EVALUATION OF OUTSOURCING IN THE PUBLIC SECTOR

SERVICE EMPLOYEES INTERNATIONAL UNION
Local 1000

With research support from Brian Darrow
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STANDARD CRITIQUE OF OUTSOURCING

This section outlines 11 major arguments against privatization and provides examples to support these arguments. Any examples that apply to more than one argument are written once and then linked back from all other applicable argument subsections. Our 11 subsections: Oversight Problems, Costs-It's Cheaper to Do it In-House, Cost Overruns, Corruption, Conflicts of Interest, Campaign Contributions, Lack of Competition, Poor Quality of Service, Security/Safety, Loss of State's Capacity to Perform Public Services, and Impact on Workers.

Oversight Problems

The contracting out of government services is not as quick or easy as is often suggested. Privatization contracts require government oversight, and monitoring contracts of complex, hard-to-measure government services is difficult and expensive. If a government decides to contract-out a service, it has to shift substantial resources into oversight of the contract. Often, adequate resources are not shifted, and major problems result.

Examples:

More Oversight Personnel Called for as Medi-Cal Contract Costs Double
California- In 5 years, according to a 2003 Legislative Analyst Office audit, the cost of a California state contract with Electronic Data Systems (EDS) to process Medi-Cal claims more than doubled to $230 million annually, despite an increase of only 27% in the number of bills processed. The audit report criticized the Department of Health & Human services for its management of the contract and the lack of records to justify the climbing expenses. "Virtually no records exist" that show where or why the more than $100 million in contract increases was spent. Moreover, there was no explanation for why EDS was paid $19 million from a fund that was supposed to be used to encourage other companies to compete for the Medi-Cal contract.[1] In a December 2003 memo, Deputy Director of Health Services Stan Rosenstein conceded to virtually all of the audit's findings and recommendations including calls for better cost controls and record keeping. Rosenstein noted that one reason the department has had trouble accounting for costs in the contract, is a lack of oversight personnel. In early 2004, Rosenstein contradicted himself and defended the EDS contract, characterizing it as "the most tightly managed" contract of its kind in the nation.[2]

Poor Oversight of Privatized Welfare Programs leads to taxpayer money spent on parties, concerts, fanny packs and contract bids in other states
Wisconsin- In a 2000 investigation, the Wisconsin Legislative Audit Bureau (LAB) uncovered that MAXIMUS Corporation spent more than $400,000 of state welfare money on unauthorized expenses and another $1.6 million that the company couldn't properly document. Rather than spend these taxpayer dollars on the Wisconsin Works (W-2) welfare programs they were being paid to administer, MAXIMUS reportedly spent funds soliciting contracts in other states, on a concert for W-2 staff and clients by Broadway singer Melba Moore, on a $15,741 staff party at a Lake Geneva resort, and on $23,637 worth of backpacks and fanny packs to promote the company.[3] For this inappropriate use of state money, auditors took issue not only with MAXIMUS but with the Department of Workforce Development (DWD), the state agency that is supposed to oversee welfare programs. Auditors said that before MAXIMUS became embroiled in a contract controversy in New York in early 2000, the DWD "made little effort to provide adequate oversight" of MAXIMUS.[4] The DWD's explanation for this failing reveals how problems can arise from the lack of experience public agencies have writing contracts and overseeing them

properly. Responsibility for monitoring MAXIMUS ' spending, the DWD said, had been "hazily defined."[5]

Lest it appear that irresponsible spending of Wisconsin tax dollars is confined to MAXIMUS, in August 2000 the LAB launched an investigation of a second Milwaukee W-2 contractor. Employment Solutions -- a non-profit created by Goodwill Industries, whose executive director was once an aide to former Wisconsin Governor Tommy Thompson -- reportedly billed the state for expenses its employees incurred while trying to get a welfare contract in Arizona (the same one MAXIMUS was seeking). In late September, Employment Solutions' own auditors found that the contractor had improperly used W-2 funds for lobbying and to help finance a survey of Goodwill retail store customers.[6]

Poor Contract Monitoring Costs Texas Taxpayers, Children $20 Million

Texas- In 2004, the State Auditor's Office in Texas examined Texas's Children's Health Insurance Program (CHIP), a substantial part of which had been outsourced to Clarendon National Insurance Co. In a blistering report, the state auditor criticized the Health and Human Services Commissioner for allowing Clarendon, the only firm that entered a bid, to over-charge the taxpayers of Texas approximately $20 million. The Auditor observed that Clarendon made excessive payments to its own program management company to the tune of $5.5 million. He became suspicious about this program management subcontractor when he discovered it had no employees. Subsequent investigation showed that $3.6 million of Texas tax dollars was paid to four individuals; $1.7 million to the two owners of the firm, $1.1 million to a consultant-a former state manager, and $800,000 to a lobbyist. When the Auditor asked what did these consultants do for so much money, he was told that the consultants "were generally not asked to produce work products." The 72-page audit report came as nearly 150,000 children had lost CHIP coverage to budget cuts.[7]

Ombudsman for Santa Clara Prefers Beach Chair In Costa Rica To Office In San Jose

Santa Clara County, CA- Poor oversight allowed a private contractor to perform her job as Santa Clara County's ombudsperson from a remote office in Costa Rica. As a result, foster children may have suffered. In 2003, a grand jury report blasted the County Department of Family and Children Services for providing an inadequate internal complaint process in cases of suspected mistreatment of foster children. These complaints are supposed to be handled by the ombudsperson's office. But, as the grand jury noted, that office lacked close monitoring. The contracted ombudsperson took advantage of this laxity, spending 6 ½ of the final 18 months of her contract in Costa Rica. After her two employees complained about this, she fired them. The County then fired her.[8]

Electronic Data Systems Pays $3.9 Million To Settle Charges Of Over-Billing, Denies Any Wrongdoing

Plano, Texas- Due to improperly billing the state, a unit of Plano-based Electronic Data Systems Corp. (EDS) that processes Medicaid claims agreed in 2001 to pay the state of Texas a total of $3.9 million. EDS's National Heritage Insurance Co., the state's main Medicaid processor, refunded the state $3.4 million for expenses and paid an additional $250,000 penalty and $232,000 in investigation costs. EDS and National Heritage denied wrongdoing in the settlement.[9]

ACS Overcharges Nebraska, Gets Fired

In 2004, Nebraska fired ACS after the company overcharged the state by over $300,000 on a contract for a computer system that helped return unclaimed property to rightful owners. The company was supposed to charge no more than $500,000 per year for the service, but neither the state nor ACS noticed when the charges went over that cap. Treasurer Ron Ross had to notify the company of the error, at which point ACS repaid the amount. The state is now re-evaluating how it handles unclaimed property work, according to Mr. Ross.[10] Though Ross doesn't believe the overcharge was deliberate, he warns: "If I were a state treasurer in another state, I'd want to make sure what happened to us isn't happening to them…And if I were ACS, I wouldn't want another state catching us goofing off."[11]

Security Contractor Paid $15 million for Providing No Services, Lawsuit Alleges
Iraq- According to a federal lawsuit filed in late 2004, even though *no planes* flew during the contract term, a government contractor was paid $15 million to provide security for civilian flights at Baghdad International Airport. The allegedly defrauded money came from Iraq's temporary governing body, the Coalition Provisional Authority. It went to Fairfax-based security firm Custer Battles LLC.

A report by the inspector general for Iraqi reconstruction concluded that the governing authority had inadequate controls over $8.8 billion in Iraqi funds it was supposed to oversee. Former authority official, Frank Willis, said that though it quickly became clear that Custer Battles was not carrying out its obligations, the government's contracting officials were stretched far too thin to do anything about it.

The lawsuit also alleges that the Bush administration has done little to try to recover the money.[12]

See Also:

- **Contractor Leaves Foster Children Unattended In Motel At Night For Three Weeks**
- **Florida State Audit Blasts Personnel System Contract**
- **Justice Department Slams Private Prison Contractor For Treatment of Prisoners, Understaffing, Questionable Hiring**

Costs: It's cheaper to do it in-house

The major argument in favor of privatization is that it will save the government and the taxpayer money. This is often not the case, and there are a variety of reasons why. Contracting out creates new, often hidden, costs for government. These include the cost of the contract bidding process, contract oversight costs, and costs of using public equipment and facilities. Given the complexity of goals associated with public services, it is often time-consuming and costly for a private contractor to acquire the specialized knowledge necessary to deliver a public service effectively. When you add in the costs of sending money out of town to pay high executive salaries and profits to shareholders, using the private sector often becomes much more expensive than keeping the service in-house.

Examples:

Delaware Saves Money By Pulling Private Contractors In-House
Delaware- In 2002, Delaware's Information Technology Department stopped contracting-out its IT work, turned many of its consultants into state employees, and saved money. When the state began to experience fiscal difficulties, it started to carefully review the actual costs of private IT consultants. In fact, consultants were paid much higher wages than public-service employees but were essentially working as full-time employees. To remedy this situation, Delaware CIO Tom Jarrett got the IT department exempted from civil service pay scales, allowing him to pay market

value for IT employees. Now, he's paying state IT employees more, but has saved the state an estimated $2.5 million by no longer employing private contractors.[13]

Tennessee Comptroller's Audit Finds IT Contractors Cost More
Nashville- A 2003 audit conducted by the Tennessee State Comptroller's office found that the use of Information Technology Professional Services (ITPRO) contractors by state agencies was "not cost-effective to the state."[14] Auditors discovered that the state paid vendors rates that were more than what the vendors paid the contractors. In the cases reviewed, this difference was greater than the additional costs of paying a typical state employee's benefit package. Thus, concluded the auditors, "the state could convert necessary contract positions into full-time state employee positions without any extra funding." In fact, significant funds could be conserved. Auditors estimated that converting contractors to state employees could save between $4 million and $5 million annually.[15]

In-House Bridge Inspectors More Cost Efficient
Ohio- In 1991 and 1992, the Ohio Department of Transportation outsourced project inspection work on some bridge construction projects. A detailed comparative cost analysis of in-house inspection vs. private inspection concluded that in-house costs were, on average, 28 percent lower than contractors.[16]

School District, Fed Up With Late Arrivals, Brings Bus Service Back In-House & Saves Money
Illinois- To improve cost-effectiveness and service-delivery, the Lincolnshire-Prairie View School District decided in 1999 not to renew its school bus contract with Laidlaw Education Services. A survey of parents showed inconsistent bus service including persistent late arrivals. The district brought bus service back in-house, and according to the school superintendent, "even with the start up costs of $75,000 to $100,000 and operating cost of $650,000, the district still expects to spend about $20,000 less than it did with its contract with Laidlaw."[17]

Cost of Running Privatized Welfare $1M More than the State Program
Arizona- In 2001, Arizona State Senator Ruth Solomon called for the shutdown of a Welfare-to-Work pilot program in Maricopa County, which was run by MAXIMUS. The cost of running the program turned out to be $1 million more than the State program had cost and services were no better. Said Solomon: "This is supposed to be a social welfare program, not a corporate welfare program." A sitting committee of the Senate voted to end the contract, but the Arizona House of Representatives voted in May 2002 to extend the project through 2003.[18] As of mid-2004 the pilot program was still up and running through MAXIMUS. Despite problems, Arizona is now planning *statewide* privatization of a portion of the welfare program.[19] During the 2002 election campaign MAXIMUS donated at least $5000 to the Arizona Republican Party and close to $6,000 to Arizona candidates.[20]

ServiceMaster, Inc. Delivers Higher Expense, Lower Quality
Florida- In 2000, after only 18 months, the Palm Beach County School Board decided to terminate its $4.5 million annual custodial management contract with ServiceMaster, Inc. The cancellation cost the school district, about $1.8 million, including almost $1.2 million it was required to pay for the company's equipment. Problems with the contract materialized early. After the first year of the contract, even though the school district had spent $4.2 million more on maintenance than the previous year, only 10 percent of roughly 40 principals surveyed said they were pleased with the

quality of service. Many principals stated that schools were dirty, and short of personnel, equipment and supplies. It took six months for ServiceMaster to implement a computer program system designed for dispatching personnel and even then it was not available to all schools.[21]

Alabama Finance Official Seems to Prefer Private Contractors to Saving Money
Alabama- In 2004, Alabama determined that a new state computer system should be built by private contractors despite estimates that public employees could do the job at one-fourth of the price. The Alabama Finance Department said in 2003 that state employees could create a new computer network for voter information at an estimated cost of between $380,000 and $500,000. But Rex McDowell, the state's assistant finance director for information services, reversed the administration's position in 2004, saying that the state's cost estimates were too low. He did not, however, do his own analysis of what state workers would cost. His staff also hasn't (as of January 2005) reviewed the contract proposals that Secretary of State Nancy Worley is considering. "I couldn't tell you how our proposal compared to other proposals, whether it's better or worse," McDowell said. Nonetheless, the state still plans on paying roughly $2 million for a private contractor to do the work.[22]

See Also (on website):

- **CSEA (SEIU Local 1000) Cost Analysis of Public vs. Private IT work** (pdf file)
- **Department of Corrections Analysis of ARAMARK Food Service Contract Proposal** (pdf file)
- **CSEA (SEIU Local 1000) Cost Comparison – State Security Contracts** (pdf file)

Cost Overruns

The initial estimated cost of a contract is often not what the government ends up having to pay. Overruns occur when companies underestimate costs and then shift the burden to the public sector or simply low-ball their bids to win contracts and then run the costs up later. Lack of oversight compounds the problem at times, causing overruns to go unnoticed and services to go unrendered.

Examples:

California Scraps Lockheed Contract after estimated costs go from $99M to $300M, Taxpayers pay $50M for a system that doesn't work
California- In 1994, Lockheed Martin promised California an automated child-support system by 1995 with a price tag of $99 million. Two years after it was supposed to be finished, the state canceled the project because the system was severely flawed and still far from complete, and its cost had ballooned to over $300 million. California did not actually spend the entire $300 million, rather it paid Lockheed roughly $50 million, and both the state and counties spent millions more implementing the system. Lockheed and the state ended up in court and arbitration proceedings to determine how much the firm could collect, and each party blamed the other. Lockheed's liability ended up being capped at $4 million with taxpayers having to cover the rest. A Lockheed official confessed that the system had been a nightmare: "We started finding ourselves with system failures, things happening that we didn't know why they were happening."[23]

Trash Incinerator Original Fee $8/Ton, Price Goes Up To $91/Ton
Upstate NY- In the 1980's, Washington County, New York contracted (without competitive-bidding) with a private boiler builder to build and operate a trash incinerator to serve itself and the neighboring counties of Warren and Essex. Initially the cost of plant construction was estimated to be $31 million and it was to be entirely privately funded. The counties would pay a fee of $8/ton of trash. By the time the plant was up and running in 1991, things had seriously changed. Essex County had bowed out of the deal. The cost of plant construction was $56 million over budget, with Washington County having to cover this gigantic difference. Instead of the projected $8/ton fee, the price ended up at $91/ton. As if that wasn't enough, under the terms of the contract, Washington County had to ensure that enough trash was delivered to keep the incinerator operating at full capacity or pay for the shortfall. In 1992, sure enough, the private company began billing the county nearly $880,000 per month for shortfalls. Residents sued the local government, and the local government counter sued the residents.[24] Some key decision-makers were indicted, tried and acquitted after key evidence was thrown out on a technicality.

Florida State Audit Blasts Personnel System Contract
Florida- A 2004 state audit slammed the Florida Department of Management's (DMS') handling of a personnel system contract with Convergys Customer Management Group that has seen huge cost overruns and led to numerous complaints. According to auditors, DMS failed to provide adequate safeguards in the contract and allowed improper relationships to exist between officials responsible for the contract and personnel who had left the state agency and started lobbying it on behalf of their new employer. Among those criticized were Barbara Auger and Garrett Blanton, former deputy secretaries at DMS, who both became lobbyists for Mevatec/BAE, a company that signed an $884,500 agreement with Acclaris, one of the subcontractors hired to monitor the contract with Convergys.[25]

Convergys has been consistently behind schedule and over budget on the project. Issued in 2002, the contract originally was priced at $278.6 million over seven years. So far it has been amended six times to $349.9 million and extended to nine years. Auditors said DMS illegally spent more than budgeted two years in a row.[26]

The personnel system, dubbed "People First," has received a sea of complaints since its 2003 phase-in. Thousands of state employees have had problems with their paychecks, health insurance or vacation time prompting DMS Secretary Bill Simon to put Convergys on a "five-point improvement plan" in January 2005.[27] Simon said he is considering finding another vendor to operate People First.[28]

This privatization project has caught a lot of criticism from Republican legislators who have supported much of Governor Jeb Bush's privatization agenda in the past. "We moved too fast. There was too much urgency to privatize," said Rep. Don Brown, R-DeFuniak Springs, chairman of the House Administration Council. Said Republican Speaker Allan Bense: "I don't want to privatize if it's not more efficient and saves a little bit of money…I don't think that compromises my Republican principles." Finally, Sen. Nancy Argenziano, R-Dunnellon, said of the personnel contract: "The implementation has been awful. I feel like no one has been guarding the state's or our employee's interest."[29]

See Also:

- **More Oversight Personnel Called for as Medi-Cal Contract Costs Double**

- **Connecticut Gives MAXIMUS a Raise After Being Dissatisfied**
- **American Management Systems (AMS) Makes a Habit of Failing to Deliver, Getting Sued**

Corruption-General

The outsourcing of government services opens the door to all kinds of corruption including: Officials receiving bribes in exchange for contracts, taxpayer dollars being spent on company perks, and companies trying to influence legislation to increase contract opportunities.

**Separate section for* Conflicts-of-Interest *and* Campaign Contributions*.*

Examples:

Schwarzenegger Hands Out Suspicious No-Bid Prison Contracts

California- In February 2005, the Schwarzenegger administration abruptly canceled one of two no-bid prison contracts shortly after State Senator Gloria Romero called for an audit of the contract awards due to suspicions of impropriety. The canceled contract was a $5.7 million deal that would have allowed Massachusetts-based Civigenics to reopen a corrections facility in Bakersfield. Just before winning the contract in January 2005, Civigenics had hired two former California Department of Corrections (CDC) officials: Michael Pickett, former deputy director for health services at the CDC, and David Tristen, a former deputy director of operations for the department.[30] According to state officials, the contract was aborted because of an unexpected dip in the inmate population.[31]

The other prison contract in question awarded by Governor Schwarzenegger – and one that the administration intends to keep - is a no-bid $3.5 million contract with GEO Group Inc. (formerly Wackenhut Corrections Corp.) to reopen a prison in McFarland, CA. The prison closed on Dec. 31, 2003, the result of a decision made earlier that year by the Davis Administration to cancel the contract. Just before the closing, in November 2003, Wackenhut Corrections made a $53,000 donation to newly elected Governor Schwarzenegger. Combined with $5,000 the firm gave to Schwarzenegger's recall campaign, this amounts to the largest contribution the company has given to any California politician. According to the company's president, Wayne H. Calabrese, Wackenhut made the donation after Calabrese read a news report in which Schwarzenegger voiced support for prison privatization. Said Calabrese: "We want to do everything we can to preserve our business base in California."[32] Despite their donations, Schwarzenegger failed to overturn the decision to close Wackenhut's (GEO's) prison.

After the state ended its contract, GEO reportedly hired a consultant and a lobbying firm close to the Schwarzenegger administration in 2004 and recaptured the business in 2005.[33] Additionally, Correctional Properties Trust, the company that owns the McFarland prison and leases it to GEO, appointed Schwarzenegger's former finance director, Donna Arduin, to its Board of Directors 10 days after she left the state payroll.[34] Senator Romero, who is the chairwoman of two committees that have jurisdiction over the state's prison system, pointed out that the Department of Finance "had to be in the midst" of any negotiations on the prison contracts. Said Romero: "This is absolutely amazing; talk about revolving doors."[35]

Georgia Parole Board Member Paid $75,000, Influences Legislation

Georgia- In 2003, former Georgia state parole board member Bobby Whitworth was convicted of accepting a $75,000 payoff from Detention Management Services (DMS) in 2000 to initiate and ensure the adoption of legislation that could financially benefit the private probation company. The legislation in question, having passed, removes misdemeanor offenders from overrun state prison and probation systems and returns them to individual counties. Since many counties contract with private companies to supervise their probationers, the bill was considered a financial windfall for probation companies like DMS. Whitworth, a former state corrections commissioner, was sentenced in early 2004 to serve six months in jail and to pay a $50,000 fine.[36]

Texas Prison Director Accepts Bribe for Million Dollar Contract

Texas- In 1995, Texas Prison Director, James "Andy" Collins helped VitaPro, a Canadian food supplier, win a 5-year, $33 million contract with Texas prisons in exchange for at least $20,000 in kickbacks. In 2001, Collins and VitaPro's president were convicted by a federal grand jury on charges of bribery, conspiracy, and money laundering.[37] This and other scandals left Governor George W. Bush sounding like a union leader in 1997: "The taxpayers' business and private business should not be mixed…The job of the criminal justice system is to lock people up and provide efficient jail service, not try to become some entrepreneurial agency."[38]

State Official Admits to Illegally Handing-out State Contracts

Ohio- A state inspector-general's report found "reasonable cause to believe wrongdoing occurred" as a result of contracts awarded by the former director of the Ohio Department of Human Services, Arnold Tompkins. Tompkins awarded many millions in unbid contracts to AMS and Andersen Consulting (now Accenture) in the late 1990s. Within months of leaving state employment in 1998, Tompkins' new consulting firm, Tompkins & Sensky, Ltd., entered into contracts with both AMS and Andersen Consulting, first receiving a $20,000 contract from AMS. AMS later put Tompkins on a $10,000-a-month retainer[39] and he proceeded to receive at least $256,344 in "consulting fees" from Accenture.[40] In July 2001, the inspector-general's office referred its report to a county prosecutor to investigate the criminality of Tompkins actions. Tompkins plead guilty to some of those actions, admitting to having improperly steered dozens of state welfare contracts, worth tens of millions of dollars, to Andersen Consulting. Tompkins was required to provide 300 hours of computer service to the state for his crime.[41]

Audit Finds Huge Fault With Florida Technology Contracts

Florida- A scathing state audit released in July 2004 criticized Gov. Jeb Bush's technology office for violating state purchasing laws when it handed out more than $300 million worth of high-tech contracts in 2003. The bulk of the contracts went to Accenture and BearingPoint - both companies who employ high-powered lobbyists with ties to Bush and the Florida Republican Party. The 20-page audit report listed numerous examples of state officials failing to follow rules and laws when it awarded contracts to the two companies. Auditors found that the state technology office "could not demonstrate it had ensured fair and open competition for all vendors" and that it couldn't prove that the most qualified vendors were awarded the contracts.[42]

Accenture's list of lobbyists include partners in a firm co-owned by Van Poole, former chairman of the Florida Republican Party, and Brian Yablonski, a former Bush aide. BearingPoint employed as a lobbyist another former top Bush aide, David Rancourt, as well as John Thrasher, former state House Speaker and a close friend of the governor's. Furthering suspicions of impropriety, former state CIO Kim Bahrami, the official who awarded the technology contracts in 2003, took a job with BearingPoint almost immediately after leaving her state post in 2004.[43]

In September 2004, after looking into the procurement process herself, new Florida CIO Simone Marstiller terminated the contracts with Accenture and BearingPoint. "In light of the additional information we found, I felt the best thing to do would be to terminate those contracts and re-procure the services."[44]

Department of Defense Contractors Fail to Pay Taxes

Washington DC- In a Feb. 2004 report, the General Accounting Office found that more than 27,000 private defense contractors owe the federal government roughly $3 billion in unpaid taxes. The auditors specifically examined 47 delinquent Department of Defense (DoD) contractors and discovered appalling abuses that could lead to felony charges.[45] The businesses in these case studies owe primarily payroll taxes with some dating back to the early 1990s. Rather than forwarding their taxes to the IRS, the report found that contractors diverted tax money for personal gain or to fund their businesses. For example, owners of two businesses each borrowed nearly $1 million from their own companies and, right about the same time, did not remit millions of dollars in payroll taxes. Instead, one owner bought a boat, several cars, and a home outside the United States, while the other paid over $1 million for a new house.[46] Federal law does not prohibit contractors with unpaid federal taxes from receiving federal government contracts.

Florida's Department Of Child and Family Services, Play Ground For Consultants and Political Appointees

Florida- A report by the state Inspector General revealed in July, 2004 that top administrators at Florida's Department of Children & Families, including Secretary Jerry Regier, accepted improper gifts from companies vying for multimillion dollar contracts with the state agency. In response to the report, Regier apologized for what he called "lapses in judgement," and two of Regier's top aides, Deputy Secretary Ben Harris and Information Technology Director Glenn Palmiere, resigned. The report found that Harris skirted state bidding laws to award contracts to a favored businessman and that he and Palmiere, accepted trips and gifts, including spa massages, hotel stays and a karaoke machine, from vendors who received DCF computer work. The report also notes that some issues "were outside the scope of this investigation." This may be reference to a $21 million contract to improve a DCF computer system, won by AMS Corporation in Spring 2004. Oklahoma Gov. Frank Keating sat on the board of directors of AMS at the time, and Jerry Regier served in Keating's administration before coming to Florida.[47]

Cisco Allegedly Rigs Competitive-Bidding Process

California- In 2004, San Jose city officials reportedly allowed Cisco Systems to shape an $8 million technology contract for the new City Hall building so that only Cisco equipment would be viable. After the release of a revealing auditor's report, the city's top 2 technology officials resigned and the contract was nullified. The re-bid process will likely cause costly delays to the new City Hall project.[48]

California Department of Corrections Accuses Private Prison Contractor of Misappropriating State Funds

In 2004, The California Department of Corrections (CDC) accused Maranatha Corrections LLC, the operator of a private prison in Adelanto (San Bernardino County), of misappropriating more than $1 million in inmate telephone revenue. According to state officials, the company breached its $8.1 million annual contract by blocking state audit attempts and refusing to account for phone funds that were supposed to be funneled to the state. Maranatha CEO Terry Moreland said that since there was no provision in the Maranatha contract to turn the money back over to the state, the funds belonged to his firm.[49] The CDC threatened to shut down the prison if the money was not repaid. But rather than paying the state, in January 2005 Moreland offered to lease the private prison to the county, which needs more jail space. According to Corrections spokeswoman Terry Thornton, state prisoners should be out by summer 2005.[50] The state does not appear to be planning a legal challenge to collect the funds.

See Also:

- **Poor Oversight of Privatized Welfare Programs leads to taxpayer money spent on parties, concerts, fanny packs and contract bids in other states**
- **Foster Care Contractors Revealed to Have Mistreated Children, Wasted Money**

Corruption-Conflicts of Interest

Privatization can lead to public officials handing out contracts to friends, colleagues, and sometimes themselves, in the private sector.

Examples:

Florida Senator Supports Privatization Then Helps Win $1M Contract For His Firm
Florida- In 2001, a former longtime state senator played a major part in his organization receiving a $1 million, no-bid privatization contract with the Occupational Access and Opportunity Commission (OAOC) --- an agency he created while in the Legislature. George Kirkpatrick, who represented Gainesville first as a Democrat then as a Republican from 1980 to 2000, was the author and driving force behind the 1999 bill that privatized vocational rehabilitation services (job training for the disabled). The OAOC was the agency created to administer these new privatization contracts. In 2001, Kirkpatrick himself was appointed to the board of this Commission. Within 1 month, according to a report from the Department of Education Office of the Inspector General, Kirkpatrick lobbied fellow board members for a $1 million no-bid contract with the Independent Colleges and Universities of Florida, an organization of which *he* was the existing executive director.[51] In 2002, the OAOC was disbanded by the Florida legislature upon the recommendation of the Office of Program Policy Analysis and Government Accountability.[52] This state watchdog agency found the commission's privatization work had led to higher costs and deteriorated services.[53] In its three year existence the OAOC made a habit of highly questionable contracting.[54]

NYC Comptroller Says MAXIMUS Won Welfare Contracts Through "Corruption, Favoritism and Cronyism"
New York City- Nearly 3 years and several court decisions after New York City comptroller Alan Hevesi refused to certify $104 million in welfare-to-work contracts with MAXIMUS, Inc., federal labor investigators reported that the company had corrupted the bidding process. In March of 2000 Hevesi charged that the MAXIMUS contract award by Mayor Rudolph Giuliani's administration raised the appearance of "corruption, favoritism and cronyism." Hevesi concluded that MAXIMUS was given an unfair head start in preparing its bid because of its ties to Jason Turner, Giuliani's Human Resources Administration (HRA) Commissioner, and because a MAXIMUS subcontractor, Opportunity America, was headed by former Guiliani senior advisor, Richard Swartz.[55] The comptroller stated that it would take a court order to make him sign off on the two MAXIMUS contracts. Giuliani tried to get exactly that. After a seesaw legal battle that had a State Supreme Court Justice finding "compelling evidence that the contracting process has been corrupted," and then an Appellate Court finding "no evidence of favoritism," the contracts were allowed to go through.[56]

More than a year later (Dec. 2001), a memo sent from New York City's Department of Investigation (DOI) to the Human Resources Administration, included new evidence to support Hevesi's claims. It showed that, while negotiating with Jason Turner, MAXIMUS had agreed to provide financial backing for a $50,000-a-year education contract won by Turner's wife in

Milwaukee. In March 2002, with a new Commissioner, HRA cut MAXIMUS' contracts from $104 million to $16 million. Five months later, HRA announced that it was not renewing these contracts at all with MAXIMUS.

