Jail Breaks:

Economic Development Subsidies Given to Private Prisons

by Good Jobs First

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About Good Jobs First

Good Jobs First is a national resource center promoting effective and accountable state and local economic development policies. It is a project of the Institute on Taxation and Economic Policy, one of the nation's leading research centers on state tax and fiscal policy. GJF serves citizens and policymakers with research, training, consulting and testimony. GJF was founded by Greg LeRoy, author of the book *No More Candy Store: States and Cities Making Job Subsidies Accountable* and 1998 winner of the Public Interest Pioneer Award. Good Jobs First is based in Washington DC, with project offices in New York and Chicago.

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Note to Readers

- Part I is a general history of private prisons in the United States over the past two decades. It is meant to provide background for our study of subsidies. Readers who are already familiar with the private prison story may wish to skip over this section.

- Part II is a review of the financial evolution of the private prison business, starting with a look at the industry's use of private capital sources. It then moves on to a discussion of the industry's use of public financing. This sets the stage for our research into subsidies.

- Part III contains a summary of our research findings on the prevalence of economic development subsidies given to private prison companies. This is the core of our report.

- Part IV contains some public policy options.

- There are Appendices with details on the methodology of our research and basic information on the major private prison companies and on the prison facilities we examined for this project.

Executive Summary

This study examines an overlooked aspect of the billion-dollar private prison industry: the extent to which it has been the recipient of economic development subsidies provided by local, state and federal governments. These subsidies include tax-advantaged financing, property tax reductions, infrastructure assistance and training grants.

We find that such subsidies are quite prevalent: Nearly three-quarters of the large prisons in the United States that were privately built and operated have received at least one form of economic development subsidy. Specifically, an analysis of all 60 private prisons with a capacity of 500 or more beds (comprising about 66,000 beds or half the U.S. private-prison market) that were constructed by prison companies finds that:

- At least 44, or 73%, of the 60 facilities received a development subsidy from local, state and/or federal government sources.
- A total of $628 million in tax-free bonds and other government-issued securities were issued to finance the private prisons we studied.
- 37% of the facilities received low-cost construction financing through tax-free bonds or other government-issued debt securities.
- 38% received property tax abatements or other tax reductions.
- 23% received infrastructure subsidies, such as water, sewer or utility hook-ups, access roads, and/or other publicly financed improvements.
- Subsidies were found in 17 of the 19 states in which the 60 facilities are located.
- Facilities operated by the two largest private prison companies, Corrections Corporation of America (CCA) and Wackenhut Corrections Corporation, are frequently subsidized. Among the facilities we studied, 78% of CCA's and 69% of Wackenhut's prisons were subsidized, suggesting that these companies have been aggressive in seeking development subsidies.

- An unknown number of the facilities also benefited from state corporate income tax subsidies, such as investment tax credits and/or employment tax credits. Because state corporate income tax records are rarely disclosed, we are precluded from determining the extent and value of such subsidies.

- The widespread use of lease-backed securities such as *lease-revenue bonds* and *certificates of participation*, which do not require public referenda, deprived taxpayers of their right to approve financing for many of the private prisons that exist today.

- Local governments are not systematically assessing whether the subsidies they have provided to prison companies have had the desired effect. Not a single local official we interviewed could point to a formal economic impact study that had been done of the private prison built in his or her community.

- Although most of the subsidies came from local and state governments, we also found cases in which the subsidies came from federal sources. About half a dozen of the prisons we studied got infrastructure assistance through grants from the U.S. Department of Commerce, the Department of Housing & Urban Development or the Department of Agriculture. In addition, at least 6 of the prisons qualified for federal job training grants or tax credits.

The prison industry has not needed this extensive assistance from the public sector because of an inability to raise money from private capital markets. Our review of the history of the industry since its origins in the early 1980s shows that private prison companies have been able to raise several billion dollars of investment capital both in the stock market and by borrowing from commercial banks and other lenders.

In the case of industry leader CCA, this display of investor confidence did not prevent the company from nearly going bankrupt last year. CCA's aggressive expansion, which included building prisons without a management contract in hand (i.e., on speculation, or on spec), helped create significant overcapacity. By the late 1990s, an industry that was created in large part to address overcrowding in public prisons across the country found itself with a glut of beds.

The problem was exacerbated by a shift in the "market." Demographic changes and declining crime rates, along with the beginning of a move away from harsh sentencing practices, meant that state and local governments had fewer people to lock up. Growth in the federal prison population, on the other hand, remains strong – and the current war on terrorism may make it stronger yet. Still, the weakening of demand for prison beds at the state and local level has created a crisis both for the prison companies and for some of the cities and towns that agreed to have for-profit correctional facilities constructed in their community.

Many of large private prisons that were built during the industry's boom from the late 1980s through the late 1990s were sited in economically depressed areas, including some of the poorest counties in the country. Government officials in these communities, anxious to create jobs for residents and to help local businesses, saw private prisons as a form of economic salvation.

Not only did these communities put aside the obvious drawbacks of prisons – possible dangers posed by escapees, the stigma of being labeled a prison town, etc. – in many cases they took steps to make the projects more attractive to prison companies by offering financial incentives. In doing so, these communities were participating in a trend that has characterized U.S. local economic development over the past two decades. By the mid-1990s the competition among areas using subsidies to attract business went so far that two Federal Reserve bank officers dubbed it an "economic war among the states."

This study – like the work of Good Jobs First generally – makes no judgment about development subsidies per se. Instead, our aim is to help governments find ways to ensure that the subsidies they provide have the desired effect. We have found that holding subsidy recipients accountable is best done by enacting disclosure requirements and job quality standards, and by adopting rules that allow governments to recoup subsidies if companies fail to live up to their promises.

In the case of the private prison business, the question of accountability is complicated by the fact that some people believe the industry should not exist at all, whether for philosophical, legal or economic reasons. This study does not address the legitimacy of incarceration for profit. Yet our findings prompt us to offer a set of policy options for consideration, including:

- **Making private prisons ineligible for future subsidies.**

State and local governments need to consider whether it makes sense to continue subsidizing an industry that is in such a precarious situation. Given the relatively low wages paid by the industry and its limited ripple effect on the larger economy, subsidizing private prisons may not provide much "bang for the buck."

- **Restoring citizen participation in financing decisions.**

We found that many large private prisons were financed through government-issued securities known as lease-revenue bonds and certificates of participation, which do not require voter approval. This was done to get around taxpayer resistance to the increasing cost of incarceration. Requiring voter approval would discourage questionable projects by restoring democratic oversight.

- **Greater disclosure and transparency.**

Among other things, our study demonstrated the difficulty of obtaining information on economic development incentives under current practices. If private prison subsidies continue, the public should be able to find out more about them. Policies that require compilation and disclosure of subsidies before and after a project is approved would go a long way to help communities make informed decisions about future proposals to subsidize the private prison industry.

I. The Rise and Decline of Private Prisons in the United States

The Olympic Motel in Houston used to be a favorite spot for streetwalkers to ply their trade, but in January 1984 the establishment underwent a transformation. Twelve-foot high cyclone fences topped with barbed wire were erected around its perimeter, iron bars were put on the windows, and soon the motel was filled with young Latino men. The Olympic had been leased by a recently formed company called Corrections Corporation of America (CCA) to serve as a detention center for undocumented immigrants. This was a temporary arrangement while CCA finished building a new facility that was part of its construction and management contract with the U.S. Immigration and Naturalization Service. Before CCA could make the move, a number of detainees escaped by pushing out the motel's air conditioners, climbing through the holes and scaling the fence.

Such were the modest origins of a company that has been at the center of one of the most controversial industries ever inspired by the American spirit of entrepreneurship: the business of imprisoning human beings for a profit. Over the next two decades, the industry overcame considerable skepticism – and outright hostility – to become a billion-dollar business that for a time was the darling of Wall Street. But the private prison business has suffered a dramatic reversal of fortune over the past few years due to declining demand for its services and a series of scandals that have raised serious doubts about the competence of CCA and its competitors. Today the industry still houses approximately 100,000 local, state and federal prison inmates, or about 5 percent of the total adult incarcerated population,[1] but its future is an open question.

1984-1997: The Rise

The contemporary private prison business had its origins in the mid-1980s amid the anti-government, pro-free enterprise sentiments of the Reagan era. Much of the impetus for the industry came from the efforts of Tennessee Republican activist Thomas Beasley, who founded CCA in 1983 with backing from venture capitalist Jack Massey, who also helped build Kentucky Fried Chicken (now known as KFC) and Hospital Corporation of America.

CCA and other companies that jumped into the field – including established firms such as security services leader Wackenhut Corp., well-funded start-ups such as Pricor Inc. and a slew of less substantial operations –

attempted to take advantage of a unique opportunity. Across the country, prisons were bulging as a result of harsher drug laws and stricter sentencing rules, yet taxpayers were resisting paying for more correctional facilities. At the same time, about three dozen states were under court orders to reduce overcrowding in public prisons.

The contractors claimed to have the solution: they would house some of the inmates and do it at a lower cost than government-operated prisons. Some of the private operators offered to build new facilities and to do so on a much faster timetable than government agencies could. Others bid to operate existing public facilities, claiming they could do it more efficiently. In selling themselves, contractors were often openly contemptuous of government's prison record: "The work done in the public sector in the last 30 years has been a dismal failure," asserted Ted Nissen, president of Behavioral Systems Southwest, in 1985.[2]

Officials in a number of states, particularly in the South, were enchanted by the lure of cheaper incarceration costs. State legislatures began enacting laws permitting private parties to perform what had previously been considered a function that should be performed exclusively by government.

Hamilton County, Tennessee, became the first county in the country to contract out its jail when it brought in CCA in 1984. The following year CCA made an audacious proposal to take over the entire prison system of Tennessee, but the state legislature, faced with strong opposition from public employee groups and others, declined to act on the offer. CCA did, however, succeed in its effort to win a contract to operate a 400-bed jail in Bay County, Florida. The very first state contract was awarded to U.S. Corrections Corp. in 1986 to operate a prison at an abandoned college campus in Marion, Kentucky. In 1987 CCA got its first state-level contracts – for a regional juvenile facility in Tennessee and two minimum-security, pre-release facilities in Texas.

Growth over the next few years was uneven, but by the early 1990s the private prison business was expanding by leaps and bounds. Annual revenues at CCA, the industry leader, climbed from about $14 million in 1986 (the year it became a publicly-traded company) to more than $55 million in 1990 and then soared to $120 million in 1994 (the year it moved up to the New York Stock Exchange). Wackenhut Corrections, which was created as a subsidiary of Wackenhut Corp. in 1988, saw its revenues grow from about $19 million in 1989 to $84 million in 1994, when it made an initial public offering of stock.

At the same time, the total capacity of secure adult facilities under private management climbed from about 3,000 beds in 1987 to more than 20,000 in 1992. Over the next few years the rate of growth was rapid. The annual increase was more than 50 percent from 1992 to 1994, and more than 25 percent during the next few years.[3] The U.S. economic slump in the early 1990s did not make a dent on the industry. "We are recession-proof," CCA Chairman Thomas Beasley crowed to the *Chicago Tribune* in 1991. "It's an unfortunate comment on society, but the worse economic circumstances become, the better we will probably do."[4]

CCA and Wackenhut enjoyed the lion's share of the industry. At the end of 1996 CCA had a U.S. market share (based on the number of adult beds under contract) of 52 percent, while Wackenhut Corrections had 25 percent. U.S. Corrections Corp. was a distant third with just over 5 percent.[5] CCA increased its dominance by acquiring some of its smaller competitors, including Concept Inc. and Corrections Partners Inc. in 1995 and U.S. Corrections Corp. in 1998.

For a time it appeared that the industry's growth would never slow down. By 1995 the country's total inmate population – local, state and federal – had reached more than 1.5 million, which was three times the number in 1980. The incarceration rate – the number of inmates per 100,000 U.S. residents – jumped in that 15-year period from 221 to 601.[6] Governments at all levels were having difficulty figuring out how to house this ballooning population, and in many cases they turned to privatization as the solution. At the federal level the Clinton Administration created an opening for private firms to begin operating Federal Bureau of Prison facilities. At the local level, many officials saw the inmate crunch as an opportunity to create jobs in economically depressed areas. A county commissioner in New Mexico put it this way to a newspaper reporter: "It's terrible to say, but prisoners and trash are big business."[7]

CCA felt confident enough about the future that it made another attempt in the mid-1990s to take over Tennessee's prison system, but again it was rebuffed. The company went on to create a real estate investment trust (REIT) in 1997 as a means of expanding its borrowing capacity (see Part II for more on the financial evolution of the industry). It also started building prisons on spec (i.e., without getting an operating contract first), assuming that there would be sufficient demand for the facilities once they were completed. Wackenhut, meanwhile, won a series of big contracts, including one in New Mexico for a total of 3,400 beds that was the largest private prison deal ever signed up to that point. It was also the winner of the Federal Bureau of Prisons contract for a major facility in Taft, California. At that time a Wall Street analyst told the *New York Times* that the private prison industry's prospects "have never been better."[8]

1997 – Present: The Decline

While privatization proponents continued to predict a bountiful future for the industry, a steady stream of bad omens started getting more attention in the late 1990s:

- The industry's claims about the cost-saving benefits it could provide for governments were put into question by a widely publicized 1996 General Accounting Office survey that concluded there was little if any solid evidence that private prisons were significantly less expensive than public ones.[9]

- The industry's ability to estimate costs came into question when U.S. Corrections announced in April 1997 that it had to back out of a contract it had been awarded to build and run two 500-bed prisons in Georgia. The company admitted that its winning bid of $13.4 million was $5.3 million below what it should have been in order for the project to be financially feasible.[10] This vindicated critics of the deal who had described the U.S. Corrections bid as implausibly low and who had questioned the suitability of a company whose chairman, J. Clifford Todd, had pleaded guilty in 1994 to a federal mail-fraud charge in connection with making illegal payments to a public official in Kentucky. Todd, incidentally, served his sentence at a public prison.[11]

- The reputation of the leading academic analyst favoring prison privatization was seriously tarnished. For much of the 1990s, Charles Thomas, a professor at the University of Florida and founder of the Private Corrections Project, was frequently quoted in the media as an authoritative voice on prison privatization. His status as an independent observer came into question in 1997, when Thomas was named to the board of the CCA Prison Realty Trust, the REIT set up by the leading private prison company.[12] The Florida Police Benevolent Association, which had already been questioning Thomas's role as a consultant to the Florida Correctional Privatization Commission because his university research was being financed in part by the industry, stepped up its challenge with complaints to the Florida Commission on Ethics. Thomas ended up retiring from his university post, and in 1999 he was fined $20,000 by the ethics commission.[13] The entire episode cast a shadow on Thomas's work, especially research that purported to demonstrate the superiority of private correctional management.

The private prison industry's reputation was also tarnished by a series of high-profile scandals about substandard conditions, poor management and brutality in facilities under its control.

- In June 1995 there was an uprising by inmates at an immigration detention center operated by Esmor Correctional Services in Elizabeth, New Jersey. Most of the guards, described by one local official as "unarmed and undertrained, " fled once the disturbances began. Police in riot gear reclaimed control of the facility, which previously had been the subject of press reports about inhumane treatment and substandard conditions.[14] In the wake of the uprising, the INS issued a scathing report on mismanagement at the Esmor facility. The INS found that poorly trained and abusive guards terrorized the immigrant inmates, while supervisors did little to monitor the situation.[15] The problems in New Jersey were part of a string of managerial shortcomings demonstrated by Esmor – whose founders got their start operating a "welfare hotel" in Brooklyn – at several of its halfway houses, boot camps and detention centers. The Union County (New Jersey) Prosecutor, Andrew K. Ruotolo Jr., described Esmor's operations as "privatization at its worst."[16] Esmor, which was removed as the contractor for the Elizabeth facility (now run by CCA), changed its name to Correctional Services Corporation and is still active in the field.

- There were red faces in Texas in 1996 after two convicted sex offenders from Oregon broke out of a CCA facility near Houston and traveled nearly 200 miles before they were caught. State officials, who had not been informed by CCA that out-of-state inmates had been imported, realized they had no authority to prosecute the convicts for the escape. The reason: there was no law against escaping from a private correctional facility (a situation that was later changed in Texas and elsewhere).[17]

- In August 1997, another private prison scandal erupted in Texas when a videotape showing abuses by guards at the Brazoria County Detention Center was made public in the course of a lawsuit brought by one of the inmates at the facility, run by Capital Correctional Resources Inc. The video, originally shot as footage for a training film, showed guards kicking inmates, coaxing guard dogs to attack them, and shocking at least one prisoner with a stun gun.[18] The abuses depicted on the tape especially disturbed officials in Missouri, given that inmates from that state were being housed at the Brazoria facility. In the wake of the revelation, Missouri removed its inmates.

- In 1998 a series of fatal inmate stabbings and a six-person escape put a national spotlight on the prison in Youngstown, Ohio that CCA had built to house inmates from the District of Columbia. In March 1999, the company agreed to pay $1.6 million to settle a class action lawsuit brought on behalf of prisoners at the facility who claimed they were abused, denied medical care and not properly segregated from more dangerous inmates.[19]

- In April 2000 authorities in Louisiana, acting under pressure from the federal government, took control of the Jena Juvenile Justice Center away from Wackenhut Corrections. The move came in the wake of revelations of widespread brutality at the facility, some of it carried out by guards or encouraged by them. Conditions at Jena were so severe that some youths took to mutilating themselves so they would be transferred to the medical unit, where they could more easily avoid beatings and rapes.[20]

These incidents were the ones that got the most public attention, but they were not anomalies. Countless instances of escapes, riots, brutality and other sorts of operational problems came to light in connection with the growing universe of privately-owned correctional facilities.

Problems such as these, along with economic considerations, helped to persuade some jurisdictions that had experimented with private management to conclude it was not worth the trouble. In June 2000 North Carolina terminated its two prison management contracts (both with CCA) and banned the import of out-of-state prisoners. In August 2000 state officials in Utah abandoned a plan for that state's first fully-privatized prison after concluding that it would be cheaper to rent space in county lockups. At about the same time, corrections officials in Georgia decided they didn't need a 1,500-bed prison that CCA was building on spec in Stewart County, prompting the company to halt construction. CCA did complete another spec prison in McRae, Georgia, but it has not received a contract to fill it up (though it reportedly is about to get a federal contract).

Things for the industry got so bad that in September 2000, *Business Week* published an article headlined "'Private Prisons Don't Work': For-profit facilities face a barrage of criticism – and overbuilding has cut into profits and hurt stock prices."[21] The article, which noted that the CCA real estate investment trust had 12,000 unfilled prison beds, concluded by suggesting that "the industry's heyday may already be history."

Over the past year the situation for the industry has, for the most part, remained cheerless. New contracts for private correctional management at the state and local level have all but disappeared. Some states are even taking back control of facilities that had been put under private management. Two prisons in Arkansas with some 1,200 beds that had been operated by Wackenhut returned to the public sector this year. In October 2001 voters in the Kenai Peninsula of Alaska voted overwhelmingly against a plan by Cornell to build the state's first private prison.

The one bright spot for CCA, Wackenhut et al. has been the federal market. A couple of years after awarding the Taft contract, the Federal Bureau of Prisons began to embrace privatization in a big way.[22] The federal inmate population has burgeoned as a result of both harsher drug sentencing guidelines and a crackdown on illegal activities, including many minor offenses, committed by non-citizens. The latter has prompted the Bureau of Prisons to turn to private companies to house thousands of so-called criminal aliens. In June 2000, CCA won two of these contracts, allowing the company to fill its empty spec prison in California City, California and to add to the population of its facility in Milan, New Mexico. According to analyst Judith Greene, these contracts, which could be worth $760 million over 10 years, were the only thing that prevented CCA from going bankrupt last year.[23] (See Part II for a history of CCA's financial travails.)

