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Outsourcing Custodians in Tennessee: A Case Study of Bad Decision Making in higher Education

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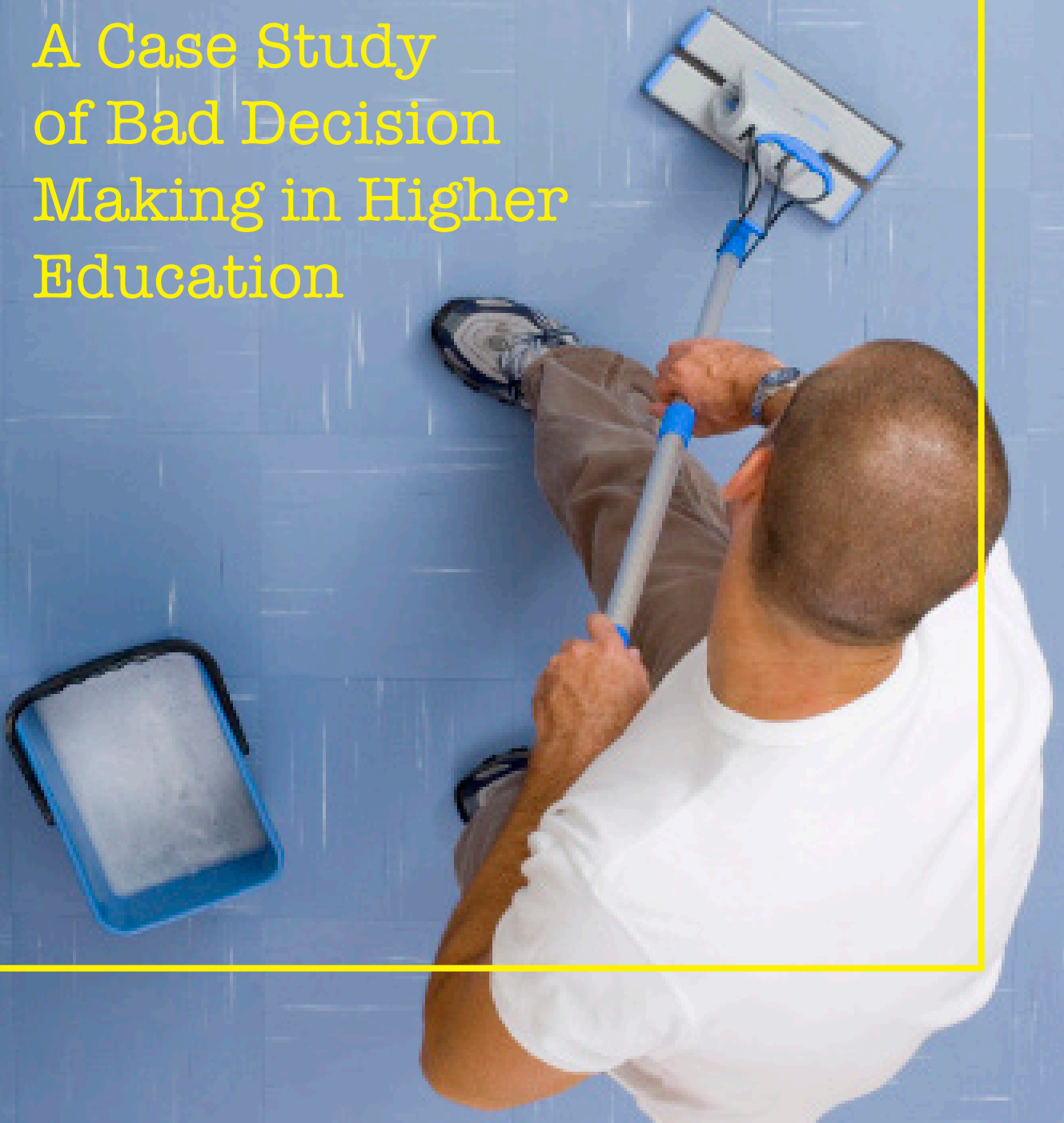
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OUTSOURCING CUSTODIANS IN TENNESSEE

