All Costs Considered:

A NEW Analysis on the Contracting Out of School Support Services in Oregon

Gordon Lafer, PhD
Bob Bussel, PhD

Labor Education and Research Center
University of Oregon

February 2008
Acknowledgements

The authors wish to thank the Oregon School Employees Association for providing financial assistance for this report.

The authors also wish to acknowledge the assistance of University of Oregon graduate teaching fellows Lara Skinner and Jey Strangfeld in conducting the research for this report and Sherri Marineau for helping to format the final version of the document.

The willingness of school officials, state of Oregon personnel, and community members in Lincoln County to share their knowledge with us is very much appreciated. We are also grateful to workers in Lincoln County who agreed to participate in our surveys and all others who responded to our requests for information and assistance.
Table of Contents

Executive Summary .......................... 9

Introduction and Trends .................... 15

The Social Costs ............................ 19

Student Transportation I .................... 29

Student Transportation II ................... 33

Custodial Services .......................... 41

Food Service ................................. 51

Due Diligence in Action ..................... 55

Conclusion .................................. 61

Appendix: Sources .......................... 63
following a sharp acceleration in the contracting out of school support services throughout Oregon in recent years, the Labor Education and Research Center (LERC) at the University of Oregon conducted a study of this practice that was released in June 2004. The study raised questions about the quality of service provided by contractors and the social and economic costs to workers and communities when school support services, most notably transportation, custodial, and food services, are placed under private management. It also found that the cost savings for school districts promised by private contractors often did not fully materialize. This follow-up study reviews some of the issues we first examined in 2004. We have focused especially on three of the five school districts that contracted services in the previous year: Lincoln County, Lake Oswego, and Rainier. Since nearly three years have elapsed since these districts shifted management and administration of school support services to private contractors, we now have a longer time period available in which to assess their performance. We have also conducted a follow-up survey of workers in Lincoln County in an effort to assess the longer-term personal and social impact of privatization.

Here are our principal findings:

1. Tallying the Social Costs: Quality of Life for Workers and Communities Adversely Affected By Contracting Out

In assessing the social costs of contracting out, we interviewed workers in Lincoln County, a district that contracted out food, transportation, and custodial services in 2003. We spoke to nearly one-third of the over 100 workers whose jobs were contracted out, questioning them about their work experience and current standard of living. We discovered numerous examples where contracting out had adversely affected workers and, by implication, the communities where they reside. Among the effects we found were the following:

**Employee Displacement**

Over half of the workers we surveyed in Lincoln County chose employment with private contractors. Of those who decided
against working for the contractors, 20 percent opted to retire, 17 percent found new jobs, and the remainder have either become self-employed or been unable to find permanent employment. Most former school district employees who found new jobs suffered pay losses ranging from $1.00 to $1.84 per hour.

New Hires Suffer Wage Losses

Workers who elected to remain with the private contractors had their previous school district wage maintained. However, new hires in transportation and custodial service receive less pay than they would have gotten with the school district in 2003 (3.5 and 10 percent respectively), while an entry-level food service worker’s pay is the same as it was previously.

Inadequate Health Insurance

Workers employed by the private contractors pay much higher premiums and deductibles for health insurance than they paid previously with the school district. For example, a family of three using Mid Columbia’s health insurance plan would pay $3,000 in annual deductibles. An employee and his/her spouse would pay $6,224 in annual premiums. These kinds of payments move many workers into the ranks of what experts call the “underinsured,” defined as those who have insurance coverage but still face substantial out-of-pocket payments for their health care.

Substandard Pensions

In place of defined benefit pension plans, contractors offer defined contribution 401(k) plans. These plans do not require employers to match contributions made by employees. The maximum matches that Sodexho and Mid Columbia provide are far inferior to the pension contributions previously made under the aegis of the school district. Reflecting concerns over these plans, only half of the workers we surveyed who are working for the contractors in Lincoln County have chosen to contribute to their 401(k)s.

Lower Morale

Although some workers expressed satisfaction with working conditions under the contractors, many cited a loss in morale and spirit. The primary source of these concerns was the higher costs that workers are now paying for health care and the sharply reduced retirement benefits available to them under the contractors. These concerns are reflected in our calculation of the annual wage and benefit loss that an entry-level bus driver would experience as compared with what he/she would have received as a school district employee. We calculate this loss to be nearly $6,800.

Community Consequences

In addition to the personal impact of contracting out, there is a broader social impact. Workers who earn lower wages contribute less to the local economy as both consumers and taxpayers. The implications of reduced health care and retirement benefits suggest additional social costs that not only affect the lives of the workers involved but also influence the quality of life in their communities. As the second largest employer in Lincoln County, the school district is a pacesetter as far as wages, benefits, and living standards. In an area that is struggling to create family wage jobs and raise incomes that have consistently
failed to keep pace with state and national averages, Lincoln County’s decision to contract out carries a host of unintended consequences and imposes a series of social costs with longer-term implications.

II. Sale of School Bus Fleets to Private Contractors Yields Questionable Benefits for School Districts and Taxpayers

Dramatic and Questionable Increase in Bus Purchasing Under Contractors and Sales of Bus Fleets at Discounted Prices

Both the Lake Oswego and Rainier school districts sold their entire bus fleets to private contractors within the past two years. In both districts, older buses that had passed state inspections and remained reliable means of pupil transportation appear to have been sold to private contractors at sharply reduced prices that do not reflect their true value to the district. These buses are then being replaced by an accelerated purchase of new busses that become the private property of the contractors, not the districts. Although these new bus purchases serve the interests of contractors, they may constitute an unnecessary expense and arguably do not represent the best interests of school districts, taxpayers, and communities. At a time when districts are struggling to conserve scarce resources, purchasing unneeded buses may represent a significant diversion of school finances.

Questionable Use of Public Funds to Buy Buses On Behalf of Private, For-Profit Companies

In both Rainier and Lake Oswego, the costs for new buses purchased by contractors are apparently being factored into mileage and hourly charges that the school districts pay for transportation service. These charges are then being submitted to the state for reimbursement. However, state regulations only permit reimbursement to school districts for bus replacement costs when districts themselves own their fleets. Therefore, by folding capital expenses into operating budgets, it appears as if Rainier and Lake Oswego may be evading the intent of state regulations and are relying on taxpayers to subsidize private contractors’ purchase of new buses.

Questionable Use of Bus Replacement Reserve Funds as General Fund Revenue

Under Oregon Department of Education policy, the state compensates school districts for 70 percent of the cost of new bus purchases. Districts receive reimbursement over a ten-year period, and this money is deposited in a bus replacement fund designated for this purpose.

In both Rainier and Lake Oswego, after fleets were sold to private contractors, the school districts absorbed their remaining bus replacement funds into their general budgets. Although this procedure is permissible under state regulations, it may warrant further examination as to whether it constitutes sound public policy.

Questionable Financial Arrangement in Lake Oswego at Expense of Taxpayers

Lake Oswego’s contract with Laidlaw Transit provided that the company pay the school district $1 million for purchase of a bus fleet whose value was appraised at $650,000. In effect, this arrangement resulted in Laidlaw loaning the district $350,000 (an amount that grew to $400,000 with interest) that was to be paid back in contract fees over a five-year period. This loan, which did
not cover any specific service, was then submitted to the state for reimbursement as “transportation services.” As a result, Oregon taxpayers assumed 70 percent of this burden, or $280,000 in costs for repayment of this loan. This transaction is of questionable propriety and, if found inappropriate, would result in less savings for the school district under its contract with Laidlaw.

Our research suggests that the sale of bus fleets by school districts to private contractors raises important ethical and legal questions that warrant further examination. Bus fleet sales also appear to contain hidden costs that diminish the financial benefits of contracting out and limit the ability of school districts to bargain effectively with their contractors.

III. Quality of Service Problems Emerge in Lincoln County and Rainier

Our research did find several instances of concern related to the quality of service provided by private contractors. These concerns include the following:

- Lincoln County and Rainier both terminated their custodial contracts due to persistent complaints about the quality of service. The fact that both of these terminations involved custodial services suggest that private firms may have particular difficulty meeting the complex, multiple demands associated with this occupation.

- In 2004, Lincoln County replaced SBM Cleaning Services with Sodexho as its custodial services provider. Sodexho has reported a 25 percent turnover rate among its personnel, a rate much higher than that under school district management, and several complaints have surfaced regarding the quality and consistency of service. Our Lincoln County interviewees also reported problems with cleaning materials and equipment used by the company that have affected the quality of service.

- There have been complaints from teaching staff in Lincoln County about the quality of Sodexho’s breakfast program. Specific concerns have been raised about the protein and caloric content of the breakfasts served by the company, and it has been suggested that the need to generate revenue may mean that the interests of children are being shortchanged.

IV. Projected Savings Have Not Fully Materialized or Have Been Overestimated

- Sodexho’s food service operation promised a “guaranteed return” of savings to the Lincoln County School District. These savings, however, did not materialize from operational efficiencies as predicted and instead had to be subsidized by Sodexho. As a result, Sodexho has negotiated lower rates of “guaranteed return” to the district in each subsequent year of its food service contract.

- Projected savings from contracting out custodial services in Lincoln County seem to be inflated. The district appears to have overestimated what it would have cost to keep custodial operations in-house, projected higher future costs than past budget allocations indicate, and failed to account for costs that the private contractor should have assumed but instead have been shouldered by the school district.
Under private contractors, the purchase of new buses has increased sharply and, in our view, unnecessarily. Savings attributed to contracting out transportation services in Rainier and Lake Oswego at least partially result from these districts passing the cost of these accelerated new bus purchases on to the state for reimbursement. These “savings,” however, result more from state subsidy rather than contractor efficiency and shift costs to Oregon taxpayers who assume responsibility for financing this arrangement. And as we found in Lake Oswego, if the “savings” due to the state subsidies for new bus purchases were not included in the districts’ cost/benefit analysis, the cost savings of privatizing transportation services would substantially decrease.

V. Oversight and Monitoring of Contractor Performance Found Lacking

After school support services have been contracted out, school districts still need to monitor contractor performance and provide school boards and the public with sufficient information to evaluate the quality of the services they are receiving. However, most of the districts we studied receive no regular written evaluations or reports on contractor performance. The Rainier School District was a notable exception in this regard. Without written reports and systematic evaluation procedures, we are concerned that school boards and the public are not receiving the information necessary to assess the performance of contractors and make informed judgments about its quality and cost-effectiveness.

Also, the amount of time that already busy school administrators can devote to oversight of contractors appears to be limited. For example, in Lincoln County, a district that has shifted transportation, food, and custodial services to private contractors, the business manager is now responsible for overseeing work that had previously been distributed among five full-time managers. We also see the need for school districts to allocate more time for administrative oversight and rigorous monitoring in order to ensure that contractors are meeting their obligations.

This new analysis of contracting out of school support services confirms many of the concerns we expressed in our initial study. Whether the issue be social cost, the calculation of savings, contractor performance, or school district oversight, our research underscores the continuing need for school boards, school districts, and the public to insist on careful scrutiny and exercise due diligence in assessing the claims of private contractors and the quality of their performance.
Although school districts in Oregon have had a long history of employing private contractors to provide school support services, many of them began to consider expanding this practice several years ago when an economic slump and declining state funding led to budgetary shortfalls in numerous localities. In 2003, these pressures resulted in five Oregon school districts opting to contract out support services. Contracting out attracted the most attention in the Lincoln County School District, whose decision to shift control of managing food, transportation, and custodial services to private companies aroused considerable controversy and brought the issue of privatization to state and even national attention.

This follow-up study reviews some of the issues we first examined in 2004. We have focused especially on three of the five school districts that contracted out services in the previous year: Lincoln County, Lake Oswego, and Rainier. Several years have elapsed since these districts shifted management and administration of school support services to private contractors, we now have a longer time period available in which to assess their performance. We have also conducted a follow-up survey of workers in Lincoln County, a district that contracted out three school support services in 2003, in an effort to assess the longer-term personal and social impact of privatization.

Since our previous study, several trends seem clear. After several years when contracting out was increasing in Oregon, the impetus to privatize support services appears to have slowed considerably.

According to data provided by state agencies, the number of school districts in Oregon that have contracted out transportation and food services remains virtually unchanged since 2003. Currently, a total of 72 school districts or 36 percent of the state’s 198 public school districts contract out for pupil transportation services as compared with 35 percent in 2004. The three major private contractors that dominate private pupil transportation services, Laidlaw, Mid Columbia, and First Student, have increased...
their market share from 84 percent in 2004 to 89 percent in 2006. In food services, 15 percent of Oregon’s school districts (a total of 30) contract with private companies, with exactly half of these districts contracting for managerial services and the other half relying on the contractors to provide both management and staffing. This figure is 1 percent less than it was in 2004. Only two food services companies, Sodexho and Chartwells (a subsidiary of the Compass Group), have contracts with Oregon’s school districts. Sodexho is by far the dominant provider with 22 districts under contract as opposed to Chartwells’ eight. These figures confirm that large companies, often multinational in scope, continue to dominate private entities that provide transportation and food services. Therefore, school districts that do decide to solicit bids from private contractors are likely to find a limited number of providers willing to submit proposals.1

Precise figures on custodial contracting out are not available; the last statistics we have are from a 2002 Oregon School Boards Association survey that found 8 percent of Oregon school districts using private contractors. Several districts have considered contracting out custodial services over the last two years, but we see no evidence of private contractors making substantial inroads in this area. Although Oregon school districts certainly remain under budgetary pressure, they do not seem to be pursuing contracting out with the aggressiveness that was evident several years earlier.

