



Transparency Bills Could Help School Districts Avoid Outsourcing of Public Services That Lowers Quality and Raises Costs

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Pennsylvania's public schools employ tens of thousands of support professionals – bus drivers, cafeteria workers, custodians, maintenance workers, secretaries, paraprofessionals, and others. Due to fiscal challenges that many local districts face, school administrators often look to achieve savings and flexibility by outsourcing the provision of public services by education support staff.

Research shows that there are significant downsides in some cases to outsourcing by state and local government, including lower quality services and increases in costs. Moreover, when outsourcing lowers quality or raises costs, changing the contractor or bringing work back in house may have up-front and transition costs. These costs can lock school districts into unfavorable outsourcing arrangements for the long term. This potential reinforces how important it is to get decisions to outsource or keep work in house right in the first place.

To avoid counterproductive outsourcing of non-instructional public services by Pennsylvania public schools, companion House and Senate bills – one with a Republican prime sponsor (HB 1914) and one with a Democratic prime sponsor (SB 795) – would require, prior to outsourcing:

- a solicitation of proposals publicly accessible online and at the school administrative office;
- a minimum three-year projection of costs after outsourcing;
- a public hearing to present the selected proposal and receive public input;
- information on legal or regulatory violations by the private company and criminal records of its employees;
- hiring preference at contractors for school employees whose employment was terminated due to outsourcing and who held the same or substantially similar position when employed by the district; and
- a guarantee that schools may terminate outsourcing if costs exceed those projected.

Justice Louis Brandeis once said that “sunlight is said to be the best of disinfectants.” When it comes to outsourcing support services by school districts, Justice Brandeis was right. Providing additional transparency when school districts consider outsourcing, and an escape route if savings do not result, can reduce the number of cases in which districts regret outsourcing because it increases taxpayer costs, compromises the quality of educational support services, or undercuts the quality of jobs for members of the local community.

The rest of this brief summarizes research and public opinion polling that make the case for transparency and safeguards against counterproductive outsourcing provided by the Senate and House bills.

Outsourcing of Public Services Often Lowers Quality and Increases Taxpayer Costs

Outsourcing often comes with promises of large savings for school districts, sometimes backed by year-one prices that would deliver significant savings. Significant savings often do not materialize, and in many cases outsourcing costs communities more.

- A rigorous statistical study of school bus service outsourcing in Pennsylvania found that taxpayers pay \$224,000 more when a typical school district contracts out to private bus services rather than provide all bus services in house.¹ Contractors tend to “low ball” their original contract bid, but then increase costs once the school district has sold its own bus fleet and cannot easily bring work back in house:
 - In 29 school districts that increased contracting out substantially, the median increase in transportation costs equaled 16% in the year after privatization. By five years after privatization, transportation costs increased 26% in inflation-adjusted terms – five times the increase in the five years before privatization.
 - In late 2009, for example, Central Dauphin School District chose to outsource most student transportation services to a private bus company. The district projected this would save \$773,000 per year. Projected savings never materialized. Spending rose by more than \$300,000, according to one estimate.
- A study of food service outsourcing in Pennsylvania also finds little upside. Currently in Pennsylvania, 18% of public school districts outsource management and labor of food services, 27% of school districts outsource just management, and 55% provide food services in house.² Neither outsourcing of school district management nor outsourcing of food service management and labor make a meaningful difference to the costs of food services for most districts.³
- Competitive bidding for school support services often does not exist in more rural and exurban areas because there are only one or two potential private companies and these companies may collude, driving up prices.⁴
- Monitoring and contracting costs for privatization can be high and costs also increase to cover contractor profit.⁵ These additional costs may dwarf any savings in the delivery of support services themselves, making privatization uneconomical.
- More often than not, collaboration by incumbent at-risk employees with public managers to improve service processes results in internal efficiencies and quality improvements greater than those achieved through privatization.⁶
- Government service delivery remains the main way local governments provide services.⁷ Moreover, some outsourcing decisions get reversed, with government reclaiming work once outsourced.⁸ In school districts a recent national survey found:⁹
 - Quality was frequently given as a reason why outsourcing was reversed.
 - Some respondents mentioned that outsourcing failed to yield projected economic savings.