A Case Study
of Bad Decision
Making in Higher
Education



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Foreward & Introduction

The following report has been a true undertaking. This undertaking would have been completely impossible without the generous support given by The Berger-Marks Foundation. The foundation's commitment to women, women workers, women worker leaders, and women worker leaders of the highest caliber at the forefront of labor organizing is of constant inspiration. The work, brilliance, and resilience of the project team was demonstrated time and again, and specific acknowledgement and gratitude is made of Michele Nyberg, Berger-Marks Fellow, Ace F. Madjlesi, M.A., and Lynda M. Sagrestano, Ph.D.

The report's principal author, David H. Ciscel, Ph.D., is Professor Emeritus of Economics from the University of Memphis. My own introduction with Dr. Ciscel came via two sources. I was first exposed to his work through *What is a Living Wage for Memphis?* and its two Updates. Having been long involved with living wage organizing and advocacy, I was immediately struck by the data-driven, research-based approach, calculating hard dollar costs for basic living expenses, and geographically specific outcomes recommendations. At this point I realized that I already knew Dr. Ciscel by extension. His son Andrew and I had been undergraduate colleagues together at the University of Tennessee, and like Andrew I too had worked as a campus employee while involved in the living wage campaign at UTK. I say I also knew Dr. Ciscel by extension specifically because of his intellectual commitment to scholarship as praxis – constantly deepening the understanding of concrete realities so that those realities can be altered.

Since the project's inception some things have been clear, coming in sharper and sharper focus throughout the process. First, a report that grapples with the questions herein is of real need and timeliness. The notion that large institutional actors should offload “non-essential” and “non-mission-critical” work, and that such outsourcing efforts have myriad benefits (e.g. “outsourcing will cost less,” “outsourcing leads to higher quality work,” “market actors specialized in that service area are more productive,” “outsourcing of non-essential services allows institutions to focus on mission-critical areas with greater focus and success”) has become ubiquitous. Such hypotheses gain added credence when applied to the outsourcing of government work, given the cur-

rency of narratives about the inherent inefficiencies of government and the dynamism that is unleashed anytime economic activity is moved out of the public sector and subjected to free market forces. And yet, research other than from anecdotal sources, especially research within neoclassical economics methodology that demonstrates and supports these claims through data analysis exists in an extremely asymmetrical proportion to the sheer amount of real world application of these outsourcing, privatization hypotheses.

Over the course of this research project a second fact has become crystal clear. It is the intensity of resistance that comes with subjecting the outsourcing and privatization hypotheses to academic observation. When the project was conceived, publishing sponsorship with a university-based research center was arranged. At the very first project meeting, discussion turned to possible ramifications the research center could hypothetically face for publishing the results, if the findings ultimately did not support perceived hegemonic conclusions. While all remained committed to the research, especially given aforementioned asymmetry in existing discourse, a consciousness of resistance to such a research project remained present at every project meeting.

