



HOW **PRIVATIZATION**  
**INCREASES**  
INEQUALITY

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ITPI | IN THE PUBLIC INTEREST

## About this report

Inequality in the United States, which began its most recent rise in the late 1970s, continues to surge in the post–Great Recession era. During similar eras—such as the New Deal—many of the public goods and services we value today were created to deliver widespread prosperity. But the way in which cities, school districts, states, and the federal government deliver things like education, social services, and water profoundly affects the quality and availability of these vital goods and services. In the last few decades, efforts to privatize public goods and services have helped fuel an increasingly unequal society. This report examines the ways in which the insertion of private interests into the provision of public goods and services hurts poor individuals and families, and people of color.

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## Executive summary and introduction

**inequality in the United States**, which began its most recent rise in the late 1970s, continues to surge in the post–Great Recession era.<sup>1</sup> During similar eras—such as the New Deal—many of the public goods and services we value today were created to deliver widespread prosperity. But the way in which cities, school districts, states, and the federal government deliver things like education, social services, and water profoundly affects the quality and availability of these vital goods and services. In the last few decades, efforts to privatize public goods and services have helped fuel an increasingly unequal society. This report examines the ways in which the insertion of private interests into the provision of public goods and services hurts poor individuals and families, and people of color.

Quality public goods and services are fundamental to a prosperous society. Everyone benefits when government creates and supports public schools and universities, transportation systems, parks and libraries, and water systems; and ensures that public systems help people at their most vulnerable, such as a fair criminal justice system and compassionate social safety net.

But privatization, a key pillar of political attacks on government in the last few decades, has weakened many public goods and services and excluded more and more Americans from full participation in the political and economic systems that shape their lives. As former Secretary of Labor Robert Reich explains, “‘Privatize’ means ‘Pay for it yourself.’ The practical consequence of [privatization] in an economy whose wealth and income are now more concentrated than at any time in the past 90 years is to make high-quality public goods available to fewer and fewer.”<sup>2</sup>

As this report shows, privatization has threatened the very goals and missions of many public goods and services, especially those that the poor interact with the most. Instead of a shared responsibility to fund public services, in many cases, the burden has shifted to the backs of the most vulnerable, while corporations managing these services skim off profits. Private companies have left social safety net programs in tatters. Many workers employed by government contractors have plunged further into poverty because of declining wages and benefits. And as private interests continue to siphon money away from public services, the dismantling of public goods not only perpetuates pervasive economic inequality, but also contributes to increasing racial segregation.

In the Public Interest’s analysis of recent government contracting identifies **five ways in which government privatization disproportionately hurts poor individuals and families**, each of which is explored in greater detail in the five main sections of the report:

- 1. Creation of new user fees:** The creation of new user fees to fund public services disproportionately impacts the poor. As government budgets have declined, some jurisdictions have tried outsourcing services to private companies and allowing

those companies to charge fees to the end-user to subsidize or completely fund the service. Many of the services that use this contracting and payment structure are those that poor individuals and families must use or are subject to through their interactions with the government. Furthermore, this regressive user fee approach can fundamentally distort a service's goals and mission, as evidenced by the changing nature of many services within the criminal justice system, such as probation.

- 2. Increase in existing user fees:** Some public services have traditionally been subsidized or funded through usage fees to the end user. However, residents of jurisdictions that have privatized critical public services such as water or transit have experienced steep increases in their rates—such increases particularly harm low-income residents and those on fixed-incomes. Private control of these public services and assets can allow corporations increased influence in pricing and rate levels. Too often, rate hikes do not translate into improved service quality, but instead pad corporate bottom lines.
- 3. Privatization of the social safety net:** Programs that provide and deliver critical support to the poor are often the subject of privatization experiments, many times with tragic results. Because these programs assist those who have little to no political power, these programs are low hanging fruit for privatization. The complex social problems faced by families and children who utilize services like food assistance (SNAP) and Medicaid are difficult, if not impossible, to address using a privatization model, as the need to help recipients with difficult problems and a contractor's interest in extracting profits from the service are often incompatible.
- 4. Decreased wages and benefits:** Privatization increases income inequality through the decline of contracted workers' wages and benefits. When governments directly provide a service, they often provide living wages and decent benefits to workers. When private companies take control, they often slash wages and benefits in an attempt to cut labor costs, replacing stable, middle class jobs with poverty-level jobs. Reduced worker wages and benefits not only hurt individual workers and their families, but also local economies and the stability of middle and working class communities.
- 5. Increased socioeconomic and racial segregation:** The introduction of private interests into public goods and services can radically impact access for certain groups. In some cases, as the public park example in Section 5 shows, privatization can create parallel systems in which one system propped up by private interests typically serves higher-income people, while another lesser quality system serves lower-income people. In other cases, the creation of a private system, such as charter schools in a school district, siphons funding away from the public system meant to serve everyone. In some situations, poor individuals and families can lose access to the public good completely. All of these cases increase socioeconomic segregation, which often results in racial segregation. When they are privatized, public goods that were meant to serve everyone can morph into separate and unequal systems that further divide communities and perpetuate inequality.

In these ways, privatization weakens democratic control over public goods and services and increases economic, political, and racial inequality. But it's crucial to note that privatization is one part of a downward spiral exacerbating the country's already historic inequality. Though state revenues are starting to inch closer to pre-recession levels, recovery for state and local governments has been slow, uneven, and incomplete. This has decreased funding for public goods and services that more and more Americans, due to increasing inequality, have been forced to rely upon. Too often, the answer to this funding dilemma is privatization, which proponents claim is more cost effective than government provision. But cost savings are often unrealized,<sup>3</sup> and, as this report shows, for many Americans—especially the most vulnerable—the impacts of privatization are deeper than monetary costs alone.

*How privatization increases inequality* concludes with recommendations for addressing some of the many problems with privatization identified in this report. We need policies that:

- 1. Adequately fund public goods and services:** Governments must choose to make wise public funding decisions that maintain and improve our public services and assets. This includes funding public services with high rates of social and economic return, including education and infrastructure; ensuring adequate funding for services that can have severe negative consequences for future budgets if neglected, such as programs that provide support for children in poverty; and enacting reforms that have proven to produce significant budgetary savings, such as sentencing reforms in local and state criminal justice systems.
- 2. Fully measure the impact of a potential privatization:** Governments should conduct a robust social and economic impact analysis before privatizing to determine potential impacts on those who use the service or asset, workers, residents, and businesses.
- 3. Ensure government contracts don't undermine shared economic prosperity:** All governments should require contractors to show that cost savings derive from increased efficiencies and innovation, not a decrease in worker compensation. Additionally, governments should require contractors to pay living wages and provide decent benefits to workers.
- 4. Dramatically increase transparency in government contracting:** State and local governments should track how much money is spent on private contracts, how many workers are employed by those contracts, and worker wage rates. This information should be readily available to the public.

These recommendations will go a long way towards addressing inequality and restoring the concept of the common good and the very sense of “community” that sustains a healthy, equitable society.



## Section 1: Shifting the burden to the poor

**G**overnments increasingly find their hands tied in raising new revenues for important public services. Raising taxes to pay for services that residents expect government to provide has become difficult, if not impossible, in many jurisdictions. While state revenues are starting to inch closer to pre-2008 recession levels, recovery for state and local governments has been slow, uneven, and incomplete.<sup>4</sup> In response, many governments are charging fees to residents who utilize a particular public service. According to the National Association of State Budget Officers, from 2009 to 2012, states brought in about \$1.5 billion in new user fees. Georgia, at the high end, raised its fees by \$264 million in fiscal year 2013.<sup>5</sup>

Insufficient revenues combined with the often flawed attempts of many governments to achieve cost savings through contracts with private companies has profoundly changed how some private contractors are compensated by the government. An increasing number of contracts are structured to shift financial burden away from government budgets and onto end users, allowing contractors to collect some, and in some cases all, compensation from the people utilizing or subject to the service. Public services ranging from tax collection to probation have been impacted by this “user-funded” dynamic, as the examples below highlight.

The user fee structure disproportionately impacts poor individuals and families, and in some services, unfairly targets people of color. Many of the contracts that have incorporated this type of fee structure target poor residents, who have the most trouble shouldering the fees. In effect, the “user-funded” approach is a highly regressive way of funding public services that should be, and in many cases once were, a part of basic government operating budgets and paid for with more progressive revenue sources. Some services’ missions have even changed to focus more and more on fee collection. For example, private probation companies are less concerned with supervision of behavior than they are with acting as collection agencies for fees and fines.

Not only is the burden of paying for these services disproportionately shifted to the poor, but private companies that seek to maximize revenues and profits are also able to collect fees directly from these individuals. What can be thought of as a new regressive “tax” is effectively being administered and collected by private companies that may have entirely different goals, priorities, and financial incentives than the government in program and service provision. This is troubling, and as the examples below show, makes the services provided by private contractors ripe for abuse that can have detrimental and sometimes life-threatening impacts on the individuals and families who must participate or comply with the terms of these services.

## Delinquent tax and fine collection

**This regressive user fee structure** is illustrated in the contracts that local and state governments across the country have signed with private companies to collect delinquent taxes and fines. In these contracts, governments typically do not pay the company for their services, but instead allow the company to charge an additional fee to the debtor as compensation. This arrangement incentivizes aggressive tactics by collections contractors to ensure they get paid. States, such as Florida and Texas, have even passed bills that enshrine this dynamic in law. For example, under Florida law, a private collections agent can add up to a 40% fee to the amount it collects for payments that the delinquent individual must pay.<sup>6</sup> Under Texas law, the amount that a private collections agent can collect is set at 30%.<sup>7</sup>

This contracting arrangement incentivizes a contractor to maximize all possible interest charges, surcharges, and fees that can be added on to the initial debt to increase the total amount that the company can collect. Very small delinquent fines, sometimes as low as \$1, can balloon in size once collection is handed over to a private company. For example, in Texas, a driver failed to pay \$7.50 in tolls on a highway. In just a few months, the debt increased to \$157.50, with \$66 in administrative fees and \$84 going to the collections contractor, Linebarger Goggan Blair & Sampson, one of the country's largest government debt collectors.<sup>8</sup>

This arrangement is even more punitive than the collection of consumer debt, such as credit card debt. Consumer debt is regulated by the Fair Debt Collection Practices Act, which prohibits collectors from charging any fee that wasn't originally agreed to in a contract or permitted by state law.<sup>9</sup> Debts to the government such as property taxes, speeding tickets, or road tolls aren't considered "consumer debt" and are rarely subject to the Fair Debt Collection Practices Act, allowing these private contractors to operate outside the construct of "consumer protection," and employ tactics that are prohibited in the collection of private debt. Additionally, with consumer debt, people can seek assistance from an attorney general office or the Consumer Financial Protection Bureau (CFPB).<sup>10</sup> With delinquent government debt, individuals often have little recourse once that debt is turned over for collection by a private company.

In another example, a Kansas man who received a \$100 speeding ticket watched the fine balloon to \$2,200 once fees, court costs, jail fines, and the contractor's charges were added. Unable to afford the fine and the high fees, he was frozen in fear. He skipped court hearings because he was scared of going to jail. As he explained, "It's illegal to be poor."<sup>11</sup> Without the ability to pay the initial debt, people with relatively low delinquent tax bills, traffic tickets, or toll fees can be caught in an ongoing cycle of debt once private companies take over the collection process. As Tai Vokins, the former Kansas assistant attorney explained, "[The companies] keep figuring out ways to stack these fees up. They're preying on the absolute poorest people."<sup>12</sup>

## “Offender-funded” private probation

**This user funded contracting model** has also been used in various parts of the U.S. criminal justice system. Probation is widely used in the sentencing of misdemeanor crimes, which are relatively minor offenses such as traffic violations, shoplifting, or noise violations. Instead of going to jail, an individual sentenced to probation is conditionally released for a certain amount of time, and must meet certain standards for good behavior and regularly meet with a probation officer during that term.

Unfortunately, as county and local government corrections budgets have diminished in recent years, the burden of paying for misdemeanor probation and funding court administration has fallen to probationers themselves, who are often poor and unable to shoulder the expense. An increasing number of governments have signed contracts with private, for-profit companies that offer misdemeanor probation services at no cost to the government in exchange for the right to collect fees from the probationers they supervise. These companies also receive the promise that courts make probation terms contingent on paying those fees.

In this arrangement, people who aren't able to pay their fine in full at the time of sentencing are given probation because they need additional time to make their payment. It is important to note that these individuals are not sentenced to probation because they represent some sort of danger to the community and need supervision, but solely to ensure that they pay their financial debt. Through this probation sentence, the individual is not only responsible for the original fine, but must also pay regular fees to the private company. People can be put on probation for long periods of time, sometimes up to several years, racking up monthly “supervision fees” they must pay the company.

Economic inequality is inherent in such “offender-funded” private probation, as those who can afford to pay their fines upfront actually pay less in the long run. Those who are the poorest are forced into a long-term debt cycle that allows a private company to extract increasing amounts of money from them.

Misdemeanor probation companies are little more than debt collection services.<sup>13</sup> Because so many municipal courts are underfunded, the promise by private probation companies to provide a service that ensures high collection rates of fines at no cost to the government appears attractive. As Judge Tommy Nail of the Alabama 10<sup>th</sup> Judicial Circuit explains in a 2014 interview with *The New Yorker*, the reluctance of policymakers to raise taxes has made municipal courts reliant on high collection rates, and “when you inject a profit motive into the criminal-justice system, you’re opening it up to corruption and abuse. . . You are asking the poorest of the poor to fund the court system, and that’s what’s causing all of these abuses, in my opinion.”<sup>14</sup>

An interview by Brave New Films of a woman in Columbiana, Alabama, caught in the private probation system clearly illustrates this dynamic. She originally received a \$41 ticket for driving without a seatbelt. Unable to pay at the time of her court date, she was sentenced to



probation with one of the largest probation companies, Judicial Correction Services (JCS). Within six months, she owed the company \$235 in fees, which included an initial fee of \$25 plus a recurring \$35 fee per month in addition to the original \$41 fine. At the six month mark, she was able to pay the original \$41 fine, but that money was put towards her fees to JCS, not the initial fine. Instead, the fees continued to stack up at a rate of \$35 per month, making it impossible for her to catch up and pay the amount in full. If she is unable to pay the company, she will ultimately go to jail.<sup>15</sup>

**While some smaller companies also provide private probation services, two large companies dominate the market. Sentinel Offender Services supervises more than 40,000 misdemeanor probationers per month,<sup>16</sup> while Judicial Correction Services (JCS) monitors 38,000 probationers at any given time.<sup>17</sup> Although these and smaller probation companies do not disclose their annual revenues, Human Rights Watch estimates that in Georgia alone, probation companies take in at least \$40 million in revenues from fees they charge to probationers.<sup>18</sup>**

The payment structure for probationers clearly preys on the poor. The longer it takes an individual to pay off their debt, the longer they remain on probation and the more they pay in fees to the private company. Interviews by Human Rights Watch of probationers in Alabama, Georgia, and Mississippi, three states where many courts utilize private probation, reveal that companies engage in aggressive tactics to collect, including continual threats of jail time—or even incarceration—when probationers fall behind on payments in an attempt to extract money from their families and other loved ones. Typically a warrant for an individual’s arrest is issued so offenders can be brought before the court for a probation revocation hearing. However, some probation companies secure the arrest, use it as leverage to extract some level of payment from the probationer, and then ask the judge to release the person prior to the hearing.<sup>19</sup> In the meantime, the local government has jailed the probationer unnecessarily. The irony of this tactic is that the amount the local government pays for jailing the individual can potentially wipe out any net revenue it would collect from the original fine. For example, in Georgia it costs around \$50 per day to keep someone in jail.<sup>20</sup> If a person’s fine is \$250, and they spend a week in jail, the government has spent more than it can collect, resulting in a net loss to taxpayers. But, considerations such as these are of no concern to private probation companies, who seek to protect their own bottom lines.