- School districts, however, may get “stuck” in unfavorable outsourcing arrangements, especially if there are up-front costs to insourcing. For this reason, a national study found, districts reverse transportation service outsourcing much less than food service and janitorial services outsourcing.¹⁰
- When contracting out generates “savings,” these savings tend to come from a reduction in services and substitution of bad jobs with low wages and no benefits for better (although sometimes part-time) jobs with health benefits. In many communities, this exacerbates a shortage of decent jobs, including for parents of children in the school district.

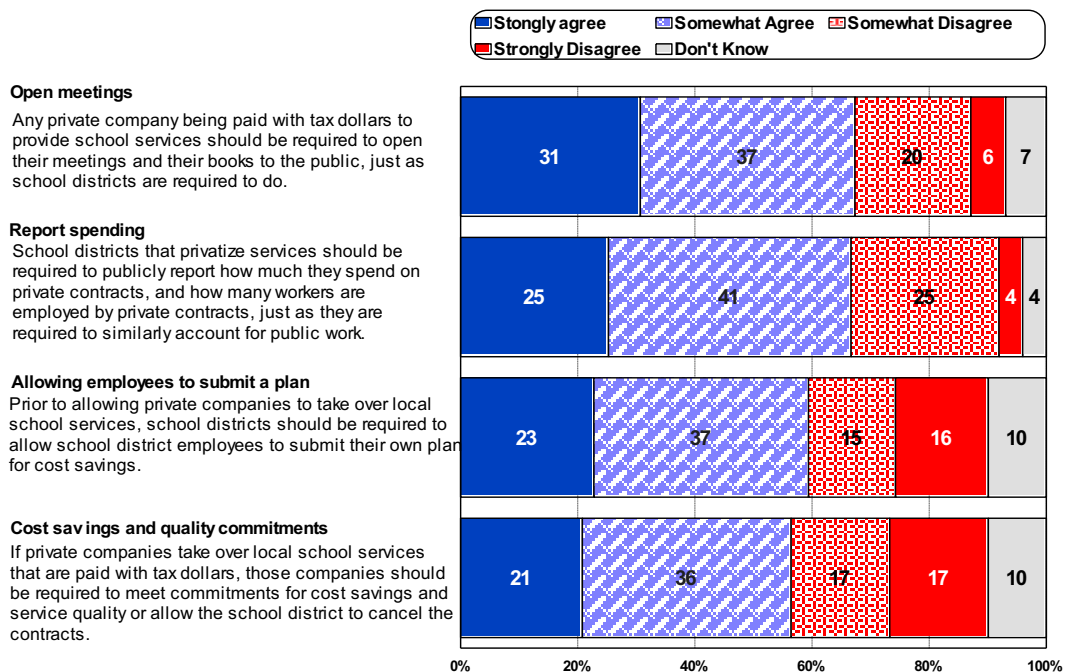
Contracting Out Erodes Accountability

- School officials are less accountable when services are outsourced because they are less able to monitor and direct the services. When districts contract out, they move from an open and accountable system to one more removed from public scrutiny.

Voters in Pennsylvania and Nationwide Support Transparency When Government Contracts Out

- Pennsylvania voters overwhelmingly support common sense transparency when schools outsource services. By margins of nearly 2:1 to over 3:1, Pennsylvanians favor contractors having open meetings and open books, school district transparency about spending on outsourcing, allowing employees to submit their own cost-savings plan as an alternative to outsourcing, and cancelling contracts that don’t deliver promised savings or quality gains.

Pennsylvanians’ attitudes about privatization policies



- U.S. opinion polling yields similar strong voter support for common-sense transparency.¹¹
 - 74 percent support requiring companies that privatize public services to open their books and meetings to the public, just like the government does.
 - 71 percent support making it easy to cancel a contract if it ends up costing more than the company promised.
 - 69 percent support requiring a study to determine how privatization would affect the community and the posting of the results online before any decision to privatize is made.
 - 68 percent support prohibiting any company that has evaded taxes or broken the law from taking over public services.
 - 64 percent support a thorough cost analysis of all bids and guaranteeing taxpayers a minimum of 10-percent cost savings before a service is privatized.
 - 62 percent support ensuring that public service workers can submit their own plan to save money and provide quality services.
 - 62 percent support regularly posting online how much taxpayers are spending on private contracts and how many workers are employed by those contracts, the same way government must report such data for public work.
 - A strong majority (58/43) **oppose** outsourcing public services to for-profit companies, with 39 percent strongly opposing privatization.

