

# Dollars & Sense



**HOW OUTSOURCING CAN SAVE  
MONEY FOR ALABAMA'S SCHOOLS**



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***Dollars and “Sense”***  
***How Outsourcing Can Save Money for Alabama’s Schools***  
**by Dr. John R. Hill**

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## Executive Summary

Alabama's latest struggles with proration have left no school district untouched. During the 2000-2001 fiscal year, Alabama's elementary and secondary schools received approximately \$200 million less than they had budgeted. Moreover, additional budget cuts could be required should revenues continue to fall short of state budgets.

Given the demands of this problem, saving money without compromising services ought to be a chief concern to school administrators. To help direct more resources into the classroom, some school districts have turned to the private sector for services such as student transportation, facilities maintenance and cafeteria operations.

*Dollars and Sense* examines the issues surrounding the outsourcing of three key support services in Alabama's public schools: student transportation, food service and maintenance.

Among its other findings, this report shows:

- Of the more than \$4.04 billion projected for Alabama's education budget for FY 2001-2002, \$807.8 million was spent on non-education support services.
- About one in three school districts in Alabama (32.5 percent) outsourced some portion of student transportation, food service, or maintenance during FY 2001.
- Approximately 27.6 percent of all districts contracted out at least one type of maintenance service, making it the most common type of service outsourced in the state.
- On average, school districts in Alabama that fully outsourced their groundskeeping saved a minimum of 25 percent on their overall costs. If every school district in the state saved only half of that amount, \$2.7 million in savings would be realized.
- Thirty percent of the least expensive school districts in terms of student transportation outsource their bus services.
- An across-the-board savings of just six percent for student transportation resulting from outsourcing would allow an additional \$10.8 million could be redirected to the classroom.
- Only two school districts—Alexander City and Brewton city—outsourced their food service, yet their costs per student are the lowest in Alabama. If similar savings were realized among districts of equal or larger size, \$17.7 million could be saved.

*Dollars and Sense* concludes that, in light of the rising costs of education and the reluctance of taxpayers to see the tax burden increased, outsourcing non-instructional services provides an excellent opportunity to use existing revenue sources to increase funds for teaching. Outsourcing is helping some districts achieve greater financial responsibility by offering better quality support services at a lower price. Potential savings could be used to bolster academic programs and classroom resources while reducing the need to approach citizens for further tax increases. Properly designed and monitored, contracts between public school districts and private providers could save the state tens of millions of dollars.

# TABLE OF CONTENTS

<b>I. What is Outsourcing?</b>	2
A. Practical Considerations with Outsourcing	
B. Outsourcing in Alabama	
<b>Targeted Services of Outsourcing Programs</b>	4
<b>I. Maintenance Services</b>	4
A. Outsourced Maintenance Services in Alabama	
B. Why Outsource Maintenance?	
C. Opposition to Outsourcing Maintenance	
D. Potential Reasons to Outsource Maintenance	
E. Outsourcing Maintenance: Does it Save Money?	
1. Groundskeeping	
<b>II. Transportation Services</b>	9
A. Who Outsources Transportation Services?	
B. Why Outsource Transportation?	
1. Case Study One: Huntsville City Schools	
C. Opposition to Outsourcing Transportation Services	
D. Potential Reasons to Outsource Transportation Services	
E. Outsourcing Transportation: Does it Save Money?	
F. Potential Savings from Outsourcing Transportation Services	
<b>III. Food Services</b>	14
A. Why Outsource Food Services?	
1. Case Study Two: Alexander City Schools	
B. Opposition to Outsourcing Food Services	
C. Potential Reasons to Outsource Food Services	
D. Does Outsourcing Food Services Save Money?	
E. Potential Savings from Outsourcing Food Services	
<b>IV. Obstacles to Privatization</b>	17
A. Existing Employees	
B. Elected Officials	
C. Union Oppositions	
D. Legal Impediments	
1. Case Study Three: Hoover City Schools	
<b>Summary and Conclusions</b>	19
A. Fiscal Impact	
<b>Appendix A: Survey and Methodology and District Classifications</b>	21

## Introduction

Alabama's latest struggles with proration have left no school district untouched. During the 2000-2001 fiscal year, Alabama's elementary and secondary schools had to get by with approximately \$200 million less than they had budgeted. Moreover, the threat of additional budget cuts is looming should revenues continue to fall short of state budgets.

In the aftermath of Alabama's latest budget shortfall, the state's public schools are under enormous pressure to trim their budgets without sacrificing the quality of education provided in the classroom. Historically, school districts around the country have generally responded to fiscal crises, rising costs and expanded services by asking voters to increase their support through higher taxes and larger bond levies.

While lawmakers continue their cut-and-paste approach to tax issues it becomes increasingly evident that at some point there must be a serious effort directed toward comprehensive tax and spending reform. Because Alabama has the dubious distinction of spending more for state government per capita than our neighboring states, a serious evaluation of state spending is in order.<sup>1</sup> Moreover, Alabamians' rate of spending on education is more aggressive than most other states. Specifically, real (inflation-adjusted) per-pupil spending on public education in Alabama increased 146 percent from 1970 to 1998, compared to an increase of only 117 percent nationally.<sup>2</sup>

Given the demands of this problem, saving money without compromising services ought to be a chief concern to school administrators. To help direct more resources into the classroom, some school districts have turned to the private sector for services such as student transportation, facilities maintenance and cafeteria operations.

Of the more than \$4.04 billion projected for Alabama's education budget for FY 2001-2002, \$807.8 million was spent on non-education support services, or about 20 percent of the state's K-12 budget.<sup>3</sup> If significant savings in these services were realized via outsourcing, potential shortfalls in revenue could be averted, and more funds could be directed toward instructionally focused programs.

This study examines the inroads outsourcing has made in Alabama school districts in three support services: student transportation, food services and maintenance. In addition, this study also examines the reasons districts choose to outsource some services while retaining control over others, as well as what circumstances might prompt districts to consider outsourcing.

Alabama's latest struggles with proration have left no school district untouched.

Estimates of cost savings if more districts outsourced are also projected. Finally, obstacles to privatization in Alabama are considered.

### I. What is Outsourcing?

In basic terms, outsourcing is the assignment of specific work to a third party for a specific length of time with an agreed-upon price for performance. Throughout this report, the terms "outsourcing," "privatized services" and "contracted services" are used interchangeably to denote the assignment of duties and services to an organization other than the employees of the school district.

#### A. Practical Considerations with Outsourcing

Given the fact that non-instructional costs are one of the fastest growing components of overall educational costs, school districts must now consider and examine programs to use the efficiency and experience of the private sector in offering non-instructional services to their community.

School districts can take advantage of the contractor's experience in their respective field. School districts can also benefit from the exponentially greater purchasing power of national contractors. Outsourcing also allows school districts to free funds that can be diverted to educational and instructional services.

Outsourcing support services, though, is clearly not a financial panacea for all school districts. Indeed, it appears to have generated a "love it or leave it" mentality among districts that have tried it. According to American School and University's Seventh Privatization/Contract Services Survey, about three in four public school districts (77.4 percent) outsourced at least one service in 2001. This percentage, however, is down from 87.7 percent in 1997.

#### B. Outsourcing in Alabama

According to a phone survey conducted by the Alabama Policy Institute of 123 of the state's 128 school districts, about one in three districts (32.5 percent) outsourced some portion of student transportation, food service, or maintenance during FY 2001 (See Figure 1 on the next page).

School districts can benefit from the greater purchasing power of national contractors. Outsourcing also allows school districts to free funds that can be diverted to educational and instructional services.

