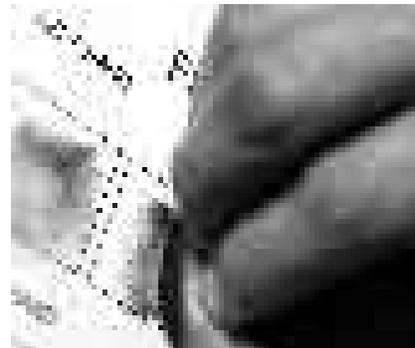
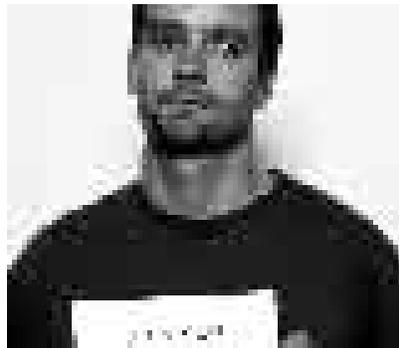
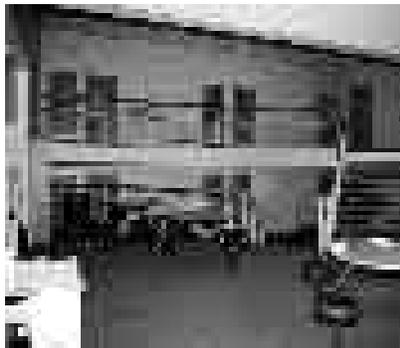


WEIGHING THE WATCHMEN: EVALUATING THE COSTS AND BENEFITS OF OUTSOURCING CORRECTIONAL SERVICES

PART II: REVIEWING THE LITERATURE ON COST AND QUALITY COMPARISONS

by Geoffrey F. Segal and Adrian T. Moore
Project Director: Adrian T. Moore





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

Part II: Reviewing the Literature on Cost and Quality Comparisons

BY GEOFFREY F. SEGAL AND ADRIAN T. MOORE

Executive Summary

The debate over prison privatization continues to revolve around whether privatization saves money. The concept of cost is easy to grasp and the figures are usually large, while other issues are more subtle and less sensational for either proponents or critics to use in arguments. Quality, flexibility, innovation, and competitive pressure on the entire correctional system may be as important as cost savings in justifying privatizing, but they are harder characteristics to measure and even harder to hang an argument on in a political debate.

When critics of privatization focus on cost issues, their assumption is that a mathematical process can determine policy choices. If that were true, a computer could decide whether or not to privatize, and we would not need elected officials. But the decision to privatize or not to privatize is not a mathematical one—it is deliberative, and requires weighing a number of factors, of which some general knowledge of costs is but one.

Government procurement and service contracting are steadily moving toward "best-value" evaluations, wherein governments choose the best combination of both cost and quality rather than selecting a private provider based on low cost alone. Despite this trend, however, a number of states currently have legislated requirements for evidence of cost savings before contract award or renewal.

What We Know About Cost Savings and Quality of Privatized Correctional Facilities and Services

The most important cost-comparison information for policymaking is between competitive and non-competitive regimes. Privatization brings competition into the corrections industry and affects the behavior of individuals throughout the system. Whether from fear of being privatized themselves, or from pride in showing they can compete, or from being held to comparison by higher authorities, workers and managers throughout the system respond to privatization by improving cost efficiencies and the quality of their work.

In Florida, auditors suggest that prison costs statewide have been reduced by the introduction of privatization.

A. *Studies on Cost Savings*

The most significant body of evidence on the relative costs and quality of privatized correctional facilities comes from a wealth of studies performed by government agencies, universities, auditors, and research organizations. We identified 28 studies that analyze costs data to measure the relative costs of correctional facilities managed by government vs. private firms, 22 of which found significant savings from privatization.

Tables 1A, 1B, and 1C summarize the groups of studies comparing the costs of government-run and private prisons. Though none of these studies is without flaws, the participants in Table 1A applied more rigorous standards in their methodology. Many of them went to great lengths to compensate for the differences between compared facilities and to develop useful comparison figures. Moreover, there is nothing inherent in the problem of differences between facilities that we would expect to bias results toward lower costs at private facilities. Thus the extreme one-sidedness of this literature—near-universal findings of cost savings from privatization—is on its own very persuasive.

Comparative Studies of Private Facility Operational Cost Savings	
Table 1A	
Study	Estimated Savings
Louisiana State University, 1996	14–16%
Wisconsin Task Force, 1996	11–14%
Arizona Department of Corrections, 1997	17%
Delaware County Pennsylvania, 1999	14–16%
Florida OPPAGA, 2000	3.5–10.6%
Arizona Department of Corrections, 2000	12.23%
Table 1B	
Study	Estimated Savings
Hamilton County, Tennessee, 1989	4–8%
Texas Sunset Advisory, 1991	14–15%
Texas Criminal Justice Policy Council, 1991	12.4–20.2%
Florida Corrections Commission, 1993	8–10%
Australia, 1993	23%

Comparative Studies of Private Facility Operational Cost Savings	
Texas Criminal Justice Policy Council, 1993	18.6–22.9%
Australia, 1994	11–28%
Kentucky Department of Corrections, 1994	9%
Texas Criminal Justice Policy Council, 1995	20.5–20.6%
Tennessee Fiscal Review Committee, 1995	0%
United Kingdom, 1996	13–22%
United Kingdom, 1996	11–17%
Washington (TN and LA), 1996	0–2%
Kentucky Department of Corrections, 1996–1997	12%
Texas Criminal Justice Policy Council, 1997	14.9–21%
Texas Criminal Justice Policy Council, 1999	4.4–8.8%
University of Cincinnati, 1999	\$0–\$2.45 per inmate/day
Texas Criminal Justice Policy Council, 2001	10.7–11.3%
Table 1C	
Study	Estimated Savings
Urban Institute: KY and MA, 1989	0%
Sellers Study, 1989	37%
California Community Corrections, 1993	0%
National Institute of Corrections: Florida, 1995	0%

B. Quality Comparison Studies

The major charge against privatization is that quality and security are sacrificed by reducing costs, yet there is clear and significant evidence that private facilities provide at least the level of service that government-run facilities do. Private correctional facilities have measured well against government-run facilities in almost all criteria of quality, including a wide range of quality-comparison studies, as shown in Tables 2A and 2B. Like cost comparisons, quality-comparison studies can be broken down into two distinct groups: rigorous academic studies (Table 2A) and less methodologically sound analyses (Table 2B).

