

**NLWJC - Kagan**

**DPC - Box 064 - Folder-003**

**Welfare-Privatization [6]**

*WR-privatize*

April 4, 1997

**MEMORANDUM FOR THE PRESIDENT**

**FROM: DONNA SHALALA  
DAN GLICKMAN  
BRUCE REED**

**SUBJECT: TEXAS WELFARE PLAN**

As you know, Texas has asked for federal permission to issue a "request for offers" for a private company to operate an integrated enrollment system for Medicaid, Food Stamps, Temporary Assistance for Needy Families, and potentially other nutrition and workforce programs.

We believe we must give Texas an answer immediately. The state has engaged in good faith discussions with various agencies for more than 9 months, and state officials are now publicly criticizing the Administration for the delay.

We believe we have a compromise proposal which will break the stalemate -- a proposal based on existing Medicaid laws and regulations, that will allow the state to explore innovative ways to deliver public services while ensuring beneficiaries' rights to assistance and maintaining many public sector jobs. As shown in the chart below, our plan would allow Texas to use private contractors to obtain information from applicants and assist them in completing their applications for benefits. However, the determination of eligibility would be conducted by public sector employees.

Allows Private Contractors to:	Texas Proposal	Union Proposal	Our Compromise
Assist Individuals in Completing Applications	Yes	No	Yes
Determine Eligibility	Yes	No	No
Consider Appeals	No	No	No
Conduct Quality Control	No	No	No

Our plan would:

- Protect beneficiaries by ensuring that only public sector civil service employees determine benefit eligibility, consider appeals, and conduct quality control operations, and ensuring that the contract does not contain incentives that would lead to inappropriate denial of program benefits.
- Maintain public sector jobs associated with the determination of eligibility for benefits.
- Allow Texas to achieve program efficiencies through a bidding process. The Texas legislature, in authorizing the project in 1995, required that any savings fund additional health and human services programs. The Bush Administration has not committed to how these savings would be reinvested, but estimates the state could save enough to expand health care coverage to up to 150,000 needy children.

We would allow the state of Texas to release a request for offers based on these principles. Once the state chooses among the bids, the state would be required to submit to HHS and USDA the proposed contract for approval. The Administration would refuse the contract if it did not meet our standards.

#### Background on the Texas Proposal

The new welfare law explicitly allows states to contract with private entities to administer Temporary Assistance for Needy Families (TANF). Because of this new authority in TANF, a few states are seeking new contracting authority for Medicaid and Food Stamps as well, so they can operate privately-run, one-stop eligibility centers. In addition to the Texas proposal, Wisconsin has submitted a proposal which would allow 10% of its welfare caseload to be served by private entities (this percentage could significantly increase in later years). We will continue to meet to consider Wisconsin's proposal.

Federal agencies and the state of Texas have been negotiating since June 1996 over the state's proposal to privatize the administration of TANF, Medicaid, Food Stamps, and certain other federally-funded nutrition programs. Last spring, the state legislature passed a welfare reform plan with bipartisan support, with endorsements from Lt. Gov. Bob Bullock and other leading Democrats. This legislation did not specifically call for privatization but authorized the state to conduct a bidding process. Under the potential proposal, private contractors could collect information about applicants and make eligibility determinations. The State would retain control over the appeals and quality control processes.

Texas argues that it cannot proceed with plans to contract out TANF (as the welfare law allows) unless the Administration permits private contracting for Food Stamps and Medicaid, because maintaining separate eligibility systems for these programs would create administrative difficulties. To take the most obvious problem, a dual system would require many individuals to go to one location to apply for TANF and another location to apply for Food Stamps and Medicaid.

As you know, labor leaders would like us to refuse the Texas request entirely. They see even limited privatization as a dangerous precedent and have made clear that they view this decision as critically important to public employee unions.

Recommendation

All the relevant agencies and White House offices agree that the Administration should adopt a compromise position which would give Texas the opportunity to seek a partially privatized integrated system. This position would draw the line on the basis of our existing Medicaid law and practice, which would allow privatization of some but not all administrative functions. Under this approach, the application, interview, and other information-gathering could be done by private employees; the eligibility determination itself, as well as appeals and quality control, would remain in the hands of public employees. In addition, the Administration should require that any contract Texas enters into protects applicants' and beneficiaries' privacy rights and does not include incentives that would lead to inappropriate denials -- or, as OMB notes, inappropriate issuances -- of program benefits.

The Medicaid program already allows private hospital workers to do intake and eligibility work, up to the point of actually determining eligibility. For the Food Stamp program this approach would require the granting of administrative waivers.

Allowing privatization of these functions, conditioned on appropriate contract incentives and safeguards, strikes the right balance between allowing states to explore innovative ways to deliver public services and ensuring that applicants' and beneficiaries' rights are protected. It is true that this approach will allow the state to displace some state workers. But the potential for displacement is much lower than under the state's own proposal. In any event, we have crossed this bridge already in Medicaid and other contexts -- for example, the Department of Labor has granted a waiver to Massachusetts to contract out all employment services and is prepared to do the same for other states as well.

In line with this view, we recommend that we inform Texas of the principles we will apply in reviewing any privatization contract and give formal permission to the State to issue its RFO. Once the State accepts a bid, the Administration will review whether the contract appropriately accords with our principles, and bar the state from proceeding if it does not.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

Wa-  
privatizati-

Diana Fortuna 03/27/97 01:53:47 PM

Record Type: Record

To: Emily Bromberg/WHO/EOP  
cc: Cynthia A. Rice/OPD/EOP, Elena Kagan/OPD/EOP  
bcc:  
Subject: Re: On privatiz, HHS has done a document and USDA is doing one too

I think we and the agencies are basically in agreement, although USDA may balk at the last minute. I don't know if labor has asked for a Donna meeting.

Emily Bromberg

Emily Bromberg  
03/27/97 11:16:36 AM

Record Type: Record

To: Diana Fortuna/OPD/EOP, Cynthia A. Rice/OPD/EOP  
cc: Elena Kagan/OPD/EOP  
Subject: Re: On privatiz, HHS has done a document and USDA is doing one too

thanks. i'd like copy of the hhs and usda paper as soon as they are available. what's the next step? is it another conversation or are we ready to accept where the agencies draw the line? has labor asked for a meeting with Donna?

3/10 Labor Meeting

1. 3m - all the jobs?

2. FLIA

3. Privatization - why / all dealings w/ client - help w/ state

John Sharp - controller of TX

Chairpersons of leg centers - against Priv.

Deal in TX!

But bigger problem

02/20/97 10:50 512 424 8587

HRSC RECEPTION

002

*File -  
with case -  
privatization*



**TEXAS HEALTH AND HUMAN SERVICES COMMISSION**

*Handwritten notes:*  
JC  
COPY  
To Elena  
Stacy  
FYI  
- km

**MICHAEL D. MCKINNEY, M. D.  
COMMISSIONER**

**February 19, 1997**

**Donna E. Shalala, Ph.D.  
Secretary  
United States Department of Health & Human Services  
200 Independence Avenue, S.W.  
Washington, D. C. 20201**

**Re: Texas Integrated Enrollment Services Project**

**Dear Secretary Shalala:**

The purpose of this letter is to respond to correspondence dated January 31, 1997, from Mr. Mark Ragan, Director of the Office of State Systems, Administration for Children and Families, to my office regarding the review of the State of Texas' request for approval of the Request for Offers for the Texas Integrated Enrollment Services (TIES) project. [Copy attached.] Mr. Ragan advises that the ACF and HCFA continue to review the RFO and that a final decision cannot be given at this time. He states that discussions were being conducted at the highest levels within DHHS.

It is therefore appropriate to direct my concerns about the approval process to your office and to inform you of my office's plans, based on our understanding of applicable federal regulations, to release the TIES Request for Offers [RFO].

As you may know, the State of Texas, through this agency and the State Council on Competitive Government, has embarked on a challenging initiative to integrate the eligibility determination and client enrollment functions of several public assistance programs, including Medicaid and cash assistance under the Temporary Assistance to Needy Families program. The State's overarching goal is to improve service to recipients of public assistance by maximizing efficiencies and taking advantage of technical and business innovations available through the marketplace. The State also has selected this project as a means to encourage public-private competition and, in the process, stimulate the formation of public-private partnerships.

The Texas Legislature directed this agency and the Council to determine the potential benefits of contracting out these functions and, if this option was deemed feasible, authorized this agency to contract out those functions. Following an extensive study of the programs to be included in the project and an assessment by the Council, the Council determined that there was a compelling business case to support the contracting out of eligibility determination and enrollment functions. The Council directed this agency to prepare and conduct a competitive procurement to implement the Council's findings.

We first presented the RFO for an integrated enrollment service for required prior approval to your agency and the Department of Agriculture in June of 1996. Following an extensive review and

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02/20/97 10:51 512 424 6587

HHS RECEPTION

003

Secretary Donna E. Shalala  
February 19, 1997  
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comment by the federal agencies, we met with agency representatives in Austin on July 23, 24, and 25. Based on the input and direction we received from federal staff and others, we resubmitted the RFO and Planning APD for the project for prior federal approval on October 17, 1996. We received acknowledgment in a letter from Mr. Joseph F. Costa, Director of the State Systems Policy Staff for ACF, dated October 24, 1997.

We met once again with federal staff at the offices of the Food and Consumer Service in Alexandria on November 15, 1996, where we received additional comments and direction. We received requests for clarification from DHHS and USDA on November 19th. We submitted information in response to these requests on November 27 and December 13, 1996. Mr. Ragan's letter is the most recent correspondence we have received from the Department on this matter.

Although your agency has indicated more time is needed to make a final decision on our request for approval, we believe a DHHS regulation adopted last year authorizes the State of Texas to proceed with the implementation of the TIES on a provisional basis without the Department's prior approval. The regulation, codified at 45 C.F.R. section 85.611(d), promises prompt agency action on states' requests for prior approval of Planning APDs, Implementation APDs, RFPs, contracts, and certain contract amendments. Under the new regulation, a state's request is automatically deemed to have provisionally met the prior approval conditions of the regulations if DHHS has not, within 60 days following the date of the its letter acknowledging receipt of the state's request, provided the state written approval, disapproval, or a request for information.

Based on our understanding of the purpose and intent of the regulation, we believe that, due to the delay in federal action, the State has provisionally met the prior approval conditions of DHHS and USDA regulations.

In the notice of proposed rule making that appeared in the Federal Register, the Department explained that the "prompt action" regulation was proposed in the interest of increasing efficiency and reducing federally-imposed burdens on the states. The Department's avowed intention was to help states contain costs by minimizing the delay in granting required approvals. The Department acknowledged that states which are confident their proposed ADP projects satisfy federal requirements should not be penalized by excessive delay in the Department's approval. See 60 Fed. Reg. 37859 (July 24, 1995). On final adoption of the regulation, the Department responded to a comment that the regulation may be employed to delay the approval of state requests by offering explicit assurance that "this will not happen." 61 Fed. Reg. 39894, 39896 (July 31, 1996).

Unfortunately, it appears that this is precisely what has occurred with the State's request for approval of the TIES RFO. Our concern is that the current and - if we interpret your agency's actions correctly - potentially interminable delay in the approval of the TIES RFO violates the spirit, if not the letter, of the prompt action regulation. Certain that this is not the Department's intention, we believe it is reasonable to interpret the regulation to authorize the State of Texas to proceed with the TIES project under the provisional approval criteria of the regulation.

The regulation is silent as to the Department's duty and a state's reasonable expectations in cases where federal approval takes longer than 60 days. It seems clear, though, that the policy basis for the regulation was to bring closure to a process that unfairly delays and adds costs to proposed state action. The Department's actions imply, however, that it interprets the regulation to permit an extension of the period of review for an additional 60 days upon delivery of written notice to the state. This application is plainly at odds with the Department's justification for the rule.



Secretary Donna E. Shalala  
February 19, 1997  
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If the regulation is to apply in this instance, we think the more reasonable application would be to permit the Department to receive an additional 60 days to review a state request for approval when it either (1) requests additional information from the state or (2) receives information from the state in response to such a request. Under this interpretation, the Department would be required, within the 60 days following the request or receipt of information, to provide the state a written approval, disapproval, or request for additional information. Mr. Ragan's letter of January 31, then, would not extend the Department's review period because it did not provide approval, disapproval, or request additional information from the State.

Accordingly, under this reading of the prompt review regulation, the State of Texas was deemed to have provisionally met the prior approval conditions of regulations, at the earliest, on January 18, 1997 (60 calendar days following November 19, 1996, the date of the Department's request for more information) or February 11, 1997, at the latest (60 days following the State's December 13, 1996, submission in response to the November 19 request).

Based on this understanding of the regulation, my staff is proceeding with final preparation of the TIES RFO for formal release to the marketplace. If we are incorrect in our reading of the regulations, we believe it is the Department's responsibility to so advise and provide the State of Texas information necessary to fulfill the prior approval requirement. If we receive no direction from the Department by February 28, 1997, we will assume you concur in our reading of the regulations and we will formally issue the TIES RFO.

We have conducted the dialog with our federal partners in the utmost good faith and in the spirit of partnership. We think this commitment is critical to the ultimate success of the TIES project. Almost without exception, our federal counterparts have been extremely helpful in providing my staff useful advice and direction. Their input has been indispensable to ensuring the success of the project. Yet, despite these efforts and repeated assurances of a prompt federal decision, we appear no closer to approval than we were nearly nine months ago when we first approached our federal partners. To my knowledge, we have responded (or have attempted to respond) to every request for information and clarification from federal oversight agencies. We are unaware of any reason why the RFO cannot be issued at this time. Mr. Ragan's letter discloses no lingering or insurmountable issues regarding the project. Thus, we are left to speculate whether the delay in approval is for reasons other than the adequacy of the RFO and compliance with federal requirements.

I agree with Mr. Ragan that a project as large and ambitious as TIES deserves careful consideration, and we are committed, as your staff are, to ensuring that the needs of our clients and taxpayers' interests are protected. However, each month of delay in the release of the RFO costs the taxpayers of Texas. To date, the State of Texas has invested approximately \$1.8 million in the planning and development of the TIES project. Additional expenditures will no doubt be necessary to accommodate further federal delay.

More important, we conservatively estimate that each month of delay in the statewide implementation of integrated enrollment in Texas costs the taxpayers of this state at least \$10,000,000. The Texas Legislature, in authorizing this project in 1995, instructed my office to direct the savings generated by integrated enrollment to fund additional health and human services programs. I estimate that the annual savings in administrative costs alone generated by TIES could provide health care coverage an additional 150,000 needy Texas children. Thus, the inability of the federal authorities to fulfill their

Secretary Donna E. Shalala  
February 19, 1997  
Page 4

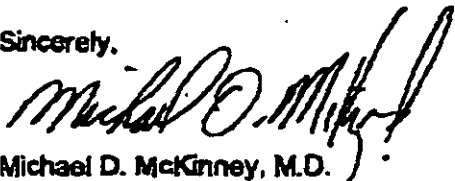
responsibilities frustrates the intent of the Texas Legislature and is borne directly by our agencies' clients and the citizens of Texas.

I regret that this action has become necessary, but it is my duty to ensure the intent of the Texas Legislature is implemented and the interests of the people of Texas are advanced. We firmly believe that the TIES project is the right thing for recipients of public assistance and the State of Texas, and it is long overdue. I understand our efforts have been criticized by people whose interests may be to preserve the status quo. Unlike your staff, these persons either have not taken the time to consult with us, have not given us the courtesy of an open and honest discussion of the issues, or have chosen to ignore the clear commitments we have made to improve service to our clients and give value to the taxpayers.

We view the TIES project as an opportunity to realize President Clinton's vision of a nation where the important and critical decisions of government are made closest to the people whose lives they affect. We also share his belief that restoring to the states this responsibility and authority is critical to reforming the welfare system and meeting the challenges of the next century. And we agree with your recent remarks that "when we target our resources responsibly and innovatively, when we team up with our private and public partners, and when we act as tough, savvy managers, the federal government can help lead the way in creating a stronger and healthier nation - a nation capable of meeting challenges both old and new." With your help, the State of Texas can follow a similar path.

Consequently, I respectfully ask for your assistance in resolving the apparent impasse over the approval of the Texas Integrated Enrollment Services Request for Offers. As always, we are prepared to supply any information you or your staff may need to reach a prompt and correct decision.

Sincerely,



Michael D. McKinney, M.D.  
Commissioner

Attachment

c: Governor George W. Bush  
Lieutenant Governor Bob Bullock  
Speaker Peta Laney  
Comptroller John Sharp

February 7, 1997

*File with privatization*



### Income Maintenance Branch

Office of Management and Budget  
Executive Office of the President  
Washington, DC 20503

Please route to:

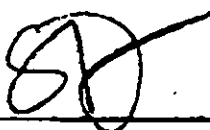
Ken Apfel

- Decision needed
- Please comment
- For your information
- Per your request
- See remarks below

With informational copies for:

Phone: 202/395-4686  
Fax: 202/395-0851  
Room: #8222

Subject: Background paper on Texas Privatization

From: Stacy Dean 

Attached is a draft interagency issue paper on the Texas TIES privatization proposal. You and others may find it helpful for Monday's meeting with Bruce on the subject. I would caution you though that the agencies have not provided final comments on the paper -- Medicaid in particular will probably want to change quite a bit since the perspective of the paper is largely Food Stamps.

Also, agency principals have not yet seen the paper. Our goal was to share it with them by Wednesday of next week.

