

# **AGENDA**

## **FREE MARKET PROTECTION AND PRIVATIZATION BOARD**

***Thursday, May 14, 2015, 2:00 PM***  
**Room 30 House Building**  
**State Capitol Complex**  
**Salt Lake City, Utah**

1. Call to Order
2. Public Input (10 minutes)
  - a. Persons may make statements or comments for up to two minutes each on matters pertinent to the board.
3. Board Business/Minutes
  - a. Minutes from April 9, 2015 *– consideration*
  - b. Board Appointments Update
  - c. Privatization Process Update
4. Commercial Activities Inventory
  - a. Department of Alcoholic Beverage Control *– presentation*
5. Review Privatization of an Activity
  - a. USOE – Aspire privatization update
6. Review Issues Concerning Agency Competition with the Private Sector
  - a. USOE – Cosmetology programs
7. Other/Adjourn

Future meetings:

Privatization Board – Thursday, June 11, 2015, 2:00 PM, Room 30 House Building

**Meeting Packet Contents**

<u>Page</u>	<u>Item</u>	<u>Source</u>
3	Minutes from April 9, 2015 Board meeting	GOMB
7	Commercial Activities Inventory – DABC	DABC
13	A Review of Public Education Cosmetology Programs	LAG
<u>Additional Items</u>		<u>Source</u>

**Minutes of the  
Free Market Protection and Privatization Board**

Thursday, April 9, 2015 - 2:00 p.m.  
Room 30, House Building  
State Capitol Complex

**Members present:**

Kimberley Jones (Chair), Brian Gough (Vice Chair), Sen. Karen Mayne, Thomas Bielen, Randy Park, Manuel Torres, Al Manbeian, Russell Anderson, Louenda Downs, LeGrand Bitter

**Members absent:**

Sen. Howard Stephenson, Rep. Johnny Anderson, Bob Myrick, Rick Jones, Jacquie Nielsen, Steve Fairbanks

**Staff present:**

Cliff Strachan, Governor's Office of Management and Budget (GOMB)

Note: Additional information including related materials provided at the meeting and an audio recording of the meeting can be found at the Utah Public Meeting Notice Website (<http://www.utah.gov/pmn>). Information about the Privatization Board can be found at <http://gomb.utah.gov/operational-excellence/privatization-board/>.

**1. Welcome and Introductions**

Kimberley Jones chaired the meeting. She noted that Rep. Johnny Anderson, Bob Myrick, Rick Jones, and Steve Fairbanks were excused. She also noted that the board would hear the presentation from the Department of Health before addressing Board Business.

**2. Public Comment (10 minutes)**

**3. Board Business/Minutes**

**a. Minutes from January 8, 2015**

*Motion:* Louenda Downs moved to approve the minutes of the January 8, 2015 meeting. CARRIED

Cliff Strachan provided an update on two items (student information systems and the property damage subrogation pilot) in the annual report that were addressed during the annual legislative general session:

1. Student information systems -- the State Superintendent indicated a willingness to work on the proposals during the interim and the Public Education Appropriations Subcommittee moved that the State Office of Education implement the board's recommendations. Staff has advised the Superintendent that the board would welcome an update this autumn.
2. Subrogation pilot -- Rep. Anderson introduced House Bill 370 which sought legislative changes necessary to implement the proposed pilot project at UDOT. However, the bill failed in the House Transportation Committee.

He also noted that Sen. Sen. Stephenson secured funding for the board for FY 2016,

**b. Privatization Process**

Mr. Strachan presented the board with a document titled "Process for Evaluation of Alternative Service Delivery Strategies", which is the combined work of the Privatization Process Advisory Committee, Sequoia Consulting Group, and staff.

Board members and staff discussed the document and next steps, which steps include developing administrative rules, posting templates to the Privatization website, and presenting the document to the governor's cabinet. To summarize the discussion, board members were pleased with the document, calling it dynamic and noting it provides a qualitative and quantitative framework for discussions with agencies. Members wish to hear back from agency heads concerning the document. With regard to establishing administrative rules members expressed caution that the rules do not unnecessarily limit the discretion of agencies to make operational decisions.

*Motion:* Louenda Downs moved to approve the document as a dynamic guide, to take it to cabinet and agencies for review and to invite agencies to use it a guiding process. CARRIED

**c. Strategic/Tactical Planning**

With reference to process steps 1 and 2 from the process document, Board members and staff discussed the need for both long term and annual assessment plans. A suggestion was made to invite agency representatives, legislative staff and budget analysts into the process. Members identified Corrections, SITLA, National Guard, Department of Alcoholic Beverage Control, and the Governor's Office of Economic Development as agencies they want to hear from as well as looking at the work of the Community Impact Fund and the Fund of Funds.

**4. Commercial Activities Inventory (CAI)****a. Department of Health (DOH)**

As noted above, this part was heard earlier in the meeting.

David Patton, PhD, Executive Director, and Robert Rolfs, MD, Deputy Director, provided a handout "Utah Department of Health: Agency Overview" and discussed various programs provided by the agency. They noted that the agency has two main focuses, Public Health and Medicaid, and discussed what each delivers.

Staff noted that DOH provided a detailed inventory of programs/functions under the previous survey structure. From that structure, he requested Health to do the new Tier 1 surveys on nine programs/functions the old survey suggested had privatization potential. Of these only two (Clinic Support in Medicaid and Forensic Toxicology) scored higher than the 65% threshold leading to the Tier 2 surveys. Drs. Patton and Rolfs addressed all nine, noting that political opposition for privatizing the labs might actually be intense and questioned whether cost savings could be had. Clinic support is not a good candidate when considering that Medicaid pays 60 percent of regular fees and requires subsidies in excess of \$1 million per year. Still, DOH is working with some providers, Primary Childrens Medical Center for example which offers pediatric services, to provide specific clinic services where it can.

Dr. Patton noted that DOH is considering two possible privatization initiatives: the Pharmacy Rebate

Program and future maintenance of the Medicaid Management Information System (MMIS) which is currently being built by a private sector vendor with DOH staff partnering. [Later in the meeting, after the presenters left, staff suggested the board participate in these initiatives.]

Dr. Patton also noted various activities, specifically tobacco prevention, in which Health staff and the private sector learn from each other.

- 5. Review Privatization of an Activity**
- 6. Review Issues Concerning Agency Competition with the Private Sector**
- 7. Other Business/Adjourn**

Mr. Strachan noted that he is in the process of reviewing appointments to the board since every year approximately one-half of the members' terms expire. He has contacted each affected member and their respective organizations to identify who might be reappointed and which seats need filling. He intends to have recommended appointments to the governor in May for his consideration.

