

# *Using Contractors to Cook, Clean, and Drive the Bus*

## **Edited transcripts from the Reason Foundation's Making Schools Work conference**

### **Introduction**

From coast to coast, schools are using the powerful tool of competitive contracting to bring excellence and efficiency to every part of the education environment. A 1996 survey by the National School Boards Association found that 62 percent of school board members surveyed said they have considered contracting for school services.

To help school officials better take advantage of this emerging opportunity, the Reason Foundation hosted a conference in November 1995. *Making Schools Work:: Competitive Contracting for School Service* attracted 140 participants from 19 states to Santa Barbara, California for the event. Edited transcripts from some of the most inspirational and informative presenters are printed on the following pages.

*The Making Schools Work* conference provided a forum for education officials to share their experience in contracting for services with their colleagues from other districts and other states. Beyond discussing the successes of competitive contracting, the Making Schools Work conference also took on such nitty-gritty implementation issues as dealing with current employees, costing in-house services, and designing a dependable bidding system. A set of audiotapes of the complete conference are available from the Reason Foundation.

By taking advantage of the competitive efficiencies offered by private providers of services, schools have cut costs and eliminated wasteful spending. And by introducing accountability and expertise into school operations, the private sector has helped improve the quality of instructional and other programs for students.

-Janet R. Beales

Education Studies Program Director

## **Leslie Adelson**

### *Superintendent, South Pasadena Unified School District*

*Appointed Superintendent in 1993, Dr. Adelson has also served as Director of Instructional Services and Assistant Superintendent for the South Pasadena Unified School District. Previously, he served in several administrative posts, which included coordinating services for the gifted, English as a Second Language, and school improvement programs for disadvantaged students. He has been an assistant principal and principal and has taught at elementary and secondary levels in both regular and special education classrooms.*

*Dr. Adelson received his Bachelors degree in Speech Communication in 1970 from California State University, Northridge. His Masters degree in Special Education was awarded in 1979 by the University of Redlands. In 1987, he earned his Doctorate in Educational Management from the University of La Verne.*

Good morning. It's really a pleasure to be here. And being that my name starts with "A," I'm used to going first. Being that my name is Leslie, I'm also used to going for physicals with the girls during P. E. (Laughter) So, there are pros and cons.

This is a very interesting experience for me. I've been in public education my entire career. I'm a product of public education. I support public education. And now we're contracting services. So it's a real interesting change for us. And a real positive one that I want to talk to you about. I'd like to start with how we came to contract out for food services.

We were financially struggling, significantly, in our food services operation. We're not a large district. We're a small district. But food services was costing us significant amounts of money every year. We were running in the red, to the point where our board of education decided that the only services we would provide would be sack lunches as required by federal mandates. We never got to that point.

As a superintendent coming from the education side, I learned a whole lot about stuff I never thought I would deal with before. We

had just passed a bond issue and I was going to be building buildings. We had to get loans for new freezers. Our trucks were breaking. We needed to get better deals on gas—all those things that educators don't usually think about. We were struggling so much that we decided we had to do something. Most of you are aware that food commodities decreased. Negotiated salaries increased. Participation decreased. So we did what you would think. We raised prices. We added new products. We added what we call designer foods: Pizza Hut, Subway, those kinds of things. And we reduced staff, because that's what you do. And when you have very tricky budgets, and in California we've had the privilege of having that challenge for many years, you reduce services the farthest away from the students as you can. And of course, food service was one of those.

After we realized that there was no hope, except possibly to go to a sack lunch program, we put out an RFP [Request for Proposal] for food services. Again, a new experience, never having written an RFP for food services. And I decided, after talking with several companies, to go with Marriott as our consultant. Marriott came onboard and immediately implemented new marketing plans, provided multiple entrees, barbecues, food carts, a new product line, and designer foods. The board approved the contract in mid-

August, much to our consultant's chagrin, and on the first day of school in the first week of September, we had five entrees at the elementary, eleven at the middle school, and eleven at our high school. We have barbecues. We have salad bars.

What has been the result? Our participation has gone up 15.5 percent. Our revenues have netted a 7.5 percent increase. Our operating costs have reduced by 1 percent. And our food costs have reduced by 18.7 percent because of our ability to be part of the Marriott buying power, which is significant. The first year of operations, we went from being in the red to netting an income of \$45,369. For a district with a \$14.5 million budget, that's significant.

The other thing we started doing was charging food services for everything which we were legally allowed to charge for, which we had never done in the past. We charged for gas. We charged for electricity. We charged for indirect costs. We charged for the truck. And we started paying back the loan on the freezer, and doing all those things that we had neglected to do in the past. And we started making money. We also increased staff, because as participation increased, we had a need to hire more staff, which obviously made our employees happy.

