



The Price of Prisons

What Incarceration Costs Taxpayers

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Christian Henrichson • Ruth Delaney

Executive Summary

Persistent fiscal challenges in the United States have spurred greater scrutiny of government spending. States' corrections expenditures, which have nearly quadrupled over the past two decades, are receiving considerable attention.

These circumstances make it crucial for policy makers and the public to understand the full cost of prisons to taxpayers—something that is easier said than done. Although corrections departments pay the vast majority of costs for state prisons, other departments pay related expenses—some of which are substantial. Depending on the state, these can include employee benefits, capital costs, in-prison education services, or hospital care for inmates. Additionally, the cost of underfunded contributions for corrections employees' pension and retiree health care plans must be included in a comprehensive accounting of prison costs.

In partnership with the Pew Center on the States, staff from the Vera Institute of Justice's Center on Sentencing and Corrections and Cost-Benefit Analysis Unit developed a methodology for calculating the full cost of prisons to taxpayers. The application of this methodology, which was developed in collaboration with a panel of advisers in the fields of corrections and public finance and field-tested in five states, is the subject of this report.

Vera researchers found that the total taxpayer cost of prisons in the 40 states that participated in this study was 13.9 percent higher than the cost reflected in those states' combined corrections budgets. The total price to taxpayers was \$38.8 billion, \$5.4 billion more than the \$33.4 billion reflected in corrections budgets alone. The greatest cost drivers outside corrections departments were as follows:

- › underfunded contributions to retiree health care for corrections employees (\$1.9 billion);
- › states' contributions to retiree health care on behalf of their corrections departments (\$837 million);
- › employee benefits, such as health insurance (\$613 million);
- › states' contributions to pensions on behalf of their corrections departments (\$598 million);
- › capital costs (\$485 million);
- › hospital and other health care for the prison population (\$335 million); and
- › underfunded pension contributions for corrections employees (\$304 million).

Among the participating states, costs outside the corrections department ranged from less than 1 percent of the total cost of prisons, in Arizona, to as much as 34 percent in Connecticut. The extra costs accounted for less than 5 percent of total prison costs in 16 states, 5 to 9.9 percent of total prison costs in nine states, and 10 to 19.9 percent of total prison costs in nine states (Arkansas, California, Delaware, Kentucky, Louisiana, Maryland, New Jersey, Washington, and West Virginia). In six states—Connecticut, Illinois, Missouri, New York, Pennsylvania, and Texas—20 to 34 percent of the total taxpayer cost of prison was outside the corrections department budget. (To complement this report, the authors have produced a series of fact sheets with details about each state's spending. The fact sheets are available on Vera's website, at www.vera.org/priceofprisons.)

While it is essential to recognize the full amount a state spends on its prisons, it is also important to recognize that officials are responsible for ensuring their prisons are safe, secure, and humane—a necessarily expensive undertaking. The temptation to compare states' per-inmate spending should therefore be avoided, as low per-inmate costs may invite poorer outcomes in terms of safety and recidivism. To help policy makers pursue better alternatives, this report identifies measures that have been shown to reduce spending without jeopardizing public safety—such as modifying sentencing and release policies, strengthening strategies to reduce recidivism, and boosting operating efficiency.

FROM THE CENTER DIRECTOR

Everyone—individuals, families, and government—is paying attention to what things cost. Perhaps more than ever, it is necessary to know the real price of our choices, be those in education, health care, or criminal justice policies.

In this spirit, the Vera Institute of Justice, working with a team of advisers and the Pew Center on the States' Public Safety Performance Project, has developed a methodology for unpacking the financial cost of operating state prisons—including costs that fall beyond the corrections budget and are often overlooked. This methodology will be a powerful tool for policy makers and others who need to know what prisons cost.

We cannot pass along this valuable tool, however, without also speaking to its risks. Chief among them is that in these times of lean budgets, policy makers will want to compare their per-inmate cost with those of other states—and demand to know why theirs is higher and that it be cut. Per-inmate cost is a measure of cost and cost alone. It reflects neither quality, as measured by, say, staff safety, nor outcomes, like the impact on recidivism. In some states, for example, this cost has been limited by incarcerating people in numbers far beyond what facilities were built to hold.

Other states rely heavily on housing state prisoners in local jails, which typically saves money, while still others incarcerate a larger proportion of low-risk offenders who are less expensive to manage. All these practices reduce a system's per-inmate cost but do not necessarily contribute to greater public safety.

Decades of research have given us many tools for improving crime desistance among those who have been incarcerated, and states are using that research to reform their sentencing, release, and supervision policies. Many of these reforms require some up-front investment, but present the greatest opportunities for budget savings over the long run while also enhancing public safety. Knowing the taxpayer cost of any public policy option is important—especially now. But it is just as important to examine and weigh those costs against the benefits they promise to deliver.



Peggy McGarry
Director, Center on Sentencing and Corrections

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Introduction

Expenditures at corrections departments account for only a portion of states' financial obligations.

Decades of increasing incarceration and soaring corrections costs have been well documented and are a familiar story to policy makers and the public. Over the past 40 years, the United States has seen a dramatic increase in the use of prisons to combat crime. As a result, incarceration rates have skyrocketed, with the country's state prison population having grown by more than 700 percent since the 1970s.¹ Today, more than 1 in 100 adults are in prison or jail nationwide.² This trend has come at great cost to taxpayers. States' corrections spending—including prisons as well as probation and parole—has nearly quadrupled over the past two decades, making it the fastest-growing budget item after Medicaid.³

Although these numbers are alarming, what is less widely understood is that in some cases, expenditures at corrections departments account for only a portion of the financial obligation a state commits to when it sentences an individual to prison. Existing figures often underestimate the total cost of state prisons—and in some states, the overlooked costs are substantial.

The best available figures sometimes fail to capture the entire cost of prisons because they rely solely on expenditures by state corrections agencies. Although these departments are responsible for the vast majority of prison expenditures, their budgets often do not reflect a full accounting of state spending on imprisonment. Other state agencies pay many costs, including employee health insurance, pension contributions, and inmate hospital care. Consequently, these costs are often overlooked when reporting prison spending. This means that policy makers and other stakeholders are likely to have an incomplete picture of the financial cost of incarceration.

This report addresses the existing discrepancies by introducing a methodology to help stakeholders determine the total taxpayer cost of prisons. Drawing on guidance from leading experts in the field, the report identifies the items that must be included to calculate the taxpayer cost of prison accurately, provides the taxpayer cost of incarcerating a sentenced adult offender to state prison in 40 states, and presents a methodology states can use to calculate their total prison costs. The report concludes with recommendations on steps policy makers can take to safely rein in these costs. Fact sheets with additional details about the 40 states that participated in this report are available at www.vera.org/priceofprisons.

Data Collection

In early 2011, staff of the Vera Institute of Justice's Center on Sentencing and Corrections and Cost-Benefit Analysis Unit developed a survey on prison costs in consultation with advisers in the fields of corrections and public finance, as well as staff at the state departments of corrections in Florida, Illinois, Louisiana, New York, and Washington.⁴ Through the initial work with these five departments,

Vera determined that prison costs outside the corrections budget fall under three categories: (1) costs that are centralized for administrative purposes, such as employee benefits and capital costs; (2) inmate services funded through other agencies, such as education and training programs; and (3) the cost of underfunded pension and retiree health care plans.

In August 2011, analysts distributed a survey to the department of corrections in every state to collect these costs. Corrections departments from 40 states completed and returned the survey, which asked respondents to provide prison expenditures paid by the department of corrections, as well as prison costs paid by other agencies.⁵ Data was collected for fiscal year 2010 and includes costs funded by both state and federal revenue.⁶

Using publicly available documents, Vera researchers then collected information regarding funding levels for pensions and retiree health care, as well as statewide administrative costs.⁷ After using this information to calculate the total prison costs for each state, Vera returned this information to the state for certification. Through the certification process, respondents reviewed their responses and commented on any concerns they had about Vera's calculations of the cost of underfunded pensions and retiree health care. A detailed description of this process and a copy of the survey tool are provided, respectively, in appendices A and B.

Findings

After calculating the price of prisons using the methodology described above, Vera staff examined the results. The findings fall into the following categories: (1) the number of prison costs that are outside the corrections budgets; (2) the total taxpayer cost of prisons; and (3) the total taxpayer cost per inmate. Each of these findings is discussed below.