*Motion:* Al Manbeian moved to adjourn. CARRIED

Next Scheduled Board meeting:

- Thursday, May 14, 2015 at 2 pm in Room 30 House Building



Commercial Activities Inventory Survey (Tier 1)					
DABC Department of Alcoholic Beverage Control			MAXIMUM		
Tier 1 Questions	Responses	Yes	No	SCORE	
T1	Describe the service/function so there is a clear understanding of the service and how it operates.	Alcohol beverage control is required by statute to operate as a public business using sound management principles and practices; license, and regulate the sale of alcoholic products in a manner and at prices that reasonably satisfy the public demand and protect the public interest; and promote the reduction of the harmful effects of: over consumption of alcoholic products by adults; and consumption of alcoholic products by minors.			
T2	What is the budget for this service/function?	FY2016 - Department Budget \$41,153,800.00			
GE2	Do other alternatives exist for providing the service?	Yes, we would anticipate that private sector retailers and distributors would more than likely fill the vacuum.	25	0	25
GE6	Are there any known legal barriers to privatization?	Yes, statutory changes would be required	0	25	0
GE7	Are there any obvious risks to be considered with the privatization of this service?	Yes, social issues, potential loss of revenue to the state, possibility of limited selection and increase in prices, problems with reduction in force of state employees	0	25	0
PE3	Would there be a high level of risk if a privatized service did not meet required performance requirements?	Maybe - It is unclear what performance requirement is here. If it is a free market, then the business would likely go out of business if not providing the service. From a social ills issue, that would fall on government and would be a risk if not performed	0	25	25
GE5	Has this service been successfully privatized by other state or local governments? By the Federal government?	Yes, Washington State two years ago and 32 other license jurisdictions	15	0	15
PE1	Does this service currently utilize quantifiable and measureable performance measures?	Yes we maintain metrics for each aspect of operations	15	0	15
GE1	Is the service being reviewed considered a mission critical service of Utah State Government?	No, it is a retail function, is handled in other states by the private sector	0	5	5
CE11	Does the current State service have excess capacity that could be sold due to a privatization arrangement?	No, it is a closed system and the state would have to withdraw from the field or separate procurement, distribution and retail	5	0	0
GE8	Does a vendor need access to confidential information?	No	0	5	5
GE4	Is there a significant level of political opposition to privatization of this service?		0	20	0
Tier 1		Score	165	90	55%

<i>Commercial Activities Inventory Survey (Tier 1)</i>					
DABC	Licensing and Compliance		MAXIMUM		
Tier 1 Questions		Responses	Yes	No	SCORE
T1	Describe the service/function so there is a clear understanding of the service and how it operates.	Regulate the sale of alcoholic products in a manner that reasonably satisfy the public demand and protect the public interest. Process all applications for licenses, permits, out of state brewers and label approval; ensure that licensees/permittees maintains statutory compliance with licensing requirements; and take administrative action when appropriate			
T2	What is the budget for this service/function?	\$800,000.00			
GE2	Do other alternatives exist for providing the service?	Yes, local government in other jurisdictions process liquor license applications	25	0	25
GE6	Are there any known legal barriers to privatization?	Yes, statutory changes would be required	0	25	0
GE7	Are there any obvious risks to be considered with the privatization of this service?	Yes, a private entity would be given regulatory authority	0	25	0
PE3	Would there be a high level of risk if a privatized service did not meet required performance requirements?	What are the performance requirements? Yes, social issues/lack of regulatory compliance would be a concern	0	25	0
GE5	Has this service been successfully privatized by other state or local governments? By the Federal government?	No, we have no knowledge of licensing and compliance functions being privatized in any state or local jurisdiction	15	0	0
PE1	Does this service currently utilize quantifiable and measurable performance measures?	Yes, we have quantifiable performance measures for our licensing and compliance functions	15	0	15
GE1	Is the service being reviewed considered a mission critical service of Utah State Government?	Yes, given the regulatory function	0	5	0
CE11	Does the current State service have excess capacity that could be sold due to a privatization arrangement?	Yes, it is possible that a private firm could be contracted to provide the audit/compliance function	5	0	5
GE8	Does a vendor need access to confidential information?	Yes, social security numbers, background checks, proprietary information	0	5	0
GE4	Is there a significant level of political opposition to privatization of this service?		0	20	0
Tier 1		Score	165	45	27%

Commercial Activities Inventory Survey (Tier 1)					
DABC	Purchasing		MAXIMUM		
Tier 1 Questions		Responses	Yes	No	SCORE
T1	Describe the service/function so there is a clear understanding of the service and how it operates.	Participates in evaluating products for listing, responsible for purchasing all listed products to meet public demand			
T2	What is the budget for this service/function?	\$380,000			
GE2	Do other alternatives exist for providing the service?	yes	25	0	25
GE6	Are there any known legal barriers to privatization?	Yes, statutory changes would be required	0	25	0
GE7	Are there any obvious risks to be considered with the privatization of this service?	No, except product selection that would be targeted at minors and other policy concerns	0	25	25
PE3	Would there be a high level of risk if a privatized service did not meet required performance requirements?	No, except product selection that would be targeted at minors and other policy concerns	0	25	25
GE5	Has this service been successfully privatized by other state or local governments? By the Federal government?	Yes in licensing states when part of the entire system (non control states)	15	0	15
PE1	Does this service currently utilize quantifiable and measureable performance measures?	Yes, there are quantifiable performance measures to track product performance	15	0	15
GE1	Is the service being reviewed considered a mission critical service of Utah State Government?	No, it is a part of the retail function	0	5	5
CE11	Does the current State service have excess capacity that could be sold due to a privatization arrangement?	No, it is a closed system and the state would have to withdraw from the field or separate procurement, distribution and retail	5	0	5
GE8	Does a vendor need access to confidential information?	No	0	5	0
GE4	Is there a significant level of political opposition to privatization of this service?		0	20	0
Tier 1		Score	165	115	70%

<b>Commercial Activities Inventory Survey (Tier 1)</b>					
DABC Warehousing and Distribution				MAXIMUM	
Tier 1 Questions		Responses		Yes	No SCORE
T1	Describe the service/function so there is a clear understanding of the service and how it operates.	Receipt, storage and shipment of all products listed for sale by the department			
T2	What is the budget for this service/function?	\$4,735,600.00			
GE2	Do other alternatives exist for providing the service?	Yes, for distribution we currently subcontract shipping and allow direct ship of heavy beer by beer wholesalers to liquor outlets	25	0	25
GE6	Are there any known legal barriers to privatization?	Yes, statutory changes would be required	0	25	0
GE7	Are there any obvious risks to be considered with the privatization of this service?	No, except loss of control of alcoholic products distributed in the state.	0	25	25
PE3	Would there be a high level of risk if a privatized service did not meet required performance requirements?	No, however we are not sure what the performance requirements would be	0	25	25
GE5	Has this service been successfully privatized by other state or local governments? By the Federal government?	Yes, in all non control states. A couple of control states subcontract warehousing service	15	0	15
PE1	Does this service currently utilize quantifiable and measurable performance measures?	Yes, there are quantifiable and measurable performance measures	15	0	15
GE1	Is the service being reviewed considered a mission critical service of Utah State Government?	No, service is provided by private companies	0	5	5
CE11	Does the current State service have excess capacity that could be sold due to a privatization arrangement?	No, it is a closed system and the state would have to withdraw from the field or separate procurement, distribution and retail	5	0	0
GE8	Does a vendor need access to confidential information?	No, but they would need access to inventory lists and quantity	0	5	5
GE4	Is there a significant level of political opposition to privatization of this service?		0	20	0
Tier 1		Score	165	115	70%

<i>Commercial Activities Inventory Survey (Tier 1)</i>					
DABC	Retail Operations		MAXIMUM		
Tier 1 Questions		Responses	Yes	No	SCORE
T1	Describe the service/function so there is a clear understanding of the service and how it operates.	Supply alcoholic products that are over 4% by volume to to the public through our stores and package agencies			
T2	What is the budget for this service/function?	\$30,782,700.00			
GE2	Do other alternatives exist for providing the service?	yes	25	0	25
GE6	Are there any known legal barriers to privatization?	Yes, statutory changes would be required	0	25	0
GE7	Are there any obvious risks to be considered with the privatization of this service?	Yes, increased number of outlets /social issues	0	25	0
PE3	Would there be a high level of risk if a privatized service did not meet required performance requirements?	Maybe-What are the performance requirements -social issues would be a concern	0	25	0
GE5	Has this service been successfully privatized by other state or local governments? By the Federal government?	Yes	15	0	15
PE1	Does this service currently utilize quantifiable and measureable performance measures?	Yes, performance metrics are maintained and reviewed.	15	0	15
GE1	Is the service being reviewed considered a mission critical service of Utah State Government?	No, it is a retail operation	0	5	5
CE11	Does the current State service have excess capacity that could be sold due to a privatization arrangement?	No, it is a closed system and the state would have to withdraw from the field or separate procurement, distribution and retail	5	0	0
GE8	Does a vendor need access to confidential information?	No	0	5	5
GE4	Is there a significant level of political opposition to privatization of this service?	Yes	0	20	0
Tier 1		Score	165	65	39%