The feds gave another boost to CCA in May of this year, when the Immigration and Naturalization Service and the U.S. Marshals Service renewed a total of five contracts with the company worth more than $50 million a year. According to an article in the *Wall Street Journal* last May, the Justice Department now allows its agencies (which include the Bureau of Prisons and the INS) to enter into much longer contracts – perhaps as long as 20 years – with private prison companies.[24]

Twenty-year federal contracts would certainly warm the hearts of the prison industry's shareholders and creditors, but it remains to be seen whether the private prison operators can deal with a more fundamental problem. The industry grew up during a time when it was assumed that crime rates – and consequently prison needs – would rise indefinitely. Now the explosive growth has come to an end. As a result, the number of inmates in state prisons has begun to drop. Although the decline is still tiny, the mere fact the inmate population is not rising was significant enough to prompt the *New York Times* to put the story on its front page.[25] The *Times* followed this up with another front-page story a few weeks later noting a growing tendency among states to shorten mandatory sentences, allow for earlier parole and to explore alternatives to incarceration – all of which will accelerate the decline in the prison population.[26] Less crime and fewer people behind bars are good news for America, but for the private prison industry these developments raise questions about its very reason for existence.

Notes

1. For state and federal inmates, the total as of the end of 2000 was 87,369, according to: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, Prisoners in 2000, August 2001, p.7. The publication can be found online at <www.ojp.usdoj.gov/bjs/prisons.htm>. The Justice Department source does not indicate how many inmates were held at privately-operated local jails. An estimate covering all levels of government is given in the most recent edition of the Private Adult Correctional Facility Census, prepared by Charles W. Thomas, former Director of the Private Corrections Project at the University of Florida, Gainesville; it can be found on the web at <www.crim.ufl.edu/pcp/>. This Census, however, measures capacity of facilities (i.e., the number of people they are designed to house) rather than the actual number of inmates present. Thomas puts the total U.S. private capacity at the end of 2000 at 119,023 (see Table 1). Given reports of empty beds in many private prisons, an estimate of 100,000 for the number of actual inmates seems reasonable. The 5 percent figure was obtained by dividing 100,000 by the number of incarcerated persons (2,071,686) reported by the Justice Department.

2. Quoted in Martin Tolchin, "As Privately Owned Prisons Increase, So Do Their Critics," New York Times, February 11, 1985, p.B6. Behavioral Systems Southwest also had the distinction of being the first private prison company to advertise on television. See Lenore Skenazy, "Ads That Will Put You Away," Advertising Age, August 11, 1986, p.64. CCA began running image ads on television in 1998. See Tim Chavez, "CCA's Ads Put Reality on a Shelf," The Tennessean, December 22, 1998, p.1B.

3. The capacity figures come from various editions of the Private Adult Correctional Facility Census, prepared by Charles W. Thomas, former Director of the Private Corrections Project at the University of Florida, Gainesville. The past five editions of the Census can be found on the web at <www.crim.ufl.edu/pcp/>. Note that the Census includes the capacity not only of facilities in operation but also those under construction and in some cases those that are merely in a planning stage. Also note that the cited capacity figures before 1996 relate to the United Kingdom and Australia as well as the United States.

4. Quoted in Bruce Buursma, "Social Woes Fuel Prison Firm's Growth," Chicago Tribune, January 28, 1991, p.3.

5. Private Adult Correctional Facility Census (1996), op.cit., Table 2.

6. U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, Prisoners in 1994, p.2 and Prisoners in 2000, p. 2. Both can be found online at: <http://www.ojp.usdoj.gov/bjs/prisons.htm>.

7. Cibola County Manager Joe Murrietta as quoted in Mark Oswald, "Cibola County: Transfers Might Doom Jail," The Santa Fe New Mexican, January 27, 1996, p.B-3.

8. Jennifer Childe of Wasserstein Perella Securities, quoted in Nzong Xiong, "Investing It: Private Prisons – A Question of Savings," New York Times, July 13, 1997, Section 3, p.5.

9. U.S. General Accounting Office, Private and Public Prisons: Studies Comparing Operational Cost and/or Quality of Service, GAO/GGD-96-158, August 1996.

10. Rhonda Cook, "Prison Privatization: Sometimes Less is Less; Low Bidder Backs Out of Contract to Run 2 Facilities When Million-Dollar Underestimate Comes to Light," The Atlanta Journal and Constitution, May 2, 1997, p.4E.

11. Cynthia Eagles, "Convicted Felon Rides Bike to Federal Prison for Charity," The Courier-Journal (Louisville, KY), July 18, 1997, p.04B.

12. Rick Brooks and Karen L. Tippett, "Leading Expert on Private Prisons Criticized for Taking REIT Seat," Wall Street Journal (Southeast Journal), April 30, 1997, p.S2.

13. "Ethics fine $20,000 for UF Professor," Florida Times-Union, October 22, 1999, p.B3. Thomas was later appointed to the board of directors of Avalon Correctional Services.

14. "Tinderbox Explodes in Elizabeth; Immigrants Riot; Detention Center Now Uninhabitable," The Record (Bergen County, NJ), June 19, 1995, p.A01.

15. Ashley Dunn, "U.S. Inquiry Finds Detention Center was Poorly Run," New York Times, July 22, 1995, p.1.

16. John Sullivan, "Operator of Immigration Jails Has a History of Problems," New York Times, June 20, 1995, p.A1; John Sullivan and Matthew Purdy, "In Corrections Business, Shrewdness Pays," New York Times, July 23, 1995, p.1.

17. Joan Thompson, "Laws Lag Behind Booming Private Prison Industry," Associated Press, November 5, 1996.

18. Sam Howe Verhovek, "Video Puts a Harsh New Spotlight on Texas Jails," New York Times, August 22, 1997, p.A1.

19 . Cheryl W. Thompson, "Prison Firm Settles Suit by D.C. Inmates in Ohio," Washington Post, March 2, 1999, p.B1.

20 . Steve Ritea, "Louisiana Takes Over Youth Jail in Jena," The Times-Picayune (New Orleans), April 6, 2000, p.A1.

21. Charles H. Haddad, "'Private Prisons Don't Work': For-profit facilities face a barrage of criticism, and overbuilding has cut into profits and hurt stock prices," Business Week, September 11, 2000, p.95.

22. On the rise of the federal private prison market, see Judith Greene, "Bailing Out Private Jails, " The American Prospect, September 10, 2001, p.23.

23. ibid. p.27.

24. Evan Perez, "Can For-Profit Prison Industry Break Shackles to Growth?" Wall Street Journal, May 9, 2001, p.B4.

25. Fox Butterfield, "Number of People in State Prisons Declines Slightly," New York Times, August 13, 2001, p.A1.

26. Fox Butterfield, "States Ease Laws on Time in Prison," New York Times, September 2, 2001, p.1.

II. Financing The Private Prison Industry – Private And Public Money

Privatization in the United States is typically categorized as part of the service sector, and as such is assumed to have more modest capital requirements than manufacturing. Companies that get contracts to take over government functions can usually set up shop quickly and without substantial investment in plant and equipment. In the federal government, it is not uncommon for contractors to come into an agency and work side-by-side with civil servants, using existing public facilities.

In the case of prisons, the story is more complicated. It is true that in some cases companies such as CCA and Wackenhut Corrections received contracts simply to take over the operation of existing public correctional facilities. For example, one of CCA's early deals involved taking over management of the Hernando County, Florida jail from the sheriff's office. Some of the smaller private prison operators, such as CiviGenics Corp. and Correctional Systems Inc. have worked almost exclusively in this way.

Yet one of the main selling points for the larger operators has been that they can provide *additional* jail and prison capacity. What CCA, Wackenhut and the other major players in the industry have done much of the time is not privatization of existing prisons, but rather the creation of new prisons that will be privately operated. In taking on responsibility for just about everything involved in building new prisons, these companies began functioning as mortgage bankers, real estate developers, architectural firms, construction general contractors, landscapers and decorators – though the last two functions don't require a lot of effort when it comes to prisons and detention centers. In exchange, government agencies usually committed to a long-term lease for the facility (along with a management contract), and in some cases they got the right to take title to the prison after a certain number of years (i.e., after the private operator has recouped its capital costs).

All of this is to say that private prison companies that create new facilities have substantially greater capital requirements than the typical privatization contractor. This has posed a formidable financial challenge to the big players, especially industry leader CCA, which has gone furthest in embracing the role of developer, even to the point of building prisons on its own, without securing operating contracts ahead of time. This spec prison strategy is widely viewed as a key reason for the company's precarious financial condition today.

This chapter will look at the ways in which the prison industry has addressed its capital challenge and then show how taxpayer-subsidized financing has fit into the picture.

Private Placements to Public Offerings

Early entrants to the industry were small companies with limited initial resources. CCA's Tom Beasley, however, was well connected in Tennessee and apparently had no difficulty getting venture financing from Nashville's Massey Burch Investment Group, which ended up with a 22 percent stake in the company.[1] According to a profile of Beasley in a local business publication, CCA raised "some $18 million in eager investment capital" during its first three years.[2] The interest in prison privatization was strong enough so that CCA, with annual revenues of only about $8 million the year before, was able to go public in 1986 in an offering underwritten by leading investment banks, including Donaldson, Lufkin & Jenrette and Prudential-Bache Securities. The market, however, did have some doubts: CCA's initial price had to be set at only $9, well below the $14-16 range projected by the company when it filed its registration statement two months earlier; the offering netted CCA about $18 million.

Pricor Inc., one of CCA's strongest competitors in the early years, also got start-up financing from Massey Burch, to the tune of $3.3 million. A year later, in 1987, it went public in a $6.7 million offering underwritten by regional investment banks J.C. Bradford & Co. and Rotan Mosle Inc. (then a subsidiary of PaineWebber.)

Both CCA and Pricor (short for Privatization Corporation) also made use of bank financing and private placements. In April 1986 Pricor obtained a $9 million revolving credit line from Signet Bank of Richmond, VA and Sovran Bank/Central South of Nashville. The proceeds were used in part to pay off the notes held by Massey Burch. In December 1987 Pricor got a new $24 million term loan from Signet Bank, which also provided a $6 million revolving loan. In March 1988 CCA signed a $24 million credit agreement with three banks: Sovran, First Union and Southeast Banking Corp. The following year this was replaced with a $30 million credit agreement with First Union, Southeast Bank and AmSouth Bank. A few months later CCA completed a $7 million private placement with an affiliate of Toronto Dominion Bank. In 1991 CCA sold $5 million in preferred stock to General Electric Capital Corporation.

Thanks to all this borrowing, CCA's long-term debt load sextupled from $9.5 million at the end of 1985 to $57.8 million at the end of 1991. By the end of 1996 CCA had obtained a new $170 million revolving credit facility arranged by First Union Corp. and its long-term debt burden reached $117 million.

In April 1988, Wackenhut Corp. formalized its prison management business by forming a subsidiary called Wackenhut Corrections. After being bankrolled by its parent company, the subsidiary went public in July 1994 in a $17 initial offering underwritten by Prudential Securities (though Wackenhut Corp. retained a controlling interest in the business). Later that year, Wackenhut Corrections received a $15 million revolving credit facility from Barnett Bank of South Florida. In 1996 the company issued 4.6 million additional shares, raising $52 million, in an offering whose managing underwriters were Prudential Securities and Lazard Frères.

Several other prison operators entered the stock market in the 1990s:

- Avalon Enterprises, which went public in April 1991 without a specific business plan, announced in 1992 that it planned to enter the prison business by acquiring Southern Corrections Systems (SCS), Inc., a privately held Oklahoma company. (The company later changed its name to Avalon Community Services and still later to Avalon Correctional Services.)

- In February 1994, Esmor Correctional Services Inc. (now known as Correctional Services Corp.) went public in a $5.2 million initial public offering in which Janney Montgomery Scott (a subsidiary of Penn Mutual Life Insurance) served as the managing underwriter.[3]

- In October 1996, Cornell Corrections (formerly known as Cornell Cox) began trading on the American Stock Exchange. Cornell's initial public offering – which was underwritten by Dillon Read & Co., Equitable Securities and ING Barings – raised $37 million. The following year Cornell issued an additional 2.25 million common shares, raising $41 million. That offering was managed by SBC Warburg Dillon Read, Equitable Securities and Wasserstein Perella Securities.

This recitation of financial transactions makes it clear that even before the industry had much of a track record, private prison companies were able to raise substantial sums of money in both the equity and debt markets with the help of major national and regional underwriters and lenders.

REITs and Restructuring: CCA Overreaches

In the mid-1990s, CCA sought a way to extract even more investment capital from the stock market to pay for its ambitious expansion plans. The solution it hit on was the real estate investment trust. REITs are publicly-traded entities that own and manage real estate but do not pay corporate income taxes. However, they must distribute 95 percent of their operating income as dividends to shareholders. These characteristics are intended to boost the price of REIT shares and thereby help raise even more capital.

In July 1997, CCA Prison Realty Trust, a REIT registered in Maryland, made an initial public offering of 21.3 million shares, priced at $21, raising more than $400 million. Most of the proceeds of the offering were to be used to purchase nine facilities from CCA, which leased them back and continued operating them under government contracts.

While Wall Street generally approved of the deal, some observers expressed concern over the fact that Doctor Crants, chairman and chief executive of the CCA operating company, was also to serve as chairman of the REIT, and his son Roberts Crants was to be president of the trust. (Doctor is the father's given name, not a professional title.) There also were some raised eyebrows over the price the REIT was paying to CCA for the nine prisons – more than $300 million for facilities that had cost only $170 million to build – a premium of some 80 percent. The newsletter *On Wall Street* pointed out that, in light of how difficult it was to sell prisons, the premium "seems very pricey."[4]

Nine months after CCA Prison Realty Trust was formed, it and CCA announced a plan under which the REIT would acquire the management company. Operating as a subsidiary of the REIT, CCA would be freed from the direct pressure of showing quarterly earnings growth, while CCA Prison Realty Trust would enjoy REIT tax benefits as the owner of the entire CCA portfolio of prisons. Many CCA stockholders were less enthusiastic about the deal, arguing that the amount they were going to be paid for their shares was below the recent market price. In the end, however, the merger was approved, and the surviving public company took the name of Prison Realty Corporation (later changed to Prison Realty Trust Inc.).

Despite slumping occupancy rates in its facilities, Prison Realty Trust took on more debt. In May 1999, it landed a $1 billion credit agreement (secured by the Trust's real property) from a syndicate of lenders led by Lehman Brothers. In the same period, it was hit with a wave of shareholder lawsuits charging that the REIT was paying an artificially high management fee to its operating subsidiary

CCA. The increase in the number of REIT shares generated by the merger increased the amount that had to be paid out in dividends, generating a financial squeeze. All of this raised doubts about the wisdom of the restructuring. Securities analyst James Macdonald of First Analysis Corp. concluded in November 1999 that "the financial structure is unsustainably flawed. Ultimately, it needs to be demolished."[5]

As Prison Realty Trust's share price fell to record lows, Doctor Crants was ousted as chairman in late December 1999, though he remained chief executive and a member of the board. This occurred as Prison Realty, struggling to meet its dividend obligations, announced that it had agreed to a restructuring program led by an affiliate of Fortress Investment Group LLC and affiliates of The Blackstone Group. These parties, along with an affiliate of Bank of America, agreed to pump $350 million into Prison Realty, which would cease to be a REIT, and help to expand its credit line.

In February 2000, Pacific Life Insurance Co., a large holder of Prison Realty shares, proposed a competing restructuring plan, which Prison Realty tentatively accepted. While the terms were being ironed out, Prison Realty fell into default under the terms of its $1 billion credit agreement and had to get a waiver from its lenders. In June 2000, talks between Prison Realty and Pacific Life broke down and the prison company decided to restructure on its own. It devised a plan under which it would merge again with CCA and cease to be a real estate investment trust. Within a few weeks, Crants was deposed as chief executive of Prison Realty and CCA, and he was forced off the board. John D. Ferguson, former state commissioner of finance and administration in Tennessee, was brought in to run both Prison Realty and CCA. William F. Andrews, former chairman of Scoville Manufacturing, was later named chairman of Prison Realty.

In August 2000, Prison Realty agreed to a $120 million settlement of shareholder litigation, paving the way for approval of the new merger plan the following month. Thus was the new Corrections Corporation of America created. In November 2000, the lenders involved in the $1 billion credit agreement that CCA inherited from Prison Realty agreed to a series of amendments that helped the company avoid default but obligated it to raise $100 million in new capital. Despite this boost, CCA reported that in 2000 it had lost an astonishing $730 million, reflecting a huge write-down of asset values. To shore up its share price, which had fallen below $1, raising the danger of being delisted from the New York Stock Exchange, CCA implemented a 1-for-10 reverse stock split in May 2001. This, plus an announcement that the company was planning to sell some its properties to pay down debt, have stabilized the stock over the short term, but observers are waiting to see if CCA can come up with a longer-term solution to its financial woes.

CCA's main competitor, Wackenhut Corrections, never went as far into debt as the industry leader. The company did borrow for expansion – for example, in June 1997, it got a $110 million (later increased to $250 million) financing facility through a syndicate led by NationsBank – but it kept its debt-to-equity ratio far below that of CCA. Wackenhut also set up a REIT, called Correctional Properties Trust, which went public with a $113 million initial public offering in April 1998. Unlike CCA, Wackenhut has always kept the REIT separate from its the operating company, and it avoided the risky business of building prisons on spec.

Consequently, while Wackenhut has been buffeted by the ups and downs of the industry, it has never flirted with disaster. Last year, when CCA posted a loss of nearly three quarters of a billion dollars, Wackenhut was still in the black, reporting a profit of some $17 million. In fact, as bad as things started to become for whole industry in 2000, the other publicly-traded prison operators also had positive net income: $8 million for Cornell Companies, $5.8 million for Correctional Services Corp. (formerly Esmor) and $963,000 for Avalon Correctional Services.

Cornell (which changed its named to Cornell Companies in 1999) has even managed to go on raising capital. In August 2000, American Capital Strategies Ltd. announced that it had invested $30 million in Cornell in the form of seven-year senior subordinated debt. At the same time, TIAA-CREF (the giant pension fund for university faculty and staff) invested $10 million. Cornell also increased its revolving credit facility – co-arranged by ING Barings and SunTrust Equitable Securities – to $75 million.

The continuing ability of the profitable prison companies to attract capital, plus the fact that CCA's lenders have never pulled the plug on the company, suggests that the financial establishment has not, despite the industry's travails, given up on the incarceration business.

A New Form of Financing

The preceding account might very well be regarded as a case study of the way private capital markets provide operating funds to new companies to help them get started and expand. In the case of the private prison business, that is not the whole story. The industry's capital-raising activities have made ample use of the public as well as the private sector.

The public involvement in private prison financing has been present from the beginning. In fact, it turns out that some of the venture capital from Massey Burch that launched CCA actually came from an economic development fund created by the Tennessee Valley Authority (which is owned by the federal government) to stimulate employment in its service area. The investment pool, which was established with part of the proceeds from the settlement of an antitrust case TVA had brought against Gulf Oil, was managed by Massey Burch until the fund was liquidated in 1994.[6]

As the private prison business grew in the late 1980s, the industry turned to the public sector for help in obtaining low-cost capital. A group of entrepreneurs who sought to build six for-profit spec prisons in Texas used county governments to float high-risk junk bonds to finance the project (see box below).

In some of its early projects CCA arranged for local governments to issue **industrial revenue bonds** (IRBs; also known as industrial development bonds) to finance private prison projects. For example, in June 1989 CCA announced that the Industrial Development Board of Jefferson County, Tennessee had issued $9 million in IRBs on behalf of the company to finance a juvenile detention center. The following month the city of Grants, New Mexico issued $12 million in IRBs to finance a CCA women's prison.

