



The Outsourcing Question

Joetta Sack-Min

When deciding whether to privatize food service management, consider the pros, cons, and the company's resources

It sounds tempting, especially in tough fiscal times: Hand over all the responsibility for food service management—that byzantine department that usually operates in the red—to a private company promising to provide nutritious and appetizing meals, keep up with increasingly complex regulations, and perhaps even make a profit. After all, schools are in the business of educating students, not wrestling with commodities markets.

Of course, it's never that easy. While privatization, or outsourcing, has worked well for some districts for years, the mere mention of the dreaded "O" word may set off protests from employees, unions, and parents and divide the administrative staff.

It's a tough decision for any district, but outsourcing may become more attractive because of the changing nature of the food service field, says Katie Wilson, the president-elect of the School Nutrition Association and food service direc-

tor for the Onalaska, Wis., school district. As food costs rise and regulations become more complex, many food service directors are retiring and fewer people with the right mix of business and nutrition skills want to work in a school district.

“Any district has to weigh the pros and cons, and ask what are their equipment needs, financial needs, and do they have the resources in house to hire a professional director?” says Wilson. “Outsourcing has a place in school nutrition programs if the need is there and a district can’t find other sources.”

Why privatization can work

Nationally, nearly 20 percent of school districts use a private food service management company, a number that has remained steady for the past decade or so, says Kendley Davenport, a senior vice president for Sodexo School Services, one of the major food service providers.

Davenport says most school districts that he’s worked with face three issues: finding a good leader for their food services division, low participation in the school lunch program because of few choices or poor quality foods, and financial problems.

Opinions on whether outsourcing saves a district money vary widely, and two Michigan studies provide conflicting results. Roland Zullo, a University of Michigan researcher who surveyed the state’s districts that used private providers in 2005-06, found no substantive decrease in lunch costs and a slight increase in breakfast prices. But a “Privatization Primer” released last year by the conservative Mackinac Center for Public Policy found that nearly 30 percent of Michigan school districts were outsourcing food services, and their surveys showed “the vast majority of districts are satisfied with the results.”

Several companies provide a range of plans to relieve school officials of the day-to-day duties of food service. Most assign at least one on-site manager and allow the district to decide whether to retain current cafeteria and food service employees at the same wages and benefits. Some positions may be gradually downsized or eliminated.

“There’s no cookie-cutter method,” says Davenport. “Every school district is its own entity, and we tailor our offer to meet their needs.”

Chartwells, another school food service provider, begins by meeting with school officials and parents to understand their needs and goals, particularly if the district is working toward a wellness policy.

“We try to find out what is most important in the process,” says regional sales manager Dennis Thomas. “A lot of the healthier options may cost a little more, so we try to look at three-to-five year plans” to defray some of those costs, he says.

Providers often use marketing to students to generate

more interest in school lunches. For instance, food service provider Aramark brands its high school facilities with names like “UBU Lounge,” and Sodexo has an A-to-Z salad bar that encourages elementary students to try new foods.

School officials who’ve outsourced say districts must be sure that they communicate their goals, understand the legal terms of the contract, and insist that their needs will be met before signing on. It’s also important to visit other districts using the same company.

Don Hietpas, the Appleton, Wis., school district’s chief financial officer, also advises school officials to meet and check references for the management team they will be working with most closely.

Hietpas further suggests districts “make sure they’re working with a partner that’s willing to work with them, meet their nutrition and financial needs, and stay within their nutrition and financial constraints.

“And,” he says, “make sure you have a good management team.”

Plans can go astray

School officials in the Neenah, Wis., district wish they had heard that advice when they decided to try privatization about three years ago, after a longtime food service director retired. The food services division was “bleeding money,” and its meal selections didn’t meet the district’s nutrition policies, said Superintendent James Wiswall.

The 6,200-student district contracted with Aramark, hoping to at least break even. Instead, they saw a \$354,000 deficit for the 2006-07 school year.

The board initially didn’t realize it was responsible for most of those excess costs, but its contract stated that Aramark would cover only the first \$100,000. School officials had agreed to that stipulation assuming that the arrangement wouldn’t produce shortfalls higher than the \$80,000 to \$110,000 deficits it previously ran, says John Lehman, the school board’s vice president.

“It was a learning experience,” he says.

