The At-Risk-Youth Industry

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In August of 2000 the National Center for Children in Poverty, at Columbia University, released a study showing that despite the country's recent economic boom, 13 million American children were living in poverty -- three million more than in 1979. For most Americans that was unsettling news, but for a small group of publicly traded companies it represented an opportunity. As the ranks of children living in poverty have grown during the past two decades, so have the ranks of juveniles filing through the nation's dependency and delinquency courts, typically landing in special-education programs, psychiatric treatment centers, orphanages, and juvenile prisons. These were formerly run almost exclusively by nonprofit and public agencies. In the mid-1990s, however, a number of large, multi-state for-profit companies emerged to form what Wall Street soon termed the "at-risk-youth industry."

The financial incentives were compelling. In 1997 Sun Trust Equitable Securities, one of the nation's leading investment firms, published a forty-five-page report titled "At-Risk Youth... A Growth Industry," which estimated that annual public spending on youth services amounted to \$50 billion. The report appeared shortly after Congress passed the 1996 Welfare Reform Act, which included a provision allowing for-profit companies to tap into child-welfare funds that had previously been reserved largely for nonprofit agencies.

The SunTrust report documented an array of disquieting social trends -- including rising numbers of children living with single parents and in working-poor families that from the industry's perspective sounded like good news. "Not only has the raw number of abused and neglected children increased," SunTrust observed, "but... the rate of children reported as abused and neglected has increased from 28 per 1,000 children in 1984 to 43 per 1,000 in 1993." A diagram titled the "Privatization Spectrum" showed how companies could profit as children cycled "from the schoolhouse to the jailhouse," passing through one publicly funded, privately run facility after another. Arrows marked the flow of kids to companies offering programs in special education (a \$32 billion market), child welfare (\$12-\$15 billion), and juvenile justice (\$3.5 billion). No arrows indicated how these children might one day exit the system and lead ordinary lives.

Today, five years after the release of the Sun Trust report, the prospects for the at-risk-youth industry are less rosy. Claims that contracting out social services would improve efficiency and lower costs have not panned out -- and the projected windfalls for private contractors have failed to materialize. Many state and local governments, however, continue to entrust social services to profit-driven companies. Examining the records of some of the industry's leaders highlights the substantial social costs of doing so.

Consider the Pahokee Youth Development Center, a 350-bed facility for "moderate-risk" youth, set on the northern edge of the Everglades and opened, in 1997, by Correctional Services Corporation, one of the nation's largest at-risk-youth companies. James Slattery, CSC's co-founder and CEO, promised that the facility would save taxpayers money while turning out "reformed, treated youths." But in 1998 an independent monitor assigned by the state found inadequate staff training and insufficient medical services, and the Florida Department of Juvenile Justice's inspector general confirmed numerous cases in which staff members had used "unnecessary and improper force" against youths.

CSC -- which denied requests for interviews -- seemed more interested in finding creative ways to maximize revenue than in rehabilitating kids. Although the state paid the company some \$2.5 million a year to provide education, Pahokee failed to maintain proper student records, and for several weeks in the 1998 school year it held no classes whatsoever. A company document has revealed that CSC intentionally delayed the release of ten juveniles so as to maintain the head count, which determined payment. The following year, after Pahokee failed its second state quality-assurance review, CSC canceled its contract, and the facility was taken over be another company.

Children's Comprehensive Services is another case in point. CCS grew out of a Tennessee-based prison company named Pricor, which in 1994 was \$10 million in debt. Five years later, in 1999, when CCS was at its peak, it had programs in fourteen states and annual revenues of \$115 million. William J. Ballard, the company's CEO and the man largely responsible for the turnaround, is a businessman who specialized in mergers and acquisitions and came to CCS with, he says, "no background in treatment or education" of children. In 1998, at a CCS psychiatric-treatment center in Montana, two suicides and three attempted suicides occurred within fifteen days; allegations in a lawsuit brought by the State of Montana attributed the deaths to chronic understaffing, which investigations by three outside agencies seemed to support. (Children on suicide alert were left unsupervised.) Understaffing and low pay are common cost-cutting techniques among for-profit providers of social services, for whom staff salaries are by far the largest expense.