Overview

Issues

Performance

Background

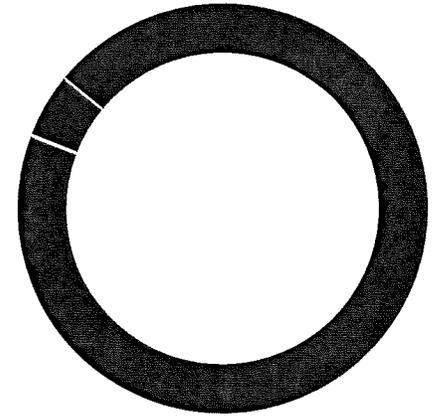
Financials

Sources

Uses

Utah is one of seventeen liquor control states and one of two totally state run systems. The Department of Alcoholic Beverage Control (DABC) operates 44 State stores and approximately 100 package agencies. These state stores and package agencies are the exclusive retailers of liquor, wine and heavy beer (more than 4 percent alcohol by volume) in the Utah. The Department administers liquor laws and licenses on-premise businesses, temporary event permits, manufacturers, beer wholesalers, warehouses, and liquor representatives.

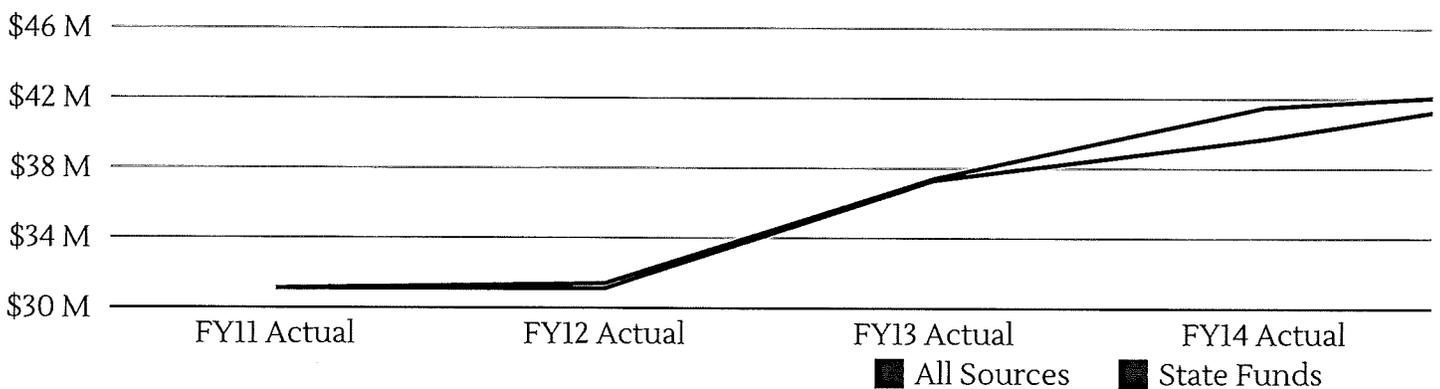
The Department regulates the manufacture, sale and use of alcoholic beverages. Without promoting the sale or consumption of alcoholic beverages, the Department operates as a public business generating revenue for state and local government programs. The Department licenses and regulates the sale of alcoholic beverages, as directed by statute, at prices that reasonably satisfy the public demand while also protecting the public interest.



**\$41 M**

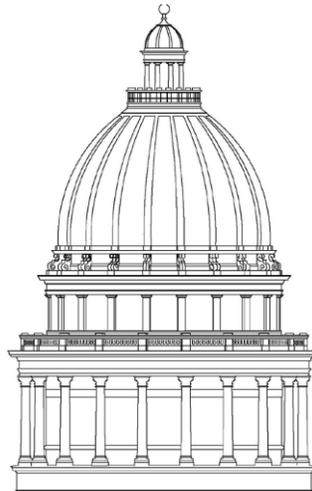
FY 2016 Appropriation

Funding History



COBI contains unaudited data as presented to the Legislature by state agencies at the time of publication. For audited financial data see the State of Utah's [Comprehensive Annual Financial Reports](#).

REPORT TO THE  
**UTAH LEGISLATURE**  
Number 2011-05



**A Review of Public Education  
Cosmetology Programs**

May 2011

Office of the  
LEGISLATIVE AUDITOR GENERAL  
State of Utah

May 17, 2011

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Review of Public Education Cosmetology Programs** (Report #2011-05). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff, CIA  
Auditor General

JMS/lm

# Digest of A Review of Public Education Cosmetology Programs

There is little evidence that private beauty schools have suffered undue competition from cosmetology programs offered by public schools. The school district programs are too small to have a significant impact on the overall industry. However, we did find significant differences in the sources of revenue and in the operating costs of public and private beauty schools. Public schools are largely supported by tax dollars, while private schools primarily rely on tuition and income from salon sales. The school district cosmetology programs also have higher operating costs than private schools.

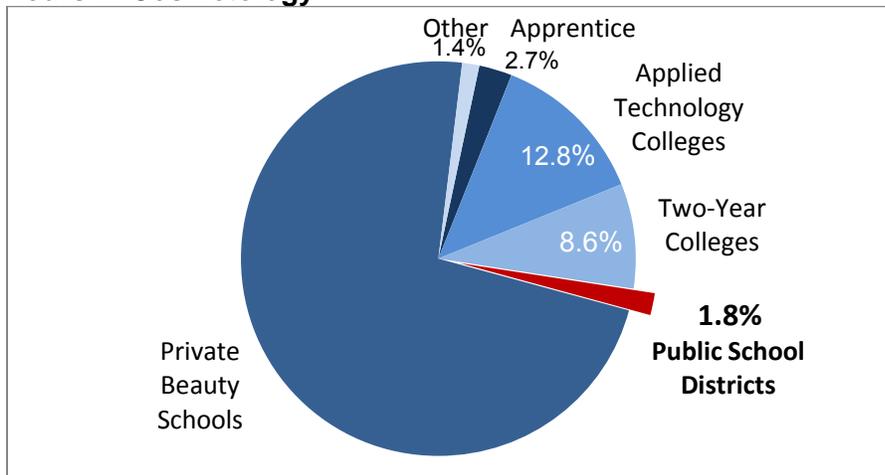
## Utah has an Overabundance Of Beauty Schools

Concerns have been raised about the competition that private beauty schools face from publicly funded cosmetology programs. We found that an overabundance of cosmetology schools in Utah is the main reason that some schools are facing declining enrollment. The U.S. Department of Labor reports that Utah, considering its population, employs over 2.5 times as many school instructors per capita as the national average.

## Chapter II: High School Programs Offer Little Competition to Private Beauty Schools

**School Districts Play a Minor Role in Beauty School Industry.** The cosmetology programs offered by the public school districts are too small to have a significant impact on the overall beauty school industry. Of the over 2.5 million hours of training given to those who received a cosmetology license in 2010, only 1.8 percent were provided by a public school district program. School district programs represent a small segment of the industry

## School Districts Provide a Relatively Small Portion of Instruction Hours in Cosmetology.



and provide a relatively small amount of training to their students. Even if the high school programs were eliminated, the industry would still suffer from excess capacity.

