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ABSTRACT

During the early 1990s, the Hartford, Connecticut, public school system experienced serious financial problems and a downward trend in the key indicators of educational success. In 1994 the Hartford, Connecticut, board of education granted Education Alternatives, Incorporated (EAI), a 5-year contract to manage the school district. This paper presents findings of an evaluation of the Hartford/EAI experience. Data were obtained through a review of the contract and other documents, a site visit, and interviews. In January 1996, about one and one-half years into implementation, the school board terminated its contract with EAI. EAI assumed responsibility for managing the operations of the 32 schools in the district while the board retained ultimate policymaking authority. The contract did not specify that EAI implement its Tesseract instructional approach. Rather, EAI was to recommend and implement enhancements to the educational program, and spend \$20 million on educational technology and \$1.6 million on building improvements. Conflict arose when EAI's proposed budget for 1995-96 included cuts in teaching positions. The district reported that the contract was terminated because EAI concluded that it would not operate under the contract as written. EAI stated that it ceased services to Hartford because the district failed to pay for services rendered in accordance with the contract. EAI is credited with improving access to educational technology and making school repairs (concentrated in six schools), and helping the school district secure a zero increase in teachers' salaries for one year. Data on student performance was not yet available. (LMI)

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The Private Management of Public Schools:

The Hartford, Connecticut Experience

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The Private Management of Public Schools:
The Hartford, Connecticut Experience

From 1991 to 1994, the Hartford Mayor, board of education (Board), superintendent of schools and community were involved in an effort to identify what was working, what was not, and what should be done to improve each Hartford school. In the summer of 1994, the focus of their reform efforts veered in a new direction. Facing serious financial problems and a downward trend in the key indicators of educational success, the Board granted Education Alternatives Incorporated (EAI) a 5-year contract to manage the school district.

Our study of the Hartford/EAI experience included a review of the contract and other documents, as well as a site visit to Hartford in mid-1995. We interviewed city, district and union officials, as well as representatives from EAI and its subcontractors. We also maintained contact with school district officials after our visit to determine the status of the contractual agreement. In January 1996, approximately one and a half years into implementation, the school board announced it would terminate its contract with EAI.

Background

The City of Hartford Profile

With a population of about 140,000 residents, Hartford is the hub and economic center of a 37-town metropolitan area. Hartford is also Connecticut's poorest city, with the lowest per

capita, median and household income in the state. In 1995, about 28% of Hartford's residents lived below the poverty level and estimates were that 50% of the population received some form of government assistance.

The Hartford Public Schools Profile

At the time of our study, the Hartford School District, which served about 23,000 students in 32 schools, was the largest district in the state and the second largest in New England. The district spent about \$8,700 per pupil in school year 1994-95, well over the national average of \$5,200. Average class size ranged from 19 students per kindergarten class to 21 students per high school class. Teacher salaries, which reportedly averaged about \$58,000 a year in 1995, consumed a significant portion of the district's budget which in 1995 was approximately \$200 million dollars.

In 1995, about 93% of Hartford's students were minority and about 16% were special education students. The district also had approximately 40% of the state's bilingual students. Student test scores in the district were well below the state average and drop out rates averaged about 16% per year.

The Hartford public schools system is represented by a 9-member board of education which is elected and nonpartisan. The Board is a city government entity which independently sets the policies and procedures for the school system. While the Hartford city council has appropriation authority over a large

portion of the budget, organizationally, the Board does not report to the city council. However, because of their appropriation authority, the council does wield some indirect influence over the direction of district policies and procedures.

Education Alternatives Incorporated

Education Alternatives Inc. (EAI) is a private, for-profit firm headquartered in Minneapolis, MN. The company whose stock is traded in the over-the-counter market and quoted on the NASDAQ exchange, was established in 1986. In its 11-year history, company stock prices have ranged from a high of \$45 per share to a low of \$3 per share. In December 1994, the company provided a combination of education and management services to 38,800 students in two private and forty-five public schools (including South Pointe Elementary in Dade County and the schools in both Baltimore and Hartford).