Ramsay Youth Services, based in Coral Gables, Florida, began as a chain of psychiatric hospitals. Luis Lamela, the president and CEO, is a businessman who worked for Florida's first licensed health-maintenance organization. The one thing Ramsay will never do, Lamela told us in an interview, is warehouse kids -- yet he also spoke about Ramay's clients in language that might startle children's advocates. "It's a product-to-market approach," he explained. "We view everything as a product." He then opened a binder he called the "product-market matrix," in which charts displayed sex-offender programs, psychiatric-treatment centers, and other Ramsay services, all cross-listed with states where a rising demand for these services has been projected. Treating neglected children, Lamela said, is essentially no different from manufacturing widgets.

To be sure, problems in the youth-services field are by no means confined to the private sector. In both the mental-health and juvenile-justice fields, in fact, it was government's failure to provide adequate care that paved the way for privatization: a series of class-

action lawsuits in the 1970s and 1980s forced states to shut down many abusive government-run mental-health institutions, and the 1974 Juvenile Justice and Delinquency Prevention Act provided states with federal funding to develop community-based treatment services as an alternative to incarceration with adults. A small contracting empire arose in response, with millions of dollars made available to private providers of services. During this first wave of privatization, contracts were awarded mostly to nonprofit and mom-and-pop organizations, many of which pioneered small, local programs in which staff members could develop close relationships with youths. Not until the 1990s did large, multi-state, for-profit companies -- some, such as Wackenhut and Correctional Corporation of America, having earlier cut their teeth in the adult prison industry -- become major players in the bidding process. They were enticed, in part, by the per diems attached to juveniles, which are higher than those for adults. (Juveniles are eligible for rehabilitative services such as education and mental health.)

When assessing the strength of these companies, Wall Street analysts have focused not on treatment methods or philosophy but on capacity. Investment reports highlight each company's recent acquisitions, referred to as "wins," and tally up the number of new "beds/slots." Although some companies do run a variety of smaller programs, industry leaders admit to a preference for large facilities. "I look at it in terms of size," Luis Lamela says. "What we look for is the achievement of economies of scale."

The trouble is that large-scale institutions rarely offer individualized treatment. According to Barry Krisberg, the president of the National Council on Crime and Delinquency, a substantial body of evidence shows that smaller programs are more conducive to rehabilitation. One NCCD study found that youths from Massachusetts, a state that runs mostly small-scale programs, had lower rates of recidivism than youths from California, which relies heavily on large institutions. In 2000 an array of leading advocacy groups, including the National Urban League and the American Youth Policy Forum, issued a report calling for a shift in resources away from large-scale, prison-like facilities and toward community-based, early-stage treatment and prevention programs. "Along with large facilities comes too few staff for too many kids," Krisberg says. "Administrators start to resort to stringent security measures -- shakedowns, lockdowns -- and the facility starts to look and feel like a prison... There's replication of the conflicts in the streets."

Not only can privatization lead to abuses but it doesn't even necessarily save money. In Alabama, for example, after a 1993 federal court order required that the state improve rehabilitative services for juvenile delinquents, the Department of Youth Services quickly turned to the private sector. Among the companies that won contracts were Ramsay, CCS, and an Alabama-based company named Three Springs. Henry Mabry, the state's finance director at the time, told us that he first grew suspicious in 1999, when the DYS, whose budget nearly tripled from 1993 to 1998, approached him with a request for \$24 million in supplemental funding over the next two years. Shocked at the amount of the request, Mabry examined the contracts and discovered not only that empty beds were available in less costly, state-run facilities but also that there were huge disparities in

funding rates: some providers, including CCS, were being paid as much as \$142 a day per child, whereas others received less than \$70.

Almost every private contract issued by Alabama's Department of Youth Services from 1994 to 1998 was awarded without any request for proposals or competitive bids; state records show that Ramsay, CCS, and Three Springs were all clients of the Bloom Group, a powerful Montgomery lobbying firm. And James Dupree, who had been the director of the DYS during the peak period of privatization, became a lobbyist for Bloom shortly after leaving public office, in September of 1998.

