



# Watch Your Assets

**Exposing the misuse and abuse of the public commons**

July 18, 2007

## **Peddling Welfare-Privatization Boondoggles**

Texas government officials have aggressively privatized government services over the past decade, billing outsourcing as a shrewd way to save tens of millions of taxpayer dollars. A top privatization cheerleader, former Comptroller Carole Keeton Strayhorn, pledged in stump speeches to privatize most any government function that could be performed by businesses listed in the phone book. This “Yellow-Pages test” made for a crowd-pleasing conservative pitch. Yet the real world has stubbornly resisted the notion that the private sector can do just about anything cheaper, better and faster than government. After climbing the Yellow Pages to the comptroller’s office, Strayhorn soon found herself issuing audit reports excoriating state agencies and their phone-book contractors for squandering mountains of taxpayer funds.<sup>1</sup> The frenzied pace of state privatization scandals in recent years have kept the media, public and lawmakers playing catch up.

The mother of all state privatization schemes is the Texas Health and Human Services Commission (HHSC) and its predecessor agencies. This agency’s \$30.4 billion budget accounts for a staggering one-fifth of all state appropriations for fiscal years 2008 and 2009. HHSC’s budget makes it an irresistible target for privatizer politicians and contractors alike. After pouring hundreds of millions of dollars down privatization rat holes, however, many more Texas politicians have come to the belated realization that writing huge government checks to contractors does not automatically improve services—much less save money. Texas’ track record on social service privatizations is a \$2 billion cautionary tale.

In 1995 the offices of Governor Bush and Lieutenant Governor Bob Bullock hammered out a welfare-privatization bill with the Texas Legislature. The humongous size of the resulting Texas Integrated Enrollment System (TIES) contract—up to \$3 billion a year—attracted the interest of such giants as Ross Perot-founded EDS and a division of Lockheed Martin, America’s No. 1 weapons maker. Key state employees who helped design this system soon privatized themselves by becoming Lockheed lobbyists in 1996. These revolving-door lobbyists included Governor Bush’s Legislative Director Dan Shelley and Steve Bresnen—one of Bullock’s welfare-reform point men.<sup>2</sup> The Clinton administration gutted TIES in 1997 on the grounds that civil servants—not private contractors—must make Food Stamp and Medicaid eligibility determinations.

The revolving-door problems that marred Texas’ 1995 experiment with welfare privatization have dogged subsequent privatizations. The 2003 law (HB 2292) that consolidated an array of human services agencies into HHSC promised a \$1 billion expansion of social service privatization in Texas. Key architects of HB 2292 include its legislative author, then-Rep. Arlene Wohlgenuth (R-Burleson), and Health and Human Services Commissioner Albert Hawkins, who had been Governor Bush’s budget director.

Oddly, Hawkins hired deputy commissioner Gregg Phillips to be his privatization point man. As a 2005 *Houston Chronicle* expose found, Phillips has a history of state privatization projects that benefited him personally.<sup>3</sup> During the mid-1990s a state panel in Mississippi chastised Phillips for creating “the appearance of impropriety” when he left his post as head of the state Department of Human Services to go to work for a company to which he had awarded an \$875,000 state contract. Before Hawkins hired him, Phillips had worked for Deloitte Consulting—which was seeking a major social service contract in Texas. Hawkins assured the *Chronicle* that Phillips “was excluded from that [Deloitte] procurement altogether.” Yet the *Chronicle* obtained Phillips’ calendar, which revealed that he met repeatedly with representatives of Deloitte and Accenture as he drafted HB 2292 with Wohlgemuth.<sup>4</sup> HHSC then awarded \$2.9 million in related privatization contracts to Deloitte and Accenture in September 2003.

In the latest chapter, former Rep. Wohlgemuth became a hired gun who wrote a 2007 budget provision to steer a major Medicaid-fraud-prevention contract to her client—Gregg Phillips. Paid up to \$25,000 in lobby fees by Phillips’ GHT Development, Wohlgemuth got House Appropriations Committee Chair Warren Chisum (R-Pampa) to insert a budget provision directing HHSC to develop a computer system to verify the eligibility of Medicaid and Children’s Health Insurance Program recipients by January 2008. This budget rider steered the contract to Phillips’ GHT by giving preference to in-state contractors that had developed such technology in another state. Rep. Chisum—to whom Wohlgemuth directed \$9,000 of leftover campaign funds in 2005—explained to the *Dallas Morning News* that lobbyists are the source of “all our” legislative language.<sup>5</sup> Chisum and Wohlgemuth said that they had decided to strip out the uncompetitive GHT-specific clause but that it somehow slipped back in during late-night legislative chaos. The final budget includes Wohlgemuth’s rider without the GHT-specific language.

Thanks in large part to the wonders of the revolving door, the lines between state officials, lobbyists and state contractors often are illusory. Too often architects of Texas’ social service privatization schemes appear to have ensured that privatization would fill their own pockets and those of their past or future employers. Meanwhile they have failed to adopt adequate safeguards to protect the interests of taxpayers and recipients of health care and food assistance. The central failing of Texas’ social service privatization experiments is that they have sought to privatize too many social services too fast with too little oversight of private contractors. The result is that many aid recipients have been hurt and taxpayers have been fleeced.

