

A Primer on Private Sector Success in Managing Prisons

PUBLIC-PRIVATE PARTNERSHIP IN AMERICAN CORRECTIONS



Today, federal, state and local governments face intense fiscal challenges. Budgets must become smarter, and political leaders are examining innovative approaches for long-term cost control. A proven strategy is the use of public-private partnerships to deliver a few key government services. Corrections is a prime example - the construction and operation of prisons, jails and detention centers.

“There is considerable evidence that private prisons actually improve quality and cut costs ... Privatization can offer increased innovation, access to expertise, improve quality and enhanced accountability.”

Geoffrey Segal

Director of Government Reform,
Reason Public Policy Institute (RPPI), January 2002

Over the past 20 years, prisons operated by the private sector have become an increasingly important component of America's correctional system. When the first contract was awarded in the early 1980s, private prisons were viewed as a radical experiment. Now, federal, state and local correctional agencies routinely partner with the private sector to build and manage correctional facilities.

- *Industry founded in 1983 with Corrections Corporation of America's relationship with the Bureau of Immigration and Customs Enforcement*
- *Approximately 14% of Federal inmates are in private prisons*
- *Approximately 6% of State inmates are in private prisons*

MEETING A GROWING NEED

An estimated 2.2 million individuals are incarcerated in our country today and rates of inmate population growth continue to rise annually. More than 14 percent of all federally sentenced offenders and approximately 6 percent of state prisoners are currently managed by privately-operated corrections management companies - and those figures are growing.

Today, more than 100,000 inmates are housed at approximately 150 privately-operated facilities across the United States. More than 30 states, the District of Columbia, all three federal corrections agencies (the Federal Bureau of Prisons, the U.S. Marshals Service and the Bureau of Immigration and Customs Enforcement), along with dozens of local county agencies now partner with private management companies.

Numerous states — including Alaska, Colorado, Hawaii, Idaho, Mississippi, Montana, New Mexico, Oklahoma, Tennessee, Wisconsin, Wyoming and Vermont — house between 20 to nearly 50% of their inmates in private facilities. Texas has the largest overall privatization program with more than 40 facilities capable of handling nearly 30,000 inmates.

Even more important, the presence of competition in a traditionally government-operated service has changed the landscape of corrections significantly. The healthy partnership that is growing between public and private corrections is enhancing the quality of services, keeping operational costs in check and raising the overall levels of standards for the United States corrections industry.

By generating significant savings both in the construction phase and during ongoing operations, private prisons allow their government partners to dedicate scarce resources to other pressing priorities, including health care, education and public works projects.

Benefits of public-private partnerships

- *Enhanced quality of services*
- *Operational costs contained more efficiently*
- *Increased levels of standards and accountability*

*“The empirical evidence is consistent with economic theory, which predicts that with privatization, costs will fall and quality (however defined) may rise.”**

Harvard Law Review
May 2002

Today, with the majority of states facing severe budget shortfalls, and the Federal Bureau of Prisons experiencing rapid growth in inmate populations and construction needs, competitive sourcing is seen as an attractive complement to government-run correctional operations.

But like other innovative approaches to providing public services, prison privatization has critics who raise valid questions. Do these public-private partnerships really work? How well do private prisons measure up against government-run facilities? Are private prisons safe?

Corrections systems that develop long-term strategies that include public-private partnerships have achieved effective results, representing significant savings to taxpayers.

A growing body of independent research stretching back over a decade lends support to legislators, correctional officers and policy makers who believe prisons managed by the private sector in partnership with local government play a beneficial role in the correctional system.

A review of the most up-to-date studies focusing on cost, quality and safety suggests that private prisons measure up extremely well to government facilities. While results vary from state to state, private prisons consistently have been found to deliver levels of quality and safety that equal or exceed government-run facilities at a significant cost savings.

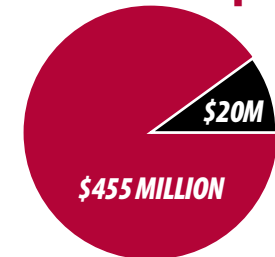
HOW DOES PUBLIC-PRIVATE PARTNERSHIP FIT INTO AN OVERALL CORRECTIONS STRATEGY?

