

Weathering the Economic Downturn in Corrections:

Privatization as Part of a Dynamic Correctional Strategy

Amid the global economic slowdown, America finds itself each day more entrenched in a climate whose challenges evoke memories of the most severe downturns of generations past and burst industry bubbles of recent memory. The recession that began in December 2007 – and was officially declared as such a year later in December 2008¹ – poses an array of considerations and complications for state governments facing common budgetary woes in the face of existing and expanding public needs.

The housing crisis, tightened credit markets, rising unemployment and curbed consumer spending are trickling from the domain of private industry into the public sector, as state and local governments scramble for relief. They face the prospect of generating less in sales and property taxes – and making difficult choices to mitigate the resulting budgetary deficit. They must find ways to meet the compelling public priorities of education, health care and infrastructure, among other public obligations and services, including corrections.

The situation is dire, as findings in a January 2009 report titled “[State Budget Troubles Worsen](#)” by the Center on Budget and Policy Priorities illustrate:²

- At least 46 states faced or are facing budgetary shortfalls for this and/or next year, with fiscal difficulties likely to continue through the year 2011.
- Combined budget gaps for the remainder of this fiscal year and state fiscal years 2010 and 2011 are estimated to total more than \$350 billion.
- By mid-fiscal year 2009, more than half of all states had cut spending, tapped into reserves or increased revenues in order to adopt a balanced budget for the current fiscal year.
- More than 40 states have predicted deficits for fiscal year 2010 and beyond.
- All but a handful of all states will face shortfalls in fiscal year 2010, totaling approximately \$145 billion; if the crisis continues through fiscal year 2011, deficits are estimated to range from \$350-\$370 billion.

According to the [Pew Center on the States](#), corrections represents “on average, [the] fifth-largest state budget category, behind health, elementary and secondary education, higher education and transportation”³. As such, when it comes to funding, corrections finds itself precariously positioned. Correctional needs compete with public services – such as education,

1 National Bureau of Economic Research. “Determination of the December 2007 Peak in Economic Activity.” December 11, 2008. <<http://www.nber.org/cycles/dec2008.html>>

2 McNichol, Elizabeth and Iris J. Law. “State Budget Troubles Worsen.” Center on Budget and Policy Priorities.” January 29, 2009.

3 The Pew Center on the States. “One in 100: Behind Bars in America 2008.”

health care and infrastructure – that generally resonate more with taxpayers. “It’s very distressing trying to figure out what to cut,” said Rep. Roger Goodman of Washington State in a recent news article.⁴ “It’s not going to be education, particularly K-12. Some would also take corrections off the table.”

As the economic downturn deepens, systems increasingly find themselves facing growth in correctional spending without the general fund resources to support it at its current level. According to the National Conference of State Legislatures, “Spending for adult corrections in 2008 grew 7.5 percent. Based on originally enacted budgets, it is projected to grow 2.2 percent this fiscal year, reflecting the overall slowdown in appropriations growth rates because of the recession.”⁴

As The Pew Center on the States notes:
“In the absence of tax hikes, lawmakers may find themselves forced to cut or limit other vital programs – from transportation to education and healthcare – to foot the incarceration tab;” “year by year, corrections budgets are consuming an ever larger chunk of state general funds, leaving less and less in the pot for other needs.”

The State of the Nation’s Corrections System

So how are states coping with an inmate population projected to steadily increase in a nation where more than one in every 100 adults is now incarcerated?³

A comparative analysis of the Bureau of Justice Statistics’ “Prisoners in 2002”⁵ and “Prisoners in 2007”⁶ reports shows that state prison populations reflect a continual upward climb. Among the findings:

- State prison populations increased by 121,571 from 2002-2007.
- Five states (Arizona, California, Florida, Georgia and Texas) accounted for 50% of the total prison population from 2002-2007.

Additionally, Nevada’s prison population has climbed 58 percent in the last 10 years, with a projection to balloon another 61 percent in the next decade.⁴ Moreover, the number of inmates in U.S. prisons is expected to rise by 13% during then next five years, costing \$27.5 billion in new operating and construction expenses, according to the Pew Charitable Trusts.⁷ The requisite appropriations processes and construction duration of correctional facilities in the public sector makes this prospect an untenable one, at best, for many agencies.