**Chapter III:  
Public Schools Charge  
Less Tuition, but Have  
Higher Operating Costs  
than Private Schools.**

**Student Tuition and Fees Are Lower at Public Schools.** High schools are not permitted to charge tuition, but may assess lab fees. As a result, they rely primarily on taxpayer support to cover the cost of their operations. In contrast, private sector schools rely mainly on student tuition and fees to cover the cost of instruction. Some private schools also receive substantial support from salon sales and services.

**As a Group, Public Schools Have a Higher Cost of Instruction than Private Schools.** Public schools tend to offer higher compensation to their employees and have higher administrative costs than private schools. As a result, they have higher total costs.

	<b>Total Annual Cost</b>	<b>Student Instruction Hours</b>	<b>Cost Per Hour</b>
<b>Public Schools *</b>			
Granite Technical Institute	\$551,459	45,297	\$12.17
Canyons Technical Ed. Center	416,730	34,858	11.96
Davis Applied Tech. College	1,232,129	89,174	13.82
Salt Lake Community College	2,974,790	211,591	14.06
<b>Private Schools **</b>			
School H	\$1,092,978	151,108	\$7.23
School I	401,540	43,680	9.19
School J	1,091,402	118,239	9.23
School K	2,130,167	245,417	8.68

\*year ending June 30, 2010, except Granite Technical Institute which is year ending August 31, 2010.

\*\*year ending December 31, 2009

**Loss of State and Local Tax Revenue Is Minimal.** We were asked to identify the extent to which tax revenues are affected when cosmetology programs are offered by public schools (which do not pay taxes), instead of private schools (which do pay taxes). We believe that eliminating publicly funded cosmetology programs would have little effect on state and local revenues. Due to the excess capacity in the industry, property taxes would not likely be affected. It is less clear how income taxes would be affected. If the school district programs were eliminated, and if students paid the full tuition charged by private beauty schools, it could increase private beauty school revenues by as much as 1.8 percent.

# REPORT TO THE UTAH LEGISLATURE

Report No. 2011-05

## **A Review of Public Education Cosmetology Programs**

May 2011

Audit Performed By:

Audit Manager                      Tim Osterstock

Audit Supervisor                    James Behunin



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# Chapter I

## Introduction

Due to increased competition and the recession, the beauty school industry in Utah is facing tough economic conditions. Some private schools have had a declining enrollment and are losing money. At the same time, the public education system has expanded some of its cosmetology programs. Industry representatives have expressed concern with perceived competition from taxpayer-funded institutions. Legislators have asked the Office of the Legislative Auditor General to examine the costs, tuition, and overall efficiency of the cosmetology programs operated by public school districts.

Cosmetology includes treatment and care for hair, skin, and nails, and the application of beauty products. Students can receive training in cosmetology at publicly funded technical education centers or at private beauty schools. Those who successfully complete 2,000 hours of training and pass an exam are issued a license by the State Division of Occupational and Professional Licensing. Licenses can be obtained in cosmetology or in one of the disciplines within cosmetology: barber, nail technician, or esthetician. Once licensed, cosmetologists are qualified to work in salons, barbershops, and health spas.

The State of Utah is served by 48 private, for-profit beauty schools. Four public school districts (Granite, Canyons, Tooele, and Millard) also operate career and technical training schools which offer instruction in cosmetology. In addition, five campuses of the Utah College of Applied Technology (Bridgerland, Davis, Ogden-Weber, Tooele, and Mountainlands campuses) offer programs in cosmetology. Finally, three of the state's two-year colleges, Salt Lake Community College, Snow College's Richfield campus, and the College of Eastern Utah, also offer certification and associate degree programs in cosmetology.

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**At the same time private beauty schools were facing an economic downturn, public schools expanded their programs.**

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### **Public Schools Expanded Cosmetology Programs While Private School Enrollment Declined**

During 2008 and 2009, the private beauty school industry was affected by the poor economy. Some beauty schools experienced a decline in enrollment and found it difficult to remain profitable. One beauty school owner attributes the decline to high unemployment

and reduced access to credit that made it difficult for some students to cover the cost of tuition. However, by 2010, some private schools reportedly saw their enrollment rebound after developing financial aid programs for their students. Specifically, the schools qualified for federal Title IV funds, which are administered by the U.S. Department of Education. By qualifying for Title IV funds, schools can help their students receive Pell Grants and subsidized student loans.

The same year that some private schools began to experience declining enrollment, many public institutions began to expand and upgrade their cosmetology programs. During 2009, the Granite School District program moved into a new facility and the Tooele School District began offering cosmetology at its Community Learning Center. That same year, the Mountainland Applied Technology College also broke ground on a new campus in Lehi, which included a new home for its cosmetology program. Similarly, the Davis Applied Technology College refurbished its cosmetology lab and salon. Finally, the Salt Lake Community College also began preparing to move its cosmetology program to a new building.

Representatives of the Utah Beauty School Association have expressed concern about the direct competition they face from the public education system. They question why the public schools would make large investments in cosmetology programs at a time when the private schools suffer from excess capacity. Moreover, they suggest that the private sector is more efficient at providing the training than the publicly-funded programs.

### **Public Education's Expansion into Cosmetology A Primary Concern**

The Office of the Legislative Auditor General was asked to focus its review on cosmetology programs offered by Utah's public school districts. The recent creation of a new cosmetology lab at the Granite Technical Institute was cited as an example of public schools expanding into an already saturated beauty school market.

Of less concern are the cosmetology programs offered by post-secondary schools. Most post-secondary institutions have avoided competing with the private sector beauty schools. For example, the Utah College of Applied Technology (UCAT) has agreed to limit its

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**ATCs and colleges have avoided competing with the private beauty schools.**

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enrollment of high school students in regions that are also served by private beauty schools. UCAT has also avoided opening new cosmetology programs in communities already served by private schools.

The Salt Lake Community College has a well-established cosmetology and barbering program that is located in an area served by many private cosmetology schools. However, its cosmetology program was created before most of the private schools' programs in the region. In addition, the Salt Lake Community College, like the UCAT system, has a legal mandate to provide students with basic career and technical training. Offering cosmetology is consistent with that mandate.

With post-secondary institutions making an effort to avoid adding to an already competitive cosmetology training industry, the growing competition presented by public school districts remains the main concern of the perceived growing competition presented by public school districts.

### **Some Questions Involve Policy Choices**

The State Legislature has relied on local public education authorities to determine which career and technical education programs will be offered within their districts. This system allows local development of new programs that may already be offered by the private sector. As previously noted, in many cases local educational officials have been conscious of and address private sector concerns. In those current cases of concern the interaction between the public and private sectors have been limited and have lacked clear evidence that a problem exists, hence this review.

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**In the past, local education officials have been expected to determine which career and technical programs are best suited to the needs of their students.**

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### **Audit Scope and Objectives**

The Legislative Auditor General was asked to determine whether private industry is more efficient than the state's secondary education system at providing cosmetology training. In addition, auditors were asked to respond to the following four specific questions:

1. What is the cost of tuition and fees for cosmetology students attending a high school cosmetology program and how do

- these costs compare to the tuition and fees charged by private beauty schools?
2. What is the total cost to the state of providing cosmetology training at a school district vocational center and how does that cost compare to the cost of training a student at a private beauty school?
  3. What property taxes, income taxes, and licensing fees does the state forego when cosmetology training is offered by the secondary education system?
  4. If private institutions can provide cosmetology training at a lower cost than school districts, are school districts offering other vocational programs, such as the dental hygienist certification, that should be considered for future review?

Chapter II describes the limited extent to which public school districts are competing with private cosmetology schools. Chapter III provides information requested in the first three areas described above. The fourth area, regarding the proper selection of vocational programs, is a policy matter issue that is not discussed in this report.