Studies suggest that competition from private prisons benefits government-run facilities as well. A study by Vanderbilt University professors found the use of privatization by state corrections departments resulted in lowering the rate of growth in those states' public corrections operating expenditures. Among the study's findings:

PRIVATIZATION RESULTS IN SLOWER GROWTH OF PUBLIC CORRECTIONS EXPENDITURES

- *From 1999-2001, states with public-private partnership experienced lower growth in their public corrections system costs. Privatization usage resulted in reduced growth in daily costs for the public corrections system by 8.9%, about 4.45% per each budget year.*

Savings Through Public/Private Partnership



- Average Non-Privatized State Annual Corrections Expenditures
- Potential Savings on Public Costs from the Private Sector's Lower Operating Costs

- *In 2001, the average Department of Corrections expenditures in states without private prisoners were approximately \$455 million. If the “average” state were to introduce public-private partnership, potential savings for one year could be approximately \$20 million in the public system's operating costs alone. Additional savings would*

come from the private sector's contracted lower operational costs (numerous studies estimate private management contracts average 5 to more than 20% lower than public operating costs).

- Evidence suggests that the greater the percentage of privatization, the lower the rate of growth in costs per public prisoner. From 1999-2001, states with no privatization had an 18.9% growth in daily costs for public prisoners. In stark comparison, states with more than 20% of privatization experienced only 5.9% growth. States with less than 5% of prison privatization experienced a 12.5% growth in public corrections expenditures. (James Blumstein/Mark Cohen Report, "The Interrelationship Between Public and Private Prisons," April 2003)*

In the early 1990s, the State of Tennessee compared costs at private and government prisons. During the comparison period, costs at government prisons declined by 4% -- a testament to the benefits of competition. (Douglas McDonald, et al., "Private Prisons in the United States: An Assessment of Current Practice, 1998)

A research report by the Washington Policy Center concludes that one solution for the nation's correctional challenges is competitive contracting for

prison construction and management. The article asserts, "Throughout the nation and the world, vigorous competition among public and private firms is used to reduce the high cost of incarceration, while maintaining the high quality of service local communities expect." The report also contends that, "Through competitive contracting for detention services, the government can take full advantage of the competitive pressures inherent in the free market." (Washington Policy Center, "Private Prisons: A Sensible Solution", 2001)

A report by the Wisconsin Policy Research Institute indicates that Wisconsin's substantial use of out-of-state private prisons since 1998 has saved the State significant dollars and recommends that state leaders should expand Wisconsin's use of corrections privatization. The report gives options to Wisconsin policymakers to consider including authorizing privatization with provisions for guaranteed savings, selling prison assets to private firms, authorizing a Wisconsin private prison and privatizing other prison services. (Wisconsin Policy Research Institute, "Corrections Privatization Generates Savings and Better Services", February 2003)

A GOVERNOR'S ASSESSMENT

As Colorado Governor Bill Owens states in a CCA annual report, "Privatization of government services introduces competition to public sector areas that were once immune from such initiatives. This competition makes governmental agencies operate in a more cost-conscious fashion and challenges public officials to look at new ways of doing business." Colorado presently has about 15% of their inmates in privately-operated facilities. Governor Owens has suggested a 70/30 ratio of public to private as optimal for the long-term corrections strategy for the state.

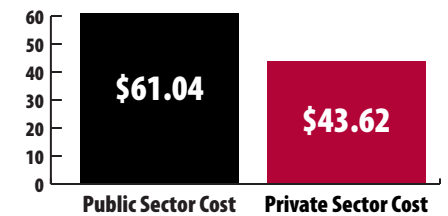
DO PRIVATELY OPERATED PRISONS REALLY SAVE MONEY?

A series of studies conducted by corrections agencies, think tanks and academic professionals confirm that private prisons produce substantial cost savings, both in the initial construction phase and on an ongoing operational basis.

The Reason Public Policy Institute (RPPI), examined 28 studies that compared cost data for private prisons to government-run facilities in different states. Of those studies, 22 found that private prisons generate significant budget savings. The most rigorous of these reports found savings generally fell in the range of 11-17%. (RPPI, January 2002)

The 2001 Corrections Yearbook suggests these estimates may be modest. Its latest report indicates that the average daily cost of housing an inmate in state and federal prisons was \$61.04 compared to \$43.62 in private prisons - a savings of nearly 29%.

Public vs. Private Sector Cost



REPORT FROM THE STATES...

- A series of Arizona studies compared a 444-bed private prison to 15 government-run prisons and found cost savings of between 11-17 percent. (Charles W. Thomas, Arizona Joint Legislative Committee, August 1997; "Public-Private Prison Comparison," Arizona Department of Corrections, October 2000)*

- A report by the Texas Criminal Justice Policy Council found that private prisons produced cost savings as high as 23 percent. (Texas Criminal Justice Policy Council studies, 1991-2001)

- The Michigan Department of Corrections estimates that a private youth correctional facility saves between \$2.5 million to \$6.9 million annually based on comparisons with similar state-run facilities (Michigan Privatization Report, Winter 2003).