COLLATERAL COSTS

This study is an analysis of the direct cost of state prisons to taxpayers. Vera did not attempt to measure every cost that arises as a result of incarceration.

When a person is in prison, taxpayers may incur additional—or indirect—costs, such as the costs of social services, child welfare, and education, for example. For the most part, these indirect costs are borne by government agencies other than the department of corrections. They are not included in the calculations presented here, however.

Incarcerated men and women also bear economic and social costs associated with prison—as do their families and communities.* As a 2005 study concluded, “Incarceration impacts the life of a family in several important ways: it strains them financially, disrupts parental bonds, separates spouses, places severe stress on the remaining caregivers, leads to a loss of discipline in the household, and to feelings of shame, stigma, and anger.”** Although these costs—typically referred to as collateral costs—are important for policy deliberations, they are not tallied in this report.

Finally, it is important to note that all corrections spending presents an opportunity cost. This simply means that any state resources spent on corrections cannot be used for other purposes.†

* Pew Center on the States, *Collateral Costs: Incarceration's Effect on Economic Mobility* (Washington, DC: The Pew Charitable Trusts, September 2010).

** Ricardo Barreras, Ernest Drucker, and David Rosenthal, “The Concentration of Substance Use, Criminal Justice Involvement, and HIV/AIDS in the Families of Drug Offenders,” *Journal of Urban Health: Bulletin of the New York Academy of Medicine* 82, no. 1 (2005), 168.

† Patricia M. Harris and Todd R. Clear, *Costs of Incarceration Policies: Literature Review* (School of Criminal Justice, Rutgers University, 1989), 5.

PRISON COSTS OUTSIDE THE CORRECTIONS BUDGET

In total, 11 types of prison costs fall outside the corrections budget. State responses also revealed considerable variation with respect to the number of prison costs that are not included in the corrections budget. The 11 cost categories are listed below, along with a brief description of the findings in 40 states.

Costs budgeted centrally for administrative purposes

- › **Employee benefits and taxes.** Although the salaries for corrections employees are always included in the department's budget, funding for some personnel costs (such as health insurance or the employer share of social security taxes) is provided by a central administrative fund in seven states: Connecticut, Illinois, Missouri, New Hampshire, New Jersey, New York, and Texas.
- › **Pension contributions.** Some states make contributions to pension plans for all state employees through a central fund. Six states—Connecticut, Illinois, Missouri, New Jersey, New York, and Texas—fund pension contributions for corrections employees through an account outside the corrections budget.
- › **Retiree health care contributions.** Most states provide retirees with health care benefits in addition to their pensions. Twenty-one states pay these costs through a central account and not the corrections budget.
- › **Capital costs.** In 26 states, funding for capital projects to construct and renovate prisons is provided outside the corrections budget.
- › **Legal judgments and claims.** The costs of prison-related legal judgments and claims, as well as contributions to the state tort fund, are provided through a central account in 16 states.
- › **Statewide administrative costs.** Central state agencies provide administrative services related to prison operations. In most states, many of these costs are not billed to the corrections department and are therefore outside that budget.
- › **Private prisons.** The costs of private facilities are typically paid through the corrections budget in states that contract with outside operators. In Florida and Maryland, however, other departments pay for some of these expenses. Maryland does not use private prisons, although costs for contracted prerelease facilities are paid by the Division of Parole and Probation.

Inmate services funded through other agencies

- › **Hospital care.** In eight states, a portion of the costs for inmate hospital care is funded outside the corrections department.
- › **Education and training.** In 12 states, departments other than corrections pay for some costs of education and training for men and women in prison.

State survey responses revealed considerable variation with respect to the number of prison costs that fall outside the corrections budget.

Figure 1: Prison Costs Outside States' Corrections Budgets, Fiscal Year 2010

State	Costs Budgeted Centrally for Administrative Purposes							Inmate Services		Underfunded Retirement Benefits		Number of Costs Outside the Corrections Department
	Employee Benefits and Taxes	Pension Contributions	Retiree Health Care Contributions	Capital Costs	Judgments and Claims	Private Prisons	Statewide Administrative Costs	Hospital Care	Education and Training	Underfunded Pension Contributions	Underfunded Retiree Health Care Contributions	
Alabama					●		●		●		●	4
Arizona			●	●	●		●					4
Arkansas			●	●	●		●		●		●	6
California			●				●	●	●		●	5
Colorado			●				●			●	●	4
Connecticut	●	●	●	●	●		●			●	●	8
Delaware			●		●		●		●		●	5
Florida						●	●				●	3
Georgia			●	●			●				●	4
Idaho			●	●	●		●				●	5
Illinois	●	●	●	●			●			●	●	7
Indiana				●			●			●	●	3
Iowa				●	●		●			●	●	5
Kansas							●			●	●	2
Kentucky			●	●			●			●	●	5
Louisiana				●	●		●	●	●	●	●	7
Maine				●			●	●			●	4
Maryland				●		●	●		●	●	●	6
Michigan				●			●			●	●	4
Minnesota				●			●			●	●	4
Missouri	●	●	●	●	●		●				●	7
Montana					●		●	●	●	●	●	5
Nebraska				●			●				●	2
Nevada							●			●	●	3
New Hampshire	●		●	●	●		●				●	5
New Jersey	●	●	●	●	●		●			●	●	8
New York	●	●	●				●				●	5
North Carolina			●	●			●		●		●	5
North Dakota			●		●		●			●	●	4
Ohio							●				●	2
Oklahoma										●		1
Pennsylvania				●			●	●	●	●	●	6
Rhode Island				●			●	●	●		●	5
Texas	●	●	●	●	●		●			●	●	8
Utah			●				●		●		●	3
Vermont			●	●			●			●	●	5
Virginia			●	●	●		●		●	●	●	7
Washington			●	●				●			●	4
West Virginia					●		●			●	●	4
Wisconsin				●			●	●			●	3
Total (40 states)	7	6	21	26	16	2	38	8	12	21	30	187

Source: Vera Institute of Justice, True Cost of Prisons survey.

Note: Bullet points denote that some portion of the cost is outside the corrections budget.

Alaska, Hawaii, Massachusetts, Mississippi, New Mexico, Oregon, South Dakota, Tennessee, and Wyoming did not complete the survey. The South Carolina Department of Corrections was unable to certify the state data submitted prior to publication of this report. Maryland does not use private prisons, however, costs for contracted pre-release facilities are paid by the budget of the Division of Parole and Probation.

Among 40 states surveyed, costs outside the corrections department ranged from less than 1 percent of the total cost of prisons in Arizona to as much as 34 percent in Connecticut.

Underfunded contributions for retirement benefits

- › **Underfunded pensions benefit.** Twenty-one states did not pay the full cost of the annually required pension contribution for corrections personnel in 2010. States that did not fully fund the contribution necessary to pay for benefits in the long run will need to pay this cost, plus interest, in the future.
- › **Underfunded retiree health care benefits.** Similarly, 30 states did not pay the full cost of retiree health care obligations for corrections employees in 2010. States that did not fully fund the contribution to pay for benefits in the long run will need to pay this cost, plus interest, in the future.

Figure 1 shows the number of cost categories that applied to each state in the study. Seven states—Connecticut, Illinois, Louisiana, Missouri, New Jersey, Texas, and Virginia—had more than six types of costs outside the corrections department. At the opposite extreme, nine states had three or fewer types of such costs.

