

Custodial outsourcing at Portland schools proves costly mistake

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When the Portland Public School Board voted July 8, 2002 to fire the district's 300 custodians and contract out, district officials said the move would save \$4.5 million a year. Five years later, it's becoming clear how far off the mark that was.

Far from saving money, the decision may have ended up costing the district somewhere in the neighborhood of \$10 million. Flaws in the original cost savings analysis decreased the

actual savings, and legal expenses and other items increased the costs.

Attorneys did very well by the board's 2002 decision, because the district ended up paying to fight several complicated lawsuits over a five-year period, one of which went all the way to the Oregon Supreme Court and beyond. By April 2007, the district had paid \$639,530 to Miller Nash LLP to represent it in the lawsuits related to the outsourcing. At district expense, Miller Nash also contracted with economic expert Morones Young Valua-

tions LLC for \$33,080, and Independent Actuaries for \$18,365. And the district paid \$200,000 to a specialist law firm, Resolution Counsel, to help settle one of the cases, a class-action lawsuit by the fired custodians. As spelled out in the class-action settlement, the district also paid the lawyers representing the custodians — \$3,625,000 in attorney fees and \$140,000 in out-of-pocket costs. Altogether, that's \$4,655,975 of taxpayer money that went to attorneys and financial experts as a result of a decision

that was supposed to save \$4.5 million a year.

After attorney fees and costs, the class-action settlement totaled \$10.73 million. That included payments of about \$37,000 each to 280 fired custodians, and \$370,000 to reimburse custodians who were hit the hardest by out-of-pocket health costs.

There were also one-time costs attached to the decision to outsource, and then to rehire an in-house staff. The firings caused the district to have to pay about \$2 million extra in unemployment insurance the first year. To oversee the transition back to an in-house custodial workforce, the district paid \$27,000 to management consultant Jim Christiansen. The district also had to hire additional human resources staff to help with the hire of 300 custodians. And it had to purchase new cleaning equipment, such as floor washing and polishing machines. The district has budgeted \$1.2 million to buy new cleaning equipment this summer. After it contracted out, PPS sold its previous equipment to the contractor for about \$200,000. The equipment has a useful life of about five years, and PPS Facilities Director Brian Winchester says most of the equipment sold to the contractor was near the end of its life cycle, because tight budgets had prevented its replacement.

The district didn't want to pay the \$14.5 million class action settlement all at once out of reserves, so it hired

attorney Harvey Rogers, a municipal finance specialist and partner in the K&L Gates law firm, for advice on financing options. Those options were presented to a School Board committee June 13. Depending on interest rate and length of repayment, the district could pay \$2 million to \$10 million in interest. At 6.5 percent interest, repaying over four years would mean over \$4 million in interest the district would pay a bank or other lender.

All of the above expenses stemmed from the decision to contract out — and the fact that the decision ultimately ran afoul of a state civil service law.

But another factor casts doubt on the district's estimate of the savings.

In an e-mail to district employees last May, PPS Chief Operating Officer Cathy Minberg said Portland Public Schools saved more than \$5 million a year by contracting for custodial services with the Portland Habilitation Center.

"That is a significant sum in a time of tight budgets," Minberg wrote, "the equivalent of at least one teaching job in every school, every school year."

But that \$5 million a year savings figure — roughly what the district estimated all along — never took into account the custodians' willingness to cut their own wages and benefits to save their jobs. Under the gun from the threat of contracting out, the union bargaining team agreed in Spring 2002 to \$2.4 million in concessions. The district held to its demand for \$4.5 million, and no deal was reached.

Any claim of savings has to be modified by the concessions the district passed up, especially because the district's negotiating history with every other union group in the last five years suggests the custodians wouldn't have been able to bargain back their old salaries.

The district's annual custodial budget was \$15.6 million before contracting out; with the concession it would have been \$13.2 million.