To be sure, a host of Oregon school districts have seriously considered issuing Request for Proposals (RFPs) and soliciting bids from private contractors. In 2006, the Hillsboro School District contracted its custodial services to SBM Cleaning Services after protracted negotiations with its union. This was perhaps the highest profile case of contracting out in the last three years. What has been happening with increasing frequency, however, is districts have backed away from entering the RFP process and sought alternatives to contracting out.

For example, in the spring of 2006, the Astoria School District expressed interest in exploring the possibility of contracting out its transportation services. Upon deliberation, the school board decided not to issue an RFP and instead opted to join OSEA in a “comprehensive study” of how it might make its transportation operations more efficient and effective. Similarly, the Albany School District examined the possibility of soliciting bids from private contractors for school support services in 2005. Before doing so, however, the school board asked the school district to study comparable districts and evaluate their experience with contracting out. After conducting an intensive review of the experience of 28 other districts, Albany decided to keep its services in-house and look instead to a “joint labor-management approach that seeks to develop strategies to insure the quality, efficiency, and cost-effectiveness of our school support services.”2

Albany’s stance appears to reflect a greater sense of caution on the part of Oregon school districts, who over the last two years have seemed increasingly reluctant to launch an RFP process and more willing to explore alternative approaches to improve the quality and efficiency of school support services. For example, within the past year, both the Albany and Astoria School Districts have chosen to use a joint labor-management approach with those goals.
in mind. These efforts bear watching for they may provide creative, innovative ideas that can address the needs of both school districts and support staff and spare communities the divisiveness that often accompanies the decision to contract out. Also, the Oregon School Employees Association has waged vigorous public education campaigns in a number of school districts, and these efforts have had some effect in persuading districts to explore alternatives to contracting out support services.

The prospects for K-12 funding in Oregon appear brighter than in previous years, buoyed by a rebounding economy, increased state revenues, and an emerging political consensus that secondary education deserves enhanced support. However, regardless of funding decisions made during the 2007-09 legislative session, Oregon school districts will continue to face budgetary pressures, and school support services will doubtless receive ongoing scrutiny. We offer this new analysis of contracting out with two aims in mind: to provide school boards and the public with information that will help them in assessing the claims of contractors seeking to manage support services and to assist them in evaluating contractor performance in districts already under private management.
n our previous study, we examined the social costs involved in switching from public to private provision of school support services, with a special emphasis on how contracting out affected the standard of living for workers and the quality of life in their communities. Our initial examination of the five Oregon school districts (Gervais, Lake Oswego, Lincoln County, Pleasant Hill, and Rainier) that contracted services in 2003 revealed that workers who opted to take jobs with private contractors appeared to experience substantial decreases in pension and health care benefits. In most cases, these workers were assured that the previous wage they had earned with the school district would be maintained by the contractor, at least for the first year of employment. New employees, however, would start at whatever wage the contractor determined was appropriate. Because workers’ experience with contracting out had just begun, we were not in a position to assess fully the longer-term impact of privatization on former school district employees and their communities.

In our follow-up research, we decided to focus on the Lincoln County School District in order to analyze more extensively the personal and social impact of contracting out.

In 2003, Lincoln County decided to shift managerial control of its custodial, food, and transportation services from the school district to the authority of private contractors, and workers were given the option (although not in all cases) of deciding whether or not they wanted to remain and work under private management. Mid Columbia Bus Company provides the Lincoln County School District with transportation service while Sodexho oversees food and custodial services. Sodexho was granted the contract to provide custodial services in early 2004 after the school district terminated its agreement with SBM Cleaning Services, citing dissatisfaction with the company’s performance. Given the fact that Lincoln County is one of the few school districts in Oregon that uses private contractors to provide all of its basic support services, we felt it would be an appropriate setting in which to assess the experiences of support staff who are no longer employed by the district. Nearly three years have elapsed since Lincoln County’s conversion to private contractors, and it is now
possible to gain a longer-term perspective on workers’ attitudes and experiences and the broader social implications and impact of this new arrangement.

During the spring of 2006, we conducted a telephone survey of Lincoln County school support staff who were employed by the district when jobs were first contracted out in 2003. We were able to reach 30 of these 108 former district employees, or nearly one in three. Working from a roster provided by the Oregon School Employees Association (OSEA), we found that many former school employees had either moved or were no longer reachable at the telephone numbers we had for them. Although our sample is relatively small, we believe it is reflective of the experience of Lincoln County workers whose jobs were contracted out and accords with data from other studies about the social impact of privatizing public jobs. We also found certain recurring observations and themes in our interviews, further attesting to their representing a broader experience.

Because of the size and distribution of our sample, our demographic may be somewhat skewed. Since the majority of our respondents came from transportation or food services, jobs that tend to be dominated by women, we interviewed nearly twice as many women as men. Had we reached more custodial employees, we would have spoken to a larger male contingent given their larger numbers in these positions. Nonetheless, we know that women represent nearly 50 percent of school support workers in the services under consideration, so our sample is not totally imbalanced on the basis of gender. Slightly over half of the workers we spoke to had elected to retain their school district jobs and work for the contractors. Also, as we know from earlier research, school district employees are a high seniority group. Thirteen of those surveyed had worked for the school district for over a decade, and three had over 20 years of service. In summary, then, we spoke to a group of workers that were largely female, had long histories of employment with the district, and nearly half the cases surveyed chose to quit their jobs rather than remain and work for the private contractors.

We first asked those former school district employees who are still working about the wages they are currently earning and obtained the following information. With the exception of one case, the five workers that found new jobs made between $1.00 and $1.84 an hour less than they had earned when employed by the school district. One worker reported earning twice as much, but this substantial increase appears to be an
exceptional occurrence. For workers who opted for employment with the contractors, there were two cases where their wages remained the same, eleven whose wages rose from $.25 to $3.00 an hour over the last three years (the median increase was $1.38 per hour), and three who would not disclose their current wage. Our findings confirm what our previous study and most of the research literature on contracting out have found: workers who lose their jobs with school districts often experience reductions in wages in their new positions, especially when they find work with private employers.

In Lincoln County this wage loss ranged from 8 to 18 percent, a substantial drop in income from what workers previously earned.  

Those who remained with the contractor have generally received wage increases over the last three years, with the median increase being $1.38 an hour. For new hires, we know that wages are generally less than they would have been under the school district. And in a comparable school district where OSEA has a collective bargaining agreement, wages are noticeably higher than those paid by contractors for similar positions in Lincoln County. Tables I, II, and III underscore this point:

One apparent result of these wage disparities lies in employee turnover. Sodexho acknowledged that it is experiencing a 25 percent turnover rate among custodians in Lincoln County, a figure that is not surprising given the reduced wages it is paying for a demanding position that performs key functions in keeping schools clean, safe, and secure. Turnover was much less among Lincoln County custodians when workers were employed by the school district, with wage and benefit levels certainly being one factor in encouraging employee retention. For new employees, then, working under private contractors represents a step backwards when it comes to starting rates of pay.  

The disparities between school district and contracted employment become more pronounced when the provision of health care benefits is considered. Under the 2004-07 OSEA collective bargaining agreement with the Lincoln County School District, school support staff who work at least six hours a day have their premiums for family health care coverage paid fully by the school district. In contrast, Sodexho, which contracts for custodial services in Lincoln County, pays only 50 percent of employee health care costs. As with wages, the hourly rates for custodial work are considerably lower than under the school district contract. In one case, where the hourly wage has fallen from $7.50 to $7.25, the premium for family health care coverage actually increased. The result is a clear disincentive for custodians to accept a position with a private contractor, especially when factors such as job security, advancement opportunities, and training are also considered.

Table I: Entry-Level Food Service Worker Wage Comparisons

<table>
<thead>
<tr>
<th>Current Starting Wage Under Contractor in Lincoln County</th>
<th>Wage Under 2003 OSEA Contract in Lincoln County</th>
<th>Current Wage in Comparable School District with OSEA Contract*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7.50</td>
<td>$7.51</td>
<td>$8.10</td>
</tr>
</tbody>
</table>

Table II: Entry-Level Bus Driver Wage Comparisons

<table>
<thead>
<tr>
<th>Current Starting Wage Under Contractor in Lincoln County</th>
<th>Wage Under 2003 OSEA Contract in Lincoln County</th>
<th>Current Wage in Comparable School District with OSEA Contract*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.25</td>
<td>$10.61</td>
<td>$11.37</td>
</tr>
</tbody>
</table>

Table III: Entry-Level Custodial Wage Comparisons

<table>
<thead>
<tr>
<th>Current Starting Wage Under Contractor in Lincoln County</th>
<th>Wage Under 2003 OSEA Contract in Lincoln County</th>
<th>Current Wage in Comparable School District with OSEA Contract*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8.50</td>
<td>$9.35</td>
<td>$11.37</td>
</tr>
</tbody>
</table>

*The comparable school district is Hood River. The hourly figure shown is taken from the 2006-07 salary schedule under the district’s collective bargaining agreement with OSEA.
district. Workers who are employed for 4-6 hours per day have their premiums paid on a pro-rata basis. The district has also agreed to cover any health care premium increases that might occur during the life of the union contract up to a $954.00 cap. Should increases exceed that cap, the contract specifies a range of options that the union might pursue, including establishing a joint labor-management committee to discuss how to absorb premium increases should they occur.³

In contrast, workers employed by the contractors pay substantially higher premiums, deductibles, and other costs for the health insurance they are offered.

Table IV shows the liability workers incur under the health insurance plan that Mid Columbia offers its employees in Lincoln County.

In addition to these premium obligations, Mid Columbia's insurance also has a 20 percent co-insurance payment (the amount the worker is liable for after the plan pays its covered percentage of costs) and a 50 percent charge for going outside the network. Deductibles under the Mid Columbia plan are also considerable, with an individual deductible of $1,000 and a family of three being required to pay $3,000 out-of-pocket before the insurance plan begins to pay benefits.⁶

Workers employed by Sodexho in food service or custodial operations also pay substantial premium costs for health insurance coverage. A family of three under Sodexho's Preferred Provider Option (PPO) would pay over $2,300 a year in premiums. In order to reduce the sizable deductible and co-insurance payments included in this plan, a worker can choose an insurance plan that would require payment of over $4,000 annually for family coverage. Sodexho also offers a plan that places $1,500 each year into a personal account. After these funds are spent, the worker would have to pay $2,500 in out-of-pocket costs until coverage kicked in, with the plan then paying 80 percent of in-network medical costs and 60 percent of costs for out-of-network services. Under this version of a health savings account, a family would be liable for total out-of-pocket costs up to a $10,000 limit. In contrast, school support staff in Lincoln County who remain under the OSEA collective bargaining agreement receive health care coverage with a maximum family deductible of $600 per year and a maximum family out-of-pocket liability of $2,600 annually.⁷

When placed in a larger context, the broader social impact and implications of the medical plans offered by private contractors in Lincoln County become clearer. In public discussion of the health care crisis in America, much attention has been paid to the problem of the uninsured, the approximately 45 million people who have no health insurance coverage whatsoever. Yet a newer phenomenon in health care is just beginning to be appreciated and understood: the precarious position of those who are “underinsured.” According to a Commonwealth Fund study whose results were reported in a 2005 article in the journal Health Affairs, “underinsurance,” defined as having insurance coverage but still facing substantial out-of-pocket payments, is

| Table IV: Worker Obligation Under Mid Columbia Health Insurance in Lincoln County (for full-time workers who work 41 weeks during the school year) |
|---------------------------------|-----------------|-----------------|
| Employee-Spouse Annual Premium | Family Coverage Annual Premium | Annual Deductible for Family of Three |
| $6,224                          | $9,805            | $3,000           |
a growing problem affecting an estimated 16 million Americans. Spending 10 percent of personal income on health insurance is another measure of underinsured status, and many of the Lincoln County workers we surveyed who buy insurance under the aegis of public contractors would meet this test.\(^8\)

According to the Commonwealth Fund study, there are serious consequences that can result from being underinsured. Underinsured workers are more likely to go without needed prescription drugs, to forego recommended treatments, and to avoid doctor visits when they are sick. An estimated three out of five underinsured persons have been contacted by collection agencies over problems they are experiencing in paying medical bills. Many of those we surveyed who are now employed by the contractors cited diminished health care coverage as a major difference in their new status, noting they were now paying more for prescriptions and incurring higher out-of-pocket costs. It is especially worth noting that of the 16 Lincoln County school employees we spoke to who are currently employed by contractors, seven of them have elected to receive their health insurance through their spouses rather than choosing the plans offered by the contractors.\(^9\)

In the case of health coverage, it appears as if a major effect of contracting out in Lincoln County has been to push workers into the ranks of the underinsured. To be sure, contractors enhance their profitability and potentially save the school district money by reducing health care coverage and compelling workers to assume a greater burden in paying for it. Yet as the Commonwealth Fund study suggests and workers themselves affirm, there is a social cost in providing substandard health care coverage. More expensive and more limited coverage can force workers to gamble with their health and that of their families, with the result that they may end up seeking medical attention at times when their illnesses will require both more extensive and costly care. Although we cannot quantify these results, based on new research about the social effects of being underinsured, we can project that some of these consequences are reasonable to anticipate.

