

## Talking Points on Contracting Out

**Schools play a vital role in the life of a community that includes, but is much broader than, teaching children and improving test scores.**

- In many communities, schools are the largest single employer in the region. If community members are put out of work by an out-of-state or international contractor, or if they suffer a cut in wages or health care, the community at large suffers.

### Critical Considerations in Contracting Out

- **Hidden Costs**  
Virtually all analyses of privatization made by outside companies have found that transaction costs – costs for writing, evaluating, monitoring and staffing and supervising the contract – are ignored in the cost analysis even though these costs often prove the tipping point between perceived cost savings and a loss.
- **Quality Control**  
There are numerous examples of districts finding that the quality of services provided by outside vendors is disappointing- in some cases so poor that health and safety are serious concerns.
- **Personnel Practices**  
Privatization reduces salary and benefits, which leads to high turnover, insufficient screening and training due to the need to fill jobs quickly and continuously without adequate background checks.
- **Quality of Vendor Products**  
Because vendors maximize profit by minimizing expenses, they may cut costs in invisible areas such as cheaper bus brake linings, cheaper more noxious custodial supplies to which children are exposed, etc.
- **Impact on Administrative Time**  
Contracting out requires significant and ongoing administrative work. Even if it is an outside contractor's fault, the district is still liable for any problems. Further, problem solving with a company outside of the state or country can be complex and time consuming.
- **Social Costs**  
**Contracting out can have a significant negative impact on society itself.**  
District-Operated employment provides good, stable jobs for community people looking for part-time work, for those with less formal education, etc.  
*An economic analysis in Oregon found that for every 25 jobs that are contracted out, there is a loss of \$165,000 in wages to local employees, a loss of \$18,000 in state income tax revenues and a loss of \$233,000 in earnings that would have been spent in the local economy.*  
The high turnover that accompanies low salary and benefits leads to low moral, loss of institutional knowledge and lower overall service quality.

**Service providers are increasingly large, multi-service corporations, with central offices far from the school district.** Greater centralization reduces both competition and incentive for high quality. In many cases, vendors hold a *de facto* monopoly. An example is *Sodexo*, the largest food service company in the country. Corporate headquarters are in France. Laidlaw, the largest school bus company is Canadian and its recent acquisition by FirstStudent moves its central office to Great Britain. Chartwells, another food service giant is headquartered in Great Britain. Aramark's main office is in Philadelphia. **Outsourcing to mega-companies takes local resources – taxpayer dollars and local manpower – and generates profits that go elsewhere – in some cases out of the state; in some cases out of the country.** Locally owned business cannot compete with huge conglomerates and are forced out or subsumed.

- **Loss of control and restricted flexibility**  
Outsourced control may impede a district's ability to make quick modifications, e.g., a last minute field trip may be impossible due to outsourced bus service contract. Often when services are contracted out, districts are unable to make quick adjustments in a timely manner without incurring additional costs.
- **Inability to terminate contracts**  
Districts oftentimes cannot get out of contracts without incurring huge costs if they are unhappy with services.

### Other Things to Consider

- Virtually all school districts contract out for some type of services because it is practical and fiscally prudent to do so. What is different now is the shift toward major national or international corporations marketing long-term contracts (as opposed to the local plumbing company being contracted to fix district pipes).
- **The social costs to the community are frequently overlooked in vendor proposals. Saving the schools money is important but not always at the cost of the social health of the community.**
- There is a fundamental clash between the primary mission of schools and for-profit enterprises. Schools exist to enhance the common good through teaching children. Private companies focus on increasing profit. Their incentive is to raise revenues and decrease costs.