Now I've painted kind of a pretty picture. And I would be remiss if I didn't tell you there were some downsides initially. And we still have a few of those struggles that we're dealing with. Certainly when you bring in a "outsider," there's a great deal of fear. What does this mean to me? What is my job security like? What are they going to do if this consultant doesn't like the way I do my job? So it was a little nerve wracking in the beginning to get our employees on board. Also we were asking our employees to work smarter. And that's not to demean the efforts of our employees. But in the past, the type of food services that we were offering, and the kinds of food that we were offering didn't require the same level of expertise as it does when you're offering multiple entrees at various levels and having barbecues and salad bars and the like. So this outside expert was a bit of a problem initially. It wasn't the person, it was the position. We had to do some major relationship building with our staff. We had to let people see that they were actually not in jeopardy. And quite frankly when they saw an increase in personnel and they saw that there were more people to help them to get the job done, we did get some smiles on faces, instead of frowns.

The bottom line for us in contracting out food services is that-utilizing our current employees-we're able to offer high-quality nutritional food services for our students. It benefits the students and the community. It's fiscally sound. Actually it's becoming a new source of revenue for us. And we see that additional revenue, hopefully, filtering back into classrooms to assist instruction. We've done the cost analysis and all the number crunching ourselves. We've had it audited and verified. Needless to say, our board is really pleased about the changes that we've been able to accomplish.

We don't talk a lot about Marriott, necessarily. We talk about our food services program. We are fortunate to have a consultant who is on a contract basis. She does not work for South Pasadena School District. She works for Marriott Corporation, whom we contract with. So it is *our food* services. We cook our own food. We serve our own food. We deal with professionalism that an outside contractor brings to that arena.

**We started making money. As participation increased, we had a need to hire more staff, which obviously made our employees happy.**

Some of you may already contract out for food services. It's pretty phenomenal to see the presentation of the food, the quality of the food, and the appearance of our cafeteria workers. They wear uniforms with pride. They have name tags. They're feeling really good about the fact they're important. They're not these people running around like chickens with their heads cut off. So that has changed significantly too. For us the bottom line is a financial gain and a quality program for kids.

**John E. Murphy**

*Superintendent, Silver Valley Unified School District*

*Mr. Murphy is Superintendent of the Silver Valley Unified School District in Yermo, California. Previously, Mr. Murphy served as Assistant Superintendent of the Lucia Mar Unified School District and La Canada Unified School District. Mr. Murphy has taught chemistry, science and math in addition to serving as Science Department Chair and Principal of La Canada High School.*

*Mr. Murphy is a member of both the San Bernardino County Superintendent's Advisory Board and the Steering Committee of Barstow Community College. In 1992, Mr. Murphy was recognized as the superintendent of the year by ACS, 4 Region 12. Mr. Murphy received his B.S. in Chemistry from Elmhurst College and his M. A. degree in Educational Administration from California State University at Los Angeles.*

Thank you. Good morning. I'd like to take you on a little journey, because I suspect some of you said: Where in the heck is Yermo, California? Ride with me out into the middle of the Mojave Desert, where there is never fog. As a matter of fact, the high temperature the day before yesterday was 87 degrees. Delightful. The greatest claim to fame that we have in my district is the Fort Irwin Base, which is the national training center for the US. Army. In fact, 60 percent of our children are Fort Irwin children.

When I arrived in 1989 as their new superintendent, I walked into chaos. I have to take a moment to comment about food service. One of the first people we hired was a fellow who had owned his own restaurant and had managed a restaurant in Barstow, which is the biggest city in our area. We hired him as our new food-service coordinator. So we did not end up having to contract out. This fellow didn't know any better. He came in and he applied the same concepts that he'd been used to applying in private industry. And today I sit telling you our prices are still the same as they were in 1989. We have not had to raise our prices at all. To boot, we've started a breakfast program. Every one of our schools has a breakfast program, whether you're talking about elementary, middle or high schools. He has tripled our participation in the A Lunch program at a time when our actual enrollment went up by 28 percent. And he has tripled the *a la carte gross*. So there are lots of ways to skin a cat.

That's one notion I hope you get from this conference. What we're really talking about is breaking the inertia, which has been one of the key factors in public education. And I speak from experience. I turned 60 last month. I started my teaching career in 1957. So I've been around to see a lot of things. And it's only been in the last ten years that I've really seen exciting partnerships come into existence between private not-for-profit, private for-profit and public agencies. I think we are very quickly getting over the old bugaboos of feeling that we have to protect our own little domains, or our own little empires. And we're finally focusing on the question: What is best for kids?

Let me go back to this journey out to Silver Valley. What is our district like? You can describe it in lots of ways. Well, it covers 3,200 square miles. That's larger than the states of Delaware and Rhode Island combined. From my district office I can travel out to the Fort Irwin Louis Elementary school and the round trip is 75 miles. Or instead of heading north, I can head southeast and go out to my Newbury Elementary School. And that round trip is 55 miles. So guess what was eating up a lot of our support money?

Our big yellow buses travel about 2,500 miles a day. Now, the district was in contract transportation when I got there. They got into it for all the wrong reasons. A year and a half before I got there they decided they would do away with the district run transportation department because they had an incompetent directing it. That's sometimes a cop out. Rather than deal with proper personnel prac-

With that contractor, we have experienced the finest possible quality record that you could ask for. If you go back and ask folks questions in your own home districts, those of you who are school personnel, I doubt seriously that they'll be able to tell you that in the last two years, plus that portion of this year that has gone by, we have had zero bus accidents. Now, by definition, that's not totally true. Because in California anything that happens to a bus, if there are kids on board, is called a bus accident. The one bus accident we did have, was a case where a running light on the front right corner got clipped off. Well, the driver had parked in against the curb and when she went to pull out, she forgot that the bus was tilting a little bit. As she puffed out, she clipped off the right hand running light. We had to stop, call the CHP, and that was reported as a bus accident. Except for that, zero bus accidents. Zero occasions where busses are late to schools. And last year, for the first time in our history, not a single student lost their privileges to ride the bus for the balance of the school year.

