TAFT PRISON FACILITY:

COST SCENARIOS*

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I. Introduction

On July 21, 1997, the Federal Bureau of Prisons (BOP) announced that Wackenhut Corrections would be awarded the contract to manage a new Federal facility. Located in Taft, California, the new facility had been designed and built by the Federal government to house low- and minimum-security inmates. Although the BOP had previously contracted with private-sector prison management companies for specific services, the Taft project was to become the first fully-privatized Federal correctional institution wherein an outside contractor would assume primary responsibility for facility operations.

This privatization experiment was mandated by Congress: the FY 1997 appropriations act for the Department of Justice directed that the Bureau of Prisons "undertake a 5-year prison demonstration project involving the two Taft facilities ... to give the administration and Congress an opportunity to monitor safety and operational concerns" previously identified by the Department of Justice.[1] This experiment can be seen as part of an expanding effort to test the merits of having private sector contractors compete with civil service employees for the right to provide traditional public sector services.

The task of evaluating Wackenhut's performance at the Taft facility is to be accomplished in several stages. In September 1999, the National Institute of Justice announced that Abt Associates of Cambridge, Massachusetts would be awarded the contract to conduct a 5-year assessment of the cost and quality of the services provided by Wackenhut.

The BOP has itself commissioned a series of shorter, more focused analyses. As the first in this series, the study described in this report compares the contract cost of Wackenhut services with the cost of comparable services provided directly by the Bureau of Prisons. This study has a two-fold purpose. First, it recommends a methodology for comparing public and private sector costs grounded in the approach specified in OMB Circular A-76.[2] Second, this study uses data from FY 1998 to indicate what results may be anticipated from any longer range study using the A-76 methodology.

There are seven sections in the remainder of this report. Section II defines the general A-76 methodology, describes the nature of the data used in this study, and highlights the findings presented in subsequent sections. Section III defines the specific accounting framework used to analyze Wackenhut performance at Taft. Sections IV-VII explain the calculations used for specific cost categories (such as staff compensation and central office support). Section VIII

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[1] Conference Report to Accompany H.R. 3610, Making Omnibus Consolidated Appropriations for Fiscal Year 1997, P.L. 104-208, September 23, 1996.

[2] Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities," was originally published in the August 16, 1983 *Federal Register* at pages 27110-37116. The March 1996 Revised Supplemental Handbook was issued through Transmittal Memorandum 15, published in the April 1, 1996 *Federal Register* at pages 14338-14346. The most recent amendments to the Circular and its Supplemental Handbook were issued through Transmittal Memorandum 20, dated June 14, 1999.

summarizes the findings of the study and describes a number of issues to be resolved in further research.

II. *The A-76 Approach: Does Privatization Save Money?*

A single question provides the foundation for this study: "Will privatization save taxpayer dollars?" OMB Circular A-76 provides the guidance needed to answer this question. The A-76 approach asks the analyst to compare the expected cost of *contractor-provided* services with the expected cost of *comparable government-provided* services. In short, Circular A-76 requires the analyst to decide whether it is cheaper for the Federal government to "make" or "buy" the service in question.

An analyst using the A-76 approach must compare two distinct cost measures:

1. the expenditures that the government expects to ***avoid*** through privatization, (such as staff compensation or supplies); and
2. the payments that the government expects to make to satisfy its contractual obligations (including both payments to contractors and Federal monitoring costs).

The second of these cost measures illustrates one of the benefits of the A-76 approach: it requires relatively little information about the contractor's internal costs and profit rates. Such information has no bearing on the *government's* anticipated expenditures on either contract fees or monitoring. (And since government expenditures alone determine the bill ultimately paid by taxpayers, the analyst can ignore the details of the contractor's internal operations.)

Nevertheless, the first cost measure listed above highlights one drawback to the A-76 approach: it requires the analyst to construct a detailed alternative cost scenario, one in which the government "makes" the service in-house. Fortunately, this limitation is not too serious in the Wackenhut scenario: the BOP currently operates three Federal facilities that are virtually identical to the one at Taft.

In practice, the A-76 approach requires the analyst to answer the following questions about the Wackenhut contract:

1. What additional costs have been ***incurred*** by the BOP as a result of the Wackenhut contract?
2. What BOP operating costs have been ***avoided*** through privatization?
3. What BOP support costs have been ***avoided*** through privatization?
4. What BOP activation costs have been ***avoided*** through privatization?

There is also an issue which the analyst does ***not*** have to consider when using the A-76 approach: the cost *to Wackenhut* of running the Taft facility. As mentioned above, the size of Wackenhut's profit (or loss) has no relevance to the analysis of the merits of privatizing Taft as long as Wackenhut provides the services promised under the terms of its contract.

Following the A-76 approach to analyze cost data from FY 1998, this study indicates that prison management services "made" by Federal employees are likely to be less expensive than those "purchased" from the private sector. More formally, the cost comparisons developed in this study indicate that

> **the expected cost to the BOP of the current Wackenhut contract *exceeds* the expected cost to the BOP of operating a Federal facility comparable to Taft – provided that the BOP uses current *BOP staffing practices* at this facility (rather than the staffing practices chosen by Wackenhut).**

It follows that expected payments to Wackenhut exceed the expected cost savings from privatization if the conditions that prevailed in FY 1998 continue for the life of the contract (with appropriate adjustments for changes in inmate populations). In other words, FY 1998 data indicate that ***the Taft privatization experiment will not save taxpayer dollars***.

