

Privatization in New Jersey:
A research project for the Communications Workers of America
By Sarah Ryan
August, 1993

PRIVATIZATION -- It's an ugly word to public employees and a threat to virtually every public job or service. It means taking public services or property and handing them over to private sector operators. Privatization is promoted as a way for governments to solve their financial problems. But rather than solve financial problems, privatization creates a host of new ones for working people. It replaces public monopolies with private ones, "hooking the public on a narcotic of a perpetual rental and higher taxes," according to one NY state assemblyman.¹ And often, the operations being privatized cost more to perform in the private sector or are operations which generate revenue for the state.²

"It's a clear national trend and New Jersey is the leading state," said one accounting consultant discussing privatization.³ The leading state? According to Dr. Henry Raimondo of Rutgers University's Eagleton Institute of Politics, "almost every one of the 567 municipalities in New Jersey is experimenting with it in one form or another."⁴ Proposals have been made to privatize everything from New Jersey Transit to public schools. Governor Florio has even expressed interest in privatizing Newark Airport.⁵

WHO DOES PRIVATIZATION BENEFIT?

¹Assemblyman Steven Englebright, quoted in New York Times, 10/11/92, p. LI 12.

² See "An Evaluation of Contracting-out Activities in the New Jersey Department of Transportation," by the Policy Research Seminar, Eagleton Institute of Politics, Rutgers University, New Brunswick, NJ, September 1992 and "Privatization Audit: A Critical Analysis," by A.F. Miskowski, CWA Local 1033, June 22, 1993.

³Robert Guzek, director of public consulting at Coopers and Lybrand, quoted in Business Journal of New Jersey, October 1986, p. 53.

⁴New York Times, 5/31/92, p. NJ3.

⁵Tom Lewis, director of the NY Governor's Office of Management and Productivity, quoted in New York Times, 10/11/92, p. LI 12.

If privatization is so popular, it must benefit someone. It has not improved the level of quality of government services -- quite often, it goes along with service cuts. And it has certainly harmed wage earners in the state, who have lost thousands of living-wage jobs and seen them replaced with minimum-wage jobs.

But privatization has been very beneficial to two groups -- large corporations who receive contracts for state work and high-salaried professionals and officials of "non-profit" organizations who are contracted to do human services work. This report will examine some of the beneficiaries on both sides of privatization.

MONOPOLY CORPORATIONS

On the first side are corporations which sometimes hold a large market share of some kinds of "public sector" work. Work that has traditionally been done by public employees, like tax collection in New Jersey, is now being turned over to powerful companies who, in turn, pay their workers low wages. While the mythology says that privatization creates better service through "competition," the companies profiting in the private sector are virtual monopolies.

Four such corporations who are currently involved in significant efforts to privatize New Jersey government operations are Lockheed, GTech, Ogden, and Payco. They will be profiled in this report

NON-PROFITS FACILITATE BUDGET CUTS

The other side of privatization is rise of the non-profit human services sector. Care for the disabled, retarded, and mentally ill, and services for senior citizens and children, is being transferred to these organizations. While many of the non-profit service providers began as advocacy organizations for the interests of these populations, like the Association for Retarded Citizens, they now, unfortunately, help the state cut human services budgets. The non profit agencies are operated and serviced by directors and professionals who enjoy comfortable salaries, while much direct care is provided by workers who earn below poverty-level wages. Transferring the responsibility for care to these facilities helps politicians cut budgets without absorbing the blame.

PRIVATIZATION MAKES THE RICH RICHER

The proponents of privatization never touch the topic of profits, but privatization makes the rich richer. And the poor poorer. They pretend that privatization establishes a free, competitive market for services and that this is more democratic than state-provided services are. They want people to ignore the public-sector monopolies that are gutting state budgets and turning good jobs into minimum-wage jobs. They want to hide the fact that some people are getting rich from

privatization.

PROFITS MADE BY LOWERING WAGES

Stockholders and directors of "privatization companies" -- or public sector monopolies -- know that the "savings" the politicians promise will come out of workers' pockets through lower wages. The Eagleton Institute's privatization expert acknowledged that lower wages were the source of "savings" when government contracts out services. Contractors do not operate as charities or public service organizations. As an RCA manager in "Education and Human Services" explained, "All parts of RCA are profit-makers, and we do not stay in lines that are not profitable."⁶

GTECH CORPORATION: Privatizing State Lotteries

**GTECH Corporation,
a.k.a. Gaming Technologies Corporation
55 Technology Way
West Greenwich, RI 02817
(401) 392-1000**

**1333 Brunswick Avenue
Trenton, NJ
(609) 392-6200**

Co-Chairman and CEO: G.B. Snowden
Co-Chairman: Victor Markowicz
Executive VP, Chf. Op. Ofcr: R.A. Breakstone

Employees: Over 3,000, in 34 countries

Revenues: \$501 million in most recent fiscal year.

⁶Business Journal of New Jersey, 10/86.

SITUATION: The New Jersey Lottery is paying \$150,000 to Strategy Support Associates, Inc.(SSA), a team of consultants, to create a strategic plan for the lottery. They will help write Requests for Proposals for bidders on lottery equipment and operations. The state's current contract with GTECH for on-line games expires in November of 1994.