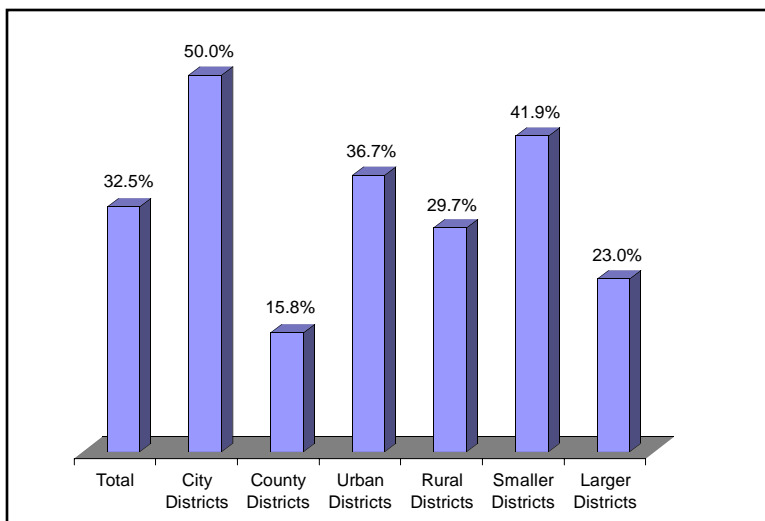


Figure 1: Who Outsources Support Services in Alabama

Appendix A provides a more detailed discussion of the survey. Several significant differences existed among the various categories of districts regarding the extent to which they outsource. For example, half of Alabama’s city school districts outsourced at least one support service, more than three times the rate of county districts (15.8 per-cent).

Likewise, school districts in Alabama with smaller student populations were more inclined to outsource than larger ones (See Figure 2).

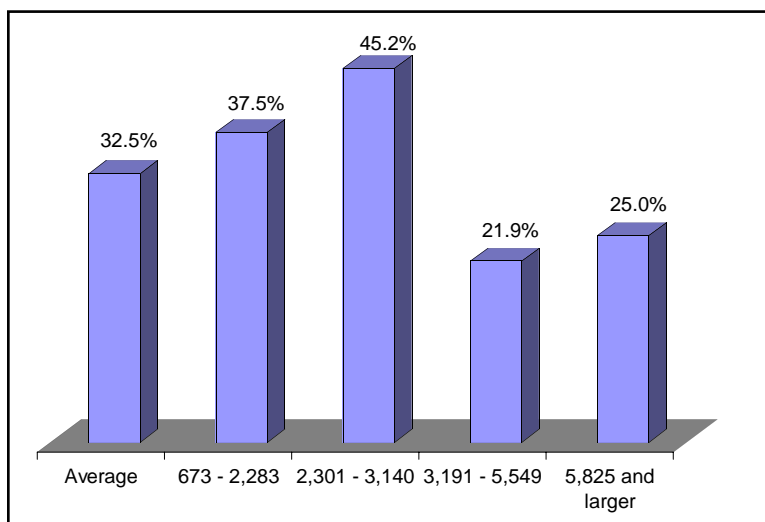


Figure 2: Who Outsources Support Services by District Enrollment

Almost three-fourths of the nation's school buildings were built either before World War II, or during the 1950s and 1960s "Baby Boom."

This finding was the opposite of those found by American School & University's 2001 survey of privatization and contracting in American schools. According to the AS&U survey, school districts with populations of 5,000 or more were more likely to outsource, while those with populations of 10,000 or more were more likely to increase future use of outsourcing.<sup>4</sup>

While some districts have opted to reacquire local control of support services, others are actually increasing the amount of services they outsource. In 1997, for example, 5.2 percent of districts contracted out five or more services; by 1999, 15 percent did. In other words, districts that have tried outsourcing a variety of services are apt to outsource more, while districts with only one or two outsourced services are more likely to discontinue the practice altogether if they are unhappy with the results.<sup>5</sup>

## Targeted Services of Outsourcing Programs

### I. Maintenance Services

Almost three-fourths of the nation's school buildings were built either before World War II, or during the 1950s and 1960s "Baby Boom." As a result of a lack of new sources of revenue, districts across the country have had to cut back on spending for maintenance and new construction. A 1995 report by the Government Accounting Office found that delaying maintenance and repairs will defer some of the costs, but will lead to greater expenditures as building conditions deteriorate.<sup>6</sup>

The effects of poor upkeep extend to instruction. In 1988 the Carnegie Foundation reported that student attitudes about education are a direct reflection of their learning environment. A possible solution to this dilemma would be to allow the private sector to provide direction on regular maintenance programs. If these programs saved money, those funds could be redirected to purchase new equipment and pay for new construction without imposing on other budget items.

#### A. Outsourced Maintenance Services in Alabama

Alabama public schools spent approximately \$337 million on maintenance services in FY 2000. Approximately 27.6 percent of all districts contracted out at least one type of maintenance service, making it the most common type of service outsourced in the state (See Figure 3 on the next page).<sup>7</sup>

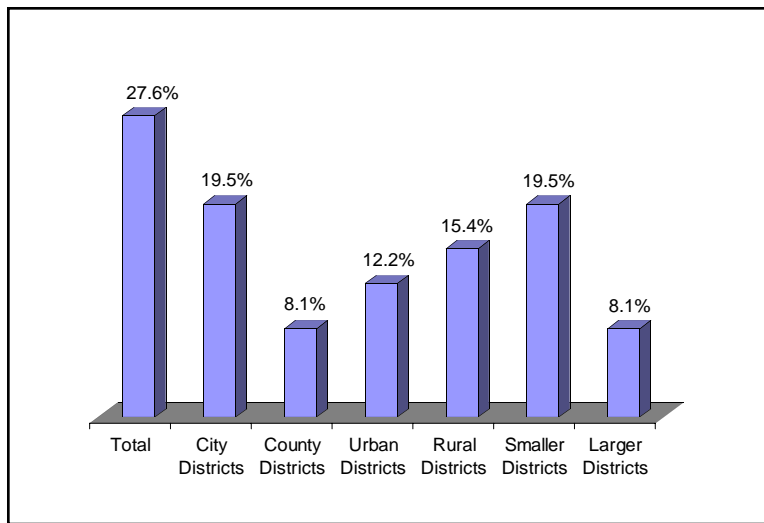


Figure 3: Districts Contracting Out Part or All of Their Maintenance Services

Of those districts that do outsource, though, only 25 percent fully outsourced the services they receive.

In FY 2001, a variety of maintenance services were contracted out by Alabama school districts (See Figure 4).<sup>8</sup>

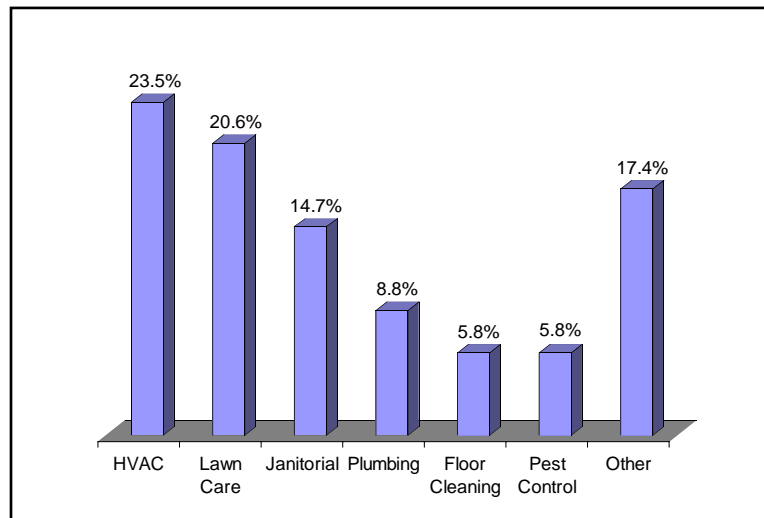


Figure 4: Maintenance Services Contracted Out, by Type

Despite the variety of maintenance services that school districts across Alabama have chosen to contract out, few outsourced more than one. Only five districts (4.1 percent) outsourced two services, and only one outsourced three.

