Competitive-Sourcing: How Nevada's Biggest School District Can Save Millions in Transportation Costs

By Robert C. Tauber
Senior Research Fellow
Nevada Policy Research Institute

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Executive Summary

The Clark County School District should conduct a competitive sourcing comparison of current and alternative student bus transportation services. This most likely would reduce operational costs by at least 10 percent, or some $4 million a year, totaling at least $20 million over the subsequent five years.

The competition would compare services provided by the incumbent school district transportation department against those provided by commercial bidders. The district department would be permitted to re-engineer its business operations in any fashion desired in order to put forward its most effective and competitive bid. The district contract would then go to the competitor whose proposal offers the school district the best overall value.

The school district would begin the competition by requesting busing service proposals from both the commercial bidders and the transportation department. The district's requirements would be set forth in performance-based service contract (PBSC) terms. This methodology encourages service providers—whether school system or commercial—to find new ways to deliver higher quality services.

Commercial proposals would be evaluated by reference to a "best overall value" criterion—not a "lowest bidder" standard-to select a single contractor. The bid of that contractor would then be compared to that of the incumbent transportation department service.

Should the commercial bidder win the final competition, an incentive fee contract is recommended—not a fixed-price arrangement. Incentive fee contracts induce contractors to not only achieve performance goals, but also meet or even reduce budgeted costs.

Given today's escalating demands on limited school district finances, competitive sourcing initiatives provide a powerful tool for hard-pressed school district trustees.

Preface

Below is budget information for the three divisions of the CCSD Department of Transportation for the 1998-1999 fiscal year. As can be seen, outsourcing to a commercial bidder who can lower costs by at least 10 percent would yield net savings to the district of over $4 million dollars per school year, or at least $20 million over the next five school years. Similarly, the transportation department could win the competition by effecting savings at or near the same cost margin.

It may be asked, “Why not just take the steps to save the money and forgo the competition?” The answer is that government bureaucracies, even small ones like school-district transportation departments, only adopt sweeping efficiencies when there is a driving fiscal incentive to do so. A competitive sourcing initiative produces this incentive. It also forces commercial bidders to put forth their most competitive bids, realizing that they not only must compete among themselves but also against the incumbent transportation department.

As can be seen, an outsourcing decision criterion based upon a commercial bidder winning by at least a 10 percent cost margin would yield a net savings to the district of over $4 million dollars per school year, or at least $20 million over the next five school years. Given that the budgeted numbers presented are indicative of actual transportation department costs, this in turn means that in order for the transportation department to win the competition, it too must effect savings at or near the same cost margin, likely yielding the same kinds of savings over the way in which their operations are conducted today.

Department Administration:	$1,927,144
Vehicle Maintenance:	$7,111,338
Bus Operations:	$36,771,743
Grand Total	**$45,810,225**

Table E-1. Summary Transportation Department Expenses for FY1998-99

Even if there is fiscal merit to outsourcing district bus transportation services, another question needs to be asked: whether outsourcing is in the long-term best interests of the district.

To address this issue, experiences of school district transportation departments around the country were compared.

In several major metropolitan cities, directors reported that outsourcing of bus services had produced a mixed record—the main problem being cost escalation in contract "out" years. Further inquiry suggests that most of these problems can be mitigated by better contracting strategies. One example would be developing a request for proposal (RFP) approach that maximizes commercial bidder competition. Another would be proper use of performance incentives. A third strategy would focus on effective government-to-contractor partnering relationships (discussed later).

Where strategies beyond lowest-bidder, fixed-price, winner-take-all have been implemented, outsourced services are performing well.

The Clark County School District, of course, faces rapidly expanding district-wide transportation needs. Most districts in a similar situation around the country that were surveyed were found to have done "make or buy" cost-tradeoff studies. They wanted to know whether acquiring additional buses, drivers, and support infrastructure was as cost-effective as contracting for the same services from a commercial provider. In nearly every case, the decision was to outsource the expansion requirements.

In Indianapolis, the ratio between district and commercially provided services is currently nearly 50-50. In San Francisco, busing ordered by a federal court expanded service requirements greatly and led ultimately to outsourcing of *all* student transportation services. In every case where outsourcing has occurred, transportation directors stated that it would be cost prohibitive to bring the services back in-house. The notable exception was the city of San Diego where only around 5 percent of bus services are now outsourced to meet expanding requirements.