Another striking characteristic of Texas’ social service privatization disasters is that nobody takes responsibility for them. The buck stops nowhere. As custodians of the public purse, the ultimate responsibility for these boondoggles belongs to the many state officials who approved them and failed to supervise them effectively. The contractor companies that have so little to show for hundreds of millions of tax dollars also richly deserve major responsibility. Finally, an oft-overlooked culprit is the army of lobbyists who sold these privatization schemes.

This study looks at four state programs to privatize human services. In 1996 Texas awarded a contract to develop a fingerprinting system that would prevent Texans from fraudulently helping themselves to duplicate social service benefits. In another scheme two years later Texas launched a pilot project to use private HMO contractors to oversee certain health care services for Medicaid recipients. Texas then launched the mother of all welfare-privatization plans in 2001, paying a contractor to design the Texas Integrated Eligibility Redesign System (TIERS). This massive system was supposed to streamline the state’s handling of enrollment and benefits for a slew of social service programs. HHSC in 2004 also outsourced its own employee administration

functions to a private contractor. State officials, contractors and lobbyists sold all four of these privatization projects as ways to deliver welfare services more efficiently and to save mountains of public funds. Taken together, they have done just the opposite. They have burned through hundreds of millions of tax dollars with little to show except for the enrichment of contractors and lobbyists.

Over the past decade, 13 contractors for these four privatization projects have paid 102 Texas lobbyists up to \$11.3 million. Yet the top 41 social service privatization lobbyists accounted for 70 percent of these lobby contracts and 87 percent of the resulting revenue. Many of these top lobbyists are discussed below. These hefty lobby expenditures were a relatively modest price to pay to land \$2.1 billion in state contracts. Even the House Appropriations chair recently acknowledged that the special-interest lobby writes much—if not most—of Texas’ laws. This report identifies some of the highest paid peddlers of social service privatization schemes run amok. Next time these individuals come peddling ways to save the state money, the state might save much more by exercising a bit of skepticism.

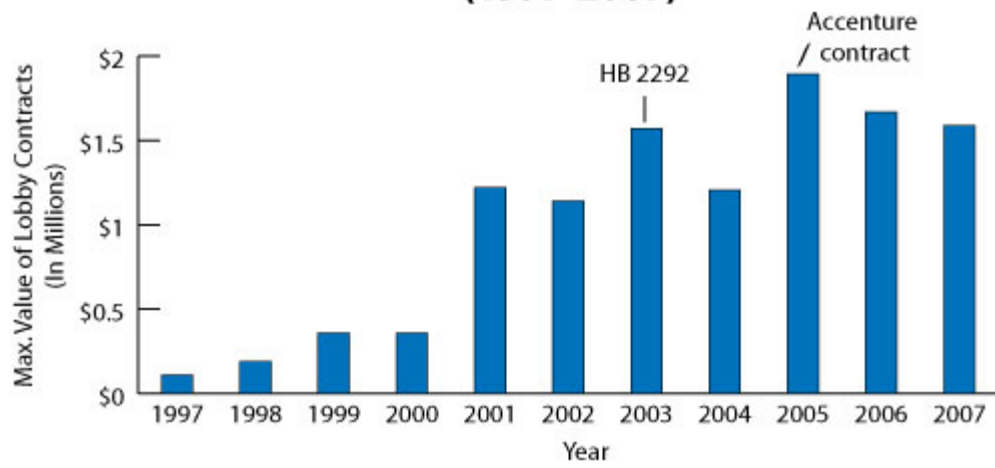
### **Social Service Privatization Projects (Lobby Contracts through June 2007)**

<b>Privatization Boondoggle (Abbreviation)</b>	<b>Year of Inception</b>	<b>No. of Lobby Contracts</b>	<b>Max. Value of Lobby Contracts</b>	<b>Estimated Cost of Privatization To State of TX (in millions)</b>
Medicaid HMOs (HMO)	1996	180	\$5,225,000	\$1,436
Anti-Food-Stamp Fraud (FSF)	1998	24	\$1,125,000	\$19
HHSC Eligibility & Enrollment (TIERS)	2001	174	\$4,760,000	\$522
HHSC Admin. Services (HAS)	2004	4	\$200,000	\$85
<b>TOTALS:</b>		<b>382</b>	<b>\$11,310,000</b>	<b>\$2,062</b>