A final statement on corruption came from Federal labor investigators in a December 2002 report: "The evidence...supports that...MAXIMUS' vice president, directly and indirectly gave Commissioner Turner, his wife and his father-in-law things of value while being provided access to HRA during the development of the [welfare-to-work] solicitations and before the contract award."[57]

Conflicts of Interest, Cronyism Reported in Texas Contracting

Texas- An investigation by the *Houston Chronicle* in 2005 raised serious questions of impropriety involving contracting in recent years at both the Texas Health and Human Services Commission (HHSC) and the Texas Workforce Commission. The Newspaper's findings centered around the activities of former Health and Human Services Deputy Commissioner Gregg Phillips. According to the Chronicle, Phillips, who helped write 2003 legislation to privatize much of Texas' human service system (including eligibility call centers for welfare programs), was involved in awarding a $1.7 million contract to Deloitte consulting in 2003. Phillips had worked for Deloitte just six months before taking his Texas government job. The Chronicle discovered that a company founded by Phillips, Enterject Inc., had won over two million dollars in contracts through the Texas Workforce Commission, which is run by Phillips' longtime friend, Larry Temple. Also, Phillips reportedly helped a business partner, Paige Harkins, get work advising companies on how to win Texas human services privatization contracts that he could influence. Finally, the investigation revealed that Chris Britton, a private consultant who helped Phillips draft the aforementioned legislation (HB 2292), bid on a contract mandated by that bill. No contract has been granted yet, as the state withdrew the proposal in May 2004 for refinements.[58]

This Texas experience is not the first time Gregg Phillips has been under scrutiny for a questionable role in state contracting. Phillips, the former director of the Mississippi Department of Human Services, left his post in 1995 under fire from the Legislature for his management of the state welfare programs. Lawmakers later that year accused him of ethics violations. Phillips reportedly had given an $875,000 state contract to a company that he went to work for when he left Mississippi state government. The Mississippi Joint Committee on Performance Evaluation and Expenditure Review put it this way: "Mr. Phillips' actions create the appearance of impropriety, facilitating an erosion of the public trust."[59]

See Also:

- **EDS 20 Months Late in Virginia**

Corruption-Campaign Contributions

Privatization creates the potential for companies to buy themselves government contracts by donating campaign dollars to key decision makers. Some elected officials have shown a willingness to hand out contracts based on campaign donations rather than merit.

Examples:

Governor Davis, Receives $25,000 for Re-Election Campaign, Oracle Receives $95 Million Contract

California- In 2001, days before receiving a $25,000 donation from the company, Governor Gray Davis' and his administration handed over a no-bid, $95 million contract to Oracle Corporation that ended up costing taxpayer's an additional $41 million. The deal's purported aim was to save state taxpayers as much as $100 million over 10 years by licensing database management software in bulk rather than purchasing the licenses as needed. These numbers proved to be dramatically inaccurate when in April 2002, a state auditor's report revealed that the agreement had resulted in the state buying far more licenses than it needed, costing taxpayer's millions more than the cost of purchasing the licenses in the open market.[60]

Taxpayers Fleeced as Big Campaign Donors Get Sweetheart Privatization Deal

Wisconsin-Top executives of the company Wisconsin is paying to maintain a road sign inventory have made over $140,000 in campaign donations to state politicians in the past decade. Executives of HNTB Corporation from 12 different states got heavily involved in the 2002 race for governor, making $29,968 in donations in 2001 and $67,848 in 2002. HNTB was later given a $164,692 (nearly $80/hour) contract to keep track of signs on state roads, work that had previously been done by a temporary state employee, making $11.38/hour. Using a Department of Transportation budget formula, it is estimated that the total cost to taxpayers of paying a permanent state employee with full benefits to do the work is about $51,700. In this case contracting out was 318% more expensive than doing the work in-house.[61]

Florida - Privatization Leads to Campaign Contributions

Florida- Governor Jeb Bush's pro-privatization slant has lead to the elimination of 10,000 public employees and a slew of outsourcing horror stories (see links below). Though his policy has failed to increase government efficiency, it *has* increased the governor's campaign contributions. As *The Miami Herald* put it after a careful study of state records: "[privatization] has spawned a network of contractors who have given [Bush], other Republican politicians and the Florida G.O.P. millions of dollars in campaign donations." One of these contractors was ARAMARK Corporation, who gave $25,000 to Florida's GOP and nothing to Democrats during the last election cycle.[62]

Fellow Republicans and Bush's own appointees have publicly criticized Bush's rush to contracting. The governor's "director of efficiency," Ruth Sykes, a 20-year U.S. Air Force veteran esteemed for her cost-cutting there, quit her Florida post after five months in 2001. She felt the state was rushing into contracting without evaluating potential savings or considering if public employees could perform the services at lower cost and more efficiently. In May of 2002, the office of Florida Republican state comptroller, Robert Milligan, audited the state departments' technology contracts and sharply criticized major agencies for alleged conflicts of interest, state law violations, questionable purchases and gross mismanagement. Milligan previously had criticized privatizing the state's personnel services in 2002. "If the state had been given a chance to reorganize and gone to a centralized process, it might have saved even more money than this contract," he said.[63]

Republican Senate President Tom Lee in 2005 said Florida was in danger of becoming dependent on private contractors, even when service quality slips and prices rise. Said Lee: "The problem you run into with a lot of these things is, once you dismantle the public apparatus, it's hard to reassemble. It's gone." Even Jeb Bush himself has now admitted that the state has made "mistakes" in outsourcing. In fact, things have gotten so bad in Florida that the radically pro-privatization governor included $1 million in his 2005 budget proposal for creation of an "office of procurement" to help agencies drive a harder bargain when they contract out for services.[64]

Florida Horror Stories:

- Florida – Department Of Child and Family Services, Play Ground For Consultants and Political Appointees
- Audit Finds Huge Fault With Florida Technology Contracts
- Aramark Performs Poorly in Ohio Prison Food Service Contract, Brings Bad Performance to Florida
- **Florida State Audit Blasts Personnel System Contract**
- ACS Charged With Over-Billing Florida Counties By Over $1M
- Florida Senator Supports Privatization Then Helps Win $1M Contract For His Firm
- Contractor Leaves Foster Children Unattended In Motel At Night For Three Weeks

New Jersey Prohibits Awarding State Contracts to Political Donors

Trenton, NJ- Only weeks before stepping down, Gov. James E. McGreevey issued a broad order that attempts to break the link between political contributions and government contracts in a state rattled by one corruption scandal after another. The executive order, which took effect on Oct. 15, 2004, prohibits the awarding of most state contracts to businesses that have contributed to state or county political committees or gubernatorial candidates.[65]

Political Contributions Lead to Unnecessary Prison Construction

North Carolina & Mississippi- The American Legislative Exchange Council (ALEC) is a corporate-sponsored association of state legislators from all 50 states that come up with & share ideas for 'model' legislation. According to a report by the Natural Resources Defense Council, the organization is nothing less than a tax-exempt facade for the country's largest corporations to push their political agendas.[66]

Private Prison Industry leaders Corrections Corporation of America (CCA) and Wackenhut (now GEO Group Inc.) have paid tens (if not hundreds) of thousands of dollars in exchange for a privileged position on the ALEC Criminal Justice Task Force (which CCA chairs). ALEC, in turn, not only promotes privatization, but also brags of having helped enact "Truth In Sentencing" and "Three Strikes" laws in 25 states. In addition to investing heavily in groups like ALEC and Reason Foundation, the industry spends millions on campaign contributions. From 1995 to 2000, CCA, Wackenhut and Cornell Corrections spent $520,000 on Federal elections, and in 1998, the industry spent $540,000 on state elections, where a little money goes a long way.

The industry's lobbying, campaign contributions and political connections pay off. In North Carolina, Cornell convinced the legislature to appropriate $2.5 million for a youth jail the Department of Juvenile Justice never requested, and in Mississippi, Wackenhut persuaded the state to pay millions for empty prison beds while schools were in a funding crisis.

Finally, the industry fuels prison expansion by substituting private capital for public debt, effectively circumventing bond referenda and other processes designed to give voters a say in where their money goes.[67]

See Also:

- **EDS 20 Months Late in Virginia**
- **Cost of Running Privatized Welfare $1M More than the State Program**
- **Schwarzenegger Hands Out Suspicious No-Bid Prison Contracts**

Lack of Competition

Many in favor of privatization argue that the practice brings much needed competition into the public sector and that this competition is what improves efficiency. However, real competition often doesn't exist for government contracts. Sometimes only one or two companies are capable of making contract bids, leaving the government few or no evaluation options and potentially forcing them to select a less than adequate contractor. Other times government officials bypass the competitive bidding process altogether, and hand out 'no-bid' contracts to companies/organizations of their choosing. For many privatization contracts, it would be difficult to argue that any real benefit was reaped through contract competition.

Examples:

Citicorp Only Bidder for $451 Million Contract With California, Promptly Ships Work Overseas

San Francisco- In 2001, after receiving only one bid, California signed a $451 million contract with Citicorp Services, Inc., to privatize the delivery of public assistance benefits through an Electronic Benefit Transfer (EBT) system.[68] Soon after "winning" the contract, the company sub-contracted work through MsourcE to two call centers in India and one in Mexico. In late 2003, JP Morgan Chase took over Citicorp but continued subcontracting the California work to MsourcE.[69]

Based on the number of firms available to provide EBT service, it is not surprising that California received only one contract bid in 2001. As of March 1998, Citicorp was the prime contractor of this service in 28 states with a market share of 62 percent of the food stamp caseload. Of the four firms competing nationwide for EBT contracts, as of that time, only three had developed and implemented large-scale EBT processing systems: Citicorp, Transactive Corporation, and Deluxe Data Systems Inc. In many cases, however, states were receiving only two bids because Deluxe would bid jointly with Citicorp. With only one real competitor, Citicorp responded by trying to buy Transactive in 1998. The U.S. Department of Justice sued and, eventually, prevented the acquisition.[70]

Few Providers of Full-Service Child-Support Enforcement

Virginia- In 2000, the Center for Public Policy at Virginia Commonwealth University conducted a study comparing the performance of privatized child support enforcement offices with state run offices. After concluding that "on most performance measures, the state-operated offices do a better job," the researchers expressed concern about a lack of competition in this field: "we do have a concern about the nature of the competitive market for service providers of full-service operations. It seems that there are only three major providers in the United States offering to contract for full-service operations."[71] The 3 providers referred to were MAXIMUS Inc., Lockheed Martin IMS, and Policy Studies Inc. Since this study was completed, Lockheed Martin has stopped offering full-service enforcement, leaving MAXIMUS and PSI as the only major national providers.

Contract Extended Despite Concerns

Louisiana- The Orleans Parish School Board extended a no-bid contract for custodial services and groundskeeping to ServiceMaster, Inc. in 1999 despite complaints of unsanitary bathrooms and grass left unmowed. The $1.2 million, six-month extension was approved because there was not enough time to seek competitive bids. One board member admitted, "I accept some responsibility because I could have reviewed the ending date of the contract…and I wish I had."[72]

See Also:

- **Florida Senator Supports Privatization Then Helps Win $1M Contract For His Firm**
- **Governor Davis, Receives $25,000 for Re-Election Campaign, Oracle Receives $95 Million Contract**
- **Trash Incinerator Original Fee $8/Ton, Price Goes Up To $91/Ton**
- **State Official Admits to Illegally Handing-out State Contracts**
- **ARAMARK Contract Renewed Despite Cost-Increase**
- **Audit Finds Huge Fault With Florida Technology Contracts**
- **Schwarzenegger Hands Out Suspicious No-Bid Prison Contracts**

Poor Quality of Service

Quality of service is often negatively impacted by private profit motives and a contractor's lack of specialized knowledge. For-profit privatizing firms put society's interests behind the interests of their shareholders and the profit motive. In addition, private contractor's lack of specialized knowledge for providing a complicated government service can lead to inept service delivery. In combination, these two factors often result in a poor overall product, delivered through sloppy record-keeping, inattention to detail, inadequate staffing, subcontracting to unqualified providers, or any number of other flaws.

Examples:

Contractor Leaves Foster Children Unattended In Motel At Night For Three Weeks
Florida- For three weeks in 2002, Maxim Healthcare Services left six foster children, teenage girls younger than 16, unattended at a motel where they partied with adult male guests. The girls were supposed to be supervised by the private firm, which has a contract with the Department of Child and Family Services. However, Maxim's supervision apparently stopped at the end of the workday. Somehow the state and the private contractor failed to realize that no one was supervising the girls at night.[73]

Lockheed Martin & MAXIMUS, Hired To Collect Child Support, Make Their Money Closing Cases
Florida- In a 1998 outsourcing effort that was projected to collect $104 million in child support, MAXIMUS and Lockheed Martin were able to collect only $207,000. The companies were hired to streamline records and collect child support from "deadbeat" parents. But, virtually all of the $4.5 million paid to MAXIMUS and Lockheed came not from collections, but from fees paid for each case the firms closed. A *Tallahassee Democrat* investigation found that many closures required little effort on the firms' part or duplicated existing state processes. The firms' lowest case closure fee was double what the state Department of Revenue estimated to be its costs. The companies argued that they needed closure fees to cover start-up costs, an investment they promised would lead to support collections. As it turned out, the investment did not pay off at all, as the firms collected just 0.2% of what was projected.[74]

Aramark Performs Poorly in Ohio Prison Food Service Contract, Brings Bad Performance to Florida
Florida- In 2001, Florida awarded ARAMARK Corporation a $58 million contract to take over food operations in 126 of the state's 133 corrections facilities. The food service giant's first year reportedly saw maggot-infested kitchens, frequent cooking delays, poor food quality, small portions, and a chronic violation of a state rule requiring every inmate to receive the same meal. All told, ARAMARK racked up $110,000 in fines.[75]

The Corporation's first year problems *should* have come as little surprise to the state. Shortly before signing with the company, Florida prison officials were made aware of problems at an ARAMARK -run prison food service in Ohio. There, an inspection team in 1999 found "inexcusable" sanitation problems and observed "a near riot" as a result of small portion sizes. The inspectors suggested ARAMARK "should be liable for damages as a result of the lack of training, cleaning and maintenance."[76] What's more, the company failed to deliver promised savings, allegedly billed for phantom meals, and demanded more money just 4 months after winning its contract with the lowest bid.[77] Ohio chose not to renew this contract, brought the work back in-house, and saved money. The response of Florida officials to this real-life example was one of disinterest. Said Department of Corrections spokeswoman Debbie Buchanan: "Whatever might have happened in another state is not our concern."[78]

ACS Charged With Over-Billing Florida Counties By Over $1M
Florida- Affiliated Computer Services (ACS) ran into trouble with Florida welfare-to-work contracts two years after taking them over from Lockheed Martin. In January 2004, the Inspector General of Florida's Agency for Workforce Innovation issued a report charging that ACS made errors that resulted in over-billing county governments by more than $1 million. The report found ACS had manipulated data and kept sloppy records, inflating the number of people it helped find jobs and the amount of money employers paid employees hired. State and federal investigators continue to look into the case. ACS shares fell more than 7 percent after this story broke.[79]

Outsourced Parking Lot Fees Double Over Three Year Period
New York- In the early 1990's, a Westchester NY Medical Center outsourced with an Ohio-based firm, APCOA, to build and operate all parking facilities. The Contractor retained ability to set parking rates and, over a 3 year period, rates doubled. Discovering that this was a huge detriment to the hospital and unfair to the people using it, the county felt compelled to purchase the lots from the contractor at a cost to taxpayers of more than $14 million.[80]

EDS Badly Miscalculates in Contract with U.S. Navy
In 2000, EDS won a contract to build a new intranet computer system for the U.S. Navy and Marines that quickly proved to be far more complicated and expensive than the company anticipated. Originally a $6.9 billion deal, the contract was renegotiated to $8.8 billion in 2002. However, because this is a fixed-cost contract, EDS has been unable to raise the cost anymore and has lost $1 billion on the deal thus far. The system - now anticipated to be up sometime in 2005 - took years longer than expected and significantly hurt EDS's stock value and credibility.[81]

Sodexho-Cleaned Laundry - Not So Clean
California- In September 1999, San Francisco Weekly published an article detailing problems with Sodexho's hospital linen laundering services. Linen laundered under contract by Sodexho was reported by the nursing division of then-called UCSF-Stanford Health Care Hospital to be contaminated with "fecal smears, blood, hair, dirt and tape." Also, linen used by patients from the hospital was apparently mixed by the contractor with linen used in medical research on animals. Asked about the mingling of human and animal laundry, a hospital spokeswoman said it has always been done that way. However, at least two former laundry employees told *SF Weekly* that -- before the laundry service was contracted out -- human and animal linens were *always* separated.[82] The UCSF-Stanford merger did not last and both hospitals eventually terminated their contracts with Sodexho.

MAXIMUS Contract Left to Die After Company Underperforms
NYC- MAXIMUS was paid $1 million/month to teach Medicaid clients how to adapt to managed health care, but a report by NYC Public Advocate Mark Green showed that the contractor had fallen seriously short of that goal. MAXIMUS had trouble with a mailing that notified NY Medicaid patients that they had two months to pick a managed care plan. The mailing looked like junk mail and generated complaints of translation problems. In October 2002, the Bloomberg administration in New York announced that it was not going to renew this and other contracts with MAXIMUS. It was said by a City of New York Human Resource Administration spokesperson that MAXIMUS was being dropped out of a "growing consensus that the contracts were not working out."[83]

Allegations of Understaffed Prisons and Sexual Assault Behind Bars Earn Wackenhut Notoriety in Texas
Texas- Wackenhut Corrections Corporation lost a state contract to run the Travis County Community Justice Center in the fall of 1999 shortly before 11 former guards and a manager were indicted on charges of sexual assault, harassment, and/or misconduct involving 16 female inmates. Texas officials called the case the biggest prison sex scandal in state history. Said Ron Weddington, an Austin lawyer representing one of the inmates, "I've been practicing law for about 30 years, and I've never heard of anything like this in the state- or county-run jails. This is pretty much off the charts."[84] At least two of the defendants have been convicted and one was acquitted. Most of the cases were still pending as of 2001.[85]

One year earlier, a state audit had shown that the Travis County jail barely employed the minimum number of guards required by contract. A notice of default was filed, and Wackenhut eventually brought in more employees, but not before being fined $625,000. According to state jail division director Tom Baker, "[Wackenhut] never seemed to be able to keep staff, they always seemed to be below the contract requirement and, as a result, a number of the programs that Travis County wanted to implement never materialized." Wackenhut's staffing problems were likely a result of the low wages they were paying workers. At the time of the audit, Wackenhut started its guards at $6.50 an hour, a puny wage in Austin's economy.[86]

Separately in 1999, Wackenhut faced similar allegations involving a juvenile facility the company ran in Coke County, Texas. According to a lawsuit filed by Dallas lawyer Penny Raney, Wackenhut failed to properly screen, train, and supervise its employees at the female youth prison. Said Raney, "the girls were made to live in an environment in which sexual contact, deviant sexual intercourse and statutory rape were frequent, and which resulted in a hostile, permissive sexual environment, and where residents were physically injured to the point of being hospitalized with broken bones." Independently, the state filed criminal charges of sexual misconduct against two guards. Both pled guilty. Responding to all of these incidents, Wackenhut CEO George Zoley said that the company was making some changes. Among them: Only female guards would supervise female inmates.[87]

MAXIMUS Averages Nearly 5 Times as Long as Public Workers to Process Applications for Healthy Families
California- The Healthy Families contract MAXIMUS holds here in California, that the CPR argues is of 'model' status, has been going about as smoothly as one might expect given MAXIMUS' track record of poor performance. The January 2004 switch to MAXIMUS as a processor of applications has been blamed for contributing to the dramatic slowdown in enrollment in the program over the last year. [88] According to Santa Clara County officials, the historical

average for government workers processing applications was 10 days (By regulation this process was limited to 20 days). In April 2004, MAXIMUS was averaging 47 days - it is now down to 30 days. Some of MAXIMUS' glitches include: cashing premium checks, but not enrolling the person in the program so they think they are covered, but are not; sending compliance letters that request action before the letter was actually written; and suddenly and mistakenly dropping enrolled children from the program.

While attempting to defend MAXIMUS in 2005, Lesley Cummings, executive director of MRMIB (the state body in charge of Healthy Families) revealed the state's low expectations for the company. "Is it perfect now? No," said Cummings. "I think it's pretty good."[89]

Sodexho Heat And Serve Food Reportedly Poisons 1,200 Students

Chicago- In 1998, a subsidiary of Sodexho, Inc., the second biggest private contractor running school cafeterias in the U.S., allegedly poisoned over 1,200 students in seven states. RHSCO Enterprises Inc., a heat and serve company, was shipping 80,000 frozen burritos a day during this time to schools and other institutions across the country. Elementary school students from North Dakota, Florida, and Georgia all ate RHSCO burritos, packed in the same plant on Chicago's South Side, before they fell seriously ill. 36 of the 469 sickened North Dakotan students had to be sent to the emergency room.

Such widespread poisoning is made possible by private contractors who put frozen school entrees on menus in several cities at once, giving national reach to plants that produce unsafe meals, and by distributors who draw frozen entrees from scantly inspected subcontractors. In the case of the Sodexho/RHSCO food poisoning, tortillas produced in a plant owned by Oscar Munoz were, eventually, linked to the outbreaks. The specific Munoz plant said responsible, on 43rd street, was not inspected during the period of reported problems. However, to give an idea of what this plant might have looked like, a 1999 state inspection described a separate similar Munoz facility as follows: 'Flies were everywhere. Corn spilled from broken bags onto the wet, broken floor. Toxic chemicals, sacks of cement and cans of paint sat nearby. Bakery equipment had been patched with cardboard, string and tape. The ceiling peeled, the basement reeked of mold and the electrical cords hanging over the corn-grinding kettle were covered with dust.' The startling thing is that even if Munoz's 43rd street plant had received a similar or worse inspection report a year earlier, it likely would not have made a difference. According to David Jackson of the Chicago Tribune, neither Sodexho Alliance nor Compass Group PLC, the largest private school food contractor in the country, read the inspection reports of government food safety agencies that monitor their suppliers, and nothing in their contracts says they should.[90]

More Sodexho Problems

Bethlehem, Pennsylvannia- In 2000, more than 500 parents and residents of the Nazareth Area School district signed a petition calling for an end of contract with Sodexho for managing its five school cafeterias. Complaints ranged from expired freshness dates on bread and milk to lack of consistent management.[91]

El Paso, Texas- A dietician who had stopped working for Sodexho five years previously claimed in 2001 that Sodexho forged her signature to approve the nutritional quality of the menu.[92]

Portola Valley, California- Though not a privatization story, the following example is illustrative: In Oct. 2003, Sodexho food was reportedly responsible for an e. coli outbreak in a California retirement home that killed 1 person and hospitalized 9 others. San Mateo County Health Services Agency linked the outbreak to a batch of pre-washed, raw spinach provided by the company.[93]

EDS 20 Months Late in Virginia
Virginia– In 1997, Virginia state officials cancelled a $45 million Medicaid claims system contract with EDS - after the firm was 20 months late on its contract - saying the company could not deliver the technical expertise required. According to the State's Medicaid Director, while under the contract, EDS denied the state access to the system and refused the Medicaid agency's request for the master plan. EDS received the contract 3 years earlier, even though its bid was 50% higher than that of its competitor. Possible insights as to why this may have happened include the fact that EDS hired a senior Virginia Medicaid official a short time after the bids were completed. Also, the company donated over $20,000 to legislative candidates in Virginia's 1996 elections. In August 1997, EDS was charged $2.3 million in damages for not honoring the contract and for return of an initial payment.[94]

Aramark Said To Have Lost Money, Wasted Food
Atlanta- In four years of managing food service for Atlanta's public schools, ARAMARK Corporation lost the program $18 million and wasted hundreds of thousands of dollars worth of federally donated food, according to school officials. The company was hired in 1999 to turn around the troubled food service program but instead, the schools lost money under the private managers and people complained about food quality.[95] In January of 2000, the federal government donated 124 tons of food to the ARAMARK run schools, but the food was thrown away after sitting unused for nearly 2 years. The state Department of Education estimated the cost of the wasted food to be $202,074.65.[96]

Connecticut Scraps IT Privatization Deal, Avoids Making the 'Worst Fiscal and Policy Decision of the Decade'
In 1999, the State of Connecticut scrapped a deal with EDS to privatize Connecticut's entire information technology infrastructure after reviewing the preliminary findings of an audit of the company's work. The audit revealed numerous EDS failures in small scale contracts with the state, including failure to complete implementation of a info management system for Medicaid claims. Before the deal was scrapped, the state comptroller Nancy Wyman said privatizing the state's IT through EDS could be "the worst fiscal and policy decision of the decade for the state of Connecticut." Referring to two years worth of documents between EDS and the state on which she based many of her findings, Wyman argued: "These documents should be a wake-up call to this administration to abandon this billion-dollar-plus boondoggle. If EDS couldn't handle this single project, how can the administration consider them the front-runner for the biggest contract in state history?"[97]

American Management Systems (AMS) Makes a Habit of Failing to Deliver, Getting Sued
The Federal Retirement Thrift Investment Board fired American Management Systems (AMS) in 2001, after the company failed to deliver on a computer system contract. AMS was hired in 1997 to modernize the Thrift Savings Plan's (TSP) record-keeping system to provide federal employees with more tools to manage their retirement accounts. The $30 million project, scheduled for completion by May 2000, ran into frequent delays. Costs had ballooned to an estimated $87 million with no completion date in sight when the board fired AMS and filed suit seeking $350 million in damages.[98] The lawsuit accused the private contractor of "fraudulent procurement, fraudulent performance and reckless breach of contract." Noting a similar case brought against AMS in Mississippi, the lawsuit went on to say: "In hindsight, it is now also clear that such misconduct is a part of AMS' business practice; AMS has recently been held liable for defrauding the state of Mississippi over a period of years in ways virtually identical to those alleged therein."[99]

The lawsuit caused the AMS share price to fall nearly 25 percent on the day it was announced. AMS countersued the Board and a settlement was eventually reached in 2003, with AMS paying $15 million to the TSP and the Board paying $10 million to AMS. Participants in the 401k-style TSP are having to pay the remaining $36 million in expenses from the failed contract.[100]

Mississippi- In 2000, a jury in Mississippi found AMS guilty of defrauding the state and breaching a contract to overhaul the tax system. It ordered AMS to pay Mississippi $474.5 million, which later was negotiated down to $185 million.[101]

Ohio- In 2002, four employees of the Ohio Department of Job and Family Services filed a lawsuit accusing American Management Systems of falsely and excessively billing the state of Ohio for a $95 million computer system that failed to meet expectations. Originally meant to streamline department operations, the computer project was never finished in part because of its poor compatibility with other computer systems. In July 2004, the lawsuit survived a legal challenge from AMS and has moved on to evidence gathering.[102]

ACS Provides Georgia With A "Gross Failure to Meet Basic Expectations" in Medicaid Contract

Georgia- In 2003, two years after being hired to take over and expand the Georgia Medicaid program's electronic billing and payment system, Affiliated Computer Services (ACS) started up a system that immediately faltered, according to state officials. The system was prone to breakdowns and some doctors and hospitals didn't get paid. A May 19 letter to ACS from the Georgia Attorney General's office criticized the company for what it called "gross failures to meet basic expectations."[103] At one point, Georgia Medicaid ran out of money for two days, in part from making advance payments to providers to cover ACS system failures. Wade Miller, chief information officer over Georgia Medicaid's claims processing said Georgia wouldn't hire the company again. According to Miller: "They will try to get you to accept less than what you asked for or what they proposed."[104]

See Also:

- **Florida Senator Supports Privatization Then Helps Win $1M Contract For His Firm**
- **School District, Fed Up With Late Arrivals, Brings Bus Service Back In-House & Saves Money**
- **Private Transport Companies Make it Easier for Criminals to Escape**
- **Connecticut, Dependent on EDS, Continues Their Contract Despite Being Dissatisfied**
- **Connecticut Gives MAXIMUS A Raise After Being Dissatisfied**
- **Laidlaw Reportedly Leaves Special Education Students Stranded**
- **Justice Department Slams Private Prison Contractor For Treatment of Prisoners, Understaffing, Questionable Hiring**

Security / Safety

Security & Safety problems result from the privatization of certain government services, as the public is left at the mercy of a private company's hiring practices and privacy policies. Personal records have been put in the hands of unscrupulous subcontractors, convicted felons have been hired to drive school buses, and violent criminals have escaped from minimum-security facilities as a result of privatization.