A key factor behind this result is that Wackenhut has assigned more staff to the Taft facility than the BOP currently uses at comparable institutions. As a result, an alternative set of cost comparisons indicates that

> the expected cost to the BOP of the current Wackenhut contract would be *less than* the BOP cost of operating a comparable facility – if the BOP were to use *Wackenhut staffing practices* at this facility (i.e., the staffing pattern that Wackenhut proposed in its bid to operate the Taft facility) .

Although current BOP staffing practices represent the more plausible basis for computing BOP operating costs, this report presents the implications of ***both*** staffing models thus making it easier to identify specific sources of cost differences.

III. *The Basis of Comparison*

The core concept in this analysis is *avoidable BOP cost*, i.e.,

> the additional costs that the BOP itself ***would have incurred*** if it had operated Taft as a Federal facility

– or –

> the additional costs that the BOP ***has avoided*** by "outsourcing" the operation of the Taft facility.

In the case of Taft, these avoidable costs include compensation and training costs for staff that the BOP does not have to hire; inmate clothing and food that the BOP does not have to purchase; utility bills that the BOP does not have to pay since the facility is under Wackenhut management.

There are, of course ***un***avoidable BOP costs -- like regional and central office support -- associated with the Taft facility. However, these unavoidable costs do not depend on whether Taft is under BOP or Wackenhut management. For example, the privatization of Taft does not change the number of staff that the BOP assigns to regional offices to oversee inmate designations. Since privatization does not affect the level of unavoidable cost, they can be excluded from analysis.[3]

As mentioned above, Wackenhut's "true cost" of operations can also be excluded from this analysis, as it does not affect the bill ultimately paid by taxpayers. The only relevant data for the purposes of the A-76 approach are those that pertain to BOP costs -- either contract costs or the direct operation of BOP facilities.

Table 1 lists the raw data that provide the starting point for this analysis. (Unless otherwise indicated, all cost data are taken directly from the BOP cost accounting system.)

TABLE 1: REPORTED BOP COSTS, FY 1998

	Taft (Wackenhut management)	***Forrest City (BOP mgmt.)***	***Yazoo City (BOP mgmt.)***	***Elkton (BOP management)***
Contract Fees (FY 98)	$28,574,643			
Monitoring (FY 98)	$618,691			
BOP Operating Costs		$21,177,267	$20,576,692	$23,989,298
Annual Support	$3,457,161	$2,507,883	$2,436,761	$2,840,893
TOTAL REPORTED COST	**$32,650,495**	**$23,685,150**	**$23,013,453**	**$26,830,191**
Activation Costs	**$7,000,000**	**$27,219,077**	**$30,751,504**	**$28,288,819**
Average Daily Population (FY 98)	**1,092**	**1,566**	**1,538**	**1,697**

As it prepared to evaluate Wackenhut performance at Taft, the BOP selected three facilities as comparison sites. The Federal correctional facilities in Forrest City, AR, Yazoo City, MS and Elkton, OH are virtually identical to the Taft facility managed by Wackenhut: They have essentially the same physical plan and were activated at about the same time.[4]

The costs reported by these comparison sites represent the best source of information about what the BOP's costs would have been if Taft had been a BOP-managed facility. However, the expenditures reported by the BOP for these four facilities are not directly comparable in the form found in Table 1. One must first adjust for differences in the size of inmate populations and in the

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[3] An alternative approach would be to include identical shares of unavoidable costs in the per diem calculations for *both* BOP and Wackenhut management. However, this option would only add complexity, not insight into the issues at hand.

[4] The low security portions of the three comparison sites have layouts identical to that of the Taft facility. The comparison sites do differ as to whether they include a minimum security "camp" comparable to the one located at Taft. The adjustments made for these differences are discussed below.

scope of costs reported before drawing conclusions as to which type of facility management is the most efficient (i.e., which provides management services at lower cost).

The fixed fee structure of the contract between Wackenhut and the Bureau of Prisons indicates the nature of some of the adjustments to be made. The contract provides for

1. a fixed monthly fee of $2,303,499.72 as long as the average daily inmate population remains ***at or below 1,946 inmates***; and
2. an additional fee of $5.58 per inmate per day when the average daily population exceeds 1,946.

It follows that both public and private facility costs should be computed for an average daily population of at least 1,946 inmates -- to do otherwise would overstate the cost of the Wackenhut contract. In other words, we need to compute annual Federal contract and monitoring expenditures on Taft assuming an average daily population of 1,946 inmates. (These are the two basic components of the cost to taxpayers of having *Wackenhut* manage Taft.) These contract and monitoring costs must then be compared with the cost of running a comparable BOP facility. The cost of the comparable BOP facility would include annual operating costs for 1,946 inmates, as well as the avoidable portion of annual BOP support cost and an estimate of annualized activation costs (in excess of what the BOP spent on the Wackenhut contract).[5]

For this initial study one can reasonably assume that the BOP neither penalizes Wackenhut for poor performance nor rewards the company for excellence.[6] By looking at cost data for a single year, one can also avoid the problem of inflation adjustments.[7] By estimating BOP operating cost as the sum of staff compensation, inmate services and "other" operating costs, we can compute a per capita cost that depends explicitly on the staffing pattern chosen by management and the number of inmates held in the facility. Once BOP support and activation costs are calculated for these alternatives, one can make direct comparisons between the cost to taxpayers of public and private management.