### **Social Service Privatization Contractors (Lobby Contracts through June 2007)**

<b>Privatization Client</b>	<b>Privatization Scheme</b>	<b>No. of Lobby Contracts</b>	<b>Min. Value of Lobby Contracts</b>	<b>Max. Value of Lobby Contracts</b>
AMERIGROUP Corp.	HMO	68	\$1,190,000	\$2,560,000
United HealthGroup	HMO	92	\$545,000	\$1,835,000
Accenture	TIERS	60	\$430,000	\$1,295,000
Sagem Morpho, Inc.	FSF	24	\$520,000	\$1,125,000
Northrop Grumman Corp.	TIERS	39	\$330,000	\$900,000
Deloitte Consulting, LP	TIERS	12	\$435,000	\$885,000
Maximus, Inc.	TIERS	18	\$400,000	\$850,000
Ovations, Inc.	HMO	5	\$210,000	\$425,000
First Data Corp.	TIERS	14	\$150,000	\$410,000
Evercare	HMO	15	\$150,000	\$405,000
ChaseCom L.P.	TIERS	17	\$50,000	\$250,000
Convergys Corp.	HAS	4	\$100,000	\$200,000
Image API, Inc.	TIERS	14	\$20,000	\$170,000
<b>TOTALS:</b>		<b>382</b>	<b>\$4,530,000</b>	<b>\$11,310,000</b>

## Social Service Privatization Lobby Contracts (1997-2007)



## Nevercare: Medicaid HMOs

In 1995 the Texas Legislature ordered state officials to adopt an HMO managed-care model to deliver long-term and acute care to elderly and disabled Medicaid clients. The resulting pilot STAR+PLUS program was first rolled out in 1998 in Houston's Harris County. In 2007 the Texas Health and Human Services Commission (HHSC) expanded the program to cover areas surrounding Austin, Corpus Christi and San Antonio. The agency estimated that the expansion would improve service and save \$110 million over two years.

Four HMO contractors provide these services: Virginia-based AMERIGROUP Corp., California-based Molina Healthcare, Texas-based Superior HealthPlan and Evercare, a unit of Minnesota-based UnitedHealth Group. Less than two months after HHSC expanded STAR+PLUS, the private sector may have hit upon an ingenious way to cut Medicaid costs. UnitedHealth's Evercare—which received \$2 million in premiums from the state in March—enrolled Medicaid patients in the Austin area without providing them with doctors.

Soon after HHSC expanded its STAR program in the Austin area in early 2007, Medicaid clients there complained that they were unable to locate a primary-care physician in the region who would accept Evercare patients. Taylor Dickson, a disabled Austin carpenter, told the *Austin American-Statesman* that he repeatedly called doctors that the company listed as in-network. "I'd say, 'Evercare,' and they'd say, 'Oh, no,'" Dickson said.<sup>6</sup> In March 2007 HHSC suspended Evercare from enrolling new Medicaid patients in the Austin area. An agency spokesperson said that the agency would consider penalizing Evercare for contract violations. HHSC did not return a call seeking to verify if penalties were ever imposed. Yet the agency allowed Evercare to enroll new STAR clients again in May. Weeks later, however, HHSC suspended new enrollments for AMERIGROUP in the San Antonio region, once again saying that one of its HMOs failed to meet minimal service requirements.<sup>7</sup>

Home health care companies are as excited about STAR as Medicaid patients. Under STAR, home-care companies bill the agency's HMO contractors for providing Medicaid home-care services. Just two months into the program's 2007 expansion, home care companies erupted in a late March meeting with HHSC and its HMO contractors. These providers complained that Evercare, AMERIGROUP, Molina and Superior were paying these bills too slowly—if at all. A Med Team, Inc. representative told the *Statesman* that the HMOs had failed to pay half of the \$600,000 owed to her company.<sup>8</sup>

This study focuses on lobbying by AMERIGROUP and UnitedHealth: the two HMO contractors that have received HHSC suspensions. Over the past decade UnitedHealth and its subsidiaries<sup>9</sup> have spent up to \$2.7 million on 112 Texas lobby contracts. UnitedHealth's predecessor, United HealthCare Corp., gained some notoriety as one of many insurers that funded the allegedly criminal efforts of the Texas Association of Business (TAB) to help elect a Republican House majority in 2002. TAB is under indictment for spending \$1.7 million in corporate funds to influence that election—including \$100,000 from United HealthCare Corp.<sup>10</sup> This background is interesting given that approximately one-third of UnitedHealth's Texas lobby expenditures went to a small but potent lobby firm whose principals were heavily involved in the controversial 2002 elections.

Michael Toomey of the Texas Lobby Group (TLG) was Governor Rick Perry's roommate when they served together in the Texas House in the 1980s. Toomey helped coordinate the efforts of TAB, Texans for Lawsuit Reform and Tom DeLay's now-indicted Texans for a Republican

Majority PAC (TRMPAC) to help the GOP gain control of the House in 2002. This paved the way to DeLay’s congressional redistricting and to Tom Craddick becoming House Speaker. After the election Governor Perry appointed Toomey to a two-year stint as his chief of staff and Craddick appointed a lobby friend, former Rep. Bill Messer (who lobbied for UnitedHealth in 2005), to his speaker transition team.

Meanwhile Toomey got his lobby partner, Ellen Williams, and Messer to help him reorganize Toomey & Associates into TLG—where Toomey parked his clients while on the governor’s payroll. TLG quickly recruited TAB lobbyist Lara Laneri Keel, a former Senate aide.<sup>11</sup> UnitedHealth and Evercare first hired Laneri Keel and Williams (another ex-Senate aide) in 2003—while Toomey ran the governor’s office. When Toomey left Perry’s office in 2005, he also signed on with UnitedHealth.

