

How Private Management Firms Seek To Make Money In Public Schools

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While ServiceMaster, Marriott, the Aramark, Canteen, Laidlaw, Ryder and other private contractors have managed cleaning, food service and transportation operations in public school districts for years, interest in the private management of public schools greatly intensified during the summer of 1992 when Education Alternatives, Inc. (EAI) started to manage nine public schools in Baltimore. Two years later, EAI contracted to manage all of the schools in Hartford. As a public corporation that sold stock to finance its marketing, legal, and political activities, EAI sparked Wall Street's interest in the multi-billion dollar public education industry.

The least substantive but most appealing argument for private management is that public education cannot get worse and these contractors deserve a chance. But things can get worse, and it did in Baltimore and Hartford. EAI became embroiled in controversies over misrepresented student test scores in Dade County as well as Baltimore, and inflated attendance figures in Baltimore. EAI violated federal and state laws in Baltimore in the areas of special education and Chapter 1 and operated under extensive corrective action plans. Soon after the Baltimore contract was canceled in late 1996, Hartford also terminated its contract with EAI, which had been plagued from the start by community turmoil and disputes over expenses.

While EAI currently has no meaningful management contracts, the Edison Project manages a few public schools in Kansas, Michigan, Texas, Colorado and Florida. Alternative Public Schools (APS) manages one school in Wilkinsburg, Pennsylvania, and Edison, APS and Sabis International have charter schools in Massachusetts.

Instead of a fixed management fee, or a fee schedule linked to the accomplishment of goals, private management contractors generally make money by spending less than the revenue they collect. The money-making formula focuses on resource reallocation, primarily the reduction of labor costs. The resource reallocations represent serious shifts in educational priorities. This article addresses issues that have received less attention than student achievement and the mismanagement of federal programs such as funding, financial incentives, and resource allocation.

Why School Districts Hire Private Contractors

Governments hire private managers to: 1) Reduce perceived labor problems, 2) Remove the burden of managing services some officials view as uninteresting, 3) Avoid the management of programs that public managers feel unqualified to supervise, 4) Occasionally save money, and 5) Buy education reform quick. Management headaches, however, do not go away by signing a contract. To manage the contract is to manage the contractor., and oftentimes, to manage the controversy surrounding the contract. If a district cannot or does not want to manage in-house service delivery, it may experience even more difficulty in managing a contract for the same service.

Realizing the benefits of contracting out, requires thoughtful analysis of incentives, fiscal impacts and unintended side effects. Private vendors must earn profits, pay taxes and fees, and contribute to corporate overhead before any improvement in efficiency results in cost savings. When cost savings are secured, most savings are taken as profit by the contractor. Profit-seeking private corporations serving public customers, Starr (1987) asserts, will find it in their interest to lobby for the expansion of public spending with no less vigor than their public sector predecessors. Indeed, controversies over EAI and the Edison Project center on how much more they cost, not how much money they save.

Forms of Contracting Out

Not all contracting out is the same. Strictly speaking, privatization involves the transfer of ownership from public to private interests as is occurring in much of Eastern Europe. In some forms of contracting out, public workers are terminated. In this situation, employees receive wages and benefits as private sector employees and private sector labor laws govern collective bargaining. This type of contracting out is commonly found in custodial, food service and transportation services. EAI replaced public-sector paraprofessionals with lower-paid “interns” from the private sector. In some instances, the \$7/hour interns compensated for reductions in the certificated teaching staff, a practice allowed by the Maryland State Department of Education in maintenance of effort calculations for Chapter 1 compliance. APS hires its teachers as private sector employees in Wilkinsburg, Pennsylvania.

In school situations, it is common to find management services contracts, sometimes euphemistically referred to as “public-private partnerships”. Employees remain as public sector employees of the local jurisdiction, but private contractors manage the employees and the services they provide. Wages, benefits, and employee rights are still obtained under public sector collective bargaining laws. EAI’s instructional program was managed this way. The Edison Project intended to hire its own teachers, but its schools in Kansas, Texas and Michigan operate with public sector teachers like EAI.

Management services contracts are considerably more involved than paying a consulting fee for technical expertise. These management service contracts usually *include* labor costs as well as significant amounts of other public sector expenditures in the contract. Furthermore, the contractors often obtain considerable control over parts of the public budget outside the contract such as supply purchases for custodial work, or gasoline for transportation contracts. Private contractors avoid paying taxes on these commodities.

