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SUMMARY

Contracting for Imprisonment in the Federal Prison System:

Cost and Performance of the Privately Operated Taft Correctional Institution

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Summary

In 1997, the Bureau of Prisons (BOP) signed a contract with the Wackenhut Corrections Corporation (now The GEO Group) to manage and operate a new government-owned low-security correctional facility in Taft, California, designed to hold a total of 2,048 adult male inmates. This study compares the cost of contracting for operations at Taft to what the government would have spent if the BOP had operated it directly during its first five years of operation, FY 1998 through FY 2002. It also evaluates how well GEO and the Taft Correctional Institution (TCI) performed during the first six and one-half years.

Does Contracting Cost Less Than Government Operation?

Although the government and GEO agreed to a fixed price for each of the ten years, there were provisions for incremental payments if the inmate population rose beyond a predetermined level and for bonuses (“award fees”) that could be paid by the government to reward performance that went beyond mere contract compliance. In addition, the Bureau incurred some expenses to administer and monitor the contract. Offsetting these costs to the government were federal income tax revenues paid by the contractor. Thus, the *net cost* to the federal government equals total payments by the federal government minus total federal tax revenues. (Taxes paid to local governments are ignored from this examination of costs to the federal government.)

During these five years, the government paid GEO a total of \$139.5 million in fees and an additional \$2.2 million in bonuses (Table 1). This counts only the time when the prison was operational, excluding the first two and a half months of FY 1998 (i.e., before December 30, 1997), when GEO was preparing the facility for prisoners. In addition, the Bureau spent \$2.8 million over the five years to monitor the contract. GEO paid the federal government an estimated \$2.4 million in corporate income taxes during this period. The net cost to government of contracting for the facility’s operation during these five years was therefore about \$142.1 million.

Table 1**Estimated Total Cost to Government of Contracting for Operation of Taft Correctional Facility: FY 1998–2002, by Year and Category of Cost**

	1998	1999	2000	2001	2002	Total
Payments to Contractor for Services						
Fee with adjustments	\$20,889,519	\$27,214,375	\$28,210,157	\$31,139,352	\$32,037,139	\$139,490,541
Award fees	182,240	361,730	408,333	545,833	733,333	2,231,470
<i>Subtotal payments to contractor</i>	21,071,759	27,576,105	28,618,490	31,685,186	32,770,472	141,722,011
BOP Monitoring/ Contract Admin.						
Salaries	319,714	402,911	310,296	435,435	320,336	1,788,692
Premium comp.	2,633	2,607	504	4,543	3,258	13,545
Fringe benefits	99,557	128,112	108,007	124,196	92,991	552,864
Other direct expenses	64,395	47,227	22,374	1,840	2,011	137,847
<i>Allocated Bureau overhead</i>	39,490	64,036	50,257	67,701	49,990	271,474
<i>Subtotal monitoring/contract admin.</i>	536,927	644,893	491,438	633,715	468,586	2,775,560
Est. federal corporate income tax offset	-729,426	-695,766	-240,963	-331,213	-422,653	-2,420,023
Total	\$20,879,259	\$27,525,231	\$28,868,965	\$31,987,688	\$32,816,405	\$142,077,549

Note: FY 1998 is a partial year, beginning with operational phase on December 20, 1997. Award fees are pro-rated to correspond to the fiscal years during which performance periods occurred.

Sources: Computed by Abt Associates Inc. using data provided by the Bureau of Prisons and The GEO Group. See text for details.

Estimating What the Government Would Have Spent to Operate the Taft Facility Directly

Following the logic of cost estimation procedures established in OMB's Circular A-76 (with some modifications), estimates of what the Bureau would have spent to operate the Taft facility are developed, including costs of

- personnel, including salaries, and premium pay;
- fringe benefits, retirement fund contributions, and other associated liabilities;
- materials and supplies;
- casualty and personnel liability costs, and
- “indirect” or “overhead” expenditures for governmental administration that were not directly incurred by specific prisons but which supported all federal prisons. (See Table 2.)

The estimated total cost over the five-year period would have approximately \$154.9 million (Table 3); some estimates are subject to error, so that the probable range of costs would have been between \$151.6 and \$158.6 million (Table 4).

