Contracted prisons cut costs without sacrificing quality, study finds

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As states continue to grapple with aging correctional facilities, overcrowding, underfunded retiree obligations and other constraints, new research from Temple University's Center for Competitive Government finds that privately operated prisons can substantially cut costs – from 12 percent to 58 percent in long-term savings – while performing at equal or better levels than government-run prisons.

Temple economics Professors Simon Hakim and Erwin A. Blackstone analyzed government data from nine states that generally have higher numbers of privately held prisoners (Arizona, California, Florida, Kentucky, Mississippi, Ohio, Oklahoma, Tennessee and Texas), and Maine, which does not contract its corrections services. The professors calculated both short- and long-run savings per state, finding that contracted prisons generate significant savings without sacrificing quality.

"Contracts between private-prison operators and state governments can be very precise in terms of the outcomes the state expects," said Hakim, director of Temple's Center for Competitive Government, which is affiliated with the Fox School of Business. "And contractors have an incentive to overshoot the performance metrics established by the state – lest they lose out to a higher-performing company on the next contract bid."

The study uses economic models to determine each state's avoidable costs, which are compared to the contracted per diem rates charged by the private operators. The study also takes into account underfunded pensions and retiree healthcare costs – a critical issue, with the Pew Center on the States reporting in 2010 of a $1.38 trillion gap between states' assets and their pension and healthcare retiree obligations.

In California, for example, the researchers estimated that contracted prison facilities save between 32 percent and 58 percent. In Maine, estimated savings in the short run (including operational costs, such as personnel and medical and food services) is 47 percent while long-run savings (which combine short-run costs with capital expenditures, such as facility modernization and financing) is estimated at 49 percent. Researchers said Maine's substantial estimated savings could be attributed to that state's lack of private-public competition and its small prisons that cannot exploit economies of scale.

Short- and long-run savings, state by state:

Arizona | -1.00% - 8.01% | 14.25% - 22.34%
California | 29.43% - 57.09% | 32.20% - 58.37%
Florida | 7.00% | 17.67%
Kentucky| 9.43% - 20.88% | 12.46% - 23.50%
Maine | 47.40% (estimated) | 49.15% (estimated)
Mississippi | 8.69% | 25.27%
Ohio | 4.14% - 13.44 | 20.28% - 26.81%
Oklahoma | -2.16% - 29.23% | 16.71% - 36.77%
Tennessee | 17.32% | 17.32%
Texas | 37.39% | 44.95%
*Ranges reflect savings that vary from facility to facility for a single state.

"It is important to note that the existence of public prisons also keeps in check price hikes by the private prisons," Hakim and Blackstone wrote. "The knowledge that states could resort to the use of just public prisons encourages private contractors to offer their services at even lower prices than the statutory requirement."

Key findings of the study include:

- Contract prisons save money while maintaining at least the same quality as public prisons: The private facilities generally met industry standards established by the independent American Correctional Association and, in several cases, offered more rehabilitation programming than public counterparts. Further, interviews with departments of corrections officials found that contracts with private companies mandate performance levels, which the states closely monitor. Private correctional officers are generally paid comparable wages and receive similar training to public officers.

- Competition yields savings and better performance for private and public facilities: Even though private contractors comprise less than 7 percent of the state corrections industry overall, they have generated substantial competitive benefits. As more contractors compete, both private and public facilities work to provide lower-cost and higher-quality service. Further, more managerial and technological innovations are introduced in both segments of the industry.
- Adoption of the "managed competition" model could foster even greater efficiency in delivering corrections services: In this model, public workers and private contractors competitively bid to provide public services. As a result, both groups have an incentive to find managerial and technological innovations and to offer services at competitive prices.

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