SSA is reportedly suggesting that New Jersey's lottery be restructured using the Texas lottery as a model. Texas is the only state in which a private company, GTECH, both supplies equipment and operates nearly every aspect of the lottery. The Texas lottery may become the nation's largest, and the deal is certainly more lucrative for GTECH than a relationship of simply supplying equipment and software would be. If GTECH is allowed to take over the operation of New Jersey's lottery, many state workers' jobs will be lost, along with much of the lottery's accountability.

BUSINESS ACTIVITIES

GTECH manufactures, provides software, and services lottery equipment in 26 of the 36 states that operate lotteries.⁷ GTECH is a global company, operating lotteries in 33 countries including Venezuela, Australia, Poland, and Ireland.⁸

BACKGROUND

Since incorporating in 1982, GTECH has grown to control an estimated, and astounding, 75% of the worldwide on-line lottery market. They assemble, program, and service the "instant winner" lottery machines. GTECH is a favorite of Wall Street stock analysts, as it has increased its earning by about 35% per year.⁹ GTECH has outpaced all rival companies in this market and continually wins state and national lottery contracts, even where it is not the low bidder. "I really don't think they have significant competition," gaming analyst Tom Ryan told The Providence Journal-Bulletin. "You're getting to the point where GTECH is really the dominant force in the lottery industry globally."

How does GTECH beat the others? You'll find two answers to this question. The first is technical excellence. "With new games, better technologies, shorter response times, superior products . . . They're just excellent operators," said one stock market analyst.¹⁰ But there are hints of a darker side to GTECH's recent contract wins. GTECH's lobbyists are continually accused of

⁷Washington Post, Financial section 7/7/93

⁸Telephony, 7/30/90 p. 38

⁹Barron's 2/8/93, p. M13

¹⁰Barron's, ibid.

making contributions which "improperly" sway legislators and lottery officials.¹¹ GTECH's co-chairman and CEO, Guy Snowden, says the problems are with the lobbyists, not the company. "This company is absolutely sterling...Our lobbyists just told us who to make contributions to, and we wrote the checks."¹² Company spokesman Robert Rendine explained, "Whether you're buying a car or a house or a lobbyist, you want the best."

PUBLIC LOTTERIES ARE A GOOD BET FOR GTECH

GTECH earns a percentage of lottery receipts, which varies with each contract. In the District of Columbia, they are in a partnership with two small firms that yields about \$5 million a year.¹³ In one Missouri drawing, GTECH was expected to haul in between \$180,000 and \$250,000.¹⁴ With more and more states and countries establishing lotteries as taxless sources of revenue, GTECH's fortunes are expected to grow.

A GOOD BET FOR DONALDSON, LUFKIN & JENRETTE

DLJ, a securities brokerage firm whose parent company is the Equitable Life Assurance Society, bought a controlling interest in GTECH in early 1990. In December of 1992, DLJ sold 7 million of their shares at almost **50 times** their purchase price, netting close to \$250 million. DLJ still holds the majority of its original shares and figures prominently in GTECH.¹⁵

DLJ figures significantly in New Jersey politics. According to an investigative report by Wayne Barrett in the July 27, 1993 Village Voice, DLJ executive Tim Carden is both personally and politically close to Governor Florio. Carden, an executive vice president of DLJ, is the state's former Human Services commissioner. DLJ has been chosen to underwrite bonds on key state projects, including on Turnpike bonds. A federal grand jury is currently probing how the Turnpike Authority makes its selections.¹⁶ DLJ, as leading stockholder in GTECH, would certainly be pleased if new lottery arrangements gave GTECH more of a cut.

¹¹Wall Street Journal, 4/14/93 p. B4

¹²Wall Street Journal, ibid.

¹³Washington Post, Financial, 7/7/93

¹⁴Washington Post, ibid.

¹⁵Investment Dealers Digest, 12/21/92, p. 17.

¹⁶Village Voice, 7/27/93, p. 27.

Where GTECH goes, controversy follows

GEORGIA

In April of this year, Georgia Lottery director Roberta Paul disregarded the low bid and awarded the state's lottery contract to GTECH. The difference between GTECH's bid and the competitor's will cost the state's education programs about \$6 million per year.¹⁷ The tens of thousands of dollars GTECH raised for the state Democratic Party and the campaign of Georgia Governor Zell Miller were the subject of scrutiny even before the contract was awarded. The March 23, 1993, Atlanta Constitution reported that GTECH contributed \$13,000 to Gov. Miller's 1990 campaign. DLJ, the securities firm, contributed \$3,500, and a Kentucky lawyer who works for GTECH held a fundraiser that brought in an additional \$30,000. Together, GTECH and DLJ gave \$15,000 to the Democratic party in Georgia in 1991 and 1992. GTECH employed former party and government officials as lobbyists. Among GTECH's lobbyists in Georgia was the finance chairman of the state Democratic Party, Gordon Giffin.¹⁸ Georgia State Sen. Pete Robinson has called for the lottery board to cancel the contract.¹⁹