Lower-income people caught in this continual probation debt cycle are often forced to choose between basic necessities and paying off their probation fees. Foster Cook, the director of Treatment Alternatives for Safer Communities (TASC) at the University of Alabama, recently conducted a survey of more than sixty private probationers in his program. The vast majority of respondents had forgone rent, groceries, medicine, or all three to pay fees to private probation companies. A third of respondents had committed an illegal act, such as selling drugs or stealing, to make their payments.<sup>21</sup>

## Prison phones and video

**In attempt to raise revenues**, many states and localities sign contracts with private companies to provide prison phone and video services. Many of these contracts provide a “commission” to the governmental entity, while those incarcerated in jails and prisons pay the company exorbitant rates to communicate with loved ones. These commissions are paid to governments either as a percentage of revenue that the companies take in from the facility, a fixed upfront payment, or a combination of the two.<sup>22</sup> On the state level, departments of corrections typically receive between 20% and 70% of revenues in commission payments through these types of contracts.<sup>23</sup> Only eight states do not accept commissions for prison phone service.<sup>24</sup> In some counties, the commission level is even higher.<sup>25</sup> This contract structure creates a perverse incentive for governments to award a contract to the company that will provide the highest commission, with little or no consideration of the costs the company passes on to prisoners.

**Two main companies, Global\*Tel Link (GTL) and Securus make up about 80% of the prison phone business, which is about a \$1.2 billion industry. Collectively, they provide services to approximately 4,600 facilities in all 50 states.<sup>26</sup>**

Families who have no choice but to use the contractor’s service if they want to communicate with their incarcerated loved one can pay these companies up to \$17 for a 15 minute call.<sup>27</sup> While exact rates and fees charged to prisoners and their families vary from contract to contract, this contract structure enshrines a regressive revenue collection method in which prisoners and their families fund corrections budgets. As Justin Jones, former director of the Oklahoma Department of Corrections, explained in an interview with the *International Business Times* earlier this year, “This is just another piece of what we have evolved into as a country in the form of fines and fees and commissions for those that, in a previous decade, were funded by government sources.”<sup>28</sup> Researchers have found that high commission rates drive high phone rates and fees—in other words, companies charge prisoners and their families higher rates when they pay the governmental entity higher commissions. Unsurprisingly, researchers found that governmental entities’ primary factor in choosing a contractor was who could offer the highest commission rate.<sup>29</sup> This type of decision-making in the procurement process fails to adequately consider the impact high phone rates have on a prisoner’s ability to communicate with their family.

These high phone rates and fees are aimed at a population that is typically lower-income and has less money to spend on phone calls. The Prison Policy Initiative’s analysis of data from the Bureau of Justice Statistics (BJS) found that in 2014 dollars, incarcerated people had a median annual income of \$19,185 prior to their incarceration, which is 41% less than non-incarcerated people of similar ages. This was true across all gender, race, and ethnicity groups.<sup>30</sup> Incarcerated people are dramatically concentrated at the lowest ends of the national income distribution.<sup>31</sup> Many incarcerated individuals simply don’t have the means

to pay for frequent communication with their families, and their families are often unable to fill in the gaps themselves. This is especially troublesome given the well-documented link between family contact during incarceration and reduced recidivism.<sup>32</sup> Recent survey data from 14 states show that the high cost of maintaining contact with incarcerated family members led more than one in three families into debt to pay for phone calls and visits alone.<sup>33</sup>

The burden on poor families is severe. Estrella King, a 24-year-old prisoner serving time for violating her parole, is pregnant with her fourth child. Her mother, Omarah Zemorah of Ocala, Florida, works as a cashier making \$8 an hour, and takes care of Estrella's three other children and two children of her own, and will take in the baby once Estrella gives birth. She explained in a recent interview that she is unable to pay for regular calls with her incarcerated daughter. She simply has no extra money at the end of each month. In order to communicate with her mother and children, Estrella sells her food trays to other prisoners who are able to communicate with their families, who in turn will relay messages to Omarah. While Omarah is able to receive messages from her daughter in this patchwork way, she describes how the lack of communication has negatively impacted Estrella's children. Her oldest son went from being an honor roll student to failing classes and exhibiting behavior problems after his mom went to prison. As another prisoner in Estrella's facility explained, "There's so much stress. People are heartbroken. People miss their kids. They can't talk to them. People go crazy inside."<sup>34</sup>

Similarly, video visitation utilizes a similar payment structure, with governmental entities receiving commissions from private contractors, while those incarcerated and their families pay high rates to access the video call platform. In fact, video visitation contracts are often bundled with other contracts, such as phone contracts to make them more attractive to governments.<sup>35</sup> Video visitation can take two forms: 1) a person can place a video call from their own home to an incarcerated person, and/or 2) a person physically visiting a facility must use a video call platform to communicate with their incarcerated loved one. This takes the place of in-person contact and through-the-glass visitation.

While video visitation has some theoretical benefits, such as allowing family members who live far away from their incarcerated loved one to visually communicate with them, the service is still expensive and unreliable, with users reporting major technological problems. In some jurisdictions, video calls can cost \$20 for a 20-minute video call, placing a high burden on already financially strapped families. Furthermore, Prison Policy Initiative found that 74% of jails banned in-person visits when they implemented video visitation.<sup>36</sup> Not only does video visitation significantly decrease the quality of visits that prisoners receive from their loved ones, it can also significantly hamper the ability of lawyers and other advocates to build relationships with their incarcerated clients.<sup>37</sup>

The costs of phone and video communications can add up to huge amounts over time. Joanne Jones's son Nate is incarcerated at Hays County Jail in Texas, where Securus holds the contract for all communications. Joanne pays about \$10 for a phone call and about \$8 for a video visit, which is cheaper than the same services at some facilities in nearby

counties. In the year and half that her son has been in jail, she has paid Securus more than \$1,000 to keep in contact with her son.<sup>38</sup>

The Federal Communications Commission (FCC) has attempted to institute caps on rates that private companies can charge for interstate and intrastate prison phone calls. The FCC said the caps were intended to limit what it described as “excessive rates and egregious fees” paid by prisoners, saying combined charges and fees in some cases were as high as \$14 a minute, or an estimated 31 times the per-minute cost of a call to Antarctica.<sup>39</sup> However, prison phone providers Securus, GTL, and Telmate asked the federal appeals court to stop the caps from being implemented. In March 2016, the U.S. Court of Appeals issued an order putting the lower rate caps on hold for the time being.<sup>40</sup> Regulations related to video call rates are not part of this action.

## Money bail system

**In most parts of the country,** the pretrial stage of our criminal justice system is embedded with corporate interests that disproportionately impact and harm poor individuals and their families. Money bail is commonly used as a condition for pretrial release when someone is arrested. This means that, after being arrested, a person may be given the option of paying a certain amount of money to the court, known as bail, in order to be released before their trial. Higher-income people and/or their families can pay this full bail amount to the court and get released until their court date. When the arrestee shows up for their court date, the full bail amount minus court fees is refunded.

However, many people who are arrested do not have the funds to pay full bail up front. Many poor individuals must rely on the for-profit bail bond industry, which collects nearly \$2 billion in revenue annually.<sup>41</sup> The arrestee (and/or their family) will pay a private bail bondsman a down payment, typically 10% of the total bail amount, and sign an agreement to pay the full amount if they do not appear at their court date. The bondsman typically doesn't have to pay the court for the full bail amount, but instead assures the court they can pay if the arrestee fails to appear. If the person shows up for their court date, the bondsman keeps the 10% down payment, even if the person is found innocent, and the agreement is finished. If the person doesn't appear in court, the bondsman tracks them down, sometimes using coercive and abusive methods, in order to avoid paying the court the full bail amount.<sup>42</sup>

The alternative to posting bail is sitting in jail to await trial, which can last weeks or even months. The risks of losing a job, not being able to attend to family, or even losing custody of children can have serious consequences, forcing many lower-income people who are arrested to engage with the bail bond industry. But the risks are high. Even taking the down payment, if the bail bondsman needs to collect on the full bail amount, they can seize and liquidate any collateral used to secure the bond such as a home or other property, which can propel a family into homelessness.<sup>43</sup> It is also worth noting that even the 10% non-refundable down payment can place a significant burden on many poor families, leaving them with less to spend on food and housing. Troublingly, research indicates that race

plays a factor in bail amounts that courts assign, with African Americans ages 18 through 29 receiving significantly higher bail amounts than all other defendants,<sup>44</sup> meaning that the money bail system puts young African Americans and their families in an even more precarious financial situation.

Bail bondsmen also have complete discretion regarding whom they take on as clients. People arrested for crimes that carry a lower bail amount may not be seen as worth their time, or a bondsman may decide not to take on a client for arbitrary or even discriminatory reasons. Many people cannot afford the down payment required for a bail bond. Recent analysis of BJS data reveals that most people who are unable to meet bail fall within the poorest third of the income distribution. The average black man, black woman, and Hispanic woman detained for failure to pay a bail bond were living below the poverty line before incarceration.<sup>45</sup> These people, who are presumed innocent until proven guilty, must sit in jail for their inability to pay bail. Recent research shows that 646,000 people are locked up in more than 3,000 local jails throughout the U.S., 70% of which are being held pretrial and have not yet been convicted of any crime.<sup>46</sup> And as former U.S. Attorney General Eric Holder explained, “Almost all of these individuals could be released and supervised in their communities—and allowed to pursue or maintain employment, and participate in educational opportunities and their normal family lives—without risk of endangering their fellow citizens or fleeing from justice.”<sup>47</sup>

On top of exploiting low-income people and their families, the for-profit money bail system also is not proven to decrease the incidence of defendants fleeing before trial or increase public safety.<sup>48</sup> While many bondsmen argue that the best way to manage pretrial populations is by putting a private third party on the hook financially for their return to court, actual evidence points the other direction. A 2013 study of over nearly 2,000 criminal cases in Colorado found that defendants released on personal recognizance (i.e., no-cost bail, the defendant promises to return to court) were just as likely to return to court for their trial and just as likely to not be charged with a new crime as those released on monetary bonds.<sup>49</sup> In Washington, DC, where money bail has seldom been used in over two decades, 80% of defendants are released before trial, and only 12% of those released fail to show up for their court hearing.<sup>50</sup> Comparatively, in Dallas, where a cash bail system is routinely used, 26% of defendants do not show up for their court hearing. In the state of Kentucky, where for-profit bail has been banned for decades, researchers examining the state’s use of a pretrial assessment tool found that 90% of released defendants appeared for all scheduled court appearances.<sup>51</sup>

In some cases, the power that bail bondsmen have over individuals who seek their financial assistance can lead to abuse, harassment, and corruption. The loosely regulated for-profit bail industry allows those with very little training to become bail bondsmen.<sup>52</sup> This was certainly the case for Edmund Langevin, a former auto mechanic, who was able to quickly become a bail bondsman in Virginia with just a 5-day class, \$400, and a \$150 firearms class. He provided bail for a 19-year-old new mom, Sophia, who had been arrested for public intoxication. She didn’t have the \$350 needed to pay Langevin upfront, but he waived the



requirement. Instead he pressured her into staying the night at his home, and over the course of several weeks repeatedly pressured her into having sex with him, threatening to take her back to jail if she did not comply.<sup>53</sup> Langevin previously had shot another client in the stomach for failing to meet with his parole officer, a condition of the client's bail. In both of these incidents, Langevin was never subject to any legal consequences for his actions.<sup>54</sup>

The power of bail bondsmen in the for-profit bail industry sets up major potential for abuse of poor individuals and their families. Unfortunately, under the money bail system, for those unable to pay bail, the alternative is sitting in jail to await trial, which also can have serious and long-lasting financial and personal repercussions. The use of money bail sets up false choices that unfairly disadvantage poor people and communities of color regardless of their actual risk to public safety.

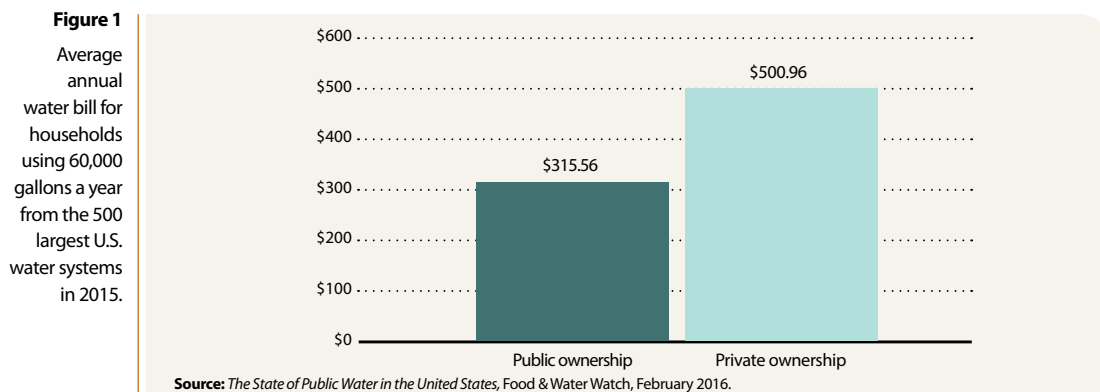
## Section 2: Raising the price of established fees

**T**he previous section explored the increasing use of user fees to fund services disproportionately used by poor individuals, and how this has changed the structure of many government contracts, allowing private companies to profit from an inherently regressive arrangement. This section discusses how public services that have traditionally been funded, at least partially, via a user fee structure, become more expensive and difficult for poor individuals and families to access under private control.

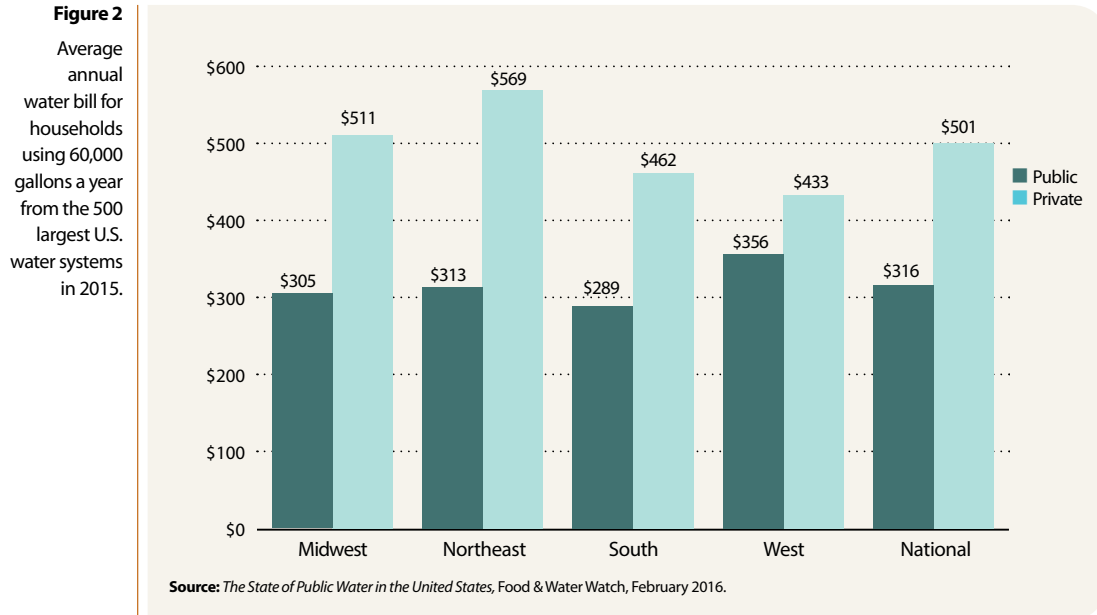
When corporations provide public services such as water provision, public transit, and parking, they typically negotiate for as much control as possible over user rates. Allowing corporations to exert this type of influence and control over rates disproportionately impacts poor individuals and families who rely on these assets and services. An increase in a service's price can burden poor residents who must pay the higher rates, which constitute a higher proportion of their income, on an already tight personal budget. The negative impacts of this type of corporate control can even be seen in areas such as education, as the below discussions of General Education Degree (GED) testing and higher education student loans illustrate. Furthermore, increases in rates and fees are often not accompanied with increases in service quality. On the contrary, service quality often declines under privatization, as the increase in user fees pads corporate bottom lines and profits instead of being reinvested in the service.