The competitive sourcing process presented is based upon a model utilized by the federal government and some state agencies. Under this model, every attempt is made to level the playing field to ensure that government employees are given every opportunity to be as competitive as possible. At the same time, all government and contractor costs—whether direct or indirect—are accounted for in the costing formulas.

Under this model, a commercial contractor does not replace in-house government sourcing unless savings would exceed 10 percent over the contractual period.

Finally, this monograph does not advocate the direct outsourcing of CCSD's student transportation services. Rather, it proposes a competitive process to be used to determine if outsourcing would assure the best use of taxpayer dollars.

I. Introduction

The Clark County School District (CCSD) is geographically the largest school district in the nation, covering 8,090 square miles. The district's in-house department uses some 940 buses to transport about 85,000 students approximately 20 million miles a year.

The department also provides maintenance support to over 1,288 other vehicles from other departments and divisions of the CCSD. Included are school district cars, pick-up trucks, executive vehicles, and any other gas-powered maintenance vehicles owned by the district.

The department employs approximately 1,415 personnel and for Fiscal Year 1998-99 had an operating budget of $45.8 million. (See again Table E-1, page 3, of the executive summary.)

With a continually increasing Clark County student population stretching already thin fiscal resources even thinner, it would seem that a serious dialogue on cost alternatives for transportation services is long overdue. The two questions ought to be posed: 1) Are in-house transportation services as cost-effective as they might be and 2) could better value for those services be achieved by outsourcing them?

A competitive sourcing cost comparison between the government and private sector can answer those two questions.

According to senior district officials, Clark County School District has never performed a cost comparison study on transportation services. In the view of one official, such an initiative would be so politically charged that he would need "clear evidence of cost savings" before he would approach the school board to request such a study. The difficulty with this position is that collecting such "clear evidence" requires cooperation from the district itself. Routing complexities, prevailing area labor wage rates, and scope of service requirements all need to be made known by the district before comparisons can be made. In short, the comparison studies needed are being made a prerequisite to the comparison studies needed. If ever a Catch-22 were to exist, this is one.

Aside from the political (read, public employees' union) concerns over the threat that a public-private competition might pose to in-house providers of transport services, the idea of a competitive sourcing cost comparison study meets other objections locally.

One is that private sector contractors would “low ball” their bids to get the work, hiring under-qualified drivers at cheap labor rates. Then, once the contract is awarded, the school district would supposedly get bad service with few remedial options at its disposal, having lost its incumbent workforce,

A second objection is that private sector contractors would offer a “sweet deal” to initially win the outsourcing award, after which cost inflation would supposedly run rampant, especially upon contract renewal.

A third objection is that once transportation assets (buses, etc.) are outsourced, the capital investment required by the school district to step back into providing transportation services would become cost prohibitive. The “hooked” district, then, would allegedly be at the mercy of predacious contract vendors.

A fourth objection is that the Clark County School District as so large that the pool of competitive commercial service providers is too small to prevent the cost of future contracts from escalating when again put up for competition.

Each of these objections will be addressed in turn. Before doing so, however, we need to examine the concept of a competitive sourcing cost comparison study, and also consider the experiences of some major city school districts that have undertaken cost comparison initiatives and subsequently outsourced student transportation services. A detailed competitive sourcing cost comparison strategy for the Clark County School District transportation department will then be proposed.

II. Competitive Sourcing

The competitive sourcing cost comparison process has been utilized effectively at the federal, state, and municipal levels to study whether or not the commercial sector can in fact accomplish candidate government activities more efficiently and at a better value to the taxpayer. A competitive sourcing cost comparison study differs from an outsourcing cost comparison study in that the incumbent government workforce is given the opportunity to make its business processes more efficient and also change the distribution of its pay grades before its cost of operations is compared to the private sector proposal bid.

Even then, services will be outsourced to a commercial provider only if compelling cost savings can be achieved over the government's "most efficient organization" (MEO) bid. If not, then the government continues to provide those services, implementing the MEO proposal.

