

Pitfalls and Promises

The Real Risks to Residents and
Taxpayers of Privatizing Prisons and Prison Services in Michigan

Executive Summary



February 15, 2012

Executive Summary

Pitfalls and Promises

The Real Risks to Residents and Taxpayers of Privatizing Prisons and Prison Services in Michigan

Private prisons look at first like an attractive idea, promising savings to cash-strapped states whose leaders are frustrated by the high cost of corrections. However, 30 years of experience show that when prisons are turned over to for-profit corporations, cost savings are elusive and risks are real.

Case studies exemplify the pitfalls and broken promises inherent in prison privatization.

Michigan's Costly Experiment with Privatization in Baldwin

The North Lake Facility for youth at Baldwin was built on contract in 1997 by Wackenhut Corrections Corp., which later became the GEO Group. Problems started right away:

- North Lake was three times more violent than Michigan's other maximum security prisons. In the first five months of operation, North Lake reported 110 critical incidents, including 46 assaults and 12 attempted suicides.¹
- GEO failed to provide counseling programs or contractually required levels of staff.²
- The state was paying \$75.81 per person per day for confinement that cost \$64.89 per day in sufficiently secure state facilities.³
- When Michigan terminated the contract in 2005, GEO sued the state for \$5.4 million.⁴
- The facility is currently empty, and now GEO could again profit from North Lake under HB 5174 and HB 5177—bills introduced in November 2011 to reopen the facility for the Department of Corrections to incarcerate adults.

Failures Led to Escape, Kidnap and Murder at Kingman, Arizona

In July 2010, three prisoners escaped from a medium security facility operated by a leading private-prison company, kidnapped two truck drivers and murdered two tourists. Arizona's official review found the prison had poorly maintained equipment, insufficient and poorly trained staff, and an alarm system that sounded so many false alarms that everyone ignored it.⁵

GEO Prisons: Systemic Problems in the Nation's Second-Largest Prison Privatizer

- Lawsuits have cost GEO tens of millions of dollars, and liability costs are passed on to other states.
- The U.S. Justice Department sued Wackenhut (now GEO) for "excessive abuse and neglect" in its juvenile detention center in Louisiana.⁶
- An independent audit in Mississippi found inmates left outside in winter for up to six hours and rounds that should have occurred every 30 minutes happening once a day.⁷

Prison Privatization's Cost Savings Are Elusive

The most recent comprehensive meta-analysis across multiple states and multiple years concluded: "Cost savings from privatizing prisons are not guaranteed and appear minimal. Quality of confinement is similar across privately and publicly managed systems, with publicly managed prisons delivering slightly better skills training and having slightly fewer inmate grievances."⁸

Michigan can learn from the results of prison privatization in other states.

- Ohio has been unable to prove any meaningful savings, despite a statutory requirement of 5 percent. Estimates range from a savings of 4.7 percent to a loss of 3.5 percent.⁹
- Florida requires 7 percent savings—but analysis didn't show savings, only the private prisons were cherry-picking inmates. Because the state became responsible for "a disproportionate share of inmates requiring extra medical or mental healthcare..." the ability to compare costs was "undermined."¹⁰

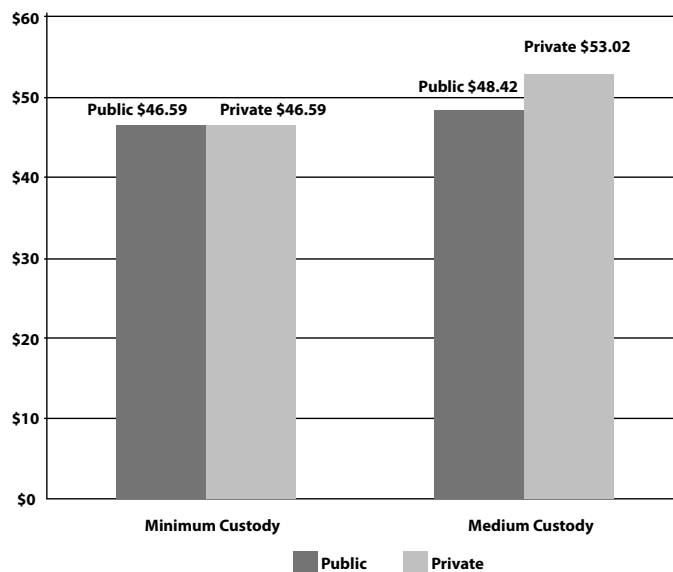
- Arizona, a leader in prison privatization, breaks even in minimum security beds (\$46.59 per day in public facilities, \$46.56 in private) and loses money in medium security (\$48.42 per day in public facilities, \$53.02 in private), a cost of more than \$1,600 per prisoner per year.¹¹

- Texas shows that staff cuts come at a price of consistency and stability. The highest salary for corrections officers in private Texas prisons was \$2,000 less than the lowest salary for officers in public prisons, according to the state’s Senate Committee on Criminal Justice in 2008. Extraordinary turnover was the result. Fully 90 percent of privately employed corrections officers were found to have left their jobs within one year.¹²

Private prisons tend to be understaffed.