CALIFORNIA

In 1986, GTECH made a \$13,500 contribution to former California state senator Alan Robbins. Robbins pleaded guilty to federal racketeering charges in 1991, and former GTECH lobbyist Clayton R. Jackson was indicted on nine felony and racketeering charges by the U.S. District Court in Eastern California.²⁰ Despite these troubles, GTECH recently won a five-year contract to upgrade California's lottery, worth about \$203 million, after a panel cleared the state Lottery Commission of wrongdoing.²¹

MARYLAND

In one of the largest non-competitive awards in state history, Maryland awarded GTECH a \$49 million contract for a new keno lottery game.²² Maryland state senators asked for hearings,

¹⁷Atlanta Constitution, 4/21/93 p. A1

¹⁸Atlanta Journal/Constitution, 4/25/93, p. D1.

¹⁹Atlanta Constitution, 4/23/93, p. D1.

²⁰Atlanta Constitution, *ibid.*

²¹New York Times, 4/22/93 p. D4

²²Washington Post, 12/3/92 p.C1.

and U.S. Attorney Richard D. Bennett announced a grand jury investigation to determine whether fraud was involved in GTECH's \$120 million worth of lottery contracts.²³

NEW YORK

GTECH Holdings Corp. will be the sole supplier and operator of the New York State lottery system's computer terminals.²⁴ A GTECH competitor says the state strayed from its bid criteria, "inexplicably reversed itself completely," and chose GTECH.²⁵

AND ELSEWHERE . . .

GTECH had 24 lobbyists registered in its unsuccessful attempt to legalize video lottery in Florida. In national and state elections last year, GTECH gave about \$300,000 in political contributions, distributing funds to both Democrats and Republicans.²⁶

GTECH PROMOTES LOTTERIES

GTECH is not simply taking advantage of states' decisions to begin lotteries -- it actively intervenes in favor of lotteries as a way to raise state funds. Many people object to state lotteries as a method of fund raising. Opponents say that lotteries increase compulsive gambling, tend to be a disguised tax on working people, and increase opportunities for fraud and abuse.

GTECH'S REVOLVING DOOR

State lottery officials regularly leave their posts to work for gambling companies, or they form their own consulting firms. They often return to direct state lotteries. Federal prosecutors point to this as a source of potential conflict of interest.²⁷ GTECH employs a number of former officials of state lotteries. Rebecca Paul, a consultant who will work on a "strategic business plan" for the New Jersey lottery in partnership with a former GTECH employee, is now director of the Georgia lottery and was responsible for awarding GTECH its contract there. Al Silva, an

²³Washington Post, 12/13/92, p. B3.

²⁴Wall Street Journal, 12/7/92, p. B4.

²⁵Wall Street Journal, 4/14/93, p. B4.

²⁶Atlanta Constitution, 3/23/93, p. D10.

²⁷Wall Street Journal, 4/14/93, p. B4.

SSA consultant who is working on the New Jersey Lottery, is a former GTECH employee and helped to design the Texas lottery.²⁸ In other words, those who are designing the strategic plan and reviewing the bids have worked for the strongest bidder!

Appendices:

Atlanta Constitution article, 3/23/93
Wall Street Journal, 4/14/93

²⁸"New Jersey Lottery: Proposal to assist in the development of a strategic business plan" by Strategy Support Associates, February, 1993, p. 15.

LOCKHEED CORPORATION:
Privatizing Child Support Collections, Highways, and Parking

Lockheed Corporation
Lockheed IMS (Information Management Systems)
Lockheed Support Systems

Co-Chairman and CEO: D.M. Tellep, salary \$1,590,010
Vice Chairman and CFO: Vincent Marafino, salary \$1,303,346
Executive VP: V.D. Coffman

Sales: \$10,100,000,000 in 1992
Net Income: \$348 million in 1992

SITUATION:

The New York State Department of Social Services signed a \$6.7 million dollar contract with Lockheed IMS in January to collect child support payments for the state. It is the first statewide child-support collection contract anywhere.²⁹ In addition, Lockheed will supply the

²⁹Village Voice, 7/27/93, p. 12.

computer system for the state of Pennsylvania's child support collections. That contract is worth \$67 million. In New York, the state passed legislation taking child support collections away from country offices and centralizing it in the state. Lockheed will begin performing the actual collections in 11 "pilot districts" around the state.

On April 29, 1993, the New Jersey Senate approved P.L. 1993, which calls for pilot projects "whereby private collection agencies would be responsible for collecting outstanding child support in order to study the possibility that this method of collection may be the more effective way for the State to deal with the problem of delinquent child support." Lockheed has already been identified as one of the interested parties.

According to Patrick Nota-Roberto, Assistant Chief of Policy and Planning at DHS, "nothing has progressed" with the contracting out of child support collections. The state is studying what federal waivers may be needed and does not expect to issue Request for Proposals until the end of the year. Nota-Roberto said that "anybody will have opportunities to bid" on the collections -- even 2-person operations. He did, however, acknowledge that Lockheed was expected to be a bidder.³⁰

THE MONSTER THAT'S EATING THE PUBLIC SECTOR

A July 27 Village Voice article by Wayne Barrett described Lockheed as "the monster that's eating New York." But Lockheed's ambitions for public sector contracts go far beyond the empire state. While the corporation is recognized as a power in aviation and space technology, of growing importance are its divisions which perform "information systems" work. As an economic entity, Lockheed is almost as large as the State of New Jersey. Compare its \$10.1 billion sales to the state's \$15. billion 1993 budget when people say that privatization spurs competition and "entrepreneurs."