## Chapter II

# High School Programs Offer Little Competition to Private Beauty Schools

The beauty school business in Utah is highly competitive, but the school districts play a relatively small role. Considering the state's population, Utah employs more people in the cosmetology school business than most other states. In addition, the number of people employed as beauty school instructors continues to increase. The overabundance of cosmetology schools in Utah, not the competition from high school programs, seems to be the main reason that some private schools are facing declining enrollment.

Although school districts expanded their programs at the very time private industry was suffering declines, the school district programs are too small to have a significant impact on the overall cosmetology school industry. Even if school districts eliminated their cosmetology programs, there would be little effect on the broader industry.

## Utah Has an Overabundance Of Cosmetology Schools

Data obtained from the U.S. Department of Labor suggest that Utah has far more individuals employed in the beauty school industry than the national average. The data suggests that the competition among beauty schools is quite high in the State of Utah.

### **National Data Shows that Utah Employs A Large Number of Beauty School Instructors**

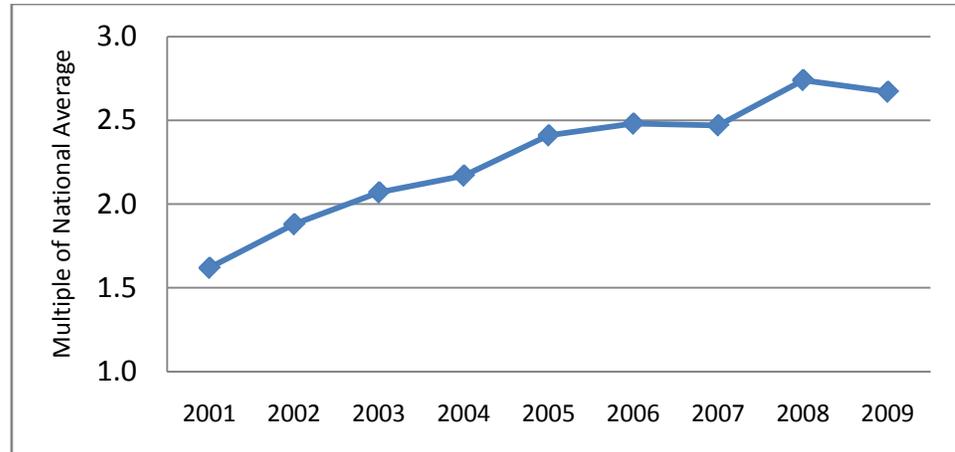
Data obtained from the U.S. Department of Labor shows that Utah has far more beauty school instructors than the national average. The Department measures employment by profession, using a statistical measure referred to as the location quotient. The location quotient is derived by comparing the percent employed in a certain region, such as Utah, to the percent employed nationally. Figure 2.1 compares Utah's location quotient for beauty school instructors to the percent employed nationwide in that field. The data suggests that Utah has over two times more beauty school instructors than one would expect for a population its size.

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**Even if the school districts eliminated their cosmetology programs, there would still be an overabundance of beauty schools in Utah.**

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**Figure 2.1. Utah Has a Large Number of People Employed as Beauty School Instructors.** The location quotient, a U.S. Department of Labor measure of industry employment, shows that the percentage of cosmetology instructors employed in Utah has grown to over 2.5 times the number nationwide.



**After adjusting for population, Utah has about 2.5 times as many beauty school instructors as the national average.**

In addition to having a higher than average location quotient for beauty school instructors, the data also shows that the number of cosmetology instructors employed in Utah has steadily increased during the past nine years. The data shows that Utah currently employs over 2.5 times the percent of professional cosmetology instructors employed nationwide. This information suggests that the large number of cosmetology schools in general and not the public school programs specifically, has created a highly competitive beauty school industry in Utah.

### **School Districts Play a Minor Role In Cosmetology School Industry**

The cosmetology programs offered by the public school districts are too small to have a significant impact on the overall beauty school industry. Of all those who received cosmetology licenses in 2010, few received their training at a public school district program. The cosmetology programs offered by the school districts do not teach as many students for as many hours as the private schools, the colleges, or the applied technology centers teach. Further, many high school students, particularly those in the cosmetology program at Granite Technical Institute, do not complete their training and never obtain a cosmetology license.

### Few Applicants for a Cosmetology License Receive Training at High School-Based Programs

Few licensed cosmetologists receive training at a program sponsored by a public school district. During the year 2010 the Division of Occupation and Professional Licensing issued 1,281 new cosmetology licenses. Only 35 of the newly licensed cosmetologists received some of their training at a program sponsored by a public school district. Most of those students left high school before completing the 2,000 hours of instruction required to obtain a license. As a result, most high school students need to attend an ATC, college or private cosmetology program in order to complete their training.

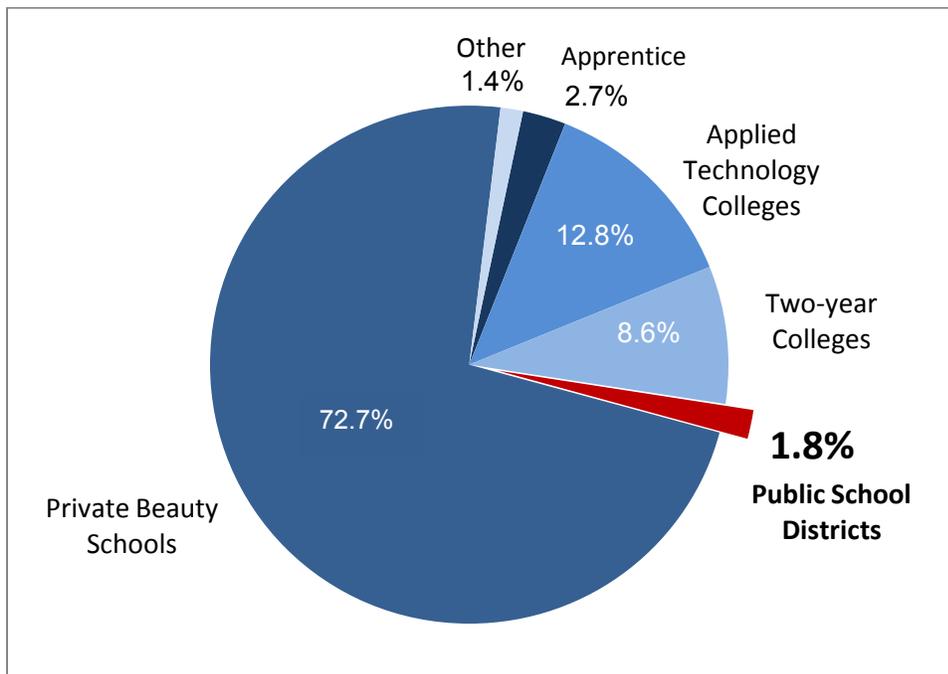
Those newly licensed as cosmetologists during 2010 logged over 2.5 million hours of training from Utah schools in order to meet the licensing requirements. Figure 2.2 shows the institutions where the training hours were logged for those who received a new cosmetology license during 2010. The figure illustrates that only 1.8 percent of the training hours were taught by the public school programs.

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**The school districts only teach a small percentage of those who eventually obtain a cosmetology license.**

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**Figure 2.2. School Districts Provide a Relatively Small Portion of Instruction Hours in Cosmetology.** Roughly 2.5 million hours of instruction were provided to those receiving a cosmetology license in 2010. The figure shows the percentage of instruction hours by type of institution where those hours were taught.



Source: Division of Occupational and Professional Licensing

Figure 2.2 shows that the vast majority of those who received a cosmetology license obtained their training at a private school. The applied technology colleges and the two-year community colleges also played significant roles. A few applicants worked as apprentices to a licensed cosmetology instructor. However, the public school districts provided an insignificant amount of training compared to the total taken by those who eventually received a cosmetology license. The information suggests that the school districts offer little competition to private beauty schools.