TOTAL TAXPAYER COST OF STATE PRISONS

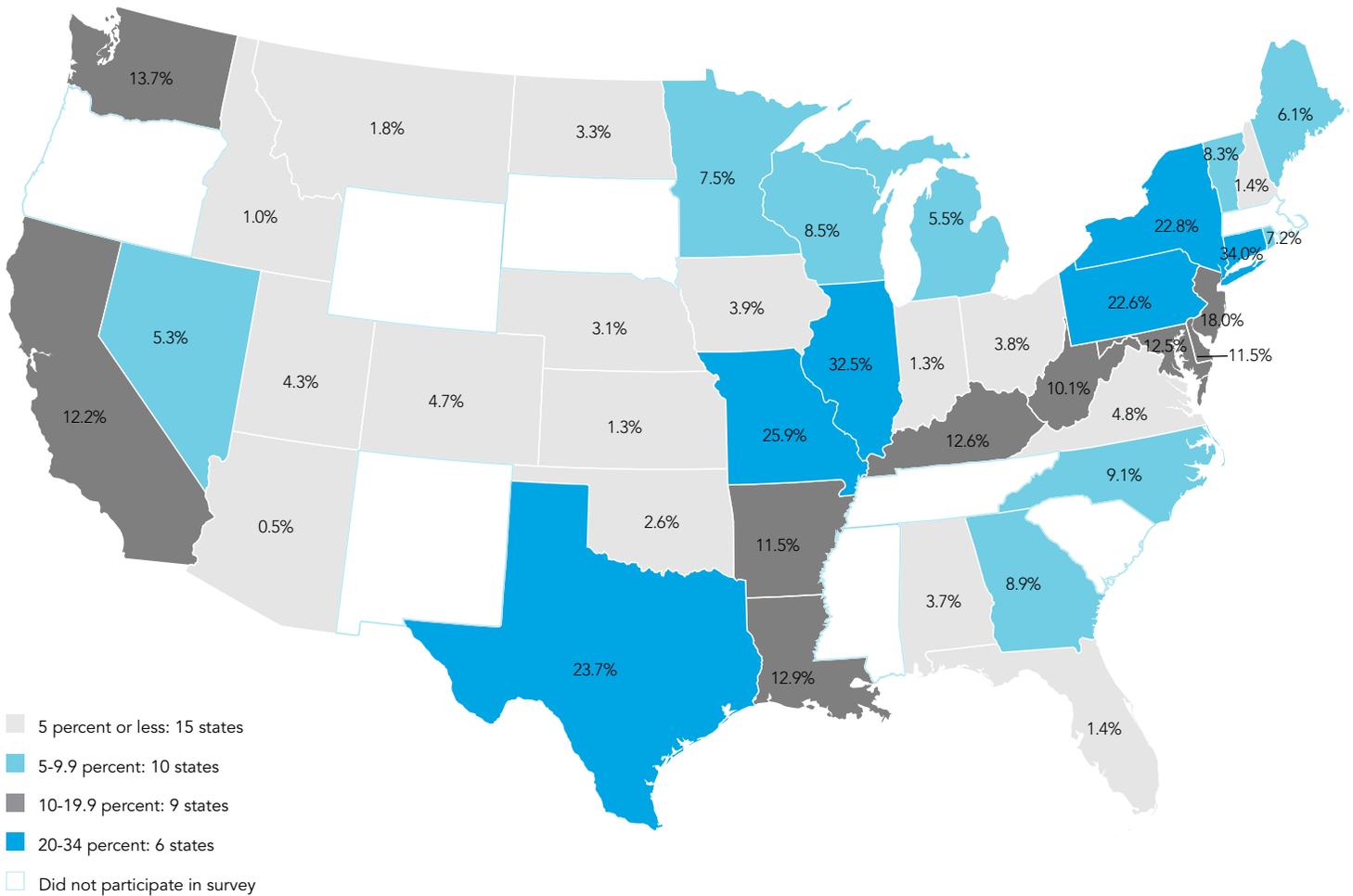
The total taxpayer cost of prisons in the 40 states that provided data was 13.9 percent higher than the costs represented by their combined corrections budgets. The full price of prisons to taxpayers—including costs that fell outside the corrections budgets—was \$38.8 billion, \$5.4 billion more than the states' aggregate corrections department spending, which totaled \$33.4 billion.

Of the \$5.4 billion in prison costs outside the corrections department, the greatest costs were underfunded contributions to retiree health care (\$1.9 billion); states' contributions to retiree health care on behalf of the corrections department (\$837 million); employee benefits and taxes (\$613 million); states' contributions to pensions on behalf of the corrections department (\$598 million); capital costs (\$485 million); health and hospital care for the prison population (\$335 million); and underfunded pension contributions (\$304 million). Because Vera could not obtain data for some costs outside states' correction budgets, these are conservative estimates that undercount the total amount of prison-related costs outside the corrections budget.⁸

Individually, states saw variety in the difference between their corrections budgets and their overall prison spending. Among 40 states surveyed, costs outside the corrections department ranged from less than 1 percent of the total cost of prisons in Arizona to as much as 34 percent in Connecticut. Prison costs outside the corrections budget accounted for as much as 5 percent of total prison costs in 16 states, 5 to 9.9 percent of total prison costs in nine states, and 10 to 19.9 percent of total prison costs in nine states: In six states—Connecticut, Illinois, Missouri, New York, Pennsylvania, and Texas—20 to 34 percent of the total taxpayer cost of prison was outside the corrections department budget (see figures 2 and 3).

Figure 3 compares the corrections department and non-corrections department costs for corrections in each participating state, along with aggregate figures for all 40 states.

Figure 2: Percentage of Prison Costs Outside States' Corrections Budgets, Fiscal Year 2010



Source: Vera Institute of Justice, True Cost of Prisons survey. (Alaska and Hawaii did not participate in the survey.) Taxpayer costs include expenses funded by state and federal revenue. See the state fact sheets at www.vera.org/priceofprisons for more details.

Figure 3: The Taxpayer Costs of State Prisons, Fiscal Year 2010
(dollars in thousands)

State	Corrections Department Prison Costs	Prison Costs Outside Corrections Department	Total Taxpayer Cost of Prisons	Percentage of Prison Cost Outside the Corrections Budget
Alabama	\$445,514	\$16,993	\$462,507	3.7%
Arizona	\$998,453	\$5,100	\$1,003,553	0.5%
Arkansas	\$288,609	\$37,471	\$326,081	11.5%
California	\$6,962,736	\$969,652	\$7,932,388	12.2%
Colorado	\$437,716	\$21,484	\$459,200	4.7%
Connecticut	\$613,269	\$316,169	\$929,438	34.0%
Delaware	\$190,409	\$24,801	\$215,210	11.5%
Florida	\$2,053,154	\$29,377	\$2,082,531	1.4%
Georgia	\$1,029,553	\$100,305	\$1,129,858	8.9%
Idaho	\$143,211	\$1,457	\$144,669	1.0%
Illinois	\$1,177,049	\$566,104	\$1,743,153	32.5%
Indiana	\$562,248	\$7,203	\$569,451	1.3%
Iowa	\$265,409	\$10,630	\$276,039	3.9%
Kansas	\$156,141	\$2,057	\$158,198	1.3%
Kentucky	\$272,535	\$39,192	\$311,727	12.6%
Louisiana	\$608,062	\$90,300	\$698,363	12.9%
Maine	\$124,774	\$8,132	\$132,906	6.1%
Maryland	\$731,293	\$104,930	\$836,223	12.5%
Michigan	\$1,198,237	\$69,717	\$1,267,954	5.5%
Minnesota	\$365,509	\$29,811	\$395,319	7.5%
Missouri	\$503,987	\$176,500	\$680,487	25.9%
Montana	\$74,626	\$1,334	\$75,959	1.8%
Nebraska	\$158,190	\$5,094	\$163,284	3.1%
Nevada	\$267,890	\$15,013	\$282,903	5.3%
New Hampshire	\$80,306	\$1,111	\$81,417	1.4%
New Jersey	\$1,161,258	\$255,469	\$1,416,727	18.0%
New York	\$2,746,184	\$812,526	\$3,558,711	22.8%
North Carolina	\$1,095,395	\$109,272	\$1,204,667	9.1%
North Dakota	\$56,160	\$1,905	\$58,065	3.3%
Ohio	\$1,265,012	\$50,465	\$1,315,477	3.8%
Oklahoma	\$441,772	\$11,584	\$453,356	2.6%
Pennsylvania	\$1,591,440	\$463,829	\$2,055,269	22.6%
Rhode Island	\$159,751	\$12,312	\$172,063	7.2%
Texas	\$2,523,454	\$782,904	\$3,306,358	23.7%
Utah	\$178,095	\$7,917	\$186,013	4.3%
Vermont	\$102,047	\$9,233	\$111,280	8.3%
Virginia	\$712,422	\$36,219	\$748,642	4.8%
Washington	\$723,412	\$115,029	\$838,441	13.7%
West Virginia	\$152,128	\$17,062	\$169,190	10.1%
Wisconsin	\$800,310	\$74,111	\$874,421	8.5%
Total (40 states)	\$33,417,719	\$5,409,777	\$38,827,496	13.9%

Source: Vera Institute of Justice, True Cost of Prisons survey. Taxpayer costs include expenses funded by state and federal revenue. Apparent discrepancies are the result of rounding. See the state fact sheets at www.vera.org/priceofprisons for more details.