## B. Why Outsource Maintenance?

Slightly more than half of all school districts in Alabama that outsource any of their maintenance services do so because they lack the personnel to do the job (See Figure 5).

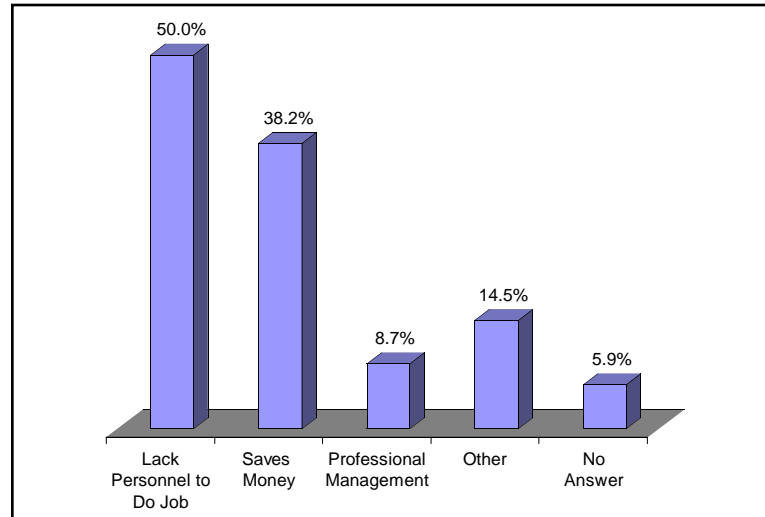


Figure 5: Reasons for Outsourcing Maintenance

Many school districts in Alabama have chosen to contract out maintenance because it saves them money.

Not surprisingly, most of these particular answers came from respondents in non-metropolitan districts with student populations smaller than the state average.

Many school districts in Alabama have chosen to contract out maintenance because it saves them money. Forty percent of districts responding stated they outsource one or more services because it is more cost-effective than performing the same work in-house.<sup>9</sup>

## C. Opposition to Outsourcing Maintenance

Almost three in four school districts in Alabama did not contract out any maintenance services in FY 2001 (See Figure 6 on the next page).<sup>10</sup>

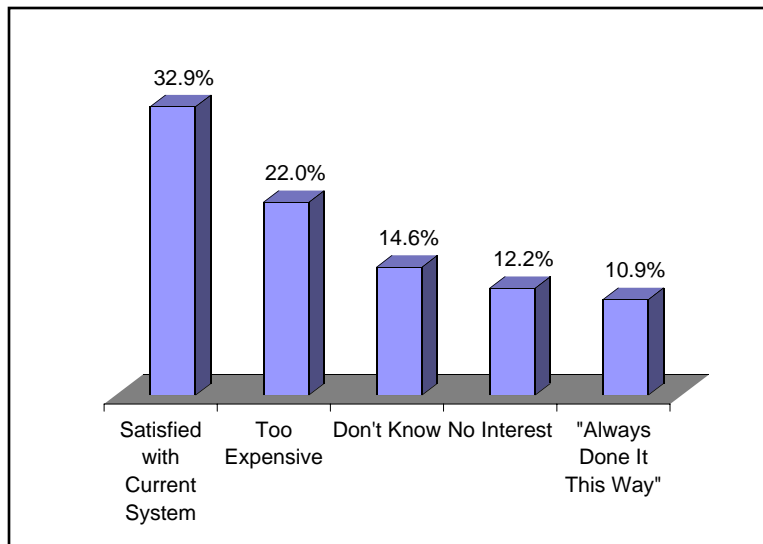


Figure 6: Reasons for Not Outsourcing Maintenance

About one-third (32.9 percent) did not outsource because they stated they were satisfied with the current system.<sup>11</sup> Three of these districts noted they "already had skilled staff in place," obviating the need for change.

Almost one-fourth of respondents stated that they chose not to outsource because they considered it too expensive. Of the districts that responded, most were classified as rural (73.6 percent), county-sized (68.4 percent), and larger than the state average (63.1 percent). These findings should not be surprising, as private maintenance providers might be reluctant to invest heavily in districts with remote schools in counties not necessarily connected to metropolitan areas. Two districts noted that, "If (private companies) can make a profit, we can do the same for less."<sup>12</sup> Only one district, though, had ever terminated a maintenance contract with a private employer because of excessive cost.

Six districts no longer contract out maintenance because of negative experiences in the past. Two-thirds of those who have terminated contracts did so because the quality of work provided by the service was substandard. In one district, for example, a groundskeeping service was let go after it could not keep all of the school lawns in the district mowed regularly. In another case, a private custodial service was terminated after several of its workers were caught stealing items from classrooms.

Fifteen percent of districts that chose not to outsource maintenance had no idea why they had made that decision. In fairness, new superintendents comprised about 10-15 percent of the survey's respondents, and they, understandably, had little knowledge of their district's history of outsourcing.

#### D. Potential Reasons to Outsource Maintenance

The circumstances that might allow some districts to outsource some or all of their maintenance services are about as varied as the services provided (Figure 7).<sup>13</sup>

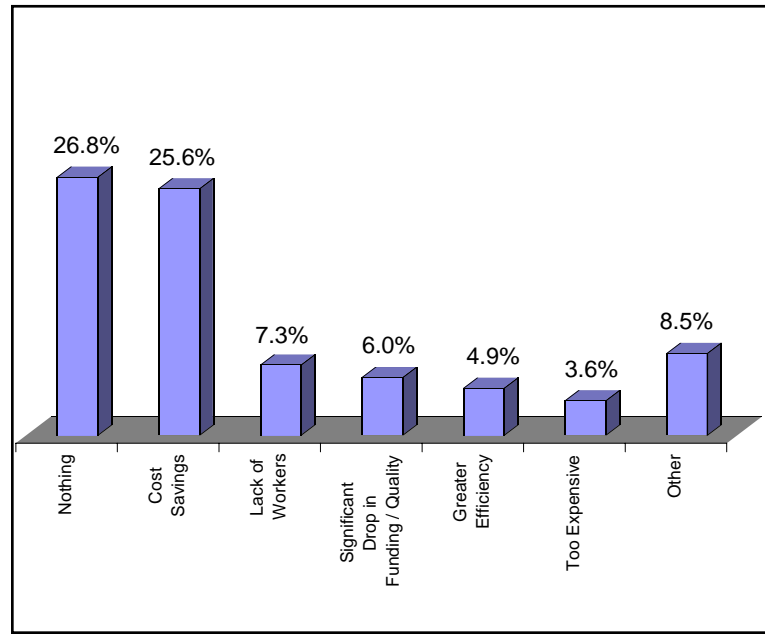


Figure 7: Prompts to Outsource Maintenance

Twenty-two districts (26.8 percent) reported that no circumstance would make them consider outsourcing. Of these, one-third stated they were satisfied with their current system, while another 28.5 percent noted the cost to privatize would be too high.