In some respects, contracted management appears to be a modest step on the privatization continuum because jobs, wages, fringe benefits and unions appear unaffected by private managers. However, the mixture of profit-seeking private sector managers, public employees and contractor power over public monies offers substantial profit-making opportunities for small firms with few capital resources.

Management service contracts often masquerade as management consulting contracts. If a local jurisdiction wants to improve management, it should hire a management consulting firm, not contract out with a management services firm. EAI’s contract with Dade County to run the South Pointe school was a consulting contract paying a little more than \$1 million over the five year period (EAI Annual Report, 1994). Although the contract was not renewed, most parties--including the union--were happy with the arrangement.

Some analysts argue that a company like EAI is a small management consulting firm, and should not be “booking” the value of the contract as revenue for the firm since most of the contract pays for resources provided by the school district--such as teachers (Schilt, 1993). In Hartford, for example,

EAI billed the district for about \$2.5 million for 1994-95 with the bulk going to the work of subcontractors (Hartford Courant, February 23, 1995). EAI employed only eight persons in Hartford at that time, but EAI booked the entire school district budget of about \$171 million as revenue.

How Private Managers Make Money

Good contracts need to improve efficiency and provide the same services at the same or better quality without sacrificing responsiveness and accountability. But do the money-making incentives align with these goals? An analysis of management services contracts should examine a broad range of money-making strategies employed by contractors including some of the following:

Fixed fee consulting contracts. Fixed-fee contracts offer the least opportunity for abuse. EAI received a fixed consulting fee in Dade County--and it lost money there. Public Strategies Inc., the small management consulting firm doing the work of the superintendent in Minneapolis receives a basic fee plus bonuses related to contract implementation. One part of the Public Strategies bonus system--raising student achievement--has not been successfully completed.

Contracts that give all costs savings to contractors. EAI in Baltimore, the Edison schools and APS make money by spending less than the revenue they collect. Many contracts of ServiceMaster, Marriott, and other companies providing noninstructional services also work this way. The major source of corporate profits in management services contracts is obtained by reducing labor costs. Contracts typically reserve control over staffing levels to the contractor. This profit-making opportunity is usually disguised by the contractor's focus on a cap or guarantee--the promise to absorb labor cost overruns.

Vendors's fee misrepresented because labor and materials provided by the district are included in the contract. Contracts often contain a seemingly small vendor's fee or a "contribution to profit". This profit is net or "pure" profit if overhead and administrative costs are specifically costed elsewhere in the proposals. In Hernando County, Florida, for example, ServiceMaster calculated its vendor's fee as a modest 2.7 percent of the contract, but after subtracting school district labor costs included in the contract amount, the profit percentage rose to 11.8 percent. In a Marriott contract, profit of 3.5 percent

of the contract increased to 13.2 percent after subtracting school district labor. EAI engaged in this same strategy by booking a school or district's entire budget as company revenue.

Profit built into markup on equipment and supplies. Most supplies and equipment such as gasoline, toilet paper or paper plates are purchased by or on behalf of the local jurisdiction and are not included in the contract. Some contractors, however, specify that they will use some of their own products and purchase some of their own equipment. Even if the supply costs do not change substantially, or if the title to the equipments is turned over to the local jurisdiction, part of the purchase price of the supplies and equipment may contain a markup for corporate profit. Both EAI and Edison buy instructional materials from themselves.

Profit built into computer software and training programs. Management service contracts often include expensive computer software to calculate staffing levels, determine bus routing, or manage inventory. Money-making opportunities exist in the software charge. Similarly, training programs and materials can hide profit centers. EAI's commitment to teacher training and instructional supplies provided one more way to make money since EAI frequently bought training and supplies from itself. While EAI spent impressive amounts on staff development, EAI's staff development differed little from a control group of schools either in scope or effectiveness (UMBC, 1995). Some of the high-priced inservice consultants were school officials from districts in which EAI was seeking business.

Inflate first year costs. In multi-year contract situations, contractors may seek to inflate first year costs with implementation charges and special equipment purchases. In subsequent years they charge the same price, or an even higher one. EAI's experience in Baltimore partly fits this approach. Capital improvement costs were heavier in the first year of the contract, and earnings from the Baltimore contract more than doubled in the second and third years.