February 7, 1997



**Income Maintenance Branch**

Office of Management and Budget  
 Executive Office of the President  
 Washington, DC 20503

Please route to:

- Barbara Farmer, ETA/DOL
- Margaret Pugh, ACF/HHS
- Terry Watt, ACF/HHS
- Marty Svolo, HCFA/HHS
- David Cade, HCFA/HHS
- Dana Sitnik, US/OPM
- Ron Hill, GC/USDA
- Carolyn Foley, FCS/USDA

- Decision needed
- Please comment
- For your information
- Per your request
- See remarks below

With informational copies for:  
 Barry White, Carole Kitti, Meg  
 Murray, Jeff Farley, Bob Kidcut

Phone: 202/395-4686  
 Fax: 202/395-0851  
 Room: #8222

Subject: Background paper on Texas  
 Privatization

From: Stacy Dean

Attached is a draft interagency issue paper on the Texas TIES privatization proposal. This paper was pulled together by USDA and OMB using the information provided to us by USDA, ACF, HCFA, OPM and DoL. This paper is intended to provide background information and not to serve as a decision paper. Please review the paper and let me know if you have any comments. At the moment, the paper has quite a bit of information on each program and many of the issues relating to privatization. It probably needs a bit more of a global view and more of an effort to draw out commonalities and distinctions among the programs. During the process of compiling each agency's paper into one piece we've taken some liberties. If we've inadvertently obscured or deleted important information from your section, please let us know.

By Tuesday morning, we'd like your comments on the paper. By then we should be able to pull together a final piece which we can all share with our principles on Wednesday.

Thank you very much for your timely and valuable input.

- |                         |                  |                  |
|-------------------------|------------------|------------------|
| Barbara Farmer, ETA/DOL | ph: 202-219-5585 | fx: 202-219-6510 |
| Margaret Pugh, ACF/HHS  | ph: 202-401-6944 | fx: 202-401-4678 |
| Terry Watt, ACF/HHS     | ph: 202-690-6437 | fx: 202-401-6400 |
| Marty Svolo, HCFA/HHS   | ph: 410-786-4582 | fx: 410-786-3252 |
| David Cade, HCFA/HHS    | ph: 410-786-3870 | fx: 410-786-0025 |
| Dana Sitnik, US/OPM     | ph: 202-606-2840 | fx: 202-606-2663 |
| Ron Hill, GC/USDA       | ph: 202-720-6181 | fx: 202-720-6910 |
| Carolyn Foley, FCS/USDA | ph: 703-305-2473 | fx: 703-305-2098 |
| Stacy Dean, OMB         | ph: 202-395-7762 | fx: 202-395-0851 |

## PRIVATIZATION OF FEDERAL PUBLIC ASSISTANCE PROGRAMS

### OVERVIEW

This paper has been prepared jointly by staff from the Departments of Agriculture (Food and Consumer Service), Health and Human Services (Health Care Financing Administration and Administration for Children and Families), Labor (Employment and Training Administration), and the Office of Personnel Management (OPM). The Federal agencies have been meeting recently to discuss the general background and issues surrounding privatization initiatives that are under review within the Departments and to explore options for making final decisions and responding to States.

### ISSUES REQUIRING DECISION

To what extent should the States be permitted to transfer the responsibility for eligibility determination for Federal public assistance programs to the private sector through competitively bid contracts? And, may the Merit System of Personnel Administration requirements be waived to allow States to enter into contract agreements?

### BACKGROUND

There is increasing interest among the State welfare agencies in transferring the administration of public assistance programs to the private sector through competitively bid contracts. This interest stems in part from the efforts of the Federal and State governments to test new methods to improve program services and to increase self-sufficiency among program recipients.

Contracting or privatizing certain functions of the public assistance programs is not new. For instance, all States that have implemented an Electronic Benefit Transfer (EBT) system for the issuance of benefits have a contract agreement with a private entity.

What is new is the possibility of contracting with private entities to perform functions that have historically been the responsibility of the public sector, such as conducting the determination of eligibility and certification for public assistance programs such as the Federal Food Stamp Program and Medicaid. While the new welfare law explicitly permits States to privatize TANF administration and service provision, no other major Federal public assistance program has such broad latitude<sup>1</sup>. Privatization would require a waiver of current statutory and regulatory provisions related to the Merit System of

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<sup>1</sup> Note that eligibility for \$6 billion in Pell Grants and \$25 billion in student loans are routinely determined by largely non-Federal, non-public entities.

Personnel Administration as required under section 11(e)(6) of the Food Stamp Act of 1977, as amended, and as required under section 1902(a)(4) of the Social Security Act (Medicaid Program).

In addition to its TIES proposal for welfare programs, Texas also plans to privatize labor exchange services authorized by the Wagner-Peyser Act. Therefore, the Department of Labor (DOL) is in the process of a broad policy and legal review of the extent to which entities other than the State employment security agencies may deliver basic labor exchange and unemployment insurance services.

### ***CURRENT PROPOSALS REQUIRING DECISIONS ABOUT THE MERIT SYSTEM OF PERSONNEL ADMINISTRATION***

#### **Texas Integrated Enrollment Services (TIES)**

TIES is a statewide privatization initiative of the Texas Health and Human Services Commission (HHSC) and the Texas Council on Competitive Government (CCG) in support of a State law enacted in 1995. Under TIES, the certification and eligibility determinations for most public assistance programs, including the Food Stamp, Special Supplemental Nutrition Program for Women, Infants and Children (WIC), TANF and Medicaid programs, would be contracted to the private and/or public sectors through competitive bids. The TIES proposal does not address contracting out the delivery of unemployment insurance or employment services funded by the Department of Labor.

The TIES proposal would require a waiver of the merit system requirements under the Food Stamp Act. HCFA is reviewing the extent to which merit system requirements may be waived. The Federal agencies and the State of Texas have been negotiating the conditions for releasing a Request for Offers (RFO) for TIES since May 1996. With the exception of a final decision about the merit system provisions contained in the RFO, all other issues have been resolved.

Texas was expecting final approval of the RFO in January to be able to release the RFO by the end of the month. Two consortia have been developed with the intention of bidding on the RFO. One consortium is composed of the Texas Workforce Commission, International Business Machines Corporation and Lockheed Martin Corporation. The other consortium consists of the Texas Department of Human Services, Electronic Data Systems Corporation and the Unisys Corporation. Arthur Anderson has also indicated an interest in the proposal but has not aligned itself with a State agency.

#### **Wisconsin Works (W-2)**

Under the W-2 proposal, the State is contracting on a competitive basis with public or private agencies for certification actions such as gathering client eligibility information, conducting eligibility interviews and data input. The State, presuming the Department of Agriculture's approval of its waiver request of the merit system requirements for the Food Stamp Program, released its Request for Proposals (RFP). We have been advised by State officials that the contract process has been completed for one County (with over 60 percent of the State caseload) without the inclusion of the Food Stamp Program. Contracts have been awarded to six private, non-profit agencies.

[Insert information on Wisconsin and Medicaid.]

### Employment Services -- One-Stop Grant

Legislation enacted in the State of Texas, effective September 1, 1998, provides for the delivery of labor exchange services that are authorized under the Wagner-Peyser Act and currently delivered by State employment security agencies by local workforce development boards and private, non-governmental providers. Thus far, Texas has not considered contracting out the delivery of unemployment insurance services. The Department of Labor has urged Texas to delay implementation until the Department's review is completed.

In addition, the State of Massachusetts, with the Department of Labor's approval of a grant to implement a One-Stop Career Center system throughout the State, has awarded contracts to private-for-profit entities to deliver labor exchange services in several local areas under that grant. Other States such as Montana, Utah, Pennsylvania, and Iowa are on the threshold of requesting similar approval.

### **ORGANIZED LABOR RESPONSE**

The Departments of Agriculture and Health and Human Services have received numerous letters from employee unions about the TIES proposal, including the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), the American Federation of State, County, and Municipal Employees (AFSCME) and the Service Employees International Union. The unions assert that a waiver of the merit system would result in a decline of client services, including access to program benefits and client confidentiality. The Department of Agriculture received over 1,000 letters from employees in Wisconsin objecting to the W-2 project.

In the case of the Texas workforce development legislation, the Department of Labor has received a letter from the AFL-CIO questioning the legality of privatizing employment services.

**DRAFT** 3

***CURRENT PROGRAMS - Certification and Other Program Requirements*****Food Stamp Program**

The Food Stamp Act requires certification, i.e., the application and eligibility determination process, to be completed by merit system employees. Certification, however, is not defined in statute. As supported by legislative history to the Act, current regulations specify that the required interview be conducted by merit system employees. Given the complexity and discretion that may be required in the food stamp certification process, the food stamp interview is crucial to accurate determinations of eligibility and benefit level. It is through the food stamp interview that the worker solicits most household information, determines the necessity for additional verification or resolution of questionable information, and ascertains the need for appropriate policy decisions. It is also the applicant household's opportunity to have face-to-face contact with a public employee. Volunteers and other non-merit employees may assist an applicant household in other actions related to certification but may not conduct the food stamp interview or certify a household. During recent debate on welfare reform legislation, Congressional conferees reinserted the merit system provisions in the Food Stamp Act that a previous Senate bill had deleted.

**Medicaid**

Similar to Food Stamps, the entire application process, from taking an application to making the final eligibility determination, is performed almost entirely by employees of the State agency responsible for administering the Medicaid program. The Medicaid statute and regulations contain very little about the eligibility determination process, and virtually nothing about what entities may or may not perform specific functions within that process, except that the determination of eligibility must be made by the agency or agencies specified in the State plan.

Unlike Food Stamps, the Social Security Act provides for "out stationing" which allows the State to use private sector employees to perform some eligibility process at locations other than State TANF offices for certain groups of applicants. Outstationing was incorporated into the law as to increase program access when the law was amended to substantially broaden the categories of eligible individuals.

States have the option of staffing outstation locations with State employees or non-State employees (e.g., contractors or volunteers), or a combination of both. Because out stationing can involve the use of non-State employees to perform certain eligibility-related functions, regulations specify which functions can be performed by non-State employees and which must be performed by State workers.

**DRAFT 4**



Non-State employees staffing outstation locations can perform "initial processing" which includes: (1) taking applications; (2) assisting applicants in completing the application; (3) providing information and referrals; (4) obtaining required documentation; (5) assuring that information contained in the application is complete; and (6) conducting any necessary interviews.

Non-State employees are specifically precluded from: (1) evaluating the information contained in the application and supporting documentation; and (2) making a determination of eligibility or ineligibility. Actual evaluations and determinations can be made at the outstation location or at a State Medicaid agency office, but they must be made by a State employee authorized to make eligibility determination for the State Medicaid agency.

### Temporary Assistance for Needy Families and Foster Care Programs

Section 104 of the Block Grant for Temporary Assistance for Needy Families (TANF) specifically allows States to "administer and provide services" under title I and II of the welfare reform legislation through contracts with charitable, religious or private organizations. Therefore, there are no prohibitions to privatization initiatives, such as TIES, related to merit personnel provisions for the TANF.

However, the merit system requirements remain in effect for the Title IV-E of the SSA (Foster Care). Even though no State has proposed to privatize any aspect of its Foster Care Program, the Administration of Children and Families is examining the implications of the merit system requirements for Title IV-E.

### **WAIVER AUTHORITY TO CONDUCT DEMONSTRATION PROJECTS**

The Food Stamp and Social Security Acts provide the Departments with the authority to waive most statutory requirements to allow the States to conduct demonstration projects. However, because authority for the Merit System of Personnel Management was transferred from the Departments to OPM under the Intergovernmental Personnel Act of 1970, USDA would need to obtain concurrence from OPM prior to approving any demonstration project that would waive the Merit System of Personnel Management. However, HHS believes they would not need OPM's concurrence for such a waiver.

### **INTERGOVERNMENTAL PERSONNEL ACT**

When the Intergovernmental Personnel Act (IPA) was written, it was presumed that services would be provided directly by State or local employees who were acting in lieu of Federal employees; this was the reason for establishing for a Merit System of Personnel Administration. While the IPA is silent on whether States or local

governments may contract for services, the law does provide for maximum flexibility within the requirements for merit principles in the administration of grant-in-aid programs by grantees. However, as the roles of government and the relationships between the State and the Federal government continue to evolve, a determination must be made as to whether new ways of doing business can be carried out under existing laws, or whether change in those laws is required. While government contracting with the private sector for commercial products and services is not new, the Texas proposal raises the possibility of contracting with private entities to perform functions that have historically been the responsibility of the private sector. This proposal would require a waiver by OPM of current statutory and regulatory provisions related to the Merit System of Personnel Administration provision of the IPA.

The current proposals under review by Federal agencies appear to conflict with the requirements of the IPA. Although OPM has not consulted with their General Counsel for a legal opinion, OPM is confident that it does not have authority to waive any provisions of the statute. In fact, OPM counsels have consistently held that OPM does not have authority to waive its own regulations, unless such waiver is specifically provided for. The Administration could elect to seek legislative change.

This leads us back, then, to examining the Texas proposal and shredding out what is inherently governmental and must therefore be performed by merit system employees, and what is commercial and can therefore be contracted out. The OPM General Counsel has relied on OMB Circular A-76 to define what is and is not an inherently governmental function. Included in the definition of governmental functions are "those activities which require either the exercise of discretion in applying Governmental authority or the use of value judgment in making decisions for the Government. ...Governmental functions normally fall into two categories: (1) The Act of governing;....(2) Monetary transactions and entitlements...." It would appear that some contracting is appropriate but wholesale contracting may violate the intention of Congress to ensure that administration of grant-in-aid programs be conducted by employees covered by a merit system of personnel administration.

### **OPTIONS FOR TEXAS TIES**

Approve Waiver of Merit System of Personnel Administration. This option would allow the State to almost fully privatize its eligibility process, requiring only that the State certify the final determination. This approval would require use of the Food Stamp Program and Medicaid programs' statutory demonstration authority, with the necessary approval of waivers of the Merit System of Personnel Administration by OPM. The Departments' waiver authority for demonstrations is intended to test innovations and is not intended to approve long-term operational alternatives such as those proposed by Texas.

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Approval of the waiver may result in additional objections from employee unions and advocacy groups but would be supported by States, the National Governors Association and private corporations which have formed alliances with public agencies to respond to the RFO.

Deny Waiver of Merit System of Personnel Administration. This option would require the State to perform all Medicaid eligibility functions, including intake, interview, processing, and final determination and certification. Even though this is the most restrictive option, it may be the most legally supportable option for the Medicaid program based on statutory and regulatory requirements involving proper and efficient administration of the program. A legal argument could be made that the Medicaid statute restricts third-party eligibility activities to specific eligibility groups and situations and, thus, is not applicable to the TIES proposal.

This option also would require the State to continue to be responsible for the Food Stamp interview and determinations of eligibility and benefit level. It is also important to note that during the recent debate on welfare reform legislation, Congressional Conferees reinstated the merit system provisions in the Food Stamp Act that a previous Senate bill had deleted.

A denial of a waiver for the TIES proposal may seriously disrupt the progress the Federal and State agencies have made on the proposals. The Federal agencies would receive serious objections from the State and private corporations. Also, a denial may be viewed as inconsistent with the Administration's support for allowing the private sector to be more involved in the administration of public assistance programs.

Redefine Certification. The Food Stamp statute requires certification to be completed by merit system employees, while the Medicaid statute allows non-merit personnel outstationed personnel to perform some elements of the application process. States want to reinterpret the laws so that compliance could be achieved through the automated processing of data by computers which are programmed under State agency direction to make eligibility and benefit decisions.

A middle ground could preserve more merit system involvement in a complex eligibility determination process that requires judgment. The Federal agencies could to revise regulations (Food Stamp Program) or publish an appropriate Notice in the Federal Register (Medicaid) to require merit system review of applications and interview results before benefits were determined (a process comparable to the Medicaid outstations or supervisory reviews currently used by many State agencies in the Food Stamp Program). However, this option may not allow the States to make privatization initiatives financially worthwhile.

**DRAFT 7**

Approve small-scale demonstration projects. The Departments support privatization initiatives that may result in improved services and/or administrative costs savings. However, both Departments have concerns about statewide initiatives that have not been proven to be effective and may seriously affect program access to low-income households. For instance, TIES is a Statewide initiative in a State that issues annually approximately 10 percent of food stamp benefits issued nationwide. The Department of Agriculture further believes it would be imprudent to eliminate the interview from merit employees on a statewide basis without further testing.

A demonstration limited to a small number of counties may be supportable by the advocacy groups. Private corporations may object or lose interest in small-scale demonstration projects. It is unclear how the unions and other States would react to such a compromise. It is estimated that an evaluation of a Food Stamp Program demonstration would cost about \$1 million.

### **BROAD POLICY CONCERNS**

#### **Relationship to the Texas Employment Services Proposal**

The issue of whether an entity other than the SESA may deliver basic labor exchange and unemployment insurance services has been raised in the context of Employment and Training (ETA) sponsored initiatives to build new State workforce development systems utilizing One-Stop Career Centers. This system building at the local level involves the delivery of labor exchange services under the Wagner-Peyser Act and may involve the unemployment insurance program for payment of benefits under the Social Security Act (SSA). Basic labor exchange and unemployment insurance services are funded through a dedicated employer tax, the Federal Unemployment Tax Act (FUTA).

Unemployment Insurance - Contracting out of benefit eligibility determination and tax functions are unlikely to be permitted because these functions involve the use of value judgments in Government decision making. However, it may be permissible to contract out those data gathering functions that can be broken out in an effective, cost-efficient manner, without deterioration of services to claimants and employers.

Employment Services - Contracting out beyond support functions may be permitted for the delivery of many basic labor exchange services.