In other words, a competitive sourcing cost comparison study reduces operating costs whatever the outcome: either because the service was outsourced or because the in-house government department has figured out a way to provide the required services in a more efficient and cost-effective way. Where such studies have been implemented, costs to the government have declined anywhere from 10 percent to 40 percent, regardless of the study decision (i.e., to government or contractor).

To ensure that such public-private cost comparisons are fair and produce the best results, formal procedures should determine all costs for the services under study. When the district department or the commercial bidders seek to offer a bid or a contract price based upon labor, equipment and materials costs, certain indirect costs must also be factored in.

Into the department's bid must be factored costs such as administrative overhead, retirement, disability, quality assurance, and other overhead costs. Into the commercial bids must be factored cost elements like contract administration, one-time conversion, and district employee furlough, retirement and transfer/conversion costs.

Detailed costing guidelines may be found at the federal level in Office of Management and Budget (OMB) Circular A-76 for the implementation of the Federal Activities Inventory Reform (FAIR) Act of 1998[*]. At the state level, similar guidelines are utilized by the state of Virginia in their implementation of the Virginia Government Competition Act of 1995. And at the municipal level, competitive sourcing cost comparisons have been implemented extensively by the city of Indianapolis, Indiana with projected cumulative savings of around $100,000,000 across its total budget for municipal operations.

The actual steps of a cost comparison study are as follows:

- Government services, in this case the district transportation department's student bus transportation services, are identified for a cost comparison study.

[*] OMB Circular A-76 Revised Supplemental Handbook (1998 Update)

- The district then writes a document called a performance work statement (PWS). This statement informs all bidders—commercial as well as transportation department employees—of the scope of services necessary to perform the student transportation operation.
- This performance work statement is then included as part of a normal request for proposal (RFP) that is disseminated to the private sector as well as to transportation department employees.
- Commercial bidders then respond with a proposal detailing how the work shall be accomplished and the cost basis upon which the services shall be rendered, to include their profit margin, overhead, general and administrative costs, and indirect cost elements as outlined above.
- District employees also, in a manner analogous to that of a private sector business, determine the most efficient and cost effective manner in which they can provide the services described in the PWS.* These departmental innovations are then put into the form of a MEO proposal identifying both direct and indirect costs.
- District trustees then evaluate the department and commercial proposals. Depending upon the selection criteria defined in the RFP (to be discussed later), a decision is made to award the work either to the district transportation department MEO or to the best-value commercial bidder. Once the award is made, district transportation services are converted to either the department's MEO or to the winning commercial bidder.

The "Ten Percent Solution"

As mentioned earlier, outsourcing to a commercial service provider occurs only if compelling cost savings can be achieved over the government's own most-efficient-organization proposal. At the federal level, OMB Circular A-76 defines a "compelling cost basis" as a case where an outsource alternative is lower in cost than the government's MEO by at least 10 percent or $10 million in direct personnel costs, whichever is lower. This buffer was

* Considerations here would include business process efficiencies that could be gained over the way things are currently done, re-distribution of employee pay grade allocation (i.e., pay grade creep), reduction of the number personnel required to do the work, reduction in layers of management, and reduction in administrative overhead positions necessary for operations.

established is to reduce the likelihood of government-furnished services being turned out to the private sector for merely a marginal benefit.

The reason is obvious. In the long run a marginal decision could prove of only dubious fiscal benefit, while recovery of the services back to the public sector after the outsourcing could be difficult. Therefore, the compelling cost basis criterion was established.

There are two other benefits from the 10 percent rule.

First, members of the department team understand from the start that in order for their proposal to be cost competitive they must figure out how to provide their services while achieving at least a 10 percent operating cost reduction. Thus, regardless who wins the competition, in-house department or commercial contractor, the school district should see at least a 10 percent cost saving.

Indeed, this is the trend confirmed by the U.S. General Accounting Office in February 1999, when it reported that competitive sourcing decisions in favor of the government MEO for the Department of Defense have produced savings of between 20 and 30 percent for the duration of the award (usually spanning five years).