In the first year of contacting out, custodial expense came to \$12 million, for management, supplies, and payments to the janitorial contractor. All told, PPS payments to the private contractor, Portland Habilitation Center (PHC) totalled just under \$48 million by late May 2007. PHC's initial bid was \$9.6 million, and billings rose only slightly in subsequent years, to \$10.8 million the year before in-house custodians began returning. That was cheaper than the in-house staff would have been.

But with the concession figured in, the district ended up saving just \$2.5 million a year, or maybe \$13 million over five years. And those savings were than offset by the \$14.5 million settlement, the \$4 million in interest it will cost to pay that out over time, and up to \$3 million in other costs.

In the end, the district lost, but so did the custodians, and the taxpayers.

Portland School District implements contract on DCU

Portland Public Schools (PPS) imposed its final contract offer June 11 on about 119 maintenance workers. The workers belong to a multi-union bargaining unit known as the District Council of Unions (DCU). They had been working without a contract for 18 months, since their previous one expired Jan. 1, 2006.

Negotiations failed to produce a contract the union side would agree to, so after a failed attempt at mediation and a 30-day "cooling off" period, the district implemented its own terms. Those include:

- Continuation of a wage freeze that has been in effect since 2004;
- Ending early retirement benefits as of 2014;
- No pay on days when school is closed because of snow, though workers can use vacation days.

The District raised its monthly health insurance contribution by \$15, to \$779. Employees must pay any premium over that amount.

PPS spokesperson Matt Shelby said the DCU is the only group of District employees that is not slated for a wage increase. The District's justification, Shelby said, is a market survey that found the majority of DCU members salaries were 10 to 15 percent above the market rate.

In a letter to DCU members, PPS director of labor relations Thomas Gunn reminded DCU members that if they strike the District has contingency plans to do their work. Gunn said the District would stop paying health and vacation benefits, scheduled vacations would be canceled, and members of other School District unions would be forbidden by law from honoring their picket lines. In December 2005, members ratified the contract after it had been unilaterally implemented by management. The DCU can go on strike, with 10 days' notice, but as of press time, it wasn't clear what action, if any, the DCU would take. Many DCU members are at or near retirement age.

"The ball is in their court," Shelby said.

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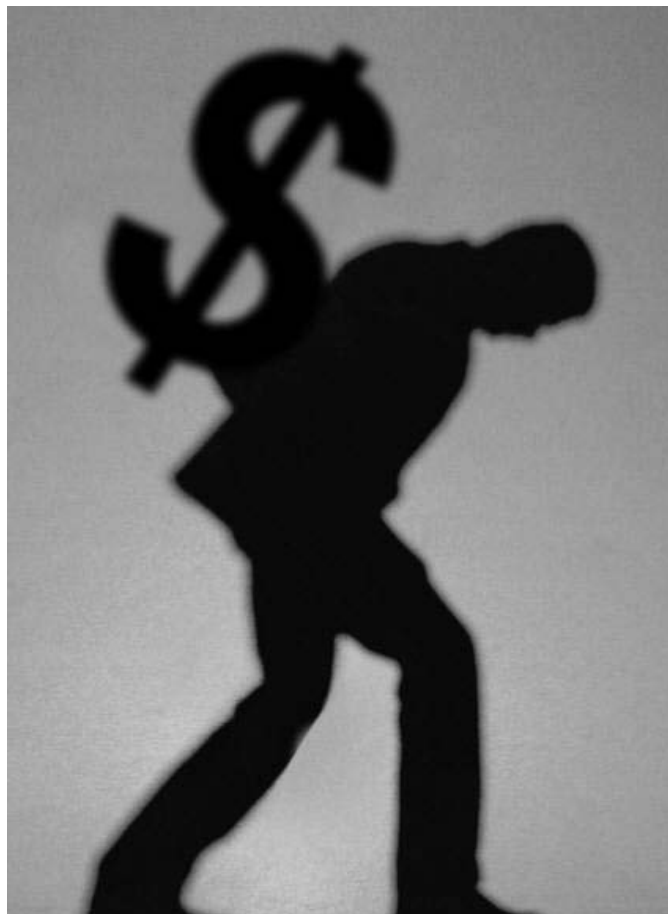
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