**Because, when you got right down to it, the issue is what's best for kids.**

Now, why does that happen? First of all, the Santa Barbara Transportation (SBT) people are not considered another organization by us. They are invited to our beginning "All District Luncheon" on the first day the teachers come back where we gather together all certificated and classified staff. And automatically that includes S13T. They're there, and as we recognize the different groups, it sort of becomes a cheerleading contest. The S13T groups shout just as loudly as Newbury Elementary School or Silver Valley high school. They have barbecues out in back at times to raise money to fund their bus rodeo competition. We all make sure we go back there and buy the tickets and eat lunch with them. I made the mistake last year of telling them, when Santa Barbara Transportation had their own bus rodeo competition, that if they beat out the longest standing terminal, which is up in Santa Maria in northern Santa Barbara County, [I'd celebrate]. ?

I said: If you come back SBT champs, I will host a barbecue at my house for everyone. They did, and I did, and I've never seen more people in my house at one time. Because it wasn't just the drivers, it was their spouses and their kids. I've also never seen people eat so much per capita. (Laughter)

I think the key to working with contracted services is it has to be established as a partnership. It cannot be viewed by either the school personnel or by the contractor, that you're talking about two separate entities. We do everything we can to include rather than exclude the contractor personnel. As we come up to looking at the issue of contract renewal, because we are in the third year of a five-year contract, there's little doubt that we will do an extension of this contract to the legal limit of five years. And it's going to be interesting to see if any other contractor can come in at the end of the contract and meet this competition.

Because, when you get right down to it-again I have to say it the issue is what's best for kids. How can we provide the best quality service for the fewest bucks so that the dollars we do get can go into paying for teachers' salaries, instructional materials and equipment and those things that are more directly hitting the quality of the classroom experience.

We have had a positive experience, and I would encourage you to consider the same. I have to say that you can't ignore the fact that you go through some kind of hell moving from where you are to this experience. Once you get there though, the payoff is very large. And let me close by sharing with you the analysis we did for our board. Because you remember, I do have a member of the board who was once-upon-a-time a bus driver. This year she is the vice president of the board, not the president. She has become a very positive supporter. We finished our analysis a year ago last spring, and asked: Is it really saving us money? Here was the bottom line: transportation costs just over \$700,000 with the contractor. Here in California,

we are reimbursed by the state for less than 40 percent of that. So the rest of it is an incursion into the General Fund. Had we done it ourselves it would have cost \$1,014,000. A savings of \$300,000 in a budget of \$14 million is a significant savings. Thank you.

## John Edney

*President, National School Transportation and  
Senior Vice President, Durham Transportation*

*Mr. Edney is President of the National School Transportation Association (NSTA) located in Washington, D. C He is also the Senior Vice President of Marketing and Sales for Durham Transportation. In August 1990, Mr. Edney received the Golden Merit Award from the NSTA, which honors school-bus contractors for their excellence exercise safety programs and for demonstration of their outstanding community responsibility. Mr. Edney is an active member of the California Bus Association and served as past president to the California School Bus Contractors Association.*

I have had over 30 years of experience in this industry. And I have watched during that time the mounting complexities. Some of the speakers that preceded me this morning have already spoken of those.

In pupil transportation, we have new requirements for commercial drivers licenses and drug testing. The most recent problem we're dealing with is student management on the bus and maintaining a safe environment. For many years the main charge for school bus transportation was getting kids to and from school safely. Our fear was of an accident where kids would be injured because of some external problem. Now our big fear is protecting them while they're in the bus from one another. So we're all experiencing challenges.

I've also watched the change in your industry, you as educators, and the mounting complexities in all the different services that you try to provide. What we have seen in the past few years is a recognition that it makes sense to outsource the ancillary services, such as food services, maintenance and transportation. And that it allows you to get back to the core charge that you have-and that's educating kids.

Given these complexities, why have we not seen more districts convert to contracted transportation? The industry market share for a long time stayed at about 30 percent. But over the past ten years we have seen an increase. And I think that is because of the recognition that there are better ways to get kids to and from school.

First I'll give you a little state of the industry, and secondly what I perceive are the five biggest questions that people have about transportation. We call those the Frequently Asked Questions. These are the fears that people have about contracting, and the fear of change. School Bus Fleet magazine did a survey recently that came back with some reasons about why districts are contracting. Thirty-eight percent of those districts indicated that they were contracting because they don't own the equipment or don't want to own the equipment and facilities necessary for transportation. Thirty-five percent said they were contracting because it was more cost effective. And ten percent were contracting for better service. These results track with a survey that our California Bus Association did just recently among California school districts. And they track with my own personal experience.

With all these perceived benefits, why haven't we seen more movement toward contracted transportation? I think the fear of change is probably the single biggest obstacle.