### Water

**Water is essential to maintaining health and wellbeing**, and it is imperative that local governments are able to provide affordable provision of water to all residents. However, there has been extensive documentation of the impacts of privatization on water rates that show that households typically pay more for water provided by private corporations. In 2015, Food & Water Watch, a nonprofit organization, surveyed the country's 500 largest water systems and found that, on average, private, for-profit utilities charged typical households 59% more than local governments charged for drinking water service.<sup>55</sup> As Figure 1 shows, a typical household, using 60,000 gallons a year, paid \$316 for water service from a local government, while the same amount of water from a private company



cost \$185 extra for an annual cost of \$501. The survey also revealed that while average rates for public and private water provision vary in geographic locations across the country, the trend of more expensive privatized water holds true in every part of the country (see *Figure 2*).



The pressures that rate hikes create for poor residents with privatized water can be crushing. People on fixed incomes are particularly at risk. In Dillon Beach, California, water is provided by the private, investor-owned utility, Cal Water. In 2013, many residents' bi-monthly water bills were four to six times as expensive as in neighboring towns where water was provided by the public water district.<sup>56</sup> Older residents on fixed incomes reported extreme water conservation efforts such as only bathing once a week, capturing and reusing water from the shower to wash dishes, and wearing dark clothes to avoid having to wash out stains.<sup>57</sup> Some residents' efforts to reduce water bills are dangerous to their health, like cleaning medical equipment less frequently than required.<sup>58</sup> One resident reported that she had to choose between paying her water bill and paying her car loan payment. She let her car get repossessed.<sup>59</sup> While residents in this community are paying prohibitively expensive rates for their water, executives for Cal Water are reaping the benefits. In 2013, the CEO of the company received almost \$1 million in compensation. By 2015, his compensation package had grown to \$2,759,796.<sup>60</sup> In other words, money from residents struggling to pay their water bills is redistributed bottom up to corporations and their highly compensated executives.

The devastating impacts of corporate control of water rates can also be seen in Coatesville, Pennsylvania, where in 2001 the city sold its water system to PAWC, a subsidiary of American Water, the largest publicly traded water company in America. The financially struggling city was offered \$38 million up front in exchange for its water and wastewater assets. Proceeds from the sale were to be invested in a trust fund that would generate enough interest to support about 20% of the city's annual expenses. However, over the next decade, the trust fund balance began to disappear as city officials used the money for a number of emergencies and generally mismanaged the fund.

In 2010, PAWC increased wastewater rates for Coatesville residents by 216%. By 2015, Coatesville households paid an average wastewater bill of \$58.50 a month, up from \$27.43 in 2010.<sup>61</sup> Since the inception of the privatization deal, wastewater bills have jumped from an average of \$15 a month to \$58. Water prices increased from \$25 to \$55 a month. The combined effect is a rate increase of 282% between 2001 and 2015.<sup>62</sup> In a town where over a third of residents live in poverty,<sup>63</sup> and where about 43% of the county's Section 8 recipients reside,<sup>64</sup> these rate increases are especially burdensome. Beyond falling along socioeconomic lines, these inequities fall along lines of race as well. Nearly half of its 13,000 residents are African-American, and almost a quarter are Latino in Coatesville.<sup>65</sup>

Jackie Davis, a resident of Coatesville who lives by herself, explained in 2015 that she pays about \$100 per month for water and sewer. This is the same amount that she used to pay every quarter before the city privatized its water system, even with three kids were living with her.<sup>66</sup> City officials knew that rate increases were part of the water sale. However, as Wayne "Ted" Reed who worked for both the City of Chester Authority (CCA), which ran the water utility before the sale, and for PAWC after the deal explained, "We knew it was coming, we just didn't know how much."<sup>67</sup>

## Transit

**Public transit is a critical public good** that many people rely on to get to work, school, and other important appointments. As with water, privatization of public transit can bring about rate increases that severely impact communities, especially poor residents, who often disproportionately rely on public transit as a main mode of transportation.

On January 1, 2012, the public bus system serving Nassau County, New York, which was renamed the Nassau Inter-County Express (NICE), was privatized. The bus system had been run for decades by the New York Metropolitan Transportation Authority (MTA), but in the face of financial shortfalls, Nassau County officials signed a contract with the private corporation Veolia (the company later merged with Transdev and will be subsequently referred to as Veolia/Transdev) to run the system for \$2.6 million per year in an effort to save costs and decrease the County's financial obligation.<sup>68</sup>

While Veolia/Transdev promised not to raise rates in the first year of the contract, riders immediately felt the pinch of reduced routes. Veolia/Transdev reduced service on 30 routes and eliminated several weekend and midday bus lines.<sup>69</sup> The next year, fares increased by \$0.25 from \$2.25 to \$2.50 for the 73% of bus riders who use electronic MetroCards.<sup>70</sup> In September 2014, fares for the remainder of riders using cash also increased to by \$0.25 to \$2.50.<sup>71</sup> Then in 2015, fares for MetroCard users increased again to \$2.75.<sup>72</sup> Cash fares were also hiked again by \$0.25 to match the MetroCard rate of \$2.75 in January 2016.<sup>73</sup> Nonetheless, even with the fare hikes, and the promise of cost savings with privatization of the transit system, NICE continues to face budget shortfalls. At the beginning of 2016, additional routes were eliminated.<sup>74</sup>

The impacts of both fare increases and route reductions have taken a toll on Nassau County's poor residents, especially because these residents rely heavily on the transit system. A report from the Nassau County Comptroller revealed that the three areas with the highest percentage of households below the poverty line—Hempstead, Freeport, and Westbury—had higher bus ridership rates when compared to the County as a whole.<sup>75</sup> As one organizer for the nonprofit Long Island Bus Riders Union explained at a January 2015 public hearing where a \$0.25 fare hike was being discussed, "The hike will force many low-income riders to have to choose between spending an extra \$130 [per year] on getting to work, or on heating their homes."<sup>76</sup>

Furthermore, immigrants, many of whom are low-income, are disproportionately impacted as they use bus service at a high rate in Nassau County. For example, data show that Hempstead has the largest Latino population in the County at 44.21% and the largest limited English proficiency (LEP) population at 40%. In Hempstead, 32% of the population uses the bus to get to work or school.<sup>77</sup> Research finds that this trend is present throughout the County.<sup>78</sup> Additionally, data also reveal that 73% of riders take the bus to get to school or work. At Nassau County Community College, more than half of all students are dependent on the bus in order to attend classes. This is significant especially considering that 56% of students are students of color and 61% of students rely on financial aid.<sup>79</sup> Five years into the transit privatization experiment, the system remains in financial uncertainty, while fare increases and service cuts have become a grim reality, especially for the poor communities that must use the service on a daily basis.

## City parking meters

**In 2009, Chicago signed a 75-year contract** with a consortium of global infrastructure investors, MSIP, led by Morgan Stanley Investment Bank (50.1% controlling stake), along with Abu Dhabi Investment Authority (25% stake), and the German-based financial firm Allianz Capital Partners, for the operation of the city's 36,000 parking meters.<sup>80</sup> Chicago received a lump sum payment of \$1.2 billion in the deal, but Chicago drivers will pay the private investors at least \$1.6 billion to park in the city over the life of the contract.<sup>81</sup>

The contract allowed the private entity to set parking rates, and the city's ceding of this control had immediate impact on parking prices. Shortly after the contract was signed, parking rates increased to \$7 for two hours of parking in some parts of the city, and paid parking was extended to seven days a week.<sup>82,83</sup> The contract divided the parking meters into three geographic zones. By 2013, hourly meter rates rose by 117% in the downtown zone, making it the most expensive city in the U.S. for parking. In the business districts, parking meter rates had increased by 300%, and meters in residential zone had increased 700%.<sup>84</sup> Businesses blamed the price increases for a decrease in economic activity.<sup>85</sup> As one owner of a small hardware store explained to the *Chicago Tribune*, "Why come to the hardware store for a 25-cent screw when it costs \$1 or \$2 to park while you're shopping?"



People are afraid to come in and get change for the meter because they'll go back to their car and find a ticket."<sup>86</sup> Residents have also complained that parking downtown is cost prohibitive.<sup>87</sup>

The city collected revenues from the parking meters before the privatization deal, netting about \$22 million annually. In 2011, after privatization and the implementation of higher rates, MSIP collected more than \$80 million in meter revenue.<sup>88</sup> This is a significant change. Not only do residents have to pay a higher rate for parking in the city, but also the rate increases disproportionately impact low- and middle-income residents who pay a higher share of their income to access their city and use an asset that they previously owned. Furthermore, instead of residents' money serving as revenue for the city and being reinvested in ways that have public benefit, that money is redistributed upwards as residents instead pay global investment funds higher user fees. Rate increases and the price of parking at the meters now and decades in the future will not be determined by factors related to city planning or resident needs. Instead, global investment funds can and will price parking to maximize their own return on investment.

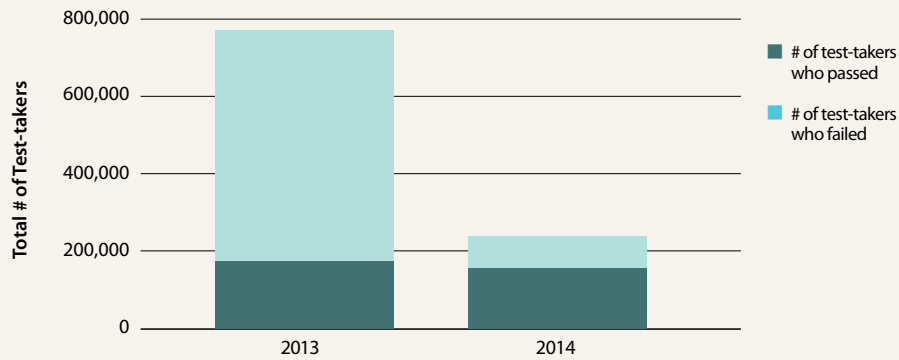
It's worth nothing that on top of giving away future cash flows to profit-seeking investment banks, the \$1.2 billion lump sum payment only helped with the city's budget problems for a couple of years. By 2012, the money was almost depleted, and Chicago was in a budget hole again without the major revenue-generating asset.<sup>89</sup>

## GED testing

**One surprising area where privatization has resulted in increased fees** is GED testing, the U.S. high school equivalency exam. Since 1942, the nonprofit American Council on Education (ACE) has developed the test and administered it as a public service. It has served as the high school equivalency test for all 50 states.<sup>90</sup> While the test cost has varied state to state, in the recent past it cost on average about \$30 to test takers.<sup>91</sup> The low cost made GED testing accessible to millions of people who have taken the exam to gain an important educational credential to rise out of one of the poorest demographics—people without a high school degree. Less than half of all adults without high school degrees have jobs. Research shows that adults without high school diplomas who actually have jobs earn nearly \$10,000 less per year than those with a high school degree, and are much more likely to live in poverty, experience poor health, and spend time in prison.<sup>92</sup> Despite the importance of ensuring that the GED is widely available, in 2014, the world's largest for-profit education corporation, Pearson, entered into a partnership with ACE, and essentially took over the design and administration of the exam, privatizing the GED and turning it into a money-making venture.<sup>93</sup>

Pearson made several significant changes to the GED. They rewrote the test, aligning it to Common Core standards; made it a computer-only exam, eliminating the pencil and paper test-taking option; and increased the price of the exam to \$120. These changes have had

**Figure 3**  
GED testing  
before  
and after  
privatization.



**Source:** Janet Page-Reeves, University of New Mexico, 'How the Privatization of 'GED' High School Equivalency Degrees has Created New Roadblocks for the Poor,' Key Findings, Scholars Strategy Network, September 2015.

serious impacts to test-takers, whom are disproportionately African American and Latino.<sup>94</sup> The number of people taking the exam and those passing the exam have both plummeted. In 2013, 743,000 people completed the GED test and 560,000 passed. In 2014, after the privatization of the GED, only 248,000 people took the test and only 86,000 passed.

Several factors play into these astonishingly dismal numbers. In rewriting the test, Pearson made the test more difficult, focusing more on college readiness, rather than work readiness.<sup>95</sup> Many have criticized the test content for being unnecessarily difficult and poorly worded and designed.<sup>96</sup> However, the difficulty of the test also ensures that some portion of test takers will have to retake the test, guaranteeing the company a stream of repeat customers. As the data above shows, between 2013 and 2014, the test passage rate dropped by an astonishing 90%.

The number of people taking the test has significantly decreased as well. While the difficulty of the Pearson-designed test may have deterred some potential test takers, other factors may be at play. Because the test can only be administered on the computer and must be taken at a Pearson-certified center, people in more rural areas or people without cars or easy access to transportation may find it hard to travel to test locations.<sup>97</sup> Relatedly, preparing for the test requires access to a computer, but many low-income people don't have access to a computer for regular study. Unfortunately, many of the community organizations that provided test-prep services in low-income areas don't have the resources to install computer labs to adequately prepare test takers for the new exam.<sup>98</sup> Adequate preparation for the test is important, since many test takers have been out of school for some time and need to learn or re-learn content.