Twenty-one districts (25.6 percent) stated they would consider outsourcing maintenance services if the cost savings associated with it were significant.<sup>14</sup> Likewise, three districts noted they might look at outsourcing if their maintenance requirements became too expensive to do in-house.

Seven percent of districts would consider outsourcing maintenance if they lacked qualified workers, and another 4.9 percent cited greater efficiency and better quality of work as reasons to consider contracting out maintenance.

#### E. Outsourcing Maintenance: Does It Save Money?

Because lower costs was a significant reason some school districts gave for outsourcing their maintenance services, and for others to consider it, it was important to determine whether those dis-

Lower costs was a significant reason some school districts gave for outsourcing their maintenance services.

districts that contracted out enjoyed any significant savings.<sup>15</sup>

## 1. Groundskeeping

Groundskeeping is one area in which outsourcing has helped lower the cost of maintenance in several Alabama school districts. On average, districts that fully outsourced their groundskeeping saved a minimum of 25 percent on their overall costs.<sup>16</sup> An across-the-board saving of only half of this amount through outsourcing would result in savings of approximately \$2.7 million per year.<sup>17</sup>

## II. Transportation

School buses represent the largest single transportation enterprise in the United States, with more miles logged every year than the entire U.S. aviation industry. In 1997 alone, \$10.8 billion was spent nationwide on the purchase and maintenance of school buses.<sup>18</sup>

According to the Alabama State Department of Education, approximately 390,131 students rode some form of public transportation to school during FY 2001, at a cost to the state of \$180.9 million, or about 4.5 percent of all K-12 public education expenses.

### A. Who Outsources Transportation Services?

Ten of the 123 districts surveyed (8.1 percent) had contracted out some or all of their transportation services. Together, these represented \$9.6 million worth of business. All of them were city districts, with eight of them in metropolitan areas. Six districts had their bus service fully contracted out. Despite being the second most commonly outsourced activity among state schools, Alabama's rate of contracting out its transportation services was significantly lower than the national average of 31.8 percent.<sup>19</sup>

### B. Why Outsource Transportation?

Half of the school districts in Alabama that outsourced some or all of their student transportation reported that they did so in order to save money (See Figure 8 on the next page).

Groundskeeping is one area in which outsourcing has helped the lower the cost of maintenance in several Alabama school districts.

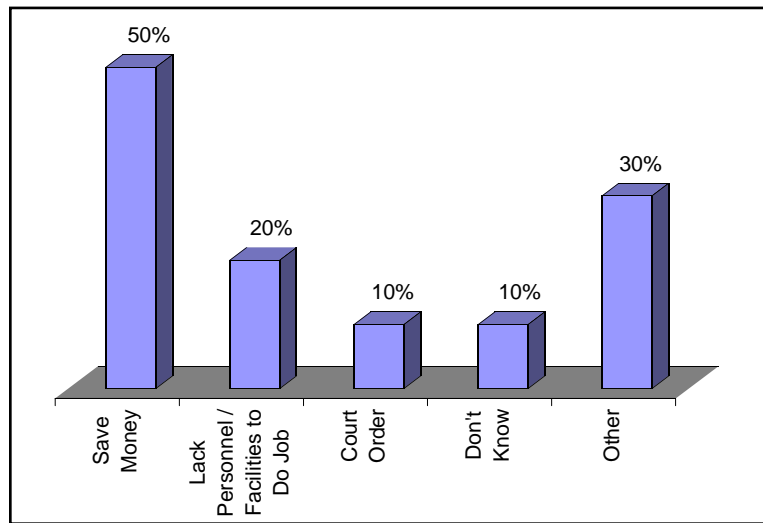


Figure 8: Reasons to Outsource Transportation

One district Tallassee city has its bus service provided by Elmore County, where Tallassee is located. Another two districts noted they contracted out because they lacked either the personnel or the facilities to do the job. These two districts were both urban and among the largest in the state in terms of student enrollment.

### Case Study #1: Huntsville City Schools

The city of Huntsville transports approximately 23,100 students per school day. Its experience with outsourcing of school bus services shows clearly the kinds of improvement in safety that can be realized. Huntsville School's Safety Director, Kyle Koski, said that the main benefit achieved by the privatization program has been in the ability to address safety concerns with bus drivers. "Being able to address a substance abuse problem with a driver has been the primary benefit of the contract with [the contractor]," said Koski. "Previous to that time, all bus drivers were state employees, and subject to the protection of the Alabama Tenure Law. If a driver did have a problem with substance abuse, the process to remove them was long and difficult, Now, [the contractor] can deal with the safety hazard immediately!"<sup>20</sup>

In 1989 when a tornado hit the city, destroying an elementary school, district officials asked its contractor at the time to provide eight buses to replace those damaged by the storm, and to compensate for the additional transportation for the students that had to be relocated to different schools. The contractor met the demand in four days. Had the district been required to purchase the buses, the bid process would have left the district with the unfulfilled need until the following school year. Koski noted, "The level of cus-

### C. Opposition to Outsourcing Transportation

Despite the successes of school districts like Huntsville with outsourcing student transportation, more than 90 percent of districts in Alabama do not contract out for any of their transportation needs (See Figure 9).<sup>22</sup>

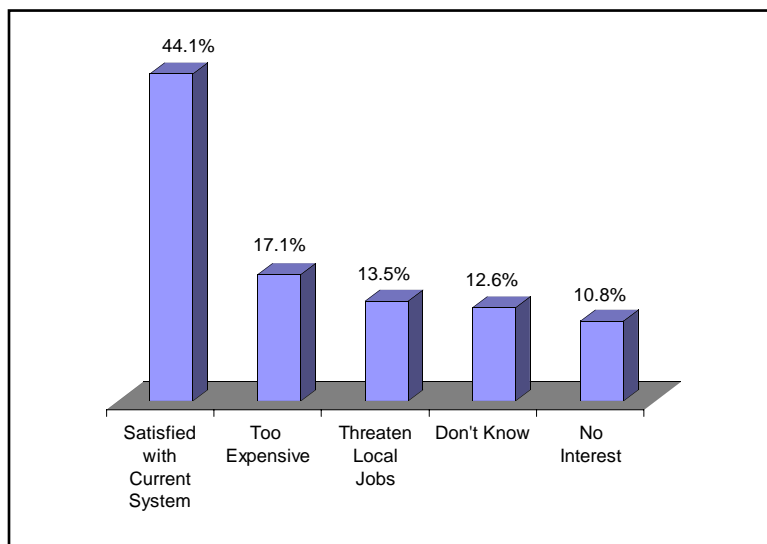


Figure 9: Reasons Not to Outsource Transportation

Forty-four percent stated they were satisfied with their current transportation system. Of these, nine city districts noted that they had no need to privatize. Most of these districts were below average in student enrollment and located in urban areas (77.7 percent each).

Nineteen districts (17.1 percent) chose not to outsource transportation because they considered it too expensive. Most of these were rural, county districts with small student enrollments (73.6 percent, 66.7 percent and 66.7 percent, respectively).

Fifteen districts (13.5 percent) did not outsource because they believed it would threaten the jobs of local workers already employed by the district. One district specifically stated that local union opposition would make any attempt to privatize transportation particularly difficult.

Fourteen districts (12.6 percent) could not identify why their district did not contract out its transportation needs. Two of these districts stated they had simply "never considered outsourcing."

One dozen districts (10.8 percent) noted they simply had no interest in privatizing their transportation service, while another 10 (9.0 percent) identified their small size as a reason for not outsourcing. Eight other districts (7.2 percent) had not considered contracting out because they had "always done it that way."

One district specifically stated that local union opposition would make any attempt to privatize transportation particularly difficult.