Comparative Studies of Private Facility Quality	
Table 2A	
Study	Findings
Urban Institute: KY and MA, 1989	Quality advantage to private facilities; staff and inmate ratings are higher; fewer escapes and disturbances.
National Institute of Justice—Well Kept, 1991	Private facility outperforms state facility in 7 of 8 dimensions.
Louisiana State University, 1996	Private outperformed government in 5 categories; government outperformed private in 5 categories.
Arizona Department of Corrections, 1997	Private facilities showed superior performance in public safety issues, protecting staff and inmates, and compliance with professional standards.
Juvenile Facilities in United States, 1998	Private facilities outperformed in 23 of 30 indicators.
Florida Recidivism, 1998	Private facilities outperformed in 4 of 5 measures.
Dallas County Judicial Treatment Center, 1997, 1999	Private-program treatment recidivism rate is almost 50% lower than non-participants.

Comparative Studies of Private Facility Quality	
OPPAGA, 2000	Private facilities showed satisfactory management with three noteworthy examples of performance.
Arizona Department of Corrections, 2000	Private facilities outperformed 7 of 10 measures in 1998; 5 of 10 measures in 1999.
Bureau of Justice Assistance, 2001	Rates of assault on both inmates and staff are higher at private prisons. Rates of riots and inmate death are higher at government prisons. Private prisons produced "an impressive record of programming activities."
Table 2B	
Study	Findings
National Institute of Corrections: Okeechobee, 1985	No fundamental differences; noted improvements in private operation.
Silverdale Study, 1988	Private facilities ranked high on most issues; other areas had equal positive and negative responses.
Sellers, 1989	Private facilities showed enhanced level of programming and better conditions in 2 of 3 private facilities.
Tennessee Fiscal Review, 1995	Private facilities showed higher overall performance rating.
United Kingdom, 1996, 1997	Private facilities overall outperformed government prisons.
Minnesota Inmate Interviews, 1999	Services at government facilities rate higher.

What the Literature Tells Us

The cost- and quality-comparison literature tells us two things. First, it is remarkable that such a wide variety of approaches spanning over a decade and a half of research conducted in states across the nation repeatedly come to the same conclusion: that privatization saves money without reducing quality. Second, there is good reason to continue to conduct such comparisons and strive to improve data collection and comparison techniques.

Furthermore, there is clear and significant evidence that private prisons actually improve quality. Independent accreditation by the American Correctional Association (ACA) designates a facility that meets nationally accepted standards for quality of operation, management, and maintenance. There are currently 5,000 government and privately managed detention facilities located around the United States. Only 532 are accredited by the ACA—465 of 4,800 government managed facilities (10 percent ACA accredited) and 67 of 150 privately managed facilities (44 percent ACA accredited). This dramatic difference suggests that private prisons are providing both quality services and significant cost savings.

Conclusions and Policy Recommendations

Departments of corrections at the federal, state, and local levels should closely examine how and by what standards the private sector can be involved in their corrections system. Experience with privatization to date shows that the process and administration require care, but when properly implemented can deliver quality improvement and cost savings.

Further study of the benefits of a competitive environment in corrections is needed. Both theory and real-world examples from other industries suggest that competition results in the optimal level of efficiency and quality. In choosing whether or not to privatize, decision-makers should:

- **Recognize the Varied Motivations for Privatization.** The full measure of worth of privatization has to be assessed in a policy context with full due given to the broader goals that can be achieved. Privatization can offer increased innovation, access to expertise, improved quality, and enhanced accountability. Most important is recognizing that cost savings from privatization is itself a product of competition, and that competition has beneficial effects on the entire system.
- **Avoid Over-reliance on Cost-comparison Data.** Policymakers should recognize that cost comparisons tend to be static in nature, assuming away changes and differences that privatization brings about. The simple fact is that cost comparison is more an art than a science—a fact that pains many who would like cost comparisons to be simple matters of data analysis. With such cautions in mind, however, well-conducted accounting and economic studies can be very helpful in judging the merits of privatization.
- **Use Current Best Practices for Contracting to Ensure Optimal Results.** Performance-based contracts have emerged as a state-of-the-art contracting tool to give government managers better control over contractors and greater assurances of accountability. Performance contracts clearly spell out the desired result expected of the contractor, while the manner in which the work is to be performed is left to the contractor's discretion. Contractors are given both creative and scientific freedom to find ways to best meet the government's performance objective. Performance-based contracts are a key way to capture the broad range of privatization goals that go beyond simple cost savings. They allow governments to purchase results, not just process, rewarding the private firm only if specified quality and performance goals are met.
- **Recognize the Benefits of Meeting Needs and Having Options.** Privatization gives policymakers unique opportunities to address specific needs and specific goals they may have. Contracts can be structured so that goals are met. Furthermore, the breadth of options that privatization gives policymakers is an important benefit. Privatization is not a one-size-fits-all solution; several approaches or techniques are available to decision-makers. After evaluating all of the options available, negotiations with the private partner still take place that enable the creation of a structure and mechanism that is mutually beneficial.

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Part 1

Introduction—The Privatization Debate

The public debate over prison privatization continues to revolve around whether privatization saves money. Costs are easy to grasp, the figures are usually large, and other issues are subtler and less sensational for proponents or critics to use in arguments. Quality, flexibility, innovation, and competitive pressure on the entire correctional system may be as important as cost savings in justifying privatizing, but they are harder to measure and even harder to qualify in a political debate.¹

When the debate over privatization hinges on cost issues, the assumption is that a mathematical process can determine policy choices. If that were true, a computer could decide whether or not to privatize, and we would not need elected officials. But the decision is not a mathematical one—it is deliberative, and requires weighing a number of factors, of which some general knowledge of costs is but one.

