

Public Sector Advisors





PRESENTATION TO

MASA Spring Conference

March 9, 2009

PRESENTERS:

Dr. James Schmitt, Vice President, Springsted Public Education Group

Dr. Barbara Devlin, Consultant, Springsted Public Education Group

Use of Outsourcing and Shared Services in Troubled Economic Times

Presentation Overview

- Economic challenges; impact on schools
- Strategies used to reduce costs
- Consolidation often proposed; may not be the most cost-effective option
- Focus on outsourcing and shared services - alternatives to consolidation

Economic Challenges: The National Picture

- 2009 federal budget over \$3 trillion
- Inherited budget *deficit* over \$1 trillion
- Counting in bank bailouts, stimulus, and war spending, projected deficit for 2009 is \$1.75 trillion
- President Obama – “The greatest economic crisis since the Great Depression”

(Source: New York Times federal budget brief, March 6, 2009)

Economic Challenges: The State Picture

- \$1.166 billion reduction in revenue
- \$4.6 billion shortfall
- Expected revenues fall short of projected expenditures by more than 13%
- Job growth not expected to resume until early 2010

(Source: Minnesota Office of Management and Budget – February Budget Forecast for 2010-11 Biennium)

Impact on School Districts – National Studies

- 44 states, including Minnesota, report less revenue to meet current educational needs
- School districts in every region of the country impacted
- Only 2% of respondents say their districts have surplus funding; 67% say funding is inadequate

(Sources: American Assn. of School Personnel Administrators [AASPA] online report; American Association of School Administrators – October 2008 study)

Impact on Minnesota School Districts – AMSD Example

- 36 metro area districts project a combined \$150 million budget shortfall for 2009 – 2010

(*Source:* Association of Metropolitan School Districts fall budget survey; assumes current expenses and no revenue increase)

- *Note:* MN Senate budget proposal would result in an education funding *decrease*, increasing the projected budget shortfall

Growing Interest in Cost-Saving Measures Among Policy Makers

“In most states, at least 40 percent of every dollar spent on education is spent outside the classroom on administration, support services, and operations. . . . As a way to generate a larger percentage of funds into the classroom and decrease costs overall, school districts are being challenged to provide services in a more efficient and effective manner.”

(Source: Center for Evaluation and Educational Policy, University of Indiana – summer 2007 policy brief)

Minnesota Policy Proposal – Shared Services

HF538, SF10

- Requires school districts to use shared business services and make purchases through the cooperative purchasing venture
- Requires Department of Education to hire a consultant to work with districts to share services

(Note: Some differences between the two proposals)

Belt Tightening Has Begun: Key Areas for Budget Cutting Reported in AASA Study

Cuts Implemented in 2008-9

- Altering thermostats (62%)
- Eliminating non-essential travel (57%)
- Reducing staff-level hiring (48%)
- Increasing class size (36%)
- Deferring maintenance (36%)
- Reducing instructional materials (35%)

Cuts Considered: 2009-2010

- Freezing outside professional service contracts (30%)
- Laying off personnel (30%; rose to 72% in January 2009 survey)
- Eliminating outside staff development consultants (30%)
- Eliminating field trips (35%)
- Cutting after school and enrichment programs, other non-academic programs (26%)

Consolidation Often Proposed – Not Always Most Cost Effective

- Some cost savings when small, typically rural school districts merge
- Consolidation may not be cost-effective in the long run due to factors such as:
 - Increased transportation costs
 - Capital outlay expenses (new buildings, etc.)
 - More administrators and specialized staff
 - Compensation increased to level of district providing the highest salaries and benefits
 - Increased costs – Enriched curriculum and expanded student services

(Sources: Arkansas Assn. of School Admin. consolidation study, 1998; 2007 U of IN policy brief)

Outsourcing and Sharing Services – Alternatives to Consolidation

- Reduce capital, personnel, administrative and / or development costs by reducing duplication of services
- Maintain / enhance services
- Less controversial, more acceptable to community
- School districts maintain own identity, autonomy

(Source: 2007 U of IN policy brief)

Centrally Organized Functions are Candidates for Outsourcing or Shared Services – Examples:

- Academic Services
- Accounts Payable
- Community Education
- Curriculum and Instruction
- Food and Nutrition Services
- Environmental Services
- Executive Development
- Human Resources / Personnel
- Labor Relations
- Legal Support Services
- Maintenance Services
- Payroll Services
- Professional Development
- Pupil Support Services
- Purchasing
- School Health Services
- School Security
- Transportation

Source: Educ. Comm. Of States study, “The New Central Office”, 2003

Outsourcing: “Super Service Mall” Versus Centralized Services

- Draw from a variety of providers: for-profit, non-profit, private, public
- “Shop around” to ensure best quality, fit, and prices
- Customize service to meet unique district/ school needs
- Often used by charter schools, which place a high value on diversity and choice

Source: Educ. Comm. Of States study, “The New Central Office”, 2003

Example: Outsourcing Human Resources

- Some portion of the HR function is delegated to an HR service provider
- Services selected from a menu of services ranging from being a “virtual” HR office to helping with specific activities such as executive searches, position descriptions or comparable worth analyses
- The contractor provides the expertise, processes, systems, and technology to meet clients’ needs

Shared / Cooperative Services – 3 Key Structural Models

- Shared service or service contract – Two entities contribute a proportional share of the cost for a program or service (or one entity may purchase from the other)
- Consolidated service – Under the joint powers law, two or more local governments create a joint board and provide financial support to provide desired equipment, services, etc.

Shared / Cooperative Services – 3 Key Structural Models *cont.*

- Mutual aid – Two or more entities agree to assist each other in special circumstances, often without an exchange of money (e.g. a city assists with snow plowing and field maintenance in exchange for use of school district owned fields for city parks programs).

(*Source:* Office of the State Auditor, Best Practices Review: Cooperative Efforts in Public Service Delivery, 2003)

Multiple Ways to Cooperate

- Service cooperatives
- Mutual aid agreements
- Trading equipment / services (e.g. trade use of equipment for labor)
- Renting equipment from another entity
- Service contract
- Sharing staff
- Consolidating services
- Joint use of a facility
- Special single-purpose districts
- Joint purchase and ownership of equipment
- Cooperative purchasing
- Pooling agreements (e.g. insurance, investments)

Outsourcing and Shared Services in Human Resources: An Area for Growth

- Outsourcing and shared services can “help transform HR processes and operations”
- Alternative solutions include:
 - Shared services model for back office and support services
 - Outsourcing of informational technology
 - Outsourcing of business processes

Source: International Public Management Association for Human Resources (IPMA) – 2006 Survey

Survey Results – Human Resources Outsourcing and Shared Services

- Shared services and outsourcing effective
- Satisfaction levels “overwhelmingly positive”
- Cost is a key consideration
- Limited use reflects lack of information, planning, or proactive decision-making

Source: 2006 IPMA Survey

Related Springsted Services – Information Packet

- Financial, Organizational Management and HR Studies
- Job Descriptions, Comparable Worth, Pay Equity
- Human Resources Subscription Service (New)
- Resource Sharing Through Intergovernmental Cooperation (New)

Contact Information:

Springsted Incorporated
380 Jackson Street, Suite 300
St. Paul, MN 55101
651-223-3000

SPRINGSTED PUBLIC EDUCATION TEAM

Don Lifo, Senior Vice President
651-223-3067
dlifo@springsted.com

DeeDee Kahring, Vice President
651-223-3099
dkahring@springsted.com

James Schmitt, Vice President
651-223 3028
jschmitt@springsted.com

Barbara Devlin, Consultant
651-223-3000
bdevlin@springsted.com