Race to the Bottom:

How Outsourcing Public Services Rewards Corporations and Punishes the Middle Class

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Executive Summary

As state and local governments outsource important public functions to for-profit and other private entities, what happens to the quality of life for the workers who provide these services, and the communities in which they live? A growing body of evidence and industry wage data suggest an alarming trend: outsourcing public services sets off a downward spiral in which reduced worker wages and benefits can hurt the local economy and overall stability of middle and working class communities. By paying family-supporting wages and providing important benefits such as health insurance and sick leave, governments historically created intentional "ladders of opportunity" to allow workers and their families to reach the middle class.[1] This is especially true for women and African Americans for whom the public sector has been a source of stable middle-class careers.[2] Low-road government contracts reverse this dynamic. While corporations rake in increasing profits through taxpayer dollars and CEO compensation continues to soar,[3] numerous examples in this report show that workers employed by state and local government contractors receive low wages and few benefits:

- A 2009 study on the effects of outsourcing on food service workers in K-12 public schools in New Jersey found that companies such as Aramark, Sodexo, and Compass cut workers' wages by $4-6 per hour following privatization. Many workers completely lost their health insurance benefits. In fact, food service contractors have the highest level of employees and their children enrolled in New Jersey FamilyCare, the state's Medicaid program.[4]
- In the 2011 outsourcing of nursing assistant positions at a Michigan state-run home that serves veterans, the contractor significantly lowered wages and benefits. Nursing assistants working for the contractor were paid a starting wage of $8.50 per hour with no health and pension benefits. State nursing assistants who worked directly for the public home earned between $15-20 her hour with health and pension benefits.[5] Unfortunately, the low compensation levels resulted in higher turnover among the contractor nursing assistants, and ultimately, lower levels of reliability and quality of care.[6]

[1] Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

[2] Janice Fine, "Six Reasons Why Government Contracting Can Negatively Impact Quality Jobs and Why it Matters for Everyone," In the Public Interest, October 2012.

[3] David Clay Johnston, "Bringing Home the Big Bucks in the Public Sector," Newsweek, March 5, 2014.

[4] Mary McCain, "Serving Students: A Survey of Contracted Food Service Work in New Jersey's K-12 Public Schools," Rutgers University Center for Women and Work, May 2009.

[5] Motoko Rich, "A Hidden Toll as States Shift to Contract Workers," *New York Times*, November 6, 2011.

[6] Roland Zullo, "Privatizing Resident Care Aides at the Grand Rapids Home for Veterans: Job Analysis and Policy Implications," Institute for Research on Labor, Employment, and the Economy, University of Michigan, 2011.

- Industry wage data show that in 2008, the median annual wage for correctional officers employed by state governments was $38,850 and local government was $37,510. Correctional officers employed by private prison companies only earned a median yearly salary of $28,790.[7] The same trend can be seen in the waste industry. Trash collection workers employed by municipalities can earn an annual wage of $51,214. In contrast, private sector trash collection workers earn on average between $28,000 and $32,000 annually.[8]

The private sector often fails to uphold its promise to run public services "better, faster, and cheaper" than the government, sometimes with horrific results.[9] But this report reveals a far more alarming trend: all too often, taxpayers are inadvertently contributing to growing income inequality and the erosion of the middle class by turning middle class jobs into poverty-level jobs. This report explores how this dangerous race to the bottom results in hidden costs to the government, siphons money away from local communities, and has lasting future impacts well into the next generation.

State and local governments employ about 14.5 million full-time and almost 5 million part-time employees.[10] The decisions that these cities and states make regarding their contracting practices and the resulting contracted jobs can impact millions of jobs which in turn can significantly affect economic inequality. The report concludes by sharing policy recommendations for reversing this dangerous trend, including:

- Requiring contractors to show that cost savings derive from increased efficiencies and innovation, not a decrease in compensation
- Requiring contractors to pay a living wage and provide health and other important benefits
- Requiring transparency measures, such as tracking how much state and local governments are spending on private contracts, how many workers are employed by those contracts, and worker wage rates
- Requiring governments to conduct a social and economic impact analysis before outsourcing

By implementing these policies, state and local governments can rebuild those ladders to the middle class that have eroded over the years. Instead of engaging in a race to the bottom, cities and states can ensure that taxpayer dollars used to pay people to perform public work result in solid family-supporting jobs.

[7] Shaun Genter, Gregory Hooks, and Clayton Mosher, "Prisons, Jobs, and Privatization: The Impact of Prisons on Employment Growth in Rural US Counties, 1997-2004," January 2013.

[8] U.S. Bureau of Labor Statistics, Table 9, Health care benefits: Access, participation, and take-up rates,1 State and local government workers, National Compensation Survey, March 2011.

[9] In the Public Interest, "Out of Control: The Coast-to-Coast Failures of Outsourcing Public Services to For-Profit Corporations," December 2013.

[10] US Census Bureau, "2012 Census of Governments: Employment Summary Report," March 6, 2014.

Introduction

Every day, Americans rely on important public services that contribute to our quality of life and well-being. We are able to send our children to school to receive a good education. Our trash gets picked up in a regular and timely manner. Public buildings are cleaned. Emergency personnel respond when crisis hits. City buses take us to our next appointment. Taxpayer dollars fund these and so many more local- and state-level public services.

When services are provided by public employees, many of the resulting jobs provide important pillars of economic security, including decent family-supporting wages, affordable benefits, sick time off, and secure retirement. In fact, the government has long built intentional "ladders of opportunity" that allow workers and their families to reach the middle class.[11] Unfortunately, when these services are outsourced to private companies, the subsequent contracted positions offer lower wages, reduced benefits, and little or no retirement security. Too many times, these positions turn into poverty-level jobs because companies pay workers low wages and provide little or no benefits in an effort to reduce their own operating costs. These jobs that provide vital public services are paid for with taxpayer dollars, yet the men and women working for contractors are provided with wages that do not allow them to support their families. In many cases, they aren't provided with benefits such as health insurance to ensure that they stay healthy. And when they or their children do become sick, many don't have access to paid sick leave that enables them to recuperate and prevent the spread of illness. Additionally, workers that were promised some level of retirement security as public employees are left without a plan for the future, as private companies take these benefits away in the name of cutting costs.

As a result, taxpayers inadvertently support the further dismantling of our once robust middle class. Private contractors that take over public services generate billions of dollars in profits and are led by CEOs with multi-million dollar compensation packages,[12] while workers who provide public services see their paychecks reduced and benefits eliminated. The degradation of formerly family-supporting jobs through government outsourcing turns middle class careers into poverty-level jobs. Governments across the country are using our public dollars to fuel the low-wage economy and increasing economic inequality.

In 2013, Demos, a well-respected think tank, examined the wages and benefits that workers employed by federal contractors received. Their findings were startling. At the federal level, two million private sector employees working on behalf of the

[11] Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

[12] CEO compensation data in this report came from several sources. Compensation data for Ashley Almanza came from the G4S 2013 annual report. All other CEO compensation data provided in this report is from databases containing CEO data on the Forbes and BusinessWeek websites accessed in April 2014. CEO compensation provided in euros was converted dollars using the IRS average exchange rate for FY2013.

government earned less than $12 per hour.[13] This is more than the number of low-wage workers at Walmart and McDonalds combined.[14] Unfortunately, this means that hundreds of billions of dollars in federal taxpayer funds are going to contractors and other private sector employers that pay too little to support a family.

While too many cities and states fail to systematically track contract spending, researchers recently calculated that total state and local procurement may be roughly valued at $1.5 trillion.[15] Although this is a crude estimate, contracting at anywhere approaching this fiscal magnitude means that millions of jobs are created through state and local contracting. Since the amount of state and local contracting is three times the value of federal contracts,[16] the job degradation dynamic that the Demos report describes is just the tip of the iceberg.

