

PRIVATIZATION

The contracting out of the design, financing, construction and operation of a prison began in the mid-1980s. Today there are more than 90 facilities and 50,000 prisoner places under private sector management. With 22 contracts in the United States, Puerto Rico, England and Australia, and some 14,000 prisoner places either under management or contract, Wackenhut Corrections is a recognized leader in the private development and operation of prisons, with over 25% of the total worldwide market.

Wackenhut Corrections began as a subsidiary of The Wackenhut Corporation in the mid-1980s. The Wackenhut Corporation is one of the world's largest security organizations, with 53,000 employees and 120 offices throughout the world, including Canada. Wackenhut Corrections was incorporated as a wholly-owned subsidiary of The Wackenhut Corporation in 1989, went public last summer and is currently traded on the NASDAQ exchange.

Turning now to the nine questions most frequently asked about prison privatization; they are:

1. What is prison privatization?
2. Why can't the public sector adopt private sector methods and save even more, since the public sector doesn't need to make a profit?
3. Won't a company's focus on the 'bottom line' result in a lower quality of safety, security and service to the staff, prisoners and government?
4. How do we know that a company will do all that it promised to do when it signed a contract?
5. Isn't it wrong for the government to contract out a core governmental responsibility?
6. Won't a company 'lowball' its bid for the first couple of years in order to raise its fees later when the government is dependent upon the contract?

7. Since a company gets paid a fee for each prisoner it keeps, won't it try to increase the amount of time a prisoner stays in prison and generally try to increase the time all prisoners serve in prison for crimes they commit?
8. Isn't it wrong for a company to make a profit from the suffering of others?
9. Why should a U.S. company be involved in Canadian Prisons?

1. What is prison privatization?

Strictly speaking, the term 'privatization' is something of a misnomer since it correctly and narrowly applies to private sector financing and ownership of infrastructure traditionally financed and owned by the public sector. In common usage, however, prison privatization has come to include not only the transfer of infrastructure from the public to private sector, but the fast-track design and construction, as well as the contracted operation, of a facility, by the private sector.

2. Why can't the public sector adopt private sector methods and save even more since the public sector doesn't need to make a profit?

Like most of the employees of Wackenhut Corrections, I worked for years in the public sector. I never once attended a government budget meeting where a department representative reported a failure to spend all of last year's allocated budget and sought a reduced budget for the next year. Neither am I aware of any government announcing a dividend to taxpayers in the form of a tax rebate.

To be sure, many public sector agencies operate efficiently. But public sector efficiencies are generally absorbed in growth - growth in staff, growth in procurements, and growth in bureaucracy.

Despite the best efforts of governments around the world to emulate private sector methods through agency corporatization and so forth, more than marginal savings frequently seem unobtainable or unsustainable. I suspect this is due to the lack of a profitbased structure. In short, *no one has yet devised a better pencil sharpener than the private sector in open competition.*

3. Won't a private company's focus on the 'bottom line' result in a lower quality of safety, security and service to the staff, prisoners and government?

Within this question are a host of closely associated suspicions, such as:

**Won't a company cut costs by:*

- *paying its employees less money?*
- *serving prisoners less and worse quality food?*
- *providing fewer prisoner programs?*

These questions and others like them betray a fundamental misunderstanding of the nature of a service company and its relationship to its customers, as well as a flawed concept of how a service company makes money.

Paying employees in a labor-intensive service industry less than competitive wages and benefits inevitably results in a dissatisfied workforce and a high rate of attrition. Each correctional officer represents a significant investment of time and money by a private operator; a high rate of staff turnover means substantial operating losses, as well as operational inefficiency associated with lack of employee continuity and loss of experience-linked productivity.

Similarly, the delivery of low quality food would prove disastrous in a prison, where the maintenance of order is often dependent upon the quality and portions of daily meals. No prison operator, public or private, ever saved money two days in a row by cutting on the quality or portion size of prison meals.

The quality of prisoner rehabilitation programs is frequently the means by which the private operator distinguishes its service from that of the public sector. Professional and effective prisoner programs result in a safe, secure and ordered routine, the foundation of cost-effectiveness in any prison.

