MEMO 2019

WHY YOU SHOULD BE WARY OF PRIVATIZATION

Privatization occurs under different names, such as “outsourcing,” “contracting out,” and “public-private partnership,” but, ultimately, it’s removing a public good, service, or asset from public, democratic control and placing it under private control by a corporation or other private entity. While the specifics of privatization deals vary, what makes the difference is who controls the public good, service, or asset.

Examples of service privatization include outsourcing the provision of health or social services, road maintenance, food service at the local school district, custodial service for public buildings, public transit, the operations of jails or prisons. Examples of privatizing assets include signing a public-private partnership to build a new highway or leasing a drinking water system to a corporation. Privatization can also come in the form of a privately managed parallel system that siphons off public funds from the public system, such as charter schools.

WHAT ARE THE IMPACTS?

- **Loss of democratic control.** Key decisions and day-to-day operations are controlled by private corporations, instead of publicly accountable public servants and decision-makers. For example, many public-private partnership contracts include “non-compete” and “compensation” clauses that limit or eliminate the public’s ability to make critical decisions necessary to improve our cities, address inequalities, and tackle climate change. In 2009, Chicago signed a 75-year contract for the operation and maintenance of the city’s parking meters, which restricts the city from making improvements to streets that contain meters, such as adding bicycle lanes or expanding sidewalks because these types of projects might “compete” with the parking meters, and decrease corporate revenues.[1]

- **Little or no cost savings.** In most cases, cost savings fail to materialize or do not reach levels promised by the contracted private entity. A private company may overestimate cost savings in an attempt to win a contract. Cost overruns and change orders may occur, driving up the cost to the locality. For example, New York City contracted with a private company on a project called CityTime, an effort to save money by consolidating and automating records of the time clocked by city workers. The CityTime project was originally supposed to cost $63 million. But after 12 years and many missed deadlines, the project remained unfinished and cost taxpayers more than $700 million—a 1,000% increase from the original contract amount.[2] In 2012, the company, repaid $500 million to the city to avoid federal prosecution.[3]

  Additionally, in some contracts, residents must absorb the higher costs of privatized services. For example, there has been extensive documentation of the impacts of privatization on water rates that show that households typically pay more for water provided by private corporations. A 2015 study by Food & Water Watch surveyed the country’s 500 largest water systems and found that, on average, private, for-profit utilities charged typical households 59% more than local governments charged for drinking water service.[4]

- **Reduced service quality.** Because a private entity’s primary concern is maximizing profits, there are inherent pressures to cut corners, such as paying employees less, employing fewer workers, using inferior materials, or making programmatic decisions that run counter to the public interest, resulting in diminished quality. For example, the Chicago School Board signed three-year contracts with Aramark and SodexoMagic to clean the city's schools. By privatizing janitorial services, the district hoped to save up to $40 million over the contract period.[5] The companies reduced costs by cutting corners on staffing. Shortly after the start of the following school year, Aramark laid off 290 janitors.[6] The schools became plagued with problems stemming from the lay-offs, including filthy classrooms, spilled milk left uncleaned, and overflowing garbage cans sometimes not emptied for weeks. Cockroaches, mice, and bugs, which were attracted to the trash, overran the buildings, and a number of schools called exterminators.[7]

- **Loss of middle-class jobs.** Private companies will often change jobs from ones that sustain families and include healthcare and retirement benefits to become low-wage jobs without benefits, most of which are no longer unionized, when transferred to the private sector.[8] African Americans are particularly impacted by this dynamic, as approximately one in five black workers hold jobs in government.[9] Moreover, median wages earned by African American employees are significantly higher in the public sector than in other industries.[10] 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 stable footing in the American middle class, which can have long-lasting impacts for future generations.

- **Loss of accountability and transparency.** Localities can lose routine information about the service or asset under a privatization scheme. The privatized service may not be subject to open records laws, taking away the public's access to key information they would otherwise have if the service were still being performed by the public sector. Governmental entities may not even have the information they need to adequately hold the contractor accountable for performance. for example, State Highway 130, a San Antonio-Austin, Texas highway P3 deal with a Spanish infrastructure developer, Cintra, filed for bankruptcy when revenue projections failed to materialize. The private consortium refused to release the traffic projections that the project was based on claiming they were proprietary information that, if public, could help their competitors. The Texas Attorney General and the federal Department of Transportation agreed.[11]

CONFRONTING PRIVATIZATION PROPOSALS

- **Know your basics.** Gain an understanding of how your governmental entity's procurement system works. What are your contracting laws and policies and how do they play out in practice? Do they encourage privatization or protect the public from bad deals? What services and assets, if any, are currently privatized in your locality? How can your contracting laws and/or policies be strengthened to better reflect your values?

- **Timing matters.** The best time to intervene in a privatization proposal is before it goes into the formal procurement process. Once a Request for Proposal (RFP) is issued, it becomes more difficult to stop the process. The earliest stages of informal consideration are the best time to ask important questions and raise up potential risks. The earlier you get involved, the better.