Public prisons average 5.6 inmates per officer, but private prisons average 7.1, according to the U.S. Department of Justice.¹³ The Federal Bureau of Prisons observes “the greater the inmate-to-staff ratio the higher the levels of serious violence among inmates.”¹⁴ Claiming savings simply by reducing staff to dangerously low levels is not a genuine efficiency.

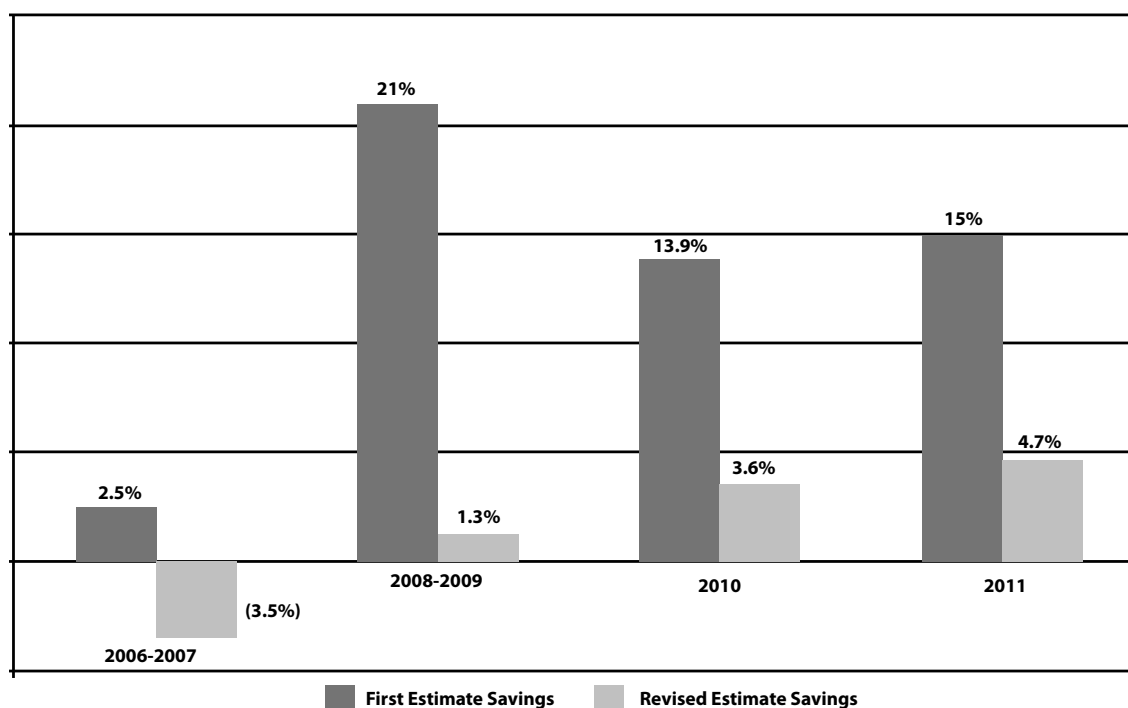
**No Real Savings In Arizona Prisons
Per Diem Costs 2010**



There are three big reasons to be skeptical of privatization cost comparisons.

- **Private prisons can cherry-pick inmates.** Contract prisons can admit only healthy inmates or transfer them out after they get sick or difficult to manage. Costs are shifted to public prisons.
- **Private contractors can bid low and raise costs later.** The history of prison privatization is a history of states being tempted by low bids and disappointed by the actual savings, if not the management or maintenance of the facility.
- **Comparing apples-to-oranges.** Minimum security inmates cost less to confine than high security inmates; healthy inmates require less healthcare than sicker ones. Private prisons often show cost savings by comparing the cost of a low-security facility with healthy young inmates to a full-system average, including costlier individuals. Apples-to-apples comparisons are difficult to make at the outset and to maintain over time.

Ohio Revised Cost Savings Downwards



With privatization, money leaves the prison and the state.