Experts estimate that there are more than three times as many contract workers as civil service workers at the federal level.[17] However, estimates of the contracted workforce for state and local governments do not exist either because most do not keep track of how many workers are employed by contractors. However, we do know that in 2012, state and local governments employed about 14.5 million full-time and almost 5 million part-time employees.[18] The decisions that these cities and states make regarding their contracting practices and the resulting contracted jobs can have a huge impact on economic inequality. Governments create and have the potential to create millions of low-wage jobs if they choose to contract with low-road contractors, thereby contributing to the disappearing middle class.

This report examines how local and state government outsourcing contributes to the decline of the middle class and the rise in poverty-level jobs, thereby exacerbating growing economic inequality. The first section discusses the impacts of these "low-road" outsourcing decisions on individuals, families, and the economy as a whole, today and in the future. Section 2 highlights specific examples from a variety of sectors where government outsourcing on the local and state levels has resulted in decreased workers' wages and benefits. Case studies are included from the following sectors: school support services, janitorial, health care support, prisons, waste and recycling, transit, and other municipal services. The last section provides policy recommendations for localities and states to raise the standards for contractor workers.

[13] Amy Traub, Robert Hiltonsmith, "Underwriting Bad Jobs: How Our Tax Dollars are Funding Low-Wage Work and Fueling Inequality," Demos, May 8, 2013.

[14] Ibid.

[15] Danielle M. Conway, "Chapter Three: Sustainable Procurement Policies and Practices at the State and Local Government Level," Greening Local Government, K. Hirokawa & P. Salkin, eds (2012).

[16] USASpending.gov, 2013.

[17] Louis Peck, "America's $320 Billion Shadow Government," The Fiscal Times, September 28, 2011. http://www.thefiscaltimes.com/Articles/2011/09/28/Americas-320-Billion-Shadow-Government.aspx#page1

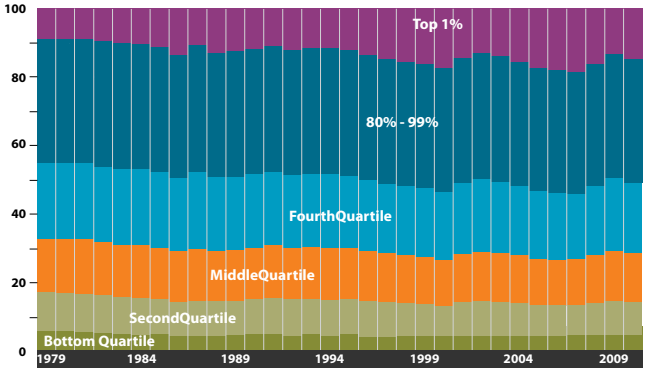
[18] US Census Bureau, "2012 Census of Governments: Employment Summary Report," March 6, 2012.

SECTION 1
Impacts, Today and Tomorrow

There is strong evidence that when government functions as a responsible employer, our families, neighborhoods, communities, states, and society as a whole all benefit. From the Great Depression era of the 1930s to the 1960s, the public sector acted as a leader in creating opportunities for working families to earn their way into the middle class.[19] This not only directly benefited workers employed by governmental entities, but had important spillover effects for the entire economy. Private sector companies had to meet these higher standards to attract quality workers, thus paving the way for a robust middle class. Increased middle class purchasing power drove economic growth and shared prosperity for decades. Unfortunately, the American middle class is now shrinking.

It is evident in the share of total income that those in the middle of the income scale have lost over the years. In 1979, the middle three household income quintiles in the United States, in other words, households between the 21st and 80th percentiles on the income scale, earned 50% of all national income. By 2007, the middle class share of income shrank to 43%.[20] A closer examination of households in the second quintile shows a sharp decline in share of total income, declining from 11.2% percent to 9.6% over the same period. While the middle class experienced a loss of income, the opposite occurred with households in the top of the income distribution. Over the last three decades, the top 20% of income earners saw their share of pretax income rise from 43% in 1979 to more than 50% in 2010. The top 1% experienced the largest gain as their share of the total income increased from 9% to 15% in that same period. [21] Unsurprisingly, average private sector CEO pay grew over 750% from 1978 to 2011.[22]

Shares of Pretax Income by Income Percentile, 1979-2010



Source: Congressional Budget Office, http://cbo.gov/sites/default/files/cbofiles/attachments/44604-AverageTaxRates_Supplemental.xslx

The public sector has historically provided structured opportunities for advancement for Americans trying to reach the middle class. Research shows that especially among workers with less education, the public sector has provided a stepping stone to the middle class. Workers with only a high-school degree receive on average 6% more in wages and benefits in the public sector than in the private sector. Similarly, workers with a few years of college, but no degree, receive 9% more in the public sector than in the private sector.[23] But as more governments experiment with outsourcing in an effort to attain cost savings, we see these vital "ladders of opportunity" disappear. The following section highlights the detrimental impacts that this is already having on workers, their families, and communities, as well as how these harms are expected to escalate in the coming years.

[19] Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

[20] Heather Boushey and Adam S. Hersh, "The American Middle Class, Income Inequality, and the Strength of Our Economy: New Evidence in Economics," Center for American Progress, May 2012.

[21] Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2010," December 2013.

[22] Lawrence Mishel and Natalie Sabadish, "CEO Pay and the Top 1%: How Executive Compensation and Financial-Sector Pay Have Fueled Income Inequality," Economic Policy Institute, May 2012.

[23] Jeffrey Keefe, "Are Public Employees Overpaid?," Labor Studies Journal, 37(1), 2012.

Hidden Costs of Poverty-Level Jobs

When government contractors pay low wages and provide minimal benefits, taxpayers often end up subsidizing these companies by filling in income gaps through public assistance programs. In many cases, contractor pay is so low that employees must turn to public benefits, such as the Supplemental Nutrition Assistance Program (SNAP, also known as food stamps), the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the Temporary Assistance for Needy Families (TANF) program, the Earned Income Tax Credit (EITC), and other public assistance programs for which low-income Americans qualify, to make ends meet. When contractors fail to provide health insurance for their employees, or if the cost of buying into the employer's plan is too expensive, workers and their families are forced to enroll in public programs, such as Medicaid or the state Children's Health Insurance Program (CHIP), or simply rely on emergency room visits which are very costly for the public.

This spending amounts to a hidden cost to the government that is not factored into the cost analysis when deciding whether to outsource a particular public service. By slashing labor costs, a company may be able to show a city or state cost savings on paper. However, low wages often mean that the number of Americans on public assistance rolls increases and these supplemental income and healthcare costs, instead of being the contracting employer's responsibility, are merely shifted onto other parts of the government budget. These hidden costs of low-wage work amount to an implicit public subsidy to for-profit corporations. For example, researchers found that school cafeteria workers working for contractors in California received an average of $1,743 annually in public assistance because of their low pay.[24] This means that California taxpayers contributed $1,743 to each worker to help make ends meet because their contractor employers declined to provide adequate wages and benefits. These hidden costs are rarely, if ever, taken into consideration when policymakers make the decision to outsource public functions.

Low Investment in Workers

Research shows that private contractors in industries such as those highlighted in this report often reduce the wages and benefits of public workers.[25] More experienced and skilled workers often won't take jobs that result in significant wage cuts. When governments outsource services, a decrease in compensation can drive out higher skilled, more experienced employees, along with workers close to retirement age, who may choose to retire sooner than planned. As a result, labor productivity typically decreases, as more experienced and knowledgeable workers are replaced by new recruits with little experience.[26] A degraded workforce can negatively impact the quality of the public services that are so critical to the functioning of our communities.

In paying low wages, employers are taking a low investment approach to their personnel, which often means that workers don't receive adequate training, the workforce experiences high turnover, and productivity declines. A growing body of research shows that reducing staffing levels and lowering workers' wages can lead to health and safety issues.[27] Less experienced workers may be unfamiliar with safety procedures on the job and recent studies show that contractors are less likely to identify and report health and safety hazards that could affect other workers and the public.

