No Welfare for Lockheed or Maximus

Private firms derailed in bid to take over county aid program

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published: July 29, 1999

A plan to let private firms manage a quarter of the county’s welfare cases has been derailed by its estimated cost. Three companies, including a subsidiary of defense contractor Lockheed Martin, had bid for the job, but none could underprice the county itself, according to a study by the county’s Auditor-Controller Office. And though the study has not yet been released, all the bidders were advised in writing this month of the county’s intent "to reject all proposals submitted . . . as not being cost-effective."

Labor and welfare-rights advocates cheered the news, though county officials insist that the issue is not entirely decided. The bidders will have an opportunity to dispute the study’s findings, and they may find support on the county Board of Supervisors, which has supported some past privatization efforts.

But for the moment at least, welfare will remain a government-run service, which makes union leaders ecstatic. "It’s not only good news for county workers, but now welfare participants are not going to have a huge corporation squeezing them so the company can make more profit," said Tanya Marie Akel, research associate for Service Employees International Union Local 660, which represents 40,000 county workers.

L.A. County’s rejection of privatized welfare would be a significant setback both for proponents of "contracting out" government functions and for the two particular companies seeking to grab as much profit from the welfare system as possible under the Republican-inspired 1996 welfare-reform package.

The two leading bidders in L.A. — Lockheed Martin Information Management Systems and the McLean, Virginia–based Maximus Inc. — also are the leading players nationally in this government-funded growth industry. Maximus, the nation’s largest welfare contractor, pulled in $32 million last year. A decade ago, Maximus also piloted privatization in L.A. County by managing a batch of welfare-to-work cases. Participation numbers in the program were dismal, and the county didn’t renew, although Maximus has defended its past work here as exemplary.

Lockheed Martin, which won't disclose its welfare earnings, is another major player nationally, and benefits from its name recognition as a subsidiary of the $26-billion-a-year defense contractor, the same company that not only helped build the munitions of the Cold War, but also designed the infamous $640 toilet seat. On the theory that a government contract is a government contract, Lockheed not only will build your bomber, but will also, depending on the jurisdiction, process parking tickets and track deadbeat dads.

The third company, which is bidding for only a portion of the contract, is a smaller player, The Training Institute of California.

Before these corporate powerhouses concede defeat in the county with the nation's largest welfare roll, they are likely to counter with a powerful challenge: We run welfare programs in other places, so why not here?

One reason is that other places don't have — or don't enforce — the county's stipulation that requires privatization to save money. The private contracts don't pencil out in part because of a federal law requiring close supervision of such firms, with the end result that privatization virtually guarantees adding a layer of bureaucracy.

"County personnel would be overseeing the contract workers," said Miguel Santana, a spokesman for Supervisor Gloria Molina. "That would reduce any savings because you're duplicating work."

The county Board of Supervisors remains sharply divided on the issue of contracting out, with Supervisors Mike Antonovich and Don Knabe in favor and Supervisors Molina and Yvonne Burke in fierce opposition, although Molina supports a welfare-to-work model managed by government.

Both union officials and Molina's office identify Supervisor Zev Yaroslavsky, a sometime liberal, as pushing for welfare privatization, but the supervisor's spokesman, Joel Bellman, said that his boss is really just open-minded. "We're never going to find out if there's a better way to do it if we always rationalize against" privatization, Bellman said, characterizing the opposition to contracting out as "ideological."

But much of the support for privatization is equally ideological, and the experience of local governments with it has been checkered. In an interview, Miami-area Urban League executive director T. Willard Fair was critical of the results, even though his organization partners with Lockheed in welfare case management. "You find clients having to go from station A to B to C to D for a lot of services that could have been supplied at station A," said Wills. "It's not set up so that clients get their needs met at one point."

In California, Lockheed ran into problems not with welfare, but with its contract to provide a computer system for tracking child-support payments. That effort ballooned into a $161 million cost overrun, and produced information that a San Francisco official memorably called "slime data."

Lockheed Martin spokesman Ron Jury calls the computer morass an anomaly for which Lockheed was not directly responsible, and points to other contracts that Lockheed has fulfilled successfully. But it's clear that for-profit companies are hardly the agile private-sector panacea to government ills that corporate ideologues claim.

Maximus has suffered from snarls as well. In Milwaukee, the placement of children in child care was backed up four months because Maximus employees had to be trained to do the placement work, said Gertie Purifoy, a union activist in Wisconsin. Milwaukee County lent two employees to Maximus to help the company staff learn the process. But while Maximus workers got to earn while they learned, parents who couldn't comply with welfare-to-work requirements because of child-care problems risked losing benefits. Maximus says the problems were only short-term: "After we start, there's a three-, four-, five-month ramp-up, but within a year we're operating more efficiently than the government entities we replace," said Russ Beliveau, the company's head of business development.

While welfare-rights advocates in Los Angeles have plenty of complaints about the county, they also assert that department administrators are usually open to criticism and change in ways they fear a corporation is not. And they add that the proper place for the Board of Supervisors to look for improvement is within the system. Some members of the board "think they need to replace county workers because of a lack of motivation, that bringing in Lockheed, with its own bottom-line motivation, will fix it," said Sam Mistrano, executive director of the Human Services Network, a partnership of county nonprofit agencies. "But the board, by not paying attention, lets the performance decline and then says, 'You're not doing a good job, let's privatize.'"