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School Service Privatization in Alabama

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Summary Points

- Alabama school districts spent almost \$1.4 billion—nearly \$2,000 per pupil—on food, operation and maintenance, and transportation services over the 2010-11 school year. This represents nearly 20 percent of Alabama education budget.
- Even modest cost reductions achieved through privatizing of food, operations and maintenance, and transportation services could potentially result in millions of dollars of savings for Alabama school districts.
- Less than one-fifth of Alabama school districts contract out for operations & maintenance, food, or transportation services. Public school districts in the state lag significantly behind other states in privatizing these auxiliary school services. School districts in other states, like Michigan, that have privatized auxiliary school services to a greater extent, have realized higher quality service, substantial savings, and even higher salaries for teachers.
- Providing auxiliary services in-house provides an avenue for the growth of public-sector unions. Public agencies are susceptible to pressures from politicians or employee groups to hire additional workers, even if those workers are unnecessary.
- The significant benefits of privatization available to Alabama school districts detailed in this study are potentially available to other government agencies at the state and local level in Alabama, ranging from refuse collection to golf courses.

1. Introduction

The challenges of the current economic climate have forced school districts across Alabama and the nation to scrutinize their budgets for cost savings which would not adversely affect educational quality. While Alabama school districts should be commended for their cost-cutting creativity, traditional measures like hiring and salary freezes have reached their limits of effectiveness. Districts have begun to consider and even resort to cuts that will likely impact the classroom, such as reducing library budgets, staff, books, teaching tools, and other classroom supplies.¹

Fortunately many school districts across the nation have discovered a way to improve their budgets without skimping in the classroom; contracting out for auxiliary school functions like food, operation and maintenance, and transportation services. Contracting out for auxiliary services does not adversely affect educational quality, and creates cost savings which can be funneled back into the classroom. Private contractors disciplined by the competitive forces of the market can decrease the costs of these auxiliary services through specialization and economies of scale, while preserving, and often even enhancing, quality.

Superintendents and business managers in school districts are specialists in education, not managing transportation schedules, dietary guidelines, and routine maintenance work. In addition to saving money, contracting for auxiliary services would allow superintendents and business managers to focus on their core mission of educating Alabama's students. Asking school district administrators to supervise these auxiliary tasks is like asking a math instructor who doesn't know a punt from a pass to coach the football team. Firms specializing in auxiliary services to school districts are more flexible, entrepreneurial, and subject to competition, oftentimes fostering better service at a lower price.

While school districts across the country are benefiting from contracting out for auxiliary school services, Alabama school districts have largely left this potential source of savings untapped. Less than one-fifth of Alabama school districts contract out for food, operation and maintenance, and transportation services. Alabama's students stand to lose ground to other states in terms of educational quality if our school districts do not consider all viable opportunities to put more money back into the classroom.

Section 2 provides an overview of privatization and a review of the theoretical and empirical evidence on the benefits

of privatization. Section 3 reviews the evidence on auxiliary school service privatization across the nation and the growth of successful privatization of auxiliary school services in Michigan School Districts. Section 4 presents the results from a survey the authors conducted of Alabama school districts on their privatization of auxiliary services. Section 5 concludes.

2. Privatization

Privatization is the process of transitioning from the government provision of a good or service to the private provision of that good or service. Privatization allows private companies to submit bids to enter into a contract to provide a good or service for a specified timeframe.² Essentially, privatization means that a designated good or service will be purchased on the competitive market rather than being provided by government.

Privatization can take many forms and occur at many different levels of government. For example, it can range from the privatization of large programs such as social security in Chile or the contracting out of astronaut taxis by NASA to private companies, to privatizing rest areas and welcome centers at the state level, all the way to the privatization of emergency medical services, garbage collection, and golf courses at the city level.³ Privatization also includes the process of a government agency contracting out for specific auxiliary services historically provided in-house. For instance, municipal golf courses can contract out to private companies for lawn maintenance, janitorial services, or golf cart maintenance and repair.

Many private firms themselves contract out auxiliary services to dedicated providers.⁴ For instance, most physicians and lawyers do not directly employ someone or own their own lawn equipment to mow their lawn. Instead, they contract with a lawn care company to provide the personnel, equipment, and management necessary to maintain their lawns. Even individuals routinely contract out services such as oil changes and roofing to private companies that specialize in the provision of that good or service.