Finally, seven districts (6.3 percent) had chosen not to outsource transportation services because of political pressure. One district cited pressure from its local board as a disincentive to privatize, while four districts said pressure from the state kept them from considering outsourcing.

#### D. Potential Reasons to Outsource Transportation Services

While most Alabama school districts have not outsourced their transportation services, many of them might do so given the right circumstances (See Figure 10).

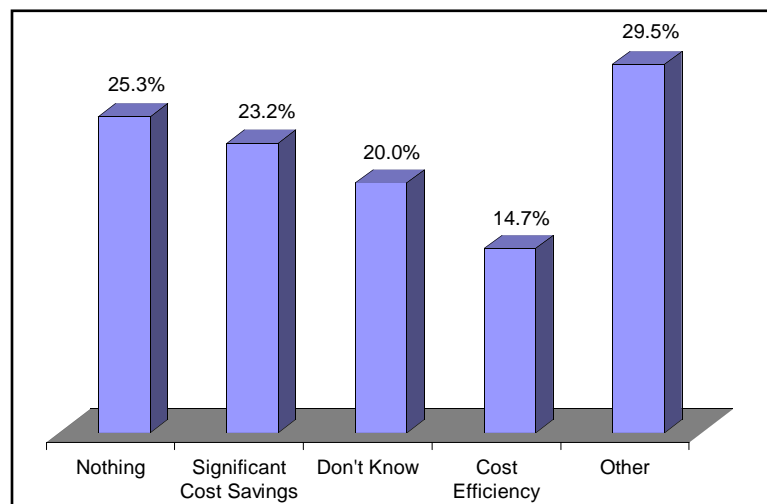


Figure 10: Prompts to Outsource Transportation

Nearly half of all districts associated the possibility of outsourcing with money, either in terms of dollars saved or the quality of services received for those dollars. Twenty-three percent said significant cost savings would be an incentive to outsource, while 14.7 percent said getting more or better services for the same amount of money might prompt them to consider privatizing transportation. Another eight percent said outsourcing might be a possibility if changes in transportation funding made it necessary.<sup>23</sup>

One-fourth (27.2 percent) also stated that privatization was currently too expensive for their district to consider. These findings should not be surprising given the high costs associated with the large number of vehicle miles driven per school day within many rural districts in Alabama to pick up relatively few children.

One in four respondents (25.3 percent) indicated no circumstance would make them consider privatizing.<sup>24</sup> Interestingly, one superintendent

noted that "no changes were possible due to the present political situation" in Montgomery. Another four districts noted that outsourcing transportation was not applicable to them because their districts had no permanent bus services or routes.

#### E. Outsourcing Transportation: Does It Save Money?

To determine whether districts that already outsource actually spent less on transportation than those who administer it themselves, the total prorated transportation budget allocation for each district participating in this study for FY 2001 was divided by their estimated ridership for the same year.<sup>25</sup> On average, school districts in Alabama that earmarked any money to transport students during FY 2001 spent about \$602 per rider, with per-rider costs varying by district from \$193 to \$5,329.<sup>26</sup>

One way to ascertain whether districts that outsource transportation services pay less per rider is by comparing them to similar districts that operate the same services in-house. Because only city districts in Alabama currently outsource any of their transportation services, those that outsource were compared to those that do not. Districts that outsource pay less per rider (\$634) than those who do not (\$769). However, because of large variations in the data due to the high per-rider costs some districts pay for special-needs transportation, and the relatively small number of districts that outsource, this difference was not significant.<sup>27,28</sup>

Another way to measure whether districts that outsource spend less per rider is by looking at how many of them are among the state's districts with the lowest per-rider costs. Of the 10 districts with the lowest per-rider costs (less than \$315 per rider), three contracted out their transportation services. This statistic suggests two things. First, the low per-rider costs some districts achieve are the result of a variety of different circumstances, of which outsourcing is only one factor. Most of the busing for the Tallahassee city school district (\$247 per rider), for example, is provided by the surrounding Elmore County district, which is paid directly by the state for its service, and is in its own way a type of outsourcing. The three buses Tallahassee does operate run only short distances, helping to keep its costs low.

While districts that outsource transportation make up only about eight percent of all districts, they comprise 30 percent of the state's 10 districts with the lowest per-student rider costs. One of these districts is Jacksonville. Because the city chose to outsource its transportation services, the district received only partial funding from the state, forcing it to raise an additional \$165,000 on top of the \$50,620 it received from the State Department of Education in FY 2001.

Nevertheless, Jacksonville's cost per rider was among the lowest in the state (\$287). The success of programs like those in Jacksonville is indicative of what could be achieved with a statewide privatization effort.

#### F. Potential Savings from Outsourcing Transportation Services

As has already been mentioned, significant cost savings is one of the primary reasons districts currently outsource (and might be prompted to outsource) their transportation services.

A study by economists at Ball State University in 1986 estimated that the costs for public ownership of school-bus services can be 12 percent more costly than contracting.<sup>29</sup> If Alabama's \$180.9 million school transportation service could realize that savings, an additional \$21.6 million could be redirected to the classroom.<sup>30</sup>

### III. Food Services

Alabama public schools spend approximately \$289.9 million on food services each year. Nevertheless, of the three non-education support services examined in this report, food services were the least commonly outsourced in Alabama. Only two of the state's school districts Alexander City and Brewton city: 3.5 percent outsourced their food service, far below the national average of about 17.5 percent.<sup>31</sup> Of these, only Alexander City fully outsourced its cafeteria program.<sup>32</sup>

#### A. Why Outsource Food Services?

Both districts identified cost savings as a major reason for contracting out their food services. One superintendent also noted that contracting out his food service "provided his students an opportunity to eat" by offering both breakfast and lunch.

#### Case Study #2: Alexander City

The Alexander City School District has contracted their food service operations for more than 20 years. Paul Fanning, the district's former superintendent, has said the long history of contracting out the food service in his district has led to significant savings. "We've probably saved a few hundred thousand dollars on food service over the years because we contract out," said Fanning. "That's money we've been able to put back into the classrooms. It's been great for us."<sup>33</sup>

## B. Opposition to Outsourcing Food Services

As with the other support services covered in this report, the plurality of respondents (34.5 percent) were satisfied with their current food service (See Figure 11).<sup>34</sup>

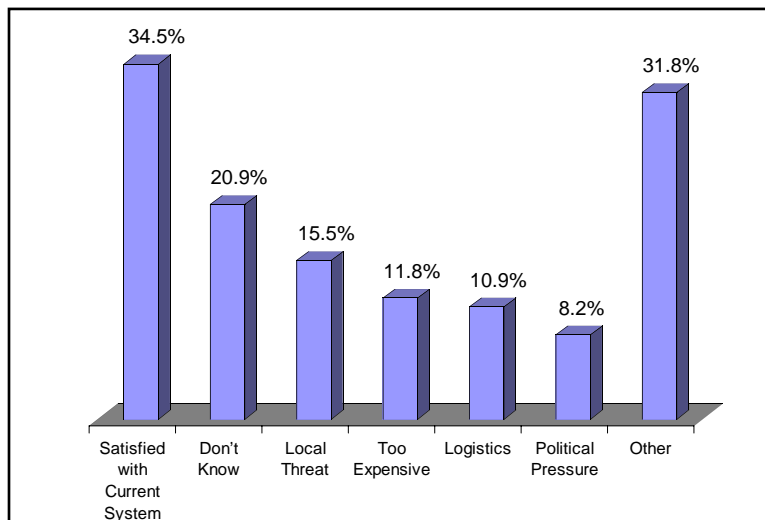


Figure 11: Why Not Outsource Food Service

Eighteen percent of respondents' answers were financially motivated. About one in eight districts (11.8 percent) remarked they had not privatized their food service because they regarded it as too expensive. About five percent stated they were not interested in contracting out because their nutrition programs were making substantial amounts of money. One superintendent, for example, noted that his Child Nutrition Program had about half a million dollars in the bank as a result of federal funding for reduced cost and free breakfasts and lunches. Another superintendent stated, "If they can make a profit, we can do the same for less."