The corrections systems in Connecticut, Delaware, Rhode Island, and Vermont have a unified structure, meaning that jails and prisons are operated by the state rather than county and state jurisdictions, respectively. Thus, the prison expenditures in these four states also include some of the costs of jails. The figures Connecticut and Vermont provided include inmates in both sentenced and accused status. Delaware's figures include all expenditures in the Bureau of Prisons, Bureau of Correctional Healthcare Services, and Level IV facilities (work-release centers and residential drug treatment). The figures Rhode Island provided exclude the costs of pretrial incarceration in jail and community confinement.

TOTAL TAXPAYER COST PER INMATE

Among the 40 states surveyed, representing more than 1.2 million inmates (of 1.4 million total people incarcerated in all 50 state prison systems), the total per-inmate cost averaged \$31,166 and ranged from \$14,603 in Kentucky to \$60,076 in New York (see Figure 4).⁹ The methodology provides an “apples to apples” comparison of state prison costs because it standardizes the measure and counts the comprehensive costs to taxpayers in every state.

The value of such a comparison is clear: corrections officials understand that prison costs are counted differently in every state. In the course of this study, for example, a Florida Department of Corrections official told interviewers that the department is often asked why its costs appear to be higher than those of other states. The answer is, in part, because Florida measures prison costs more comprehensively than some other states do, because relatively few of its prison costs are outside the corrections budget.

Including prison spending outside the corrections department changes comparisons between states. If, for example, one were to look only at spending within the corrections budget, the per-inmate cost in Florida (\$20,263) appears to be higher than that cost in two other Southern states, Georgia (\$19,171) and Louisiana (\$15,225). When costs outside the corrections budget are included, however, the per-inmate cost among these three states is greatest in Georgia (\$21,039), followed closely by Florida (\$20,553). By either calculation, the per-inmate cost is lowest in Louisiana (\$17,486), but the per-inmate cost is closer to that of its neighbors when outside costs are included.

While having a reliable, comparable figure is useful for policy makers and others, any comparisons of states’ costs should be done carefully. (For an important discussion of the risks associated with such comparisons, see “Reducing Costs Safely” on page 12.) After all, per-inmate costs do not measure how effective spending is. They merely measure spending itself—and some states’ per-inmate costs are lower because of factors that may result in collateral costs to society or other jurisdictions. A few of these variables are as follows:

- › **Overcrowding:** The per-inmate cost will likely be lower in states where there is crowding, meaning that the inmate population exceeds the facilities’ rated capacity. In contrast, the per-inmate cost will likely be higher in states that have reduced their prison populations but have not reduced operating capacity to generate savings.
- › **Greater incarceration of low-level offenders.** Fewer staff are required in minimum- and medium-security prisons that house low-level offenders. The per-inmate cost for the entire state prison system may therefore be lower in states that incarcerate a larger proportion of these individuals.
- › **Use of local jails.** Many states reimburse local jails to house state-sentenced inmates. State reimbursement rates, however, often do not cover the total cost of services because they are sometimes set by statute and are not regularly updated to accommodate rising costs. Jails are also less likely to provide inmate programming. The per-inmate cost may be lower in states that rely heavily on local jails.

Per-inmate costs do not measure how effective spending is. They merely measure spending itself.

Figure 4: The Taxpayer Costs of State Prisons per Inmate, Fiscal Year 2010

State	Average Daily Inmate Population	Taxpayer Cost of Prisons (\$ in 000s)	Average Annual Cost per Inmate
Alabama	26,758	\$462,507	\$17,285
Arizona	40,458	\$1,003,553	\$24,805
Arkansas	13,369	\$326,081	\$24,391
California	167,276	\$7,932,388	\$47,421
Colorado	22,980	\$459,200	\$19,983
Connecticut	18,492	\$929,438	\$50,262
Delaware	6,528	\$215,210	\$32,967
Florida	101,324	\$2,082,531	\$20,553
Georgia	53,704	\$1,129,858	\$21,039
Idaho	7,402	\$144,669	\$19,545
Illinois	45,551	\$1,743,153	\$38,268
Indiana	38,417	\$569,451	\$14,823
Iowa	8,384	\$276,039	\$32,925
Kansas	8,689	\$158,198	\$18,207
Kentucky	21,347	\$311,727	\$14,603
Louisiana	39,938	\$698,363	\$17,486
Maine	2,362	\$132,906	\$56,269
Maryland	21,786	\$836,223	\$38,383
Michigan	45,096	\$1,267,954	\$28,117
Minnesota	9,557	\$395,319w	\$41,364
Missouri	30,447	\$680,487	\$22,350
Montana	2,513	\$75,959	\$30,227
Nebraska	4,542	\$163,284	\$35,950
Nevada	13,696	\$282,903	\$20,656
New Hampshire	2,389	\$81,417	\$34,080
New Jersey	25,822	\$1,416,727	\$54,865
New York	59,237	\$3,558,711	\$60,076
North Carolina	40,203	\$1,204,667	\$29,965
North Dakota	1,479	\$58,065	\$39,271
Ohio	50,960	\$1,315,477	\$25,814
Oklahoma	24,549	\$453,356	\$18,467
Pennsylvania	48,543	\$2,055,269	\$42,339
Rhode Island	3,502	\$172,063	\$49,133
Texas	154,576	\$3,306,358	\$21,390
Utah	6,338	\$186,013	\$29,349
Vermont	2,248	\$111,280	\$49,502
Virginia	29,792	\$748,642	\$25,129
Washington	16,194	\$838,441	\$51,775
West Virginia	6,385	\$169,190	\$26,498
Wisconsin	23,015	\$874,421	\$37,994
Total (40 states)	1,245,848	\$38,827,496	\$31,166

Source: Vera Institute of Justice, True Cost of Prisons survey. Taxpayer costs include expenses funded by state and federal revenue. Apparent discrepancies are the result of rounding. See the state fact sheets at www.vera.org/priceofprisons for more details.

The corrections systems in Connecticut, Delaware, Rhode Island, and Vermont have a unified structure, meaning that jails and prisons are operated by the state rather than county and state jurisdictions, respectively. Thus, the prison expenditures in these four states also include some of the costs of jails. The figures Connecticut and Vermont provided include inmates in both sentenced and accused status. Delaware's figures include all expenditures in the Bureau of Prisons, Bureau of Correctional Healthcare Services, and Level IV facilities (work-release centers and residential drug treatment). The figures Rhode Island provided exclude the costs of pretrial incarceration in jail and community confinement.

Cutting Costs, Maintaining Safety

As states continue to deal with unprecedented fiscal strain, most are taking steps to reduce their inmate populations and costs while protecting public safety and holding offenders accountable. Because the size of the inmate population is determined by two factors—the number of admissions and length of stay—the largest impact on prison budgets comes from changing sentencing and release policies. In recent years, some states have changed these policies enough to close parts of facilities or entire prisons, an essential step toward cost savings. The only way for states to decrease their prison budgets substantially is to reduce the inmate population and then reduce the operating capacity and related costs.¹⁰

Offenders who have not been convicted of new crimes but have broken the rules of their probation or parole account for a significant number of prison admissions. This has prompted many states to strengthen their efforts to combat recidivism by holding offenders accountable for violations in the community at a fraction of the cost of imprisonment.

In addition, virtually every state has reported taking measures to trim its operating costs and boost efficiency. These changes are important in both lean and fair fiscal times and can sometimes generate meaningful savings. But few if any states will be able to reduce costs enough through these methods to reach their budget goals.

The growth of state corrections budgets has largely been the result of policy choices, rather than broad social or economic trends beyond policy makers' influence. Lawmakers can develop and implement policies and practices that protect public safety and control correctional costs. Some recent state efforts include the following:

- ▶ **Sentencing and Release Policies:** In 2010, as part of a sentencing overhaul, South Carolina increased penalties for certain violent crimes while restructuring controlled-substance offenses to provide community supervision options for first- and second-time offenders not convicted of trafficking offenses. Similar reforms in Kentucky in 2011 revised sentencing laws for certain nonviolent offenses to better distinguish between serious and lower-level crimes, including eliminating some penalty enhancements for subsequent drug-possession offenses. A number of states, including Alabama, California and Washington, have raised the threshold dollar amounts for certain felony property crimes, in part to adjust for inflation penalty levels that were set decades ago.¹¹

Other states have rolled back release policies that extended the amount of time people spend in prison. Mississippi made perhaps the most remarkable change, reducing in 2008 the percentage of sentences that nonviolent offenders must serve from 85 percent to 25 percent. This policy shift has substantially reduced prison terms for thousands of people.¹² Other states have expanded “earned time” credits for inmates who complete programs designed to reduce recidivism.¹³ In a 2010 survey of state corrections departments, Vera found that at least 20 states had taken steps to moderate length of stay.¹⁴

The largest impact on prison budgets comes from changing sentencing and release policies.