The State of New Mexico partners with the private sector for approximately 45% of the state's inmate population. In a study of New Mexico's corrections expenses by the Albuquerque Journal (May 23, 2002), the newspaper found that the average daily cost/inmate in the state's 5 private-run prisons was \$52.08 compared to \$91.53 in 5 state-run facilities. While there may be service factors that contribute to this difference, the private facilities are saving the state over \$40 million per year on the 4,471 inmates housed in these private operations.

WHY ARE PRISONS OPERATED BY THE PRIVATE SECTOR MORE COST EFFECTIVE?

First, private firms are free from time-consuming and costly government procurement rules that often delay construction. While governments typically require 36-60 months to build a prison, private firms can complete the work in about half the time, generating significant savings on construction costs. One private firm set what must be a record by building and opening a 100-bed juvenile correction facility in less than 90 days. (Cathy Lazere, "Privatizing Prisons," CFO: The Magazine for Senior Financial Executives, February 1997)

REPORT FROM THE STATES...

- In Delaware County, PA, a group of private firms built a prison in two years less than it took government authorities to build a similar facility in a neighboring county - at a cost savings of 40 percent (\$56 million vs. \$93 million). As a result, Delaware County is saving an additional \$1.5 million every year in lower debt costs. (Paul Kengor, Allegheny Institute Report No. 99-09, 1999)
- A 350-bed facility was completed in Houston, TX in 5 1/2 months at a cost of \$14,000 per bed.

The Immigration and Naturalization Service had estimated a construction time of 30 months and a cost of \$26,000 per bed. (RPPI, January 2002)

"The experiences of Texas, Louisiana and New Mexico demonstrate that private prisons are a good alternative for states seeking to reduce cost and improve quality in their corrections services."

Washington Policy Center
2001

Second, private prisons apply innovative construction techniques and modern correctional technology that ensure not only a safe environment, but also reduce costs. These design efficiencies allow private prisons to reduce administrative expenses and operating budgets.

In addition, private prisons are also not subject to government civil service requirements that often hinder efficient personnel management. As a Harvard Law Review article put it, "Because they are not bound by civil service rules in managing their personnel, private prisons use roughly one-third the administrative personnel of government prisons and use incentives to reduce sick time and conse-

quent overtime expenditures." Moreover, "... private firms are free from many bureaucratic purchasing rules and can often buy supplies at lower cost than the government." (Harvard Law Review, May 2002)

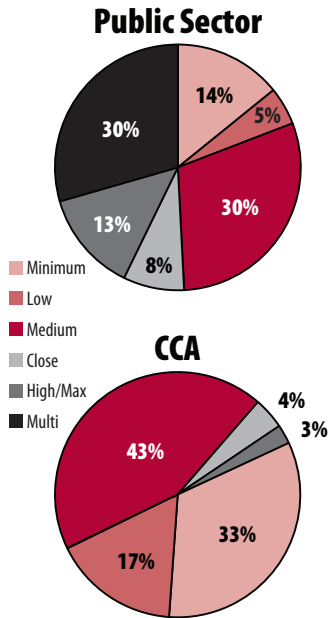
According to an analysis by the U.S. Department of Justice, private prison operators also are able to generate savings because their labor costs are lower than labor costs in public prisons. While many private corrections companies offer competitive wages, their benefit levels may be lower. According to the Wisconsin Policy Research Institute the State of Wisconsin, in the case of correctional officers, pays 44.3 cents in benefit costs for every dollar paid in salary. A private operator's benefit levels for correctional officers may typically run up to 30 cents for every salary dollar, figures that are more in line with business applications. Savings generated from these various cost efficiencies result in lower contracted per diems by the private sector.

ARE COSTS LOWER AT PRIVATE PRISONS BECAUSE THEY OPERATE ONLY LOWER SECURITY FACILITIES?

Some critics of contracting corrections responsibilities to the private sector have argued that the private sector has had success because it has primarily

dealt with minimum security inmates -- those who present management with the least problems.

CCA vs. Public Sector Security Level Comparison



Actually, private prisons have experience with correctional facilities of all sizes and security levels. Private firms have built and operated jails, prisons and detention centers that house inmates ranging from minimum to maximum-security levels. They currently manage juvenile and adult facilities and institutions that serve both male and female inmate populations.

The 2001 Corrections Yearbook reported that as of January 1, 2001, the private sector was responsible for

the secure housing of 45,669 inmates in prisons with medium security levels or higher and 23,238 inmates in prisons with minimum/medium security or lower.

Data taken from the 2001 Corrections Yearbook examines security levels at public and private sector corrections facilities. The chart includes comparisons between CCA (the largest private provider of corrections) and the public sector.