### **AmeriGroup & UnitedHealth Texas Lobby Contracts, 1997-2007**

<b>Company</b>	<b>No. of Lobby Contracts</b>	<b>Min. Value of Lobby Contracts</b>	<b>Max. Value of Lobby Contracts</b>
AMERIGROUP Corp.	68	\$1,190,000	\$2,560,000
UnitedHealth Group*	112	\$905,000	\$2,665,000
<b>TOTALS:</b>	<b>180</b>	<b>\$2,095,000</b>	<b>\$5,225,000</b>

\*Includes subsidiaries AmeriChoice, Evercare and Ovations.

UnitedHealth’s top lobbyist outside TLG is Kerry Cammack, spouse of Texas Supreme Court Justice Harriett O’Neill. Cammack has done lobby subcontracting for indicted TRMPAC aide Jim Ellis. UnitedHealth lobbyist Leah Rummel directed the Texas Department of Insurance’s HMO unit in the mid 1990s before becoming head of an HMO trade group: the Texas Association of Health Plans. A.W. “Woody” Pogue is a former Texas Insurance Commissioner who became an insurance lobbyist at the Gardere firm.

### **Top UnitedHealth Lobbyists, 1997-2007**

<b>UnitedHealth Lobbyist</b>	<b>No. of Contracts</b>	<b>Min. Value Contracts</b>	<b>Max. Value Contracts</b>
*Lara Laneri Keel	11	\$285,000	\$600,000
Kerry N. Cammack	5	\$175,000	\$350,000
Leah Rummel	3	\$150,000	\$300,000
*Ellen Williams	4	\$55,000	\$125,000
William E Siebert	1	\$50,000	\$100,000
Elena Guerra	2	\$50,000	\$100,000
Marc B. Samuels	1	\$50,000	\$100,000
*A. W. Pogue	7	\$10,000	\$85,000
Julie Williams	4	\$25,000	\$80,000
Michael Toomey	2	\$35,000	\$75,000
Karen S. Haywood	5	\$10,000	\$65,000

\*Lobbied directly for the UnitedHealth’s Evercare unit.

AMERIGROUP Corp. spent between \$1.2 million and \$2.6 million on 68 Texas lobby contracts between 1999 and 2007. Its top lobbyist was Jack Roberts, the former deputy comptroller who lobbied for the Tobacco Institute before signing on for this HMO (Roberts employed TIERS lobbyist Frances Kurio). Catheryn Rossberg and Eric Yoder are both AMERIGROUP executives who lobby Texas officials; Rossberg is a former employee of HHSC’s Medicaid division. Richard

Evans is a former Texas Association of Business lobbyist who was a player in the revolving-door scandal that marred Texas' ill-fated welfare privatization experiment in the mid-1990s. Carol DeAnn Friedholm is a former Texas Medicaid director. Nora Del Bosque is the sister of Nancy Fisher, Speaker Craddick's chief of staff.

**Top AMERIGROUP Lobbyists, 1999-2007**

<b>AMERIGROUP Lobbyist</b>	<b>No. of Contracts</b>	<b>Min. Value Contracts</b>	<b>Max. Value Contracts</b>
Jack Roberts	9	\$360,000	\$725,000
Catheryn C. Rossberg	5	\$450,000	\$700,000
Richard W. Evans	3	\$75,000	\$150,000
Eric M. Yoder	1	\$100,000	\$150,000
Carol DeAnn Friedholm	1	\$50,000	\$100,000
Frances Kurio	9	\$0	\$90,000
Russell T. Kelley	2	\$35,000	\$75,000
Dick Brown	1	\$25,000	\$50,000
J. Lawrence Collins	1	\$25,000	\$50,000
Nora Del Bosque	2	\$20,000	\$50,000
Deborah Goodell-Polan	1	\$25,000	\$50,000
James D. Donovan, Jr.	1	\$25,000	\$50,000

## The 'Fort Knox' of Food Stamps

One privatization scheme pitched with great success to Texas politicians promises to save the state a bundle by rooting out frauds committed by welfare kings and queens. The Hercule Poirot of welfare-fraud detection is French finger-printing company Sagem Morpho, which had a state contract to prevent fraud by Texas recipients of food stamps and Temporary Aid for Needy Families<sup>12</sup> from 1996 until 2007.<sup>13</sup> The company instituted a fingerprint imaging system, the Lone Star Imaging System, to prevent one set of fingerprints from helping itself to duplicate welfare benefits.<sup>14</sup>

The great thing about this contract is that the state hired Sagem to slay a phantom. Nobody really knows how much welfare fraud existed or how much fraud fingerprinting has prevented. The Texas Health & Human Services Commission (HHSC), which negotiated the Sagem contract, claims that fingerprinting deters between \$6 million and \$11 million in fraud a year. The agency bases these numbers on an internal study that assumed that anyone who declined to be fingerprinted had fraudulent intent. An independent study by the University of Texas Center for the Study of Human Resources found no evidence that fingerprinting prevented fraud or produced any significant savings. That study criticized HHSC's savings estimates, which even an agency official acknowledged were based on "huge assumptions."<sup>15</sup> Billed as a way to stop food-stamp fraud, Sagem itself appears to be a food-stamp fraud that cost taxpayers more than it saved. A 2003 agency memo said that the state spent \$12 million on fingerprinting services that detected \$59,000 in fraud.