[24] Ken Jacobs and Dave Graham-Squire, "Labor Standards for School Cafeteria Workers, Turnover and Public Program Utilization," Berkeley Journal of Employment and Labor Law, Vol. 31, Issue 2, 2010.

[25] Roland Zullo, "The Illusion of Privatization Success: An Inventory of Tricks," University of Michigan, February 2012.

[26] Ibid.

[27] Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

Impacts to Local Communities

When contractors lower local workers' wages and benefits, companies siphon money away from local economies. Recent research by Daphne Greenwood, an economist at the University of Colorado, shows that when workers' wages decline through government outsourcing, those workers have less money to spend in their communities. This means that workers spend less in local retail, restaurants, and other establishments. Lower wages also mean that local and state governments collect less in sales, income, property, and other types of taxes. In short, less money flows into the local economy and more money is routed to for-profit corporations, their CEOs, and their shareholders.

Professor Greenwood's research shows that in a medium-sized American city, dollars spent in the local economy fall from 49% of total payroll to 9.5%, or less when workers live elsewhere.

Furthermore, workers may be forced to move out of the community to less expensive areas as a result of lower wages. Professor Greenwood's research shows that in a medium-sized American city, dollars spent in the local economy fall from 49% of total payroll to 9.5%, or less when workers live elsewhere.[28] Lower spending in the local economy can have a range of significant negative impacts on tax revenues, the housing market, and local businesses. And when contractors move operation of a public service (such as a call center) to another city, state, or country the community then loses all the dollars workers used to spend locally. As Professor Greenwood further points out, "when it comes down to it, poverty is not cheap," and cities and localities that want to engage in real economic development cannot truly do so if they continue to effectively decrease the number of families who earn middle-class wages and are able to contribute to tax revenues that are used to ensure a high quality of life in their city and state.[29]

Lasting Future Impacts

Government contractors that slash workers' wages and benefits not only affect the quality of life of the worker and his or her family at that time, but can leave lasting impacts into the next generation. Low wages have a negative impact on workers' children's education and future life prospects. Research shows that children who grow up in poverty are more likely than non-poor children to have low earnings in adulthood, somewhat more likely to be involved in crime, and more likely to have poor health outcomes.[30] Lower productivity and the costs associated with increased crime and health problems have a direct fiscal impact on families, communities, and ultimately, the economy as a whole. Using taxpayer dollars through government outsourcing to grow the number of poverty-level jobs, which in turn affects numerous children, can have a lasting economic effect, making income inequality not only a problem for our generation, but for generations to come. The societal cost of increasing poverty is real and expensive.

[28] Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.

[29] Ibid.

[30] Harry Holzer, Diane Whitmore Schanzenbach, Greg J. Duncan, and Jens Ludwig, "The Economic Costs of Poverty: Subsequent Effects of Children Growing Up Poor," Center for American Progress, January 24, 2007.

Furthermore, government outsourcing disproportionately impacts women and African Americans, both of whom are employed by the public sector at high rates.[31] The public sector is the third largest employer of working women, regardless of race. In January 2011, women comprised 56.8% of all government workers: 43% of federal workers, 51.7% of state workers, and 61.4% of local government employees.[32] The public sector affords women greater opportunity to move from lower-income entry level work, such as janitorial services, to higher positions within the governmental entity, when compared to job mobility within a contractor company.[33] In general, workers in the public sector are better able to upwardly progress within a job classification than workers employed by private contractors.[34]

For African Americans, the public sector is the most important source of employment, as approximately one in five black workers hold jobs in government. African Americans are 30% more likely than non-African Americans to work in the public sector.[35] Public sector jobs - with strong equal opportunity requirements, higher rates of unionization, and more enforcement of anti-discrimination laws than in the private sector - have been an important ladder for African Americans to move into the middle class.[36] Recent research reveals that African American public sector workers earn 25% more than other black workers, and for both men and women, the median wages earned by black employees is significantly higher in the public sector than in other industries.[37] Due to their prevalence in public sector jobs, African American workers are more likely to be affected when jobs are outsourced to companies that pay reduced wages and benefits, potentially losing their once-stable footing in the American middle class.

By paying higher wages, and providing training and structured advancement opportunities, the public sector has been able to create "ladders of opportunity" for millions of workers and their families to join the middle class, which can have long lasting impacts for future generations. Government outsourcing can reverse these gains, contributing to the alarming level of income inequality in the United States.

[31] Mimi Abramovitz, "The Feminization of Austerity," New Labor Forum 21(1): 32-41, Winter 2012.
[32] Ibid.
[33] Daphne T. Greenwood, "The Decision to Contract Out: Understanding the Full Economic and Social Impacts," University of Colorado, Colorado Springs, March 2014.
[34] Roland Zullo and Immanuel Ness, "Privatization and the Working Conditions of Health Care Support Staff," Intl Journal of Public Administration, 32:1-14, 2009.
[35] Department of Labor, "The African-American Labor Force in Recovery," February 29, 2012.
[36] Janice Fine, "Six Reasons Why Government Contracting Can Negatively Impact Quality Jobs and Why it Matters for Everyone," In the Public Interest, October 2012.
[37] Steven Pitts, "Black Workers and the Public Sector," Research Brief, University of California Berkeley, April 4, 2011.

SECTION 2
Selected Case Studies

The following section highlights selected case studies from a variety of sectors, including school support services, janitorial, health care support, prisons, waste and recycling, transit, and other municipal services. These are large sectors for which the government employs millions of employees. For example, there are almost 99,000 public schools in the country,[38] employing almost 2.5 million school support personnel.[39] State and local governments also employ almost 115,000 public solid waste workers, about 230,000 public transit workers, and over 730,000 corrections workers.[40] These real-world examples show how governments are increasing poverty, furthering economic inequality, and eroding the American middle class when they outsource public services to low-road contractors.

School Support Services

CAFETERIA WORKERS
New Jersey

A 2009 study by Mary McCain of the Center for Women and Work at Rutgers University studied the effects of outsourcing on contracted food service workers in K-12 public schools in the state of New Jersey. She found that contractors, including Aramark, Sodexo, and Compass, cut cafeteria workers' wages by $4-6 an hour following the privatization of food service. As one of the workers interviewed for the report explained, "When [a private contractor] took over, it was $8 an hour to start… 10 years [later] and it's still only $8/hour."[41]

Following outsourcing, most of the workers completely lost or received very few health insurance benefits from private contractors, leaving them either uninsured or enrolled in state public health insurance programs. In fact, during this time period food service contractors had among the highest levels of employees and their children enrolled in New Jersey FamilyCare, the state's Medicaid program.[42]

The chart below provides an example of the effect of outsourcing on cafeteria jobs at the Scotch Plains/Fanwood school district. The data is from the Request for Proposal (RFP), and shows that workers employed by the private contractor, Pomptonian, have a significantly lower wage rate than those employed directly by the school district.

Wage Rates of Scotch Plains/Fanwood Cafeteria Workers, 2005-06

Position	School District Employees	Food Service Contractor Employees
General Worker	$14.02-14.14	$7.75-9.00
Cashier	$14.36	$7.75-12.35
Cook	$15.00	$14.00

Source: Mary McCain, "Serving Students: A Survey of Contracted Food Service Work in New Jersey's K-12 Public Schools," Rutgers University Center for Women and Work.

[38] US Department of Education, National Center for Educational Statistics, Fast Facts, http://nces.ed.gov/fastfacts/display.asp?id=84, Accessed May 10, 2014.
[39] US Census Bureau, "2012 Census of Governments: Employment Summary Report," March 6, 2014.
[40] Ibid.
[41] Mary McCain, "Serving Students: A Survey of Contracted Food Service Work in New Jersey's K-12 Public Schools," Rutgers University Center for Women and Work, May 2009.
[42] Ibid.

