



Outsourced: How CPS sells its own governance to the lowest bidder

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Chicago Teachers Union

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Executive Summary

Chicago Public Schools (CPS) laid off more than 1,000 staff members and drastically cut special education funding as part of its “balanced budget” for fiscal year 2017. The budget includes nearly \$2 billion in private contracts, for a wide variety of services, with minimal oversight or accountability. CPS claims to have insufficient funds for providing students much needed classroom services, but continues to dole out millions to for-profit corporations.

The 1995 Illinois School Reform Act marked the beginning of both mayoral control and outrageous outsourcing in Chicago Public Schools. Use of private vendors is justified by claims of “cost savings,” and “higher quality services”. However, the new CTU report: *Outsourced: How CPS Sells its Own Governance to the Lowest Bidder* proves that the opposite is true. For example:

- Custodial contracts: These were among the first services to be outsourced in 1995. CPS has gone through a slew of contracts with various corporations over the last 20 years but the most egregious have been the recent three-year contracts with Aramark (**\$260,300,000**) and SodexoMagic (**\$80,000,000**). Instead of cleaner schools, less principal oversight and management, and reduced costs, the reality has been deplorable and unsanitary conditions that have forced teachers, clerks and principals to do much of the cleaning themselves.
- Food service contracts: Before the 1995 Reform Act, school lunches were prepared in-house by staff hired from local communities. After numerous scandals with various contractors, CPS now spends **\$102,351,381** to Aramark for food service. This is the same company that lost its contract with Michigan prisons for serving maggot-laden food!
- Nursing contracts: CPS previously supplemented school nurse staffing with a variety of temporary agency nurses. RCM Technologies Incorporated now has an exclusive **\$30,000,000** contract for three years. CPS students are subjected to a revolving door of insufficiently trained nurses, many of whom cannot perform assigned healthcare duties because they are unfamiliar with procedures.
- IT department: In FY15 alone, CPS spent **\$14,349,849** in cost overruns for seven IT contracts that were originally budgeted at **\$22,750,151**, a 63% increase. This is the problem with IT contracts. They are sole-sourced with proprietary licenses and CPS is locked into them, no matter what the cost overruns.
- Charter schools: In fiscal year 2015, **at least \$161,775,498** was spent by charter schools on office and administration, management fees, rent, interest payments on loans, and “other”. This amounts to approximately 27% of public funds (local, state and federal) that are not being spent on students in classrooms.
- AUSL turnaround schools: With no discernable academic benefit, CPS has given the Academy of Urban School Leadership, an organization with strong ties to the CPS Board of Education and its financiers, **\$49,277,577** in direct contracts since 2004 plus at least **\$37,378,875** in AUSL Program Support since 2014 for a total of at least **\$86,656,452**.

- Management and planning: CPS often claims to make central office cuts, but then contracts out much of that work. The powerful influence of strategic planning consulting firms (instrumental in the massive school closures of 2013) has also contributed to increased outsourcing.

CPS has proven itself to be fiscally irresponsible and reckless with limited tax dollars.

As the Office of the Inspector General has reported year after year, the Contract and Procurement Office has limited oversight and does not thoroughly evaluate proposals or contract renewals before approving them. The unelected school board rubber stamps the multi-million dollar contracts put before them every month.

Chicago students deserve better. Even without the new revenue proposals put forth by the Chicago Teachers Union, CPS can stop wasting money on expensive contracts that produce shoddy services.

At the state level, Governor Bruce Rauner's campaigns to reduce protections for working people and privatize state services negatively impact accountability and transparency as well. The privatization schemes in the Chicago Public Schools should serve as a cautionary tale.

This paper uncovers the tip of the iceberg. A forensic audit of all of the large CPS contracts would no doubt uncover in greater detail CPS' widespread fraud and mismanagement.

Introduction

When Chicago Public Schools (CPS) signed custodial service contracts worth more than \$300 million to Aramark and SodexoMagic in 2014, school communities expected at the very least, clean schools. They were not even close. Within days, principals, teachers, parents, and students reported how filthy their schools had become, and those reports continue today. **Aramark recently posted a quarterly profit of \$93.3 million**, whereas a typical Aramark custodian makes just \$10/hour.¹ Privatization is not about saving money or providing better services. It is a scheme to take money out of workers' pockets and put it into the coffers of corporations and banks. The Aramark/SodexoMagic example is the norm, not the exception.

Outsourcing is not a new phenomenon in CPS, but it is increasing dramatically each year. While the school district has been a bastion of crony hiring and vendor contracts since at least the 1930's (Lyons, 2008), CPS launched a full-scale attack on union jobs in 1995 with the passage of mayoral control and the hiring of the city business manager to replace the school district superintendent (Lipman, 2011). CPS takes advice from the Civic Committee of the Commercial Club, the Civic Federation, and the MBAs of Boston Consulting and McKinsey and Company instead of educational experts. Top central office management comes from the private sector and most have MBAs instead of education degrees or experience. Not surprisingly, the recommendations from all of these business experts: keep outsourcing.

Had the district benefited from all of these outsourced contracts over the last twenty years, then it would make sense to continue the practice. Unfortunately, however, the contracts have been mismanaged and most are not monitored or evaluated for effectiveness. The assumption is that the government provision of services is inefficient and that the private sector (for-profit or non-profit) can do a better job because

competition forces it to. This paper demonstrates that simply farming out public education services to private entities benefits the companies but not the students they are meant to serve.

Outsourcing Overview

The origins of the outsourcing of public governance can be traced back to the robber barons of the late 19th century, who set up philanthropies as a means to reduce their tax burden and to simultaneously control some public money by diverting it from the federal government. This was not only a way to save money on taxes and control how money was spent on public institutions, but to prevent social and political upheaval (Saltman, 2010)

Today, the Gates, Walton, and Broad Foundations have taken philanthropy to another level, and used their wealth to influence educational policies.² Their outsourcing initiatives include: school district leadership--replacing educators with businessmen (Broad Superintendents Academy); teaching—replacing career teachers with temporary ones (Teach for America); and school management—replacing public with private (charter schools).

According to Ken Saltman in *The Gift of Education*, the shift to privatization changes the educational language to business terms and shifts the purpose of education to a return on investment. Money matters; students don't. When private philanthropy has so much power, experienced educators and education researchers do not influence policy, and public schools lose. Saltman explains that "Venture philanthropy claims to empower communities by expanding choice while actually undermining local community control." (Saltman, p. 6) Losing democratic, civic components of public education threatens the future of CPS. Little by little, with each new contract, democratic governance transfers to the private sector. CPS' unelected school board never questions the merits of any vendor contracts.

The federal No Child Left Behind legislation of 2002 "opened the doors to huge entrepreneurial opportunities." (Ravitch, p. 12) Because the government emphasizes standards and test scores, the private sector can profit from the \$800 billion education market through standardized tests, test preparation products and services, technology, after-school programs, turn-around services, charter management, and other products or services packaged and sold to schools as the latest and greatest cure for academic failure. However, products based on narrow approaches to raising test scores usually fail to do even that. Further, they rob students of the rich educational opportunities they deserve—the kind of schools the education-profiteers and their government promoters send their own children to.

The federal Race to the Top legislation of 2008, designed by Chicago's former public schools' CEO Arne Duncan, took the private sector profit potential a step further with the push for the Common Core State Standards (CCSS) and emphasis on teacher evaluation.