EAI and its partners in the Alliance for Schools That Work¹ provide a variety of education and management services as described in detail in the Baltimore case study. Briefly, these services include overall school and education management; financial management; and facilities management.

¹As mentioned in the Baltimore Experience Paper, the other companies of the Alliance include KPMG Peat Marwick, Johnson Controls World Service, Inc. and Computer Curriculum Corporation.

Impetus for Contracting

Contributing Factors

Several factors contributed to Hartford's decision to hire EAI to manage its public schools. First, between 1991 and 1994, the district underwent some dramatic changes. A reform-minded Board had been coordinating the efforts of members of the Hartford community to define the district's strategic plan--what was working, what was not, and what should be done to improve each Hartford school. In school year 1993-94, the board approved the new district strategic plan. At the same time, the Board, dissatisfied by the then superintendent's performance, decided not to renew his contract. Furthermore, to offset some of the district's financial woes, the Board also approved an early retirement incentive package that resulted in the elimination of 100 district staff positions, many of which were at the management level.

A second factor contributing to the decision to hire EAI was that despite high per pupil expenditure levels, poor student performance plagued the district. Not only did Hartford's public school children score poorly on the Connecticut Mastery Test, they also had low student attendance rates and high drop-out rates. This discrepancy between expenditures and outcomes highlighted the Board's frustration with the status quo.

Finally, given the district's managerial, financial and student performance problems, the Board, upon the suggestion of

one member, began to view EAI as an alternative vehicle to achieve education reform in Hartford. After a presentation in Hartford by EAI's chief executive officer, Board members began an initial round of talks with the company. Soon thereafter, a city-sponsored request for proposal (RFP) was issued and three responses were reviewed by a panel consisting of members of the city council, school board, the city manager, and a representative from the city's Purchasing Division. Although one panel member characterized all three proposals as failing to meet the RFP requirements, others felt that EAI's proposal was most closely aligned with the strategic plan the district had recently approved. Furthermore, EAI's recent experience managing two private and twelve public schools provided credence to the project. In November 1994, the district entered into a 5-year contract with EAI for the management of its 32 schools.

Expectations

District and School Level Staff Expectations

The expectations of the various parties to the Hartford-EAI privatization project varied depending upon several factors, including their level of familiarity with the terms of the contract, and public opinion about the company's past performance. Board members, like other school district officials, most familiar with the contractual agreement generally believed that EAI would manage the school district in order to achieve the goals outlined in the strategic plan. This included

providing services in the areas of educational, facilities and financial management. For example, most Board members and the superintendent expected that EAI would specifically reform the district's financial management systems, leading to greater efficiency. Furthermore, these district officials believed that EAI would invest \$20 million dollars in the school system over the term of the contract--an investment they believed would be paid for from funds obtained through cost savings measures implemented district-wide.

In addition to financial management improvements, most school district officials expected that facilities would be upgraded, including an expectation that computer labs would be installed in every school. Interestingly, only some district officials expected that EAI would provide specific services to improve the educational outcomes of students in the district.

Still others, especially those at the school level, held different expectations for the privatization project. For example, while the teachers' union expected that EAI would make a bid to cut teaching and other school level staff positions, they also expected that their contracts would be upheld and that there would be no staff cuts. Only a few school level staff expected that EAI would be their partner in providing educational services to students.

EAI Expectations

EAI anticipated that having a contract with the district

would mean that it had a license to manage the district's finances, including payroll and procurement. Given this expected level of control over financial management, they also believed that they could implement cost-saving measures which would eventually result in improved school services and in compensation for their services rendered.