Table 2

Assumptions for Estimating the Government's Operating the Taft Facility During FY 1998–2002

Category of Expense	Assumptions
Salaries and Wages	
Permanent salaries and wages	<u>Abt Associates, Inc. Calculation:</u> Assume staffing model was identical to that at FCI Elkton, that employees were paid a mid-grade levels, and that staff vacancy rates (9 percent) were identical to those observed at all low security federal prisons during FY 1998-2002.
Premium compensation and other than permanent salaries & wages	<u>Abt Associates, Inc. Calculation:</u> Assume rates of premium compensation and other than permanent salaries and wages was identical to average observed at 14 low security federal facilities during each of five fiscal years.
Subtotal adjusted salaries and wages	<u>Abt Associates, Inc. Calculation:</u> Sum of adjusted salaries and wages and premium compensation/other than permanent salaries and wages
Fringe benefits	
Retirement fund contributions	<u>A-76 Prescribed Cost factor:</u> 37.7% of adjusted salaries and wages
Federal employee insurance & health benefits	<u>A-76 Prescribed Cost factor:</u> 5.6% of adjusted salaries and wages
Medicare benefit contributions	<u>A-76 Prescribed Cost factor:</u> 1.45% of adjusted salaries and wages
Misc. fringe benefits	<u>A-76 Prescribed Cost factor:</u> 1.7% of adjusted salaries and wages
Subtotal fringe benefits	<u>Abt Associates, Inc. Calculation:</u> Sum of fringe benefits
Subtotal personnel costs	<u>Abt Associates, Inc. Calculation:</u> Sum of salaries, wages, and fringe benefits
Materials, supplies, and other non-personnel costs	<u>Abt Associates, Inc. Calculation:</u> Estimated based upon statistical analysis of observed expenditures at 14 low security federal prison.
Other specifically attributable costs	
Casualty liability (annualized cost)	<u>A-76 Prescribed Cost factor:</u> 0.5% of net value of capital (excludes costs of materials and supplies)
Personnel liability (annualized cost)	<u>A-76 Prescribed Cost factor:</u> 0.7% of government facilities total personnel costs—salaries, wages, premium compensation, benefits
Subtotal other specifically attributable costs	<u>Abt Associates, Inc. Calculation:</u> Sum of other specifically attributable costs
Subtotal, all categories	<u>Abt Associates, Inc. Calculation:</u> Sum of personnel, materials and supplies, other specifically attributable costs
Overhead	A-76 Prescribed Cost Factor 12% of "subtotal personnel costs" above.
Total estimated cost for government operation of Taft Correctional Institution	<u>Abt Associates, Inc. Calculation:</u> Sum of personnel, materials and supplies, other specifically attributable costs, and overhead

Table 3

Total Estimated Cost of Government Operation of the Taft Correctional Institution During FY 1998-2002

	1998	1999	2000	2001	2002	Total
Salaries and Wages						
Permanent salaries and wages	\$10,636,157	\$14,149,290	\$14,776,170	\$15,281,143	\$15,935,658	\$70,778,418
Staff vacancy adjustment	-850,893	-1,131,943	-1,182,094	-1,222,491	-1,274,853	-5,662,273
Adjusted est. salaries/wages	9,785,264	13,017,347	13,594,077	14,058,652	14,660,805	65,116,145
Premium compensation and other than permanent salaries and wages	782,821	1,158,544	1,291,437	1,321,513	1,524,724	6,079,039
<i>Subtotal salaries and wages</i>	10,568,085	14,175,891	14,885,514	15,380,165	16,185,529	71,195,184
Fringe benefits						
Retirement fund contributions	3,984,168	5,344,311	5,611,839	5,798,322	6,101,944	26,840,584
Federal employee insurance & health benefits	591,813	793,850	833,589	861,289	906,390	3,986,930
Medicare benefit contributions	153,237	205,550	215,840	223,012	234,690	1,032,330
Misc. fringe benefits	179,657	240,990	253,054	261,463	275,154	1,210,318
<i>Subtotal fringe benefits</i>	4,908,876	6,584,701	6,914,321	7,144,087	7,518,178	33,070,163
<i>Subtotal personnel costs</i>	15,476,961	20,760,592	21,799,835	22,524,252	23,703,707	104,265,347
Materials, supplies, and other non-personnel costs	3,861,735	7,686,902	8,288,809	7,677,233	8,039,963	35,554,642
Other specifically attributable costs						
Casualty (self-insurance)	292,500	375,000	375,000	375,000	375,000	1,792,500
Personnel liability (self-insurance)	108,339	145,324	152,599	157,670	165,926	729,857
<i>Subtotal other specifically attributable costs</i>	400,839	520,324	527,599	532,670	540,926	2,522,357
<i>Subtotal, all categories</i>	19,739,535	28,967,818	30,616,243	30,734,154	32,284,596	142,342,346
Overhead	1,857,235	2,491,271	2,615,980	2,702,910	2,844,445	12,511,842
Total estimated cost	\$21,596,770	\$31,459,089	\$33,232,223	\$33,437,065	\$35,129,041	\$154,854,188