Fifteen percent of respondents considered outsourcing food services to be a threat to local interests. Specifically, 10 percent stated privatization "would threaten the jobs of local employees," while 5.4 percent were concerned that local control of the food program might be lost.<sup>35</sup>

About one in 10 districts attributed their choice not to outsource food services to logistical impracticalities. Six noted their location in the state made such services unavailable, while another six identified their small student populations, rural location, or being "too spread out" as reasons they failed to attract serious consideration from private food service providers.

One in 12 districts (8.2 percent) named political pressure as a reason for not considering outsourcing food services. Three districts noted that pressure from the state government kept them from

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One in 12 districts named political pressure as a reason for not considering outsourcing food services.

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contracting out, and two described the AEA as a roadblock to privatization. Two other districts also identified pressure at the local level to keep jobs and union opposition as obstacles to outsourcing.

### C. Potential Reasons to Outsource Food Services

As with transportation, financial matters appear to be the biggest predictor of whether a district might consider outsourcing its food services (See Figure 12).<sup>36</sup>

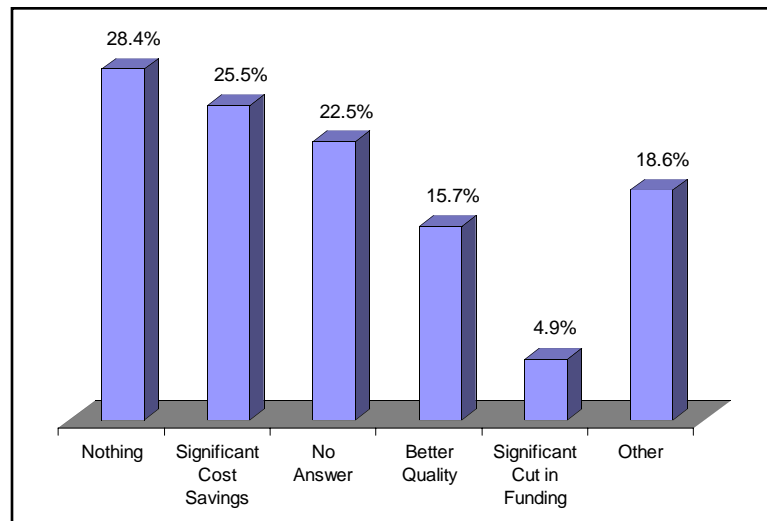


Figure 12: Prompts to Outsource Food Service

One-fourth of respondents (25.5 percent) identified significant cost savings as a possible reason to consider contracting out their food services.<sup>37</sup> Another five percent noted that negative financial circumstances would be important to their decisions to possibly outsource food services. Of these, four noted that a significant cut in federal or other funding would make them discuss the feasibility of contracting out.

Twenty-nine districts (28.4 percent) could not identify anything that might make them consider outsourcing,<sup>38</sup> while about one in seven districts (15.7 percent) cited quality issues that might make them contemplate contracting out food services. Nine districts said they would consider outsourcing if the quality of food was better, while two noted a better selection of food was important to their decision.

### D. Does Outsourcing Food Services Save Money?

The average school district in Alabama spent about \$420 per student on food services in FY 2000, with district averages ranging

Two districts described the AEA as a roadblock to privatization.

from \$245 to \$666.<sup>39</sup> Although only two school districts in Alabama outsource any portion of their food service, they enjoy the lowest costs per student for food service in the state (\$245 and \$266, respectively). Brewton's savings are particularly interesting, as the district only contracts out its high school food service, yet keeps an extremely low cost per student. This evidence suggests, but by no means proves, that city districts in rural areas might consider outsourcing at least part of their food services to save money and improve quality.

#### E. Potential Savings from Outsourcing Food Services

Outsourcing food services is saving the Alexander City school district almost 42 percent what the average school district pays in Alabama. The fact that Alexander City is the only school district that fully outsources its cafeteria services makes extrapolating its results extremely speculative. That being said, if every other school district in Alabama saved only half of what Alexander City saves by outsourcing their food services (20.8 percent), approximately \$60 million in food service costs per year could be realized.

### IV. Obstacles to Privatization

As with any major shift in operational procedures and policies, there can be a reluctance to change despite the possibility of substantial cost savings and improved quality of service. Existing employees, district board members and sometimes members of the community have resisted efforts to outsource school services.

#### A. Existing Employees

Employee concerns about displacement by contractors and unemployment are legitimate considerations in evaluating privatization programs. School districts considering privatization should expect to face organized employee demonstrations at board meetings that can be intimidating.

A policy of openness to everyone's concerns is encouraged to reduce opposition and fear regarding privatization. Compromise measures can also be suggested to address the concerns of existing employees. For instance, some school districts in Alabama have responded to these concerns by asking bidders to include in their proposal suggestions for direct or preferential hiring in regard to existing employees. While these measures help, they do not necessarily prevent efforts of organized opposition.

In some cases, the privatization process only affects the management of the given support service. Remaining school district

Approximately \$60 million in food service costs per year could be realized if every school district in Alabama saved only half of what Alexander City saves by outsourcing their food services (20.8 percent).

employees retain the same pay rate, benefits and pension packages, while only new employees are hired directly by the contractor.

#### B. Elected Officials

Many school board officials are part-time employees or volunteers and are not aware of the outsourcing opportunities and programs that have been successful for many years throughout the country. One critical approach for acceptance of privatization plans is by educating district superintendents and board members.

#### C. Union Opposition

Despite the efforts of many school boards to take into consideration the concerns of all people affected by the privatization process, some groups may resort to legal action to prevent the implementation of privatization programs. It is the position of the National Education Association (NEA) and the American Federation of Teachers to oppose any privatization efforts in school districts and to encourage their affiliates to do the same. Ironically, the NEA frequently outsources a number of its own support services, including part-time negotiators for bargaining and the custodial services at its \$60 million national headquarters in Washington.

#### D. Legal Impediments

In addition to legal hassles, portions of Alabama state law discourage outsourcing by favoring government monopolies over private efforts. For example, most school districts receive a tax break from the state and local authorities on gasoline taxes, which significantly reduces transportation costs, but which private contractors are not able to take advantage of. As this study shows, some outsourced transportation services are indeed more expensive than equivalent in-house operations. The additional fuel taxes paid by contractors, increase their operating costs. Still, in the case of Huntsville and Florence, the costs of outsourced transportation have been less than when the services were provided in-house. If the same tax breaks enjoyed by in-house operators were extended to private contractors, or if arrangements could be made for the school district to purchase the fuel, the savings realized would be even greater. These changes, however, would require amending current state law.

It is the position of the National Education Association and the American Federation of Teachers to oppose any privatization efforts in school districts and to encourage their affiliates to do the same.