I have to tell you a little story about an experience we had in Texas, a district there in a fairly large city. I was talking with that superintendent and his staff about contracting. We had a proposal prepared and submitted and were moving through the evaluation stages. And this particular fellow was an innovator. But he made one error in Texas. He came from South Carolina not understanding the culture. Football is pretty important in the state of Texas. (Laughter) My friend thought that education was also very important. And that probably we ought to spend money on education. And that it might make sense to do away with the football program at the middle schools.

Five days before we are to go to the board and discuss contracted transportation, the administration building was burned down. And my friend left the state of Texas shortly thereafter. So, in that case, change was just too much to handle.

What are the big questions that we hear when we go to a school district and discuss contracting? Well the first one, and the toughest hurdle, is what's going to happen to our drivers? The fear is that the contractor is going to come in and he's going to fire all the district employees and bring people in from some other part of the state or the country. The reality is that we almost in all cases hire all the people who are currently employed by the school district. We ran some studies recently within our organization and found that we were retaining 95 percent the first year.

### The way we're saving money is by being focused on pupil-transportation.

We have one contract in Lubbock, Tex., where today, after close to ten years of serving that district, we still have close to 80 percent of the people still working for us. So the reality is that the people keep their jobs. In most areas the wage rates are very comparable with what they're getting. The hours that they are employed may be different because quite often we find situations where the hourly guarantee provided (the number of hours the district is providing) is more than is required to provide the service. So it is a reduction in hours. The wage rate stays the same.

One of the interesting phenomena of this conversion process is that very frequently a year or so downstream, if you go back to the same drivers that were violently opposed to this conversion and talk to them, they're far happier working in the contractor's organization than they were working for the district. Because in our organizations they are the most important people. They are the ones that get the attention and focus. And in the school district there are other people who do the core responsibilities. So I think the driver issue, while it's the toughest obstacle, works and we've had good success with it.

The second big question is what happens to the fleet? The fear there is: Are you going to take over our fleet? Or over time are you going to own all our buses? Will we have barriers to reentry that we can't get over, and so we'll never be able to get back in the business again? The reality is that our most common process is to use all the district's buses. The district retains ownership of those vehicles. We're doing maintenance and repair and taking care of them. We bring in the new capital that's required and the new equipment over time. But we also provide for a lease or buy-back provision in our contracts. If at any time the district says it wants to go back into transportation, it has a very easy way back into the business. So the fleet issue is one that is easily dealt with in the contract.

The third big question that we get is: Who does the routine. And who is going to handle student discipline? And the fear there is: We're going to lose control if a contractor comes in. And we won't have any ability to direct what's going on in the future. Our experience in the districts that have contracted is that they gain a lot more control through contracting. The district never gives up the authority and the responsibility of setting the routes. The district makes sure that all the areas are served and the right number of stops are provided. AR that is still under the domain of the district. It's just that we're doing all the day-to-day work necessary to make that happen.

Student discipline is handled the same way. We follow the same policies that the district sets up. We have a process that we generally recommend, but we modify that to meet whatever student-discipline policies are

of the district. So, again, while there is fear of loss of control, I think those districts that are contracted will tell you they've gained a lot of control over their destiny in transportation.

The fourth issue I'd like to address is: You've submitted a bid. It looks good. But what's going to happen to us in the future? Are the prices going to go up? The fear there is that contractors low-bid the price for the first year, get in, and then they jack up the prices in the future. And this is a real common challenge that we hear to our industry. The reality is that the contracts are usually three or five years in duration. They have fixed escalator clauses in them that govern how much of an increase can occur during that time period. And at the end of that contract term, there's an option to either renew the agreement with the existing contractor, or rebid. And in the rebidding process the competitive market comes into play again. That's what keeps those prices under control. So there's two ways that you are protected from someone low-balling the price and jacking the rates up. And that is, the contract document itself that won't let that happen during the term of the agreement. And secondly, the very competitive marketplace that exists in our industry that's going to protect you from someone who might use that approach.

The final question that I'd like to address is probably the toughest one. And that is: How can a contractor come into our district and provide the same level of service or better service for less money than we're spending and make a profit? That doesn't make sense. There's something inherently wrong with what you're saying.

And the fear is that we're just using smoke and mirrors, or that we're going to do this on the backs of labor, or we're not going to replace buses, or all the things that you can imagine are the reasons proposed. In some cases, depending on the state, there may be a change in the labor cost. I remember in Silver Valley [California] when they first looked at contracting many years ago, the savings they developed when they started to contract the first year were well over \$500,000 because the drivers were being paid eight hours a day, and the job only required four to six hours a day. So there was a huge savings available to that district when they went into contracting. So in that case that savings did come partly from the labor costs.

But we also have many examples where districts are saving less dramatic numbers, more in the five, ten, fifteen, and twenty percent range, where the drivers who actually come across to the contractor are paid the same wages, get a better benefits package, and have no change in the number of hours that they're working. So the economic effect on the driver is zero in many cases.