Best practices for government procurement and service contracting are steadily moving toward “best-value” techniques, where, rather than selecting a private partner based on low cost alone, governments choose the best combination of cost and quality. Despite this trend, a number of states have legislated requirements for evidence of cost savings before contract award or renewal.²

Table 1 - Factors Used in Assessing Privatization

▪ Quality
▪ Faster and Cheaper Bed Capacity
▪ Enhanced Accountability and Better Risk Management
▪ Innovation
▪ Access to Expertise and New Service Delivery Acquisition
▪ Improved Efficiency and Flexibility
▪ Cost Savings

Part 2

What We Know About Cost Savings and Quality of Privatized Correctional Facilities and Services

The most important body of evidence on the relative costs and quality of privatized correctional facilities comes from a wealth of studies performed by government agencies, universities, auditors, and research organizations. The studies can be broken into three distinct groups. The first group includes rigorous, peer-reviewed, serious academic studies where methodological approaches to comparison are sound and are often refereed. The second group consists largely of government studies focusing on average costs, contract prices, or basic accounting comparisons. The third and final group of studies is widely regarded as less credible, as research methodology does not follow common standards and is less clear.

We identified 28 studies that analyze cost data to measure the relative costs of correctional facilities managed by government vs. private firms—22 of which found significant savings from privatization. We also identified 18 studies that use various approaches to measure the relative quality of care at correctional facilities managed by government vs. private firms—16 of which conclude that quality at private facilities is as good or better than at government-run facilities.

A. Studies on Cost Savings

The most important cost-comparison information for policy making is really between competitive and non-competitive regimes. Privatization brings competition into a correctional system and naturally affects the behavior of individuals throughout the system.³ Whether from fear of being privatized themselves, or pride in showing they can compete, or from being compared by higher authorities, workers and management throughout the system respond to privatization.⁴ In Florida, auditors suggest that prison costs statewide have been reduced by the introduction of privatization.⁵ And in Arizona, a report examining costs in the state-run prisons compared to Arizona's one private prison found the cost difference converged over 1998 and 1999, mostly due to falling costs in state-run prisons.⁶

Nevertheless, many governments are using privatization to reduce correctional costs and to finance additional services. Tables 2A, 2B, and 2C summarize the groups of studies comparing the cost of government-run and private prisons. Though none of these studies can be declared perfect, the studies in Table 2A applied more

rigorous standards to their methodology. Many of them went to great lengths to compensate for differences between compared facilities and to develop useful comparison figures. Moreover, there is nothing inherent in the problem of differences between facilities that we would expect to bias results towards lower costs at private facilities. Thus the extreme one-sidedness of this literature—near universal findings of cost savings from privatization—is on its own very persuasive. The following are brief descriptions of the studies and their findings.

Comparative Studies of Private Facility Operational Cost Savings	
Table 2A	
Study	Estimated Savings
Louisiana State University, 1996	14–16%
Wisconsin Task Force, 1996	11–14%
Arizona Department of Corrections, 1997	17%
Delaware County Pennsylvania, 1999	14–16%
Florida OPPAGA, 2000	3.5–10.6%
Arizona Department of Corrections, 2000	12.23%
Table 2B	
Study	Estimated Savings
Hamilton County, Tennessee, 1989	4–8%
Texas Sunset Advisory, 1991	14–15%
Texas Criminal Justice Policy Council, 1991	12.4–20.2%
Florida Corrections Commission, 1993	8–10%
Australia, 1993	23%
Texas Criminal Justice Policy Council, 1993	18.6–22.9%
Australia, 1994	11–28%
Kentucky Department of Corrections, 1994	9%
Texas Criminal Justice Policy Council, 1995	20.5–20.6%
Tennessee Fiscal Review Committee, 1995	0%
United Kingdom, 1996	13–22%
United Kingdom, 1996	11–17%
Washington (TN and LA), 1996	0–2%
Kentucky Department of Corrections, 1996–1997	12%
Texas Criminal Justice Policy Council, 1997	14.9–21%
Texas Criminal Justice Policy Council, 1999	4.4–8.8%
University of Cincinnati, 1999	\$0–\$2.45 per inmate/day
Texas Criminal Justice Policy Council, 2001	10.7–11.3%
Table 2C	
Study	Estimated Savings
Urban Institute: KY and MA, 1989	0%
Sellers Study, 1989	37%
California Community Corrections, 1993	0%
National Institute of Corrections: Florida, 1995	0%

Group “A” Studies

1. *Louisiana State University (1996)*⁷

This study compared three identically constructed prisons with similar inmate populations: one operated by the state, the other two operated by private contractors. The study concluded that: “it is clear from the data analyzed and presented in this study that the two private prisons—Allen and Winn Correctional Centers—significantly out-performed the state operated prison—Avoyelles. Both private prisons... were found to be significantly more cost effective... costs at Allen were \$22.96 per inmate per day, Winn \$23.51, and Avoyelles \$26.76.” [Estimated savings: 14 – 16 percent.](#)

2. *Wisconsin Task Force on Corrections (1996)*⁸

George Mitchell, a member of the Governor’s Task Force on Corrections, carried out a study for the Wisconsin Policy Research Institute. He conducted a comparison of a state facility against a private facility in neighboring Minnesota. Using two different scenarios, conservative assumptions concluded that private management of new Wisconsin prisons could produce annual operating cost savings of up to \$12.4 million per year, with 20-year savings totaling \$248 million. He conjectures that over the life of a 20-year prison construction bond, these savings could pay for most or all of the interest cost of the bond borrowing. [Estimated savings: 11– 14 percent.](#)

3. *Arizona Department of Corrections (1997, 2000)*⁹

A 1997 report compared the cost and performance of a 444-bed private prison to 15 government-run prisons in Arizona. The study, controlling for indirect costs, found average cost per inmate per day was \$43.08 in the government prisons and \$35.90 in the private prison. [Estimated savings: 17 percent.](#)

Though a formal cost comparison was not required by law until 2002, the Arizona Department of Corrections in 2000 used available data to assess costs. They found average per diem costs of \$46.72 and \$45.85 for state facilities in 1998 and 1999 versus \$40.36 and \$40.88 for private facilities—savings of 13.6 percent and 10.8 percent respectively. [Estimated savings: Average savings over 1998 and 1999 is 12.23 percent.](#)