CUSTODIANS
Metro School Board, Nashville, TN

In 2010, the Metro School Board in Nashville, Tennessee, outsourced custodial and grounds keeping jobs to GCA Services Group. The outsourcing effort resulted in degraded jobs for the nearly 700 affected positions. For example, when daytime custodians worked for the district they were compensated $19.60 per hour in wages and benefits. Once the jobs were outsourced to GCA, the jobs only paid $14.85 per hour in wages and benefits, decreasing 23% in compensation level.[43] The table below shows the wages and benefits of all custodial positions before and after outsourcing.

Wage Rates of Metro School Board Custodial Staff Before and After Outsourcing

Position	GCA Hourly Wage and Benefit	Avg. Hourly Wage and Benefit when on MNPS Payroll	Avg. Dollar Decrease in Transition to GCA	Avg. Percentage Decrease in Transition to GCA
Custodian Helper	$12.07	$18.32	($6.25)	34%
Day Custodian	$14.85	$19.60	($4.75)	23%
Night Lead	$17.47	$19.60	($2.13)	9%

Source: Audit of Metropolitan Nashville Public Schools Custodial Outsourcing, Metropolitan Government of Nashville and Davidson County Office of Internal Audit

CUSTODIAL SERVICE
Chelmsford, MA

In 2011, the school district in Chelmsford, Massachusetts outsourced custodial jobs to the global food-service and facility-management company Aramark. Wages were slashed as the contractor reduced the pay of custodial jobs that paid an average of $19 per hour as public jobs to between $8.25 and $8.75 per hour. Employees like Rick Thorne, who had worked for the school system for 22 years, and made $20 per hour as a custodian, couldn't afford to take the new poverty-wage positions with Aramark.[44] Unfortunately, that meant that the school system lost long-time employees that personally knew all the students and that families relied on and trusted.

CUSTODIAL SERVICE
New Haven, CT

In 2011, the City of New Haven proposed outsourcing public school custodial services to GCA Services Group. In response, a researcher from the Political Economy Research Institute at the University of Massachusetts, Amherst conducted an analysis of the outsourcing proposal to determine whether the proposed contract would be a good deal for the city.[45] Her analysis of the proposal showed that the contractor would reduce wages of New Haven Public School (NHPS) custodians by 40%, from $20.90 to $12.50 per hour. The contractor would also eliminate health insurance benefits, overtime pay, and bonuses for all part-time workers, and eliminate retirement benefits for all workers. Importantly, at least 2/3 of the 186 full-time public custodial staff would be replaced with part-time positions.[46]

EXECUTIVE COMPENSATION AT A GLANCE

ERIC FOSS, ARAMARK

Total compensation FY 2013: $18,077,200

Base salary: $1.145 million

Other: $5,160,987 in stock awards, $2,632,200 bonus, $8,161,031 in options awards, $155 increase in pension value, and $742,452 in other compensation

GARY GREEN, COMPASS NORTH AMERICA

Total compensation FY 2013: $5,833,082

Base salary: $1,124,812

Other: $2,568,421 in stock awards, $1,678,195 bonus, and $461,654 in other compensation

MICHEL LANDEL, SODEXO

Total compensation FY 2013: $5,020,121

Base salary: $1,192,082

Other: $2,512,976 in stock awards, $1,311,998 bonus, and $3,065 in other compensation

[43] Metropolitan Government of Nashville and Davidson County Office of Internal Audit, " FINAL REPORT, Audit of Metropolitan Nashville Public Schools Custodial Outsourcing," August 15, 2012.

[44] Martin Z. Braun & William Selway, "Pension Fund Gains Mean Worker Pain as Aramark Cuts Pay," *Bloomberg*, November 20, 2012.

[45] Jeannette Wicks-Lim, "Pushing Working Families Into Poverty: Assessing the New Haven Plan to Privatize the Public Schools' Custodial Services," Political Economy Research Institute, University of Massachusetts, Amherst, March 2011.

[46] Jeannette Wicks-Lim, "Pushing Working Families Into Poverty: Assessing the New Haven Plan to Privatize the Public Schools' Custodial Services," Political Economy Research Institute, University of Massachusetts, Amherst, March 2011.

The report further analyzed what impact this would have on the public custodial worker if he or she were to take a position with the contractor. The average public custodian would experience a 54% decline in total household income, from $68,000 to $31,000, assuming a two adult, one child household. At $31,000 in household income, the three-person household would be eligible for the major public assistance programs such as SNAP and HUSKY (Connecticut's Medicaid program).[47]

Despite these warnings, New Haven signed a contract with GCA, and in January 2012, the contractor hired 162 part-time custodians to take over cleaning responsibilities in the schools. In less than a year, the workers had reached out to the labor union, SEIU 32BJ, in an effort to secure better wages and benefits. The union was able to negotiate a $1.20 per hour pay raise, along with some benefits, including health insurance and sick and vacation days.[48] However, the custodians are still part-time employees, and wages and benefits are still lower than what the previously public positions offered.

FOOD SERVICE
New Orleans, Louisiana

The same thing happened a year earlier in Louisiana when Aramark took control of cafeteria services in New Orleans public schools in 2010. Carol Sanders, who worked for the school system for 28 years as a cook in the cafeteria, made $15 per hour before the jobs were outsourced. She also received medical benefits and earned paid time off. With this compensation, she was able to raise her children and pay her mortgage. She took a job with Aramark after the school system outsourced the jobs. Her pay was reduced to $9 per hour, and her hours were reduced from full-time to 20 hours per week, split into two shifts – 2 hours in the morning and 2 hours in the afternoon each week day. She could not afford medical insurance, and was forced to rely on $200 a month in supplemental nutrition assistance. A couple years later, she was laid off by the company.[49] In her words, "I raised my family on Orleans Parish, now I can't raise myself on it," referring to her reduced standard of living, as a result of the lower wages and benefits that Aramark provided.

Custodians and Housekeepers

HOUSEKEEPERS
Milwaukee County

In December 2009, Milwaukee County outsourced almost 90 housekeeping jobs responsible for cleaning public buildings. Working for the county, these housekeepers earned between $13.95 and $15.75 per hour.[50] They also received earned vacation and sick time, and medical and dental insurance.[51] In early 2010, MidAmerican Building Services took over the service, and immediately hired for the housekeeping positions at $8.00 per hour with no benefits. With families to support, many former county workers who had over 10 years of experience with Milwaukee County could not afford to take the degraded jobs. Mary Farrow, a former county housekeeper, could no longer afford medical care, and avoided doctor's visits in order to save money. Her family had to dip into her son's college fund to pay for daily necessities. Another affected employee, Mike Smith, was forced to cut back on treatments needed by his disabled son due to the loss of income. Currently, the county is considering bringing the housekeeping function back in-house, but unfortunately, the laid-off former housekeepers will not receive any preference for the positions.[52]

[47] Jeannette Wicks-Lim, "Pushing Working Families Into Poverty: Assessing the New Haven Plan to Privatize the Public Schools' Custodial Services," Political Economy Research Institute, University of Massachusetts, Amherst, March 2011.
[48] Rachael Chinapen, "New Haven's Part-Time School Custodians Reach Tentative Contract Deal," *New Haven Register*, October 23, 2013.
[49] Ibid.
[50] Steve Schultze, "Milwaukee County won't rehire us, laid-off housekeepers say," *Journal Sentinel*, August 27, 2013.
[51] Interview with Mary Farrow (name changed upon request), April 2014.
[52] Steve Schultze, "Panel backs making courthouse janitors county positions," *Journal Sentinel*, March 13, 2014.