In addition to health care coverage, our survey and research revealed sharp differences between retirement benefits provided by the Lincoln County School District and those offered by the contractors. School district employees are covered under the Oregon Public Employees Retirement System (PERS), with the district “picking up” the worker’s 6 percent contribution and contributing an additional 13.75 percent for an annual contribution in 2006 of 19.75 percent. The retirement benefits provided by the contractors are far more limited. Sodexo’s 401(k) plan allows workers to contribute from 1-25 percent of their pay to a retirement account and will match those contributions up to a maximum of 6 percent. However, the plan notes that the “company match will vary based on your investment choices.” It also emphasizes that “the company may contribute (italics added) to your Plan each year,” and “the company reserves the right to make a contribution to the Savings Plan.”\(^10\)

Under Mid Columbia’s 401(k) plan, the company will match the employee’s contribution up to a maximum of 4 percent per year. As is the case with Sodexo, plan guidelines state that “the managing body of Mid Columbia Bus Company will determine...
the amount, if any, which it will contribute to the plan.” A clear element of contingency is written into both Mid Columbia’s and Sodexho’s retirement offerings, in contrast to PERS, which guarantees contribution levels and ensures that the worker will receive a defined benefit upon retirement.¹¹

The shift from a defined benefit plan like PERS to defined contribution plans like those provided by private contractors is representative of a broader social trend. According to the Employee Benefit Research Institute, the percentage of private sector workers covered by defined benefit plans (plans that provide a specified payment upon retirement) has declined from over 50 percent in 1988 to 25 percent in 2003. In contrast, defined contribution plans have proliferated and now cover over 70 percent of private sector workers, an increase of 45 percent since 1988. In the public sector, however, defined benefit plans have remained the norm, with nearly 80 percent of public sector employees being covered by such plans in 2003. This figure represented a 25 percent increase since 1988.¹²

The reasons for this shift are not mysterious. Employers can substantially reduce their pension costs under defined contribution 401(k) plans, up to 25 percent according to one estimate. Besides the lower employer contribution that contractors make in Lincoln County as compared to the school district, employers also save because workers often do not avail themselves of the tax advantages provided by 401(k) plans and fail to contribute. Nationally, one in five workers decline to participate in 401(k)s; and among the 16 workers we surveyed in Lincoln County who are working for the private contractors, only half have elected to contribute. 401(k)s also fall short of defined benefit plans in another critical respect. The need or temptation to withdraw funds from the 401(k) plan (an option not permitted under defined benefit plans) is often compelling, especially when money is needed for housing, a child’s education, or other family concerns. Moreover, 401(k) savings by the time of retirement only replace approximately 3 percent of an average income, leaving many workers with limited assets to augment their Social Security and whatever personal savings they may have accrued.¹³

The limited match supplied by contractors, combined with the uncertainty that they will sustain their contribution, are two elements that make their 401(k) plans much less attractive than PERS, the Lincoln County School District’s defined benefit plan. As we have already seen, workers earning $11.00-$15.00 an hour face the prospect of making substantial out-of-pocket payments for health insurance and may well have difficulty in keeping up their contributions to the contractors’ 401(k) plans. The clear result is a shift from a retirement plan that provided an assured benefit to one that offers much less opportunity for workers to accumulate the savings they will need to sustain themselves once their working lives are over. As two leading experts on retirement and pensions have concluded regarding 401(k) plans, they “have shifted all the risk and responsibilities for retirement saving from the employer to the employee,” with the result being that many workers, including those formerly employed by the Lincoln County School District, can expect to have a less secure retirement.¹⁴

When they were employed by the school district, all support staff were represented by a labor union, the Oregon School Employees Association. The union
negotiated with the school district about wages, hours, and working conditions, and the terms and conditions of employment were outlined in a legally binding document: the collective bargaining agreement. Of the 21 employees we spoke to who are still working either for the contractors or are employed elsewhere (we excluded those who were self-employed or unemployed), we found only one who is currently a member of a labor union. The clear effect of contracting out has been to strip workers of union representation, a change in status that has several critical implications. The ability to negotiate with an employer almost invariably results in workers receiving superior wages and benefits to those enjoyed by their non-union counterparts, a difference often referred to as the “union premium” or the “union advantage.” Just as significantly, workers who lack the protection provided by a collective bargaining agreement have limited remedies when it comes to addressing worksite issues or problems. As one worker who had stayed on with a contractor explained in comparing working for the school district with their current situation: “[The] biggest change is that we had someone to go to when we felt we were treated unfairly while with the district, but now we don’t have that.” This sentiment was echoed by others who also expressed concern over their limited ability to effect change in their workplace now that they were not longer represented by a union.15

In addition to the specific questions we posed about wages and benefits, we asked Lincoln County workers for their overall impressions of what it was like to be employed by private contractors. Some workers praised the contractors. As one worker observed: “Overall [I am] very happy with the current situation.” Many of those employed by Mid Columbia found the contractor to be more professional, more training oriented, and more safety conscious than the school district had been as a manager. Others cited the ability to collect unemployment insurance in the summer, a benefit not allowed under school district management as a matter of state law.

Most of the workers we interviewed, however, had less favorable impressions. Not surprisingly, many cited diminished health care benefits as a major source of discontent. One worker noted that her disabled spouse was no longer eligible for coverage under the contractor’s health insurance plan. Another reported spending much more for prescription drugs, and many commented on the higher premium costs they were now paying for health insurance. The loss of PERS was also frequently mentioned as a profound setback. “Losing PERS hurt pretty bad,” one worker lamented. “I really miss that PERS.” The reduction of benefits appears to have lowered morale and diminished the strong sense of personal pride in their work often displayed by school support staff. As one worker explained: “[It] has affected me [not only] financially but also my sense of self-worth. I used to have a job I liked doing, and now I don’t.” Although this view was expressed more pointedly than others, it reflects a diminished sense of personal pride and morale that appears to be widely shared among workers now employed by private contractors in Lincoln County.

In concluding this discussion of the social impact of contracting out, it is important to consider its implications for Lincoln County’s economy. Lincoln County is located on the Oregon coast and over the past 30 years, like so many other areas of Oregon, has shifted from a manufacturing
to a service-oriented economy. In addition to increases in service and retail occupations, 25 percent of Lincoln County’s jobs in 2004 were in the tourism industry. These jobs tend to pay lower wages, as reflected in figures showing that Lincoln County’s 2004 average earnings per job figure of $29,877 represented only a 17.5 percent increase in pay when adjusted for inflation for the period 1969-2004. In contrast, real wages for the same period increased by 35 percent elsewhere in Oregon and over 45 percent nationally. Lincoln County has had difficulty generating family-wage jobs, and coupled with other factors, the result has been a relatively high poverty rate, limited purchasing power for workers, and difficulties in finding affordable housing for county residents. As state labor economist Brian Rooney concluded in a 2003 report on Lincoln County: “All else being equal, lower average wages are more likely to harm an economy, at least in comparison to the high wage alternative.”

Although employment in Lincoln County has tilted towards service and retail occupations, the public sector remains a critical source of jobs for county residents. Of the five top employers in Lincoln County, county government ranks fifth in the number of jobs provided and the school district is second, with the Confederated Tribes of the Siletz being the county’s leading employer through the casino that it operates. Given the shifting foundation of Lincoln County’s economy and the growth in lower paid jobs that are likely to carry more limited health and retirement benefits, school district jobs are among the best that Lincoln County has to offer.

As we have seen, private contractors offer lower starting wages than workers were receiving when employed by the school district and under union representation. The health care and retirement benefits provided by the contractors are clearly inferior to those that workers previously enjoyed, a situation openly acknowledged by the school district as the principal motivation behind its decision to contract out. The impact of these differences is perhaps best portrayed when we consider how they might affect an individual worker.

If an entry-level bus driver in Lincoln County were employed by Mid Columbia for 6 hours per week and worked 41 weeks in a school year, this worker would face the following losses outlined in wages and benefits as compared with what he/she had received as a school district employee: Based on this calculation, it is difficult to escape the conclusion that contracting out school support services has resulted in the downgrading of the kinds of family-sustaining jobs that Lincoln County so desperately needs. Whether working for contractors or in other jobs, nearly all of the workers we interviewed asserted that their economic well-being had declined,

<table>
<thead>
<tr>
<th>Table V: Annual Wage and Benefit Loss for Entry-Level Bus Driver in Lincoln County Employed by Private Contractor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Wage Differential</strong></td>
</tr>
<tr>
<td><strong>Annual Health Insurance Differential</strong></td>
</tr>
<tr>
<td><strong>Annual Pension Differential</strong></td>
</tr>
<tr>
<td><strong>Total Loss to Worker</strong></td>
</tr>
</tbody>
</table>

*The pension calculation assumes a 4 percent employee contribution and 4 percent employer match. It should be noted, however, that this is a best-case scenario which assumes that workers have enough savings left over after paying their monthly bills so they can afford to put 4 percent aside.
often markedly, since the school district had contracted out their jobs. In our earlier study, we noted that it is impossible to define precisely the social impact of lower wages, higher health care costs borne by workers, and reduced resources for retirement. We did, however, estimate that workers who were earning lower wages would be contributing less to the local economy as both consumers and taxpayers. Furthermore, based on the research on health care and retirement that we previously cited, we can speculate that there will be additional social costs that not only affect the lives of the workers involved but also influence the quality of life in the communities where they reside. Wage and benefit losses, such as the kind outlined in Table V, invariably create a sense of insecurity, a point made repeatedly by many of the people we interviewed who were now employed by private contractors in Lincoln County. 18

Noting the competitive pressures facing twenty-first century employers, Christopher Jencks, a professor of social policy at Harvard’s Kennedy School of Government, outlined the implications of taking “low road” versus “high road” approaches in dealing with these pressures in a 2004 article:

In the face of competition, “some [employers] take the ‘low road’ and squeeze their front-line workers, driving down wages and working them harder. Others take the ‘high road,’ adapting new technologies that keep their operations competitive, upgrading workers’ skills, and reorganizing the way work gets done. Which road a firm chooses depends on the social context in which managers operate. They are more likely to take the high

road if they are connected to institutions, public and private, that promote such alternatives...” 19

Although Jencks was largely speaking about the private sector and focused his attention more on wages than benefits, his analysis underscores the broader ramifications of the Lincoln County School District’s 2003 decision to contract out its major school support services. As the second largest employer in the county, the school district’s decision to contract out has contributed to creating an environment in which low road approaches are seen as socially acceptable. In an area that is struggling to create family wage jobs and raise incomes that have consistently failed to keep up with state and national averages, the school district’s action may represent an unintended consequence and a social cost with longer-term implications.
I

n the summer of 2003, the Rainier School District entered into a three-year contract with the Mid Columbia Bus Company (MIDCO) to take over its pupil transportation. Under the terms of the contract, MIDCO leased the district’s fleet for $1 per bus per year, with an option to buy the fleet at the end of this period. According to District Business Manager Susan Force, this arrangement was designed to give Rainier an opportunity to test out privatization before making a final decision about whether to keep pupil transportation in-house or sell off its fleet.

That three-year contract has been completed, and both parties were satisfied. MIDCO has purchased the district’s fleet, and the district recently renewed its contract.

LERC’s analysis of the original contract expressed some skepticism about the projected savings, particularly regarding the valuation of the fleet and the cost of bus replacements. Recent evidence suggests that both those issues remain of concern.

Sale of the Fleet

At the end of the 2005-06 school year, the Rainier School District owned a fleet of 13 buses, all but one of which were large, 71-passenger vehicles. While the fleet was fairly old—with half the buses more than ten years old and the oldest dating from 1989—all were in good working condition and had passed the state’s rigorous annual inspections. At the conclusion of the school year, MIDCO purchased this entire fleet for $138,000.

The price for the fleet was based on assessments by two outside companies. However, the process for assessing the fleet’s value points to some of the core problems with privatizing transportation services.

First, outside appraisers set the bus value based on wholesale prices. Similar to new cars losing value immediately after leaving the lot, it appears that accepted wholesale prices are significantly lower than the district’s true cost, even for relatively new buses. For instance, a bus that the district bought in 2001 for $66,167 was valued in 2006 at only $26,600; another bus

The school district uses state subsidy to purchase nine new buses for MIDCO during the course of the three-year contract. This allows them to declare savings only because the state is subsidizing a private business. However, if the district “saves” at the expense of the state, Oregon residents who pay both local and state taxes still bear the cost of this arrangement.
bought in 1999 for $61,467 was appraised at $17,900.\textsuperscript{22} Thus, even relatively new buses are dramatically marked down in value in the process of outside appraisal. After selling off their fleets, when districts pay contractors for replacement buses, it is likely that they are paying prices comparable to occasions when the district purchases its own buses directly. Thus, the district is likely selling its fleet at a steep discount but buying replacements at a higher level of prices. This is the first structural problem that makes privatization economically questionable for school districts.

The second problem is more profound. School buses are worth more to school districts than to almost anyone else. Districts often operate buses long past the time they may be officially “worthless” in the commercial market. Five of the Rainier buses, for instance, were valued at less than $3,000 apiece. For school districts, however, these are perfectly operational vehicles that are well-maintained and pass rigorous annual inspections. The replacement cost for such vehicles may easily be between 10 and 20 times their appraised value. Thus, the true value to the school district is much greater than that assigned by outside appraisers, and fleet sell-offs may often amount to a switch from cheap workhorses to unnecessarily expensive replacements.