Examples:

Could Your Medical Records Be For Sale?
San Francisco- In 2003, a private subcontractor in Pakistan doing clerical work for UCSF Medical Center threatened to post patients' confidential files on the Internet unless she was paid more money. To show she was serious the contracted worker followed her email threat with actual patients' records. The work went through a chain of three different subcontractors. UCSF and its original contractor, Sausalito's Transcription Stat, say they had no knowledge that the work eventually would find its way abroad. [105]

Laidlaw Reportedly Leaves Special Education Students Stranded
Washington D.C.'s school system contracted in 1999 with Laidlaw to transport special education students to class. According to Alfred Winder, the school system's transportation director, bus drivers missed more than 1,000 routes in the first few months of the school year. Special master Elise T. Baach - appointed by a federal judge to help Washington D.C. resolve transportation and other special education problems – said that at least one of every 10 special education students in D.C. missed significant parts of their morning classes during the first two of those months. Though the schools' transportation problems existed before Laidlaw, Baach's analysis showed a decline in on-time bus service after Laidlaw's take over.[106]

In a closely related story, documents subpoenaed by D.C. Council member Kevin Chavous, showed that at least 40 of the roughly 200 bus drivers hired by Laidlaw for their D.C. special education contract had been charged with serious criminal offenses. They were put on the job, however, before Laidlaw had determined the dispensation of their cases. In at least four cases, the drivers had been convicted of crimes. One driver was convicted of possession of crack, marijuana and a bomb. Another worked for the company at least two months despite having four convictions in 1993 and 1994 for traffic offenses, and despite having been involved in two 1998 bus accidents where at least 13 children were injured. Chavous found blame with both Laidlaw and the school system, claiming the latter failed to properly monitor the bus contractor.[107]

Foster Care Contractors Revealed to Have Mistreated Children, Wasted Money
Illinois- In the 1990's, Illinois private foster-care contractors made a habit of neglecting kids and wasting state funds, according to reports. One non-profit company, run by Reverend William Rucker, was found by a state audit to have spent $3.4 million in taxpayer dollars on improper or unexplained expenditures. A *Chicago Tribune* investigation found that Rucker's agency and 31 others placed children in unsafe conditions or failed to provide them mandated supportive services. Said the Tribune: "Companies such as Rucker's raked in public funds while passing youngsters down to a little-monitored netherworld of subcontractors who installed rows of cots in their houses and ran group homes that differed little from the orphanages of the past." Illinois ended their four-year relationship with Rucker's company in 1998.[108]

Laidlaw Drivers Leave Small Children Unattended On Buses for Hours: Privatized District Can't Find Qualified Drivers, Public-run District Has No Problem
New Jersey- Two incidents involving children being left aboard privately operated school buses at the end of a route occurred in the same New Jersey school district in late 2003. One of the kids, a 6-year-old special education student, was reportedly left on a bus parked for *several hours* before being noticed by a passer-by who called police. Both cases saw the driver fired by Laidlaw Education Services, the district's school bus service contractor.[109]

The firings highlight a problem the Hillside district has been having finding qualified bus drivers since outsourcing the delivery of this service to Laidlaw. According to one School Board member: “It's a difficult situation because bus drivers are hard to find. It's a low-paying job, and the pay is not an incentive for them to pay good attention to what they're doing.” Things are different in neighboring Union Township School District, which operates its own bus service. Largely because the district offers employee benefits, and private carriers do not, there is no shortage of bus operators. Union Township Assistant Superintendent said there have been no problems in the school district related to children left on buses or in finding enough qualified drivers. “It works for us,” he said of the district providing busing. “It works well and it's cost-effective, that's why we do it.”[110]

In a separate Laidlaw incident, on September 9th, 2004, a 3-year-old boy was reportedly left on an East Brunswick school bus for five hours before being found unharmed. The boy was put on the bus at 8 a.m., but he did not get off at Frost Elementary School, where he attends preschool. His absence was noticed when his mother came to pick him up at 12:10 p.m. at his bus stop, and he did not get off the bus, police said. She contacted school officials, who told her that he had not been in school. The boy was, eventually, located shortly before 2 p.m., on the bus, which was parked near the driver's home in Howell Township, Monmouth County. Laidlaw fired the driver.[111]

Private Prisons Don’t Save Money, Cause Increases in Violence

Despite the existence, as of December 2000, of 153 private correctional facilities operating in the U.S., evidence of the superiority of privately run prisons, by *any* measure, has been sorely lacking. Studies done by the General Accounting Office and the Bureau of Justice Assistance (BJA) have found that little or no savings are achieved through prison privatization. Nor are there improvements in quality of service. The BJA study in 2001 acknowledged “no definitive research evidence would lead to the conclusion that inmate services and the quality of confinement are significantly improved in privately operated facilities.” And, far more disturbing than this is the BJA’s finding that “the rate of major incidents is higher at private facilities than at public facilities.” Furthermore, a survey conducted by analyst James Austin found 49% more inmate on staff assaults and 65% more inmate on inmate assaults occurred in private minimum and medium security facilities than in comparable publicly run facilities.[112]

Convicted Sex-Offenders Escape From CCA Prison

Texas- In August of 1996, two convicted sex offenders escaped in Houston from a privately operated minimum-security detention center for illegal immigrants awaiting deportation. The escapees were part of a group of 240 sex offenders shipped in from Oregon. Learning of the escape, local authorities were shocked, since the company, Corrections Corporation of America (CCA), had not informed them that they were housing violent out-of-state criminals in the minimum-security detention center. CCA contended that as private proprietors of the facility, they had no legal obligation to tell Texas officials about the Oregon prisoners.[113] This was the fourth escape since CCA opened the facility and part of a disturbing, quite specific, pattern. During 1996, Texas experienced five separate incidents of escapes and/or riots where state and local law enforcement were called in to capture escapees or suppress disturbances caused by out-of-state inmates at private correctional facilities.[114]

Inmate Misplacement and Lack of Staff Training Lead to Violence at Private Correction Center

Ohio- In 14 months of operation the CCA-run Northeast Ohio Correction Center in Youngstown, Ohio experienced 13 stabbings, 2 murders and 6 escaped inmates. Peter Davis, director of the Ohio Correctional Institution Inspection Committee lamented: “There is nothing in Ohio’s history like the violence at that prison." Reviews of the correctional facility determined that the problems occurred due to inadequately trained staff and the improper acceptance of maximum-security offenders to the medium-security facility. In March 1998, Youngstown filed suit against CCA on behalf of all the prisoners, alleging they were put at risk by being placed with maximum-security prisoners in a facility not designed for containing them. The court ultimately ordered the removal of 113 inmates deemed maximum-security offenders by an independent consultant.[115]

Private Transport Companies Make it Easy for Criminals to Escape
In California, three inmates escaped from a private transport company, Extraditions International, in early 2000 after the private guards stopped at a mini-mart and left the keys in the ignition. When the guards weren't looking, the inmates jumped in the front seat and led the CA Highway Patrol on a high-speed chase that ended in a crash. Separately in California, 2 months later, a convicted murderer and a convicted robber overpowered a private guard, stole his gun and then grabbed a gun from the other guard who was sleeping in the transport van. The murderer was serving a life sentence without the possibility of parole. The inmates were being transported to other states.[116]

Justice Department Slams Private Prison Contractor For Treatment of Prisoners, Understaffing, Questionable Hiring
Louisiana- On April 5, 2000, Wackenhut surrendered control of its juvenile prison in Jena, Louisiana to the state after the U.S. Justice Department accused the company in a lawsuit of beating boys, using tear gas indoors, spraying the boys in the face with pepper spray and not providing adequate education and counseling.[117] The lawsuit came one month after a panel of Corrections experts appointed by the Justice Department's Civil Rights Division issued a 277-page report critical of Wackenhut Corrections Corp.'s operation of the Jena prison. One of the Justice Department consultants, Nancy K. Ray, wrote that the prison's operating problems stemmed largely from staffing problems. During its 13-month history, she wrote, more than 600 people drifted through 180 positions -- including 125 who had been fired in 1999. Ray also found that Wackenhut had hired many people who had no business working in a juvenile prison. At least 20 employees, Ray wrote, had been named in publicly filed abuse cases before they were hired. Others had criminal records. One sergeant, who was fired in July of 1999 for slamming a boy's face onto a concrete floor, had four criminal convictions in 1998, including one for aggravated assault. Ray also observed that recreation and rehabilitative programs at the prison were "grossly inadequate."[118]

In a mid-April 2000 a settlement between the state of Louisiana and the Justice Department was reached over the Jena prison lawsuit. The agreement included the banning of corporal punishment, a cut back on the use of chemical restraints, and a reduction in the inmate population. It should be noted that this Justice Department lawsuit against Wackenhut's prison was an add-on to an already existing civil rights lawsuit the department had against Louisiana's juvenile prisons. This larger case remained unsettled as of April 2000.[119]

In May 2000, a legislative auditor criticized the state's contract with Wackenhut, telling a Senate committee the contract lacked critical oversight provisions. According to Auditor David Kyle and his staff, the contract failed to require Wackenhut to, among other things: fill a minimum number of staff positions, conduct background investigations on prospective employees, and provide training and orientation.[120]

Laidlaw's Hiring Practices Questioned, Contract Ended
Florida- Laidlaw Education Services stumbled into the line of fire in April 2002 when it was discovered that a bus driver transported students for more than seven months after being arrested on a felony burglary charge and being accused by middle school students of sexual harassment. A

Palm Beach Post investigation also revealed that the company had hired a former drug addict recently out of jail, a supervisor falsified a medical document, and officials failed to do complete reference checks before hiring another employee who later crashed a bus.[121]

The Martin County School Board snatched the keys away from the beleaguered bus company in May 2002, ending its three-year relationship. The school board's unanimous decision not to extend Laidlaw's $12 million contract came amid heated controversy about the company's reluctance to disclose public information about its operations as well as its questionable hiring practices. The board voted quickly and without debate after the Schools Superintendent recommended that Laidlaw's contract not be renewed. She said later that she had lost confidence in the company and that it had been violating its own policies and procedures. As if to underscore the board members' concerns, a bus driven by a Laidlaw employee ran off the road and tipped over in Palm City *the same day* as the Board Meeting, moments after dropping off 51 elementary school students.[122]

ARAMARK Holds Contract Only 16 Days Before Allegedly Poisoning School Children

St. Louis, MO- In 2004, 45 students at a St. Louis elementary school experienced food poisoning after - health inspectors speculate - somewhere in transit between Ohio and St. Louis the food was taken out of cold storage.[123] The food was served by ARAMARK Corporation, the private company that less than three weeks earlier, was given a $23.5 million contract to take over food service for St. Louis Public Schools.

Just after eating their ARAMARK lunch, students began suffering from vomiting, nausea, and stomach pains. Twenty-nine of them were taken to the hospital by two specially commissioned Metro buses. Some were connected to oxygen tanks, and at least one boy was carried off on a stretcher with an intravenous tube in his arm. This comes after a separate incident, where a student at another city elementary school in St. Louis found a worm in an ARAMARK lunch.[124]

Six College Students Sick with E. Coli After Eating Sodexho Food

NY- In March 2000, six students at the State University of New York at Albany became ill from E. coli bacteria after eating at a Sodexho Marriott-run cafeteria. The Albany County Health Department said the contamination may have been caused by workers using the same gloves to touch raw meat and hamburger buns. Sodexho denied there was a proven link between their food and the outbreak.[125] The campus ended its contract with the company less than one year after it was signed.

ARAMARK Employee Charged With Indecent Exposure at Elementary School

Wisconsin- Citing "ongoing performance issues," the Appleton Board of Education on Monday cancelled its custodial cleaning services contract with ARAMARK Facilities. The cancellation comes on the heels of an incident in which an ARAMARK employee was charged with indecent exposure at an elementary school. ARAMARK initially said the employee had no criminal record, but a further check showed he had an extensive criminal history. Although the worker was fired, the school superintendent declared ARAMARK's oversight "too big of a mistake."[126]

Health Officials Determine Sodexho Failed to Clean Vegetable Slicer After Accident

Cape Cod- In 2001, an automatic slicer that cut off part of a woman's thumb was not properly dissembled and cleaned, according to health officials, before a Sodexho cafeteria worker used it to cut vegetables for hundreds of student lunches. A piece of the employee's thumb ended up in a student's turkey and tomato sandwich the next day. Sodexho was fined for the incident.[127]

See Also:

- **Sodexho Heat And Serve Food Reportedly Poisons 1,200 Students**
- **Ombudsman for Santa Clara Prefers Beach Chair In Costa Rica To Office In San Jose**
- **Contractor Leaves Foster Children Unattended In Motel At Night For Three Weeks**
- **Allegations of Understaffed Prisons and Sexual Assault Behind Bars Earn Wackenhut Notoriety in Texas**

Loss of State's Capacity to Perform Public Services

By handing over work to private entities, governments lose much of their capacity to perform work and serve the public. This happens in two ways. First, if there are problems with a contract, the government is reduced to the role of middleman, going to the vendor and hoping the vendor will fix the problem. Second, over time, the government can lose its expertise and experience for providing a service and become unable to pull the outsourced work back in-house quickly, even if it wants to. This means the public entity is left totally at the mercy of the private company to which it has outsourced a service.

Examples:

Connecticut Gives MAXIMUS a Raise After Being Dissatisfied

Connecticut-In 1997, due to inadequate contract provisions and an inability to provide obligatory child-care services on its own, Connecticut was forced to continue a child-care contract with MAXIMUS, Inc. and increase its fee payments. Within months of winning the payment processing contract MAXIMUS had shown impressive levels of ineptitude, making almost 10% of their payments in error and more than 10,000 out of 17,000 payments late, according to reports. Parents trying to contact the company encountered "telephone-system collapse," and daycare centers, whose bills were past due, worried about having to turn away children or let staff go. This dramatically low performance prompted Connecticut to threaten to fire MAXIMUS. But instead, in an incredible turn of events, the company was able to negotiate a 50% fee *increase* just *three months* after this threat. It turned out that MAXIMUS, not the state, held the power in threatening an end to the contract. By privatizing, Connecticut lost its capacity to provide the service itself, leaving the state totally vulnerable to the private company. A state auditors' review found that welfare officials had to agree to MAXIMUS' price demands because the company had threatened to pull out. The state did not have adequate provisions in its contract to prevent the company from walking away from the job and it had no back up plan to provide the child-care services it was obligated to offer. MAXIMUS' ability to obtain such a large increase is particularly troubling given that its initial bid claimed it could operate at half the cost of the only other bidder.[128]

ARAMARK Contract Renewed Despite Cost-Increase

Illinois- In 1999, the school board for the Pekin Elementary School District 108, Illinois narrowly approved a renewal of its food service contract with ARAMARK Corporation for another year despite one school board member feeling like they had been "taken advantage of." ARAMARK, the only company that submitted a bid, had charged the school district about $100,000, or 11%, more than the previous year. The director of finance and operations suggested at the decisive board meeting that there would not be sufficient time to find adequate alternatives if the bid was not accepted.[129]

Charter School Operator Goes Bankrupt Leaving Thousands of Kids Without a School
California- In 2004, one of the nation's largest charter school operators collapsed, leaving 6,000 California students with no school to attend. Founded by C. Steven Cox in 1999, The California Charter Academy - a chain of publicly-funded but privately run charter schools – disintegrated last year after the businessman ran into legal & financial trouble. All of this happened so suddenly that thousands of parents and hundreds of teachers were left scrambling to find new schools. Many were still looking into the school year. Cox used $100 million in state funding to amass an empire of 60 schools and then, with bankruptcy looming, simply abandoned his headquarters and refused to take phone calls. The districts that licensed Cox's schools were left to clean up the mess.[130]

Citigroup's Electronic Benefits Service Results in Poor Service, a Loss of State Control and No Savings
NY- In the late 1990's, New York and 28 other states hired Citigroup, the parent company of Citibank, to provide welfare benefits to about 12 million people via ATM cards. The system was supposed to help the poor participate in the mainstream economy, but, according to a *New York Times* exposè, the welfare recipients were charged fees other customers did not pay, and services were very limited. The firm cut off access for a time to the largest ATM networks in the Northeast. Welfare officials found themselves with little power to convince the company to mend its ways. "I really don't have any authority at all to direct them one way or another," a frustrated state official admitted. Federal welfare officials once projected administrative savings of $250 million a year from this project, plus savings expected from reducing fraud, but, at least in the first year, neither of these savings materialized.[131]

Connecticut, Dependent on EDS, Continues Their Contract Despite Dissatisfaction
Connecticut-In 1996, after 3 years & 2 contract extensions, EDS failed to deliver on a 1-year contract with the state of Connecticut to design and implement an Advanced Information Management (AIM) system for Medicaid claims processing. This contract was an add-on to a contract EDS already had with the state to process Medicaid claims. EDS failed to meet their December 1994 deadline for the AIM system as well as two contract extension deadlines of December 1995 and September 1996. The system was never completed.[132] Said one official during the course of these events: "EDS appears to believe that it is automatically entitled to however many extensions and however long it takes to make this project a reality, with no consequences…categorically [EDS has] a very dissatisfied customer in the State of Connecticut." After the company missed their second deadline, Connecticut Dept. of Social Services Commissioner Joyce A. Thomas, in a letter, explained why the state did not end their contract with EDS despite wanting to:

> "Serious consideration was given to termination of the project and the contract as well as the imposition of liquidated damages and penalties. [However,] Steering Committee members from both within the Department and outside the agencies felt the risk of litigation and a protracted dispute resolution processes (sic) posed a great liability for the Department. Additionally, the Department does not have the in-house capacity to rapidly absorb the critical and complex processing of Medicaid claims…"[133]

Finally, Thomas acknowledged that the State of Connecticut was at the mercy of EDS: "Without continuation of the AIM development effort it was felt that the current contractor would not continue in its fiscal agent capacity for the state of Connecticut thereby placing the clients, medical providers, the newly established managed care initiative as well as the traditional fee-for-service program administration at risk."[134]

See Also:

- **Convicted Sex-Offenders Escape From CCA Prison**

Impact on Workers

Privatization very often has a negative effect on workers and the local community by shifting resources away from the local economy and adding to the burden of already stretched government programs to assist low-wage employees meet their basic needs. When privatization saves money, it is usually because the private company cuts jobs and/or pays workers lower wages & benefits than the government was paying. This, in turn, reduces the local tax revenue and spending provided by these workers. Money that would otherwise go to support the local economy is spent paying the private contractor's executives and shareholders. Additionally, lower wages and less jobs means taxpayers may have to pay more in public assistance, as these workers will more likely qualify for aid. Thus, cost savings through privatization may not be savings at all, but only a relocation of government costs. Finally, beneficial public sector affirmative action programs are not mirrored in the private sector, leading privatization to decrease opportunities for women and minorities and increase the potential for discriminatory hiring/promotional practices.

Examples:

2,700 Employees Sue Prison Contractor for Overtime/Off-the Clock Pay
California- In 2004, after a three-year overtime wage and benefit court battle with 2,700 present and former employees, Wackenhut Corrections Corporation (now the GEO Group, Inc.) reportedly agreed to pay $10.1 million in a settlement. The workers, both guards and support personnel, claimed the company did not pay overtime and made them work off the clock without pay. They also claimed they were not given proper rest and meal breaks. The employees worked at six private prisons in California including McFarland Community Correctional Facility (a prison that is under scrutiny for the circumstances surrounding its recent reopening) and the Taft Correctional Institution in Kern County.[135]

Separately, one month earlier, a federal jury awarded a former Wackenhut employee more than $600,000 after he sued the private prison contractor for wrongful termination. John Elliot, a former warden at the Taft Correctional Institution, claimed that the company retaliated against him after he wrote to government officials alleging that Wackenhut covered up a prisoner escape; allowed sexual and physical assaults and drug use by prisoners; allowed prisoners to possess weapons; mishandled incident reports; and was not complying with its contract with the Federal Bureau of Prisons. Elliot was initially suspended without pay and then dismissed. The jury ruled that Elliot's complaints were protected under federal laws governing "whistleblowers" that call attention to unsafe or illegal business practices.[136]

Sodexho Facing Racial Discrimination Lawsuit
Washington D.C.- Sodexho, Inc. a food service contractor, is facing potentially the largest racial discrimination lawsuit ever brought involving managerial promotions against a private employer. It started in 2001, when Cynthia McReynolds, an African-American manager at Sodexho, filed a lawsuit, on behalf of her black managerial colleagues, claiming that Sodexho illegally and systematically passes over black managers for promotion in favor of white employees with less seniority and experience. The lawsuit is now being moved forward by a total of 2,600 current and former Sodexho managers. The allegations have stood up to intense scrutiny by a federal judge, who gave the lawsuit class action status in June 2002. In certifying the lawsuit's class status, U.S.

District Judge Ellen Segal Huvelle, in Washington D.C., determined that the plaintiffs had made a "significant showing" of a "common policy of discrimination" against African-American managers at Sodexho.[137] The trial is set to begin in the spring of 2005.

Equal Employment Opportunity Commission Determines MAXIMUS Discriminated Against Female Workers

Wisconsin- In August 2000, the Federal Equal Employment Opportunity Commission (EEOC) determined that MAXIMUS and one of its subsidiaries, MaxStaff, had discriminated against women by paying them less than men for the same jobs. Fifteen former Wisconsin Works (welfare program) project staff had accused MAXIMUS of employment discrimination based on ethnicity, gender, and age in complaints.[138]

Linda Garcia an organizer with the national nonprofit grassroots organization 9to5, observed the activities of MAXIMUS first-hand from the front lines in Milwaukee. According to Garcia, at MaxStaff, discriminatory practices might have been used for clients as well as staff. The company seemed to be "funneling women to low-paying jobs in order to quickly receive the bonus staff gets for placements."[139]

Privatization Disproportionately Hurts Women and Minority Workers

A 2002 report done by Annette Bernhardt and Laura Dresser of the Institute for Women's Policy Research found that privatizing government services has a disproportionately negative impact on women workers, especially those who are most vulnerable. The study indicated that women (especially minorities and women without a college education) depend more on the public sector for jobs that pay decent wages and offer benefits than the general public. Thus, contracting-out government jobs to the private sector hurts these people the most.[140]

School Food Service Company Loses Contract, Cuts Employee Benefits

Bergen County, NJ- In 2002, a New Jersey school board ended its working relationship with food service contractor Chartwells Educational Food Service Inc. because of the company's poor employee treatment. Employees complained that their paychecks often fell short or were lost by the company, and the company would take months to correct the mistake. Over holiday breaks, employees had to submit self-addressed envelopes to Chartwells to receive their paycheck. When employees requested kitchen supplies -- such as bleach, oven trays, and potholders -- they often did not receive them. "They were a nasty, rotten company," said the president of the Wayne Cafeteria Association, "I think they took advantage of these women because most of them are foreign and don't speak English well."

After the school board declined to renew its three-year contract with Chartwells, the food service employer terminated the cafeteria workers' health benefits. Based on a contract with the Wayne Cafeteria Association -- one that is separate from the contract with the school board -- the food service company is under obligation to provide its employees with health coverage through Aug. 31, 2002. However, employees received notification from Aetna, their health insurance provider, that benefits had been terminated June 21, 2002 and anyone who required continued coverage should file COBRA paperwork.[141]

The Lack of Training, Low Wages, and Poor Benefits in For-Profit Prisons are Dangerous

New Mexico- A 500-page legislative report written by five independent consultants found that the low wages Wackenhut, a private prison contractor, pays its workers were partially responsible for a prison riot. About 400 inmates at a Wackenhut facility participated in the August 1999 riot, leaving 13 Corrections Officers (COs) injured and one inmate and one guard dead. Two of the injured COs were state officers who were at the prison to provide training. The consultants blamed the state for placing violent gang criminals in the company's medium-security prison, but they also denounced Wackenhut for inadequate staffing, inexperienced supervisors, low pay, high turnover, and heavy overtime. The CO who was killed was making only $7.98 an hour. Low wages and benefits paid by for-profit corrections firms can attract workers who would not be qualified to work in a public correctional setting. To compound the problems in New Mexico, published reports also reveal that Cornell Corrections, another private contractor, knowingly hired convicted felons to work as guards inside Santa Fe County's juvenile jail.[142]

Waste Management, Inc. Fined $756,000 in Discrimination Suit
In May 1999, Waste Management, a private government contractor, agreed to a settlement of $756,000 with 15 female and minority workers who were turned down for truck driving jobs in Illinois and Indiana. The charges followed a routine review of Waste Management hiring practices by the U.S. Department of Labor. According to the review, these applicants were denied jobs despite having qualifications that were equal to or better than the workers who were hired.[143]

Diminished Wages/Benefits Lead Mayor to Pull Support for Privatization Initiative
Ohio- In February 2004, Cincinnati Mayor Charlie Luken abandoned the city's two-year experiment in "managed competition," declaring that he would not support further privatizing city services. Luken delivered the policy change in his State of the City Address, stating he could not in good conscience cut city jobs and replace them with lower-paying jobs with fewer benefits. In reversing his managed competition initiative, Luken said, "I am now convinced that the savings from managed competition will come primarily from that wage and benefit reduction — and that change will not serve the working families of Cincinnati."[144]

Privatization Leads to Lower Wages & Benefits
In a presentation at the Economic Policy Institute's Conference on Public Sector Efficiency in 2003, Robert Hebdon discussed three separate studies showing the decline in workers' wages and benefits that result from the contracting-out of government services. A GAO (1985) Department of Defense study of employees laid off as a result of privatization showed that 53% of the workers that took jobs with contractors had lower wages, 21% had higher wages, and 25% had roughly the same wages. This same study found that 56% of the workers who were laid-off in this privatization transition had collected some form of public assistance (defined as unemployment compensation, Food Stamps, Aid to Families with Dependent Children, and Supplemental Security Income). In other words this privatization project cost the government money in the form of higher public assistance costs. Though laid-off workers did not constitute a large percentage of the sample size, the point is nonetheless illustrative.