Lockheed is attempting to win contracts for everything from parking violations collections to child support payments, from "smart" highways to mail sorting. The corporation currently employs about 3,000 workers sorting mail at near-minimum wage, under contract with the U.S. Postal Service.³¹ Recently, CWA Local 1080 in New York City beat back Lockheed's attempts to privatize parking collections. The conflict led to an expose of corruption in city government.³²

Lockheed's contacts in New Jersey government are strong. The company will develop

³⁰Telephone interview, 8/4/93.

³¹Lockheed internal memo, 5/93, and Profits and Poverty, Sarah Ryan, 4/93.

³²Talking Union: CWA Public & Health Care Workers, Summer 1993, p. 3.

Electronic Toll Collection for the state's Department of Transportation, a system in which tolls are automatically deducted through a radio transceiver as vehicles pass through special un-staffed booths. New Jersey transportation commissioner Tom Downs is promoting "smart" highways as an answer to traffic congestion. And his "Committee for a Smart New Jersey" has as its aims "economic development" and provision of "opportunities for private entrepreneurs in New Jersey."³³ If Lockheed is successful in installing its system in the New York/New Jersey area, it stands to dominate a system of "smart" highways which will expand due to federal funding.³⁴

Expect Lockheed to bid for child support collections in New Jersey and neighboring states. President Clinton has proposed a national network to pursue "deadbeat dads." If Lockheed has its way, it will operate that network, and thousands of state and county workers will be out of their jobs.

OGDEN CORPORATION: Privatizing Security in Camden County

OGDEN CORPORATION

Two Pennsylvania Plaza
New York, NY 10121
(212) 868-6100

"I didn't need the money and was
willing to play roulette with other
people's jobs."³⁵

Ogden Allied Services Corp.
2265 Brunswick Pike
Lawrence Township, NJ
(609) 989-5266

SITUATION:

In January of 1993, Camden County Freeholder James Beach announced that 115 county workers would be laid off. The county will contract with service conglomerate Ogden Corporation for security guards. Over 50 security guards, members of Council 10 of the New Jersey Civil Service Association, lost their jobs. According to local authorities, the layoff and contracting was done because the county's budget was tight and officials had promised not to raise taxes.³⁶ But the same county administration has signed no-bid, \$1.6 million dollar contracts

³³Telephone interview with Dave Davis, NJDOT, 8/4/93.

³⁴See Village Voice, 7/27/93, p. 12.

³⁵Chairman Ralph Ablon, quoted in Business Week, 8/28/89, p. 64

³⁶Philadelphia Inquirer, South Jersey section, 1/14/93.

for office equipment and is under investigation by the state Attorney General's Office for corruption.³⁷

Description of business:

Ogden is a diversified company primarily engaged in "operating services" and waste-to-energy operations. Almost all of its business involves contracts with various governments.

OPERATING SERVICES consists of building services, aviation services, and a growing entertainment services sector. Ogden operates over 85 airports in many countries, contracts security and housekeeping for government and industry, and even builds and operates stadiums, convention centers, and entertainment facilities.³⁸ Ogden Chairman Ralph Ablon expects the free trade agreement to pay off for the company and is expanding the company's aviation business into Canada and Mexico, as well as moving aggressively into Europe.³⁹

WASTE-TO-ENERGY OPERATIONS involve what is called "mass incineration" -- a process highly objectionable to environmentalists, whereby garbage is burned and the power generated is sold to local utilities.⁴⁰ Ogden operates 24 such facilities in the US, including plants in Union County and Warren County, NJ, and has three more under construction.⁴¹ Ogden is also involved in recycling and toxic cleanup.

OGDEN FINANCIAL SERVICES:a subsidiary which arranges financing for Ogden's other projects.

PROPORTIONS OF BUSINESS: Operating Services accounted for 51% of 1989 pretax profit of \$94.6 million. Waste to energy accounted for 34% of pretax income. Financial Services brought in 13% and Toxic Waste the remaining 2%.⁴²

In 1990, Ogden ranked #74 on Fortune's list of 100 largest diversified service companies.⁴³

³⁷The Trentonian, 8/9/93, p.7.

³⁸Standard & Poor's Directory of Corporations, NY,NY 1993, and Business Week, 8/28/89, p.64.

³⁹Financial World, 11/10/92.

⁴⁰Telephone interview with Neil Seldman, President of the Institute for Local Self-Reliance, and member of the D.C. Environmental Planning Commission, 7/23/93.

⁴¹Orange County Register, 6/13/93.

⁴²Business Week, ibid.