For the Clark County School District, just a 10 percent savings would translate into minimum annual savings in operating costs of around $4 million—or a cumulative savings of $20 million over the next five years. These are savings that could be used to hire teachers, build schools, or purchase textbooks, equipment and supplies.

The second benefit of the 10 percent rule is that it motivates private-sector bidders to come up with genuinely innovative cost-efficient proposals. When commercial contractors know that they not only are competing against one another but also must beat the costs of the government incumbent by at least 10 percent, all the efficiencies of private enterprise are harnessed to the benefit of the public.

This point was recognized by Virginia's Commonwealth Competition Council, established for the purposes of managing public-private competitions under the Virginia Government Competition Act of 1995, when the council said, *"Competition is the engine that creates the savings and efficiencies associated with privatization."*

It may be objected that attaining a minimum 10 percent reduction in costs will necessarily reduce the quality of services. But quality of services can be assured; the key is for the district to state the service outcomes it desires in its performance work statement (PWS). (This will be discussed more fully below.) To be deemed valid in the competition, proposals must comply with the performance criteria stated in the PWS.

III. A Survey Of Outsourcing Experiences

Let's turn our attention now to major city school districts around the country and their experiences—both good and bad—with cost competition and outsourcing. We will draw on these lessons when drawing up a cost comparison study for the CCSD.

San Diego: A Competitive Government and the Keys to the Castle

Before 1994, the City of San Diego school district outsourced approximately 60 percent of its student bus transportation services. Increased transportation demands had arisen in the 1970s from court-ordered desegregation and special education requirements levied upon the school district. But by 1994, the San Diego district had witnessed a 48 percent increase in operating costs. So at that time, wanting to see if student bus transportation services could feasibly be brought back in-house, the district conducted a cost comparison study.

Interviewed for this monograph, the transportation budget specialist[*] who oversaw the San Diego competition provided some interesting insights. They show the power of a competitive sourcing public-private competition to provide the best value to taxpayers, regardless of the decision outcome.

Working with the local drivers union to keep existing in-house services competitive and possibly regain services being outsourced at the time, the district transportation department produced a competitive cost study of operations. Based on it, the department was able to reduce administrative overhead positions and re-negotiate union driver contracts. Compensation packages were adjusted downward and the wage progression schedule was lengthened. Average pay was reduced by nearly two dollars per hour—below the average commercial driver wage and benefits package for Southern California.

[*] Interview with Ms. Kay McElrath, transportation specialist with the San Diego City Schools, Sept. 1999.

The next step in the study was to compare the district’s new in-house cost schedule—including overhead, employee wages and benefits, liability insurance, and costs of administration—with the costs of the services as provided by the current commercial contractors.

After all costs were considered, the determination was made to bring 95 percent of the services back in-house. Although this upset commercial sector firms and public watchdog groups who claimed that it was not a fair comparison, the decision is expected to yield $1 million in savings to the district, earning the district the San Diego Taxpayer’s award for efficiency.

Five percent of services are still being outsourced to handle increasing service demands due to growth. Here, the district acquired additional buses and new property adjacent to its existing transportation facilities. Then it contracted with a commercial service provider for drivers, maintenance technicians, bus fueling, and more. This contract is essentially performance-based with terms of service specifying maximum bus size and quantity.

Full payment to the contractor depends upon the company’s successful completion of an hourly series of pick-ups and deliveries. Negative incentives (pay deductions) are based upon 10-minute delay increments and are applied progressively. Allowable contract inflation costs depend upon the State of California’s consumer price index cost inflation tables.

Asked about the viability of competitive sourcing cost-comparison studies, the San Diego budget specialist said that competitive sourcing is the right thing to do whenever a district’s actual cost situation is not clear. She herself reviews award decisions on a cost basis at least every two years to ensure decisions remain cost-effective. She also recommends two cardinal rules to school district transportation departments: 1) Don’t sell the existing bus fleet and 2) don’t give a commercial service provider total control of scheduling and routing. Thinking behind the first rule is obvious—once the fleet is sold the district has no recovery option. The second rule is based on the belief that if a commercial contractor controls schedule and routing, it can inflate the need and therefore the cost basis of the services provided.