Almost overnight, consultants and vendors offered their services to advise districts and states on how to design teacher evaluation systems, how to train teachers, how to train principals, how to turn around failing schools, how to use new technologies, how to engage in data-driven decision making, on and on. (Ravitch, p. 15)

Public education is now seen as a profit-rich cash cow rather than a vital provider of academic knowledge. As Stephanie Simon explains,

The K-12 market is tantalizingly huge: The U.S. spends more than \$500 billion a year to educate kids from ages five through 18. The entire education sector, including college and mid-career training, represents nearly nine percent of U.S. gross domestic product, more than the energy or technology sectors. Traditionally, public education has been a tough market for private firms to break into.... Now [because of national standards] investors are signaling optimism that a golden moment has arrived. They're pouring private equity and venture capital into scores of companies that aim to profit by taking over broad swaths of public education. (Simon, 2012)

Investors are jumping on the bandwagon to profit from public education, but research has yet to be published showing that private enterprise has fixed the "education crisis". In fact, many studies have shown that the "crisis" has been manufactured precisely to promote privatization as a solution. In addition to questioning the supposed education "crisis" that capitalism must swoop in to save, the public should also be questioning why public education is being referred to as a "market place."

This paper will document the ways that outsourcing not only costs money, but directly harms CPS students, employees, and families:

1. Increased costs include inflated contracts, cost over-runs, contract management (staff time, legal fees), and human costs (loss of jobs, loss of relationships, loss in quality of services). Yet CPS is "broke" and cannot adequately staff schools.
2. Privatization with minimal oversight has allowed profit to replace service quality as the key indicator.
3. Outsourcing leads to decreased quality of services, and lower academic achievement.
4. CPS has closed central office positions only to add new positions, while also outsourcing many central office functions, and cutting central-office directed programmatic supports to schools.

Outsourcing at CPS

History of Outsourcing at CPS

For most of the 20th century, outsourcing and vendor contracts at CPS were typically limited to services such as construction and educational materials. In 1979, CPS was facing budget issues and needed financial assistance. According to George Schmidt from *Substance News*, CPS wanted to borrow money from the state, which had a budget surplus that year, but former Governor Thompson refused.³ Schmidt reported collusion with the ratings industry to lower CPS' credit rating enough to make it ineligible to borrow.⁴

Broke, and with no sign of relief, CPS stopped paying employees in December 1979, leading to a strike in February 1980. Teachers would go on to strike four more times during the decade of the 1980's. Also during this period, the citywide push began for the School Reform Act of 1988, which created democratic local control of the schools via elected Local School Councils.

In 1980, the Illinois government created the School Finance Authority (SFA) to oversee CPS' budget and issue bonds, with a cap of 13% instead of 6%. Because the interest rate caps more than doubled for these 30-year

bonds, they generated large profits for the banks and held CPS hostage to ever-growing annual debt service obligations.

It was at this time that CPS began the practice of using operating funds to pay debt. From 1980 to 2009, the Board took an average of \$120 million a year from the classroom and used it for debt repayment.⁵ Of the \$7.8 billion debt that CPS incurred in principal and interest on SFA borrowing, \$3.6 billion would come from money that should have been used for smaller classes, adequate numbers of clinicians and support staff, and other resources for the school.

This was the beginning of the practice of outsourcing school funding. Instead of full public funding for public schools, private businesses became part of the mix, and they demanded exorbitant payments in return. For the 2016-17 school year, 10% (double the percentage in 2002) of the CPS budget will go to debt service: \$563 million.

The state's 1995 School Reform Amendatory Act, reversed the gains of more than a decade of public activism, by reducing the power of Local School Councils established in 1988. 1995 was the beginning of mayoral control of CPS and a major shift. The 1995 law greatly limited the right of unions to bargain over working conditions, including staff reductions. For teachers, this led to fewer controls over class sizes. For custodians, engineers, clerks and cafeteria staff, this led to massive layoffs and outsourcing of the management of many departments.

To demonstrate how committed the city was to a business model for running the school district, former Mayor Richard M. Daley hired the city budget director Paul Vallas to run the schools and changed the title from Superintendent to CEO. "Thus began a corporate regime at CPS which has been copied in cities across the country." (Lipman, p. 40)

By the beginning of the 21st century, corporations were waking up to the huge profit potential in public education through contracting, technology and school management services. In 2001, the federal government passed *No Child Left Behind* which allowed districts to close underperforming schools and private companies to manage struggling ones. In 2003, the Commercial Club of Chicago issued *Left Behind*, a report calling for the closing of poor-performing schools and the introduction of market ideology and competition. Former CPS CEO Arne Duncan launched Renaissance 2010 shortly thereafter, to implement the ideas in the Commercial Club's report. The next decade and a half saw the closure of over 120 schools and the ultimate market-based reform, the portfolio district: a massive expansion of charter, contract, military, and privately-run alternative schools.

Charters

Privately-managed charter schools are some of the largest recipients of outsourcing in the CPS education department. Every national study on charter schools has shown their academic achievement is only on par with district schools: some do better, some do worse, and most perform the same on achievement tests. Thus, there is no net academic benefit to having privately-managed charter schools. Instead, there is only additional cost and a loss of accountability and democratic control.

Charter schools take up a significant chunk of the CPS educational budget, yet it is difficult to assess what the charters are doing with that money and precisely what kind of support CPS provides to charters. The CPS funding formula for charter schools has changed over the years and the current formula has a 19-page explanation in Appendix B of the CPS budget. Additionally, CPS central office provides much direct support to charters and provides them school nurses, custodians, lunchroom staff and professional development. This is in addition to the per-pupil funding that charters receive.

CPS requires that charters submit quarterly financial reports, using a standardized reporting spreadsheet. ISBE requires that charters submit annual audits but those are not standardized and thus comparison and analysis of all of the charter organizations is very difficult. For all the money that charters receive from CPS, the state, the federal government and corporate philanthropy, they have paltry financial compliance rates: only a little over one-third of charter management organizations have average or strong compliance rates.

As noted by Eric Hall and others:

Charter school/management company relationships have long confounded the IRS. The IRS's principal concern is that a nonprofit entity controlled by a for-profit entity may operate to reduce costs and maximize revenue rather than to maximize the delivery of educational services. The perception of a conflict of interest is unavoidable." (Hall & Mahaffey, 2012)

CTU submitted a FOIA request to CPS for the charters' quarterly financial statements for fiscal year 2015. With 86% of the charters reporting, CTU combined the data from year-end summaries and calculated charter expenditures that could benefit from economies of scale: occupancy, interest, charter management fees and long-term debt.

The fiscal year 2015 quarterly reports collectively show that charter operators are spending significant amounts on office and administration (\$42,840,164), rent (\$72,831,453), interest payments (\$11,263,440), charter management fees (\$28,559,986) and "other" (\$13,789,581). That is at least \$161,775,498 not being spent in the classrooms in Chicago. Because each charter or group of charters has its own management, their offices must be staffed and financed, at an added cost that has nothing to do with the direct instruction of the students. Even the charter-promoting Civic Federation noted the excessive administrative cost of charters: "The Chicago charter schools had higher administrative support service costs than CPS as a whole...In FY2008, charter school administrative support service expenses were 16.7% versus 8.5% for the district." (Civic Federation, p.8)

Health Services

CPS has been providing school nurse services to Chicago students since 1910, except for a brief hiatus of the program after WWII due to massive budget cuts. The program was resurrected in 1951 due to a mandate by the U.S. Public Health Service.⁶ School nurses formerly dedicated time to providing education in personal hygiene and nutrition, managing immunization records and attending to emergency health matters. Since the passage of a series of special education laws that allowed more students to enroll in public schools, their time has been consumed with the complexities of Individualized Education Plans (IEP's) and 504 compliance, which allow students with disabilities and health issues to fully participate in public education. Former CPS CEO Paul Vallas was the first to propose adding privatized services in 1994 and sought a state waiver on the school

nurse certification requirement to allow the district to hire licensed practical nurses (LPN's) and registered nurses (HSN's).⁷

CPS has been contracting with staffing agencies since the early 1990's to supplement the services of nurses, occupational and physical therapists. As documented in the recent CTU report on nursing services, CPS is currently embarking on its most extensive outsourced contract with RCM Technologies, which became the exclusive contract for nurse staffing at CPS for four years at a cost of \$30,000,000.⁸ RCM is also one of the three CPS vendors for occupational therapy (OT) and physical therapy (PT).