⁴³Fortune, 7/30/90

Annual revenue is \$1.7 billion.⁴⁴ Ogden's shareholders received a total return (price increases plus dividends) of 18.6 percent in 1992. This compares to 7.58 percent for most large-company stocks. Ogden stock is rated very well by business analysts. Earnings are forecasted to increase by 12% this year.⁴⁵

Corporate Structure

Ogden Corp. is a parent organization; a full list of subsidiaries is available on page 5350-5351 of the 1993 Standard & Poor's directory. The most important subsidiaries are the wholly-owned Ogden Services Corp. and the 85% owned Ogden Projects, the waste-to-energy subsidiary.

Board of Directors:

The company as it currently exists was built by current Chairman, Ralph E. Ablon, who transformed it from a miniconglomerate which operated shipbuilding and Progresso Foods to a "pure service" global operation which manages airports, stadiums, and building services and plans forays into the "human services" sector. The company's current CEO is Ablon's son, Richard R. Ablon.

CHAIRMAN: Ralph E. Ablon
PRESIDENT & CEO: Richard Ablon
SR VP,GEN COUNSEL: L.H.Coit
VP & CONTR: R.M.DiGia
VP: N.R. Christal

VICE-CHAIRMAN: Abraham Zaleznik
EVP,CHIEF ADMIN OFCR: C.G.Caras
SR VP & CFO: P.G. Husby
VP & SECY: Kathleen Ritch

DIRECTORS:

Ralph Ablon
Maria P. Monet
Richard Ablon
Judith D. Moyers
D.M. Abshire
W.E. Mullestein
C.G. Caras
R.E. Smith

H.A. Neal
N.G. Einspruch
S.S. Penner
Rita R. Fraad
Frederick Seitz
Terry Allen Kramer
Abraham Zaleznik
Attallah Kappas

⁴⁴Orange County Register, 6/13/93

⁴⁵Forbes, 3/1/93, p. 137

DUNS #00-132-8053 Ticker symbol: OG

Number of employees:

Approx. 43,000 as of January 1993

Executive pay; worker pay and benefits

Executive pay is rather lavish. Financial officer Maria Monet earned "over \$730,000" in 1990, making her one of the highest paid female executives in the U.S.⁴⁶

In addition to his salary, Chairman Ralph Ablon received \$400,000 in dividends from his 0.42% share of the company's stocks. That does not cover bonuses.

Political connections/contributions, lobbies

The common thread in Ogden's diverse operations -- from selling hot dogs at stadiums to designing waste incineration -- is that they involve the public sector and, thereby, politicians. Before the 1986 tax law changes, the deals were even sweeter in the waste-to-energy sector. Ogden, rather than raise equity themselves, would contribute only 10-25%, getting municipalities to contribute the 75-90% remaining through revenue bonds. Municipalities would also contribute a debt service fee to Ogden as part of their fee for operating the plants. The municipality would have no final ownership of the plant. Why, asked a Financial World, reporter, would a town want to raise most of the costs, pay the plant maintenance and debt service costs, and not want any ownership?

Local politicians revealed they were philosophically opposed to public ownership. "We are not a profit-making organization. We are a municipality," offered Patricia Reiss, spokesperson for resource recovery for the town of Huntington, NY. Or this, from Aixa Aklan, comptroller of the pollution control financing authority of Warren County, NJ: "Technically privatization is better than the government running it."⁴⁷

Ogden paid \$15,200 in direct lobbying expenses in New Jersey in 1992 and paid \$19,000 in fees to legislative agents.⁴⁸

⁴⁶ Fortune, 7/30/90

⁴⁷ Financial World, 11/10/92, p.32-34

⁴⁸ "What about the people? An analysis of the New Jersey Lobby Disclosure Reports, New Jersey Lobby Disclosure Reports: Lobbying Expenses and Revenue for 1992, Common Cause New Jersey, Trenton, NJ 1993.

History/track record

Recent contracts awarded:

Anaheim, CA: Ogden built and will operate the Anaheim Arena for the next 30 years, keeping 80% of the profit. If they happen to snag an NBA franchise, their profit rate goes down to a mere 75%. With an NBA franchise, the company expects to earn \$1. million annually.

Anaheim, CA: Disney signed 30-year lease to use Anaheim Arena for the new hockey team, The Mighty Ducks.

Chicago sanitation, build and operate Materials Recycling and Recovery facility.

New Zealand: 10-year licence for ground handling support at Auckland International Airport.

Waste-to-energy: Ogden operates 24 facilities in the US and has 3 more under construction.⁴⁹

The future

Waste-to-energy is on the decline, but still strong. Environmentalists have convinced many communities not to engage in this toxic technology, and financial arrangements for the plants have proved disastrous to local communities. Waste incineration is falling out of favor, as communities must find ways to dispose of ash and as fees for burning are usually higher than landfill fees. "In hindsight," said a Wall Street Journal reporter, "the public sector got most of the risks and the private sector most of the rewards in building waste-to-energy facilities."⁵⁰ Waste-to-energy is concretely counterposed to recycling of solid wastes.

Ogden will probably expand its role in providing services through municipal and state contracts. Many of the top metropolitan areas are planning to build sports arenas, stadiums, and convention centers, and Ogden will try to expand its share of these facilities. According to Business Week magazine, Chairman Ralph Ablon is considering expanding to nursing homes, alcohol rehabilitation centers, or maybe prisons. Soon, many public sector unions battling privatization will meet Ogden.