Note: FY 1998 costs include only those estimated for operational phase, beginning December 20, 1997.

Sources: Computed by Abt Associates Inc. See text for sources of data and assumptions.

Table 4**Range of Estimated Costs of Government Operation of Operation of the Taft Correctional Institution During FY 1998–2002**

	1998	1999	2000	2001	2002	Total
High estimate	\$22,263,257	\$31,928,256	\$33,793,265	\$34,566,504	\$36,065,834	\$158,617,116
Low estimate	20,930,283	30,968,437	32,671,182	32,884,422	34,192,248	151,646,572

Note: FY 1998 costs include only those estimated for operational phase, beginning December 20, 1997.

Sources: Computed by Abt Associates Inc. See text for sources of data and assumptions.

Comparing the Estimated Cost of Contracting with the Estimated Cost of Government Operation

The net cost to the government of contracting with GEO during these years was less than what we estimate the federal government would have spent if the Bureau of Prisons had operated the facility directly. The total savings over the five years would have been between \$9.6 and \$16.5 million, or between 6 and 10 percent (Table 5).

During all five years, the net cost of contracting was less than the lowest estimate of direct Bureau operation. The estimated savings associated with contracting were greatest during the second and third year, when the base fee paid to GEO was fixed at \$27.6 million. Savings during the second and third years each were estimated to be \$3.9 and \$4.4 million (or about 13 percent). When the Bureau exercised its first option to renew the contract for a fourth year (FY 2001), the base fee increased to nearly \$29.5 million, and additional fees were paid to house more prisoners than the agreed-upon base population of 1,946 prisoners. The result of this was that the difference between the cost of contracting and our estimates of government operation diminished.

During the five years examined here, the Taft Correctional Institution housed prisoners at a lower daily per prisoner cost than the Bureau experienced at fourteen low-security federal prisons for which costs could be assigned unambiguously.¹ Estimates of what the Bureau would have spent are within the range of costs actually experienced at three low-security federal facilities that are architecturally similar—which reinforces our confidence in the accuracy of the estimates (Table 6).

¹ See the text for the discussion of this selection and for an explanation of how these per prisoner/day costs were calculated. These costs do not match the Bureau's reported costs for these years because accounting guidelines in OMB Circular A-76 are followed.

Table 5**Total (Net) Cost to the Federal Government of Contracting Versus Estimated Total Cost If the Bureau of Prisons Operated the Taft Prison, Fiscal Years 1998–2002**

	FY1998	FY1999	FY2000	FY2001	FY2002	Total
Net Cost of Contracting	\$20,879,259	\$27,525,231	\$28,868,965	\$31,987,688	\$32,816,405	\$142,077,549
Estimated Cost of Bureau Operation (Point Estimate)	\$21,596,770	\$31,459,089	\$33,232,223	\$33,437,065	\$35,129,041	\$154,854,188
High Estimate	22,263,257	31,928,256	33,793,265	34,566,504	36,065,834	158,617,116
Low Estimate	20,930,283	30,968,437	32,671,182	32,884,422	34,192,248	151,646,572
<u>Contracting Compared to:</u>						
<i>Point Estimate of Govt. Costs</i>	-717,511	-3,933,858	-4,363,258	-1,449,377	-2,312,636	-12,776,639
<i>(Percent)</i>	-3.3%	-12.5%	-13.1%	-4.3%	-6.6%	-8.3%
<i>High Estimate of Govt. Costs</i>	-1,383,997	-4,403,025	-4,924,300	-2,578,816	-3,249,429	-16,539,567
<i>(Percent)</i>	-6.2%	-13.8%	-14.6%	-7.5%	-9.0%	-10.4%
<i>Low Estimate of Govt. Costs</i>	-51,023	-3,443,206	-3,802,217	-896,734	-1,375,843	-9,569,023
<i>(Percent)</i>	-0.2%	-11.1%	-11.6%	-2.7%	-4.0%	-6.3%

Note: FY 1998 costs include only those estimated for operational phase, beginning December 20, 1997.