#### **Confidentiality**

As a result of negotiations between the State of Texas and Department of Agriculture, the RFO was revised to include language ensuring that the contractor would adhere to the confidentiality provisions under the Food Stamp Act and that applicants and

**DRAFT 8**

recipients would have the right to fully understand how information would be used in determining eligibility. The RFO currently includes language specifying that the use or disclosure of information about applicants or clients during the screening and referral and the eligibility determination and enrollment processes shall be restricted to purposes directly connected with the administration of assistance programs. Information supplied for the purpose of determining eligibility may not be made available to other programs in TIES without the consent of the client. Bidders must demonstrate how clients will be advised of their right to confidentiality and how their concurrence would be obtained.

While these revisions ensure compliance with the Food Stamp and Social Security Acts, the Departments continue to have concerns that wide-scale privatization and potential loss of merit system protections may undermine the client confidentiality. Merit Personnel systems have historically established incentives for maintaining the integrity of public assistance programs. It is uncertain how privatization would influence the relationship between case workers and clients.

#### Conflict of Interests

It should not be assumed that a public employee would be more interested in operating public assistance programs better than a private employee on the basis of his or her status as a merit employee. However, private employees hired to carry out the TIES system may be affected negatively if the contractor does not realize a profit. The profit incentive raises numerous questions regarding the effect such wide-scale privatization would have on employees who are responsible for the determination of eligibility as well as the effect on overall client services. For instance, the TIES RFO proposes to use client surveys to measure the contractor's performance. Will the interest in maintaining client satisfaction increase a caseworker's incentive to approve benefits, even if questionable information about the applicant's eligibility exists? Would profit incentives alter the current incentives out stationed non-merit employees have for their role in the Medicaid certification process?

Also, a conflict of interest may be created by the increased flexibility provided to the States through the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. While the State of Texas retains the authority to establish program policy decisions, the State may come under heavy influence by the contractor to approve policies that assist the contractor in containing costs, possibly at the expense of client services.

#### State/Contractor Program Responsibilities

Under the proposed TIES RFO, the State maintains responsibility for developing

program policy, conducting Quality Control (QC) reviews and fair hearings. The TIES contractor is responsible for implementing program policy. The TIES system, therefore, adds an additional level to the current bureaucratic structure. The FCS and the State of Texas have negotiated revisions to the RFO to clarify Federal/State and State/Contractor relationships. However, the Departments continue to have serious concerns about the increased complexity of the certification process under a Statewide privatization initiative and whether any resulting barriers to participation would be created as a result of these split relationships. These relationships may become even further complicated if the responsibility for the certification process becomes split between State and contract employees.

### Risk of Loss

The draft TIES RFO specifies the financial incentives for good performance and fiscal penalties for poor performance. One financial penalty to the contractor is the liability of QC sanctions. The Department and State of Texas have negotiated regarding additional language that clarifies that the Federal Government will continue to hold the State liable for the QC sanctions and that the Federal and State governments would be responsible for negotiating the resolution of any Federal QC liability.

The Departments have concerns that the contractor may have more interest in cost savings and less interest in resulting QC liabilities. Should a contractor experience a financial loss due to a QC liability, the potential for litigation between the State and contractor would appear to be great. The Departments also share concerns about the potential of increased litigation between the State and contractor if the certification process becomes a joint responsibility between State and private contract employees. The Departments have concerns about how these potential conflicts would affect the ongoing operations of the Food Stamp and Medicaid Programs throughout the State.

### Inherently Governmental Decisions

The certification process for determining eligibility for Federal benefits is a discretionary action. Thus, it is important to review any transfer of the certification process to the private sector under OMB guidance. OMB Circular A-76 provides guidance to Federal agencies in determining activities that may be contracted to the private sector. Activities that are "inherently governmental functions" may not be contracted to the private sector. The OMB Circular specifies that an inherently governmental function is, "so intimately related to the public interest as to mandate performance by Government employees. These functions include those activities that require either the exercise of discretion in applying Government authority or the making of the value judgment in making decision for the Government".

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While OMB Circular A-76 may not be binding on State agencies, the concept of functions that are inherently governmental is basic to the review of the TIES. The State of Texas indicates that it is prohibited by State law from entering into private contracts for discretionary activities.

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# AFSCME®

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## SHOULD THE ADMINISTRATION OF FOOD STAMPS AND MEDICAID BE ALLOWED TO BE PRIVATIZED?

Profit-seeking companies should not decide whether someone is eligible for aid. Private companies accountable to their shareholders and not the public or the poor should not exercise any discretionary functions, such as determining eligibility for the Food Stamp and Medicaid programs. Publicly-funded benefit programs deserve public accountability and federal laws exist to see that this is so.

**in the public service**



# **PRIVATIZATION OF MEDICAID AND FOOD STAMPS**

## **WHAT'S AT STAKE?**

### **FOR THE FEDERAL GOVERNMENT:**

- o Integrity of both programs
- o Loss of control over how the programs are run
- o Financial exposure  
(Food Stamps are 100% federally funded and administrative costs are at least 50% matched in Medicaid)
- o Possible lawsuits

### **FOR CLIENTS:**

- o Risk having benefits denied for sake of profit
- o Appeals process would become more convoluted and difficult

### **FOR PUBLIC EMPLOYEES:**

- o Between 250,000 - 300,000 public employees could lose their jobs

### **FOR STATES:**

- o Loss of control over programs
- o Financial exposure from cost over-runs, fraud, corruption
- o Possible litigation
- o More confusion into a system that is already being massively changed with welfare reform and Medicaid Managed Care

### **FOR PRIVATE COMPANIES:**

- o Billions of dollars in profits that could otherwise be spent on programs directly

# THE LEGAL ARGUMENTS AGAINST PRIVATIZATION

## FOOD STAMPS

### Federal Law:

"the State agency personnel utilized in undertaking...certification shall be employed in accordance with the current standards for a Merit System of Personnel Administration..." 7 U.S.C.202(e)(6)

### Federal Regulations:

State agency employees shall perform the [eligibility] interviews required in 473.2. Volunteers and other non-State agency employees shall not conduct certification interviews of certify food stamp applicants. 7 C.F.R. 272.4(a)(2)

### Congressional Debate on Welfare Reform:

In 1995, Senate conferees reinstated the merit system provisions in the Food Stamp Act that a previous Senate bill had deleted.

### Internal White House Document on this Issue: Draft, February 7, 1997

"Given the complexity and discretion that may be required in the food stamp certification process, the food stamp interview is crucial to accurate determinations of eligibility and benefit level. It is through the food stamp interview that the worker solicits most household information, determines the necessity for additional verification or resolution of questionable information, and ascertains the need for appropriate policy decisions. It is also the applicant household's opportunity to have face-to-face contact with a public employee."

# THE LEGAL ARGUMENTS AGAINST PRIVATIZATION

## MEDICAID

### Federal Law:

States must establish a single State agency for administering Medicaid plans, and provides that "the determination of eligibility for medical assistance under the plan shall be made by the State or local agency administering the State plan." 42 u.S.C. 139a(a)(5).

### Federal Regulations:

The state agency "must not delegate, to other than its own officials, authority to (i) exercise administrative discretion in the administration or supervision of the plan, or (ii) issue policies, rules, and regulation on program matters." 42 C.F.R. 431.10 (e)

### Out-Stationing:

The Social Security Act provides for "out-stationing" at locations other than state welfare offices, such as at hospitals or clinics, to perform some initial processing for certain groups of applicants. In interpreting what "initial processing" means in this context, HCFA explained that "if we were to define initial processing to include making a determination of eligibility, the definition would conflict with the requirement of [42 U.S.C. 139a(a)(5)]. Under that section, the plan must be administered by a single State agency and determination of eligibility is restricted by this section to the Medicaid agency the title IV-A agency or SSA when determining the SSI program." Medicaid and Medicare Guide, para.42,662 at 41,820.

### Internal White House Document on this Issue: Draft, February 7, 1997

States have the option of staffing outstation locations with State employees or non-state employees, or a combination of both....Non-state employees are specifically precluded from: (1) evaluating the information contained in the application and supporting documentation; and (2) making a determination of eligibility or ineligibility. Actual evaluations and determinations can be made at the outstation location.... but they must be made by a State employee authorized to make eligibility determination for the State Medicaid agency.

A legal argument could be made that the Medicaid statute restricts third-party eligibility activities to specific eligibility groups and situations and, thus, is not applicable to the (Texas) TIES proposal.

## ARE THESE LAWS "WAIVE-ABLE"?

### FOOD STAMPS:

USDA may waive requirements of the food stamp program only for:

- o pilot projects
- o of limited duration,
- o and only then if the project would improve program administration and further the goals of providing food for low-income individuals

### MEDICAID:

HHS may waive requirements of the Medicaid statute only for:

- o experimental, pilot, or demonstration projects
- o which are likely to assist in promoting objectives of program
- o and must be evaluated for scope and potential impact on recipients

### OFFICE OF PERSONNEL MANAGEMENT:

Because authority for the Merit System of Personnel Management was transferred from the Departments to OPM under the Intergovernmental Personnel Act of 1970 (IPA), the Departments would need to get concurrence from OPM prior to approving any demonstration project that would waive the merit system.

From the White House draft document dated February 7, 1997:

"The current proposals under review by Federal agencies appear to conflict with the requirements of the IPA.....OPM is confident that it does not have authority to waive any provisions of the statute. In fact, OPM counsels have consistently held that OPM does not have authority to waive its own regulations, unless such waiver is specifically provided for. The Administration could seek legislative change.

This leads us back, then, to examining the Texas proposal and shredding out what is inherently governmental and must therefore be performed by merit system employees..... The OPM General Counsel has relied on OMB Circular 1-76 to definite what is and is not an inherently governmental function. Included ... are those activities which require either the exercise of discretion in applying Governmental authority... and normally fall into two categories: (1) The Act of governing; (2) monetary transactions and entitlements." It would appear that.... wholesale contracting may violate the intention of Congress to ensure that administration of grant-in-aid programs be conducted by employees covered by a merit system of personnel administration."

## WHAT SHOULD THE ADMINISTRATION DO?

The Clinton Administration should:

- a.) Give Texas the answer that the federal government will not waive any requirements for merit based personnel for any functions that require discretion, thereby upholding current law.
- b.) Tell all states that the Administration will use this "bright line" test for any and all proposals revising program administration of these entitlement programs.
- c.) Require a deliberative and public process for each state that submits proposals to revise the administration of these programs to ensure that the stated "bright line" test is met and the law is upheld.

## **SCOPE OF CURRENT PROPOSALS**

### **THE TEXAS PROPOSAL:**

Currently the Administration has before it only one formal request and that is a proposal from Texas which is NOT in the form of an actual waiver.

The Texas proposal is:

- o neither a pilot nor demonstration project
- o nor is it of limited duration.

Rather, the Texas proposal is:

- o a statewide proposal
- o in a state that issues over 10% of the food stamp benefits issued nationwide
- o the overall Texas proposal would put \$8 billion of benefits in private hands.

### **SETTING A NATIONAL PRECEDENT:**

Allowing these programs to be privatized would be unprecedented in terms of turning over the greatest portion of federal aid to the states in private hands.

The Medicaid program alone constitutes over \$100 billion in federal aid, while the Food Stamp program is roughly \$30 billion.

These two combined dwarf the relatively small TANF program that was allowed to be privately administered for the first time as a result of 1996's welfare reform.

Coupled with the rapid entry of private managed care companies in the Medicaid business, this could seriously undermine public accountability at the federal level for these programs.

Given that the Food Stamps program is 100% federally funded and that administrative costs for the Medicaid program are matched at least 50% with federal funds, the federal government should feel confident to direct the management of these programs.

## WHO'S OPPOSED TO THIS IDEA?

### IN TEXAS:

"Fourteen Democrats in the House of Representatives put Texas Health and Human Services Commissioner Mike McKinney and state leaders on notice last spring that they harbor serious concerns about privatization of the project.....

"I'm still concerned," said Rep. Hirschi, D-Wichita Falls. "We're basically plowing new ground and we don't know what the result is going to be. I don't want to see some disaster out there."

Rep. Harryette Herhardt, D-Dallas, said she fears repercussions of dismantling the state's social service infrastructure in favor of a private contractor's system."

- Houston Chronicle, October 28, 1996

"I'm nervous about going ahead...." said Sen. Bill Ratliff (R-Mount Pleasant), chairman of the Senate Finance Committee. "Maybe we ought to consider doing it in-house."

- Houston Chronicle, March 3, 1997

### NATIONWIDE:

"No company can be expected to protect the interests of the needy at the expense of its bottom line, least of all a publicly traded corporation with a fiduciary duty to maximize shareholder profits," said Henry A. Freedman, executive director of the Center on Social Welfare Policy and Law, a research and advocacy law office (in New York City.)"

"If a gatekeeper's profits are linked to reducing the welfare rolls, Mr. Freedman said, the incentive to deny aid will be overwhelming."

- Dallas Morning News, September 15, 1996

"Advocates for the poor fear that putting profit-making companies in charge of welfare will cruelly twist the incentives from assisting the poor to making money."

- Washington Post, March 7, 1997

"Some analysts also express misgivings about the wisdom of turning welfare programs over to private contractors to wring savings through efficiencies.... "It's not like garbage collection," says Judy Gueron, president of New York-based Manpower Demonstration Research Corp., a leading a private authority on welfare. "Welfare administrators already know how to save money."

- Wall Street Journal, March 19, 1997

## WHO'S OPPOSED TO THIS IDEA?

### THE AGENCIES:

#### Untested:

According to the White House draft document, "both Departments (HHS and USDA) have concerns about statewide initiatives that have not been proven to be effective and may seriously affect program access to low-income households.....the Department of Agriculture further believes it would be imprudent to eliminate the interview by merit employees on a statewide basis without further testing."

#### Client Confidentiality:

"....the Departments continue to have concerns that wide-scale privatization and potential loss of merit system protections may undermine the client confidentiality. Merit Personnel systems have historically established incentives for maintaining the integrity of public assistance programs."

#### Conflict of Interest:

".... private employees hired to carry out the TIES system may be affected negatively if the contractor does not realize a profit. The profit incentive raises numerous questions regarding the effect such wide-scale privatization would have on .... overall client services. .... While the State of Texas retains the authority to establish program policy decisions, the State may come under heavy influence by the contractor to approve policies that assist the contractor in containing costs, possibly at the expense of client services."

#### Creating Complexity:

".... the Departments continue to have serious concerns about the increased complexity of the certification process under a Statewide privatization initiative and whether any resulting barriers to participation would be created as a result of these split relationships (for quality control reviews and fair hearings.)"

#### Potential Litigation:

"....The Departments have concerns that the contractor may have more interest in cost savings and less interest in resulting Quality Control liabilities. Should a contractor experience a financial loss due to a QC liability, the potential for litigation between the State and contractor would appear to be great.....The Departments have concerns about how these potential conflicts would affect the ongoing operations of the Food Stamp and Medicaid Programs throughout the State."

### STATE LEADERS:

Only two Republican Governors have asked for the ability to conduct such privatization. On the contrary, Democratic legislators in states such as New York have introduced legislation specifying that they would forbid such contracting.



## HORROR STORIES

### PROTECTING FEDERAL FUNDS:

It is impossible to imagine that a state could set contracting procedures tightly enough that the federal government would feel confident its funding is not in jeopardy if private companies experience cost over-runs or problems.

### PROTECTING BENEFICIARIES:

It is also impossible to imagine that states could set due process and appeals procedures strongly enough that recipients would be protected from private companies with financial incentives to reduce caseloads.

### THEIR TRACK RECORD SO FAR:

The appendix has articles outlining the experiences states have already had with the particular companies hoping to bid in Texas as well as horror stories from other contractors of social services. They include:

- o Conflict of interest
- o Bid-rigging, political patronage
- o Cost over-runs
- o Poor performance and cancelled contracts
- o Revolving door: ethics charges
- o Excessive executive compensation

"There's some easy money if the states aren't careful," said Robert Tyre, head of the government contracts division of Andersen Consulting, a \$4.2 billion sister company of Arthur Anderson, the accounting firm.

- Dallas Morning News, September 15, 1996

"As an aid to Gov. George W. Bush, Dan Shelley - who is now a lobbyist for Lockheed-Martin -- played a key role in changing legislation that resulted in a sweeping proposal by the company to privatize the state's welfare system, Democratic lawmakers revealed Monday. "The perception is very, very bad. That's why I have said the process is tainted -- because it is," state Representative Garnet Coleman (D-Houston) said."

- Houston Chronicle, March 17, 1997

"This complaint (of possible ethics violations) raises complex and serious allegations," said Travis County Attorney Ken Oden. "The stakes are very high in this competition to receive enormous government contracts. The concern expressed in the complaint is that the public interest be protected in this process. That is a valid concern."

- Houston Chronicle, October 9, 1996

3/25 Union mtg w/ Pres.

Why haven't sent a bill up.

250,000 - 300,000 eligibility w/hrs

layoff of 10,000 w/hrs in TX

How does that ~~pre~~ re privatizing elig.

Anderson in Canada  
7.5 mins per month/child

Dem in TX opposed to privatization - leg. pending to prevent it.

C. Lake roll.

you shouldn't pull cap out from under (also Dem in NY leg)

Draft HHS/USDIA would

"most legally supportable opt"

no opt - They can't do it.

we think it's illegal - we'll go to court

TX - no appeal for denial of eligibility

Primary goal hcti - determine whether someone has rT to coverage.

FLSA - get states to pay unions wage subsidies & unions will place them

National Day Care ctr by training

create m-c priv-

+ training w/ hrs means to do child care.

sector constit!

At 2-yr colleges!

denia - univ access to

Wk w/ existing pub + priv child care

child care

Providers.