Table 2 summarizes the results derived in this study for the impact of privatization on U.S. taxpayers. In this table, the "Expected BOP Cost of Taft Contract" is defined as the sum of twelve monthly payments and the actual monitoring costs reported for FY 1998. The BOP cost of operating a comparable facility is computed for an inmate population of 1,946 using the two

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[5] The ***un***avoidable portion of BOP support cost is by definition a government expense no matter who manages the Taft facility. Since privatization has no impact on ***un***avoidable costs, these costs should be excluded from any attempt to calculate the potential cost savings from privatization.

[6] The BOP privatization office indicated that these costs are generally expected to be small and/or off-setting (and hence not material) during the first year of a contract.

[7] According to the Bureau of Labor Statistics, the CPI for urban consumers was 160.5 in 1997 and 163.0 in 1998. These data imply that the annual rate of inflation was only 1.55 percent during 1998. It follows that monthly cost-of-living adjustments would not be material even if they were included in the analysis.

staffing patterns mentioned earlier -- one that reflects current BOP practices and the one proposed by Wackenhut in its contract bid.

TABLE 2: TAXPAYER COST OF PUBLIC AND PRIVATE PRISON MANAGEMENT

	Wackenhut Operation of Facility:	***BOP Operation of Taft Facility:***	
	Expected BOP Cost of Taft Contract	***Wackenhut Staffing Model***	***BOP Staffing Model***
Expected Contract Costs	$27,641,997		
Contract Monitoring	$618,691		
Staff Compensation		$21,226,524	$17,893,876
Inmate Services @ $5.50		$3,906,595	$3,906,595
Other Operating Costs		$1,947,052	$1,947,052
TOTAL OPERATING COST	$28,260,688	$27,080,171	$23,747,523
Avoidable Support Cost (3.65%)		$988,426	$866,785
Annualized Avoided Activation Cost		$1,763,895	$1,763,895
TOTAL ANNUAL COST AVOIDED	**$28,260,688**	**$29,832,492**	**$26,378,203**
AVOIDED COST PER INMATE DAY	**$39.79**	**$42.00**	**$37.14**

The relative cost of public and private management depends in large part on the staffing model chosen. If we assume that the BOP would have staffed the Taft facility in a manner similar to that found at comparison sites, then the calculated average cost per inmate per day is $37.14. If, instead, we assume that the BOP would have staffed the facility in the manner chosen by Wackenhut, then calculated average cost per inmate per day is $42. Since the expected cost to the BOP of the current Wackenhut contract is $39.79 per inmate per day, it follows that BOP operation of Taft -- using current BOP practices -- would have been less expensive than privatization. The remainder of this report details the methods used to derive these results.

III. *Comparing Costs: Staff Compensation*

As Table 2 indicates, staff compensation is the largest single cost of running a prison facility. The results reported for this study were derived using two staffing models. Table 3 displays the staffing model proposed by Wackenhut in its bid to operate the Taft facility. (For purposes of comparability, Wackenhut job titles have been converted into GS and WS grades by using typical grades for the BOP staff who hold corresponding jobs at BOP facilities.)

TABLE 3: WACKENHUT STAFFING PATTERN (SPECIFIED IN CONTRACT BID)

	Grade 2	*Grade 3*	*Grade 4*	*Grade 5*	*Grade 6*	*Grade 7*	*Grade 8*	*Grade 9*	*Grade 10*	*Grade 11*	*Grade 12*	*Grade 13*	*Grade 14*	*Grade 15*	*Total*
GS	0	0	0	0	13.2	165.25	10.8	64.6	11.2	57.4	21.5	3	2	3	**351.95**
WS	0	0	4	1	2	2	16.6	1	1	1	0	0	1	0	**29.6**
															381.55

Table 4 indicates the staffing patterns now found at the three comparable Federal facilities. In each case, the table presents the number of positions filled in each category in March of 1999.

TABLE 4: BUREAU STAFFING PATTERNS (MARCH 1999)

	Grade 2	*Grade 3*	*Grade 4*	*Grade 5*	*Grade 6*	*Grade 7*	*Grade 8*	*Grade 9*	*Grade 10*	*Grade 11*	*Grade 12*	*Grade 13*	*Grade 14*	*Grade 15*	*Total*
Elkton															
GS	0	0	0	4	44	64	41	46	2	49	24	4	2	3	**283**
WS	0	0	6	4	1	1	21	4	0	0	0	0	2	0	**39**
															322
Forrest City															
GS	0	0	0	11	46	50	41	37	5	39	20	4	2	2	**257**
WS	0	7	0	3	1	2	29	4	1	0	0	0	1	0	**48**
															305
Yazoo City															
GS	1	0	0	16	36	46	44	30	1	45	19	3	2	2	**245**
WS	0	0	9	1	1	5	17	4	0	0	0	0	1	0	**38**
															283

An initial comparison of Tables 3 and 4 reveals a significant difference in the two staffing models: there are 60 more staff at the Wackenhut facility than at any of the three comparison sites (because Wackenhut's bid to operate the facility included these additional positions). This result persists even when staffing patterns are adjusted for minor differences in the way staff "assigned" to the facility are counted. (See Table 7 below.) The difference between these staffing patterns will become the driving force behind the cost differences reported in Table 2.