Sources: See text for calculations and assumptions.

Table 6**Costs Per Prisoner/Day: Comparing Costs of Contracting at Taft Facility, Estimated Cost of Bureau Operation, and Actual Costs at Fourteen Other Low Security Federal Prisons, FY 1998–2002**

	1998	1999	2000	2001	2002
Taft Correctional Institution (Contractor-Operated)	\$52.43	\$33.82	\$33.25	\$36.88	\$38.37
<i>Est. Cost of Bureau Operation of Taft</i>	54.23	38.65	38.27	38.56	41.08
High Estimate	55.91	39.23	38.92	39.86	42.17
Low Estimate	52.56	38.05	37.63	37.92	39.98
FCI Elkton	46.59	39.72	39.77	44.75	46.38
FCI Forrest City	44.20	39.46	39.84	41.65	43.61
FCI Yazoo City	44.15	41.46	40.05	43.65	42.15
FCI Ashland	69.96	62.75	63.47	64.12	63.38
FCI Bastrop	56.75	53.75	52.67	57.15	52.97
FCI Big Spring	58.80	54.71	51.03	67.99	70.88
FCI Butner	51.78	45.76	47.04	50.93	54.27
FCI Latuna	58.47	56.47	57.36	71.39	60.02
FCI Loretto	62.59	61.42	63.22	49.32	50.86
FCI Milan	73.93	66.77	62.97	62.56	63.23
FCI Petersburg	65.79	61.79	61.79	56.97	60.59
FCI Safford	58.65	56.51	58.57	58.51	58.69
FCI Seagoville	61.48	59.41	61.03	77.40	75.83
FCI Texarkana	49.29	47.52	49.68	53.34	55.55

Notes: Per diem costs of federal prisons do not correspond to Bureau of Prisons' reports because costs were calculated following Circular A-76 rules. Per diem cost of GEO-operated Taft facility in FY 1998 is computed using only costs incurred by government during operational phase, and uses adjusted average daily population shown in Table 2.17.

Sources: Cost of Contracting, from Table 1 above; estimated cost of Bureau Operation from Tables 3 and 4, above; cost of all other federal prisons from Bureau of Prisons, "Federal Prison System, Per Capita Costs," for FY 1998 through FY 2002.

One reason that the cost of contracting is less than what the Bureau would have spent is that GEO's fringe benefit rate is less than half the Bureau's rate (20 percent compared to the Bureau's 46.45 percent). However, GEO staffed the facility with a larger number of positions than the Bureau would have, which made the difference in total labor costs (\$7.6 million) narrower than it would have been if both organizations staffed with the same number of employees.

The determination of the contractor's wage levels is not left entirely to market forces but is governed by the Service Contract Act of 1965, which requires that federal contractors pay at least as much as the U.S. Department of Labor determines prevailing wages to be in the region where the contractor operates. The wage determinations for the county in which the Taft facility is located set a high wage

for correctional officers, largely because the California correctional officers' union has won high wage levels for its members. During FY 1998, the wage determinations for correctional officers in this area required annual pay of \$35–36,000, and were increased at a fast rate so that by May of 2002, the required wage was at least \$46,821 per year. If the Taft facility had been located in another part of the nation where prevailing wages were lower, the difference between the contractor's and the Bureau's labor costs would have been much greater. For example, if the facility had been located in Yazoo City, Mississippi (the site of one of the similar federal facilities), GEO's labor costs would have been 24 percent lower than payroll costs at Taft. If the facility had been in Forrest City, Arkansas (where another of the similar federal facilities is), payroll would have been 18 percent less costly than at Taft.