### Case Study #3: Hoover City Schools

Following in the footsteps of its parent organization, the AEA has opposed all efforts by school districts to outsource any of their non-instructional services. After the decision to privatize their custodial services, the Hoover City School system, which serves approximately 9,500 students, was sued by the AEA. Had [the Hoover City School System] implemented the program district-wide, we would have saved close to \$500,000 [in the 1997 school year], said Gary McBay, Director of School Services. We had also eliminated the need to plan for cost overruns in the program. With outsourcing, we knew exactly what we would have been paying the contractor when figuring the yearly budget. Hoover's outsourcing program was terminated by court order in August 1999.<sup>40</sup>

### Summary and Conclusions

In light of the rising costs of education and the reluctance of taxpayers to see the tax burden increased, outsourcing non-instructional services provides an excellent opportunity to use existing revenue sources to increase funds for teaching. One in five dollars spent on education in Alabama \$807.8 million is spent on non-education support services. Outsourcing is helping some districts achieve greater financial responsibility by offering better quality support services at a lower price:

- Thirty-two percent of school districts responding to the survey contracted out some part of their transportation, maintenance or food service in FY 2001.
- Twenty-seven percent of Alabama's school districts reported contracting out some aspect of building or grounds maintenance. Of these, 6.5 percent contracted out HVAC maintenance, 9.6 percent outsourced landscaping and lawn care, and 5.7 percent outsourced custodial and janitorial services.
- Small, municipal city districts were most likely to outsource support services.
- Eight percent of districts contracted out some or all of their transportation services. This was lower than the national average of 31.8 percent.
- Only 3.5 percent of districts in Alabama outsource any or all of their food services, making this the least contracted service in the state. By comparison, 17.5 percent of schools nationwide contract out their food service.

School boards, state legislators and education policy makers should actively search for ways to minimize barriers to outsourcing non-instructional services.

- The primary reasons Alabama school districts outsourced were to save money and because they lacked trained personnel.

- Many Alabama school districts did not outsource because they were satisfied with their current system, they considered outsourcing to be too expensive, and because it threatened local jobs and interests.

#### A. Fiscal Impact

- At least \$13.1 million was spent on outsourced support services in Alabama in FY 2000. This represents about 1.6 percent of all school spending in these areas. Most of this was spent on transportation services. This amount is artificially low because it does not include eight maintenance services without district line item totals.

- Based on the savings achieved through the very limited outsourcing being done in Alabama, if these services were expanded, approximately \$21.6 million could be saved in transportation services, \$60 million could be saved in cafeteria services, and \$5.4 million could be saved in groundskeeping alone, for a total of approximately \$87 million per year. Other estimates indicate savings of between \$50 million and \$80 million, or a savings of about six to 10 percent on all services. As Alabama becomes increasingly urbanized and interconnected, these savings could increase substantially.

In conclusion, school boards, state legislators and education policy makers should actively search for ways to minimize barriers to outsourcing non-instructional services. Potential savings could be used to bolster academic programs and classroom resources while reducing the need to approach citizens for further tax increases. Properly designed and monitored, contracts between public school districts and private providers could save the state tens of millions of dollars.

## Appendix A:

### Survey Methodology and District Classifications

The Alabama Policy Institute contacted the offices of every school district superintendent in the state by phone in an attempt to develop a comprehensive understanding of non-education outsourcing activity in Alabama's schools. In the event the superintendent was not available to participate in the study, responses were accepted from assistant or deputy superintendents, or other office administrators qualified to answer.

Multiple efforts were made to contact each of the state's 128 district superintendents by phone during normal business hours between July 9 and August 27, 2001.<sup>41</sup> If repeated attempts at contact were unsuccessful, interviewers were instructed to inquire whether an assistant superintendent, deputy superintendent or other office administrator was available.

A total of 123 districts (96.1 percent) were successfully contacted.<sup>42</sup> Sixty of these were city districts and 63 were county districts. Districts were also classified as urban or rural according to whether they were located in the state's 11 Metropolitan Statistical Areas. Forty-nine districts were classified as urban, and another 74 as rural.

Of the surveys completed, 93 (75.6 percent) were done by superintendents, 15 (12.2 percent) were finished by assistant or deputy superintendents, and the remainder (12.2 percent) were done by other administrative staff (e.g., business managers, assistants to the superintendent, etc.).

Upon agreeing to participate in the study, respondents were asked whether their district outsourced at least one of three non-instructional support services: transportation, food service and maintenance. If a district outsourced one or more of these services, respondents were then asked the length of time the service had been outsourced, their reasons for outsourcing, and whether outsourcing had saved or cost their district any funds. Conversely, districts that did not outsource any or all of these services were asked why they had chosen not to outsource the service in question, and what might prompt them to outsource it. All respondents were asked about their degree of satisfaction with each of their existing support services, as well as whether their districts had ever terminated a contract with a private firm with any of the aforementioned services.

The margin of error for a sample size of 123 of 128 districts is - 1.8 percentage points in 95 out of 100 cases. To ensure that districts of all sizes were equally represented, the state's districts were divided into quartiles, with 32 districts comprising each quartile. A chi-square test found no significant difference in the sizes of districts surveyed by quartile,  $\chi^2 = 0.531$ ,  $df = 3$ ,  $p = 0.912$ .

The average school district enrollment sample by quartiles was as follows: 1st = 1,582; 2nd = 2,653; 3rd = 4,068; and 4th = 13,952.

An important determinant in outsourcing is the availability of providers. Some school districts may not contract out simply because a private sector alternative does not exist. The availability of providers is determined in part by the district's proximity to large urban markets. Thus, a district in rural southwestern Alabama may not have the same contracting activities as a major urban area such as Birmingham or its suburbs.

School districts were thus categorized as metropolitan or rural according to whether they were located in a county within the U.S. Bureau of the Census' definition of a Metropolitan Statistical Area. According to these criteria, 61 of Alabama's school districts are urban, and 67 are rural. A chi-square test of urban-to-rural proportions found no significant difference between the 123 districts surveyed and the state's 128 school districts,  $\chi^2 = 0.255$ ,  $df = 1$ ,  $p = 0.613$ .

This report was created using summary material from the surveys. Any variation in reported percentages of - 1 percentage point within this report is due only to rounding. The analyses in this report are based on the information provided from the phone interviews.

<sup>1</sup> Mark Thornton, "Are Taxes Too Low in Alabama? A Regional Analysis," *Troy State University Business and Economic Review*, vol. 23, 1999, p. 13.

<sup>2</sup> U.S. Department of Education, Office of Educational Research and Improvement, *Digest of Education Statistics* (Washington, DC: USGPO, various years); and U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index, All Urban Consumers (CPI-U), 1913-1998," January 14, 1999 (<ftp://146.142.4.23/pub/special.requests/cpi/cpiui.txt>). Data for 1998 from the State of Alabama, Department of Education, December 15, 1999.

<sup>3</sup> Maintenance, food service and transportation expenditures for FY 2000 totaled approximately \$337 million, \$289.9 million, and \$180.9 million, respectively.

<sup>4</sup> Joe Agron, "Keeping It Close to Home," *American School & University*, September 2001, vol. 74, p. 28. The difference between national outsourcing trends and those in Alabama appears to be the result of a large proportion of smaller municipalities having contracted out at least one service, usually maintenance. Among the lowest quartile of districts, for example, city districts comprised 11 of the 12 (91.7 percent) that reported outsourcing. Similar results were found among the second quartile: of 14 districts reporting outsourcing, nine (64.3 percent) were city districts.

<sup>5</sup> Joe Agron, "Take It or Leave It," *American School & University*, September 1999, vol. 72, pp. 28-33.

<sup>6</sup> *School Facilities: The Condition of America's Schools* (Washington, DC: U.S. General Accounting Office), February 1, 1995.