## INTEGRITY OF MEDICAID AND FOOD STAMP PROGRAMS AT RISK

- Texas has asked **the U.S. Departments of Health and Human Services and Agriculture to allow the state to turn over the administration of their entire Medicaid and Food Stamp programs to private bidders.** If Texas is allowed to do so, other states may surely follow suit.
- **Federal law requires that the Medicaid and Food Stamp programs be administered by agencies with personnel systems based on merit.** This requirement was unchanged by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

### Why This Is Sound Policy Which Should Be Upheld:

- **Profit-Seeking Companies Should Not Decide Eligibility:** Private companies accountable to their shareholders and not the public or the poor should not exercise any discretionary functions, such as determining eligibility for the Food Stamp and Medicaid programs. Publicly-funded benefits programs deserve public accountability.
- **Federal Government's Financial Exposure:** Because the Food Stamp program is 100% federally funded and the federal government matches at least 50% of administrative costs in the Medicaid program, the federal government would be forced to share in any financial exposure the states incur due to contractor cost over-runs or mismanagement.
- **Patronage, Fraud and Corruption:** Scandals have already arisen where states and local governments have contracted out other welfare programs. The reason merit-based standards were required in the first place was to protect against patronage, fraud and corruption.
- **Billions of Federal Dollars at Stake:** The Medicaid and Food Stamp programs dwarf the Temporary Assistance for Needy Families program in terms of sheer volume of dollars that would be turned over to the private sector. Medicaid is by far the largest source of federal aid to state and local governments. Vendors who may be able to offer something to states on the welfare side are likely to be ill-equipped to handle the complexity and magnitude of the Medicaid program.
- **Timing is Wrong:** Now is not the time for major changes to the Medicaid program. States are already overwhelmed with the overhaul of their welfare programs and the Medicaid program is going through vast changes with the onset of managed care. Adding another element of uncertainty now will only threaten the integrity of these programs even more.
- **Client Privacy and Confidentiality Issues:** Privacy and confidentiality for recipients would be compromised if private companies are given access to detailed, private information about poor people who are dependent on government services.

## CONTRACTING ABUSES WITH SOCIAL SERVICES

### MAXIMUS:

In West Virginia, Kenneth Roberts, a former project director at the state's Department of Health and Human Services, was recently jailed for his illegal activity surrounding a Maximus contract. Overseeing development of a child welfare computer system, a project Maximus was bidding on, he was indicted for his scheme of providing Maximus with information in exchange for money. He was to be paid \$5,000 monthly by Maximus in exchange for information, receive \$25,000 bonuses from Maximus for contracts, and ultimately be eligible for a \$100,000 salaried position when Maximus got the contract. Roberts pled guilty in November 1995 and sentenced to jail.

In Arizona in 1993, Maximus's errors in entering information into the state's computer system led to wrongful withholding of tax refunds from citizens who did not owe child support payments. The state had to return \$250,000 of the \$5 million it had collected in overdue child support payments.

Nebraska's legislature terminated the state's contract with Maximus to identify sources of federal funds for the state, a contract supported by Governor Nelson. Ultimately, legislation was passed voiding the contract, and the Governor signed it, amid much protest over Maximus's excessive fees.

### EDS:

In Florida, EDS's automated system to integrate all welfare services in 1989 became the cause of a long-running legal suit. The state refused to pay EDS because they believed they had received a plagued and insufficient system that resulted in the system perpetually crashing and not performing. Ultimately William Webster, former FBI and CIA director, was appointed as a special master to resolve the problem and EDS was paid by the state, but state officials filed suit banning EDS from doing business in Florida.

### LOCKHEED/IMS:

Currently in Texas, Governor Bush's ex-aide is facing charges of ethics violations for the role he played in getting legislation that would allow privatization of the welfare system and then becoming a lobbyist for Lockheed-Martin/IMS. Travis County District Attorneys say the "revolving door" charges raise "complex and serious allegations... (that) deserve and will receive deliberative analysis."

In New Jersey, an ethics panel reviewed conflict of interest charges against a prominent IMS lobbyist who also served as a Delaware Port Authority Commissioner during IMS' bid to run the electronic tolls for the New Jersey Turnpike Authority.

**In Los Angeles, the City Council investigated conflict of interest charges, gifts to Parking Administrators, and campaign contributions from IMS during their effort to get a parking collections contract in 1991.**

#### **UNISYS:**

**Has admitted to bribery and fraud, paying \$190 million in fines for federal procurement violations.**

#### **ANDERSEN CONSULTING:**

**In Nebraska, Andersen has three separate welfare contracts in the state for over \$50 million. Currently, payments to Andersen have been halted by the State Auditor who, in conjunction with the State Treasurer, have found the N-Focus project to be significantly over budget. The State Treasurer has also said that the Social Services Department violated procedures by allowing a \$1.4 million payment to Andersen to be approved by non-state employees.**

**In Canada, the New Brunswick government just cancelled its \$44 million contract with Andersen to administer eligibility of its welfare system, citing cost-over runs and poor performance.**

**In Virginia, Fairfax County hired Andersen in 1995 to redesign Human Service programs for an original contract of \$2.2 million, which was criticized in the Washington Post after it ballooned to \$5.6 million and their consultants were paid \$170,000 a year, far more than any county employee made.**

**In the United Kingdom, Andersen was forced to compensate the United Kingdom's Department of Social Security for failing to meet their agreed-upon time table.**

#### **NEW YORK:**

**The FBI and U.S. Attorney General investigated allegations of bid rigging for a social services contract in New York City last year. The contracts, worth \$43 million, were canceled after a news story alleged city officials broke municipal bidding rules in awarding contracts to a politically well-connected non-profit agency that provides home care for the elderly and other social services.**

# LOCKHEED MARTIN IMS

## Company Profile

*Lockheed Martin IMS is one of the largest and most prominent private contractors vying for social service, parking enforcement, and transportation contracts. The firm believes that the private sector can solve government problems by providing data processing and systems integration services to local, state, and federal governments. It focuses on offering revenue-generating services and promotes "public/private partnerships" as a solution to financial crises. The company first contracted for public services in 1984, when the Lockheed Corporation paid \$35 million for Datacom Systems Corporation, which was founded in the early 1970s. Originally called Lockheed Datacom Corporation, the name was changed to Lockheed Information Management Services Company in 1989 and became Lockheed Martin IMS in November 1995. IMS, based in Teaneck, New Jersey, operates 50 offices around the country and employs more than 1,000 people. There are six major divisions: Transportation Systems and Services, Children and Family Services, Municipal Services (including parking ticket management and enforcement), Integrated Solutions (dealing primarily with the Department of Veterans Affairs), Criminal Justice Systems, and Communications Industry Services.*

*IMS is a subsidiary of the Lockheed Martin Corporation, the biggest defense contracting company in the United States. The parent company was formed when the Lockheed Corporation and Martin Marietta merged in early 1995. Last year, Lockheed Martin earned \$1.12 billion in profits and took in \$22.9 billion in revenue. It employs more than 165,000 people and has eliminated 19,000 jobs since the merger. In the midst of this corporate downsizing, top executives are earning more than ever in salaries, stock options, and bonuses. In 1995, CEO Norman Augustine took home \$10.6 million in cash compensation, while chairman Daniel Tellep made \$4.3 million. Both also received options on 100,000 stock shares. Lockheed Martin recently announced that it was acquiring another defense and aerospace giant, the Loral Corporation, for \$9 billion.*

*Lockheed Martin IMS is currently engaged in contracts all over the country. The company recently began an 18-month pilot project with the Los Angeles Probation Department to test strategies for monitoring criminal offenders and increasing the collection of money criminals owe to victims and the county. Cities contracting with IMS' municipal services division's parking management program have included Boston, Cleveland, Columbus, Denver, Los Angeles, Milwaukee, New Orleans, Philadelphia, San Diego, San Jose, and the District of Columbia. In 1994, the Miami Beach city commissioners awarded IMS a contract to recommend strategies for improving the city's parking program. The company has conducted similar studies in more than 20 cities nationwide.*

*The Children and Family Services unit operates in 18 states and the District of Columbia, providing child support enforcement, electronic benefit transfer (EBT) services, and child welfare programs. In January 1996, the State of Florida awarded the firm a one-year contract to track down more than 50,000 parents who owe overdue child support. The company will be paid 18.75 percent of every dollar it collects. Last year, the Los Angeles County District Attorney's Bureau of*

*Family Support Operations awarded IMS a \$26.6 million, five-year contract to assist in finding deadbeat parents. In 1994, IMS began collecting delinquent child support in Utah and automating child welfare programs in Connecticut.*

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## **Revolving Door - Hiring Government Employees**

Lockheed Martin IMS has hired many former government officials and employees with extensive connections to their former government employers, although according to Lockheed IMS, their revised ethical standards prohibit employees from doing business with a former employer. Lockheed Martin IMS' president and CEO, John Brophy, is the former assistant director of the District of Columbia's Department of Transportation. In the 1970s, he was the District's first parking administrator. Brophy revamped the city's parking system, changing the meter collection process and introducing a boot system to nail people with several unpaid tickets. He left government in 1981 to found Brophy & Associates, an urban transportation management consulting firm. Lockheed acquired his company in 1984 and Brophy was named to his current position in 1988. Brophy is a firm believer in hiring former government officials, an issue which often raises ethical questions for private companies bidding on public contracts. Brophy's philosophy has become one of IMS' basic tenets, and there are many ex-public officials at IMS.

Former U.S. Congressman Norman Mineta left the House of Representatives in October 1995 to become senior vice president and managing director of IMS' Transportation Systems and Services division. Holli Ploog, head of the Children and Family Services division, was employed by the State of Alaska before coming to IMS. IMS' Municipal Services leader, Tom Wrigley, was chief of staff to former Philadelphia mayor William J. Green. Norm Early, who heads IMS' Criminal

Justice Services division, is the former District Attorney of Denver, Colorado. In June 1995, IMS appointed former Miami Beach City Manager Roger Carlton to be Vice President for Business Development and Marketing for the company's Municipal Services division.

## **Contract Awards**

Last November, an ethics panel in New Jersey began a review of a potential conflict of interest facing a prominent IMS lobbyist, James Weinstein, who also serves as a Delaware Port Authority Commissioner. Common Cause requested the ethics review after Weinstein represented IMS throughout a bidding process to determine what agency would run the electronic tolls for the New Jersey Turnpike Authority. If it wins the contract, IMS could eventually be dealing with a consortium of highway agencies in the New Jersey area. The Delaware Port Authority operates the toll bridges connecting South Jersey and the Philadelphia area. Weinstein maintains the propriety of the arrangement, but the ethics review is still pending.

In 1991, Los Angeles City Councilman Nate Holden spoke out against a potential IMS contract, only to be voted down by his colleagues. He cited the potential conflict-of-interest of the Parking Administrator, who received \$1,188 in gifts from IMS between 1986 and 1989. Computer records indicate that IMS company officials donated \$73,730 to various city and county officials in Los Angeles between 1984 and 1989. IMS officials and other City Council members denied conflict-of-interest concerns, saying that IMS was "clearly superior" to other companies.

# ANDERSEN CONSULTING

## Company Profile

*Andersen Consulting is a management and technology consulting firm with a global scope. The firm, which employs approximately 40,000 people, is the sister company of accounting giant Arthur Andersen. The consulting firm's self-proclaimed mission is "to help its clients change to be more successful." Last year, Andersen ranked number one in the Consultants News list of the forty top consulting firms. The magazine touted Andersen as the model for firms trying to offer one-stop, complete consulting services. Although Andersen has been praised by many, it has not escaped criticism. A recent article in The Economist cited analysts who "believe the company lacks the creativity to develop new ideas." The article characterized Andersen as the "McDonald's of the consultancy business" and referred to its employees as "Andersen androids."*

*The consulting unit has been in business since the 1950s and split from Arthur Andersen in 1989. Since then, Andersen Consulting's revenues have nearly quadrupled. Managing Partner George Shaheen has been running the firm since it became independent, and predicts that revenues will double again, to \$8 billion, by the year 2000. The firm reported record annual revenues of \$4.2 billion in 1995, a 22 percent increase from 1994. The growth was fueled by particularly strong performances in its communications (up 57 percent) and industrial products (up 53 percent) divisions.*

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## **Government Contracting**

In 1995, Andersen Consulting's government practice division increased its revenue by 17 percent to \$396 million. The division grew 31 percent in two years, due primarily to a 70 percent growth in its state and local practice within the United States. Andersen's government consulting unit in the Americas is managed by Douglas Ryckman. The bulk of Andersen's public sector engagements area are in six areas: human services, treasury and resource management, postal services, defense, revenue collection, and justice and public safety.

Andersen Consulting has been particularly active in welfare reorganization here in the United States. The firm has contracts with at least 14 states to facilitate child support enforcement and redesign management of child welfare programs. The firm has, according to an article in Washington Technology, "a presence in just about every state capital." In Texas,

Andersen administers the child welfare system and also designed a new program called Child and Adult Protection System (CAPS). In early 1996, Andersen won a four-year, \$35 million contract to customize CAPS and implement the system in New York. The firm is consulting on welfare issues in California, New Hampshire, Ohio, Indiana, Arizona, Wyoming, and Tennessee, among others. Andersen has even developed an interactive Welfare Fraud CD-ROM, which suggests solutions for governments facing fraud problems.

Last year, Andersen surveyed 151 state government human services leaders from 49 states to get a sense of how prepared the states are to implement the new federal law requiring major changes in the welfare system. Four out of ten indicated that their staffs are not ready for welfare reform changes for a variety of reasons, ranging from inefficient infrastructures to inadequate staff training. Thirty percent of the participants are considering hiring private firms to provide



some services, and ten percent are already piloting such programs. Andersen presented the results of this survey in September, and indicated that they were poised and ready to fill the changing needs of these human services leaders. Last fall, the United States Social Security Administration awarded Andersen a five-year contract to assist with the implementation of the new Integrated Human Resources System.

Andersen is also working with several foreign governments on social service projects. The Spanish Ministry of Labor and Social Security hired Andersen to develop a smart card program that would distribute benefits and information through a computer kiosk. In addition, Andersen has been working with the United Kingdom's Department of Social Security since 1982, consulting on improving the efficiency of welfare and benefits payments.

### Contract Problems

Andersen's preeminence in the consulting world is not without problems. The firm is at the heart of a recent controversy among state officials in Nebraska. Andersen has three separate welfare contracts with the state, for a total of over \$50 million. In November, State Auditor John Breslow and State Treasurer Dave Heineman spoke out against the Department of Social Services and its dealings with Andersen. Breslow claims that the N-Focus project, the major component of the contracts, was considerably over budget. Heineman then withheld his signature from payments to Andersen, claiming the Social Services Department violated procedures by allowing a nonstate employee to approve a \$1.4 million payment to Andersen. Department of Social Services Director Don Leuenberger has denied the allegations and defended his agency's agreement with Andersen. As of mid-January

1997, payments to Andersen have been halted and the dispute continues.

Andersen also played a central role in a recent conflict between government officials in Virginia's Fairfax County. In August 1995, the state hired Andersen to work on the Human Services Redesign project. The original contract, which was for \$2.2 million, has been amended a dozen times and swelled to \$5.6 million. The additional contract costs stem from the county's failure to provide necessary staff, at which point they were forced to turn to Andersen for extra services. The county has also purchased about \$2 million in computers and software from Andersen. According to an article in the Washington Post, one of Andersen's consultants cost the county over \$170,000 a year, more than any Fairfax County employee earned. When Fairfax County supervisors learned that these overruns had been sanctioned without their approval, they criticized County Executive William Leidinger and ordered an audit. The fallout from this conflict fell primarily on Leidinger's shoulders.

Nebraska and Fairfax represent two of the most recent allegations involving Andersen Consulting. Andersen was forced to compensate the United Kingdom's Department of Social Security in May 1996 after failing to follow the agreed-upon timetable. In early 1995, engineering company UOP filed a \$100 million lawsuit against Andersen, citing "fraud, ineptitude, and gross negligence." In April 1996, Andersen filed a countersuit, claiming that UOP had a vendetta against Andersen. Lastly, questions arose involving dealings between Andersen lobbyists and California Highway Patrol officials after Andersen was awarded a multimillion-dollar contract in 1992.

# MAXIMUS INC.

## Company Profile

*Maximus is a private management and technical consulting company specializing in human service delivery based in McLean, Virginia. Maximus has contracted with states throughout the country on public welfare, health care, child support, and job training projects. It also provides financial analysis and develops computer software. Maximus has had contracts with the following states: California, Connecticut, District of Columbia, Florida, Kentucky, Louisiana, Maine, Missouri, Montana, New Mexico, Tennessee, Texas, and Wisconsin. Its annual revenues are more than \$43 million and it employs approximately 750 people, most of whom are based in regional offices. Ninety percent of the stock is owned by the officers of Maximus, and the other ten percent is owned by the employees.*

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## **Officers and Directors**

Maximus was founded in 1975 by its current CEO and president, David V. Mastran. Immediately prior to founding Maximus, Mastran served as acting director of research for the U.S. Department of Health, Education, and Welfare under Presidents Nixon and Ford. Raymond B. Ruddy is the vice president of Maximus and F. Arthur Nerret is the treasurer or CFO. Current directors of the company include Kevin Geddings, Edward Hiltz, and Beverly Swann.

As Maximus grew during the 1980s, several other former government officials joined its ranks. John A. Svahn, who served as Maximus's chairman from 1988 until 1994, worked for Ronald Reagan for more than 18 years. Former Carter administration official Bill B. Benton was, at one time, executive vice president of Maximus.