Another reason why contracting is estimated to cost less is that a substantial cost of governmental overhead (12 percent of total labor costs) is assigned to Bureau-operated facilities, whereas Circular A-76 guidelines assume that all governmental overhead costs are captured in the cost of contract administration and monitoring. Over the course of the five years, government overhead would have cost approximately \$12.5 million if the Bureau had operated the Taft facility. This OMB accounting rule of 12 percent probably underestimates the actual cost of government overhead because this is nearly equal to the cost of the Bureau's national and regional headquarters and other indirect accounts in the Bureau's budget. This does not include any costs of other governmental agencies such as the Office of Management and Budget, the Office of Personnel Management, or the U.S. Department of Justice, among others. This is not to say that the taxpayers saved an estimated \$12.5 million in overhead spending, however, because the Bureau did not cut its overhead costs by this amount after the decision to contract was made.

Assessing Performance at the Taft Correctional Institution

In mandating the demonstration of prison contracting at the Taft facility, Congress sought to determine if contracting poses significant security and safety concerns. To date, there have been no strikes or other labor actions at the facility. There were two “disturbances”—mass refusals by inmates to obey orders to disperse in the early days of the Taft Correctional Institution's operation—but these were resolved by the private firm's managers without having to call upon public law enforcement or correctional authorities.

To assess GEO's performance at the facility more broadly, we compared the contractor's performance against the requirements of the contract and, in separate analyses, compared institutional performance, measured variously, at Taft and at low-security federal prisons operated by the Bureau.

Did The GEO Group Do What the Contract Requires?

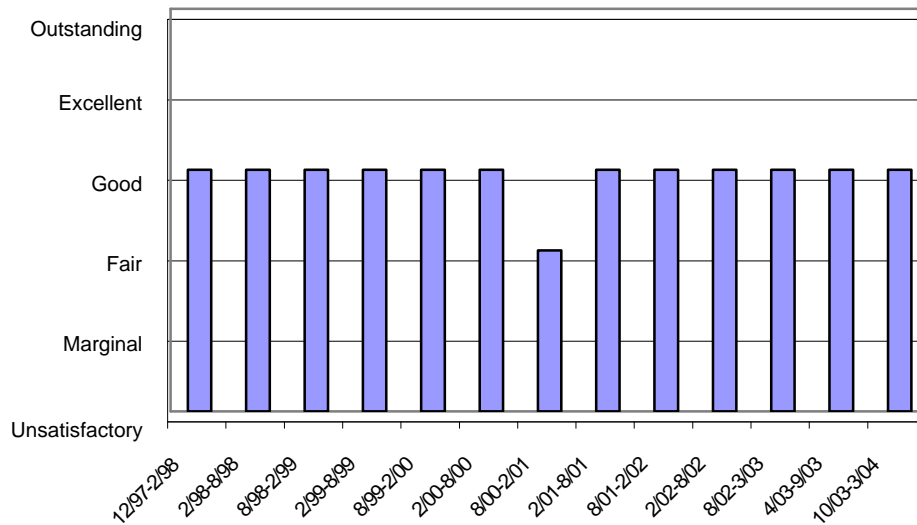
To assess GEO's performance vis-à-vis the Bureau's contractual obligations, we obtained and analyzed information from a variety of sources including periodic monitors' reports, reports of deductions to fee for deficient services, summaries compiled by the Bureau to inform the semi-annual decisions about awarding bonuses, interviews with Bureau monitors and GEO staff, among others

For nearly all of the period between December, 1997 and March, 2004, the Bureau's monitors rated GEO's overall performance as “good” (Figure 1). “Good” is defined as “very efficient performance, fully responsive to contract requirements, more than adequate results, reportable deficiencies but with little identifiable effect on overall performance.” Both the Bureau monitors and GEO managers recognize that the start-up phase was difficult and that performance faltered in some areas. At times

since then and in particular areas of service, performance has sometimes fallen below expectations. Over the life of the contract, however, the institution's managers and staff was judged to deliver what it promised and what the Bureau expected of it. The Bureau exercised its option to renew the contract after the three-year base period and in every subsequent year. Most of the deductions from the contractor's fee for inadequately provided services occurred early in the life of the contract and were reduced by close to two-thirds in FY2001 and further reduced to zero in FY2002. During the first five years, these deductions totaled approximately 0.6 percent of the total amount paid to the contractor; over the seven years of the contract, the percentage has been reduced to half of that amount. Consequently, GEO has been given bonuses for performing above and beyond the requirements for mere contract compliance in all of the semi-annual performance periods.