The increase in price may be affecting the change in the number of test takers. The \$120 price tag can be prohibitively expensive for poor adults. As the Santa Fe Community College Director of Adult Basic Education put it, "It might as well be \$1,000," since many of the people she works with can't afford the increased cost.<sup>99</sup> Furthermore, Pearson requires online payment for the test, meaning test takers must have a credit card. Cash or money orders are no longer acceptable forms of payment. But, as data has established, lower-

income individuals are less likely to have access to credit cards and are more likely to be left out of the traditional banking system,<sup>100</sup> so one of the only options for payment is to purchase single-use credit cards that have a substantial activation fee, adding additional expense for the test taker.<sup>101</sup>

With the hefty \$120 price tag, along with the other problems with the new GED, some states are holding off on signing contracts with Pearson for the administration of the test, and instead looking for cheaper alternatives. For example, New York State has stopped using the GED and instead contracts with a Pearson competitor, McGraw-Hill, who provides an alternative test. New York cites the lower cost, which allows the state to subsidize the cost of the exam and offer it to residents for free, and the ability to take the exam using pencil and paper as the main reasons for choosing an alternative to Pearson.<sup>102</sup>

## Higher education

*For decades, the federal government has sought to expand access to higher education for poor Americans. This assistance has become even more crucial in recent years as the costs of higher education have become harder for lower and even middle-income families to bear. Middle-class incomes have stagnated, and states have slashed public spending on universities as budgets have shrunk, passing on those costs to students and their families through soaring tuition rates.<sup>103</sup>*

*The expansion of access to higher education was first enshrined in law in 1965 through President Lyndon B. Johnson's Higher Education Act, which created federally backed student loans that students could access through banks at reasonable interest rates.<sup>104</sup> In 1972, Nixon expanded the program by establishing the Student Loan Marketing Association, "Sallie Mae," a government-sponsored enterprise (GSE) that would buy the government-backed student loans from banks, in an attempt to allow banks to make a greater number of loans. As Sallie Mae grew throughout the years and became big enough to be able to raise its own capital from financial markets, it sought to separate itself from the federal government and becoming privatized. In 1997, Sallie Mae became privatized, and had the authority to issue its own federally guaranteed loans and make private student loans, which carry much higher interest rates for borrowers.*

*A privatized Sallie Mae was able to significantly grow its business by buying up competitors and expanding into loan servicing, guaranteeing, and debt collection. The company aggressively cornered the student loan market by paying colleges to install them as the campus student loan provider, placing Sallie Mae employees in university call centers to answer questions from students, many of whom thought they were seeking advice from college loan officers; sponsoring trips and cruises for financial aid officers; and even paying college financial loan officers to serve as consultants on Sallie Mae advisory boards.<sup>105</sup> By 2005, the company's net profits were almost \$2 billion*

per year.<sup>106</sup> Through predatory lending, the student loan program that was originally envisioned to expand access to higher education had turned students seeking higher education into profit centers with devastating consequences.

The privatization of the student loan program meant that Sallie Mae and its competitors could peddle loans to students who, in many instances, could not afford them. A June 2016 expose produced by Reveal from the Center for Investigative Reporting in collaboration with Consumer Reports profiles former students living under crushing student debt. While their individual circumstances vary, all were made to believe it was safe to borrow loans to finance their higher education. Without fully understanding how interest and fees accrued on their large loans, they all struggled to pay when confronting a sagging job market, serious illness, or other grave life event. Unfortunately, as they all discovered, their loan balances ballooned, making it, in some cases, impossible to ever crawl out from under the debt.<sup>107</sup> These students are not unique. Current outstanding student debt tops more than \$1.2 trillion, and one in four student loan borrowers are in default or struggling to stay current on their loans.<sup>108</sup>

In 2005, after intense lobbying by Sallie Mae and other financial interests, Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act, which made it so that in most circumstances, federal or private student loan debt cannot be discharged in bankruptcy. People with other debts, including credit card or even gambling debts, can find relief in bankruptcy, but former students with loans who become sick or unemployed are unable to do so.<sup>109</sup> Data from the Center for Responsive Politics reveal that Sallie Mae spent about \$14 million lobbying Congress while this measure was pending, in addition to about \$2.2 million in campaign donations. As Daniel Austin, law professor at Northeastern University explains to Reveal, “the law gave lenders tremendous leverage over student debtors, no matter how dire their circumstances.”<sup>110</sup>

In 2010, in response to 2007-2008 financial crisis, the Department of Education took back direct lending of student loans, buying up existing debt from lenders, such as Sallie Mae for \$50 over the principal amount for each loan.<sup>111</sup> This marked the end of the federal government guaranteeing loans made by private banks, and now the Department of Education makes loans directly to students.

While this change was hailed as a step forward in solving some of the predatory lending issues in the student loan business, it has not meant the end of private sector involvement. Not only have private companies started to rebuild their private student loan businesses, but four major companies and a handful of smaller companies hold lucrative Department of Education contracts to service and collect payment on the loans the government makes.<sup>112</sup> Recent research examining the structure and

terms of these contracts concludes that “the incentives to reduce operational costs far outweigh the incentives to be responsive to the needs of borrowers.”<sup>113</sup> This means that contractors are maximizing profits at the expense of students, even though an important goal of the federal student loan program is assisting students so they don’t face undue hardship in repaying their financial loan obligations.<sup>114</sup>

The perverse incentives identified in the contract analysis are consistent with the widespread complaints reported by student borrowers against the contractors. In fiscal year 2013, complaints ranged from disputes about account balances and interest accrual to issues with repayment plans, issues with the default status of loans, and concerns about credit reporting. It is worth noting that the majority of complaints involved two contractors, one being Sallie Mae. In an investigation of unfair student loan servicing practices, the Federal Deposit Insurance Corporation (FDIC) explained that Sallie Mae “inadequately disclosed its payment allocation methodologies to borrowers’ payments across multiple loans in a matter that maximizes late fees.”<sup>115</sup> Contractors are expected to make more than \$2 billion in commissions from the federal government in 2016.<sup>116</sup>

While the federal student loan program’s original mission was to increase access to higher education for those who could not afford it, the privatization and financialization of this program puts student borrowers into precarious financial situations. Many people who seek higher education but must rely on crushing loans are trapped in a situation that bars them from upward economic mobility. Many jobs now require higher education credentials, even those that have not traditionally required them.<sup>117</sup> This means that many jobs are closed off to those without college education, but the financial burden of attaining this educational credential and the resulting student loan industry that preys on those seeking assistance can make it a no-win situation for many students. Lower- and even middle-income students lose access to many career opportunities if they do not pursue higher education, but the pursuit of higher education exposes them to the serious consequences of a financial aid program captured by Wall Street. This creates a system where those that come from the poorest backgrounds are often the worse off.

The higher education environment is one that entrenches and even perpetuates economic inequality for the long-term instead of one that empowers educational attainment for the public good. As Lance Williams, reporter with the Center for Investigative Reporting, explained in a recent interview about his Reveal piece on the student loan crisis, “You’re taking away people’s ability to participate in the economy, buy a house, buy a car, have a family, and the debtor class is restricted from these things and the debt-free class is not.”<sup>118</sup>



### Section 3: Privatization of critical social safety net services

**T**he magical thinking of privatization has no more devastating consequences than when it's applied to those living on the margins. State and local governments are outsourcing important functions related to programs that involve poor individuals and families. Unfortunately, such programs are low hanging fruit for privatization efforts, as they affect only those who have little to no political power.

The impact of privatization on families struggling at or below the poverty line can be tragic. The critical social services examined in this section, such as child foster care services, welfare services, the distribution of food assistance and other social safety net funds, Medicaid provision, and child support services have increasingly become privatized in many jurisdictions, as contractors take over important aspects of these programs. But the complex social problems faced by families and children who utilize these services are difficult, if not impossible, to address using a privatization model. Providing in-depth assistance that truly helps people climb out of poverty often cannot be captured in a contracting structure. Many of social services contracts have financial incentives that—even if inadvertently—perpetuate cycles of poverty and divert money from critical programs toward corporate profits.

Recent research that explores how privatization has impacted the provision of social services found that while many performance-based contracts attempt to require greater accountability by focusing on quantifiable metrics, this approach has its limitations. It has negatively impacted the relationship between front-line workers and clients in need of assistance, and ultimately, the ability of workers to help clients in a real and sustainable way.<sup>119</sup> In interviews with researchers, front-line social service workers explained that contracts that require adherence to specific metrics can overly standardize provision of care for people with unique needs, instead of address root causes of social issues. Furthermore, contractors may feel pressure to meet certain metrics or performance targets by engaging in practices that favor more easy to serve people (known as “creaming” or “cherry picking”), or providing minimal services to those who have more difficult or complex problems.<sup>120</sup>

In this changing landscape of social service provision through the increased use of outcome-based contracting, front-line social service workers report that their professional discretion and judgment has been limited. This contributes to a deskilling of the workforce, as contractors try to separate functions that require judgment from those that are perceived as more routine,<sup>121</sup> as the child support discussion below illustrates. However, this effort to “streamline” social service provision, while it decreases labor costs, impacts the quality of the relationship between social service providers and their clients. As one front-line social service provider explained to researchers, “Work that is not easily quantifiable—such as a focus on quality, creative problem solving, assessment and diagnoses, client engagement and the power of relationship building—is not recognized or valued. Yet these are the very tasks that are critical to making things happen and achieving successful outcomes.”<sup>122</sup> Unfortunately,

social services privatization has led to an environment where the culture and goals of social service provision have been corporatized to maximize company revenues at the expense of meaningful client assistance. Combined with high caseloads, and the reduced autonomy of the social service worker profession, workers report low morale and high turnover, ultimately undermining the very missions of these critical safety net programs.

## Foster care

**Some states have experimented** with contracting with private companies to run critical aspects of their child welfare systems, including foster care placement and monitoring of those placements. This introduction of private interests into child welfare services has had a profoundly negative and sometimes even deadly impact on the most vulnerable of kids.

Research has established a strong association between poverty and involvement with the child welfare system, especially in urban areas.<sup>123</sup> Furthermore, due to structural racism and other factors, these impacts disproportionately affect children of color. Researchers have found that Native American, African American, and Latino children in certain states are, compared with white children, removed from families at higher rates once identified by child protective services. Children of color also stay in foster care for longer periods, experience more placement moves, and exit the foster care system without permanence, while their parents receive fewer services.<sup>124</sup> This means that the negative impacts of child welfare privatization are adversely felt by children from poor socioeconomic backgrounds, whose families have very little voice in what happens to their children once they enter foster care.

Child welfare contracts are simply unable to capture the complex dynamics and varied circumstances of those in need and subsequently direct the private provider to make complicated decisions regarding children's lives. Payment from the government to the contractor must rely on a certain set of metrics, and for companies providing foster care services, the number of foster parents on their list and their ability to place children quickly into foster homes are the keys to maximizing revenues. Roland Zullo, a researcher at the University of Michigan who has studied the privatization of foster care, explains, "Given that every foster parent represents potential revenue, an agency may be more likely to overlook sketchy personal histories or potential safety hazards. There's little incentive to seek out reasons to reject a family, to investigate problems after children are placed, or to do anything else that could result in a child leaving the agency's program."<sup>125</sup> This contracting model puts pressure on caseworkers to place children in homes with little vetting and oversight, housing already vulnerable kids in dangerous situations. This dynamic has played out in private foster care placements throughout the country.

For example, states including Texas, Georgia, Massachusetts, and Ohio have contracted with the publicly traded corporation, Mentor, to perform critical services such as screening, training, and overseeing foster parents, and the outcomes of that decision have been detrimental to the well being of many children. In 2015, Mentor reportedly had 4,000

children in its care in 14 states, making it one of the largest companies in the foster care industry. In its fiscal year ending September 2015, the company had net revenue of \$1.36 billion and profits of \$3.1 million.<sup>126</sup> Mentor was the subject of a 2015 in-depth investigation by the media outlet *Buzzfeed*, which reported on numerous instances of children being neglected, abused, and even murdered by foster parents that the company had recruited and were supposed to oversee.

For example, in Texas, Mentor sent 2-year-old Alexandria Hill to live with foster parent Sherrill Small, after she had been removed from another Mentor foster home where she had experienced neglect and possible abuse. The company failed to properly vet Small, failing to understand her own background as well as the background of those who frequented the house. Small had even previously reported to the company that fostering children stressed her out. Small's sisters, who were never interviewed by Mentor, both attest that if they had been, they would never have recommended Sherrill Small be allowed to operate as a foster parent.<sup>127</sup> Mentor interviewed, but astonishingly never performed a background check on one of Small's daughters who frequented the house. A simple background check would have revealed that the daughter had been convicted of aggravated kidnapping and robbery.

Alexandria Hill was kept in a room with no toys or child-appropriate décor, and family members described dropping by the home and finding the child in a dark room facing a wall for hours at a time.<sup>128</sup> One sister of Small's reported that Small "hated" Alexandria, while another said that she rarely allowed the girl her out of the dark room.<sup>129</sup> All visits from Mentor to check on Alexandria were prearranged, giving Small time to prepare and clean up before any evaluation.<sup>130</sup> Only 7 months after Alexandria came to live with Small, Small called 911 and reported that the child had stopped breathing.<sup>131</sup> Small admitted to police that she'd been frustrated with the girl, swung her until her head crashed into the floor. An autopsy revealed that the 2-year-old had bruising on her right cheek, left ear, left knee, right ankle, chin, back, and buttocks; multiple blunt force injuries to her head; subdural hemorrhaging; and two tears in her liver. A third of her blood was found pooled in her abdomen.<sup>132</sup> In 2014, Small was convicted of murder.

Alexandria Hill's story is not unique. In Texas, 90% of foster children are housed in foster care homes overseen by private companies.<sup>133</sup> From 2001 and 2013, at least nine children living in private agency foster homes in Texas died of abuse or neglect.<sup>134</sup> In California, where a large percentage of foster care is privatized, an analysis by the *Los Angeles Times* found that children living in homes run by private agencies were about a third more likely to be the victims of serious physical, emotional, or sexual abuse than children in state supervised foster family homes.<sup>135</sup> The *Los Angeles Times* also found that other important foster care metrics suffered under the privatized system. California foster children in homes run by private agencies remained in the foster system 11% longer than those in other types of homes— 378 days compared to 341 days. Those children were 15% more likely to move from one home to another. The incidence of children that moved through five homes or more occurred three times more often under the care of private agencies than publicly run homes.<sup>136</sup>

Several states have experimented with large-scale privatization by handing over control of vital aspects of their child welfare systems to private contractors. In November 2009, Nebraska engaged in a statewide child welfare privatization experiment to detrimental results. The state gave five private contractors responsibility for managing the child welfare system in different sections of the state. These contractors, called “lead agencies,” then subcontracted with private providers that provide direct services for children in the foster care system and their families, instead of the state directly overseeing the providers.<sup>137</sup> Within a year, four of the five private contractors lost or ended their contracts due to financial and management problems.<sup>138</sup>

In late 2011, the State Auditor issued a damning report, revealing that the state spent millions more than expected and failed to provide accountability for the costs of the new system.<sup>139</sup> Several months later, in January 2012, state legislators held hearings on the state of the child welfare system. One foster parent who testified explained that the lead contractor for her area, KVC, “appears overwhelmed with case overload and poor management.” “Contact with KVC case managers is close to nil. Except for court hearings, there is no contact. They do not answer their phones. Their messages are overflowed, so they can’t accept a message on their phone, and foster care parents are left dangling in midair.”<sup>140</sup> Other foster parents and foster children echoed these concerns.

