AFSCME
We Make America Happen

Privatization of Public Services and Assets: Taxpayers Beware!

Proponents of privatization claim that the private sector can do a better job at a cheaper price. But experience shows that privatization often leads to increased costs for the public and reduced accountability to taxpayers.

Count All the Costs

Contracts must be monitored, and the cost of monitoring contracts must be added to the total price tag. Governments often fail to consider contract monitoring compliance costs, which **can add as much as 25 percent to the total,** according to an estimate from the Government Finance Officers Association.[1] In addition to the cost of monitoring contracts, jurisdictions often have to train and supervise contractor personnel. When public equipment and facilities are used, their cost should also be included in the costs of the contracted service. The Government Accountability Office found that the way agencies and privatization consultants estimate and report contract costs can make **cost savings appear greater than what is actually realized.**[2]

Examples:

- In 2010, the Scottsdale, Arizona, Public Works Department explored privatization options of its solid waste and trash collection services at the request of its City Council. "When monitoring and oversight costs were included, the city concluded that **employing city workers to pick up household trash was as cheap or cheaper than any other method** for Scottsdale residents," wrote Peter Downs in The Commercial Appeal. Rick Pence, Scottsdale's director of solid waste management, stated, "We've tracked our costs since the 1970s. We're in the service business and we know we have to compete with companies in the private sector that do this for a living. They have their advantages, but we don't have to make a profit and pay a CEO $8 million a year."[3]
- Edouard R. Quatrevaux, inspector general of the city of New Orleans, released a report in 2010 that said city oversight of the trash collection contracts was so lacking that it was impossible to determine if the city was paying contractors the proper amount. Quatrevaux also found that the city had not verified that contractors had the proper insurance and/or procedures to indemnify the city for any damages they caused, subjecting the city to possible financial exposure. After auditing a contract for trash collection, Quatrevaux's office found that **New Orleans could have saved $3 million a year by simply monitoring the contracts**.[4]
- State audits in Ohio found that state agencies and many local governments engaged in "casually administered" contracts with "lax controls." From 2000-2003, **116 state audits found that contactors misspent $97.7 million tax dollars**.[5]

---

1 Michel, R. Gregory. "Make or buy? Using cost analysis to decide whether to outsource public services. (Government Finance Officers Association article)." Government Finance Review. Government Finance Officers Association. 2004. http://www.gfoa.org/downloads/GFRAug04.pdf

2 United States Government Accountability Office, "Department of Labor, Better Cost Assessments and Departmentwide Performance Tracking Are Needed to Effectively Manage Competitive Sourcing Program." November 2008. GAO-09-14.

3 Downs, Peter. "No quick fix; Past experience of many cities suggests privatizing sanitation services wasn't a panacea for problems." The Commercial Appeal (Memphis, TN), July 10, 2011.

4 Downs, Peter. "No quick fix; Past experience of many cities suggests privatizing sanitation services wasn't a panacea for problems." The Commercial Appeal (Memphis, TN), July 10, 2011.

5 Cincinnati Enquirer, "Weak Contracts Waste Tax Money," May 19, 2003.

Produced by AFSCME Union Labor 328-15 #1

Read the Fine Print

Private corporations are very good at writing contracts that shift all risk to the taxpayer and keep any rewards for the company. Once a public service is outsourced or asset is privatized, taxpayers have little recourse if a contract was drawn up poorly or the drafters failed to anticipate all contingencies. Because some contracts are written for extended periods, the public can be locked into bad deals for generations. For Examples:

- In September 2008, Indiana was required to reimburse the private Indiana Toll Road operator $447,000 for tolls that were waived for people being evacuated during a severe flood. This requirement in the contract forced the state to pay money to a private contractor in order to ensure the public's safety.[6]
- In 2008, the private contractors that operated the Northwest Parkway in Denver, Colorado, objected to improvements to a local street. The 99-year privatization contract allowed the private company to prevent improvements on city-owned and maintained roads, since the improvements "might hurt the parkway financially," by providing an alternative route for travelers, thus potentially reducing toll revenue.[7]

Pay Attention to the Bottom Line

Contractors do. And the bottom line for them is that they're accountable to their owners and shareholders, not the public. Private companies' primary objective is to make a profit, which can mean cutting corners to reduce costs, jeopardizing services and vital public assets. Or they may "low-ball" a bid to get a contract, then jack up their price over time. Service failures and cost escalation have prompted many cities and states to insource services previously privatized. According to a recent survey, more than **60 percent of local governments insourced privatized services due to a decline in service quality**.[8]

Examples:

- Only two years into a contract with IBM to provide benefit eligibility service, Indiana canceled the $1.34 billion contract in 2009. **For two years, families failed to receive benefits for which they qualified, including food stamps, health coverage, and cash assistance.**[9] Among the tales: One woman with hearing problems and other disabilities reportedly was dropped because she couldn't complete a telephone interview. Another lost Medicaid, food stamps and transportation because she missed an appointment while hospitalized.[10]
- New Albany, Indiana, **insourced the operation of its wastewater treatment and sewer maintenance in January 2013, saving taxpayers more than $300,000 annually**. The mayor stated: "We will not only save taxpayer money, but we will also eliminate the outsourcing of these good-paying jobs to an outside company." [11]

---

6 In the Public Interest, Pennsylvania Kids for Cash case. See: http://inthepublicinterest.org/case/pennsylvania-kids-cash-conspiracy

7 In The Public Interest, JP Morgan Investment Consulting Fraud case. See: http://inthepublicinterest.org/case/jp-morgan-investment-consulting-fraud

8 Warner, Mildred. "The Pendulum Swings Again." The New York Times, April 4, 2011. Available here: http://www.nytimes.com/roomfordebate/2011/04/03/is-privatization-a-bad-deal-for-cities-and-states/the-pendulum-swings-again

9 Kelly, Niki. "State loses legal fight on welfare overhaul Judge rules for IBM but criticizes both sides." Fort Wayne Journal Gazette. July 19, 2012.

10 "Indiana welfare clients get their day in court." South Bend Tribune. August 16, 2011.

11 Suddeath, Daniel. "New Albany will end sewer privatization." The News and Tribune, October 13, 2012. http://newsandtribune.com/local/x253526985/New-Albany-will-end-sewer-privatization

- When private companies bid on garbage collection and fleet maintenance in Yuma, Arizona, in 2001, officials found that the cost estimates were much more expensive than current costs. In fact, **residents would have paid twice as much to the private companies** as they currently pay for the same city services.[12]

- In 2010, Gary, Indiana, canceled its 10-year contract with United Water after inspectors found that the company had violated regulations; filed inadequate monitoring reports; and failed to meet mandated deadlines. By canceling the contract and bringing water service back in-house, the city expects **costs to decrease from $16 million to $8 million a year**.[13]

- A Pennsylvania study in 2012 found **the state could save $78 million by insourcing school bus s**ervices.[14]

---

12 February 7, 2011. http://www.yumasun.com/news/city-67409-wilkinson-private.html

13 Seidel, Jon. "Gary Sanitary District ends contract with United Water." The Post-Tribune. March 26, 2010.

14 Price, Mark, Stephan Herzenberg, Sean Brandon, and Teresa Herzenberg. "Runaway Spending: Private Contractors Increase the Cost of School Student Transportation Service in Pennsylvania." The Keystone Research Center, March 2012. Available here: http://keystoneresearch.org/sites/default/files/RunawaySpending.pdf