IRBs, which originated in the 1930s, are securities issued by government agencies on behalf of private companies. The companies are fully responsible for repaying the principal and interest on the bonds, but they benefit because the bonds are tax-exempt (i.e., the investor does not pay taxes on the interest payments) and thus carry substantially lower interest rates than taxable corporate bonds. IRBs, also known as private-activity bonds, constitute a form of government subsidy in that they greatly reduce financing costs for new facilities built by private companies. Governments justify the practice as a way of creating jobs and expanding economic activity, which results in higher tax revenues.

The industry soon discovered an even more advantageous way to obtain construction financing with government help: the issuance of **lease-revenue bonds**.

Traditional revenue bonds had long been used by local and state governments to finance the construction of public facilities – such as convention centers or toll roads – that would directly generate proceeds used to repay bondholders (mainly rich individuals and financial institutions). Because this form of financing avoided the use of tax revenues to repay the debt, revenue bonds –unlike general-obligation bonds issued by governments for other purposes – did not have to be approved by voters and were not subject to a jurisdiction's debt limits.

In the case of prisons, however, there is no independent source of revenue; inmates don't pay to be incarcerated. The funds that pay for the operation of the facilities come out of federal, state or local correctional budgets. In other words, tax revenues are the ultimate source of the income stream.

Governments have gotten around this problem by linking prison revenue bonds to the practice of leasing. It was in the mid-1980s that public officials began to use leasing arrangements as a way to establish new *public* correctional facilities without taking on new general-obligation debt. In some cases, governments would simply lease properties that were completely owned by private parties. A survey by Abt Associates in 1984 found that this arrangement, known as straight leasing, was being used to a limited extent, mainly for minimum security facilities and halfway houses.[7]

What became a more popular approach, especially for higher security facilities, was **lease/purchase financing**. In this arrangement, the government arranges for an entity such as a public building authority or a non-profit corporation to act as the prison's landlord and to lease the facility to the correctional agency that will operate it.

The prison is financed through tax-exempt bonds issued by the building authority or non-profit entity (known as the lessor.) Interest and principal are paid out of the lease payments made by the correctional agency. When the bonds are fully repaid, the government obtains title to the facility. Because the bonds are backed by the lease payments made by the correctional agency, they are known as lease-revenue bonds.[8]

California led the way in the use of lease-revenue bonds for prison construction with a $104 million offering in late 1985. The bonds were well received in the market, though some of that may have been the result of confusion about securities. A California legislator told *The Bond Buyer* newspaper: "The lease revenue bonds are like state general obligations and were treated like GOs by the rating agencies."[9]

Joel Dyer devotes a chapter of his book The Perpetual Prisoner Machine: How America Profits from Crime to an analysis of the growing use of lease-revenue bonds in the late 1980s to get around voter resistance to the rising cost of building new prisons, calling the process "contrived at best, illegal at worst."[10]

Junk Bond Prison Financing in Texas

Government played a role in financing the most audacious – and ultimately most disastrous – for-profit prison project in the early years of the industry. In 1989 Pricor announced it that had been awarded a contract to operate six prisons in Texas, with a total of 3,000 beds. The facilities were to be built on behalf of non-profit entities set up by six counties, which planned to sign contracts to house inmates from other jurisdictions. The prisons were financed with $74 million in unusual tax-exempt revenue bonds marketed by Drexel Burnham Lambert, the controversial junk bond investment house.[11]

In this case, the prison operator, Pricor, was not the developer of the project. That role was played by N-Group Securities Inc., a little known Texas firm run by two brothers: Patrick and Michael Graham.[12] Although N-Group promoted the project intensively, it turned out to be difficult to fill the prisons, in part because the facilities did not meet court-mandated construction standards.[13] The developers, consequently, ended up defaulting on their debt obligations. In 1992 a group of mutual funds that had purchased the bonds filed a fraud suit against N-Group, Pricor, two former Drexel investment bankers, the six county jail corporations and others involved in the project.[14] (Drexel, having ceased operations in 1990 amid a collapse of the junk bond market, was out of the picture.) In the end, the investors won an $80 million judgment (later cut in half) but were never able to collect the full amount.[15] Pricor dropped out of the adult prison business; and the six Texas facilities were sold to the state, which made them part of its public correctional system.

In a bizarre epilogue to the case, Patrick Graham was arrested in Houston in 1996 on charges of plotting to help an inmate escape from prison.[16] He was allegedly going to use his connections with Andy Collins, head of the Texas Department of Criminal Justice, to get the inmate designated a "trusty," which would give him privileges that would aid in the escape. Graham was ultimately found guilty of the charges and sentenced to ten years in prison,[17] but his name remained in the news in connection with two other scandals.

After his arrest Graham acted as an undercover informant to help federal prosecutors make their corruption case against former Louisiana Gov. Edwin Edwards, part of which concerned early plans for the ill-fated juvenile detention center in Jena, Louisiana.[18] Graham also provided decisive testimony in the federal prosecution of Andy Collins on charges of accepting kickbacks from a Canadian company called VitaPro Foods in exchange for help in securing a state contract to supply a cheap, soy-based meat substitute to inmates in Texas prisons. In August 2001 Collins and his co-defendant, Yank Barry of VitaPro, were convicted of all charges.[19]

Questions about legitimacy did not impede the spread of this financing technique, especially the particular form known as certificates of participation. Known informally as COPS, the certificates give the investor the right to a fractional portion of the lease payments made by the correctional agency.

One of the few places lease-revenue bonds and COPS received much attention was in the business press, in articles that debated the desirability of these securities from the point of view of investors. Some investment advisors touted lease-backed securities – whether connected to prisons or other types of facilities – because they paid higher interest rates than general obligation bonds, while others warned that the very reason for the higher rates – the fact that the securities were not backed by the full taxing power of the government entity involved – made them much riskier. Writing in 1991, *Forbes* magazine columnist Ben Weberman warned: “The incremental yield on these issues simply isn’t worth the risk. We say, stay away. Period.”[20]

As it turned out, investors did not stay away, and governments continued to employ this financing tool for a wide range of projects. In 1992 *Business Week* published an article, headlined “An End Run Around the Taxpayer,” reporting that the issuance of lease-backed securities had doubled since 1985 and hit a record of $13 billion in 1991.[21] Prison construction continued to be a prime use for lease-backed securities, along with other public sector projects such as schools and libraries that did not generate revenue of their own. As of the mid-1990s, more than half of all the debt issued to finance prisons came in this form.[22]

Keep in mind that during the 1980s lease/purchase financing was primarily being used to create prisons that would be *publicly* operated. Private sector involvement was limited to the financial institutions that assisted in the issuance of the lease-revenue bonds and the construction companies that were hired to build the facilities.

During the 1990s lease/purchase financing became a common practice for prisons that were being built with the intention that they would be operated by private companies such as CCA. See Part III for further discussion of this issue in the context of our research findings.

Private Prisons and the Quest for Economic Development

The willingness of many communities to subsidize private prisons had nothing to do with an ideological commitment to privatization or even a desire to help state and federal prison systems deal with overcrowding in public facilities. To a great extent, the private prison projects developed over the past 15 or so years have been located in economically distressed areas. In Mississippi, for instance, facilities were sited in some of the poorest counties in the entire nation. Communities such as these were desperate for jobs, and in many cases their leaders saw prisons as a form of economic salvation.

The small-town embrace of prisons came in two forms. In some cases local government initiated its own entrepreneurial venture. In Appleton, Minnesota, a struggling agricultural community, public officials floated $28 million in bonds in 1990 to finance the construction of a prison that would be operated via a non-profit corporation and would contract for inmates from the Minnesota Department of Corrections and from other states. Around the same time the Oklahoma town of Hinton, seeking to survive the collapse of the oil boom, raised $24 million to build a for-profit prison that was operated by the Hinton Economic Development Authority. "The only reason in the beginning was to create jobs," Ken Doughty, vice chairman of the authority, told a reporter in 1999. "We never considered how much we might actually make."[23]

As it turned out, these publicly-owned for-profit prisons had a difficult time surviving on their own. The Appleton facility faced a great deal of resistance from Minnesota correctional officials, who, according to City Coordinator Bob Thompson, saw the entrepreneurial prison as a "political threat."[24] The town did get some out-of-state contracts, but not enough to prevent substantial financial losses. Thompson said the town ended up accepting a proposal from CCA to serve as a consultant and later sold the facility to the company. In 1998 the Hinton Economic Development Authority sold its prison to Cornell Corrections and made a substantial profit on the deal.[25]

The other, more common way in which a job-hungry town got on the private prison bandwagon was to invite CCA or one of its competitors to build a facility in its jurisdiction. For example, in Holdenville, another victim of the oil bust in Oklahoma, local officials tried to follow the lead of Hinton, but they had difficulty borrowing funds without a contract for inmates. So the town wooed CCA and got the company to oversee the construction and then operation of a 960-bed spec prison that was financed with $32.5 million in lease-revenue bonds. After Wilkinson County, Mississippi got permission from the state legislature to build a for-profit prison, local officials solicited bids from contractors. CCA was chosen, and a 900-bed facility was built with funds raised from $31 million in certificates of participation.

Deals such as these indicate that in many places private prison construction was seen as a way of boosting the local economy. “In my mind there’s no more recession-proof form of economic development,” Jack McKennon, a city manager who persuaded CCA to build a prison in Sayre, Oklahoma, told the *New York Times*. “Nothing’s going to stop crime.”[26]

The decision by a community to stake the material well-being of its residents on incarceration for profit raises a host of moral, economic and public policy questions. The aim of the present study is to address just one of these questions: To what extent have governments provided material assistance to private prison companies to enable particular facilities to be built? In other words, has the private prison industry been subsidized by the public sector in the name of economic development?

By asking this question we are trying to determine whether the private prison industry has participated in a phenomenon that has characterized much of U.S. local economic development over the past two decades: the granting of incentives by government entities to companies to influence site location decisions. In the last 20 years, it has become commonplace for governments to assist individual companies, arguing that such measures would create jobs and thus benefit local residents. The competition among areas to show generosity to business went so far by the mid-1990s that two Federal Reserve Bank officers dubbed it an “economic war among the states.”[27]

The subsidies come in various forms, ranging from business tax breaks and low-cost financing to infrastructure assistance and direct loans and grants. For example, in 1977, only 13 states made loans for machinery and equipment; now 43 do. Only 21 states granted corporate income tax exemptions; now 37 do. Only 20 states provided tax-free revenue bond loans; now 44 do.[28] Subsidies were offered to a wide range of industries, and some companies – most notably Intel, General Motors and Wal-Mart Stores, along with site location consultants such as Fantus (now a division of Deloitte & Touche) – made a science out of extracting concessions. In his book Competing for Capital, Prof. Kenneth Thomas estimates that, as of 1996, state and local governments were already spending some $49 billion annually for economic development subsidies.[29]

As ubiquitous as subsidies have become, it’s not immediately obvious that the prison business would be participating in this bonanza. The typical recipient of an economic development subsidy is a company that dwells in the private sector: it produces goods or services that are sold in the marketplace. The point of the incentive is to increase the volume of private economic activity in a particular area. For this reason, some subsidies are made available only to manufacturing companies, which tend to have more of an economic impact than the service sector.

Prison companies, on the other hand, exist exclusively to do business with government; there is no private-sector demand for their services. If the public sector constitutes the only customer for the industry, why should governments subsidize their suppliers?

It can be argued that the very existence of government contracts with private companies to perform public functions – especially when the contracts are awarded on favorable terms – constitutes a form of subsidy. It could also be argued that the frequent failure of governments to hold private prison operators accountable for substandard conditions – including poorly trained guards, inadequate facilities, insufficient medical care, etc. – in effect subsidizes the companies by freeing them of the cost of full contract compliance. These are legitimate issues, but they are not the subject of the present study. Our objective was to determine whether governments have *explicitly* provided subsidies to assist in the creation of new private prisons. Part III reports what we found.

Notes

1. Corrections Corporation of America initial offering prospectus, October 1, 1986, p.28.

2. Alan Weston, "Would You Stay in One of this Man's Prisons?" Advantage, February 1986, p.21.

3. In 1996 Esmor changed its name to Correctional Services Corp. in the wake of the scandal involving its immigration detention facility in Elizabeth, New Jersey.

4. Irv McGraw, "IPOs Go to Jail," On Wall Street, June 1, 1997.

5. Quoted in Getahn Ward, "Prison Realty, CCA Merger Under Scrutiny: Financial Structure At the Forefront of Analysts' Critiques," The Tennessean, November 15, 1999, p.1E.

6. See Deborah Davis, "Prisons for Profit," In These Times, August 17, 1988, pp.12-13 and Lois Reagan Thomas, "Fund Ends Decade of Investing," Knoxville News-Sentinel, August 11, 1994, p.C8.

7 . Kent John Chabotar, "Financing Alternatives for Prison and Jail Construction," Government Finance Review, August 1985, p.8.

8 . For more on lease/purchase financing, see Chabotar, op. cit. as well as Charles B. DeWitt and Steven D. Binder, "The Problems of Financing Prison Construction," in James R. Sevick & Warren I. Cikins, editors, Constructing Correctional Facilities: Is There a Role for the Private Sector? Washington, DC: The Brookings Institution, 1987. See also Jan Chaiken and Stephen Mennemeyer, Lease-Purchase Financing of Prison and Jail Construction, Washington, DC: National Institute of Justice, 1987.

9. Assemblyman Richard Robinson (D-Santa Ana) quoted in Kent Pierce, "California Eyes More Lease Bonds for New Prisons," The Bond Buyer, January 10, 1986, p.4.

10. Joel Dyer, The Perpetual Prisoner Machine: How America Profits from Crime, Boulder, Colorado: Westview Press, 2000, p.247.

11. Drexel, along with J.C. Bradford, also served as underwriter for an offering of one million new shares of Pricor stock in October 1989. The counties involved in the Texas plan were Angelina, Falls, La Salle, Pecos, San Saba and Swisher.

12. For a profile of the brothers, see Brian Wallstin, "Lords of Illusion," Houston Press, April 4, 1996.

13 . Todd Mason, "It's a Bust: Many For-Profit Jails Hold No Profits, Nor Even Any Inmates," Wall Street Journal, June 18, 1991, p.1.

14. John Racine, “Investors File Lawsuit Over Six Texas Jails; Allege Securities Fraud in 1989 Tax-Free Deals,” The Bond Buyer, February 25, 1992, p.1.

15 . Angela Shah, “Texas Judge Awards Investors $34 Million in Jail Default Suit,” The Bond Buyer, June 2, 1995, p.25.

16. Suzanne Gamboa, “Private Prison Builder Arrested,” Austin American-Statesman, January 6, 1996, p.B1.

17. Steve Brewer, “Informant Sentenced to Prison in Theft Case,” The Houston Chronicle, June 7, 2000, p.25.

18. See James Minton and Milford Fryer, “A Prison for Jena,” The Advocate (Baton Rouge, LA), June 8, 1997, p.1A and Manuel Roig-Franzia, “’Con Men’ Key Figures in Edwards Investigation,” The Times-Picayune (New Orleans), July 19, 1998, p.A1.

19. Ed Asher, “VitaPro Jury Convicts Duo On All Counts,” Houston Chronicle, August 21, 2001, p.1.

20. Ben Weberman, “Dangerous Bonds,” Forbes, December 9, 1991, p.341.

21. Suzanne Woolley, “An End Run Around the Taxpayer,” Business Week, March 16, 1992, p.108.

22. Statistics from Securities Data Co. cited in Sarah Stirland, “Prison Debt Issues Need Investor Care, Moody’s Analyst Says,” The Bond Buyer, March 21, 1996, p.1.

23 . Quoted in Barbara Hoberock and Ziva Branstetter, “Lockups Bring More Than Jobs,” Tulsa World, December 13, 1999.

24 . Telephone interview with Bob Thompson, June 18, 2001.

25 . Ron Jackson, “Hinton: Seeing Dollar Signs; Prison Profits Unlock Town’s Fiscal Future,” Sunday Oklahoman, July 9, 2000. Note that Cornell later deeded the facility back to Hinton, so that the city could negotiate more easily for contracts to house federal inmates at the prison, which Cornell continues to operate. Under that agreement the city receives a portion of the revenues from any deal it helps to bring in.

26 . Quoted in Peter T. Kilborn, “Rural Towns Turn to Prisons to Reignite Their Economies,” New York Times, August 1, 2001, p.A1.

27 . Melvin L. Burstein and Arthur J. Rolnick, “Congress Should End the Economic War Among the States,” published in the 1994 Annual Report of the Minneapolis Federal Reserve Bank. It can be found at <woodrow.mpls.frb.fed.us/pubs/ar/ar1994.html>.

28 . Keon S. Chi and Daniel J. Hoffman, "State Business Incentives: Trends and Options for the Future," Second Edition, Council of State Governments, 2000.

29 . Kenneth Thomas, Competing for Capital, Washington, DC: Georgetown University Press, 2000, p.159.

III. Economic Development Subsidies Given to Private Prisons

An analysis of the largest privately-built and operated prisons in the United States finds that nearly three-quarters of them have received economic development subsidies such as property tax abatements or reductions, low-interest loans enabled by tax-free bonds, infrastructure subsidies, and/or training grants. The sources of these subsidies are government economic development entities at the local, state and federal level. The full extent of the development subsidies received by the private prison industry cannot be determined, however, because state corporate income tax credits are rarely disclosed.

Specifically, an analysis of 60 private prisons in 19 states with a capacity of 500 or more beds (comprising about 66,000 beds or half the private-prison market) that were constructed by private prison companies finds that:

- At least 44, or 73%, of the 60 facilities received a development subsidy from local, state and/or federal government sources.
- A total of $628 million in tax-free bonds and other government-issued securities were issued to finance the private prisons we studied.
- 37% of the facilities received low-cost construction financing through tax-free bonds or other government-issued debt securities.
- 38% received property tax abatements or other tax exemptions or reductions.
- 23% received infrastructure subsidies, such as water, sewer or utility hook-ups, access roads, and/or other publicly-financed improvements.
- Of the 19 states, facilities in at least 17 were found to have received subsidies.
- Facilities operated by the two largest private prison companies, Corrections Corporation of America and Wackenhut Corrections, are frequently subsidized. Among the facilities we studied, at least 78% of CCA's and 69% of Wackenhut's prisons were subsidized, indicating that these companies have been aggressive in seeking development subsidies.
- An unknown number of the facilities also benefited from state corporate income tax subsidies, such as investment tax credits and/or employment tax credits. Because state corporate income tax records are rarely disclosed, we are precluded from determining the extent or value of such subsidies.

- The use of lease-backed securities, which do not require public referenda, deprived taxpayers of their right to approve financing for many of the prisons that exist today.

Prevalence by State

Nineteen states have large prisons that were built and operated under private management, and facilities in at least 17 of those states have received subsidies. Texas, California, Mississippi and Oklahoma each have five or more of the large private prisons, and in each of those states, except California, most of the facilities have received subsidies. Arizona, Florida, Georgia, New Mexico and Tennessee each have four of the large private prisons, and in each case except Tennessee, all or most are subsidized.

Table 1. Summary By State

State	No. of Facilities in Study	No. of Those Facilities Found to be subsidized	Total No. of Subsidies Found*
Texas	9	6	11
California	6	1	2
Mississippi	6	6	9
Oklahoma	5	5	5
Arizona	4	4	6
Florida	4	4	9
Georgia	4	3	3
New Mexico	4	4	6
Tennessee	4	2	3
Kentucky	3	1	1
Colorado	2	0	0
Ohio	2	2	3
Idaho	1	1	1
Indiana	1	1	3
Montana	1	1	1
Nevada	1	1	1
North Carolina	1	1	2
Pennsylvania	1	0	0
Virginia	1	1	1
Total in 19 states	**60**	**44**	**67***

* The number of subsidies was derived by looking at the four categories displayed in Table 3 below.

Altogether, at least 44 of the 60 facilities, or 73%, received at least one form of subsidy. At least 20 of the facilities, or 33%, received more than one kind of subsidy.