This problem is compounded by the self-interest of contractors, who may want districts to purchase new buses, in part, so that they can be used for other commercial purposes in addition to pupil transportation.

Use of Bus Depreciation Funds

In LERC’s first report, we questioned the practice of school districts that contracted out transportation services and then used excess bus replacement funds as part of their general funds. This remains a contested policy issue. In the Rainier case, part of the district’s rationale for retaining ownership of the fleet during its 2003-06 contract with MIDCO was that it would continue to receive bus depreciation funds from the state. As explained by the district’s business manager, “We knew that we could have sold all the buses for more money up front or wait three years … and get less for the buses, but still receive the depreciation reimbursement those first three years.”\textsuperscript{23}

In total, Rainier transferred $69,000 from its “Bus Replacement Reserve” into the district’s general fund. The district’s view is that bus depreciation payments from the state are compensation “for prior years’ capital purchases,” and therefore the district is entitled to keep this money even if it never plans on buying another bus.\textsuperscript{24} Current state practice is to allow districts to absorb such funds into their general funds; thus, Rainier’s behavior was not in violation of state policy. However, if the state’s intent in providing these funds is to enable school districts to purchase replacement buses, it remains a relevant question as to whether the absorption of reserve funds after privatization represents the most sound public policy.

State Subsidy for Privately-Owned Buses

Rainier’s contract with MIDCO stipulates that the company will maintain a fleet that conforms to industry age standards and prohibits the use of gasoline-powered buses more than 12 years old or diesel-powered buses more than 15 years old. While both the federal and state governments enforce stringent standards governing the operational conditions and road safety of
school buses, neither set of regulations has an age cutoff. If the bus is safe in terms of its mechanics and emissions, it doesn’t matter how old it is. There may well come a time when the cost of maintaining older buses outweighs the benefits of retaining them for pupil transportation. Similarly, if engine technology changes, it might be deemed necessary to buy new buses in order to meet improved emissions standards. However, by adopting industry standards rather than government standards, the district has committed itself to abandoning buses that might well meet the needs of Rainier students at a significantly lower cost.

In addition to using the district’s preexisting fleet, Rainier’s contract with MIDCO called for the company to purchase nine new buses during the course of the three-year contract. This represents a dramatic acceleration in the district’s rate of bus purchasing. For example, in the previous three-year period, Rainier purchased just one new bus. These nine newly-purchased buses are the property of MIDCO and can be used by that company in any way it chooses, including for customers other than the school district, even though they are paid for by district funds.

The cost of these bus replacement purchases is built into the per-mile or per-hour charges contained in MIDCO’s contract with the district. These costs are included in the general “transportation costs,” 70 percent of which are reimbursed by the Oregon Department of Education. Thus, state funding is being used to heavily subsidize the purchase of buses that are the private property of a for-profit corporation and that may be used in commercial ventures outside the transportation of students.

Oregon regulations do not allow state funds to be used for the purchase of privately-owned buses. However, by building the purchase price into the contractor’s hourly or mileage charges, bus replacement costs are presented to the Department of Education as an unidentified component of general transportation costs. Clearly, if the costs of private bus purchases were not subsidized by the state, it would likely be uneconomical for school districts to sell their fleets.

Thus, the “savings” of bus privatization appear to be illusory. School districts may declare savings only because the state is subsidizing a private business. However, if the district “saves” at the expense of the state, Oregon residents who pay both local and state taxes still bear the cost of this arrangement.
n the spring of 2003, the Lake Oswego School District decided to contract out its school bus service, laying off district employees and turning the bus system over to a private company, Laidlaw Transit, Inc. For the past several years, the district has faced significant financial shortfalls and has continuously looked for ways to cut costs. The district’s staff, headed by Superintendent Dr. William Korach, recommended the privatization of bus services as one key component of a cost-savings strategy.

When the Lake Oswego school board met to debate the merits of privatization, Dr. Korach presented a cost-benefit analysis asserting that contracting out would save the district nearly $1 million over the course of the five-year contract with Laidlaw. Largely on this basis, the board voted to sell its bus fleet and turn pupil transportation over to Laidlaw.

However, the district’s cost-benefit calculation was based on several faulty premises, one or more of which may have involved questionable use of public finances. The central fallacies in the analysis presented to the school board include:

- a dramatic and unnecessary increase in the purchase of new school buses.
- undervaluing the district’s fleet at the time of sale.
- the use of public money to buy buses owned by a private company and used for commercial ventures outside the school district.
- engaging in a questionable financial arrangement with Laidlaw, at the expense of state taxpayers.
- using state funds designated for bus purchases as general revenue.
- the miscalculation of in-house labor costs.

The analysis of Lake Oswego’s contract with Laidlaw points to two disturbing conclusions. First, when all costs are taken into account, it is clear that instead of saving the district $1 million, the Laidlaw contract has cost Lake Oswego more than it would have spent had it kept pupil transportation in-house. Second, the details of the contract...
reveal a pattern of questionable legal and ethical practices that may represent an inappropriate or improper use of public funds.

The primary concerns identified in the Lake Oswego contract are detailed below.

**Dramatic and Unnecessary Increase in Bus Purchasing**

The Laidlaw contract calls for the district to purchase 28 new buses over the life of the five-year agreement. This purchase plan is scaled down from Laidlaw’s original proposal—to buy 35 buses over five years. However, it still marks a rapid acceleration in the schedule of purchasing. In the five years prior to this contract, the district purchased only seven buses. Therefore, the Laidlaw contract calls for a 400 percent increase in the rate of bus purchasing.

Furthermore, the bus purchases are front-loaded, with 18 of the 28 buses slated to be purchased in the second year of the contract (the Request for Proposal [RFP] stipulates that no buses can be bought in the first year of the contract). Thus, even if the contract is cancelled after only two years, Laidlaw would still walk away with 18 new buses at the district’s expense.

The rationale for buying 28 new buses in five years is not clear. Oregon state transportation standards suggest that there is no need for such aggressive purchasing. The state maintains very extensive and strict standards for school buses (OAR 581-053-0512, “Minimum Standards for School Bus Chassis,” and OAR 581-053-0517, “Minimum Standards for School Bus Bodies”). However, none of these include any maximum age cutoff; as long as the buses are well-maintained and meet the state standards, they can remain in service indefinitely. All school buses have to undergo an annual inspection to make sure they meet state standards (OAR 581-053-0008, “Pupil Transporting Vehicle Inspection”). Indeed, Lake Oswego Business Manager Stuart Ketzer confirmed that all of the district’s fleet was in good working order at the time of the contract and had passed state inspection within the past year.

Lake Oswego’s original RFP simply stated that buses must “meet or exceed the state of Oregon minimum standards,” noting that “the district recognizes that the existing bus fleet has an average useful life beyond that recommended by normal industry standards.” However, Laidlaw and the two other private companies preparing to bid on the contract all lobbied the district to abandon these principles and instead commit to purchasing a fleet that meets industry standards. The district agreed, and two weeks after releasing the original RFP, it released an amended RFP including a new requirement that the fleet “meet the current recognized industry standards.” The industry standards are no more stringent than the preexisting state standards for guaranteeing the operating condition and safety of school buses. However, unlike state or federal standards, industry standards mandate a maximum age of 12 years for gasoline-powered buses and 15 years for diesel-powered buses. Thus, by adopting “industry standards,” the district committed itself to a large-scale purchase of new buses.

It’s not hard to figure out why Laidlaw would want the district to purchase the maximum number of new buses. These buses become Laidlaw’s exclusive
property and remain its property even if the Lake Oswego contract is terminated. Furthermore, since the company may use these buses for other profit-making commercial activities, it is logical that it would want newer buses rather than the district’s older, less attractive models. While Laidlaw’s interest is understandable, there is no reason for the district to follow this rationale.

It is common for Oregon school districts to operate buses that are 15, 20, and even 25 years old. These buses may have little value to commercial operators outside a school setting. For the districts, however, as long as the buses remain well-maintained and meet all safety standards, they are valuable workhorses. By disregarding the value of these vehicles, the district unnecessarily puts itself in a situation where it is forced to spend much more money in order to meet “industry standards” that are not relevant to a school setting.

When Dr. Korach presented his cost-benefit analysis to the board, he assumed that Lake Oswego would purchase the same number of new buses whether or not it contracted out pupil transportation. However, it seems more likely that, had transportation remained an in-house function, the district would have continued with its past history of bus purchasing, buying approximately one-quarter the number of buses called for in this five-year contract.

At the time, Dr. Korach estimated that the purchase of 28 buses would cost the district $1.7 million financed over ten years. While neither Laidlaw nor the district has provided details regarding the actual annual cost of financing the bus purchases, a roughly accurate assumption might take one-quarter of this cost as the approximate outlay for bus replacements had transportation remained a district function. If these assumptions are correct, the district’s in-house bus replacement costs would have been roughly $425,000. The remaining $1,275,000 represents the additional expense resulting from the decision to turn busing over to a private contractor.

The cost-benefit analysis that Dr. Korach presented to the board forecast that contracting out would result in a five-year savings of $998,500. Once we take into account the difference in bus purchase schedules, however, this benefit turns into a loss. Even if every other aspect of Dr. Korach’s calculations is correct, the $1,275,000 in additional capital expenses turns his projected net gain into a net loss of $277,500.

If Lake Oswego school board members misunderstood the costs and benefits of contracting out, they may have been partially confused by Laidlaw’s own communication. In the letter accompanying its proposal, the company suggested that privatization would conserve critical education resources:

We believe that the most critical issue currently facing the Lake Oswego transportation system is the fact that the current fleet has 26 vehicles that are from 14 to 26 years old. By industry standards, these vehicles should, and inevitably must, be replaced. The district will be required to commit almost $2 million to accomplish this, funds that could be better spent on education.30

This statement appears to be doubly misleading. First, the need to replace so many buses was not a result of their
physical state but rather of Laidlaw’s own lobbying of the school district. Second, the cost of these replacements was not saved through this contract; it was merely moved from the capital account to the operating budget. The suggestion that contracting out would save millions of dollars in education funding seems to be virtually the exact opposite of the truth. It was the decision to contract out that cost the district hundreds of thousands, if not millions, of dollars that might otherwise have been devoted to educational services.

Undervaluing the District’s Fleet at the Time of Sale

Lake Oswego’s RFP required bidders to buy the district’s existing fleet for $1 million. However, after evaluation by an outside firm, the district agreed that the fleet’s value was only $650,000. This appraisal, conducted by Portland-based Bus Solutions, Inc., was based on the “blue book” value of buses in the commercial market. Like Laidlaw’s standards for bus replacement, the firm’s “blue book” relies on industry standards that regard any bus over 15 years of age as worthless. Of the 54 buses in the district’s fleet, 19 were 15 years old or older at the time of the contract. Although these vehicles remained in good working order, continually passed state inspections, and were not the subject of safety or operating complaints, they were given away to Laidlaw literally free of charge. The district also owned 16 buses that, at the time of the contract, were between 12 and 15 years old. It is likely that these buses were appraised at very modest values. Therefore, a total of 35 buses, or nearly two-thirds of the district’s fleet, were turned over to a private contractor for little or no compensation.

The district does not know what happened to its previous fleet of buses—whether Laidlaw sold them, for instance, or is using them under another contract—or how much money Laidlaw may have made from their sale or use. For the district, however, it is clear that reliable buses that might have serviced Lake Oswego for many years at no cost beyond maintenance were given away and replaced with more expensive vehicles that the district does not own.

Using Public Money to Buy Buses Owned by a Private, For-Profit Company

The 28 buses purchased under this contract are the sole property of Laidlaw, which has exclusive rights to use them however it chooses, including for for-profit commercial purposes outside the Lake Oswego district. While Laidlaw can use the buses for other parts of its business, 100 percent of the costs of bus purchase are borne by the district. Furthermore, if the contract ends at any time or for any reason, these buses remain the company’s property and never revert back to the district.

By policy of the Department of Education, the state reimburses school districts for the cost of bus purchases when the district owns its own fleet. It is illegal for such bus replacement funds to be used to buy vehicles that belong to a private company. However, Lake Oswego has structured its contract such that the costs of bus purchases are built into Laidlaw’s per-mile or per-hour charges. These costs are then presented to the state as part of the district’s overall “transportation expenses,” which are 70 percent reimbursed by the state. Thus, the district is engaged in an accounting maneuver that is ethically questionable as sound public policy.
The fact that the state pays 70 percent of the purchase price makes buying buses seem like an easy deal for school districts—and encourages contractors to push for ambitious purchase plans. But while both contractor and district may be happy with this arrangement, the taxpayers suffer. It seems clear that the state’s intention is to subsidize the purchase of buses only when they remain public property. By folding capital expenses into its operating budget, the district appears to be evading the clear intention of state policy. In either case, Oregon taxpayers are heavily subsidizing a private company, which is free to use these buses for other money-making ventures.

It is unclear whether the use of state funds to purchase privately-owned buses is legal under Oregon statute. If the state were to regulate this type of contract, and prohibit the practice, the district would be forced to pay 100 percent of the cost for Laidlaw buses out of its own local revenues. In this case, the cost-benefit calculation presented by Dr. Korach would be even more dramatically reversed.

