

# **Your Tax Dollars At Work...Offshore: How Foreign Outsourcing Firms Are Capturing State Government Contracts**

**prepared for WashTech**

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**July 2004**

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## Executive Summary

This report is the first systematic national analysis of offshore outsourcing of state government work, focusing on information technology and food-stamp call centers. While “offshoring” by the private sector – especially high-tech companies – has received extensive media attention, a growing number of offshore contractors are also gearing up to capture contract work from state governments. We find that:

- Offshoring is going on to some degree in just about every state government.
- At least 18 firms that specialize in offshore outsourcing are positioning themselves in no fewer than 30 states to capture a larger share of the state government market, especially in information technology services. See below for details.
- The 18 firms have already captured at least \$75 million worth of work and are seeking more by gaining access to qualified-contractor lists, hiring former government officials from the “revolving door,” and even making state electoral campaign contributions.
- The total amount or value of state contract offshoring cannot be estimated, because most state governments do not know where their contracted-out service work is performed. State officials know whether work is done onsite at the offices of the agency that commissioned it or offsite, but “offsite” could mean the other side of town or the other side of the world.
- Because subcontracting is so common, states are often unaware of the exact identity and location of the company that is ultimately performing the work. States award contracts to U.S. firms and assume the work will be done domestically, but then the company subcontracts to an offshore firm.
- Companies that appear to be domestic sometimes are not. States may think they are dealing with a U.S. firm because it has a domestic mailing address, but sometimes that address is just a marketing office for a company that is based offshore; other firms are technically headquartered in the U.S. but do all or most of their work in offshore facilities.

In summary, we find that foreign information-technology contractors are aggressively poised to capture more state government work. State policymakers are not well-positioned to respond, since they often lack the most basic information necessary to determine who is actually doing contracted work and where.

The lack of adequate state data required us to perform a very labor-intensive, indirect investigation. We first had to cobble together a list of more than 300 firms, mostly foreign-based, that are known to specialize in offshore outsourcing. Then we had to assemble, from each state individually, lists of firms that have received contracts as well as lists of firms that have registered and/or qualified as vendors. We then matched the two lists. As a result of this matching, we identified 18 offshore outsourcing firms, mostly from India, that are involved in the state government market. (They are listed below.)

This methodology is very conservative and clearly misses a great deal of offshore outsourcing. It does not include the use of offshore subcontractors by U.S. firms or cases in which a U.S. contractor has some offshore facilities but still retains a significant domestic presence. Certainly, many of the large U.S. companies that outsource some of their work offshore are also major contractors to state governments.

We also carried out the first comprehensive investigation into the use of offshore outsourcing by the food-stamp call centers that states have set up as part of the federally-mandated replacement of paper food stamps with electronic benefit transfer (EBT) systems. The discovery that some of these telephone help desks were operating out of India and Mexico sparked the controversy over state government offshoring more than a year ago. Outraged that a social safety-net program for unemployed and working-poor Americans was creating jobs offshore, many state legislators reacted to the revelations by introducing bills aimed at restricting offshore outsourcing.

Interviews with EBT officials in every state and the District of Columbia reveal that:

- Before the offshoring controversy began, the call centers for 42 states and the District of Columbia were operating offshore. In most cases, this occurred because the states gave EBT contracts to Citibank Electronic Financial Services, which in turn subcontracted the call center work to an Indian firm called Msource. (In 2003 Citibank sold the business to J.P. Morgan Chase, which continued to use Msource.) A smaller number of states ended up with offshore call centers through their EBT contracts with eFunds Corporation or Affiliated Computer Services Inc.
- As a result of the controversy, one state (New Jersey) has brought its call center back to the United States, and five states (Arizona, Kansas, North Carolina, Oregon and Wisconsin) are planning to do the same.
- Eight states (Illinois, Iowa, Maine, Mississippi, Montana, Ohio, Texas, and Wyoming) avoided the use of offshore call centers because they hired EBT contractors that used domestic facilities.

- Apart from the handful of states that are arranging to bring the call center work back to the United States, the remaining state customers of J.P. Morgan, eFunds and Affiliated Computer Services have agreed to let their call centers remain offshore.
- It is not possible to accurately estimate how much of the approximately \$250 million the states spend on the EBT program goes to the offshore call centers, because the vendors refuse to give states an itemization of costs.