This issue surfaced in the Texas Legislature in 2001, when future lobbyist and then-Rep. Glen Maxey (D-Austin) quietly got the House to approve legislation to eliminate fingerprint funding. Denouncing the program as "pork," Maxey said the contract had cost the state \$16 million over a five-year period that produced nine welfare-fraud prosecutions (or \$1.8 million per prosecution).

Sagem quickly scrambled a high-powered team of revolving-door lobbyists, quadrupling its lobby expenditures. Leading the charge were Locke Liddell's Terral Smith, who had served as then-Governor Bush's legislative director from 1996 to 2000, and Hugo Berlanga, the House Public Health Committee's former Democratic chair. Sagem's top grossing Texas lobbyist is Jackson Walker's Kathy Hutto. This lobby team scuttled Maxey's legislation by arguing that the paltry number of welfare-fraud prosecutions proved that fingerprinting is a powerful deterrent to fraud. "It's hard to measure deterrent," Berlanga told the *Houston Chronicle* at the time. "It's almost like saying Fort Knox has an incredible security system. Nobody's ever broken in. Why should we be paying for the security system?"<sup>16</sup>



**Sagem Morpho's Texas Lobbyists, 1998-2007**

<b>Sagem Lobbyist</b>	<b>No. of Lobby Contracts</b>	<b>Min. Value of Contracts</b>	<b>Max. Value of Contracts</b>
Kathy N. Hutto	7	\$245,000	\$500,000
Hugo Berlanga	7	\$210,000	\$425,000
Cynthia E. Alexander	3	\$30,000	\$75,000
Terral R. Smith	1	\$25,000	\$50,000
Trey J. Blocker	4	\$0	\$40,000
Albert Luna III	1	\$10,000	\$25,000
Yuniedth Midence	1	\$0	\$10,000
<b>TOTALS:</b>	<b>24</b>	<b>\$520,000</b>	<b>\$1,125,000</b>

Instead of scuttling social service fingerprinting, Texas expanded it. In 2004 four contracting teams competed for a “biometric” fingerprinting contract to prevent Medicaid fraud in Texas. HHSC awarded the \$25 million a year contract to an EDS-led team that also included Sagem Morpho, Software Decisions and VeriFone. These Medicaid fraud contractors have spent between \$4.2 million and \$5.4 million on 53 Texas lobby contracts since 2003.

## Integrated Eligibility: A \$522 Million Flop

Despite Texas' rocky privatization history, the Health and Human Services Commission launched the nation's most aggressive social service privatization effort in 2001. That year it hired Deloitte Consulting to develop a massive new computer system to process eligibility and enrollment in multiple social service programs. The state introduced this Texas Integrated Eligibility Redesign (TIERS) system in a pilot project in Central Texas in June 2003. Yet persistent problems convinced HHSC to cancel a statewide rollout of TIERS slated for later that year.<sup>17</sup> As Texas launched its TIERS pilots in 2003, Governor Rick Perry enacted another staggeringly ambitious new welfare-privatization law (HB 2292). Authored by then-Rep. Arlene Wohlgemuth (R-Burleson), the new law folded a dozen state agencies into just five survivors dominated by HHSC. The same law directed HHSC to pay private contractors to run call centers that were to replace many of the hundreds of offices where state caseworkers met welfare clients face to face.

Acting on this mandate in June 2005, HHSC awarded an Accenture-led team of contractors a \$900 million contract to run TIERS and the call centers for five years.<sup>18</sup> HHSC predicted that the new contract would save the state \$646 million over its five-year life. Instead, the first call-center pilot program that the Accenture team opened in the Austin area in early 2006 was a disaster. Deloitte had designed the TIERS computer system for face-to-face meetings with clients—not for call centers. Moreover, Texas replaced numerous experienced state workers with unskilled contract workers. This quickly fed a backlog of 7,200 Food Stamp applications. After several months of operation, HHSC shuttered Austin's call-center pilot. A year later Accenture and HHSC terminated the whole contract, prompting the agency to rehire Deloitte to maintain the TIERS system.<sup>19</sup>

By this point TIERS had cost Texas \$426 million. The call-center fiasco cost almost \$97 million more, for a staggering total of more than \$522 million. Texans had little to show for this half billion dollars. Most of Texas' welfare enrollment functions continued to be performed by state employees on an old mainframe computer system that—according to a recent HHSC inspector general report—is faster and more accurate than TIERS. Texas officials and their contractors took taxpayers for a hell of a ride—simultaneously billing them to run the state's traditional welfare system and to pay contractors to design an exorbitant albatross.

Since the start of the first TIERS contract in 2001, Deloitte Consulting and six members of the Accenture-led team have spent up to \$4.8 million on 174 Texas lobby contracts. Even at the high end, this lobby spending represents less than 1 percent of the \$522 million that Texans have paid these inept contractors to date.