RCM started in 1971 as a defense contractor and posted \$13.7 million in profits in January of 2016 for its engineering, IT and healthcare services divisions. It is unclear exactly when the company became a temporary nurse staffing agency, but winning the CPS contract in June 2015 was significant for the company, according to its quarterly shareholder's phone conference. RCM is hoping to leverage this contract to expand into additional school districts.⁹ It was significant for CPS students in another way, as it deprived them of nursing services they need and are entitled to.

Food Services

According to a veteran teacher of forty years, the lunch food used to be cooked at the schools by the lunch staff, who were often parents or local community residents. They took pride in the food they served and it was tasty.

Since privatization of lunch rooms in 1995, the food services department has been fraught with scandal, especially in recent years. CPS has contracted with three different food service vendors since 2000: Preferred Meals, Chartwell-Thompson, and Aramark.

While the CPS contracts all promise that students will be served "nutritious and appealing meals," the food services vendors across the country are raking in millions by providing cheap fast food. According to the New York Times:

An increasingly cozy alliance between companies that manufacture processed foods and companies that serve the meals is making students — a captive market — fat and sick while pulling in hundreds of millions of dollars in profits. At a time of fiscal austerity, these companies are seducing school administrators with promises to cut costs through privatization. Parents who want healthier meals, meanwhile, are outgunned. (Komisar, 2011)

As a case in point, the CPS Director of Nutrition Services was forced to resign in 2011 after it came to light that she was a former VP for Chartwell-Thompson and helped secure the successful bid.¹⁰

After the Chartwell-Thompson scandal, Aramark became the exclusive food service provider at CPS when former CEO Jean-Claude Brizard took over in 2011. He hired Aramark manager Leslie Fowler as the head of CPS's Office of Nutrition Support Services. The CPS Inspector General (IG) launched an investigation on how Fowler handled the contract after it came to light that she had dined with Aramark officials, but in the end the IG determined she did not violate CPS ethics policies.¹¹

CPS recently renewed the Aramark contract for the third time. Since Aramark took over in 2011, CPS has expanded its food service contract to include charter schools. Each contract since the year 2000 has a stated outcome: “Vendor’s services will result in nutritious and appealing meals.” Around 2012, the contracts also added: “that meet federal, state and local regulations and CPS standards.”¹² Because both breakfast and lunch are now mandatory for all students, and with the addition of charter schools, the food services contract has increased 127% since 2001, growing from \$45 million to over \$102 million.

Custodial

The 1995 School Reform Act gave CPS the right to privatize school custodians. CPS drastically reduced the workforce and private companies that replaced CPS management cut wages and pension benefits, although the custodians remained unionized in SEIU.¹³ Since 1998 (the furthest back that contracts could be obtained online), CPS has contracted with a total of 18 different custodial companies:

Years	Companies	Contract Amount
1998 - 2001	East Lake Management	\$233,334
1999 - 2000	A & R Janitorial Services, Inc; Total Facility Maintenance, Inc; Ashley's Cleaning Service; Chicago Contract Cleaning & Supply Co.	\$34,000,000
2001 - 2004	A & R Janitorial Services, Inc; Total Facility Maintenance; Ashley's Cleaning Services; Ernie Terrell, Inc; Chicago Contract Cleaning and Supply Co.	\$217,989,120
2004 -2006	A & R Janitorial Services, Inc; Total Facility Maintenance; We Clean Maintenance & Supplies	\$152,748,185
2007 - 2009	Midwest Environmental Services; Total Facility Maintenance; We Clean Maintenance & Supplies, Inc	\$258,095,640
2011	RJB Properties, Inc; United Building Maintenance; We Clean Maintenance & Supplies, Inc; Nationwide Janitorial Corporation; Geralex, Inc; Jackson's Cleaning Services	\$92,000,000
2012 -2013	RJB Properties, Inc; United Building Maintenance; We Clean Maintenance & Supplies, Inc	\$188,500,000
2014	RJB Properties, Inc; United Building Maintenance; We Clean Maintenance & Supplies, Inc; Total Facility Maintenance; Twin Cleaning Professional, Inc; Geralex, Inc.	\$94,500,000
2015 - 2017	Aramark Management Services Limited Partnership; UBM Facility Services; Total Facility Maintenance, Inc. Cleaning Company; We Clean Maintenance and Supplies, Inc.	\$260,300,001
2015 - 2017	SodexoMagic, LLC; RJB Properties, Inc.; Christy Webber & Co.	\$80,000,001

In February, 2014, under the guise of saving money and having cleaner schools, CPS outsourced the management of school custodians to Aramark and SodexoMagic, at a cost of \$340 million. The driver behind this decision was then CAO Tim Cawley, who came to CPS via another outsourcing company, the Academy for Urban Leadership (AUSL).

Mr. Cawley claimed that outsourcing would “result in an enhanced learning environment” and principals would be able to “focus on instruction and family and community engagement.”¹⁴ These claims are very far from the realities in the schools at the start of the 2014-15 school year, as indicated by responses from over

1000 teachers to a CTU survey about the outsourced custodial services. Teachers reported a loss to school cleanliness as well as a loss to their school communities:

We had a wonderful staff prior to this chaos!! We miss Norma who had been here for more years than I can count. She added a personal touch and held an investment in our school and now we have no idea who is cleaning. Norma would go above and beyond and took pride in her job. She was one of us. Our school has never been in such disarray and our teachers are unhappy.

Custodial staff are simply not a part of school life like they used to be; this is detrimental to school culture.

We had several long term custodians who took great pride in their alumni status, their CHILDREN's attendance at the school, and the safety and events held before and after school. It was a damn shame to lose them.

CTU surveyed its members once again in the winter of 2016 and found that the conditions are just as bad as they were during June, 2014, if not worse. Under-staffing is the number one complaint from teachers who say that there are not enough custodians to clean the large, old school buildings. The other major complaints are that the cleaning products do not actually clean and the rooms are not being swept and mopped because Aramark got rid of those tools in favor of "high tech" machines.

Garbage is left in classrooms over the weekend, causing infestations of fruit flies and gnats; food crumbs and spilled milk from the mandatory school breakfasts that are often eaten in classrooms are not cleaned up; weeks of dust aggravate allergies and asthma; washrooms are in deplorable conditions with feces and urine on the toilet seats, floors and even walls; students often do not have toilet paper or soap in the washrooms; rodents and cockroaches are "freely roaming the halls."

Cost of Outsourcing

Outsourcing costs CPS in several ways: direct costs (expenses) and additional services that are not specified in the contract (cost over-runs), the expenses related to managing the contracts (staff time, legal fees), and the human costs (loss of jobs, loss of relationships, loss in quality of services).

Many contracts end up costing more because contracts specify every single task the company agrees to perform. Additional tasks cost more, while in-sourced staff would do the work as part of their normal job duties. Also, in order to win the contract bid, companies low-ball the true cost of providing the services. The extra tasks add up: CPS frequently amends contracts with additional costs, as shown in the table below.