Defining relevant staff compensation rates is the next step in estimating the cost of BOP prison management. Tables 5 and 6 provide the annual rates computed by the method spelled out in OMB Circular A-76. The relevant salary schedules are those published for 1998 for Federal law enforcement officers in "the rest of the US" (the Taft facility is not located within the bounds of an area having a separate "locality rate" or cost-of-living adjustment). Following the A-76 guidelines for GS employees, the base salary for "step 5" was taken as a starting point; benefits were then computed using the percentage add-ons appropriate for Federal law enforcement personnel. The hourly rate is included for reference only; it represents the total compensation per hour worked (following the assumption in Circular A-76 that GS staff works on average 1776 hours a year and has 311 hours of leave or holiday time).

TABLE 5: GS LOCALITY RATES - LAW ENFORCEMENT STAFF IN THE "REST OF US", 1998

Grade & Step	*1998 Base Pay*	*Retirement 37.70%*	*Insurance 5.60%*	*Medicare 1.45%*	*Misc. 1.70%*	*Annual Total*	*Hourly Rate*
GS-1, Step 5	$15,481	$5,836	$867	$224	$263	$22,672	$12.77
GS-2, Step 5	$16,851	$6,353	$944	$244	$286	$24,678	$13.90
GS-3, Step 5	$22,348	$8,425	$1,251	$324	$380	$32,729	$18.43
GS-4, Step 5	$25,088	$9,458	$1,405	$364	$426	$36,741	$20.69
GS-5, Step 5	$28,774	$10,848	$1,611	$417	$489	$42,140	$23.73
GS-6, Step 5	$30,504	$11,500	$1,708	$442	$519	$44,673	$25.15
GS-7, Step 5	$33,024	$12,450	$1,849	$479	$561	$48,364	$27.23
GS-8, Step 5	$34,653	$13,064	$1,941	$502	$589	$50,749	$28.58
GS-9, Step 5	$37,215	$14,030	$2,084	$540	$633	$54,501	$30.69
GS-10, Step 5	$40,982	$15,450	$2,295	$594	$697	$60,018	$33.79
GS-11, Step 5	$43,738	$16,489	$2,449	$634	$744	$64,054	$36.07
GS-12, Step 5	$52,423	$19,763	$2,936	$760	$891	$76,773	$43.23
GS-13, Step 5	$62,337	$23,501	$3,491	$904	$1,060	$91,293	$51.40
GS-14, Step 5	$73,663	$27,771	$4,125	$1,068	$1,252	$107,879	$60.74
GS-15, Step 5	$86,652	$32,668	$4,853	$1,256	$1,473	$126,902	$71.45

In accordance with A-76 guidelines for WS personnel, the 1997-98 WS hourly rate for Fresno, CA was used as a starting point. The annual WS "base pay" rate was computed on the assumption that WS staff are paid for 2087 hours per year (i.e., they are paid 40 hours per week, 52.175 weeks per year). Total annual compensation was computed by using the percentage add-ons specified in Circular A-76 for law enforcement personnel. The hourly rates listed in Table 6 are computed using the same method as those reported in Table 5: they are based on the assumption that WS staff are actually on duty 1776 hours per year.

TABLE 6: WS LOCALITY RATES - THE "REST OF US", 1998

Grade & Step	*1998 Base Pay*	*Retirement 37.70%*	*Insurance 5.60%*	*Medicare 1.45%*	*Misc. 1.70%*	*Annual Total*	*Hourly Rate*
WS-1, Step 3	$27,674	$10,433	$1,550	$401	$470	$40,528	$22.82
WS-2, Step 3	$29,510	$11,125	$1,653	$428	$502	$43,218	$24.33
WS-3, Step 3	$31,368	$11,826	$1,757	$455	$533	$45,938	$25.87
WS-4, Step 3	$33,204	$12,518	$1,859	$481	$564	$48,628	$27.38
WS-5, Step 3	$35,062	$13,218	$1,963	$508	$596	$51,348	$28.91
WS-6, Step 3	$36,856	$13,895	$2,064	$534	$627	$53,976	$30.39
WS-7, Step 3	$38,443	$14,493	$2,153	$557	$654	$56,299	$31.70
WS-8, Step 3	$40,112	$15,122	$2,246	$582	$682	$58,744	$33.08
WS-9, Step 3	$41,761	$15,744	$2,339	$606	$710	$61,159	$34.44
WS-10, Step 3	$43,410	$16,365	$2,431	$629	$738	$63,573	$35.80
WS-11, Step 3	$44,662	$16,837	$2,501	$648	$759	$65,407	$36.83
WS-12, Step 3	$46,290	$17,451	$2,592	$671	$787	$67,791	$38.17
WS-13, Step 3	$48,314	$18,214	$2,706	$701	$821	$70,756	$39.84
WS-14, Step 3	$50,714	$19,119	$2,840	$735	$862	$74,271	$41.82
WS-15, Step 3	$53,365	$20,118	$2,988	$774	$907	$78,152	$44.00

Final computation of the staffing costs in Table 2 requires (i) that a choice be made among the BOP staffing models listed in Table 4, and (ii) that adjustments be made for differences in the types of staff who count as assigned to the facility. In an effort not to underestimate the number of staff that the BOP would have assigned to Taft, the Elkton staffing pattern was chosen as a starting point -- among the three BOP facilities studied, Elkton had the largest complement of staff. The following adjustments were then made to the Elkton staffing pattern.