**Questionable Financial Arrangement with Laidlaw, at the Expense of Taxpayers**

Lake Oswego’s RFP required contractors to purchase the district’s existing fleet for $1 million. Since the district agreed that the fleet was worth only $650,000, it allowed Laidlaw to effectively pay that price for the fleet. However, Laidlaw and the district agreed on a financial transaction that created the appearance of maintaining the $1 million purchase price. The arrangement is described on the first page of Laidlaw’s contract:

> Laidlaw will purchase the district fleet for the stipulated $1,000,000. This amount

is roughly $400,000 more than the current assessed value and, consequently, that amount is recovered in the rate structure over the proposed contract term of five years. In other words, the proposed annualized cost of $1.6 million per year includes repayment of $80,000 per year for five years. However, since the district will receive 70 percent reimbursement of this expense, the true cost to the district is only $24,000 per year.

Thus, Laidlaw effectively bought Lake Oswego’s fleet for $650,000 and then loaned the district an additional $350,000, which with interest turned into $400,000 paid back over five years. This arrangement appears unusual but is presumably allowed. However, this $400,000 loan—a financial arrangement that involved no payment for services—was submitted to the state for 70 percent reimbursement as “transportation services.” As a result, the arrangement appears to function less like a normal loan and more as a strategy to leverage funding from the state treasury in return for no additional services. Essentially, Laidlaw loaned the district $400,000, the district repaid only $120,000, and the additional $280,000 was picked up by Oregon taxpayers.

The legality of this arrangement remains questionable. And clearly, if the district is required to repay this $280,000, this will further tilt the cost-benefit analysis of privatization.

**Use of State Bus-Replacement Funds as General Revenue**

Under the Department of Education’s policy, the state of Oregon compensates school districts for the cost of new bus purchases. While buses may remain in
operation for 25 years, the state allows districts to depreciate buses over a 10-year schedule. Thus, every year for the first ten years after a bus is purchased, the state reimburses districts 10 percent of the purchase price. These funds are deposited in a “bus replacement fund,” which must be maintained as an independent account, separate from the district’s general revenues.

When a district sells off its fleet, it is clear that it will never again purchase a new bus. Thus, it might be logical to suppose that any money left over in such a district’s bus replacement fund would be returned to the state. Instead, however, districts commonly treat such funds as a one-time windfall of privatization. In Lake Oswego’s case, the district had approximately $45,000 in its bus replacement account at the end of the 2002-03 school year. After signing its contract with Laidlaw, these funds were “absorbed” into the general district budget.33

Although state regulations currently permit this absorption of replacement funds into general funds, whether or not this practice constitutes sound public policy remains open to question.

Miscalculation of In-House Labor Costs

The debate around privatization took place at the same time that the Oregon Legislature was in the process of reforming the PERS retirement system for public employees. In the June 2003 Lake Oswego Board of Education meeting, OSEA representative Victor Musial reported that the PERS changes would likely reduce the district’s ongoing labor costs.34

While Dr. Korach was aware of the legislative debates, he presented to the board a cost-benefit analysis that was based on pre-reform PERS rates. If Musial’s calculations were taken into account, this change might have saved the district a significant sum of money over the five years of the proposed contract.

Conclusion

The analysis of Lake Oswego’s contract points to several serious questions regarding state policy and the legality of district practices. In addition, it highlights a number of structural problems that raise fundamental concerns about the economic logic of privatization. Private companies appear inclined to disregard cheap workhorse buses that are the mainstay of so many district fleets and are likely to advocate large-volume purchases of new buses. They are motivated to seek contracts that make new buses the contractor’s exclusive property and allow their use in any number of outside money-making activities. Quite apart from any legal or policy ramifications, these facts by themselves suggest that, when all costs are taken into account, bus privatization will often be a net money loser for school districts.

Furthermore, once districts sell off their fleets, they have little leverage with which to negotiate improved contract terms in the future. In Lake Oswego’s case, one is tempted to think that if the district renews its contract with Laidlaw, the company will reduce its rates in the second contract. After all, if the first contract paid for 28 new buses, these buses will remain in operation throughout a second five-year contract, and the district would presumably require fewer new purchases. With less need to finance new bus purchases, the company might be able to significantly lower its
per-mile or hourly charges. However, the district does not expect to be so lucky. Not only is Laidlaw expected to call for further new bus purchases in a second contract, but the company knows that Lake Oswego no longer has an option to operate in-house and thus is negotiating from a weak position. As Business Manager Ketzler explains,

"Our options will of necessity consider what it would cost us or one of Laidlaw's competitors to finance a whole fleet of buses if we decide to not exercise our extension option. I am sure Laidlaw and all of their competitors are mindful of our options as they prepare their rates."

In short, Laidlaw has the district over a barrel. It won’t reduce its rates because it doesn’t have to. This points to the final, often unseen, cost of privatization. Once a district sells its fleet, it is at the mercy of private contractors whose interests do not fully coincide with that of district students, parents, or taxpayers.
In the summer of 2003, the Lincoln County School District replaced a large segment of its long-time custodial staff after it contracted with the SBM Cleaning Company to provide custodial services for the district’s schools. At the time, contracting out was touted as a much-needed money-saving strategy. The district superintendent’s budget message forecast that the district would save large sums while still retaining the same standards of building care.

In our earlier report, we pointed out that Lincoln County had relinquished control over the quantity and quality of custodial services and thus had no way to tell exactly what it was getting for the fee it paid SBM. While the decision to contract out was based on the promise of getting the same services for lower cost, our analysis showed there was strong reason to worry that SBM’s services would be inferior to those provided by in-house staff.

Unfortunately, our concerns proved to be well-founded. Just as our earlier report went to press, the Lincoln County School District announced in January 2004 that it was terminating its custodial contract with SBM Cleaning Services less than six months after the relationship had begun. At the public meeting where it announced its decision, the school board declined to offer specifics as to why it was rescinding the contract. Observers subsequently noted that SBM was a company that had considerable experience cleaning office buildings but had never previously worked in a school district, an environment that offers a substantially different set of logistical and managerial challenges. Some problems were foreshadowed during the Request for Proposal (RFP) process when the school district expressed concern that SBM’s proposed work plan failed to provide sufficient building coverage and did not fully consider the need for evening staffing. A new proposal that promised to increase staff and coverage at an additional cost of $200,000 was then offered by SBM and accepted by the district. Almost from the start, however, performance became an issue, and the district’s relationship with SBM quickly deteriorated. SBM was ultimately dismissed due to “flaws” in its performance,
which the school board declined to specify publicly but were hinted at in subsequent news accounts and our interviews with sources in Lincoln County.\textsuperscript{36} 

One of the major problems with SBM appears to have been employee turnover. When SBM eliminated the health insurance and pension benefits employees had previously enjoyed, more than half of the custodians who had served as in-house employees left the district (interviewees in 2004 also cited reduced benefits as a major factor prompting them to seek work elsewhere).\textsuperscript{37} Those who replaced them not only lacked these benefits, but were paid much lower wages—generally $8.50 per hour. With this level of compensation, the company had trouble attracting and retaining staff. SBM began to experience staffing shortages and turned to a temporary agency to help fill gaps, but apparently was still plagued by substantial employee turnover. Indeed, SBM’s staffing problems were so extreme that it reportedly even hired some workers with criminal records and started them working before full background screenings had been completed.

By January 2004, the school board concluded the situation could not be remedied, terminated its contract with SBM, and signed a replacement contract with Sodexho (whom it was already using to manage and staff its food service operations) to take over the provision of custodial services. The vice chair of the school board expressed concern that the problems experienced with SBM might repeat themselves with a new contractor if wage and benefit levels remained unchanged. “If they [workers] aren’t paid well enough, we’ll have a big turnover.”\textsuperscript{38} Similarly, the board chair worried that low-wage employees might not have sufficient English-language skills to understand work instructions or communicate with students and school staff.\textsuperscript{39} However, district officials asserted that they had learned from their experience with SBM. Ultimately, the board approved the contract, hoping that things would be better in the future.\textsuperscript{40} 

While Sodexho is a multinational corporation with extensive experience in K-12 school contracts, it is always bad business to simply trust a commercial partner without means to verify performance. Sodexho itself has a history that includes instances of poor or unsafe standards, as well as instances of illegal activity. In one Chicago school district where Sodexho was hired to provide food services, parents discovered that their children’s lunch consisted solely of paltry and nutritionally insufficient fare (on one day just rice, an egg roll, and juice, with no vegetables, fruit, or milk).\textsuperscript{41} In another school, the company failed to provide safety training and equipment to employees in violation of federal workplace safety regulations, resulting in unsafe conditions for both students and employees.\textsuperscript{42} And Sodexho has been found on several occasions to have violated federal law in its treatment of employees.\textsuperscript{43} 

Even assuming that Sodexho’s behavior in Lincoln County is scrupulously legal, the very nature of private service contractors requires that school boards maintain close control over the quality of services provided. The purpose of private companies is to maximize profits, and as a publicly-traded corporation, Sodexho has a legal and fiduciary responsibility to benefit its shareholders. Any private company that is operating under a fixed-fee contract will naturally look to minimize its expenses by any legal means possible. This is not the behavior of unethical companies—this is what private companies are supposed to do. But minimizing expenses for a contractor may mean lowering quality for students and teachers. For instance, contractor cost-cutting efforts may include diminished employee
screening and training, substituting cheaper but lower-quality cleaning materials, or simply providing a lower level of building upkeep. Understanding that these are among the options that any normal, rational custodial contractor would consider, it is clear that a school district has only done half its job when it contracts with a custodial services provider. The second half of the job is the monitoring and oversight functions necessary to ensure that schools receive the quality of services they deserve.

Problems in the Sodexho Contract

When the SBM contract was finally canceled, the Lincoln County School District business manager commented that the district had “learned some lessons the hard way.”

The first place one would expect such lessons to be applied is in the safeguards built into the district’s contract with Sodexho. As detailed in our first report, the SBM contract gave that contractor free rein to write its own job description, set its own cleanliness standards, and determine how, if at all, it should be held accountable for service deficiencies. This type of “trust me” contract made it impossible for the district to control what level of service it received for its money, or to require changes (short of canceling the entire contract) when it deemed service levels insufficient.

Unfortunately, the Sodexho contract contains many of the same glaring loopholes that made the SBM relationship so difficult.

Defining the Scope of Service:

The most important part of any service contract is the legal definition of exactly what service will be provided. Despite its recent history of problems in this area, the Lincoln County School District has left this most basic question undefined and at the discretion of the contractor. Rather than specifying the services Sodexho is required to perform, the district’s contract—just like that with SBM—provides that:

Following award of the Contract, the Contractor shall conduct a Service Study and provide a thorough and comprehensive analysis of proposed and existing service standards and specifications.45

The establishment of concrete and identifiable service standards is particularly important because the contract’s language is generally too vague to be translated into enforceable standards. For instance, the contract states simply that “the ultimate objective of this Contract would be to provide services to the schools … as defined in the Request for Proposal.”

The contract dampens expectations even further by noting that since individual school principals have the authority to assign up to 50 percent of a custodian’s tasks, “the extent of these additional tasks will impact on the guaranteed service levels that can be provided to the individual school.”

Given the vagueness of the contract’s general language and the complication of principal discretion, it is all the more crucial that the district articulate an explicit set of service standards by which it can measure contractor performance and ensure accountability. Remarkably, the district never established such standards, but left it up to Sodexho to draft the standards itself.

Thus, on this most fundamental contract issue, the district appears to have gotten things backwards. Rather than determining the service it needs and then soliciting bids from
contractors to provide that service, the district first hired a contractor and then allowed that contractor to determine the level of service to be provided.

**Performance Monitoring and Enforcement**

In addition to specifying what tasks will be performed, any sound contract must specify the level of quality demanded in the performance of these services, along with some mechanism for monitoring and enforcing such standards. Once again, Lincoln County has allowed its contractors to define these terms—including how and whether it should be penalized for failing to meet quality standards.

Along with its initial Service Study, Sodexho is required to provide the district with:

- an operational model, staffing, and operational implementation plans to support proposed service standards… [which] plans shall include a methodology for verification and compliance with service standards and method of adjustment of the fee if/when standards are not met and corrections are not made timely. **48**

These work plans provide the basis for the district to hold Sodexho accountable to the standards it promised to meet in its Service Study. Under the contract, Sodexho is supposed to provide monthly summaries of its work, including a report on which standards it was unable to meet during that month. **49** Finally, Sodexho is required to distribute notices to school staff and teachers detailing the standards of cleanliness they can expect in their schools and to conduct periodic “customer satisfaction surveys” through which teachers can evaluate the company’s performance. **50**

Thus, the contractor has been allowed to write its own job description, set its own performance standards, determine how those standards should be monitored, and decide how and if it should be held accountable for substandard work.