QUEENS PUBLIC LIBRARY CUSTODIANS
New York

In April 2013, the Queens Public Library signed an open-ended contract with the janitorial contractor Busy Bee Cleaning Service to provide cleaning services for the Queens Library system. The CEO of the Queens Public Library has reduced public custodial positions, while making way for the contractor.[53] While public employees are still employed, there is much concern that the library leadership intends to phase out the unionized public workers and make way for the contracted workforce. Even though the public and contracted custodians are performing similar work, there is a notable difference in compensation. The hourly rate of the public custodians ranges from $21.17 to $26.25. The public custodian wage figure includes the health and other benefits they receive as part of their compensation package.[54] The hourly rate of a Busy Bee custodian ranges from $14.94 to $15.50 and these employees do not receive benefits.

Health Care Support Staff

NURSING ASSISTANTS
Grand Rapids, Michigan

In 2011 in Grand Rapids, Michigan, the state considered outsourcing all nursing assistant positions in a state-run home that serves veterans. Previously, the home employed both public and contracted nursing assistants. Through this side-by-side arrangement, the differences between public and contracted jobs were obvious. The contractor, J2S, billed the state $14.99 per hour for each nursing assistant, but employees were only paid a starting wage of $8.50 per hour. The contracted positions also provided no health or retirement benefits. Nursing assistants working directly for the home earned $15-$20 per hour, and received health and pension benefits. Contracted nursing assistant Ginny Townsend received $10 per hour, half of what the public employees in the same position made. With 4 small grandchildren to support, she was forced to collect $300 in food stamps each month to make ends meet.[55]

Unfortunately, as a 2011 analysis of the workforce highlighted, the lower compensation levels of contracted positions led to high staff turnover and lower levels of reliability and quality of care among private nursing assistants.[56] Due to the state nursing assistants' longer tenure (most of the state nursing assistants worked at the home for decades[57]), they were able to develop long-term relationships with residents of the home, which allowed them to understand the mental and physical health of each patient. The analysis showed that due to these relationships, state nursing assistants provided a level of care that went beyond their basic duties, such as arranging activities for residents on the

[53] Gregory N. Heires, "Fat Cats at Queens Library: Workers Suffer as Boss Lives in Luxury," Public Employee Press, March 12, 2014.
[54] Gregory N. Heires, "Queens Public Library Joins the Ranks of Low-Wage Employers," *The New Crossroads*, August 1, 2013.
[55] Motoko Rich, "A Hidden Toll as States Shift to Contract Workers," *New York Times*, November 6, 2011.
[56] Roland Zullo, "Privatizing Resident Care Aides at the Grand Rapids Home for Veterans: Job Analysis and Policy Implications," Institute for Research on Labor, Employment and the Economy, University of Michigan, 2011.
[57] Motoko Rich, "A Hidden Toll as States Shift to Contract Workers," *New York Times*, November 6, 2011.

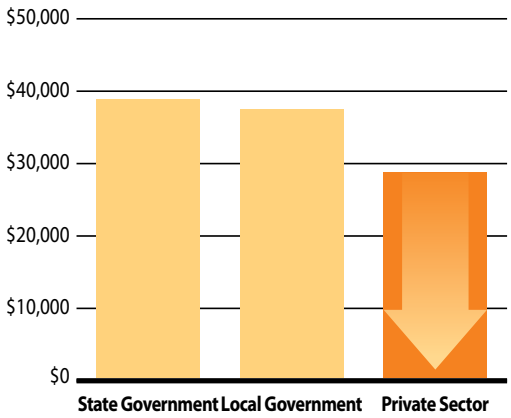
weekends, or rubbing lotions on patients that had circulation problems.[58] Incidence of theft was also lower among state nursing assistant staff compared to the contracted workforce. Because the nursing assistants are the front-line monitors, they help ensure the health and safety of residents. They know what types of foods patients are allowed to eat, when to contact a nurse if the patient seemed to be acting abnormally, and how to move patients that required assistance. Contract nursing assistants had been cited for not lifting residents the appropriate way, leading to falls and serious physical harm. Contract staff also often failed to properly set alarms on residents' beds and wheelchairs that would provide an alert upon falling.[59] Contract workers also left residents in urine-soaked beds, and even fed a resident solid food despite instructions not to.[60]

Unfortunately, the state decided to move forward with the full outsourcing of nursing assistant staff, despite the ample evidence that state employees provided better care and better protected the health and safety of residents.

Prisons

The US Department of Labor reported that in 2008, the median annual wage for correctional officers employed by state governments was $38,850 and local government was $37,510. Correctional officers employed by private prisons only earned a median yearly wage of $28,790.[61] The low wages in privatized prisons makes the high employee turnover rates no surprise. Nationally, the annual employee turnover in private prisons is estimated to be 52%, while estimates of turnover in public prisons are around 12-25%.[62] A 2004 article in the Federal Probation Journal found that, on average, private sector correctional officers undergo 174 hours of pre-service training. Public sector officers are required undergo 232 hours of pre-service training,[63] 58 hours more than their private sector counterparts.

2008 Corrections Officer Median Annual Wage



Source: Shaun Genter, Gregory Hooks, and Clayton Mosher, "Prisons, Jobs, and Privatization: The Impact of Prisons on Employment Growth in Rural US Counties, 1997-2004," January 2013.

This low investment approach for correctional officer positions utilized by private prison companies can have significant impacts on the quality and safety of a facility. The Bureau of Justice Assistance reported that private prisons experienced 49% more assaults on staff and 65% more inmate-to-inmate assaults than public prisons.[64] This finding was echoed in the 2004 *Federal Probation Journal* article, which found that private prisons had more than twice as many inmate-on-inmate altercations than public prisons.[65] A report by the Bureau of Prisons also found that private prisons had fewer correctional officers, much higher rates of officer turnover, and more escapes and drug use than public facilities.[66] Several studies have also shown that private prisons have higher rates of inmate recidivism.[67]

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[58] Roland Zullo, "Privatizing Resident Care Aides at the Grand Rapids Home for Veterans: Job Analysis and Policy Implications," Institute for Research on Labor, Employment and the Economy, University of Michigan, 2011.

[59] Roland Zullo, "Privatizing Resident Care Aides at the Grand Rapids Home for Veterans: Job Analysis and Policy Implications," Institute for Research on Labor, Employment and the Economy, University of Michigan, 2011.

[60] Motoko Rich, "A Hidden Toll as States Shift to Contract Workers," New York Times, November 6, 2011.

[61] Shaun Genter, Gregory Hooks, and Clayton Mosher, "Prisons, Jobs, and Privatization: The Impact of Prisons on Employment Growth in Rural US Counties, 1997-2004," January 2013.

[62] American Federation of State, County, and Municipal Employees, "Prison Privatization: Don't Be a Prisoner to Empty Promises," 2010.

[63] Curtis R. Blakely and Vic W. Bomphus, Private and Public Sector Prisons: A Comparison of Selected Characteristics 68 Fed. Probation 27, 29 (2004), available at http://www.uscourts.gov/viewer.aspx?doc=/uscourts/FederalCourts/PPS/Fedprob/2004-06/index.html

[64] Grassroots Leadership, "Considering a Private Jail, Prison, or Detention Center?," High Turnover and Unique Security Problems Created by Private Prisons (2009)

[65] Curtis R. Blakely and Vic W. Bomphus, Private and Public Sector Prisons: A Comparison of Selected Characteristics 68 Fed. Probation 27, 29 (2004), available at http://www.uscourts.gov/viewer.aspx?doc=/uscourts/FederalCourts/PPS/Fedprob/2004-06/index.html

[66] Grassroots Leadership, Considering a Private Jail, Prison, or Detention Center?," High Turnover and Unique Security Problems Created by Private Prisons (2009)

[67] Private Corrections Institute, Quick Facts about Prison Privatization (2009)

CORRECTIONAL OFFICERS
Texas

In 2008, the Texas Senate Criminal Justice Committee reported a 90% turnover rate at Texas's private prisons, and only a 24% turnover rate at their public prisons.[68] This enormous turnover rate in private prison facilities is largely due to private prison companies' failure to invest in quality staff and ongoing training. 2008 data revealed that the lowest paid public prison guards in Texas made almost $2,000 more annually than the highest paid private prison guard.[69] The lowest paid state correctional officer made a starting salary just above $26,000 and a maximum salary of almost $35,000. The highest paid correctional officers at private prison facilities made just above $24,000.[70]

CORRECTIONAL OFFICERS
Mississippi

Research also shows that the promises of jobs that private prison companies make when opening and operating new facilities fail to materialize.[71] For example, Wackenhut Corporation (now the GEO Group) received a contract in 1997 to build and operate a prison facility in Mississippi. The facility was supposed to create 350 jobs for the local community. As of 2005, the prison only employed 220 people, many of whom were non-residents.[72] Despite what the private prison industry claims, privatized facilities generate fewer jobs than promised, and the low salaries and high turnover rates of employees undermine employment stability. The few jobs that are created are unstable, low-wage positions that contribute little to the local economy.

