

**HB**

**94**

# Alaska State Legislature

REPRESENTATIVE  
**JEANNETTE JAMES**

P.O. Box 56622  
North Pole, Alaska 99705  
(907) 488-1546  
FAX (907) 488-9006



While in Juneau  
State Capitol  
Juneau, Alaska  
99801-1182  
(907) 465-3743  
FAX (907) 465-2381

## House of Representatives

House District 34

## SPONSOR STATEMENT

### HOUSE BILL 94,

"An Act relating to the management of public schools by a private agency."

Parents, teachers, political leaders, and students are all asking for improvements and changes in our educational system. No governmental attempts at reforming education seem to have slowed the growth of problems in our schools, much less created solutions.

This bill would allow Alaska's regional school boards a new option: that of contracting with private agencies for the management of our schools.

Articles from New York and Connecticut point to the differences private management can make in public schools, despite initial opposition to the concept. HB 94 would in no way require school boards to employ or even investigate this option. But with revenues declining and an enormous part of Alaska's budget going toward education, it is time we opened the door to all possibilities for spending this money more wisely and efficiently.

# The New York Times

WEDNESDAY, OCTOBER 6, 1993

## Hopeful Start for Profit-Making Schools

By WILLIAM CELIS 3d  
Special to The New York Times

BALTIMORE — A year ago, the Harlem Park Community School here seemed to represent the worst of what was wrong in public schools: graffiti covered the halls, crack vials littered the grounds, students did not have enough textbooks and, because the toilets did not work, the children sometimes defecated or urinated in stairwells.

Today, the building is clean, attendance has improved and, while it is too early to see conclusive results in test scores, there are early indications that students are learning faster than expected, and with more enthusiasm. One mother, Pamela M. Brown, said last week: "A lot of the parents say their kids come home singing. Kids are excited about going to school."

### \$1.3 Million Invested

The difference: Harlem Park and eight other Baltimore public schools have been taken over by a private company that runs them for profit. The Baltimore City School District, unable for many reasons to improve the schools, ceded them to Education Alternatives Inc., which receives the same annual allotment for each student as the public schools — \$5,918 this year.

The company invested \$1.3 million up front to improve the buildings and grounds of its schools and has begun to make a profit.

In part, the profit came from lower pay scales: only teachers



George Fames for The New York Times

Students in Baltimore working on computers at Harlem Park Community School, run by a private company for profit.

continue to be represented by a union. But the company also said it was able to spend more money on teachers salaries and classroom supplies by saving considerable sums in administration and maintenance.

The prospect of a school takeover by a corporation aroused considerable opposition last year, primarily by those afraid it would become the educational equivalent of a slumlord, eager to take profits

without caring about the children's education. But the company today has won the support of parents, teachers, local officials and the students themselves.

"I was the company's No. 1 opponent because I had reservations about their profit motive," said Elijah E. Cummings, a Maryland legislator whose district includes the Harlem Park neighborhood.

Continued on Page B8, Column 3

# Business's Successful Foray Into Public Schools

Continued From Page A1

"But it has changed the attitude not only of children but of teachers. Never have I seen this kind of turnaround."

The privatization of public schools is still very much in its infancy and its merits are being fiercely debated. But school systems in Baltimore, Miami and Los Angeles are among the first to tap into a growing list of companies that offers a broad array of services. Boasting they can provide better services than school districts at the same or less money because of competition and economies of scale, these companies sell services ranging from management and accounting to curriculums and educators-for-hire who teach courses for both gifted and learning-impaired students.

"We are moving well beyond support services and entering the whole market of core services, and that's a big leap," said Janet Beales, an education policy analyst for the Reason Foundation, an organization in Los Angeles that has studied how well private companies are running public schools. "These companies are real pioneers going into the management and instruction of public schools. Bit by bit, they are making inroads."

Furthest along in the process is Education Alternatives, a two-year-old Minneapolis concern. Two other companies are ready to enter the school-management business, and Whittle Communications, with its Edison Project, is also studying the business. Others, like Sylvan Learning Systems Inc., have begun campaigns to offer after-school tutoring for students in Chapter 1, the Federal program to help students reach grade level in reading and math.

## Business of Schooling

Although public schools have long been lucrative sources of business for private suppliers like textbook companies and construction firms, the degree to which new companies are pushing into school management has generated widespread opposition and worry over their expertise and motive. In some districts, educators and parents fear that ceding public schooling to private companies will lead to job losses and the introduction of teaching methods that parents and teachers are not altogether sure are better.

