

# *Privatizing Iowa's Prisons*

January 2003

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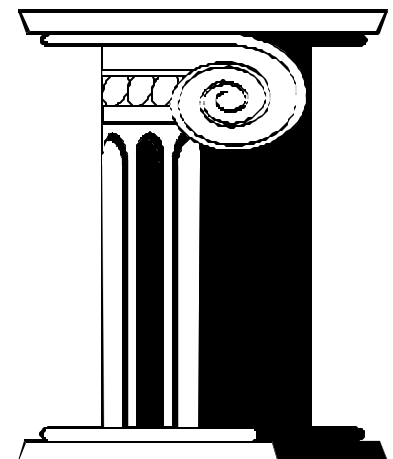
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**PUBLIC INTEREST**



**I N S T I T U T E**

# *Privatizing Iowa's Prisons*

## **POLICY STUDY**

January 2003

No. 03-1

**Public Interest Institute**

### **President**

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## **Contents**

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<b>Iowa's Budget Troubles and Privatization</b>	<b>3</b>
<b>Iowa's Prisons</b>	<b>3</b>
<b>Peer State Comparisons</b>	<b>5</b>
<b>Nationwide Comparisons</b>	<b>7</b>
<b>Potential for Prison Privatization In Iowa</b>	<b>7</b>
<b>Conclusion</b>	<b>8</b>
<b>Endnotes</b>	<b>9</b>

## **Iowa's Budget Troubles and Privatization**

Over the last couple of years Iowa budget makers have faced some of the toughest challenges of their careers. These challenges have led Iowa's Legislature and Governor to make some politically unpopular, albeit rather shallow, cuts. While these cuts were decried by some, including the Governor and a good portion of the Legislature, they only represented a small fraction of the total increase the budget has seen over the last several years.<sup>1</sup> And Iowa's budget problems are far from over. In the coming Fiscal Year 2004, the state faces a budget shortfall of \$400 million.

However, as recent experience has shown, even under strong political pressures, the government simply has not been able to "trim" the budget sufficiently to make any serious or substantial changes in Iowa's spending habits. What is needed is a fundamental change in a part of Iowa government. One fundamental change that has the potential to save the state millions of dollars is privatizing a portion of Iowa's prison system.

Privatization holds tremendous promise for improving government services and reducing costs. The Reason Public Policy Institute (RPPI) has taken the lead in research on the topic of privatization. From its *Annual Report on Privatization* to its monthly *Privatization Watch*,

RPPI has examined the privatization of everything from welfare services to golf courses.<sup>2</sup> For example, a study RPPI conducted found that privatized airports had much higher rates of passenger responsiveness than government-owned ones.<sup>3</sup>

RPPI has also conducted considerable research into private prisons. It reveals that privatizing prisons is a growing trend. From 1992-2000, the capacity of private prisons has risen more than seven fold.<sup>4</sup> The research has also found significant cost savings. For example, of the five private prisons in Florida, four met the state-mandated savings of seven percent (the fifth also saved money, just not the mandated seven percent.)<sup>5</sup> In the RPPI study titled *Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services* authors Geoffrey F. Segal and Adrian T. Moore found that the private prisons in Texas achieved cost savings ranging from 4.4 to 22.9%, while the ones in Arizona achieved savings of 10.8 to 17%.<sup>6</sup>

### **Iowa's Prisons**

In 2001 Iowa's prisons housed 8,100 inmates in nine different facilities; this is just .28% of Iowa's total population.<sup>7</sup> Yet for Fiscal Year (FY) 2001 the state budgeted \$251,000,000 to house these 8,100 inmates and run the various programs needed once