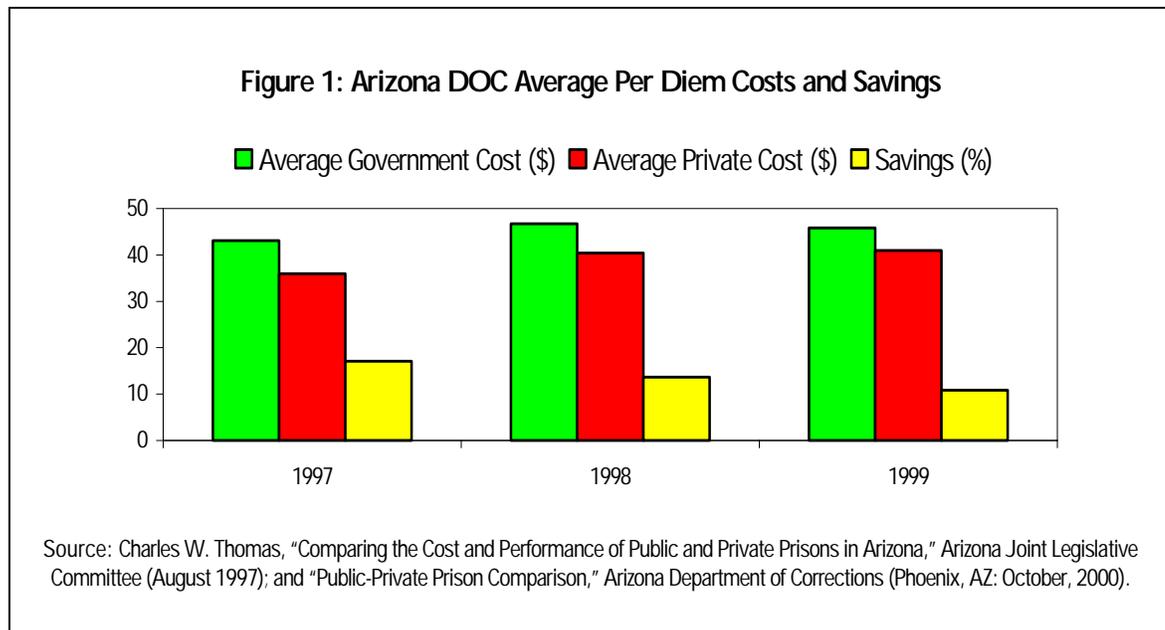
4. *Delaware County, Pennsylvania (1999)*¹⁰

This study compared the actual costs of a new private prison in Delaware County to government estimates of in-house operation and construction. It concludes that, over seven years, the county will save \$20 million from management alone, roughly \$2.9 million annually. Construction costs were also significantly lower—\$56 million—down from an estimated \$93 million. Furthermore, the county saved an additional \$1.5 million annually in lower debt-service costs. [Estimated savings: 14 – 16 percent.](#)

5. *Florida Legislature, Office of Program Policy Analysis and Government Accountability (OPPAGA) (2000)*¹¹

As required by Florida statute, OPPAGA is charged with evaluating the costs and benefits of the contract and the performance of the contractor. OPPAGA also recommends whether or not the contract should be renewed. After reviewing the South Bay Correctional Facility, OPPAGA determined that operational savings were 3.5

percent for FY 97–98 and 10.6 percent for FY 98–99, exceeding the state-mandated 7 percent. The report further noted that construction costs were 24 percent less than similar government facilities and recommended contract renewal. [Estimated savings: 3.5 – 10.6 percent \(operational\) and 24 percent \(construction\).](#)



Group "B" Studies

1. *Hamilton County (Chattanooga) Penal Farm, Tennessee (1989)*¹²

This study compared the contract cost paid to the private firm for operating the 350-bed Hamilton County Penal Farm. Estimates were based on actual 1983–84 expenditures plus annual employee salary increases equal to those received by county employees and non-salary cost increases based on the Consumer Price Index. [Estimated savings: 4 – 8 percent.](#)

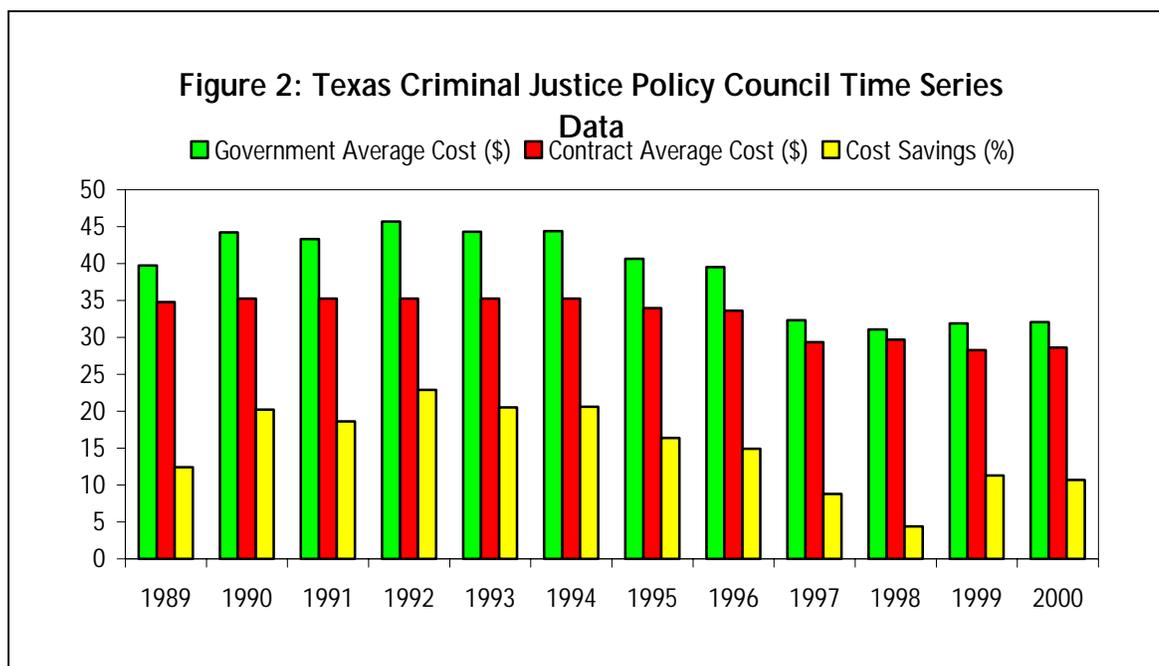
2. *Texas Sunset Advisory Commission (1991)*¹³