Cumulatively, the 60 facilities received a total of at least 67 subsidies. This figure is understated because, as noted above, state corporate income tax records are not disclosed. The figure is also understated because some subsidies have more than one feature or source. This is especially true for infrastructure assistance, which often involves several types of aid (e.g., water hook-ups, sewer hook-ups, access roads) that may come from more than one level of government. For a complete list of facilities and the types of subsidies they received, see below.

Prevalence by Company

Facilities owned by the largest players in the industry – Corrections Corporation of America and Wackenhut Corrections – received most of the subsidies. Among the facilities we studied, at least 78% of CCA's and 69% of Wackenhut's prisons have been subsidized, suggesting that these companies have been aggressive in seeking development subsidies. CCA did not negotiate all of those subsidy packages; the company inherited 6 of them through acquisitions. The subsidy received by the Cleveland Correctional Center in Texas came about while the prison, now run by Wackenhut, was operated by CCA, which gave up the contract in 1998.

Table 2. Summary by Company

Current Operating Company	# of Facilities in study	% of Those Facilities with Subsidies	Total Value of Construction Bonds Found	Total # of Subsidies Found
Corrections Corporation of America	37	78%	$406.4 million	41
Wackenhut Corrections	16	69%	$165.5 million	21
Cornell Companies	2	50%	0	1
Five Others*	5	60%	$56.6 million	4
Total	60	73%	$628.6 million	67

*One facility each for Correctional Services Corp, Dominion Correctional Services LLC, Management & Training Corp., Maranatha Corrections LLC and Tuscolameta Inc.

Prevalence by Type of Subsidy

Private prison companies have received a wide variety of subsidies. We divided these into four general categories and obtained the following results:

- 37% benefited from low-interest construction financing made possible by tax-free bonds or other government-issued debt securities.

- 38% of the facilities received property tax abatements or other tax subsidies that could be discerned.

- 23% received one or more form of infrastructure assistance, such as water, sewer or utility hook-ups, access roads or other public improvements.

- 13% got subsidies for workforce training.

The distribution of these subsidies among the 60 facilities in our study is summarized in Table 3.

Subsidized Construction Financing

The decision by the larger prison companies, especially CCA, to take on the responsibility for building correctional facilities as well as managing them created enormous capital requirements. The industry has met this challenge in part by raising substantial sums via the stock market and bank borrowing. Yet, as noted in Part II, the industry has also made substantial use of tax-exempt public financing. This has taken several forms, including Industrial Revenue Bonds, Lease-Revenue Bonds, and Certificates of Participation.

Industrial Revenue Bonds

Some early private prison deals were financed with Industrial Revenue Bonds (IRBs), also known as Industrial Development Bonds. IRBs are issued by a city, county or state authority to finance the construction or expansion of privately owned and operated facilities, such as a factory or distribution center. Because the interest paid on the bonds is tax-free, the interest rates are typically about 25% lower than a comparable taxable corporate bond, making IRBs a major subsidy (some IRBs are free of both federal and state tax; others only state). Since the project is expected to create or retain jobs, the subsidy is justified in the name of economic development.

Table 3. Subsidies by Facility and by Type

State	Current Operator	Facility	Bonds/ COPS	Tax	Site	Training
AZ	CSC	Arizona DWI/RTC State Prison		✓		
AZ	CCA	Central Arizona Detention Center		✓		
AZ	CCA	Eloy Detention Center (1)		✓	✓	✓
AZ	CCA	Florence Correctional Center		✓		
CA	CCA	California City Correctional Center			✓	✓
CA	Wackenhut	Central Valley Modified CCF				
CA	Wackenhut	Desert View Modified CCF				
CA	Wackenhut	Golden State Modified CCF				
CA	CCA	San Diego CF				
CA	Maranatha	Victor Valley Medium CCF				
CO	Dominion	Crowley County Correctional Center (2)				
CO	CCA	Kit Carson Correctional Center				
FL	CCA	Bay CF	✓	✓		
FL	CCA	Gadsden Correctional Institution	✓	✓		
FL	Wackenhut	Moore Haven CF	✓	✓	✓	
FL	Wackenhut	South Bay CF	✓	✓		
GA	CCA	Coffee CF			✓	
GA	Cornell	D. Ray James Prison			✓	
GA	CCA	McRae CF			✓	
GA	CCA	Wheeler CF				
ID	CCA	Idaho Correctional Center	✓			
IN	CCA	Marion County Jail II	✓	✓		✓
KY	CCA	Lee Adjustment Center (3)				
KY	CCA	Marion Adjustment Center (3)				
KY	CCA	Otter Creek Correctional Center		✓		
MS	CCA	Delta CF (4)	✓	✓		
MS	Wackenhut	East Mississippi CF	✓	✓		
MS	Wackenhut	Marshall County CF	✓	✓		
MS	CCA	Tallahatchie County CF			✓	
MS	Tuscolameta	Walnut Grove Youth CF	✓			
MS	CCA	Wilkinson County CF	✓			
MT	CCA	Crossroads CF			✓	
NC	Wackenhut	Rivers Correctional Institution		✓	✓	
NM	Wackenhut	Guadalupe County CF			✓	
NM	Wackenhut	Lea County CF			✓	✓
NM	CCA	New Mexico Women's CF	✓			✓
NM	CCA	Torrance County Detention Center				✓
NV	CCA	Southern Nevada Women's CF				✓
OH	CCA	Northeast Ohio Correctional Center		✓	✓	
OH	CCA	Queensgate CF (3)		✓		
OK	CCA	Cimarron CF	✓			
OK	CCA	Davis CF	✓			
OK	CCA	Diamondback CF			✓	
OK	Wackenhut	Lawton CF				✓

State	Current Operator	Facility	Bonds/ COPS	Tax	Site	Training
OK	CCA	North Fork CF			✓	
PA	Wackenhut	George W. Hill CF				
TN	CCA	Hardeman County Correctional Center	✓	✓		
TN	CCA	Metro-Davidson County DF	✓			
TN	CCA	West Tennessee Detention Facility				
TN	CCA	Whiteville CF				
TX	Cornell	Big Spring Complex				
TX	Wackenhut	Cleveland Correctional Center (5)	✓	✓		
TX	MTC	Diboll Correctional Center (3)	✓	✓		
TX	CCA	Eden Detention Center (6)		✓		
TX	Wackenhut	Lockhart Secure Program (Men's)	✓	✓		
TX	Wackenhut	Lockhart Secure Program (Women's)	✓	✓		
TX	CCA	Mineral Wells Pre-Parole TF				
TX	CCA	Sanders Estes Unit	✓	✓		
TX	Wackenhut	Val Verde County Jail & CF				
VA	CCA	Lawrenceville Correctional Center	✓			
		TOTALS	22	23	14	8

(1) Originally operated by Concept Inc.
(2) Originally operated by Correctional Services Corp.
(3) Originally operated by U.S. Corrections Corp.
(4) Dominion Leasing was developer; Corrections Partners Inc. was original operator
(5) Originally operated by CCA.
(6) Originally operated by Eden Detention Center Inc.

CCF = Community Correctional Facility
CF = Correctional Facility
DF = Detention Facility
TF = Transfer Facility

Responsibility for repaying principal and interest on the bonds rests with the private company, not the government agency that issues the securities.

In 1989, the city of Grants, New Mexico issued $12 million in IRBs to help CCA finance the New Mexico Women's Correctional Facility, which the company was to operate under a contract with the state department of corrections. That same year the Industrial Development Board of Jefferson County, Tennessee issued $9 million in IRBs for CCA to help finance the construction of a juvenile detention facility near Knoxville (now run under public-sector management).[1] The bonds issued by Grants turned out to be the only case of IRBs among the facilities in our study.

Lease-Revenue Bonds and COPS

Our research reveals that in the 1990s, IRBs disappeared from large private prison projects. CCA, for example, carried $27.5 million in IRB debt at the end of 1989; by the mid-1990s such debt was gone from the company's balance sheet. The apparent reason: the industry found an even more advantageous method of financing – lease-backed securities.

As discussed in Part II, this is a device that states such as California began to use in the late 1980s to finance new *public* prisons, because of mounting taxpayer resistance to the increased cost of locking up large numbers of people. Unlike the general-obligation bonds that were traditionally used to finance projects such as prisons, lease-backed securities do not have to be approved by the voters. That is because these securities are not backed by the general taxing power of government, but instead by the revenues anticipated from the facility.

Lease-revenue bonds had long been used to finance projects such as public parking garages and stadiums that would generate their own income stream. Using them for prisons was part of an arrangement known as lease/purchase financing. In this arrangement, a government agency arranges for an entity such as a public building authority or a non-profit corporation to act as the prison's landlord and to lease the facility to the correctional agency that will operate it.

The prison is financed through tax-exempt bonds issued by the building authority or non-profit entity (known as the lessor). Interest and principal are paid out of the lease payments made by the correctional agency, which gets its funds from local or state government appropriations. When the bonds are fully repaid, the government obtains title to the facility. Because the bonds are backed by the lease payments made by the correctional agency, they are known as lease-revenue bonds.

It did not take long for the use of tax-exempt lease-revenue bonds to spread to prisons slated to be privately operated. In these cases, the securities are often called certificates of participation – COPS for short – which are structured as if the investor were buying an interest in a portion of the lease agreement between entity serving as the landlord of the prison and the public correctional agency paying the rent. The purported owner/lessor, in turn, uses the rental income to pay for the principal and interest on the COPS. The correctional agency also makes payments to the private prison company (in the form of per diem amounts for each inmate) for operating the facility.

The use of lease-revenue bonds and COPS constitute a subsidy in that tax-exempt government securities are being used to create facilities – which in all likelihood would not otherwise exist – that serve as a source of profit for companies like CCA and Wackenhut Corrections, both in their role as prison operator and their role as prison builder or developer. In fact, we found in our interviews that local officials were often confused about the ownership status of private prisons. In some cases they regarded the prison as being privately owned; in others, they called it a government facility. In this study we treat all privately-operated facilities that were built with the proceeds of IRBs, lease-revenue bonds and COPS as cases of subsidies.

With IRBs, the subsidy a company receives consists, as noted above, of the reduced interest it has to pay on funds borrowed to build a new facility. With lease-revenue bonds and COPS, the subsidy is in effect even greater. With the use of these securities, the prison company is not responsible for repaying the loan, and the debt is not reflected on its balance sheet. Yet the prison operator enlists government to help bring about the creation of a facility that will serve as a source of revenue and profit.

Among the facilities in our study, at least 22 of the prisons – more than one third of the total – received some form of public financing. Of those 22 facilities, 21 got the funds through the use of lease-revenue bonds or COPS. A total of $628.6 million was raised through all of these security offerings. See Table 4 for details.

The state that has made the most use of public financing for private prison facilities in our study is Mississippi, where 5 bond issues were made with a total value of $155.6 million. There were 4 bond issues in Florida with a total value of $112.5 million, and 5 bond issues in Texas with a total value of $70.8 million.

Public financing was also found in: Idaho (1 issue, $59 million), Indiana (1 issue, $10.5 million), New Mexico (1 issue, $12 million), Oklahoma (2 issues, $68.6 million), Tennessee (2 issues, $81.5 million) and Virginia (1 issue, $58.1 million).

CCA dominates the list: 13 of its facilities got tax-advantaged financing. Two of these were facilities acquired from other companies, and 1 facility that got public financing under CCA management (Cleveland Correctional Center in Texas) was later transferred to Wackenhut. Wackenhut has 7 facilities subsidized with public financing. The facilities currently run by CCA received a total $406.4 million (or 65% of the total), while Wackenhut facilities received $165.5 million (26%). The remaining $56.6 million (9%) was received by a prison in Texas now run by Management & Training Corp. and a new juvenile facility in Mississippi run by Tuscolameta Inc. The largest lease-backed securities deals were received by CCA facilities in Idaho, Virginia and Tennessee, which each got more than $50 million.

Table 4. Tax-Advantaged Financing For Privately Operated Prisons

STATE	FACILITY	ORIGINAL COMPANY	CURRENT COMPANY	TYPE	AMOUNT	DATE
FL	Bay CF	CCA	CCA	COPS	30,235,000	Jun-94
FL	Gadsden Correctional Institution	USCC	CCA	COPS	17,870,000	Jun-94
FL	Moore Haven CF	WCC	WCC	COPS	23,265,000	Jun-94
FL	South Bay CF	WCC	WCC	COPS	41,160,000	Dec-95
ID	Idaho CC	CCA	CCA	REV	58,985,000	Mar-98
IN	Marion County Jail II (1)	CCA	CCA	REV	10,495,000	Jan-97
MS	Delta CF	DOMINION/CPI	CCA	REV	24,035,000	Jun-95
MS	East Mississippi CF	WCC	WCC	COPS	34,520,000	Dec-97
MS	Marshall County CF	WCC	WCC	COPS	24,215,000	Jun-95
MS	Walnut Grove Youth CF	TUSCO	TUSCO	COPS	41,420,000	Nov-99
MS	Wilkinson County CF	CCA	CCA	COPS	31,435,000	Dec-96
NM	New Mexico Women's CF	CCA	CCA	IRB	12,000,000	Jun-89
OK	Cimarron CF	CCA	CCA	REV	36,070,000	Oct-96
OK	Davis CF	CCA	CCA	REV	32,505,000	Jul-95
TN	Hardeman County CC	CCA	CCA	REV	57,000,000	Feb-97
TN	Metro-Davidson County DF	CCA	CCA	REV	24,460,000	Jun-91
TX	Cleveland CC	CCA	WCC	REV	13,212,500	May-88
TX	Diboll CC	USCC	MTC	REV	15,220,000	Dec-93
TX	Lockhart Secure Program (Men)	WCC	WCC	REV	16,140,000	Oct-91
TX	Lockhart Secure Program (Women)	WCC	WCC	REV	13,015,000	Sep-93
TX	Sanders Estes Unit	CCA	CCA	REV	13,212,500	May-88
VA	Lawrenceville CC	CCA	CCA	REV	58,095,000	Jul-96
				TOTAL	$628,565,000	

CF= Correctional Facility
CC=Correctional Center
DF=Detention Facility

USCC=U.S. Corrections Corp.
WCC = Wackenhut Corrections Corp.

Companies:
CCA= Corrections Corporation of America
CPI=Corrections Partners Inc.
DOMINION=Dominion Leasing
MTC= Management & Training Corp.
TUSCO= Tuscolameta Inc.

Types:
COPS=Certificates of Participation
IRB=Industrial Revenue Bonds
REV=Lease-Revenue Bonds

(1) This $10.5 million issue was actually a taxable offering made by the Indianapolis Local Public Improvement Bond Bank to purchase a roughly equivalent amount of tax-exempt lease-revenue securities that had been issued by the Indianapolis-Marion County Building Authority to finance renovations to the Marion County Jail when CCA was brought in. There was no prospectus available on that offering.

The Underwriters

When a government agency issues securities it does so with the help of a financial institution known as an underwriter. The underwriter, usually an investment banking firm, facilitates the issue by pre-purchasing the securities (at a discount) and then reselling them to dealers or the public at a profit. In some deals more than one underwriter is involved, with one serving as the lead underwriter. The underwriters usually make a profit in the range of 2-3% of the face value of the issue.

The 22 tax-exempt offerings we found in connection with the private prisons in our study came about through the efforts of a dozen different lead underwriters. Several firms, however, played a bigger role than others. The most active firms, ranked by the total amounts raised, were the following:

• Stephens Inc.	$129.2 million raised in 5 offerings
• Prudential Securities*	$115.1 million raised in 5 offerings
• Lehman Brothers	$93.5 million raised in 2 offerings

* Also includes Prudential Bache Capital Funding.

Note: Stephens Inc., Prudential Securities and Lehman Brothers have also served as underwriters for stock offerings by private prison companies.

Property Tax Abatements and Other Tax-Based Subsidies

Reducing or eliminating taxes on business is the most common – and most costly – form of economic development subsidy. Companies are subject to various state and local levies, including property taxes on their land, buildings and inventory; income or business franchise taxes (in some jurisdictions); sales taxes in connection with their purchases and special taxes levied on specific industries.

Taxes paid by corporations comprise a small – and shrinking – share of most states' and cities' overall revenue. Governments tax corporations because business activity creates costs for public systems: roads that need to be maintained; population growth that creates demand for more schools and teachers; wastewater that must be treated; environmental pollution that creates healthcare costs, etc.

Tax subsidies for economic development come in many flavors, but the most important categories to keep in mind are:

- Property tax abatements – a full or partial exemption from tax for periods typically ranging from 5 to 20 years.
- Corporate income tax credits for capital investment, job creation, or other activities – dollar-for-dollar reductions in a company's state corporate income

tax bill, using either flat-rate formulas (such as $2,500 per new job created) or percentage rates (such as 5% of the value of a capital investment).

- Sales tax waivers on building materials for new construction.
- Utility tax breaks – lower rates, usually associated with new economic activity.
- Enterprise zone-associated tax breaks such as property tax abatements, inventory tax exemptions and/or employment tax credits.

This study is unable to determine the full extent or value of corporate income tax credits that may have been claimed by private prison companies, because no state provides for disclosure of corporate income tax returns. A few states do provide some company-specific disclosure of tax credits, but they are not among the states in which the 60 prisons we studied are located. Normally, we would expect such credits – especially those for capital investment and job creation – to be among the most lucrative subsidies a company would receive. The lack of public disclosure of these tax credits is therefore a major gap in public knowledge about taxpayer subsidies to private prisons.

Tax subsidies originate at every level of government. Property tax abatements may be authorized by city councils or county tax boards for one company at a time; local governments may establish special enterprise or empowerment zones that lower taxes for dozens of companies; states may enact tax credits that benefit hundreds or thousands of companies; and the federal tax code enables the tax-free financing detailed below.

When a company receives substantial property tax abatements, it reduces revenues needed for local services such as schools, public safety, and sanitation. To offset these losses faced by the public sector, companies sometimes agree to make payments in lieu of taxes (known by the acronym PILOT). Usually, a PILOT is only a fraction of what the tax bill would have been. Additionally, PILOTs do not automatically increase when property tax rates or assessments rise, saving a company even more money.

In the case of private prisons, the issue is a bit more complicated. Many of the 60 facilities we looked at our are technically owned by entities set up to satisfy the requirements of lease-revenue bonds or certificates of participation (see above). Local officials treat these facilities in three different ways:

- Some are regarded as private commercial facilities that must pay property taxes.
- Others are treated as exempt, government-owned facilities.

- In other cases the prison operator is not obliged to pay property taxes but has agreed to PILOTs or other offsetting payments to reduce the impact on specific public services such as schools. For example, CCA pays a $200,000 "economic development impact fee" in connection with its leased prison in Wilkinson County, Mississippi.[2]

In this study we regard any private prison that was financed with government-issued lease-backed securities (or with private financing) and is not paying property taxes as being subsidized. We also regard it as a subsidy when one of these facilities pays a PILOT that is below what its property tax bill would otherwise be.