DO PRIVATE PRISONS SACRIFICE QUALITY FOR LOWER COSTS?

No, in fact, there is strong evidence that private prisons outperform government-run facilities on a wide variety of quality measures.

Of 18 quality studies analyzed by Reason Public Policy Institute, all but two found that private prisons perform as well or better than government prisons. (RPPI, January 2002) These findings are confirmed by other data.

The American Correctional Association has established rigorous accreditation standards - 450 separate criteria that measure quality of management, operation and maintenance. As of 2001, some 45% of private prisons won accreditation by the ACA

compared to only 10% of government-run prisons. Nearly 85% of facilities operated by CCA are ACA accredited. (*American Correctional Association, Commission on Accreditation for Corrections, 2001*)

This focus on operational excellence is one of the main reasons why, according to a 1998 report by the Council of State Governments, over 18 percent of state agencies cited high quality service as a rationale for contracting for private prisons. (*RPPI, January 2002*)

Several states have turned to private prisons to lift court orders, imposing the meeting of court-mandated standards as a condition of the contract.

Reason Public Policy Institute
January 2002

In addition to independent quality studies and ACA accreditation, there are other ways to compare how private prisons perform next to government-run facilities. One method is to review the history of court orders and litigation directing correctional authorities to improve their facilities. In 2001, according to RPPI, 13 states had their entire corrections departments under court order to relieve unsatisfactory conditions and 15 states had at least one facility under court

order. No privately run prison has ever been placed under court order for problems with conditions.

The rate of re-incarceration can be another indicator of quality. More than 50% of all sentenced inmates repeat a crime upon their release and are re-incarcerated. Both public and private sector corrections agencies strive to reduce recidivism rates by offering programming for inmates to change behaviors.

According to research by Lon Lanza-Kaduce and Scott Maggard of the Center for Studies in Criminology and Law of the University of Florida, recidivism rates for private prisons in Florida were nearly 14% lower than government-run prisons. To help reduce recidivism rates and return inmates to productive lives, CCA and other private firms have developed effective, targeted programs in the areas of education, vocational training, religion, counseling and substance abuse. Several of these programs - such as CCA's LifeLine, an intensive, long-term therapeutic community substance abuse treatment program - have become models for other corrections facilities.

ARE PRIVATELY MANAGED PRISONS SAFE?

Yes, privately managed prisons have strong records of safety. Operating safe prisons, jails and detention

centers is the foremost goal of any corrections system – public or private. Private corrections managers have stringent contractual obligations that promote safe environments, including staffing patterns and training mandates for all correctional officers. Internal and external audits are routinely conducted, and private operators who follow American Correctional Association standards must adhere to strict operational guidelines that promote safety and security.

Private operators are held to an extremely high standard of accountability. These private companies are at continual risk of losing their management contracts or facing financial penalties if they do not meet performance expectations of their customers. These rigorous standards improve operational security levels. Although data comparing safety issues at private and government-run prisons is less widely available than cost and quality data, private firms have overall performed well.

In fact, CCA's escape rate in adult prisons is significantly lower than the average rate for the public sector.

From 1999 to 2001, the escape rate in adult public sector prisons was 5.51 per 10,000 inmates.* From 2003 to 2005, CCA experienced only a 0.10 escape rate per 10,000 inmates.

REPORT FROM THE STATES...

• *Researchers from Louisiana State University comparing public and private prisons found that private facilities “reported fewer critical incidents, provided safer work environments for employees and safer living environments for inmates, and had proportionally more inmates complete basic education, literacy, and vocational training courses.” (Harvard Law Review, May 2002)*

• *A study for the Arizona Department of Corrections found that private prisons demonstrated superior performance in public safety issues. (Arizona Department of Corrections, 1997)*

THE INCREASING CALL FOR COMPETITIVE SOURCING

Over the past two decades, more than half of all states, all federal and numerous local agencies, legislators and governors have concluded that private providers can play an integral role in their corrections systems.

The best research available shows that public-private partnerships lead to better-run and more efficient correctional systems overall.

The U.S. government and nationally-recognized organizations are making stronger cases every day for com-

petitive sourcing by state, federal and local agencies.