"There is a cynicism about these companies," said Albert Shanker, president of the American Federation of Teachers, which represents teachers in Baltimore. "In every other sphere of life, if someone came along and said they have a special potion to fix schools, you wouldn't treat them as wonderful innovators. You would call them hucksters."

Adding to the skepticism is a history of education companies' making outlandish claims that they could turn around schools. Twenty years ago in Texarkana, Tex., for example, school officials hired a company promising to increase test scores of students in Chapter 1. That company, which is no longer in business, said it would not accept payment from the school system unless test scores improved. Scores did, but officials discovered the company had given out the answers in advance.

## Warness Persists

While a warness persists about the abilities of the new companies to back their claims, urban school districts around the country are nonetheless hiring them to correct managerial, financial and academic failures. Early evidence suggests that these ventures can provide more efficient services and cost savings. Such is the case with the Education Alternatives venture in Baltimore.



The Harlem Park Community School is one of eight Baltimore public schools that were taken over by a private company and run for profit. Erik Bordeaux, left, Diran Brand and Marshall Duvall studied there.

The company last year signed a \$27-million a year, five-year contract to manage the nine schools. It estimates that at the start of this school year, \$5,400 of the average \$5,918 the Baltimore system spends on each student was reaching the classrooms — for teachers and supplies — under its management. That compares with the \$4,300 per student in schools managed by the school district. The \$1,100 difference is in the costs of administration and maintenance.

But lower salaries play a role, too. Baltimore City Public Schools spends \$8.72 to \$13.50 an hour for custodians employed by the district. By comparison, the company pays a range of \$5.50 to \$12 an hour. The company also pays its teacher aides \$7 an hour, compared with \$10 the district pays its paraprofessionals.

"There's not one well you can go to and save thousands of dollars," said John T. Golle, Education Alternatives' chairman and chief executive and largest individual shareholder. "You save it in nickels and dimes." Farming out work that can be done

**'A lot of parents report their children come home singing.'**

more efficiently outside the school bureaucracy has been an important part of the company's strategy. Peal Marwick, the big accounting firm, is handling the record-keeping and day-to-day finances while Johnson Controls World Services Inc., a janitorial and cleaning services concern, maintains the buildings.

In the corporate world, Mr. Golle said, companies always ask, "Should I make it or should I buy it?" He continued: "In the past, public schools have said, 'We will make it. It's proven to be very inefficient.'"

Mr. Golle, a 49-year-old businessman who founded his own education and training services company in the 1970s, bought Education Alternatives

in 1986 from the Control Data Corporation, which had formed the subsidiary in the early 1980's to study a possible role for business in school reform. Mr. Golle, who has invested \$3 million of his money in Education Alternatives, now owns 10.5 percent of the company and receives an annual salary of \$129,000.

## Different Way of Teaching

Education Alternatives itself has assembled a curriculum that pulls together innovations refined in classrooms across the nation. Each student is tested to determine whether they learn best by doing, reading or hearing and devises an individual learning plan for the student. Then it retrain teachers, most of whom worked in these nine schools before the change-over, to accommodate individual learning styles. With the help of teaching assistants, teachers hover over clusters of four desks, helping students individually while the aide works at the other end of the room doing the same thing.

It is too early to gauge conclusively how much students are improving. But preliminary data from the last three months of the last school year indicated that the 4,800 students in the nine schools advanced, on average, 0.88 grade levels — nearly one full grade — on tests covering subjects like reading and math. More definitive results will take two to three years, Education Alternative has said.

But from a financial standpoint, the fledgling company is turning a corner. A publicly traded company since 1991, Education Alternatives reported a net income for the first time of \$1.1 million, or 18 cents a share, on revenue of \$30.1 million for the fiscal year that ended June 30 — much of that from its operations in Baltimore. That compares with the loss a year earlier of \$1.5 million, or 44 cents a share, on revenue of nearly \$3 million. The company, which also manages a single school in Dade County in Florida, is promoting its services to other school districts.

In a key measure of Education Alternatives' growth and investor confidence, the company's stock has soared 76 percent, to \$16 from \$23 1/2 in January. The company's

**Some fear that privatization amounts to so much snake oil.**

stock is 70 percent owned by institutions, an unusually high percentage for a start-up company that gives the fledgling business stability.

## Rave Reviews for Schools

But the financial data matters little in the hallways and classrooms of Harlem Park, where the school's cleanliness and new ways of dispensing education generate rave reviews from students and parents.

"The school has really changed," said Sean Urquhart, a fifth grader. "It used to be a boring old school. Now, it's fun and exciting." Among the lessons he enjoyed was building a windmill of paper and cardboard to learn about the wind velocity. It was an example of the hands-on instruction that Education Alternatives promotes.

