

Why Private Prisons Don't Save Money:

Examining the Overhead Costs of Executive Pay Through SEC Documents

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In general, private prisons save little

“For example, it was discovered that, rather than the projected 20 percent savings, the average saving from privatization was only about 1 percent, and most of that was achieved through lower labor costs.”

James Austin and Garry Coventry, “Emerging Issues on Privatized Prisons” U.S. Department of Justice, Bureau of Justice Assistance, February 2001, NCJ 181249, p. iii.

Why don't more studies find greater savings?



“The private sector is more efficient than government”

-At worst, mere ideology
-At best, hypothesis

- ‘Efficiency’ includes (but is not limited to) overhead costs...
- But private prison companies are traded on the stock exchange and have costs that public Depts of Correction do not have.



New Research Question:

- Examine the question of overhead costs by looking specifically at the area of salary:

How does the Executive Pay in private prisons compare with government Dept of Corrections officials in similar size systems?

New Research Methodology:

- Use Securities and Exchange Commission documents filed by private prison companies to understand more about overhead costs and business operations.



Methods

Comparison of private prisons to states based on

- Number of people incarcerated
 - state prison population minus number in private prisons (no double counting)
 - Conservative assumption because
 - State must create Request for Proposals for privatization, evaluate responses, award contract and monitor contract compliance
 - Parole and Probation populations not included, but responsibility of state DOC officials and not private prisons
- Size of financial responsibility
 - BJS state expenditures: Direct Current Outlay
 - Exclusion of Capital Outlays increases validity of comparison: state outlay and total revenue for private prisons



DATA

- Securities and Exchange Commission filings

- Def 14A (Proxy) has detailed information about executive pay
- 10K (Annual Report) for number of inmates and revenue

Sec.gov > EDGAR > Search for Company Filings >
[Companies & Other Filers](#)

CIK = 0001070985 for CCA

0000923796 for Geo Group (formerly Wackenhut)

- FOIA for Dept of Corrections salaries

- BJS

- Justice Expenditure and Employment Extracts 2005, Table 4
- *Prisoners in 2006* (NCJ219416) - number of inmates 12/31/2006, Table 1 minus Appendix Table 4 [# of inmates in private facilities]
- Probation and Parole in the United States 2006 (number under supervision 12/31/2006)



Corrections Corp of America: Two Highest Executive Salaries, 2007

Principal Position	Salary	Stock Options and Awards	Incentive Plan Compensation	All Other	TOTAL
John D. Ferguson: President, CEO & Vice Chairman of the Board	\$712,249	\$943,190	\$1,068,374	\$107,328	\$2,831,141
Richard P. Seiter: Executive VP and Chief Corrections Officer	\$295,075	\$632,826	\$422,613	\$40,138	\$1,410,652

Corrections Corp of America: Two Highest Executive Salaries, 2007 - NOTES

- Information from CCA's form Def 14A dated April 14, 2008. Table reflects the two highest salaries for people who were employed in the same position for the entire year.
- 'Stock Options and Awards' = 'Restricted Stock Options' + 'Option Awards' (value is calculated in accordance with FAS 123R)
- 'Other' includes 'Change in Non-Qualified Deferred Compensation Earnings' and 'All Other Compensation'
 - **Nonqualified Deferred Compensation Plan:** provides "participating executives with the opportunity to defer a portion of their compensation. Pursuant to the Executive Deferred Compensation Plan, participating executives may elect to contribute on a pre-tax basis up to 50% of their base salary and up to 100% of their cash bonus. The Company matches 100% of contributions up to 5% of total cash compensation. The Company also contributes a fixed rate of return on balances in the Executive Deferred Compensation Plan, determined at the beginning of each plan year."
 - **All Other Compensation:** matching contributions to Nonqualified Deferred Compensation Plan and "Payment by the Company of life insurance premiums on behalf of each of the Named Executive Officers."