The Key to Cost Discipline: Contractor Competition

Indianapolis currently splits student transportation services—including both the buses and maintenance—between those furnished by the city, 51 percent, and those furnished by a commercial service provider, 49 percent.

According to the Indianapolis Public Schools director of transportation[*], this division of services evolved over time. As city suburbs grew in population, district trustees chose to outsource the new equipment and maintenance needs to a commercial service provider.

The district transportation department identifies each of the district's 440 bus routes, and then apportions them approximately evenly between the district and contractor-furnished resources.

The current contract cost for outsourced services runs a little over $7 million annually. Services include bus drivers, commercially owned rolling stock, fuel and maintenance. The most recent award was made in 1997 to the lowest bidder following an RFP. It is a two-year award with a single two-year option. The contractor is paid a flat rate per day per bus route. There are no incentives for performance, either positive or negative. Cost increases produce contract adjustments only at the time of contract renewal.

According to the Indianapolis district transportation director, the most potent leverage the district has discovered for minimizing cost increases is the presence of a sufficiently large competition base—which he says appears to be shrinking for major cities. Other factors reducing costs include agreement by commercial contractors to cost inflation limits specified by contract and the fact that while in-house district transportation services are provided by union employees, services provided by contractors are not unionized.

The district's arrangement is working out very well in the view of the Indianapolis transportation director, who said that for the tax dollars invested he feels he is getting the best value possible. Asked if he'd ever consider a competitive outsourcing or bringing all services back in-house, he said that neither is planned. For one thing, the cost of investing in rolling stock and maintenance facilities necessary to do the other forty-nine percent of the work would be cost prohibitive.

The satisfaction in Indianapolis appears to be in stark contrast to the assessment of outsourcing given by Boston's school district transportation director[†]. He says he's not a big fan of outsourcing, though his job is now a lot simpler than it was when he had to do everything.

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[*] Interview with Mr. Mr. Gene Moore, transportation director of the Indianapolis Public Schools, Nov. 1999.

[†] Interview with Mr. Richard Jacobs, transportation director with the Boston Public Schools, Sept. 1999.

For more than the last 10 years the Boston public school system has outsourced its entire student transportation services to a contract service provider. Those services are not fully privatized in that the district still does the routing and still owns the rolling stock and most of the support assets.

According to the transportation director, the reason for his tepid enthusiasm is not a lack of satisfaction with service or because of poor contractor performance. Rather, it is the dramatic 24 percent rise in operational costs following the contract award.

This cost-increase is attributed to a too-small pool of competitive service providers able to meet the huge capitalization required for Boston's large district. With little competition to discipline cost inflation and all services outsourced, they are now hooked. Recovering the services in-house, in the opinion of the transportation director, would now be too costly and too difficult.

Boston's experience here, however, is not predictive. In 1972, the San Francisco school district had to implement federal court-ordered desegregation busing. Faced with an immediate need to increase its student bus transportation fleet by some 300 buses and drivers, the transportation department looked at the alternative cost impacts and decided it should outsource to a contract service provider. Since that time, as the district demands have grown to include federally mandated special-needs student accommodations, the entire student transportation system has come under contractor service.

According to San Francisco's transportation director[*], that district's arrangement is working well. A big advantage to outsourcing services in his view is that personnel performance issues are now contractor issues—leaving him with fewer headaches to worry about.

The district uses a computer-based routing system, which is then implemented by the service provider. Routes are determined based upon bell times, allowing the district flexibility in its utilization of resources.

The service contract is awarded for a five-year period with an additional two-year option. The winning bidder submits the low bid, but substantial weight is also given to the bidder's past performance over a period of at least

[*] Interview with Mr. Dennis Garden, transportation director with the San Francisco City Schools, Jan. 2000.

10 years experience in operations of scope similar to the San Francisco district.

In the transportation director's view, outsourcing of transportation services makes the most sense when a school district has an aging bus fleet that is facing increased service demands because of increasing population. On the question of bringing services back in-house, he says that the capital investment required would be cost prohibitive.

Multiple Sources Means Choice

The school district of Rochester, NY outsources student transportation not only to commercial service providers, but also to the city's public transportation system. In addition, says the Rochester transportation director[*], her district uses three different commercial contractors.