The way we're saving money is by being focused on pupil-transportation. In our business, that's the only thing we do. We only operate yellow school busses. We're in no other business. So we've found ways to do things right the first time. And I've often said that you can split this savings issue up into two pieces. One is the management part and the other is the fleet part. How we lease you or provide the buses and the capital you need is on the one side. The management side is merely doing those myriad of things that need to

be done and doing them right the first time, having the backup staff, and the support from all other parts of our organization to make sure that the local manager gets it done properly.

The other half of the savings comes from being able to lease the equipment over a long term. You're usually buying buses with cash outright, or leasing them, or purchasing them with short term notes. Through our pricing mechanism, we give you the full advantage of the life of that bus, which is anywhere from 12 to 15 years. So you're paying only that cost of the bus each year, rather than trying to pay it off in a very rapid payment program.

The final way we save you money, is that we operate in a competitive environment. We have competition within our own company among our various CFCs. And Santa Barbara Transportation I'm sure has the same kind of environment. We're operating within a competitive environment in our industry. We're competing with all the other companies that are doing this business.

**Savings comes from being able to lease the equipment over a long term.**



The transportation director who is running his own program for the school district is operating in a monopoly. I'm not saying that critically. But that's the reality. They have no way to benchmark themselves. They have no way to measure themselves. There's nothing that says they shouldn't get a five or ten or fifteen percent increase in their budget each year. And that's what we see happening frequently, because it is a monopoly versus the competitive environment. And that is the big balance that is missing.

Those are the five key questions that I hear most often and I'd be happy to answer any others you might have when we get to that. Thank you.

**Lowell C. Shira**

## Assistant Superintendent, Flagstaff Unified School District # 1

*Dr. Shira is responsible for facilities management and planning, district-wide staffing, site-based decision-making, and centralized services for the Flagstaff Unified School District #1 in Arizona. Previously, Dr. Shira served as Assistant Superintendent at Los Nietos School Divtrict. Dr. Shira has authored several papers including "Maximizing School District Resources. " In 1976, Dr. Shira received an M.A. in Psychology from the California State University at Northridge. He earned a Ph.D. in Organizational Psychology from Claremont Graduate School in 1992.*

Thank you very much. You've heard two messages over and over this morning. It's really affirming to hear those messages. The number-one message is quality. I'd like to -read a quote from a school board member in Wilkesburg, Pennsylvania. "We and the citizens of this town elected to hire a private firm to run one failing school because we believe these kids deserve the chance at a better education. But the union doesn't see it that way. They think it's all about employment rights.

In my view this is a wonderful statement because it highlights what many of us are looking at: and that is quality. These school board members are looking at: How do we provide a quality education. And others have a lot of fears with attempts for providing that quality education. So quality is the number-one message.

And the number-two message is represented by the dots you see on the screen there. This is a creativity exercise that many of you have probably seen before. And the challenge here is to try and connect those nine dots with four straight lines. You'll find that unless your line goes outside the box, you won't be able to do it. And many people can't do it because of the design of those dots, they just assume that they must remain inside the box at all times. And so, the other message is: in order to provide quality to our schools, sometimes we have to go outside the box of our public focus to provide that quality.

What do our customers want? Our customers want basically four things from us. They want personal integrity, which we do a fair job at. Fiscal accountability, and being a school-business manager for fifteen years, I think we do a good job of that. Quality results. That's the next thing that people have been asking us for. We don't know what that means in many cases. But we're hearing more of a clamor for quality results. And eventually there will be a clamor for value-and that's quality at an affordable price.

As we talk about quality, there are three things that we need to look at. Number one: Who defines quality? That's the first prerequisite to getting quality results. Number Two is how is quality defined and measured? That's our second prerequisite. And then finally you can get to: How do we get quality results? By getting outside the box. But until you can answer those first two, I honestly don't think you have any business going onto the third one.

Who defines quality? And this is where the fear starts setting in. First, you start with who does not define quality? It's not the superintendent or the school board. They don't define quality. It's not the assistant superintendent of business. That person doesn't define quality maintenance and custodial services. It's not the maintenance or custodial departments. They don't define quality. And it's not an outside consultant. They don't define quality either. And that's where you start getting the fears. Because all these other people have thought they wanted to define quality. They wanted the control.

But who does define quality? The customers define quality. They are the ultimate determinants of what is quality. And that's one of the big keys to the choice program. In Arizona, we have a very successful charter-schools program. And the whole idea is that customers-the parents-are given the opportunity to define quality. And they do that by choosing what schools they go to. They may be wrong in certain cases. And they may be right in certain cases. But they ultimately define quality.

That's also the case of the Malcolm Baldrige National Quality Award. The top criteria in their whole award process is what customers say about the quality of the products.

Here we have a definition of quality. And this is a definition that you need to think about and tear it apart. Really see if this fits your organization in terms of how quality is defined. "Quality is performance that is relevant to your customers. " And the big key word there is "customer. " It's not providing services that are relevant to one school-board member or another, or to a group of teachers on one side of the community or a group of parents on one side of the community trying to force some kind of service on parents throughout the entire community. It's performance that's relevant to the *specific customers* you're dealing with for that service.