Among the prisons we studied, 23 of the 60 facilities, or 38%, received a tax subsidy of some kind. States where tax breaks were offered included Arizona, Florida, Indiana, Kentucky, Mississippi, North Carolina, Ohio, Tennessee and Texas. Here are more details on the situations in these states:

ARIZONA. In 1998 the Arizona legislature, at the urging of CCA, passed a bill that exempts all private prisons in the state from paying municipal sales tax on the revenues they receive from operating contracts.[3]

FLORIDA. An explanation of how the prisons in Florida are getting tax subsidies requires some background information. When the legislature adopted a prison privatization law in 1993, one of the provisions required that contractors manage prisons at a cost that was at least 7 percent lower than that of public prisons. To make it easier for companies to meet that requirement, the law said that contractors were allowed to subtract an amount for taxes when the cost comparisons were made, given that state-run prisons were not subject to taxes. Since the law referred to all payments made to the state or any of its subdivisions, the legislature apparently assumed the companies would be paying property taxes to local governments. In at least one case, a prison operator made an explicit commitment to pay such taxes. During the approval process for its 750-bed prison in Moore Haven, Wackenhut stated in writing that it would pay property taxes directly to the county or through the financing corporation that served as the lessor of the facility.[4]

However, Wackenhut and the other prison operators (CCA and U.S. Corrections, later bought by CCA) later decided they should not have to pay property taxes, arguing that the prisons were technically state facilities and thus should be deemed exempt.[5] This position was supported by the state Correctional Privatization Commission. In reality, the titles to the prisons are held by the non-profit financing corporations set up to meet the requirements of the certificates of participation used to finance their construction. However, Tallahassee attorney Larry Levy, who represents several of the county property appraisers, argues that the properties should still be taxable because "they are being used for a commercial purpose by the private bidders [operators] who have exclusive possession of same and are the true equitable owners."[6]

Several of the affected counties took the companies to court in what became a protracted series of lawsuits; indeed, several are still pending. In the meantime, the state legislature decided to intervene. It appropriated funds to give grants to the counties to make up for the lost property tax revenues.[7] The upshot is that CCA and Wackenhut, operators of the four Florida prisons we studied, are effectively not paying any property taxes on the facilities. For this reason we have counted all of them as being subsidized.

INDIANA. Marion County Jail II is exempted from property taxes even though the facility was renovated by CCA using the proceeds of lease-revenue bonds.[8]

Home Sweet Big House

A laughable episode involving prison property taxes occurred at CCA's Leavenworth Detention Center in Kansas (this facility didn't make it into our study because it has fewer than 500 beds). In February 1998, CCA filed a property tax protest with Leavenworth County, arguing that the prison should be classified as primarily residential, rather than commercial, and thus qualify for a lower rate. The appeal was not well received. One state legislator told a reporter: "They're located in a for-profit industrial park surrounded by for-profit enterprises. They've got these bars on the windows. They've got barbed wire on top of the fence, and they want to say they're a residence? Give me a break."[9] CCA later dropped the protest.

KENTUCKY. The Otter Creek Correctional Center was the second of two private prisons opened by U.S. Corrections Corp. (a company later acquired by CCA) in its home state. The Otter Creek facility deal, located in the depressed coal-mining town of Wheelwright, was negotiated jointly by state and local officials. The deal included three years of county tax abatements.[10]

MISSISSIPPI. Wackenhut pays a PILOT of $80,000 in connection with its Marshall County Correctional Facility in Holly Springs, which is well below what its property taxes would be.[11] The same company pays an annual PILOT of $50,000 in connection with its East Mississippi Correctional Facility in Lauderdale County. When the facility is operating at full capacity the amount rises to $100,000. Lauderdale County officials were not able to tell us how these amounts compare to what commercial property taxes would normally be, since the land has never been appraised.[12] Since PILOTs are typically set below tax assessments, we have treated this as a subsidy. CCA does not pay property taxes or a PILOT in connection with the Delta Correctional Facility in Leflore County;[13] the prison was financed with lease-revenue bonds and is technically owned by the Delta Correctional Facility Authority.

NORTH CAROLINA. Property tax abatements are unconstitutional in North Carolina, but Hertford County is effectively getting around this by agreeing to provide Wackenhut with direct grants in connection with its Rivers Correctional Institution. Bill Early, Executive Director of the Hertford County Economic Development Commission, says that the final terms of the agreement are still being worked out, but he expects the total subsidy to be about $2.5 million. In exchange for the grants, the company must create 300 jobs and invest at least $45 million in the facility, which is being operated under contract with the Federal Bureau of Prisons.[14]

OHIO. In 1995, CCA received a generous package of incentives, including tax subsidies, when it agreed to build a 1,500-bed prison in Youngstown. See the box below for details. A tax deal was also provided to the other Ohio prison in our study. After U.S. Corrections Corp. turned an old hardware warehouse in Cincinnati into a minimum-security facility operated under a contract with Hamilton County, the company was awarded an unusual deal: The facility (now owned by CCA) pays property taxes to the city but is then reimbursed by the county.[15]

TENNESSEE. CCA's Hardeman County Correctional Facility is treated as exempt from property taxes even though it was financed with lease-revenue bonds and is technically owned by the Hardeman County Correctional Facilities Corporation.[16]

TEXAS. Property tax abatements were given to the Eden Detention Center in Concho County, one of the country's earliest private prisons, which was purchased by CCA in 1995, and the Sanders Estes Unit, a pre-release center in Venus. According to James Flatt, the mayor of Venus, CCA was given a five-year, 50% abatement on the original facility as well as a five-year abatement (which began at 60% and then declined) on an annex that was built later.[17] MTC's Diboll Correctional Center and Wackenhut's Cleveland Correctional Center are treated as tax-exempt, yet they were built with lease-revenue bonds and are technically owned by financing corporations.[18] At Wackenhut's two prisons in Lockhart the land and buildings are exempted from property taxes (though the company's personal property – i.e., the contents of the buildings – are not), despite the fact that the facilities were built with lease-revenue bonds and are owned by the Lockhart Correctional Facilities Financing Corporation.[19]

Youngstown, Ohio: A Watershed in Industry History

A series of murders, assaults and escapes catapulted CCA's Northeast Ohio Correctional Center in Youngstown to national attention, fueling the policy debate over private prisons. By Summer 2001, four years after the facility opened, the entire inmate population had been removed from the prison, and operations were suspended.

The events shook investor confidence in CCA and jolted Youngstown, a depressed steel-mill city in the Mahoning Valley that had gone to great lengths to attract the prison. In 1995, the Youngstown city council approved a package of subsidies for CCA that included selling the company 100 acres of land for $1, free water and sewer hook-ups valued at $500,000, and a waiver on building and sewer tap-in fees valued at $75,000.[20]

Also part of the deal was a 75% abatement of real estate and personal property taxes for three years (or an equivalent tax incentive package). According to Jeff Chagnot, assistant to the mayor for economic development, the original abatement was later replaced with a 10-year tax increment financing plan. (TIFs are a subsidy financed by the diversion of property taxes back into a designated TIF district to pay for improvements there.) However, this arrangement was not to operate like a normal TIF district, in which companies still pay property taxes but then benefit from the diversion. Instead, in the Youngstown deal, for the first five years, CCA had no property tax obligations at all. The usual TIF process of diverting incremental tax revenues was to begin in Year 6, with the revenues going to the city to compensate it for the infrastructure assistance provided to CCA.

Although the land deal and the infrastructure assistance were implemented, the tax plan was delayed and later became the subject of a legal challenge. In September 1998, the Youngstown school district sued to block the tax deal. Because of the litigation, the Ohio Department of Taxation has not ruled on the deal, which remains in limbo. The prison itself also remains in limbo, but its warden told the Columbus Dispatch recently that he is confident that the facility will get a new contract and reopen.[21]

Land and Site-Preparation Subsidies

Obtaining land and providing basic infrastructure are key elements in establishing a new business facility, regardless of the industry. Economic development agencies frequently assist companies by identifying suitable sites, and sometimes they buy and parcel the land and turn it over to the company at a reduced cost or for free as part of the incentive package (they may also bear legal expenses and/or the cost of brownfield decontamination). Development agencies may also pay for all or part of the cost of bringing utility (especially water and sewer) connections to the site and constructing or improving access roads. The site assistance may be funded out of a local government budget, from state funds, from Community Development Block Grants (monies distributed by the U.S. Department of Housing and Urban Development that constitute the largest federal source of infrastructure funds) or from grants or loans from the Economic Development Administration (an agency of the U.S. Department of Commerce) or the U.S. Department of Agriculture.

We found that some private prisons have been recipients of land and site-preparation subsidies. In the group we studied, 14 of the 60 facilities (23%) received some sort of infrastructure subsidy from a city, county, state or federal agency. The 14 facilities were spread out among 9 states. Georgia had 3, New Mexico and Oklahoma each had 2, and the following states had 1 each: Arizona, California, Florida, Mississippi, Montana, North Carolina and Ohio.

Facilities run by CCA got the bulk of these subsidies: 8 out of the 14. One of these was inherited at a facility (Eloy Detention Center in Arizona) that had been operated by a company purchased by CCA. Four Wackenhut facilities got infrastructure subsidies, while Cornell got 1. The following are details of these subsidies by state:

ARIZONA. In 1993, the Federal Bureau of Prisons awarded a contract to Concept Inc. to build and operate a 1,000-bed detention center in Arizona for so-called criminal aliens. The company, which was later acquired by CCA, took advantage of inexpensive land in Eloy and also got the city to pay for road improvements and water- and sewer-line extensions.[22]

CALIFORNIA. When CCA announced plans in 1997 to build a spec prison in the Mojave Desert town of California City, the local community, still suffering from the downturn in the aerospace industry, generally welcomed the project. According to City Manager Jack Stewart, CCA did not get any tax abatements or financing assistance, but the city did provide utility hookups and roadwork that cost some $1 million, with the company matching that sum.[23]

FLORIDA. The city of Moore Haven got state and federal money, including a rural development grant from the U.S. Department of Agriculture, to help pay for a sewer connection for Wackenhut's prison.[24]

GEORGIA. Local officials in McRae received a loan of $1.5 million from the U.S. Economic Development Administration to pay for water, sewer and road improvements to serve CCA's spec prison there, which was projected to create hundreds of new jobs. The city also got a $250,000 grant from Georgia's Economic Incentive Program to help with the water and sewer costs.[25] So far, the city's efforts have been for naught, since the facility remains empty. The city of Nicholls also borrowed from both the state and federal governments to provide infrastructure for a CCA prison.[26] The State of Georgia provided a $250,000 grant to the city of Folkston to help pay for water and sewer infrastructure for the prison built there by Cornell Companies.[27]

MISSISSIPPI. Tallahatchie County got a $1.25 million grant from the U.S. Economic Development Administration to hook up sewers and install a 400,000-gallon water tank for a CCA prison in the economically depressed area. Otey Sherman, chairman of the Tallahatchie County Industrial Development Authority and the prime mover behind the project, brags that the prison has "cost the taxpayers not one penny."[28] Unfortunately, however, CCA shut down the prison in early 2001 – except for a unit housing about 100 local prisoners for the county – because of a shortage of inmates. It is unclear when the rest of the prison may reopen.

MONTANA. After CCA chose Shelby for a prison it agreed to build and operate for the Montana Department of Corrections, the city obtained a $500,000 Community Development Block Grant and an $800,000 grant from the U.S. Economic Development Administration to pay for infrastructure costs at the prison, including water and sewer extensions and a water storage tank.[29]

NEW MEXICO. Of the 4 New Mexico facilities in the study, 2 received subsidies for infrastructure development and extension. The city of Hobbs extended water and sewer lines for Wackenhut's Lea County Correctional Facility, while the county built a road. County Manager Dennis Holmberg estimated the total cost at $5.5 million.[30] In Santa Rosa, the city paid for bringing water and sewer lines to the Guadalupe County Correctional Facility.[31]

NORTH CAROLINA. Town, county, state and federal governments have joined to provide infrastructure assistance for Wackenhut's Rivers Correctional Institution. Hertford County extended a water line to the prison site at a cost of $200,000, which was funded with a grant from the state's North Carolina Rural Center. The town of Winton provided wastewater treatment facilities for the prison at a cost of $1.9 million, which was funded with a $965,000 grant from the U.S. Economic Development Administration, a $703,000 Community Development Block Grant and a $200,000 grant from the North Carolina Rural Center.[32]

OHIO. The city of Youngstown provided free water and sewer hook-ups valued at $500,000 for CCA's Northeast Ohio Correctional Center and provided a waiver on building and sewer tap-in fees valued at $75,000.[33]

OKLAHOMA. Two of Oklahoma's 5 prisons in the study received infrastructure assistance. One of them, the Diamondback Correctional Facility, is a good example of how such subsidies are often provided by multiple levels of government. A total of $1 million to extend water and sewer lines came from a $600,000 federal grant and $400,00 from the city. The city also got $350,000 in state grants to pay for roadwork, which was also paid for with $75,000 from the county.[34] In the other case, the North Fork Correctional Facility, the city of Sayre spent about $350,000 to extend water lines to the prison.[35]

Training Grants and Credits

Training grants, which reduce companies' cost of taking on new employees, are a subsidy funded either by a state agency or by the U.S. Department of Labor through the Workforce Investment Act. Companies may also qualify for federal Work Opportunity Tax Credits (WOTC) if they hire workers in several targeted categories, including former recipients of public assistance, ex-felons and the disabled.

Of the 60 facilities we studied, we found at least 8 that received such grants or qualified for such tax credits:

ARIZONA. The Eloy Detention Center in Arizona, originally developed by Concept Inc., received a $192,400 grant from the state's job-training fund.[36]

CALIFORNIA. According to a city official, CCA receives WOTC tax credits for some of its employees at the California City Correctional Center.[37]

INDIANA. According to the Indiana Department of Workforce Development, CCA has received WOTC certification for eight employees at its Marion County Jail, though the department could not determine whether the workers had remained on the job long enough for CCA to actually receive the tax credits.[38]

NEVADA. According to the Nevada Department of Employment, CCA has received WOTC certification for some employees at the Southern Nevada Women's Correctional Facility, but the Department will not disclose the exact number of workers involved.[39]

Headquarters Get Subsidies, Too

In 1995 Wackenhut Corporation, the parent company of Wackenhut Corrections, relocated its headquarters from one Florida county (Dade) to another (Palm Beach). When the company made the announcement, it cited the difficulty of recruiting executives to work in Dade County, which company President Richard Wackenhut noted "has rightly or wrongly gained a negative reputation."[40] A few days later, another apparent motivation came to light: the Business Development Board of Palm Beach County announced that it had agreed to provide the company with $840,000 in grants under a jobs incentive program. The money was to be paid as reimbursement for relocation costs and infrastructure improvements at the new headquarters.[41]

NEW MEXICO. CCA's New Mexico Women's Correctional Facility received a state training grant.[42] CCA's Torrance County Detention Center and Wackenhut's Lea County Correctional Facility have received WOTC certification for some of their employees.[43]

OKLAHOMA. Wackenhut's Lawton Correctional Facility received a Workforce Investment Act training grant for one of its employees.[44]

TEXAS. According to the Texas Workforce Commission, CCA, Wackenhut and MTC have received WOTC certifications; Wackenhut and MTC have also received certifications for federal Welfare-to-Work (WtW) Tax Credits as well as dual certifications for WOTC and WtW. The Commission, however, does not have a breakdown by location. We thus could not determine whether these certifications relate to the prisons included in our study. The statewide totals are as follows: CCA: 37 WOTC certifications; Wackenhut: 17 WOTC certifications, 5 dual certifications and 2 WtW certifications; MTC: 6 WOTC certifications, 4 dual certifications and 4 WtW certifications.[45]

Given that some states refuse to divulge information on companies that have been certified for WOTC, it is likely that this is not a complete list of training tax credits received by private prison companies.

Economic Impacts: Unknown

It was beyond the scope of our study to do an independent assessment of whether the subsidies provided by governments to private prisons had the desired effect, in terms of increasing local employment, stimulating additional economic activity and expanding the tax base. We did, however, ask all of the local officials a question about whether a formal economic impact study had been done after the prison was completed. Not a single one of the dozens of officials we interviewed reported that any such study had been done, either by the government agency itself or by another party such as a university professor. This is highly significant: it shows that local officials have no comprehensive information on whether the subsidies they are providing to these companies are doing any good for the local community.

Conclusion

Much of the debate on the economics of private prisons has focused on the terms of the contracts awarded by government agencies for the housing of inmates. Our research shows that there is another taxpayer cost that deserves consideration: the amount and nature of economic development subsidies that private prison companies enjoy from several levels of government. A discussion of this policy issue can be found in Part IV.

Notes

1 . In 1992 CCA relinquished its contract for the juvenile detention center, which became known as the Mountain View Youth Development Center, after realizing it could not run a youth facility at the company's typical staffing levels. See Paula Wade, "CCA to Give Up Running Youth Prison: State Will Run Mountain View Facility," The Commercial Appeal (Memphis), December 13, 1992, p.B3.

2 . Telephone interview with Thomas Tolliver, Jr., Chancery Clerk of Wilkinson County, MS, July 26, 2001.

3 . Arizona House Bill 2608 was signed by the governor on May 29, 1998. See also Matt Kelly, "Tax Break Bills: Proposals Tailored to Special Needs," Associated Press story published in The Arizona Republic, March 8, 1998, p.A25.

4 . Letter from Wackenhut Corrections Corporation to the Glades County Commission and the Glades County Correctional Facilities Financing Corporation, dated June 24, 1994. See also Margaret Talev, "Officials Locked in Prison Tax Fight," Tampa Tribune, June 29, 1997, p.1.

5 . In the case of Glades County, the announcement by Wackenhut Corrections that it would not be paying property taxes came in a letter to the Glades County Administrator dated October 5, 1995. See also Lloyd Dunkelberger, "Private Prison Tax Issue Fuels Debate," The Ledger (Lakeland, FL), January 20, 1997, p. A1.

6 . Fax from Larry Levy of the Levy Law Firm (Tallahassee, FL), September 25, 2001.

7 . Robert P. King, "Senate Passes Land-Buying Bill to Environmentalists' Applause," The Palm Beach Post, May 1, 1999, p.1A. For more details on the controversy, see Margaret Talev, "Officials Locked in Prison Tax Fight," The Tampa Tribune, June 29, 1997, p.1.

8 . The fact that Marion County Jail II is not paying property taxes was disclosed by Melissa Bailey of the Marion County Tax Assessor's Office in a telephone interview on September 26, 2001.

9 . Kansas State Rep. Candy Ruff, quoted in Mark Wiebe, "Detention Center Meets Opposition in Push to Change Tax Classification," Kansas City Star, March 12, 1998, p.1. See also two other articles by Wiebe in the same newspaper: "Detention Center Seeks Change to Its Residential Tax Classification" (February 5, 1998, p.1) and "Detention Center Drops Appeal Over Property Taxes" (April 16, 1998, p.8).

10 . Telephone interview with Paul Hunt Thompson, County Judge Executive of Floyd County, KY, August 9, 2001.

11 . Telephone interview with Ronnie Johnson of the Marshall County (MS) Assessing Department, October 4, 2001.

12 . Telephone interview with Jimmy Donald, Lauderdale County (MS) Real Property Appraiser, September 24, 2001.

13 . Telephone interview with Leroy Wre of the Leflore County (MS) Tax Assessor's Office, October 4, 2001.

14 . Telephone interviews with Bill Early, Executive Director of the Hertford County (NC) Economic Development Commission, June 18, 2001 and September 25, 2001. See also Wade Rawlins, "Hertford Prison Plans Suit Officials, Irk Residents," News and Observer (Raleigh, NC), October 31, 1999, p.B1.

15 . Telephone interview with John Dowlin, Hamilton County (OH) Supervisor, August 7, 2001.

16 . The fact that the Hardeman County Correctional Facility is not paying property taxes was disclosed by Tracy Binan of the Hardeman County Tax Assessor's Office, September 26, 2001.

17 . Telephone interview with James Flatt, Mayor of Venus, TX, July 23, 2001.

18 . The information that the Diboll Correctional Center is exempt came from a search of Angelina County tax records on the web at <www.txcountydata.com> on September 26, 2001. The information that the Cleveland Correctional Center is exempt came from a telephone interview with Linda Norris of the Liberty County Tax Assessor's Office on October 2, 2001. According to a 1998 newspaper article, CCA gave up its contract to run the Cleveland Correctional Center because of a dispute over the size of the PILOT it was expected to pay to the Cleveland Independent School District. See Cindy Horswell, "Private Prison Firm Pulling Out After Dispute with School District," Houston Chronicle, September 3, 1998.

19 . The information that the Lockhart facilities are partially exempt came from a telephone interview with Carolyn Hendricks of the Caldwell County Tax Assessor's Office on September 26, 2001.