# *Privatizing Iowa's Prisons*

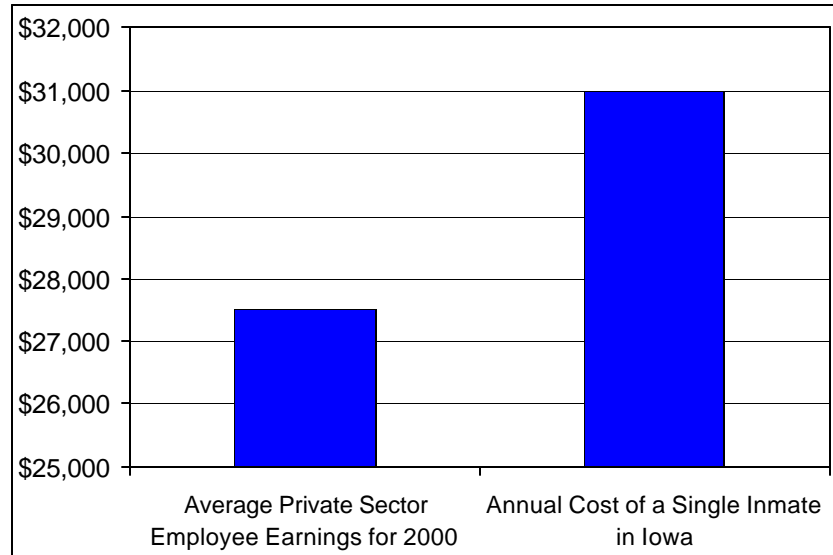
*"Instead of relying on budget cuts to control spending, Iowa's government simply found new sources of money."*

# Privatizing Iowa's Prisons

inmates are released.<sup>8</sup> This translates into nearly \$31,000 per inmate per year, or nearly \$85 per inmate per day. The cost per inmate per day is also known as the per diem rate, and is commonly used to gauge how much a state will have to pay for each prisoner it houses any given

includes a small planned expansion in 2005. Iowa's inmate population is expected to rise from the current level of around 8,100 to just over 12,300 by 2011, yet the expected prison capacity in Iowa will only be 7,142.<sup>11</sup>

Figure 1



Source: "Employment and Wages Annual Averages, 2000" Bulletin 2546, U.S. Dept. of Labor Bureau of Labor Statistics; Table 1.

*"Right now in Iowa it costs the taxpayers more money to house a single prisoner than the average private sector employee earns in an entire year."*

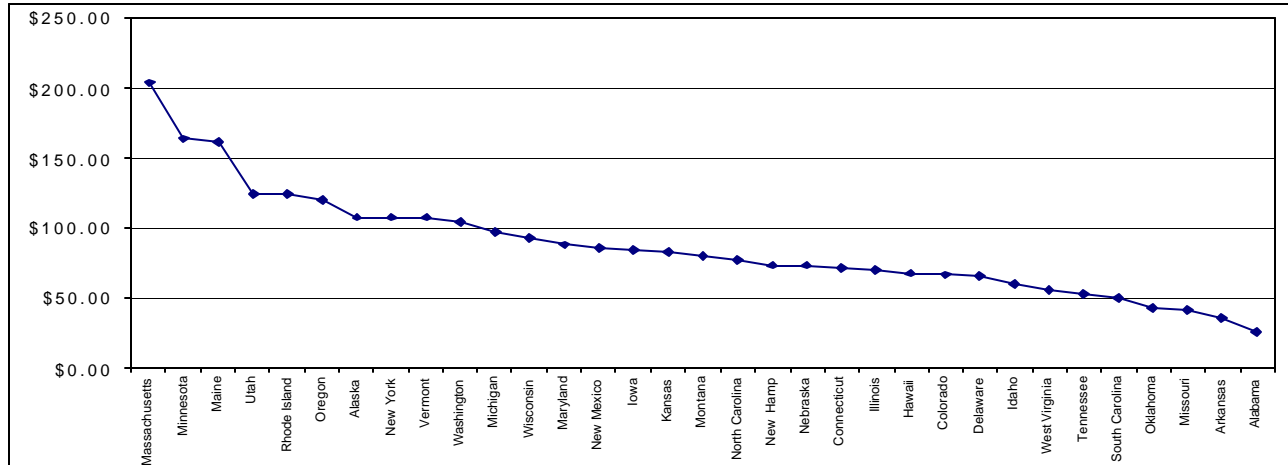
year. By way of comparison, the average income for a private sector employee in Iowa for 2000 was only \$27,500.<sup>9</sup> Right now in Iowa it costs the taxpayers more money to house a single prisoner than the average private sector employee earns in an entire year.

Adding to Iowa's high cost of incarceration is the coming population explosion in Iowa's prisons. According to the latest estimates by the Division of Criminal and Juvenile Justice Planning, Iowa's prisons are already at 126% of capacity, and will reach 173% of capacity over the next 10 years.<sup>10</sup> This estimate

According to Lettie Prell, the chief author of the estimate, this explosion in inmate population is due in large part to "an increase in prison admissions, particularly for drug offenses; the long-term effect of abolishing parole for certain crimes; and an increase in average lengths of stay in prison."<sup>12</sup>

Over the last several years the voters in Iowa have expressed a desire for criminals to be locked away for longer periods of time, and the Legislature has accommodated voters through creating various mandatory sentences, reducing or eliminating parole, and generally expanding

Figure 2



Source: Table 1.

the sentence time for various crimes. All of this has had the effect of reducing the number of criminals on the street, but of course it also means these inmates stay in the prison system longer and has led us to the problems associated with the rapidly expanding inmate population we are seeing now.