The Texas Sunset Advisory Commission conducted a study in 1991. Their review looked at 1990 operational costs of four privately managed minimum-security prisons. Using data from the Texas Performance Review (below) and the Texas Department of Criminal Justice, the Commission found that private prisons were meeting the mandated 10 percent cost savings. [Estimated savings: 14 – 15 percent.](#)

3. *Texas Criminal Justice Policy Council (1991, 1993, 1995, 1997, 1999, 2001)*¹⁴

The State of Texas mandates that any privatized facility show evidence of at least 10 percent cost savings compared to a similarly operated government facility. Various agencies of the Texas state government have conducted studies to measure compliance with the privatization cost-savings requirement. The Texas Criminal Justice Policy Council conducts a biannual review of the average cost per day of government facilities and the average contract price at private facilities. The first study was published in 1991 and

evaluated 1989 and 1990. Subsequent studies have been conducted every other year since, with the latest published in 2001. This data represents the best longitudinal evidence of cost savings. The average contract price has consistently been between 4.4 percent (1998) and 22.9 percent (1992) lower than the average cost of government facilities. [Estimated savings: 12.4 percent \(1989\), 20.0 percent \(1990\), 18.6 percent \(1991\), 22.9 percent \(1992\), 20.5 \(1993\), 20.6 \(1994\), 21 percent \(1995\), 14.9 percent \(1996\), 8.8 percent \(1997\), 4.4 percent \(1998\), 11.3 percent \(1999\), and 10.7 percent \(2000\).](#)



4. Florida Corrections Commission (1993)¹⁵

The Florida Auditor General, in a 1993 study, reviewed the cost of privately run facilities in comparison to projected state costs included in the facility Request For Proposal. The audit found that the private contractors were charging the state \$46.96 to \$47.05 per inmate, per day, while the state facilities costs were \$52.40 per day. A separate comparison, for operation of a larger facility with more potential economies of scale, showed a cost for a private firm of \$41.73, vs. \$45.64 for the state. [Estimated savings: 8 – 10 percent.](#)

5. The Australian Experience (1993, 1994)¹⁶

A 1993 study compared the privately managed Borallon Correctional Centre to the government-run Lotus Glen Correctional Centre. The study found the private prison to operate at significantly lower cost, largely due to the government facility having 63 percent more staff for each 100 inmates and substantially more overtime and sick leave. [Estimated savings: 23 percent.](#)

A two-year comparison of government and private prison operations and cost found that the private facility “provides the highest programme content of any correctional center in Queensland.” Annual inmate costs in 1991-92 were \$39,240 at the private facility and \$54,560 at the government facility; the next year the comparison was \$44,200 and \$49,880, respectively. [Estimated savings: 11 – 28 percent.](#)

6. *Kentucky Department of Corrections (1994, 1996-97)*¹⁷

The 1994 study by the Kentucky Department of Corrections compared three facilities, two privately operated and one government-run. Using cost data from all three prisons, the department calculated adjusted per-diem costs of \$34.26 at the government-run facility and \$31.07 and \$31.30 at the private prisons. [Estimated savings: 9 percent.](#)

A second comparison covering 1996 and 1997 calculated the cost to the state DOC of incarcerating state prisoners in different facilities. Per-diem costs were \$35.22 for state minimum-security prisons, and \$31.08 for private facilities. This study, unlike the 1994 comparison, excluded debt costs for the government prison, but included debt costs for the private prisons. [Estimated savings: 12 percent.](#)

7. *Tennessee Legislature Fiscal Review Committee (1995)*¹⁸

Three multicustody prisons (minimum- to maximum-security) were compared: one private and two state-run. There was little difference in average daily operational costs per inmate across the three facilities—\$35.39 for the private facility, versus \$34.90 and \$35.45, respectively, for the two government facilities. [Estimated savings: 0 percent.](#)

8. *U.K. Analyses (1996)*¹⁹

In 1996, two thorough cost analyses compared private- and government-run prison costs in the United Kingdom. The first, conducted by the Home Office Economic Unit, audited private contract prison costs compared to costs at similar government prisons. [Estimated savings: 11 – 17 percent.](#)

The second report, commissioned from Coopers and Lybrand, compared 1994-95 prison operational costs and found significant savings. [Estimated savings: 13 – 22 percent.](#)

9. *Washington State Legislature (1996)*²⁰

Authorized to perform a pre-feasibility study of privatizing construction of a new correctional facility, the Legislative Budget Committee examined the construction costs of a government-constructed prison compared with the construction costs for an identical private prison located in Florida. They estimated privatized construction costs to be \$26,500 per inmate less than with government construction. The analysis also reanalyzed the operating cost data from the Tennessee Legislature study (above) and found savings from privatization of less than \$1 per day (private was less expensive). Finally, they conducted a similar comparison of facilities in Louisiana and found “a virtual equivalence” in per-diem inmate costs. [Estimated savings 0 to 2 percent \(operational\) and \\$26,500 per inmate \(construction\).](#)

10. *University of Cincinnati (1999)*²¹

Two researchers at the University of Cincinnati conducted a meta-analysis of 33 cost-effectiveness evaluations of private and government prisons from 24 independent studies. They concluded that private prisons were no more cost-effective than government prisons. However, the authors did note that a simple cost comparison showed a \$2.45 cost per day/per inmate advantage to private prisons, attributing differences

in per-diem costs to other institutional characteristics such as a facility's economy of scale, age, and security level. [Estimated savings: \\$0 to \\$2.45 per day/per inmate.](#)