In February 2015, an independent evaluation commissioned by the legislature concluded that privatization did not produce “any measurable benefits” and that “privatization has caused disruption and dissension among the parties and within the community without obvious benefits to children and families.”<sup>141</sup>

## Temporary Assistance for Needy Families (TANF)

**In examining the rise of corporate interests** embedded in our country’s social safety net services, one helpful starting point is the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which opened the door for the privatization of many social service programs and projects. This major piece of legislation reconstructed the nation’s welfare system, creating the Temporary Assistance for Needy Families (TANF) program. The TANF program replaced the Aid to Families with Dependent Children (AFDC) program, which had provided cash assistance to poor families with children since 1935.<sup>142</sup>

One major component of this welfare reform was a focus on “work first,” which emphasizes the need to divert program applicants into jobs instead of welfare rolls<sup>143</sup> and subjects recipients who fail to meet work requirements to sanctions that reduce or eliminate cash benefits they receive.<sup>144</sup> To meet more stringent federal work participation requirements, many states signed lucrative contracts with private companies to provide employment services. Companies like Maximus, Lockheed Martin, and Ross Perot’s Electronic Data Systems were some of the first corporations to win significant contracts in the employment services arena.<sup>145</sup> For example, in the first year after welfare reform passed, Maximus was able to double its revenue from \$50 million in 1995 to \$105 million in 1996.<sup>146</sup> Likewise, in

2000, Lockheed Martin disclosed that welfare reform services was one of its two fastest growing business lines at that time, with the number of government contracts increasing from zero to 25 in the two years after federal welfare reform passed in 1996.<sup>147</sup>

Another major difference between the old and new welfare programs is that under AFDC, the federal government provided unlimited matching funds to states to provide cash assistance to needy families, while under TANF, the federal government instead gives each state a fixed block grant to administer its welfare program.<sup>148</sup> This change in funding structure has had a dramatic impact on the way that states use welfare funds and how they administer their programs. With a block grant structure, many states quickly sought ways to save costs in service delivery. This focus on cost savings contributed to a shift in TANF funds to private companies, as contractors promised states cost savings through privatization.<sup>149</sup> By 2001, state and local governments spent at least \$1.5 billion in TANF funds for contracted services.<sup>150</sup> Of note, the basic TANF block grant to states was set at \$16.5 billion in 1996, and has not increased since then, eroding the value of the federal grant through the years by one-third due to inflation.<sup>151</sup>

Additionally, PRWORA significantly loosened the rules dictating how states could spend TANF funds, allowing welfare dollars to be spent on services other than general assistance to poor families and children. Many states have turned to private contractors to design and implement an array of other types of programs paid for with TANF funds.<sup>152</sup> This shift away from cash assistance has had a dramatic impact on where TANF funds are going, and who is actually receiving this support.

The year of this report publication marks the 20-year anniversary of TANF, and problems stemming from major changes in our country's welfare program can still be felt today. A recent investigative piece produced by *Reveal* from the Center for Investigative Reporting examines how states are currently using TANF funds, and finds that very few poor families actually receive any cash assistance. Nationally, only 23 out of every 100 families who live below the poverty line receive TANF.<sup>153</sup> By comparison, in 1996, 68 families received TANF for every 100 families in poverty.<sup>154</sup> In 2014, only 26% of federal and state TANF funds nationwide went to basic assistance for poor families. This figure was even worse in ten states where less than 10% of TANF funds went toward basic assistance.<sup>155</sup>

In Oklahoma, a mere seven families receive TANF for every 100 in poverty.<sup>156</sup> One major reason that so few poor families in Oklahoma receive assistance with day-to-day needs is that the state spends much of its TANF funds on other services. For example, under the guise of encouraging marriage, Oklahoma has given the company, Public Strategies, more than \$70 million in TANF money since 2001 to run relationship workshops. These classes focus on topics like where couples have compatible "love styles" and have been available to and taken by Oklahoma residents of all demographics, including many middle- and upper-middle class couples. In the 15 years the classes have been offered, the poverty rate in Oklahoma has barely declined and its marriage rate has actually fallen.<sup>157</sup>

Funds that should be going to meeting the basic needs of poor families, such as housing, clothes, and transportation, are going to other types of programs, and contractors continue to find new ways to squeeze profits from a limited pool of welfare dollars. Because TANF actually reaches so few poor families, it fails to provide a true safety net against poverty. States have spent federal dollars originally intended to go to poor families on corporate services. Instead of increasing family economic security and stability for those in deep poverty, TANF funds are going directly from states to wealthy corporations.

## Financial fees for the distribution of social services

**The county's food assistance program in its modern form** began in 1961 as a pilot program and rapidly expanded across the U.S. by 1964 with the passage of the Food Stamp Act. The program is known for its successful track record of providing nutritious food to poor Americans. In the 1990s, states began experimenting with Electronic Benefit Transfer (EBT) cards to dispense benefits and by the early 2000s, all states and U.S. territories were utilizing EBT cards.<sup>158</sup> With an EBT card, each participant has an account in which food assistance benefits are electronically deposited into each month. Participants access their benefits through the card. While EBT cards have eliminated traditional paper coupons that could be lost or stolen, and may help prevent fraud, they have also been a business opportunity for financial corporations that contract with states to administer the cards. EBT cards are not only used for food assistance, currently referred to as the Supplemental Nutrition Assistance Program (SNAP), but also to dispense monetary benefits for other social service programs including TANF, the Women, Children, and Infants (WIC) program, and many more. In most states, one contractor provides EBT card services for multiple social service programs.<sup>159</sup>

The three major companies providing EBT services are J.P. Morgan Electronic Financial Services, Xerox, and Fidelity National Information Services (FIS eFunds).<sup>160</sup> Based on 2016 U.S. Department of Agriculture (USDA) data, market share for EBT card contracts is distributed as follows:

Contractor	Number of U.S. States and Territories
Xerox	23
J.P. Morgan	15
FIS eFunds	14
Evertec	1
State-operated	1

The banking industry has greatly profited off these programs. For example, J.P. Morgan Chase, which in 2012 controlled EBT contracts in 21 states, Guam, and the Virgin Islands, made more than half a billion dollars between 2004 and 2012 providing public assistance benefits. During that time, its seven-year contract with the state of New York was worth \$126,394,917.<sup>161</sup>

While the exact terms of these contracts vary state to state, the ways that companies make money follow a similar structure, and fees are often aimed at the end users of the card—those on public assistance who already have financial hardships. The state typically pays the contractor a specified amount per card per month and a monthly rental charge for Point of Sale (POS) machines that each authorized retailer uses to process and track EBT card purchases. Other fees outlined in the contract are directly charged to the program participant.<sup>162</sup> These charges include:

- **ATM fees:** fees charged at ATM machines when an EBT card is used to withdraw cash funds (such as TANF funds) or to make a balance inquiry. The typical charge is between \$0.75 and \$1.50 per transaction.<sup>163</sup> Some contracts allow the user a certain number of cash withdrawals per month if the ATM machine is within the company's network. This charge especially impacts poor card users in high crime areas who may not want to withdraw large amounts of money out of their account in a single setting.<sup>164</sup>
- **Card replacement fees:** fees for when a user loses a card and requests a replacement. For example, Arizona EBT users pay \$5 to replace a card.<sup>165</sup>
- **Customer services calls:** fee for when a user calls the company's customer service phone number. The typical charge is \$0.25 per call.<sup>166</sup>
- **Insufficient funds fee:** fee for when a card is denied for insufficient funds in the user's account. For example, in New York's previous contract with J.P. Morgan, users paid \$0.50 each time their cards were declined for insufficient funds.<sup>167</sup>

These fees levied by corporations onto social service programs' recipients impact a significant portion of poor Americans. In February 2016, 44,391,436 people participated in the SNAP program,<sup>168</sup> constituting almost one out of seven Americans.<sup>169</sup> In 2014, the U.S. Census Bureau estimated that about one in five children received food assistance through the SNAP program.<sup>170</sup> Additionally, it is estimated that 52% of all Americans will access SNAP at some point in their lifetimes.<sup>171</sup> These numbers represent an enormous business opportunity for just a few corporations to reap rewards off the backs of those experiencing difficult financial times. And this line of business is immune from some normal economic business risks. As *The American Prospect* explains, "Banks make money distributing government benefits if the economy is bad, because more people sign up for assistance; they make money if the economy is good, because rising interest rates mean more profit on the money they hold to distribute to beneficiaries."<sup>172</sup>

In 2011, California contracted with ACS, a subsidiary of Xerox, to distribute cash assistance for its welfare programs, utility grants, and other social safety net programs. These arrangements with J.P. Morgan and other banks cost poor California residents almost \$17.4 million in surcharges and fees that year.<sup>173</sup> These fees are taken from families for which every penny is needed to make ends meet. And there are not many options to avoid these fees and surcharges. As Rodney Robinson, a single father who lives in South Los Angeles



and relies on government assistance, explains to a *Huffington Post* reporter, he is resigned to giving up a part of his \$317 monthly check because his options are so limited for withdrawing the money he needs to pay his rent. He can visit a bank ATM, but that entails charges of as much as four dollars per transaction. A local check cashing chain charges \$1.75, and grocery stores will let him withdraw cash, but only after a purchase.<sup>174</sup> In essence, banks are allowed to siphon off a portion of a recipient's public benefit to take as corporate revenues, as they provide financial services to a captured market that has no other choice but to use the bank's card and comply with the bank's terms to receive public assistance.

Even with the large amounts of money that these companies are able to take in through their EBT contracts, numerous problems have occurred with cards and underlying computer systems that have prevented thousands of poor individuals and families from accessing the benefits they need when they need it. In 2013, 37,000 food assistance recipients in 17 California counties were unable to purchase groceries as their cards essentially cancelled their SNAP balances due to technological errors. While Xerox and another contractor, Hewlett Packard, scrambled to fix the system and reactivate the cards, these families were unable to purchase food for several days.<sup>175</sup> Similarly, that same year, poor residents across 17 states that contract with Xerox were unable to use SNAP benefits on their EBT cards when the contractor encountered technological problems related to a power outage at a data center. Families in the affected states reported having to put food back on the shelves at the grocery store or leave grocery baskets behind because they couldn't afford to pay for the food without the SNAP assistance.<sup>176</sup>

## Medicaid

**Medicaid provides critical health insurance** to low-income Americans and those with disabilities. This important social safety net program is typically administered at the state level, but both the state and the federal government share in its cost. Over the course of 2014, Medicaid provided health coverage for 80 million low-income Americans, nearly half of which were children.<sup>177</sup>

An increasing number of states have experimented with privatizing large portions of their Medicaid programs. Instead of administering the program themselves, some states have contracted with private managed-care organizations (MCOs), which are typically private insurance companies, and pay a set amount per member per month to the MCOs based on the projected cost of services that Medicaid recipients will require that year. The MCOs typically have responsibility over many aspects of managing the program, including determining eligibility of Medicaid applicants, recruiting medical providers to their networks, and controlling the reimbursements to doctors and hospitals that Medicaid recipients use. This model, often referred to as Medicaid Managed Care (MMC), is often touted as a way for states to save money, while still providing coordinated care. However, the repeated experience of privatized Medicaid programs shows that this model has high administrative costs and often fails to save money or improve care. Inherent in the fixed rate

contract structure is the pressure for private insurance companies to limit care and deny services because the less care they deliver, the more they can maximize profits.<sup>178</sup>

Large insurance giants, such as UnitedHealth Group, Humana, Anthem, and Centene, are becoming increasingly entrenched in the provision of Medicaid services with over half of Medicaid recipients now enrolled in privatized plans.<sup>179</sup> Multiple states have had ongoing problems with Medicaid Managed Care, with contractors routinely denying or delaying payments to medical providers that serve patients. For example, Kansas privatized its Medicaid program, now called KanCare, in 2013. Almost immediately after privatization began, problems with reduced level of care for patients, slow payments to providers, increased paperwork and costs for providers seeking reimbursements, and inconsistent and inaccurate payments surfaced.<sup>180</sup> Problems have continued and multiple allegations of improperly denied claims have surfaced against the state's three contractors, Amerigroup, UnitedHealthcare, and Centene. In a December 2015 state legislative hearing, hospital officials explained how the contractors denied claims with no explanation in an effort to keep costs down and maximize profits.<sup>181</sup> State officials recently disclosed that all three contractors have failed to meet some performance requirements in their contracts.<sup>182</sup>

Illinois, which long ago privatized a portion of its Medicaid program, experienced widespread issues related to access of health care for low-income recipients. In 2008, Amerigroup, a former contractor with Illinois's Medicaid program, settled a lawsuit for \$225 million related to allegations that the company systematically avoided enrolling pregnant women and other high-risk patients in its programs between 2000 and 2004. As the Illinois Attorney General explained following the settlement, "In 2005, The United States and the State of Illinois joined a lawsuit against Amerigroup, alleging that it violated this requirement, and avoided enrolling unhealthy patients, as well as pregnant women, who were more costly to treat and would have eroded Amerigroup's profit margin."<sup>183</sup>

The exact scope and design of privatized Medicaid programs vary from state to state, making it difficult to perform an apples-to-apples comparison with state-operated Medicaid programs. However, a 2012 study from the Robert Wood Johnson Foundation reviewed the available research in this area and cautioned governments from moving ahead with Medicaid privatization. As the report explains, "...there is limited peer-reviewed evidence as to what works and what does not work among such [privatized] programs, and...the limited evidence suggests the programs will have uncertain impact on beneficiary access, and may neither save money nor improve health outcomes."<sup>184</sup>

Private interests inserted into safety net programs, such as Medicaid, can directly conflict with program mission and goals, and have real human impact on the lives the programs are designed to protect. As Dr. John P. Geyman, former chair of the University of Washington Department of Family Medicine, asks, "Why do we still worship at the altar of privatization in U.S. health care, especially for the poor and most vulnerable among us?"<sup>185</sup>

Despite problems with other states' privatization experiments, on April 1, 2016, Iowa privatized the management of its almost entire \$4.2 billion Medicaid program through

three contracts with large for-profit insurance companies.<sup>186</sup> While the program's complete rollout remains to be seen, there already have been numerous complaints, including questions over rejected claims and confusion about coverage in the new private plans.<sup>187</sup> Only four months into the privatization effort, results from a survey that included over 400 Iowa doctors, hospitals, local clinics, and nonprofit health care providers found that the majority of Medicaid providers weren't being paid on time by the insurance companies. For many of these providers, administrative costs had increased under the privatized system. As a result, many providers reported that they were forced to reduce the quantity and quality of services.<sup>188</sup> These problems ultimately hurt Medicaid recipients. As one survey respondent explained, "It has harmed our most vulnerable locally, as they now have little to no options for some services ... and sometimes no local options at all."<sup>189</sup>

## Child support enforcement

**Child support collection and enforcement** greatly benefits poor children. Child support programs serve half of all U.S. children in poor families.<sup>190</sup> Child support payments are a large source of income for poor families, representing on average 40% of income for poor custodial families who receive it.<sup>191</sup> In 2008, it was estimated that child support lifted one million people above poverty.<sup>192</sup> Research shows child support reduces child poverty, promotes parental responsibility and involvement, and improves educational outcomes.<sup>193</sup> Many states have experimented with outsourcing aspects of their child support enforcement system. In 2012, 44 states and the District of Columbia had privatized at least one child support enforcement service, with the most frequently privatized service being operation of the disbursement unit, which is responsible for collection and disbursement of payments to custodial parents.<sup>194</sup>

In 2013, Kansas privatized the entirety of its child support system to four contractors, including YoungWilliams PC, which provides child support enforcement services in 23 of the state's 31 judicial districts. The contract is worth \$48.2 million over four years.<sup>195</sup> All four contracts are worth \$75 million over the four-year period.<sup>196</sup> Interestingly, a former YoungWilliams employee had been appointed Child Support Enforcement Director for the Kansas Department of Children and Families (DCF) before the contracts were executed. She would go on to be the architect of the statewide child support privatization plan.<sup>197</sup>

At the end of 2014, a year into privatization, data showed that while the cost-effectiveness ratio increased, meaning that the state collected more child support money per dollar spent, the program did a worse job collecting child support. The percentage of current support collected decreased, falling to a 14-year low, and the total amount of current child support collected fell about \$4 million from 2013 to 2014.<sup>198</sup> The state also failed to collect as much late past due child support, another key measurement area. In other words, custodial parents and their children received less child support overall after privatization. The state lauded the increase of cost-effectiveness, stating that this was their first priority.<sup>199</sup> However, cutting costs hurt families and children who need and rely on child support.