⁴⁹Orange County Register, ibid.

⁵⁰Wall Street Journal, 8/11/93, from Dow Jones Newswires.
"Fading Garbage"

PAYCO: Privatizing Tax Collections

Payco GAC, Inc.

**a.k.a. Payco General American Credit
or Payco American Corp.
180 North Executive Drive
Brookfield, WI 53005
(414) 784-9035**

**"They get out the
baseball bats."⁵¹**

**200 Metroplex Drive
Edison, NJ
(908) 572-8800**

President, Chief Financial Officer: Neal Sparby

Chairman of the Board: Dennis G. Punches
Senior VP: Patrick Carroll
Executive VP, Chief Operating Officer: David S. Patterson

Employees: 3,179⁵²

Revenues: \$123.55 million in most recent fiscal year.⁵³

Net Income: \$5.8 million

SITUATION:

Payco has a new contract with the New Jersey Department of the Treasury, Division of Taxation, to collect delinquent taxes. In 1992, the Division of Taxation laid off 20 workers, then, in 1993, promoted 32 state workers into temporary tax collection positions. Payco was also

⁵¹Stockbroker John Laporte, discussing Payco in Barron's, 9/9/91, p.18.

⁵²above from Dow Jones News

⁵³The Business Journal-Milwaukee, 3/27/93.

contracted and has about 25 collectors working. State management has set up the state taxation workers in competition with the Payco workers to see who can collect more back taxes. The underlying threat is that Payco may take over all delinquent tax collections.

BUSINESS ACTIVITIES

Payco is one of the country's leading collection agencies, holding an estimated 65% market share.⁵⁴ Recessions, in a sense, are good for collection agencies, since there is a lot of debt to collect. Payco's stock is characterized as "sizzling," according to one financial world magazine. Payco has two expanding areas of collections work -- hospital debts and government programs. In the last year, Payco's accounts received from government have almost doubled from \$113 million to \$214 million.⁵⁵

BACKGROUND

In the late 1980s, Payco invested in a very sophisticated data base system which allows them to track people and accounts. They have a number of offices around the country. The largest shareholder in Payco is JP Morgan & Co., with almost 1.4 million shares of the company's 10 million.⁵⁶

SPECIAL LEGISLATION CLEARS THE WAY

New legislation was necessary in order to make the state's contract with Payco legal, but the Department of the Treasury issued a Request for Proposal, soliciting private bids, before any legislation was passed, at the beginning of October, 1992. Enabling legislation was introduced on October 22.⁵⁷ In testimony before the appropriations committees, CWA representatives protested the contracting and suggested that the Division of Taxation rehire some of the 150 workers laid off the previous fall. Though Taxation officials maintained that the contracting was to be temporary, intended to alleviate a backlog of delinquent collections, the union representatives feared a more permanent relationship would develop. They also expressed concern that standards of conduct and confidentiality would not be kept by private collectors.

⁵⁴Barron's, 9/9/91, p. 28.

⁵⁵BUSINESSWIRE, Brookfield, WI, 7/15/93, Payco letter to shareholders, Dow Jones Newswire.

⁵⁶Federal Filings, 6/26/93, Payco American Corp., Dow Jones Newswire.

⁵⁷Senate, No. 1300, 10/22/92, Senator Littell.

SERVICE AND COURTESY?

The workers' concern was well-placed. In a Christmas Eve, 1992, memo, Taxation Director Leslie A. Thompson had assured employees that the contractor, Payco, "would conduct themselves as we would when interacting with our taxpayers," and would match the division's "overall level of service and courtesy." But fewer than 6 weeks after Thompson's reassuring memo, the Wall Street Journal reported that Federal Trade Commission staff was recommending that a complaint be filed against Payco based on alleged violations of the Fair Debt Collection Practices Act.

FEDERAL TRADE COMMISSION CHARGES VIOLATIONS

On August 2, 1993, the FTC issued its formal complaint, asking the federal court to order injunctions and civil penalties against Payco. The FTC vote to authorize the complaint was 5-0. The compliant charges that Payco has illegally revealed consumer debts to third parties, has used obscene or abusive language, and has falsely threatened consumers with arrest or legal action. Payco representatives are alleged to have called consumers before 8 a.m. and after 9 p.m., falsely represented themselves as attorneys, harassed consumers at their work places, and used business and organization names other than their own.⁵⁸

SHIFTING RESPONSIBILITY TO "NON-PROFITS"

Care for many of the state's disabled, ill, or traumatized citizens is provided through a network of hundreds of programs run by non-profit organizations, which operate group homes, workshops, employment programs, counseling programs, shelters, clinics, and day programs. In the 1960s and 70s, large state hospitals for the mentally ill and retarded were commonly subjects of criticism and scandal for callous or abusive treatment of patients. Advocates for these populations favored care in community-based, smaller institutions. Most states, rather than

⁵⁸FTC News release, 8/2/93.

provide these community-centered programs themselves, began to use non-profit organizations to provide the care.

