Number of meals served

Nutritional value of meals served

Revenues by source (i.e. a la carte, etc.)

Special programs (nutrition education, etc.)

Meal variety and quality

Safety

Food preparation practices

Condition of storage and service areas

Sanitary conditions and practices

Food quality

Personnel

Employee moral

Absenteeism

Turnover

Employee training

Cost Measures

Cost per meal

Utilization of donated commodities

Financial results (revenues, profitability)

Bus Transportation

General

Early or late runs

Stops or runs missed

Compliments and complaints

Safety

Motor vehicle accidents, bus accidents, injuries

Other incidents

Personnel

Employee moral

Absenteeism

Driver turnover

Driver performance evaluation

Driver's credentials

Training certification rate

Workers' compensation claims

Equipment

Condition of bus

Vehicle downtime
Breakdown rate
Cost Measures
Special-education transportation cost
Cost-per-mile
Overhead, including support, cost-per-student
Fuel cost-per-mile
Insurance costs-per-mile
Maintenance, Custodial, and Grounds
General
Teacher and principal interviews
Weekly inspections of school facilities
Overall appearance of school facilities
Capital improvements
Custodial
General cleanliness
Quality of cleaning equipment
Quality of supplies used in cleaning
Employee training
Maintenance
Equipment breakdowns
Response to emergency maintenance needs
Quality of preventative maintenance
 Adequacy of information regarding status of maintenance work orders
Employee training
Grounds
Quality of grounds work
Frequency of mowing, edging, and trimming
Employee training
Personnel
Employee moral
Absenteeism
Turnover
Employee training
Cost Measures
On, over, or under budget
Overtime expended
Cleaning/maintenance cost per square foot*
Cleaning by one custodian per square foot*
Administrative time taken by upkeep

* Should compare to ranges as school facilities vary in their ease of cleaning and maintaining.

(Sources: *Pupil Transportation Guide*, California Department of Education; "Custodial, Maintenance, and Grounds Survey," Memphis City Schools; and interview with Richard Williams, ServiceMaster May 31, 1994.)

APPENDIX II: SUGGESTIONS FOR OVERCOMING EMPLOYEE OPPOSITION

• Be open, honest, and informative in communications with employees and the community.

If possible, involve employees in decision-making or planning process.

• Consider reducing in-house workforce through attrition only.

× Pro: less disruptive to current employees.

× Con: deferred savings.

Grandfather-in changes to wages and benefits to maintain compensation levels for current employees.

× Pro: less disruptive to current employees.

× Con: deferred savings.

Consider requiring the contractor to hire back any employees displaced by the transition.

• Stay focused. It takes strong leadership to effect a change.

(Readers may also wish to consult *Privatization and Public Employees: Guidelines for Fair Treatment*, Reason Foundation How-To Guide No. 9, Reason Foundation, September 1993.)

APPENDIX III: PRINCIPLES OF SUCCESSFUL CONTRACTING

"Most of the problems that have arisen with regard to contracting out have been the direct result of poor bidding and monitoring systems. These problems—which include inadequate or low-quality service, waste of taxpayer money, kickbacks, corruption, and collusion—are rare," writes John Rehfuss, an expert in public administration and author of *Contracting Out in Government*.

"Fortunately, none of these problems are inherent to the contracting process. By employing effective safeguards in the contracting program, contracting problems can largely be eliminated." Following is a list of recommendations by Rehfuss.

The Ten Principles of Successful Contracting

1. Encourage competition.

2. Prohibit employees from having any financial or other interest in the contract.

3. Prohibit ex-employees from representing others, such as a contractor, before the agency. Two years prohibition after leaving the agency may be an appropriate period.

4. Only allow bid openings and awards in an open, public meeting.

5. If a bid is awarded on any basis other than the lowest competitive written proposal, publicize the rationale for the decision. Any formal bid analysis should be made public.
6. In setting standards, do not use the specification of anyone bidding for the contract.
7. If the bid is to be negotiated or based on an RFP basis, prepare a formal explanation of why the agency's interests are best served by the manner proposed.
8. Rely on legal counsel throughout the bidding process.
9. Once the bidding process begins, limit contacts with contractors to the negotiation period.
10. Publicize bid awards widely and vigorously and keep a record of the search for contractors and the bid award.

APPENDIX IV: CHARTER SCHOOLS

Charter schools are public schools freed from many state and local regulations. Organized to maximize their autonomy, charter schools have greater control over on-site administrative and classroom operations. "The idea under charter schools is to try to give people an opportunity to act more boldly, more creatively, and to have greater flexibility and less bureaucracy," says Senator Gary Hart (D), author of California's charter-school legislation. As of June 1994 eleven states have passed charter-school legislation, although the degree of autonomy and authority granted varies widely among them. In some states, however, charter schools have the option of going outside the district for services and supplies.

CASE STUDY #7: Vaughn Street Charter School Eliminates the Middleman.