During the Reagan administration, Svahn served as social security commissioner, under secretary of the Department of Health and Human Services, and chief domestic policy advisor. He also served Reagan in California

as his state director of social welfare in the early 1970s. His ties in California were instrumental in securing Maximus's first big welfare contract in the late 1980s. Los Angeles County's attempts to privatize its massive welfare program (called GAIN) were facing serious opposition from state officials. Svahn aligned himself with several old friends, then Los Angeles County supervisor Pete Schabarum and former state welfare official David Swoop, in a successful effort to push the Maximus contract through the system.

## **Government Accountability Problems & Maximus Contracts**

Problems arising from contracts with Maximus illustrate the need for increased scrutiny to ensure government accountability of public funds and government collection of taxpayer funds. Recent examples in West Virginia, Nebraska, Mississippi and Arizona concerning Maximus contracts demonstrate some of the pitfalls of putting social services up for bid.

## West Virginia

Kenneth Roberts, a former project director at West Virginia's Department of Health and Human Services, was recently jailed for his illegal activity surrounding a contract with Maximus. As project director in 1994, Roberts oversaw the development of a child welfare computer system, a project for which Maximus was bidding. His indictment in September of 1995 detailed a scheme in which he would provide Maximus with information and be paid \$5,000 monthly by Maximus in exchange for project information, receive \$25,000 bonuses from Maximus for contracts, and ultimately be eligible for a \$100,000 salaried position when Maximus obtained the child welfare services contract. In November of 1995, Roberts pleaded guilty to wire fraud, one of the indictment's eleven counts, in exchange for dismissal of the other counts. On February 6, 1996, he was sentenced to serve four months in prison followed by four months of home confinement and ordered to pay a \$5,000 fine. There is no record that any criminal charges were brought against Maximus.

## Arizona

In 1993, child support workers in Arizona contended that Maximus made errors while entering information into the state's computer system. The mistakes resulted in the wrongful withholding of tax refunds from citizens who did not owe child support payments. The state had to return \$250,000 of the \$5 million it had collected in overdue payments.

### Contract Costs

## Nebraska

Nebraska's legislature recently terminated the state's contract with Maximus following heated debate over the company's fees and whether services should be privatized.

Maximus was hired by Governor Nelson in August of 1994 to identify sources of federal funding for the state. The original contract allowed Maximus to claim 12.5% of all funds it identified. In February of 1995, state Senator Ernie Chambers introduced a bill to void the contract, protesting the contingency fee arrangement. After much debate, the bill was eventually passed and signed by the governor in June of 1995. Chambers and other legislators continue to criticize state policy and handling of consultant contracts. During this same time, an Omaha businessman named Matt Butler sought an injunction to block payment to Maximus, claiming that the contract was unconstitutional; his efforts failed in the state Supreme Court.

## Mississippi

Officials and lawmakers in Mississippi engaged in contentious debate when Governor Kirk Fordice and then Department of Health and Human Services Director Gregg Phillips decided to contract with Maximus. In April of 1994, Maximus was chosen to implement a child support collection pilot program in two counties. The original contract included funds to take the operation statewide, with a \$17 million payment for Maximus's first 16 months of work and then a percentage of all collections. In August of 1995, lawmakers passed a bill limiting the contract to the two original counties. Fordice vetoed the bill, bitterly defending his choice to hire a private firm and claiming that Maximus could do a better job than state workers. The legislature overrode his veto and insisted upon a review of Maximus's operations. After continuing debate into the spring of 1995, they finally reached a compromise on a bill which limited the total amount paid to Maximus to \$4.8 million.

# ELECTRONIC DATA SYSTEMS

## Company Profile

*Electronic Data Systems (EDS) was founded in 1962 by Texas billionaire and one-time presidential contender Ross Perot. Perot sold the company to the General Motors Corporation (GM) in 1984. EDS spun-off from GM in April of 1996 and now operates independently. According to promotional information, the company's business is based on "helping customers improve their business performance through the application of business technology." EDS employs more than 95,000 people and maintains branches in 200 cities across the United States and in 30 foreign countries. In 1995, the company's revenues topped \$12 billion.*

*EDS has contracts with many major industries, with clients ranging from small businesses to the world's largest corporations and governments. Some of EDS' biggest state and local government clients are Michigan's Department of Natural Resources, California's health care system, Chicago's Bureau of Parking Enforcement, and Los Angeles County's Department of Social Services. In the first quarter of 1996, EDS won contracts with Mississippi's Division of Medicaid, California's Department of Social Services, and Arkansas' Medicaid Management Information Systems. In addition, EDS currently holds or has held Medicaid contracts in Indiana, Texas, Kentucky, Rhode Island, Wisconsin, and Virginia.*

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## Principals

Any discussion of EDS would be incomplete without telling the tale of Ross Perot, who started the company with \$1,000 and sold it to GM for \$2.5 billion 22 years later. Perot built EDS primarily through the acquisition of huge government contracts, parlaying the fees he charged into much of his current wealth. EDS' operations, along with those of Perot Systems, had been investigated by Congress and audited by the General Accounting Office (GAO). The results of these probes, which took place prior to GM assuming complete control of EDS in 1988, included allegations of unfair bidding practices, favoritism, exorbitant fees, and contract errors. Even the financing of Perot's famous Medicare claim computer program, which made him millions and made a name for EDS, came into question. Perot's management of EDS was scrutinized by the media more recently during his failed presidential bid in 1992.

The sale of the company to GM, and Perot's subsequent relinquishing of control, were not without strife. An entire book was written, *Irreconcilable Differences: Ross Perot Versus General Motors* by Doron Levin, detailing the rift between the two parties. Lawsuits were filed on both sides, and the parting was far from amicable. EDS has operated as a subsidiary of GM, with its own officers. The company recently announced a new board of directors in conjunction with its spin-off from GM. The group is headed by EDS Chairman Les Alberthal and includes former Bush administration officials Jim Baker and Dick Cheney.

## The FLORIDA Welfare Computer System

## Success Stories?

EDS was at the center of a long-running controversy surrounding the Florida On-Line Recipient Integrated Data Access System (FLORIDA). The state's Department of Health and Rehabilitative Services (HRS) was trying to find an automated system to integrate all its welfare services and awarded the contract to EDS in 1989. When the system began operation in 1991, it was plagued by problems. The state claimed that EDS had installed a flawed and insufficient program and EDS claimed that the state's caseload had increased beyond the system's agreed upon capacity. A battle ensued, with each side blaming the other for long welfare lines, computer crashes, processing errors, and problematic distribution. The state refused to pay EDS for services it found unacceptable.

After much debate and legal wrangling, both parties agreed to allow a special master to hear the case. William Webster, former FBI and CIA director, was appointed. In 1995, Webster ruled that the state must pay EDS \$50 million. Soon after, Florida Attorney General Bob Butterworth filed a lawsuit accusing EDS of civil theft. Butterworth alleged that EDS originally made a design error in FLORIDA, then covered up the mistake with a lie and blamed HRS for the computer failures. He claimed that company officials never disclosed the fact that the problems which caused the FLORIDA system to crash were machine-related rather than a result of unusually heavy case loads. In December of 1995, a judge dismissed Florida's suit along with its request that EDS be banned from doing business in Florida.

Two local government contracts, which EDS cites as success stories, have been criticized by the press. One section of EDS' WorldWide Web page promotes its contract with Chicago's Bureau of Parking Enforcement as a great success, which has increased parking fine collection and eased traffic in the city. When EDS won the \$40 million contract in 1990, it was the company's first parking ticket collection contract. A local news article alleged that political connections played a significant role in EDS obtaining the contract. EDS denied the charges.

In the early 1990s, EDS designed and implemented an Automated Fingerprint Image Reporting and Match (AFIRM) system for Los Angeles County. The system is intended to catch welfare recipients who are attempting to collect twice on their General Relief. One section of EDS' WorldWide Web page touts AFIRM as a money-saving, labor-efficient system. When San Francisco began looking into adopting a similar system, a local newspaper article claimed it was just an excuse to install an expensive computer system whose only effects would be to drive people off General Relief and build a database of poor people's fingerprints. The Los Angeles system found fewer than one in 800 applicants double-dipping in Los Angeles County. With such a low incidence of fraud, EDS is the real beneficiary of AFIRM. These two examples point to a disparity between how EDS perceives its work and how it is received by the public.

# AMERICA WORKS

## Company Profile

*America Works specializes in job placement and related services for welfare recipients. The company was founded in 1984 by Peter Cove and Lee Bowes, a husband and wife team in Hartford, Connecticut. Bowes has a doctoral degree in sociology and teaches night courses at Columbia University. Cove received a bachelor's degree in sociology from Northeastern University in 1963 and then went to work on municipal projects in New York and Boston. From 1976 until 1983, he served as president of Transitional Employment Enterprises Inc. (TEE), a Boston-based nonprofit job placement organization.*

*The main office of America Works is now located in New York City, with branch offices in several other cities. In 1994, New York City Mayor Rudy Giuliani and then New York Governor Mario Cuomo joined forces to expand the role of America Works in New York State. America Works has continued to operate in Hartford, where it has been awarded \$6 million in contracts from Connecticut. Indianapolis signed a contract with America Works in November 1993. Retired businessman Abraham Levovitz bought the company in 1985 and now controls 100 percent of the capital stock.*

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## Are They Creaming the Welfare Crops?

*America Works has been accused of "creaming" - focusing on welfare recipients easiest to place and avoiding the more difficult and urgent cases. Public agencies, left with the most difficult cases, often are criticized for not achieving the placement rate of companies who cream.*

*Buffalo, New York had an especially bad experience with America Works' creaming policies in the mid-1980s. According to the contract both parties signed in April 1986, America Works was to train and place 82 people by January 1987. The original proposal stated clearly that America Works staff would select only those applicants who demonstrated "superior*

*motivation and/or some level of skills and experience." Public complaints arose when America Works was slow in meeting deadlines and particularly when the company rented deluxe office space in downtown Buffalo. When county officials attempted to extend the contract in September 1986, lawmakers objected because there had been no competitive bidding process for the original contract. Forced to bid against other groups, America Works lost out to a nonprofit group. This organization, now called the Clarkson Center, was left with the toughest cases which America Works had avoided. Clarkson Center officials insisted that America Works did more harm than good by leaving behind chronically unemployed people.*

## Contract Costs

America Works has been criticized for contract costs. Although the company claims that it charges only for permanent job placements, it actually profits in two ways regardless of the placement outcome. Two-thirds of its revenue comes from the contract payment, which averages around \$5,000 per client and is paid in stages during the training and placement process. The other third comes from the portion of the clients' wages retained by America Works during the three to four-month trial period. During this time, the employer pays America Works \$6.00 - \$9.00 per hour and it in turn pays the trainee the minimum wage. In addition to these two income sources, the company benefits from federal government incentives and tax credits for hiring welfare recipients. America Works gets approximately half of the federal tax credit that businesses get for hiring disadvantaged workers and the employer receives the remainder.

America Works' contract with New York was structured so that America Works received a portion of its \$5,500 fee for each placement just for enrolling welfare recipients in its course, then a bulk payment immediately following placement, and a final payment if the person remained in the job for three months. Consequently, the state paid approximately \$1 million to America Works for people who never found jobs and for placements that never became permanent.

The state of Ohio canceled its contract with America Works in 1986 because the company was too expensive. Officials believed that the company had not placed enough people over the course of its two years of operation. One state official estimated placement costs at \$24,000 per person and claimed they lost millions of dollars by contracting with America Works.

## Future

Despite the problems identified above, America Works has generated positive press across the country. Lee Bowes once stated that America Works wants to become the "Federal Express of the welfare system" - making money doing a better job than the government. As the company continues to grow, the question must be asked if welfare services can or should be equated to express mail.

9:55 PM 3/17/1997

## Bush's ex-aide now lobbyist for firm in bid to run welfare

By POLLY ROSS HUGHES

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AUSTIN -- As an aide to Gov. George W. Bush, Dan Shelley --who is now a lobbyist for Lockheed-Martin -- played a key role in changing legislation that resulted in a sweeping proposal by the company to privatize the state's welfare system, Democratic lawmakers revealed Monday.

Lockheed, better known for its defense contracts, is one of several technology companies hoping to land a \$2 billion, five-year contract to create and possibly run a system to screen Texas applicants for welfare and other social services benefits.

The groundbreaking project is undergoing federal scrutiny; Bush's office is expecting word by March 31 on whether the state can start taking bids.

Shelley protested Monday that he was only acting in behalf of the governor's welfare policy staff two years ago when he asked legislators to back a brief amendment to a 211-page welfare bill.

The amendment sounded innocuous enough. It simply stated that the project would be done "in consultation and coordination with the State Council on Competitive Government." The council is made up of the governor, lieutenant governor, speaker of the house, comptroller of the currency and general services commissioner.

The result, however, was that the Council on Competitive Government later allowed companies such as Lockheed-Martin to propose broad privatization measures that went far beyond what legislators said they intended.

Shelley insisted that although he later went to work for Lockheed, he had no contact with the company at the time that he was pushing the amendment. He also said he knew of no private companies that were lobbying for the amendment at the time.

"I think you're trying to find some smoking gun or you think I did something sinister, when you're wrong," Shelley said.

Shelley was one of several former state officials targeted by the Texas State Employees Union in an ethics complaint filed with the Travis County district attorney and county attorney last fall. No action has been taken on that complaint, which also included other former state officials who went to work for Lockheed.

"The perception is very, very bad. That's why I have said the process is tainted -- because it is," state Rep. Garnet Coleman, D-Houston, said Monday.

"It's no one in this Legislature's fault that Lockheed-Martin ran into some difficulties perceptually early on. That's the fault of the people they chose to hire and that's the fault of some things that occurred," Coleman said.

Lockheed's controversial proposal goes the farthest in privatizing the state's welfare system and could set the company up as the employer for thousands of displaced state workers.

Several lawmakers say the proposal is far beyond the scope of what they had envisioned. Coleman and others are now seeking more legislative control over the welfare screening project known as the Texas Integrated Enrollment System, or TIES.



At least four bills aimed at limiting the role of private companies appeared by last Friday's pre-filing deadline. While not eliminating the participation of private companies altogether, the bills call for more legislative oversight and less private power.

Rep. Glen Maxey, D-Austin, said the new bills are necessary because the amendment Shelley proposed had unintended consequences.

"Since last session, that has grown into a huge privatization program the Legislature never considered, talked about or voted on," he said.

TIES, billed as a one-stop shopping approach for welfare applicants, has widespread support among lawmakers, but the role a private company would play has become increasingly controversial.

Companion bills in the House and Senate would limit the role of a private technology company to developing the technology itself and providing technical support.

"It scales it back," said Rep. Elliot Naishtat, D-Austin, the House sponsor. "It guarantees that people applying for (benefits) would spend more time interacting with a real person and less time with a computer or kiosk."

House Appropriations Chairman Robert Junnell, D-San Angelo, also filed a bill he said will give him flexibility to make changes in TIES legislation, depending upon the federal government's response.

"Members (of the committee) are going crazy hearing from state employees afraid they're going to lose their jobs," said Janice Carter, chief aide to the budget-setting committee. "It's the uncertainty of the state employees. It came up over and over again in appropriations."

Coleman said he hopes the philosophical objections to all-out privatization aren't lost in the upcoming debate. He fears that companies worried about the bottom line will not be sensitive to the needs of welfare applicants.

"What you want is to make sure that whoever is providing that service is sensitive to that family's need," he said.

8:51 PM 10/9/1996

## State workers' union seeks ethics probe of welfare bids

By POLLY ROSS HUGHES

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AUSTIN -- A government employees union that stands to lose thousands of jobs asked prosecutors Wednesday to investigate possible ethics violations by six former state officials who could profit from a contract to privatize welfare.

The Texas State Employees Union sent identical complaints to the Travis County district attorney and county attorney, saying a \$2 billion state welfare contract has led to what might be "the greatest lobbying campaign in the history of Texas state government."

"We are asking for an investigation of the growing pattern of high-ranking state officials who are leaving their positions and going to work for corporations who are seeking billions of dollars worth of contracts for privatized public services in Texas," union member Pauline Torres, an employee of the Department of Human Services, said at a news conference to announce the complaints.

Travis County Attorney Ken Oden and District Attorney Ronald Earle said they will evaluate the allegations to determine if the state's "revolving door" law and other ethics statutes have been violated. Breaching the various ethics laws would be misdemeanor offenses, but no individuals named in the complaint are currently under criminal investigation, they said.

"This complaint raises complex and serious allegations," said Oden. "The stakes are very high in this competition to receive enormous government contracts.

"The concern expressed in the complaint is that the public interest be protected in this process. That is a valid concern. It deserves and will receive a deliberate analysis," Oden added.

The complaint stirred considerable controversy inside and outside government. It names former employees of the governor's office, the lieutenant governor's office, the comptroller's office and the Texas Workforce Commission who now work for companies expected to bid on or profit from a five-year contract to automate and privatize Texas welfare programs.

The revolving door provision of the Texas Government Code applies to high-ranking officials in regulatory agencies rather than the governor's office or lieutenant governor's office, said Karen Lundquist, attorney for the Texas Ethics Commission.

Since the departure of these employees, the governor and lieutenant governor's office have instituted revolving door policies for their employees.

"We think in some cases the revolving door applies," said Travis Donoho, an organizer at the union. "In other cases we think the conflict of interest or improper influence provisions of state law apply."

The contract is known as TIES or the Texas Integrated Enrollment System, and union officials estimate it could result in the loss of 13,000 state jobs.