**School District Programs Provide Relatively Few Hours of Instruction**

**High school students spend fewer hours each day attending their cosmetology courses than those enrolled in private schools.**

The cosmetology programs at the local school districts are smaller than the four private schools we examined. School districts do not provide nearly as many instructional hours as the private schools, the colleges, or ATCs provide. One reason may be that high school students attend cosmetology classes just a few hours a day, usually 2 days per week. In contrast, those attending a private beauty school or post-secondary institution appear to attend class more hours each day. The low number of instructional hours taught by school districts is another indicator that they play a relatively minor role in the beauty school industry. Figure 2.3 shows the number of student instructional hours provided by a select group of public schools, post-secondary institutions, and private schools.

**Figure 2.3. School District Cosmetology Programs Provide Relatively Few Instructional Hours.** School district cosmetology programs teach fewer students for shorter periods of time than most post-secondary and private schools.

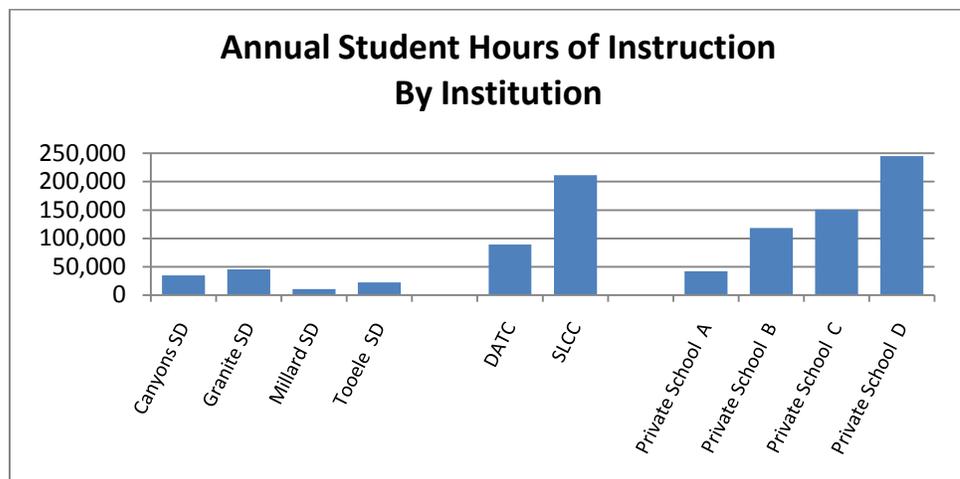


Figure 2.3 shows the annual student instructional hours taught by two school district cosmetology programs, two post-secondary programs, and four private institutions. Hours shown for Canyons and Millard districts are for the 2009-10 school year. The Tooele School District is still in its first year of operation in a new facility. Its hours are based on an estimate of the 2010-2011 school year enrollment. Granite School District's hours are for the year ending August 31, 2010 – the first full year of operation in its new facility. For private schools, the hours for calendar year 2009 are shown. All counts of instruction hours are based on actual attendance records, excepting Tooele, Millard and Private School A which are based on estimates based on attendance and average instruction time.

Student instructional hours are a measure of instructional time given to individual students. Students are required to accrue 2,000 hours to qualify for a cosmetology license. However, the high school students are slow to accrue those hours, in part because they take other classes in addition to their cosmetology classes. For many high school students, the cosmetology course is simply another class toward graduation.

In contrast to the high school programs, students who attend applied technology colleges, two-year colleges, and private schools are more focused on cosmetology as a career choice. Because cosmetology is the main course of study, these schools provide their students with more instruction each day. The post-secondary and private schools also tend to have more students and offer more evening classes than the high schools do. As a result, their students generally log more instruction hours than those enrolled in high school programs.

### **Many High School Students Do Not Complete Their Training**

Additional evidence that the school districts offer little competition to private cosmetology schools is the low completion rate for students in the Granite School District program. The program seems to attract a large number of students, perhaps because of the low amount charged for tuition and fees. However, a majority of the Granite program students do not complete their cosmetology training. It suggests that many students enrolled in the Granite program are not fully committed to a career in cosmetology. It also suggests the

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**Many high school students do not complete their training in cosmetology.**

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Granite program does not provide much competition to private beauty schools.

**Granite District Program has Low Completion Rates.** The student completion rate or placement rate are often used to measure the success of a program aimed at career and technical education. In fact, accreditation agencies often use placement rates as a standard of performance. Although we were unable to identify the number of past students employed as cosmetologists, we were able to identify the number who obtained a state cosmetology license. We found that only 35 percent of the students who enrolled during the 2007 and 2008 school years went on to complete their training and eventually obtained a cosmetology license.

**Granite's Low Fees May Attract Students Who Are Not Committed to Cosmetology.** The Granite School District charges students just \$280 to enroll six terms in its cosmetology program. The relatively low fee may attract students who are not as firmly committed to the field of cosmetology as those who attend other institutions which charge thousands of dollars to complete the program. For example, students who attend the Canyons School District program are charged \$4,765 to attend the same six terms. However, 64 percent of the Canyons students obtain a cosmetology license. Perhaps the higher fees charged by the Canyons district program leads to a more committed group of students than at Granite where lab fees are much lower.

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**Granite District  
Students can take six  
semesters of  
cosmetology for a total  
cost of only \$280. Other  
schools charge  
thousands.**

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According to the Director of the Career and Technology Division at the Granite School District, one of the program's main goals is to expose high school students to an occupation of possible interest. He said it gives them "a taste" of a career in cosmetology so they can eventually decide on a career choice. He suggested that even if a student chooses not to continue that training, it is still a benefit to that student's education and development.

The information presented in this chapter suggests that school district cosmetology programs present little competition to private sector schools. The district programs represent a small segment of the industry and provide a relatively small amount of training to their students. In addition, many high school students are not seriously seeking a career in cosmetology and would not likely enroll in a

private cosmetology school if the high school program were not available. The main challenge facing the industry is the large number of private beauty schools that operate in the state. In our opinion, even if the high school programs were eliminated, the industry would still experience excess capacity.

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## Chapter III

# Public Schools Charge Less Tuition, but Have Higher Costs than Private Schools

The public cosmetology schools charge less tuition and have higher total costs to operate than private sector schools. Cosmetology programs that serve high school students are largely supported through tax dollars. In contrast, private cosmetology schools largely rely on student tuition and salon service fees as their primary sources of revenue. The cost of instruction is higher at the public schools mainly because public schools incur higher compensation, overhead, and administrative overhead costs than the private schools incur. The fact that public schools do not pay property taxes, income taxes, and licensing fees made little difference in our analysis.

In most cases, students who enroll in a high school cosmetology program cannot become licensed without completing their training at a private beauty school, a community college, or an applied technology college (ATC). Unlike the Canyons, Delta, Granite and Tooele school districts, most Utah school districts do not sponsor their own cosmetology programs. However, many high school students have access to a local ATC or two year college where cosmetology is taught. To provide a more complete picture of cosmetology programs statewide, our analysis of tuition and total costs included programs offered at one ATC, one two year college program and two school districts.

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**There are significant differences in how public and private schools raise their operating revenue and in how they spend it.**

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### Tuition and Fees Are Lower at Public Schools

We were asked to compare the cost of tuition and fees charged to cosmetology students attending high school programs with those charged by the private schools. High schools are not permitted to charge tuition but may assess a lab fee. As a result, they rely primarily on taxpayer support to cover the cost of their operations. In contrast, private sector schools rely primarily on tuition and fees to cover the cost of instruction. Private schools also receive substantial support from salon sales and services. However, private schools are not completely independent of government support. Many have financial assistance counselors who help students obtain Pell Grants and subsidized student loans from the U.S. Department of Education.