Not only is Iowa's per-prisoner expense rate high when compared to annual income of law-abiding citizens, but Iowa's prisoner expenses are high when compared to other states around the nation. While Iowa certainly does not have the most out-of-control prison costs in the nation, when they are compared to prison costs in some of Iowa's peer states, Iowa certainly is no bargain.

### Peer State Comparison

A more relevant view of Iowa's prison cost efficiency is found in a comparison with states that have demographics similar to Iowa. Both Kansas and Oklahoma are very close to Iowa in both population and in the size of their respective state budgets. There exists another strong similarity between Kansas and Iowa; that is the per diem, or cost per inmate per day, of the two states' prison systems. However, as can be seen in Figure 3, one quality these three states do not share is the inmate per diem rate. Oklahoma's per diem costs are almost half those of Iowa and Kansas.

*“Oklahoma’s per diem costs are almost half those of Iowa and Kansas.”*

Figure 3

	State Population	General Fund Expense	Inmate Per Diem
Iowa	2,923,179	\$4,882,000,000	\$84.89
Kansas	2,694,641	\$4,366,000,000	\$83.38
Oklahoma	3,460,097	\$4,995,000,000	\$43.34

Source: Table 1.

**Table 1: Comparison of States With At Least 10% Privatized Prisons vs. States With Less Than 10%**

<b>States* with At Least 10% Privately Run Prisons:</b>	<b>State Population</b> 2001	<b>Total Inmate Population</b> 2001	<b>Private Inmate Population</b> 2001	<b>Department of Corrections Budget</b> 2001	<b>Inmate Expense Per Year</b> 2001	<b>Inmate Expense Per Day</b> 2001
Alaska	634,892	4,197	1,407	\$166,000,000	\$39,551.40	\$108.36
Idaho	1,321,006	5,688	1,362	\$125,000,000	\$21,976.65	\$60.21
<b>Oklahoma</b>	<b>3,460,097</b>	<b>23,139</b>	<b>7,023</b>	<b>\$366,000,000</b>	<b>\$15,819.10</b>	<b>\$43.34</b>
Tennessee	5,740,021	23,168	3,703	\$454,000,000	\$19,596.85	\$53.69
Texas	21,325,018	164,465	17,746	\$2,729,000,000	\$16,593.20	\$45.46
<b>Average**</b>	<b>4,892,341</b>	<b>27,785</b>	<b>4,045</b>	<b>\$573,583,333</b>	<b>\$25,640.00</b>	<b>\$70.03</b>
<b>States with Less Than 10% Privately Run Prisons:</b>						
Arkansas	2,692,090	12,332	-	\$166,000,000	\$13,461.20	\$36.88
California	34,501,130	163,965	4,504	\$5,048,000,000	\$30,787.06	\$84.35
<b>Iowa</b>	<b>2,923,179</b>	<b>8,101</b>	-	<b>\$251,000,000</b>	<b>\$30,984.85</b>	<b>\$84.89</b>
<b>Kansas</b>	<b>2,694,641</b>	<b>8,543</b>	-	<b>\$260,000,000</b>	<b>\$30,433.70</b>	<b>\$83.38</b>
Massachusetts	6,379,304	10,734	-	\$798,000,000	\$74,343.20	\$203.68
Michigan	9,990,817	48,371	450	\$1,720,000,000	\$35,558.30	\$97.42
Oregon	3,472,867	11,077	-	\$487,000,000	\$43,964.25	\$120.45
Rhode Island	1,058,920	3,147	-	\$144,000,000	\$45,756.40	\$125.36
South Dakota	756,000	2,673	45	\$48,000,000	\$17,957.35	\$49.20
Vermont	613,090	1,782	-	\$70,000,000	\$39,281.30	\$107.62
<b>Average</b>	<b>6,192,124</b>	<b>24,493</b>	<b>659</b>	<b>\$736,111,111</b>	<b>\$31,738.00</b>	<b>\$86.95</b>

Source: U.S. Census Bureau, "State Population Estimates"; U.S. Bureau of Justice Statistics, "Prison and Jail inmates at Midyear"; National Association of State Budget Officers, "State Expenditure Report"; Data collected and compiled by the accounting firm of Lattimore Black Morgan & Cain, P.C.