Investment earnings. Another source of earnings for private management firms is the investment income generated from the proceeds of stock sales. For example, EAI sold stock allegedly to fund working capital requirements, product development and potential acquisitions. Investment income of \$2.8 million in 1993-94 made EAI profitable even with a net operating loss of \$300,000. The securities portfolio also collateralized lease obligations and letters of credit in Baltimore and Hartford. Until used,

proceeds of the stock sales were supposed to be invested in short-term government securities (Form S-1 filed with Securities and Exchange Commission). Such publicly-traded firms as Sylvan Learning Systems Inc, and the Edison Project (if current plans for the limited partnership to go public reach fruition) could also make money for their owners in this way.

EAI engaged in high risk investments with little diversification and its investment portfolio, composed almost entirely of financial derivatives, suffered stunning losses during 1994. In percentage terms, the losses dwarf Orange County, California losses (Minneapolis Star-Tribune, December 18, 1994). Based on the purchase cost of \$36.7 million, the September 30, 1994 value of EAI's marketable securities of \$23.5 million represented a paper loss of 36 percent. EAI's derivatives crisis locked up its investment portfolio. The value of EAI's investment portfolio improved substantially when interest rates declined during 1995.

Stock options and insider trading. EAI has experienced a positive net operating income during only one year of its history--about \$700 thousand in 1992-93. As a result of the Baltimore contract and reports of academic success and profitability, the value of the stock rose from about \$5 a share in the initial stock offering in 1991 to a high of nearly \$50 a share during late 1993.

Company officers and executives can profit from even modest swings in stock prices let alone the dramatic gains EAI experienced. Stock options are an important part of the compensation of EAI's Board of Directors and executive officers. Stock options are awarded at an "exercise" price. If the value of the stock climbs, the holder of the stock option can purchase the stock at the lower exercise price and sell at the higher market price.

Stock sales by directors and executive officers are called insider trading and such transactions must be reported to the Securities and Exchange Commission. Two transactions alone have netted EAI's CEO John Golle at least \$4 million.--more than five times the company's net operating income in the only year it did not suffer a loss. The Baltimore Sun (March 6, 1994) reported that Golle sold 100,000 shares in late 1992 at about \$20 a share for a gain of close to \$2 million and 50,000 shares in October 1993 at over \$30 a share for an estimated gain of \$1.5 million.. In December 1994, Golle made another \$400,000 off stock options (Finance and Commerce, January 21, 1995). In October

1993, the Tesseract Development Corporation, which manages the two money-losing Tesseract private schools and is half owned by Golle, also sold 50,000 shares for a profit of about \$1.5 million. Even as the Baltimore contract was being canceled in late 1995, Golle once again sold EAI stock for about half a million dollars.

How EAI Made Money in Baltimore

The EAI proposal (June, 1992) promised to "create a new paradigm of excellence and allow the Baltimore City public schools to save money on noninstructional services and redirect those dollars back into the classrooms to fund education for the children of Baltimore." John Golle, Chairman and CEO of EAI, claimed that "if we spend more than we receive (and we've done that in Baltimore schools because the facilities were in such terrible condition), we take it out of our own pocket, hoping for a return" (Congressional Quarterly, March 25, 1994).

In fact, Golle's portrayal of corporate largess conflicts sharply with the early profits EAI reported after just 6 months of operation--the news that propelled EAI stock value to over \$40. EAI generally made money by spending less than the revenue they collected. EAI collected more revenue than the amount generated by the average cost per pupil in Baltimore. In part, the extra revenue EAI collected led to the demise of the contract during a fiscal crisis in 1995 when Baltimore sought to cut all unnecessary spending. The EAI money-making formula focused on resource reallocation, primarily the reduction of labor costs. The resource reallocation resulted in a major shift in educational priorities.

The EAI contract in Baltimore was based on the average cost of educating all students including high school students, vocational education, the severely handicapped, and other high-cost students. EAI ran eight elementary schools and a single middle school. According to the former chief financial officer of the school district, the Baltimore contract specifically identified \$2.7 million in "enhancement expenditures" that exceeded the pre-EAI operating expenditures in the specific nine schools in the contract (Porter, 1993). The Edison Project also wants to be funded at the system-wide average cost level rather than the average cost for the particular type of pupils enrolled in its programs. Edison argues

that not enough money is spent on the lower grade levels. As a result of hard bargaining, however, both the Wichita and Dade County contracts match funding closely to the type of pupils in the privately-run schools.