• *At the federal level, President George Bush has voiced that agencies should be required to compete out a certain percentage of commercial functions each year. He has called on federal agencies to compete at least ten percent of these positions in 2003. The White House expects savings from competitive sourcing to range between 20 and 30 percent.**

• *At the state level, a recent national report that offers ten strategies for cutting state budget deficits recommends applying antitrust to government by introducing competition in service delivery. The report notes that not only will private vendors produce savings through innovation, advanced technology and a commitment to customer service but also competition will challenge public employees to find ways to enhance efficiency. Another of the report's recommendations is to turn capital assets into financial assets by selling or leasing government assets and enterprises.***

• *Similarly, a significant conclusion in a report by a national think tank stated that states should explore opportunities to save money by privatizing state services, thus turning current budget problems into opportunities to weed out excessive and waste-*

*ful spending added during the boom years.****

• *Another nationally known institute has recognized that when government begins to embrace competition, government employees' services become much more competitively-priced themselves. A commentary gives the example that the Office of Management and Budget asked private printers if they could beat the Government Printing Office's quote for printing the 2004 federal budget. The GPO cuts its price 23 percent (\$108,370) and kept the work. The commentary also references that charter schools in Philadelphia have implemented benchmarking systems that the public school system is now working to emulate in similar fashion.*****

Public-private partnership works in all areas of government. Corrections, with a 20-year track record in competitive sourcing, may simply be the best industry example this nation has that partnership does indeed lower costs and improve quality.

**The President's Management Agenda, Office of Management and Budget, Fiscal Year 2002*

*** Show Me the Money: Budget-Cutting Strategies for Cash-Strapped States, The American Legislative Exchange Council and The Manhattan Institute for Policy Research, July 2002*

**** States Face Fiscal Crunch after 1990s Spending Surge, CATO Institute Briefing Papers, February 2003*

*****Privatization Watch, Reason Public Policy Institute, Feb. 2003*

RESOURCE REFERENCE GUIDE

Listed below are a number of recent studies and reports that CCA has recognized as offering useful information about public-private partnerships, specifically in corrections, but also in general government services as well. If you would like to obtain copies of these findings, a CCA representative is happy to assist.

THE LIST FOLLOWS THIS FORMAT:

Title of research

Authors/Publishers/Researchers

Date of publication

Where to obtain a copy

"The Interrelationship Between Public and Private Prisons: Does the Existence of Prisoners Under Private Management Affect the Rate of Growth in Expenditures on Prisoners Under Public Management"

James Blumstein and Mark Cohen

April 2003

www.apcto.org

"The Pros of Privately-Housed Cons: New Evidence on the Cost Savings of Private Prisons"

Rio Grande Foundation

April 2003

www.riograndefoundation.org

"Mangos to Mangos: Comparing the Operational Costs of Juvenile and Adult Correctional Programs in Texas"

Criminal Justice Policy Council, prepared for the 78th Texas Legislature, 2003

First Quarter 2003

www.cjpc.state.tx.us/reports/alphalist/2003cpd.pdf

"Lock in Savings with Prison Privatization"

Michigan Privatization Report; Published by the Mackinac Center for Public Policy

Winter 2003

www.mackinac.org/5022

"Corrections Privatization Generates Savings and Better Services"

Wisconsin Interest Publication; Published by the Wisconsin Policy Research Institute, Inc.

Winter 2003

www.wpri.org/WIInterest/Vol12No1/Duff12.1.pdf

"States Face Fiscal Crunch after 1990s Spending Surge" (conclusion, page 14)

CATO Institute Briefing Papers

February 12, 2003

CCA representative

"Rational Justice Policy: Findings and Recommendations (A Report to the Oklahoma State Senate)"

Oklahoma Alliance for Public Policy Research, Inc.

February, 2003

www.ojrc.net/publications.asp

"Privatization Watch – Commentary: Is There A Trend Here?"

Reason Public Policy Institute

February 2003

www.rppi.org/isthereatrend.html

"Private Prisons and the Public Interest: Improving Quality and Reducing Cost through Competition"

Washington Policy Center

February 2003

www.washingtonpolicy.org/ConOutPrivatization/PBGuppyPrisonsPublicInterest.html

"Privatizing Iowa's Prisons"

Public Interest Institute

January 2003

www.limitedgovernment.org

"Mississippi Department of Corrections' FY 2002 Cost Per Inmate Day" Report #443

Mississippi Peer Review Report

December 17, 2002

www.peer.state.ms.us/reports/rpt443.pdf

"Show Me The Money" (pages 6-8)

American Legislative Exchange Council and The Manhattan Institute

July 2002

www.alec.org and www.manhattan-institute.org

"Developments in the Law – The Law of Prisons"

Harvard Law Review

May 2002

CCA representative

"Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services"

Reason Public Policy Institute

January 2002

www.rppi.org/ps290.pdf

"Private Prisons: A Sensible Solution"

Washington Policy Center

August 2001

www.washingtonpolicy.org/ConOutPrivatization/PBMontagueCOPrivatePrisons.html