Group "C" Studies

1. *Urban Institute: Kentucky and Massachusetts (1989)*²²

The Urban Institute conducted a comparison of a government and private adult facility in Kentucky and two pairs of government and private facilities for violent youth in Massachusetts. In each of the states the costs were very similar. [Estimated savings: 0 percent.](#)

2. *The Sellers Study (1989)*²³

Comparing three privately operated detention and jail facilities with three government-operated prison facilities, but not controlling for significant differences that directly affect costs, Sellers concluded that the three private facilities operated at a lower cost than government facilities—\$46.75 per day versus \$73.76. [Estimated savings: 37 percent.](#)

3. *California Community Corrections (1993)*²⁴

The authors examined a private facility and two government proprietary facilities. They concluded that costs were about the same, but start-up costs for the private facility were significantly less. [Estimated savings: 0 percent—start up costs were significantly less.](#)

4. *National Institute of Corrections: Okeechobee, FL (1985)*²⁵

The NIC assessed the transfer of a state-run juvenile facility to a private not-for-profit organization. The analysis asked two questions: first, would the Florida Department of Health and Rehabilitation Services realize substantial savings, and second, would they receive a program equal or exceeding that of the state? The study revealed that a number of state-required procedures were streamlined, however, on balance, the fiscal data seem to indicate that no significant reduction in operational costs existed.²⁶ [Estimated savings: 0 percent.](#)

Cost Comparison Case Study: South Bay Correctional Facility, Florida²⁷

In December 1994, the Florida Correctional Privatization Commission awarded a three-year contract to Wackenhut Corrections Corporation for a 1,318 bed medium facility in Palm Beach County. Inmate intake began in early February 1997. The contract specified that the American Correctional Association (ACA) must accredit the facility within 18 months of the service commencement date. Florida law mandates that privatization cost savings must be more than 7 percent to be subject to a contract award. The baseline cost analysis of the state-run facility estimated in the original request for proposal compared with the contract awarded to Wackenhut demonstrates significant savings:

	State Facility	Wackenhut Facility
Number of Inmates	1,318	1,318
Occupancy Percentage	95%	95%
Annual Costs		
▪ Personnel	\$8,813,524	\$6,760,180
▪ General Ops.	\$1,866,332	\$1,823,152
▪ Food	\$1,729,762	\$1,482,105
▪ Medical	\$3,024,542	\$2,645,005
<u>Indirect</u>	<u>\$1,187,850</u>	<u>\$2,060,416</u>
Total	\$16,622,010	\$14,770,858
Per Diem/Inmate	\$36.36	\$32.32
Total Savings	11.1%	

B. Quality Comparison Studies

The major charge against privatization is that by reducing costs, quality and security are sacrificed. Yet, there is clear and significant evidence that private facilities provide at least the level of service that government-run facilities do. Private correctional facilities have fared well against government-run facilities in almost all measures of quality, including a wide range of quality comparison studies, as shown in Tables 4A and 4B. Like cost comparisons, quality comparison studies can be broken down into two distinct groups—rigorous academic studies (Table 4A) and less methodologically sound analyses (Table 4B). The following are brief descriptions of the studies and their findings.

Table 4A	
Study	Findings
Urban Institute: KY and MA, 1989	Quality advantage to private facilities; staff and inmate ratings are higher; fewer escapes and disturbances.
National Institute of Justice—Well Kept, 1991	Private facility outperforms state facility in 7 of 8 dimensions.
Louisiana State University, 1996	Private outperformed government in 5 categories; government outperformed private in 5 categories.
Arizona Department of Corrections, 1997	Private facilities showed superior performance in public safety issues, protecting staff and inmates, and compliance with professional standards.
Juvenile Facilities in United States, 1998	Private facilities outperformed in 23 of 30 indicators.
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Dallas County Judicial Treatment Center, 1997, 1999	Private-program treatment recidivism rate is almost 50% lower than non-participants.
OPPAGA, 2000	Private facilities showed satisfactory management with three noteworthy examples of performance.
Arizona Department of Corrections, 2000	Private facilities outperformed 7 of 10 measures in 1998; 5 of 10 measures in 1999.
Bureau of Justice Assistance, 2001	Rates of assault on both inmates and staff are higher at private prisons. Rates of riots and inmate death are higher at government prisons. Private prisons produced "an impressive record of programming activities."

Comparative Studies of Private Facility Quality	
Table 4B	
Study	Findings
National Institute of Corrections: Okeechobee, 1985	No fundamental differences; noted improvements in private operation.
Silverdale Study, 1988	Private facilities ranked high on most issues; other areas had equal positive and negative responses.
Sellers, 1989	Private facilities showed enhanced level of programming and better conditions in 2 of 3 private facilities.
Tennessee Fiscal Review, 1995	Private facilities showed higher overall performance rating.
United Kingdom, 1996, 1997	Private facilities overall outperformed government prisons.
Minnesota Inmate Interviews, 1999	Services at government facilities rate higher.

Group “A” Studies

1. *Urban Institute: Massachusetts (1989)*²⁸

The study compared two pairs of government and private juvenile facilities in Massachusetts on quality-of-confinement issues. A wide range of performance indicators was appraised using survey information, physical observation, interviews, and agency records. For most of the indicators, the private facilities had a slight advantage. Overall, both staff and inmates gave better ratings to the services and programs provided at private facilities. Escape rates were lower, there were fewer inmate disturbances, and comfort levels for staff and inmates were higher at the private facilities. **Quality findings: Better quality at private facilities.**

2. *National Institute of Justice: Well Kept (1991)*²⁹

Charles Logan of the University of Connecticut conducted a detailed analysis of three multicustody facilities for women. A private prison and a state-run prison in New Mexico and a federal prison in West Virginia were selected for comparison. Three hundred thirty three quality variables were used in eight dimensions (security, safety, order, care, activity, justice, conditions, and management). **Quality findings: Private facility outperforms state facility in seven of eight dimensions (all except care).**

3. *Louisiana State University (1996)*³⁰

This study found that the private facility performed better than the government facility in terms of safety to inmates, safety of correctional officers, number of incidents, use of discipline, and education programs. However, the government facility had fewer escapes, less substance abuse, and more rehabilitation, social, and recreational services. **Quality findings: private facility outperforms in 5 areas, government facility outperforms in 5 areas.**