Just as private firms and individuals contract out for services that they lack expertise in, government agencies can contract out to private providers for auxiliary services. For example, a public school can use private contractors for non-educational functions such as food, operation and maintenance, and transportation services, with no worry of compromising their core public mission of education. Rather than a government

agency providing a good or service outside of their core capabilities and mission, that agency can contract out with private providers with expertise. Contracting out to expert contractors for auxiliary services offers the potential for both cost savings and quality enhancements. Note that contracting for auxiliary services does not imply the privatization of public schools.

Section 2.1 details the potential benefits of privatization. Section 2.2 provides a review of the evidence on privatization in practice.

2.1 *The Benefits of Privatization*

Determining the proper size and scope of government is a critical question for citizens, because a government which exceeds its proper protective and productive functions impedes economic growth.⁵ Once citizens determine that government should provide a good or service, we have a common interest in ensuring the costs are no higher than necessary to provide the good or service of desired quality. This is especially true when government provides goods and services that could be provided by the private sector.

Private sector companies face the competitive forces of the market, and consequently are far more cost efficient and innovative than public bureaucracies in providing goods and services. Alabama's state agencies should plan to purchase goods and services from specialized private providers whenever possible. As economist Paul Rubin argues:

When a competitive open market exists, this usually offers the most powerful method of controlling costs. If a product is made internally, then the firm must spend substantial managerial resources monitoring costs and efficiencies. In the market, on the other hand, simple shopping or seeking bids can easily and cheaply control costs. The best way to control costs is through the market.⁶

Government agencies should particularly contract out to private firms for auxiliary goods and services. Businesses frequently contract out to other firms for the provision of goods and services that fall outside their core mission.⁷ This can include everything from advertising campaigns, logistics, and the procurement of raw materials all the way to cleaning services, lawn maintenance, and window cleaning. Due to the substantial benefits from specialization, businesses find it profitable to contract for or purchase many goods and services in order to better focus on what really matters, namely the good or service they sell in the market. Contracting for auxiliary goods

and services saves businesses on payroll costs, equipment and maintenance, and especially management's time. Government agencies can take advantage of these benefits by contracting out to private companies for auxiliary services.

Our economy features many firms which provide janitorial, lawn care, payroll and other auxiliary services. Because of economies of scale and their greater knowledge, specialized firms can provide these goods and services at a lower cost. Businesses and government agencies can take advantage of this competition in contracting out. Firms and government agencies can specify in the contract the terms of the provision, the expected quality, the length of the contract, employee background checks, and other necessary details in order to ensure that the firm is receiving the goods and services on the terms required. If the contractor does not perform satisfactorily, the firm or government agency can terminate the deal and open the contract for bidding again.

Specialization allows school administrators to select the best service providers, allowing school administrators to focus more exclusively on educating students, which is ultimately what they really have unique talents, experience, and passions for. Specialization allows contractors to develop their talent as they repeatedly engage in their craft. For example, a private contractor who specializes in food management for several school districts acquires a lot of best practices and cost reduction strategies in food inventory, preparation, and delivery. Specialization also provides the economies of scale to employ more efficient technology and methods of organization and production. While it would be difficult for a small school district to hire a lawyer to keep up-to-date on dietary guidelines and food preparation regulations, a firm specializing in food management might find it cost effective to do so, resulting in better dietary awareness and regulatory compliance. Finally a food management company is likely to have adequately trained personnel to fill-in for sick or vacationing employees, back up equipment available, and other resources to meet unexpected contingencies.

Privatization allows government entities to focus more of their time and public money on accomplishing their specified public missions. By trying to provide goods and services that can be readily provided by the private sector, government agencies often stray from their core mission and get entangled in often inefficient bureaucracies.⁸ For instance, when a good or service is provided publicly rather than privately, there is far more incentive for shirking.⁹ Providing auxiliary services in-house also provides the avenue for the growth of public-sector unions.¹⁰ A good example of this is the higher frequency of strikes by public employees.¹¹ Public firms often face pressure from politicians or

employee groups to make additional but ultimately unnecessary hires, or delay implementation new labor-saving technology.¹² James Bennett and Manuel Johnson found in a review of the research that public colleges, public trash collection, and public hospitals all employed many more workers than their private-sector counterparts.¹³

Cost and quality advantages can be particularly large when it comes to the privatization of auxiliary functions. The economist Andrei Shleifer, summarizing the empirical evidence on privatization, concludes that when it comes to government provision of goods and services, "...the conditions under which government ownership is superior...are very limited."¹⁴

Finally, but importantly, school district administrators likely entered the profession because of a passion for and experience in education. Allowing administrators to focus on what they are best and most passionate about: educating youth.