- **Know the red flags.** There may be red flags that privatization is being considered, even if it hasn't formally been announced.
    - If representatives or lobbyists from corporations are meeting with policymakers or department leaders, this may indicate that the corporation is presenting marketing materials to lay the groundwork for future privatization of a public service or asset.
    - If pro-privatization leaders within the locality or state call for an "efficiency audit" or some other study examining the functioning of public services or assets, this could be an indication that there is interest in privatization. The "findings" of such "study" or "audit" could lay the foundation for future privatization proposals.
    - If your locality or state is dealing with budget issues and anti-tax sentiment, privatization may be proposed as a (misguided) way to cut costs. It's important to recognize ideas or keywords that may

be setting the stage for a more formal discussion of privatization—remember who is saying them and understand what their motivations might be.

- **Ask the right questions.** Below is a sample of important questions to ask when confronted with a privatization proposal. While these are general questions that bring up important considerations, please note that In the Public Interest has guides and resources with information related to particular sectors (education, infrastructure, corrections, etc.) that may be more relevant to your issue at hand.[12]
    - What are the problems the privatization proposal is trying to address? And can these problems be solved without privatization?
    - Does the proposed contract limit our democratic rights?
    - Are there perverse incentives that could work against our public policy goals?
    - How will the government compensate the private entity, and what are the implications for the government's budget?
    - What are the possible impacts of privatization on the quality of the service or access to the asset?
    - Will all the resulting jobs have family-supporting wages and health care benefits? Who will get these jobs?
    - Does the governmental entity have the necessary in-house staffing and expertise to adequately monitor the contract for its entire lifecycle?
    - Do we have a Plan B if the contract must be canceled?
    - If a private company thinks they can make money leasing and operating a public asset, why can't we?
    - Are there adequate and meaningful forums for public input, such as public meetings and hearings and public comment periods?

INSOURCING: HOW TO REVERSE PRIVATIZATION IN YOUR CITY

While this guide primarily deals with identifying and confronting privatization proposals, localities and states are increasingly looking at "insourcing," "reverse privatization," or "remunicipalization." All of these terms mean taking a service or asset that was privatized and bringing it back under public, democratic control. For example, in 2018, localities that remunicipalized their water systems included Putnam, Connecticut,[13] Dallas, Oregon,[14] and Saltville, Virginia.[15] States such as Idaho insourced prison operations after their privately-run prison experienced increased violence and human rights abuses, largely due to understaffing by the private contractor.[16] And localities have insourced routine city services to save money. In 2018, the city of Fort Wayne insourced fleet management services and expects to save $350,000 per year.[17]

As governments continue to experience problems with privatization, insourcing has served as a way to regain control and provide quality services and assets, while making better use of public funds. In 2012, the International City/County Management Association (ICMA) surveyed localities and found that of respondents that insourced services, 53 percent cited insufficient cost savings, while 51 percent cited unsatisfactory service quality.[18]

NOTES

1. Whet Moser, "The Parking Meter Lease, and Non-Compete Clauses, Rear Their Heads Again," Chicago Magazine, May 4, 2012. http://www.chicagomag.com/Chicago-Magazine/The-312/May-2012/The-Parking-Meter-Lease-And-Non-Compete-Clauses-Rear-Their-Heads-Again/
2. Diane S. Williams, "Citytime contract: 1,000% over budget," AFSCME DC 37 Public Employee Press.
3. Michael Grynbaum, "Contractor Strikes $500 Million Deal in City Payroll Scandal," New York Times, March 14, 2012.
4. Food and Water Watch, "The State of Public Water in the United States," February 2016.
5. Ben Joravsky, "Rahm's Privatization of School Janitors Is Still a Mess," Chicago Reader, 3 June 2015.
6. Becky Vevea, "Chicago School Cleaning Contract Millions Over Budget," WBEZ 91.5, 27 April 2015.
7. Lauren Fitzpatrick, "Principals Say Janitorial Group Isn't Keeping CPS Schools Clean, Chicago Sun-Times, 13 September 2014. Joseph Erbentraut, "Chicago Public Schools Under Fire Over Dirty Conditions, Rotten Food," Huffington Post, 8 October 2014.
8. S.E. Smith, "Contract for Disaster: How Privatization is Killing the Public Sector, In These Times, September 28, 2016.
9. Department of Labor, "The African-American Labor Force in Recovery," February 29, 2012.
10. Steven Pitts, "Black Workers and the Public Sector," Research Brief, University of California Berkeley, April 4, 2011.
11. http://projects.expressnews.com/the-end-of-the-road-texas-130-toll-road
12. In the Public Interest has resource guides for privatization issues in the following sectors: infrastructure, criminal justice and immigration, and education.
13. Kerensa Konesni, "Putnam retakes management control of WPCA, hires leadership from Montville," The Bulletin, June 17, 2018.
14. Jolene Guzman, "Dallas takes over water system operations," Polk County Itemizer-Observer, March 7, 2018.
15. Linda Burchette, "Saltville adopts 2018-19 budget," Smyth County News & Messenger, July 10, 2018.
16. Katherine Barrett & Richard Greene, "What Happens When Privatization Doesn't Work Out," Governing, October 2016. http://www.governing.com/columns/smart-mgmt/gov-privatization-pensions-prisons.html
17. "City of Fort Wayne takes fleet maintenance in house; savings expected," News-Sentinel, February 19, 2019. http://www.news-sentinel.com/news/local-news/2018/07/11/city-of-fort-wayne-takes-fleet-maintenance-in-house-savings-expected/
18. International City/County Management Association, "Profile of Local Government Service Delivery Choices," 2012.