**Problems in Carrying Out the Contract**

While Lincoln County’s contractual loopholes are troubling, the reality of how custodial services are managed in the district is even more so—because none of the quality-control steps mandated by the contract have ever been carried out. According to District Business Manager Rich Belloni, Sodexho has never produced a Service Study for the district nor has it produced any of the documents required for contract monitoring and enforcement. **51** While Sodexho’s contract with the district specifies the areas that each custodian is responsible for, and the exact time during the day that he or she is supposed to clean that area, the company never established any standards by which its performance can be measured. Sodexho has never provided the district with an operational implementation plan that includes a methodology for verification and compliance with standards, posted or distributed standards of expected care to teachers, or a customer satisfaction survey. **52** As a result, the district has no way of knowing exactly what services the contractor is supposed to be providing; it has no systematic way of monitoring the service Sodexho is providing; and it has no agreed-upon mechanism for disciplining the contractor when it fails to provide adequate service.

Business Manager Belloni relies on individual principals to contact him when they become aware of custodial problems in their schools. When this occurs, Belloni, the principal, and
the Sodexho manager get together to solve the problem. But this type of troubleshooting is no substitute for real quality control. Principals are likely to be too busy to notice all but the most dramatic of problems—they are unlikely, for instance, to notice mold buildup or deferred maintenance on boilers until the problem is very advanced. They may also understand that Mr. Belloni himself is a busy person and be reluctant to contact him except in extreme situations. Finally, principals may, over time, get used to a lower standard of care that comes to seem normal and does not seem like a reportable offense, even though it may reflect inadequate service on Sodexho’s part. Although it is admirable that Mr. Belloni’s office responds conscientiously to principals’ calls, this practice cannot be considered a quality control system. Moreover, it does not compensate for Sodexho’s failure to live up to its contractual obligations to establish quality-control mechanisms.

Problems with Sodexho’s Performance
Skills and Screening of Employees

As was the case with SBM, the single biggest problem with Sodexho’s performance is the high rate of employee turnover. The combination of low starting wages ($8.50 an hour) and dramatically reduced benefits has turned what was once a skilled and committed workforce into a low-skill workforce with less loyalty to the school system. This problem is not particular to Sodexho, but is implicit in the strategy of contracting out work to the lowest bidder. As Business Manager Belloni noted, “There’s no question that when you pay well, you get good employees.” When you cut wages and benefits, you get lower-quality employees.

While Sodexho has not presented the district with any firm data, the company estimates that it is experiencing a 25 percent annual turnover rate among custodial employees. Such a high turnover rate has several troubling implications. First, the scramble to fill continual vacancies leads contractors to cut corners in screening job applicants. According to Sodexho’s contract, in addition to conducting criminal records checks and fingerprinting all applicants, the company pledged that it “will not allow a person to serve as a custodian whose character is not of the highest level or whose conduct might in any way expose a child to any impropriety of word or conduct whatsoever.”

While these words sound reassuring, it turns out in practice that they mean nothing at all. Apart from conducting criminal background checks, the district is unaware of any steps Sodexho has taken to guarantee that its applicants meet the standards described in the contract. Indeed, sources have reported that more than one Sodexho employee was subsequently fired when they were discovered to have criminal histories that the company had not identified before putting them on the job. Rather than absorbing the cost of effective screening, Sodexho appears to have left students, teachers, and parents bearing a risk that the district thought it was contractually protected against.

Sodexho’s high turnover rate also likely imposes costs on the district that should rightly be borne by the contractor. The company’s contract prescribes guaranteed staffing levels that are to be filled year-round. But with a 25 percent turnover rate, there are bound to be periodic staff shortages as the company scrambles to hire new replacements. Since Sodexho is contractually bound to supply a guaranteed number of custodians per day, the district should logically be refunded part of its monthly fee whenever there are staff shortages due to turnover. However, this has never happened, simply because the district
has no systematic way of knowing when and where there are staff shortages.

Business Manager Belloni relies on individual principals to alert him whenever their school is short-staffed; and he notes that since principals “go crazy” when their schools are short custodians, he believes that he hears about any staff shortages and has been able to remedy them. It is impossible to know whether this is true. Principals devote most of their attention to teaching and classroom issues rather than building maintenance, and it is easy to imagine that a missing custodian might go unnoticed on a busy day. Putting out fires is not the same as monitoring contractor performance. The fact that the district does not have systematic, real-time reports on staff shortages makes it easier for staffing shortages and quality problems to occur and means that the district may well be paying for a full complement of custodial staff while receiving only partially-staffed service.

Finally, Sodexho’s turnover rate also exacerbates the problem of employee training. Custodial work involves the operation of industrial buffers and scrubbers and the applications of specialized cleaning agents; whether through formal, informal, or on-the-job training, the district’s in-house custodians became experts at this work through their long years on the job. By contrast, new employees hired off the street often have no knowledge of how to use even such standard equipment. In addition, the contract requires that all custodians are to be trained in a wide range of skills, including: safety, materials handling and management, blood borne pathogen cleanup, mechanical services, preventative maintenance, boiler maintenance, relamping, energized systems, and emergency response. Our sources report that Sodexho’s employee training consists largely of videos rather than hands-on training, and that the videos are of questionable value, often directed at restaurant cleaning rather than school custodial tasks. We have been told of employees lacking the most basic knowledge and training in using everyday custodial equipment. While the district’s business office believes that Sodexho staff are adequately trained, it has no way of knowing for certain since Sodexho has not provided the district with any documentation regarding the nature, extent, or timeliness of its employee training. Again, the absence of any meaningful oversight means that it is easy for employees to go untrained and the district may be paying for a quality of service for which it has theoretically contracted for but is not, in fact, receiving.

Quality of Management

In its contract with the district, Sodexho pledged to provide “an on-site manager with significant supervisory experience in the provision and management of custodial services to K-12 schools.” However, our sources report that the two Sodexho managers overseeing custodial services have backgrounds in restaurant and hospital cleaning respectively, but neither came from a position in another K-12 school system. We have been told that neither is sufficiently knowledgeable in the details of cleaning materials and equipment. It is understandable that it may be legitimately difficult to recruit staff to Lincoln County. Although Sodexho has promised to bear this cost itself, it appears that the company has reneged on this part of the contract. While the current management may be well-intentioned and hard-working, the district is not supposed to be paying for Sodexho managers’ learning curve; it is supposed to be receiving experienced personnel. This lack of experienced management may easily lead to both problems in the quality of service and to the district paying for something it is not receiving.
Quality of Services

As we pointed out in our earlier study, turnover among school support staff can have an effect on the quality of service by stripping districts of experienced workers who feel that they are an integral part of a school building’s “team.” This can especially be true in custodial services where workers perform many tasks outside the purview of their official job description that enhance the safety, security, and overall atmosphere of the school environment.64

For the reasons detailed above, it is difficult to measure systematically the quality of service Sodexho has provided. Anecdotal evidence, however, suggests reason to be concerned. Generally, our sources report that where schools are still served by “rollover” custodians—former district employees who remain on the job—the quality of work is satisfactory. But rollover employees constitute less than half of the Sodexho workforce. At least one outside organization, the Oregon Coastal Quilters Guild, sent a letter of complaint to the district. This organization has been holding five-day quilt shows at Newport Middle School for many years. This year they complained they no longer had a custodian helping them set up and that the school was dirty and uncared for, forcing them to clean the bathrooms themselves before they were usable. The district disagrees with this account, reporting that the quilting group used the school during a deep-cleaning period of the summer and that the quilters “dirtied up the school and did not want to pay for custodial services.”65 Sources also report that many teachers are similarly unhappy with custodial standards, but are concerned that speaking out may be viewed negatively.

In addition to the staffing and training problems that could result in substandard care, several respondents in our telephone interviews reported that the cleaning products provided by Sodexho were inferior to those used previously under district management, and that several cleaning jobs had to be redone as a result. We have also been told that custodians lack new equipment and, in some cases, “rollover” custodians have paid out of pocket to purchase cleaning supplies that they believe will produce the necessary results.66

Teachers Speak Out on Deteriorating Quality of Custodial Services

As described above, Sodexho’s contract with Lincoln County requires the company to distribute standards of expected care to the district’s schoolteachers and to conduct a customer satisfaction survey of teachers; but the company has failed to carry out either of these commitments. In 2007, the local teachers’ union conducted its own survey of Lincoln County schoolteachers, asking about their experience with Sodexho’s custodial service. The results are troubling and point again to the fatal loopholes both in the Sodexho contract and in its administration.1

All but one of the teachers who filled out surveys reported that contracting out has resulted in a worsening of custodial service. Several teachers complained that custodians don’t have the time to regularly clean students’ desks. One teacher noted that among the things regularly left undone are “dusting, cleaning window sills, cleaning desks and tables, disinfecting tables, chairs, and desks, etc. The custodians do not have time to do these necessary things.” Another reported that “anything up a ladder” or “anything that uses a tool beyond a mop” now goes undone. The cleanliness of students’

---

1 The responses to this survey were shared with the authors by the Oregon Education Association, the union representing Lincoln County teachers.
desks is a particular concern since students eat breakfast at their desks; one teacher reported “an increase in student illness due to unsanitary conditions.”

Teachers noted that because many tasks previously carried out by in-house custodians are now left undone, the teachers themselves have effectively become responsible for these parts of custodial work. Teachers reported they now clean desks and tables, mop floors, dust, clean sinks, and wash chairs. None of this is in teachers’ job descriptions, but they feel compelled to make at least some effort to compensate for the deterioration in custodial services. One teacher explained that, “I have a tile floor. Unless I ask, it rarely gets mopped. A clean, mopped floor shows kids they’re important.” Another reported that, due to the lack of custodial services, “I have to clean tables or the children eat in absolute filth!”

Unsurprisingly, teachers have praise for the “holdover” custodians who were previously employed by the district but are concerned about the quality and longevity of Sodexho’s new hires. Several teachers complained of poor morale among the custodians. One explained that “The veteran custodians are very good, but the constant turnover of new guys who are apathetic because they make minimum wage is problematic.”

The results of this study point to two troubling facts. First, custodial services have deteriorated to a point that classroom cleanliness, student morale, and even student health may be affected. Second, the district’s business manager, who is charged with monitoring the performance of its contractors, doesn’t know this. As noted before, while Business Manager Belloni’s system of essentially relying on school principals to alert him to custodial problems may succeed in putting out the most dramatic of fires, it is no substitute for a real quality-control system. The teachers’ survey makes clear that very serious problems have gone undetected by the central administration. Again, this means both that student services are suffering and that district taxpayers are not getting from Sodexho what they paid for.

Summary

Two factors lie at the heart of Lincoln County’s custodial problems. First is the inconsistent quality and high turnover of Sodexho employees, a direct result of the company’s strategy of making money by keeping wages and benefits low. Over and over again, we heard from those associated with the school system that there is a huge difference between the “rollover” custodians and those newly hired by Sodexho. The former learned their craft and developed their knowledge and relationships through long years of service, which were a product of the good wages and benefits offered to district employees. When Sodexho took over the work, these employees lost the health and pension benefits they had previously enjoyed, but retained their wage rates—on average, about $3 an hour higher than Sodexho hires. The value these employees bring to the job is evident to all. “Good custodians make a big difference,” explains District Business Manager Belloni. With rollover custodians, “you get the tender loving care—the building is their building.” Belloni went so far as to comment that, “If we were to bring something back [in-house], custodial would be the first.” At present, the district believes this option is too expensive to be considered seriously. But the above analysis indicates that the cost difference may be less than believed—particularly if a full accounting of Sodexho’s work was made.

The Lincoln County custodial system is essentially coasting on the credit of past
practice. Our sources report that when principals have problems with Sodexho custodians, they turn to the rollovers to take charge and set the job right. In this sense, where Sodexho is providing quality service, it should not be taken as a sign that privatized services are effective, but rather the opposite—that some services remain effective despite privatization, because of the carryover effect of the old system.

The turnover problem has prompted District Manager Belloni to have his staff calculate the affordability of offering Sodexho’s custodians raises of up to $1/hr. While this would likely have a positive impact on turnover, no one can accurately predict the impact of raises of a given size. The “rollover” employees developed their expertise and loyalty through years of both higher wages and better benefits, the latter of which are not available for Sodexho hires. When these employees retire, we should expect to see the quality of service fall significantly.

The second key problem at Lincoln County is on the management side. It is unsurprising that the same financial concerns that lead school districts to contract out support services also result in reductions in the management corps. These reductions too often eliminate districts’ oversight capacity at the exact time that oversight has become more important than ever. In Lincoln County, Business Manager Rich Belloni is now responsible for work that had previously been divided among five full-time managers—including custodial, transportation, food service, technology, and business services. The time he can devote to monitoring custodial performance is obviously limited. To some extent, the district’s managerial functions have been outsourced to school principals, who are now charged with assigning 50 percent of custodians’ daily tasks and who are relied on to substitute for an effective performance monitoring system. However, principals themselves are already stressed and overloaded; it is not realistic to imagine that they can devote much time to policing custodial contracts.

The problem, however, is that a school district cannot simply trust a service contractor to be self-policing. The nature of business is that contractors on a fixed fee will seek to minimize their costs in any way legally permitted. When they are not policed, it is unlikely that contractors will police themselves, either. Serious self-policing requires a more expensive management effort on their part, and it inevitably increases operating costs. A contractor interested in cutting corners is a challenging partner for a school district that has little ability to monitor or enforce performance standards. In Sodexho’s case, the problem has been accentuated because the company has reneged on several of its contractual responsibilities.