A 1986 study conducted by Peterson, Davis, and Walker found that wages were lower in cases of contracting out at the local level as well. Finally, Hebdon's own study of privatization in New York found not only that the transfer of public employees to a private contractor meant lower wages and benefits in a majority of cases, but that just 23% of the former public workers even found jobs with the private firm. An even smaller number, 3.7%, obtained another job in the local town or county government.[145]

Reason Foundation Says: No Restrictions on Wages & Benefits for Government Contractors
In a paper offering political and organizational strategies for privatization, the Reason Foundation uses the aforementioned 1985 GAO study (see above) and other reports, to argue that privatization need not be a hardship for public workers. Reason measures the affect on public workers as a

function *only* of the number of layoffs. They cite several studies where only a small percentage of workers were actually laid off (i.e. workers took jobs with the new contractor or different government jobs), but do not account for the employee hardship that can result from a decrease in wages and benefits. In fact, the adamantly pro-privatization organization supports the role private companies' lower wage offerings play in the cost-effectiveness of privatization. Says Reason: "Public officials should avoid restrictions that mandate wage or benefit levels for contractors. Requiring private providers to match public sector wages and benefits in perpetuity can reduce the potential cost savings from privatization. Contractors should be allowed maximum flexibility to perform the given function in the most cost-effective fashion possible."[146]

See Also (on website):

- **Analysis of the Public Costs of School Bus Driver Privatization** (pdf file)

THE DIRTY DOZEN

A compilation of 12 of the worst privatization nightmares taken from the section above.

Poor Contract Monitoring Costs Texas Taxpayers, Children $20 Million

Texas- In 2004, the State Auditor's Office in Texas examined Texas's Children's Health Insurance Program (CHIP), a substantial part of which had been outsourced to Clarendon National Insurance Co. In a blistering report, the state auditor criticized the Health and Human Services Commissioner for allowing Clarendon, the only firm that entered a bid, to over-charge the taxpayers of Texas approximately $20 million. The Auditor observed that Clarendon made excessive payments to its own program management company to the tune of $5.5 million. He became suspicious about this program management subcontractor when he discovered it had no employees. Subsequent investigation showed that $3.6 million of Texas tax dollars was paid to four individuals; $1.7 million to the two owners of the firm, $1.1 million to a consultant-a former state manager, and $800,000 to a lobbyist. When the Auditor asked what did these consultants do for so much money, he was told that the consultants "were generally not asked to produce work products." The 72-page audit report came as nearly 150,000 children had lost CHIP coverage to budget cuts.[147]

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Georgia Parole Board Member Paid $75,000, Influences Legislation

Georgia- In 2003, former Georgia state parole board member Bobby Whitworth was convicted of accepting a $75,000 payoff from Detention Management Services (DMS) in 2000 to initiate and ensure the adoption of legislation that could financially benefit the private probation company. The legislation in question, having passed, removes misdemeanor offenders from overrun state prison and probation systems and returns them to individual counties. Since many counties contract with private companies to supervise their probationers, the bill was considered a financial windfall for probation companies like DMS. Whitworth, a former state corrections commissioner, was sentenced in early 2004 to serve six months in jail and to pay a $50,000 fine.[151]

ARAMARK Employee Charged With Indecent Exposure at Elementary School
Wisconsin- Citing "ongoing performance issues," the Appleton Board of Education on Monday cancelled its custodial cleaning services contract with ARAMARK Facilities. The cancellation comes on the heels of an incident in which an ARAMARK employee was charged with indecent exposure at an elementary school. ARAMARK initially said the employee had no criminal record, but a further check showed he had an extensive criminal history. Although the worker was fired, the school superintendent declared ARAMARK's oversight "too big of a mistake."[152]

Lockheed Martin & MAXIMUS, Hired To Collect Child Support, Make Their Money Closing Cases
Florida- In a 1998 outsourcing effort that was projected to collect $104 million in child support, MAXIMUS and Lockheed Martin were able to collect only $207,000. The companies were hired to streamline records and collect child support from "deadbeat" parents. But, virtually all of the $4.5 million paid to MAXIMUS and Lockheed came not from collections, but from fees paid for each case the firms closed. A *Tallahassee Democrat* investigation found that many closures required little effort on the firms' part or duplicated existing state processes. The firms' lowest case closure fee was double what the state Department of Revenue estimated to be its costs. The companies argued that they needed closure fees to cover start-up costs, an investment they promised would lead to support collections. As it turned out, the investment did not pay off at all, as the firms collected just 0.2% of what was projected.[153]

Could Your Medical Records Be For Sale?
San Francisco- In 2003, a private subcontractor in Pakistan doing clerical work for UCSF Medical Center threatened to post patients' confidential files on the Internet unless she was paid more money. To show she was serious the contracted worker followed her email threat with actual patients' records. The work went through a chain of three different subcontractors. UCSF and its original contractor, Sausalito's Transcription Stat, say they had no knowledge that the work eventually would find its way abroad. [154]

Laidlaw Reportedly Leaves Special Education Students Stranded
Washington D.C.'s school system contracted in 1999 with Laidlaw to transport special education students to class. According to Alfred Winder, the school system's transportation director, bus drivers missed more than 1,000 routes in the first few months of the school year. Special master Elise T. Baach - appointed by a federal judge to help Washington D.C. resolve transportation and other special education problems – said that at least one of every 10 special education students in D.C. missed significant parts of their morning classes during the first two of those months. Though the schools' transportation problems existed before Laidlaw, Baach's analysis showed a decline in on-time bus service after Laidlaw's take over.[155]

In a closely related story, documents subpoenaed by D.C. Council member Kevin Chavous, showed that at least 40 of the roughly 200 bus drivers hired by Laidlaw for their D.C. special education contract had been charged with serious criminal offenses. They were put on the job, however, before Laidlaw had determined the dispensation of their cases. In at least four cases, the drivers had been convicted of crimes. One driver was convicted of possession of crack, marijuana and a bomb. Another worked for the company at least two months despite having four convictions in 1993 and 1994 for traffic offenses, and despite having been involved in two 1998 bus accidents where at least 13 children were injured. Chavous found blame with both Laidlaw and the school system, claiming the latter failed to properly monitor the bus contractor.[156]

Texas Prison Director Accepts Bribe for Million Dollar Contract
Texas- In 1995, Texas Prison Director, James "Andy" Collins helped VitaPro, a Canadian food supplier, win a 5-year, $33 million contract with Texas prisons in exchange for at least $20,000 in kickbacks. In 2001, Collins and VitaPro's president were convicted by a federal grand jury on charges of bribery, conspiracy, and money laundering.[157] This and other scandals left Governor George W. Bush sounding like a union leader in 1997: "The taxpayers' business and private business should not be mixed…The job of the criminal justice system is to lock people up and provide efficient jail service, not try to become some entrepreneurial agency."[158]

Contractor Leaves Foster Children Unattended In Motel At Night For Three Weeks
Florida- For three weeks in 2002, Maxim Healthcare Services left six foster children, teenage girls younger than 16, unattended at a motel where they partied with adult male guests. The girls were supposed to be supervised by the private firm, which has a contract with the Department of Child and Family Services. However, Maxim's supervision apparently stopped at the end of the workday. Somehow the state and the private contractor failed to realize that no one was supervising the girls at night.[159]

Convicted Sex-Offenders Escape From CCA Prison
Texas- In August of 1996, two convicted sex offenders escaped in Houston from a privately operated minimum-security detention center for illegal immigrants awaiting deportation. The escapees were part of a group of 240 sex offenders shipped in from Oregon. Learning of the escape, local authorities were shocked, since the company, Corrections Corporation of America (CCA), had not informed them that they were housing violent out-of-state criminals in the minimum-security detention center. CCA contended that as private proprietors of the facility, they had no legal obligation to tell Texas officials about the Oregon prisoners.[160] This was the fourth escape since CCA opened the facility and part of a disturbing, quite specific, pattern. During 1996, Texas experienced five separate incidents of escapes and/or riots where state and local law enforcement were called in to capture escapees or suppress disturbances caused by out-of-state inmates at private correctional facilities.[161]

Sodexho Heat And Serve Food Reportedly Poisons 1,200 Students
Chicago- In 1998, a subsidiary of Sodexho, Inc., the second biggest private contractor running school cafeterias in the U.S., allegedly poisoned over 1,200 students in seven states. RHSCO Enterprises Inc., a heat and serve company, was shipping 80,000 frozen burritos a day during this time to schools and other institutions across the country. Elementary school students from North Dakota, Florida, and Georgia all ate RHSCO burritos, packed in the same plant on Chicago's South Side, before they fell seriously ill. 36 of the 469 sickened North Dakotan students had to be sent to the emergency room.

Such widespread poisoning is made possible by private contractors who put frozen school entrees on menus in several cities at once, giving national reach to plants that produce unsafe meals, and by distributors who draw frozen entrees from scantly inspected subcontractors. In the case of the Sodexho/RHSCO food poisoning, tortillas produced in a plant owned by Oscar Munoz were, eventually, linked to the outbreaks. The specific Munoz plant said responsible, on 43rd street, was not inspected during the period of reported problems. However, to give an idea of what this plant might have looked like, a 1999 state inspection described a separate similar Munoz facility as follows: 'Flies were everywhere. Corn spilled from broken bags onto the wet, broken floor. Toxic chemicals, sacks of cement and cans of paint sat nearby. Bakery equipment had been patched with cardboard, string and tape. The ceiling peeled, the basement reeked of mold and the electrical cords hanging over the corn-grinding kettle were covered with dust.' The startling thing is that even if Munoz's 43rd street plant had received a similar or worse inspection report a year earlier, it likely would not have made a difference. According to David Jackson of the Chicago Tribune, neither Sodexho Alliance nor Compass Group PLC, the largest private school food contractor in the country, read the inspection reports of government food safety agencies that monitor their suppliers, and nothing in their contracts says they should.[162]

INDIVIDUALS, ORGANIZATIONS, BUSINESSES

This section profiles the key individuals and organizations who have influenced and/or are currently influencing the California government reorganization process. Also profiled are some of the privatizing companies who would potentially benefit from increased government outsourcing as recommended by the California Performance Review.

Individuals

The following individuals either played a significant role in the drafting of the CPR or will be integral to moving forward any Schwarzenegger reorganization plan:

Carl DeMaio

Role in CPR: Carl DeMaio served as an advisor to the California Performance Review during the six months of its drafting. He was previously an advisor on Arnold Schwarzenegger's transition budget team.

Bio: DeMaio, 29, is a Senior Fellow at the Reason Foundation and Founder of The Performance Institute, two organizations that advocate contracting-out of government services to private industry in the name of improved efficiency. DeMaio's Performance Institute is a for-profit organization that stands to gain financially from the policy changes he is advocating in the CPR and elsewhere. DeMaio created The Performance Institute four years ago as a for-profit company/think-tank that lobbies politicians for the reforms it proposes.[163] To make a profit, the Institute offers training courses and consulting services to government agencies and individuals, instructing them how to manage public-private competitions, how to write performance-based contracts, and how to manage & implement privatization.[164] At the same time, the Institute advocates for increased use of all of these practices in government.

Publications: Recently, DeMaio led the research team that produced the 'Citizens' Budget Plan' for the State of California, a report that, according to The Performance Institute, became the impetus for the CPR.[165] This report proposes to eliminate the state's $38.2 billion deficit largely through contracting-out and using attrition to cut state personnel. According to the Budget Plan: "A review of state agencies reveals that state employees are routinely performing activities that could be best contracted out for a lower price."[166] This document is cited several times in the CPR. At Reason DeMaio's work has included authoring the "Transitioning to Governance Report" for President Bush. This document generated many of the ideas for the President's Management Agenda, an agenda that included the goal of having more than 400,000 federal jobs opened up to competition from private contractors.[167]

The San Diego Citizens' Budget Project: DeMaio released a mistake-laden budget plan for the city of San Diego in early 2004 that initially received mixed reviews from City Hall and support from two conservative organizations, The San Diego County Taxpayers Association and the San Diego Regional Chamber of Commerce. Since then, *all* support for the plan has evaporated (with the exception of The Reason Foundation), due to the discovery of inaccuracies in DeMaio's research. DeMaio's budget comparisons were based upon, inaccurate budget totals for the Atlanta Mayor's Office and the Baltimore City Attorney's Office and wrong information about the San Diego firefighters' contract.

His plan also included a falsified list of participants from a Budget Project forum.[168] Said San Diego mayor Dick Murphy, who welcomed the project as 'worthy' in February: "I'm not going to endorse an organization that is going to misrepresent the facts because then it looks like I am going to support that misrepresentation."[169]

What DeMaio Says: Despite a background that implies the opposite, DeMaio argues adamantly that he and his Performance Institute are not ideologically slanted in favor of privatization. He even goes so far as to say that they don't use the terms 'privatization' and 'outsourcing,' because "we don't believe in them."[170] Rather, claims DeMaio, the Performance Institute is focused on "government performance." DeMaio's plan for achieving better government performance is having public agencies compete with private industry for the right to deliver services. So, while increased privatization is a direct byproduct of his approach, and while his company offers government agencies management consulting for implementing privatization, DeMaio would not admit that he has any preference for the practice. When pushed DeMaio likes to make the point that the majority of privatized government services go to non-profits and not for-profit corporations.[171]

Quotations:

"We believe that the [California] state government is so out of control so bloated that it's on its deathbed."[172]

"Public sector unions are there because they recognize that every single state worker paying dues into their union is a membership, is a unit of revenue for them. So they see this [CPR] as a money issue."[173]

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Billy Hamilton

Role in CPR: Co-Executive Director. During the CPR process, Hamilton split time between California and his job in Texas. California paid for his traveling expenses and reimbursed Texas the portion of his $190,000 per year salary for the time he missed.[174]

Bio: Hamilton, for 13 years the Deputy Comptroller for the state of Texas, is thought of as a performance review expert, having overseen seven state government reviews in Texas as well as reviews in Oklahoma, North Carolina and Louisiana. He also served as a Deputy Director of Bill Clinton's National Performance Review in 1993.[175] Prior to joining the Texas Comptroller's office in 1991, Mr. Hamilton was the Director of State and Local Services for KPMG Peat Marwick, Policy Economics Group in Washington, D.C.[176] KPMG is a government contractor offering audit, tax and systems integration services. While, Hamilton is not aggressively pro-privatization, given that his former company depended on privatization contracts, one can assume that he is far from opposed to the practice.

National Performance Review: Hamilton's role in the National Performance Review was to lead the portion of the review that focused on cuts in individual agencies to show the public that Clinton was serious about controlling the size of government.[177] Recommendations made by Hamilton and others led to Clinton signing directives in late 1993 to eliminate 252,000 federal jobs.[178]

Connection to the Reason Foundation: Though Hamilton does not overtly carry a pro-privatization ideology, he does have ties to the pro-privatization think-tank, the Reason Public Policy Institute, an organization that had significant influence on the CPR. Hamilton's link to the LA-based group comes through William D. Eggers, a free-market ideologue and the Institute's former Director of Government Reform. After his time with Reason, Eggers came to Texas to work on the state's performance reviews in 1999 and 2000. Hamilton and Eggers worked closely together during these reviews, both were part of the Executive Administration of 1999's Texas performance review, with Eggers moving into the role of Project Director for the 2000 review.[179] Eggers has written numerous articles and papers for the Reason Public Policy Institute including a 'how-to' guide on state-level privatization. According to him, "the debate of private versus public sector delivery is no longer relevant" because "the potential for privatization will outpace most bureaucratic productivity improvements."[180] That Eggers had influence on the CPR is obvious. At least 5 separate Eggers' publications are cited in the document, and many more references are made to his former organization.

Texas Performance Reviews: The seven Texas performance reviews that Billy Hamilton has been a part of all were given the objective of identifying programs and services that could be transferred to the private sector. Specifically, for the 2000 review, Comptroller Carole Keeton Rylander set the goal of institutionalizing her 'Yellow Pages Test' across state government. Says Rylander: "Government should do no job if there is a business in the Yellow Pages that can do that job better and at a lower cost."[181]

According to Hamilton, the Texas performance reviews have helped save the state about $12 billion. Much of the credited savings have come through privatization initiatives including contracting out EBT services and Medicaid inpatient services (prescription drugs, lab work, nursing homes), and creating a Council on Competitive Government (CCG) to focus on outsourcing and public/private partnerships.[182]

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Chon Gutierrez

Role in CPR: Co-Executive Director. Gutierrez likely had less influence on the CPR process than his fellow co-Executive Director Billy Hamilton. Gutierrez admitted he looked to Hamilton frequently for direction on the project, describing him as a "Yoda-type character."[183]

Bio: Gutierrez, appointed interim director of the CA Lottery in December 2004, has worked for the state of California since 1973. Prior to his work on the CPR, Gutierrez served as interim DMV director. Other past roles include chief assistant to the secretary of state, CFO of the Department of Business, Transportation, and Housing, and various roles at the California State Lottery, the Youth & Adult Correctional Agency, and the Department of Finance.

Interim DMV Director: Gutierrez, a Democrat, has shown himself to be loyal to Arnold Schwarzenegger in the past, even when the governor's agenda has lacked good planning. Case in point: Last year, following the abrupt firing of former director Steven Gourley, Gutierrez was appointed interim DMV director. Gourley was fired after he and his Department informed Schwarzenegger that it could take 30 days or more for the governor's car tax repeal to take effect, due to computer reprogramming.[184] Looking for someone who would make immediate implementation of the tax cut a number one priority, Schwarzenegger appointed Gutierrez, who promptly implemented the change. But within a week of this action, the DMV's computers became overwhelmed and had to be shut down, causing a delay in registration sticker renewals. The Department ended up having to ask the Highway Patrol not to cite anyone with a sticker that had recently expired.[185]

What Gutierrez Says: On numerous occasions, Gutierrez has said that the goal of CPR was not to reduce the number of public employees, but to deliver government services more efficiently.[186] However, he clearly believes that the current state workforce is full of positions that are inefficient and unproductive. Says Gutierrez: "At least 20 percent of all the employees in every department are dedicated to preserving that department. So maybe the true core functions of the organizations are self-preservation."[187]

Though the CPR consistently makes the case for improving efficiency through trimming the workforce and contracting-out, Gutierrez admits that the Review *didn't even consider* efficiencies gained through *expanding* the state workforce and eliminating costly private contracts: "We had no policy discussions on the notion of trying to determine the incremental cost of contracting out versus having a State employee do [the work]."[188] In fact, CPR's Co-Executive Director is so unfamiliar with the concept of bringing services back in-house to improve efficiency, that when asked why the CPR report did not include any discussion of insourcing, Gutierrez responded with a question: "Help me with what insourcing is?"[189]

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Donna Arduin

Role in CPR: California Director of Finance during the CPR drafting

Bio: In late 2003, Donna Arduin was brought to California by Arnold Schwarzenegger to 'cut the fat' out of state government. In less than 1 year's time she resigned from her post as Director of Finance. Before coming to California, Arduin's resume consisted of 11 years of slashing government jobs and programs and cutting taxes for Republican governors.[190] In her two years as chief deputy budget director in Michigan, Arduin cut down the state workforce and eliminated "a ton of programs," including welfare for 83,000 adults in 1992, so that the state could trim the deficit *and* cut taxes. As deputy budget director in New York, Arduin helped Republican Gov. George Pataki institute billions of dollars in tax cuts and reduce the state's payroll by about 7%.[191] Arduin did the most damage in Florida, cutting down numerous government programs while privatizing others. For example, over the summer of 2003, Florida froze enrollment in its health insurance program for low-income children. At the time Arduin was leaving for California, the waiting list had grown to 60,000 children with 3,000 more being added weekly. The state eliminated Medicaid payments for dental work for 26,000 adults as well as payments for eyeglasses and hearing aids. Adults at the federal poverty level had been long ago cut from the program, but now it's restricted to those whose earnings fall 12% or more below that level.[192]

In Florida, Arduin's strategy caught criticism from both Democrats and Republicans. Said State Rep. Doug Wiles, a Democrat: "Donna Arduin and the Republican governor she represents have cut the budget to the bone, if not into it. Services are being starved."[193] After her budget passed in 2003, incoming Senate President, and Republican, Tom Lee attacked Arduin's lack of long-term planning, saying "there isn't a human being in this Capitol, not one, who can show you a financial plan for how we're going to build our budget next year. I have voted for my last budget in the state of Florida that's put together with Band-Aids and paper clips." The Band-Aids in the $52-billion budget Lee was talking about included the use of $1.3 billion available to Florida only that budget year to pay for ongoing annual expenses such as education. That means the next year's budget starts with a shortfall.[194]

Arduin is a strong advocate for privatizing government and performance-based budgeting, two big themes of the California Performance Review. Libertarian leaning think tanks applaud Florida's strides in privatization that were achieved with Arduin's help. Child welfare services, prison services, and personnel services all saw significant contracting-out on Arduin's watch. Thanks to the state's aggressive privatization program, Florida now ranks 47th in public employees per capita (California ranks 44th).[195] In regard to performance budgeting, Arduin implemented a process in Florida for state agencies to forecast the annual cost of, and need for, each service offered. The process required agencies to develop performance measures for each action and relate the targeted goals to their budgeted dollars. Arduin's critics claim she merely played a paper game, while conservatives at the CATO Institute gave the fiscal policy of Gov. Bush an 'A' rating after receiving Arduin's assistance.[196]

Business Connections: In January 2005, Governor Schwarzenegger handed out a no-bid prison contract worth \$3.5 million to the GEO Group to reopen McFarland Community Correctional Facility. Correctional Properties Trust, the company that owns the McFarland prison and leases it to GEO, appointed Schwarzenegger's former finance director, Donna Arduin, to its Board of Directors 10 days after she left the state payroll. [197]

Arduin dismissed suggestions that serving on Correctional Properties' Board presented a conflict of interest, saying: "Every person that knows anything about law, ethics or otherwise, would tell you the answer is no." She noted that the state's contract was with GEO, not Correctional Properties.[198] However, GEO & Correctional Properties Trust, though separate companies, have ties that run very deep. GEO created Correctional Properties in 1998 as a real estate investment trust and immediately sold them 8 of their correctional facilities, which the company then leased back to GEO.[199] As of early 2004, 11 of Correctional Properties' 14 facilities were leased to GEO, representing 72% of the company's rental income.[200] Until recently, the two companies shared some board members (one example: current GEO Group Chairman & CEO George Zoley was Chairman for Correctional Properties until May 2002).[201]

In response to the GEO contract award, State Senator Gloria Romero, who chairs two committees that oversee prisons, seemed unconvinced of the two companies' independence from each other, remarking: "This is absolutely amazing; talk about revolving doors." Romero pointed out that The Department of Finance, Arduin's former department, "had to be in the midst" of any negotiations on the prison contract.[202]

An additional Donna Arduin connection to the GEO Group comes through David L. Ericks, GEO's Florida lobbyist, who according to the *LA Times*, is close to Arduin. Ericks made the trip out to Sacramento in 2003 for Governor Schwarzenegger's swearing in. When questions of the Arduin-Ericks connection were raised back in 2003, Schwarzenegger spokesman H.D. Palmer denied the lobbyist's impact on California decision-making, saying that Ericks was not a registered lobbyist in the state of California.[203]

Arduin, Laffer & Moore Econometrics: Arduin is currently forming a national economics consulting firm with two high-powered conservative economists: Art Laffer and Stephen Moore. Laffer is one of the fathers of supply side economics and is best known for his "Laffer Curve" showing how lower tax rates can produce higher revenue. Moore is the former director of fiscal policy studies for the libertarian, aggressively pro-privatization CATO institute. Both men have ties to Arnold Schwarzenegger. Laffer now serves on Schwarzenegger's Council of Economic Advisers & Moore served on the governor's transition team.[204]

The firm, called Arduin, Laffer & Moore Econometrics, will provide budget, tax and economic advice to state governments, businesses and trade associations. Arduin said she's already in talks with several governors' offices, although not in California.[205]

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Tom Campbell

Role in Current CA Politics: Schwarzenegger's Finance Director, appointed in November 2004.

Bio: Tom Campbell, an economist and lawyer, is currently on a leave of absence from his position as Dean of the University of California, Berkeley Haas School of Business so he can serve as full-time Finance Director. Campbell was a member of the California State Senate from 1993 to 1995 and a United States Congressman representing Silicon Valley from 1989 to 1993 and again from 1995 to 2001. Since 2003, Campbell has served as the chair of the World Affairs Council of Northern California. He holds a Ph.D. in economics from the University of Chicago where his mentor was free market economist Milton Freidman.[206]

Libertarian?: Considered by many to be a "moderate" Republican based on his views about drugs, guns, and abortion, fiscally-speaking Tom Campbell has all the look of a libertarian. Over the years Campbell has been a strong advocate for low taxes, small government, and the free-market. Out of all members of the House of Representatives, Campbell was voted "least willing to spend taxpayers' money" three separate times by the National Taxpayers Union (NTU).[207] According to the NTU, as a Congressman in 1999-2000 he sponsored bills that would have resulted in $49 million in Federal cuts.[208] Campbell ranked 1st on the CATO Institute's (libertarian group's) 1998 list of the most pro-free-trade members of Congress.[209] According to Jon Coupal, executive director of the Howard Jarvis Taxpayers Association, the current Finance Director is a "chip off the old Milton Friedman block." Coupal said Campbell is "very strong on our issues."[210] Says the Orange County Register: "In Congress [Campbell] was as consistent as one can get on limiting taxes and cutting the budget."[211] Additionally, Campbell strongly supported privatization guru and former Reason Public Policy Institute director of government reform, William Eggers in his 1998 State Assembly race.

Given his history of free-market faith, it seems likely that Campbell will endorse, if not push for, privatization ideas coming from of the CPR and elsewhere. George Passantino, director of government affairs at the Reason Foundation and a director of the California Performance Review said of Campbell's views on the CPR: "I have a strong expectation that Tom will embrace those ideas. He has been around for years. He has seen the failure of business as usual."[212]

Voting Record: A "near-libertarian voting record"[213] is reflected in Campbell's support for school vouchers, tax cuts, and rent decontrol in East Palo Alto despite the citizen's of that city preferring regulation.[214] The former Congressman proposed abolishing the income tax and replacing it with a national sales tax in his 2000 Senatorial campaign.[215]

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Organizations

The following two organizations are included due to the large amount of input they had into the California Performance Review:

The Reason Foundation

Overview: Formed in 1978, the Los Angeles-based Reason Foundation is part think tank-the Reason Public Policy Institute-and part political and cultural commentary magazine-*Reason Magazine*. Their overarching mission is to limit the role of government in any way they can, or as Reason puts it: "to advance a free society by developing, applying, and promoting libertarian principles, including free markets, individual liberty, and the rule of law."[216]

As one of the most active proponents of privatization in the country, the Reason Foundation publishes annual as well as monthly reports on privatization and maintains an entire research center dedicated to studying/promoting the practice. The organization also spends a lot of time advocating for so-called "free-market environmentalism" (relying solely on the free market and private property rights – instead of environmental laws and regulations – to protect the environment). Funding for the foundation comes in large part from privatizing corporations and companies/people that stand to benefit financially from environmental deregulation. Among its most influential financial backers are David and Charles Koch, co-owners of the largest private energy company in the U.S., who have a great deal of self-interest in environmental deregulation. Reason's leadership is well connected politically to both Sacramento and Washington D.C.

Privatization Center: For the past 18 years Reason has published an Annual Privatization Report through its Privatization Center. These reports provide "a comprehensive overview of the year's most significant privatization developments." The Center also runs a monthly newsletter, *Privatization Watch* to report more regularly on these developments. Finally, Reason maintains a privatization website, www.privatization.org, with links, publications, and commentaries on the contracting-out of government services.