**Tuition Cost Is Higher at Private Schools.** As requested, we compared the cost of tuition, fees, and supplies at high school cosmetology programs with those of other public and private institutions. The results, shown in Figure 3.1, show that the cost is relatively low for high school students who attend a cosmetology program sponsored by their school district.

**Figure 3.1. Tuition, Materials, and Fees for a 2,000-Hour Program.** High school students pay no tuition, but they do pay for fees and supplies. As a result, the cost to enroll in a high school program is much lower than it would be at a private school or college.

Cosmetology Program	Cost to Enroll High School Students
<b>Public Institutions</b>	
Granite Technical Institute	\$ 280
Canyons Technical Ed. Center	4,765*
Davis Applied Technology College	1,978
Salt Lake Community College	10,032
<b>Private Institutions</b>	
School E	\$15,000
School F	15,000
School G	16550
School H	9,250**

The cost to enroll in a high school program is much lower than it would be at a private school or college.

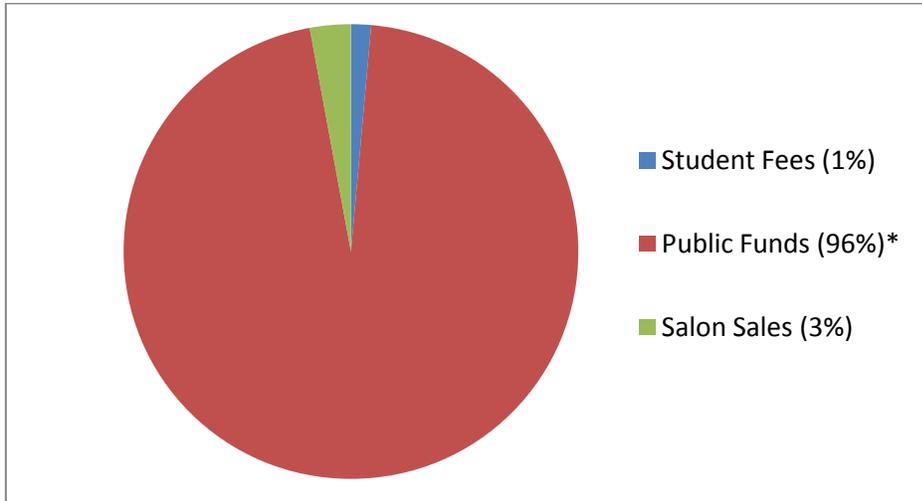
\*Cost of six semesters, requires enrollment at another school to complete coursework.

\*\*increases to \$18,500 once the student leaves high school.

Community colleges and ATCs play an important role in training high school students who cannot easily take 2,000 hours of training while in high school. For example, cosmetology students from the Granite and Canyons districts usually finish their training at the Salt Lake Community College or a private beauty school. In many regions of the state, the school districts have no cosmetology programs of their own. In those regions, high school students must either enroll at an ATC, college program or in a private school at their own expense.

**Tax Dollars Are the Main Source of Support for High School Programs.** State law requires that public schools not charge students tuition. They are, however, allowed to charge students the cost of materials and lab fees. As a result, cosmetology programs operated by school districts are largely supported by public funds. Figure 3.2 shows there are three sources of revenue for the cosmetology program at the Granite Technical Institute.

**Figure 3.2 Revenue Sources for Cosmetology Program at Granite Technical Institute.** Only a small portion of the support for the Granite district program comes from fees and the sale of services. The program is largely supported by public funds.

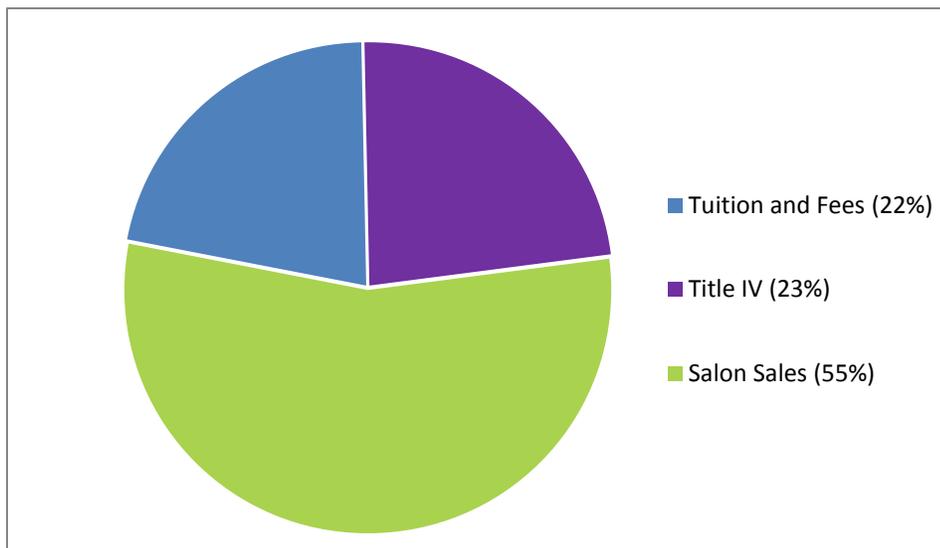


\*District General Fund Revenues are comprised of 62% state, 23% local, and 15% federal tax dollars.

**School districts rely on state and local taxes as their primary sources of support whereas private schools rely on tuition and income from salon sales.**

Figure 3.2 shows the cosmetology program at the Granite Technical Institute is largely a publicly funded operation, although some support comes from student fees and the sale of salon services. In contrast, the revenues supporting private schools are quite different. Figure 3.3 shows an example of the revenues generated by a private school.

**Figure 3.3 Revenue Sources for a Private Cosmetology School.** Private schools receive no state funding, but rely on revenue generated from tuition (which some students supplement with federal Title IV funding) and salon sales.



Most private schools rely on a combination of tuition and fees with the sales generated by their salons. The school shown in Figure 3.3 has more income from salon sales than most private schools. Like many private beauty schools, the example shown also relies on support from the Title IV student aid program administered by the U.S. Department of Education. The school's financial aid advisor helps eligible students obtain federal Pell Grants and subsidized student loans. Students in other private schools that do not participate in the Title IV financial aid program must rely on their own resources to cover the cost of tuition.

### **Cost of Instruction Higher At Public Schools**

We found that the cost of instruction at four publicly funded cosmetology schools is higher than at four private schools. The main reason for the difference in costs is that the public schools tend to offer higher salaries to their employees and have higher administrative costs than private schools. It is important to recognize the fundamental differences between public and private organizations that present certain challenges to any comparison of their costs.

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**Public schools have higher operating costs than private beauty schools.**

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### **Cost per Student Instruction Hour Is Higher for Public Schools**

The cost per student instruction hour was higher for the four public schools we examined than for the private cosmetology schools. Evaluating costs of instruction by the cost per student instruction hour reduced the effect of school class size. The cost per instruction hour is achieved by dividing the institution's total cost by the number of instruction hours logged by individual students. The results are shown in Figure 3.4.

**Figure 3.4. Cost per Student Hour of Instruction.** As a group, public schools have a higher cost of instruction than private schools. Total costs include salaries and benefits, operating costs, capital costs, and overhead costs.

	<b>Total Annual Cost</b>	<b>Student Instruction Hours</b>	<b>Cost Per Hour</b>
<b>Public Institutions*</b>			
Granite Technical Institute	\$ 551,459	45,297	\$12.17
Canyons Technical Ed. Center	416,730	34,858	11.96
Davis Applied Tech. College	1,232,129	89,174	13.82
Salt Lake Community College	2,974,790	211,591	14.06
<b>Private Institutions**</b>			
School H	\$1,092,978	151,108	\$7.23
School I	401,540	43,680	9.19
School J	1,091,402	118,239	9.23
School K	2,130,167	245,417	8.68

\*year ending June 30, 2010 – except for the Granite Technical Institute which is the year ending August 31, 2010, the program's first full year of operation at its new facility.