Deemed least costly to the district is the public transportation provided to high school students, while general enrollment students with no special needs are carried by commercial contractors. The school district itself is the primary transporter for special needs students, though two contractors furnish some supplemental transportation.

The primary advantage to using multiple sources to accomplish the district's required 620 total routes, says the Rochester transportation director, is the options they provide her in managing transportation issues as they arise. Moreover, while enjoying good service from her prime contractor, she still has alternatives, should performance problems arise.

As elsewhere, Rochester's decision to outsource services was made after the district was forced to expand services. After reviewing all the costs—building new facilities, acquiring other new resources, recruiting new drivers and other operational overhead—the district determined that it could get better value through outsourcing at least part of the services.

Contract awards are generally made to the lowest bidder on a firm fixed-price cost basis; they are for one year with options for renewal. For special needs services the district uses a cost-plus-award-fee type of contract, where a profit award is based upon performance and customer satisfaction. Generally, the district writes its requests for proposals (RFPs) for services to be provided based upon the number of specified routes. Service costs are

[*] Interview with Ellen Cicero, transportation director with the City of Rochester Public Schools, Jan. 2000.

paid based upon cost per vehicle per mile and fuel. Routing is done by the school district.

Asked about a performance-based service contracting methodology, the Rochester director cautioned that, in her experience, this type of arrangement requires more contract management supervision by the school district. When service providers have not been given specifications on the number of buses to use, or routes to service, the possibility exists that they may seek to overload buses with kids to minimize the number of routes and maximize revenue.

The same multi-source contracting strategy is working well with the Los Angeles Unified School District. There, transportation officials[*] split services about 50-50 between school district resources on the one hand and about six transportation service contractor providers, on the other.[†] Customers have given the providers very high customer-satisfaction ratings. When asked why this strategy is being implemented, the answer was that using contractors, and in fact multiple contractors, provides flexibility in meeting student enrollment fluctuations. Additionally, many service providers keeps the school district in "bite-size" chunks so that there are many bidders available. The competition thus keeps contract costs down. Contract awards are generally best-value awards where cost and past performance are evaluated in tandem to obtain the best value service providers for the school district.

Outsourced and Privatized

Two additional cases were studied that are of interest. One is the city of St. Louis school district in Missouri where all bus services are outsourced to a contract service provider and the city of Chicago school district where the entire student transportation function is privatized—to include transportation department administration.

In the St. Louis school district, all student school bus transportation services are provided by three contract carriers.[‡] The transportation department determines scheduling and location of student pick-up points and then the

[*] Interview with Mr. Rick Boullt, transportation director for the Los Angeles Unified School District, August 2000

[†] Specifically, the district uses approximately 1,300 vehicles to provide services to 1,130 routes. Combined contractor services total 1,340 routes.

[‡] Interview with Mr. Dennis Hamann , transportation director for the St. Louis city schools, August 2000

contractors execute the requirements with a combined bus inventory of around 500 buses. Contracts to providers are awarded based upon a best value criterion whereby cost is about 90 percent of the consideration and past performance the other 10 percent. When asked why three contractors are used, the response was to foster competition thereby keeping prices down and to ensure flexibility to meet district transportation needs.

In the case of the Chicago school district*, the 2,700 routes required daily are distributed among 39 prime contractors and more than 15 subcontractors who accomplish those routes with a combined inventory of approximately 2,000 buses. Since 1996, even the transportation administration and carrier contract management is outsourced to an "integration" contractor manager who is on contract to provide essentially transportation department functions to the city of Chicago. Transportation administration outsourcing was done for performance rather than for cost savings, as prior to 1996, school district board employees managed operations and there were serious performance problems.

IV. Analysis

One would be correct to infer from the cases presented that school districts around the country have had mixed experiences outsourcing their student bus transportation services. Two questions must therefore be asked:

1) Are there enough successful outcomes to indicate that a potential outsourcing of CCSD services may be worthwhile, and

2) Can we adopt competition strategies to prevent the problems experienced by others?