1. The 15 staff assigned to Unicor operations at Elkton were deleted, since the Wackenhut staffing plan does not include the comparable positions at Taft.[8]
2. It was necessary to add the appropriate set of Public Health Service (PHS) positions to the Elkton staffing pattern as these individuals were not counted in the original BOP count.
3. Six positions were added to the Elkton pattern to reflect the change in current staffing that would be necessary if the Elkton camp housed the same number of inmates as the comparable facility at Taft.[9]

Table 7 reports the net effect of these adjustments, in terms of both staff positions and total staff compensation.

TABLE 7: COMPENSATION COSTS BY STAFFING MODEL

	Positions	***Compensation***
Taft Staffing (Wackenhut)	382	$21,226,524
Reported Elkton Staffing (BOP)	322	$18,114,365
less **Unicor Positions**	(15)	($866,849)
plus **PHS**	5	$334,349
plus **Full Camp Staffing**	6	$312,010
TOTAL	318	$17,893,876

These results of these cost calculations were then entered into Table 2 above (reproduced below as Table 8).

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[8] There is a Unicor factory at Taft, but it is staffed by BOP employees. Since these Federal employees would be at Taft no matter who managed the prison facility, these positions do not represent a cost that the BOP can avoid through privatization. Since we are trying to identify avoidable Taft costs by looking at comparable BOP institutions, it is appropriate to exclude the Unicor positions at Elkton from the analysis performed in this study.

[9] This adjustment for expanded camp staffing reflects the comments of John LaManna, Warden of FCI Elkton.

TABLE 8: CONSTRUCTING A COST COMPARISON: ADDING STAFF COMPENSATION

	Wackenhut Operation of Facility:	***BOP Operation of Taft Facility:***	
	Expected BOP Cost of Taft Contract	***Wackenhut Staffing Model***	***BOP Staffing Model***
Expected Contract Costs	$27,641,997		
Contract Monitoring	$618,691		
Staff Compensation		***$21,226,524***	***$17,893,876***
Inmate Services @ $5.50		?	?
Other Operating Costs		?	?
TOTAL OPERATING COST	$28,260,688	?	?
Avoidable Support Cost (3.65%)		?	?
Annualized Avoided Activation Cost		?	?
TOTAL ANNUAL COST AVOIDED	**$28,260,688**	**?**	
AVOIDED COST PER INMATE DAY	**$39.79**	**?**	**?**

IV. *Comparing Costs: Inmate Services*

As mentioned earlier, the cost of inmate services is another major component of prison operating costs. Table 9 reports this information for the relevant cost centers at each of the comparison facilities. In each case, FY 1998 expenditures per inmate per day on supplies and "other services" formed the basis of these calculations.[10]

TABLE 9: COST OF INMATE SERVICES BY FACILITY

Amount Spent per Inmate Day on Supplies & Other Services (FY 98)	***Elkton***	***Forrest City***	***Yazoo City***
Food & Farm	$2.63	$2.65	$2.14
Medical & PHS	$2.36	$1.78	$1.87
Other Services	$0.49	$0.52	$0.49
Unit Management	$0.12	$0.06	$0.08
Gen. & Occupational Ed.	$0.21	$0.28	$0.33
Leisure Programs	$0.12	$0.11	$0.10
Religious Programs	$0.06	$0.04	$0.03
Psychology Programs	$0.01	$0.01	$0.01
TOTAL	$6.00	$5.46	$5.05
ESTIMATE USED:	***$5.50***		

[10] Reported FY 1998 average daily inmate populations were used to compute the relevant number of inmate days.

The average of these three per diem rates (i.e., $5.50) was used to compute the institution-level cost calculations reported in Table 2 (reproduced below as Table 10). The average inmate population was assumed to be 1,946.

TABLE 10: CONSTRUCTING A COST COMPARISON: ADDING INMATE SERVICES

	Wackenhut Operation of Facility:	*BOP Operation of Taft Facility:*	
	Expected BOP Cost of Taft Contract	***Wackenhut Staffing Model***	***BOP Staffing Model***
Expected Contract Costs	$27,641,997		
Contract Monitoring	$618,691		
Staff Compensation		$21,226,524	$17,893,876
Inmate Services @ $5.50		***$3,906,595***	***$3,906,595***
Other Operating Costs		?	?
TOTAL OPERATING COST	$28,260,688	?	?
Avoidable Support Cost (3.65%)		?	?
Annualized Avoided Activation Cost		?	?
TOTAL ANNUAL COST AVOIDED	**$28,260,688**	**?**	**?**
AVOIDED COST PER INMATE DAY	**$39.79**	**?**	**?**

It is important to note that this $5.50 estimate of BOP per diem inmate service costs corresponds closely to the adjustment factor of $5.58 built into the Wackenhut contract for inmate population levels in excess of 1,946. In other words, the additional or “incremental” cost to the BOP of expanding Taft operations to 2000 or 2100 inmates would be roughly the same under the Wackenhut contract as at a hypothetical Taft facility operated by BOP employees. It follows that results comparing public and private management costs computed for inmate populations of 1,946 should be relatively “robust” -- i.e., not sensitive to moderate changes in the scale of prisons operations.

V. *Comparing Costs: Miscellaneous Operating Costs*

A number of miscellaneous costs -- like travel, utilities, equipment, etc. -- constitute the final component of BOP prison operating costs. Table 11 indicates the expenditures reported by the three comparison facilities for these items in FY 1998.