In Maggie Stokes's social studies class, for instance, a lesson on immigration requires students to fan out in a 10-block radius around their homes and gather information on the different races represented. They paste construction-paper raindrops on an umbrella, each color standing for a different ethnic group.

"Teaching like this used to be considered radical," said Ms. Stokes.

And last year's most vocal opponents are now supporters. "I can see how it's going to be better," said Dennis Dennis, a parent who does volunteer work at Harlem Park.

Managing public schools for profit remains a risky business. In a recent 17-page prospectus for potential buyers of the company's stock, Education Alternatives listed five pages of disclaimers, an unusually high number. One said that the Baltimore school system can cancel the contract before the five years are up. But Mr. Golle asserted that for all the risk, "We think we have one of the winners to turning around public

# The Metro Section

The New York Times

TUESDAY, OCTOBER 4, 1994

## Hartford Hires Group to Run School System

### A For-Profit Company Will Control Education

By GEORGE JUDSON  
*Special to The New York Times*

HARTFORD, Oct. 3 — The Board of Education here voted tonight to hire a Minneapolis company to manage its 32 public schools, making Hartford the first community in the nation to put its entire school system under private management.

The vote was a huge victory for the company, Education Alternatives, which had staked its future as a corporate manager of public schools on winning a contract for an entire school district this year.

But the company now faces the challenge of showing that private management can improve a deeply troubled school system while spending less. All its expenses and profit from the contract must come out of the school district's \$171 million budget.

With 24,000 children, Hartford is Connecticut's largest school district, and its most besieged. Thanks to more than \$100 million a year in state aid, the city spends about \$8,450 a year per pupil, more than many wealthy suburbs. Yet its schools have the state's worst scores on standardized tests, and those scores have been falling.

Nearly two-thirds of its students are on welfare, and more than half come from homes where English is not spoken.

The chief executive of Education Alternatives, John T. Golle, said after the 5-to-3 vote that he was undaunted by the controversy and by the problems in Hartford schools.

"We see a great opportunity," he said. "We see a city that is spending significantly more dollars than the nation as a whole, but again we see a student population, very diverse, doing very poorly by many quantifiable standards. We see a partnership here where clearly private enterprise can come into public schools and make a significant difference."

The company, which has managed nine public schools in Baltimore since 1992, will repair and maintain school buildings, buy all supplies, retrain teachers and help each school adopt new curriculums.

Under state law the school board must retain ultimate decision-making authority, and the contract calls for the company, as manager, to report to the school superintendent. If the board disagreed with the

# Hartford Hires Company to Run Its Schools

Continued From Page 31

company's cost-cutting or other management decisions, it could terminate the contract with 90 days' notice. However, the contract clearly envisions that most of the daily decisions and the carrying out of the board's long-term strategy will be handled by the company.

After 10 weeks of negotiations with the school board, for example, the company has won the right to take part in hiring, evaluating and dismissing the district's employees, nearly all of whom belong to unions, and in negotiating labor contracts.

School officials said Education Alternatives bore all risks under the five-year agreement because it is to be paid only from funds left over at the end of each year. If the company spends the full budget, it cannot recoup even the \$20 million it is pledged to invest in new computer equipment for classrooms.

"The contract is bulletproof as far as we're concerned," said Ted Carroll, a school board member who pressed to hire Education Alternatives. "We have assured ourselves of two things, that the benefits we hope for from this partnership will take place, and that the partnership will proceed with full protection for taxpayers."

The hiring of the company, however, provoked a bitter controversy here, as opponents of Education Alternatives raised fears that the company would put profits and its stockholders ahead of education and Hartford's children.

"This is what the contract is saying, my son's brain is for sale," a Hartford parent, Paul Comer, angrily told the City Council at a hearing last week. "I don't hear anything about what the kids need, I hear dollars and cents."

The Board of Education, in fact, voted to proceed tonight despite opposition from the City Council, which appropriates the school board's annual budget but has no say in how the money is spent.

The city's chief lawyer, Corporation Counsel Pedro E. Segarra, told the school board that he would not sign the contract because of council members' concerns that the contract cedes Education Alternatives too much control over city funds.

"I warned the board not to approve this contract tonight," he said, "because that will cause certain chaos for the city of Hartford."

But the school board majority intent on hiring the company said they had been assured by their lawyers that Mr. Segarra's signature was not needed. If he persists in not signing, Mr. Carroll said, the board would strike from the agreement a provision that gives the city one-third of any budget savings achieved by Education Alternatives.