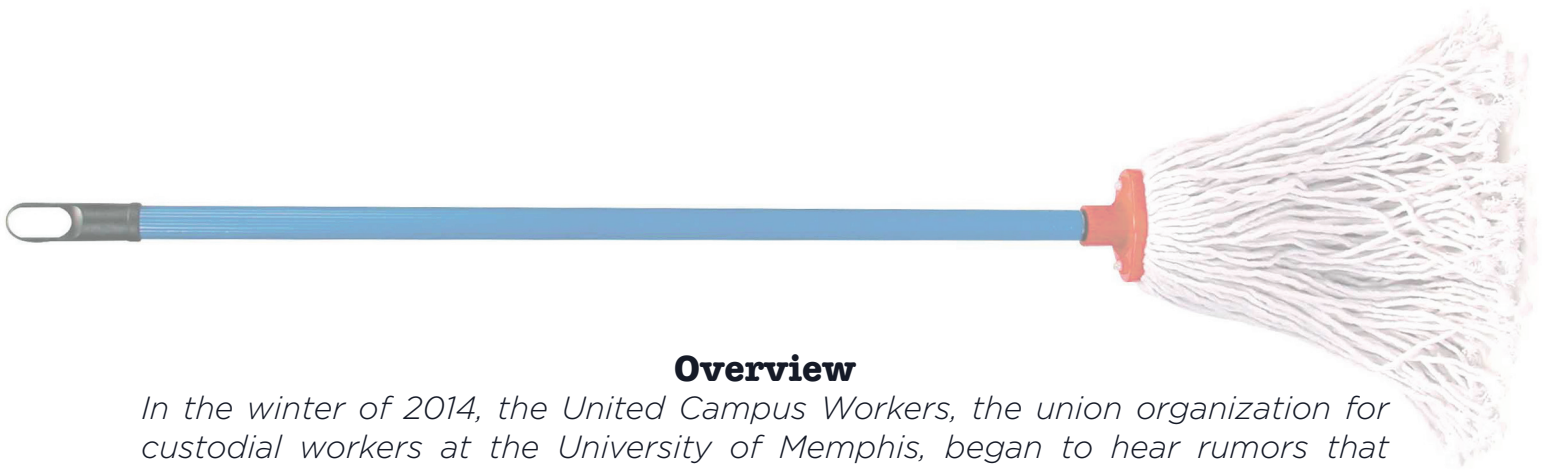
This resistance found other manifestations discussed throughout the report, specifically as regards the Tennessee Technological University (TTU) case study.

Becoming stymied by myriad forms of institutional resistance is not the conventional intention of research projects. And yet, by living through the process of demanding, gaining access to, and making sense of the public records in order to fully reconstruct an invoice history made the study's usefulness as a model that can be applied to other privatization instances grow substantially.

In essence this report narrates at three registers, two of which have already been outlined in this foreword: the hard, dollars and cents accounting of privatization costs and outcomes at the institutional budget level; a methodology that others are welcome to pick-up and reapply when studying outsourcing in varied contexts. And yet a third, extremely crucial narrative is to be found within these pages. Behind the charts and references are flesh-and-bone human beings, people with individual biographies, with families, living in broader communities.

It is to those workers that we dedicate this report, precisely because they shoulder the greatest costs, risks, and burden of physical labor in our modern world. These workers, predominately women and often African American, toil to make life easier for the rest of society. To treat them as commodities, to be bartered away to increase alleged production efficiencies, not only harms them but reflects poorly on the way we organize our economy.

— *Tom Smith*
UCW Organizer & Vice-Chair, Workers Interfaith Network (WIN)



Overview

In the winter of 2014, the United Campus Workers, the union organization for custodial workers at the University of Memphis, began to hear rumors that the University was going to re-structure to increase its efficiency. One of the obvious goals was outsourcing some more of the services that it provided for the University community.

This move to privatization of social services was not unique, nor surprising, but it is very hard to really demonstrate the efficacy of privatization. In general, the claims for outsourcing of the social economy do not seem strong since outsourcings are almost always associated with a diminished power and wealth of the workers who actually perform the day-to-day tasks. Civil servants' benefits and wages are all eroded by privatization. But proving this assertion with facts is almost as hard as proving the assertions of the pro-privatization proponents.

Tennessee Tech University (TTU) was chosen as the case study to understand what might happen at the University of Memphis for several reasons. TTU is in the same university system as the University of Memphis, both are governed by the Tennessee Board of Regents (TBR). It had made the decision to outsource in 2102, so there were almost two years of experience with privatized custodial work. The data from TTU included good labor cost information from the TBR - names, job titles and yearly wages/salaries, and the contract with Service Solutions (SSC) was clear and presented cost per square foot information for different segments of the campus.

What happened at TTU?

TTU was facing a budget crisis in its 2011-12 fiscal year due to the impact of the Great Recession. Like many other Universities, state funding was falling while tuition increases were not covering financial needs. TTU economist Jon Jonakin noted that the first meeting of a TTU Custodial Services Ad Hoc Committee drove home “the need to cut \$1 million dollars from the budget...”. While the custodians had strong support from the faculty and from the United Campus Workers (UCW), the decision to outsource/privatize custodial services seemed preordained.