Based on a measure of the citywide average cost per pupil, the first-year EAI contract totaled \$26.7 million. Of this amount, \$3.4 million went back to the school district for "central support services," \$2.7 million was designated for "school-based enhancements" and the balance of \$20.6 million was targeted for the "current direct expenses" of the nine schools. The \$2.7 million figure represented spending in excess of the amount that these particular schools would have received without EAI (identified by school officials and specified in the contract). EAI was supposed to secure outside funding or identify cost savings in non-EAI schools to fund the \$2.7 million in enhancements.

The contract did not define what belonged in the \$2.7 million budgeted for school-based enhancements. Figure 1 shows how EAI accounted for this contractual obligation. The low-paid interns were counted as "enhancements," even though EAI was simultaneously cutting teachers and paraprofessionals. Wiring and cabling added \$685,000--two-and-a-half times more than the lease cost of the computers. Most of the computer lease costs in the elementary schools were charged to Chapter 1 anyway. EAI charged off \$117,000 in out-of-town travel as a school-based enhancement, and spent \$228,000 on staff development training materials or about \$1,000 per teacher. EAI bought more than a third of these training materials from itself. Nevertheless, the University of Maryland evaluation (UMBC, 1995) found that teachers in the control group schools generally rated their staff development more highly than the EAI teachers.

Table 1
How EAI Accounted for Enhancement Spending

Instructional Interns		\$1,097,382	37.9%
Technology		1,138,477	39.3%
Wiring and Cabling	683,010		23.6%
Lease Costs	262,499		9.1%
Security Cameras	56,882		2.0%
Consultants	52,304		1.8%
Air Conditioning	19,167		0.7%
Insurance	2,530		0.1%
Staff Development		659,587	22.8%
Tesseract Materials -Other	139,700		4.8%
Consultants	120,420		4.2%
Out-of-Town Travel	117,973		4.1%
Tesseract Materials -EAI	8,064		0.3%
Pre-Fall Training	85,539		3.0%
Trainers	45,975		1.6%
Curriculum Development	41,229		1.4%
Not Pre-Fall Training	37,965		1.3%
Management Seminar	15,318		0.5%
Evaluation	13,599		0.5%
Total Enhancement Spending		\$2,895,247	100.0%

Source: Rafini, Howe and Borders (1994).

EAI did not fulfill its promise to save money on noninstructional services and redirect those dollars back into the classrooms. EAI cut instructional staff and then redirected these resources to such noninstructional items as lawyers, accountants, project administration, corporate travel, improvement of the physical plant, and profit (see Table 2). Over the first two years of the EAI contract, 56 of 205 teachers were cut, and 58 of 81 paraprofessional staff were shifted to other schools. The certified teacher-to-pupil ratio in EAI elementary schools rose from 1 to 16.5 to 1 to 22.0.

Table 2
How EAI Allocated Resources in Baltimore

	Tesseract		Lemmel
	Schols		Middle
	92-93	93-94	93-94
Contracted Instruction Staff	11,993	11,907	1,208
BCPS Central Support Services	3,400	2,286	459
Gross Profit	2587	3637	705
Johnson Controls	2,156	3,637	370
Building Repairs & Improve.	1,147	773	
Instructional Interns	1,017	1,716	
Project Administration--EAI			
KMPG Peat Marwick Fees	280	134	8
Attorney Fees	278	159	7
Corporate Travel	128	241	
Equipment & Supplies	134	192	
Project Administrator	68	570	
Other Personnel Costs	53		
Education Costs--EAI			
Tesseract® Way Costs	372	539	
Hardware and Software Rental	318	1,274	
Educ. Trainers & Consultants	206	166	7
Equipment Costs		362	
All Other Costs			
Food Service	1,162	1,136	120
Gas, Electricity & Fuel	510	551	30
Classroom Materials	319	598	24
Student Transportation	268	177	64
Custodians (Non-JCWS)	109		
Security	108		
Other	80	127	4
Total Revenue	26,700	29,169	2,909

Source: Arthur Anderson (1994, 995)

While salaries and benefits for instructional staff comprise more than 65 percent of Baltimore's school budget, according to federal government statistics for 1991-92 (NCES, 1994), instructional staff salaries and benefits made up only 46 percent of the EAI contract in 1993-94. The school district's internal review (Raffini, Howe, and Borders, 1994) also found that EAI spent only 62.5 percent of its budget on regular instruction, compared with 72.3 percent in the BCPS budget for the nine EAI schools in 1993-93. EAI used only 5.6 percent of its spending for special education, approximately half of the BCPS budget for the nine schools.