CCS was at one point even paid to provide services for children in Alabama who were never under its care: in 1998 a CCS boot camp served an average monthly population of 10.66 children but was paid a flat rate to serve forty. In February of 1999 the Regional Alliance 4 Children, an umbrella group of children's advocates and judges in southern Alabama, learned of this from an internal DYS memo indicating that the department had doubled the program's funding despite a history of problems, including poor staff training and psychological abuse of children. The author of the memo, a monitor named Alan Dodson, expressed disbelief that the state was allotting CCS additional funding, given that during the previous year CCS had served barely a quarter of the children it was paid to serve. Judge Charles Fleming, a member of the Regional Alliance, found the increase particularly baffling in view of the fact that Pathway, a local family-owned program with an excellent reputation, was on the brink of closing for lack of funds. Fleming and other prominent children's advocates, including Sue Bell Cobb, an Alabama judge who chairs the Children First Foundation, say that, unfortunately, Mabry and the current administration failed to clean up the DYS bidding process, depriving Alabama of much needed programs for at-risk youth.

Such problems arise in state after state. As Elliot Sclar, a professor of urban planning at Columbia, points out in his book *You Don't Always Get What You Pay For: The Economics of Privatization* (2000), states often fail to conduct internal cost assessments to determine what private contractors should be paid, even though there is clear evidence that companies frequently tailor their bids to accord with such assessments. Many states also invest inadequately in monitoring.

Monitoring youth services has become especially challenging in recent years, because in the mid-1990s government agencies began shipping juveniles across state lines. In 1999 Florence Simcoe, a former clinical director at Century HealthCare, which operated treatment centers for mentally disturbed children in Phoenix, told the *Chicago Tribune* that she marketed her company's services to officials in Illinois. At-risk children, she said, were "bodies that we got \$300 a day for." Barry Krisberg highlights the problem. "We have less regulation of the interstate commerce in troubled kids than of meat products," he says.

If the track records of both government and for-profit providers are unimpressive, how should we care for our troubled young people? A visit we paid to Youth Environmental

Services, a residential treatment program in Hillsborough County, Florida, suggest one path.

YES is a thirty-five-bed facility operated by Associated Marine Institutes, one of the oldest nonprofits in the juvenile-justice field. It houses kids who are moderate-risk offenders -- the same category as those assigned to Pahokee when Correctional Services Corporation ran the facility. Unlike many other juvenile-delinquent programs, YES has no fences or locked doors. "I've been in facilities where just to man the security devices -- watching cameras, unlocking doors -- takes twenty-five employees," Bob Weaver, the head of AMI, says. "We achieve security at our programs by investing in people and keeping staff levels high." YES has one staff member for every three youths. AMI runs numerous other programs along the same model, with intensive staffing, no fences, and an emphasis on rehabilitation. AMI's Yes program ranked near the middle of the pack in a 2001 study by the Florida Department of Juvenile Justice, which analyzed costs and recidivism rates; six of AMI's other programs ranked among the top ten most effective in the state.

Back in the early, heady days of the at-risk-youth industry, it seemed likely that nonprofit providers would soon be forced out of business. Their inability to obtain capital from investors or to lobby lawmakers (because of their tax-exempt status) appeared to place them at a competitive disadvantage. But nonprofits have resources that for-profits do not -- volunteers, charitable donations, freedom from investors' demands. Although some nonprofit and mom-and-pop providers have engaged in abuse and profiteering of their own, in general they have a stronger commitment to community-based rehabilitation programs than their for-profit counterparts. In many cases, too, nonprofits have grown out of the same communities as the kids they serve. This can motivate them to ride out economic downturns, and they can maintain services without having to worry about quarterly earning reports.

Five years ago Wall Street had almost limitless hopes for the at-risk-youth industry, but times have changed. Although all but one of the at-risk-youth companies we spoke with in our initial research are still in operation (the exception is CCS, which was bought out in January of 2002 and is now part of Keys Group Holding), their profits have stagnated, their stock prices have fallen, and current prospects for growth are uncertain. The problem, according to Bob Weaver, is a basic one: "There just isn't enough money in serving these kids to deliver quality and still turn a profit."

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