Contracting Out Currently Allows School Districts to Shift Pension Payments to Other Districts

- Under current law, contracting out shifts additional unfunded pension liabilities to other school districts.
 - Each school district's share of the total Public-School Employees' Retirement System (PSERS) unfunded pension liability is based on the district's share of the total statewide payroll for current employees in PSERS.
 - If, for example, schools currently pay 24% of payroll towards paying down the unfunded liability and privatizing food services lowers payroll by \$100,000, the district avoids \$24,000 in payments annually through privatization.
 - Since the total unfunded liability is a fixed amount, if one employer escapes paying its full share of the system's overall liability, other employers must pick up the cost. It is a zero-sum game and privatization has helped to push up the total employer contribution rate (ECR) at PSERS.

Costs to Workers

- Many education support professionals live in the school district where they work and often have children attending or graduated from those schools.
- Data from Pennsylvania school districts show that three quarters of education support professionals are 40 or over, 62% are 50 and over, and 80% of them are women.

- ESP jobs are among the few service jobs for non-teachers and non-college workers that offer good pay and health benefits. Yet these jobs are far from high paid – many support professionals need to take a second job to make ends meet.
- In rural districts, which face sub-contractor threats, decent jobs for non-college workers are already in short supply. Incomes for the “bottom 90%” in rural Pennsylvania have fallen 18% since 1978 and per capita incomes are only 77% of those in urban areas.¹²
- If ESP workers lose their jobs, or are forced to lose their health benefits and accept even lower wages, it hurts not only the workers themselves and their families but weakens the fabric of the local community.
- Given the realities of the ESP workers and their economic struggles, protection is needed to ensure that they do not lose their jobs because of outsourcing and that outsourcing delivers financial savings. It serves no public purpose to erode the quality of decent service jobs in short supply so that contractors can profit, with no benefit to taxpayers, school districts, or the students they serve.

NOTES

¹ Mark Price et al., “Runaway Spending: Private Contractors Increase the Cost of School Student Transportation Services in Pennsylvania,” Keystone Research Center, March 2012,

<http://keystoneresearch.org/publications/research/school-bus-transport>

² Keystone Research Center analysis of Pennsylvania Department of Education school district financial data.

³ In 2012-14, the three most recent years available, the median loss per student for districts that self-provide is \$5.12 per year compared to \$4.52 for those that outsource, a difference of 60 cents per year or a third of a cent per day per student for a district that serves lunch 180 days per year.

⁴ Germà Bel and Mildred Warner, “Privatization of solid waste and water services: What happened to costs savings?” Working paper Cornell University, Ithaca NY July 2007;

<http://s3.amazonaws.com/mildredwarner.org/attachments/000/000/062/original/117-45653469.pdf>. While this particular study addresses municipal services, the point it makes holds for school support services also.

⁵ Elliot Sklar, “The Privatization of Public Services: Lessons from Case Studies,” Economic Policy Institute, Washington, D.C., 1997.

⁶ Indicative of this, federal employees won an average of 75% of competitions against private contractors in 2004 and 2005; <https://gcn.com/articles/2006/04/03/employees-a76-winning-percentage-dropped-in-2005-omb-to-report.aspx>

⁷⁷ A recent nationwide survey of school districts found that the current rate of complete outsourcing (including employees) for transportation services is 28.2%, for food services is 18.8%, and for custodial-maintenance services is 7%. Roland Zullo, James Hendrickson, and Rebecca Maher, “Support Services Outsourcing in K-12 Public School Districts,” Institute for Research on Labor, Employment and the Economy, University of Michigan, December 2015; <https://www.slideshare.net/beccamaher36/support-services-outsourcingfinal>

⁸ Mildred E. Warner and Amir Hefetz, “The Dynamics of Privatization Among U.S. Municipalities 2002-07), *Journal of the American Planning Association*, Volume 78, 2012, Issue 3, pp. 313-327.

⁹ Zullo et al., “Support Services Outsourcing in K-12 Public School Districts,” December 2015;

¹⁰ Zullo et al., “Support Services Outsourcing in K-12 Public School Districts,” December 2015;

¹¹ The national findings come from a nationwide poll of 784 registered voters conducted for In the Public Interest. The margin of error is +/- 3.5 percent.

¹² Keystone Research Center analysis of Pennsylvania Department of Revenue data and Center for Rural Pennsylvania compilation of official government data. Rural Pennsylvania defined based on the Center for Rural Pennsylvania definition (i.e., to include all counties with population density less than the statewide average); see http://www.rural.palegislature.us/demographics_rural_urban.html