Next, you go on to define what are some of the attributes that people are looking at for quality. How do your customers rate the relative importance of those attributes? And then how well do you perform against those different kinds of performance attributes? There are many ways of defining quality. In Flagstaff, for example, our major way to find out whether or not our contracted maintenance and custodial service is providing quality services to our customers, the schools, is to find out from the schools what attributes are important to them. And then we look at how we're performing on those attributes. That feedback goes to our maintenance and custodial groups. And they realign their services based on that feedback from their customers.

We also have a number of other performance indicators, in terms of work order production and work order lag times. But those performance indicators are mainly geared toward improving customer satisfaction. Because that's the number-one measure of quality.

You know, the job of my maintenance people is not to satisfy me, the assistant superintendent, or to satisfy the school board. The job of our maintenance department is to satisfy our customers. I may think that plumbing work orders are the most important thing. And so I would try to influence them to put all their money into plumbing resources. But if our customers say: You know, plumbing work orders are not really important to us. What's really important to us is computer and audio-visual repair. Then my priorities take a back seat and my customers' priorities take a front seat. That's very unusual for public education. Most of you here are, I presume, from public education. And it's just something that's a whole different kind of focus. I think the charter-school concept and many things like that are starting to awaken many of us to see that maybe customers are relevant. And so that's kind of an exciting thing.

**To get quality results, you need to set priorities based on the customer's value.**

Here's an example of how you can look at your performance. If your performance averages 7.2, well that's a C, it's not too bad. But if you look at the quality, the quality is an F. And we grade our services on an A to F basis. And so you need to look at importance as well as performance to really determine quality. And that gets back to that definition. "Quality is performance that is relevant to your customers. "

Okay, how do we get quality results? To get quality results, you have to go outside the box. That's what Flagstaff Public Schools has done in terms of its maintenance and custodial services. We also contract out for our food services as well. That's because quality is important for us, and whether we do it inside or outside is not an issue. It's not an issue of public versus private. It's how do we get the best quality? And ultimately, how do we get the best value? Value being quality at an affordable price. To get quality results, you need to set priorities based on the customer's value. Our survey is one way. We have customer-focus groups that come in to us on a regular basis. And we go out and talk to customer groups on a regular basis. There's lots of ways of getting customer feedback.

Set a specific time line and target for performance. If measurable success does not occur for you, then do something different. Go outside the box. That's our key to getting quality results.

I was a school business manager in California for over ten years before moving to Arizona. So I know your financial problems here. And believe me, ours are just as severe in Arizona, even though the state's fiscal health is very good. We have a governor that would prefer to give money in tax breaks rather than to public education. So public schools over the last four years there have gotten about five-percent less. We now have five-percent less than we did five years ago. So times are tough there too in terms of public education, and that means prioritizing.

## **Regardless whether you contract out or not, if you don't focus on quality and insist on it, you'll fail, if that's not your focus.**

A lot of people say: Well, -if we get less money, then we're going to do less and we're gonna be worse. We've all heard all that. The key here is how can you spend less money and increase quality. Well the way you do that is by focusing on those services that your customers think are relevant. Because we do an awful lot that is totally irrelevant to our customers. We're finding that out in some of the parent group surveys that we're doing right now. It's really kind of startling.

So how do we go about setting priorities'? We take those things that are of high importance but low performance. And those are areas we're going to increase. If we're doing a lot of things in low importance areas, we're going to start eliminating those things, because those are less relevant to our customers. And then we're going to maintain high performance, high importance areas.

There are two reasons for going private sector. One is quality, that we've been talking about. But the other is that many times the private sector

can increase value to your customers. Value being quality at an affordable price. Quality at a reduced price is the key together. Even though we're in very tough financial times, we don't look at price as a sole indicator. I can go through any school district and save them money, easily. Just go through and cut out one custodian per building. Boom, you've saved money. Have you increased quality? Maybe not. Maybe you've severely limited quality. Maybe there are other places where you can cut in order to reduce costs but maintain or increase quality. But just reducing costs is not a criterion in itself.

Our experience has been to increase both our quality and value. Our contracting has been with ServiceMaster, which is an international organization providing maintenance and custodial services to public education K-12, colleges, universities, and hospitals. I believe they also provide this kind of service for General Motors plants. It's a very large organization, but it's a very customer-oriented organization.

They've been with us in Flagstaff for seven years now. We just renewed their contract a year and a half ago. Their renewal was based on a very complex and rigorous bidding process. And they won it again.

Our experience with Service Master is that they are an organization that understands the concept of customer satisfaction: quality and value. Understanding that customers are important is one of the things that we in the public sector have more problems with. It's not the bureaucrats up the chain like me who are important. It's the customers who are important. We're trained differently in the public sector oftentimes. And one thing that Service Master brings to us is a real focus on the customer. So that's been very helpful.

Number two is commitment to quality and measuring results. It's very important if you're interested in quality that you measure results. And if you're not measuring results, that means you're not interested in quality. You can't just say: I'm interested in quality, I believe in quality. But if you're not measuring it, your bottom line is you aren't interested in quality. If you are interested in quality, then you have to start measuring it, just like you measure your financial statements. You measure how well you're doing with your accounting department. You need the same kind of effort in measuring quality.

Next, [Service Master brings] creativity and flexibility and innovation to do whatever it takes to produce quality results. It brought a very strong focus to the district with great knowledge, information and outside resources to help solve special problems.