REDUCING COSTS SAFELY

Operating a safe, secure, humane, and well-programmed prison can't be done on the cheap. Prisons are, as sociologists say, "total institutions" that provide everything necessary for inmates to live there—some for the rest of their lives. That includes adequate levels of uniformed security staff at all times, food, programming, recreational and educational opportunities (all necessary to manage facilities safely and lower recidivism rates), infrastructure maintenance and upkeep, and increasingly higher levels of health care for a population with significant levels of physical and mental illness.

In this field then, the chief goal is not necessarily to have low per-inmate costs. In fact, states that have very low per-inmate costs should examine carefully what functions of a good prison may not be being provided adequately. For instance, mental health care for this population is both expensive and crucial—not only for the safety of inmates and prison staff, but ultimately for public safety as well.

State officials looking to reduce prison expenditures can get only so far by trimming per-inmate costs. Far bigger savings can come from proven steps that reserve incarceration for those who most warrant it and reduce prison populations by developing lower-cost alternatives for others.

Finally, more than 15 states have engaged in "justice reinvestment," a comprehensive data-driven process that identifies opportunities to reduce prison costs and reinvest part of the resulting savings into efforts that reduce recidivism. Texas and Kansas were among the first to employ the approach in 2007. More recently, Arkansas, Kentucky, New Hampshire, North Carolina, Ohio, and South Carolina have used the justice reinvestment approach with the goals of slowing prison growth and using the savings or averted costs to strengthen alternatives to incarceration and contribute to overall state budget reductions.¹⁵

- › **Recidivism-Reduction Strategies:** Given that more than four in 10 prisoners return to custody within three years of release,¹⁶ many state policy makers are stepping up efforts to reduce future criminal activity and violations of probation and parole. Reducing recidivism offers significant potential savings. Effective reentry planning begins by preparing people for release as soon as they enter prison, using a thorough screening instrument that helps staff identify priority areas for intervention and develop case management plans. In Oregon and Michigan, for example, community supervision officers communicate with inmates before their release to describe the expectations for their behavior in the community and establish continued programming priorities.¹⁷ States are also optimizing their resources by beginning supervision in the community with a validated risk and needs assessment that helps assign offenders to the appropriate level of supervision based on their risk of reoffending and need for targeted services. Kentucky, Illinois, New Hampshire, Washington, and other states have recently codified the use of a risk and needs assessment tool in statute.¹⁸

Since much recidivism occurs when offenders return to prison for technical violations—breaking the administrative rules of their community-based supervision—several states are responding to these violations with meaningful but less expensive consequences. Alternative sanctions that are swift, certain, and proportional to the severity of the violation are providing promising results. Hawaii's Opportunity Probation with Enforcement (HOPE), for example, punishes rule breakers with a swift and certain few days in jail for failed drug tests and other technical violations. Research has shown that HOPE has cut new arrests and positive drug screens by more than 50 percent, while reducing probation revocations that result in prison terms.¹⁹

Finally, states are providing financial incentives for agencies that reduce recidivism. Eight states, including California, Illinois, and South Carolina, have passed laws that return to county probation agencies some of the state savings that accrue when those agencies improve performance and return fewer violators to state prison.²⁰

- › **Operating Efficiencies:** In addition to adopting policies that address the drivers of prison population growth, states are taking steps to ensure that

their correctional systems maximize operational efficiency. In 2010, at least 32 states had either cut staff positions or instituted hiring freezes.²¹ Many agencies that made these reductions exempted correctional officers in the interest of staff and inmate safety. Other common budget-cutting measures include employing video surveillance in prisons, using videoconferencing for court hearings to reduce transportation costs, and instituting energy and fuel conservation efforts. Although enhancing operating efficiency rarely sparks controversy, these changes may offer agencies relatively little savings.

At least 15 states reported plans to close entire facilities, parts of facilities, or reduce bed space in 2010.²² This is a critical step because reductions in the prison population do not automatically translate into substantial cost savings if corrections departments continue to operate with the same number of staff.

Conclusion

In the current fiscal climate, states are increasingly forced to do more with less and make difficult decisions about competing priorities. Policy makers must have complete information to make the best decisions possible. They must understand the full fiscal implications of their policy choices, particularly those related to the criminal justice system, whose costs make up a significant part of every state budget.

As a supplement to this report, fact sheets with detailed summaries about each of the 40 states that completed the survey are available at www.vera.org/priceofprisons. Interested policy makers and practitioners may also consult the appendix of this report for the methodology and survey if in the future they wish to update the figures presented in this report. This will be most useful for states that have high prison costs outside the corrections department (such as benefits for corrections employees). Notably, a number of these states have some of the country's largest inmate populations—including Illinois, New York, Pennsylvania, and Texas—where more than 20 percent of prison costs fell outside the corrections budget in 2010.

A growing body of research suggests—and government officials acknowledge—that beyond a certain point, further increases in incarceration have significantly diminishing returns as a means of making communities safer.²³ This means that for many systems, putting more lower-risk offenders in prison is yielding increasingly smaller improvements in public safety and may cost more to taxpayers than the value of the crime it prevents. As states look to strike a balance that results in better outcomes, it is essential to assess the benefits and costs of incarceration. This report provides a tool to capture a more accurate picture of these costs to taxpayers.