4. *Arizona Department of Corrections (1997, 2000)*³¹

The 1997 report compared performance of the state’s one private prison to other state prisons. Many aspects of prison management were examined, including frequency of escapes, major disturbances, homicides,

assault, and inmate grievances. **Quality findings: The performance of the private prison was superior in public safety issues, protecting staff and inmates, and compliance with professional standards.**

The primary function of the 2000 study was a quality comparison. Government and private prisons were compared on ten individual dimensions including security, food service, facility safety and sanitation, and inmate health services. **Quality findings: In 1998, the private prisons outperformed government prisons in seven of 10 dimensions; in 1999, government and private prisons split the dimensions five to five.**

5. *Dallas County Judicial Treatment Center (1997, 1999)*³²

The Institute of Behavioral Research at Texas Christian University conducted longitudinal research on the Dallas County Judicial Treatment Center (DCJTC), a privately managed facility. DCJTC is a 300-bed residential treatment program for offenders with histories of substance abuse and addiction. Research findings revealed that only 11 percent of DCJTC graduates were re-arrested within a year of program completion. By contrast, 21 percent of program non-participants had rearrests during the same time period. **Quality findings: Program participants' recidivism rate is almost 50 percent lower.**

6. *Privatization of Juvenile Correctional Facilities in the United States (1998)*³³

Thirteen studies comparing quality between government and private correctional facilities concluded that:

Conditions of confinement may very well be improving for those prisoners confined in private rather than government facilities. This "secondary" effect of better conditions may in the long run reap greater rewards in reduced prison reform litigation and improved rehabilitative outcomes.

The author then himself conducted the first broad-scale comparison of quality of care in privately operated versus government-operated juvenile correctional facilities and found quality of care to be substantially better at private facilities. **Quality findings: Private juvenile facilities outperform government-run facilities in 23 of 30 indicators of conditions of confinement.**

7. *Florida Recidivism Study (1998)*³⁴

Researchers at the University of Florida conducted an analysis of recidivism rates between government and private facilities for the Florida Correctional Privatization Commission. The study matched 198 inmates each from private and government prisons, and compared them in five areas for the 12 months following release: rearrest, technical violations of the terms of release, resentencing on a new offense, reincarceration, and an overall comparison. The private prison outperformed the government prison in every category except technical violations.

Specifically, 10 percent of the private prison inmates were rearrested in the 12 months following release versus 19 percent of government prison inmates. Six percent of private releases were resentenced to a new offense versus 10 percent. Furthermore, 10 percent of private inmates were reincarcerated compared with 14 percent of government inmates. The overall indicator showed that 17 percent of private releases have an indication of recidivism versus 24 percent of government releases. Nine percent of private prison inmates had a technical violation of release terms compared to eight percent government prison inmates. **Quality findings: The private prison outperformed the government facility in 4 of 5 areas.**

8. Florida Legislature, Office of Program Policy Analysis and Government Accountability (OPPAGA) (2000)³⁵

OPPAGA reported that the private facility examined had been managed satisfactorily with three specific examples of noteworthy performance. South Bay programs became fully operational within six months, compared to up to three years with a comparable state facility. Secondly, the facility received a more positive review by the Correctional Medical Authority than a similar state facility. Finally, the report noted innovative approaches to housing certain inmates. **Quality findings: Satisfactory management with three noteworthy examples of performance.**

9. Bureau of Justice Assistance (2001)³⁶

BJA compared data from a Bureau of Justice Statistics report on government prisons from 1995 with data gathered from a survey administered to several private prisons. Private prisons produced "an impressive record of programming activities." Every private prison offered both work and education programs. They also offered far more extensive counseling programs than government prisons. Rates of assault on staff was slightly higher in government facilities (13.8 vs. 12.7 per 1000 inmates). Total inmate deaths were also higher at government facilities (2.9 vs. 0.7 per 1000 inmates).

Because the public prison sample contained a far greater proportion of maximum-security prisons than the private prison sample, maximum-security prisons were removed from the sample and a second analysis was performed. Rates of assault on both inmates and staff were higher at private prisons, 33.5 and 12.2 respectively versus 20.2 and 8.2 for government prisons. However rates of death were higher in government prisons (2.7 versus 0.7). Furthermore, riots were significantly more common government prisons (3.7 versus 0.3). **Quality Findings: Rates of assault on both inmates and staff are higher at private prisons. Rates of riots and inmate death are higher at government prisons. Private prisons produced "an impressive record of programming activities."**

Group "B" Studies

1. National Institute of Corrections: Okeechobee, FL (1985)³⁷

Examining changes in conditions at a privatized juvenile facility, the study found no fundamental program differences, but did note a number of improvements in the delivery of services after privatization. **Quality findings: Private management of at least similar quality.**

2. Silverdale Detention Center, Tennessee (1988)³⁸

Inmates at the Silverdale Detention Center in Chattanooga, Tennessee were surveyed to assess the quality of confinement of the private operator. "The evidence is overwhelming that the private takeover of [the facility] has resulted in substantial improvements in the institution's physical conditions and upkeep, as well as several critical areas of inmate service and institutional procedure." **Quality findings: Private facility ranked highly on most issues; other areas had an equal balance of positive and negative responses.**

3. *The Sellers Study (1989)*³⁹

Measuring quality and performance at three government-run and three private facilities, the report found that all three private facilities offered more programs than their public sector counterparts. Furthermore, overall prison conditions were notably better in two of the three private facilities. **Quality findings: Enhanced level of programming (three of three facilities) and better overall conditions at private facilities (two of three).**

4. *Tennessee Legislature Fiscal Review Committee (1995)*⁴⁰

The Committee compared one private and two government-run prisons and gave higher marks to the private facility. An operational audit was conducted at each facility—the various functional areas included administration, safety, physical plant, health services, treatment, and security. The overall performance scores were 98.49 for the private facility and 97.17 and 98.34, respectively, for the two public facilities. **Quality findings: Higher overall performance rating for private facility.**

Contractor Performance and Quality Case Study: Florida Corrections Commission

The Florida Corrections Commission's 1996 Annual Report⁴¹ made the following observations about the status of privatized facilities under their purview:

- All of the privatized facilities are fully air-conditioned, including an air-conditioned gymnasium at South Bay Correctional Facility.
- Technology appeared to be one of the main "tools" at the private facilities, as noted with monitoring cameras, correctional officer body alarms, camera-monitored perimeter alarms, and computerized tracking systems for inmate movement.
- Commissioners were extremely impressed with the community at DAYTOP (a private drug treatment facility). Values are instilled in residents while they participate in required academic, vocational, and work assignments.
- Whether accomplished through the Department of Corrections or the Corrections Privatization Commission, privatization of state corrections in Florida has provided additional educational, vocational, substance abuse and other programs for inmates, whereas state-operated facilities have not kept pace with providing programs. This has resulted in the private facilities having an advantage in management tools for controlling inmate behavior and participation in self-betterment programs.