Many of these groups, like the Association for Retarded Citizens, Inc., began and still operate as advocacy groups, fighting for expanded rights and better lives for the disabled. When the state began to close large institutions, these organizations became care providers as well as advocates. They were joined by a host of other private non-profit groups, who entered the "care market." The vast majority of these institutions' income is from the state. (See Table 1)

The quality of care from these groups varies greatly. Some of the institutions are excellent and well-staffed with caring people. Others are scandalously neglectful. Though the state has standards which it is supposed to enforce, monitoring hundreds of small institutions is difficult and expensive. Often, group homes are warned when they will be inspected.

"DEINSTITUTIONALIZATION"

The process of "deinstitutionalization" -- removing people from larger state institutions -- has led to homelessness for many of the mentally ill or disabled. Often, people are released from institutions to "no address." The state of Massachusetts has led other states in privatization of human services, with disastrous results. In Boston alone, city officials and caregivers have blamed state cutbacks for the homelessness of at least 1,700 mentally ill individuals there.⁵⁹

And deinstitutionalization has often been accompanied by budget cuts.⁶⁰ The move from state institutional care to community care can often be "a stepping stone to no service at all," as one mother of a retarded child charged. Non-profit organizations carry out direct public fundraising appeals, such as the Easter Seals programs, and receive United Way funds to supplement state funding. Too often, though, those who "pay" for inadequate budgets are the disabled, through inadequate staffing and service, and the workers in these programs, through horribly low wages. In trying to solve one social problem, these institutions are creating another.

POVERTY LEVEL WAGES

According to the public relations officer for the Association of Retarded Citizens in New Jersey, typical wages for attendant instructors or care givers are \$6.50 an hour, often for part-time work, often without benefits. A full time worker earning \$6.50 per hour will earn only \$13,000 gross in 50 weeks, or about a thousand dollars below the 1991 US Department of Labor poverty level for a family of four - \$13,924. Keep in mind that this poverty level income should

⁵⁹Boston Globe, 7/24/92 p. 22.

⁶⁰For an excellent presentation of these issues, see Caring For The Disabled: The Future Is With AFSCME, published by the American Federation of State, County and Municipal Employees, 1625 L Street, NW, Washington, DC 20036, 1986.

be adjusted for two years of inflation, and that it is a national average. The cost of living in New Jersey is higher than the national average. The full-time workers also usually pay exorbitant fees to have their families covered by medical insurance.

Perhaps figures provided by the New Jersey Department of Community Affairs, Council on Affordable Housing will put these low wages in more perspective. They estimate low income for a single person in Mercer county at \$17,710 and low income for a family of four at \$25,300. That puts a full time worker in a non-profit group home almost \$4,000 below low income if they are single; \$12,300 below low income if they support three children.

Union-represented state Human Services Attendants, by comparison, are paid \$15,005 - \$21,007 per year, or from \$7.50 per hour to \$10.50 per hour. They also receive paid holidays, sick leave, pensions, health benefits, and at least 12 paid vacation days. Part-time state attendants receive proportional wages and benefits. (See table 2)

GENEROUS EXECUTIVE PAY

The executives of non-profits, however, are generally very well paid. The average salary of executive directors for seven sample non-profits in 1991 was \$67,204.⁶¹ Directors are also compensated with benefits and, often, "perks" like automobiles and cellular phones.

Directors' raises are usually generous; from 1990 to 1991 in four sample non-profits, they averaged 10.95% of salary.⁶² At the same time, state workers received 4.5% in negotiated salary increases.⁶³ Attendants and other workers at the non-profits, however, despite their already low pay, often received no raises -- some reported 2%.

Benefits from this system of care often spill over to other professionals, like doctors, accountants, and fundraisers who work with the programs. Budget pinches don't hurt these people the same way they hurt lower-paid caregivers and group home residents.

STAND-INS FOR THE STATE?

The non-profits become stand-ins for the state, most of their funds come from the state, and they "enable" the state to chronically underfund programs for the disabled and ill. By using non-profits to provide care, state officials are not directly blamed for poor or inadequate care. Or poverty-creating wages. There is no longer one place to fix the responsibility for programs. Is the

⁶¹Source: IRS Form 990 for Children's Aid Society, Cape May ARC, Salem ARC, SERV Centers, Easter Seals, Developmental Resources Corp. and Raritan Valley ARC.

⁶²Source: IRS Form 990 for Salem ARC, Easter Seals Society, Developmental Resources Corp., and Raritan Valley ARC.

⁶³Source: CWA Across the Board History Table.

state to blame for inadequate care and low wages, or is it the non-profit? How can the non-profit be blamed, when it is an advocacy group for the disabled? If you challenge low wages and inadequate care, aren't you hurting the organizations which help people? The non-profit system complicates the relationship between caregivers, the state, and the people the programs should serve.

WHAT ABOUT STATE SCRUTINY?

According to current and former state contract administrators, the state does not scrutinize salaries and expenditures very closely. Unless they find that money is being dishonestly spent, state oversight personnel have little to say about high executive salaries or poverty level wages. Group homes are under no obligation except to pay state minimum wage of \$5.05. And some of them do. Likewise, there is no particular ceiling on executive pay. The contracts between the state and the non-profit programs usually include a cost of living increase from year to year, which could be passed along to workers. The last increase given was 3.5%. Yet, the state does not insist that the cost of living allowance be spent in any particular way. Administrators said that "it is their call" how they spend it. If it all goes to executive pay, the state will not complain.