CORRECTIONAL OFFICERS
Florida

In a span of three months from late 2005 to early 2006, three prisoners at the Corrections Corporation of America (CCA)-operated Hernando County Jail committed suicide. It was revealed that many correctional officers working at the facility were uncertified, including one of the officers who failed to check up on inmate Geoffrey Conley for more than two hours before he hanged himself on January 5, 2006.[73] As a St. Petersburg Times article that reported on the horrific incidents points out, "It is hard to find experienced and qualified employees when you pay the lowest wages of any jail or prison in the area."[74] At the Hernando County Jail, 49% of correctional officers were uncertified during this time period, and were paid an annual starting wage of $20,842, which was just slightly above the poverty level of $20,000 for a family of four in 2006.[75] As the chart below shows, public facilities in Florida paid significantly higher wages and employed very few uncertified personnel.[76] As Travis Pratt, an Arizona State University criminologist, explains, private prisons will cut

EXECUTIVE COMPENSATION AT A GLANCE

GEORGE ZOLEY, GEO GROUP

Total compensation FY 2012: $5,976,604

Base salary: $1.145 million

Other: $1.756 million in stock awards, $2,220,728 bonus, $795,218 increase in pension value, and $59,658 in other compensation

DAMON T. HININGER, CORRECTIONS CORPORATION OF AMERICA

Total compensation FY 2013: $3,282,460

Base salary: $737,231

Other: $1,853,782 in stock awards, $20,910 increase in pension value, and $670,537 in other compensation

ASHLEY ALMANZA, G4S SECURE SOLUTIONS

Total compensation FY 2013: $2,194,069

Base salary: $902,256

Other: $974,436 bonus, $225,564 increase in pension value, and $ $91,813 in benefits

68 Grassroots Leadership, "Considering a Private Jail, Prison, or Detention Center?," High Turnover and Unique Security Problems Created by Private Prisons (2009)
69 Grassroots Leadership, "Considering a Private Jail, Prison, or Detention Center?," High Turnover and Unique Security Problems Created by Private Prisons (2009)
70 Ibid.
71 Shaun Genter, Gregory Hooks, and Clayton Mosher, "Prisons, Jobs, and Privatization: The Impact of Prisons on Employment Growth in Rural US Counties, 1997-2004," January 2013.
72 Ibid.
73 Jonathan Abel, "Jail troubles tangled in purse strings," *St. Petersburg Times*, February 5, 2006.
74 Jonathan Abel, "Jail troubles tangled in purse strings," St. Petersburg Times, February 5, 2006.
75 Department of Health and Human Services, "The 2006 HHS Poverty Guidelines: One Version of the U.S. Federal Poverty Measure," January 29, 2010.
76 Jonathan Abel, "Jail troubles tangled in purse strings," *St. Petersburg Times*, February 5, 2006.

costs in several related ways: "the number of staff, how they are compensated, and how extensively they are trained." Unfortunately, low-wage compensation often undermines the quality of staff, which can have serious and life-threatening consequences in prison facilities, including increased levels of violence and escapes.

2006 Florida Correctional Officer Compensation

Facility	Operating Party	Starting Pay for Uncertified Officers	% Officers that are Uncertified	Starting Pay for Certified Officers
Hernando County Jail	CCA	$20,842	49%	$27,997
Citrus County Detention Facility	CCA	$21,112	24%	$26,520
Hernando Correction Institution	FDOC	$27,458	8%	$30,204
Sumter Correctional Institution	FDOC	$27,458	9%	$30,204
Sheriff's Office Hillsborough County	FDOC	N/A	0%	$36,036
Pinellas County Jail	FDOC	N/A	0%	$38,173

Source: Jonathan Abel, "Jail troubles tangled in purse strings," St. Petersburg Times, *February 5, 2006.*

FOOD SERVICE WORKERS
Michigan

In late 2013, Michigan Department of Corrections (MDOC) approved a contract with Aramark for the provision of food services in its prisons. Formerly, state employees provided these services and were compensated at a maximum hourly rate of $22.18[77] and provided benefits.[78] The new contracted positions paid $10 per hour.[79] In March 2014, only four months into the contract, MDOC reported problems with the contractor, including 12 instances of inappropriate employee-prisoner relationship issues, which can cause significant security-related breaches. Additionally, in a February 27, 2014 letter to Aramark, MDOC legal affairs noted that, "Aramark employees are inadequately trained" and "have a lack of tool control, specifically knives and a whisk, which is very dangerous as these items have come up missing."[80] MDOC has fined the company and ordered them to make changes.[81]

CUSTODY OFFICERS
Costa Mesa, CA

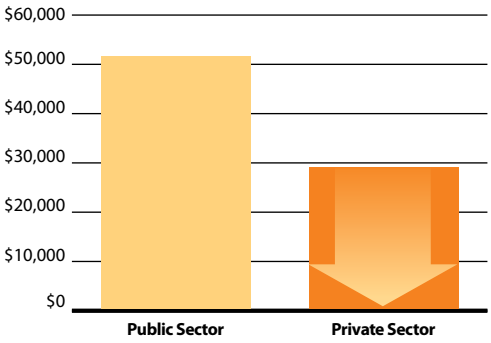
In June 2013, Costa Mesa outsourced operation of the Costa Mesa city jail to G4S Secure Solutions, a unit of British multinational company G4S.[82] In a report, the city acknowledged that projected savings would come from lower wages and benefits for employees. Starting wages decreased almost 38%. Custody officer positions with the contractor start at $16.50 per hour. Previously, public custody officers in the city jail started at $26.42 per hour.[83]

77 Paul Egan, "State says laid-off prison food workers will get first crack at prison guard jobs," *Detroit Free Press*, September 30, 2013.
78 Rand Gould, "Prison Privatization is a Crime," News & Letters, January – February 2014.
79 Ibid.
80 Paul Egan, "Michigan urged to reject $145M prison food contract over safety concerns," *Detroit Free Press*, March 19, 2014.
81 Jennifer Dowling, "MDOC Fines Aramark For Prisoner-Employee Relationships & Menu Problems," FOX 17 West Michigan, March 11, 2014.
82 City of Costa Mesa, "Professional Services Agreement, City of Costa Mesa," June 26, 2013.
83 Antonie Boessenkool, "Council Oks Private Contract for Jail Operations," Orange County Register, June 5, 2013.

Waste and Recycling

Data from the Bureau of Labor Statistics reveal that municipal trash collection workers generally earn higher wages than their private sector counterparts and have greater access to affordable quality health insurance.[84] Collection workers employed by municipalities can earn an average annual wage of $51,214. In contrast, private sector contracted trash haulers earn significantly lower wages of $28,000[85] to $32,000 annually.[86] This is an industry that employs a large portion of people of color. People of color make up 40% of the industry's workforce, and this does not even include temporary workers, on which the industry heavily relies, and who are far more likely to be immigrants or people of color.[87] When cities outsource their waste and recycling services and jobs are degraded, people of color are disproportionally impacted, as they make up a large number of workers in this industry.