Funding: In the year 2000 (the foundation's most recent available financial report), Reason's $5.3 million in revenue came from the following sources:

- Individual Contributions –40%
- Corporate Contributions – 20%
- *Reason Magazine* – 20%
- Foundation Grants – 14%
- Publication Sales & Events – 6%[217]

Key individual contributors that year included David Koch and C. Boyden Gray who each donated $25,000 or more.[218] Both men serve on the current Reason Foundation Board of Trustees and both men are extremely well connected politically. Gray was White House legal counsel for George H.W. Bush, head of the anti-regulation Air Quality Standards Coalition, and ghostwrote anti-environmental bills for Senator Bob Dole.[219] Koch is intricately connected to a web of very influential libertarian think-tanks (as is Gray), many of which he founded.[220] ENRON, Exxon Mobil, and Dow Chemical were among Reason's corporate contributors as were the three largest private prison companies in the U.S. and four of the biggest water privatizing firms.[221] These companies are clearly self-interested in helping Reason continue to advocate for environmental deregulation and privatization. As for foundation grants, the bulk comes from foundations controlled by just two enormously wealthy families. Out of the $5.56 million in grants donated to the Reason Foundation between 1985 and 2003, more than $4 million came from six foundations, 3 controlled by the Scaife family and 3 by the Koch family (who are discussed below).[222] Richard Mellon Scaife, whose fortune comes from oil in part, is considered to be one of the "funding fathers" of the modern conservative movement. He has donated $620 million (adjusted for inflation) since 1973 to conservative & libertarian organizations.[223]

Koch Industries: David & Charles Koch, co-owners of energy giant Koch Industries and two of the 50 richest people in America,[224] have exerted huge amounts of political influence over the past 27 years through libertarian think-tanks they have founded, funded, and/or directed. The list of 'free-market' groups over which the Koch brothers have enormous sway includes the Cato Institute (founded by Charles Koch), Citizens for a Sound Economy (co-founded by David Koch), the Institute for Humane Studies and other Libertarian groups at George Mason University (received $23M in funding from the Kochs), and the Reason Foundation, among several others.[225]

The Koch family/Reason Foundation connection starts with a funding stream that includes five major channels. Three of these channels are Foundations controlled by the Kochs – The Charles Koch Foundation, The David Koch Foundation, and the Claude R. Lambe Foundation. Contributions from these three foundations account for roughly 40% of Reason's foundation grant dollars.[226] A fourth channel is the corporate contributions of Koch Industries and its subsidiaries. A fifth is David Koch's individual contributions, in the "$25,000 or more" category.[227] David Koch holds additional sway over Reason through his long-time seat on the organization's Board of Trustees.

The Koch brothers' enormous support for environmental deregulation focused groups like the Reason Foundation should come as no surprise given their shady past of environmental violations and lawsuits. Most notably, in 2000, Koch Industries paid the largest civil fine ever imposed under any federal environmental law to resolve claims related to more than 300 oil spills from its pipelines and oil facilities in six states. Just a year later, the U.S. Department of Justice charged the company with 97 counts of defying federal hazardous waste and clean air-acts when it knowingly emitted benzene fumes (the firm agreed to a $20 million settlement).[228]

Leadership/Political Connections: Lynn Scarlett, former President of the Reason Foundation and 15-year Director of the Reason Public Policy Institute, is the current Assistant Secretary for Policy, Management, and Budget at the Department of the Interior. She was also part of George W. Bush's environmental policy transition advisory team. In addition to her ties to the federal government, Scarlett has some political connections in California. She was appointed by Governor Pete Wilson to chair The California Interim Inspection & Maintenance Review Committee in 1994 and has more recently been part of a special consulting team to California's Department of Conservation.[229] Mary Gade, Environmental Policy Fellow with Reason Public Policy Institute, like Scarlett, was a member of the environmental policy transition advisory team for Presdient Bush, while Robert Poole, Reason Foundation's founder, served on Bush's transition advisory team for transportation.[230]

The Foundation has several connections to the current state government in California. Reason's Director of Government Affairs, George Passantino, who was once a legislative consultant to the CA State Legislature, recently served as a full-time Director of the California Performance Review

(CPR).[231] Reason Senior Fellow Carl DeMaio served as a budget advisor during Schwarzenegger's campaign, during the transition period following the campaign, and for the CPR.[232]

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The Performance Institute

Overview: Founded 4 years ago by the Reason Foundation's Carl DeMaio (profiled above), The Performance Institute is a private, for-profit, lobbyist think tank "seeking to improve government performance through the principles of performance, competition, accountability, and transparency."[233] The Institute argues that, 'competitive sourcing' and 'performance-based contracts' should be offered for most government services - including health and social services and all non-instructional education services – and public entities should be allowed to compete against each other as well as private entities for contracts.[234] In part, DeMaio's company makes its profit by offering training courses to government agencies/individuals on things like writing performance-based contracts and managing public-private competitions. Thus, the Institute stands to benefit financially from the government reforms it proposes. Today, The Performance Institute has roughly 50 employees and an $8.5 million dollar budget, split between two offices, in San Diego and D.C.[235]

Failures: In early 2004, the Institute put out The San Diego Citizens' Budget Project, a budget proposal for the city of San Diego that lost its endorsements because of misrepresented facts (see further discussion above).

Funding: DeMaio says that the Institute's budget grew from $7.5 million to $8.5 million from 2003 to 2004.[236] This money comes primarily from the conferences and seminars his think tank sponsors. To give an idea what some of these events are like: In February 2005, The Performance Institute will hold a seminar entitled "Performance-Based Contracting and Competitive Outsourcing in Florida State Government."[237] The event's targeted participants are government agencies wanting to comply with the standards of Florida's new Center for Efficient Government, a group created by the Governor to look for new privatization opportunities and judge existing outsourcing contracts. Thus, this seminar is made possible because, as expressed in the brochure, "Florida has begun a massive effort to promote the benefits of competitive outsourcing and performance-based service contracting."[238] If California were to begin such an effort - as suggested by the CPR[239] - The Performance Institute would have a reason to hold similar, lucrative seminars in California.

Leadership/Political Connections: DeMaio himself seems to be the most well connected of this group politically. He served as an advisor to the California Performance Review during the six months of its drafting and was previously an advisor on Arnold Schwarzenegger's transition budget team.

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Businesses

The following are company profiles of some of the privatizing firms with an interest in securing contracts in the areas targeted for contracting-out by the CPR:

Affiliated Computer Services, Inc. (ACS)

Overview: Affiliated Computer Services, Inc. (ACS) of Dallas, Texas provides business process and information technology (IT) outsourcing services for commercial clients and government agencies around the world. Since its 2001 acquisitions of SCT Corporation's government unit and IMS - a Lockheed Martin government outsourcing subsidiary - ACS has become one of the largest outsourcing contractors among state/local governments in the country.[240] Today, the publicly-traded company derives about half of its sales from contracts with various state and local government agencies (41% comes from commercial clients and the rest from the federal government). Much of its government work is done in the social services: ACS manages and operates 81 welfare-to-work contracts through 250 offices in 18 states and holds Medicaid-processing contracts with 14 states.[241] It also holds contracts to provide child support payment processing, electronic toll collection services, eligibility processing for state health programs, and IT operations management. Building on its strengths, the company has recently been devoting even more resources to its state/local government segment, while divesting most of its operations targeting the federal government.[242] For the last decade, ACS has maintained a high annual growth rate, with revenues having increased 345% since 1998. This growth may be due, in part, to ACS' use of cheap overseas labor. According to Goldman, Sachs & Co. analyst Gregory Gould, ACS has "the most advanced offshore capability" in their field and therefore has a price advantage over the competition.[243] ACS will be interested in any IT contracts that might come out of the CPR.

Offshoring: In 1997, ACS opened its first foreign facility, in Mexico. Today, it operates in at least eight countries, including Ghana, Barbados, and India. Overall, 28% of ACS's workers are based overseas -- a far higher percentage than most of its U.S. rivals.[244] Though the company supports client operations in nearly 100 countries, almost all of its sales come from customers based in the U.S.[245]

Contract Failures: ACS failed to deliver as promised on a $350 million Medicaid contract for the state of Georgia, was charged with over-billing Florida counties by over $1 million through sloppy bookkeeping, and was fired after overcharging Nebraska on an unclaimed property contract.

ACS Provides Georgia With A "Gross Failure to Meet Basic Expectations" in Medicaid Contract
Georgia- In 2003, two years after being hired to take over and expand the Georgia Medicaid program's electronic billing and payment system, Affiliated Computer Services (ACS) started up a system that immediately faltered, according to state officials. The system was prone to breakdowns and some doctors and hospitals didn't get paid. A May 19 letter to ACS from the Georgia Attorney General's office criticized the company for what it called "gross failures to meet basic expectations."[246] At one point, Georgia Medicaid ran out of money for two days, in part from making advance payments to providers to cover ACS system failures. Wade Miller, chief information officer over Georgia Medicaid's claims processing said Georgia wouldn't hire the company again. According to Miller: "They will try to get you to accept less than what you asked for or what they proposed."[247]

ACS Charged With Over-Billing Florida Counties By Over $1M
Florida- ACS ran into trouble with Florida welfare-to-work contracts two years after taking them over from Lockheed Martin. In January 2004, the Inspector General of Florida's Agency for Workforce Innovation issued a report charging that ACS made errors that resulted in over-billing county governments by more than $1 million. The report found ACS had manipulated data and kept sloppy records, inflating the number of people it helped find jobs and the amount of money employers paid employees hired. State and federal investigators continue to look into the case. ACS shares fell more than 7 percent after this story broke.[248]

ACS Overcharges Nebraska, Gets Fired

In 2004, Nebraska fired ACS after the company overcharged the state by over $300,000 on a contract for a computer system that helped return unclaimed property to rightful owners. The company was supposed to charge no more than $500,000 per year for the service, but neither the state nor ACS noticed when the charges went over that cap. Treasurer Ron Ross had to notify the company of the error, at which point ACS repaid the amount. The state is now re-evaluating how it handles unclaimed property work, according to Mr. Ross.[249] Though Ross doesn't believe the overcharge was deliberate, he warns: "If I were a state treasurer in another state, I'd want to make sure what happened to us isn't happening to them…And if I were ACS, I wouldn't want another state catching us goofing off."[250]

Service Areas: ACS' government outsourcing service offerings include administrative functions, finance and accounting, payment processing (including child support and Medicaid), unclaimed surplus property collection, healthcare eligibility processing, call centers, TANF services, and electronic benefit transfer. ACS also provides systems integration and technology outsourcing services, including data center operations, data security, e-business, help desk, network management, procurement, and technical support and training services.

CPR Sections of Interest: HHS01: ACS does - or has done - the eligibility processing for Texas and Colorado's State Children's Health Insurance Program (SCHIP). The firm likely will be interested in similar eligibility contracts for Medi-Cal, Food Stamps, and CalWorks should they become available. ACS could be interested in any IT privatization plans.

Revenue:

2004	2003	2002	2001	2000	1999	1998
$4.106 bil.	$3.787 bil.	$3.063 bil.	$2.063 bil.	$1.962 bil.	$1.642 bil.	$1.189 bil.

Employees:

2004	2003	2002	2001	2000
43,000	40,000	36,200	21,000	18,500

Of the 43,000 employees ACS maintains today, 31,000 are in the U.S. and 12,000 overseas. Just 200 of these 31,000 American employees are represented by unions, 1,800 of the international employees have union membership.[251]

Subsidiaries: ACS State and Local Solutions is the former Lockheed Martin subsidiary, IMS. ACS State Healthcare Solutions is another ACS subsidiary doing government contracting.

Leadership/Political Connections: Stephen Goldsmith, Senior Vice President for Strategic Initiatives and e-Government with ACS, is the ex-mayor of Indianapolis and was a top advisor in George W. Bush's 2000 campaign. Immediately following the election, Goldsmith was appointed by Congress' General Accounting Office to a panel studying government "outsourcing" and - almost simultaneously – was hired by ACS.[252] Goldsmith is quoted several times in the California Performance Review emphasizing the importance of opening the public sector up to competition and was invited to give a presentation to the review drafters in April 2004.[253]

Tony Davidson, recently appointed director of ACS's children and family services operations in California, worked with the Franchise Tax Board of California on various projects from 1986-1998. Davidson is currently based out of ACS's California headquarters in Sacramento.[254]

Campaign Contributions: According to the Austin American Statesman, over the course of the last legislative session in Texas, ACS donated $50,000 to Texas Governor Rick Perry's inauguration, $2,500 to the state's Comptroller, $18,850 to other state/local candidates, and $25,000 to the Texas' GOP.[255] ACS maintains a staff of 21 lobbyists in the state-at a cost of $910,000 per year. Among their lobbyists are a former state senator and a former aide to the Speaker of the House.[256] In California, ACS has been a consistent campaign contributor through its subsidiary, ACS State and Local Solutions. For the 2003/2004 session, ACS State and Local Solutions gave $50,000 to fight the recall of Governor Gray Davis, $25,000 to Arnold Schwarzenegger's California Recovery Team, over $60,000 to other state/local candidates, $21,000 to the California Democratic Party, and $10,000 to the California Republican Party.[257] Over the past four years this ACS subsidiary has spent an average of $165,000 per year lobbying the California State Legislature.[258]

Contracts in California: ACS currently has a $13.9 million IT outsourcing services contract with Solano County that includes operation of the county's data center, help desk support, applications support, and desktop support. The company maintains similar contracts with the county of Siskiyou and the cities of Mountain View, Riverside, Palmdale, and Orange. In June 2004, ACS signed a 3-year $2.1 million deal to provide student loan servicing and management to the University of California system. The firm also has a contract with LA County to process Child Support payments.[259] (These are just some of the contracts ACS holds in CA).

Other Contracts: ACS is one of the leading local/state government contractors in the country. Some of their state contracts include: Eligibility processing for Texas' SCHIP, developing Mississippi's Medicaid Management Information System (MMIS), a $109 million contract with the Illinois Department of Public Aid, a $234 million contract to operate child support collection and disbursement in Ohio, web-based projects for electronic benefits transfer for Arkansas, Iowa and Maine,[260] a contract to provide workforce development services in Florida, and a $100 million a year Medicaid processing deal with Texas.[261]

One giant federal government contract, to process and service student loans for the U.S. Department of Education, accounts for roughly 5% of ACS's yearly revenue.[262]

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ARAMARK Corporation

Overview: Philadelphia-based ARAMARK Corporation is the third-largest food service provider in the world (behind Compass Group and Sodexho Alliance). The publicly-traded firm provides food, building maintenance, and housekeeping services to prisons, businesses, health care institutions, colleges, and school districts. It also offers uniform and career apparel services. But, without question, ARAMARK's main line of business is food service. 375 universities & prep schools, 425 school districts, and 450 correctional facilities in the United States have their food served by ARAMARK. The firm has been growing steadily over the last few years through acquisition, including the purchase of ServiceMaster's management services division in 2001 for $800 million and a $100 million buyout of Fine Host Corporation in 2002.[263] Of all the CPR recommendations, ARAMARK will be most interested in a proposal to repeal SB 1419 – this repeal would open the door to potentially millions of dollars in school food service contracts for the company. Executive chairman Joseph Neubauer controls about 23% of ARAMARK Corporation.[264]

Contract Failures: ARAMARK hired a custodial worker with a criminal background who ended up being charged with indecent exposure at an elementary school; the company lasted less than three weeks in a food service contract before allegedly poisoning 45 elementary school students; overcharged, under-performed, and reportedly caused "a near riot" in an Ohio prison food contract, racked up over $100,000 in fines in the company's first year in a Florida contract; and wasted thousands of dollars of free government food.

ARAMARK Employee Charged With Indecent Exposure at Elementary School

Wisconsin- Citing "ongoing performance issues," the Appleton Board of Education on Monday cancelled its custodial cleaning services contract with ARAMARK Facilities. The cancellation comes on the heels of an incident in which an ARAMARK employee was charged with indecent exposure at an elementary school. ARAMARK initially said the employee had no criminal record, but a further check showed he had an extensive criminal history. Although the worker was fired, the school superintendent declared ARAMARK's oversight "too big of a mistake."[265]

ARAMARK Holds Contract Only 16 Days Before Allegedly Poisoning School Children

St. Louis, MO- In 2004, 45 students at a St. Louis elementary school experienced food poisoning after - health inspectors speculate - somewhere in transit between Ohio and St. Louis the food was taken out of cold storage.[266] The food was served by ARAMARK Corporation, the private company that less than three weeks earlier, was given a $23.5 million contract to take over food service for St. Louis Public Schools.

Just after eating their ARAMARK lunch, students began suffering from vomiting, nausea, and stomach pains. Twenty-nine of them were taken to the hospital by two specially commissioned Metro buses. Some were connected to oxygen tanks, and at least one boy was carried off on a stretcher with an intravenous tube in his arm. This comes after a separate incident, where a student at another city elementary school in St. Louis found a worm in an ARAMARK lunch.[267]

ARAMARK Performs Poorly in Ohio Prison Food Service Contract, Brings Bad Performance to Florida

Florida- In 2001, Florida awarded ARAMARK Corporation a $58 million contract to take over food operations in 126 of the state's 133 corrections facilities. The food service giant's first year reportedly saw maggot-infested kitchens, frequent cooking delays, poor food quality, small portions, and a chronic violation of a state rule requiring every inmate to receive the same meal. All told, ARAMARK racked up $110,000 in fines.[268]

The Corporation's first year problems *should* have come as little surprise to the state. Shortly before signing with the company, Florida prison officials were made aware of problems at an ARAMARK -run prison food service in Ohio. There, an inspection team in 1999 found "inexcusable" sanitation problems and observed "a near riot" as a result of small portion sizes. The inspectors suggested ARAMARK "should be liable for damages as a result of the lack of training, cleaning and maintenance."[269] What's more, the company failed to deliver promised savings, allegedly billed for phantom meals, and demanded more money just 4 months after winning its contract with the lowest bid.[270] Ohio chose not to renew this contract, brought the work back in-house, and saved money. The response of Florida officials to this real-life example was one of disinterest. Said Department of Corrections spokeswoman Debbie Buchanan: "Whatever might have happened in another state is not our concern."[271]

Aramark Said To Have Lost Money, Wasted Food

Atlanta- In four years of managing food service for Atlanta's public schools, ARAMARK Corporation lost the program $18 million and wasted hundreds of thousands of dollars worth of federally donated food, according to school officials. The company was hired in 1999 to turn around the troubled food service program but instead, the schools lost money under the private managers and people complained about food quality.[272] In January of 2000, the federal government donated 124 tons of food to the ARAMARK run schools, but the food was thrown away after sitting unused for nearly 2 years. The state Department of Education estimated the cost of the wasted food to be $202,074.65. [273]

ARAMARK Contract Renewed Despite Cost-Increase

Illinois- In 1999, the school board for the Pekin Elementary School District 108, Illinois narrowly approved a renewal of its food service contract with ARAMARK Corporation for another year despite one school board member feeling like they had been "taken advantage of." ARAMARK, the only company that submitted a bid, had charged the school district about $100,000, or 11%, more than the previous year. The director of finance and operations suggested at the decisive board meeting that there would not be sufficient time to find adequate alternatives if the bid was not accepted.[274]

Service Areas: ARAMARK breaks its service areas into two categories: "Food & Support Services," and "Uniform and Career Apparel." Food & Support Services includes all building maintenance as well as food service contracts with correctional facilities, healthcare facilities, universities, and school districts. ARAMARK's domestic Food & Support Services accounted for 68% of the company's revenue in 2004.[275]

CPR Sections of Interest: ETV06: The repeal of SB1419 would open up school districts to privatization of all non-instructional services. This includes food service, making it of serious interest to ARAMARK.

Revenue:

2004	**2003**	**2002**	**2001**	**2000**
$10.91 bil.	$9.44 bil.	$8.35 bil.	$7.36 bil.	$6.84 bil.

Employees:

2004	**2003**	**2002**	**2001**	**2000**
242,500	200,000	200,000	200,000	167,000

Of the 242,500 workers ARAMARK employs today, 147,500 are full-time and 95,000 part-time. The company's U.S. Food & Support Services unit accounts for 163,000 of these employees.[276] Approximately 34,700 of ARAMARK's U.S. workers are covered by collective bargaining agreements.[277]

Subsidiaries/Parent Companies: ARAMARK acquired food service management company "Fine Host Corporation" for about $100 million in 2002, adding some 900 schools, stadiums, prisons, and other institutions to its client roster. Other subsidiaries include: "ARAMARK Limited" (a food service and catering company), "ARAMARK Correctional Services, Inc. (provides food and other services in corrections), "ARAMARK Refreshment Services Inc." (provides sandwiches, coffee, snacks to workplaces), "SMG Management" (joint venture with Hyatt), and "ARAMARK Uniform and Career

Apparel." In May of 2003, ARAMARK sold, "ARAMARK Educational Resources," a childcare subsidiary, to Knowledge Learning Corporation for $250 million.[278]

Leadership/Political Connections: Thomas H. Kean, a member of ARAMARK's Board of Directors, was governor of the state of New Jersey from 1982-1990 and Chairman of the National Commission on Terrorist Attacks Upon the United States (9-11 Commission). Board member Robert J. Callander is a member of the Council on Foreign Relations,[279] and Board member Leonard S. Coleman, Jr. formerly served as commissioner of both the New Jersey Department of Community Affairs and Department of Energy, vice chairman of the New Jersey State Commission on Ethical Standards and a member of the State Planning Commission.[280]

Campaign Contributions: ARAMARK donated $25,000 to the Florida Republican Party during the 2002 election cycle, this after winning a huge prison food service contract from the state in 2001.[281] For the 2003/2004 legislative session, ARAMARK Correctional Services, Inc. spent more than $48,000 lobbying the California legislature.[282] Also, Sometime before 2003, ARAMARK donated $6,500 to a charitable foundation controlled by Fresno County Sheriff Richard Pierce and some of his captains. The Sheriff's Department had $3.9 million in food service contracts with ARAMARK for FY2003.[283]

Contracts in California: ARAMARK Uniform Services (a.k.a. ARAMARK Uniform and Career Apparel) has a contract with the city of Hayward to wash city workers' uniforms[284] and at least 3 contracts with the state of California worth over $870,000.[285] They provide Fresno County jail with food services and run General Concessions at the Oakland Arena.[286]

Other Contracts: ARAMARK provides food services to more than 425 school systems and districts and serves another 375 colleges, universities, and prep schools. The company is the food provider at roughly 450 correctional facilities in 40 states, serving over 300,000 inmates.[287]

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CGI-AMS (formerly American Management Systems)

Overview: Montreal-based CGI-AMS is an international business process and information technology (IT) outsourcing company contracting with corporations and government agencies. For the public sector, the publicly traded company provides systems integration, consulting services, and IT management services. Formerly based in Virginia and known as American Management Systems (AMS), the company was acquired in May 2004 by leading Canadian IT consulting firm CGI Group. AMS's recent history consists of troubling lawsuits and conflicts of interest. The company has had multiple officials take influential government jobs while holding on to their AMS stock. Before the acquisition, AMS expressed plans to offshore more jobs and CGI-AMS' website openly boasts of its global delivery centers in India.[288] The firm has spent significant funds on lobbying in California and recently gave $25,000 to Arnold Schwarzenegger.[289] Shortly after that donation, the newly formed CGI-AMS won a large contract from the state.

Contract Failures: In 2001 the Federal Retirement Thrift Investment Board accused AMS of "fraudulent performance and reckless breach of contract;" a jury in Mississippi found AMS guilty of defrauding the state in 2000; in Ohio AMS was sued for overbilling the state in 2002; in Vermont, AMS created a tax system that reportedly sent out thousands of erroneous letters; and an Ohio

Inspector General's Report [found "reasonable cause to believe wrongdoing occurred" in the awarding of state contracts to AMS].

American Management Systems (AMS) Makes a Habit of Failing to Deliver, Getting Sued

The Federal Retirement Thrift Investment Board fired American Management Systems (AMS) in 2001, after the company failed to deliver on a computer system contract. AMS was hired in 1997 to modernize the Thrift Savings Plan's (TSP) record-keeping system to provide federal employees with more tools to manage their retirement accounts. The $30 million project, scheduled for completion by May 2000, ran into frequent delays. Costs had ballooned to an estimated $87 million with no completion date in sight when the board fired AMS and filed suit seeking $350 million in damages.[290] The lawsuit accused the private contractor of "fraudulent procurement, fraudulent performance and reckless breach of contract." Noting a similar case brought against AMS in Mississippi, the lawsuit went on to say: "In hindsight, it is now also clear that such misconduct is a part of AMS' business practice; AMS has recently been held liable for defrauding the state of Mississippi over a period of years in ways virtually identical to those alleged therein."[291] The lawsuit caused the AMS share price to fall nearly 25 percent on the day it was announced. AMS countersued the Board and a settlement was eventually reached in 2003, with AMS paying $15 million to the TSP and the Board paying $10 million to AMS. Participants in the 401k-style TSP are having to pay the remaining $36 million in expenses from the failed contract.[292]

Mississippi- In 2000, a jury in Mississippi found AMS guilty of defrauding the state and breaching a contract to overhaul the tax system. It ordered AMS to pay Mississippi $474.5 million, which later was negotiated down to $185 million.[293]

Ohio- In 2002, four employees of the Ohio Department of Job and Family Services filed a lawsuit accusing American Management Systems of falsely and excessively billing the state of Ohio for a $95 million computer system that failed to meet expectations. Originally meant to streamline department operations, the computer project was never finished in part because of its poor compatibility with other computer systems. In July 2004, the lawsuit survived a legal challenge from AMS and has moved on to evidence gathering.[294]

State Official Admits to Illegally Handing-out State Contracts

Ohio- A state inspector-general's report found "reasonable cause to believe wrongdoing occurred" as a result of contracts awarded by the former director of the Ohio Department of Human Services, Arnold Tompkins. Tompkins awarded many millions in unbid contracts to AMS and Andersen Consulting (now Accenture) in the late 1990s. Within months of leaving state employment in 1998, Tompkins' new consulting firm, Tompkins & Sensky, Ltd., entered into contracts with both AMS and Andersen Consulting, first receiving a $20,000 contract from AMS. AMS later put Tompkins on a $10,000-a-month retainer[295] and he proceeded to receive at least $256,344 in "consulting fees" from Accenture.[296] In July 2001, the inspector-general's office referred its report to a county prosecutor to investigate the criminality of Tompkins actions. Tompkins plead guilty to some of those actions, admitting to having improperly steered dozens of state welfare contracts, worth tens of millions of dollars, to Andersen Consulting. Tompkins was required to provide 300 hours of computer service to the state for his crime.[297]

State Auditor Cites Problems in AMS Contract

Vermont- Elizabeth Ready, the auditor of accounts for Vermont, complained in 2001 that significant problems were cropping up in the state tax department's new automated $14 million system created by AMS. According to Ready, the tax system had been slow to process income tax returns and had generated some 23,000 erroneous letters to taxpayers. Most of the letters had no material impact on the recipients but the cost of the incorrect mail and the confusion created were significant.[298]

Service Areas: The company offers IT solutions for government in the form of e-procurement, child welfare, tax, and child support systems among other things.

Offshoring: In 2003, before being acquired by CGI Group, AMS CEO Alfred Mockett announced the company was going to quadruple its software development center in Krakow, Poland, and expand contract relationships in India. Said Mockett: "We've been a little late to the game in offshore software development, believe me, we are making up for lost time." [299] The company made journalist Lou Dobbs' hit list of companies that are "exporting America." Dobbs describes those companies as "U.S. companies either sending American jobs overseas, or choosing to employ cheap overseas labor, instead of American workers."[300] CGI-AMS' website boasts of its global delivery centers in Mumbai and Bangalore, India.[301]

CPR Sections of Interest: SO75: CPR proposes developing an e-procurement solution similar to that of Virginia's eVa (electronic Virginia). The eVa system was developed by AMS. CGI-AMS could be interested in any IT privatization.

Revenue:

2003	2002	2001	2000	1999
$961.6 mil.	$986.7 mil.	$1.183 bil.	$1.279 bil.	$1.240 bil.

Employees:

2003	2002	2001	2000
6,500	6,300	7,000	8,500

After the acquisition by CGI Group, the new company is estimated to have roughly 25,000 employees worldwide.

Subsidiaries/Parent Companies: In May of 2004, the former AMS Corporation was split and purchased by CGI Group and CACI International. CACI paid $415 million for all of AMS' defense and intelligence assets, while CGI got the rest of the company, including roughly $10 billion in contracts, for $858 million. CGI-AMS is the result of the second half of this acquisition.[302]

Leadership/Political Connections: AMS officials have a history of utilizing a revolving door between government and private (AMS) employment, and creating conflicts of interest for themselves. Case in point: Charles Rossotti, former IRS Commissioner, co-founded AMS in 1970. He stayed with the company for 27 years before joining the IRS in 1997, where he refused to sell his millions of dollars in AMS stock. This occurred despite the over $80 million in contracts AMS' has had with the government agency since 1990. In 2001, Rossotti hired his former employee, Fred L. Forman to the newly created post of Executive Program Adviser for Business Systems Modernization. Forman came fresh off his work as AMS' Executive Vice President and, like Rossotti, had millions in AMS stock that he didn't sell.[303] Forman still works for the IRS.