TABLE 11: FY 1998 EXPENDITURES ON OTHER OPERATING COSTS

Amount Spent per Year on	*Elkton*	*Forrest City*	*Yazoo City*
Travel	$246,861	$233,329	$259,756
Transportation	$84,312	$56,700	$27,817
Utilities	$1,459,808	$942,611	$984,655
Other Admin Services	$253,863	$211,135	$186,631
Admin Supplies	$435,593	$464,243	$468,509
Equipment	$81,501	$16,581	$8,023
Grants	$2,905	$11,218	$13,690
Insurance Claims	$2,341	$274	$4,723
Interest	$1,306	$1,649	$2,560
TOTAL	**$2,568,490**	**$1,937,740**	**$1,956,365**
ESTIMATE USED (average of Forrest City and Yazoo City)	***$1,947,052***		

It is immediately apparent that the costs reported by Elkton exceed those reported by the other two facilities. A line-by-line comparison of the three reports reveals that expenditures on utilities account for virtually all of this roughly $500,000 discrepancy -- a cost difference attributable to the climate differences among the facilities.[11] Since the Taft facility is located in southern California, it is likely that utility costs at Taft are more similar to those found at Forrest City and Yazoo City.

To calculate the appropriate level of miscellaneous expenditures for the hypothetical BOP operation of Taft, these costs were assumed to be fixed or independent of small variations in inmate populations. The "Other Operating Costs" calculations reported in Table 2 (reproduced below as Table 12) was computed as the average of miscellaneous costs reported by Forrest City and Yazoo City.

[11] This assumption is based on conversations with Warden LaManna at the Elkton facility.

TABLE 12 : CONSTRUCTING COST COMPARISONS: ADDING OTHER OPERATING COSTS

	Wackenhut Operation of Facility:	***BOP Operation of Taft Facility:***	
	Expected BOP Cost of Taft Contract	***Wackenhut Staffing Model***	***BOP Staffing Model***
Expected Contract Costs	$27,641,997		
Contract Monitoring	$618,691		
Staff Compensation		$21,226,524	$17,893,876
Inmate Services @ $5.50		$3,906,595	$3,906,595
Other Operating Costs		***$1,947,052***	***$1,947,052***
TOTAL OPERATING COST	$28,260,688	$27,080,171	$23,747,523
Avoidable Support Cost (3.65%)		?	?
Annualized Avoided Activation Cost		?	?
TOTAL ANNUAL COST AVOIDED	**$28,260,688**	**?**	**?**
AVOIDED COST PER INMATE DAY	**$39.79**	**?**	**?**

VI. *Comparing Costs: Support Costs*

“Avoidable support costs” represent the next major cost category relevant to this analysis of privatization. Within the BOP cost accounting system, the term “support costs” refers to a set of common or joint expenditures that are budgeted and tracked centrally. The four major categories of BOP support costs are training, regional office costs, national programs and central office costs.

Many support expenditures benefit ***all*** BOP facilities, both publicly- and privately-managed. For example, central office costs are essentially independent of privatization -- they are the same whether Wackenhut runs Taft as a BOP contractor or the BOP runs Taft directly on its own behalf. To the extent that support costs are independent of the status of Taft, they are irrelevant to the analysis of the merits of privatization and can be ignored.

On the other hand, some support costs are genuinely avoidable through privatization. For example, staff training is primarily the responsibility of whoever operates the Taft facility. If Taft is run by Wackenhut, then the BOP can avoid a significant portion of the training cost that it would incur if it operated Taft directly.

In order to calculate the relevant support costs for a hypothetical BOP facility, it is first necessary to determine which support cost categories represent genuinely avoidable expenditures. (As indicated above, only *avoidable* support costs are relevant to the question of whether or not privatization saves taxpayer dollars.) By eliminating support costs (like central office expenditures) that are independent of privatization, one is left with support costs that can reasonably be treated as avoidable.

For the purposes of this study, it is reasonable to assume that all regional and central office expenditures are ***un***avoidable and can therefore be ignored when evaluating the merits of privatization. Since training is primarily the responsibility of Taft management, ***all*** training expenditures have been classified as avoidable.[12] Finally, roughly half of national program expenditures have been classified as avoidable. Table 13 provides a break-down of these expenditures on national programs and indicates which cost categories were treated as avoidable. The "Adjustments" column indicates which of the reported support costs were deducted from reported totals. These deletions can be explained as follows:

1. Printing costs were deleted from "Institution Administration" because the BOP provides forms to Taft (just as it would if Taft were publicly managed).
2. Workers' compensation and unemployment expenses were deleted from "Institution Administration" because they were already accounted for in the method used to calculate staff compensation costs.
3. Apart from the costs listed above, all other Institution Administration costs were classified as avoidable.
4. All "Administration" expenditures were assumed to be independent of privatization and were deleted.
5. Central office relocation and background investigation costs were assumed to be independent of privatization and were deleted.
6. The cost of national awards was assumed to be independent of privatization and was deleted.
7. All other expenditures on national programs were treated as avoidable. This approach tends to *overestimate* BOP avoidable costs, thereby *strengthening* the case for privatization. (The higher are BOP costs of "in-house" operations, the more likely it is that privatized operations will save money.) This approach was taken to avoid the appearance of favoritism.

[12] This assumption favors the privatization option, as it probably overstates the true extent to which training costs can be avoided.