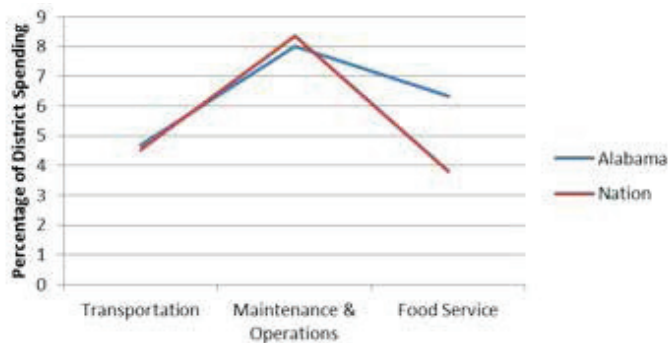
2.2 A Brief Overview of the Empirical Evidence on Privatization in the United States

The U.S. has witnessed many successful privatization experiments for a range of goods and services from trash collection and golf courses to emergency medical services. The evidence demonstrates that privatization typically delivers promised benefits, especially when it comes to services that theoretically and empirically have no market failures.¹⁵

Private producers, across a broad array of different services including fire protection and garbage collection, can provide a similar quality service at a similar, and oftentimes lower, cost than government providers.¹⁶ Manuel Johnson and James Bennett argue that the evidence on the benefits of privatization "...is both overwhelming and irrefutable."¹⁷

A study on school transportation in Indiana by Robert McGuire and Norman Van Cott found that private companies were 12% cheaper on average than districts who ran in-house bus service.¹⁸ Looking at garbage collection in Fairfax County, VA, James Bennett and Manuel Johnson found that private garbage companies in Fairfax County, Virginia, offered twice weekly pickup for a lower cost than the once-weekly county service.¹⁹

Emergency Medical Service privatization has reduced response times, improved reliability, and lowered cost.²⁰ Privatization of state-run liquor stores has resulted in significant savings with no adverse impact on social outcomes.²¹ Highways

FIGURE 5.1: THE COST OF AUXILIARY SERVICES


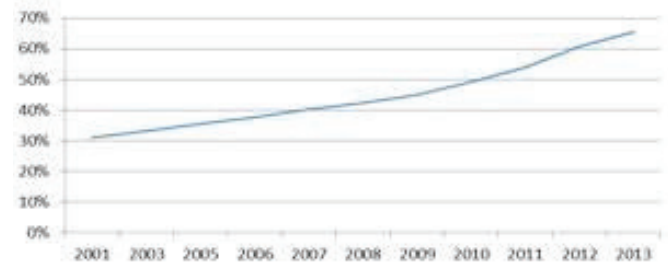
have been successfully privatized.²² Highway rest stops have been privatized, saving taxpayer money and improving services.²³ Social services, including foster care have been successfully contracted out to private agencies.²⁴ Privatization of education itself has shown promising results in improving educational outcomes while drastically reducing costs.²⁵

3 Auxiliary School Service Privatization

K-12 public education is one area of potential privatization where contracting out for auxiliary services offers substantial benefits, both in terms of savings and quality. Cash-strapped administrators across the country can free up time and money by putting the provision of these services up for bid. School district administrators likely entered the profession because they have passion and experience in educating youth. Allowing those administrators to focus exclusively on what they are best and most passionate about doing results in better service.

Auxiliary school services compose a substantial share of public school district expenditures. As **Figure 5.1** illustrates, nationally transportation, maintenance and operations, and food services account for more than one out of every six dollars spent by school districts; these represent federal, state, and local tax dollars directed to education which fail to make it into the classroom.²⁶ As the figure further illustrates, costs for these services in Alabama track the national averages pretty closely with the exception of food services, which are over 60% higher in Alabama (6.4% vs. 3.8% nationally).²⁷

Any available savings in the provision of these auxiliary services can help school districts better achieve their purpose of educating youth. Alabama school districts in total spent nearly \$1.4 billion on these three services, or about \$2,000 per pupil.²⁸ These monies spent on auxiliary services represent substantial

FIGURE 5.2: PERCENTAGE OF MICHIGAN SCHOOL DISTRICTS CONTRACTING FOOD, OPERATIONS OR MAINTENANCE, OR TRANSPORTATION


areas of potential savings for cash-strapped school districts. Spending more than necessary on auxiliary services makes Alabama less competitive with other states.