The company is to receive as profit half of any savings left after its expenses are paid. The board is to receive the other half, but it has agreed to give most of its share to the city so taxpayers could share in the benefits of private management.

Under the agreement, Education Alternatives must pay all school-board expenses, including its payroll, each month before being paid a monthly share of the board's annual budget. If the company spends more than its monthly allotment, it must absorb the loss or make it up from later savings; the school board has no obligation to spend more than its budget.

Several City Council members, however, are concerned that the contract lacks adequate review of the company's spending. They also object to a provision allowing the company to terminate the contract if the city does not increase its annual school appropriations by amounts equal to increases in the Consumer Price Index.

A key issue is the company's own track record in Baltimore and elsewhere, where executives' claims of success have often been contested.

"I think they have very much hypervalorized their ability to effectuate change," said John B. O'Connell, the City Council's majority leader. "It's

unfortunate that the concept of privatizing has been bound up in this company."

Education Alternatives has claimed success in Baltimore in repairing and restoring order to nine inner-city schools, in getting parents more involved, in providing extra classroom aides and computer technology and in training teachers in new instruction methods.

But the Baltimore agreement provided for a significant increase in the amount spent on each school. In Hartford, the company must find the money for both improvements and profits within the existing budget, except for what it can earn by its practice of renting school space to outside groups.

The Hartford Federation of Teachers opposed Education Alternatives, and many teachers fear that the company plans to negotiate a new contract next year that takes back salaries and benefits or to eliminate jobs.

While the agreement requires the company to respect all existing contracts, it allows it to dismiss union employees whose jobs are eliminated or restructured. And it requires the board to cooperate in seeking contract revisions that the company decides are needed. If the board refuses, the company can terminate the contract with 90 days' notice.

"Employees are very fearful right now," said Susan Davis, the president of the teachers union. "We've talked to the board about working as partners, but they don't seem to be interested."

Hiring a management company has already had one effect on Hartford's schools. Saying they feared that any savings would go toward Education Alternatives' profits, the teachers union refused to negotiate contract concessions with the school board this summer.

As a result, in August the board laid off more than 20 teachers, requiring physical education, art and music programs in the city's elementary schools to be cut in half.

**Sec. 14.12.010. Districts of state public school system.** The districts of the state public school system are as follows:

(1) each first class city in the unorganized borough is a city school district;

(2) each organized borough is a borough school district;

(3) the area outside organized boroughs and outside first class cities is divided into regional educational attendance areas. (§ 1 ch 98 SLA 1966; am § 3 ch 124 SLA 1975; am § 7 ch 208 SLA 1975)

#### NOTES TO DECISIONS

**Regional educational attendance areas are school districts.** — Although this title does not specifically provide that regional educational attendance areas are to be considered "school districts," implicit in the statute is the notion that they are in fact school districts. *Northwest Arctic Regional Educ. Attendance Area v. Alaska Pub. Serv. Employees, Local 71*, 591 P.2d 1292 (Alaska 1979), overruled on other grounds. *Alaska Com. Fishing &*

*Agric. Bank v. O/S Alaska Coast*, 715 P.2d 707 (Alaska 1986).

Quoted in *Begich v. Jefferson*, 441 P.2d 27 (Alaska 1968).

Stated in *Hootch v. Alaska State-Operated Sch. Sys.*, 536 P.2d 793 (Alaska 1975).

Cited in *Alaska State-Operated Sch. Sys. v. Mueller*, 536 P.2d 99 (Alaska 1975).

**Sec. 14.12.020. Support, management, and control.** (a) Each regional educational attendance area shall be operated on an area-wide basis under the management and control of a regional school board. The regional school board manages and controls schools on military reservations within its regional educational attendance area until the military mission is terminated or so long as management and control by the regional educational attendance area is approved by the department. However, operation of the military reservation schools by a city or borough school district may be required by the department under AS 14.14.110. If the military mission of a military reservation terminates or continued management and control by the regional educational attendance area is disapproved by the department, operation, management, and control of schools on the military reservation transfers to the city or borough school district in which the military reservation is located.

(b) Each borough or city school district shall be operated on a district-wide basis under the management and control of a school board.