Between the food stamp call centers and other contract awards, we were able to document involvement by nearly every state in offshore outsourcing of government work. Given the data limitations discussed above, it's likely that the remaining states do some offshoring as well.

In our policy conclusion, we argue that states need to pay more careful attention to offshore outsourcing. At the very least, states should follow the lead of Minnesota and Missouri in creating requirements for contractors to disclose where they plan to perform the work. Such disclosure should apply to existing as well as future contracts, so that state officials can do meaningful audits of current work. In the course of implementing these changes, states should also make sure they have a complete picture of the contracts that have been awarded by individual agencies. To summarize:

- Each state should require all contract bidders to certify where the work on the project will be performed;
- Each state should require all contract bidders to disclose the name and headquarters location of their parent company;
- Each state should require existing contract holders to provide the previous two pieces of information; and
- Each state should create a comprehensive centralized database of contract awards by all state agencies.

Once in possession of this information, state officials will be able to see the full extent to which offshoring is contributing to the export of jobs, which in turn may prompt more states to follow in the footsteps of Arizona in prohibiting the practice.

The time to adopt public policies to address this issue is now—while government offshoring is still somewhat limited—not when it has already become a pervasive and entrenched practice.

**ATTACHMENT 1: OFFSHORE OUTSOURCERS THAT ARE TARGETING THE  
STATE GOVERNMENT MARKET IN THE UNITED STATES**

- Auriga Inc. (headquarters in Russia and Amherst, NH)
- HCL Technologies (Mass.) Inc. (headquarters in Quincy, MA; subsidiary of Indian firm)
- HTC Global Services Inc. (headquarters in Troy, MI; main facilities in India)
- ICICI Infotech (headquarters in Edison, NJ; unit of an Indian conglomerate)
- I-flex Solutions (headquarters in India)
- Infosys Technologies Ltd. (headquarters in India)
- Intelligroup Inc. (headquarters in Edison, NJ; main facilities in India)
- Larsen & Toubro Infotech (headquarters in India)
- Luxoft (headquarters in Russia)
- Mascon Information Technologies (headquarters in India)
- Patni Computer Systems Ltd. (headquarters in India)
- R Systems Inc. (headquarters in India)
- Satyam Computer Services Ltd. (headquarters in India)
- SSI Ltd. (including SSI North America, SSI Technologies and SSIT; headquarters in India)
- Surya Technologies (headquarters in India)
- Syntel Inc. (headquarters in Troy, MI; main facilities in India)
- Tata Group (including Tata America International, Tata Consultancy Services, TCS America and Tata Infotech; headquarters in India)
- Wipro Ltd. (including Wipro Infotech and Wipro Technologies; headquarters in India)

**ATTACHMENT 2: BREAKDOWN BY STATE OF THE PRESENCE OF 18 OFFSHORE  
OUTSOURCING FIRMS ON LISTS OF VENDORS**

*Alphabetical*

Arizona (5)  
 California (11)  
 Colorado (4)  
 Connecticut (11)  
 Florida (5)  
 Georgia (9)  
 Indiana (3)  
 Iowa (1)  
 Kansas (2)  
 Kentucky (6)  
 Louisiana (5)  
 Maine (1)  
 Massachusetts (7)  
 Michigan (2)  
 Minnesota (10)  
 Missouri (9)  
 Montana (5)  
 Nebraska (2)  
 Nevada (1)  
 New Hampshire (3)  
 New Mexico (2)  
 New York (3)  
 North Carolina (9)  
 Oregon (8)  
 Pennsylvania (4)  
 South Carolina (8)  
 Texas (6)  
 Virginia (7)  
 Washington (1)  
 Wisconsin (1)

*Rank*

California (11)  
 Connecticut (11)  
 Minnesota (10)  
 Georgia (9)  
 Missouri (9)  
 North Carolina (9)  
 Oregon (8)  
 South Carolina (8)  
 Massachusetts (7)  
 Virginia (7)  
 Kentucky (6)  
 Texas (6)  
 Arizona (5)  
 Florida (5)  
 Louisiana (5)  
 Montana (5)  
 Colorado (4)  
 Pennsylvania (4)  
 Indiana (3)  
 New Hampshire (3)  
 New York (3)  
 Kansas (2)  
 Michigan (2)  
 Nebraska (2)  
 New Mexico (2)  
 Iowa (1)  
 Maine (1)  
 Nevada (1)  
 Washington (1)  
 Wisconsin (1)