TTU outsourced its custodial services to SSC Service Solutions in a long and complex contract signed on February 10, 2012. The first contract was in effect from May 1, 2012 through April 30, 2014. There is enough public data available to allow for a basic comparison between the public provision of custodial services by TTU and the outsourcing of these same services to the private contractor: SSC Service Solutions, a division of Compass Group. It is instructive to note at the outset that the data clearly show that privatization/outsourcing does not have the positive outcomes that are predicted. Outsourcing does not really save much money while it requires a change in the labor employment system where the custodial employee no longer receives a comprehensive benefit package as part of their employment contracts.

Several sections of the 2012 outsourcing contract were put in place to protect the jobs of the custodial workers at TTU. The new Contractor agreed to employ a current employee of the University who was terminated by the outsourcing of the custodial services; to retain current

employees for at least six months after Service Solutions took over (E.7.10), and to give current University employees with at least 15 years of service the choice of staying with the University with both their wages and benefit packages (E.7.11). Service Solutions also agreed not to discriminate against employees or applicants for custodial positions and to be in compliance with the American with Disabilities Act (E.7.14).

But SSC Service Solutions certainly did not promise to provide the kind of wages or benefits that TTU had as an employer. In particular, Service Solutions did not agree to a defined benefit retirement system or heavily subsidized health care insurance. Custodians’ wages, averaging \$8.20 before privatization, were not high enough to allow them to buy benefits (pension or health) unless they were paid for by the employer.

What had TTU provided its custodians?

The University kept good records on the cost of labor for the two academic fiscal years before the contract was awarded. In 2009-10, the University employed 59 custodians and, in 2010-2011, it employed 61. All but one of these custodians worked full-time – 1950 hours per year under the State of Tennessee’s 37.5 hour week for state employees. To oversee these custodians, in 2009-2010 the University employed 4 Custodial Lead Workers (5 in 2010-2011) and 4 Custodial Supervisors.

TTU offered a very low hourly wage, but it contributed significantly to the benefit package. The basic (average) salary for custodial workers at TTU was \$16,018 (\$8.21 per hour) in 2009-10 and \$15,991 (\$8.20 per hour) in 2010-11. In 2010-11, on

average, Custodial Lead Workers earned \$19,098 per year (\$9.79 per hour) and Custodial Supervisors earned \$30,548 per year (\$15.67 per hour). The US poverty threshold in 2011 for a family of four was \$23,021 (\$11.81 per hour), so that typical TTU custodial worker at TTU with a family was living in poverty.

The University benefit package offered partially paid health insurance premiums. In addition, TTU covered the cost of a defined benefit (TCRS) retirement contribution (15.03 percent of wages paid by the State), and FICA (7.65 percent of wages for Social Security and Medicare). There was also an offer of a 401(k). Plus, University employees are usually offered other University-based benefits, e.g. reduced admission to University events, tuition reductions, etc.. While TTU does not compute the total value of its benefit package, all US state and local public service workers in the US have benefit packages worth 52.6 percent of wages. The University of Memphis calculates its benefit

package at 55.2 percent of wages for hourly employees. This cost of providing custodial services study assumes (1) that all custodians participated in the benefit program and (2) that the TTU benefit package was similar in value to the one offered by the University of Memphis. No data were available on the actual percentage of TTU custodians who signed up for the full benefit package. The analysis consequently provides a cost estimate that is probably higher than the actual total compensation costs.

The total labor costs of the custodial services at TTU were \$1,139,485 in 2009-10 and \$1,193,155 in 2010-11. Assuming all employees opted for the full benefit package, the total labor compensation costs for in-sourcing custodial services at TTU would be approximately \$1,743,231 (2009-10) and \$1,824,895 (2010-11).