Year	# of Amended Contracts	Total Original	Total Amended	Total Increase	% Increase
2014	31	\$194,615,373	\$297,371,081	\$102,755,708	53%
2015*	11	\$105,520,151	\$126,605,000	\$21,084,849	20%

*Contracts from 2015 continue to be amended as of the publication of this report and will continue throughout the year, thus it is expected that the total increase for FY2015 will be much higher.

The Aramark custodial contract, for example, ended up costing CPS an extra \$22 million in 2015 because CPS did not provide Aramark an accurate list of schools and square footage.¹⁵ CPS also did not provide the staffing it promised. The contract for the movers who were hired to empty out the 50 schools that CPS closed in 2013 more than tripled, from \$8.9 million to \$30.9 million because the contract did not specify additional tasks such as boarding up and securing the closed schools or redistributing the school supplies around the city.¹⁶

It is unclear exactly how much CPS spends on legal fees regarding contracts, but every month the Board of Education has to approve dozens of contract extensions because the contracts are “in negotiations.” Some of these, especially for charter schools and charter leases, drag on for years. It is clear, though, that privatization adds monitoring costs, costs related to the administration of the contract bidding process, costs to manage and supervise the contract, and costs associated with the legal fees.

The entire budget in the office that oversees charter schools (the Office of Innovation and Incubation) can be chalked up to nothing but added costs to the district: \$9,153,760 in 2016 (down from nearly \$30 million in 2015 and nearly \$50 million in 2014). This is in addition to the \$161,775,498 of charter spending that would be unnecessary if these schools were run by CPS. Creating a new process to solicit charter and contract proposals every year, costs incurred during the duration of the solicitation and review process, writing the charter and contract agreements, monitoring and evaluating the metrics stipulated in the agreements, modifying the agreements (as is inevitably done almost annually in the five-year life of many of the agreements). None of these expenses would be incurred by CPS if it had not outsourced the schools to private management companies.

At least sixteen central office departments are directly involved in contract management, some exclusively (e.g., Contracts and Procurement, Office of Innovation), while others spend a portion of their time and resources on contract management. A total of approximately \$300,000,000 is spent on these departments combined:

Unit #	Department Name	FY2016 Budget	FY16 Positions
U12280	Business Diversity	\$419,568	4
U14010	Chief Administrative Office	\$360,612	2
U10810	Chief Teaching & Learning Officer	\$2,638,204	16
U10430	Department of Audit Services	\$1,183,628	8
U11860	Facility Operations & Maintenance	\$2,728,105	18
U10404	Innovation and Incubation	\$9,153,760	15
U12510	Information & Technology Services	\$75,060,888	157

U10320	Inspector General	\$2,070,435	17
U10210	Law Office	\$14,541,389	92
U12010	Nutrition Support Services	\$2,481,342	28
U12050	Nutrition Support Services - City Wide	\$141,308,912	230
U12200	Procurement and Contracts	\$2,336,802	21
U10825	Professional Learning Office	\$4,315,361	16
U12460	Risk Management (Office of Finance)	\$6,272,918	5
U10615	Safety and Security - City Wide	\$26,070,711	151
U10610	School Safety and Security Office	\$6,804,570	54
U15010	School Support Center	\$1,996,801	37
U11870	Student Transportation Services	\$4,865,163	45
		\$299,744,007	871

Minimal Oversight/Evaluation of Contracts

The rise in privatization brings with it decreased oversight of effectiveness and cost, which should be cause for concern to Chicago taxpayers. Privatization with minimal oversight has allowed profit to replace service quality as the key indicator, as explained in detail in the case studies below.

When the CPS Board of Education renews a vendor contract, it does not verify that scope of services, deliverables and outcomes promised in the original contract have been met. Los Angeles and New York City use evaluation and renewal processes, but not Chicago. According to the CPS Contracts and Procurement office: "Contract Renewals are executed based on the Board's determination of need, which is evaluated on a case by case basis."¹⁷ There is no explanation in CPS renewal reports of whether or to what extent the vendor has succeeded in the promised outcomes; the public has no access to any contract evaluations. This contrasts sharply with the treatment of CPS school staff, who work under an increasingly punitive and autocratic microscope, driven by a supposed desire to get rid of "bad teachers". Yet CPS seemingly has no interest in proving that the vendors collecting millions of dollars are providing "good" services.

It is not surprising that CPS' unelected school board has such lax oversight of vendor contracts, considering that many of the appointed school board members have personally benefited from the deals, such as former board member Deborah Quazzo (who is also on the board at KIPP Charter Schools, New Schools for Chicago, and TFA) and her company GSV Advisors (see box below):¹⁸

In the venture capital world, transactions in the K-12 education sector soared to a record \$389 million last year [2012], up from \$13 million in 2005. That includes major investments from some of the most respected venture capitalists in Silicon Valley, according to GSV Advisors, an investment firm in Chicago that specializes in education.

The goal: an education revolution in which public schools outsource to private vendors such critical tasks as teaching math, educating disabled students, even writing report cards, said Michael Moe, the founder of GSV.

"It's time," Moe said. "Everybody's excited about it."

Reports of the Office of Inspector General (OIG) on the CPS website going back to 2000 state that the office receives over 1,000 complaints each year and has a small budget and a staff of 17 to investigate. Approximately half of those complaints are related to outside vendors. It is clear from reading these reports that CPS needs to greatly improve internal controls and accountability.

The OIG has uncovered cases of “stringing,” where multiple vendors have collaborated to sell products or services within the CPS policy limits but in fact only one company provided the services and thus the total dollar amount actually violated the limits. The OIG has also uncovered numerous instances where vendors have lied about their minority- or women-owned business status in order to obtain a contract. Vendors have also been caught for not providing the product or service at all, even though they submitted invoices and were paid. As a result of OIG investigations since 2009, CPS has prohibited 72 companies and individuals associated with vendors from doing business with the district. However, that came after spending over \$55 million on their contracts.¹⁹

This is only the tip of the iceberg: the OIG can only investigate a contract after the office has been tipped off by someone. For instance, it was because of urging by local muckraker Sarah Karp that the OIG investigated the \$30 million SUPES contract that has now led to the federal indictment of former CPS CEO Barbara Byrd-Bennett. No one knows how many vendor contracts are violating CPS policies or producing shoddy services each year.

Most public agencies, like CPS, tout proposed cost savings as justification for outsourcing. However, when the quality of work diminishes and the hidden costs begin to surface, it becomes apparent that outsourcing is not often cost beneficial. The National School Boards Association (NSBA), in 1995, reported that many school districts nationally cancelled or did not renew vendor contracts because they found in-house to be cheaper and better quality. Many superintendents noted the importance of thoroughly evaluating the contract and the vendor’s performance. Since 1995, studies done, for example, by *In the Public Interest*, *The Atlantic*, and numerous others have highlighted the benefits of in-sourcing.^{20, 21}

In 2013, the CPS OIG, CPS reported that it:

...has been making recommendations for enhancements to CPS oversight offices – Ethics, Internal Audit and OIG – for years. CPS contracts are lucrative and hundreds of employees at central office and in schools have contract management authority and the ability to request and approve payments to vendors. The OIG continually reports on misconduct, incompetence and corruption related to these issues. (Chicago Board of Education Office of the Inspector General, 2013)

This lack of oversight is serious and costly – and reduces the amount of money that CPS can spend in the classroom. The money CPS spends on contracts and suppliers each year is a significant percentage of the overall school district budget. Between 2010 and 2014, contracts have ranged from 19% to 28% of the budget and suppliers from 32% to 47% of the budget. In 2015, the contracts were 32% and suppliers were 42% of the budget.

Who is ultimately responsible for oversight of these contracts? The Chicago Board of Education approves them, based on the recommendations of department heads. The Department of Procurement approves vendors, either through open bid solicitations or through sponsorship by schools, networks or CPS departments. However, when a contract is amended or renewed, there is no evaluation process in place.