The Model

The Hartford Board of Education signed a 5-year contract with EAI in November 1994, retroactive to July 1994. Under the contract, the district's entire annual school appropriation and all grant money (including federal and state grants), which totaled about \$200 million in the first contract year, were to be used by EAI to manage the schools. According to the contract, EAI was to perform management and operations tasks necessary to achieve the goals of the district's strategic plan. EAI was to also assume responsibility for managing the operations of the 32 schools in the district while the Board of Education retained policy-making and ultimate decision-making authority. Unlike the Baltimore and Dade County contracts, the Hartford contract did not specify that EAI implement its Tesseract instructional approach. Rather, EAI was to recommend and implement enhancements to the educational program. In addition, the contract stated that over the 5-year term, EAI expected to spend about \$20 million on technology and software initiatives and \$1.6 million on building improvements. EAI was also to recommend and,

with approval of the Board of Education, implement enhancements to improve student performance, including staff training and student evaluation.

EAI was also given authority to purchase materials and services from commercial sources and to make recommendations concerning staffing levels, organizational structures; and the hiring, assignment, duties, compensation, discipline and discharge of district employees, including the superintendent. However, the Board of Education remained the final authority for all personnel and organizational structure decisions. The contract also allowed EAI to provide advice during negotiations with labor organizations, but the Board had the statutory responsibility for collective bargaining and administering contracts with labor organizations.

The district had the right to terminate the contract upon 90 days written notice to EAI. EAI could also terminate the contract if it believed that the annual appropriation was insufficient to meet all contractual financial requirements.

The Implementation Process

Although most school board members in Hartford supported private management of public schools, many in the district did not agree with them. The superintendent, for example, had several concerns about the district's decision to enter into a contract with EAI. The teachers union, as well as other unions, opposed private management from the onset, possibly at least in

part because they viewed EAI as a vehicle for reducing teaching jobs. Opposition reached its peak when EAI submitted a budget proposal for school year 1995-96 that would have eliminated a substantial number of teaching positions. EAI wanted to cut teacher costs and use the savings to help fund technology initiatives specified in the contract, as well as invest in clean and safe schools, implement site-based management, and improve instruction. However, most school board members would not support the reduction in teachers. EAI believed the reductions were warranted, claiming that teacher pupil ratios, determined by the district's contract with the teachers' union had resulted in a system that was "overstaffed by millions of dollars of personnel." According to Hartford, the cuts would have resulted in massive violations of class size limitations contained in the district's agreement with its teachers' union.

During the first year of the contract, the district and EAI agreed that EAI would prioritize its efforts in 6 of the 32 schools. Hartford believed EAI suggested the six-school focus in order to achieve "showcase results quickly as a strategy to build community support." EAI was to provide specific education management services to the six school. These services included (1) training teams of staff for site-based management in five schools and one adult learning center and (2) providing technology improvements, such as computers. In January 1996, however, Hartford announced that it would terminate its contract

with EAI. According to Hartford, the relationship broke down and the contract terminated because EAI concluded that it would not operate under the contract as written. EAI, on the other hand, said that it ceased services to Hartford due to the district's failure to pay it for services rendered in accordance with the contract. EAI and Hartford ultimately disagreed on the interpretation of this and many key contract provisions relating to payment and control of funds. In its 1995 annual report to its stockholders, EAI stated that it had recorded costs totaling \$5.5 million for the Hartford contract, but acknowledged uncertainties about whether the district would reimburse it.

The Outcomes

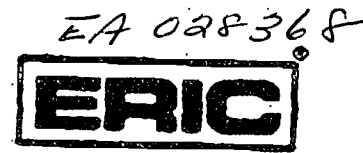
Students in the Hartford schools enjoyed a number of benefits as a result of private management. While Hartford benefited from copiers and fax machines that EAI installed in all 32 schools, only students at five of the 32 schools benefited from more access to computers. EAI completed several types of repairs throughout the district, but concentrated its efforts on six of the district's schools.

EAI also served as a catalyst for the district to rethink and challenge the status quo. District officials in Hartford, concerned that teachers' salaries consumed too much of its budget asked EAI to help it negotiate the teachers' contract. EAI succeeded in helping to secure a zero increase in the teachers' salaries for 1 year.

GAO analysis of student performance could not be completed because test score data was not available for analysis at the time of our review.



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