### Integrated Eligibility Company Lobby Contracts, 2001-2007

	No. of Lobby Contracts	Min. Value of Lobby Contracts	Max. Value of Lobby Contracts
Accenture	60	\$430,000	\$1,295,000
Northrop Grumman Corp.	39	\$330,000	\$900,000
Deloitte Consulting, LP	12	\$435,000	\$885,000
Maximus, Inc.	18	\$400,000	\$850,000
First Data Corp.	14	\$150,000	\$410,000
ChaseCom L.P.	17	\$50,000	\$250,000
Image API, Inc.	14	\$20,000	\$170,000
<b>TOTALS:</b>	<b>174</b>	<b>\$1,815,000</b>	<b>\$4,760,000</b>

### Top TIERS Contractor Texas Lobbyists, 2001-2007

Lobbyist	No. of TIERS Lobby Contracts	Min. Value of Contracts	Max. Value of Contracts
Jack Roberts	13	\$420,000	\$850,000
Demetrius McDaniel	7	\$250,000	\$480,000
Randall H. Erben	5	\$225,000	\$450,000
Brian G. Yarbrough	5	\$175,000	\$360,000
Mary Scott Nabers	10	\$140,000	\$325,000
Russell T. Kelley	6	\$150,000	\$310,000
Joseph Lynn Nabers	9	\$90,000	\$225,000
Gay Erwin	8	\$80,000	\$200,000
Mark Seale	4	\$80,000	\$175,000
Frances Kurio	13	\$0	\$130,000
Elizabeth A. Martinez	5	\$50,000	\$125,000
Dale E. Laine	2	\$50,000	\$100,000
Robert Thomas Ratliff	4	\$30,000	\$85,000
Carol McGarah	6	\$0	\$60,000
Brenda Eschberger	6	\$0	\$60,000
Bill R. Pewitt	6	\$0	\$60,000

The top TIERS lobbyist is Jack Roberts. This former deputy comptroller once lobbied for the Tobacco Institute (partner Frances Kurio also ranked among the top TIERS lobbyists). Akin Gump lobbyists Demetrius McDaniel was a special assistant to former Agriculture Commissioner Jim Hightower. The TRMPAC grand jury subpoenaed McDaniel in 2004, reportedly in response to allegations that McDaniel was told to steer his clients' contributions to support Tom Craddick's 2002 speaker race. Randall Erben is a former director of Texas' Office of State-Federal Relations (Erben's partner, Brian Yarbrough, also lobbied for TIERS contractors). Ex-Railroad Commissioner Mary Scott Nabers and her husband, ex-lawmaker Joseph Nabers, are major TIERS lobbyists, as is Ms. Nabers' partner Elizabeth Martinez. During Texas' welfare-privatization scandal of the mid-1990s, Mary Scott Nabers paid a business partner of then-Deputy Health and Human Services Commissioner Gregg Phillips to help her clients land contracts with Phillips' agency.<sup>20</sup> Rusty Kelley has been the top grossing lobbyist in Texas for several sessions. He runs the lobby practice at Public Strategies, which also employed Brenda Eschberger and former Senate aide Carol McGarah.

### **Awaiting a Harmonic Convergys**

A year after Texas enacted its \$1 billion plan to privatize human services in 2003 (HB 2292), the newly consolidated Health and Human Services Commission (HHSC) signed a contract outsourcing its payroll and human resources functions to Ohio-based Convergys Corp. Even as the agency awarded this contract, however, a similar one that Convergys had signed in Florida two years earlier already was plagued by what even a Convergys spokesperson characterized as a “multitude of problems” that prompted Florida to withhold \$40 million in contract payments.<sup>21</sup>

When HHSC tentatively awarded this five-year, \$85 million contract to Convergys in June 2004, an agency spokesperson said that it would save the state \$63 million.<sup>22</sup> By the time the parties signed the contract in October 2004, the forecast savings had dropped to \$22 million, a figure that the agency later lowered to \$18 million. HHSC’s numbers were wildly off target, a 2005 State Auditor’s Office report found, because it ignored \$24 million in contractor costs and inflated the cost of performing the work in-house by \$19 million.<sup>23</sup> The audit found that Convergys had yet to save the state a dime—and found little evidence that it ever would.<sup>24</sup> Convergys has paid Marsha Jones of HillCo Partners a total of up to \$200,000 to lobby in Austin since it landed the contract in 2004.

## **Conclusion**

Over the past decade, Texas officials and state contractors and their lobbyists repeatedly have grossly underestimated the costs—and wildly exaggerated the benefits—of social service privatizations. The best of these mismanaged projects have failed to perform as promised; the worst of them have wasted hundreds of millions of tax dollars. As a result, some of the privatization contractors and lobbyists profiled here are among the best-paid and least-deserving welfare recipients in Texas. A full list of lobbyists who have represented the welfare-privatization contractors profiled here appears in the appendix.