Under Sodexho, Lincoln County appears to be suffering from many of the quality problems it initially encountered with SBM. It is difficult to tell precisely what the financial impact of contracting out has been for the district. Although, as has previously been shown, we know that it is certainly possible to save money by reducing the health insurance and pensions of district employees. It is clear, however, that the promise of getting the same service at a discounted price has proven elusive.
When Lincoln County first contracted out its food service operation to Sodexho, the contract seemed to promise continuity of service at considerable savings. However, the savings from Sodexho’s operation appear to be substantially less than projected. In brief, Sodexho’s operations simply did not generate the anticipated level of savings—even after dramatic cuts in the wages and benefits of food service employees. After the operation failed to generate the expected savings, Sodexho negotiated a lower “guaranteed return” to the district. When the district first contracted with Sodexho, both parties expected that the contractor’s operation would be so successful that it would generate its “guaranteed return” out of operational savings. However, even with these reduced targets, Sodexho has not always managed to generate its “guaranteed return” out of the food service operation. In each of the past two years, the company has fallen short of even its reduced goal and has been forced to pay the district from outside corporate funds. Obviously, no business will continue to operate this way on a long-term basis. To resolve this problem, Sodexho must do one of two things: cut costs or increase the price it charges the district.

Food Service
District Savings and Quality of Service Fall Short of Expectations in Lincoln County

then, that the Sodexho operation has generated savings that were returned to Lincoln County families in the form of maintaining low meal prices. But the company has not generated the expected level of cost savings from its food service operation.

In an effort to improve its financial performance, Sodexho has also adopted practices that have raised concerns within the district. Primary among these is the company’s decision to serve breakfast in classrooms rather than in the cafeteria. For Sodexho, this is a key strategy for increasing the number of meals served. But when the program was initiated at Waldport Elementary School, teachers complained that moving breakfast out of the cafeteria meant students were served cold rather than hot breakfasts; nutritional content failed to meet federal standards; and some students felt compelled to eat a second breakfast. At one board meeting, the district was accused of “using our kids to make money,” and “not having the kids’ best interests in mind.” Teachers asked that breakfast service be moved back into the cafeteria.

In moving breakfast into the classrooms, the district made free
breakfast available to all students in the school, regardless of whether or not they qualified for free breakfast under the federal school food program. For this reason, the program has been a break-even operation rather than a money-maker for the district. The provision of free breakfasts to all students is certainly a laudable object. Nevertheless, the move attracted criticism from several sources.

Sodexho managers responded that they had moved breakfast into the classroom as a pilot program to encourage greater student participation and help them market meals more effectively. Acknowledging that “there’s not a big focus on protein” in the classroom breakfast selection, Sodexho management pledged to work with the district in expanding healthy food choices and getting more hot food options onto the menu. Nonetheless, Sodexho refused to restore cafeteria breakfasts. Instead, in-classroom breakfasts have become the norm in all but one of the district’s elementary and middle schools.  

In this practice, the district is following the recommendation of the Oregon Department of Education, which recommends in-class breakfasts. But, while Sodexho’s menus meet the USDA requirements, there remain concerns regarding the quality of food served. One year after the complaints surfaced at Waldport Elementary School, Sodexho appeared before the Lincoln County School Board seeking renewal of its food services contract with the district. The company reported that it was offering more healthy choice options on its menus in conjunction with the school district’s new program aimed at promoting “wellness” for students. Sources, however, suggest that while Sodexho’s menus did improve after teachers offered criticism in 2004, issues still remain regarding sufficient protein choices and limits being placed on student breakfast consumption that hold daily caloric intake below government standards. This dispute over the quality of food services in Lincoln County suggests a continuing conflict that has not yet been fully resolved. Sodexho needs to limit costs and sell a certain amount of meals each year in order for contractually-provided financial incentives to take effect. Meeting these meal targets is complicated by the fact that enrollment in the Lincoln County School District has been declining in recent years.

On the other hand, teachers and some school board members remain concerned that the imperative to generate revenue may mean that the interests of children are being shortchanged or compromised. In response to the issues raised at the May 2006 school board meeting, Sodexho offered to have its general manager appear before the board on a monthly basis to report on food services. More frequent reporting to the board and the public is certainly desirable and will provide the public with a regular opportunity to ask questions.

As we noted in our earlier report, the kinds of food service issues raised in Lincoln County have also surfaced in other school districts and were highlighted in an independent consultant’s 2004 report on Sodexho’s management of food services in the West Linn-Wilsonville School District. In order to assure sustained progress in upgrading the quality of food service in Lincoln County, it appears as if the district will have to increase its monitoring and oversight procedures, and both the school board and the public must persist in stating their expectations and insisting on accountability.

However, as in its custodial operation, the district is not well equipped to provide systematic quality control monitoring regarding the food service operation. District Manager Belloni is able to devote only 15-20 percent of his time to overseeing the food service program, and the two staff people who work with him likewise have their responsibilities
split between a wide variety of business and facilities services. Furthermore, much of their time must be spent carrying out organizational and bureaucratic tasks that remain the district’s legal responsibility—such as getting students to sign up for the federally-subsidized meal program; processing contracts for federal food supplies; processing all claims, contracts, and agreements with federal food support programs; and overseeing repair and maintenance of all the equipment used in food preparation and storage. Even with the most talented and dedicated staff, it is not realistic to expect that thinly-stretched district personnel can carry out all these responsibilities and also devote considerable time to systematic oversight of food service quality.

Beyond the quality concerns, there are several aspects of the operation that suggest the district’s expenses may be higher, or the quality of services it receives lower, than expected. First, according to the contract, Sodexho is required to provide “a residential manager to operate the school food service program” who “shall have at least four years experience in educational food service operations.” In fact, when Sodexho’s initial food service manager left, it took the company several months to replace him. During this time, managers from Sodexho’s Salem, Eugene, or Corvallis operations would alternate visiting Lincoln County to provide oversight, though they retained their primary duties in their home offices. When the company finally hired a new residential manager, they brought in an individual whose previous experience was running a hospital food service operation, with no previous school experience. Therefore, it appears that the district has been paying for a level of service it did not receive.

Some of the costs that the district assumes for its food service operation—electricity, water, and sewer service, and equipment repairs and maintenance—have been capped at $86,000. Up to this point, Sodexho will reimburse the expenses; beyond this, the district must pay out of its own pocket. The $86,000 figure was set in 2003 and has been frozen since that time. However, it is likely that the district’s actual operational costs have increased over that time. These additional costs are picked up by the district, but they do not figure into any cost-benefit analysis of the Sodexho contract.

Finally, whatever level of savings the district may have realized over the past three years is an unrealistic guide to the future. As described above, Sodexho has not managed to generate its “guaranteed return” out of the food service operation and has been forced to subsidize the contract from general corporate funds. Obviously, no business will continue to operate this way on a long-term basis. To resolve this problem, Sodexho must do one of two things: cut costs or increase the price it charges the district. The former strategy raises potential problems with food quality such as those described above. The latter directly increases the district’s cost. In either case, it is clear that whatever level of savings the district may now be realizing has been artificially propped up through corporate subsidies from Sodexho, which cannot continue. When Sodexho figures out a way to stop subsidizing this operation, it will yield a more realistic and more negative cost-benefit analysis.

In summary, many of the concerns identified in our first study remain relevant. It is hard to determine the exact quality of food service provided, because the district’s managerial staff is too thinly stretched to provide detailed oversight. And putting together all the pieces, although it is difficult to specify the exact financial impact of contracting out, the food service operation in Lincoln County has fallen short of the level of savings trumpeted at the time the board decided to privatize this function.
In our previous report, we devoted an entire section to “recommended procedures for due diligence” and offered specific suggestions on how school districts could protect their interests when contemplating whether or not to enter a relationship with a private contractor to provide school support services. Our focus was on the Request for Proposal (RFP) and initial contract process and emphasized the need for school districts to specify their expectations for contractor performance in order to ensure accountability in service delivery.

One aspect of due diligence that we alluded to but did not discuss in detail was the need for districts to oversee and monitor contractor performance once the contract goes into effect. In addition to cost savings, many school districts embrace contracting out as a means of freeing up staff from the time-consuming tasks associated with managing and overseeing school support services. Presumably that time can then be spent on activities related to classroom operations, an enticing prospect for districts faced with tight budgets and scarce resources. Nonetheless, districts must still monitor the performance of their contractors and provide school boards and the public with sufficient information for them to evaluate both the quality and cost effectiveness of the services they are receiving.

Christine Chinni, an attorney who represents 75 school districts in New England, offered this cautionary note regarding how districts should approach their relationships with private contractors: “Districts want to have more control and less responsibility… These relationships work best when boards of education are able to balance those two aims successfully. If you cede all the responsibility, you’ve also ceded all the control.”

Mark Walsh, a management consultant and school transportation expert, elaborated on the need for school districts to develop strong monitoring and oversight procedures to ensure accountability from private contractors: “School districts should require ongoing...
communication through a combination of monthly reports and periodic meetings between school district staff and company representatives. A monthly report should address the following specifications: current driver force level, specialized training offered, accidents, accumulated mileage, discipline reports, and extracurricular activities. Walsh emphasized the need for regular face-to-face contact between contractors and school districts to evaluate performance and also recommended that contractors make annual presentations to school boards where they would discuss the services being provided, address current issues and concerns, and respond to questions from both school board members and the public. Although Walsh was specifically referring to transportation services, his recommendations for monitoring and oversight are relevant to other services as well given their emphasis on effective communication, clear performance standards, establishing mechanisms to keep school boards and the public informed, and procedures to ensure accountability.

With assistance from union staff at OSEA, we asked the five school districts that contracted out services in 2003 about their monitoring and oversight procedures and specifically inquired if they had produced any written evaluations of or reports on contractor performance. Lake Oswego, which contracted out transportation service; Lincoln County, which contracted out transportation, food, and custodial services; and Gervais and Pleasant Hill, which each contracted out transportation, responded that they have no written evaluations or reports. In Lincoln County, contractors provide annual updates in appearances before the school board, but these contain only the most general information with insufficient detail to really assess the contractor’s performance. Rainier, which contracted for custodial and transportation services in 2003, has the most elaborate and detailed system of monitoring and reporting among the five districts. The Rainier superintendent provides a written update on school activities at least once a month, and this update usually includes information on contractor performance. The superintendent also presents written comments prior to each school board meeting that contain details about the contractors’ activities. Rainier is a model of the type of reporting on contractors that experts recommend. Its
superintendent is providing both the school board and the public with a regular accounting of contractor performance and a clear picture of how specific service-related issues are being addressed. In contrast to other districts, Rainier has created a public record that candidly discusses contractor performance and underscores the district’s commitment to holding contractors accountable for fulfilling the terms of their agreements.

This lack of publicly available reports and evaluations makes assessing contractor performance somewhat difficult. By and large, the five districts that contracted out in 2003 expressed satisfaction with the quality of service they are receiving. Transportation contractors, especially Mid Columbia, have generally received good reviews from school districts and, as was noted earlier, most of the workers we interviewed in Lincoln County had few complaints about Mid Columbia’s job performance (they were concerned, however, about working conditions and especially levels of wages and benefits). Yet news accounts, our telephone interviews, and other sources suggest that some of the quality of service issues we mentioned in our earlier report have surfaced in several districts.

One of the key concerns when any school district contemplates contracting out support services is whether or not it will exercise sufficient control over the contractor to guarantee the quality of services on which students, teachers, and taxpayers rely. When the Albany school board conducted a survey of Oregon districts that had privatized support services, they found that such problems were commonplace. Once a service is contracted out, the district becomes one step removed from the actual delivery of service. Vendors do not always live up to contractual expectations, contracts are not always well constructed, and districts sometimes do not monitor contracts well.²⁹

The Albany survey identified custodial services as an area where school districts should proceed with particular care. “Most districts,” they reported, “found that having custodians as district employees are an advantage … They can become part of a school building team and the quality and commitment can be greater than if they are nondistrict employees.”³⁰ If school districts are to get comparable service from custodial contractors, it is particularly important that they exercise close control over the services performed.