As part of the Los Angeles Unified School District (LAUSD), the Vaughn Street Charter School used to rely on the district for support services such as transportation. Even though the LAUSD contracts with private vendors for 43 percent of its bus-transportation operations, the district's own bureaucracy was so inefficient that the cost of bus service was inflated beyond market levels by the time the service reached the Vaughn Street School.

After receiving its charter, the Vaughn Street School contracted directly for extracurricular bus service with the same private bus company used by the LAUSD. But instead of paying \$225 a day, as was the case when Vaughn had to go through the district, the charter school now pays just \$140. By eliminating the district middleman, the Vaughn charter school cut extracurricular busing costs by 40 percent.

Contracting directly with the provider also gives the school more flexibility in scheduling, a big improvement over the former arrangement. Says principal Yvonne Chan, "You name the date and you name the time. It's exact. No ifs, ands, or buts."

APPENDIX V: RECOMMENDED READING

Pupil Transportation Guide: Cost Analysis, Service Options, and Contract Administration, 1990, California Department of Education. This comprehensive guidebook is applicable for any state considering contracting for school transportation. The *Guide* was prepared by the consulting firm

KPMG Peat Marwick and contains an extensive cost-allocation worksheet, a model contract and RFP, and all-around useful information. It is available for \$16 from the California Department of Education, Bureau of Publications Sales Unit, P.O. Box 271, Sacramento, CA 95812-0271. Tel. (916) 445-1260. Request Item # 0898.

Designing an Effective Bidding and Monitoring System to Minimize Problems in Competitive Contracting, by John Rehfuss, Reason Foundation How-To Guide No. 3, February 1993. Outlines the necessary safeguards government must adopt to prevent abuses in private-sector contracting.

How to Compare the Costs Between In-House and Contracted Services, by Lawrence Martin, Reason Foundation How-To Guide No. 4, March 1993. Provides a standard procedure for making valid cost comparisons between public and private service provision.

Privatization and Public Employees: Guidelines for Fair Treatment, by John O'Leary and William D. Eggers, Reason Foundation How-To Guide No. 9, September, 1993. Discusses methods to overcome political obstacles to contracting by easing the transition for public employees.

Making Schools Work: Contracting Options for Better Management, Policy Study No. 169, by Janet R. Beales and John O'Leary, Reason Foundation, November 1993. Surveys the field of private providers in public education for both core and support services.

APPENDIX VI: CONTACTS

Food Service:

*American School Food
Services Association*

1600 Duke St.,
7th Floor
Alexandria, VA 22314

(703) 739-3900

ARA School Nutrition Services

1101 Market St.
Philadelphia, PA 19107

(215) 238-3525

Canteen Corp.

203 East Main St.
Spartanburg, SC 29319

(803) 597-8366

Daka International

One Corporate Place
55 Ferncroft Rd.
Danvers, MA 01923-4001

(508) 774-9115

Marriott School Services

3020 Woodcreek Dr.,
Suite B

Downers Grove, IL 60515

(708) 810-1144
*ServiceMaster Food
Management Services*
One ServiceMaster Way
Downers Grove, IL 60515
(708) 964-1300

Transportation:

Laidlaw Transit, Inc.
12301 Wilshire Blvd.,
Suite 505
Los Angeles, CA 90025
(310) 447-9030
Mayflower Contract Services
P.O. Box 7941
Shawnee Mission, KS 66207
(800) 821-3451
*National School Bus
Service, Inc.*
15763 West Aptakisic Rd.
Prairie View, IL 60069
(708) 634-0331
*National School
Transportation Association*
P.O. Box 2639
Springfield, VA 22152
(703) 644-0700
Ryder Student Transportation
P.O. Box 020816
Miami, FL 33102-0816
(800) 648-7787
School Bus Fleet
2512 Artesia Blvd.
Redondo Beach, CA 90278
(310) 376-8788
Vancom Transportation, Inc.
One Mid America Plaza
Suite 401
Oakbrook Terrace, IL 60181
(708) 571-7070

**Maintenance, Custodial,
and Grounds:**

ARA
1101 Market St.
Philadelphia, PA 19107
(215) 238-3525

Honeywell Inc.

Honeywell Plaza
Minneapolis, MN 55408
(800) 345-6770, ext. 937

Johnson Controls World Services, Inc.

7315 N. Atlantic Ave.
Cape Canaveral, FL 32920-3792
(407) 784-7368

Marriott School Services

3020 Woodcreek Dr.,
Suite B
Downers Grove, IL 60515
(708) 810-1144

ServiceMaster

1 ServiceMaster Way
Downer's Grove, IL 60515
(800) 333-6678

Miscellaneous:

*American Association of
School Administrators*

1801 North Moore St.
Arlington, VA 22209
(703) 528-0700

American School & University

401 North Broad St.
Philadelphia, PA 19108
(215) 238-5424

Association of School Business Officials International

11401 North Shore Dr.
Reston, VA 22090
(703) 478-0405

Donlevy Administrative Services

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Chino Hills, CA 91709
(909) 393-3704

The School Administrator

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(703) 875-0745

School Bus Fleet

2512 Artesia Blvd.
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