*Some will rob you with a fountain pen.* – Woodie Guthrie

“Watch Your Assets” is a Texans for Public Justice project.  
Lauren Reinlie, Project Director

## Appendix

### Texas Social Service Privatization Lobbyists, 1997-2007

Lobbyist	No. of Contracts	Min. Value Contracts	Max. Value Contracts
Jack Roberts	22	\$780,000	\$1,575,000
Catheryn C. Rossberg	5	\$450,000	\$700,000
Lara Laneri Keel	11	\$285,000	\$600,000
Kathy N. Hutto	7	\$245,000	\$500,000
Demetrius McDaniel	7	\$250,000	\$480,000
Randall H. Erben	5	\$225,000	\$450,000
Hugo Berlanga	7	\$210,000	\$425,000
Russell T. Kelley	8	\$185,000	\$385,000
Brian G. Yarbrough	5	\$175,000	\$360,000
Kerry N. Cammack	5	\$175,000	\$350,000
Mary Scott Nabers	10	\$140,000	\$325,000
Leah Rummel	3	\$150,000	\$300,000
Joseph Lynn Nabers	9	\$90,000	\$225,000
Frances Kurio	22	\$0	\$220,000
Gay Erwin	8	\$80,000	\$200,000
Marsha Malish Jones	4	\$100,000	\$200,000
Mark Seale	4	\$80,000	\$175,000
Richard W. Evans	3	\$75,000	\$150,000
Eric M. Yoder	1	\$100,000	\$150,000
Ellen Williams	6	\$55,000	\$145,000
Karen S. Haywood	11	\$10,000	\$125,000
Elizabeth A. Martinez	5	\$50,000	\$125,000
Michael Toomey	4	\$45,000	\$110,000
A. W. Pogue	9	\$10,000	\$105,000
Thomas J. Bond	10	\$0	\$100,000
Carol DeAnn Friedholm	1	\$50,000	\$100,000
Elena Guerra	2	\$50,000	\$100,000
Dale E. Laine	2	\$50,000	\$100,000
Marc B. Samuels	1	\$50,000	\$100,000
William E. Siebert	1	\$50,000	\$100,000
Susan Marin	9	\$0	\$90,000
Barry Senterfitt	9	\$0	\$90,000
Robert Thomas Ratliff	4	\$30,000	\$85,000
Brenda Eschberger	8	\$0	\$80,000
Julie Williams	4	\$25,000	\$80,000
Cynthia E. Alexander	3	\$30,000	\$75,000
Mark Vane	7	\$0	\$70,000
Kimberly A. Yelkin	7	\$0	\$70,000
Keith G. Hopkinson	6	\$0	\$60,000
Carol McGarah	6	\$0	\$60,000
Bill R. Pewitt	6	\$0	\$60,000
Lee Ann Alexander	5	\$0	\$50,000
Dick Brown	1	\$25,000	\$50,000
J. Lawrence Collins	1	\$25,000	\$50,000

<b>Lobbyist</b>	<b>No. of Contracts</b>	<b>Min. Value Contracts</b>	<b>Max. Value Contracts</b>
Nora Del Bosque	2	\$20,000	\$50,000
James D. Donovan, Jr.	1	\$25,000	\$50,000
Melissa Eason	5	\$0	\$50,000
Deborah Goodell-Polan	1	\$25,000	\$50,000
Christie L. Goodman	1	\$25,000	\$50,000
Melissa Irion	5	\$0	\$50,000
Toni Luttrell	5	\$0	\$50,000
Terral R. Smith	1	\$25,000	\$50,000
Trey J. Blocker	4	\$0	\$40,000
Michael J. Johnson	4	\$0	\$40,000
Sara Kemptner	4	\$0	\$40,000
Tracy W. McCormack	4	\$0	\$40,000
April Seabaugh	4	\$0	\$40,000
Barbara Waldon	4	\$0	\$40,000
Joey Bennett	3	\$0	\$30,000
Mindy R. Ellmer	3	\$0	\$30,000
Erin Tobin	3	\$0	\$30,000
Kimberly A. Yelkin	3	\$0	\$30,000
Kent A. Caperton	1	\$10,000	\$25,000
Janis L. Carter	1	\$10,000	\$25,000
Albert Luna III	1	\$10,000	\$25,000
Barry McBee	1	\$10,000	\$25,000
Mignon McGarry	1	\$10,000	\$25,000
Bill Messer	1	\$10,000	\$25,000
Jim Chapman	2	\$0	\$20,000
Meredith Anne Delk	2	\$0	\$20,000
Charlotte S. Etie	2	\$0	\$20,000
Jill Ann George	2	\$0	\$20,000
Stephen P. Koebele	2	\$0	\$20,000
Stacy Looney	2	\$0	\$20,000
Yuniedth Midence	2	\$0	\$20,000
Brandi Putnam	2	\$0	\$20,000
Shannon H. Ratliff II	2	\$0	\$20,000
Caroline Scott	2	\$0	\$20,000
Robert Strauser	2	\$0	\$20,000
Jill Warren	2	\$0	\$20,000
Jessica Akard	1	\$0	\$10,000
Kathleen Baird	1	\$0	\$10,000
Dewey A. Brackin	1	\$0	\$10,000
Elizabeth S. Burdick	1	\$0	\$10,000
Tristan Castaneda, Jr.	1	\$0	\$10,000
Katherine W. Fairborn	1	\$0	\$10,000
Charles H. Girard	1	\$0	\$10,000
Helen Gonzalez	1	\$0	\$10,000
Jaimie Grunert	1	\$0	\$10,000
Anthony Haley	1	\$0	\$10,000
Karen S. Hausman	1	\$0	\$10,000