An offer for bids has not been issued yet and has been delayed for several months as the federal government has taken a closer look at the state's plans, according to those closely involved in the privatization issue. The main competitors for the contract include Lockheed-Martin and IBM in partnership with the Texas Workforce Commission, Electronic Data Systems and Unisys Corp. in partnership with the Department of Human Services and Andersen Consulting on its own.

The complaint is lodged against:

- Dan Shelley, a former legislative assistant to Gov. George W. Bush and now a lobbyist for Lockheed-Martin/Information Management Services.
- Greg Hartman, formerly the director of communications for Comptroller John Sharp who now works for consulting firm MGT of America.
- Alan Pollock, who formerly worked in the comptroller's office and now works for MGT of America.
- Steve Bresnen, a former special assistant to Lt. Gov. Bob Bullock and now a lobbyist for Lockheed.
- William Grossenbacher, formerly an official of the Texas Workforce Commission and now an employee of Lockheed.
- Richard Evans, a former Bush aide, now an assistant to Shelley at Lockheed.

"Governor Bush and other state leaders will make their decisions on this issue based upon improving services and saving tax dollars, not on which lobbyist has signed up with which clients," Bush's spokesman Ray Sullivan said in response to the union's charges.

A Lockheed spokesman contends that none of the former state officials it has hired had any involvement in the procurement of the billion-dollar contract to privatize welfare.

"The union stands to lose a number of jobs as a result of this," said Lockheed spokesman Bill Miller. "I think it is unfortunate they have chosen to malign long-time public servants who have done nothing improper. There's certainly a bit of self-serving language in their statements."

The union, however, was joined at the press conference by Public Citizen/Texas, a consumer watchdog group founded by Ralph Nader. Spokesman Craig McDonald said the group also seeks to expose activities surrounding the welfare contract that might violate the public trust.

He said the privatization of welfare raises questions about government jobs, the quality of service that will be provided and whether it will save taxpayers money or cost them more.

"How can we know that all those implications of this project are going to be evaluated fairly if those who put the deal together are the ones who are going to get the most profit out of it?" he asked. "That's what raises the level of trust here, the breach of trust."

Greg Hartman, who was named in the complaint, said the union's charges regarding his activities are false and unfair. He said he has been especially careful not to violate the revolving door policy since leaving the comptroller's office.

"It's painful for them to call for this investigation based on a pile of incorrect facts and innuendo," he said. "I have never done any kind of lobbying on this project."

Health and Human Services Commissioner Mike McKinney said he thinks the union's call to halt the procurement process while the investigation is under way "stinks to high heaven."

McDonald of Public Citizen criticized McKinney, who is not named in the complaint, for leaving a job at EDS to head the commission that oversees the Department of Human Services. That state agency is NOW, an EDS partner in the TIES project.

1:49 PM 9/18/1996

## **Not for Profit**

### **Welfare is a state function not heedlessly privatized**

Since the Congress passed and President Clinton signed a welfare reform bill that will replace the federal welfare program with state initiatives funded by block grants, a host of American companies have jumped into heated competitions for millions of dollars in state welfare contracts. They are being greeted with warm interest by government officials who will soon face fixed funding for welfare and penalties for not moving enough recipients into jobs within two years.

The public should beware.

In order to make a profit from privatized welfare programs, companies will have no choice but to get poor people off the dole. That is a most worthy goal. However, decisions about denying aid to a welfare mother should not be made based on pressures to increase profits.

There will come no argument from this quarter that government unquestionably could do this job better than the private sector could. But taxpayers should be very concerned about who will pay if, under a private-sector contract, more children begin to go hungry and job training and other workfare programs fail to meet expectations.

Millions of people could be dismissed from the rolls unprepared to feed and house themselves and their children, but the welfare contractors will have already pocketed the states' welfare block grants. Taxpayers will have given up their federal welfare funds but not their role of ensuring that children do not starve.

There are many suitable places for the private sector to step in to save the government money on its welfare programs. There are areas in which business has a long history of success, such as accounting and check disbursing. The states could even enter fixed-rate contracts with firms to do job training, applicant screening or recruiting for employers willing to hire welfare recipients in entry-level jobs.

Government bungling on welfare has been horrendous, and the system long has been need of overhauling. But we should consider carefully before farming out the welfare system wholesale to companies that necessarily must put profits above the taxpayers' interests and those of the poor.

# Welfare Reform Incorporated: Social Policy Going Private

## States Turning Agencies Over to Business

*By Judith Havemann*

Washington Post Staff Writer

Friday, March 7 1997; Page A01

The Washington Post

As states begin remaking their welfare programs, several are turning over whole sections of their bureaucracies to private industry, a move that could eliminate tens of thousands of government jobs and leave some states with an unprecedented reliance on big business to carry out social policy.

Texas hopes to contract out 13,000 welfare jobs now held by state employees. Wisconsin has handed over the administrative tasks of welfare in part of Milwaukee County to a Virginia-based company called MAXIMUS Corp. The Arizona legislature is considering whether to go further yet: eliminating the state welfare bureaucracy and turning the job of caring for the poor over to the private sector.

For years, states have been relying on business to carry out what used to be considered government work; food conglomerates manage school cafeterias and banks in many areas have taken over the collection of taxes. More recently, an entire new industry has emerged to run prisons.

What makes welfare stand out is that, rather than simply performing management duties, companies are in position to become decision-makers, helping to determine who gets what help and under what circumstances.

For business, welfare reform is being viewed as a lucrative new field that promises to become a multibillion-dollar enterprise. But it is also becoming clear that, as the nation undergoes what could be one of the largest transfers of public sector operations into private hands, powerful opposition to the idea is forming.

Among the strongest opponents of welfare privatization is organized labor, which believes the move could cost unions thousands of state jobs. Advocates for the poor, meanwhile, worry that corporations will be more interested in protecting their bottom lines than the interests of the needy, particularly if those two goals diverge.

In the middle of the dispute is the White House, which must approve any broad privatization plans, but, according to those on both sides of the debate, seems paralyzed about what to do.

At stake is the shape of welfare reform to come as states begin the job of moving millions of women with children into the work force. States see privatization as a way to inject efficiency, up-to-the-minute technology and private sector performance into the backwaters of their welfare offices. They say turning over large sections of this task to business will save states money and provide better service to the welfare clients for whom they are trying to find jobs.

But the labor unions that represent government workers argue that states are unfairly taking these jobs away and being shortsighted about the dangers of reliance on big business.

"This 'reform' enables big business to rack up huge profits, while facilitating potential losses in public accountability and client confidentiality," said the American Federation of State, County and Municipal Employees, which represents 1.3 million workers nationwide.

The privatization is particularly troublesome to unions because their members are already being threatened by job losses as states such as New York start requiring thousands of welfare recipients to begin working for the city and state governments in return for their benefits. In all, more than 50,000 poor Americans are picking up trash, scrubbing trains and filing papers to work off their welfare and food stamp payments in various cities. The program is growing so fast that "workfare" laborers outnumber paid workers by 3 to 1 in some places.

Organized labor, unable to block the expansion of the program at the local levels, has been pressuring Washington to pledge that welfare recipients at least be guaranteed the minimum wage and other protections.

Welfare reforms' threats to organized labor come together in Washington, where several federal agencies are deciding what standards the federal government will require states to meet in contracting out welfare, food stamps and Medicaid administration, as well as in state workfare proposals.

The largest and most far-reaching plan comes from Texas, where the legislature voted in 1995 to contract out the jobs of about 13,000 workers who determine eligibility for welfare, food stamps and Medicaid. Among those bidding for the contract are Lockheed Martin Corp., IBM, Electronic Data Systems Corp. and Andersen Consulting, a subsidiary of the accounting firm Arthur Andersen & Co.

Federal agencies have been contemplating the Texas proposal since June, under heavy union pressure to block it by any means possible. After months of questions and information exchanges, federal officials sent the state a curious letter in January:

"We cannot provide a final decision on your request at this time. . . . The issues . . . are being discussed at the highest level within the Department of Health and Human Services," the letter said. A second letter went out last Friday, warning Texas that it might be jeopardizing federal funds if it proceeds.

But after informing HHS that each month of delay is costing Texas taxpayers \$10 million, the state decided to move ahead without Clinton administration approval. "We spend half of our money [on welfare] for eligibility systems," Texas Gov. George W. Bush (R) said in an interview, "an amazing statistic." He suggested that the federal delay might be caused, in part, by organized labor. "Public employee groups are nervous . . . that it will set a precedent," he said.

The state believes that by further automating its practices, it will improve the level of client services, and at less cost to the state. Texas expects to save 10 to 40 percent of the \$550 million it now spends to administer these programs. By fall, the state hopes to have the new system up and running.

Organized labor has a two-track strategy to derail the privatization proposals before then: the national track, where the union presidents are seeking repayment of the investment they made in President Clinton's reelection campaign; and the state track, where they are lobbying legislatures, the public and welfare clients about the dangers of privatization.

National union presidents met with White House Chief of Staff Erskine B. Bowles, national economic adviser Gene Sperling and others in late January, seeking to block the Texas plan. Unions have also inundated federal agencies with thousands of letters protesting the plans.

"We have been raising hell in every forum we have," said Michael Gross, the organizing coordinator for the Texas State Employees Union, part of the Communications Workers of America.

Gross said he is concerned that private companies will cut the number of people administering welfare and replace them with computerized kiosks or other measures that would reduce the work force.

Lockheed said it has no intention of replacing welfare caseworkers with computers and voice mail. "We have always said that this is a people business and the most important person in the welfare system is the front-line worker," said Gerald Miller, senior vice president and managing director for Lockheed's welfare reform services division, himself a former Michigan welfare commissioner. "We have a team of people who have run welfare programs throughout the country, we know how to run programs, how to help people find jobs and we have an outstanding technology partner."

Robert Stauffer, a vice president with EDS, said, "We are going to be using technology as an enabler, but blending the best of the private sector way of doing things with the best of the public sector."

Even in states more labor-friendly than Texas, union campaigns against privatization have won only limited success in the welfare reform bills that are moving through legislatures.

New Jersey unions succeeded only in winning a one-year moratorium on privatization, and they failed in an effort to guarantee the minimum wage to recipients who are required to work off their benefits in workfare jobs.

While federal and state governments have been contracting out work for decades, often over organized labor's objections, poverty advocates say new dangers are presented when the work to be privatized is welfare.

Advocates for the poor fear that putting profit-making companies in charge of welfare will cruelly twist the incentives from assisting the poor to making money.

"Starkly put, companies have a duty to shareholders to make the maximum profit possible," said Henry A. Freedman, executive director of the Center on Social Welfare Policy and Law in New York.

Other advocates fear that if a company's profits are tied to reducing the number of people on welfare, the firms will work to manipulate the system to keep poor women from signing up in the first place, force recipients into jobs lasting just long enough so they can collect their money; or even offer up clients to perform free work in exchange for employer "training." The goal of welfare reform is to make poor families self-sufficient.

MAXIMUS, the Virginia firm that won the Milwaukee contract, dismisses such speculation. "It is insulting to the people in [state] social services to say they are so dumb that they would construct contracts that don't protect the recipients," communications director Kevin Geddings said. "Clearly the incentive is to get people into well-paying jobs. The bottom line is tied to how well the client does."

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# **Lake Sosin Snell & Associates**

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## **POLL FINDS LUKEWARM SUPPORT FOR PRIVATIZATION**

A recent survey of 1000 likely voters by Lake Sosin Snell & Associates reveals that privatization of government services has only lukewarm support, with a plurality of voters opposing privatization of welfare programs. Opposition to privatization is concentrated among key core and swing Democratic constituencies, including 1996 Clinton voters, seniors, union households and women.

- **The immediate response to privatization is favorable, but surprisingly lukewarm.** When asked if they support "privatization of government services," 45% of voters are in favor and 34% oppose. But only 22% are strongly in favor of privatization, nearly matched by the 19% who strongly oppose it.
  - ▶ Opposition to privatization is strongest among key Democratic core and swing constituencies, including seniors (39% oppose, 33% favor), Democrats (44% oppose, 33% favor), and Clinton voters (42% oppose, 35% favor).
  - ▶ There is a gender gap on this issue among independents and Republicans. Independent women are 15 points less supportive of privatization than independent men, and Republican women are 11 points less supportive than Republican men.
- Counterintuitively, specifying welfare programs as an area to be privatized reduces voter support for privatization. **Only 40% of voters support privatizing welfare programs, while 44% oppose it.** Opponents of privatization feel more intensely than supporters: 28% strongly oppose privatization of welfare programs, while 22% strongly favor it.
  - ▶ Among key constituencies, specifying welfare programs moves the following groups to oppose privatization: union households (48% oppose, 40% favor -- this demographic includes all unions, not just government unions); women over the age of 45 (47% oppose, 38% favor); independent women (40% oppose, 35% favor); and blue-collar men (49% oppose, 40% favor).
  - ▶ The **strong opposition among seniors (52% oppose, 26% favor)** is reflected in our focus group research as well, where seniors express concern that privatizing welfare today will lead to privatizing Social Security tomorrow.
- **Voters have a general sense that privatization would be effective at saving money and reducing the number of people on welfare, but not as strongly as one might expect.** A slim majority (53%) of voters believe that privatization would be at least



somewhat effective at reducing the number of people on welfare, but only 19% believe it would be very effective. Similarly, 51% believe that privatization would be at least somewhat effective at saving money, but only 19% believe it would be very effective.

- **When voters hear extended arguments on both sides, including positive arguments for privatization, support for privatization remains stagnant at 46%** (46% favor, 43% oppose, 11% don't know). Furthermore, the intensity is in the opposition (28% strongly oppose, 25% strongly favor).
- **It is relatively easy to raise doubts among voters about privatization. For example, voters rebel strongly against the idea of allowing large defense contractors to administer state welfare programs** (64% oppose, 45% strongly oppose; only 16% favor, 5% strongly favor). This surge in opposition appears at the mere mention of defense contractors, even before any specific arguments are made against privatization.
- **Arguments tested against welfare privatization are surprisingly strong:**
  - ▶ **Voters find it very believable that privatization would end up costing them money. They remember that private contractors charged the government hundreds of dollars for toilet seats and hammers, and they readily believe this type of abuse would occur with privatization;** two thirds (66%) say this is a convincing reason to oppose privatization (40% say it is very convincing).
  - ▶ **Voters also believe that private companies would charge the government too much money in cost overruns** (57% say this is likely, only 22% say it is unlikely).
  - ▶ **Voters agree that opening up the welfare system to private interests would lead to bribes and corruption.** A solid majority (62%) say it is likely that politicians would be corrupted by bribes and donations from companies who want big contracts. In fact, this is seen as the most likely consequence of privatization out of any we tested. Two thirds of Republicans and a majority of voters in every region of the country find this a convincing reason to oppose privatization. Even a majority (53%) of those who start out strongly in favor of privatization say this is a convincing reason to oppose it.
  - ▶ **Many voters also dislike the idea of out-of-state or multinational corporations taking jobs away from local people, who are best equipped to handle local concerns** (72% say this is convincing, 40% say it is very convincing); however, this is slightly less compelling than the arguments

previously mentioned. This argument is particularly strong in the Midwest (74% find this convincing, 40% very convincing), among Republicans (71% convincing, 40% very convincing) and among men (72% convincing, 40% very convincing).

- **The strongest arguments against welfare privatization form a coherent, believable scenario:** out-of-state and multinational corporations will take jobs away from local people who best understand local issues, waste taxpayer money through fraud and cost overruns, and bribe politicians to give them public contracts.
- **Contrary to conventional wisdom, there is an electoral disadvantage for supporters of privatization.** Over one-third of voters (36%) would be less likely to vote for a pro-privatization candidate, while only one-quarter (27%) would be more likely. **Furthermore, the intensity is among the opposition** (21% are much less likely to vote for a pro-privatization candidate, but only 11% are much more likely). Voters in every region, including the South (26% more likely, 36% less likely), are less likely to support a candidate who supports privatization.
- **Supporting privatization is a clear liability among key Democratic constituencies,** including seniors<sup>1</sup> (18% more likely to vote for pro-privatization candidate, 41% less likely), Democrats (20% more likely, 48% less likely), Clinton '96 voters (22% more likely, 47% less likely), union households (25% more likely, 49% less likely), and African Americans (22% more likely, 43% less likely).

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*Methodology: This analysis is based on a national random-digit-dial (RDD) survey of 1,000 adult Americans likely to vote in the 1998 elections, designed and administered by Lake Sosin Snell & Associates (Celinda Lake, President). The margin of error for the survey is +/- 3.1%.*

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<sup>1</sup>In focus groups, seniors have told us that they worry about privatization of welfare in part because they believe that Social Security would be next on the list of programs to privatize.

**FINAL**  
March 1997

Hello. My name is \_\_\_\_\_. I'm calling for National Opinion Surveys. We are conducting a public opinion survey and I would like to ask you some questions. We are not selling anything, and I will not ask you for a contribution or donation.

Could I please speak with the (male/female) 18 or older in your household who celebrated a birthday most recently?

1. First, are you registered to vote at this address? **[IF NO, ASK FOR A FAMILY MEMBER WHO IS. IF NONE, TERMINATE AND MARK TQ1 ON SAMPLE SHEET]**

Gender of respondent

Male . . . . . 47  
Female . . . . . 53

2. There are many reasons why people are not able to get to the polls to vote. Do you recall whether you were able to vote in the last election for president between **[ROTATE NAMES]** Republican Bob Dole, Democrat Bill Clinton and Independent Ross Perot, or for some reason were you not able to vote?