\*\*year ending December 31, 2009

**An instruction hour is the time a student spends in the classroom or salon floor receiving instruction.**

Figure 3.4 shows that the total cost of cosmetology instruction at four public institutions ranged between \$11.96 and \$14.06 per hour of instruction provided to students. In contrast, the private schools had lower costs, ranging from \$7.23 to \$9.53 per hour of instruction.

### **Public Schools Have Higher Payroll and Administrative Costs, Private Schools Have Higher Capital Costs**

There are two reasons that the public cosmetology schools have higher costs than the private schools: (1) public schools have higher-paid instructors and (2) they have higher administrative costs. The one area in which private schools have higher costs is the capital costs – they tend to operate more expensive facilities with higher cost equipment than the public schools.

The public education and higher education systems both offer higher salaries to their instructors than the private schools offer. The school districts, ATCs, and colleges tend to employ instructors who, like other faculty at their institutions, have made a career out of teaching high school and higher education students. In comparison, private schools hire lower-cost instructors. Figure 3.5 shows the salaries paid at each institution.

**Those wishing to obtain a cosmetology license must first accrue 2,000 hours of instruction hours.**

**Figure 3.5. Public Schools Pay Higher Salaries than Private Schools.** Public schools tend to pay their instructors higher salaries than the private beauty schools. Salaries shown are current as of April, 2010.

	Instructor Hourly Pay	
	Low	High
<b>Public Schools</b>		
Granite Technical Institute	\$26.60	\$26.60
Canyons Technical Ed. Center	24.83	31.97
Davis Applied Tech. College	12.79	23.50
Salt Lake Community College	21.46	34.82
<b>Private Schools</b>		
School L	\$12.50	\$14.50
School M	12.00	16.00
School N	10.00	15.00
School O	12.00	21.00

Figure 3.5 shows that the salaries paid by public schools are higher than those paid by private schools. The wages for public schools were mainly obtained from employee lists and payroll reports. Private school wages were reported by school owners. Not shown are the health and retirement benefits that are paid to some career service instructors at some public schools. However, some public schools, like most private schools, also hire part-time instructors who receive few, if any, benefits. Finally, not shown above is the bonus system that one of the private schools reports offering its employees in addition to the base salary.

**Public schools offer their employees better compensation than private schools and have higher administrative costs.**

**Administrative Costs Are Higher at Public Institutions.** As mentioned, the public schools tend to have higher administrative and indirect costs than the private schools. The colleges and ATCs, in particular, offer a wide range of campus experiences that private beauty schools do not offer. The community college offers a wide range of academic support services, such as a library, and student services, that are expected at institutions of higher education. To a lesser extent, the ATCs and the public schools offer some of these supportive services as well. These support services are not commonly offered at the private beauty schools.

**Private Schools Have More Costly Facilities.** One area in which the private schools are more costly than the public institutions is the higher expense for buildings and equipment. The private schools tend to have nicer facilities with more up-to-date equipment. Some private schools offer a salon or spa environment to draw more customers to

their institutions. They believe having a strong clientele gives their students more opportunities to apply their trade. The public institutions generally have less extravagant facilities. The Canyons School District, for example, reports using some of the same equipment and fixtures for over 30 years. Even the public schools that have recently remodeled their facilities are equipped with fairly basic cabinets, sinks, and salon chairs.

### **Differences in Accounting Practices Must Be Acknowledged.**

Comparing the cost of a public school program with a private school program required giving consideration to the different accounting practices used. For example, public schools generally do not charge depreciation expense on their equipment and buildings. In contrast, private schools do charge for depreciation, unless they lease or rent their facilities. To account for the basic difference in public and private operations, some costs needed to be estimated. For example, the annual cost of equipment and facilities at the public schools was estimated by identifying their replacement values and then applying the same depreciation schedule used by private schools.

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**To compare the costs of public and private schools, some consideration was given to the differences in accounting practices.**

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Comparing administrative costs was also a challenge. Some of the owners of private schools perform many administrative functions but receive no salary. Instead, they receive most of their income through retained earnings, which are largely a function of the profitability of the school. As a result, the accounting systems for private schools do not recognize the cost of the administrative services performed by the owners. In this respect, our analysis most likely understates the administrative cost of the private schools.

## **Tax Obligation Added Little To the Cost of Private Schools**

Another operational difference is the different tax obligations of public and private schools. Private schools pay property and income tax while public schools do not. We found it difficult to predict how much additional tax revenue might be generated by state and local government if the public schools did not offer cosmetology programs. In our opinion, because of their smaller size, closing the public school programs would produce little additional property tax revenue. It is unclear how income taxes might be affected, but any change here may too be insignificant. Thus, we believe the tax differences should not

weigh heavily on the decision whether or not to offer cosmetology in the public school system.

### **Public Schools Would Not Pay Much Property Tax if Privatized**

The amount of property taxes a high school program would pay, if it were a private institution, would depend on the size and ultimately the assessed valuation of the facility. One of the private beauty schools we examined reported paying \$25,800 in property tax for 2010. Another school reported paying \$17,000 for the same year. Both schools have new facilities that are 20,000 square feet in size. The cosmetology programs at the Canyons Technical Education Center and the Granite Technical Institute occupy between one-fifth to one-third the space of the above-mentioned private schools. Therefore, if the two school district programs were freestanding private schools, we estimate they would each pay property taxes of roughly \$6,000. This amount would not be a significant property tax revenue source.

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**The differences in property and income taxes should not weigh heavily on the decision to offer cosmetology in the public schools.**

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### **Eliminating Public Cosmetology Programs Would Have Uncertain Effect on Income Taxes**

We were unable to identify the effect of closing the school district's cosmetology programs on state income taxes. As shown previously in (Figure 2.2 on page 9), school districts offer about 1.8 percent of the instruction provided to students working to become licensed cosmetologists. If the school district programs were eliminated, and if students paid the full tuition charged by private beauty schools, it could increase private beauty school revenues by as much as 1.8 percent. However, there is no way to know how much additional income tax would then be paid by private sector schools.

Actual income taxes paid by the private schools vary depending on their corporate structure. The schools we examined are S-corporations that pay no business tax. Instead, the income tax is paid on distributions to the owners. Moreover, during 2009, the year of our study, one reviewed beauty school lost money, two others barely broke even, and one made a profit. As a result, three of the four owners would have paid little if any income taxes that year. Given the highly volatile pattern in the industry's income, we cannot predict the effect on business income taxes that would result from a 1.8 percent increase in revenue.

## **Agency Response**



*Leadership...Service...Accountability*

May 12, 2011

John M. Schaff, Auditor General  
Office of the Legislative Auditor General  
W315 Utah State Capitol Complex  
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

We appreciate the work of your office to complete the report "A Review of Public Education Cosmetology Programs."

We take our role and responsibility to provide high quality curriculum and instruction for Utah students very seriously. In Career and Technical Education (CTE) job outlook data is carefully examined and utilized to plan programs. In conjunction with local districts and boards of education, course decisions are made based on regional job outlook data and unique students needs. We will continue to work to ensure high quality CTE programs that meet current needs.

We appreciate the data on student fees and will review this variation in the programs. We will also continue to work with our partners to provide transitions for high school students to continue their cosmetology training in private schools, ATCs, or public colleges.

Thank you again.

Sincerely,

A handwritten signature in blue ink, appearing to read "L. K. Shumway".

Larry K. Shumway, Ed.D.  
State Superintendent of Public Instruction