Contrast this lack of CPS evaluation process to the Los Angeles Unified School District, where all contracts approved by the district are audited. Among other processes, the Contract Audit Unit evaluates fraud risk and the design and effectiveness of internal controls. It ensures that findings and conclusions reached with regard to the completed work are valid, and well-supported.²²

In New York City schools, a contract manager is charged with performing quality assurance, inspection and testing functions for each contract²³.

In Chicago, reporters uncovered massive cost overruns – triple the original amount, from \$8.9 million to \$18.9 million - for the moving company that CPS contracted with when it closed 50 schools in 2013.²⁴ Also, when CPS moved the district headquarters, it cost at least \$23 million more than expected, even though the district claimed it would save \$70 million over 15 years.²⁵ The public does not even know the total cost of either of these two “cost saving” endeavors because CPS refuses to release audited expenses for either of them.

Poor Oversight of Charter Schools

Charters initially promised that they could successfully educate struggling students for less money than traditional public schools. However, over the last decade they have asked for more and more funding. It turns out that charters are actually very expensive to operate and do not benefit from the economies of scale that district schools do: they have to pay for separate administrative costs, private (often new) facilities, debt, longer school hours and often longer school years.

Thus, charters have totally failed to comply with the contractually agreed upon purpose for their existence. Add to that the lackluster academic outcomes and excessive spending on executive salaries and real estate, and it becomes clear that outsourcing education to private charter management organizations has not benefitted CPS, although it has padded the pockets of the entities contracted with them.

Charter Real Estate Scams

CPS is supposed to approve or renew charter agreements based on academic considerations. However, charter funding schemes sometimes become the determining factor instead. For example, to take advantage of New Market Tax Credits (NMTC), charters have to promise they will remain open. CPS actually amended its lease agreement at the Noble Street Cregier facility to help it obtain NMTC, by extending the lease for seven years, even though the charter was only approved in five year increments.²⁶

In 2011, the charter operator UNO Charter School Network, Inc. (UCSN), which currently operates 15 schools serving over 7,000 students, was issued \$98 million in state school construction bonds to build three new schools on the southwest side of Chicago. In June 2014, the Securities and Exchange Commission (SEC) filed charges against UCSN for defrauding investors.²⁷ If UNO were to close, 7000 students, as well as other students throughout the school system, would have their education disrupted.

Concept Charter Schools signed a 20 year lease for the site on which Chicago’s Horizon Science Academy is located. The day Concept signed the lease, the property was sold to a subsidiary of the for-profit real estate investment company, EPR Properties. The rental payments that Concept pays for the Horizon campus will ultimately go to EPR Properties, a publicly-traded company that had \$319.7 million in revenue in 2012.

Charters are financing their expansion by using students as collateral. The bonds that charters borrow to pay for the construction of their school facilities include stipulations of increased student enrollment as a means to pay back their bonds. In fiscal year 2015, charter schools in CPS reported having a combined \$265,512,888 in long-term debt in their quarterly financial reports.

Poor Oversight of Health Services

In the name of accountability, CPS micro-manages teachers and bogs them down with hours of paperwork. Yet, vendors are given free reign. For example, CTU obtained the results of a CPS survey on the quality of outsourced nursing services, through a Freedom of Information (FOIA) request. Only 35 people responded. Of the respondents, 57% said that the outsourced RCM nurses “followed the assignment as requested” and only 48.6% said that they were satisfied with the quality of the services. The rest of the survey questions pertained to the whether or not nurses show up on time. CTU surveyed school nurses, and many reported that the LPN’s assigned to their schools via RCM have never worked with children before and do not “feel comfortable” providing the services they have been assigned.

As indicated in the image below, CPS promised the Board of Education that, as a result of the RCM contract for nursing services, student attendance would improve. Outsourcing to RCM may have actually negatively impacted student attendance, as many RCM nurses fail to show up to accompany students on the school bus, forcing them to stay home and miss school.²⁸

Nursing Services

Recommendation: Authorization to enter into an agreement with RCM Healthcare for \$7.5M/a year to hire supplemental contract vendor nurses while continuing to employ district hired nurses to fill the personnel gap.

The Need <ol style="list-style-type: none">1. Ensure that all students that are eligible for nursing services receive them.2. Our nursing strategy will continue to prioritize the recruitment and retention of district hired nurses.3. CPS lacks enough District nurses to deliver services to our students due to state and national nursing profession shortages.4. Provide flexibility by utilizing agency staff to supplement short-term assignments and/or emergency situations.5. Utilize resources more effectively & efficiently.	Impact on Teaching and Learning <ol style="list-style-type: none">1. Improved student attendance via continuity of service: Reduced turnover of agency staff will result in improved services delivered to the students, thereby resulting in less time out of school.2. More Timely Delivery of Services for students on IEPs and/or 504 plans.3. Enhanced training and professional development offered for all CPS and agency staff. We all know that a students health has a direct connection to their educational outcomes.
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1 This image, presented to the CPS Board of Education at the June 2015 board meeting, explains out how improved nursing services can improve student attendance. None of these CPS-created recommendations were included in the RCM contract language.

Information Technology

Technology is a significant cost to any school district, especially with buildings that are more than 100 years old, rapidly changing technology products and services, and increasing reliance on computers for standardized testing and online-learning. Add to this, the drive to track student level data for evaluation of teachers and schools. More than \$100 million was spent in 2015 on twelve technology contracts.

CPS hires technology consultants to install and maintain software, to train staff, and to serve as technical support. Most of the products are proprietary, thereby locking CPS into a company for many years. There were 156 people working for CPS in the Information and Technology Services Department in the 2015-16 school year, with a budget of over \$75 million. Yet, CPS is still spending several million dollars every year for technical support to central office.²⁹

While there is no denying that technology is an important component of providing and managing educational services in the 21st century, the concern here is that CPS is spending millions of dollars unnecessarily. CPS spent over \$14 million in cost overruns for technology contracts in the previous school year, as shown in the table below:

Board Report	Company	Purpose	Original Contract	Amended Contract	Cost Overrun
15-1118-PR7	Kronos Inc.	software and hardware maintenance	\$380,000	\$1,500,000	\$1,120,000
15-1118-PR6	various consultants	services related to Oracle systems	\$3,500,000	\$6,700,000	\$3,200,000
15-1118-PR5	Oracle America, Inc.	talent acquisition and on-boarding implementation services	\$620,151	\$1,200,000	\$579,849
15-1028-PR19	Rhombus software products	W-2 and 1095-C processing services	\$75,000	\$125,000	\$50,000
15-0722-PR11	Hitachi Consulting	enterprise financial systems optimization services	\$2,800,000	\$3,200,000	\$400,000
15-0624-PR21	CDW Government	purchase Chromebooks	\$9,000,000	\$14,000,000	\$5,000,000
15-0128-PR3	11 Oracle consultants	Oracle systems services	\$6,375,000	\$10,375,000	\$4,000,000
TOTAL:			\$22,750,151	\$37,100,000	\$14,349,849

As an example of the problems with outsourced technology, many teachers are frustrated with the limitations of the Reflect and Learn System (RLS), built and supported by True North Logic (TNL) to record and report teacher evaluation information. Every time CPS wants to make even a small change, so that RLS functions more smoothly or supports the evaluation system's needs more specifically, TNL charges a fee. The fact that an outside vendor controls CPS evaluation information contributes to the late arrival of ratings to teachers. In 2015, they did not receive ratings for the school year ending the previous June, until the middle of December!