In the 2011-2012 School Year, over 58% of Alabama students took advantage of free or reduced cost meals, helping explain why Alabama school districts spend over 6% of their budget on food services.²⁹ There are many potential cost-saving benefits that outsourcing food services can offer. If food services were to be contracted out, we could see a decline in the average cost of food per student. This in turn would translate to higher savings. These savings can be substantial for both rural and non-rural school districts. While there are also additional benefits that could come from outsourcing, such as better food quality and better food selection, the primary motive for contracting food services remains the potential savings benefits.

In a 2007 study, the Mackinac Center for Public Policy found that nation-wide, 13.2% of traditional public school districts contracted out for food management services. A 2008 national survey conducted by American School and University, found that 17.7% of school districts across the nation contract out for maintenance and operations services.³⁰ An estimated 30% of school districts across the nation contract out for transportation services.³¹

Michigan has been one of the leading states for privatization of auxiliary school services. The Mackinac Center for Public Policy has closely tracked contracting by Michigan public school districts for over a decade, allowing an analysis of its adoption and changes in reported cost and quality. As **Figure 5.2** shows, the percentage of districts contracting for food, transportation, or janitorial services has more than doubled in the last decade from 31% in 2001 to 65.5% in 2013, resulting in millions of dollars of reported savings and improved service.³²

Figure 5.3 displays the percentage of Michigan districts contracting for each category as of 2013; custodial privatization was the most prevalent, followed by food services, and transportation. Many Michigan school districts contract out multiple auxiliary functions.

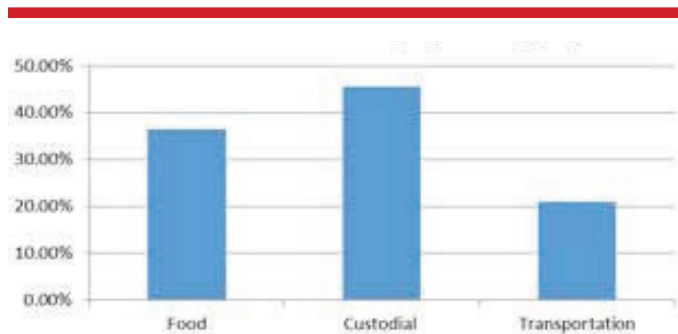
Michigan school districts have consistently reported being very pleased with the results of contracting auxiliary services. As **Figure 5.4** shows, over 92% of districts which contracted out reported being satisfied in 2013, while less than 4% reported being dissatisfied with their service provider.³³

The satisfaction Michigan school districts express with their contracting experience may be enhanced by the millions of dollars of savings. In the 2012 Mackinac Center survey, school districts new to contracting, despite the transition costs, expected to save at least \$12.8 million.³⁴ In fact, in 2012, 85% of new contracting school districts in Michigan reported net savings from privatization.³⁵ For instance, Flushing Community Schools contracted out their food service management and realized a savings of \$50,000 per year.³⁶ Gaylord Community Schools saved \$100,000 the first year contracting out their custodial services and expected to save around \$1 million the next three years.³⁷ Hastings School District realized 16.9% savings on custodial services, providing the district an extra \$118,480 per year to put back into classrooms.³⁸ No new contracting districts in their 2012 survey reported losses from privatization, and many of the districts that reported no savings in the first year were expecting savings in the long run.³⁹

A 2007 Mackinac Center study (co-authored by Dr. Daniel J. Smith) analyzed the savings by school district size. Districts of all sizes in Michigan realized savings from contracting for food, transportation, and janitorial services, with small districts (under 999 pupils) reporting the largest savings.⁴⁰ For instance, Gwinn Area Community schools, a district with roughly 1,500 students, saved \$123 per student by contracting out for custodial services.⁴¹

Savings from privatizing auxiliary services can be funneled back into classroom budgets by school districts. Coldwater Community Schools, a larger Michigan district with over 10,000 students, saved \$104 per student by contracting out for custodial services and used it to purchase new technology for the classroom.⁴² In addition, the Mackinac Center found that Michigan school districts that privatized food, custodial, or transportation services paid higher teacher salaries.⁴³

FIGURE 5.3: PERCENTAGE OF MICHIGAN SCHOOL DISTRICTS CONTRACTING BY CATEGORY



4 Auxiliary School Service Privatization in Alabama Public School Districts

The Johnson Center at Troy University and the Alabama Policy Institute surveyed Alabama Public School Districts to determine the current extent of contracting out for auxiliary services. In addition, districts were asked about their reasons for initiating contracting out and their satisfaction with contracted services. The survey was conducted between March of 2012 and May of 2014.