Being in the school business for fifteen years, I've never seen this before-an actual preventive maintenance system that works. That's something we used to dream about. They have one that actually works. It's just amazing.

There are cautions and fears about contracting on both sides of the issue. One [belief] is that bureaucrats are, by definition, ignorant sloths, therefore, any privatization will improve performance and produce tax cuts. That side says: Education is not working. We've got to do anything. But you might throw out the baby with the bath water. That's not a focus on quality

And the other I believe is: It won't work here and I don't want to do anything different. That's the other side. Privatization may be your answer. Or a better focus of your own public employees may be your answer. It just depends on what best fits your organization.

Finally, you'll get the fears once you do start contracting. And this is an actual quote, I just couldn't believe this: "I thought that once we contracted this out, all of our problems would disappear and we wouldn't have to work hard anymore." Other speakers here have talked about the intense partnership between the employer, the public school district and the contractor. And we have a very intense partnership with our ServiceMaster people. And they're like our family and we're like their family. And if you have a standoffish relationship, I don't think it can possibly work. Ours is just about as close as you can get it. In my own personal opinion, regardless whether you contract out or not, if you don't focus on quality and insist on it, you'll fail, if that's not your focus.

And then lastly, what happens if your organization does not have the will to produce quality results? If you measure it, give them time, set targets and they don't measure up to quality improvements, then there are organizations that do have the will to provide the type of quality you want.

And that's not just limited to ServiceMaster. There are other companies in the same business. Be careful. Keep your eyes open. There's an outstanding publication by the Reason Foundation leading you through the steps in contracting out for support services. If you go through that system, I truly believe you'll end up with someone who actually has the will to provide the quality service for you. Thank you.

**Gail Ostler**

## **Consultant**

*Ms. Ostler is a certified public accountant with 19 years of financial management experience providing services primarily to governmental, public school, and nonprofit clients in the areas of business process engineering, project management, and financial management. Ms. Ostler served as the Controller of Milwaukee County for six years and the Finance Director of the Milwaukee Public Schools for two years. In these roles, she has managed auditing, budgeting, accounts payable, payroll and data processing functions.*

*Ms. Ostler has conducted presentations on budgeting, reengineering and contracting on behalf of the Public Policy Forum and the American Association of Educators in Private Practice (AAEPP). Ms. Ostler authored "How to Buy -Services: What Do Administrators Need to Know About Outsourcing ? " Ms. Ostler earned a B. S. in Public Accounting from St. Cloud State University.*

I have been involved in the RFP [Request for Proposal] process responding to, developing or managing the RFP-for all of my 19-year career. We've heard of many success stories the past several days, and we've heard many of the problems that people have encountered. Anyone who has been involved with contracting out significant portions of a function or of an organization knows that it ain't easy. The Peter Principle definitely comes into effect here. That is, What Can Go Wrong Will Go Wrong. The lesson that I've learned over the years is that the better prepared you are, the more homework you do up front, the better chance you have that your venture will be a success.

I originally came to this conference wanting to talk about four areas: assessing the feasibility, developing the Request for Proposal, maximizing competition, and evaluating the choices. Well, that's about two hours of information if I want to do a good thorough job for you and I can cram it all in and try to talk real fast or focus on one area. And what I've decided to do after listening to the speakers and after talking to some of the participants, is to focus

on one area, and that is assessing the feasibility Because if you really do the up-front planning, the rest of the RFP kind of falls into place, and it really provides you a good foundation for making decisions.

A feasibility study with well-developed information provides a solid basis for decision making. As we all know in public schools, the decision to contract goes hand-in-hand with emotionalism and politics, especially when it comes to contracting for educational services. The decision to contract is disruptive. It's disruptive to the school board. It's disruptive to the administration. And it's disruptive to your employees. It affects employee's working lives and it affects their personal lives. Change is very threatening. Contracting is very threatening. You get to the point that the only thing that works well is the rumor mill and the jockeying for position that takes place.

If you do a good feasibility study, you need to answer seven questions. Question Number One: Why is a function or activity being considered? You need to be able to clearly define what is driving you to look at other ways of doing business. What is it about your current environment? What kind of problems are you having? Do your meals not meet nutritional standards? Do you have tax levy problems and you need to save money? Are your children not safe on your school buses? Defining the problem and the magnitude of the problem will allow you to put into perspective what it is you hope to achieve and what it is you want to solve by contracting.

And it will help you answer Question Number Two: What specifically are the measurable goals and objectives to be achieved through contracting? What do you want to achieve? Your objectives should be quantifiable and they should be measurable. For example: How much money do I want to save? What are the test scores that I hope to achieve? How many hours of service do I need? How safe do I want my students on those buses?

In my consulting practice I've spent the last two years working with public and private organizations doing a lot of reengineering. And I was really heartened to hear the remarks by Lowell Shira. He talked about thinking outside the box. He talked about quality and measuring quality. He talked about defining quality in terms of your customer base. These are all extremely important concepts when it comes to developing your measurable goals and objectives. The development of these objectives is going to follow you all the way through the process. You're going to use those in your RFP to help the vendors who potentially may bid decide what it is that you want to decide through the process. They're going to be used to help you evaluate those vendors to see which one of those vendors will best help you meet those goals and objectives. And you're going to be able to use those to actually evaluate vendor performance once the contract is implemented.