<b>Lobbyist</b>	<b>No. of Contracts</b>	<b>Min. Value Contracts</b>	<b>Max. Value Contracts</b>
Jana L. Hixson	1	\$0	\$10,000
Jonna K. Hogeland	1	\$0	\$10,000
Marshall Kilian	1	\$0	\$10,000
Andrea McWilliams	1	\$0	\$10,000
Anna Lisa Montoya	1	\$0	\$10,000
Sally Perry	1	\$0	\$10,000
Cory Alan Pomeroy	1	\$0	\$10,000
Carl S. Richie	1	\$0	\$10,000
Amy C. White	1	\$0	\$10,000
Merita Zoga	1	\$0	\$10,000
<b>TOTALS:</b>	<b>382</b>	<b>\$4,530,000</b>	<b>\$11,310,000</b>



## Endnotes

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<sup>1</sup> Some of Comptroller Strayhorn's audits skewered the Accenture-led HHSC contract, foster-care placement contracts, Central Texas Regional Mobility Authority highway contracting and Texas' Office of State-Federal Relations lobby contracts.

<sup>2</sup> Lockheed also snapped up two TIES architects from the Texas Workforce Commission: Richard Evans and William Grossenbacher.

<sup>3</sup> "Privatization role reveals ethics gap in state law," *Houston Chronicle*, January 1, 2005.

<sup>4</sup> Then-Rep. Wohlgemuth relied on Chris Britton to advise her on HHSC privatization policy. Britton had previously served as Governor Perry's deputy chief of staff and as Wohlgemuth's chief of staff. After Britton worked on HB 2292 with Phillips, he was hired as a subcontractor to Enterject, Inc., a Phillips-founded company that received \$2.7 million in Texas Workforce Commission contracts.

<sup>5</sup> "Lobby's revision would aid client," *Dallas Morning News*, April 30, 2007.

<sup>6</sup> "State halts health program sign-up," *Austin American-Statesman*, March 28, 2007.

<sup>7</sup> "HHSC suspends STAR+PLUS provider in San Antonio," *Quorum Report*, June 14, 2007.

<sup>8</sup> "Home care providers claim pay problems," *Austin American-Statesman*, April 6, 2007.

<sup>9</sup> These include Evercare, Ovations and AmeriChoice.

<sup>10</sup> For more on the lobby's role in this scandal, see "25 Texans Lobbied in 2002 for Multiple TAB Donors," TPJ's *Lobby Watch*, September 27, 2005. [www.tpj.org/publication\\_view.jsp?pubid=662](http://www.tpj.org/publication_view.jsp?pubid=662)

<sup>11</sup> Laneri Keel married the cousin of former Rep. Terry Keel whom Speaker Craddick appointed as his parliamentarian when House members mutinied in May 2007.

<sup>12</sup> TANF is the Temporary Assistance for Needy Families program that replaced Aid to Families with Dependent Children with the 1996 federal welfare reform.

<sup>13</sup> HHSC recently awarded a new contractor, California-based Cogent Systems, an \$8 million contract to take over this fingerprint imaging system.

<sup>14</sup> The state had a non-fingerprint system to prevent duplicate benefits. It required Food Stamps recipients to submit social security numbers, which it compared with federal records to identify fakes.

<sup>15</sup> Tom Phillips, Deputy Commissioner for Administrative Services, Texas Department of Human Services, testifying before the House Human Services Committee, April 5, 2001.

<sup>16</sup> "Debate due over shift of welfare funding," *Houston Chronicle*, April 9, 2001.

<sup>17</sup> "Despite Uncertain Future of New Computer System for Eligibility Determination, HHSC Moves Forward with Plans to Privatize Health and Human Services," Center for Public Policy Priorities, December 10, 2004.

<sup>18</sup> HHSC Chief Information Officer Gary Gumbert worked for Accenture subcontractor Maximus, Inc. before joining the agency in early 2004, a relationship that competitor IBM blamed for contract bias.

<sup>19</sup> See "Picking up pieces of state plan," *Austin American-Statesman*, April 25, 2007.

<sup>20</sup> "Privatization role reveals ethics gap in state law," *Houston Chronicle*, January 1, 2005.

<sup>21</sup> "Texas wooing tardy firm," *San Antonio Express-News*, June 4, 2004.

<sup>22</sup> "Texas wooing tardy firm," *San Antonio Express-News*, June 4, 2004.

<sup>23</sup> "The Health and Human Services Commission's Consolidation of Administrative Support Functions," State Auditor's Office, September 2005.

<sup>24</sup> See also, "Privatization has yet to save state money," *Houston Chronicle*, October 5, 2005.