TURNOVER

Because of the often difficult work and low pay, there is a high turnover among direct care workers. A state contract administrator said that some group homes "were losing people to McDonald's," and the public relations director for ARC said that turnover negatively impacted the quality of care. One former worker at a Raritan Valley ARC group home said that the residents would taunt new staff, asking, "When are you going to leave?"

While non-profits directors will often claim that they are trying to get more money for staff, they do not fight very hard because they do not personally suffer. Their priority is maintaining a good relationship with the state departments. If they complain too much about underfunding, they fear loss of their contracts.

FIGHTING THE UNION

CWA and other unions have organized, or are attempting to organize, at several non-profits. Logically, it would make sense for non-profit administrators to unite with unions to increase state funding to these programs. But the non-profits fight the unions, often spending their state funds to keep workers unorganized and powerless. The Union Valley ARC spent over \$250,000 in legal fees in fiscal 1992 when an organizing drive was in full swing, and the Raritan Valley ARC has retained a prominent anti-union attorney to fight workers' attempts to organize.⁶⁴

⁶⁴The Star-Ledger, Newark, NJ, 8/5/93.

Despite the non-profits' anti-union behavior, workers in these institutions have shown their desire to have the right to a collective voice and a contract. In two locations, 90% of the eligible workers have signed cards calling for a union election. There's a legal problem, though: is the employer the state or the non-profit agency? The non-profits claim it's the state, and the National Labor Relations Board, the government body that oversees private sector collective bargaining, has refused jurisdiction. But the non-profits are not currently under public employee collective bargaining rules, either. In the meantime, workers who want a union are in limbo, with no clear rights.

SOME NEW JERSEY NON-PROFITS

**Association for Retarded Citizens, Inc., Raritan Valley Chapter
1100 Cornwall Road
Monmouth Junction, NJ 08852**

The Raritan Valley ARC provides residential facilities, advocacy services, public information, and recreational and leisure programs for retarded citizens.

Executive Director: Richard Sheridan
Salary: \$53,778 in 1991
Total budget: \$1,961,638 in 1991
Government funds: \$1,700,442
Employees: 130, mostly part time

Workers for the Raritan Valley ARC are attempting to organize through CWA Local 1039. The ARC has fought them bitterly. The director threatened, "If you think you're getting a raise out of this, you're dead wrong."

**Association for Retarded Citizens, New Jersey, Inc.
985 Livingston Avenue
North Brunswick, NJ 08902**

This is the statewide organization, which operates medical care programs, job placement, and corrections programs for the retarded, including Project Hire, which employs 38 job counselors who place retarded people in regular jobs. Local chapters provide community-based group homes, day programs, and family support. They report that 4,000 people are on waiting lists for ARC homes.

Total budget: \$2,456,031 in 1990
Government funds: \$1,805,326 "
Employees: 3,000 statewide

Children's Aid and Adoption Society of New Jersey
575 Main Street
Hackensack, NJ 07601

Children's Aid provides care and custody and cruelty prevention programs for children. They operate three group homes for disturbed adolescents and one for younger children, arrange foster care and adoption, and provide day care.

Executive Director: Grace Sisto
Salary: \$68,600 in 1991
Total budget: \$4,915,148 in 1991
Government funds: \$4,244,176

Developmental Resources Corporation
1130 Rt. 202 S
Raritan, NJ 08869

DRC operates community residential programs for mentally retarded adults and children under contract with the state.

Executive Director: John McCune
Salary: \$65,019 in 1991
Total budget: \$4,827,479 in 1991
Government funds: \$5,548,685

DRC received more than they spent in 1991. The state gave them a grant to purchase and renovate residential property in which clients live.

SERV Centers of New Jersey
532 West State Street
Trenton, NJ 08618

SERV provides residential, social educational and vocational services to youth and adults who have severe mental or emotional problems. They reported serving 632 individuals in 1990.

Executive Director: Steven E. Ramsland, Ed.D.
Salary: \$72,823 in 1991
Total budget: \$7,730,811 in 1990
Government funds: \$7,868,237 including Medicaid in 1990

The source of all above information is IRS Form 990 for each organization for each year. You can obtain this information by:

- 1) Inspecting the forms on-site. The IRS requires tax-exempt non-profits to make these forms available for public inspection. You may take a blank copy to fill in information. CWA has blanks available.
- 2) Request to see the forms at the Department of Law and Public Safety, Division of Consumer Affairs, Charities Registration Section, 124 Halsey Street, 7th Floor, Newark NJ. It is best to call ahead, write, or fax a request to see the folder for the organization you are interested in. You may make copies for a fee. (201) 504-6259
- 3) You can write to the Internal Revenue Service for copies of these forms, although this is reportedly a lengthy process. Call IRS for details.

CWA has copies of these forms for many non-profits at the area office, 10 Rutgers Place in Trenton.