Trash Collection Worker Average Annual Wage



Source: U.S. Bureau of Labor Statistics Table 9, Health care benefits: Access, participation, and take-up rates,1 State and local government workers, National Compensation Survey, March 2011.

Just last year in Fresno, California, voters rejected Measure G, a binding referendum on whether to outsource the city's trash service to Mid Valley Disposal, a company that spent $300,000 in the local campaign.[88] Ultimately, residents voted against the Measure,[89] but the proposed outsourcing effort would have reduced waste workers' wages from $23 per hour to $17 per hour.[90] An important reason that residents voted against Measure G was the public's support for front line waste and recycling workers.[91] This includes workers like Frank Diaz, who brightens each Wednesday for Greyson, a 4-year old Fresno resident with autism. Greyson stands outside each week and waves to Frank. Frank has befriended the boy and stops to let him see the garbage truck up close. Greyson's mother explained to Frank in a letter, "*You have no idea the impact you have on a Wednesday. What you don't know is that your presence has been a calming and reassuring force in our week for years now.*"[92] Fresno residents understood the value of a committed and caring workforce willing to go the extra mile for the community.

84 U.S. Bureau of Labor Statistics Table 9, Health care benefits: Access, participation, and take-up rates,1 State and local government workers, National Compensation Survey, March 2011.

85 Northeast Recycling Council Inc., "Recycling Economic Information Study Update: Delaware, Maine, Massachusetts, New York, and Pennsylvania," February 2009.

86 U.S. Bureau of Labor Statistics Table 9, Health care benefits: Access, participation, and take-up rates,1 State and local government workers, National Compensation Survey, March 2011. Available at http://www.bls.gov/ncs/ebs/benefits/2011/ownership/govt/table05a.pdf. Accessed May 1, 2012.

87 U.S. Equal Employment Opportunity Commission, 2010 EEO-1 National Aggregate Report by NAICS Code 562 Waste Management & Remediation Services, available at: http://www1.eeoc.gov/eeoc/statistics/employment/jobpat-eeo1/2010/index.cfm#centercol

88 George Hostetter, "Outcome of Fresno's Measure G Trash Referendum Remains in Limbo," The Fresno Bee, June 4, 2013.

89 Kurtis Alexander & George Hostetter, "With Measure G Defeated, Swearengin Tries Again to Fix Budget Hole," The Fresno Bee, June 12, 2013.

90 George Hostetter, "Outcome of Fresno's Measure G Trash Referendum Remains in Limbo," The Fresno Bee, June 4, 2013.

91 John Campanelli, "Why Fresno's privatization plan failed," Waste & Recycling News, Refusenik blog, July 22, 2013.

92 Barbara Anderson, "Greyson and the garbage man: A man's kindness bridges child's autism," The Fresno Bee, July 20, 2013.

Transit

A 2013, the Government Accountability Office (GAO) surveyed 463 transit agencies around the country and found that cost savings in the contracting of transit services, such as bus, light rail, and commuter rail, are largely derived from lower wages and benefits paid by private contractors to their employees.[93] In fact, one study cited in the report examined 12 transit agencies and found that "cost savings accrue primarily as a result of private transit labor consistently earning lower wage and fewer benefits compared to similar public sector employees."[94] The GAO found that contractors often "reset" wage rates by hiring new operators at entry-level rates and may not provide benefits, including pensions, for contract employees.[95] Additional research shows that lower wages from private contractors may result in lower service quality due to high labor turnover and less experienced drivers. Furthermore, the move from public to private service provision, along with contractor changes at the end of a contract period, often results in drivers losing their jobs or having to start at the bottom of the wage scale, regardless of past experience.[96] Often, this means that drivers making a family-supporting wage in the public sector cannot afford to take a job with the steep pay cut that accompanies outsourcing. Examples from across the country support these findings.

DRIVERS
North County

In 2009, the North County Transit District signed a contract with Ohio-based First Transit to take over maintenance and operations for its BREEZE bus line. In an effort to cut costs, the starting wage for a bus driver dropped from $14 to $10.50 an hour.[97]

DRIVERS
Washington, DC

In Washington DC, public Metro workers can make $25 per hour with health and retirement benefits after 8 years of service. Workers for the DC Circulator, operated by First Transit, can make $14 per hour with fewer benefits.[98] According to one worker who started his career as a bus operator with Metro almost 25 year ago, the starting salary is very difficult for a worker to live on in the Washington DC area, and impossible if that worker has a family to support.[99]

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93 Government Accountability Office, "Public Transit: Transit Agencies' Use of Contracting to Provide Service," September 2013.

94 Government Accountability Office, "Public Transit: Transit Agencies' Use of Contracting to Provide Service," September 2013; Wachs, Trapenberg, and Taylor, "Contracting for Public," 57-58.

95 Government Accountability Office, "Public Transit: Transit Agencies' Use of Contracting to Provide Service," September 2013.

96 Lynn Scholl, "Privatization of Public Transit: A Review of the Research on Contracting of Bus Services in the United States," Berkeley Planning Journal, 19(1), University of California, Berkeley (2006).

97 Kelly Chen, "What's Driving Privatization of Public Transit?," The Bay Citizen, March 7, 2013.

98 Washington Metropolitan Area Transit Authority, "Public Hearing on Proposed Service Adjustments and the General Manager's Proposed FY 2012 Budget," April 15, 2009. http://www.wmata.com/community_outreach/B09_landing/541_Arlington_VA_transcript.pdf

99 Ibid.

DRIVERS
Denver

Denver's Regional Transportation District (RTD) outsources 47% of its fixed-route bus service to Veolia and First Transit. The general manager of the RTD admits that cost savings from the outsourced service is largely due to the cut in employee compensation. Starting pay for bus drivers employed by RTD is $15.49 per hour. The private contractors offer $12.25 in starting pay.[100]

DRIVERS
Kansas City

In 2013, when the Kansas City International Airport outsourced its bus system to Standard Parking, driver jobs were similarly degraded. The private contractor dropped average wages for driving positions from $17 per hour to $11 per hour. The new contracted positions did not receive a pension, as the positions did with the city. Standard Parking argued that tips would increase the average wage. [101]

Other Municipal Services

SECURITY GUARDS
Milwaukee County

During the same time period in 2009 that Milwaukee County outsourced housekeeping positions, as described above, the county also outsourced county security guard positions. The contractor, Wackenhut (now known as G4S Secure Solutions), paid guards a maximum wage of $10.50 an hour, about $5 an hour less than the guards employed by the county received.[102] Unlike the housekeeper positions, in 2010, an arbitrator ordered the security guard jobs to be reinstated with the county. He concluded that the county was not actually dealing with a budget crisis at the time, as then-County Executive Scott Walker contended, and failed to abide by rules allowing the public guards to submit cost-saving proposals before an outsourcing effort.[103]

HOMELESS OUTREACH SERVICES
Chicago

In 2012, Chicago outsourced homeless outreach services to Catholic Charities. As part of its duties, the private organization provides late-night rides to homeless shelters to those who need them.[104] Unfortunately, a comparison of wage data between the contractor and employees of the Department of Family and Support Services who previously provided these services shows a 45% wage reduction. The private organization pays an average yearly salary of $31,500[105] to its workers who provide services that city employees were paid on average $57,000 per year to do.[106]

100 Elana Schor, "Transit Outsourcing Booms – But Are There Safety Tradeoffs?," Streetsblog USA , July 13, 2009.
101 Lynn Horsley, "KCI Bus Privatization Decision is Delayed," The Kansas City Star, September 13, 2012.
102 Steve Schultze, "Milwaukee County must offer to reinstate courthouse security guards," Journal Sentinel, January 10, 2011.
103 Ibid.
104 John Byrne, "City Hiring Catholic Charities to Provide Services to Homeless," Chicago Tribune, August 24, 2012.
105 City of Chicago Department of Family and Support Services , Release Package for Catholic Charities of the Archdiocese of Chicago for Mobile Outreach Services, March 8, 2013.
106 Data on Department of Family and Support Services Employee Salaries retrieved from the City of Chicago website on August 13, 2012.