In summary: The cost of using University employees (both custodians and their supervisors) was:

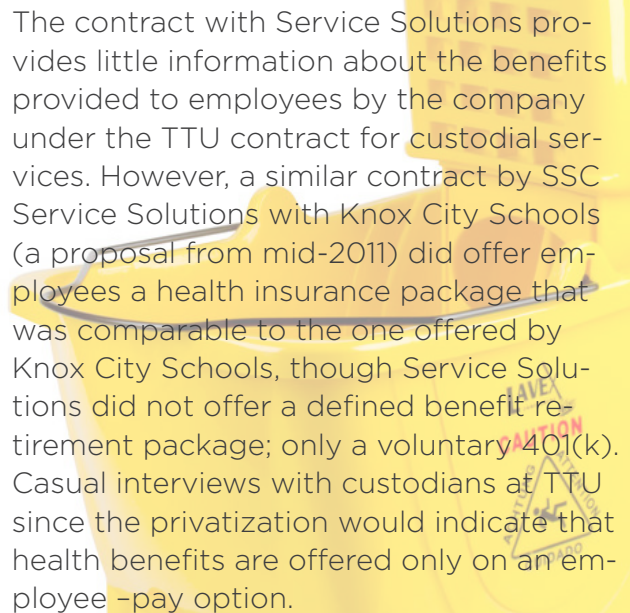
	2009 - 2010	2010 - 2011
Wage Costs Only	\$0.60 per square foot	\$0.63 per square foot
Wages and Benefits	\$0.92 per square foot	\$0.96 per square foot

The University costs per square foot do not include supplies and equipment. Documents released by TTU show that SSC spends about 18 percent of their contract costs on equipment and supplies. A table provided by TTU indicates that they spent 12.6 percent of all costs on operating expenses (supplies and equipment), but the table that computation comes from has questionable numbers concerning wages and benefits. Using basic labor

costs for TTU and the SSC equipment/supplies rate, the cost of equipment and supplies may be in the range of \$250,000 per year, around 13 cents per square foot. That would push the total cost of custodial services provided by TTU into \$2 million range – assuming full benefits for all custodial employees – to around a \$1.05 per square foot.

What Did SSC Service Solutions provide?

Data is often not as readily available for companies that outsource. Service Solutions does not break down its labor and capital costs in a way that separates labor, management and capital costs (interest and profit). Like the University, Service Solutions must pay its labor, buy its supplies, and own or lease its capital equipment. Unlike the University it must earn a profit on its investment to stay in business. In Attachment A to its contract with the University, Service Solutions provides the cost of cleaning each building on campus plus the square footage of each building. The Contractor agreed to clean all the 1,383,610 square feet in the academic building for \$1,411,262 per year (\$1.02 per square foot). The Contractor agreed to clean the 520,112 square feet of the resident life buildings for \$320,518 (\$0.61 per square foot). That is a total contract price of \$1,731,780 (a price that does not include provision of special services). The cost per square foot for both kinds of building averages out to \$0.91 per square foot. In addition, Service Solutions charges extra for handling special events on campus, both athletic and non-athletic. Finally, the Service Solutions contract provides prices per square foot for cleaning to APPA Level 2 standards (cleanliness at the level of ordinary tidiness) for various types of space. These prices range from \$0.55 per square foot for carpeted offices and general public space to \$1.25 per square foot for research labs and auditoriums. However, it is not clear from the contract proposal that Service Solutions promises to clean all TTU facilities' to APPA Level 2 cleanliness standards.



The contract with Service Solutions provides little information about the benefits provided to employees by the company under the TTU contract for custodial services. However, a similar contract by SSC Service Solutions with Knox City Schools (a proposal from mid-2011) did offer employees a health insurance package that was comparable to the one offered by Knox City Schools, though Service Solutions did not offer a defined benefit retirement package; only a voluntary 401(k). Casual interviews with custodians at TTU since the privatization would indicate that health benefits are offered only on an employee-pay option.

What is the Real Impact of the Privatization?