\*Nevada and Wyoming excluded from analysis due to lack of data.

\*\*Averages are the averages of all states included in the analysis, not merely those shown in the Table 1. States that have at least 10% privately run prisons include Alaska, Colorado, Georgia, Hawaii, Idaho, Kentucky, Montana, New Mexico, Oklahoma, Tennessee, Texas, and Wisconsin.

# *Privatizing Iowa's Prisons*

Another stark difference between the three states is that Oklahoma houses 30% of its inmates in private prisons.<sup>13</sup> Neither Iowa nor Kansas use any privatized prison system at all.<sup>14</sup> This relationship between the inmate per diem and privatization is not unique to these three states. Nationwide, those states that house a significant portion of their inmates in privatized prisons have a substantially lower cost per prisoner.<sup>15</sup>

## **Nationwide Comparison**

The data in Table 1 was collected from the U.S. Census Bureau, the U.S. Bureau of Justice Statistics, and the National Association of State Budget Officers; and compiled by the accounting firm of Lattimore Black Morgan & Cain, P.C.

The states in the first group utilize privatized prisons to house at least 20% of their inmates. The states in the second group use private prisons for less than 10% inmate population. As can be seen in the chart, the states in the first group have an average per diem, or cost per prisoner per day, of \$70.03, which is 24% lower than the states in group two whose average per diem is \$86.95.

Each state is unique in its per diem depending on various factors. Some states, such as Alaska, have a higher cost of goods or other inflationary pressures that other states are not

exposed to. Some states, due to a larger inmate population, are able to achieve better economies of scale, and hence a lower per diem. Some states simply run a better or poorer prison system. As a result, there are some states who use privatized prisons but still have a per diem higher than some states that use only government-run prison systems. However, averaging together these two groups of states and all of their unique conditions, states that use private prisons for a significant part of their inmate population see a 24% savings over states that do not.

## **Potential for Prison Privatization in Iowa**

If Iowa were to avail itself of the savings found by privatizing a portion of its prison system to competitive bidding, it would have to do so for future inmates, not the current population. Private prisons realize savings compared to government-run prisons through more efficient operation that starts with the very design of the prison facility. As a result, private prison companies do not purchase existing structures, but rather choose to build their own. Because of this, Iowa could not use privatization to reduce the cost of housing current inmates. But it could use privatization as an economical way to handle the looming shortage of prison facilities in the state.

Further, Iowa could build excess capacity to be used to house

*“Iowa could use privatization as an economical way to handle the looming shortage of prison facilities in the state.”*

# *Privatizing Iowa's Prisons*

inmates from other states with a higher cost per inmate than Iowa's new privatized facilities. Oklahoma currently uses this approach as a way not only to achieve better economies of scale, but also to realize a profit for the state on a certain number of inmates.<sup>16</sup> Since it would be the state charging other states to host the inmates, it would indeed be the state of Iowa who would be earning the profit on the housing of outside inmates, and not the private prison company running the facility.

An additional advantage of bidding out the construction of prison facilities to the private sector is the positive impact on the tax base of the community in which the prison is built. One fairly common concern among local officials when the state starts looking at their community to build a prison is the loss of property tax dollars that comes with a large state facility that is free from local property taxes. However, since private prisons are not an entity of the state, they remain on the community's tax rolls and continue to pay property taxes.

Many of the common objections to privatized prisons are usually designed to work on people's fear rather than being based on realistic objections. A good example is the common notion that private prisons are understaffed. This is impossible because each private prison facility operates under a strict

contract with the state that dictates very clearly required staffing levels. These levels are strictly enforced with severe financial consequences if they are not followed. Such consequences could include revocation of the contract and forfeiture of the prison facility to the state. Hence, the private sector that runs the prison has strong incentive to follow its contractual obligations.

This same contract also allows for inmates to be able to file complaints against prison staff just as if they were government employees.