Private prisons cost taxpayers roughly as much as public prisons—but the staff tends to be underpaid. So where does that “savings” go? The answer: out of the prison and out of the state. GEO is based in Boca Raton, Florida; Corizon is headquartered in Tennessee.

In 2010, GEO made \$63 million in net income and paid shareholders \$1.13 per share.¹⁵ In 2010, the CEO of GEO made \$3,484,807.

Wayne H. Calabrese	Former Vice Chairman, President and COO	\$6,471,689
George C. Zoley	Chairman of the Board and CEO	\$3,484,807
Brian R. Evans	Senior Vice President and CFO	\$915,669
John M. Hurley	Senior Vice President, Detention and Corrections Services	\$976,507
John J. Bulfin	Senior Vice President, General Counsel	\$837,974
Jorge A. Dominicis	Senior Vice President, Residential Treatment Services	\$864,267

Compensation includes salary, stock options, bonus, etc.¹⁷

The state and the private prison company have different incentives.

- Taxpayers want to save money. Private prisons want to make money. These are inherently opposite interests, since the only way for private prisons to make money is for the government to give it to them. The drive for growth can be counterproductive as a matter of both individual liberty and fiscal responsibility.
- Some worry about private prison companies’ ability to spend money to seek political change, harsher criminal sentences or immigration crack downs. Private prisons have an incentive to keep their cell blocks full, making even an issue such as discipline tricky. If a private prison contractor has a low threshold for disobedience and is strict about penalizing infractions, it can affect an individual’s disciplinary credits and increase length of stay.
- Michigan has been working hard in recent years to find responsible ways to bring the prison population down. Private prison corporations benefit when those efforts fail.

Problems with Privatizing Specific Functions and Services

Healthcare Privatization: Wrong Prescription for Michigan Prisons

- Michigan had bad experience contracting for prison healthcare with Correctional Medical Services (CMS).¹⁸ In 2009, Michigan changed to Prisoner Health Services (PHS)—even as other states were disappointed with PHS and changing to CMS.¹⁹
- States don’t have real market choice in privatizing healthcare CMS bought PHS in 2011, creating a merged company, Corizon, with a virtual monopoly on contract prison health services. Even the theoretical advantage of free-market competition has disappeared.

Contracting Out Prison Food Service Can Lead to Problems

- Contracting can interfere with MDOC’s own efforts to reduce food costs.
- Contracting hurts Michigan’s businesses and economy. MDOC has established relationships with more than 50 Michigan vendors, and MDOC food purchasing operations return \$45 million to the state every year. Giant national chains such as Aramark tend to purchase food differently.
- Contracting can put staff, residents, and taxpayers at risk. Food service is fundamental to the stability of institutions. Small cost cutting measures such as reducing portion size or downgrading ingredients can lead to violence, riots and costly disturbances.
- Contracting creates additional burdens on corrections staff. In 2007, MDOC found that when outside food service staff were used, at least one additional state corrections officer needed to be assigned during operations.

Michigan Prison Privatization Proposals Under Consideration

- **Reopening GEO's North Lake facility.** Michigan doesn't need additional secure capacity at this time, so reopening can't be justified as an expansion. The only explanation is a desire to open a private facility in anticipation of shutting down some public facilities in the short term. Such a swap seems unjustified as a matter of either cost or performance.
- **Privatizing the Special Alternative Incarceration Facility (SAI) at Chelsea.** MDOC has designed this "boot camp" style program as a lower-cost alternative to prison for appropriate individuals, and it is expected to save \$30 million to \$40 million per year. The decision by a House-Senate legislative conference committee to privatize the SAI came as a surprise, and raises important questions for taxpayers and residents.
- **Privatizing the Woodland Center Correctional Facility at Whitmore Lake.** The purposes for privatizing this facility for people with serious mental illness are unclear. High staff turnover, inconsistent operations, understaffing and other problems associated with private prisons would pose a real threat with a population that is already difficult to manage.
- **Privatizing additional prison healthcare functions or food service** operations would court trouble for no real benefit.

Groups such as Michigan's CAPP and the National Council on State Governments have assembled thoughtful recommendations, beginning with cost-savings measures such as transferring geriatric or medically frail individuals from prison to community supervision. Increased transparency and requiring strict adherence to all open records laws should be non-negotiable for any and all future contracting.