Edison's Money-Making Strategies in Wichita

As implemented in Wichita, the Edison Project differs from the EAI concept in several ways. The school district monitors the contract more closely. The teachers union was involved in parts of the Edison negotiations from the start and in return provided contract modifications regarding hours and pay. Edison is paid only for the specific types of students it educates rather than a school district average that incorporates all costs and all students. Teacher salaries are deducted from the district's payment to Edison rather than having Edison book the school budget as revenue and then pay back the district for teachers.

But Edison has money-making opportunities unavailable EAI. Edison staffs its school with less-experienced, cheap teachers while EAI paid the average teacher salary irrespective of what teachers actually earned. Second, all Edison schools are partly (as in Wichita), or entirely magnet schools, which allows them to establish optimal enrollment levels by grade and classroom (e.g., no empty seats and no overcrowded classrooms).

The following analysis is based primarily on the first two quarterly reports of the Dodge-Edison school (1996) in Wichita and budget materials provided by the school district.

The Dodge-Edison \$2.3 million contract exceeds budgeted expenditures by 8.9 percent, what the principal calls the "margin being sent to Edison". In early budget development, the margin was 18 percent. Budgeted technology and facility upgrades total \$1.5 million, or about \$300,000 per year over the five years. This figure includes \$370 thousand for home computers. Little or none of the technology and facility upgrades are being amortized under the contract with the school district. Other costs that probably are not covered in the budget include: out-of-town staff development and travel, on-site training by corporate officials, and the funding of start-up costs.

Edison advertises that it runs its Wichita school on \$3,700 per pupil, but many costs are not included in this calculation. Special education and federal Title 1 money ups the per pupil spending to about \$4,000. Food service and transportation (still provided by the district) are off budget. Edison pays for three additional busses for some of the out-of-neighborhood students. The school district also

deducts a 3 percent overhead charge in the process of calculating the total contract amount.

Transportation, food service and district overhead would add about 10 percent to the \$4,000 per pupil cost, raising the total to about \$4,400.

Although Edison's contract is based on a per pupil amount, this amount is not based on a simple school district average. All funding for special programs is subtracted from the district's general fund budget. Summer school (Edison's one-month longer year is treated like summer school) and professional development (Edison provides its own) are added back. High school athletics and early childhood education are subtracted. About \$3,700 per pupil remains.

Money was added to the contract for Title 1 and special education students on a per-pupil basis. Dodge-Edison has no bilingual students. Funding for a Title I schoolwide project equaled \$600 for 293 students. In schoolwide projects, funding generated by poor, low-achieving students can be spent on programs benefiting the entire school. For purposes of funding the Edison contract, a per-student funding formula for special education students based on district average cost was determined. The 30 special education children--just 5 percent of students--generated \$282,000 in additional funding.

Like EAI, Edison saves money on its staff. At first glance, Edison appears to provide a rich complement of staff, with 8 support staff and 6 certified tutors teaching reading. Edison advertises reading classes of only 15 students. However, class size for regular teachers (600 students are served by 21 regular teachers for a class size of 29 compared to a national average of 24 students) is on the large side. The pupil-teacher ratio of 20 to 1 is two or three students higher than comparable Wichita schools (WSU, 1996). Edison employs no paraprofessionals unless the six certified tutors, who are certified teachers paid like paraprofessionals, are counted as paraprofessionals. There are no special education paraprofessionals and just one "Special Edison" coordinator who also performs most administrative functions.

Edison's complicated staffing and scheduling works economically because the magnet school aspect of Edison schools allows it to both set the size of the school and admit students to specific grades to establish optimal enrollment levels by grade and classroom (e.g., no empty seats and no overcrowded

classrooms). Like baby bear's porridge, grade and class size is "just right". Most neighborhood elementary schools in the U.S. do not have this advantage.

EAI paid the school district average salary for its teachers in Baltimore, which eliminated the financial incentive to hire cheap, inexperienced teachers. In Wichita, however, Edison pays for teachers on their own salary schedule. Beginning salaries are linked to the union-negotiated salary schedule. Edison also has the power to terminate the employment of any teacher for any reason including cost cutting.