Unfortunately, the same financial pressures that lead districts to consider contracting out their services often result in simultaneous cutbacks at the managerial level, thus leaving districts incapable of serious oversight at the exact time that the oversight function has become more important. In Lincoln County, for instance, the district business manager is now responsible for a scope of work that had previously been distributed among five separate full-time managers—including oversight of all three contracted services. In such a situation, it is unrealistic to expect that district staff will be able to do much more than meet their legal obligations and respond to complaints as they arise. But the practice of “putting out fires” is no substitute for real quality control. Since contractors generally operate on a fixed monthly fee, their self-interest is always to minimize expenses in whatever way possible. Without systematic oversight, a district leaves itself vulnerable to not getting what it thinks it has paid for and may leave students and teachers bearing the burden of substandard service.
Like Lincoln County, the Rainier School District has also encountered some problems with its contracting out of custodial services. In 2003, Rainier contracted with Riverside Training Center, a Qualified Rehabilitation Facility (QRF), to provide this small school district with custodial services. Under Oregon law, a QRF that is involved in training disabled persons for employment is granted preference in contracting by public agencies provided it is capable of supplying a needed service. Apparently Riverside experienced difficulties in maintaining staffing levels and had to bus in custodians from outlying communities. The school district also noted problems in communicating with supervision and complained about delays in getting Riverside managers to address concerns about performance issues. By November 2004, Rainier decided to end its contract with Riverside and hired another QRF, Portland Habilitation Center (PHC), to provide it with custodial services.\footnote{81}

The district generally reports receiving improved service from PHC. Nonetheless, there have been recurring problems with scheduling, timely communication with supervision, and maintaining staffing levels. In April 2005, Rainier Superintendent Michael Carter reported to the school board that several of the holdover custodians from Riverside had resigned, and PHC was still citing staffing problems at the end of the year. “It is a transient-type job and it is important for us to remember that,” he asserted. A year later in April 2006, Carter was still complaining about communication problems with PHC. To its credit, Rainier has carefully monitored its relationship with PHC, sought to “raise the bar to make it [the quality of work] a higher standard,” and kept both the school board and the public informed about performance issues. However, it should be noted that “transiency” is generally far less of an issue when school districts have retained control of custodial services. As we have seen, under school district management it is not uncommon for custodians to have a decade or more of seniority, enabling them to establish a degree of familiarity and connection with teachers, staff, and students that is much harder for private entities to achieve.\footnote{82}

Mark Walsh, a management consultant and school transportation expert, elaborated on the need for school districts to develop strong monitoring and oversight procedures to ensure accountability from private contractors:

“School districts should require ongoing communication through a combination of monthly reports and periodic meetings between school district staff and company representatives. A monthly report should address the following specifications: current driver force level, specialized training offered, accidents, accumulated mileage, discipline reports, and extracurricular activities.”
We conclude that school districts need to resist the temptation to adopt an “out of sight, out of mind” approach regarding their relationship with private contractors. The issues that have emerged in some of the Oregon districts that contracted out in 2003 underscore that, while private contractors are certainly capable of providing quality services, school districts still have the responsibility to establish mechanisms and practices that will enable them to oversee, monitor, and evaluate contractor performance. We would like to see much more in the way of written reports and evaluations of contractor performance along the lines that the Rainier School District has established. Such reporting would go a long way toward keeping school boards and the public regularly up-to-date on contractor performance and provided with sufficient information that will enable them to make informed judgments. In other words, the due diligence that school districts and school boards exercise in the RFP process must continue once a decision to contract out has been made, if accountability is to be ensured and the interests of both children and the public are to be protected.
Deciding whether or not to contract out school support services is one of the most difficult judgment calls faced by a school district. The heated community debate that accompanies discussion of privatization testifies to the controversy it often arouses. Inevitably, the prospect of saving money and conserving scarce resources drives school districts to consider contracting out and to proceed with privatization when they are convinced that the financial benefits will outweigh the costs of shifting to private management.

In our first examination of contracting out three years ago, and in this new analysis, we have attempted to consider the question of cost and benefit from several perspectives. As we discovered in our initial study, contracting out continues to carry a social cost. In Lincoln County, the Oregon school district that has contracted out most of its support services, we find that workers have experienced an ongoing decline in their standard of living, and the school district no longer serves as a community pacesetter for the provision of family-wage jobs. As far as actual cost savings derived from contracting out, we have uncovered several instances where estimated or projected financial benefits appear to have been exaggerated.

Given the paucity of information available regarding contractor performance, we had difficulty assessing the quality of service offered by private companies delivering school support services. Nonetheless, our limited survey revealed some of the quality concerns that have surfaced with private contractors elsewhere and especially spotlighted the difficulties that contractors face in providing quality custodial services. Our analysis affirms the need for stronger practices and procedures to oversee, monitor, and evaluate contractor performance. Finally, the questionable practices several districts have engaged in regarding the use of bus replacement funds once fleets have been sold warrant further examination and scrutiny.

Taken as a whole, this follow-up study of contracting out suggests the continuing need for school boards, school districts, and the public to insist on careful scrutiny and exercise due diligence in assessing the claims of private contractors and the quality of their performance.

Conclusion

Time after time, board members, faced with tight budgets and scarce resources, believed they had washed their hands of a problem by contracting services out only to find that they had unintentionally created a new set of headaches and hazards.
Appendix: Sources

1 Oregon Department of Education, Pupil Transportation Data, 2005, and Child Nutrition Program Date, 2005-06.


3 The specific figures are as follows: Current Hourly Wages for Workers Who Found New Jobs Outside the School District (Figure as Compared to What They Had Earned Previously with the School District)

   $1.84 less  
   $1.65 less  
   $1.00 less  
   $10.77 more  
   Self-employed-earning less, but could not specify  
   Would not disclose

4 Worker telephone interviews, Lincoln County School Board Minutes, December 13, 2005, OSEA Collective Bargaining Agreement with Lincoln County School District, July1, 2001-June 30, 2004. The collective bargaining agreement no longer applied to those school support staff members whose jobs were contracted out in 2003.


9 Ibid.


11 Mid Columbia 401(k) Plan.


17 “Oregon Central Coast (Lincoln County) Largest Employers,” Central Coast Economic Development Alliance.
20 All quotes from the Rainier district in this document are from Susan Force, conversation with G. Lafer, 7/26/06, unless otherwise noted.
21 MIDCO actually paid slightly more than these consultants suggested; Western Bus assessed the fleet’s value at $130,000, and Brattain put it at $104,600.
22 Appraisals from Brattain, provided to G. Lafer by Susan Force.
23 Email communication from Susan Force to Gordon Lafer, 7/24/06.
24 Quote is from S. Force, 7/26/06 conversation with G. Lafer.
25 This financing structure was explained to G. Lafer by S. Force in 7/26/06 phone conversation.
26 See, for example, the school board’s Strategic Planning Recommendations, February 2004, at www.lowswego.k12.or.us/general_info/planning/fund_decrease/plan_03-04.htm.
27 “Lake Oswego School District Transportation Operating Costs Analysis,” shared with the author by district staff.
28 Conversation with G. Lafer, 7/26/06.
29 The process leading to the amended RFP was described to G. Lafer in a telephone call with Lake Oswego District Business Manager Stuart Ketzler, 7/26/06.
30 Lake Oswego District Transportation Contract with Laidlaw, p. 2.
31 The company’s appraisal method was described to G. Lafer by Bus Solutions representative April Hawks in a telephone interview on 7/25/06.
32 OAR 581-023-0040, “Approved Transportation Costs for Payments from the State School Fund,” outlines three categories of bus expenses that are reimbursable: outright purchase, lease agreements, and lease-purchase agreements. There is no provision for reimbursing the costs of buying buses that become the property of private contractors. Email communication to G. Lafer from OED Director of Pupil Transportation Deborah Lincoln, 7/13/06, explains that “the district may only receive reimbursement if they own the buses.”
33 Stuart Ketzler, conversation with G. Lafer, 7/26/06.
35 Stuart Ketzler, email to G. Lafer, 7/26/06.
37 When the district first privatized custodial services, existing custodians were offered the chance to remain in their old jobs at the same wage—but without the same benefits. The contract with Sodexho specifies that—after the initial transition—if one of these “holdover” custodians is replaced with a lower-wage new hire, the contractor must refund the difference in wages. Taken together with the fact that “holdover” custodians get the same reduced benefits as new hires, Sodexho does not have a monetary incentive to replace “holdovers” with newer hires.
40 District Business Manager Rich Belloni states that the termination of SBM’s contract “had nothing to do with the quality of service” (Email communication with G. Lafer, 3/6/07.) However,
three years after terminating the contract, the district still refuses to inform students, teachers, parents, taxpayers, or even current board members as to the reasons why SBM’s contract was terminated.


43 See, for instance, Sodexho Marriott Services, Inc. and Local 79, SEIU, Case Nos 7-CA-40637 (1)(2), 7-RC-21246, Case No. 7-CA-40942, December 1, 1998, ALJ: Bruce D. Rosenstein; and Marriott International, Inc. and others, Case No. 21-Ca-31688, June 2, 1988, ALJ: Frederick C. Herzog.


45 Lincoln County School District, contract with Sodexho America, LLC, June 14, 2005. Section II, Clause 1A.

46 Section II, clause 7. Emphasis added. This conditional language seems to stem from the SBM contract, where the district explains that “limited manpower allowances are expected to prohibit the full provisions of those standards.”

47 Section II, clause 9.

48 Section II, clause 1A.

49 Section II, clause 13.

50 Section II, clause 16B.


53 In communication with the author (3/6/07 email), Business Manager Rich Belloni has asserted that custodian supervision has improved through contracting out, since prior to contracting out, employees were only supervised by Mr. Belloni and school principals, whereas they now have a Sodexho manager as well. However, while this statement may reflect the state of affairs immediately preceding contracting out, Mr. Belloni himself reported (interview, Dec 21, 2006) that prior to that time there was a separate in-house manager devoted to overseeing custodial work. Furthermore, because the wages and benefits provided in-house staff created a loyal staff with long tenure and little turnover, custodians developed effective long-term relationships with school staff and thus required less supervision. Sodexho’s providing a full-time manager simply reestablishes the management structure that existed before budget cuts left Mr. Belloni responsible for what had previously been five separate managerial jobs. But the lower quality and higher turnover of Sodexho’s workforce requires a level of supervision that the current structure does not provide—particularly in the absence of the Service Study and established norms of custodial care by which performance may be measured.


55 Statement of Sodexho area General Manager Terry Branson, Lincoln County School Board meeting minutes, December 13, 2005. District Business Manager Rich Belloni agreed that this 25 percent figure seemed accurate or perhaps a little low, noting that the turnover “has been more than what we anticipated.” Conversation with Gordon Lafer, December 20, 2006.

56 Section II, Clause 12A(1)(b).

57 Rich Belloni, email communication with UO research assistant Lara Skinner. Belloni reported that employee screening entailed criminal records checks and background checks with the Oregon Education Department.

58 In communication with the author (3/6/07 email), both Sodexho and the district assert that employee screening is better under Sodexho than it
was under the district, citing the fact that Sodexho requires drug testing while the district did not. However, drug testing in itself does not really alter the story much. The district had an in-house staff that was long-term, low-turnover, and very well known. Sodexho has attracted a lower quality staff with much higher turnover. The relevant question is whether or not Sodexho has invested sufficient resources to provide the intensity of screening that would guarantee its pledge to the district. When Sodexho and the district were provided with an early draft of this report, neither denied the allegations of Sodexho having put on the job people later discovered to have criminal histories.


60 Section II, clauses 10 and 12A.

61 In response to an early draft of this report (3/6/07 email), Sodexho asserted that its employees are trained in all the necessary skills and that documentation of the trainings are “signed and dated.” At the same time, the district stated that “there was little or no training provided by LCSD” when custodial work was done in-house, and that “under Sodexho, this has been corrected.” Nevertheless, it has been universally acknowledged—including by District Business Manager Belloni himself—that the “holdover” employees who learned their custodial skills as in-house employees are superior custodians. Sodexho did not deny that its training consists of videos. Further, it is hard to evaluate the seriousness of some of the training; for instance, the contract requires Sodexho to provide training on boiler maintenance, among other topics, and the company suggests that it provides training on all required subjects—but Business Manager Belloni reports that boiler maintenance is not part of the job description that custodians now perform (3/6/07 email).

62 Section II, clause 12A(1).

63 In communication with the author (3/6/07 email), the district responded to an early draft of this report by noting that “Sodexho’s first manager had school and hospital experience—he then trained his assistant manager for one year. Then the assistant manager moved up to manager after a year of training. He is not training his assistant.” It is unclear how much and what type of previous school experience the first manager possessed at the time of hire, and the district did not suggest that either the first or current assistant manager had “significant supervisory experience” in school custodial services, as required by the contract. In the same communication, the district argued that “the fact that managers came from hospitals and restaurants showed a higher level of training in all blood-borne pathogens, cleaning, and quality than that of a manager in education… This is a plus for the district. A parent would like to know that someone who recognizes such things … is on staff.” However, we assume that there was good reason for the contract to insist on Sodexho providing a manager with specific previous experience supervising school custodians, and to the extent that it reneged on this part of the contract, Sodexho has not provided the level of management expertise that the district is paying for.


65 Email communication from Rich Belloni to Gordon Lafer, 3/6/07.

66 Lincoln County School Board minutes, December 13, 2005.


68 Reported to the author by Rich Belloni, 12/20/06, conversation with G. Lafer. Mr. Belloni asserts that it is a strength of the contract with Sodexho that, even in years when the company’s operations did not produce enough revenue to cover the guaranteed return, the district still received its guarantee by the company cutting a check out of its own funds. This is true, of course; but it is not an arrangement that can continue indefinitely. Ultimately, if Sodexho is unable to realize the expected cost savings from its operations, it will be unable to continue paying the “guaranteed return” out of its own pocket.

69 Terry Dillman, “School board approves food contract, lunch prices,” Newport News-Times, June

70 District Business Manager Rich Belloni, conversation with G. Lafer, 12/20/06.

71 Lincoln County School Board minutes, May 23, 2006.

72 District Business Manager Rich Belloni, conversation with G. Lafer, 12/20/06.

73 2003-04 contract.

74 Section 4, clause 4(b), 2003-04 contract.

75 District Business Manager Rich Belloni, conversation with G. Lafer, 12/20/06.

76 The district reports that Sodexho did not charge for management services during the period in which there was no residential manager. The district has not, to date, provided documentation of this assertion, but we take it at face value.


79 Memorandum from Superintendent Pat Bedore to Albany School Board, January 13, 2006, p. 4.

80 Memorandum from Superintendent Pat Bedore to Albany School Board, January 13, 2006, p. 5.