TABLE 13: BOP AVOIDABLE SUPPORT COSTS, FY 1998

		Total	***Avoidable***	***Adjustments***
Inmate Care & Programs		$1,302,958	$1,302,958	$0
Institution Security		$7,279,840	$7,279,840	$0
Institution Administration		$54,756,609	$32,928,275	$21,828,334
Note: Adjustments to Institution Administration include the following costs:				
Printing & Reproduction (BOP provides Taft forms)	$2,095,648			
Workman's Compensation (included elsewhere)	$18,632,686			
Unemployment (included elsewhere)	$1,100,000			
Total:	$21,828,334			
Staff Training		$23,520	$23,520	$0
Institution Maintenance		$883,431	$883,431	$0
Administration		$27,237,472	$0	$27,237,472
Note: Administration Adjustments include the following costs:				
Central Office Building Security-Guard Service	$1,019,823			
Central Office/Regional Office Building Lease	$9,180,532			
Justice Data Center Services	$15,700,000			
FMIS Migration	$500,000			
National Incentive Awards	$47,391			
Communication-Utilities Misc.	$151,667			
Supplies	$181,978			
Services (Misc)	$346,036			
Personnel Costs (Buyout & other)	$110,044			
Total:	$27,237,472			
Other National Programs Support Costs:				
75% of Data Processing		$5,731,757	$5,731,757	$0
Backgrd. Investig.-Central Office		$300,949	$0	$300,949
CC 856 (FMIS Migration Equipment) Occd 310		$103,967	$103,967	$0
Background Investigations-Field		$12,347,281	$12,347,281	$0
Terre Haute Bus Operations-Field		$1,097,139	$1,097,139	$0
Vehicle Purchases		$4,197,684	$4,197,684	$0
Relocation-Central Office		$30,419	$0	$30,419
National Awards		$19,253	$0	$19,253
TOTAL - NATIONAL PROGRAMS		**$115,312,279**	**$65,895,852**	**$49,416,427**

The “Avoidable” column in Table 13 indicates exactly which support costs were included in the set of costs ultimately used to evaluate the Taft privatization experiment. (For each cost category, the “avoidable” amount is computed as the difference between the “total” and “adjustment” amounts.)

The next step is to determine how much of these avoidable costs should be assigned to the BOP operation of Taft. Under current BOP cost accounting practice, support costs are allocated to individual secure institutions in proportion to each institution’s reported operating expenditures. This approach is consistent with methods commonly used to allocate “overhead” expenditures to operating divisions in private companies.

TABLE 14: BOP OPERATIONS AND SUPPORT COSTS, FY 1998

	Operations	***Support***	***Support %***	***Total Expenditure***
Secure BOP Facilities	$1,963,547,736	$232,529,919	11.84%	$2,196,077,655
Off-Line BOP Facilities	$218,595,167	$25,886,774	11.84%	$244,481,941
Taft	$29,193,235	$3,457,161	11.84%	$32,650,396
NIC	$15,660,867	$1,867,841	11.93%	$17,528,707
Contract State & Local	$99,714,279			$99,714,279
Contract Comm. Corr.	$104,010,122			$104,010,122
Legal Settlement	$75,015,590			$75,015,590
TOTAL BOP EXPENDITURES	**$2,505,736,995**	**$263,741,695**		**$2,769,478,690**

Table 14 indicates *total* BOP operating and support expenditures reported for FY 1998, along with the implied “overhead rates” for these expenditures. The portion of support costs officially allocated to BOP contracts with state and local governments and community corrections facilities is included with the operations expenditures reported in Table 14. No support costs were allocated to the moneys expended in settling legal claims.

The 11.84 percent add-on used to allocate support costs to secure BOP facilities is clearly too high for the purposes of this analysis: it includes ***both*** avoidable and unavoidable support costs.

Table 15 indicates how the above assumptions about support costs can be used to adjust the 11.84 percentage add-on. In particular, it lists the amounts spent by the BOP in each of the four support cost categories during FY 1998, and indicates what portion of these expenditures are classified as genuinely avoidable.

TABLE 15: BOP AVOIDABLE SUPPORT COSTS, FY 1998

	Total Support Costs, FY 98	*Avoidable Support Costs*
Regional	$51,358,354	
Training	$15,334,688	$15,334,688
Central Office	$81,736,375	
National Programs	$115,312,279	$65,895,852
TOTAL	**$263,741,695**	**$81,230,540**
MARK-UP NEEDED TO ALLOCATE SUPPORT COST:	11.84%	3.65%

Table 15 also makes it possible to compute the percentage add-on needed to calculate *avoidable* support costs for the (hypothetical) BOP operation of Taft. If one follows the current BOP practice of allocating support cost in proportion to operating costs, then the appropriate percentage add-on is 3.65 percent (instead of 11.84 percent). This method was used to compute the costs reported in Table 2 (reproduced below as Table 16): support costs which could be avoided by privatization were assumed equal to 3.65 percent of calculated operating costs.

TABLE 16: CONSTRUCTING COST COMPARISONS: ADDING SUPPORT COSTS

	Wackenhut Operation of Facility:	*BOP Operation of Taft Facility:*	
	Expected BOP Cost of Taft Contract	*Wackenhut Staffing Model*	*BOP Staffing Model*
Expected Contract Costs	$27,641,997		
Contract Monitoring	$618,691		
Staff Compensation		$21,226,524	$17,893,876
Inmate Services @ $5.50		$3,906,595	$3,906,595
Other Operating Costs		$1,947,052	$1,947,052
TOTAL OPERATING COST	$28,260,688	$27,080,171	$23,747,523
Avoidable Support Cost (3.65%)		***$988,426***	***$866,785***
Annualized Avoided Activation Cost		?	?
TOTAL ANNUAL COST AVOIDED	**$28,260,688**	**?**	**?**
AVOIDED COST PER INMATE DAY	**$39.79**	**?**	**?**

VII. Comparing Costs: Activation Costs

Activation costs represent the final component of avoidable cost to be calculated. The purpose of this part of the exercise is to determine what start-up expenditures the BOP would have had to incur over and above the amounts actually spent on the Taft facility. Since we are only interested in *avoided* costs, we can ignore construction costs and the BOP's share of supplying the facility: those costs would have been incurred in any of the scenarios under consideration.