Not surprisingly, about half of the Dodge-Edison teachers are first-year teachers (some may have teaching experience in private schools). Only 12 percent of Dodge-Edison teachers have Masters degrees compared to 47 percent in the rest of the district, and the teachers average 5.6 years of experience compared to the district average of 10.2 years (WSU, 1996) Its lead teachers have as little as 3 years of experience and would be considered new teachers in any other school.

Personnel are supposed to be compensated for the 10 percent longer school year (210 days) featured by Edison, but not for the longer school day (one hour longer). With pay for the longer school year and the lead teacher pay, Edison's young lead teachers earn considerably more than new teachers on the first few steps of the Wichita salary schedule. On the other hand, the certified teacher tutors are paid like paraprofessionals.

Budgets in other schools in Wichita are based on district average costs for personnel rather than the actual costs of personnel in the schools. Factoring in the 10 percent extra compensation for a longer school year, Edison personnel costs are approximately 20 percent lower than it would cost if Edison paid school district average costs for personnel. Edison benefits from the lower salaries of the inexperienced teachers it employees and imposes the costs on all of the other schools in Wichita.

Edison can attract good, cheap, new teachers for a variety of reasons including higher salaries for the longer school year. Unless promoted to a lead teaching position, however, the salary advantage quickly withers. When Edison teachers feel the salary pinch, they can go into other district schools and, according to the contract, are placed on the salary schedule according to the experience they acquired at Edison. Again, this aspect of the Edison personnel model could not be replicated in all Wichita schools.

Using Federal Programs To Make Money

Federal programs interface with contractor's profit-making opportunities in food service and instructional areas, not just for management firms like EAI and the Edison Project, but also for a variety of "niche" players of which Sylvan Learning Systems is the most well known.

Food Service. Labor costs aside, contractors look at two other profit strategies: 1) lower food costs, and 2) expand ala carte sales. Since free and reduced lunches (the Type A lunches) represent a captive audience and a fixed revenue source, an incentive exists to divert food and labor resources to ala carte operations at the expense of Type A lunches. The promises contractors make about providing appealing and desirable foods students want, apply mostly to ala carte sales. Type A lunches could clearly get worse, in part to reduce food costs, and in part to shift the interest of students to ala carte sales.

Chapter 1 Programs. In EAI's Baltimore operation, almost all personnel in Chapter 1 programs (for low-achieving disadvantaged students) were cut as well as half of the special education teachers and nearly all of the special education paraprofessionals. Chapter 1 programs were replaced by computer labs and little else. Much of EAI's technology investment was paid for by federal money. EAI's failure to comply with federal and state Chapter 1 regulations led to investigations resulting in a corrective action plan. Though the most concrete example of the misuse of funds in the EAI operation of Chapter 1 programs is the \$136,000 in general legal costs EAI improperly assessed to Chapter 1, the absence of school-level Chapter 1 budgets and proper school improvement plans constitute more serious violations (Grassnick, 1994; LeTendre, 1994; and AFT, 19954b).

In the fixed-amount EAI contract, each additional dollar of federal Chapter 1 support led to offsetting reductions in unrestricted local revenue. According to the district Chapter 1 funding formula, the EAI-schools were entitled to \$3.7 million in Chapter 1 funds during the first year of the contract. EAI only wanted \$2.0 million, with the \$1.7 million difference made up by unrestricted funding. Instead of providing Chapter 1 services to children with the unwanted \$1.7 million, EAI claimed additional indirect costs not claimed by other Baltimore schools. Another \$400,000 remained unspent and was

carried into the second year as a liability registered to the corporation's asset-liabilities statement. During the contract's second year, the district relented and substituted \$1.7 million in unrestricted local dollars for an equivalent amount of Chapter 1 money..

The allocation of Chapter 1 funds to schools was an accounting transaction by EAI, not a real allocation of resources to specific Chapter 1 programs. Under federal guidelines, schools with high concentrations of Chapter 1 students may use resources to benefit the entire school, not just specifically identified Chapter 1 students. In EAI's five schoolwide project schools, EAI considered its regular education program a qualifying Chapter 1 program because schoolwide project regulations discouraged pull-out programs and encouraged the integration of non-Chapter 1 students.