While state trends vary, an upswing in inmate numbers is a common denominator impacting most states, as “growth in 2007 transcended geographical boundaries. A majority of states in all four regions finished the year with more prisoners than they housed at the start.”³

4 Lawrence, Allison. “The State of Corrections.” National Conference of State Legislatures. March 2009.

< http://www.ncsl.org/magazine/articles/2009/09slmar09_crime.htm >

5 Harrison, Paige M. and Allen J. Beck. “Prisoners in 2002.” Bureau of Justice Statistics. July 2003.

< <http://www.ojp.usdoj.gov/bjs/pub/pdf/p02.pdf> >

6 West, Heather C. and William J. Sabol. “Prisoners in 2007”. Bureau of Justice Statistics. December 2008 < <http://www.ojp.usdoj.gov/bjs/pub/pdf/p07.pdf> >

7 Johnson, Kevin. “Study predicts rise in inmate populations,” *USA Today*, Feb. 14, 2007

As states grapple with this spiraling dilemma – how to safely and securely house a rising number of offenders in an economically challenging environment – lawmakers and officials are more openly discussing correctional alternatives, such as:²

- Reducing prisoner rehabilitation programs
- Releasing inmates early, or alternative sentencing
- Double – or triple-bunking in facilities at or near capacity
- Using technologies, such as satellite tracking, to monitor select offenders
- Housing inmates in facilities outside their states
- Investing in long-term strategies to reduce recidivism, with a greater emphasis on reintegration and reentry services

Some of these correctional alternatives have been known to raise alarm, as public safety factors prominently in the debate. But with the added stressors of outdated and overextended facilities, maximizing staffing, maintaining programming and other concerns, agencies find themselves deliberating a range of nontraditional options and opportunities.

The privatization of prisons remains a point of discussion, as policymakers, elected officials, the greater public and others consider tactics to alleviate the pressing needs of their respective systems. The provision of such services through public-private partnership represents an established industry now more than 25 years old. A growing number of states now readily endorse correctional privatization as a cost-effective, reliable and responsive component of their comprehensive correctional strategy – and others are openly exploring this option as part of an answer to a complex logistical and budgetary problem. The private sector manages about 7% of the nation’s inmate population. [Corrections Corporation of America](#) has about 50% of that market.

Public-Private Partnership: Adaptive and Diverse Correctional Solutions

CCA currently partners with the federal government (Bureau of Prisons, Immigration and Customs Enforcement, United States Marshals Service), approximately half a dozen local agencies and 19 states to manage offenders. States partnering with CCA include: Alaska, Arizona, Colorado, Florida, Georgia, Hawaii, Idaho, Kentucky, Louisiana, Minnesota, Mississippi, Montana, New Mexico, Oklahoma, Tennessee, Texas, Vermont, Washington and Wyoming.

Partnering states have turned to privatized correctional services for a number of reasons, among them:

- Relieving systemic overcrowding through CCA-owned and operated just-in-time inventory, new construction and facility expansions
CCA typically reduces construction time by 40% with cost savings of approximately 25%.
- Achieving cost savings that maximize tax dollars
Privatization has been shown to help governments save 5-15%.
- Solving capacity crises, staffing shortfalls and operational concerns
Guided by high company standards, contractual mandates and the exacting accreditation criteria of the American Correctional Association.
- Providing flexible, customized correctional solutions
Operations, programs and services can be structured to meet specific system requirements.
- Realizing built-in legal protections through privatization
CCA’s partners benefit from indemnification, which provides legal and financial protection against damage, loss and liability.

Accordingly, Sen. Glenn Coffee of Oklahoma has recently said that partnership with the private sector may “alleviate stress on some

deteriorating facilities,”⁸ providing housing to a steady stream of existing and incoming offenders without the capital outlay required to build public facilities. Oklahoma has six private prisons that house inmates from the state as well as inmates from other states, including CCA’s Cimarron Correctional Facility, Davis Correctional Facility, Diamondback Correctional Facility and North Fork Correctional Facility (the latter two of which house offenders from other states).

The California Department of Corrections and Rehabilitation has also extolled the benefits achieved through privatized corrections management, relieving overcrowding and reducing “bad beds” by 27 percent through housing offenders at out-of-state facilities.⁹ CCA houses more than 5,000 California inmates at Florence Correctional Center, La Palma Correctional Center, North Fork Correctional Facility, Red Rock Correctional Center, Tallahatchie County Correctional Facility and West Tennessee Detention Facility.

Additionally, the Idaho Department of Correction is preparing a formal request for information for private prison companies interested in taking over its 500-bed Idaho Correctional Institution.¹⁰ CCA currently operates the only private prison in the state – Idaho Correctional Center, which constitutes 27 percent of the state’s prison beds.