ENDNOTES

- 1 Pew Center on the States, *Prison Count 2010: State Population Declines for the First Time in 38 Years* (Washington, DC: The Pew Charitable Trusts, April 2010).
- 2 Pew Center on the States, *One in 100: Behind Bars in America 2008* (Washington, DC: The Pew Charitable Trusts, February 2008).
- 3 Analysis by Pew Center on the States based on National Association of State Budget Officers, "State Expenditure Report" series, <http://nasbo.org/Publications/StateExpenditureReport/tabid/79/Default.aspx> (accessed December 1, 2011).
- 4 The advisers were John Cape, former New York State budget director and managing director of the PFM Group; David Eichenthal, senior managing consultant of the PFM Group; Dick Hickman, deputy staff director for the Senate Finance Committee in the Commonwealth of Virginia; Jun Peng, associate professor in public administration at the University of Arizona, and Michael Jacobson, director of the Vera Institute of Justice. The methodology was piloted in Florida, Illinois, Louisiana, New York, and Washington. Additionally, Kil Huh and David Draine at the Pew Center on the States provided feedback on the methodology to calculate the underfunding of pension and retiree health care contributions.
- 5 Alaska, Hawaii, Massachusetts, Mississippi, New Mexico, Oregon, South Dakota, Tennessee, and Wyoming did not complete the survey. The South Carolina Department of Corrections was unable to certify the state data submitted prior to publication of this report.
- 6 Fiscal year 2010, is the year ending June 30, 2010 in most states. The exceptions are New York (fiscal year ends March 31), Texas (August 31), and Michigan and Alabama (September 30).
- 7 Vera obtained pension and retiree health care data from the fiscal year 2010 Consolidated Annual Financial Report (CAFR) for each pension and retiree health care plan (except in Georgia, for which Vera used 2009 data). Vera obtained statewide administrative cost data from each state's Statewide Cost Allocation Plan (SWCAP) for fiscal year 2009, which was usually the most recent data publicly available. Vera obtained data from a different year for Alabama (2007), Connecticut (2008), Georgia (2005), Iowa (2010), Maine (2008), Maryland (2008), Minnesota (2008), North Carolina (2005), Pennsylvania (2008), Tennessee (2008), Texas (2007), Vermont (2010), Virginia (2008), West Virginia (2005).
- 8 Vera could not obtain all the costs outside the corrections department. For each of the following cost centers, the number of states for which costs were not estimated is in parentheses: Employee benefits (2), retiree health care contributions (3), capital costs (8), legal costs (7), hospital care (2), education and training (2), unfunded pension contributions (2), and unfunded retiree health care contributions (3). Among the 40 states that participated in the survey, a total of 187 costs were paid outside the corrections department (see Figure 1). Survey respondents and Vera researchers were able to obtain the amounts for 158 of these costs, but not for 29 others in 18 states. The 18 states for which Vera could not obtain all costs outside the corrections budget are as follows—and the number of costs per state that were not estimated is in parentheses: Arizona (1), California (1), Connecticut (4), Idaho (2), Indiana (1), Iowa (1), Maine (1) Michigan (2), Missouri (1), New Hampshire (4), New Jersey (1), New York (1), North Carolina (2), Pennsylvania (1), Rhode Island (1), Texas (1), Virginia (3), and West Virginia (1). For more details, see the state fact sheets at www.vera.org/priceofprisons.
- 9 The average per-inmate cost (\$31,166) was calculated by dividing the total taxpayer cost of prisons in 40 states (\$38,827,496,377) by the total number of inmates in these states (1,245,848). The average per-inmate cost in these 40 states—i.e., the average of the 40 per-inmate costs tabulated in Figure 4—is \$32,088. The total number of inmates in 50 state prisons (1.4 million) was obtained from the Pew Center on the States' report *Prison Count 2010*, p. 1.
- 10 When states close prisons or parts of prisons, only the marginal cost can be eliminated. The marginal cost is composed of variable costs, and, if prison capacity is reduced sufficiently, step-fixed costs. Variable costs include expenses such as food, clothing, and medical care. Step-fixed costs include staff salaries and benefits when prison capacity is reduced enough to reduce staffing (for example, if a housing unit closes). The marginal cost is lower than the average cost, which also includes the fixed costs of operating prisons (such as debt service and central administration). This report presents states' average per-inmate cost. Potential savings will be overstated if the average costs in this report are used to calculate the savings of a reduction in prison capacity.
- 11 Vera Institute of Justice, *Criminal Justice Trends: Key Legislative Changes in Sentencing Policy, 2001–2010* (New York: Vera Institute of Justice, 2010), 6.
- 12 JFA Institute, *Reforming Mississippi's Prison System* (Washington, DC: JFA Institute), 2. <http://www.pewcenteronthestates.org/uploadedFiles/wwwpewcenteronthestates.org/Initiatives/PSPP/MDOCpaper.pdf?n=8407> (accessed December 13, 2011).
- 13 Vera Institute of Justice, *The Continuing Fiscal Crisis in Corrections* (New York: Vera Institute of Justice, 2010), 17.
- 14 Ibid.
- 15 The advancement of justice reinvestment has been a policy goal of both the federal government and private funders. The U.S. Department of Justice's Bureau of Justice Assistance and the Pew Center on the States' Public Safety Performance Project have offered support to many states in recent years. Funding for such work is often directed to research and technical assistance organizations as well as states. Vera has received some of this funding and provided technical assistance to a number of states, including Alabama, Delaware, and Louisiana. For more information about justice reinvestment, see <http://www.vera.org/project/justice-reinvestment-initiative>.
- 16 Pew Center on the States, *State of Recidivism: The Revolving Door of America's Prisons* (Washington, DC: The Pew Charitable Trusts, 2011), 2.
- 17 Ibid., p. 19.
- 18 Vera Institute of Justice, *Criminal Justice Trends: Key Legislative Changes in Sentencing Policy, 2001–2010* (New York: Vera Institute of Justice, 2010), 10.
- 19 Pew Center on the States, *The Impact of Hawaii's HOPE Program on Drug Use, Crime and Recidivism* (Washington, DC: The Pew Charitable Trusts, 2010). http://www.pewcenteronthestates.org/uploadedFiles/PSPP_HOPE_Brief_web.pdf?n=8765 (accessed December 13, 2011).
- 20 For more information about performance incentive funding programs, see <http://www.vera.org/project/performance-incentive-funding>.
- 21 Vera Institute of Justice, *The Continuing Fiscal Crisis in Corrections*, 2010, p. 11.
- 22 Ibid.
- 23 Pew Center on the States, *One in 31: The Long Reach of American Corrections* (Washington, DC: The Pew Charitable Trusts, March 2009), 18-19.

Appendix A: Methodology

This section describes how Vera calculated the total cost of prisons presented in this report. This methodology, along with the survey (Appendix B), provides the information necessary for states to calculate these costs on their own. Vera calculated the total cost of prisons by analyzing expenses funded through all state and federal revenue sources in fiscal year 2010. The actual cost of any activity is best calculated by examining expenses already incurred and not budgets for the current year, because government expenditures typically vary from the budgets enacted.

For this report, Vera collected prison costs, in corrections departments and beyond, through a survey of the departments of corrections in all 50 states.¹ Vera then used publicly available data on the costs of underfunded contributions to pensions and retiree health care and on indirect costs to state administrative agencies. Analysts estimated the costs of contributions to pensions and retiree health care for states that could not provide these amounts.

The survey first asked respondents to provide the amount the department of corrections spent on state prisons, subtracting any expenditures on services such as probation, parole, and juvenile justice, if applicable. (The survey defined prisons as residential facilities that hold sentenced adult offenders in state custody.) Prison costs include state expenses for the operation of state-run prisons, privately operated prisons, and any payments to local jails or other states for housing state-sentenced inmates.

The survey then asked states to indicate whether portions of the following nine costs were provided outside the corrections department:

- › contributions for pension benefits;
- › contributions for retiree health care benefits;
- › other fringe benefits, such as health insurance, and taxes, such as social security;
- › capital costs for prison construction and renovation;
- › legal judgments and claims, as well as contributions to the state tort fund;
- › expenses for private prisons;
- › hospital care for inmates;
- › educational and job training programs for inmates; and
- › any other costs outside the corrections budget, if applicable.

If states funded any of these costs outside their corrections budget, survey respondents were asked to provide the total of each cost. If the respondents did not have this information, they were asked to refer Vera researchers to a contact at the relevant state agency.

¹ Alaska, Hawaii, Massachusetts, Mississippi, New Mexico, Oregon, South Dakota, Tennessee, and Wyoming did not participate in the survey. The South Carolina Department of Corrections was unable to certify the state data submitted prior to publication of this report.

In many states, calculating the total cost of prisons also requires estimating the cost of underfunded contributions to pensions and retiree health care as well as indirect prison-related costs to state administrative agencies.

The remainder of this section describes the methods used to estimate the cost of underfunded pension and retiree health care benefits. (One method also provided a means to calculate the actual contribution for these benefits when states were unable to provide this information.) It also describes the methods used to identify indirect costs of prisons to state administrative agencies and the method used to calculate capital costs in some states that could not provide this information.

PENSIONS AND RETIREE HEALTH CARE

Pension benefits are periodic income payments made to employees upon retirement.² These benefits are paid by a trust fund that is financed through employers and, in most states, through employee contributions and the investment returns on them. Pensions are pre-funded so that contributions made during employment provide for retirement benefits.

Many states also provide retirees with other post-employment benefits (OPEB) in addition to retirement benefits. Retiree subsidies for health insurance premiums are the largest component of OPEB, although some states provide dental and vision care as well as life, disability, and long-term-care insurance.³ Like pensions, these benefits are deferred compensation, meaning that they are earned in the present and paid in the future. They are different from pension benefits in that they are not usually pre-funded through a trust fund, but are funded on a pay-as-you-go basis. This means that current revenues pay for current retirees and no savings or investment income finances future benefits.

To calculate the total cost of prisons, two questions regarding pension and retiree health care costs must be answered: first, does the corrections department pay the state's contribution for pension and retiree health care benefits for corrections employees? Second, does the state's annual contribution to these benefits provide the total amount necessary to fully fund these benefits in the long run?

Corrections departments answered the first question in the state survey. The second was answered by reviewing publicly available financial reports for each state's pension and retiree health care plans.⁴

The annual government contribution necessary to ensure that total assets can pay for retirement benefits in the long run is called the *annual required contribution*. So long as the government fully funds the annual required contribution—and future economic conditions meet the assumptions used to calculate this figure—

2 The benefit rules are different in every state, but in general, the amount of the benefit is determined by multiplying the employee's final salary by the number of years of service and a benefit multiplier. For example, in a plan with a benefit multiplier of 2 percent, an employee with a final salary of \$60,000 and 30 years of service will receive an annual pension benefit of \$36,000 (\$60,000 multiplied by 30 multiplied by 2 percent).

3 Jun Peng, *State and Local Pension Fund Management* (New York: CRC Press, 2009), 211.

4 See endnote 7 on page 14.

the state will have sufficient assets to cover future pension or retiree health care benefits. From the taxpayer's perspective, the annual required contribution is the true annual cost of pensions and retiree health care. Although most states do not pre-fund retiree health care benefits through a trust fund, states calculate the annual required contribution for these benefits so they can report their long-term financial obligations.