The answer to both questions is: Yes. And certainly there are competition strategies to avoid the pitfalls noted that are already being implemented in the federal sector. So let's now re-examine each of the previous local objections to a competitive sourcing cost comparison study:

a) ***Objection:*** *Private sector contractors "low ball" their bids, to get the work by hiring under-qualified drivers at cheap labor rates.*

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* Interview with Mr. Woody Fitzmaurice, Transpar Corporation, August 2000. Mr. Fitzmaurice serves in the transportation director function on behalf of the city of Chicago school district. In this capacity, he is fully empowered to run all aspects of the transportation operations and is also empowered to make commitments on behalf of the city of Chicago school district.

Then, once the contract is awarded, the school district finds it is receiving bad service with few remedial options at its disposal because it cannot recover its lost incumbent workforce.

First, we must distinguish between a bid that is a lower cost and wins because it was more competitive—thereby translating to a better value for the taxpayer—and a "low ball" bid that translates to under-qualified drivers and bad service. In a few cases, Rochester and San Francisco specifically, it was acknowledged that contractor service providers generally pay a lower wage than is paid to school district employees, which accounts for the lower cost to the district. In the case of San Diego, school district employees in fact adjusted their pay scale distributions and pay progression schedule to be more competitive, thereby keeping their jobs. In the free market, competitive forces constantly balance the demand for a service product against its cost and value. This fact of life is commonly referred to, in such cases, as a *market correction*. In none of the cases studied, however, did any of the transportation directors report dissatisfaction with the quality of services provided or the qualifications of the contract service personnel. Moreover, when San Diego reached the decision to bringing student transportation services back in-house, the district was indeed able to recover from its prior outsourcing arrangement and hire the drivers needed to carry out the services. Furthermore as part of the RFP, minimum driver qualifications can be specified and verification of qualifications stipulated at the start of contract.

b) ***Objection:*** *Private sector contractors may offer a "sweet deal," but once an outsourcing award is made, cost inflation can run rampant, especially upon contract renewal.*

That this was the experience of Boston public schools is undeniable. However, it is also not the norm. A review of the experiences of the other major city school districts studied suggests that two causes are at work here. First, there is a shortage of viable competition to keep costs down. We'll defer this discussion until we come to objection *d* below. The second cause is the absence of a contractual cost discipline mechanism. As we have observed with San Diego and Indianapolis, cost caps tied to some inflation guide, such as the consumer price index, can be imposed as a ceiling on "inflation" costs. Furthermore, contractual incentives can be used to impose cost discipline on the contract operator; this is done in the federal sector for service contracts.[*] And there are other factors affecting contractor cost behavior that are within the control of the school district. These include the terms of the contract award, type of contract utilized, and accuracy of workload data provided by the school district.

c) ***Objection:*** *Once transportation assets (buses, etc.) are outsourced, then the capital investment required by the school districts to step back into providing transportation services becomes cost prohibitive, thereby leaving districts at the mercy of contract vendors because these districts are "hooked."*

The solution to this issue is simple. We need look no further than San Diego's first cardinal rule—don't give away the bus fleet. Compete only for services.

d) ***Objection:*** *For a school district the size of Clark County, the pool of potential commercial service providers is too small to prevent the cost of future contracts from escalating when re-competing the services.*

This objection can be answered by using several different service acquisition strategies. Their common theme is to break up the RFP into more than just one "winner take all" outcome. Options would include:

1) Dividing up the work to be done into smaller "subdistricts," thereby allowing smaller commercial service providers to compete, and
2) Nominating less than 100 percent of the current district-furnished services for competitive sourcing. Not only would this increase the field of competitors for the initial award, but the presence of two or more service providers under contract would tend to keep each of them in check in terms of cost creep, quality of service, and customer satisfaction. This especially would be the case if an award-term or contract renewal option is utilized.

[*] Federal Acquisition Regulation Part 16 and Part 37.

The downside of such an arrangement for the district would be the increased contract-performance management workload and perhaps a higher aggregate contract cost, due to the multiple contracts. Regarding the first point, however, recall that Rochester employs a multiple-service-provider strategy, where the school district, multiple commercial vendors, and another government agency all furnish student transportation services to the district. Their district transportation director enthusiastically supports the arrangement since it provides her with multiple options for solutions to student transportation needs. Regarding the second point, the district could resolve the issue by doing a cooperative market research initiative on a multiple commercial vendor acquisition strategy. This would allow the district to evaluate the relative merits of the different strategies.