With the focus on cost-effectiveness, one risk with privatization is that contractors will focus on the easiest of collection cases, and more difficult cases that require greater work and expense may be neglected. As Sky Westerlund, executive director of the Kansas Chapter of the National Association of Social Workers (NASW) explains, the privatized system leads contractors to become overly concerned about holding down costs, leading to staff shortages, high turnover rates, and ineffective services.<sup>200</sup> Another concern is that the knowledge that former state case workers had of public assistance services available to poor parents and children and their ability to guide those parents through those programs has been lost with the replacement of state staff with private contractors.<sup>201</sup>

Parents have been unhappy with the performance of contractors and the service and assistance they receive from the private caseworkers. The *Topeka Capital-Journal* interviewed parents who interacted with the privatized system and received consistent complaints about the inability to talk with workers in person and the difficulty of navigating the state's call center system.<sup>202</sup> While the call center aspect of the state's child support system had been outsourced for some time, parents had been able to speak with a state worker in person to sort out difficult issues. That option is no longer available, forcing parents to rely on the call center for their child support questions and needs. Parents complained of never being able to speak to the same person twice about their case, and not being able to get case information.<sup>203</sup>

There has also been significant concern about high turnover rates for caseworkers working for the private contractors. In Douglas County, where KVC Behavioral Healthcare Kansas is the contractor, District Court Judge Peggy Kittel has expressed concern around caseworker turnover, noting that one child in her courtroom had been assigned to seven different case managers in just two years.<sup>204</sup> In an effort to increase its workforce, in 2015, contractors started hiring unlicensed employees, named "family support workers," to do much of the work that licensed social workers previously performed.<sup>205</sup> Rebecca Proctor, executive director of the Kansas Organization of State Employees explains that this outcome of privatization is not a sustainable solution: "The fallout for kids and the families, at least based on the feedback we've received, is you don't necessarily have the most qualified person making the determination about what should happen with that child. And that's truly sad."<sup>206</sup>

Tennessee has experimented with child support privatization in many of its judicial districts, covering over 20 counties. The long-running privatization effort has been plagued with problems, many similar to those that surfaced in Kansas.

One of the longest of these experiments is in Davidson County, where child support has been under the control of a private contractor since 1992. On July 1, 2013, YoungWilliams PC took over the \$4 million per year, five-year contract from Maximus, the previous service provider. While some hoped that the change in contractor would fix some of the child support system's problems, many of the problems lie with privatization of the child support system itself.

In the previous two decades, only two private companies have run Davidson County's Child Support Enforcement Office. Maximus held the contract from 1992 to 1997. In 1997, the contract was awarded to the company, Policy Studies Inc. (PSI). PSI ran the service until 2012, when the company was bought up by Maximus, and Maximus inherited the contract. Davidson County Judge Magistrate Scott Rosenberg explains in an interview with *The Scene*, "Honestly, I've been concerned over the years about every company's performance that has come through here." Those within the judicial system have voiced concerns about underperformance, complaining that private contractors fail to keep magistrate dockets full and get cases through the judicial process. Parents complain that contractors aren't doing enough to collect and distribute child support payments in a timely manner.<sup>207</sup> From May 1, 2012, to December 31, 2012, the Tennessee Department of Human Services (DHS) received 36 formal complaints about Maximus after the company took control of Davidson County's child support enforcement. From July 2009 through September 2012, the state received 894 complaints against the company regarding its performance throughout the state.<sup>208</sup>

While Tennessee's cost-effectiveness numbers rank sixth in the nation, cost savings have not come without human cost. In 2009, Tennessee DHS signed a contract with Maximus to take over Shelby County's child support enforcement system. In this privatization, 200 county employees were laid off and replaced with less skilled workers from a temp agency. This loss of institutional knowledge and employees with high-level skills and expertise in the area was devastating. Several years into the contract, custodial parents in Shelby County continue to complain about the length of time the contractor takes to enforce child support payments, placing a financial burden on many families trying to make ends meet.<sup>209</sup>

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## Section 4: Race to the bottom for workers

**A**s **In the Public Interest** detailed in the 2014 report, *Race to the Bottom*, a well-documented way that privatization contributes to poverty and increasing income inequality is through the decline of workers' wages and benefits. Our research illustrated an alarming dynamic where outsourcing public services sets off a downward spiral in which reduced worker wages and benefits can hurt a local economy and overall stability of middle and working class communities. Governments at all levels have long provided jobs with family-supporting wages and important benefits such as health insurance and sick leave. In doing so, governments have historically created intentional "ladders of opportunity" to allow workers and their families to reach the middle class.<sup>210</sup> However, as governments have increasingly relied on the use of private contractors, we see a reversal of this trend. Many contracted positions offer lower wages, reduced benefits, and little or no retirement security. Too many times, these positions turn into poverty-level jobs because companies reduce labor costs to pad their own bottom line. In effect, governments are inadvertently contributing to the growing poverty and increasing inequality plaguing American society as tax dollars that once provided middle class jobs are siphoned off to corporate coffers.

This outsourcing dynamic disproportionately impacts women and African Americans, both of whom are employed by the public sector at high rates.<sup>211</sup> The public sector is the third largest employer of working women, regardless of race. In January 2011, women comprised 56.8% of all government workers; 43% of federal workers, 51.7% of state workers, and 61.4% of local government employees.<sup>212</sup> The public sector affords women greater opportunity to move from lower-income entry level work, such as janitorial services, to higher positions within a governmental entity, when compared to job mobility within a contractor company.<sup>213</sup> In general, workers in the public sector are better able to upwardly progress within a job classification than workers employed by private contractors.<sup>214</sup>

For African Americans, the public sector is the most important source of employment, as approximately one in five black workers hold jobs in government. African Americans are 30% more likely than non-African Americans to work in the public sector.<sup>215</sup> Public sector jobs—with strong equal opportunity requirements, higher rates of unionization, and more enforcement of anti-discrimination laws than those in the private sector—have been an important ladder for African Americans to move into the middle class.<sup>216</sup> Recent research reveals that African American public sector workers earn 25% more than other African American workers, and for both men and women, the median wages earned by African American employees is significantly higher in the public sector than in other industries.<sup>217</sup> Due to their prevalence in public sector jobs, African American workers are more likely to be affected when jobs are outsourced to companies that pay reduced wages and benefits, potentially losing their once stable footing in the American middle class, which can have long lasting impacts for future generations.

The loss of public sector employment can also have devastating effects on African Americans' economic conditions during retirement. Public pensions are an important

source of retirement income for African Americans. Recent research revealed that for African American retirees and other retirees of color, “a public pension is literally the difference between a secure retirement and one spent in or near poverty.”<sup>218</sup> In 2014, less than 3% of African American retirees with public pensions lived below the poverty line, but 21.8% of African American retirees without public pensions did.<sup>219</sup> African American retirees were nearly twice as reliant on public pensions to provide a secure retirement as the retiree population as a whole.<sup>220</sup> When jobs are outsourced to private companies, not only do workers typically experience a reduction in current living standards as their wages plummet, but with the loss of important retirement benefits, quality of life in later years is also severely compromised. This double loss is especially felt by workers of color as stable public sector employment opportunities disappear.

Additionally, when government contractors pay low wages and provide minimal benefits, the costs of filling in income gaps are shifted to taxpayers through increased use of public assistance programs. In many cases, contractor pay is so low that employees must turn to public social safety net programs, such as SNAP, WIC, TANF, the Earned Income Tax Credit (EITC), and other public assistance programs for which low-income Americans qualify, to make ends meet. When contractors fail to provide health insurance for their employees, or if buying into the employer’s plan is too expensive, workers and their families are forced to enroll in public programs, such as Medicaid or the Children’s Health Insurance Program (CHIP), or simply rely on emergency room visits that are very costly for taxpayers.

This spending amounts to a hidden cost to the government and a subsidy to the contractor that is rarely factored into the cost analysis when deciding whether to outsource a particular public service. By slashing labor costs, a company may be able to show a governmental entity cost savings through outsourcing on paper. However, low wages often mean that the number of Americans on public assistance rolls increases and these supplemental income and health care costs, instead of being the private contractor’s responsibility, are merely shifted onto other parts of the government budget.

Lastly, reducing wages and benefits has real consequences for local economies. Research shows how declines in wages means workers have less money to spend in their communities, which directly affects local businesses. Lower wages mean that workers spend less in local retail, restaurants, and other establishments. Lower wages also mean that local and state governments collect less in sales, income, property, and other types of taxes.<sup>221</sup> In short, less money flows into the local economy and more money is routed to for-profit corporations and their CEOs and shareholders.

## Federal concessionaire workers

**This issue is gaining increased attention** regarding workers with companies that contract with the federal government. A National Employment Law Project (NELP) survey of federal contract workers found that 74% of workers earned under \$10 per hour, almost 60% received no job benefits, and 36% were forced to rely on public assistance to make ends



meet.<sup>222</sup> For example, one worker interviewed for the survey who worked for a contractor that staffs the National Zoo in Washington, DC, reported that her job as a cashier paid \$8.25 and provided no health insurance benefits, sick days, or vacation days. She shared an apartment with her sister, who worked full-time, and her sister's kids. During the slower winter season, she and her co-workers were laid off with no notice, adding unpredictability and instability to an already stressful job.

Another worker interviewed for the survey relayed her story about how after working as a janitor for 19 years for a contractor at Washington, DC's, Union Station, she was injured on the job. She was working on a ladder and fell face down and knocked unconscious. She was taken to the emergency room, but had to stay home for a week to recover from the injuries. Her employer provided no paid sick leave, meaning that she earned no wages during this recovery time, severely impacting her ability to stay financially afloat. Furthermore, the publicly funded health care program she relied on said the hospital bill should be the employer's responsibility because the accident happened on the job. Until the contractor pays its share, she has been suspended from health insurance coverage. With an ongoing serious heart condition, no health insurance, and no paid sick time, she worries about her future. As she explains, "I have worked hard for 19 years at Union Station. Every day I come here and I work to make it a nice place for the visitors. But still, I make barely more than minimum wage and receive no benefits."<sup>223</sup>

The attention that this issue has received has culminated in the signing of two executive orders by President Barack Obama that attempt to raise labor standards for workers employed by federal contractors. The first was signed on February 12, 2014, and raised to minimum wage from \$7.25 to \$10.10 for all workers on federal construction and services contracts.<sup>224</sup> As a basis for the executive action, the order stated:

*"Raising the pay of low-wage workers increases their morale and the productivity and quality of their work, lowers turnover and its accompanying costs, and reduces supervisory costs. These savings and quality improvements will lead to improved economy and efficiency in Government procurement."*<sup>225</sup>

On September 7, 2015, President Obama signed a second executive order requiring federal contractors to provide their employees with up to seven days of paid sick leave annually, including paid leave for family care.<sup>226</sup> This order is set to go into effect on January 1, 2017, and will provide a minimum level of paid sick leave to an estimated 828,000 workers. Currently, almost 437,000 of these workers receive no paid sick leave.<sup>227</sup>

## Transit

**Despite some modest gains** at the federal level, contractor wage and benefits issues still persist in local government contracts. The Washington Metropolitan Area Transit Authority (WMATA) offers MetroAccess, a shared-ride, door-to-door, paratransit service for people with disabilities.<sup>228</sup> In an effort to cut costs, WMATA contracts with private companies

to provide this service. Cost cutting, specifically cutting labor costs, is a widely used argument for privatization among paratransit programs. A 2013 Government Accountability Office (GAO) survey of 200 agencies that used privatized paratransit services found that almost three quarters of respondents used private contractors to reduce costs; by far the most cited reason for privatization.<sup>229</sup> WMATA explained to the GAO that these reduced costs are largely derived from lower labor costs.<sup>230</sup> While this makes the paratransit budget appear slimmer, these costs spill over into other parts of the public budget, carrying serious consequences for drivers working for contractors.

Currently, WMATA contracts with multiple contractors to provide MetroAccess service. Three contractors provide service delivery, including two multinational companies, First Transit and Veolia Transportation, and one local company, Diamond Transportation.<sup>231</sup> Robbie Werth, president of Diamond Transportation, describes how he's unable to provide better wages to his workers: "We're in a competitive bidding situation. If I were to pay \$20 an hour, and TransDev [another contractor] were to do \$13.15 an hour... I wouldn't be operating this contract. If you bid too high on wages, which is a substantial part of the total budget, you're not going to get the work." However, since these cost savings are primarily realized through worker wage and benefit reductions, companies must offer lower wages and benefits to stay competitive and secure a contract. This creates a race to the bottom for worker pay and benefits and ultimately results in high turnover rates. The Federal Transit Administration (FTA) has documented turnover rates in excess of 80% per year for contractors servicing some of the nation's largest paratransit programs.<sup>232</sup> The high turnover rates can have severe negative impacts on both the quality of the service and the costs of the service to the public entity over time.<sup>233</sup>

The impacts of this race to the bottom can be seen through the experience of Karen Reed, who works as a MetroAccess driver for First Transit. In January 2015, she spoke to DC Mayor Muriel Bowser about her working conditions. She explained that she works 12-hour shifts driving a paratransit van and shows up for work every day. However, she estimates that she only took home \$26,000 that previous year, far below what is needed to secure housing in the Washington, DC, area. She and her daughter were homeless for three months in that previous year, and she used food assistance (SNAP) and Medicaid to help make ends meet.<sup>234</sup> She said to the mayor, "You are going to pay me either way, in my public benefits check or in my paycheck. I enjoy working for a living. Stop insulting me. Pay me in just one check: my paycheck."

Drivers for Washington, DC's Circulator bus system, which is also contracted out to First Transit, have also struggled with subpar wages and benefits. High turnover has plagued the system as Circulator drivers learned that drivers with the publicly run Metrobus system with the same level of experience earn significantly more, prompting concerns that the Circulator serves as a training ground for drivers before they move on for higher wages. Recently, Circulator drivers started at \$16.56 per hour, and after a decade could reach the top pay of \$23.47 per hour. By contrast, Metrobus drivers are offered starting wages of \$19 per hour with a top pay of \$34 per hour, even though drivers for both systems are providing

a comparable service on many of the same routes.<sup>235</sup> This disparity means that a driver with seven years of experience would make more than \$10 less working for the privatized Circulator system compared to the publicly run Metrobus system.<sup>236</sup> Given the cost of living in the Washington, DC, area, many Circulator drivers cannot afford basic living expenses, including rent.