Quite significant savings of approximately 15-25% are achieved by the private sector in the design and construction of a prison. The traditional governmental method of linear and time-consuming contracts for the design and then the construction of a facility is thrown out in favor of a fast-track, design-build approach backed by a fully guaranteed, firm, fixed-fee contract. Successive layers of low-bid, inexperienced tradesmen are replaced by partnering arrangements with experienced, competitively priced companies who place real value upon a continuing relationship with the developer and general contractor.

In operations, the private sector is able to save money, generally estimated as equal at least 10% of the public sector's cost for operating a similar facility, by the development of an efficient, operator-driven design, and through the application of private sector management methods primarily focused on employee productivity and performance, and efficient procurement of supplies.

By designing out staffing redundancies, a private company is able to save significant costs over the long term. We estimate that the operating costs of a prison over its lifecycle are at least 80% of its total costs and that labor costs

represent approximately 70% of that total; any reduction of redundant staffing costs will obviously generate huge efficiencies and savings over time. A single post can cost an operator between \$150,000 and \$250,000 a year in wages and benefits.

A prison designed by its private sector operator is the best guarantee of a prison designed to maximize safety, security and cost-efficiency. Wackenhut employs four in-house architects to guarantee the safety, security and cost-efficiency of all of its facility conceptual designs.

Equally important is the daily management and elimination of employee sick time and overtime abuses, as well as the introduction of private sector procurement methods that reduce 'red tape' and bureaucratic inefficiencies. Wackenhut employs the latest human resource and procurement management tools to track its bottom line daily, and to ensure the quality of its service.

4. How do we know that a company will do all that it promised to do when it signed a contract?

This is really a question directed to the critical issue of accountability. In a very real sense, private operators are more accountable to the government than their public sector counterparts. At least 7 factors contribute to this enhanced level of accountability:

1. the terms of the contract
2. a facility-based monitor
3. annual government audits
4. in-house corporate auditing
5. accreditation systems

6. competition among private operators
7. media scrutiny

(1) Contract Terms

The terms of every private operational contract require the operator to meet, and in some cases exceed, all performance standards, laws, regulations and rules applicable to the public sector. Breach of these standards can result in contractual sanctions, including termination.

(2) Government Monitor

Most contracts call for the provision of space to accommodate an on-site public sector monitor who has complete and unrestricted access, at all times, to all facility employees, prisoners, records and information. This is almost never true of a public facility.

(3) Annual Government Audits

It is common for the government to perform an annual audit of contract performance. Some contracts today tie performance to remuneration through a system of performance-linked bonuses.

(4) In-House Audits

Private companies employ in-house corporate personnel to monitor and audit all aspects of operational performance. Wackenhut's corporate personnel monitor such matters as security incident reports, health services, overtime and sicktime, and facility purchases on a daily, weekly and monthly basis.

(5) Accreditation

In addition to government and in-house monitors and auditors, most contracts call for accreditation of operations within one or two years of opening by such third-party accreditation agencies as the American

Correctional Association and the National Commission of Correctional Health Care. These accreditation systems serve as an outside and objective Quality Assurance program. Wackenhut has achieved or is in the process of obtaining ACA and NCCHC accreditation for all of its facilities.

(6) Competition

There is a healthy competition among the handful of serious private correctional service providers which results in the need for each to maintain a standard of performance consistent with a marketable reputation and something as fundamental and perhaps quaint as the notion of "pride". At Wackenhut we consider our reputation to be our single most important marketing asset; the word "adequate" is never used in-house as a synonym for "satisfactory".

(7) Media Scrutiny

We are all familiar with most of our public institutions - we have all spent time in schools, libraries, and hospitals. But for most of us, our prisons remain hidden behind a shroud of movie images and sensational news stories, and we are naturally curious about an institution that is financed by all but seen by few. Add to this natural curiosity the fact that the operation of a prison by a private company is still a relatively novel idea and you readily appreciate the media's heightened focus on privately operated prisons. Private operators have come to understand and to expect that an otherwise uneventful incident in a publicly operated prison will generate significant media interest and coverage when occurring in a privately operated facility. A healthy respect for a vigilant media is a powerful guarantee of private operator accountability.