All 134 Alabama school districts were contacted, 65 of which were city school districts, 67 of which were county school districts, and two of which were non-traditional schools, as listed in **Appendix 5.1**. Initial contact was via email, with several follow up phone calls, and an Alabama Public Records Act request sent via mail on May 20th, 2012. Despite multiple contact attempts and official public records requests, thirteen school districts did not respond. All school districts that reported contracting for food, operations and maintenance, and food services were contacted multiple times by email and phone prior to the release of this study, beginning May 21st, 2014, in order to verify their contracting status. However, there were still a few districts that could not be reached to verify their initial responses.

Following the Mackinac Center's methodology, districts were classified as contracting out if at least one of the three major functions—food, operations and maintenance, and transportation—was contracted out, to some extent, to a private company. Often exploratory contracts will be issued as workers retire, helping a district ease into the contracting process, and we made sure to capture these districts in our survey. We also note, separately, Alabama school districts that contract out for functions outside these primary areas, such as lawn service.

FIGURE 5.4: SATISFACTION WITH CONTRACTING IN MICHIGAN SCHOOL DISTRICTS



Alabama lags significantly behind the nation in privatizing auxiliary services. Only 16% of Alabama school districts (19 of 121 responding districts) contract out, to some degree, food, operations and maintenance, or transportation services. Three districts contracted out for two of these services (Alexander City, Anniston City, and Florence City). Of the Alabama school districts contracting out food, operations and maintenance, and transportation services, 85% (17 school districts) were city school districts, one was a county district (St. Clair County), and one is a non-traditional school district (Alabama Youth Services). These districts ranged in size from 400 students (Alabama Youth Services) to 5,400 (Gadsden City Schools), with an average student population of 2,900.⁴⁴

A total of four Alabama school districts (3% of the 121 responding school districts) reported contracting out for either all or part of their school food services or food management (**Figure 5.5**). This meager total constitutes a slight expansion of food service contracting since the Mackinac Center's 2006-2007 national survey, which found that only one school district contracted out for food service.⁴⁵

FIGURE 5.5

Districts Contracting for Food Services

Alabama Youth Services
 Alexander City
 Anniston City
 Selma City

A total of five school districts (4% of the 121 responding school districts) in Alabama contracted out for some form of transportation services (**Figure 5.6**). If Alabama School Districts experienced the 12% saving rate that the economist Robert McGuire and Norman Van Cott found for school districts in Indiana achieved contracting out for transportation services, it would amount to savings of over \$40 million.⁴⁶

FIGURE 5.6

Districts Contracting for Transportation Services

Anniston City
 Florence City
 Gadsden City
 Jacksonville City
 Tarrant City

The most prevalent area of contracting out in Alabama is operations, custodial, and maintenance services. Most of the districts in **Figure 5.7** only partially outsource these services (e.g., maintenance but not custodial) but several have completely outsourced these services. Thirteen Alabama school districts (nearly 11% of the 121 responding school districts) contracted out for some form of custodial and operations services.

FIGURE 5.7

Districts Contracting for Maintenance & Operations Services

Alexander City
 Andalusia City
 Brewton City
 Dothan City
 Eufaula City
 Florence City
 Haleyville City
 Lanett City
 Leeds City
 Saraland City
 St. Clair County
 Thomasville City
 Tusculumbia City

Fifty one districts (42%) reported contracting out some other auxiliary services, the most popular being lawn care (37 districts) and substitute teachers (eight districts). Other auxiliary services that Alabama school districts reported contracting out

for included floor care, special education transportation, bus maintenance, therapy services (occupational & speech), printing services, and non-staff coaches.

Many contracting school districts elected not to respond to the questions regarding savings and satisfaction. Four of the five districts (80%) responding to the question on savings from contracting reported savings (**Figure 5.8**). However, the one district that did not report savings still reported being satisfied with the overall contracting experience (the district indicated that they contracted out for the expertise of the contractor and that the expenses were approximately the same). All thirteen of the contracting districts who responded to the question regarding satisfaction reported being satisfied with the contracting experience (**Figure 5.8**).