20 . Details of the subsidy package were obtained in a telephone interview with Jeff Chagnot, Assistant to the Mayor for Economic Development (Youngstown, OH), September 12, 2001.

21 . Brian Gardner, warden of the CCA prison in Youngstown, quoted in Paul Souhrada, "Prison's Closing is Latest Setback," Columbus Dispatch, August 5, 2001, p.1B.

22 . Telephone interview with Jeff Fairman, Executive Director of the Eloy (AZ) Economic Development Group, June 27, 2001.

23 . Telephone interview with Jack Stewart, City Manager of California City, CA, June 29, 2001.

24 . Telephone interview with John Ahern, former mayor of Moore Haven, FL, July 27, 2001.

25 . Telephone interview with Jim Pfigler, Public Works Director of McRae, GA, July 2, 2001.

26 . Telephone interview with Nina Lott, Nicholls, GA City Council Member, July 6, 2001.

27 . Telephone interview with David J. Drury Jr., City Manager of Folkston, GA, June 19, 2001.

28 . Telephone interview with Otey Sherman, Chairman of the Tallahatchie County (MS) Industrial Development Authority July 9, 2001.

29 . Telephone interview with Larry Bonderud, Mayor of Shelby, MT, July 5, 2001.

30 . Telephone interview with Dennis Holmberg, County Manager of Lea County, NM, August 1, 2001.

31 . Telephone interview with Richard Marquez, former county manager of Guadalupe County, NM, August 16, 2001.

32 . Telephone interview with Bill Early, Executive Director of the Hertford County (NC) Economic Development Commission, September 25, 2001.

33. Telephone interview with Jeff Chagnot, Assistant to the Mayor (of Youngstown, OH) for Economic Development, September 12, 2001.

34 . Telephone interview with Tony Kohl, former mayor of Watonga, OK, July 30, 2001.

35 . Telephone interview with Jack McKenna, Sayre (OK) City Manager, July 30, 2001.

36 . Telephone interview with Jeff Fairman, Executive Director of the Eloy (AZ) Economic Development Group, June 27, 2001 and "Eloy Center to Get Job-Training Grant," Arizona Republic, August 27, 1994, p.D10.

37 . Telephone interview with Kari Tapia, Economic Development Manager of California City, CA, September 21, 2001.

38 . Telephone interview with Sean Blancaneaux, WOTC Coordinator at the Indiana Department of Workforce Development, October 4, 2001.

39 . Telephone interview with Vivian Miltenberger, WOTC Coordinator for the Nevada Department of Employment, October 10, 2001.

40 . Tom Stieghorst, "Wackenhut Flees Dade Crime," Sun-Sentinel (Fort Lauderdale, FL), January 31, 1995, p.1D.

41 . Tom Stieghorst, "Wackenhut to Get $840,000 for Relocation," Sun-Sentinel (Fort Lauderdale, FL), February 4, 1995, p.6B.

42 . Telephone interview with Bob Horacek, City Manager of Grants, NM, July 26, 2001.

43 . Telephone interviews with Kathy Vialpondo, WOTC Coordinator for the Albuquerque office of the New Mexico Department of Labor, October 11, 2001 (for the Torrance County Detention Center) and with Leo Mares, of the Hobbs office of the New Mexico Department of Labor, October 11, 2001 (for the Lea County Correctional Facility).

44 . E-mail message from Raymond Friedl of the South Central Oklahoma Workforce Investment Board, October 3, 2001.

45 . E-mail message from Larry Jones, Director of Communications of the Texas Workforce Commission, October 11, 2001.

IV. Public Policy Options

Based on our findings, and upon our broader work tracking best practices in economic development programs, we present three public policy options for future consideration regarding private prisons.

We note here that this study does not address the broader ethical issues that have been raised by those who argue that incarceration for profit is morally wrong and should therefore be banned. Similarly, this study does not explore the argument made by others that public safety, like the military, is an inherently public function and should therefore never be privatized. We also acknowledge that various constituencies have other criticisms of private prisons; family-support groups of prisoners, for example, dislike private prisons because they depend on interstate movement of prisoners and thus tend to make it more difficult for inmates to stay in touch with their family. Other observers have raised the issue of political influence on issues such as drug sentencing laws, "truth in sentencing" and "three strikes" laws, expressing concern that companies that profit from the resulting increases in the prison population have a self-interest in such legislation.[1] All of these are legitimate issues; however, they are beyond the scope of this study.

Option #1: Deem Private Prisons Ineligible for Future Subsidies

Now that this report has provided evidence that private prison subsidies are quite common, the question arises as to whether this practice is good public policy. There are several reasons why policymakers may wish to consider an ineligibility rule. To do this, a state would simply amend its economic development and employment and training codes to list private prisons as an ineligible activity.

This option would have several rationales. First, taxpayer risk: because the U.S. prison population is now declining slightly, and may continue to decline especially if drug-law reforms continue to take hold, from a sheer investment-risk perspective, incarceration for profit is a risky foundation for a community's economic development strategy. Government officials should be especially careful using public resources to support a company such as CCA, which has been in precarious financial condition. They also need to watch out for situations such as the one in Mississippi, where Wackenhut reportedly pressured state officials to compensate the company for empty beds – or "ghost inmates."[2]

A second argument would be “bang for the buck.” That is, cities and states typically target economic development expenditures in ways that are intended to create enduring value for the community, especially higher worker skills, better infrastructure, and better quality of life. They also seek to attract businesses that in turn attract supplier firms to create “upstream” ripple effects, as well as companies that pay well, to generate solid “downstream” buying-power ripple effects.

Although we found in our research that this subject has not been studied very much, it appears that private prisons do not appear to fare well by these criteria. The specific training obtained to be a private prison guard does not have a lot of obvious applications in other industries. And once a prison is built, it does not require a lot of complex ongoing inputs compared, say, to an auto assembly plant. And although this study does not examine private prison wages, one reference work reports that the industry’s entry-level employees make an average of only $17,628 a year, and the annual turnover rate is more than 52 percent.[3] Additionally, many of the officials we surveyed report that their prison workforces come from large commuting areas (which would be consistent with high turnover in a small local labor market). If that is the case, any job-related “downstream” benefits resulting from the development subsidies may very well be “leaking” to communities outside the cities or counties that granted the incentives.

There are many precedents for governments’ deeming certain kinds of industries ineligible for subsidies. For example, the federal rules governing industrial revenue bonds were amended in 1986 to exclude service-sector deals because those industries were deemed to generate too few ripple effects. Likewise, many states’ incentive codes restrict various tax subsidies to those industries – such as manufacturing, distribution or high tech – that are deemed “high impact.” Some states restrict property tax abatements to a small set of industries. Others use subsidy rating systems that favor companies that are most likely to generate large spin-off effects, including pay as one measure. Similarly, an increasing number of states and cities are applying wage and other job-quality requirements to companies that receive development subsidies. As we have documented elsewhere, at least 37 states, 25 cities and 4 counties now do so. In this way, many development agencies effectively deny subsidies, to use one official’s words, to “bottom feeders.”[4]

At least one state has considered banning subsidies for private prisons. In 1998 a legislative committee in Ohio issued a report on CCA's controversial Youngstown prison that included a recommendation that tax abatements and tax increment financing be prohibited for private prisons designed to house out-of-state inmates.[5]

Option #2: Restore Citizen Participation in Financing Decisions

Another policy option would be to amend state rules concerning the issuance of lease-backed securities for privately operated facilities to require that they meet the same voter-approval standards as general obligation bonds. As we noted in Part II, the movement away from bonds that required approval in a voter referendum and towards lease-revenue bonds and COPS was in response to voters' turning down prison-bond proposals.

The argument here would be one of basic democracy. That is, if taxpayer-advantaged financing were going to be granted for tens of millions of dollars to build a major private facility in a community, some would argue that such a deal ought to pass voter scrutiny. In the debate prior to such a vote, a company seeking to win approval might be motivated to offer concessions – such as local hiring preferences, local construction contracting set-asides, or wages – that would improve the “bang for the buck.”

There are precedents for this kind of reform as well, such as stadiums for professional sports franchises, another controversial industry that has benefited from many taxpayer subsidies. Voters in Minneapolis, for example, passed a ballot initiative in 1997 that requires voter approval for any future stadium bond deals in excess of $10 million.

The question of whether voters should approve lease-revenue bonds and COPS has been explicitly addressed in several states, but unfortunately, courts have tended to uphold the status quo. The issue has been disputed most intensively in California, where three Libertarian Party activists filed suit in 1995 against a plan to use lease-revenue bonds to finance the expansion of San Diego's Jack Murphy Stadium. The opponents lost in Superior Court,[6] but the controversy over lease-backed securities flared again when San Diego decided to use this financing technique for an expansion of its convention center. The issue went up to the California Supreme Court, which in 1998 upheld the constitutionality of lease-backed securities.

Option #3: Greater Disclosure and Transparency

Another important policy reform would be to require greater disclosure of subsidies to private prisons. In doing this report we encountered many hurdles in trying to assemble information on the extent of the subsidies, ranging from the fact that Official Statements for municipal bonds are not easily available to the unwillingness of some public officials to divulge information about tax credits and other subsidies that they deemed "confidential" or "proprietary." In some cases the officials themselves did not have full information on the subsidies that had been awarded by various government agencies. In other cases they were simply confused about issues such as whether a private prison should be paying property taxes.

Under these circumstances it is extremely difficult for the average citizen to learn how public resources are being used to assist private parties.

To address these problems, we lay out a two-stage set of policy options to improve disclosure and transparency. These recommendations, which apply to all companies receiving government subsidies, are informed by our ongoing survey work of best state and local practices.

Stage 1: Application and Pre-Approval Disclosure

This would require a private prison company applying for a subsidy to provide detailed disclosure – which would be open for public inspection well before development authorities voted on the applications – that would better enable officials and taxpayers to assess the potential costs and benefits. These would include:

- a complete list of all subsidies the company is seeking for the project from all levels of government.
- whether or not the company has met all of its subsidy obligations to other communities in other projects (and if not, the outcome and status of the shortfall).
- the amount of capital to be invested.
- the percent of construction work to be granted to local and/or in-state contractors.
- the number of permanent jobs to be created.
- the share of those hired who will be recruited preferentially from local employment and training services for neediest workers.

- a detailed breakout of wages and benefits to be paid by occupational title.
- whether or not each occupational group will receive employer-paid health care, and the estimated value of the coverage.
- what kind of training each occupational group will receive (including any professionally-recognized certifications).
- the identity of existing locally-based suppliers of goods and services who would be suitable bidders to the facility.

Prior to formal debate and approval of the subsidy, disclosure of:

- all records of meetings and correspondence between prison company officials and/or their representatives and public officials during the application period.

Stage 2: Disclosure After Approval

To facilitate citizen oversight of a project's long-term outcome, the city or county development agency that led the deal could do several things, including:

- maintain a central repository of records of all subsidy applications and debates, including placing them on the World Wide Web (where a small but increasing number of jurisdictions are now placing records).
- maintain a publicly-accessible file of the agency's monitoring reports on whether or not the prison project is meeting its original obligations and/or projections.

And at the national level, citizen oversight could be enhanced by:

- placing Official Statements of industrial revenue bonds and lease-revenue bonds in the public domain and available on the World Wide Web, in the same way that other public company financial disclosure documents are available through the Securities and Exchange Commission's EDGAR system.
- greater disclosure of tax credits received by companies, with those obtained by publicly traded companies listed in their SEC filings.

Notes

1 . See, for example, Brigette Sarabi and Ed Bender, The Prison Payoff: The Role of Politics & Private Prisons in the Incarceration Boom, Western Prison Project & Western States Center, November 2000.

2 . Bryan Gruley, "Why Did Mississippi Agree to Pay for Cells for 'Ghost Inmates?'" Wall Street Journal, September 6, 2001, p.1.

3. Camille Graham Camp and George M. Camp, The Corrections Yearbook 2000: Private Correctional Facilities, Middletown, CT: Criminal Justice Institute Inc., 2000, pp.98, 100. Note that the data in this work cover only four companies: CiviGenics, Cornell, MTC and Wackenhut.

4. Good Jobs First, The Policy Shift to Good Jobs, Washington, DC, May 2000. Available on the web at < www.goodjobsfirst.org/jobquality.htm>.

5. Ohio Correctional Institution Inspection Committee, Report on the Northeast Ohio Correctional Center, undated [but press reports indicate it was published in October 1998]; available on the web at <www.ciic.state.oh.us/publications/index.html>.

6. Leslie Berkman, "San Diego Judge's Decision Paves Way for Completion of Bond-Financed Stadium," The Bond Buyer, February 21, 1997, p.6.

Appendix 1: Methodology

Assembling the Private Prison Universe

We started out by assembling a list of all the privately operated prisons, detention centers and jails throughout the United States. We were able to identify some 270 facilities in 37 states and the District of Columbia, with a total capacity of about 130,000 beds.

These facilities range in size from secure juvenile centers with a few dozen residents to the 2,400-bed Big Spring Complex in Howard County, Texas run by Cornell Companies. They include city and county jails, state prisons and pre-release facilities, federal institutions operated under contract to the U.S. Bureau of Prisons and the U.S. Marshals Service, and detention centers operated for the Immigration and Naturalization Service. We restricted the list to secure facilities. Juvenile homes not operating under the supervision of the courts, halfway houses that allow residents some freedom of movement and other facilities not employing strict confinement methods were excluded.

We produced our list, first, by examining existing compilations, especially those produced by the Florida Police Benevolent Association/Communications Workers of America/National Coalition of Public Safety Officers Prison Privatization Page <www.flpba.org/_private/facilities.htm> and the Private Adult Correctional Facility Census assembled by former University of Florida Professor Charles Thomas <www.crim.ufl.edu/pcp/>. These were useful, but they did not cover both adult and juvenile facilities operated by large as well as small companies. The list in <u>The Corrections Yearbook 2000: Private Correctional Facilities</u> (published by the Criminal Justice Institute Inc.) covers facilities run by only four companies, not including industry giant CCA.

We supplemented the lists by drawing on information from the websites of the prison companies, from the Securities and Exchange Commission filings of those firms that are publicly traded and from Dun & Bradstreet's databases for the privately held companies. Finally, we phoned the companies themselves to verify information and to fill in missing pieces.

We then assembled a database that included the name of each facility as well as the following information:

- company
- town

- state
- county
- year opened
- inmate capacity (number of beds)
- type of facility
- contracting agency
- category of contracting agency (local, county, state or federal)
- source of inmates and
- whether facility is privately owned as well as operated.

Assembling Files on Each of the Facilities

The next step was to gather background information on the facilities. We first conducted an exhaustive database search. Our primary source was Lexis-Nexis, which includes full-text archives of thousands of newspapers, wire services, magazines, newsletters, press releases and other materials. Using the Lexis-Nexis News Library, we went back and examined every item that mentioned any one of the private prison operators – large and small, active and defunct. We started back at the beginning of the modern private prison industry in the early 1980s and pursued the search through the present. In all, we scanned approximately 10,000 items, from which we selected a couple of thousand that contained useful information. This allowed us to create dossiers on each facility.

Choosing the Prisons to Study

We chose not to research the entire list of facilities for subsidies, both because of resource limitations and because we concluded that it did not make sense to search for subsidies in certain kinds of situations. Here are the criteria we used:

? Exclude prisons that began as public facilities and were converted to private management.

Economic development incentives are intended to encourage the creation of *new* jobs and business activity. Many of the correctional facilities now under private management started out as public institutions but were later contracted out to CCA, Wackenhut or one of their competitors. Privatizing an existing operation cannot, even by the loosest definition, be considered economic development, so we excluded those cases.

? Limit to private prisons with at a capacity of at least 500 beds.

We also decided it made sense to look for subsidies only in connection with new prisons that would create a substantial number of jobs. We thus chose to limit our research to larger facilities – those with 500 or more beds.

? Limit to prisons in which the private operator was involved in the creation of the facility as a developer or builder.

Our final criterion had to do with risk. Economic development incentives are meant to reward companies that risk their capital by agreeing to invest in a given area. In the case of prisons, this would mean that a company should be involved not only in staffing a facility, but it should also play a role in the creation of the new prison. We thus limited our research to projects in which the prison operator was involved in the development and/or construction of the facility (or in a few cases extensive renovation of an existing facility). This eliminated facilities that were built with the intention of being operated by government agencies, including several that were designed to house out-of-state inmates. Most of the latter group were later sold to private prison companies after the local government was unable to sustain the operation on its own, but they were still excluded from our study because the prison corporation was not involved from the start.

Description of the Group of Prisons Studied

Using these guidelines, we ended up with a group 60 facilities in 19 states, with a total capacity of about 66,000 beds. The combined capacity of these prisons represents more than half that of the entire universe of privatized correctional facilities in the United States.

The oldest of the facilities opened in the mid-1980s, while several began operation this year. The largest number (more than 40 percent) opened in 1997-1998 period. All of the facilities but one (Walnut Grove Youth Correctional Facility in Mississippi) house adult offenders.

Three of the facilities are currently empty – CCA's two spec prisons in Telfair and Stewart counties in Georgia, which have never received contracts, and the scandal-ridden facility CCA built in Youngstown, Ohio, which was shut down this year after all of its prisoners were yanked by the U.S. Bureau of

Prisons. CCA's Tallahatchie County Correctional Facility in Mississippi is nearly empty because of a shortage of inmates.

Since these facilities are still available for use by the industry, we included them in our study. On the other hand, we have not included cases, such as the two former Wackenhut prisons in Arkansas, in which a facility was operated by private contractors but then converted to public sector management. We also excluded prisons – such as Wackenhut's Charlotte County Correctional Facility in Virginia – that appear on company rosters but have not yet been built or completed. Given the state of the industry, it is not likely that these facilities will ever come on line.

Gathering Information About Subsidies from Documents

We then set out to determine how many of the 60 facilities have been the subject of economic development subsidies offered by government entities. Among the categories of incentives we considered were:

- property tax abatements or exemptions or other tax breaks;
- construction financing assistance;
- site preparation and infrastructure assistance, including roads, sewer or water hookups or reduced utility rates; and
- training grants and tax credits.

We began by collecting information about subsidies that appeared in the press or other public-record materials contained in the Lexis-Nexis database. While we were searching that database for articles describing the history of each facility, we also collected items that mentioned subsidies granted to specific prisons. This yielded numerous press releases, especially relating to subsidized financing.

We supplemented this in two ways. First, we looked for references to subsidies in the SEC filings of the publicly-traded prison companies, but this turned out to be of limited utility. Looking at every 10-K filing made by each of these companies since it first went public helped us discover only one case of industrial revenue bonds for a company in our group. The many instances of lease-revenue bonds or other forms of subsidy were not disclosed.

Then we looked for additional cases of publicly subsidized financing by consulting a database on municipal bonds. Each time a municipal bond is offered to investors, the issuing agency must distribute a prospectus known as an Official Statement (OS). The OS contains a wealth of information about the project, the government entity issuing the bonds and the company making use of the proceeds. Official Statements, unfortunately, are not as readily available as SEC filings. The regulatory body dealing with municipal bonds – the Municipal Securities Rulemaking Board (MSRB) – has arranged for the documents to be distributed through private document delivery services.

Among these services, the one with the most detailed online index is called Munistatements.com. We did extensive searching on the Munistatements website to find references to municipal bonds relating to the prisons in our group. This was trickier than it sounds, because the OS database is indexed mainly by the name of the issuing agency, not by the name of the facility or the company operating it. After we found references on Munistatements to bonds that seemed relevant, we obtained the full text of the OS from Munistatements itself or from the public reference room of the MSRB in Alexandria, Virginia. For the facilities in our group, the municipal bond prospectuses we found were all for lease-revenue bonds and certificates of participation.

Interviewing Public Officials

We recognized that many subsidies do not get reported in the press and are not covered by the SEC and MSRB documents available to the public. We therefore prepared a survey questionnaire for public officials who were involved in negotiating with prison companies in connection the 60 facilities. (The questionnaire is reproduced below.)