5. Isn't it wrong for the government to contract out a core governmental responsibility?

It is important to remember that the government is not contracting away its *responsibility* for the safe, secure and humane incarceration of prisoners; that responsibility always remains with the government. Rather, it is contracting out to a private sector provider the performance of those tasks which comprise that responsibility. Many of the individual tasks within a prison have long been contracted out to the private sector - health services, food services, maintenance, to name a few. Contracting out the 'complete package' is a difference of degree, not of kind.

For many years, the United States contracted out the operation of its incoming missile defense system, NORAD, to the private sector. It is hard to conceive of a more 'core governmental responsibility' than the alerting of one's citizens to the imminent and calamitous attack of a hostile foreign government.

At any rate, all public corrections officials and employees currently operate under contracts with the government, whether those employment contracts are express, written documents of certain duration, terms and conditions, or implied contracts-at-law with terms and conditions circumscribed by legislation, regulation and court decisions. Presumably, each such contract contains some margin of profit or loss, which is most keenly felt on the last day of each successive pay period.

6. Won't a company 'lowball' its bid for the first couple of years in order to raise its fees later when the government is dependent upon the contract?

Prison operating contracts are generally for an initial term of at least three to five years. Few company executives can offer their shareholders 'loss

leaders' for very long without reaching in the old back drawer and dusting off their resumes.

As already discussed, competition among private operators remains keen. Any operator who believes that today's losses can be made up at tomorrow's negotiating table forgets that the competition is eager to take a seat at that table.

- 7. Since a company gets paid a fee for each prisoner it keeps, won't it try to increase the amount of time a prisoner stays in prison and generally try to increase the time all prisoners serve in prison for crimes they commit?**

It is inconceivable that anyone could pick up a newspaper or watch a television today and believe that private prison operators need to work at increasing demand for their services. It is an unfortunate fact that the market continues to develop and grow despite all best efforts to address the causes and symptoms of crime.

Private prison operators neither legislate, consider, nor impose the sentences served by prisoners. We are contractually obligated to see that prisoners remain in our prisons for their allotted time, not a day more or less.

- 8. Isn't it wrong for a company to make a profit from the suffering of others?**

The American writer and humorist H L Mencken once said that people may be divided into two categories - those who divide people into categories and those who do not. Add to this distinction a line between those who intuitively sense something 'wrong' about for-profit private prison operators and those who wonder what all the fuss is about.

First, it must be said that 'the suffering of others' is hardly how corrections professionals would characterize the lot of their charges. And if some persist in seeing imprisonment for the commission of crime as 'suffering', it is hard to appreciate how the simple lack of profit by those who carry the keys somehow ennoble the enterprise.

As mentioned earlier, the public sector does indeed profit through its efforts. The expenditure of those profits upon increased bureaucracies, line staff and supplies, while less visible than shareholder dividends, is nevertheless real, capable of measure, and worthy of note.

The privatization of prisons is a public-private partnership, and this relationship is no less true in the area of profit sharing. Public officials who promote privatization may take justifiable pride that every dollar of taxpayer funds saved can be spent on otherwise neglected competing public services such as schools, hospitals, roads, airports and waste management facilities.

Wackenhut Corrections is primarily a service company with acquired expertise and experience in the design, financing, construction and operation of prisons. There is no single Wackenhut prison design, no fixed method of financing, no one system of construction, no single set of operating rules. We are not a franchise company. Each of our prisons represents a comprehensive and creative response to the unique requirements of each client.

In order to ensure that our proposed solution meets our clients' requirements and expectations, we form partnerships and strategic teaming relationships with well-established, local firms -- companies with recognized expertise in

prison design, finance, construction and operation. With very few exceptions, we employ local correctional professionals as our senior facility managers.

What Wackenhut and other American private prison companies offer to our clients is knowledge -- proprietary information -- in the form of a transfer of technology. We bring our insights and experience gained from around the world to a collective, local effort and we adopt and adapt until we have achieved a local solution which represents world-best standards.

In short, our Texas prisons and our Australian prisons and our United Kingdom prison have far more in common with their local public sector facilities than they do with each other -- except insofar as each, and all, represent our commitment to professionalism, integrity, and quality, client-based service.

With that, I would like to close my remarks before I am asked the 10th most frequently asked question --

Thank you.