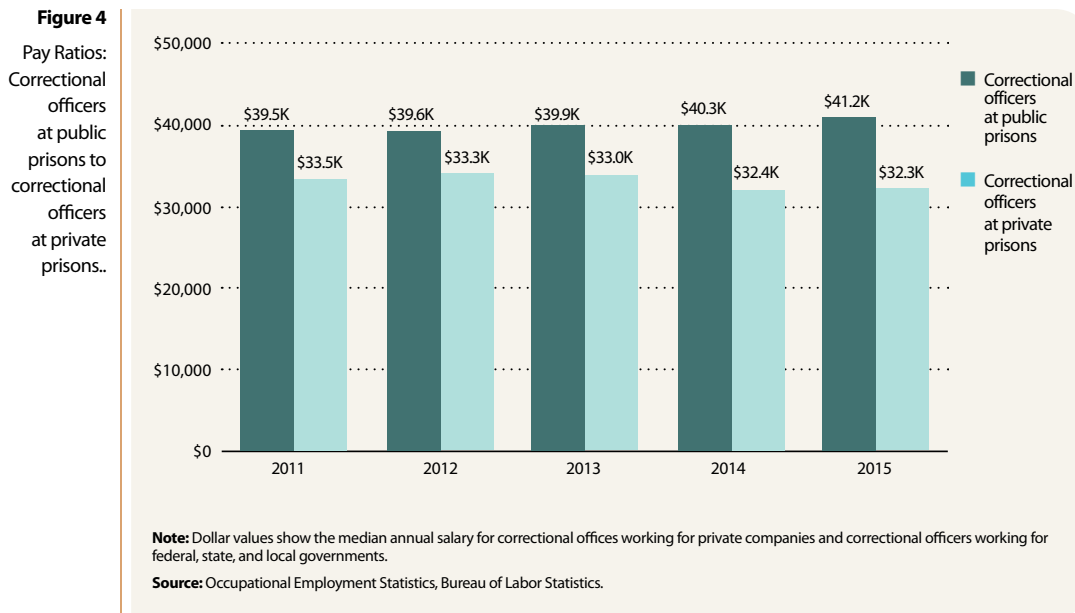
The Amalgamated Transit Union (ATU) Local 1764 has engaged in a campaign to bring wage parity to Circulator drivers working for First Transit. In May 2016, the union was successful in negotiating a three-year contract that would increase the top wages from the current \$23.47 hourly rate to \$31.69 by the end of the contract. The contract also specifies that First Transit is to triple its contribution to worker retirement savings 401(k) plans.<sup>237</sup> It is worth noting that the collective bargaining agreement also ensures that drivers will not have to drive buses that are in disrepair or poor operating condition. This is an important provision, as recent audits of the Circulator system have revealed that First Transit has neglected important maintenance on buses, leading to safety concerns for both drivers and passengers.<sup>238</sup>

## Private corrections

**This diversion of money from workers** to for-profit corporations and their executives can clearly be seen in the corrections industry. Recent data from the U.S. Bureau of Labor Statistics (BLS) shows a disparity in wages between correctional officers working in public and private facilities, which contributes to inequality in the private prison industry, an industry that collects hundreds of millions of dollars in profits from taxpayers each year.<sup>239</sup> The median salary for correctional officers at private prisons and jails in 2015 was \$32,290.<sup>240</sup> The data reveals that one in four private correctional officers make less than \$26,091, putting them near or below the poverty line for a family of four.<sup>241</sup> Some private facilities pay even less. For example, in 2014 at the Winn Correctional Facility in Winnfield, Louisiana, Corrections Corporation of America (CCA), the nation's second largest private prison company, paid non-ranking correctional officers \$9 an hour, or an annualized salary of \$18,000 per year, no matter how long they had worked at the prison.<sup>242</sup> This amount is almost \$6,000 less than the poverty threshold for a family of four for that year.<sup>243</sup>

When compared with correctional officers in publicly run prisons, correctional officers working for private prison companies earn substantially less—the median salary for correctional officers employed at public facilities in 2015 was \$41,160,<sup>244</sup> almost \$9,000 greater than their private sector counterparts in 2015.

Meanwhile, Damon Hininger, CCA's Chief Executive Officer (CEO), made \$882,807 in salary in 2015, as well as \$2,522,510 in other forms of compensation, such as stock awards and bonuses.<sup>245</sup> George Zoley, the CEO of the country's largest private prison corporation, GEO Group, made \$1,000,000 in salary and an additional \$5,608,464 in other forms of compensation.<sup>246</sup>



Not only do reductions in wages and benefits propel correctional officers in poverty, low wages in private prisons can also have significant impact on employee turnover, greatly affecting the quality of prison operations. In 2008, the Texas Senate Criminal Justice Committee reported a 90% turnover rate at Texas's private prisons, compared to a 24% turnover rate at their public prisons.<sup>247</sup> The high turnover rate in private prisons was largely due to private prison companies' failure to invest in quality staff and ongoing training. Data from 2008 revealed that the lowest paid public prison correctional officer in Texas made almost \$2,000 more annually than the highest paid private prison correctional officer.<sup>248</sup> Academic research using 2004 data found that private prison turnover among correctional officers was 43%, while turnover in public prisons was only 15%. Turnover in private prisons was linked to lower staff pay and less training. As the study explained, "Pay, training, and turnover may all contribute to the higher levels of violence seen in the private sector [prisons]."<sup>249</sup>

Correctional officers aren't the only workers in the criminal justice system impacted by the wage-cutting dynamic of privatization. Many services within prisons and jails are outsourced, including food service, health care, commissary, and more. In an effort to provide these services at a low cost and maximize company revenues, cutting corners in service provision has become routine. In the Public Interest has published two reports that closely examine the negative and sometimes deadly consequences of cost cutting strategies. For more information, see *Cutting Corners: How Government Contractors Harm the Public in Pursuit of Profit* and *Cutting Corners in America's Criminal Justice System*.

The severity of wage cuts and their impacts on prison services are clearly illustrated in Michigan's recently cancelled statewide contract with Aramark. In late 2013, Michigan Department of Corrections (MDOC) approved a \$145 million contract with the company for the provision of food service for the state's 43,000 prisoners.<sup>250</sup>

Upon taking over food services from the state, Aramark immediately lowered its operating costs by cutting kitchen worker compensation in half to about \$11 per hour<sup>251</sup> and ending some safety trainings.<sup>252</sup> State employees had been providing these services at a maximum hourly rate of \$22.18<sup>253</sup> and provided employment benefits.<sup>254</sup> Consequently, many of the new, less-qualified, lowly compensated employees violated security rules, broke the law, and acted in ways counter to prisoner rehabilitation. They couriered in contraband—such as marijuana—and engaged in intimate relations with prisoners, including exchanging love letters, kissing, and fellatio.<sup>255</sup> According to a letter from MDOC to Aramark in February 2014, “Aramark employees are inadequately trained” and “have a lack of tool control, specifically knives and a whisk, which is very dangerous as these items have come up missing.”<sup>256</sup> In total, from March 2014 to October 2014, MDOC cited Aramark for 485 instances of jeopardizing prisoner safety and facility security, according to an analysis by the nonprofit organization Progress Michigan.<sup>257</sup>

In May 2015, an Aramark supervisor was indicted for attempting to hire a prisoner to arrange an assault on another prisoner.<sup>258</sup> In the first seven months of Aramark’s contract, 74 employees were banned from Michigan’s prisons.<sup>259</sup> By comparison, in the five years before Aramark’s contract—when public employees provided food services for the prisons—about five workers were banned.<sup>260</sup>

The state fined the company \$98,000 in March 2014 and \$200,000 in August for contract violations.<sup>261</sup> In July 2015, the state terminated Aramark’s contract.<sup>262</sup>

## University of California contracted workforce

**The University of California system (UC)** consists of ten university campuses and five medical centers across the state of California. It is the third largest employer in the state. However, even as the number of students attending UC schools and the number of facilities has grown in recent years, the number of employees working directly for the UC system has decreased, and the public higher education system has increased its reliance on private contractors.<sup>263</sup> Recent research estimates that UC currently uses at least 45 private contractors employing thousands of workers in a variety of roles, including custodians, security officers, parking attendants, and food service workers.<sup>264</sup> Even though many of these contracted workers perform the same work as employees directly employed by UC, their wages are as much as 53% less than UC career employees in the same position, they receive few if any benefits, and most have no protections on the job.<sup>265</sup> This dynamic disproportionately affects communities of color as 65% of low-wage contractor employees in California are immigrants and people of color.<sup>266</sup>

For example, in a contract between UC San Francisco (UCSF) and the custodial company, Impec Group, Inc., a custodian with three years on the job would earn \$11.05 per hour, but that same custodian would earn \$17.01 per hour working directly for the university. The UCSF-employed custodian would earn additional pay for working the evening or night shifts, while the Impec-employed custodian would not. In terms of benefits, the UCSF-

employed custodian would receive family health coverage, a defined benefit retirement plan, 12 sick days per year, 13 paid annual holidays, and 15 paid vacation days per year. In contrast, the custodian employed by the contractor would receive no employer-sponsored healthcare, no retirement benefits, no paid holidays, no paid vacations days, and only three paid sick days per year due to a San Francisco ordinance requiring employers to pay a minimum number of sick days.<sup>267</sup>

Poverty-level jobs mean that workers are forced to forgo many of life's basic necessities. For example, Armando is a worker who works full-time for a UC contractor, but works alongside UC career employees performing similar jobs, and is even supervised by a manager who is a direct UC employee. His wages do not leave enough for his own health insurance premiums and he consequently goes without coverage, while his low pay qualifies his children for health coverage under the state's Medicaid program. He reports having to frequently choose between making his car payments and paying his water and electricity bills. But, as he explains, "the toughest thing I've had to do is tell my kids they can't play sports because we can't afford it. We just don't have the money."<sup>268</sup>

Like Armando, many contractor workers must rely on public assistance programs to make ends meet. As discussed above, the costs of these programs that taxpayers must ultimately bear are essentially subsidies for companies that inadequately compensate their employees. Researchers at UC Berkeley estimated that in 2010, each employee working for contractors required \$1,743 in public assistance each year to supplement poverty-level wages.<sup>269</sup>

In 2015, California Senate Bill 376 was introduced by Senator Ricardo Lara and sought to improve UC contracting practices and bring contractor worker compensation up to the level of UC system-employed workers in the same positions.<sup>270</sup> While this bill passed the California State Assembly, the bill was ultimately vetoed by the governor.<sup>271</sup> However, a few months earlier, the UC System had implemented a minimum wage policy that requires both direct employees and employees working for contractors to receive at least \$15 per hour by October 2017.<sup>272</sup>

## Section 5: Privatization perpetuates socioeconomic and racial segregation

**T**he introduction of private interests into public goods and services can radically impact access for certain groups. In some cases, privatization can create parallel systems in which one system propped up by private interests typically serves higher-income people, while another lesser quality system serves lower-income people. In other cases, the creation of a private system siphons funding away from the public system meant to serve everyone. In some situations, poor individuals and families can lose access to a public good completely. All of these cases increase socioeconomic segregation, which often results in racial segregation. When they are privatized, public goods that were meant to serve everyone can morph into separate and unequal systems that further divide communities and perpetuate inequality.

This section examines two sectors that illustrate this dynamic. The first discussion examines the impacts of charter schools, which are publicly funded but privately operated. Over the years, as charter schools have gained traction in school districts across the country, researchers have been able to collect and analyze the demographic makeup of charter school and neighborhood public school enrollment, and have documented the resulting racial isolation and segregation of students. The second discussion centers on public parks and green spaces. Private interests have increasingly taken over funding of some green spaces in higher-income areas, while parks in lower-income areas suffer from neglect, creating two park systems of uneven quality divided along socioeconomic, and many times, racial lines. In both these examples, privatization creates a situation where the quality of public goods is distributed differently depending on the socioeconomic class and/or race of the individual or community, negating the very essence of what public goods are meant to be and how they are meant to serve society.

### Charter schools

**The rapid growth of charter schools** in the landscape of public K-12 education has ignited many concerns, including their financial impacts on public school districts, the ability of state and local governments to hold charter schools accountable, and whether they provide a quality education to students. However, another related and serious concern is the evidence showing that charter schools create and perpetuate racial and socioeconomic isolation and segregation among students.

Research has long established that truly integrated public schools provide academic and cognitive benefits for all students. Integrated schools expand opportunity for students who come from poor and minority backgrounds by reducing racial achievement gaps and dropout rates. Furthermore, integrated classrooms encourage critical thinking, problem solving, and creativity, which benefit all children.<sup>273</sup> Yet, while research shows that integrated schools improve educational outcomes for all students, over 60 years after the U.S. Supreme



Court's landmark decision in *Brown v. Board of Education*, some school districts are experiencing a resurgence of racial and socioeconomic segregation. The privatization of our school system in the form of charter schools has undoubtedly contributed to this disturbing dynamic.

Research from the Civil Rights Project at UCLA documents the racial and socioeconomic segregation that occurs in charter schools. Their 2010 analysis found that of the 40 states, the District of Columbia, and several dozen metropolitan areas with large enrollments of charter schools students, charter schools were more racially isolated than neighborhood public schools in almost every state and large metropolitan area.<sup>274</sup> Several dynamics are at play. First, African American students are increasingly isolated in charter schools. Seventy percent of African American charter students attend schools where 90%-100% of the students are from underrepresented minority backgrounds, and 43% of African American charter students attended schools where 99% of students are from minority backgrounds. But this dynamic is not specific to African American students. Half of Latino charter students also attended racially isolated schools where 90%-100% of students were from minority backgrounds. And lastly, some areas of the country, including in the West and some sections of the South that have high levels of racial diversity in their general population, display an overrepresentation of white students in charter schools. This suggests that charter schools in these regions may be enabling "white flight" from neighborhood public schools, contributing to increasing racial isolation in both charter schools and the remaining student body. Researchers also found that a number of these "white flight" schools did not report any students utilizing the free lunch program, suggesting that these schools may be segregated not only by race, but also by socioeconomic status.<sup>275</sup> These predominately white charter schools may be drawing valuable public education dollars away from neighborhood public schools that need those dollars for the poorer minority students left behind.

These findings are echoed across the country. Minnesota, where the Twin Cities metropolitan area had a history of being one of the most desegregated regions in the country, has recently seen its schools become increasingly segregated. For example, an analysis by the *Star Tribune* found that 19 district elementary schools in Minneapolis now contain 80% students of color, while two are almost entirely comprised of white students.<sup>276</sup> There are significant concerns that the growth of charter schools in the area has exacerbated this racial segregation and created opportunities where white students can leave otherwise racially diverse schools. Charter schools attended by predominately white students grew by 40% between the 2007-2008 and 2012-2013. More than half of these predominately white charter schools are located in attendance zones with racially diverse neighborhood schools.<sup>277</sup> In general, charter schools in the Twin Cities region are racially segregated. A majority of the charter schools are comprised of high proportions of students of color, while many of the remaining schools contain predominately white students. As the *Star Tribune* reported, only 16 of the metro area's 72 elementary-level charter schools are integrated with what education researchers consider a healthy mix of white students and students of color.<sup>278</sup>

Racially segregated schools can create a profoundly negative environment for students. The Institute on Metropolitan Opportunity found that the poverty rate at minority-segregated schools in the Twin Cities was two-and-a-half times greater than the poverty rate at racially integrated schools, and five times greater than the poverty rate at predominantly white schools. Researchers also found that math and reading test scores for African American students at highly segregated schools were lower than test scores for African American students at less segregated schools. Similarly, suspension rates were substantially higher in racially segregated elementary schools than in less segregated ones.<sup>279</sup>

A lawsuit has even been filed by leading civil rights lawyers in the state that contends that the state has allowed schools with high concentrations of poor and minority students to grow. They argue that this trend has been buoyed by the expansion of charter schools, which are more racially segregated than traditional public schools. And as the research discussed above shows, children who attend racially isolated schools achieve far less than their peers in integrated schools.<sup>280</sup> It is important to note that charter schools have been exempt from state laws around integration programs.<sup>281</sup> A proposed rule that would have subjected charter schools to these laws was struck down by a state judge in March 2016. At the heart of the debate were differing opinions on what constitutes segregation, an important question that many state and jurisdictions will surely continue wrestle with in the near future.<sup>282</sup>

A similar story of increased segregation has played out in North Carolina. Researchers from Duke University recently examined the growth of charter schools in the state and found that while charter schools started out in the late 1990s and early 2000s serving primarily students of color, over time they have served increasing numbers of white students. However, North Carolina charter schools have also become increasingly racially isolated, where some schools have high concentrations of students of color, while other schools serve primarily white students.<sup>283</sup> In the researchers' analysis of these demographic changes, along with student testing scores and parent satisfaction ratings, they conclude that "many white parents are using the charter schools, at least in part, to avoid more racially diverse traditional public schools." They continue to explain that, "charter schools in North Carolina have become segmented over time, with one segment increasingly serving the interests of middle class white families."