The fear of understaffing usually leads to the other most common argument against privatization of prisons, a higher than average incidence of escape. Yet Corrections Corporation of America, the largest private sector corporation to run prison systems in America, boasts an escape rate that is two-thirds lower than the national rate.<sup>17</sup>

## **Conclusion**

Current data shows that if a state houses at least 10% of its total inmate population in private prisons that state can save, on average, 24% over the cost of housing those same inmates in strictly government-run prisons. If Iowa were to bid out the construction of the next several prison facilities needed to house the coming inmate population explosion, then Iowa would be utilizing privatized prisons for

*“Since private prisons are not an entity of the state, they remain on the community's tax rolls and continue to pay property taxes.”*

approximately 34% of its inmate population by 2011.

As long as strict contracts and strict enforcement keep the private prison systems as safe and as well staffed as government-run institutions, and these private sector firms can run the prisons more efficiently and cheaper, then Iowa has little choice but to open a portion of its rapidly expanding inmate population to the free market.<sup>17</sup>

# *Privatizing Iowa's Prisons*

## **ENDNOTES:**

<sup>1</sup> David Hogberg and Amy K. Frantz, "Iowa's State Budget: Spending Our Way to a Crisis," *Policy Study*, Public Interest Institute, October 2002.

<sup>2</sup> See for example Lisa Snell, *Child-Welfare Reform and the Role of Privatization*, Policy Study No. 271, Reason Public Policy Institute, October 2000; and Lisa Snell, *Getting Greens in the Black: Golf-Course Privatization Trends and Practices*, Policy Study No. 260, Reason Public Policy Institute, August 1999.

<sup>3</sup> Asheesh Advani, *Passenger-Friendly Airports: Another Reason for Airport Privatization*, Policy Study No. 254, Reason Public Policy Institute, March 1999.

<sup>4</sup> *Privatization 2001: The 15<sup>th</sup> Annual Report on Privatization*, Reason Public Policy Institute.

<sup>5</sup> "New Florida Budget Bill Puts Prison Contracts in Play," *Privatization Watch*, No. 301, Reason Public Policy Institute, January 2002.

<sup>6</sup> Geoffrey F. Segal and Adrian T. Moore. *Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services*, Policy Study No. 289, Reason Public Policy Institute, January 2002.

<sup>7</sup> U.S. Census Bureau, "State Population Estimates"; U.S. Bureau of Justice Statistics, "Prison and Jail Inmates at Midyear"; National Association of State Budget Officers, "State Expenditure Report"; Data collected and compiled by the accounting firm of Lattimore Black Morgan & Cain, P.C.

<sup>8</sup> *Ibid.*

<sup>9</sup> "Employment and Wages Annual Averages, 2000" Bulletin 2546, U.S. Dept. of Labor Bureau of Labor Statistics.

<sup>10</sup> Lettie Prell, "Iowa Prison Population Forecast," Division of Criminal & Juvenile Justice Planning, Iowa Department of Human Rights, October 2001.

<sup>11</sup> *Ibid.*

<sup>12</sup> AP, "Female Prison Population Grows at a Rapid-Fire Pace," *Quad-City Times*, November 30, 2002.

<sup>13</sup> Lattimore Black Morgan & Cain, P.C., loc. cit.

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

<sup>16</sup> Private Prison Administration, "FY 2001 Annual Report," Administrative Operations Division, Oklahoma Department of Corrections, n.d.

<sup>17</sup> Corrections Corporation of America, "The truth about outsourced corrections management and CCA," n.d., <<http://www.correctionscorp.com/main/media.html>> (December 3, 2002).

<sup>18</sup> Lettie Prell, loc. cit.

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## CONTENTS

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- Chapter 2: Self-Ownership, Taxation, and Democracy: A Philosophical-Constitutional Perspective  
*Eric Mack*
- Chapter 3: Property, Taxation, and the Budgetary Commons  
*Richard E. Wagner*
- Chapter 4: Taxpayers Rights and the Fiscal Constitution  
*Gary Wolfram*
- Chapter 5: Referendum, Redistribution, and Tax Exemption: A Rent-Seeking Theory of Direct Democracy  
*Gary Anderson*
- Chapter 6: Public Choices and Fiscal Means: Analyzing Taxes as Collective Outcomes  
*Walter Hettich and Stanley L. Winer*
- Chapter 7: Excise Taxation and Interest Group Politics  
*Randall G. Holcombe*
- Chapter 8: Taxation through Litigation  
*Robert A. Levy*
- Chapter 9: Explaining the Persistent Growth in Tax Complexity  
*James L. Payne*
- Chapter 10: Site-Value Taxation and the Rule of Law  
*Fred Foldvary*
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