Rossotti, in his five year tenure at the IRS, made a habit out of hiring people with AMS connections to IRS posts. He had a role in hiring three heads of state tax agencies that had contracted large amounts of business with AMS. These include Kansas Secretary of Revenue John LaFaver, who

Rossotti hired as Deputy Commissioner for Modernization in 1998; Val Oveson, chairman of the Utah State Tax Commission, who was hired in 1998 as national taxpayer advocate for the IRS; and Karla Pierce — LaFaver's successor as secretary of revenue in Kansas who, through Rossotti's influence, was hired as director of organizational transformation for the IRS modernization project. Further compounding the situation, LaFaver later got a *job* at AMS, as Vice-President for state and local solutions.[304]

In Kansas, lawmakers of both parties question whether the former secretaries of revenue had the state's best interests at heart when they contracted/defended AMS. "We had grave concerns about whether the AMS computer system was delivering as advertised," said Kansas state Rep. Tony Powell (R-Wichita), who chairs the House Ethics and Elections Committee. "Our eyebrows were raised when Secretary LaFaver went to work for Mr. Rossotti, and to see him now going to work for AMS really raises a lot of questions in my mind as to whether the decision that the [Kansas] department [of revenue] made to bring in AMS was based on objective considerations that would benefit the state." Powell notes that the department asked for an unexpected $40 million more in 2001, hardly a savings.[305]

Similar questions of impropriety were raised with regard to former Oklahoma Governor Frank Keating's role in AMS's receipt of a contract in 2004. The former governor was a member of AMS' Board of Directors when the company won a $21 million computer system contract with Florida's Department of Children and Families (DCF).[306] DCF Secretary Jerry Regier - who recently retired due to his involvement in another DCF contract scandal - served as a member of Keating's cabinet in Oklahoma. The state scrapped the contract in November 2004, explaining only that there were "deficiencies in the procurement process."[307]

Campaign Contributions: Records from the Center for Responsive Politics show AMS donated $144,000 in soft money to the Republican National Committee from August 1999 through May 2002.[308] In California, AMS has been an active lobbying force in recent years. The company has spent about $300,000 lobbying the state capital since the beginning of 2003 and spent $345,000 during the 2001-02 legislative cycle.[309] Counted among their lobbyists is the Flanigan Firm, which has close ties to the Governor Arnold Schwarzenegger.[310] In March, before being bought by CGI, AMS made a $25,000 contribution to Schwarzenegger. A spokeswoman for the company said the contribution was designed to help pass the $15-billion bond measure last spring.[311] In June, three months later, CGI-AMS won a state contract to reduce the sum California spends on its purchases.

Contracts in California: As just mentioned, CGI-AMS received a three-year contract, in June 2004, to provide strategic sourcing (procurement) analysis to the state. In this contract the company provides two things. First, it determines how much the state is currently spending on procurement. Second, it determines what the state *should* be spending on procurement and recommends ways to save money.[312] Given that CGI-AMS is being paid based on the difference between these two numbers (i.e. what the state saves), the efficacy of this contract is highly questionable. That is because the amount California spends on procurement is not by no means an objective number. Calculating this number involves analyzing thousands of complex, multi-dimensional contracts and is open to much interpretation. CGI-AMS has a financial incentive to make this number as high as possible, calling into question the value of any savings they propose.

Despite having the leeway that comes with being allowed to determine both of the aforementioned numbers, CGI-AMS, in its first six months, has provided state savings well below the governor's expectations. The company has saved less than 10% of the $96 million goal Schwarzenegger set for this contract over the first fiscal year. To help persuade department heads to get behind their struggling procurement program, CGI-AMS recently (Jan. 2005) hired a communications firm co-owned by top Schwarzenegger advisor, Marty Wilson.[313]

CGI-AMS also has a $223.5 million subcontract with the state of California through IBM; part of IBM's $801 million contract signed in 2003 with the Franchise Tax Board (FTB) to provide an automated child support system.[314] Working as AMS, the firm completed three projects for the FTB from 1991-2001, including a collection account processing system, a professional audit support system, and most recently (implemented in 2001), an accounts receivable collection system for which it was paid $23 million through a benefits-funded contract.[315] In April 2004, CGI-AMS won a six-year contract to upgrade the financial management software for Los Angeles County. The contract is worth $13 million.[316]

Other Contracts: In 2003, government contracts were responsible for 66% of AMS' revenue (27% state/local, 39% federal). CGI-AMS currently has a 10-year, $34 million contract from the Library of Congress for a new financial management and procurement system, a contract to create and implement eVa-Virginia's e-procurement system, contracts with Palm Beach County, Florida & Cobb County, Georgia to implement a web-based government Enterprise Resource Planning (ERP) solution, and a contract with the State Auditor's Office of Wyoming to run the state's payroll system and other accounting and procurement services.

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Electronic Data Systems, Inc. (EDS)

Overview: Founded by billionaire Ross Perot, Plano, Texas based Electronic Data Systems (EDS) is a leading provider of information technology and business process outsourcing to various businesses and governments. Regarding governments, this includes such areas as welfare provision, Medicaid provision, U.S. Armed Forces Infrastructure, and security systems management. The publicly-traded company's political connections are many and include: U.S. Vice-President Dick Cheney (former EDS Board member); Treasury Secretary to Ronald Reagan, James Baker (former Board member), and Commerce Secretary under the Clinton administration, William Daley (former Board member). EDS donates large amounts of hard and soft money to both major parties and spends roughly $177,000 a year lobbying California lawmakers.[317] Slightly more than half of EDS's $21 billion in annual revenue comes from business done in the U.S. and more than $1 billion of that money is made through contracts with state and local governments.[318] EDS provides Medicaid administration support services in 16 states including California where the contract costs have ballooned recently.[319] The California Performance Review sections most of interest to this giant company include proposals to privatize eligibility for Medi-Cal, FoodStamps, and CalWorks and to have EDS switch Medi-Cal recipients to Medicare where possible. In recent years the firm has expressed plans to cut large numbers of U.S. and U.K. employees in favor of more offshore work. Four investment firms, including Capital Research and Management of Los Angeles and San Francisco's Dodge & Cox, together own about 38% of EDS.[320]

Contract Failures: Connecticut scrapped a statewide, $1.5 billion IT project after discovering that EDS had failed for years to come through on a relatively tiny IT system for Medicaid. EDS paid the state of Texas $3.9 million after being charged with improper billing. Virginia canceled a $45 million contract with EDS after the company was 20 months late on the project. The California Medi-Cal contract has more than doubled in the past 5 years without explanation. Finally, EDS grossly underestimated the time and cost of a contract with the U.S. Navy.

Connecticut Scraps IT Privatization Deal, Avoids Making the 'Worst Fiscal and Policy Decision of the Decade'
In 1999, the State of Connecticut scrapped a deal with EDS to privatize Connecticut's entire information technology infrastructure after reviewing the preliminary findings of an audit of the company's work. The audit revealed numerous EDS failures in small scale contracts with the state, including failure to complete implementation of a info management system for Medicaid claims. Before the deal was scrapped, the state comptroller Nancy Wyman said privatizing the state's IT through EDS could be "the worst fiscal and policy decision of the decade for the state of Connecticut." Referring to two years worth of documents between EDS and the state on which she based many of her findings, Wyman argued: "These documents should be a wake-up call to this administration to abandon this billion-dollar-plus boondoggle. If EDS couldn't handle this single project, how can the administration consider them the front-runner for the biggest contract in state history?"[321]

Connecticut, Dependent on EDS, Continues Their Contract Despite Being Dissatisfaction
Connecticut-In 1996, after 3 years & 2 contract extensions, EDS failed to deliver on a 1-year contract with the state of Connecticut to design and implement an Advanced Information Management (AIM) system for Medicaid claims processing. This contract was an add-on to a contract EDS already had with the state to process Medicaid claims. EDS failed to meet their December 1994 deadline for the AIM system as well as two contract extension deadlines of December 1995 and September 1996. The system was never completed.[322] Said one official during the course of these events: "EDS appears to believe that it is automatically entitled to however many extensions and however long it takes to make this project a reality, with no consequences…categorically [EDS has] a very dissatisfied customer in the State of Connecticut." After the company missed their second deadline, Connecticut Dept. of Social Services Commissioner Joyce A. Thomas, in a letter, explained why the state did not end their contract with EDS despite wanting to:

> "Serious consideration was given to termination of the project and the contract as well as the imposition of liquidated damages and penalties. [However,] Steering Committee members from both within the Department and outside the agencies felt the risk of litigation and a protracted dispute resolution processes (sic) posed a great liability for the Department. Additionally, the Department does not have the in-house capacity to rapidly absorb the critical and complex processing of Medicaid claims…"[323]

Finally, Thomas acknowledged that the State of Connecticut was at the mercy of EDS: "Without continuation of the AIM development effort it was felt that the current contractor would not continue in its fiscal agent capacity for the state of Connecticut thereby placing the clients, medical providers, the newly established managed care initiative as well as the traditional fee-for-service program administration at risk."[324]

Electronic Data Systems Pays $3.9 Million To Settle Charges Of Over-Billing, Denies Any Wrongdoing
Plano, Texas- Due to improperly billing the state, a unit of Plano-based Electronic Data Systems Corp. (EDS) that processes Medicaid claims agreed in 2001 to pay the state of Texas a total of $3.9 million. EDS's National Heritage Insurance Co., the state's main Medicaid processor, refunded the state $3.4 million for expenses and paid an additional $250,000 penalty and $232,000 in investigation costs. EDS and National Heritage denied wrongdoing in the settlement.[325]

EDS 20 Months Late in Virginia
Virginia– In 1997, Virginia state officials cancelled a $45 million Medicaid claims system contract with EDS - after the firm was 20 months late on its contract - saying the company could not deliver

the technical expertise required. According to the State's Medicaid Director, while under the contract, EDS denied the state access to the system and refused the Medicaid agency's request for the master plan. EDS received the contract 3 years earlier, even though its bid was 50% higher than that of its competitor. Possible insights as to why this may have happened include the fact that EDS hired a senior Virginia Medicaid official a short time after the bids were completed. Also, the company donated over $20,000 to legislative candidates in Virginia's 1996 elections. In August 1997, EDS was charged $2.3 million in damages for not honoring the contract and for return of an initial payment.[326]

More Oversight Personnel Called for as Medi-Cal Contract Costs Double

California- In 5 years, according to a 2003 Legislative Analyst Office audit, the cost of a California state contract with Electronic Data Systems (EDS) to process Medi-Cal claims more than doubled to $230 million annually, despite an increase of only 27% in the number of bills processed. The audit report criticized the Department of Health & Human services for its management of the contract and the lack of records to justify the climbing expenses. "Virtually no records exist" that show where or why the more than $100 million in contract increases was spent. Moreover, there was no explanation for why EDS was paid $19 million from a fund that was supposed to be used to encourage other companies to compete for the Medi-Cal contract.[327] In a December 2003 memo, Deputy Director of Health Services Stan Rosenstein conceded to virtually all of the audit's findings and recommendations including calls for better cost controls and record keeping. Rosenstein noted that one reason the department has had trouble accounting for costs in the contract, is a lack of oversight personnel. In early 2004, Rosenstein contradicted himself and defended the EDS contract, characterizing it as "the most tightly managed" contract of its kind in the nation.[328]

EDS Badly Miscalculates in Contract with U.S. Navy

In 2000, EDS won a contract to build a new intranet computer system for the U.S. Navy and Marines that quickly proved to be far more complicated and expensive than the company anticipated. Originally a $6.9 billion deal, the contract was renegotiated to $8.8 billion in 2002. However, because this is a fixed-cost contract, EDS has been unable to raise the cost anymore and has lost $1 billion on the deal thus far. The system - now anticipated to be up sometime in 2005 - took years longer than expected and significantly hurt EDS's stock value and credibility.[329]

Service Areas: Welfare provision, Healthcare provision (including claims processing for Medicaid & Medicare, and eligibility processing for SCHIP), IT Infrastructure, and applications services.

CPR Sections of Interest: HHS01: EDS formerly held the Healthy Families eligibility contract and thus might be interested in performing eligibility functions for Food Stamps, Medi-Cal, and CalWorks. HHS26: This CPR section suggests contracting *specifically with EDS* to identify and transfer dual-eligible persons off Medicaid and onto Medicare. The reason EDS gets the nod here (in addition to having had a good deal of input in the drafting of the CPR plan[330]) is because EDS currently has the contract with California to process Medicaid claims. EDS will be interested in most IT privatization opportunities.

Revenue:

2003	**2002**	**2001**	**2000**	**1999**
$21.476 bil.	$21.359 bil.	$21.033 bil.	$18.856 bil.	$18.401 bil.

EDS stock has suffered in recent years dropping from a height of more than $70/share to the $10-20/share it is today.[331] In July of 2004, Moody's Investors Service (credit rating firm) cut its rating on EDS debt to a "junk" level, reflecting EDS's recent contract troubles (including problems with the U.S. Navy Contract) and low levels of free cash flow.[332]

Employees:

2003	**2002**	**2001**	**2000**	**1999**	**1998**
132,000	127,400	143,000	122,000	121,000	120,000

Offshoring: Over the last few years EDS hasn't been shy about its plans to offshore and/or cut jobs to lower costs. In 2002, the company announced plans to cut 1,500 U.S. based workers in favor of filling those positions overseas.[333] In 2003, CEO Michael Jordan revealed that EDS planned again to cut jobs in the U.S. and Europe, while raising its roster of employees in India and other lower-cost countries from 9,000 in 2003 to 20,000 by the end of 2004.[334] While it is unclear what the overall company numbers are, of the 30,000 EDS employees working on software applications in early 2005, 27% were located "offshore." According to company spokesman Terry Balluck , that number will grow to about one-third by the end of 2006,. In that timeframe, EDS plans to close 17 data centers in the U.S. and 4 in Europe, shifting much of the work to India.[335]

Subsidiaries/Parent Companies: EDS was spun off in 1996 from General Motors, which still accounts for about 10% of revenues. The company offers management consulting through its A.T. Kearney unit and holds claims processing contracts for Medicare and Medicaid through National Heritage Insurance Company, a wholly owned subsidiary. To focus on outsourcing and to deal with a darkening financial picture, EDS sold its UGS PLM Solutions subsidiary in 2004 to three private investment firms for $2.05 billion in cash.[336]

Leadership/Political Connections: EDS enjoys vast ties to power and government decision-making. Topping the list of famous people to have been on EDS' Board of Directors is current U.S. Vice-President Dick Cheney. Cheney's financial disclosures have revealed that "when he was picked by Gov. George W. Bush of Texas as his running mate, Cheney received hundreds of thousands of dollars from EDS."[337] James Baker**,** former Chief of Staff and Treasury Secretary under President Reagan, and Secretary of State under George H.W. Bush, was an EDS Board Member until leaving in 2003 following his appointment by President Bush to lead an effort to restructure and reduce Iraq's foreign debt. Another former Board member, William Daley, served as Commerce Secretary under the Clinton Administration and chair of the Gore/Lieberman Presidential campaign.[338] EDS' current CEO Michael Jordan is the former Chief Executive of CBS. The company's 2004 Board includes: Ambassador Richard Fisher-a former deputy U.S. trade representative; Roger Enrico-the former chairman and CEO of PepsiCo; and Ray L. Hunt-member of President Bush's Foreign Intelligence Advisory Board and a member of the National Petroleum Council (an industry advisory organization to the Secretary of Energy).[339]

Until recently, former Michigan governor John Engler served as president of EDS's State & Local government segment (he left in late 2004). Under Engler's administration (1990-2002), EDS drastically increased its contract workload with the state. By the end of Engler's last term, at least one-sixth of the Michigan's information-technology budget flowed directly to the company. Three weeks after he left public office, EDS offered Engler the job as president of their State & Local government unit.[340]

Campaign Contributions: During the 2001-2002 federal election cycle, EDS PAC donations totaled $206,436 (44.0% to the Democrats, 56.0 % to the Republicans). The top recipient was Rep. Robert Matsui, a California Democrat, with $4,146.[341] Soft Money Donations totaled $235,457, with $25,500 (11%) going to Democrats and $209,957 (89%) to Republicans.[342] In 2002, EDS gave $32,000 to candidates for State of California elections and won two big contracts from the state that year (renewal of Medi-Cal claims processing contract and a contract to provide a digital learning system for the CalWIN).[343] For the 2003/2004 election cycle, EDS gave $30,000 to the California Republican Party with $500 going to its Democratic counterpart. The firm donated $15,000 to Gray Davis during this period and $12,000 to other California state candidates.[344] Over the past 4 years, EDS has averaged $177,000 per year spent lobbying California lawmakers.[345]

Contracts in California: EDS holds the Medi-Cal claims processing contract, now worth $230 million annually. The firm was contracted in June 2000 to create CalWORKs Information Network (CalWIN), the largest information solutions system for social services agencies in the country at the time (11-year contract between 40 California counties and EDS worth $321 million). In Feb. 2002 EDS gained a 3-year contract to provide the CalWIN with a digital learning system for its 25,000 employees.[346] Subsidiary A.T. Kearney has a piece of the contract CGI-AMS won from the state in 2004 to provide strategic sourcing analysis.[347] Also, EDS held the Healthy Families eligibility processing contract through 2003- after which MAXIMUS took over (See discussion below).

Other Contracts: There are at least 16 states where EDS provides - or has recently provided - extensive Medicaid administration support services. Problems have occurred in Virginia, Texas Connecticut and California as discussed above. EDS has a 5 year, $180 million subcontract with ACS, Inc. to provide the U.S. Department of Education with student loan services.[348] The company also has an IT services contract with the U.S. Department of Housing and Urban Development worth up to $750 million.[349]

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Laidlaw International, Inc.

Overview: Based out of Naperville, IL, Laidlaw International is one of North America's largest busing firms. Itself only a holding company, Laidlaw International's operations are conducted by subsidiaries in five major business segments: School busing, public transit services, intercity transit services, emergency room management, and healthcare transportation. One subsidiary, Laidlaw Education Services, provides school bus transportation to more than 2 million students daily throughout the U.S. and Canada and accounts for a third of the parent company's revenue.[350] This firm is the largest provider of school bus transportation throughout the United States but has lost contracts in the past as a result of questionable hiring practices and poor performance. Laidlaw stands to reap millions of dollars of new business if SB 1419 is repealed as recommended by the CPR. The company has spent huge amounts of money in recent years lobbying the California legislature for exactly that repeal.

In 2003, Laidlaw International completed a bankruptcy reorganization, changed its name from Laidlaw, Inc. and moved its headquarters from Canada to the U.S.[351] Despite this bankruptcy filing, Laidlaw's revenue has remained steady over the past few years.

Contract Failures: Laidlaw has been criticized for its less than thorough background checks leading to the hiring of convicted criminals and drug addicts. The company has a history of leaving kids on buses, sometimes for hours at a time, has had payments withheld due to consistently late arrivals, and has - according to school officials - been less cost-effective than in-house services while providing inferior service.

Laidlaw Reportedly Leaves Special Education Students Stranded

Washington D.C.'s school system contracted in 1999 with Laidlaw to transport special education students to class. According to Alfred Winder, the school system's transportation director, bus drivers missed more than 1,000 routes in the first few months of the school year. Special master Elise T. Baach - appointed by a federal judge to help Washington D.C. resolve transportation and other special education problems – said that at least one of every 10 special education students in D.C. missed significant parts of their morning classes during the first two of those months. Though the schools' transportation problems existed before Laidlaw, Baach's analysis showed a decline in on-time bus service after Laidlaw took over.[352]

In a closely related story, documents subpoenaed by D.C. Council member Kevin Chavous, showed that at least 40 of the roughly 200 bus drivers hired by Laidlaw for their D.C. special education contract had been charged with serious criminal offenses. They were put on the job, however, before Laidlaw had determined the dispensation of their cases. In at least four cases, the drivers had been convicted of crimes. One driver was convicted of possession of crack, marijuana and a bomb. Another worked for the company at least two months despite having four convictions in 1993 and 1994 for traffic offenses, and despite having been involved in two 1998 bus accidents where at least 13 children were injured. Chavous found blame with both Laidlaw and the school system, claiming the latter failed to properly monitor the bus contractor.[353]

Laidlaw's Hiring Practices Questioned, Contract Ended

Florida- Laidlaw Education Services stumbled into the line of fire in April 2002 when it was discovered that a bus driver transported students for more than seven months after being arrested on a felony burglary charge and being accused by middle school students of sexual harassment. A *Palm Beach Post* investigation also revealed that the company had hired a former drug addict recently out of jail, a supervisor falsified a medical document, and officials failed to do complete reference checks before hiring another employee who later crashed a bus.[354]

The Martin County School Board snatched the keys away from the beleaguered bus company in May 2002, ending its three-year relationship. The school board's unanimous decision not to extend Laidlaw's $12 million contract came amid heated controversy about the company's reluctance to disclose public information about its operations as well as its questionable hiring practices. The board voted quickly and without debate after the Schools Superintendent recommended that Laidlaw's contract not be renewed. She said later that she had lost confidence in the company and that it had been violating its own policies and procedures. As if to underscore the board members' concerns, a bus driven by a Laidlaw employee ran off the road and tipped over in Palm City *the same day* as the Board Meeting, moments after dropping off 51 elementary school students.[355]

Laidlaw Drivers Leave Small Children Unattended On Buses for Hours: Privatized District Can't Find Qualified Drivers, Public-run District Has No Problem

New Jersey- Two incidents involving children being left aboard privately operated school buses at the end of a route occurred in the same New Jersey school district in late 2003. One of the kids, a 6-year-old special education student, was reportedly left on a bus parked for *several hours* before being noticed by a passer-by who called police. Both cases saw the driver fired by Laidlaw Education Services, the district's school bus service contractor.[356]

The firings highlight a problem the Hillside district has been having finding qualified bus drivers since outsourcing the delivery of this service to Laidlaw. According to one School Board member: “It's a difficult situation because bus drivers are hard to find. It's a low-paying job, and the pay is not an incentive for them to pay good attention to what they're doing.” Things are different in neighboring Union Township School District, which operates its own bus service. Largely because the district offers employee benefits, and private carriers do not, there is no shortage of bus operators. Union Township Assistant Superintendent said there have been no problems in the school district related to children left on buses or in finding enough qualified drivers. “It works for us,” he said of the district providing busing. “It works well and it's cost-effective, that's why we do it.”[357]

In a separate Laidlaw incident, on September 9th, 2004, a 3-year-old boy was reportedly left on an East Brunswick school bus for five hours before being found unharmed. The boy was put on the bus at 8 a.m., but he did not get off at Frost Elementary School, where he attends preschool. His absence was noticed when his mother came to pick him up at 12:10 p.m. at his bus stop, and he did not get off the bus, police said. She contacted school officials, who told her that he had not been in school. The boy was, eventually, located shortly before 2 p.m., on the bus, which was parked near the driver's home in Howell Township, Monmouth County. Laidlaw fired the driver.[358]

Payments Withheld From Laidlaw

South Carolina- In October 1999, the Charleston County School District withheld $238,000 from of its payment to Laidlaw Educational Services on account of consistently late buses and dissatisfied parents. Reportedly, as a result of Laidlaw’s tardiness, students participating in the free breakfast program were regularly arriving to school too late to eat. One angry parent reported that Laidlaw had disconnected its parent hotline and employees answering the company’s regular phones were unresponsive.[359]

School District, Fed Up With Late Arrivals, Brings Bus Service Back In-House & Saves Money

Illinois- To improve cost-effectiveness and service-delivery, the Lincolnshire-Prairie View School District decided in 1999 not to renew its school bus contract with Laidlaw Education Services. A survey of parents showed inconsistent bus service including persistent late arrivals. The district brought bus service back in-house, and according to the school superintendent, “even with the start up costs of $75,000 to $100,000 and operating cost of $650,000, the district still expects to spend about $20,000 less than it did with its contract with Laidlaw.”[360]

Service Areas: Laidlaw International’s 5 service segments:

- Education services - school bus transportation (32% of revenue)
- Public transit services – out-sourced municipal and paratransit bus transportation (6% of revenue)
- Greyhound - intercity bus transportation. Greyhound also provides charter bus services and package delivery services (27% of revenue)
- Healthcare transportation services - ambulance and other healthcare related transportation services (23% of revenue)
- Emergency management services - emergency department physician services (12% of revenue)[361]

CPR Sections of Interest: ETV06: The repeal of SB1419 would allow for the contracting out of school bus operations which would mean millions of dollars in potential contracts for Laidlaw.

Revenue:

Laidlaw International:

2004	2003	2002	2001	2000
$4.63 bil.	$4.48 bil.	$4.43 bil.	$4.41 bil.	$4.27 bil.

Laidlaw Education Services Unit:

2004	2003	2002	2001
$1.495 bil.	$1.499 bil.	$1.479 bil.	$1.462 bil.

Employees: Laidlaw International employs roughly 87,000 people, 45,000 of which are with the Education Services segment. Of these 45,000 approximately 80% are part-time employees and 43% are represented by collective bargaining agreements.[362]

Subsidiaries: Subsidiaries of Laidlaw International include: Laidlaw Education Services (school busing), Laidlaw Transit Services (public transit services), American Medical Response (ambulance services), EmCare (emergency management), and Greyhound Lines (intercity bus transportation).

Leadership/Political Connections: Peter E. Stangl, Laidlaw International's Chairman of the Board, served as Chairman and CEO of the Metropolitan Transportation Authority of New York from 1991-1995.[363] Lou Meyer, CEO of American Medical Response's Northwest – Plains Region, is vice chair of the California Emergency Medical Services Commission.[364]

Lobbying: Laidlaw spent upwards of $108,000 on lobbying in California during the 2003/2004 legislative cycle and $62,000 in 2001/2002.[365] In addition, Laidlaw has contributed funds to the California School Transportation Association, which has spent $170,000 over the past 2 years lobbying for the repeal of SB 1419.[366]

Contracts in California: Laidlaw Education Services operates 4,000 buses in California, nearly half of all privately owned school buses in the state, all of which were contracted out before SB 1419 took effect. The rest of these private contracts are shared by more than a dozen other companies.[367] Laidlaw Transit Services has contracts to operate public bus systems in several California cities and counties, including contracts recently won in the cities of Carson, Monterey Park, and Redondo Beach.[368] American Medical Response (AMR) serves as 911 provider in more than 50 cities throughout Los Angeles County.[369]

Other Contracts: Laidlaw Education Services has contracts with over 1,000 school boards and districts in the U.S. and Canada. They operate in 37 states + Washington D.C. as well as 5 Canadian provinces and provide transportation services to more than 2 million kids every day. Their fleet consists of roughly 40,000 buses out of the approximately 490,000 school buses operated in the U.S. and Canada.[370] Outside of the education market, Laidlaw has contracts with 146 regional and municipal transit authorities to provide busing and other transit services.[371] The company recently signed a 5-year, $92 million contract to operate bus systems for the city of Denver, Colorado.[372]

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MAXIMUS, Inc.

Overview: Founded in 1975 and based in Reston, Virginia, MAXIMUS Corporation is a provider of program management, information technology, and consulting services to government agencies throughout the United States. More than 80% of the publicly traded company's revenue is derived from state agencies and local governments while another 6% comes from the federal government. MAXIMUS has a trademark on the saying: "Helping Government Serve the People™."[373] The sweeping welfare reform legislation of the past few years that shifted the financial risk of welfare programs from the federal government to the states has swelled demand for MAXIMUS' expertise and fueled the company's growth.[374] Since 1997, the firm's revenues are up 222%. Today the firm has more than 280 offices in the United States, Canada and Australia. In 1999, 2001, 2002, and 2003, it was selected by Forbes Magazine as one of the Best 200 Small Companies in America. MAXIMUS has a history of well-placed campaign donations and of poorly delivered services. They currently have a contract to determine eligibility for California's Healthy Families program and will be interested in expanding that service to the Medi-Cal, Food Stamps, and CalWorks programs (CPR section HHS01). In fact, this has already started to happen, the Schwarzenegger administration is pushing a budget proposal that would transfer some Medi-Cal eligibility work from the county to MAXIMUS.[375] Separately, MAXIMUS would be a likely bidder on any child support enforcement contracts in California (HHS03).