The implications of this increasing segregation can especially be felt in districts with rapid charter growth. In Durham County, North Carolina, the fast growth of charters has increased racial segregation at the financial expense of the public school district. Neighborhood schools have lost middle class children to charter schools and have been left with a higher concentration of poor students and students of color.<sup>284</sup> Charter schools are exempt from providing student transportation or free and reduced price lunch, making it less likely that poor students can attend charter schools that don't provide these critical services.

Charter school expansion has been destabilizing for the school district. One recent study estimates that the net cost to the Durham Public Schools could be as high as \$2,000

per charter school student.<sup>285</sup> The school district estimated in 2014 that charter schools take \$14.9 million each year from neighborhood schools. This means that the traditional public schools in the district, which contain higher proportions of lower-income students, students of color, and more expensive-to-educate children (such as those with disabilities) are financially strained, as the district is unable to reduce its spending proportionally with the loss of charter students due to unavoidable fixed costs.<sup>286</sup> Unfortunately, this financial loss hurts the public school district's ability to provide quality education to its remaining students, who lose out even more as schools become more racially isolated and segregated.

## Parks

**Renowned landscape architect Frederick Olmstead** said that parks are democratic by design, a place for people no matter what their background or economic condition.<sup>287</sup> But as park budgets at all levels of government have declined, the democratic ideal of parks as public spaces for all residents has been threatened by privatization.

Public spaces located in poor areas have been neglected, in part due to private money increasingly being used to bolster and improve parks in higher-income areas. This dynamic, discussed in greater detail below, deprives poor residents and their children access to spaces that research has shown are important to the health and safety of those communities. Access to quality public green space, especially in urban areas, increases residents' physical activity levels, provides recreational opportunities for poor children and families, has been strongly linked to reductions in crime and juvenile delinquency, and even produces measureable environmental benefits.<sup>288</sup> Unfortunately, privatization of parks and other public recreational facilities mirrors the inequality present in American cities, where even in the face of declining budgets, higher-income residents are still able to access high quality green spaces, while lower-income communities are effectively denied these opportunities.

This privatization dynamic may be less obvious than in traditional government contracting, but nonetheless it has similar impacts. In the face of declining park budgets, wealthy individuals have provided donations to keep the parks of their choice in pristine condition. However, this often means that parks in poor areas of town are neglected and the gulf between the public spaces serving higher-income areas and those located in poor areas grows even vaster. This dynamic is well illustrated by the 2012 donation of \$100 million by hedge-fund billionaire John A. Paulson to Central Park in New York City. With his donation, Paulson, whose townhome is located just feet away from the park, stipulated that none of his money could go to any of the dozens of other parks in New York City, many of which need significant maintenance and repairs.<sup>289</sup> Like Central Park, an increasing number of urban parks in higher-income areas are run in partnership with private nonprofit conservancies whose main task is to raise money through private donations for the upkeep of the park. While these organizations can help ensure a park is sparkling with the latest amenities, as Professor Setha Low of City University of New York explains, "conservancies are run by wealthy people, and the landscape gets gentrified in an aesthetic way that many

poor people come to understand as not for them.”<sup>290</sup> In the meantime, other parks in the city, many of which are located in poor communities, do not receive adequate funding from the city, falling into greater disrepair each year. As Geoffrey Croft, president of the watchdog group NYC Park Advocates, explains in a media interview, “New York has created a two-tier parks system. One for the rich, the other for the poor.”<sup>291</sup>

The privatization of public spaces perpetuates economic and racial segregation. Instead of creating spaces where people of diverse socioeconomic and racial backgrounds can come together, the embedding of private money and interests into select parks and green spaces has the impact of further separating higher-income individuals and families from poor individuals and families that are often people of color.

## Recommendations

### 1. Invest in the public

#### **Governments must choose to make wise public funding decisions that maintain and improve our public services and assets.**

One of most important actions that governments can take to resist the call of privatization and combat rising inequality is to adequately fund public services and assets. Too often, privatization is touted as a way to save costs while improving a troubled service or program. For instance, charter schools have been pitched as an alternative to poor performing public schools, and privatized child welfare programs have been sold as alternatives to state foster care systems that inadequately serve children in need. But the goals of saving costs and improving service quality are most often at odds with each other, and privatization efforts frequently result in either cost overruns or decreased service quality, and often times both.

Meanwhile, privatization fails to address the underlying causes of why a publicly run service may have hit road bumps. In some cases, purposeful underfunding of public services is used ideologically as a “starve the beast” method for cutting public services,<sup>292</sup> creating a crisis within a service or program, and then pitching privatization as a way run it more effectively. In other cases, government revenues may truly have diminished, and new funding methods, such as the introduction of contracting models that institute new user fees as discussed in Section 1 of this report, may appear to be the solution to funding and running programs on tight budgets. However, neither of these “solutions” work as long-term answers if the public goods we need and value as a society are to be true public goods, in the sense that they bring economic and social value to everyone and create better communities and ultimately a better nation. True public goods must be equitably paid for with progressive revenue sources.

Even though state and local governments are still recovering from 2008 recessionary revenue cuts, data show that state revenues are starting to inch closer to pre-2008

recession levels, though recovery has been slow, uneven, and incomplete.<sup>293</sup> However, jurisdictions can wisely choose to make the investments needed to reclaim and maintain our public goods and build a strong foundation for economic growth.<sup>294</sup> The provision of many of our public goods has impacts not only on communities in the present, but adequately funding them today means that governments receive returns on their investment in the future.

Public education, including pre-K programs, K-12 schools, and higher education, has long been considered the quintessential public good. It provides benefits for students, while an educated populace provides social and economic benefit to society as a whole. Quality public education ensures that businesses have the productive and talented workforce they require. The benefits of public education outweigh the costs of funding it. While many jurisdictions have cut funding for public education in recent years, bringing funding back up to pre-recession levels, and even expanding that funding, is a wise investment for states and localities. For example, research shows that high quality preschool improves not only a children's academic performance but also the quality of a state's workforce and jobs over time.<sup>295</sup>

Similarly, building, upgrading, and repairing needed physical infrastructure, such as transportation systems and water systems are crucial ways that governments can create jobs and promote full economic recovery. These investments not only create a multitude of jobs now, but also ensure that residents and businesses in the future have the infrastructure needed to boost productivity and support a healthy economy. Currently, governments have access to historically low interest rates and state and local debt is below pre-recession levels, making it an opportune time to invest in infrastructure. Some governments are taking note and ensuring they have the revenues needed to make these important investments. In 2015, in more than ten states, including Idaho and Georgia, gas tax increases funded road construction.<sup>296</sup>

Likewise, the costs of underfunding certain services can have severe negative consequences for future budgets. Programs that provide support for children in poverty simply can't be ignored. Research shows that children who grow up in poverty are more likely than non-poor children to have low earnings in adulthood, somewhat more likely to be involved in crime, and more likely to have poor health outcomes.<sup>297</sup> Lower productivity and the costs associated with increased crime and health problems have a direct fiscal impact on families, communities, and ultimately, the economy as a whole. These impacts can have lasting economic consequences, making income inequality not only a problem for our generation but for generations to come. The societal cost of increasing poverty is real and expensive.

Lastly, some states have made reforms to their criminal justice systems that have produced significant savings, freeing up precious revenues without compromising public safety. For example, instead of incarcerating people convicted of drug-related offenses, some states are offering addiction treatment services. Instead of re-

incarcerating people who violate parole on technical terms, such as missing a meeting with a parole officer, states are imposing sanctions instead of prison time. By investing public dollars in alternatives to incarceration, states have actually seen their crime rates remain at and drop to low levels, which allows them to save costs on building and operating prisons.<sup>298</sup> Similarly, the privatization of many correctional functions, including prison operations and many related services, has meant that corporations have been able to siphon off tax dollars through profits, excessive executive compensation, lobbying expenditures, and other corporate expenses, that otherwise could be invested in properly funding public goods such as mental health treatment or education. By reallocating money that governments are currently spending on private corrections contracts, governments could find additional revenues for wiser targeted investment. For more information, visit In the Public Interest's *Programs Not Profits* campaign website at [programsnotprofits.org](http://programsnotprofits.org).

## 2. Understand social and economic impacts of privatization

### **Governments should conduct a social and economic impact analysis before outsourcing.**

As this report discusses, the impacts of privatization are far more reaching than just monetary costs. However, governments rarely look at questions beyond whether there is projected cost savings associated with a proposed privatization effort. While a rigorous cost-benefit analysis should be part of every government's "make or buy" analysis, other analyses should also be completed that examine potential impacts on workers, the community, businesses, and those who use the service or asset. A study of the potential social and economic impacts of outsourcing should also be made public before any decision regarding outsourcing is made. The analysis should include the potential impacts listed below, as appropriate.<sup>299</sup>

- Expected impacts on people utilizing the service or asset
- Any potential change in the racial, gender, or socioeconomic mix of people utilizing the service or asset
- Any potential impacts on other governmental budgets
- Expected change in staffing and personnel for the affected positions
- Expected change in wages and benefits for affected workers
- Expected impacts on social services and public assistance programs
- The racial and gender mix of affected workers, and any expected changes after outsourcing
- Requirements for staff to live within the jurisdiction, and expected impact of contracting on where workers live
- Expected economic impact on local businesses
- Expected impact on tax revenue for jurisdiction.

Such analysis will ensure that policymakers and the public fully understand the ramifications of any outsourcing decisions before a contract is signed.

It should be noted that proposed contracts that have potential negative impacts on people utilizing the service or asset, or that impact certain groups' access to the service or asset, should be given extra scrutiny. In contracts dealing with vulnerable populations or children, it is especially important that a proposed contract not change the mission of the service or program, and that user access is in no way, even if only potentially, compromised. As discussed in Section 3, the ability of workers to successfully provide services to vulnerable populations dealing with complex problems can be severely compromised when services are privatized. The ability to design contracts that prevent this from occurring is very difficult, if not impossible in some situations, and governmental entities must refrain from outsourcing in these contexts.

### 3. Ensure government contracts promote instead of undermine shared economic prosperity

**Governments should require contractors to show that cost savings derive from increased efficiencies and innovation, not decreased compensation.**

Governments should ensure that cost savings promised by contractors are derived from increased efficiencies, not from a decrease in employee wages and benefits. By requiring cost savings to come from innovation and efficiencies, instead of from the pockets of lower-income workers, states and localities can send a clear message that only "high road" firms will receive government contracts. As Section 4 shows, when contractors degrade jobs, taxpayers make up the difference through food assistance, emergency healthcare, and other public support programs. By using "low road" contractors, states and localities essentially subsidize these companies by supplementing low wage jobs with public supports and other resources. When governments instead do business with high road contractors, companies compete on whether they can offer quality services through increased efficiency, instead of undercutting each other by slashing workers' wages and benefits and creating a race to the bottom. By ensuring that contractors' promises of cost savings do not come from wage and benefit reductions, states and localities can preserve decent family-supporting jobs, which is good for workers, the community, and the local economy.

States like California currently have laws on their books that capture this important idea: *"Proposals to contract out work shall not be approved solely on the basis that savings will result from lower contractor pay rates or benefits."<sup>300</sup>*

**Relatedly, require contractors to pay a living wage and provide health and other important benefits.**

Public sector jobs have long played a role in growing the middle class. Workers are able to earn a decent living when their jobs are public sector jobs. However, many contractors increase their profit margins by cutting labor costs. This means that



workers' wages and benefits are slashed when private companies assume control of public functions, degrading middle and working class jobs. If a contractor is going to employ workers to perform public work using public dollars, those jobs should fulfill the goal of using public money to strengthen our economy and build the middle class. Workers should be paid a living wage and provided reasonable benefits, such as health insurance and sick leave by their contractor employer.

Localities across the county have started passing ordinances that set wage floors for contractor employees. For example, San Jose, California, requires that companies that enter into contracts with the city after July 1, 2016, pay employees working on that contract a living wage of \$20.14 per hour if they provide health benefits or \$21.39 per hour if they do not provide health benefits. Additionally, contractors are required to provide 12 days of compensated time off per year for full-time workers and six days of compensated time off for part-time workers.<sup>301</sup> Similarly, Miami-Dade County, Florida, currently requires that companies that contract with the county for the provision of services must pay their employees \$12.83 per hour with qualifying health benefits valued at least \$1.86 per hour, or \$14.69 per hour with no health benefits. This will change after October 2016 to \$12.63 per hour with qualifying health benefits valued at least \$2.89 per hour, or \$15.52 per hour with no health benefits.<sup>302</sup>

Furthermore, we know from the growing body of evidence from research analyzing local living wages laws that raising workers' wages does not impart a significant increase in costs to taxpayers.<sup>303</sup> In fact, raising wages can reduce the demand for public benefits, such as food assistance and Medicaid, discussed above, actually creating savings in these programs. Companies experience productivity gains and a reduction in employee turnover from attracting a higher quality workforce. And the exorbitant salaries of CEOs and other executives of contractors suggest that there are revenues that could be better allocated within corporations without significantly affecting the bottom line.<sup>304</sup>

#### 4. Increase transparency

**State and local governments should track how much money is spent on private contracts, how many workers are employed by those contracts, and worker wage rates. This information should be readily available to the public.**

Paul Light, professor at New York University, found that in 2005, private companies received \$400 billion from the federal government through government contracts.<sup>305</sup> This enormous figure does not even include the billions of dollars spent by cities and states on contracts with private companies. While researchers calculate that total state and local procurement may be roughly valued at \$1.5 trillion,<sup>306</sup> it is difficult to know how accurate this figure is and, importantly, difficult to know how much contracting takes places in individual jurisdictions since many governmental entities do not systematically collect and make public this information. As discussed in the first recommendation above, at a time where many governments are struggling with raising sufficient revenues to invest in critical public goods, understanding how much

of a budget goes toward contracts and scrutinizing each of those contracts can turn up opportunities to bring services back in-house at a cost savings.

Similarly, experts estimate that there are more than three times as many contract workers as civil service workers at the federal level.<sup>307</sup> However, estimates of the contracted workforce for state and local governments do not exist because most do not keep track of how many workers are employed by contractors. While some states and a few localities have made progress on collecting and aggregating spending information,<sup>308</sup> there are still many gaps to fill before an accurate estimate of overall spending on contracts by states and localities can be calculated. Moreover, having a full picture of the nature of the jobs that state and local government contracts create is still far from being reality, until cities and states make it a priority to collect this information. This is important information that allows policymakers and the public to understand how taxpayer dollars are spent, and what types of jobs result from these contracts. Governments already track this information for their own workforce—it should extend to contract spending as well.

As discussed above, governments have been an important source of middle class mobility, and policymakers should systematically keep track of contract spending and jobs to ensure that these important goals and objectives are not undermined in contracting practices.

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