Many states, however, contribute less than the annual required contribution for pension and retiree health care benefits. In fiscal year 2009, states paid, on average, 83 percent of the required contribution for pension benefits and 36 percent of the required contribution for retiree health care benefits.⁵ This means that the government's contributions for pensions and retiree health care—that is, the funds actually spent—were lower than the true costs of these benefits in 2009. Thus, in states that did not fully fund the annual required contribution, the employer contribution for all state employees understates the true cost of retirement benefits by shifting it to the future.⁶

Every year, administrators of benefit plans calculate the annual required contribution as well as the percentage of this amount that the state actually paid and publish these figures in a Consolidated Annual Financial Report (CAFR) according to a standardized reporting framework issued by the Government Accounting Standards Board (GASB).⁷ These reports are available online to the public.⁸ GASB is an independent organization that establishes the standards of accounting and financial reporting for state and local governments in the United States, to provide greater transparency to readers of government financial documents.

Plan administrators provide this information for the pension or retiree health care plan, and this data can be used to determine annual required contribution and the underfunding of contributions to pensions and retiree health care for corrections employees.

5 Pew Center on the States, *The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs*. (Washington, DC: The Pew Charitable Trusts, 2011), 2, 5.

6 Peng, 2009, p. 143.

7 In 1994, Government Accounting Standards Board (GASB) issued two statements: Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans and Statement 27, Accounting for Pensions by State and Local Government Employers*. These publications established the standards of financial accounting and reporting for public pension plans. In 2004, Government Accounting Standards Board (GASB) issued two statements: Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to set standards for financial reporting on OPEB. These two statements are substantially similar to Statements 25 and 27 in terms of reporting standards. See Peng 2009, p. 75, for more information on financial reporting standards.

8 Vera researchers downloaded CAFRs for each state (and its pension plan) surveyed for this report. Data reported in the various CAFRs for major public pension plans are also accessible in the Public Plans Database, produced by the Center for Retirement Research at Boston College, <http://pubplans.bc.edu/> (accessed December 1, 2011). The authors are not aware of a similar public database that aggregates financial reporting for other post-employment benefits.

UNDERFUNDING OF PENSIONS AND RETIREE HEALTH CARE

For each state, Vera used one of two methods to calculate the cost of underfunding the annual required contribution for corrections employees. Method A, which is the most accurate method of calculation, requires data on the actual pension or retiree health care contribution for corrections employees.⁹ Method B estimates the cost of underfunding by using the total corrections payroll as an input and was used when department pension contribution data was not available.¹⁰ See the detailed description of each method below.

Method A. Vera used this method when survey respondents provided the amount contributed to pensions and/or retiree health care for corrections employees. To calculate the cost of underfunding the annual required contribution for corrections employees, Vera obtained data for the percentage contributed from the Schedule of Employer Contributions in the Consolidated Annual Financial Report (CAFR) for the pension and retiree health care plan in each state.

For example, the Louisiana Department of Public Safety and Corrections contributed \$36.7 million for employee pensions in 2010. As a whole, however, the state contributed only 87.2 percent of the total annual required contribution. The total annual required contribution for corrections is calculated by dividing the actual contribution for corrections employees (\$36.7 million) by the percentage contributed (87.2 percent). The result, \$42.1 million, is the annual required contribution for corrections employees. The difference between \$42.1 million and \$36.7 million, or \$5.4 million, was the cost of underfunded pension contributions for corrections employees in 2010.

Method B. Survey respondents from some states were not able to provide the amount contributed to pensions or retiree health care for corrections employees because these costs were either not in their department's budget or were commingled with contributions for other benefits. In these cases, Vera calculated the total cost of pensions or retiree health care for corrections employees using survey data for the corrections payroll (total staff salary). Analysts then obtained the total payroll amount covered by the pension or retiree health care plan—called the covered payroll—from the Schedule of Funding Progress and the annual required contribution, from the Schedule of Employer Contributions in the pension or retiree health care plan's CAFR.

⁹ "Corrections employees" refers to the employees who are responsible for the operations of prisons. These employees also include administrative staff whose salaries are allocated to prison costs.

¹⁰ Because corrections departments usually make the payment for pension contributions and were able to provide data on them, Vera used Method A to calculate the cost of underfunded pension contributions for all states except Illinois and Texas. Because retiree health care contributions are typically paid outside the corrections department and Vera could not obtain those amounts, analysts used Method B to calculate the cost of retiree health care contributions and underfunded retiree health care contributions for most states (except for Alabama, California, Kentucky, Louisiana, Maine, Missouri, Nevada, Ohio, Pennsylvania, Rhode Island, Washington, and West Virginia).

In Illinois, for example, the corrections payroll for prison employees was \$573.3 million and the total covered payroll for the pension plan was \$4.1 billion. This means that corrections personnel account for 13.9 percent of the payroll covered by the pension plan (\$573.3 million divided by \$4.1 billion equals .139). This figure was multiplied by the state's annual required contribution for the entire pension plan—which is \$1.2 billion—to calculate the annual required contribution for corrections employees (\$163.8 million).

In 2010, the state of Illinois contributed 93.1 percent of the annual amount required to fully fund pension benefits in the long run. Thus, the actual pension contribution for corrections employees was \$152.5 million (\$163.8 million multiplied by .931). The difference between \$163.8 million and \$152.5 million, \$11.3 million, was the cost of underfunded pension contributions for corrections employees in 2010.

The weakness of this approach is that it assumes that the cost of retirement benefits for prison employees is equivalent to the cost for other plan members. This may not be the case for two reasons. First, corrections employees may end their careers with a final salary and number of years of service that differ, on average, from other plan members. Second, in some plans, corrections employees have more generous pension benefits than other plan members. Method A is the preferred approach because of these limitations. Method B, however, can provide a reasonable, if less precise, estimate when data on the actual contribution for corrections employees is unavailable.

It is important to note that these two methodologies estimate the underfunding of required pension and retiree health care contributions based on funding estimates that each state's actuaries calculated. There is significant debate, however, about the economic assumptions that states use. Many economists believe that assumptions regarding forecasted investment returns are too optimistic and that greater employer or employee contributions will be necessary in the future to fully fund scheduled benefits.¹¹ Therefore, the costs of underfunded retiree benefits calculated in this report may be conservative.

Future retiree health care benefits do not have the same protections as future pension benefits. Pension benefits are usually considered a contractual right and are protected by state constitutions, court rulings, and statutes. The legal protections for retiree health care benefits are not as strong in some states.¹² Thus, in some states, it is possible that future retiree health care costs could be reduced by reducing benefits. This does not negate the fact, however, that these costs have been incurred under current law.

11 Pew Center on the States, *The Widening Gap* (Washington, DC: The Pew Charitable Trusts, 2011).

12 Peng, 2009, p. 223.

STATEWIDE ADMINISTRATIVE COSTS

In addition to the direct costs states pay for prison operations, they also incur indirect costs related to prisons. These costs are for centrally administered services that are necessary for a department to function but benefit more than one department.¹³ For example, many states provide certain administrative services—such as legal, group purchasing, and human resources—to agencies on a centralized basis.¹⁴ In some instances, the benefiting agencies are billed for the services provided centrally. Because *billed* expenses are charged to these agencies, the costs are included in the agencies' annual spending (that is, agencies pay for the centrally administered services from their budgets). However, administrative expenses that are not billed to the benefiting agencies are *not* captured by each agency's spending figures. These are called "allocated" indirect costs.

Allocated indirect costs for all state agencies, including corrections, are calculated annually and submitted to the federal government in a Statewide Cost Allocation Plan (SWCAP). This document lists the central services billed directly to the agencies and those services that are not billed to them.

Each state's cost allocation plan is available from the U.S. Department of Health and Human Services' Division of Cost Allocation.¹⁵ The accounting of allocated indirect costs, by department, is provided on Schedule A. Indirect costs amount to only a fraction of total statewide spending, but are necessary to calculate the total cost of prison operations.¹⁶

CAPITAL COSTS

The total cost of prisons also includes the cost of purchasing and rehabilitating the capital assets that support the prison system. Capital assets are goods such as buildings, equipment, and land that have a useful life of many years after their initial purchase.¹⁷

13 Billy L. Wayson; and Gail S. Funke, *What Price Justice? A Handbook for the Analysis of Criminal Justice Costs* (Washington, DC: U.S. Department of Justice, National Institute of Justice, 1989, NCJ 106777).