Contract Failures: MAXIMUS, reports indicate: spent hundreds of thousands of dollars on unauthorized expenses in Wisconsin, was out-performed by state child support agencies in Maryland, fell seriously short of its goals to teach Medicaid clients how to adapt to managed care in New York, demanded large fee increases immediately after winning a child care processing contract in Connecticut, cost $1M more than a state welfare-to-work program in Arizona, had contracts blocked for "corruption, favoritism and cronyism" in New York, collaborated with Lockheed to collect 0.2% of the child support they projected in Florida, discriminated against female workers (according to the EEOC), slowed the application processing to a crawl for California's Healthy Families program, and was fired from a children's health contract in New Jersey after complaints of lost paperwork and delayed applications.

Poor Oversight of Privatized Welfare Programs leads to taxpayer money spent on parties, concerts, fanny packs and contract bids in other states

Wisconsin- In a 2000 investigation, the Wisconsin Legislative Audit Bureau (LAB) uncovered that MAXIMUS Corporation spent more than $400,000 of state welfare money on unauthorized expenses and another $1.6 million that the company couldn't properly document. Rather than spend these taxpayer dollars on the Wisconsin Works (W-2) welfare programs they were being paid to administer, MAXIMUS reportedly spent funds soliciting contracts in other states, on a concert for W-2 staff and clients by Broadway singer Melba Moore, on a $15,741 staff party at a Lake Geneva resort, and on $23,637 worth of backpacks and fanny packs to promote the company.[376] For this inappropriate use of state money, auditors took issue not only with MAXIMUS but with the Department of Workforce Development (DWD), the state agency that is supposed to oversee welfare programs. Auditors said that before MAXIMUS became embroiled in a contract controversy in New York in early 2000, the DWD "made little effort to provide adequate oversight" of MAXIMUS.[377] The DWD's explanation for this failing reveals how problems can arise from the lack of experience public agencies have writing contracts and overseeing them properly. Responsibility for monitoring MAXIMUS ' spending, the DWD said, had been "hazily defined."[378]

Lest it appear that irresponsible spending of Wisconsin tax dollars is confined to MAXIMUS, in August 2000 the LAB launched an investigation of a second Milwaukee W-2 contractor. Employment Solutions -- a non-profit created by Goodwill Industries, whose executive director was once an aide to former Wisconsin Governor Tommy Thompson -- reportedly billed the state for expenses its employees incurred while trying to get a welfare contract in Arizona (the same one MAXIMUS was seeking). In late September, Employment Solutions' own auditors found that the contractor had improperly used W-2 funds for lobbying and to help finance a survey of Goodwill retail store customers.[379]

MAXIMUS Contract Left to Die After Company Underperforms

NYC- MAXIMUS was paid $1 million/month to teach Medicaid clients how to adapt to managed health care, but a report by NYC Public Advocate Mark Green showed that the contractor had fallen seriously short of that goal. MAXIMUS had trouble with a mailing that notified NY Medicaid patients that they had two months to pick a managed care plan. The mailing looked like junk mail and generated complaints of translation problems. In October 2002, the Bloomberg administration in New York announced that it was not going to renew this and other contracts with MAXIMUS. It was said by a City of New York Human Resource Administration spokesperson that MAXIMUS was being dropped out of a "growing consensus that the contracts were not working out."[380]

Connecticut Gives MAXIMUS a Raise After Being Dissatisfied

Connecticut-In 1997, due to inadequate contract provisions and an inability to provide obligatory child-care services on its own, Connecticut was forced to continue a child-care contract with MAXIMUS, Inc. and increase its fee payments. Within months of winning the payment processing contract MAXIMUS had shown impressive levels of ineptitude, making almost 10% of their payments in error and more than 10,000 out of 17,000 payments late, according to reports. Parents trying to contact the company encountered "telephone-system collapse," and daycare centers, whose bills were past due, worried about having to turn away children or let staff go. This dramatically low performance prompted Connecticut to threaten to fire MAXIMUS. But instead, in an incredible turn of events, the company was able to negotiate a 50% fee *increase* just *three months* after this threat. It turned out that MAXIMUS, not the state, held the power in threatening an end to the contract. By privatizing, Connecticut lost its capacity to provide the service itself, leaving the state totally vulnerable to the private company. A state auditors' review found that welfare officials had to agree to MAXIMUS' price demands because the company had threatened to pull out. The state did not have adequate provisions in its contract to prevent the company from walking away from the job and it had no back up plan to provide the child-care services it was obligated to offer. MAXIMUS' ability to obtain such a large increase is particularly troubling given that its initial bid claimed it could operate at half the cost of the only other bidder.[381]

Cost of Running Privatized Welfare $1M More than the State Program

Arizona- In 2001, Arizona State Senator Ruth Solomon called for the shutdown of a Welfare-to-Work pilot program in Maricopa County, which was run by MAXIMUS. The cost of running the program turned out to be $1 million more than the State program had cost and services were no better. Said Solomon: "This is supposed to be a social welfare program, not a corporate welfare program." A sitting committee of the Senate voted to end the contract, but the Arizona House of Representatives voted in May 2002 to extend the project through 2003.[382] As of mid-2004 the pilot program was still up and running through MAXIMUS. Despite problems, Arizona is now planning *statewide* privatization of a portion of the welfare program.[383] During the 2002 election campaign MAXIMUS donated at least $5000 to the Arizona Republican Party and close to $6,000 to Arizona candidates.[384]

NYC Comptroller Says MAXIMUS Won Welfare Contracts Through "Corruption, Favoritism and Cronyism"

New York City- Nearly 3 years and several court decisions after New York City comptroller Alan

Hevesi refused to certify $104 million in welfare-to-work contracts with MAXIMUS, Inc., federal labor investigators reported that the company had corrupted the bidding process. In March of 2000 Hevesi charged that the MAXIMUS contract award by Mayor Rudolph Giuliani's administration raised the appearance of "corruption, favoritism and cronyism." Hevesi concluded that MAXIMUS was given an unfair head start in preparing its bid because of its ties to Jason Turner, Giuliani's Human Resources Administration (HRA) Commissioner, and because a MAXIMUS subcontractor, Opportunity America, was headed by former Guiliani senior advisor, Richard Swartz.[385] The comptroller stated that it would take a court order to make him sign off on the two MAXIMUS contracts. Giuliani tried to get exactly that. After a seesaw legal battle that had a State Supreme Court Justice finding "compelling evidence that the contracting process has been corrupted," and then an Appellate Court finding "no evidence of favoritism," the contracts were allowed to go through.[386]

More than a year later (Dec. 2001), a memo sent from New York City's Department of Investigation (DOI) to the Human Resources Administration, included new evidence to support Hevesi's claims. It showed that, while negotiating with Jason Turner, MAXIMUS had agreed to provide financial backing for a $50,000-a-year education contract won by Turner's wife in Milwaukee. In March 2002, with a new Commissioner, HRA cut MAXIMUS' contracts from $104 million to $16 million. Five months later, HRA announced that it was not renewing these contracts at all with MAXIMUS.

A final statement on corruption came from Federal labor investigators in a December 2002 report: "The evidence...supports that...MAXIMUS' vice president, directly and indirectly gave Commissioner Turner, his wife and his father-in-law things of value while being provided access to HRA during the development of the [welfare-to-work] solicitations and before the contract award."[387]

Lockheed Martin & MAXIMUS, Hired To Collect Child Support, Make Their Money Closing Cases

Florida- In a 1998 outsourcing effort that was projected to collect $104 million in child support, MAXIMUS and Lockheed Martin were able to collect only $207,000. The companies were hired to streamline records and collect child support from "deadbeat" parents. But, virtually all of the $4.5 million paid to MAXIMUS and Lockheed came not from collections, but from fees paid for each case the firms closed. A *Tallahassee Democrat* investigation found that many closures required little effort on the firms' part or duplicated existing state processes. The firms' lowest case closure fee was double what the state Department of Revenue estimated to be its costs. The companies argued that they needed closure fees to cover start-up costs, an investment they promised would lead to support collections. As it turned out, the investment did not pay off at all, as the firms collected just 0.2% of what was projected.[388]

Equal Employment Opportunity Commission Determines MAXIMUS Discriminated Against Female Workers

Wisconsin- In August 2000, the Federal Equal Employment Opportunity Commission (EEOC) determined that MAXIMUS and one of its subsidiaries, MaxStaff, had discriminated against women by paying them less than men for the same jobs. Fifteen former Wisconsin Works (welfare program) project staff had accused MAXIMUS of employment discrimination based on ethnicity, gender, and age in complaints.[389]

Linda Garcia an organizer with the national nonprofit grassroots organization 9to5, observed the activities of MAXIMUS first-hand from the front lines in Milwaukee. According to Garcia, at MaxStaff, discriminatory practices might have been used for clients as well as staff. The company seemed to be "funneling women to low-paying jobs in order to quickly receive the bonus staff gets for placements."[390]

MAXIMUS Averages Nearly 5 Times as Long as Public Workers to Process Applications for Healthy Families

California- The Healthy Families contract MAXIMUS holds here in California, that the CPR argues is of 'model' status, has been going about as smoothly as one might expect given MAXIMUS' track record of poor performance. The January 2004 switch to MAXIMUS as a processor of applications has been blamed for contributing to the dramatic slowdown in enrollment in the program over the last year. [391] According to Santa Clara County officials, the historical average for government workers processing applications was 10 days (By regulation this process was limited to 20 days). In April 2004, MAXIMUS was averaging 47 days - it is now down to 30 days. Some of MAXIMUS' glitches include: cashing premium checks, but not enrolling the person in the program so they think they are covered, but are not; sending compliance letters that request action before the letter was actually written; and suddenly and mistakenly dropping enrolled children from the program.

While attempting to defend MAXIMUS in 2005, Lesley Cummings, executive director of MRMIB (the state body in charge of Healthy Families) revealed the state's low expectations for the company. "Is it perfect now? No," said Cummings. "I think it's pretty good." [392]

MAXIMUS Fired After Complaints of Delays, Lost Paperwork in Children's Health Contract

New Jersey- In 2004, New Jersey fired MAXIMUS from running the state's children's health insurance program (similar to CA's Healthy Families program) after complaints that the company lost paperwork and took to long to process applications. According to state records, the Division of Medical Assistance and Health Services lodged six complaints about MAXIMUS' performance from 2002-2003. ACS State & Local Solutions, Inc. will take over management of the health program in June 2005 under a three-year $59 million contract.[393]

Separately, MAXIMUS is currently (Jan. 2005) under federal investigation for fraud in a Washington D.C. contract. The company said that it was subpoenaed in October 2004 for its records involving Medicaid reimbursement claims MAXIMUS prepared for the city.[394]

Service Areas: Human Services (child support, workforce services, correctional services) - 30% of revenue, Health Services (including eligibility determination) - 29%, Consulting (including revenue maximization projects for school districts) - 25%, Systems - 16%[395]

CPR Sections of Interest: HHS01: The CPR suggests that the eligibility processing for Medi-Cal, Food Stamps, and CalWorks should "follow the model of California's Healthy Families program utilizing a public-private partnership."[396] MAXIMUS is the current eligibility contractor for Healthy Families. They would likely be interested in winning similar contracts for these three other public aid programs. HHS03: Proposal to privatize child support enforcement. SO75: Proposal to contract for an e-procurement system. MAXIMUS will likely be interested in other IT privatization opportunities.

Revenue:

2004	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
$603.8 mil.	$558.3 mil.	$518.7 mil.	$487.3 mil.	$399.2 mil.	$319.5 mil.	$244.1 mil.

Employees:

2004	**2003**	**2002**	**2001**	**2000**	**1999**
5,151	5,193	5,188	4,825	4,200	3,485

Subsidiaries/Parent Companies: MaxStaff Employment Services - a temporary employment agency, was a MAXIMUS subsidiary. Questions about the propriety of MAXIMUS diverting Wisconsin Welfare-to-Work (W-2) clients to MaxStaff led to the temp agency closing in 2000.[397] MaxStaff also was found by the EEOC to have discriminated against female workers (see above).

Leadership/Political Connections: MAXIMUS Board member James R. Thompson is the former Governor of the State of Illinois having served four terms from 1977 through 1990. He is a former Chairman of the President's Intelligence Oversight Board and recently served as a member of the National Commission on Terrorist Attacks Upon the United States (9-11 Commission). Board member Wellington E. Webb completed his third, four-year term as Mayor of the City and County of Denver, Colorado in 2003. He recently lost in his bid to become Chairman of the Democratic National Committee. Board member Russell A. Beliveau served as Deputy Associate Commissioner (Medicaid) for the Massachusetts Department of Public Welfare from 1983 until 1988 and was Vice President of Operations at Foundation Health Corporation of Sacramento, California from 1988 through 1994.[398] MAXIMUS founder and former CEO David Mastran owns about 12% of the company.[399]

Campaign Contributions: In the past, MAXIMUS has used campaign contributions & political connections to maintain government contracts even when they don't reach stated goals. In 2002, after MAXIMUS' child support offices were out-performed by public offices, the governor of Maryland spoke out against extending the state's child support privatization experiment.[400] In response, the legislature, led by House Appropriations Committee chairman Howard Rawlings, included language in the budget-which the governor couldn't veto-extending privatization. Howard Rawlings was the single largest beneficiary of MAXIMUS' campaign generosity in the state of Maryland at the time. Over the course of two elections, he had received $5,000 in contributions from the company, and $4,000 from MAXIMUS' CEO, David Mastran.[401]

Tommy Thompson, former Governor of Wisconsin and architect of the Wisconsin Works Program for which MAXIMUS got over $100 million in contracts, received $5,000 from MAXIMUS' Political Action Committee (Max-PAC) in December 1999. This was the largest PAC contribution given to Thompson at the time. Also, MAXIMUS hired two former aides of Thompson's to be consultants in the renewal of two major Wisconsin contracts.[402]

In the 2002 elections, MAXIMUS gave $93,550 in 'soft money' to various committees of the Republican party. No soft money was given to Democrats.[403] Since 2001, the company has spent over $100,000 lobbying the California legislature.[404]

Contracts in California: As discussed above, MAXIMUS has a five-year contract, worth $418 million, with the state of California to do eligibility processing for the Healthy Families Program.[405] The company has a five-year, $8.7 million contract, through the Department of Consumer Affairs, to manage a chemical dependency and mental illness monitoring and referral program for more than 700 health care professionals.[406] In late 2001 MAXIMUS signed a three-year, $113 million contract with the Department of Health Services to provide managed care education and enrollment services to some four million Medicaid recipients in California.[407] As part of a major Electronic Benefit Transfer (EBT) project awarded by the Health and Human Services Data Center, MAXIMUS serves as a subcontractor to Sacramento-based Eskel Porter Consulting, Inc., providing professional consultant services throughout the EBT project's implementation.[408] Also, MAXIMUS is contracted by many California counties to provide revenue maximization services (maximize federal funding).[409]

Other Contracts: MAXIMUS has full and partial-service child support contracts in multiple states, runs fully privatized welfare-to-work programs in Wisconsin & Arizona, provides smart card services to the U.S. Dept. of Veterans Affairs, and provides an e-procurement system for the state of Indiana.

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Policy Studies, Inc. (PSI)

Overview: Policy Studies Inc. (PSI), of Denver, Colorado, contracts with state, local, and federal governments in the United States and abroad to provide outsourcing, technology, and consulting services. The privately traded company is growing rapidly. Revenue was up nearly 38% in 2002. In 2003, PSI was named the sixth fastest growing private company in Colorado by the Denver Business Journal.[410] Today, the company operates 47 privatized offices in 21 states, with the majority of their government contracts coming for child support enforcement.[411] CEO and founder, Dr. Robert Williams, is considered by many to be the 'father' of U.S. child support policy. In the 1980's, as a consultant to both the national Office of Child Support Enforcement and many states, Dr. Williams developed and implemented the controversial income shares methodology utilized to calculate child support around the country today. In 1984, right in the midst of his consulting work, Williams founded Policy Studies, Inc. Thus, Williams created the system that determines how large child support awards will be and at the same time created a company that gets paid based on those awards.

Today Williams & PSI continue to consult with state legislatures on their child support guidelines.[412] In 2001, PSI provided these consulting services to the state of California, issuing a report entitled "A Review of California's Statewide Uniform Child Support Guideline," to the Judicial Council. PSI also had influence on the California Performance Review. In their proposal to privatize California's child support enforcement, the CPR drafters cite a blatantly self-interested PSI study as "proof" of the superiority of privatization.[413]

Contract Failures: PSI has had few documented problems, but they have lost some contracts due to cost overruns and failure to produce results. In 2002, PSI and its subsidiary CHA lost a contract to administer Colorado's Child Health Plan Plus (CHP+). This came after the state had to forfeit $18.6 million in federal funding due to insufficient enrollment. According to the *Denver Business Journal* the public-private initiative not only fell short of enrollment goals but also was criticized for spending too much on administration.[414]

In the field of child support, Policy Studies lost a contract to operate offices in Arlington and Alexandria, Virginia after they were unable to make a profit.[415] This is a somewhat telling point. PSI tries to make the case, in the study cited by the CPR, for the success of child support privatization based on measures that pit their offices versus state averages.[416] The problem with this method is that caseload characteristics (demographics) significantly affect an office's statistical performance. Comparing 1 or 2 offices to the state average without factoring in caseload characteristics tells you little about the success of that office or offices. Said office(s) may simply be dealing with a caseload from a higher than average income distribution, making it easier to collect child support. PSI's failure to make a profit in Arlington/Alexandria while "succeeding" in other Virginia sites illustrates the differences that can exist between offices and thus demonstrates the flaws in their study.

Service Areas: Mainly child support enforcement, child support consulting, and public health benefits program administration. Also provides IT services in the form of automated child support systems.

CPR Sections of Interest: HHS03: This is the CPR proposal Policy Studies is most interested in. Child Support Enforcement is the company's specialty and the CPR cites a PSI study in this section of their proposal. HHS01: Policy Studies administers the SCHIP program in both Florida and Georgia and might be interested in expanding to other welfare programs.

Revenue: 2002: $128 million, up from $93 million in 2001.

Employees: more than 1,200

Subsidiaries/Parent Companies: Child Health Advocates (CHA) and Dental Health Administrative and Consulting Services, Inc. (DHACS) are both PSI subsidiaries

Leadership/Political Connections: President, CEO, and Co-founder Robert Williams is depicted by many to be the 'father' of current U.S. child support policy. "He has to a very great extent dictated child support policy in all states."[417] From 1983-1990, Williams consulted with the US Health and Human Services (HHS) agency's Office of Child Support Enforcement in order to drive establishment of uniform child support guidelines for the states. In 1987, Williams "Income Shares" Model for child support awards was developed and promoted to various states.[418] This model bases the cost of raising a child on the amount of income that people earn. Originally designed for welfare cases, the guideline has been criticized for resulting in child support awards that, for middle and upper income families, far exceed the actual costs of raising children. Nonetheless, most states adopted the Income Shares model fairly quickly to ensure the receipt of federal funding. Williams model is estimated to produce awards on average 250%-300% higher than those that were previously being established according to state law.[419] While it is certainly arguable that this change was a positive one, it is easy to question Williams' motives. PSI has a direct financial interest in high award amounts and the company's founding, in 1984, coincided with Williams' involvement in federal child support issues. Today PSI runs 30 full-service enforcement offices in 9 states. They collected $266 million in child support last year, with the company seeing between 10 and 32% of that money.[420]

PSI's other big business line is general guideline development consulting. This means the company routinely contracts with State legislatures, including California's, to review the "appropriateness" of their child support guidelines.[421] Thus, today Williams & PSI continue to have an impact on child support award levels.

Mike Henry, PSI's President of Child Support Services, formerly directed the child support programs in Missouri and Virginia, and served as President of the National Child Support Enforcement Association and the National Association of Child Support Administrators.[422]

Contracts in California: PSI has contracted with the state legislature of California to provide child support guideline development consulting. In 2001, PSI put out a report, the result of one of these contracts, to the Judicial Council of California entitled "A Review of California's Statewide Uniform Child Support Guideline."[423]

Other Contracts: PSI runs 30 full-service child support offices in 9 states - Maryland, Virginia, Arizona, Tennessee, Colorado, Wyoming, North Carolina, West Virginia, and Oklahoma - and provides partial-service in several others. They have provided automated child support systems for at least 5 states and they contract with state legislatures for child support guideline development consulting. Also, PSI currently administers the State Children's Health Insurance Program (SCHIP) through its DHACS subsidiary in two states, Florida & Georgia.[424]

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Sodexho, Inc.

Overview: Operating out of Gaithersburg, MD, Sodexho, Inc. is one of the largest contract food service operators in North America with about 6,000 clients in the U.S. and Canada. The company is the result of the merger of Marriott Management Services with the North American operations of publicly traded French food service company, Sodexho Alliance. Sodexho Alliance bought the entire firm in 2001 and now operates it as its North American subsidiary, a subsidiary that is responsible for 47% of the parent company's revenues.[425] Not just a food service provider, Sodexho, Inc. also offers a laundry and linen service and facilities maintenance, including custodial services and groundskeeping.

Sodexho has a very controversial labor relations record that includes one of the largest race discrimination lawsuits ever filed involving employee promotion.[426] The company has been accused of poisoning children and the elderly with their food and received heat in the past for being a major stockholder in Corrections Corporation of America (CCA), the world's largest private prison company. Sodexho eventually sold its stake in CCA (in response to numerous college student protests) but continues to own for-profit private prison companies in the UK and Australia.[427]

Over the past three years, both Sodexho, Inc. and its parent company have maintained fairly consistent revenue and employee flows. The CPR section of most interest to the firm is ETV06-a proposal to repeal SB1419.

Labor Relations & Contract Failures: Sodexho, Inc. is currently the target of a large class-action race discrimination case brought by 2,600 black current and former employees. Since March 1998, 54 lawsuits involving Sodexho have been filed in U.S. federal court between the company and its employees, including 10 by current and former managers.[428] Thirty-eight of those cases were employment discrimination lawsuits. In 2000, the company was forced to revise its employee handbook after the U.S. National Labor Relations Board found that some of the company policies interfered with workers' basic rights.[429] In 1998, a Sodexho subsidiary allegedly caused the food poisoning of over 1200 children in 7 states; in 2000, six college students became ill from e. coli after eating Sodexho Food; in a California hospital, linens reportedly came back from a Sodexho-run laundry contaminated with blood and feces; and in 2001 a Sodexho cafeteria employee's severed thumb ended up in a students' sandwich due to the company's apparent failure to properly clean the vegetable slicer. Separately, in one of their non-government contracts, an e. coli outbreak allegedly caused by Sodexho spinach killed one retired woman and hospitalized at least 9 others.

> **Sodexho Facing Racial Discrimination Lawsuit**
> *Washington D.C.*- Sodexho, Inc. a food service contractor, is facing potentially the largest racial discrimination lawsuit ever brought involving managerial promotions against a private employer. It started in 2001, when Cynthia McReynolds, an African-American manager at Sodexho, filed a lawsuit, on behalf of her black managerial colleagues, claiming that Sodexho illegally and systematically passes over black managers for promotion in favor of white employees with less seniority and experience. The lawsuit is now being moved forward by a total of 2,600 current and former Sodexho managers. The allegations have stood up to intense scrutiny by a federal judge, who gave the lawsuit class action status in June 2002. In certifying the lawsuit's class status, U.S. District Judge Ellen Segal Huvelle, in Washington D.C., determined that the plaintiffs had made a "significant showing" of a "common policy of discrimination" against African-American managers at Sodexho.[430] The trial is set to begin in the spring of 2005.

Sodexho Heat And Serve Food Reportedly Poisons 1,200 Students

Chicago- In 1998, a subsidiary of Sodexho, Inc., the second biggest private contractor running school cafeterias in the U.S., allegedly poisoned over 1,200 students in seven states. RHSCO Enterprises Inc., a heat and serve company, was shipping 80,000 frozen burritos a day during this time to schools and other institutions across the country. Elementary school students from North Dakota, Florida, and Georgia all ate RHSCO burritos, packed in the same plant on Chicago's South Side, before they fell seriously ill. 36 of the 469 sickened North Dakotan students had to be sent to the emergency room.

Such widespread poisoning is made possible by private contractors who put frozen school entrees on menus in several cities at once, giving national reach to plants that produce unsafe meals, and by distributors who draw frozen entrees from scantly inspected subcontractors. In the case of the Sodexho/RHSCO food poisoning, tortillas produced in a plant owned by Oscar Munoz were, eventually, linked to the outbreaks. The specific Munoz plant said responsible, on 43rd street, was not inspected during the period of reported problems. However, to give an idea of what this plant might have looked like, a 1999 state inspection described a separate similar Munoz facility as follows: 'Flies were everywhere. Corn spilled from broken bags onto the wet, broken floor. Toxic chemicals, sacks of cement and cans of paint sat nearby. Bakery equipment had been patched with cardboard, string and tape. The ceiling peeled, the basement reeked of mold and the electrical cords hanging over the corn-grinding kettle were covered with dust.' The startling thing is that even if Munoz's 43rd street plant had received a similar or worse inspection report a year earlier, it likely would not have made a difference. According to David Jackson of the Chicago Tribune, neither Sodexho Alliance nor Compass Group PLC, the largest private school food contractor in the country, read the inspection reports of government food safety agencies that monitor their suppliers, and nothing in their contracts says they should.[431]

Six College Students Sick with E-Coli After Eating Sodexho Food

In March 2000, six students at the State University of New York at Albany became ill from e. coli bacteria after eating at a Sodexho Marriott-run cafeteria. The Albany County Health Department said the contamination may have been caused by workers using the same gloves to touch raw meat and hamburger buns. Sodexho denied there was a proven link between their food and the outbreak. The campus ended its contract with the company less than one year after it was signed.[432]

Sodexho-Cleaned Laundry - Not So Clean

California- In September 1999, San Francisco Weekly published an article detailing problems with Sodexho's hospital linen laundering services. Linen laundered under contract by Sodexho was reported by the nursing division of then-called UCSF-Stanford Health Care Hospital to be contaminated with "fecal smears, blood, hair, dirt and tape." Also, linen used by patients from the hospital was apparently mixed by the contractor with linen used in medical research on animals. Asked about the mingling of human and animal laundry, a hospital spokeswoman said it has always been done that way. However, at least two former laundry employees told *SF Weekly* that -- before the laundry service was contracted out -- human and animal linens were *always* separated.[433] The UCSF-Stanford merger did not last and both hospitals eventually terminated their contracts with Sodexho.

Health Officials Determine Sodexho Failed to Clean Vegetable Slicer After Accident

Cape Cod- In 2001, an automatic slicer that cut off part of a woman's thumb was not properly dissembled and cleaned, according to health officials, before a Sodexho cafeteria worker used it to cut vegetables for hundreds of student lunches. A piece of the employee's thumb ended up in a student's turkey and tomato sandwich the next day. Sodexho was fined for the incident.[434]

More Sodexho Problems

Bethlehem, Pennsylvannia- In 2000, more than 500 parents and residents of the Nazareth Area School district signed a petition calling for an end of contract with Sodexho for managing its five school cafeterias. Complaints ranged from expired freshness dates on bread and milk to lack of consistent management.[435]

El Paso, Texas- A dietician who had stopped working for Sodexho five years previously claimed in 2001 that Sodexho forged her signature to approve the nutritional quality of the menu.[436]

Portola Valley, California- Though not a privatization story, the following example is illustrative: In Oct. 2003, Sodexho food was reportedly responsible for an e. coli outbreak in a California retirement home that killed 1 person and hospitalized 9 others. San Mateo County Health Services Agency linked the outbreak to a batch of pre-washed, raw spinach provided by the company.[437]

Service Areas: The company's food service clients include hospitals; extended care, independent living, and corporate dining facilities; universities; stadiums; schools; and the U.S. Marines. Among Sodexho's facilities maintenance offerings are building maintenance, custodial services, and groundskeeping. With 30 laundry plants, the firm provides laundry and linen services to 400 clients in the health care and lodging industries.

CPR Sections of Interest: ETV06: The repeal of SB1419 would open up school district to privatization of all non-instructional services. This includes food service, making it of serious interest to Sodexho.