To define this last step in our analysis, we start by computing the average of the activation budgets for the comparable Federal facilities at Elkton, Forrest City and Yazoo City. From this base we deduct (i) the value of the inventory left by the BOP at Taft[13] and (ii) the value of payments by the BOP to Wackenhut prior to the arrival of the first prisoner.

The remaining figure represents the set of start-up costs to be spread over the ten-year life of the contract. The rationale for this amortization period is as follows. Wackenhut was awarded a three-year contract with seven option years. Nevertheless, it is appropriate to spread activation costs over the full ten year period, as the BOP can reasonably expect to avoid activation costs for this period of time. If Wackenhut's contract is not renewed for all seven option years, then the terms of the contract require Wackenhut to return the facility in working order with all equipment intact. New management would presumably be able to come in and pick up where Wackenhut left off.

To calculate an annualized version of this cost, we can assume that the BOP (i.e., the Federal government) financed its initial purchases of supplies by selling 10-year Treasury notes, using the proceeds to pay for supplies, and repaying the "loan" over the next decade. In the last auction of 10-year U.S. Treasury notes prior to the award of the Wackenhut contract, the required yield was 6.74%. This "rate of return" can then be used to define the annual payments deemed sufficient by the market at the time to pay off the start-up cost loan over ten years.[14]

Table 17 provides the details of the calculations used to compute the final entries reported in Table 2 (reproduced as Table 18 below).

TABLE 17: AVOIDABLE TAFT ACTIVATION COSTS

Average BOP Activation Budget at comparable BOP facilities	$28,753,136
less Value of inventory left for contractor use at Taft	$(7,000,000)
less Payments to Wackenhut during activation period	$(9,213,999)
Net Activation Cost Avoided by Privatization	***$12,539,137***
Annualized Activation Cost: (10-year amortization of total activation cost at 6.74%, the yield on 10-year Treasury notes auctioned on 5/7/97.)	***$1,763,895***

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[13] The Taft facility was originally scheduled to open as a BOP-managed prison. Some inventory had already been purchased by the BOP and delivered to the facility prior to the decision to put the project out to bid; this inventory was left at the site for the use of the private contractor chosen to operate the facility. As a result, the cost of this inventory was ***not*** an expenditure that the BOP could avoid through privatization.

[14] More formally, these payments are defined to be the 10-year annuity with a present value equal to the start-up costs computed above -- when the interest rate is 6.47 percent.

TABLE 18 : FINAL TAXPAYER COST COMPARISONS

	Wackenhut Operation of Facility:	*BOP Operation of Taft Facility:*	
	Expected BOP Cost of Taft Contract	***Wackenhut Staffing Model***	***BOP Staffing Model***
Expected Contract Costs	$27,641,997		
Contract Monitoring	$618,691		
Staff Compensation		$21,226,524	$17,893,876
Inmate Services @ $5.50		$3,906,595	$3,906,595
Other Operating Costs		$1,947,052	$1,947,052
TOTAL OPERATING COST	$28,260,688	$27,080,171	$23,747,523
Avoidable Support Cost (3.65%)		$988,426	$866,785
Annualized Avoided Activation Cost		$1,763,895	$1,763,895
TOTAL ANNUAL COST AVOIDED	**$28,260,688**	**$29,832,492**	**$26,378,203**
AVOIDED COST PER INMATE DAY	**$39.79**	**$42.00**	**$37.14**

VIII. The Annual Bottom Line

All the parts of the cost analysis model described at the beginning of this report are now in place. As long as the BOP uses a staffing plan similar to the ones now in place at FCI Elkton, FCI Forrest City and FCI Yazoo City -- and FY 1998 BOP costs remain representative of future costs -- then the privatization experiment at Taft is ***not*** likely to save taxpayer dollars.

There are several factors that, in the long run, may force us to modify this conclusion. For example, BOP operating costs may rise faster over time than contract costs, particularly if the annual cost of living adjustment in Federal salaries exceeds the annual increase in fees paid by the BOP to Wackenhut. If this difference were great enough and/or persisted long enough, privatization could become the less expensive option. Significant changes in either the BOP or the Wackenhut staffing patterns could lead to similar modifications.

There is also a subtle, long-run benefit from privatization that lies beyond the scope of this report: the efficiency incentive embodied in the *threat* of competition from outside -- i.e., private sector -- contractors. Public sector employees have elsewhere demonstrated their ability to compete with private sector firms and win contracts awarded strictly on the basis of cost.[15] For the Federal

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[15] See, for example, the case of the Indianapolis Department of Transportation (documented in Harvard Business School Cases 9-196-115 and 9-196-117). In 1992 the unionized employees of the city Department of Transportation bid successfully against outside firms for a contract to fill potholes in city streets.

prison system, efficiency does not require that private sector contractors actually run public facilities. The *possibility* of privatization by itself represents a powerful motivating force. On-going comparisons of public and private management can help to keep *all* prison operators providing quality service at the lowest possible cost to taxpayers.