One factor Lehman believes contributed to the deficit was grandfathering the existing cafeteria employees with the same pay and benefits. He said many worked part time but received full benefits—and sometimes the cost of benefits was higher than their salaries. Also, some of the district’s food operations didn’t run as efficiently as possible, he says.

After Aramark assigned a new manager to Neenah last year, the district significantly reduced its deficits and may break even this year, Lehman says.

In a written statement, Aramark said of the Neenah situation: “The labor costs for district employees and food costs were considerably higher than anticipated. However, the increase in food cost was the result of many positive changes that were made to improve the quality of the food program.”

Those changes included more choices for students and the selections of more costly fresh fruits, vegetables, and whole grains. The number of students buying school lunches increased 31 percent, according to Aramark.

Unions oppose outsourcing

Employee relations are by far the thorniest issues when considering privatization—in many cases, unions have vehemently opposed privatization because of concerns about their employees' jobs.

Aramark, Chartwells, and Sodexo say school districts can choose to keep their existing employees, with the same pay and benefits, and can decide whether those employees will be employed by the district or the private company. Often those decisions lead to gradual restructuring to save money and increase efficiency.

"Food management companies come in and say, 'we're not going to try to change everything overnight,'" says Davenport. "Over time, through attrition, we will right-size your organization and put on more a private-thinking approach."

Cathy Schlosberg, a vice president with Aramark, says most of the company's contracts include existing employees.

"A good portion of those employees are union employees, and we support that same approach," she says. "One of the large misperceptions is that the district would lose control over food services, and employees are not retained or will lose benefits."

The food service providers also say that their efforts often lead to better training and career advancement opportunities that school districts cannot provide.

That hasn't stopped local unions, including the 1.5 million-member Service Employees International Union (SEIU), from organizing campaigns against providers and the districts that hire them.

The Houston chapter of SEIU, for instance, has set up a Web page and distributed fliers to protest the Houston Independent School District's decade-long contract with Aramark, calling the company a "corporate menace." Under Aramark, they said, the number of school employees and their hours were cut; children were served smaller portions and food of lesser quality; and more vending machines were on campuses.

The American Federation of Teachers (AFT), the second-largest teachers union, also urges school districts to avoid privatization of food services and other duties.

"In general, the experience of our affiliates has been that school districts think that they are going to save dollars, but privatization rarely takes into account a whole variety of indirect costs and a loss of quality and services to the district," says Nancy Van Meter, the deputy director of AFT's Privatization Center.

AFT's affiliates, which include both teachers and classified

employees organizations, have reported numerous problems with private-management companies over the years, Van Meter says. She cites food safety violations, workers infected with contagious diseases who were still required to work, and lack of facility maintenance as examples.

Further, Van Meter says, districts have little recourse if they're unhappy with a provider's services.

"In many contracts there are very few sanctions—if you read the contract between a food service or vendor there are very few ways that the district can hold the vendor accountable other than firing them," she says. Going back to in-house management can be costly because often the school district has removed its kitchen equipment and has to search for new employees and managers, she says.

Some districts endorse outsourcing

Some districts that currently use private management companies say they've been pleased with the experience.

In Eugene, Ore., Chief Financial Officer Susan Fahey says her district has used Sodexo for about 10 years, and she appreciates outsourcing because it's brought more organizational support to help handle increasing federal and state regulations and the district's move toward healthier foods.

"When you're running your own program, you try to be as efficient as possible," she says. But that becomes difficult when you're splitting time between running school sites and keeping up with paperwork and regulatory changes, she adds. Sodexo has assigned three on-site managers to the 17,000-student district.

The district currently budgets about \$300,000 for its school food services, Fahey says. After outsourcing its management, the program broke even for several years, but school officials recently chose to pay more for healthier foods.

The Cleveland Heights/University Heights City School District in Ohio contracted with Chartwells last year and so far has judged their performance to be "outstanding," says Stephen Shergalis, the district's business manager.

"In today's economic climate, the challenges of providing healthy and nutritious meals while also prudently managing the food service budget are greater than ever," he says.

The 15,000-student Appleton, Wis., district also recently adopted a nutrition policy and worked with its longtime provider, Aramark, to provide better food choices.

"We've been very happy with our working relationship with Aramark," says Hietpas. "They have been a good fiscal partner, keeping the cost of the meals down but maintaining a situation where we're breaking even, and with a healthier diet than students had received in the past." ■

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