Finances:

- Sodexho, Inc. 2003 revenue: $5.96 billion, down 2.6% from 2002.
- Sodexho Alliance 2003 revenue: $12.837 billion, up 3.7% from 2002.[438]

In 2002, Sodexho Alliance announced it had detected accounting and management errors in its UK operations, causing the value of its stock to fall by nearly one-third.[439]

Employees:

Sodexho, Inc.:

2003	**2002**	**2001**	**2000**
119,009	117,689	120,147	112,061

Sodexho Alliance:

2003	**2002**	**2001**	**2000**
308,385	315,141	313,469	285,986

Subsidiaries/Parent Companies: Sodexho, Inc., The Wood Company, and Universal Sodexho, are all subsidiaries of Sodexho Alliance. The Wood Company (a.k.a. Wood Dining Services) operates onsite dining services for corporations, universities and colleges, hospitals, and senior residence facilities in the U.S. Wood has operations in about a dozen states. Universal Sodexho provides catering and facilities management at remote locations (such as offshore oil rigs). The firm secured a contract with the U.S. Department of Defense in late 2004 to provide its services through January 2007 to U.S. troops in Kuwait City, Kuwait.[440]

Leadership/Political Connections: Reginald E. Gilliam, Jr., senior vice president of government affairs (Sodexho, Inc.), was commissioner of the U.S. Interstate Commerce Commission from 1980-1983, served as chief of staff for Rep. Louis Stokes (D-Ohio) from 1991-1993, and has worked for the Department of Transportation in New York.[441] Sodexho Alliance Chairman & CEO Pierre Bellon and his family own roughly 40% of the parent company.[442] President & CEO of Sodexho, Inc., Michael Landel, will take over the chief executive postion at Sodexho Alliance in 2005.

Campaign Contributions: In the 2004 election cycle, Sodexho, Inc. PAC contributed $28,750 to federal races (81% to Democrats, 19% to Republicans).[443] Since the beginning of 2003, Sodexho has spent over $60,000 lobbying the California legislature. Much of this lobbying was for the repeal of SB1419.[444]

Contracts in California: Sodexho is contracted with UC Davis to provide all university dining and vending services. Last June, UC Santa Cruz ended a similar contract with the food service giant after workers and students protested the university's relationship with such a low paying, anti-union company.[445] Similarly, a student group at Cabrillo Collge in 2002, protesting Sodexho's connections with the private prison industry, convinced campus leadership not to renew their contract with the company.[446]

Other Contracts: Sodexho, Inc. provides food & facilities management services to over 470 school districts across the country. Everyday the company serves 2 million school meals.[447] Specific contracts include: a five-year, $30 million/year deal in St. Louis to provide facilities management and a $100 million food service contract for Atlanta public schools.[448] The company recently won an $800 million-plus contract from the U.S. Marines to supply all of its 55 mess halls in the United States.[449] Also, in 2002 Sodexho, Inc. was awarded a food services contract with the U.S. State Department worth $324,120 to provide operation and maintenance services for the cafeteria at the U.S. embassy in Kabul, Afghanistan.[450]

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The GEO Group Inc.

The GEO Group, formerly Wackenhut Corrections, is one of the largest operators of private correctional/detention facilities in the U.S. The Florida-based, publicly traded company operates at least 41 facilities with about 36,000 beds located mostly in the U.S., but also in Australia, Canada, New Zealand, and South Africa. Including its recently signed contract to reopen a correctional facility in Kern County, GEO has contracts to operate 6 facilities in the state of California (4 state contracts, 2 federal). GEO also offers educational, rehabilitative, and vocational training programs. In 2003, it bought back the 56% stake that its former parent, Danish security firm Group 4 Falck, held in the company. As result, the company abandoned the Wackenhut trademark and name.

Despite allegations of sexual misconduct by its guards, physical abuse of inmates, and unpaid overtime to its workers, GEO continues to expand. The company is developing two additional facilities and is working on proposals for seven more. Revenue increased 8.6% from 2002 to 2003 (the most recently reported numbers).

Revenue:

2003	2002	2001	2000	1999	1998
$617.4 M	$568.6 M	$562.0 M	$535.5 M	$438.4 M	$312.7 M

Employees (Full-time):

2003	2002	2001	2000	1999	1998
9,274	11,412	10,763	10,094	8,922	8,000

Campaign Contributions/Lobbying/Political Connections: Wackenhut Corrections donated $53,000 to Governor Schwarzenegger in late 2003. The company also gave $5,000 to Schwarzenegger's recall campaign.[451] In 2003/2004, GEO spent more than $483,000 lobbying the CA legislature. This is up from the $160,000 they spent in 2001/2002.[452]

GEO has hired some well-connected folks in recent years to help with their California state government business. In 2004, GEO hired the Flanigan Law Firm to do much of its lobbying ($37,500 worth). The firm consists of four brothers who were close to former governor Pete Wilson and his administration. Several former Wilson aides are high-ranking Schwarzenegger administration members. In short, Flanigan is considered well-positioned to influence the governor's inner circle of advisors. GEO also retained as a consultant, Joe Rodota, a former Wilson aide who was policy director for the Schwarzenegger recall campaign.[453] Rodota is currently a member of the Little Hoover Commission.

Contracts in California: The GEO Group currently operates 5 correctional facilities in California and recently won a contract to reopen a 6th facility this year. 4 of the 6 contracts are with the California Department of Corrections, one is with the U.S. Department of Justice, and one is held with the U.S. Marshals Service.

Contracts include:

- 10-year contract signed 8/20/96 with the CDC to operate the Golden State Modified Community Correctional Facility in McFarland, CA
- 10-year contract signed 8/20/96 with the CDC to operate the Central Valley Modified Community Correctional Facility in McFarland, CA
- 10-year contract signed 8/19/96 with the CDC to operate the Desert View Modified Community Correctional Facility in Adelanto, CA
- Contract Signed January 2005 with CDC to operate the McFarland Community Correctional Facility in McFarland, CA. The contract is worth approximately $3.5 million annually
- 3-year contract with 7 additional 1-year options signed 7/22/97 with U.S. Department of Justice/Federal Bureau of Prisons to operate Taft Correctional Institution in Taft, CA
- Contract signed 7/3/00 with U.S. Marshals Service to operate Western Region Detention Facility At San Diego. Contract expires 7/5/05

Other Contracts: Including their California contracts, GEO currently operates at least 33 correctional facilities in the United States, constituting 21% of the U.S. private market share. GEO's three biggest states for business are Texas (7 state contracts), California (4 state contracts), and Florida (3 state contracts).

Contract Problems:

Schwarzenegger Hands Out Suspicious No-Bid Prison Contracts

California- In February 2005, the Schwarzenegger administration abruptly canceled one of two no-bid prison contracts shortly after State Senator Gloria Romero called for an audit of the contract awards due to suspicions of impropriety. The canceled contract was a $5.7 million deal that would have allowed Massachusetts-based Civigenics to reopen a corrections facility in Bakersfield. Just before winning the contract in January 2005, Civigenics had hired two former California

Department of Corrections (CDC) officials: Michael Pickett, former deputy director for health services at the CDC, and David Tristen, a former deputy director of operations for the department.[454] According to state officials, the contract was aborted because of an unexpected dip in the inmate population.[455]

The other prison contract in question awarded by Governor Schwarzenegger – and one that the administration intends to keep - is a no-bid $3.5 million contract with GEO Group Inc. (formerly Wackenhut Corrections Corp.) to reopen a prison in McFarland, CA. The prison closed on Dec. 31, 2003, the result of a decision made earlier that year by the Davis Administration to cancel the contract. Just before the closing, in November 2003, Wackenhut Corrections made a $53,000 donation to newly elected Governor Schwarzenegger. Combined with $5,000 the firm gave to Schwarzenegger's recall campaign, this amounts to the largest contribution the company has given to any California politician. According to the company's president, Wayne H. Calabrese, Wackenhut made the donation after Calabrese read a news report in which Schwarzenegger voiced support for prison privatization.[456] However, despite this donation, Schwarzenegger failed to overturn the decision to close Wackenhut's (GEO's) prison.

After the state ended its contract, GEO reportedly hired a consultant and a lobbying firm close to the Schwarzenegger administration in 2004 and recaptured the business in 2005.[457] Additionally, Correctional Properties Trust, the company that owns the McFarland prison and leases it to GEO, appointed Schwarzenegger's former finance director, Donna Arduin, to its Board of Directors 10 days after she left the state payroll.[458] Senator Romero, who is the chairwoman of two committees that have jurisdiction over the state's prison system, pointed out that the Department of Finance "had to be in the midst" of any negotiations on the prison contracts. Said Romero: "This is absolutely amazing; talk about revolving doors."[459]

The Lack of Training, Low Wages, and Poor Benefits in For-Profit Prisons are Dangerous

New Mexico- A 500-page legislative report written by five independent consultants found that the low wages Wackenhut, a private prison contractor, pays its workers were partially responsible for a prison riot. About 400 inmates at a Wackenhut facility participated in the August 1999 riot, leaving 13 Corrections Officers (COs) injured and one inmate and one guard dead. Two of the injured COs were state officers who were at the prison to provide training. The consultants blamed the state for placing violent gang criminals in the company's medium-security prison, but they also denounced Wackenhut for inadequate staffing, inexperienced supervisors, low pay, high turnover, and heavy overtime. The CO who was killed was making only $7.98 an hour. Low wages and benefits paid by for-profit corrections firms can attract workers who would not be qualified to work in a public correctional setting.[460]

2,700 Employees Sue Prison Contractor for Overtime/Off-the Clock Pay

California- In 2004, after a three-year overtime wage and benefit court battle with 2,700 present and former employees, Wackenhut Corrections Corporation (now the GEO Group, Inc.) reportedly agreed to pay $10.1 million in a settlement. The workers, both guards and support personnel, claimed the company did not pay overtime and made them work off the clock without pay. They also claimed they were not given proper rest and meal breaks. The employees worked at six private prisons in California including McFarland Community Correctional Facility (a prison that is under scrutiny for the circumstances surrounding its recent reopening) and the Taft Correctional Institution in Kern County.[461]

Separately, one month earlier, a federal jury awarded a former Wackenhut employee more than $600,000 after he sued the private prison contractor for wrongful termination. John Elliot, a former warden at the Taft Correctional Institution, claimed that the company retaliated against him after he wrote to government officials alleging that Wackenhut covered up a prisoner escape; allowed sexual and physical assaults and drug use by prisoners; allowed prisoners to possess weapons; mishandled incident reports; and was not complying with its contract with the Federal Bureau of Prisons. Elliot was initially suspended without pay and then dismissed. The jury ruled that Elliot's complaints were protected under federal laws governing "whistleblowers" that call attention to unsafe or illegal business practices.[462]

Allegations of Understaffed Prisons and Sexual Assault Behind Bars Earn Wackenhut Notoriety in Texas

Texas- Wackenhut Corrections Corporation lost a state contract to run the Travis County Community Justice Center in the fall of 1999 shortly before 11 former guards and a manager were indicted on charges of sexual assault, harassment, and/or misconduct involving 16 female inmates. Texas officials called the case the biggest prison sex scandal in state history. Said Ron Weddington, an Austin lawyer representing one of the inmates, "I've been practicing law for about 30 years, and I've never heard of anything like this in the state- or county-run jails. This is pretty much off the charts."[463] At least two of the defendants have been convicted and one was acquitted. Most of the cases were still pending as of 2001.[464]

One year earlier, a state audit had shown that the Travis County jail barely employed the minimum number of guards required by contract. A notice of default was filed, and Wackenhut eventually brought in more employees, but not before being fined $625,000. According to state jail division director Tom Baker, "[Wackenhut] never seemed to be able to keep staff, they always seemed to be below the contract requirement and, as a result, a number of the programs that Travis County wanted to implement never materialized." Wackenhut's staffing problems were likely a result of the low wages they were paying workers. At the time of the audit, Wackenhut started its guards at $6.50 an hour, a puny wage in Austin's economy.[465]

Separately in 1999, Wackenhut faced similar allegations involving a juvenile facility the company ran in Coke County, Texas. According to a lawsuit filed by Dallas lawyer Penny Raney, Wackenhut failed to properly screen, train, and supervise its employees at the female youth prison. Said Raney, "the girls were made to live in an environment in which sexual contact, deviant sexual intercourse and statutory rape were frequent, and which resulted in a hostile, permissive sexual environment, and where residents were physically injured to the point of being hospitalized with broken bones." Independently, the state filed criminal charges of sexual misconduct against two guards. Both pled guilty. Responding to all of these incidents, Wackenhut CEO George Zoley said that the company was making some changes. Among them: Only female guards would supervise female inmates.[466]

Justice Department Slams Private Prison Contractor For Treatment of Prisoners, Understaffing, Questionable Hiring

Louisiana- On April 5, 2000, Wackenhut surrendered control of its juvenile prison in Jena, Louisiana to the state after the U.S. Justice Department accused the company in a lawsuit of beating boys, using tear gas indoors, spraying the boys in the face with pepper spray and not providing adequate education and counseling.[467] The lawsuit came one month after a panel of Corrections experts appointed by the Justice Department's Civil Rights Division issued a 277-page report critical of Wackenhut Corrections Corp.'s operation of the Jena prison. One of the Justice Department consultants, Nancy K. Ray, wrote that the prison's operating problems stemmed largely from staffing problems. During its 13-month history, she wrote, more than 600 people drifted through 180 positions -- including 125 who had been fired in 1999. Ray also found that Wackenhut had hired many people who had no business working in a juvenile prison. At least 20 employees, Ray wrote, had been named in publicly filed abuse cases before they were hired. Others had criminal records. One sergeant, who was fired in July of 1999 for slamming a boy's face onto a concrete floor, had four criminal convictions in 1998, including one for aggravated assault. Ray also observed that recreation and rehabilitative programs at the prison were "grossly inadequate."[468]

In a mid-April 2000 a settlement between the state of Louisiana and the Justice Department was reached over the Jena prison lawsuit. The agreement included the banning of corporal punishment, a cut back on the use of chemical restraints, and a reduction in the inmate population. It should be noted that this Justice Department lawsuit against Wackenhut's prison was an add-on to an already existing civil rights lawsuit the department had against Louisiana's juvenile prisons. This larger case remained unsettled as of April 2000.[469]

In May 2000, a legislative auditor criticized the state's contract with Wackenhut, telling a Senate committee the contract lacked critical oversight provisions. According to Auditor David Kyle and his staff, the contract failed to require Wackenhut to, among other things: fill a minimum number of staff positions, conduct background investigations on prospective employees, and provide training and orientation.[470]

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GOVERNMENT EFFICIENCY PROGRAM

Inefficiencies do exist in government. While this paper has demonstrated how privatization can exacerbate government inefficiencies, our best answer for how to create an efficient government is by no means simply abstinence from further contracting-out. Innovative methods for increasing government efficiency utilizing a public-sector workforce exist and have been tried with success. These techniques include engaging rank-and-file employees in decision-making, making productivity payouts to workers based on savings achieved, and insourcing previously contracted work.

Thus far, a government efficiency program utilizing anything other than the competition=efficiency mantra found regularly in the California Performance Review (CPR), has been ignored as a California reorganization possibility. In fact, Co-Executive Director of the CPR, Chon Gutierrez, admits that the CPR "had no policy discussions on the notion of trying to determine the incremental cost of contracting out versus having a State employee do [the work]."[471] If California state government is serious about improving the efficiency of its operations it must consider the potential for government improvement involving public sector provision of services. The following section highlights some general principles for improving government with public workers, as well as examples where these principles have been followed.

Government Efficiency Principles

The following are some general principles for governments to follow to increase efficiency

1. **Reform Government Systems to Increase Quality**

According to the grandfather of Total Quality Management (TQM), Edward Deming, at least 85% of the problems in producing quality products or services are the result of the system, not the workers.[472] California's public workers are enthusiastic about reforming the system to eliminate these problems and more efficiently provide high quality services. Public sector management should commit to working with employees on this reform.

2. **Avoid Hidden Costs of Contract Government**

Efficient delivery of public services requires the review and streamlining of the many thousands of contracts for goods and services held by the state of California. The review should focus on the numerous contracts providing duplicative services to multiple state agencies. The systems for classifying contracts also need review. Currently, the state of California has over one thousand so-called "confidential" contracts totaling over fifty million dollars. Information on these contracts, including who holds them, is unavailable to the public.

3. **Invest in Skills and Training**

Public sector dollars are better spent investing in skills and training for our current workforce than on outsourcing to a constant "revolving door" of temporary contractors and consultants. Rather than spending money on private employees, we can ensure a continued return on California's long-term investment in its public sector through, for example, inter-agency career ladder infrastructures, ongoing technology skills upgrading, and cross-training of employees.

4. **Encourage and Reward Innovation**

Innovation in government requires encouraging innovation at all levels, providing resources and rewards for creating thinking, learning from the outside and providing support from the top. [473] Examples of rewards include granting intellectual property rights to employees, allowing for monetary returns to employees for creating commercially valuable intellectual property; and productivity payouts based on savings gained through redesign and efficiency.

5. **Promulgate Best Practices**

Best practices in the effective and efficient delivery of public services should be shared across agency, department and state and local lines. In order to encourage the adaptation and adoption of these practices, the state must increase intra-agency communication and create structured opportunities for in depth exchange of ideas over the long term. State unions are ideal participants in this cross-fertilization process. Among the few state organizations that span agency lines, state unions possess an in-depth knowledge of current state practices and are uniquely situated to implement innovative ideas.

6. **Utilize Labor-Management Cooperation**

Working together, management and workers can create high quality public services and efficient means to deliver them. According to A U.S. Secretary of Labor Task Force report "engaging employees in workplace decision-making…can be a powerful tool to achieve tangible improvements in service, cost savings, quality of work life, and labor-management relations."[474]

7. **Pursue a Unified Information Technology Strategy**

A unified information technology strategy that a) utilizes e-government to bring government closer to the people and b) centralizes IT infrastructure as a technological utility for the state will result in significantly improving the efficiency and effectiveness of state operations. SEIU Local 1000 has prepared an Information Technology Strategy proposal that provides a list of detailed recommendations. (See below).

Government Efficiency Principles in Action

This section includes examples where the above principles have been followed resulting in superior service delivery and/or cost savings. Also included is SEIU Local 1000's 12-point Unified Information Technology Strategy created to take advantage of the enormous potential IT has for improving government services.

Streamlining and Reducing Costly State Contracting:

Virginia Saving Money By In-sourcing IT Work

Virginia recently (2003) made the transition from a decentralized Information Technology (IT) service delivery headed by multiple CIOs, to a highly effective, centralized model headed by an enterprise CIO. Recognizing that significant structural and cultural change can be highly disruptive, Governor Mark Warner and Secretary of Technology George Newstrom committed to no net layoffs of state IT employees during the transition. In fact, Virginia's plan was to *in-source* IT work rather than just *not outsource more* work, and it is proving to be cost-effective. The IT Transformation Initiative reduces the Commonwealth's dependency on contract staff by converting contractors to full time state employees where appropriate. Contractors cost the state nearly twice as much as a state employee: At the aggregate level, contractors represented 14% of the state IT workforce yet accounted for 28% of the cost; at the individual level, contractors cost an average of $116,000 annually while state IT employees cost an average of $67,000 annually. In Virginia's

Department of Social Services, approximately 75 contractors were converted to full time state employees, at a total savings of more than $1.75 million annually.[475]

Delaware Saves Money By Pulling Private Contractors In-House

Delaware- In 2002, Delaware's Information Technology Department stopped contracting-out its IT work, turned many of its consultants into state employees, and saved money. When the state began to experience fiscal difficulties, it started to carefully review the actual costs of private IT consultants. In fact, consultants were paid much higher wages than public-service employees but were essentially working as full-time employees. To remedy this situation, Delaware CIO Tom Jarrett got the IT department exempted from civil service pay scales, allowing him to pay market value for IT employees. Now, he's paying state IT employees more, but has saved the state an estimated $2.5 million by no longer employing private contractors.[476]

Investment in training and skill development:

Efficiency Training and Employee Innovation Lead to Savings in Miami-Dade

In 1998, with talk of government failure and privatization looming over its head, the Miami-Dade Water & Sewer Department (WASD) proposed, and got the county to pass, an efficiency improvement program that enabled employees to participate in the decision-making process and share in the savings generated. The program resulted in a $52 million reduction in operation and maintenance costs from FY97 to FY01.

The first step in the initiative was training. More than 40 Efficiency Workshops were held and the program established process improvement teams to evaluate the thousands of suggestions generated by employees participating in the workshops. Changes stemming from these suggestions were financially beneficial to all parties involved. Employees received $1,133 for saving $9.4 million in 2000, $519 for saving $4.32 million in 2001, and $408 for savings of $3.6 million in 2002. The department has not had a rate increase for customers since the program began.[477]

See Also:

- **Water Services Labor-Management Team Exceeds Ambitious Savings Goals**

Encouraging/Rewarding Innovation:

Innovative Public Offices Outperform Private Child Support Offices in Maryland

Public-sector, staff-developed innovations enabled child support offices in Maryland to significantly outperform private offices in a 22-month study. In 1995, Maryland's General Assembly crafted a pilot program compromise between corporate and labor recommendations. Baltimore City and Queen Anne County child support enforcement programs would be contracted out to private business, while in three counties (a fourth was added later) public employees would do the work using innovative methods to improve morale and performance.[478] Among these strategies was to pay bonuses to the entire staff when a local agency met its goals and to design an analysis of current workflow to use as a basis for a staff-developed corrective action plan.[479] A study conducted by Johns Hopkins and Towson Universities, lasting from November 1999 to September 2001, concluded that these public employees outperformed traditional government agencies and the private contractor (MAXIMUS) on several measures including securing court orders, establishing paternity, and making collections.[480]

Employee Incentives and Labor-Management Cooperation Help Save Money for Wastewater Treatment Division

Washington- Building on a "Participative Workforce Program" started in 1990, labor and management came together at the King County Wastewater Treatment Division in 1999 to establish the "Productivity Initiative Program." The initiative committed the Wastewater Treatment Program (WTP) to specific levels of cost reduction and efficiencies over 10 years, with year-by-year targets for savings to ratepayers. All three unions in the division were on board for this idea and labor participated in the business planning efforts. A Productivity Initiative Fund was created for savings which exceed the projected budget target for a year. This fund is used for payouts to employees, training, awards and a reserve fund.

The Productivity Initiative is on track in meeting budget goals, reducing rate increases, and instituting division-wide improvements. A Balanced Scorecard approach determines success by measuring performance in four distinct areas: People Management (Employee satisfaction, retention and development); Internal Processes (Regulatory compliance, safety, infrastructure management and innovative strategies); Customer Focus (Customer and stakeholder satisfaction and environmental excellence); and Financial (Rate stability, budget variance, debt service coverage, cost of daily wastewater treatment). In 2001, employees saved an additional $2.7 million beyond the $2.8 million target reduction; and in 2002 employees saved $1.7 million beyond the $5.4 million in target reduction. Productivity payouts to employees were approximately $1,200 in 2002 and again in 2003.[481]

QStP Initiative in Ohio Has Led to Better Service Quality and Cost Savings

In 1993, Ohio launched its Quality Services through Partnership (QStP) initiative, to improve the delivery of public services through employee innovation and labor/management cooperation. QStP provides a rigorous problem-solving framework which has resulted in increased customer satisfaction and cost savings through reduced errors, elimination of delays, and increased employee productivity. The QStP framework includes a Statewide Steering Committee made up of equal numbers of union and management leaders, Steering Committees within each department, and "improvement teams" of employees who identify problems & develop innovations. Part of the program's success can be attributed to contract language that ensures that QStP will not result in layoffs, thus allowing employees to feel free to make improvements even if they result in fewer workers in a particular agency or department.[482]

An example of the kind of improvements QStP has led to: In the Office of Medicaid it was taking too long to process applications, and new providers were being rejected at an unacceptable rate. In response, an improvement team developed new provider applications, and implemented an automated mechanism for tracking applications. As a result of these changes the total application processing time was reduced from an average of 44 days to an average of 18 days, and the error rate for initial applications was cut in half.[483]

All told, Ohio's QStP initiative produced state government savings of more than $150 million in its first six years of operation.[484]

See Also:

- **Efficiency Training and Employee Innovation Lead to Savings in Miami-Dade**

Labor-Management Cooperation:

Cuyahoga County Reduces Employee Turnover, Improves Service
Through collaborative efforts between labor, management, and community organizations, the Department of Children and Family Services in Cuyahoga County, Ohio has dramatically improved outcomes. The purpose of the department is to assure that children at risk of abuse or neglect are protected within a family and with the support of the community. In the late 1990's, adoptions were down, the department had a logjam of caseloads, poor community relations, and high employee turnover. In 1999, to improve some of these problems, a new department director and a new union president decided to change the way the county and union worked together. Some of these changes included: Consulting front-line social workers on what they would change about how the department did its work, conducting exit interviews with departing social workers to find out why they were leaving, giving supervisors extra training, and creating a new customer service unit. The department was able to create partnerships with neighborhood stakeholder groups (including non-profit schools, local businesses, and the Workforce Investment Board) and conduct public meetings to give community residents a chance to say how they want their children cared for. Since these changes: Social worker turnover has dropped from 30% annually to 8%, more children experience only one placement in a foster home before being returned home or adopted, and the time it takes to move cases from intake to investigation has significantly fallen. Where once cases waited for six months, cases now are opened within 60 days.[485]

Water Services Labor-Management Team Exceeds Ambitious Savings Goals
In 1996, the Phoenix Water Services Department and AFSCME Local 2384 formed the Participative Association of Labor and Management (PALM) to enhance efficiency, assure quality and keep rates low. The five-year goal was to save $60 million. The initial PALM team included eight labor representatives and eight management representatives with joint chairmanship alternating between labor and management. PALM developed a course in team-building and conflict resolution with the help of a local community college. A survey of employee views was used to identify their concerns. Also, a hotline and electronic bulletin boards were created to disseminate information to the staff. To bolster the partnership, management promised that if change resulted in job reductions, reductions would be made by attrition or employees would be placed elsewhere in city government. The labor-management process ended up exceeding its goals, saving $77 million for the Department in the first 5 years.

No employee has involuntarily lost his/her job as a result of this initiative. A new classification system for operations and maintenance technicians was put into place, which created a career path to more skilled and higher-paying jobs. Additionally, employer-provided training was significantly increased and was designed at a variety of levels to enable all employees interested in improving their skills to participate.[486]

Labor-Management Committee Improves Service Delivery and Cost-Effectiveness of L.A. Bureau of Sanitation
Spurred by a severe, city-wide budget crunch, the Los Angeles Bureau of Sanitation formed a joint labor-management committee with SEIU Local 47 in 1994 with the twin goals of trimming costs and improving service delivery. Thanks to the work of this committee, the Bureau increased truck availability from 75 percent to 94 percent, largely by improving cooperation between drivers and mechanics and their respective departments; and reduced overtime by 54 percent due to increased truck availability. Over the ensuing three years, it expected a 25 percent departmental cost reduction without lay-offs.[487]

Management & Labor Work Together in Connecticut's Department of Mental Retardation, Significantly Improve Employee Safety

A labor-management committee in Connecticut's Department of Mental Retardation with District 1199/New England Health Care Employees Union (SEIU) tackled the issue of how to improve employee safety. In one year, the committee's recommendations produced a 40 percent reduction in injuries and a 23 percent reduction -- or nearly $5 million -- in what had been an annual $25 million workers' compensation expenditure.[488]

Healthcare Costs Kept Down Due to Joint Decision-Making

In Peoria, Illinois, health care was becoming a yearly budget-buster. Costs were climbing annually at 9 percent to 14 percent, while total city revenues were going down. With cooperation of all city unions, Peoria took health care off the bargaining table in 1993 and placed it in its own Joint Labor-Management Committee to Control Health Care Costs. The result was 1994 health care costs of $1.2 million less than the expected $6 million. In sharp contrast to past experience, when virtually every health care decision was fought over and bitterly arbitrated, no health care decisions have been arbitrated since this plan was implemented.[489]

See Also:

- **Employee Incentives and Labor-Management Cooperation Help Save Money for Wastewater Treatment Division**
- **QStP Initiative in Ohio Has Led to Better Service Quality and Cost Savings**

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