To identify the appropriate public officials (who in some cases were actually affiliated with a non-governmental economic development body) we first looked at our file of newspaper articles and other documents on each facility to see if such persons were mentioned in coverage of the facility. If not, we at least tried to find references to the entity that may have been involved in negotiating subsidies. If no leads were available in the press coverage, we identified appropriate officials on our own. These were typically officials affiliated with economic development agencies, city or county industrial development authorities or state commerce departments.

We then tracked down the individuals and entities in phone calls to places across the country. We sought to find the people who did the actual negotiating with the prison company, which, given the fact that some of the 60 facilities were built more than ten years ago, required us to locate individuals who were retired or had moved on to different jobs. In some cases we spoke with several individuals in connection with a single facility, in order to fill in all the pieces.

In those cases in which we were not able to conduct an interview with an economic development official or elected leader, we sought information from tax assessor's offices. We also supplemented our research on training grants and tax credits by speaking to state Work Opportunity Tax Credit coordinators and to Workforce Investment Boards (which oversee grants made under the federal Workforce Investment Act).

Compiling the Data

After completing the interviews, we combined the results of those conversations with our document research and produced the analysis contained in Part III. We did not do any extrapolation of our results from the group of facilities to the larger universe, since we gathered information on *all* the facilities we thought it was appropriate to consider as possible candidates for subsidies; i.e., large prisons where a private prison operator was involved in creating the facility. Our conclusions about the 60 private prisons are not applicable to the entire universe of privately operated correctional facilities, many of which were built as public prisons, were too small or were built without prison company involvement.

Prison Study Questionnaire

Date:
Name of Person Interviewed: Phone:
Title and Jurisdiction:
Name of Facility:
Name of private prison company:
Beds: Year opened:

1. We are conducting a national survey about private prisons. We are specifically looking at how state and local economic development programs have been used with those prisons, so we are calling you for information about the prison. Please recapitulate the prison's history as best as you can.

2. Were you a public official at the time the prison was sited and built? Yes _ No_
(If "No," would you tell us what you can and then suggest anyone else we could speak with who was involved directly at the time?)

Name and Phone:

3. Who first brought this idea for this project to your city?

4. Which economic development agency took the lead in putting the deal together?

5. We are finding that a range of development incentives have been used in many prison construction projects. Can you tell us which ones were used in your facility?

❏ industrial revenue bond? (or industrial development bond?)
❏ property tax abatement?
❏ property tax exemption?
❏ property tax reduction or phase-in?
❏ site preparation? (specifics)
❏ training grants?
❏ enterprise zone?
❏ tax increment-financing district?
❏ infrastructure assistance? (e.g., utility hook-ups, road, sewer, water)
❏ sales tax exemption on construction materials?
❏ utility tax exemption or reduction?

6. Are you aware of *state* incentives that would apply to the facility, such as investment tax credits or employment tax credits? (seek details)

7. Have we overlooked any local or state incentives that were applied to the deal?

8. We need to request a copy of the development agreement. Can you send that to me?

Yes __ No __ Details:

9. What is the current status of the prison?

10. Looking at the prison from your perspective as the economic development director, what impact, if any, has the prison's arrival had on your city's "business climate," that is, what impact, if any, has it had on your ability to attract or retain other businesses?

11. Again, from your perspective as an economic developer, what ripple effects, if any, do you see from the prison project?

12. In retrospect, if you had it to do over again, are there things you would have done differently on this prison project? Yes __ No __

If yes, what:

13. Are you aware of any studies that have been done – perhaps by a college professor or state agency – looking at the prison's role in your local economy?

14. During the period the prison was being considered, was there public debate there about the impact the prison might have on the community? Yes __ No __

If yes, who said what?

15. Are there other people or sources we should contact for more information on our questions?

Thank you for your time. If you are interested in getting a copy of our report, how may we send it to you?

Appendix 2: Company Profiles

(listed in descending order of size, based on capacity)

CORRECTIONS CORPORATION OF AMERICA	
Headquarters	Nashville, Tennessee
Website	www.correctionscorp.com
Founded	1983
Chief Executive	John D. Ferguson
2000 revenues	$310.3 million
2000 net income	-$730.8 million (loss)
Employees	15,255 full-time (as of 12/31/00)
Secure facilities	66
Total capacity	Approximately 62,000 beds (47 % of U.S. private prison total)
Publicly traded on New York Stock Exchange (stock symbol: CXW)	

History

CCA was a pioneer in the private prison industry. Not long after it was founded it made an audacious but unsuccessful effort to take over the entire prison system of Tennessee. The company went public in 1986 and within a few years embarked on an ambitious expansion plan, which included the construction of prisons on spec and the acquisition of competitors such as U.S. Corrections Corp. To raise more funds for investment, the company created a real estate investment trust (REIT), which later acquired CCA. As the company faced heavy losses due to operating problems (especially at its scandal-plagued facility in Youngstown, Ohio) and a slowdown in the growth of the inmate population, the REIT structure was abandoned, and a new publicly-traded CCA emerged, with different management but still in a weakened financial condition.

WACKENHUT CORRECTIONS CORPORATION (also known as WCC)	
Headquarters	Palm Beach Gardens, Florida
Website	www.wackenhut.com
Founded	Founded as a subsidiary of Wackenhut Corp. in 1988; went public in 1994 (though majority of company is still controlled by Wackenhut Corp.).
Chief Executive	George C. Zoley
2000 revenues	$535.6 million
2000 net income	$17.0 million
Employees	10,094 full-time (as of 12/31/00)
Secure facilities	32
Total capacity	Approximately 25,000 beds (19 % of U.S. private prison total)
Publicly traded on New York Stock Exchange (stock symbol: WHC)	
History	
Wackenhut Corp., a leading provider of security services, entered the private prison business in the late 1980s, following the lead of CCA. Before long, Wackenhut Corrections was set up as a subsidiary, and part of that operation was later spun off into a publicly-traded company. Wackenhut Corrections took a more cautious approach than CCA, avoiding spec projects. Like CCA, it set up a real estate investment trust (Correctional Properties Trust, formed in 1998) but kept it separate from the operating company. Wackenhut has had its share of operating controversies, most notably the reports of abuse at the Jena juvenile detention center in Louisiana, which resulted in the facility's being returned to public-sector control.	

CORNELL COMPANIES INC.	
Headquarters	Houston, Texas
Website	www.cornellcompanies.com
Founded	1991
Chief Executive	Steve W. Logan
2000 revenues	$226.1 million
2000 net income	$8.0 million
Employees	3,404 full-time (as of 12/31/00)
Secure facilities	49
Total capacity	Approximately 11,000 beds (8.4 % of U.S. private prison total)
Publicly traded on New York Stock Exchange (stock symbol: CRN)	

History

The company, which began as a partnership called Cornell Cox, entered the adult prison business in the early 1990s, but it has focused more on the juvenile part of the market than CCA or Wackenhut. The company, which went public in 1996, acquired several non-profit providers of juvenile detention and treatment programs, including Interventions Co. of Texas, the Abraxas Group and an Illinois non-profit called Interventions. Now known as Cornell Companies, it has the distinction of operating the largest private prison (in terms of capacity) in the country – the 2,454-bed Big Spring Complex in Texas. In August 2001 Cornell announced the completion of a sale/leaseback deal under which it transferred ownership of 11 of its facilities to a shell corporation called Municipal Corrections Finance L.P. The deal yielded approximately $173 million that Cornell used to pay off debt.

MANAGEMENT & TRAINING CORPORATION	
Headquarters	Centerville, Utah
Website	www.mtctrains.com
Founded	1980; entered prison business in 1987
Chief Executive	Scott Marquardt
2000 revenues	$253 million (Dun & Bradstreet estimate)
2000 net income	Not available
Employees	6,800 (includes activities other than prisons)
Secure facilities	13
Total capacity	Approximately 10,000 beds (7.7 % of U.S. private prison total)
Privately held	

History

MTC started out as the education and training division of Thiokol Corporation. Before entering the prison business in the late 1980s, it had a long track record as an operator of federal Job Corps training programs, and it remains active in that field. In the corrections area, most of the facilities it operates are in Texas, but it also runs both of the privately managed state prisons in Ohio. Earlier this year MTC took over management of a prison in Australia, and last May it was awarded a contract by the government of Ontario to operate the first private prison in Canada. In August 2001 the company was awarded a contract to operate the Santa Fe County (New Mexico) Adult Detention Facility, previously run by Cornell Companies.

CORRECTIONAL SERVICES CORPORATION	
Headquarters	Sarasota, Florida
Website	www.correctionalservices.com
Founded	1993 (as Esmor Correctional Services Inc.)
Chief Executive	James F. Slattery
2000 revenues	$210.8 million
2000 net income	$5.8 million
Employees	4,200 (as of 3/26/01)
Secure facilities	38
Total capacity	Approximately 8,000 (6 % of U.S. private prison total)
Publicly traded on NASDAQ (stock symbol: CSCQ)	

History

According to a New York Times article dated 7/23/95, the company's founders, James Slattery and Morris Horn, ran a welfare hotel in Brooklyn in the 1980s that was shut down by New York City officials in 1989 because of abysmal conditions. The two men, with no experience in corrections, then got involved in the new business of for-profit prisons. Their company, Esmor Correctional Services, managed to win several contracts from the federal government. A 1995 uprising by inmates at the immigrant detention center run by Esmor in Elizabeth, New Jersey brought to light allegations of substandard conditions and inhumane treatment. In the wake of that scandal, Esmor (which had gone public in 1994) changed its name to Correctional Services Corp. and stayed in the prison business. In late 1999 the company hired an investment bank to find a buyer for the business, but there were no takers.

DOMINION CORRECTIONAL SERVICES LLC	
Headquarters	Edmond, Oklahoma
Website	www.domgp.com
Founded	1998
Chief Executive	Larry Fields
2000 revenues	$20.4 million (Dun & Bradstreet estimate)
2000 net income	Not available
Employees	425 (Dun & Bradstreet estimate)
Secure facilities	2
Total capacity	Approximately 2,300 beds (1.8 % of U.S. private prison total)
Privately held	

History

Dominion Correctional Services is an affiliate of Dominion Venture Group, which got into the prison business in 1990 when it served as the developer of the Great Plains Correctional Facility for the Hinton (Oklahoma) Economic Development Authority, a government-sponsored for-profit prison that is now operated by Cornell Companies. Dominion went on to develop five other spec private prisons. In 2000, Dominion took over management of two of these facilities – Crowley County Correctional Center in Colorado and Central Oklahoma Correctional Facility – from Correctional Services Corp. Of the three others, Delta Correctional Facility in Mississippi and Prairie Correctional Facility in Minnesota are run by CCA, while Stanley Correctional Facility in Wisconsin is being purchased by the state. Apart from prisons, Dominion Venture Group is a general construction contractor in Oklahoma, and it manages federal office buildings and other facilities in five states.

MARANATHA CORRECTIONS, LLC	
Headquarters	Bakersfield, California
Website	www.maranathacorrections.com
Founded	1995
Chief Executive	Terry Moreland
2000 revenues	$540,000 (Dun & Bradstreet estimate)
2000 net income	Not available
Employees	Not available
Secure facilities	1
Total capacity	500 beds (less than 1% of U.S. private prison total)
Privately held	
History	
Maranatha Corrections was established in 1995 in connection with a successful bid to finance, build and operate the Victor Valley Medium Community Correctional Facility in Adelanto, California. The 550-bed facility was completed in 1998 and is managed by Maranatha under a contract with the California Department of Corrections. The company grew out of the other business activities of Terry Moreland, who, according to Maranatha's website, is a long-time real estate developer in California's Central Valley. The company, which the Los Angeles Times (3/3/2000) has described as a "faith-based corporation," recently proposed to build and operate a prison and treatment center in Wyoming.	

TUSCOLAMETA INC.	
Headquarters	Walnut Grove, Mississippi
Website	None
Founded	1998
Chief Executive	Lamar Thaggard
2000 revenues	$7.2 million (Dun & Bradstreet estimate)
2000 net income	Not available
Employees	167 (Dun & Bradstreet estimate)
Secure facilities	1
Total capacity	500 beds (less than 1% of U.S. private prison total)
Privately held	

History

Little is known about this company, which was set up by local interests in Leake County, Mississippi to serve as the operator of a new 500-cell juvenile detention center for the Mississippi Department of Corrections. According to the prospectus issued for the facility's bond offering, the company's main officers "have been involved in the ownership and management of numerous elderly care residential facilities."

Appendix 3: Facilities List

ARIZONA

Arizona DWI/RTC State Prison

Location: Florence, AZ
Year opened: 1998
Owner: Correctional Services Corp. (CSC)
Operator: CSC
Capacity: 600
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Tax break

CSC was awarded the contract to design, build and operate the facility for housing inmates convicted of driving under the influence and return to custody offenders who are awaiting due process hearings for allegedly violating conditions of release.

Central Arizona Detention Center

Location: Florence, AZ
Year opened: 1994
Owner: Corrections Corporation of America (CCA)
Operator: CCA
Capacity: 2,400
Security level: Adult medium
Source of inmates: Federal (USMS) and out-of state contracts
Subsidies received: Tax break

The original contract for the 500-bed facility was expanded several times over the years to reach its current capacity of 2,400.

Eloy Detention Center

Location: Florence, AZ
Year opened: 1994
Owner: CCA
Operator: CCA
Capacity: 1,000
Security level: Adult medium
Source of inmates: Federal contracts (BOP and INS)
Subsidies received: Tax break; site help; training

In 1993, the Bureau of Prisons (BOP), in conjunction with the Immigration and Naturalization Service (INS), awarded a contract to United Correctional Corp. and Concept Inc. to build and operate the Eloy Detention Center – a 1000-bed, medium-security prison for sentenced immigrants. Border rights groups in Tucson who said that immigrant detainees facing civil proceedings should not be housed with convicted criminals opposed the facility, originally planned for Tucson, AZ.

Florence Correctional Center

Location: Florence, AZ
Year opened: 1999
Owner: CCA
Operator: CCA
Capacity: 1,600
Security level: Adult medium
Source of inmates: Federal (USMS and INS), state and out-of-state contracts
Subsidies received: Tax break

Prison Realty Trust, the former CCA REIT, announced plans to build and operate the facility after the expanded Central Arizona Detention Center reached its limits.

CALIFORNIA

California City Correctional Center

Location: California City, CA
Year opened: 1999
Owner: CCA
Operator: CCA
Capacity: 2,304
Security level: Adult medium
Source of inmates: State and federal contracts (BOP and INS)
Subsidies received: Site help; tax credits under WOTC
Originally developed as a spec prison, this was the first private facility in California. An Aug 2, 1997 Los Angeles Times article quoted Senator Richard Polanco (D-Los Angeles) - "Build it and they will come." The California Correctional Peace Officers Association, a labor union, opposed the private facility.

Central Valley Modified Community Correctional Facility

Location: McFarland, CA
Year opened: 1997
Owner: Correctional Properties Trust (Wackenhut REIT)
Operator: Wackenhut Corrections
Capacity: 550
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: None known
One of two facilities awarded to Wackenhut by the California Community Correctional Centers Administration to house medium custody inmates or parole violators for the California Department of Corrections.

Desert View Medium Community Correctional Facility

Location: Adelanto, CA
Year opened: 1997
Owner: Correctional Properties Trust (Wackenhut REIT)
Operator: Wackenhut Corrections
Capacity: 568
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: None known
One of two facilities awarded to Wackenhut by the California Community Correctional Centers Administration to house parole violators for the California Department of Corrections.

Golden State Modified Community Correctional Facility

Location: McFarland, CA
Year opened: 1997
Owner: Correctional Properties Trust (Wackenhut REIT)
Operator: Wackenhut Corrections
Capacity: 550
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: None known
Wackenhut was selected by the California Department of Corrections to design, construct, finance and manage this 550-bed state return-to-custody correctional facility.

San Diego Correctional Facility

Location: San Diego, CA
Year opened: 2000
Owner: CCA
Operator: CCA
Capacity: 1,000
Security level: Adult medium
Source of inmates: Federal contracts (INS)
Subsidies received: None known

Originally built as a spec prison, CCA announced in December 1997 that it would build and finance the facility. In January 2000, Prison Realty Trust Inc., the company's former real estate investment trust, announced that it had signed a contract with the INS to house 800 detainees at this facility.

Victor Valley Modified Community Correctional Facility

Location: Adelanto, CA
Year opened: 1998
Owner: Maranatha Corrections LLC
Operator: Maranatha Corrections LLC
Capacity: 550
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: None known

The facility houses drug offenders and parole violators under a contract with the California Dept. of Corrections. Adelanto became known as the detention center capital of the High Desert.

COLORADO

Crowley County Correctional Facility

Location: Olney Springs, CO
Year opened: 1998
Owner: Dominion Correctional Services
Operator: Dominion Correctional Services
Capacity: 1,200
Security level: Adult medium
Source of inmates: State and out-of-state contracts
Subsidies received: None known

The facility was built and financed by Dominion Venture Group (Dominion Correctional Services is an affiliate of Dominion Venture Group) and originally managed by Correctional Services Corp. under a management contract with Dominion. In November, 2000 Dominion took over management from CSC.

Kit Carson Correctional Center

Location: Burlington, CO
Year opened: 1998
Owner: CCA
Operator: CCA
Capacity: 768
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: None known

Inmates at the facility initially comprised Colorado prisoners who had been held in out-of-state prisons. CCA announced in July 2001 that it had contracted for 2,200 beds with the Colorado Dept. of Corrections in three Colorado facilities, including the Kit Carson Correctional Center.

FLORIDA

Bay Correctional Facility

Location: Panama City, FL
Year opened: 1995
Owner: Bay County Private Correctional Facility Privatization Commission
Operator: CCA
Capacity: 750
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: COPS - $30.23 million; does not pay property taxes

The facility is located on a 100-acre site in the Bay Industrial Park in Panama City. It houses state inmates who are completing sentences of three years or less.

Gadsden Correctional Institution

Location: Gretna, FL
Year opened: 1995
Owner: Glades County Correctional Facilities Financing Corporation
Operator: CCA
Capacity: 900
Security level: Adult minimum and medium
Source of inmates: State contracts
Subsidies received: COPS - $17.87 million; does not pay property taxes

This 900-bed women's facility was authorized in 1989 as the state's first private prison and required that the private contractor provide a savings of at least 10 percent compared to costs at state prisons. U.S. Corrections Corp. (bought by CCA in 1998) was the builder and original operator.

Moore Haven Correctional Facility

Location: Moore Haven, FL
Year opened: 1995
Owner: Glades County Correctional Facilities Financing Corporation
Operator: Wackenhut Corrections
Capacity: 750
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: COPS - $23.26 million; does not pay property taxes; site help

Wackenhut was responsible for the design, construction and management of the facility. There was controversy over whether the company should pay property taxes for the facility (see chapter 3 for details).

South Bay Correctional Facility

Location: South Bay, FL
Year opened: 1997
Owner: South Bay Correctional Facilities Financing Corporation
Operator: Wackenhut Corrections
Capacity: 1,318
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: COPS - $41.16 million; does not pay property taxes

Press reports said the town was desperate for jobs after South Bay Growers, the largest employer, shut down in 1994. The city manager declined to participate in our survey.

GEORGIA

Coffee Correctional Facility

Location: Nicholls, GA
Year opened: 1998
Owner: CCA
Operator: CCA
Capacity: 1,524
Security level: Adult minimum and medium
Source of inmates: State contracts
Subsidies received: Site help

A contract for the 500-bed facility was awarded to CCA in 1997 after US Corrections Corp., the original winner of the contract, announced that it had miscalculated its savings projections for the facility. In September 2000 CCA announced that it had been awarded contracts for an additional 1,000 beds at its Wheeler and Coffee facilities.