Pearson

As an example of how far from Chicago taxpayer money is going, the British-based international publishing giant, Pearson, has managed to sink its profit-hungry claws into many aspects of public education around the world, especially in technology services. In CPS and the state of Illinois, Pearson provides textbooks, standardized tests (including the PARCC), and most recently teacher licensure testing (EdTPA). In other words, Pearson benefits from outsourcing of what to teach (the curriculum), how to teach it, how to evaluate what is being taught (standardized tests) and how to determine if teachers are eligible to be teachers in the first place. Why did CPS and the Illinois State Board of Education (ISBE) relinquish so much power to this company? Who is ensuring that it is providing high-quality academic content?

In July, 2015, CPS extended its contract with Pearson for “instructional management system maintenance and support services.” This contract was originally approved in 2007 for \$3.98 million to manage all of the student assessment data with Pearson’s proprietary licensed software. The July extension gives Pearson an additional \$1,500,000 through the end of the 2017 school year. At the same time, CPS also approved an extension with Pearson for the Gradebook maintenance and support services contract. This contract was initially approved in 2012 for \$500,000 and the extension gives Pearson an additional \$525,000 through the end of the 2017 school year.

The Illinois State Board of Education (ISBE) recently suspended the high school portion of the PARCC exam and there is no official word yet on the future of the 3rd – 8th grade test, but there is growing public backlash against the exam.³⁰ This is after school districts across Illinois spent millions on IT upgrades and professional development for teachers in anticipation of the statewide test. In the fall of 2015, a federal judge ruled that the Pearson-owned test for academic skills required for eligibility to teach in New York was racially biased, and possibly prevented thousands of teachers of color from obtaining employment in a district that predominantly serves students of color.³¹

The company that is providing the text books, curriculum and tests is also providing the data tracking system. Pearson’s purpose is to make money. Curriculum, teaching, and assessment should be driven by students’ needs, by research-based practices, and by teachers’ knowledge. Profit should have no place in these important pedagogical determinations.

Quality of services diminishes

When contracts are proposed to the CPS Board of Education, there is almost always a promise of “high quality” services for less cost. CPS even claims that academic achievement will improve as the result of many of these contracts. However, staff at schools have reported that the opposite tends to happen and many blame it on the fact that the people who had a personal stake in the work, and a relationship with the school, have been removed.

Poor Quality of Food Service

In the fall of 2015, high school students at Roosevelt High School began boycotting the school lunches because they found them “disgusting”.³²

The students launched a website to collect stories and photos of the poor quality of the food, such as the example here.³³

While it is not surprising to hear about teenagers saying they think their school lunch is inedible, Aramark has a notorious reputation for meals with maggots to prisoners in numerous states across the country and has lost contracts as a result.³⁴ School lunches should nourish students, not the bottom lines of food service companies.



“As it stands today, the students are presented with a menu of mostly processed fast food dominated by pizza, burgers and chicken patties. And Roosevelt civics student Duyen Ho believes this could create problems for their long-term health.” (Eng, 2015)

Diminished Quality of Custodial Services

In a move that was never fully explained to the public, CPS decided in 2012 to pull most of the engineers out of the school buildings and bring them downtown to central office, to be deployed as needed. The engineers had managed the custodians, but now CPS put that responsibility on the school principals, who had to spend an inordinate amount of time managing custodial work instead of teachers and students. When CPS removed the building engineers overseeing custodians, schools fell into disrepair. Instead of putting management back in the hands of engineers, CPS turned to privatizers.

They gave the bulk of the school custodial contract to Aramark (SodexoMagic was awarded a contract with 33 schools), and the company immediately instituted drastic cuts in staffing and moved custodians out of schools they had been cleaning for years. These moves were without announcement or warning and many children and school staff were devastated to lose their beloved and trusted custodians who were integral members of the school family.

The CTU, the Chicago Principals and Administrators Association (CPAA) and the Chicago parent group Raise Your Hand (RYH) all surveyed their members to understand precisely how bad the new custodial services had become. In the CPAA survey, 72% of respondents reported that the Aramark and SodexoMagic custodial contracts substantially added to the time needed to manage custodial issues and 92% reported that the contracts did not free up any additional time to devote to instructional issues.³⁵ Additionally, 66% of the responding principals said that the contracts added to safety and security concerns at their schools. In the RYH survey, 80% of schools reported losing at least one custodian and 92% reported that the cleanliness in their buildings were “worse” or “much worse.”³⁶

This is all leading to demoralization of school communities already pushed to the brink from extreme budget cuts that have eliminated so many supports and programs. The Aramark contract promised to 1) free up principals’ time, 2) save money, and 3) leave schools cleaner. None of these promises have been fulfilled, despite the hundreds of millions of dollars that CPS is spending on the contract.

Now that CPS can no longer deny the custodial service mess, it is issuing yet another Request for Proposals (RFP) for a new “Integrated Facilities Management” contract that is calling for *even more* cuts – including the privatization of CPS engineers – even though the reason for poor service is under-staffing at the custodial and management levels.³⁷

Another expensive contract to a company that is unfamiliar with the needs of CPS’ 600+ school facilities is not the solution. Instead, CPS should bring the engineers back to the schools and let them manage the custodians. The engineers know the ins and outs of these buildings and what it takes to keep them clean, including proper staffing levels and better cleaning equipment and products.

Poor Quality of Services to At-Risk Students

Alternative schools exist to help students who have dropped out return and earn their diploma, or help students deemed “at-risk” for dropping out to stay in school and finish. CPS has never done a good job of helping these students, but now they are paying more to companies with big promises and disappointing results.

During the last five years, CPS began farming out alternative education to a variety of companies, some of whom have come and gone; the current list includes: Magic Johnson (who is invested in the custodial firm SodexoMagic, also contracting with CPS; these schools are run by the for-profit company EdisonLearning), Ombudsman, Camelot (runs alternative and therapeutic day schools), Banner, and Pathways in Education. These schools were collectively paid **\$50,206,972** to educate nearly 4,000 students. *Catalyst-Chicago* did an expose on these schools and questioned the quality of the services they provide, considering that many are primarily online, whole courses can be completed in only three weeks, and the schools only exist in store fronts.³⁸ The Banner schools were recently conditionally renewed by CPS due to its admissions policy and special education compliance.³⁹

The companies running these schools make large profits and are expanding quickly – twenty-four schools have opened since 2012 and CPS says it has a need for over 50,000 alternative school seats. It is difficult to assess the full market value of these companies because they are bought and sold and merged frequently, as alternative education is viewed like the rest of the K-12 market – as a great investment for hedge funders and

private equity firms. As a Riverside Company press release put it: “Alternative and special education has significant growth potential, and we’re proud to be acquiring such a high-quality provider. We’re excited about accelerating the growth of this company.”⁴⁰ EdisonLearning was formally Edison Schools, a failed for-profit endeavor that ran charter schools across the country. Banner and Pathways are nonprofit companies, but, like charter schools, they are skimming public dollars from the classroom to spend on rent and management fees.

Questionable Professional Development Quality

Hundreds of millions of dollars in contracts annually go to outsourcing professional development (PD). In February, 2014, a video was widely circulated and derided showing “professional development” provided by a CPS vendor that consisted of teachers repeating, word for word, what was said by the presenter. Other teachers were subjected to literacy coach consultants who promoted 1950’s-style “direct instruction”, and who made the racist claim that Black and Latino students were incapable of learning from the literacy-centered best practices used throughout the district.

In another example, the no-bid \$20 million “SUPES Academy” contract for principals was criticized for its poor quality well before the scandal involving then-CEO Barbara Byrd Bennett came to light. Principals complained that the training was a waste of their time. Board members said the contract would be evaluated each year, but there is no indication that happened and no known evaluation criteria for this, or any other contracted service. CPS officially closed the professional development office in 2016 and moved responsibility for these services into the already under-staffed subject-specific departments (math instruction, literacy, etc.), but the district has all-but eliminated doing this work in-house.