SECTION 3
Recommendations

Governments should require contractors to show that cost savings derive from increased efficiencies and innovation, not a decrease in compensation.

Governments should ensure that cost savings promised by contractors are derived from increased efficiencies, not from a decrease in employee wages and benefits. By requiring cost savings to come from innovation and efficiencies, instead of from the pockets of lower-income workers, states and localities can send a clear message that only high-road firms will receive government contracts. As discussed in Section 1, when contractors degrade jobs, the community pays the difference through food, health, and other public support programs. By using low-road contractors, states and localities essentially subsidize these companies by supplementing low-wage jobs with public supports and other resources. Instead, when governments do business with high-road contractors, contractors compete on whether they can offer quality services through increased efficiency, instead of undercutting each other by slashing workers' wages and benefits and creating a race to the bottom. By ensuring that contractors' promises of cost savings do not come from wage and benefit reductions, states and localities can preserve decent family-supporting jobs, which is good for workers, communities, and the local economy.

States like California currently have laws on their books that capture this important idea:
"Proposals to contract out work shall not be approved solely on the basis that savings will results from lower contractor pay rates or benefits.[107]*"*

Require contractors to pay a living wage and provide health and other important benefits.

Public sector jobs have long played a role in growing the middle class. As the examples in the previous section show, workers in a variety of roles are able to earn a decent living when their jobs are with the public sector. However, as the stories above illustrate, many contractors increase their profit margins by cutting labor costs. This means that workers' wages and benefits are slashed when private companies assume control of public functions, degrading middle and working class jobs. If a contractor is going to employ workers to perform public work using public dollars, those jobs should fulfill the goal of using public money to strengthen our economy and build the middle class. Workers should be paid a living wage and provided reasonable benefits, such as health insurance and sick leave by their contractor employer.

On February 12, 2014, President Barack Obama signed an executive order requiring federal contractors to pay their employees a minimum wage of $10.10 per hour. This signified a first step in the right direction for ensuring that contractors are required to pay living wages. As a basis for the executive action, the order stated:

"Raising the pay of low-wage workers increases their morale and the productivity and quality of their work, lowers turnover and its accompanying costs, and reduces supervisory costs. These savings and quality improvements will lead to improved economy and efficiency in Government procurement."[108]

By requiring contractors to pay a living wage, cities, counties, school districts, and states can also reap the benefits of increased productivity and lower turnover of employees working on behalf of government, and in turn increase the chances for higher quality services.

[107] California Government Code Section 19130
[108] The White House, Office of the Press Secretary, "Executive Order – Minimum Wage for Contractors," February 12, 2014.

Furthermore, we know from the growing body of evidence from research analyzing local living wages laws that raising workers' wages does not impart a significant increase in costs to taxpayers.[109] In fact, raising wages can reduce the demand for public benefits, such as food stamps and Medicaid, discussed above, actually creating savings in these programs. Companies experience productivity gains and a reduction in employee turnover from attracting a higher-quality workforce. And the exorbitant salaries of CEOs and other executives of contractors suggest that there are revenues that could be better allocated within corporations without significantly affecting the bottom line.[110]

Policymakers like Dallas County Judge Clay Jenkins are currently proposing raising the minimum wage for employees of contractors doing business with the county. Under the proposal, full-time workers who handle janitorial duties, security, and other contracted services would be paid at least $10.25 per hour under the policy. Currently, many of these employees are paid at or slightly above the federal minimum wage of $7.25 per hour.[111] As Jenkins explained, "We all do better when we all do better and everyone gets a chance to get ahead. And when you are making $8 an hour…you don't have as much of a chance to get ahead."

States and local governments should track how much money is spent on private contracts, how many workers are employed by those contracts, and worker wage rates. This information should be available to the public via an online database.

Paul Light, professor at New York University, found that in 2005, private companies received $400 billion from the federal government through government contracts. [112] This enormous figure does not even include the billions of dollars spent by cities and states on contracts with private companies. Unfortunately, the total amount of money spent by local and state governments through contracting with private entities is difficult, if not impossible, to estimate since many of these jurisdictions do not systematically collect and make public this information.

Similarly, experts estimate that there are more than three times as many contract workers as civil service workers at the federal level.[113] However, estimates of the contracted workforce for state and local governments do not exist because most do not keep track of how many workers are employed by contractors. While some states and a few localities have made progress on collecting and aggregating contract spending information,[114] there are still many gaps to fill before an accurate estimate of overall spending on contracts by states and localities can be calculated. Moreover, having a full picture of the nature of the jobs that state and local government contracts create is still far from being reality, until cities and states make it a priority to collect this information. This is important information that allows policymakers and the public understand how taxpayer dollars are spent, and what types of jobs result from these contracts. Governments already track this information for their own workforce. It should extend to contract spending as well. As discussed above, governments have been an important source of middle class mobility, and policymakers should systematically keep track of contract spending and jobs to ensure that these important goals and objectives are not undermined in contracting practices.

[109] Mark Brenner and Stephanie Luce, "Wage Laws in Practice: Boston, New Haven, Hartford Experience," 2005.

[110] Amy Traub, Robert Hiltonsmith, "Underwriting Bad Jobs: How Our Tax Dollars are Funding Low-Wage Work and Fueling Inequality," Demos, May 8, 2013.

[111] Matthew Watkins, "Jenkins Proposes Raising Minimum Wage for Dallas County Contract Workers," Dallas News, March 25, 2014.

[112] Paul C. Light, "The New True Size of Government," New York University Wagner School of Public Service, August 2006. http://wagner.nyu.edu/performance/files/True_Size.pdf

[113] Louis Peck, "America's $320 Billion Shadow Government," The Fiscal Times, September 28, 2011. http://www.thefiscaltimes.com/Articles/2011/09/28/Americas-320-Billion-Shadow-Government.aspx#page1

[114] US PIRG Education Fund, "Following the Money 2013," March 26, 2013.

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

The effects of outsourcing go beyond costs. Government outsourcing can have unintentional negative impacts on workers, community residents, and businesses. A study of the potential impact of outsourcing should be completed and made public before any decision regarding outsourcing is made. The analysis should include the potential impacts listed below, as appropriate.[115]

- The expected change in staffing and personnel for the affected positions
- The expected change in wages and benefits for affected workers
- The expected impacts on social services and public assistance programs
- The racial and gender mix of affected workers, and any expected changes after outsourcing
- Requirements for staffing to live within the jurisdiction, and expected impact of contracting on where workers live
- The expected economic impact on local businesses
- Expected impact on tax revenue for jurisdiction

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

Conclusion

These recommendations can go a long way in helping state and local governments ensure their contracting policies and practices promote rebuilding the middle class, instead of creating poverty jobs. Leveraging taxpayer dollars to ensure that workers can support their families is good economic policy. Public dollars should not subsidize corporations and CEOs who choose to pay low wages and few, if any, benefits. Instead, a city or state's contracting practices should reflect its commitment to enhancing residents' quality of life. Raising worker standards is an important part of building a robust middle class and chipping away at income inequality. When workers can support themselves and their families, the whole community wins. There is more spending in the local economy, city and state tax revenues increase, and hidden costs on government budgets diminish. Children have better outcomes, which positively impacts the community now and in the future. Local and state governments can rebuild those ladders to the middle class that have eroded over the years. Instead of engaging in a race to the bottom, cities and states can ensure that taxpayer dollars used to pay people to perform public work result in solid, family-supporting jobs.

[115] This list is largely drawn from Dr. Daphne Greenwood's recommendations in her report, The Decision to Contract Out: Understanding the Full Social and Economic Impacts.

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