Prepared for the Michigan Corrections Organization (MCO) as well as AFSCME, MSEA, SEIU, and the UAW. For a full version of Pitfalls and Promises: The Real Risks to Residents and Taxpayers of Privatizing Prisons and Prison Services in Michigan go to

<http://www.mco-seiu.org/2012/02/14/prison-privatization-report/>

End Notes

- 1 "Critics not convinced youth prison is fixed; They say prison officials are covering up problems to protect Gov. Engler's project." Grand Rapid Press, 24 August 2000.
- 2 "Critics not convinced youth prison is fixed; They say prison officials are covering up problems to protect Gov. Engler's project." Grand Rapid Press, 24 August 2000.
- 3 "Punked? Critics challenge savings claimed by privately run youth prison," Grand Rapid Press. 2 May 2004.
- 4 The GEO Group, et al v. Michigan Department of Corrections, et al. Supreme Court of Michigan, 480 Mich. 991 (December 20, 1997) http://coa.courts.mi.gov/documents/opinions/final/coa/20070621_c273466_33_273466.opn.pdf
- 5 Arizona Department of Corrections, "ASP Kingman, Security Review," 19 August 2010. http://www.azcorrections.gov/adcc/news/2010/081910_ASP_Kingman_Security_Review.pdf
- 6 "Justice Department Sues, Files for Emergency Relief to Protect Juveniles in Louisiana's Jena Juvenile Justice Center," 30 March 2000. <http://www.justice.gov/opa/pr/2000/March/155cr.htm>.
- 7 Joe Killian, "GEO Group's record is under fire," Greensboro North Carolina News Record, 1 January 2012. http://www.news-record.com/content/2011/12/31/article/GEO_group_s_record_is_under_fire.
- 8 Brad Lundahl et al, "Prison Privatization: A Meta-analysis of Cost and Quality of Confinement Indicators," Research on Social Work Practice, July 2009. 19: 383-394. <http://rsw.sagepub.com/content/19/4/383.full.pdf+html>
- 9 Bob Paynter, "Cells for Sale: Understanding Prison Costs & Savings," Policy Matters Ohio, 11 April 2011, p. ii. <http://www.policymattersohio.org/CellsForSale.html>
- 10 957.07(1), Florida Statutes. Florida Center for Fiscal and Economic Policy, "Are Florida's Private Prisons Keeping Their Promise?" April 2010. <http://www.fcfe.org/attachments/20100409--Private%20Prisons.Florida%20Office%20of%20Program%20Policy%20Analysis%20and%20Government%20Accountability,Report%20No.%2008-71,December%202008.pdf>
- 11 Arizona Department of Corrections, FY 2010 Operating Per Capita Cost Report: Cost identification and comparison of state and private prison beds. http://www.azcorrections.gov/adcc/reports/ADC_FY2010_PerCapitaRep.pdf
- 12 Senate Committee on Criminal Justice, Interim Report to the 81st Legislature, Dec. 2008. <http://www.senate.state.tx.us/75r/Senate/commit/c590/c590.InterimReport80.pdf>. page 9. Mike Ward, "Pay hike sought in prison system," Austin American-Statesman, August 14, 2008. <http://www.statesman.com/news/content/news/stories/local/08/14/0814guards.html>
- 13 Bureau of Justice Statistics, "Census of State and Federal Correctional Facilities, 2005," October 2008. <http://bjs.ojp.usdoj.gov/content/pub/pdf/csfcf05.pdf>
- 14 U.S. Department of Justice, Federal Prison System, FY 2011 Performance Budget, p. 6 (p.9 in PDF). <http://www.justice.gov/jmd/2011justification/pdf/fy11-bop-se-justification.pdf>
- 15 GEO Annual report 2010, Consolidated Statements of Income, p. 33.
- 16 GEO Def. 14A, 2010. <http://www.sec.gov/Archives/edgar/data/923796/000095012311028919/g26601def14a.htm>
- 17 GEO Def. 14A, 2010. <http://www.sec.gov/Archives/edgar/data/923796/000095012311028919/g26601def14a.htm>
- 18 Jeff Gerritt, "Unhealthy Confinement: Inmates aren't the only one who pay for poor medical care in prisons" Detroit Free Press, 20 August 2006. <http://www.freep.com/article/20060821/OPINION02/111250006>. Martinque Stoudemire v. Michigan Department of Corrections et al, Case #07-15387, Order of March 31, 2011. David Reutter, "Michigan Prisons: Another CMS Failure in privatized Prisoner HealthcareHealthcare," Prison Legal News, May 2007. http://www.prisonlegalnews.org/%28S%280dvn5o55jfcac451hfv45%29%29/includes/_public/_issues/pln_2007/05pln07.pdf
- 19 David Eggert, "Michigan chooses new prison healthcarehealthcare company," Associated Press State and Local Wire, 10 February 2009.