Outsourcing of Planning and Management

Central Office Cuts Lead to Shifting Costs

CPS has long claimed that it has cut central office in order to spare cuts to the classroom. What they have actually done is closed central office positions only to add new positions, while also outsourcing many central office functions, and cutting central-office directed programmatic supports to schools.

Their claims about cuts to central office staff do not hold up. A CTU analysis of central office positions found that there was an increase of \$22 million, 17%, from 2011 to 2014, on spending for Central office and network administrative positions. The budgeted amount for these positions, none of which are involved in direct instructional supports to schools, was \$130 million in 2011, and increased to \$152 million as of December 2014.⁴¹ A Better Government Association (BGA) analysis of CPS central office “savings” found that despite a claim of \$14 million in IT savings, the department that handled IT services had a budget that tripled from 2014 to 2015.⁴²

CPS *claims* it has made over \$740 million in cuts since 2011 to protect the classroom, but that figure includes nearly \$170,000,000 in programs.⁴³ CTU analysis of these cuts shows that these “cuts away from the classroom” eliminated programs like Freshman Connection, reducing lunchroom staff, reducing funding for school athletic departments, cutting behavioral intervention supports, cutting Culture of Calm with no

corresponding increase in supports, reducing extra-curricular programs in math, science, and technology clubs, and cutting in half the funds for Community Schools. These programs directly affect the classrooms, and the students who benefited from them. Even where some of the eliminated or reduced programs may have been imperfect, the programmatic supports were not replaced with better resources.

The loopy accounting of central office cuts continues. In October 2015, four months into the FY2016 budget, CPS signed a \$14,000,000 contract for temporary staff for the central office for three years. The contract indicated that “Vendors’ services will result in the attainment of strategic, operational, financial, and compliance objectives such as cost savings, efficiencies, improved internal controls, and improve financial and budget management processes.”⁴⁴ This was after CPS renewed a contract for temp services in July for \$1,500,000. The original contract was approved in 2013 for \$6,000,000.⁴⁵

“Chaos on Clark Street” was the mantra for years before the district moved its offices to Dearborn (at additional cost – it is now renting when it once owned its property; the public has yet to see any analysis of the supposed savings). There have been six CEO’s running the district since 2008, each coming in with his or her own team and radically new plan to manage the school system. More than anything, what has happened over the last six years has been the creation and elimination of programs and departments while CPS claims only the cuts it makes each year, giving the public a false sense of its fiscal management and spending.

Human Resources

In an effort to find the “best candidates” to teach in and run CPS schools, the district has been contracting with several nonprofit organizations since at least 2000. Outsourcing of human resources has contributed to a less stable, less diverse workforce, and has been detrimental to students’ education.

The Broad Foundation

The Eli and Edyth Broad Foundation serves two purposes: to fund charter schools and to place fast-tracked teachers and administrators in public schools who have been trained under their ideological viewpoint: “Broad has by far done the most to transform the running of public schools by seeking to influence administrator preparation, the meaning and value of teacher and administrator quality, and school boards.” (Saltman, p. 80)

So far, 372 people from across the country have gone through Broad’s Superintendent Academy or Residency programs and have been placed in management or superintendent positions around the country.

At least 24 “Broadies” have been employed by CPS, nearly all of them coming from the business and financial sectors prior to their residency, with the vast majority having MBA degrees. The Broad Fund promotes a business-oriented approach to school management and most of residents work in CPS’ Talent Office (human resources) or in strategic planning positions. The previous two CPS CEO’s are “Broadies”: the federally indicted Barbara-Byrd Bennett who was involved in a kick-back scheme with a professional development contract, and Jean-Claude Brizard, who lost his position shortly after the two-week CTU strike in 2012. “Broadies” have also held high positions such as Chief Talent Officer, Chief Officer of the Office of College and Career Success, and Chief Incubation and Innovation Officer.

When CPS closed a record-breaking 50 schools in 2013, it did so by taking a page from Broad’s “School Closure Guide: Closing Schools as a Means for Addressing Budgetary Challenges.”⁴⁶ Sharing templates from

Washington, DC, Pittsburgh, Dallas, Oakland and Seattle, the guide is designed as a step-by-step blueprint to help districts implement school closings in ways intended to have the least resistance from families, teachers and community groups.

AUSL

The Academy for Urban School Leadership (AUSL) was first launched in 2001 as a “a specialized training program for teachers in urban schools” by former CPS CEO Arne Duncan, former School Finance Authority director and venture capitalist, Martin Koldyke, and Dr. Donald Feinstein.⁴⁷

CPS has been contracting with AUSL to “turnaround” schools since 2004 and none of the turnaround schools have achieved the promised outcomes (though AUSL does run four successful schools that were never turned around – they were opened by AUSL as teacher academies).

A study published by the Chicago organization, Designs for Change, suggests that schools given to AUSL for turnaround were on an upward trajectory prior to AUSL management.⁴⁸ Further, CPS has refused to release to the public the criteria it uses to choose schools for AUSL management.

One thing is clear, though, when AUSL begins a turnaround, it fires virtually all staff even though “reconstitution” is technically defined as replacing half or more of staff. Just 10% of teachers were retained across the three schools that underwent turnaround in 2014. In most cases AUSL replaces predominately African-American staff with young, white teachers, contributing to the overall decline in the African-American teaching force in CPS.⁴⁹ Since 2000, there has been a 37% drop in enrollment at the turnaround schools managed by AUSL whereas district enrollment declined by 9%. There has been a 47% drop in enrollment at the three high schools managed by AUSL (Collins, Orr and Phillips).

Thus, even though AUSL’s turnaround model has failed to achieve what was promised, and turnaround schools make similar academic gains to CPS schools serving similar students, the district is willing to relinquish all management to this private company for 17,696 students at 32 schools – nearly 5% of the CPS district. Meanwhile 70 people are employed in the “AUSL Program Support” office in the CPS Central Office for a total salary cost of \$1,876,910. Since 2004, CPS has spent \$49,277,577 on AUSL contracts for school turnaround and management services. AUSL has also received significant federal and philanthropic funding over the years, including over \$15 million from the Gates Foundation.

All AUSL schools are CPS schools—without CPS, AUSL would not exist. Martin Koldyke, former CPS board president David Vitale and former CPS CAO Tim Cawley all are or were influential in CPS and have or had ties to AUSL. AUSL benefits from these relationships and resulting contracts, but there is no evidence that students benefit as well.

Rather than paying for school management and limiting the public’s legal right to school governance (turnaround schools only have advisory LSC’s with limited powers), CPS should take control of AUSL schools when their contracts end. Instead of giving nearly \$50 million to AUSL, CPS funds should be used to pay for proven school improvement strategies.

Teach for America

Teach for America (TFA) was created by Wendy Kaufman as part of her senior thesis at Yale University in the early 1990's. The original premise was that it would operate similar to the Peace Corps, in that college grads would apply and be sent to a teaching assignment in an under-served area for two years. Since that time, the organization has grown exponentially and has TFA "recruits" (as they're called) across the U.S. and the world.