Mitigating Risk

The above issues are foremost in people's minds when considering whether or not to venture into the realm of outsourcing. But looked at generically, nearly all of the objections deal one way or another with risk. That is, risk to the school district's transportation program in terms of day-to-day operations and in terms of accountability for the already stretched fiscal resources available.

There is a significant risk mitigation technique that can be employed by the district. It is to utilize what are called "best value" contract award criteria as applied to "performance-based service contracts." Within the Department of Defense, and especially the Department of the Air Force, both of these concepts are being widely implemented in tandem in competitive sourcing—and, in general, with great success.[*]

Performance-based service contracts (PBSC) are contractual relationships between government and contractors[†] that are based upon service results and outcomes rather than specific service-related measurements. For example, a performance-based service requirement would read, "the service provider must keep all buses in good working condition and be able to meet bus availability requirements for at least 90 percent of scheduled daily bus routes," rather than, "The contractor must change the oil in all buses every 3,000 miles of operation." This kind of contractual arrangement is a

[*] These concepts are being implemented as part of the statutory requirements levied by Congress under the Federal Acquisition Streamlining Act of 1994, also commonly called Acquisition Reform.
[†] They are also used heavily in private-sector to private-sector contracting to get the job done.

departure from the traditional government-contractor "us" and "them" rule of engagement. It relies instead on a "partnering" relationship where government and contract service provider depend upon each other, working together, to get the job done.

A PBSC works best when contracts are awarded based not solely upon cost factors, but instead upon a weighted criteria that balances the bidder's cost, risk, performance approach and past performance against the purchasing organization's service requirements, mission and the criticality of the services to be performed. This approach is the essence of "best value" source selection. Coupled with proper performance incentives—for customer satisfaction, and cost reduction[*]—PBSCs can prove to be a potent antidote to the fixed-price, lowest-bidder blues.

V. Conclusion

If a competitive sourcing competition is instituted for Clark County School District student bus transportation services, the potential savings are anticipated to be on the order of 10 percent, or $4 million per year.

Establishment of a formalized competition structure should also allow the incumbent district services division to participate in the competition and to streamline its business and operational processes while doing so. This not only gives district employees a level playing field for as they compete against private-sector bidders, it also fosters greater employee efficiency and pride. Most importantly, allowing the incumbent services into the competition will insure the most efficient expenditure of district monies—whatever the eventual outcome of the competition. Where such competitive sourcing competitions have been conducted—whether within federal, state or municipal sectors—the results have generally been excellent.

Lessons learned from the experiences of other school districts around the country should be used to tailor the competition, the associated contracts, and source solicitation processes. In this way, the district can maximize all the factors that will help it provide the most efficient, reliable and satisfactory transportation services over the long term. Approached in a thoughtful and fair way, the competitive sourcing process will not only yield

[*] For example, where cost savings to the government are shared with the contractor as part of performance awards.

substantial savings over years to come, but will also result in better-value transportation services for every taxpayer dollar invested.

About the Author

Robert Tauber is a Senior Research Fellow with the Nevada Policy Research Institute. Formerly a civilian with the U.S. Department of the Air Force where he served in senior management positions, Mr. Tauber has extensive experience as a management consultant in the area of governmental agency reform. Having extensive experience running large government technical organizations with multi-million dollar annual budgets, he has led many training workshops for U.S. military organizations in support of various government reform initiatives. Workshop subjects include: Entrepreneurship, Reengineering, Strategic Planning, Acquisition Reform, and Competitive Sourcing and Privatization.

Mr. Tauber is currently an electronic warfare specialist with Science Applications International Corporation (SAIC) working in electronic combat system test and evaluation methodologies. In this capacity, his areas of expertise include foreign air defense system behavior, scientific and technical intelligence exploitation; radar system measurements and analysis; test range systems engineering, operations, and maintenance; hardware development; and range system performance data integrity and quality assurance.

Mr. Tauber is also published as a free-lance writer on subjects of political commentary, domestic policy, government reform, national defense, and foreign policy. He and his family currently live in Henderson, Nevada.