The Service Solutions contract with the University in 2012-14 (\$0.91 per square foot) is basically the same as the wages plus benefit costs of University providing the service (\$0.92 to \$0.96 per square foot). The wage cost per square foot that the University paid was \$0.60 to \$0.63 per square foot. The total cost of the Service Solutions contract (\$1,731,780) was less than \$100,000 less than the total labor/management costs of TTU providing its own custodian services (\$1,824,895 in 2010-11).

How can Service Solutions afford to clean TTU for about the same amount of money that the University paid its workers in the two previous years in wages and benefits? It is the \$.32 per square foot in benefits that University employees earned that makes the difference. The privatizing firm's argument is that outsourcing works because in the long run, the benefit package for the outsourced employee is smaller or non-existent. After all, at TTU,

the average custodial wage was less than a \$1.00 per hour above the minimum wage. Wages for janitors in the Cookeville, TN area (both public and private) averaged \$9.85 per hour in 2012. It would be hard for Service Solutions (after the initial six months) to pay a much lower hourly wage than the University was already paying. Benefits make the difference. By law, the Contactor must pay the legal benefits for Social Security and Medicare (7.65 percent of salary), but after that benefits are mostly optional for the Contractor.

The Contractor must also pay for its supplies, its equipment, its management, plus it must earn a profit out of the \$.091 per square foot. Typically,

Compass Group, the parent company of Service Solutions, earns 6.7 cents profit (EBIT) on every dollar of service that it sells. Since approximately \$.060 to \$.070 per square foot is going to basic wage costs and Social Security/Medicare contributions, and approximately \$.16 per square foot goes to equipment and supplies, the Contractor must find the rest of funds somewhere. There are only three places where that money can come from: (1) a lower custodian wage, (2) a reduction in the benefit package, or (3) lower cleanliness standards for the University.

Reply from TTU

The original version of this report was released to union members and faculty at TTU in April 2014. However, in late May 2014, TTU officials released a series of tables purporting to show costs of custodial work at TTU before privatization and after privatization with SSC. The tables indicated that this report's findings had been incorrect and TTU expenditures on custodial work before privatization were wildly higher than our calculations above. And they claimed that SSC had actually invoiced TTU for far less than the contract

called for, that privatization had led to significant savings for the university; something this report claims is not the case. From the first review of the tables,

the TTU announcement and data did not seem credible. However, there were no data on which to refute their claims.

The United Campus Workers put in a request through Tennessee's open records law to secure the data that would confirm or refute TTU's claims. The request did not receive a response until September, when UCW received a stack of paper almost 24 inches high. The paper was a random nonchronological mix of invoices, work orders, and memos related to custodial work at TTU.

After examining the documents, two conclusions were apparent. First, there were no new data relating to the cost of TTU

“There are only three places where the money can come from: (1) a lower custodian wage, (2) a reduction in the benefit package, or (3) lower cleanliness standards for the University.”

custodial work before the privatization. However, our analysis had been based on Tennessee Board of Regents (TBR) employment records. It was clear that the May TTU tables had used two years of data – or parts of two years of data. TTU claimed \$1.8 million in simple labor costs on their tables, over \$600,000 more than the data from the Tennessee Board of Regents indicates. Dividing the claimed labor costs by the average salary of a TTU custodian before privatization resulted in a number of custodians that almost twice as large the number recorded in official TBR records. The data provided by TTU on ‘in house’ provision of custodial services just is not credible.

Second, the data delivered to the UCW on SSC work indicated that the cost of servicing TTU with custodial services was actually higher than (1) the contract that TTU and SSC had signed, and (2) was very close to the estimated cost of TTU provided services before privatization. SSC invoiced

TTU for \$1,812,365 during fiscal 2013 (July 2012 through June 2013). That is about \$100,000 more than the initial contract. Of that increase almost \$56,000 was for special services – cleaning for conferences and sporting events. But TTU had neglected to include an additional cost of privatization. Seven TTU employees had long enough service to the Univer-

sity that they were allowed to remain University employees while working for SSC on a day to day basis. That subtracted \$117,000 from SSC billing but these employees added to the overall cost of custodial work performed by SSC. The actual cost for fiscal 2013 for SSC to provide TTU’s custodial services was \$1,929,030. If you look at SSC’s invoices for calendar 2013, the results are similar \$1,962,555. That is, SSC was actually collecting between \$1.01 and \$1.03 per square foot for cleaning TTU buildings and properties.