It is very questionable how "under-served" the Chicago Public Schools are, and thus needing to pay an organization (whose assets are now in the hundreds of millions, despite the fact that it is nonprofit) in order to recruit teachers. **Since 2001, CPS has spent over \$8,000,000 on 2,150 TFA recruits.** It is unclear how many of those recruits are still working as teachers in CPS but an analysis of 100 resumes on LinkedIn shows that 14% are working in the CPS central office in administrative positions and 24% are working as school principals or assistant principals. Additionally, *Catalyst-Chicago* published an analysis in 2013 that showed that 59% of TFA recruits paid for by CPS worked in charter schools.⁵⁰

Consulting Firms

One way that CPS has supposedly reduced central office costs is by using the services of consulting firms for major planning and decision making. During the last few decades of CPS central office chaos, endless expensive initiatives that do not last long enough to be evaluated and countless scandals with contracts and vendors, CPS has been planning behind closed doors with consulting firms such as McKinsey & Co., Boston Consulting, and the Illinois Facilities Fund – companies that have explicitly stated their aversion to teachers unions. While the bulk of the consulting work has been *pro bono*, CPS has also hired many employees from these firms into upper management. Global strategists such as McKinsey & Co. are known for stepping into "crisis" situations and imposing austerity measures. They capitalize on chaos and vulnerability.

These consultants advocate for expanding privately managed charter schools and closing public neighborhood schools. They help CPS develop the strategies and talking points to make these actions less controversial and more palatable to the public. For example, they explain school under-utilization by saying that parents "vote with their feet". In reality, the city tore down public housing, CPS installed charter schools with slick marketing budgets, and they purposely disinvested in public schools until they were devoid of programs and resources. Glossing over the real causes of declining enrollment also masks the long historical practice of maintaining school segregation to keep Black students from integrating into other areas.

These consulting firms are business strategists, not public school planners or administrators. They look at students, schools and communities as data points that can be moved and modified like products on an assembly line. They are anti-union and completely ambivalent to the human toll of eliminating middle-class jobs and destroying school communities.

Corporate Philanthropy

With the rise of "venture philanthropy", CPS has also begun to rely increasingly on foundations like Gates, Walton & Broad to fund initiatives and guide school district policy. These three foundations are the main drivers of private money going used to expand charter schools and other corporate notions of education reform. In addition, these foundations (and many others like them) also fund think tanks like the Reason Foundation, the Thomas B. Fordham Foundation, and the Illinois Policy Institute to justify their policies. The

combined efforts of these philanthropies results in hundreds of millions of dollars spent annually to promote privatization in public education.

The “Big Three” as they are commonly known, have far-reaching influence in local and national educational policy, especially the largest of the three, the Gates Foundation. The reforms they promote-- merit pay, charter expansion, excessive accountability and data collection, extended learning and national standards (Common Core)--run counter to education research on effective practices. The damage done by these failed reforms may be irreversible.⁵¹

The Walton Family Foundation has not been influential in CPS policy per se, but tax returns show it has donated millions of dollars directly to Chicago charter schools and to the state and national charter advocacy and authorizing organizations headquartered in Chicago, the Illinois Network of Charter Schools, the Illinois State Charter School Commission, and the National Association of Charter School Authorizers.

Gates Foundation

The Gates Foundation has spent over \$120 million on various initiatives in Chicago since 2003. Initially, the bulk of this funding was directly for CPS and that was mainly for different high school initiatives (small schools, transformation). Because of the Gates Foundation, Austin, Bowen and Orr High School were chopped up into small schools and, when it became obvious that the initiative was not working, hastily put back together; all three high schools continue to suffer from under-enrolment which negatively affects their budgets and ability to provide the academic programming that students need to thrive.

In the last five years, however, the majority of Gates Foundation funding has been on charter expansion, AUSL and online learning.

The Gates Compact, signed by CPS in 2011, promised unfettered charter expansion and an increase in charter per pupil expenditures.⁵² CPS signed this compact in order to be eligible for Gates Foundation funding, but even though the district changed the policies to make them more favorable for charter schools, CPS did not end up getting the funding.

Chicago Public Education Fund

The Chicago Public Education Fund (CPEF) is a venture philanthropy that was launched in 2000 by Chicago’s major elites to promote a “world class education system.” The CPEF has among its members the millionaires and billionaires who have attacked the Chicago Teachers Union and promoted charter expansion over the last 15 years: Ken Griffith, Bruce Rauner, Penny Pritzker, and David Vitale, just to name a few.

Conclusion

Outsourcing public education services and management to non-profit and for-profit companies is costing the district more money than in-sourcing due to bad contract management, poor contract language and poor quality of services. Morale in the district is low, as evidenced by the exodus of principals leaving CPS in June, 2016. In an attempt to reduce the number of union employees working in the public schools, CPS outsources the care and education of Chicago’s students to companies that are unconnected to school communities and unresponsive to complaints while earning millions in profits.

Charter operators are diverting public funds from the classroom to pay for private facilities and exorbitant management fees. AUSL continues to collect fees and run turnaround schools that are demonstrating no improvement while veteran African-American teachers are being replaced with younger white teachers, contributing to an overall decline in teachers of color in a district that is over 90% students of color. Temporary nurses without pediatric training are being sent to treat young children with sensitive medical issues, oftentimes refusing to do the work they are assigned. The schools are filthy and the lunch food is inedible. Foundations and consulting firms are dictating school policy without an understanding of community context or sound pedagogical practices.

The district is not saving money by outsourcing. The people who approve the contracts often do not stay in the district long enough to face the consequences of their actions, which are also pushing Chicago families out of the city. Years of declining enrollment has reduced CPS revenue. What the district needs is more stability, public oversight through an elected school board, and a significantly stronger contract and procurement process.

CTU Recommendations

Rampant and unaccountable outsourcing is impoverishing and undermining Chicago Public Schools. Chicago Teachers Union recommends that instead, CPS implement the following:

1. **In-Sourcing:** Many services can be brought back under the district's control. Countless school districts and government agencies have returned to in-sourcing for better control and higher quality services. For example, the San Diego Unified School District saved \$1 million a year on bus services, by bringing them in-house in 2010. The San Diego Community College District saved at least \$900,000 a year by insourcing its IT management.⁵³ Eleven Michigan school districts returned to hiring their own custodial staff, after formerly outsourcing this service.⁵⁴
2. **More Oversight and Contract Management:** the Office of Procurement and Contracts needs to actively manage, evaluate and audit every contract with CPS. For example, they could implement a system similar to New York's, where a contract manager is charged with performing quality assurance, inspection and testing functions for each contract. Every contract signed by CPS needs to contain explicit language on contract management and performance metrics. CPS needs to highlight the fine-print stipulations, such as guaranteed enrollment, paying the difference in cost, assuming all liability.
3. **Public Input:** Currently, there is no mechanism for the public to have input on outsourcing or vendor decisions. The public rarely is aware that the CPS Board of Education will vote to approve costly contracts until 48 hours before the meeting, when Board agendas are available. After contract approval, there is no mechanism for the public to have their concerns about service quality addressed. For example, in spite of alarms raised about the potential for life-threatening consequences of nursing services outsourcing, CPS moved forward with their \$30,000,000 contract with RCM. CPS should hold public hearings for large contracts (over \$10,000,000), and institute a formal process for submitting complaints and concerns.

4. **Proof of Cost Savings:** CPS should provide to the public and the Board of Education a detailed accounting of precisely how and where cost savings will be actualized, with a side-by-side comparison of in-sourcing or other options. CPS needs to identify any and all new costs related to new contracts, such as management or oversight. Also, wholesale replacement of employees should be seen as a negative practice, as it contributes to instability in schools and causes harms to the community by increasing unemployment. Finally, CPS must specify which components of the work it will be responsible for and at what cost. No contract should proceed without careful consideration of these questions.

5. **Support Financing Options through Municipal Banks:** Drawing on the work of the Refund America Project and the Roosevelt Institute, Chicago should invest in municipal banks to pay for capital infrastructure projects so that debt and interest gets recycled into the city rather than outsourced to private banks for profit.

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