Geo Group: Two Highest Executive Salaries, 2007

Principal Position	Salary	Stock Options and Awards	Incentive Plan Compensation	All Other	TOTAL
George C. Zoley: Chairman of the Board, CEO & Founder	\$873,269	\$933,388	\$1,842,750	\$210,794	\$3,860,201
Wayne H. Calabrese: Vice Chairman, President & COO	\$613,654	\$564,467	\$1,036,152	\$67,211	\$2,381,484

Geo Group: Two Highest Executive Salaries, 2007 - NOTES

- Information from Geo's from Def 14A dated April 3, 2008. Table reflects the two highest salaries for people who were employed in the same position for the entire year.
- 'Stock Options and Awards' = 'Restricted Stock Options' + 'Option Awards' (value is calculated in accordance with FAS 123R)
- 'Other' includes 'Change in Pension Value and Non-Qualified Deferred Compensation Earnings' and 'All Other Compensation'
 - **Nonqualified Deferred Compensation Plan:** Retirement plan payments plus 'tax gross ups,' which are payments companies make to cover the taxes on other payments (the tax gross-ups are themselves taxable, so additional tax gross-ups are needed to cover the previous gross-ups).
 - **All Other Compensation** – Auto Allowance, Club Dues, and Excess Group Life Insurance.



Data Assumptions I

- Stock awards and options will *not* be included in executive pay figures.
 - Goal is to measure overhead costs, and stock or option awards do not 'cost' the company as much as their reported value.
- However, this is a conservative estimate because there are
 - Direct costs related to stock registration, ownership transfer transactions, reporting in Def 14A.
 - Opportunity costs incurred in giving them to executives rather than selling them to the public in secondary offering to raise money for business.



Data Assumptions II

Incentive pay *is* included, even though it is based on performance and not technically guaranteed.

- Each year from 2002 to 2007, the top executive of both CCA and Geo received incentive pay.
- Incentive pay ranged from a low of 72% of base salary to a high of 222%.

	5 year average	2007	2006
CCA	113%	150%	150%
Geo	151%	211%	222%

- CCA: “The target for bonuses was set at 75% of base salary” (Def 14A)
- Geo: Annual Incentive Target Amount (as percentage of base) for CEO = 150% (Def 14A)
- Incentive based on certain measure of revenue, but (GEO, Def 14A)

“Extraordinary items and changes in accounting principles, as defined by U.S. generally accepted accounting principles, may be disregarded in determining our net income after tax. Non-recurring and unusual items not included or planned for in our annual budget may also be excluded from net income after tax in the sole and absolute discretion of the Compensation Committee.”



Results 1: Top Wage Earner in Public DOC v Private Prisons, 2007

State/ Company	Position	Salary	Inmates Under Supervision	Fiscal Responsibility (\$billions)
GEO	Chairman, CEO	\$2,926,813	54,000	\$1.0
CCA	President, CEO	\$1,887,951	72,000	\$1.5
California	Secretary	\$225,000	172,365	\$5.7
Texas	Executive Director	\$165,000	153,489	\$2.9
New York	Deputy Commissioner	\$157,069	63,315	\$2.7
Michigan	Director	\$145,000	51,577	\$1.6
Georgia	General Counsel	\$131,908	47,717	\$1.2
Florida	Secretary	\$128,750	86,619	\$2.2
Ohio	Director	\$118,205	47,086	\$1.3

Results II: 2nd Highest Wage Earner in Public DOC v Private Prisons, 2007

State/ Company	Position	Salary	Inmates Under Supervision	Fiscal Responsibility (\$billions)
GEO Group	Vice Chairman, President & COO	\$1,817,017	54,000	\$1
CCA	Executive Vice President and Chief Correctional Officer	\$777,826	72,000	\$1.5
Federal BOP	Director	\$197,200	193,046	\$5.1
California	Undersecretary for Programs	\$158,760	172,365	\$5.7
Georgia	Commissioner	\$128,993	47,717	\$1.2
Texas	Deputy Executive Director, Director of Financial Services, & Director of Correctional Institutions (3 positions)	\$128,124	153,489	\$2.9
Michigan	Administrator for Parole and Probation, Regional Administrator (2 positions)	\$115,027	51,577	\$1.6
Florida	Deputy Secretary	\$114,177	86,619	\$2.2
New York	General Counsel	\$110,202	63,315	\$2.7
Ohio	Assistant Director	\$96,692	47,086	\$1.3