(c) The legislature shall provide the state money necessary to maintain and operate the regional educational attendance areas. The borough assembly for a borough school district, and the city council for a city school district, shall provide the money that must be raised from local sources to maintain and operate the district. (§ 1 ch 98 SLA 1966; am §§ 8, 9 ch 46 SLA 1970; am § 5 ch 32 SLA 1973; am § 1 ch 72 SLA 1974; am § 1 ch 13 SLA 1975; am §§ 4, 5 ch 124 SLA 1975)

465-2137

Rod McCoy  
7749 Old Harbor  
Anch. Ak. 99504-1931  
337-6158 Fax 337-4486  
2/9/95

Members House News

Re HB 94 Opposed

It is not in our states best interest to allow for profit companies to compete for the opportunity to take over local schools. It opens school boards up to a lot of pressure (sometimes bribery) to support certain companies. Let's not mix greed with our kids' education. It breaks the important tie between citizen/community and school. Rod McCoy

February 9, 1995

Dear House HESS Committee members,

I am opposed to HB 94, which provides for Private Management of Public Schools. In states and school districts across the country where private, for-profit management agencies have taken over public schools, the results have not been what was promised. In Baltimore, test scores went down 4 percentiles in reading and math in the schools managed by Education Alternatives Inc. Costs were \$500 per pupil more than the average per-pupil expenditure in the School District.

After promising more money going into the classrooms, E. A. I. cut one quarter of the teaching staff, and spent 48% of its total budget on instructional services, the rest being spent on lawyers, accountants, project administrators, corporate travel, etc. Because of this, classrooms are more crowded.

In Dade County, the nation's first privatized public school shows poorer test scores and and more expenses than other public schools in the District. The Superintendent now acknowledges that EAI "oversold themselves"

Alaska does not need to open up our public schools to these mistakes. I urge you to vote against this Bill.

Lucy Hope  
PO Box 870887  
Wasilla, AK 99687  
907 373 5204

Feb. 8, 1995

Representative Jeannette James -

Privatization:

As a teacher with 25 years experience in the Public School System , I would like to input my objections to the privatization of public schools.

In 1970 in the Seattle Schools, Singer Sewing Machine Company felt they could do a cheaper, more efficient education in the Central Area Schools and contracted to do so. It was a two year project that resulted in two lost education years for the children involved, children who could least afford to lose time and instruction.

Their educational mode was to fill a brown envelope with worksheets that had been poorly prepared, with no motivational aspects, no color, excitement or developmental interest. These envelopes could be distributed by aides. When a child completed a sheet of paper, s/he was rewarded with another sheet until the envelope was completed. Then----the child was rewarded with another envelope. This flew in the face of educational practices even at that time. It was however, cheaper to utilize than an experienced, motivated teacher who could develop exciting procedures based on best practices. When analyzed, the contents of the envelopes were many times in error as well as being poor motivationally.

I realize that this was a unique example, but it was efficient in administration. Private industry has achieved many goals, but the understanding of human development and cognition takes more than placing a task in front of a child. It takes continuing education of the adults in the environment and the materials presented as well as the opportunity for professionals to share ideas and techniques. Learning styles, management of children with diverse and varied backgrounds and family/life styles does not allow for prepackaged materials and techniques.

It is my sincere hope that this trend to privatize carefully balance financial need with child and community needs as well as

best teaching practices which involve concept, motivation, and interest, not just the production of paper.

Sincerely,

A handwritten signature in cursive script, reading "Mary J. Toutonghi". The signature is written in dark ink and is positioned above the printed name.

Mary J. Toutonghi

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. HB 94

Revision Date: \_\_\_\_\_

Department Affected: Education

Title: Private Management of Public Schools

BRU: K-12 Support

Component: Foundation Program

Sponsor: Representative James

Requestor: Representative James

COMPONENT SERIAL NO. 141

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE:						
----------------------	--	--	--	--	--	--

**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY95) impact: \$ 0.0

**ANALYSIS: (Attach a separate page if necessary.)**

State support for public school districts is governed by AS 14.17.010 - 250, Public School Foundation Program. Passage of this legislation will not have a fiscal impact on the Foundation Program.

Prepared by: Duane Guiley Phone: 465-8679  
 Division: School Finance Date: January 26, 1995  
 Approved by Commissioner: [Signature] Jerry Covey  
 Agency: Education Date: January 26, 1995

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information call the Governor's Legislative Office



Alaska State Legislature  
 House of Representatives  
 COMMITTEE ON HEALTH, EDUCATION  
 AND SOCIAL SERVICES

PLEASE --  
 FILL IN ALL  
 AREAS OF WITNESS  
 SHEET!

SUBJECT OF MEETING:

HB 94: Private Mgmt  
 of Public  
 Schools

DATE: APRIL 26

PLACE: Capitol Room 106

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
CLAUDIA DOUGLAS	NEA-ALASKA	114 Second			586-3090	(Y) N	HB 94
<del>PROXIMA</del>						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	