<sup>7</sup> To determine whether outsourcing maintenance services is a function of a district's demographics, those which contracted out services were compared to those that do not on three measures: student population size; whether it was in an urban or rural setting; and whether it was a city or county district. No significant differences were found.

<sup>8</sup> Of the 34 administrators that stated their districts outsource maintenance services, 19 were able to identify the year in which they began their private contracts. On average, school districts in Alabama that have contracted out at least some of their maintenance began doing so in 1993. At least one district, though, has had maintenance contracts dating back to 1969; eight other districts have begun the process within the past two years.

<sup>9</sup> Again, most respondents who gave this answer were from smaller school districts (61.5 percent), particularly cities (69.2 percent), and located in rural areas (53.8 percent).

<sup>10</sup> Of the 82 districts in Alabama that did not outsource maintenance services, 78 (93.9 percent) provided reasons why they chose not to contract out.

<sup>11</sup> This response was particularly common among larger districts (66.7 percent) and those in rural areas (66.7 percent).

<sup>12</sup> This response ignores the problem of AEA wages being fixed with state-mandated increases. The cost of labor is the biggest factor in janitorial services.

<sup>13</sup> Fifty-eight of 82 districts in Alabama that did not outsource maintenance services gave at least one answer to the question, "What might prompt you to outsource your maintenance services?"

<sup>14</sup> Most respondents who gave this answer tended to be from smaller school districts (61.9 percent) of county size (66.7 percent) in rural areas (80.9 percent).

<sup>15</sup> The State Department of Education aggregates the costs of most of the trades needed to maintain its school districts. Since groundskeeping is one of the few maintenance services itemized per district, it is the only one of which estimates were made.

<sup>16</sup> Per-student groundskeeping costs in Alabama for FY 2000 ranged from \$0.03 to \$226, with an average cost of \$39. The total groundskeeping budget for FY 2000 for each district was divided by student attendance. Districts that reported no expenditures for groundskeeping were not included.

<sup>17</sup> A simple comparison of districts that outsourced (\$49) versus those that did not (\$38) found no significant difference in costs,  $t = -0.42$ ,  $df = 111$ ,  $p = 0.628$ . In smaller districts, however, a significant difference was found between those that outsourced (\$4) and those that did not (\$41),  $t = 4.209$ ,  $df = 51.796$ ,  $p = 0.000$ .

<sup>18</sup> "Bus Profile: 1980 to 1997," *Statistical Abstract of the United States 2000*, (Washington, DC: U.S. Census Bureau, 2001) p. 643.

<sup>19</sup> Joe Agron, "Keeping It Close to Home," *American School & University*, September 2001, vol. 74, p. 28.

<sup>20</sup> Kyle Koski, Safety Director, Huntsville City Schools, February 4, 1997, personal communication.

<sup>21</sup> *Ibid.*

<sup>22</sup> Of the 113 districts that did not outsource transportation services, 111 (98.2 percent) gave at least one reason why they chose not to.

<sup>23</sup> Districts interested in the potential savings associated with privatization tended to be overwhelmingly rural (81.8 percent), smaller than average (77.2 percent) and county-sized (59.0 percent).

<sup>24</sup> Most of these (62.5 percent) were districts with student enrollments greater than the state average. Of those districts not receptive to outsourcing, 83.3 percent described the quality of their in-house transportation as “very good.” About one in three also gave their reason for not outsourcing as being “satisfied with the current system,” and one in six believed that privatizing transportation would be “too expensive.”

<sup>25</sup> Three city districts—Demopolis, Homewood and Mountain Brook—reported no student riders and were not included in further analyses. Another city district—Piedmont—used buses from Cleburne and Calhoun county districts to transport approximately 100 of its students. Because the funds for this busing were passed directly from the state to the Cleburne and Calhoun county districts, Piedmont was also excluded from further analyses.

<sup>26</sup> In almost every district in which more than \$1,000 was spent per rider, much of this high cost was the result of a large proportion of money being spent on transporting children with special needs. In the Decatur city school district, for example (\$1,032 per rider), 14 buses are needed to transport special-needs children, who comprise nearly 15 percent of all riders. In the case of two city districts with per-rider costs over \$5,000—Lanett and Fairfield—these expenses were incurred to transport very small numbers of special-needs children (six in Lanett and 12 in Fairfield, respectively). Because special needs transportation is an integral part of most school districts’ expenses, the total cost of transportation for each district, including special needs, was retained.

<sup>27</sup>  $t = 0.394$ ,  $df = 54$ ,  $p = 0.695$ .

<sup>28</sup> To determine whether district enrollment influenced outsourcing savings, city districts with enrollments of less than the state average were compared on the basis of whether they contracted out transportation services. Districts that chose to outsource paid less per rider than those that did not (\$442 v. \$841, respectively), but these differences were also insignificant. Among districts with enrollments greater than the state average, districts that outsourced their transportation services actually paid more (\$788) than those who did not (\$601). Again, though, these differences were not significant.

As a whole, city districts spent substantially more on transportation per rider (\$748) than county districts (\$473). This appears to be because city districts spent more per rider on maintenance (\$254 v. \$76) and fleet allocations (\$119 v. \$67) than county districts. According to the State Department of Education, these expenses tend to be lower among county districts because they have a higher ridership than city districts, and are able to spread fixed costs among a larger number of students.

<sup>29</sup> Robert A. McGuire and T. Norman Van Cott, “Public versus Private Economic Activity: A New Look at School Bus Transportation,” Heartland Institute, Chicago, *Policy Study* No. 10, September 1986.

<sup>30</sup> Of the six school districts in Alabama that fully outsource their transportation services, two were able to provide an estimate of the amount of money saved as a percent by outsourcing. Together, these districts saved an average of 35 percent on the cost of their transportation services, or minimum savings of 5.6 percent with 95 percent confidence among similar districts. If these savings are applied only to districts of similar size and location, outsourcing transportation services could save a minimum of \$2.7 million.

<sup>31</sup> Joe Agron, “Keeping It Close to Home,” *American School & University*, September 2001, vol. 74, p. 28.

<sup>32</sup> Together, both districts spent approximately \$1.25 million on food services in FY 2000, or about 0.4 percent of the state’s total food service budget of \$289.9 million.

<sup>33</sup> Charles Dean, “Lunchroom in Others’ Hands,” *Birmingham News*, February 2, 1997.

<sup>34</sup> Of the 123 districts interviewed for this study, 110 gave at least one reason why they did not outsource their food service.

<sup>35</sup> These concerns tended to come from larger districts (64.7 percent) in urban areas (58.8 percent).

<sup>36</sup> Of the 121 districts in the state that do not outsource their food service, 102 gave at least one answer to the question, “What might prompt you to outsource your transportation services?”

<sup>37</sup> In contrast to the demographics of the districts that could not be prompted by anything to consider outsourcing, these districts tended to be mostly rural (69.2 percent), with smaller student populations and county-sized (57.6 percent each).

<sup>38</sup> Most of these were larger districts (55.1 percent) in cities (62.0 percent).

<sup>39</sup> The laws of economy of scale particularly apply to food service costs in Alabama. Indeed, as a district’s enrollment increases, its cost per student for food services decreases,  $r = -0.22$ ,  $p = .014$ .

<sup>40</sup> Interview with Gary McBay, Director of School Services, Hoover City Schools, February 10, 1997 and March 15, 2002.

<sup>41</sup> The Department of Youth Services is also classified as a school district, yet its unique association with the Department of Corrections disqualified it for this study.

<sup>42</sup> Four districts—Blount, Calhoun, Etowah and Jefferson counties—failed to reply after multiple calls, and one district—Anniston City—refused to participate when contacted.