Results I & II - NOTES

- Both:
 - Salary for Geo and CCA executives = Salary + Incentive Plan Compensation + Other [see slides 7 and 9]
 - Salaries for Florida are for 2008.
- Results 1:
 - Table includes top wage earner engaged in corrections management. It excludes Georgia Director of Medical Services (\$168,300) and Florida Senior Physician (\$154,266).
 - The top salary in the Federal Bureau of Prisons was a Regional Director who made \$205,312 in 2007 (higher than the BOP Director because of years in service?). Since the region is unknown, statistics on prisoners and budget were unavailable and so excluded from this table.



Discussion I

Private prisons have considerable overhead when compared to their state counterparts in the area of executive salaries.

- Salaries are considerably higher – Chairman and CEO of Geo makes more than 10 times what the head of California’s BOP makes for supervising one-third fewer inmates (not including parole and probation), and overseeing an operation less than 20% of California’s outlays for corrections.
- The pattern of disproportionately high pay would hold for many executives beyond the top two we studied.
- In addition to executives, CCA and Geo have Boards of Directors who receive annual retainers plus pay for serving on committees and attending meetings.
 - CCA Board of Directors = \$50,000 a year retainer. 10 Directors who made between \$69,000 and \$89,000
 - Geo Board of Directors = \$60,000 a year retainer. 5 Directors who made between \$68,800 and \$97,100.



Median household income in 2007 = \$50,233 . [Census Bureau, *Income, Poverty and Health Insurance Coverage in the United States, 2007*, p 5]

Discussion II

The *process* for setting executive pay may well generate more overhead costs (be less efficient) than in the public sector.

- Set “compensation philosophy,” and annual implementation with respect to base salary, performance targets for incentive pay, system for distributing and vesting stock awards and stock options, and levels of other payments
- CCA and Geo have Compensation Committees. Board members serving on it receive payments [information from respective Def 14A forms – see DATA]:
 - for CCA:
 - Compensation, Nominating and Governance chair retainer = \$5,000
 - Committee chair meeting fee = \$2,500 (per meeting)
 - non-Chair committee meeting fee = \$2,000 (per member per meeting)
 - Compensation “Committee meetings typically are attended by the Committee members, the Committee’s compensation consultant and legal advisors...”
 - “Beginning in 2000 and continuing through 2008, the Committee has engaged PricewaterhouseCoopers LLP (“PwC”) to assist it in reviewing the Company’s compensation strategies and plans.”
 - For Geo:
 - Committee Chair payment = \$5,000
 - Committee meeting fee = \$1,200 (per member per meeting)
 - In 2004, Geo hired Towers Perrin – “The Compensation Committee intends to periodically retain a nationally recognized independent compensation consulting firm in order to conduct updated reviews of our named executive officer compensation.”



Conclusion

Other overhead costs of publicly traded private prison companies include:

- shareholder lawsuits, Securities and Exchange Commission filings, investor relations, advertising, development costs related to contract development [“customer acquisition costs’], recapitalization and financing transactions, mergers and acquisitions, etc

This presentation is part of
Donna Selman and Paul Leighton, *Punishment for Sale*
(Rowman and Littlefield, 2010)



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PUNISHMENT FOR SALE

PRIVATE PRISONS, BIG BUSINESS, AND THE INCARCERATION BINGE
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<http://paulsjusticepage.com/paul/pauls-cv.htm>

See also:

The Problems With Private Prisons,

http://www.paulsjusticeblog.com/2013/04/the_problems_with_private_prisons.php

Prison Privatization in the U.S. and Japan

http://www.paulsjusticeblog.com/2014/06/we_need_a_postwarehouse_prison.php