14 U.S. Department of Health and Human Services (HHS), *Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government* (Washington, DC: HHS, 1997). <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf> (accessed December 1, 2011).

15 Statewide Cost Allocation Plans are available at http://rates.psc.gov/fms/dca/dca_swcap.html (accessed December 1, 2011).

16 States' allocated indirect costs cannot be compared because the distinction between billed and allocated cost varies by state. Additionally, the methodology states use to apportion allocated costs among the benefiting agencies is not standardized. The guidelines are governed by OMB Circular A-87, but are not uniform across the states.

17 National Association of State Budget Officers (NASBO), *Capital Budgeting in the States* (Washington, DC: NASBO, 1999).

States often borrow from the public by issuing bonds to provide the funding necessary for large projects and then pay off this debt over a period of years. This payment is called debt service and consists of regular payments of principal and interest in a manner similar to a home mortgage. The payment period usually coincides with the useful life of the asset.

The costs of debt service are often budgeted outside the corrections department but are nonetheless a part of the total cost of prison. Although many states were able to provide these data, some states—including Illinois and Georgia—were not, because the cost of debt service for prisons is bundled with other debt. For these states, Vera estimated the cost of debt service for prisons by prorating the state's total debt-service costs by calculating the proportion of debt authorized for corrections.

For example, Illinois finances capital costs for prisons by issuing general obligation bonds that also finance other state capital projects. In 2010, the debt service for general obligation bonds was \$350 million. To estimate the prison-related share of that amount, Vera used the proportion of general obligation debt that is authorized for prisons. Of the \$8.9 billion in general obligation debt, \$1.6 billion, or 18.5 percent, is authorized for corrections. Thus, the cost of corrections debt service was calculated to be \$64.8 million, 18.5 percent of the \$350 million in total debt service for those bonds in 2010.¹⁸

A CLOSER LOOK AT CAPITAL COST CALCULATIONS

Although most states finance capital purchases through debt (which they repay through debt service after a prison is built), some capital costs are paid with current revenues, meaning that the entire cost of the project is paid up front (the “pay-as-you-go” approach). In states that finance capital assets with current revenues—whether these costs are inside or outside the corrections department—the total cost of prisons in 2010 is understated in this report because prior capital investment appears to be “free” in the current period even though the assets remain in use. Similarly, capital costs will be overstated in years when states make new investments, because the cost of an asset, which will have a useful life of many years, will be erroneously attributed to only one year of use. Thus capital costs cannot be compared between states that finance capital costs through debt and current revenues.

Vera found that capital costs were not typically funded through current revenues when these costs are funded outside the corrections budget. Only four states (Arizona, New Jersey, Nebraska, and North Dakota) reported that a portion of their prison-related capital costs outside the corrections budget were funded with current revenues. The survey for this study did not ask whether capital costs *within* the corrections budget are funded through current revenues or debt service. This issue merits consideration and further analysis in states that have made substantial capital investments through current revenues.

18 This approach was developed in consultation with James Prichard, manager of capital markets for the State of Illinois, Governor's Office of Management and Budget. Section 3 of the General Obligation Bond Act provides the authorization for debt for correctional facilities. <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=508&ChapterID=7> (accessed December 1, 2011).

Appendix B: Survey



If you have questions about this survey, contact: Ruth Delaney
Vera Institute of Justice
(212) 376-3035
rdelaney@vera.org

True Cost of Prisons: State Survey

Thank you for completing the True Cost of Prison survey on prison costs in your state. Please take a few minutes to review the survey data below and then **check the box and enter your name and the date** in the field provided to certify that the data presented here is accurate to the best of your knowledge.

I hereby certify that the information on this form is correct to the best of my knowledge and that I have reviewed the information below and am satisfied with its accuracy.

Name _____ Date _____

All questions in this survey should be answered for FY2010 (the fiscal year that ended in 2010).
For the purposes of this survey, prisons are residential facilities that hold sentenced adult offenders in state custody.

Part I: Background Information

State:	<input type="text" value="[fill in here]"/>	Name of survey respondent:	<input type="text" value="[fill in here]"/>
Corrections Department:	<input type="text" value="[fill in here]"/>	E-mail:	<input type="text" value="[fill in here]"/>
Department Acronym:	<input type="text" value="[fill in here]"/>	Phone:	<input type="text" value="[fill in here]"/>

Special Instructions

Please complete all shaded areas in this survey.

Costs and expenditures are defined as total funds expended from all sources (i.e., state, federal, other grants). Please provide all costs in whole dollars.

Part II: Corrections Expenditures and Other Metrics

1. Corrections expenditures

		Notes
A.	Total corrections department expenditures	
B.	What functions does the department administer besides prisons? <input type="checkbox"/> Probation <input type="checkbox"/> Parole <input type="checkbox"/> Juvenile <input type="checkbox"/> Other	If "Other," please specify:
C.	Corrections department spending for prisons only	
D.	Total corrections employee payroll for prisons only	

- 1. B. If your state's department of corrections administers correctional services other than prisons, note them here. Check all that apply. Enter names not included in this list.
- 1. C. If you listed additional correctional services in question 1.B., subtract their expenditures.
- 1. D. **Salary only: do not include fringe, overtime, etc.** If you listed additional correctional services in question 1.B., subtract the payroll expenditures for their operations and administration.

2. Other metrics

A.	Average Daily Inmate Population (ADP)	
B.	Average number of department employees for prisons only	

- 2. A. ADP of all inmates. Please include inmates in state-operated facilities as well as inmates in private facilities and local jails (i.e., all inmates for which the state incurs costs).
- 2. B. If you listed additional correctional services in question 1.B., subtract the staff for these services.

Part III: Pension and Retiree Healthcare Costs for Prison Employees

1. Pension costs

		Notes
A.	Which pension plan(s) do prison employees participate in?	
B.	Is the employer share of pension contributions included in the corrections agency's budget?	[fill in here]
C.	What was the state's pension contribution for prison employees?	

- 1. B. Select yes or no. If no, which department(s) pay(s) this cost? Please provide contact at this department if you cannot provide the cost.

2. Retiree healthcare / Other Post Employment Benefits (OPEB) for Prison Employees

A.	Which OPEB plan(s) do prison employees participate in?		
B.	Is the employer share of retiree healthcare cost included in the corrections department's budget?		[fill in here]
C.	What was the state's retiree health care & other post employment benefits (OPEB) contributions for prison employees?		

- 2.A. Enter the full name of the pension plan(s) in which prison staff participate.
- 2.B. Select yes or no. If no, which department(s) pay(s) this cost? Please provide contact at this department if you cannot provide the cost.
- 2.C. If you listed additional correctional services in Part II question 1.B., do not include the cost of the pension contributions for employees who provide those services.

Part IV: Prison-Related Costs Outside the Corrections Budget

1. Costs related to prison operations	Is Any Portion of this Cost Outside the Corrections Budget? Select yes or no.	If Yes, What is the Cost Outside the Corrections Budget?	If Yes, which other department(s) pay(s) this cost? Please provide contact at this department if you cannot provide the cost.
A. Fringe benefits and taxes (excluding pensions and OPEB)			[fill in here]
B. Capital costs: Debt service for corrections / Pay as you go capital			[fill in here]
C. Payments for legal judgments and claims or contribution to the state tort fund			[fill in here]
D. Expenses related to the payment, administration, or oversight of private prisons			[fill in here]

Enter \$0 if there is no cost outside of the corrections department.

- 1.A. For example, health insurance, Life insurance, Unemployment insurance, Social Security/Medicare, Worker's Comp., etc. **Do NOT include pension or OPEB costs here.**
- 1.B. Specify whether capital costs are for debt service or pay as you go capital expenses.

2. Inmate services

A.	Payments for inmate hospital care			[fill in here]
B.	Inmate education and training			[fill in here]
C.	Other costs for services relating to the confinement of adult offenders			[fill in here]

- 2.C. Specify what these additional services are.

Return Completed Surveys, via email, to:

Ruth Delaney, Program Analyst
 Vera Institute of Justice
 233 Broadway - 12th Floor, New York, NY 10279-1299
 (212) 376-3035; rdelaney@vera.org

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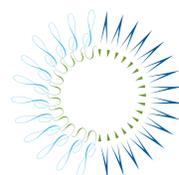


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THE
PEW
CENTER ON THE STATES

233 Broadway, 12th Floor
New York, NY 10279

Tel: (212) 334-1300
Fax: (212) 941-9407
www.vera.org

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