D. Ray James Prison

Location: Folkston, GA
Year opened: 1998
Owner: Cornell Companies
Operator: Cornell Companies
Capacity: 1,650
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Site help

Cornell was awarded the contract to build, finance and operate the 500-bed facility by the Georgia Department of Administrative Services. The company expanded the facility's capacity to 1,600 beds the same year in anticipation of future demand.

McRae Correctional Facility

Location: McRae, GA
Year opened: Completed in 2000
Owner: CCA
Operator: CCA
Capacity: 1,500
Security level: Adult medium
Source of inmates: None
Subsidies received: Site help

Built on speculation, the facility has been standing empty since it was completed in 2000. A July 2, 2001 Associated Press article said that the facility was one of three finalists for a federal contract to house so-called criminal aliens.

Wheeler Correctional Facility

Location: Alamo, GA
Year opened: 1998
Owner: CCA
Operator: CCA
Capacity: 1,524
Security level: Adult medium
Source of inmates: State contracts

Subsidies received: None known
One of two contracts awarded to CCA in Georgia after US Corrections Corp. withdrew its bid because it had miscalculated projected savings for developing and operating the facility. In September 2000 CCA was awarded contracts for an additional 1,000 beds for its Wheeler and Coffee facilities.

IDAHO

Idaho Correctional Center

Location: Boise, ID
Year opened: 2000
Owner: CCA
Operator: CCA
Capacity: 1,250
Security level: Adult minimum and medium
Source of inmates: State contracts
Subsidies received: Revenue bonds - $58.98 million
CCA announced in December 1997 that it had signed a contract with the state to build Idaho's first private prison. The $100 million contract was said to be the largest state contract ever. Some state legislators questioned the deal when it was first announced.

INDIANA

Marion County Jail II

Location: Indianapolis, IN
Year opened: 1997
Owner: Indianapolis-Marion County Building Authority
Operator: CCA
Capacity: 670
Security level: Multi-level
Source of inmates: County and federal contracts (USMS)
Subsidies received: Revenue bonds - $10.49 million; does not pay property taxes; WOTC
This for-profit facility was the first privately operated jail for adults in the state. According to press reports, CCA paid $4 million of the $19 million price tag for the renovation of the existing building. County taxpayers paid about $13 million, while the remaining was paid for by federal tax dollars.

KENTUCKY

Lee Adjustment Center

Location: Beattyville, KY
Year opened: 1990
Owner: CCA
Operator: CCA
Capacity: 756
Security level: Adult minimum to medium
Source of inmates: State contracts
Subsidies received: None known
The original contract was awarded to US Corrections Corp. in 1990 for a 400-bed minimum-security prison. CCA took over when it acquired US Corrections Corp. in 1998.

Marion Adjustment Center

Location:	St. Mary, KY
Year opened:	1986
Owner:	CCA
Operator:	CCA
Capacity:	856
Security level:	Adult minimum
Source of inmates:	State contract
Subsidies received:	None known

One of the first private prisons in the nation, the facility was an abandoned Catholic college and converted into a prison by US Corrections Corp. In 1991, guards at the facility voted against joining a union. According to press reports, in spite of the vote, the case was considered a victory for organized labor because it clearly established the rights of private prison employees to unionize.

Otter Creek Correctional Facility

Location:	Wheelwright, KY
Year opened:	1993
Owner:	CCA
Operator:	CCA
Capacity:	640
Security level:	Adult minimum to medium
Source of inmates:	State and out of-state-contracts
Subsidies received:	Tax abatement

The facility housed minimum-security Kentucky inmates until 2000. It was converted into a medium security facility in 2000 and has housed prisoners from Indiana since then.

MISSISSIPPI

Delta Correctional Facility

Location:	Greenwood, MS
Year opened:	1996
Owner:	Delta Correctional Facility Authority
Operator:	CCA
Capacity:	1,000
Security level:	Adult medium
Source of inmates:	Built on spec
Subsidies received:	Mortgage revenue bonds - $24.03 million; does not pay property taxes

Built on spec, the facility was constructed by Dominion Leasing (an affiliate of the Dominion Venture Group) and operated by Corrections Partners Inc. initially. CCA took over management when it acquired Corrections Partners in 1995.

East Mississippi Correctional Facility

Location:	Meridian, MS
Year opened:	1999
Owner:	East Mississippi Correctional Facility Authority
Operator:	Wackenhut Corrections
Capacity:	1,000
Security level:	Adult medium to maximum
Source of inmates:	State contracts
Subsidies received:	COPS - $34.52 million; PILOT or payment in lieu of taxes

Wackenhut announced in 1997 that it had been selected to construct and manage the 500-bed mental health correctional facility, capable of housing up to 1,000 inmates.

Marshall County Correctional Facility

Location: Holly Springs, MS
Year opened: 1996
Owner: Marshall County Correctional Facilities Financing Corporation
Operator: Wackenhut Corrections
Capacity: 1,000
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: COPS - $24.21 million; PILOT or payment in lieu of taxes

Wackenhut was selected by the Mississippi State Prison Emergency Construction and Management Board to construct and operate the facility. According to Del Stover, member of the Marshall County Industrial Development Authority, local officials in Holly Springs did not want a prison built on a street named Martin Luther King Blvd., so they changed the name of the street.

Tallahatchie County Correctional Facility

Location: Tallahatchie, MS
Year opened: 2000
Owner: CCA
Operator: CCA
Capacity: 1,100
Security level: Adult medium
Source of inmates: State, out-of-state and federal contracts
Subsidies received: Site help

The Tallahatchie facility was the first in the state built to house a mix of state, out-of-state and federal prisoners. After the state of Wisconsin transferred 322 inmates to a Minnesota prison in February 2001, CCA laid off most of the employees. The prison currently has 100 local inmates in a deal with the county.

Walnut Grove Youth Correctional Facility

Location: Walnut Grove, MS
Year opened: 2001
Owner: Tuscolameta, Inc.
Operator: Tuscolameta, Inc.
Capacity: 500
Security level: Juvenile (youths 19 years or younger classified as adults)
Source of inmates: State contracts
Subsidies received: COPS - $41.42 million

Founded and financed by a local investor, the Walnut Grove facility is the only youth facility in our set of private prisons. Tuscolameta Inc. does not own or operate any other prisons.

Wilkinson County Correctional Facility

Location: Woodville, MS
Year opened: 1998
Owner: Wilkinson County Industrial Development Authority
Operator: CCA
Capacity: 1,000
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: COPS - $31.43 million

The facility was built after Wilkinson county got permission from the state legislature to build a private prison. The county and the state jointly own the facility.

MONTANA

Crossroads Correctional Facility

Location: Shelby, MT
Year opened: 1999
Owner: CCA
Operator: CCA
Capacity: 512
Security level: Multi-level
Source of inmates: State contracts
Subsidies received: Site help
The facility was the first private prison in the state. After the state Dept. of Corrections was sued for the secretive process it used to select the contractor for the facility, the state Supreme Court ordered the Department to conduct the process publicly.

NORTH CAROLINA

Rivers Correctional Institution

Location: Winton, NC
Year opened: 2001
Owner: Wackenhut Corrections
Operator: Wackenhut Corrections
Capacity: 1,200
Security level: Adult minimum
Source of inmates: Federal contracts (BOP)
Subsidies received: Tax break; site help
The facility is the only privately run federal prison in the state. The state Dept. of Commerce contacted Hertford County officials about possible sites for a prison in the area after the federal government put out an RFP (request for proposal) for a private prison within 300 miles of the District of Columbia.

NEW MEXICO

Guadalupe County Correctional Facility

Location: Santa Rosa, NM
Year opened: 1999
Owner: Correctional Properties Trust (Wackenhut REIT)
Operator: Wackenhut Corrections
Capacity: 600
Security level: Multi-level
Source of inmates: State contracts
Subsidies received: Site help
In September, 1998 Wackenhut announced that it would finance the construction of the Guadalupe County Correctional Facility and the Lea County Correctional Facility after plans to issue revenue bonds for the facilities by the two counties became controversial.

Lea County Correctional Facility

Location: Hobbs, NM
Year opened: Partially opened in 1998
Owner: Correctional Properties Trust (Wackenhut REIT)
Operator: Wackenhut Corrections
Capacity: 1,200
Security level: Multi-level
Source of inmates: State contracts
Subsidies received: Site help; WOTC

Originally planned for 2,400 beds, the Lea County facility would have been the largest private prison in the country. Wackenhut announced in September 1998 that it would finance the construction of the Lea County and the Guadalupe County facilities in New Mexico after controversy over proposed public financing.

New Mexico Women's Correctional Facility

Location: Grants, NM
Year opened: 1989
Owner: CCA
Operator: CCA
Capacity: 600
Security level: Multi-level
Source of inmates: State contracts
Subsidies received: IRB – $12.0 million; WOTC

The facility was the first private prison for the state and the first privately built and operated women's facility in the country. An out-of-court settlement between CCA and the state in 1998 resulted in the company lowering its per diem by almost 50 percent.

Torrance County Detention Center

Location: Estancia, NM
Year opened: 1990
Owner: CCA
Operator: CCA
Capacity: 970
Security level: Multi-level
Source of inmates: County, state, out-of-state and federal contracts
Subsidies received: WOTC

Built on spec in New Mexico's unzoned desert land, CCA did not require county approval for the facility. The Albuquerque Journal reported in February 2001 that the Estancia Board of Trustees voted unanimously to try to get minimum-security US Bureau of Prison inmates housed at the facility.

Southern Nevada Women's Correctional Facility

Location: Las Vegas, NV
Year opened: 1997
Owner: State of Nevada
Operator: CCA
Capacity: 500
Security level: Multi-level
Source of inmates: State contracts
Subsidies received: WOTC

In September, 2001 the Nevada Board of Examiners approved the purchase of this women's facility from CCA through a $24.2 million bond sale. The prison was built by CCA. The state has a 20-year contract with CCA to operate the facility.

OHIO

Northeast Ohio Correctional Facility

Location: Youngstown, OH
Year opened: 1997
Owner: CCA
Operator: CCA
Capacity: 2,016
Security level: Adult medium
Source of inmates: State and federal contracts
Subsidies received: Tax breaks; site help
A watershed in the history of private prisons both because of its operating scandals and the magnitude of subsidies received, the Youngstown facility stands empty since CCA put the prison on inactive status in August 2001.

Queensgate Correctional Facility

Location: Cincinnati, OH
Year opened: 1992
Owner: CCA
Operator: CCA
Capacity: 822
Security level: Adult minimum and medium
Source of inmates: County contracts
Subsidies received: Property tax reimbursement
In 1990 U.S. Corrections Corp. renovated an old warehouse and converted it into a prison. CCA is the current owner and operator.

OKLAHOMA

Cimarron Correctional Facility

Location: Cushing, OK
Year opened: 1997
Owner: CCA
Operator: CCA
Capacity: 960
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Revenue bonds - $36.07 million
The facility's original owner, the Cushing Municipal Authority, sold the facility to Prison Realty Trust, CCA's former REIT, in 1997. The company paid approximately $38.3 million for the prison, of which about $1.5 million was in cash. The remaining was used for paying off the prison's bond debt.

Davis Correctional Facility

Location: Holdenville, OK
Year opened: 1996
Owner: CCA
Operator: CCA
Capacity: 960
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Revenue bonds - $32.5 million
Following the precedent of the Cimarron facility, the Holdenville Industrial Authority sold the Davis Correctional Facility to Prison Realty Trust, CCA's former REIT, in 1997 for approximately $36.1 million.

Diamondback Correctional Facility

Location: Watonga, OK
Year opened: 1998
Owner: CCA
Operator: CCA
Capacity: 2,160
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Site help

One of five Oklahoma facilities in our set built during the state's private prison boom, the facility currently houses about 700 inmates. The prison has used city, county, state and federal money for infrastructure development.

Lawton Correctional Facility

Location: Lawton, OK
Year opened: 1998
Owner: Correctional Properties Trust (Wackenhut REIT)
Operator: Wackenhut Corrections
Capacity: 1,800
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: WIA training grant

The facility marked Wackenhut's entry into the Oklahoma private prison market, which had been dominated by CCA. The Lawton Chamber of Commerce chose Wackenhut. State officials hoped that the resulting competition would lower the per diem paid to private prison companies. The facility was the largest private prison in the state at the time.

North Fork Correctional Facility

Location: Sayre, OK
Year opened: 1998
Owner: CCA
Operator: CCA
Capacity: 1,440
Security level: Adult medium
Source of inmates: Out-of-state contracts
Subsidies received: Site help

The company negotiated a contract with the state of Wisconsin to house Wisconsin inmates at the facility after the state Board of Corrections terminated a contract with CCA following a dispute over per diems.

PENNSYLVANIA

George W. Hill Correctional Facility

Location: Thornton, PA
Year opened: 1996
Owner: Delaware County
Operator: Wackenhut Corrections
Capacity: 1,562
Security level: Multi-level
Source of inmates: County contracts
Subsidies received: None known

The facility became the first privately operated prison in the county following a Pennsylvania Supreme Court ruling allowing Delaware county to privatize operation of the facility. Wackenhut announced in July 2001 that it would stop operating the facility because it was losing money. In September the company rescinded its notice after negotiating new contract terms that are subject to the approval of the Delaware County Board of Prison Inspectors.

TENNESSEE

Hardeman County Correctional Facility

Location: Whiteville, TN
Year opened: 1997
Owner: Hardeman County Correctional Financing Corporation
Operator: CCA
Capacity: 2,016
Security level: Adult medium
Source of inmates: State and out-of-state contracts
Subsidies received: Revenue bonds - $57.0 million; does not pay property taxes

The facility represented an unusual arrangement in that a local government was issuing bonds for a private prison that would be leased by the state. Press reports suggested that the plan was meant to meet the state's need for more prison beds while circumventing a state law limiting the number of private state prisons. This was the first facility in the state that co-housed state and out-of-state inmates.

Metro-Davidson County Detention Facility

Location: Nashville, TN
Year opened: 1992
Owner: Metropolitan Government of Nashville and Davidson County
Operator: CCA
Capacity: 1,092
Security level: Multi-level
Source of inmates: County contracts
Subsidies received: Revenue bonds - $24.46 million

CCA announced in 1990 that it had reached an agreement with the Metropolitan Government of Nashville and Davidson County to build and operate the 640-bed (later expanded) medium security prison.

West Tennessee Detention Facility

Location: Mason, TN
Year opened: 1990
Owner: CCA
Operator: CCA
Capacity: 600
Security level: Multi-level
Source of inmates: State, out-of-state and federal contracts
Subsidies received: None known

The facility was the first privately owned facility in the state built primarily for US Marshals Service prisoners. Over the years it has included prisoners from other jurisdictions. Press reports alleged that CCA was housing maximum-security prisoners at this medium security prison – the company denied the allegations.

Whiteville Correctional Facility

Location: Whiteville, TN
Year opened: 1998
Owner: CCA
Operator: CCA
Capacity: 1,536
Security level: Adult medium
Source of inmates: Out-of-state contracts
Subsidies received: None known

CCA announced in March 1998 that it had signed a contract with the state of Wisconsin to house 1,200 medium security inmates at the Whiteville Correctional Facility. The Memphis Commercial Appeal reported in a May 14, 2000 article that the Whiteville Correctional Facility housed a large number of Wisconsin murderers serving life sentences.

TEXAS

Big Spring Complex

Location: Big Spring, TX
Year opened: 1989
Owner: City of Big Spring
Operator: Cornell Companies
Capacity: 2,454
Security level: Multi-level
Source of inmates: Federal contracts
Subsidies received: None known

Cornell took over operations of the Big Spring Complex in 1996 with its acquisition of Mid-Tex Detention, Inc. The facility has been expanded twice since then from its initial capacity of 1,305.

Cleveland Correctional Center

Location: Cleveland, TX
Year opened: 1989
Owner: Texas Correctional Facilities Financing Corporation
Operator: Wackenhut Corrections
Capacity: 520
Security level: Adult minimum
Source of inmates: State contracts
Subsidies received: Revenue bonds – approximately $13.21 million; does not pay property taxes

Operation of the Cleveland Correctional Center was taken over by Wackenhut in 1999 after CCA declined to renew its contract with the Texas Dept. of Criminal Justice.

Diboll Correctional Center

Location: Diboll, TX
Year opened: 1995
Owner: East Texas Criminal Justice Facilities Financing Corporation
Operator: Management and Training Corporation
Capacity: 518
Security level: Adult minimum
Source of inmates: State contracts
Subsidies received: Revenue bonds - $15.22 million; does not pay property taxes

U.S. Corrections Corp. built the facility in 1995. Management and Training Corp. took over operations in 1998 after CCA acquired U.S. Corrections.

Eden Detention Center

Location: Eden, TX
Year opened: 1989
Owner: CCA
Operator: CCA
Capacity: 1,225
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Tax abatement

Originally built, owned and operated by independent operator Roy Burnes and his company, the facility is one of the earliest in our set. CCA took over management in 1995 while an economic development authority for the city became the owner. In 1999 Prison Realty Trust, CCA's former REIT, bought the facility from the city for $28 million.

Lockhart Secure Program Facilities (Men's)

Location: Lockhart, TX
Year opened: 1993
Owner: Lockhart Correctional Facilities Financing Corporation
Operator: Wackenhut Corrections
Capacity: 500
Security level: Adult minimum
Source of inmates: State contracts
Subsidies received: Revenue bonds - $16.14 million; does not pay property taxes

Wackenhut announced that it had been awarded a contract to design, finance, construct and operate the facility, which would have a prison industries program. Press reports said that the program would employ inmates at prevailing wage rates.

Lockhart Secure Program Facilities (Women's)

Location: Lockhart, TX
Year opened: 1994
Owner: Lockhart Correctional Facilities Financing Corporation
Operator: Wackenhut Corrections
Capacity: 500
Security level: Adult minimum
Source of inmates: State contracts
Subsidies received: Revenue bonds - $13.01 million; does not pay property taxes

The Lockhart women's facility is a pre-release center for female inmates from the Texas penal system who are serving the final months of their sentences.

Mineral Wells Pre-Parole Transfer Facility

Location: Mineral Wells, TX
Year opened: 1995
Owner: CCA
Operator: CCA
Capacity: 2,103
Security level: Adult minimum
Source of inmates: State contracts
Subsidies received: None known

Concept Inc. converted the facility, a former army base, into a prison in 1995. CCA took over the facility with its acquisition of Concept and expanded the facility by 681 beds in 1998.

Sanders Estes Unit

Location: Venus, TX
Year opened: 1989
Owner: Texas Correctional Facilities Financing Corporation
Operator: CCA
Capacity: 1,000
Security level: Adult minimum and medium
Source of inmates: State contracts
Subsidies received: Revenue bonds – approximately $23.22 million; tax abatements

In January, 1988 CCA announced it had reached an agreement with the Texas Dept. of Corrections for a contract to build and manage two 500-bed pre-release facilities, including one in Venus. In September 1993 CCA announced that it had won a contract to double the size of the Venus facility. The cost of the expansion was financed with tax-exempt bonds.

Val Verde County Jail and Correctional Facility

Location: Del Rio, TX
Year opened: 2000
Owner: Val Verde County
Operator: Wackenhut Corrections
Capacity: 784
Security level: Multi-level
Source of inmates: County and federal contracts
Subsidies received: None known

Wackenhut announced in December 1998 that it had been awarded a contract to manage the existing county jail and construct, finance and operate the Val Verde Correctional Facility. The two prisons house 720 federal prisoners and 60 county inmates.

VIRGINIA

Lawrenceville Correctional Center

Location: Lawrenceville, VA
Year opened: 1998
Owner: Industrial Development Authority of Brunswick County
Operator: CCA
Capacity: 1,500
Security level: Adult medium
Source of inmates: State contracts
Subsidies received: Revenue bonds - $58.09 million

The facility is the first private prison in the state. CCA announced in 1996 that it had reached an agreement with the state of design, build and manage the facility. The contract was initially awarded to Corrections Partners Inc. in 1995. CCA acquired Corrections Partners the same year.