5. *Quality Studies in the United Kingdom (1996, 1997)*⁴²

There have been at least seven examinations of the quality of private-prison operations in the United Kingdom, including three inspections by the Chief Inspector of Prisons, three independent research projects, and one independent government inquiry. The studies find that inmates in private prisons enjoy more freedom to associate, better staff-inmate relations, more and better work training, better meals, and more convenient visiting schedules. There are also fewer escapes and less violence in private prisons, assaults between inmates being the only measure where government facilities rank higher. **Quality findings: Overall, private prisons outperform government prisons.**

6. *Minnesota Inmate Interviews (1999)*⁴³

Inmates at one private and two government prisons in Minnesota were interviewed to determine the experience with privatization and to make quality comparisons between private and government facilities. A detailed, structured questionnaire was used for interviews to measure their perceptions about healthcare and casework services, prison programs, and security and safety.

Inmate accounts of access to health and dental care were almost identical between the facilities. Sessions with case workers appear to be provided on a more regular basis in the private facility—even though more inmates at government facilities report that more sessions were initiated at their own request.

Educational and vocational programming at government prisons rated higher, with more inmates reporting full-time participation in either type of programming. Inmates at the private facility complained about the programming but suggested that it was helping. Substance abuse or drug treatment programs also received higher scores at the government facilities. The only program area where the private facility achieved a higher score was in pre-release programming.

On a scale of one to five, inmates at the government facilities gave them a rating of 3.70 for prison security and safety. By comparison, the private facility received a rating of 2.84. **Quality findings: Results were mixed—tilted toward better quality at government facilities—services, programs, and security rated higher at government facility.**

C. Conclusion—What This Literature Tells Us

The cost and quality comparison literature tells us two things. First, it is remarkable that such a wide variety of approaches spanning over a decade and a half of research conducted in states across the nation repeatedly comes to the same conclusion—that privatization saves money without reducing quality. No one has offered a technical argument for how the admitted imperfections of this literature could lead to such one-sided conclusions. Rather, it takes a huge leap of skepticism to conclude anything but that privatization saves money without reducing quality. Second, there is good reason to continue to conduct such comparisons and strive to improve data collection and comparison techniques.

Furthermore, there is clear and significant evidence that private prisons actually improve quality. Independent accreditation by the American Correctional Association (ACA) is designed to show a facility meets nationally accepted standards for quality of operation, management, and maintenance. There are currently 5,000 government and privately managed detention facilities located around the United States, with only 532 accredited by the ACA—465 are public and 67 are private.⁴⁴ Thus, no more than 10 percent of government correctional facilities have been accredited, whereas 44 percent of private facilities have been accredited. This dramatic difference suggests that private prisons are providing quality services, while remaining cost-efficient and providing significant cost savings.

Part 3

Conclusions and Policy Recommendations

DOCs at the federal, state, and local level should closely examine how and by what standards the private sector can be involved in their corrections system. Experience with privatization to date shows that it requires care in use, but when properly implemented can deliver quality improvement and cost savings.

Further study of the benefits of a competitive environment in corrections is needed. Theory, and examples from other industries suggest that competition ensures the optimal level of efficiency and quality. In choosing whether to privatize, decision-makers should:

- 1. Recognize the Varied Motivations for Privatization.** Cost comparisons are only part of the data needed to evaluate the merits of privatization, and the measurable data alone cannot paint a full picture. The full measure of worth of privatization has to be assessed in a policy context given the broader goals that can be achieved. Privatization can offer increased innovation, access to expertise, improved quality, and enhanced accountability. Most important is recognizing that cost savings from privatization is itself a product of competition, and that competition has beneficial effects on the entire system.

The full measure of worth of privatization has to be assessed in a policy context with due given the broader goals that can be achieved.

- 2. Avoid Over-reliance on Cost Comparison Data.** In evaluating privatization's merits and deciding whether or not to use it, policy makers should be wary about over-reliance on cost comparisons. They should recognize that cost comparisons tend to be static in nature, assuming away changes and differences that privatization brings about. The simple fact is that cost comparison is more an art than a science⁴⁵—a fact that pains many who would like cost comparisons to be simple matters of data analysis. With such cautions in mind, however, well-conducted accounting and economic studies can be very helpful in judging the merits of privatization.
- 3. Use Current Best Practices for Contracting to Ensure Optimal Results.** Performance-based contracts have emerged as a state-of-the-art contracting tool to give government managers better control over contractors and greater assurances of accountability. Performance contracts clearly

spell out the desired result expected of the contractor, but the manner in which the work is to be performed is left to the contractor's discretion. Contractors are given as much freedom as possible in finding ways to best meet the government's performance objective.

What this means for corrections privatization is that performance-based contracts are a key way to capture the broad range of privatization goals that go beyond simple cost savings. They allow governments to purchase results, not just process, rewarding the private firm only if specified quality and performance goals are met.

- 4. Recognize the Benefits of Meeting Needs and Having Options.** Privatization gives policy makers a unique opportunity to address specific needs and specific goals they may have. Privatizations and contract awards can be structured so that goals are met. Furthermore, the breadth of options that privatization gives policymakers is important. Privatization is not a one-size-fits-all solution; several approaches or techniques are available to decision-makers. After evaluating all of the options available, negotiations with the private partner still can be used to create a structure and mechanism that is mutually beneficial.

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Endnotes

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