5 Conclusion

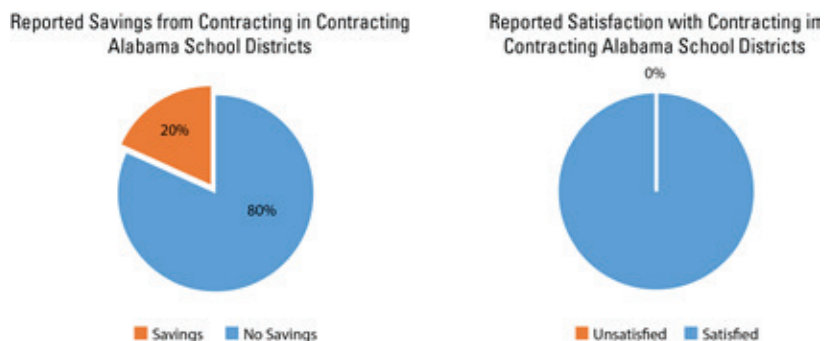
Contracting out for auxiliary services offers an underutilized source of savings for government entities struggling with budget cuts. Even without the pressure of budget cuts, government agencies have a responsibility to explore cost reduction strategies to economize on taxpayers' money. Privatization offers numerous opportunities for savings in Alabama, ranging from golf courses to rest stops. Alabama's K-12 public school districts can benefit from the specialization and economies of scale offered by private contractors for food, operations & maintenance, transportation, and other auxiliary services.

Unfortunately, Alabama public school districts lag behind the nation in contracting out for these auxiliary school services. However, this also means that contracting out for auxiliary services represents an underutilized avenue for savings for Alabama's school districts. Privatization can redirect public money earmarked for education back into the classroom to bolster academic programs and offset recent budget cuts. Contracting can also allow administrators to focus their time and energy more towards educating Alabama youth.

While some Alabama school districts have already forged ahead with competitive contracting and are actively realizing savings and oftentimes superior performance, the majority are behind the curve and failing to take advantage of opportunities that could save Alabama taxpayers millions of dollars. These savings can be reinvested in Alabama's youth by bolstering academic programs and by providing classroom materials. As cash-strapped school districts already know, every dollar counts during these financially difficult times.

Many school districts across the country have already demonstrated how to successfully contract out auxiliary services. Consequently many resources exist for any district looking to consider contracting. While written specifically for Michigan's legal environment, a *School Privatization Primer* by Michael LaFaive offers many lessons and 'rules of thumbs' of the privatization process that would be relevant for Alabama school districts.⁴⁷

FIGURE 5.8



APPENDIX 5.1: ALABAMA SCHOOL DISTRICTS

Albertville City	Cullman City	Jackson County	Phenix City
Alexander City	Cullman County	Jacksonville City	Pickens County
Andalusia City	Dale County	Jasper City	Piedmont City
Anniston City	Daleville City	Jefferson County	Pike County
Arab City	Dallas County	Lamar County	Randolph County
Athens City	Decatur City	Lanett City	Roanoke City
Attalla City	Dekalb County	Lauderdale County	Russell County
Auburn City	Demopolis City	Lawrence County	Russellville City
Autauga County	Dothan City	Lee County	Saraland City
Baldwin County	Elba City	Leeds City	Scottsboro City
Barbour County	Elmore County	Limestone County	Selma City
Bessemer City	Enterprise City	Linden City	Sheffield City
Bibb County	Escambia County	Lowndes County	Shelby County
Birmingham City	Etowah County	Macon County	St Clair County
Blount County	Eufaula City	Madison City	Sumter County
Boaz City	Fairfield City	Madison County	Sylacauga City
Brewton City	Fayette County	Marengo County	Talladega City
Bullock County	Florence City	Marion County	Talladega County
Butler County	Fort Payne City	Marshall County	Tallapoosa County
Calhoun County	Franklin County	Midfield City	Tallassee City
Chambers County	Gadsden City	Mobile County	Tarrant City
Cherokee County	Geneva City	Monroe County	Thomasville City
Chilton County	Geneva County	Montgomery County	Troy City
Choctaw County	Greene County	Morgan County	Trussville City
Clarke County	Guntersville City	Mountain Brook City	Tuscaloosa City
Clay County	Hale County	Muscle Shoals City	Tuscaloosa County
Cleburne County	Haleyville City	Oneonta City	Tuscumbia City
Coffee County	Hartselle City	Opelika City	Vestavia Hills City
Colbert County	Henry County	Opp City	Walker County
Conecuh County	Homewood City	Oxford City	Washington County
Coosa County	Hoover City	Ozark City	Wilcox County
Covington County	Houston County	Pell City	Winfield City
Crenshaw County	Huntsville City	Perry County	Winston County

Notes

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