Question Number Three: Is there competition in the market or are there a limited number that can provide this service? Is there one vendor or twenty vendors? It may make a difference in how you approach that contracting relationship. The less vendors that you have in the marketplace, the more risk that you have. And that doesn't mean that you should not contract, but you should go into the contracting relationship with your eyes wide open. I have seen organizations that have been left holding the bag with a sole source vendor that has gone bankrupt in the middle of a contract. I have seen organizations that have literally been held hostage by vendors. It happens infrequently, but it does happen. And make sure you're aware of that.

Question Number Four: What are the costs of performing the function internally, both one time and operating, associated with contracting?

Cost is one area-and I'm not saying this just because I'm a CPA-that can get you into big trouble. Nothing upsets the taxpayers more to find out that you have underestimated or overestimated your costs or you have major cost overruns. While costs should not be the sole criteria for your decision, it certainly should be an important consideration.

**The lesson that I've learned over the years is that the better prepared you are, the more homework you do up front, the better chance you have that your venture will be a success.**

Now I know that I'm not going to make cost accountants out of you in the next couple of minutes. And I'm sure you're real glad about that as well. But I would like to give you some areas where I see mistakes made on a regular basis when it comes to cost calculation. Current operations. Your nutrition director comes to you and says: I can produce meals here for 85 cents a meal. Wow, that's really great. But, wait a minute. What are the payroll costs associated with those six hundred employees? Is that included in that 85 cents per meal? And what about that liability insurance we pay for those nutritional programs? Is that included in that 85 cents? And what about those electricity costs? Aren't those charged to the school and not to the nutritional program? You need to include all of the costs of an operation, not just those that are directly charged.

Other costs to be aware of are the costs related to transition. There are costs associated with transition, and you need to be aware of them. If you've got a significant portion of your workforce that's close to retirement, they might say: Hey, I'm not interested in making this change at this time in my life and they may decide to take retirement benefits. What is going to be the cost to your district if a significant number of employees choose to opt for pension benefits? What about severance benefits? Do any of your contracts call for severance benefits? Are any of you self-funded for unemployment compensation?

What's going to happen to those costs? Transition costs are very important.

And the third cost you need to be aware of are ongoing district costs related to contracting. Are you going to have some contract monitoring? It isn't free. You've got to include those costs. In my experience, at least in Wisconsin, school finances are convoluted and they are confusing. If you're not an accountant, and

you're not an accountant who's familiar with organizational issues or have not been involved in contracting before, it's going to be very easy to forget costs. My recommendation is to go to your financial auditor and say: Does this calculation look good to you?

**So, if you do a good assessment, some good up front planning, all the other components of contracting will fall into place.**

Question Number Five: Are there any laws or labor agreements that limit or prohibit the authority to contract for this function? If the laws haven't been changed or prohibit you, you might just want to put your time table out a couple of years and spend the first two years working on legislative changes. That doesn't mean you can't contract eventually. But it may mean you want to change your approach.

Question Number Six: If contracting is to be pursued, what are the specific actions that need to be taken, and by when do they need to be accomplished to assure a successful transition? Lay out a realistic implementation plan. And what I mean by this is list out all the activities that need to be accomplished and when they can be accomplished. This plan will allow you to begin to understand the level of commitment and the staff resources that you're going to need to make this transition happen. I would caution you, however, if you have never been involved in a major contracting function before, and you're not used to putting together implementation plans, your tendency will be to overestimate what you can achieve in a given amount of time. And don't forget to add into that implementation time the time you need to educate your school board, to educate your community and to educate your staff.

And the Seventh question is: What support can I realistically expect from the school board and from the community? In Wilkinsburg, if the school board had not hung together these past couple of years, contracting would have been a dead issue. What is the realistic support that you're going to achieve from your school board and community? That shouldn't stop your enthusiasm for contracting. But what it may mean is you're going to have to spend a lot more time educating your community. And you build that into your implementation plan.

How do you find the answers to those questions? Well, you can always hire a consultant, but I don't think that's necessary in all cases. I think that there are lots of places that you can go for information. And one of the things you're doing today, you're attending this conference. You're building your network. You're building those people that you can call when you get back to wherever it is you come from and say: You contracted for transportation services; can I have a copy of your RFP? In my business, when I don't know about an area, I get on the phone. Networking is very effective.

The other thing I want to talk briefly about is developing a Request for Information. A Request for Information is a non-binding formal way to get information from your vendors. If you've got an idea, but you're not really sure what the interest is out there, it's a good way of soliciting information from your vendors. You can ask for price estimates. It is not binding. But it is a good way of getting information.

Now, once you have completed the feasibility study, you have a good basis for not just making the decision to contract, but you also have a good basis for developing your RFP. And the Reason Foundation How-To guides are very good ways to find out what should be in an RFP. So, if you do a good assessment, some good up front planning, all the other components of contracting will fall into place. It won't be easy, mind you, but it will be easier. And hopefully it will bring some sanity into a process that is fraught with emotionalism. Good luck.