**[IF VOTED]** Did you vote for Dole, Clinton, or Perot?

Dole . . . . . 27  
Clinton . . . . . 40  
Perot . . . . . 5  
(Did not vote) . . . . . 10  
(Someone else) . . . . . 2  
(Ineligible) . . . . . 0  
(Refused) . . . . . 16

3. How likely are you to vote in the election in November 1998 for U.S. Congress and other offices -- are you almost certain to vote, will you probably vote, are the chances about 50-50, are you probably not going to vote, or are you definitely not going to vote?

almost certain . . . . . 75  
probably . . . . . 25  
50-50 . . . . . **TERMINATE**  
probably not . . . . . **TERMINATE**  
definitely not . . . . . **TERMINATE**  
(don't know) . . . . . **TERMINATE**

Now, I am going to mention the names of some organizations. Please tell me whether you have a very favorable, somewhat favorable, somewhat unfavorable, or very unfavorable impression of each one. If you haven't heard of someone or if you don't know enough about that organization to have an impression, just say so and we will move on.

Here's the first one: [READ NAME]. Do you have a very favorable, somewhat favorable, somewhat unfavorable, or very unfavorable impression of [NAME]?

	Very fav	Smwt fav	Smwt unfav	Very unfav	Can't Rate	Don't Know
<b>[ROTATE Q.4-Q.7]</b>						
<b>SPLIT SAMPLE A</b>						
__4. Lockheed-Martin Corporation . . . . .	7	19	7	3	12	52
<b>SPLIT SAMPLE B</b>						
__5. Multinational defense companies . . . . .	3	17	11	7	12	49
<b>SPLIT SAMPLE A</b>						
__6. Defense companies . . . . .	10	21	11	5	11	43
<b>SPLIT SAMPLE B</b>						
__7. Defense contractors . . . . .	6	23	14	8	12	37

**RESUME ASKING EVERYONE**

8. In general, do you favor or oppose privatization of government services? [IF FAVOR/OPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	22	45
Favor/not so strongly . . . . .	23	
Oppose/not so strongly . . . . .	15	
Oppose/strongly . . . . .	19	34
(Don't know) . . . . .	22	

**SPLIT SAMPLE A**

9. In general, do you favor or oppose privatization of government services, that is, subcontracting of government services to private companies? [IF FAVOR/OPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	25	51
Favor/not so strongly . . . . .	26	
Oppose/not so strongly . . . . .	13	
Oppose/strongly . . . . .	19	32
(Don't know) . . . . .	17	

**SPLIT SAMPLE B**

10. In general, do you favor or oppose privatization of government services, that is, using tax dollars to hire private companies to do things the government normally does? [IF FAVOR/OPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	18	37
Favor/not so strongly . . . . .	18	
Oppose/not so strongly . . . . .	19	
Oppose/strongly . . . . .	32	50
(Don't know) . . . . .	13	

**EVERYONE**

Now let me ask you about something a little more specific.

**SPLIT SAMPLE C**

11. Do you favor or oppose the privatization of state welfare systems? **[IF FAVOR/OPPOSE:]** Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	20	38
Favor/not so strongly . . . . .	18	
Oppose/not so strongly . . . . .	16	
Oppose/strongly . . . . .	27	44
(Don't know) . . . . .	18	

**SPLIT SAMPLE D**

12. Some people have proposed the privatization of state welfare systems. This means that the states would hire private companies to administer their welfare system, instead of having welfare administered by public employees. Do you favor or oppose the privatization of state welfare systems? **[IF FAVOR/OPPOSE:]** Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	24	41
Favor/not so strongly . . . . .	18	
Oppose/not so strongly . . . . .	16	
Oppose/strongly . . . . .	28	44
(Don't know) . . . . .	15	

**SPLIT SAMPLE A**

13. Do you think that privatization of state welfare systems would be very effective, somewhat effective, not too effective or not at all effective in reducing the number of people on welfare?

Very effective . . . . .	19	53
Somewhat effective . . . . .	34	
Not too effective . . . . .	17	
Not effective at all . . . . .	18	34
(Don't know) . . . . .	12	

**SPLIT SAMPLE B**

14. Do you think that privatization of state welfare systems would be very effective, somewhat effective, not too effective or not at all effective at saving money?

Very effective . . . . .	17	51
Somewhat effective . . . . .	34	
Not too effective . . . . .	19	
Not effective at all . . . . .	19	38
(Don't know) . . . . .	11	

**SPLIT SAMPLE A**

15. Do you favor or oppose allowing large defense contractors to administer state welfare programs? [IF FAVOR/OPPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	8	16
Favor/not so strongly . . . . .	8	
Oppose/not so strongly . . . . .	19	
Oppose/strongly . . . . .	45	64
(Don't know) . . . . .	19	

**SPLIT SAMPLE B**

16. Do you favor or oppose allowing large defense contractors like Lockheed-Martin to administer state welfare programs? [IF FAVOR/OPPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	5	15
Favor/not so strongly . . . . .	10	
Oppose/not so strongly . . . . .	20	
Oppose/strongly . . . . .	45	65
(Don't know) . . . . .	20	

**SPLIT SAMPLE A**

17. Do you favor or oppose allowing non-profit organizations to administer state welfare programs? [IF FAVOR/OPPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	25	54
Favor/not so strongly . . . . .	28	
Oppose/not so strongly . . . . .	12	
Oppose/strongly . . . . .	20	32
(Don't know) . . . . .	14	

**SPLIT SAMPLE B**

18. Do you favor or oppose allowing non-profit organizations like churches and the Salvation Army to administer state welfare programs? [IF FAVOR/OPPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	33	57
Favor/not so strongly . . . . .	24	
Oppose/not so strongly . . . . .	15	
Oppose/strongly . . . . .	20	35
(Don't know) . . . . .	8	

**RESUME ASKING EVERYONE**

19. How concerned are you that privatization of state welfare systems would cause thousands of people who work for the government to lose their jobs -- very concerned, somewhat concerned, not too concerned, or not concerned at all?

Very concerned . . . . .	24	59
Somewhat concerned . . . . .	35	
Not too concerned . . . . .	22	
Not concerned at all . . . . .	15	37
(Don't know) . . . . .	4	

**SPLIT SAMPLE C**

Now I am going to read you a list of things that some people have said could happen if state welfare systems are privatized, that is, private companies are hired to administer state welfare programs. For each one, please tell me how GOOD or BAD it would be if that thing happened on a scale of 0 to 10, where a zero means it is one of the worst things that could happen and a ten means it is one of the best things that could happen, and you can be anywhere in between.

Here's the first one. **[READ ITEM]** How bad or good would that be if it happened? Remember, a zero means it is one of the worst things that could happen and a ten means it is one of the best things that could happen, and you can be anywhere in between.

**ROTATE Q20-Q29**

	Mean	Worst 0-4	5	Best 6-10	dk
__20. Politicians would be corrupted by bribes and donations from companies who want big contracts	3.2	63	16	18	3
__21. Existing government workers would lose their jobs	4.4	44	27	26	4
__22. The government would save money	6.3	25	16	55	5
__23. Only those welfare recipients who are easiest to help would receive help	4.3	45	21	27	8
__24. More people would be moved from welfare to work	7.2	17	11	68	4
__25. Private contractors would charge the government too much money in cost overruns	3.9	55	15	24	5
__26. Many children who need help would slip through the cracks and not be taken care of	3.4	61	14	22	3
__27. Voters and taxpayers would have less say and control over welfare programs	4.0	51	19	26	4
__28. Low-income working people would be displaced	3.7	56	17	20	7
__29. People who need help badly would slip through the cracks because private contractors don't have enough expertise in administering welfare	3.6	58	16	22	4

**SPLIT SAMPLE D**

Now I am going to read you a list of things that some people have said could happen if state welfare systems are privatized, that is, private companies are hired to administer state welfare programs. For each one, please tell me how LIKELY or UNLIKELY you think it is that that thing would happen on a scale of 0 to 10, where a zero means it is very unlikely that it would happen and a ten means it is very likely that it would happen, and you can be anywhere in between.

Here's the first one. **[READ ITEM]** If state welfare programs are privatized, how likely would it be that this would happen? Remember, a zero means it is very unlikely that it would happen and a ten means it is very likely that it would happen, and you can be anywhere in between.

**ROTATE Q30-Q39**

	Mean	Unlikely 0-4	5	Likely 6-10	dk
__30. Politicians would be corrupted by bribes and donations from companies who want big contracts	6.8	21	14	62	3
__31. Existing government workers would lose their jobs	6.2	22	22	53	2
__32. The government would save money	5.5	33	18	45	5
__33. Only those welfare recipients who are easiest to help would receive help	5.3	32	21	41	5
__34. More people would be moved from welfare to work	6.3	22	16	58	4
__35. Private contractors would charge the government too much money in cost overruns	6.4	22	17	57	4
__36. Many children who need help would slip through the cracks and not be taken care of	5.8	34	15	48	3
__37. Voters and taxpayers would have less say and control over welfare programs	6.0	27	18	52	3
__38. Low-income working people would be displaced	5.3	34	21	40	5
__39. People who need help badly would slip through the cracks because private contractors don't have enough expertise in administering welfare	5.6	35	16	45	4



**SPLIT SAMPLE A**

Now I'm going to list some specific government programs that some people have proposed privatizing, that is, some people have proposed hiring private companies to administer these programs. After each, please tell me whether you favor or oppose privatizing that program.

**[IF FAVOR/OPOSE: Would you strongly (favor/oppose) or not so strongly (favor/oppose) privatizing that program?**

**[ROTATE Q.40 to Q.41]**

	Str Fav	Nt So Str Fav	Nt So Str Opp	Str Opp	(DK)
__ 40. Food stamps and other food assistance programs for low income families . . . . .	27	22	19	25	7
__ 41. Medicaid, the program that provides health care for low income families . . . . .	28	19	17	28	7

**SPLIT SAMPLE B**

Now I'm going to list some specific government programs that some people have proposed privatizing, that is, some people have proposed hiring private companies to administer these programs. After each, please tell me whether you favor or oppose privatizing that program.

**[IF FAVOR/OPOSE: Would you strongly (favor/oppose) or not so strongly (favor/oppose) privatizing that program?**

**[ROTATE Q.42 TO Q.43]**

	Str Fav	Nt So Str Fav	Nt So Str Opp	Str Opp	(DK)
__ 42. AFDC, or Aid to Families with Dependent Children, which provides assistance for basic living expenses for low income families . . .	27	20	17	25	10
__ 43. Unemployment insurance . . . . .	23	23	16	28	9

**SPLIT SAMPLE C**

Now let me read you two statements that supporters and opponents of privatizing state welfare systems have made.

**ROTATE**

\_\_ Supporters of privatization say that private companies can run welfare systems more cheaply and more efficiently than government. Governments have been running the welfare system for sixty years now, and it is hard to imagine how anyone could do a worse job. The public employees who run the welfare system, and their unions, are more concerned about keeping their government jobs than in getting people off welfare. The public employee unions benefit from things staying the way they are, so they are fighting against reform. By putting private companies in charge of welfare, we will run the welfare system more like a business, and will cut down on waste, fraud, and abuse.

\_\_ Opponents of privatization point out that many of the companies which are applying for government contracts to manage the welfare system have no experience in this field. Some of these companies are large defense contractors, more concerned about making profits than making the welfare system run better. These are the companies that have a record of selling 700 dollar hammers to the government. Opening up the welfare system to private interests invites corruption, high-priced lobbyists, and ridiculous campaign contributions to get big contracts. We should leave the running of the welfare system to public employees who are not out for profit.

44. Sometimes during the course of a survey like this, people change their minds. Do you favor or oppose privatization of state welfare systems? [IF FAVOR/OPPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	26	46
Favor/not so strongly . . . . .	20	
Oppose/not so strongly . . . . .	14	
Oppose/strongly . . . . .	29	43
(Don't know) . . . . .	11	

45. In the statements about privatizing state welfare systems which I just read you, what stands out in your mind as most important?

Supporters

Private companies can run welfare systems more cheaply . . . . .	5
More efficiently than government . . . . .	7
Governments have been running the welfare system for 60 years . . . . .	1
Hard to imagine anyone could do worse . . . . .	4
Public employees who run the welfare system . . . . .	0
Unions . . . . .	0
More concerned about keeping their government jobs . . . . .	3
Not getting people off welfare . . . . .	2
They benefit from keeping things the way they are . . . . .	0
They are fighting against reform . . . . .	0
Put private companies in charge of welfare . . . . .	0
Run the welfare system more like a business . . . . .	3
Cut down on waste, fraud, and abuse . . . . .	6

Opponents

Many of the companies have no experience in this field . . . . .	4
Some of these companies are large defense contractors . . . . .	2
More concerned about making profits than making the system run better . . . . .	9
Same companies that sell \$700 hammers to the government . . . . .	3
Opening up the welfare system to private interests invites corruption . . . . .	7
High-priced lobbyists . . . . .	1
Ridiculous campaign contributions . . . . .	0
Big contracts . . . . .	0
Leave the running of the welfare system to public employees . . . . .	3
Who are not out for profit . . . . .	0
cost concerns . . . . .	0
invites corruption . . . . .	1
people will fall through the cracks . . . . .	4
Support/favor (general) . . . . .	3
Oppose/against (general) . . . . .	7
Other . . . . .	5
Nothing . . . . .	0
Don't know . . . . .	19

[END SPLIT SAMPLE C -- GO TO Q.48 or Q.49]

**SPLIT SAMPLE D**

Now let me read you two statements that supporters and opponents of privatizing state welfare systems have made.

**ROTATE**

\_\_ Supporters of privatization say that private companies can run welfare systems more cheaply and more efficiently than government. Governments have been running the welfare system for sixty years now, and it is hard to imagine how anyone could do a worse job. The public employees who run the welfare system, and their unions, are more concerned about keeping their government jobs than in getting people off welfare. The public employee unions benefit from things staying the way they are, so they are fighting against reform. By putting private companies in charge of welfare, we will run the welfare system more like a business, and will cut down on waste, fraud, and abuse.

\_\_ Opponents of privatization point out that many of the companies which are applying for government contracts to manage the welfare system have no experience in this field. Many are defense contractors who do not have the expertise to really help entire families. Large out-of-state and multinational companies may easily put the quickest, biggest profits ahead of positive, long-term results and taking care of children and all families on welfare. This important work should be done by local people who understand our state and have the right skills, not people working in large out-of-state or multinational corporations. When a person applies for welfare, the government has to keep that information secret. But corporations will not be accountable for protecting people's privacy. And privatization will cause local public employees to lose their jobs.

46. Sometimes during the course of a survey like this, people change their minds. Do you favor or oppose privatization of state welfare systems? [IF FAVOR/OPPOSE:] Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	25	45
Favor/not so strongly . . . . .	20	
Oppose/not so strongly . . . . .	18	
Oppose/strongly . . . . .	26	44
(Don't know) . . . . .	11	

47. In the statements about privatizing state welfare systems which I just read you, what stands out in your mind as most important?

Supporters

Private companies can run welfare systems more cheaply . . . . .	5
More efficiently than government . . . . .	5
Governments have been running the welfare system for 60 years . . . . .	2
Hard to imagine anyone could do worse . . . . .	4
Public employees who run the welfare system . . . . .	0
Unions . . . . .	0
More concerned about keeping their government jobs . . . . .	3
Not getting people off welfare . . . . .	3
They benefit from keeping things the way they are . . . . .	0
They are fighting against reform . . . . .	0
Put private companies in charge of welfare . . . . .	1
Run the welfare system more like a business . . . . .	3
Cut down on waste, fraud, and abuse . . . . .	6

Opponents

Many of the companies have no experience in this field . . . . .	7
Large defense contractors . . . . .	2
Lack the expertise to help families and children . . . . .	3
Large companies will put profits ahead of children and families . . . . .	5
Making the system work well . . . . .	0
This work should be done by people from our area who understand our state . . . . .	8
Have the right skills . . . . .	0
Not people who work for large corporations . . . . .	0
From out of state or from foreign countries . . . . .	1
The government has to keep personal information secret . . . . .	1
Large corporations will not be accountable for protecting people's privacy . . . . .	1
Privatization will cause our local public employees to lose their jobs . . . . .	3
cost concerns . . . . .	2
invites corruption . . . . .	2
people will fall through the cracks . . . . .	3
Support/favor (general) . . . . .	4
Oppose/against (general) . . . . .	7
Other . . . . .	1
Nothing . . . . .	1
Don't know . . . . .	16

[END SPLIT SAMPLE D - GO TO Q.48 OR Q.49]

Now, I am going to read you a series of statements about privatization of state welfare systems. Please tell me whether, for you personally, each is a very convincing, somewhat convincing, not too convincing, or not at all a convincing reason to **OPPOSE** privatization of state welfare systems.

[PROBE AFTER EVERY THIRD: Is that a very convincing, somewhat convincing, not too convincing, or not at all convincing reason to **OPPOSE** privatization of state welfare systems.