8 Bisbee, Julie. “Private sector may aid Oklahoma’s prison woes.” *The Oklahoman*. Feb 2, 2009.

< <http://newsok.com/private-sector-may-aid-oklahomas-prison-woes/article/3342526>>

9 California Department of Corrections and Rehabilitation. “Out-of-State Transfers of Inmates Surpass 5,000; Allow CDCR to Reduce ‘Bad Beds’ by 27%.” Sept. 29, 2008

< http://www.cdcr.ca.gov/News/2008_Press_Releases/Sept_29.html>

10 Boone, Rebecca. “Idaho looks at private prison beds to save money.” *The Idaho Statesman*. Feb. 2, 2009. < <http://www.idahostatesman.com/531/story/654592.html>>

Rapid, Responsive and Ready: The Short-Term Benefits of Correctional Privatization

As the fifth-largest correctional system in the nation, CCA acutely understands the critical situation facing states. This economic downturn is demonstrably more severe than that of dot.com, or I.T. bubble, that occurred at the turn of the century. The intensity of the situation demands enterprising solutions. CCA remains committed to collaborating with systems to achieve practical and productive solutions, while maintaining and cultivating symbiotic public-private partnerships.

CCA recognizes that privatization may represent a segment of a system’s total correctional strategy; it may factor in nominally or prominently, its role being as tailored as the unique concerns of any partnering state. CCA also understands that today’s correctional needs are complex; discourse about best practices, economics, public policy, economics and other issues can lead to systems determining options and such discussions often continue solutions are realized. The ongoing dialogue signals the dynamic nature of corrections as a needed public service.

Through private corrections management, states strike a balance and achieve common ground that provides immediate financial relief with CCA by:

- Achieving new capacity without significant capital expenditures and protracted appropriations processes through company-owned facilities
- Utilizing out-of-state inmate placement to relieve over-capacity in-state facilities
- Deactivating inefficient public units (an entire facility or select housing units) in a state system, while transferring populations to CCA facilities
- Subscribing to an adaptable, non-prescriptive approach for existing customers faced with tightened budgetary mandates

- Adjusting contracted corrections management services to help states keep costs and offerings in line with budgets and legal directives

From the Recession through the Recovery: The Long-Term Value Proposition of Private Corrections Management

Because their capital and bonding have been dramatically affected, states are suspending, delaying and cancelling plans for new capacity and searching for ways to weather the next 12 months. CCA is prepared to help states make decisions now that may give stakeholders and the public greater confidence about the future of their states' corrections system.

Correctional privatization offers government sensible alternatives not readily attainable in other areas of public need, such as education or healthcare. States increasingly realize that they need not devote hundreds of millions of dollars to bricks and mortar when the private sector can design, build, own and operate correctional capacity contracted for their populations without the logistical concerns or capital outlay traditionally required.

In these unprecedented times, CCA remains focused on being a solid partner to government by:

- Finding common ground solutions
- Providing budgetary relief and savings
- Providing stable, fulfilling careers for local residents
- Optimizing available capacity
- Maximizing the creativity and flexibility of the private sector

With solutions that may be implemented flexibly, CCA helps states manage the process now by providing near-term assistance with budgetary relief and other empirical benefits that enhance the public corrections system. For example,

5 in the six years of data examined in "Do Government Agencies Respond to Market

Pressures? Evidence from Private Prisons," Vanderbilt University researchers concluded that states integrating private prisons into their existing public system experience lower rates of growth in the cost of housing their public prisoners when compared with states that do not contract with private correctional facilities at all.¹¹

The study focused on the use of public and privatized prisons from 1999 to 2004 – a period when the use of privatization increased nationally, from 13 states to 34 states (with about 7.5% of prisoners in the United States under private management).

"The fundamental conclusion is that, over that six-year period, states that had some of their prisoners in privately owned or operated prisons experienced lower rates of growth in the cost of housing their public prisoners – savings in addition to direct cost savings from using the private sector," said report author James Blumstein.

This new research also shows that this cost savings for public corrections systems is in addition to the direct cost savings achieved from privatization itself. The report indicates that states could save \$13-15 million annually by introducing public-private partnership in corrections.

The study also suggests that privatization spurs healthy competition and the transfer of industry knowledge to the public sector, thus curbing the public sector's own operational costs (aside from the direct cost savings of privatization).

¹¹ Blumstein, James F. and Mark A. Cohen. "Do Government Agencies Respond to Market Pressures? Evidence from Private Prisons." December 2007.

< http://www.correctionscorp.com/static/assets/Blumstein_Cohen_Study.pdf >