Privatization at the University of Memphis

The University of Memphis is now looking at ways to cut costs through outsourcing/ privatization. The University issued an

RFP (Faculties Management and Operations Review) in 2014 that looked for a study of the operations of the non-teaching segments of the institutional operations. The contractor

“The data...on Service Solutions Cleaning work indicated that the cost of servicing TTU... was actually higher than the contract that TTU and SSC had signed, and was very close to the estimated cost of TTU provided services before privatization.”

was hired by the University to “identify and streamline value-added steps and eliminate waste and unproductive activities” and “Determine the Business Structure that is most compatible with targeted service and expenditure levels...” (Page 29 of the RFP). In a 1/24/2014 memo from VP David Zettergren, he stated that the purpose of the review is “to identify and

recommend the Business Structure (i.e. the mix of resources, organizational structure, and operative practices) that will optimally deliver those services.”

Included in the analysis of the business structure of the University is a review of the delivery of custodial services at the University. It is instructive area to study since it is, in the end, so small. Restructuring custodial services may improve or harm the actual delivery of cleaning services for university facilities, but it is clear that while privatization/outsourcing of these services saves very little money, the change can bring harm to the structure of the University community, and the change could wreak havoc with the financial lives of the custodians.

In advance of the actual study, the University is already restructuring the operation of part of physical plant operation. In a 2/6/2014 memo, AVP Dean L. Hansen indicated that custodial workers will move from four operating shifts per day to three operating shifts where most employees will be assigned to the new graveyard shift (11 pm to 7 am). The goal was increased productiveness through adoption of new cleaning technology and the increased efficiency of the delivery of custodial services. The reorganization allowed the elimination of nine positions – all vacant at the time of the memo – to save a total of \$209,513 in salaries. The impact was to clearly remove the custodians from the activities of the University (in time rather than in space). This restructuring takes a small class of people – poor, female, African American workers and eliminates their potential interaction with the scholarly, training and social components of the University community.

The University of Memphis has already begun a small experiment in outsourcing of custodial services at its Lambuth campus in Jackson, Tennessee. The contract between UM and GCA Education Services, Inc. (a closely held corporation headquartered in Knoxville) is a five year contract that provides small increases in fees (2 cents per square foot) each year of the contract. GCA cleans all 132,206 square feet of academic space for \$1.02 per square foot in 2013, increasing to \$1.10 per square foot in 2017. In Jackson, TN, the mean wage for a janitor was \$10.05 per hour in 2013. However, the contract completely fails to address several issues.

- There are no wage standards for custodians employed by GCA
- There are no benefits for employees (other than legally required taxes for Social Security and Medicare) required of GCA.
- There are no APPA Levels of cleanliness required of GCA.
- GCA is being paid a relatively high cleaning fee (\$1.02 per square foot) at UM/Lambuth compared to the contractor at TTU (\$0.91 per square foot).

What benefits has this contract brought to the University of Memphis? The contract certainly does not provide any method of measuring the efficacy of the privatization/outsourcing.

Current State of Custodians at UM

The custodians at the main campus of the University of Memphis are facing a difficult financial future. In the fiscal year

2013-2014, these employees earned an average salary of \$19,140 per year (\$9.82 per hour). Forty-four percent of the custodians hold the rank of Custodian I. These entry level custodians earn, on average, \$17,683 per year (\$9.07 per hour). The Poverty Threshold in 2013 was \$11,720 for one person and \$23,482 for a family of four. Custodians earn less than double the single person poverty threshold and clearly far less than the poverty threshold for a family of four. A living wage allows the worker to live independent of social assistance or charity. In today's economy, a living wage is usually about twice the Poverty Threshold. UM's custodians live far below that independence signified by a living wage.