[ROTATE Q48 TO Q60]

	Very conv	Smwht conv	Not too conv	Not at all conv	DK
<b>SPLIT SAMPLE A</b>					
__48. Many of the companies which are applying for government contracts to manage the welfare system have no experience in this field. Some of them are defense contractors, and may not have the sensitivity and training to help people make the difficult transition off of welfare . . . . .	32	31	21	11	4

<b>SPLIT SAMPLE B</b>					
__49. Many of the companies which are applying for government contracts to manage the welfare system have no experience in this field. Some of them are defense contractors like Lockheed-Martin and may not have the sensitivity and training to help people make the difficult transition off of welfare . . . . .	29	34	19	14	4

<b>SPLIT SAMPLE A</b>					
__50. Many of the companies, like defense contractors, which are applying for government contracts to manage the welfare system are more concerned about making profits than making the welfare system run better . . . . .	34	35	15	12	4

<b>SPLIT SAMPLE B</b>					
__51. Many of the companies, like defense contractors, which are applying for government contracts to manage the welfare system are known for waste, fraud and mismanagement. They're the people who charged the government seven hundred dollars for a hammer . . . . .	40	26	17	15	2

	Very conv	Smwht conv	Not too conv	Not at all conv	DK
<b>SPLIT SAMPLE A</b>					
__ 52. Opening up the welfare system to private interests invites corruption. One company, Maximus, was trying to get the contract to run West Virginia's welfare system, so they paid off a former high ranking welfare official from West Virginia . . . . .	28	33	20	12	8

<b>SPLIT SAMPLE B</b>					
__ 53. Opening up the welfare system to private interests invites corruption. One company, Maximus, was trying to get the contract to run West Virginia's welfare system, so they paid off a former high ranking welfare official from West Virginia. Do we really want highly-paid lobbyists making political contributions to try to get contracts for wealthy corporations who want to make huge profits from welfare? . . . . .	30	27	20	19	4

<b>SPLIT SAMPLE A</b>					
__ 54. Public employees from our state should run the welfare system in our state. This important work should be done by local people who understand our state, not people working in large out-of-state or multinational corporations . . . . .	40	32	14	10	3

<b>SPLIT SAMPLE B</b>					
__ 55. Privatization will cause local public employees to lose their jobs. Large out-of-state and multinational companies will take jobs away from hardworking people we know. This can't possibly help our state's economy . . . . .	26	29	22	18	4

<b>SPLIT SAMPLE A</b>					
__ 56. When a person applies for welfare, the government has to keep that information secret. But corporations will not be accountable for protecting people's privacy. Do we really want to let private companies have sensitive information about who's applied for welfare or food stamps? . . . . .	29	26	23	20	3

<b>SPLIT SAMPLE B</b>					
__ 57. Because private companies are mainly concerned with profits, they will help only those welfare beneficiaries who are easiest to place in jobs and will avoid helping the most difficult and urgent cases. It's not fair that some people will be denied benefits because they are not as profitable for large corporations . . . . .	28	32	17	18	4

	Very conv	Smwht conv	Not too conv	Not at all conv	DK
--	--------------	---------------	-----------------	--------------------	----

**SPLIT SAMPLE A**

__ 58. Privatization sounds good because some people think it will lead to saving money and more efficiency. But look at the greed, corruption and cost overruns we have already seen from these large corporations that contract with the government. This would be a nightmare, and there would be little accountability to the taxpayers . . . . .	30	28	20	16	5
---	----	----	----	----	---

**SPLIT SAMPLE B**

__ 59. Privatization sounds good. But what happens when non-profits or businesses decide they do not want to handle the welfare functions anymore, aren't making enough money, or want to go into something else? This would lead to total chaos when these functions are dumped back onto state and local government	30	29	20	17	4
---	----	----	----	----	---

**SPLIT SAMPLE A**

__ 60. Running the welfare system is just too big a job for a non-profit organization like the YMCA to handle. They may have good intentions, but what's going to happen when they aren't able to handle all the demands of running a welfare system? . . . . .	30	27	22	16	6
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**RESUME ASKING EVERYONE**

61. You've heard a lot of information about privatization of state welfare systems. Sometimes over the course of a survey people change their minds. Do you favor or oppose privatization of state welfare systems? **[IF FAVOR/OPPOSE:]** Do you (favor/oppose) this strongly or not so strongly?

Favor/strongly . . . . .	24	42
Favor/not so strongly . . . . .	19	
Oppose/not so strongly . . . . .	15	
Oppose/strongly . . . . .	31	47
(Don't know) . . . . .	11	

62. If a candidate for state office were in favor of privatizing the welfare system in your state, would you be more likely to vote for that candidate, less likely, or would it not make any difference to your vote? **[IF MORE/LESS LIKELY:]** Would be much (more/less) likely or somewhat (more/less) likely to vote for that candidate?

Much more likely . . . . .	11	27
Somewhat more likely . . . . .	16	
Somewhat less likely . . . . .	15	
Much less likely . . . . .	21	36
No difference . . . . .	27	
(Don't know) . . . . .	10	

**RESUME ASKING EVERYONE**

Thank you. The few remaining questions are for classification purposes only.

63. Generally speaking, do you think of yourself as a Republican, a Democrat, an independent, or something else? **[IF REPUBLICAN OR DEMOCRAT ASK:]** Do you consider yourself a strong (Republican/Democrat) or a not so strong (Republican/Democrat)? **[IF INDEPENDENT ASK:]** Would you say that you lean more toward the Republicans or more toward the Democrats?

strong Republican . . . . .	19	34
not so strong Republican . . . . .	10	
indep. leans Republican . . . . .	5	
independent . . . . .	18	
indep. leans Democratic . . . . .	8	
not so strong Democrat . . . . .	10	
strong Democrat . . . . .	19	38
dk/na/other . . . . .	10	

- 64./65. What is your age? **IF REFUSED:** I am going to read you some age categories.  
Stop me when we get to your category:
- |                      |    |
|----------------------|----|
| 18-24 years          | 8  |
| 25-29                | 8  |
| 30-34                | 8  |
| 35-39                | 11 |
| 40-44                | 10 |
| 45-49                | 9  |
| 50-54                | 9  |
| 55-59                | 8  |
| 60-64                | 7  |
| Over 64              | 21 |
| (refused/don't know) | 2  |
66. Are you married, single, separated, widowed, or divorced?
- |                    |    |
|--------------------|----|
| Married            | 59 |
| Single             | 20 |
| Separated/divorced | 9  |
| Widowed            | 12 |
| (Don't know)       | 1  |
67. **[IF MARRIED MALE]** Does your wife work, half-time or more outside the home, or would you say that her work is mainly at home?
- |              |    |
|--------------|----|
| Employed     | 55 |
| At home      | 42 |
| (Don't know) | 3  |
68. **[IF FEMALE RESPONDENT]** Do you have a paid job, half-time or more or would you say that your work is mainly at home?
- |              |    |
|--------------|----|
| Employed     | 57 |
| At home      | 37 |
| (Don't know) | 6  |
69. What is the last year of schooling that you have completed?  
**[CIRCLE ONE - DO NOT READ]**
- |                                  |    |
|----------------------------------|----|
| 1 - 11th grade                   | 8  |
| High school graduate             | 33 |
| Non-college post H.S.(e.g. tech) | 5  |
| Some college (jr. college)       | 22 |
| College graduate                 | 23 |
| Post-graduate school             | 7  |
| (Don't know)                     | 1  |

70./71. What is your race? Do you consider yourself an Hispanic, Latino or a Spanish-speaking American?

White	79
Black	9
Hispanic (Puerto Rican, Mexican-American, etc.)	7
Native American	1
(Other)	3
(Don't know/refused)	2

72. Are you or is any member of your household a member of a labor union or teachers' association?

Yes	21
No	77
(don't know)	2

73. Do you or does any member of your household work for the government at any level?

Yes	17
No	81
(don't know)	2

74. What is your zip code? \_\_\_\_\_

And finally, strictly for verification purposes, can I have just your first name?

\_\_\_\_\_

And your phone number to make sure it is correctly marked off of our list?

\_\_\_\_\_

**That completes our public opinion survey. Thank you very much for your time and cooperation, and have a pleasant (day/evening).**

**RUSSELL SAGE FOUNDATION**

112 EAST 64TH STREET  
NEW YORK, NEW YORK 10021

MICHAEL WISEMAN  
Visiting Scholar

January 28, 1997

To: Ron Haskins

From: Michael Wiseman *Michael Wiseman*

Re: Wisconsin Works Waivers and Related Matters

Ron, this memo summarizes where we stand on Wisconsin Works (W-2) as I understand things. Please pass this on subject to the proviso that I'm working strictly from my capacity as Vice Chair of Governor Thompson's Wisconsin Works Management and Evaluation Steering Committee, and I am principally concerned with assuring that evaluation is done well. Getting evaluation going requires that we reach agreement on what the program, and the budget for operation and evaluation, will be. I will send a copy of this memo to Jean Rogers; if I'm off track, you can be assured we'll both hear about it.

There are three interrelated problems: (1) The waivers required for W-2, (2) Wisconsin's claim on federal funds generated by cost saving generated prior to passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), and (3) state support for the New Hope project.

**Waivers.** Wisconsin still needs federal approval to realize all of the Wisconsin Works plan. For the most part, the reason is that W-2 integrates Food Stamps, AFDC, Child Care, and Health Insurance, and PRWORA primarily addresses AFDC. By program, here's what the state needs. I have listed what appear from a strategic standpoint to be the most important issues first.

**Health Insurance**

Wisconsin cannot implement the W2 health insurance program at all because Congress failed to pass a Medical Assistance Block Grant. W2 calls for provision of access to health insurance for all low-income households with children who lack access to employer-based health insurance, regardless of TANF status. Copayments will be required of all participants, but copayments vary inversely with income and family size. Existing Medicaid beneficiaries will be automatically enrolled in the program, and insurance payments for participants in W2 Transitions and Community Service Jobs activities will be automatically deducted from grants. W-2 effectively commits the state to providing means-tested universal access to health insurance; I cannot understand why the administration is reluctant to see if the state will deliver.

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BR to ER -  
need to look into.

Food Stamps

Here the devil lies in the details. The state needs:

- Authority to subcontract with nongovernmental organizations for Food Stamps delivery—as will be done with many other W-2 related services. (Most important.)
- Authority to sanction non-compliance with work and training requirement on an hourly basis—as is done in AFDC under the state's "Pay for Performance" initiative and will be done for the W2-Transitions and Community Service Jobs tiers under TANF. (I understand that preliminary approval has been given for this provision.)
- Authority to vary the treatment of earnings in Food Stamp benefits calculations in order to keep marginal benefit reduction rates for the combined W2 health insurance, child care, and Food Stamps package as low as possible.
- Authority to continue to operate the state's Food Stamp Employment and Training (FSET) Program in an integrated One Stop Job Center program that combines FSET with other welfare-to-work programs as provided under PRWORA. This includes the state's technical college match program. I'm particularly concerned about this because it offers an avenue for some training efforts. When I last checked the state's FSET grant had not been approved; this includes the technical college component.

Temporary Assistance for Needy Families (TANF)

Here the state seeks to establish an integrated budget as well as consistency with TANF. They need:

- Authority to apply federal savings from reduced Food Stamp and Medical Assistance costs brought about by W-2 to expenses incurred for W-2 expenses regardless of recipient class. (Most important.)
- Authority to apply a sixty day residency requirement.
- Federal participation in costs incurred by passing all child support payments directly through to participants.

As you can see, these requirements cross-cut programs and agencies. Were the requests ad hoc, there would be good reason for the administration to be skeptical. We believe, however, that W2 fits together as a uniquely work-oriented reform. The state can implement something approximately like what W2 proposes without additional federal approval. Nevertheless, we believe it very important, both from the state and national viewpoints, to implement the program and to monitor carefully the outcome. We understand that stewardship of federal dollars as well

as concern for the well-being of families calls for active federal participation and oversight. This is why our waivers proposal called for a "new partnership" between federal agencies and state government in designing and implementing its evaluation. So far, all the administration has done with our language on this one is to incorporate it in its own request for proposals for on-going demonstration evaluation. We had difficulty in responding to that request because we still don't know where we are on program.

We believe a major part of the problem is that in this administration the ultimate decision on this collection of proposals must be made in the White House. We believe that W2 can be effectively presented only as a whole, but there is neither interest nor capability for doing this among the various individual federal agencies involved. That's why we need your help in gaining White House attention, and why we very much appreciate willingness on the White House side to sit down with me and discuss the W-2 concept as a whole.

**Waiver Savings.** Since 1987 Wisconsin has negotiated with the federal government a number of agreements concerning access to federal funds saved by the state's reforms. These "waiver savings" have been a significant pool of resources for on-going reform efforts, and they constitute the basis for much of the increase in the state's employment and training effort under JOBS. The funds have been used wisely and carefully husbanded to assure that resources will be available for sustaining the welfare-to-work effort.

As of July 1, the state has a federal waiver savings fund of about \$90 million. By agreement, this fund was "capped," but the funds were available for future use. This money was included in plans for W2 implementation and evaluation. However, the state has now been informed that the Personal Responsibility and Work Opportunity Act supersedes all such agreements, and that the state's claim on federal resources is defined solely on the basis of the formula prescribed by Congress for allocation of the TANF block grant.

Needless to say, the state disputes this interpretation. Should the issue not be resolved with restoration of the block grant funds, resources for services and evaluation will be curtailed. Implementation will proceed, but at greater cost to the state's taxpayers. It is our position that the TANF formula already penalizes states that accomplished caseload reductions relatively early, and that penalizing the state for good stewardship of its waiver savings claims relating to past periods compounds the problem.

**New Hope.** Paradoxically, while the Clinton Administration was arguing that access to past waiver savings by the state was foreclosed by PRWORA, the administration has announced that claims on future savings generated by the New Hope that were established by federal legislation should now be honored by the state. Approximately \$3.5 million is needed from state and federal sources to complete the New Hope demonstration. If this money cannot be found, the return to extensive federal, local, philanthropic, and state investment will be curtailed.

The New Hope claim is based on Congressional action directing the U.S. Department of Health and Human Services to pay the project an amount equal to savings in AFDC, Food Stamps, and other transfer programs generated by its operation. As has been true for the state's own reforms, the negotiation of procedures for calculating such savings has been protracted. Since Medicaid and Food Stamps were not eliminated by PRWORA, about \$600,000 of the \$3.5 million may still be generated. However, \$2.9 million in projected savings at the federal level are now, it is claimed, contained in the TANF block grant.

These savings were calculated and projected on the basis of AFDC experience. We do not believe the formulas or the projections to be applicable under W2. New Hope is an interesting program, and it shares some features with W2. However, participation in New Hope is voluntary, and most of the experience gained under New Hope reflects an environment in which persons enlisted in New Hope always had AFDC as a fallback. The relevance of the New Hope outcomes to state policy is therefore questionable. In any event, a strong case can be made that W2 savings generated by continued operation of New Hope will not amount to \$2.9 million. Thus what the federal government and the New Hope board are asking the state to do is to honor both the federal government's commitment and its forecast.

Jean and I have not yet taken the New Hope issue to the W2-MEP steering committee, but our educated guess is that the members will agree that there is much in New Hope that would be of use to us in planning W2 implementation. I think the interests of New Hope would be better served by getting the "waiver savings" issue off the table and trying to come up with a single federal and state commitment that will assure that commitments made to New Hope participants will be honored and that the New Hope demonstration will be completed. Jean says that she thinks state money can be found for New Hope if the waiver savings issue is resolved. I understand that ACF has hinted that the administration will find other resources for this purpose; this seems to undercut the whole idea of devolution of authority for welfare reform to state government. I'm not exactly a neutral here: I am on the New Hope National Advisory Committee and both Carol (my wife) and I are working on the MDRC New Hope evaluation.

I hope this is useful. I have tried to strike a balance between detail and generality. The important point is that the waivers, waiver savings, and New Hope issues are interrelated, and there is no reason for the state to negotiate with persons who cannot approach them as a group. Please let me know if you have any other questions, thoughts, or suggestions that might help.

Please understand that this summary is my own, and I may err in minor detail. But I think it important that this matter be conducted on an unofficial basis in order to establish just what might be accomplished if we can get the principals back together.

File  
WR-privatization

Stacy L. Dean

03/17/97

04:23:40 PM

Record Type: Record

To: See the distribution list at the bottom of this message  
cc: Barry White/OMB/EOP, Keith J. Fontenot/OMB/EOP  
Subject: Privatization

I was talking with Anne Lewis, NEC, this morning about the differences between Texas and Wisconsin. I thought that you might be interested in a better description of Wisconsin. A quick and dirty summary is that Wisconsin focuses more on privatization as a mechanism to improve program performance while Texas' approach is more focuses on improving cost effectiveness. Although each State is striving towards both goals.

This description has been added to the agency paper.

### Wisconsin Works

The Wisconsin Works (W-2) demonstration proposal is a Statewide project which, in part, would establish competitively-bid County contracts with public or private agencies. The public or private agencies would be responsible for certification actions such as gathering client eligibility information, conducting eligibility interviews and imputing data for those food stamp households which are subject to W-2 requirements. The contracted agencies would not have any responsibility over the States' computer system.

There are 72 counties and 11 Indian Tribal Organizations(ITO) in Wisconsin. In 61 counties, the County Social or Human Services Department earned and exercised its right of first selection to administer the W-2 project. Two ITOs also earned the exercised the right of first selection. Therefore, competitively-bid contracts will be awarded for the W-2 project in 11 counties and 9 ITOs. However, the State could, at some point in the future, contract with a private agency for the W-2 project in a County office that does not meet a specified level of performance.

Private organizations that are awarded contracts may perform aspects of the certification process that are currently required to be handled by merit employees. The W-2 employees would be responsible for food stamp households that are subject to work requirements. Food stamp households that are exempt from W-2 requirements, such as the elderly and disabled, will continue to be certified by public employees.

The State, presuming the Department of Agriculture's approval of its waiver request of the merit system requirements for the Food Stamp Program, released its Request for Proposals (RFP). While the State can issue the RFP without USDA's approval, they will need to hear back from USDA in order to award the contract. State officials have



advised that the contract process has been completed for one County (with over 60 percent of the State caseload) without the inclusion of the Food Stamp Program. Contracts have been awarded to six private, non-profit agencies.

Message Sent To:

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Kenneth S. Apfel/OMB/EOP  
Elena Kagan/OPD/EOP  
Diana Fortuna/OPD/EOP  
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