Figure 1

The Performance Evaluation Board's Assessment of GEO's Overall Performance During the First Six and One-Half Years (August 1997–February 2004)



Note: Ratings are described according to categories used before August, 2002 and new rating categories following that date. After August, 2002, the highest rating was "superior."

Sources: Bureau of Prisons Semi-annual Contract Monitoring Summaries

Measuring Performance of the Taft Facility and Low-Security Federal Prisons

To obtain a more direct comparison of TCI's performance with that found in other low-security prisons operated by the Bureau, we conducted statistical comparisons of data developed by the Bureau to monitor its own operations to determine if specific objectives are being met. One such objective is to provide a safe and secure environment for staff and inmates, measured by a variety of indicators, including assaults on inmates or staff, homicides, suicides, and escapes. Rates of assault are lower at the Taft facility than the average for low-security federal prisons operated by the Bureau, but within the range observed at these federal prisons. There have been no homicides at Taft. There have been two escapes from the secure section of the prison, however. One occurred in 1998,

signaling a clear deficiency in institutional security procedures, which were remedied. A second occurred in December of 2003, when an inmate found an escape route through a trash compactor. In contrast, the Bureau experienced only two escapes from all of its low-security facilities between late 1997 and January 2004.

Another measure of security is the extent of illegal drug use in the prisoner population. All prisons containing federal prisoners, including the Taft facility, test prisoners at random for drug use. The Taft facility reported higher rates of failed drug tests than low-security federal prisons between March 1999 and June 2004. Statistical analyses were conducted to account for differences in prisoner populations that may affect illegal drug use, but the reported rates at the Taft facility were still significantly higher during this period—at least twice as high as high as at federal low-security facilities.

Another of the Bureau’s objectives is to provide prisoners with procedures for expressing grievances and seeking redress. Between September 2000 and August 2004, the rate of submitting grievances by Taft prisoners about 13 percent higher than prisoners at other federal low security prisons, after accounting for other factors that may affect these rates. No explanation for this difference was identified.

Still another of the Bureau’s strategic objectives is to “provide independent, objective oversight to reduce waste, loss, unauthorized use, misappropriation of funds and assets, and to help improve performance and efficiency.” GEO has sought and won accreditation from the American Correctional Association, the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) for its health services, and from the International Organization for Standardization (ISO) for its quality assurance system. However, during the earlier years of the contract, the Bureau’s monitors reported that GEO’s quality control systems were not being implemented effectively, although this was largely resolved in subsequent years.

Finally, the Bureau established the objective of providing adequate healthcare to prisoners. Prisoners at the Taft facility are attended to by healthcare professionals at about the same rate as at low security federal prisons, although it staffs its healthcare services differently than Bureau does.

Is Contracting for the Taft Correctional Institution’s Operation More Cost-Effective Than Government Operation?

No attempt was made to develop a precise estimate of cost effectiveness because the numerous indicators of performance examined here were not distilled into a single measure or index of effectiveness that could be used to compare the Taft facility with federal facilities. Instead, the costs of contracting and direct government operation are estimated separately from the analyses of performance. These analyses lead to the conclusion that the cost to the government of contracting for the Taft Correctional Institution’s operation was lower during FY 1998 through 2002 than what the Bureau would have spent to operate the prison directly. (Even though the cost of operation is estimated to be lower at the privately-managed Taft facility, the Bureau did not shrink its overhead spending proportionately, so the overhead costs that would be associated with direct government operation of the facility were not avoided.) On the most comprehensive and in-depth measure of performance—the extent to which GEO met its performance obligations established in the contract—the firm performed at levels above and beyond mere compliance with these contractual requirements. This measure lacks clear correspondence with other Bureau-operated facilities, however, because

federal facilities do not operate under contractual agreements. Comparison of selected numbers of performance indicators that are collected for Taft and all federal prisons paints a mixed picture. On some measures, institutional performance of the Taft facility is better than the average observed at federal low security prisons, while on others performance looks worse than the average, and on still other measures, performance looks about the same.