The financial position of custodians has not improved in recent years. Looking back to the 2008-2009 fiscal year, the typical custodian earned \$17,758 per year. By the 2013-2014 fiscal year, the mean salary had increased by just \$1,382 per year - a 1.51% per year grow rate of their yearly wages. Inflation during the years 2008-2013 rose at the 1.59% per year. The typical custodian at UM did not keep up with inflation. That means that the typical custodian could buy slightly less food and rent a slightly less comfortable apartment in 2013 than in 2008.

Benefits are a mixed blessing because they insure tomorrow, they don't provide for today. Benefits take care of the future: ill health, retirement, education for children, and other events that occur through life. The University provides a health insurance package that is comprehensive and is heavily subsidized. In addition, custodians are able to join the State's fully-paid defined-benefit retirement program, TCRS. Finally, the University offers many

other smaller benefits from life insurance to tuition assistance for family members that can be a useful in the future and even offer assistance towards social mobility for the family as a whole. These benefits are important earned benefit, but don't make up for the poverty wages earned by these custodial workers.

Finally, it is important to note two characteristics of the UM custodian. Not only are they near the bottom of the wage scale at the University of Memphis, they are also typically women and typically African-Americans. The University is an organization - that through its educational mission - attempts to provide the skills and training for its student body that allows them to attain the American Dream of upward social and economic mobility. And here are a group of employees - women and African-American - who have historically been denied participation in the American Dream. And they are being paid less and provided fewer opportunities for advancement than almost anyone else at the University.

Life at the Top

By contrast, it is worthwhile noting the financial condition of those people making the decision whether or not to privatize/ outsource. In general, high level administrators tend to make about ten times the salary that custodial workers make. At the University of Memphis, during the 2013-2014 fiscal year, the nine Deans earned an average salary \$227,680 per year (\$116.76 per hour). The eleven Vice Presidents, Vice Provosts and Provost earned an average salary of \$191,878 per year (\$98.40 per hour). Since 2008-2009 fiscal year, the Deans saw their average salary increase by \$58,673 (6.14% per year) and

the Vice Presidents, etc. saw their salaries increase by \$16,093 (1.77% per year). Not only did the top administrators see increases in salary that were as large or larger than the total salaries earned by all custodians, but a portion of the benefit package earned by administrators (the pension) rose proportionately with their salaries, so that their high incomes continue into retirement.

While the salaries of top university administrators are vastly larger than the workers who clean the building and the administrator benefit packages are far superior also to those of the custodians, the gulf between the custodians and the top UM administrators is small compared to the typical income gulf in US business companies. That is to say, the University retains, even in its current income structure, the vestigial notion of a community of scholars. Universities are separate from the mainstream of American economic life. They focus on the altruistic motivations for improvement rather than the self-interest motivations.

Several companies provide services to Universities in Tennessee. The disparity between top and bottom pay is far more dramatic than it is inside the University of Memphis. Executive pay packages are unavailable for Compass Group or GCA Educational Services. But the basic pay package – before benefits and stock options -- of Aramark CEO Eric Jones is \$4.76 million. The top five executives in Aramark have a basic pay package that averages \$1.89 million per person per year (\$909 per hour) – 99 times the basic wages of the UM custodian.

To Outsource or Not

The decision to restructure the management and delivery of services inside the University is fraught with perils, but there are three clear outcomes to privatization/outsourcing;

- Employees are clearly separated from the community of scholars, reducing interaction and benefits for poor, female and African-American workers.
- Employees lose financial and social benefits when they are transferred from University employment to a privatized corporate provider. The biggest loss is the defined benefit retirement package, but other benefits seem to also erode in the transition.
- The money savings are generally insignificant. The University management loses control over its own services.

Outsourcing custodial services needlessly impoverishes the university workers who already had the least in exchange for cost savings that are greatly exaggerated or non-existent. This experiment has been a failure in the case studies covered in this report and should serve as a warning for other institutions considering similar plans.