EAI met this criteria because no special programs were provided, pull-out or otherwise. Since EAI funded and staffed all its schools in the same way, resources flowed out of the schools with high concentrations of Chapter 1 students (AFT, 1995). Participants at EAI-run schools complained that they did not have Chapter 1 budgets, did not know the amount of Chapter funds allocated to their schools, and could not determine the source of funding for Chapter 1 services or what equipment had been purchased with Chapter 1 funds (Raffini, Howe and Borders, 1994).

The Edison Project also wants federal money to follow disadvantaged students in its schools, and like EAI wants to spend federal funds on itself. Title 1 (the new name for Chapter 1) money is viewed as just another revenue source, not an obligation to provide services that are otherwise not in the Edison curriculum. Unlike EAI's Baltimore contract, however, where more federal funding resulted in offsetting reductions in local money, federal funding for Edison is added to the contract.

Edison should have fewer problems complying with federal guidelines for schoolwide projects than EAI, partly because federal money is added to the contract and partly because Dodge-Edison is being heavily subsidized by Edison's corporate headquarters. The corporate subsidy supports the technology investment. Nevertheless, class size is about 30 students, and even with a generous number of support teachers, the pupil-teacher ratio of 20:1 is 10 to 15 percent above comparable schools in Wichita (Wichita State University, 1996). In Wichita, the school district holds back Chapter 1 money

from the Dodge-Edison school for accounting and compliance purposes, thus avoiding EAI-type accounting manipulations.

Special Education. By using a full inclusion model, where almost all special education students are served in regular classrooms, EAI cut its special education costs in half during the first year of operation, and cut even more deeply in subsequent years. Since most experts believe that full inclusion does not save money and can cost more, the concept of full inclusion was probably used to cover up a general reduction in services for handicapped children.

EAI's inability or unwillingness to comply with federal and state laws is well documented. The school district's own evaluation (Raffini, Howe and Borders, 1994) revealed that 136,000 compensatory hours were awarded at the middle school run by EAI. These hours accounted for 89 percent of the compensatory hours awarded to students in all Baltimore schools for 1992-93 school year under a district-wide special education consent decree supervised by a federal court. Other state and federal investigations led to a corrective action plan for EAI schools.

The Edison Project does not want any special education students that cannot be served in regular classroom. Rather than supporting full inclusion, however, Edison wants to limit its work in special education to only the least handicapped children. Yet Edison seeks the average per pupil cost in the district, including the high costs of moderately and severely handicapped students--even private school tuition. In Wichita, however, the school district pays Edison an extra amount for each special education student based on the district average cost for the particular handicap. Only 5 percent of Dodge-Edison students receives funding for special education compared to 10 to 15 percent in a typical elementary school.

In Baltimore, EAI made money by cutting special education personnel and reducing special education services because the money did not follow the student. If Wichita, however, the per-pupil funding method may give Edison a financial incentive to identify special needs students. Most of these students would not be in self-contained classrooms anyway, thus avoiding firestorm EAI generated by adopting a full inclusion model in Baltimore.

Like EAI, Edison's "Special Edison" program provides almost no specialized staff for 30 or so special education students at the 600-student Dodge-Edison school. The school has one "Special Edison coordinator" and has part-time positions for a school psychologist and speech language teacher-1.5 days a week for each (WSU, 1996). Edison also has no special education paraprofessionals.

Conclusion

"Private good, public bad" reads the motto of privatization. The debate over privatization, however, needs to move away from ideological questions and instead be measured against the standards of good management and outcomes regardless of ownership. Neither public nor private managers will always act in the public's best interest. Contracting out will be effective only if private managers have incentives to work in the public interest, which includes but is not limited to efficiency. Profits and the public interest overlap the most in a *competitive* market. Simply transferring ownership from a public monopoly to private monopoly will not reduce costs or enhance quality.

In recent years, private management firms secured many contracts to run public schools--or even districts--with practically no track record. Information is now available to see how promises are written into contracts and a track record is emerging. This article concentrated not so much on whether or not private management works, but on how it works. If private management succeeds in its present form--by whatever definition of success that the public accepts--it will show that class sizes can be increased, that schools can operate with fewer certified teachers, that programs for disadvantaged children help corporate bottom lines, that special education programs need not be extravagant, and that inexperienced teachers can get the job done.

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