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Corrections Corporation of America

The Dismantling of a National Disgrace

The Basics

| | |
|--------------------|--------------------|
| Ticker: | CXW:NYSE |
| Market Cap: | US\$3.2 billion |
| Recent Price: | US\$31.60 |
| Dividend Yield: | 6.0% |
| Conclusion: | Strong Sell |

The Quick and Dirty

- Exploding corrections budgets have forced states to enact bi-partisan criminal justice reforms to reduce their prison populations.
- The US prison population peaked in 2009. Since then, states across the country have closed prisons due to excess capacity and generational low crime rates.
- Faced with empty beds, demand concerns, and a bleak outlook, this report details why we expect CCA's earnings to get smacked under the weight of current and future contract losses.

You should have expected us

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Executive Summary



In the last few decades, the United States has witnessed an explosion in the number of people behind bars. This move towards mass incarceration is an anomaly that began in the 1980s, prompted by the War on Drugs and a slew of tough-on-crime laws which were adopted nationwide.

Over that period, the national prison population grew so quickly that federal and state governments simply ran out of space for offenders. As a result, government agencies began contracting with newly-established private prison operators to handle the overflow.

Having seen mass incarceration as an opportunity for profit,¹ the private prison industry grew rapidly, in lock-step with the US prison population, to the multi-billion dollar industry it is today. And leading this industry is Corrections Corporation of America (“CCA”), a publically-traded prison operator with a history of horrendous prison conditions and human rights abuses.

In the process of building the largest prison system in the world, state budgets have exploded into an unmitigated disaster as correctional spending has become the fastest growing area of expenditure, behind Medicaid. As a result, all stripes of government have been forced to undertake sweeping reforms to reduce their prison populations and cut their corrections spending.

The US prison population peaked in 2009. Since then, states have embraced a cascade of criminal justice reforms designed to reduce incarceration rates and dismantle 30 years of over-criminalization and draconian sentences, which were once popular, but now only seen as a burden on taxpayers. Most incredible of all is that these reforms have been the result of bipartisan action. Where historically the ills of mass incarceration were a liberal issue, conservatives are joining the fight on financial concerns.

The damage these reforms are causing CCA is obvious. For example, CCA has halted a major construction project, is experiencing a glut of empty beds, and is expected to report its first-ever annual revenue decline this year. In fact, a number of CCA’s customers are terminating some or all of their contracts with the Company. Notably, California which represents 12.2% of CCA’s revenue base is expected to cancel all its contracts with the Company in the next few years.

With the US prison population declining and CCA no longer expanding organically, Management is swinging for the fences with a new growth strategy of acquiring and managing public facilities. In doing so, CCA is touting the supposed cost-savings of privatization. So far, not a single state has taken CCA up on its offer – no doubt because multiple independent and government studies have concluded that private prisons are no more cost-effective than state prisons. For example, in 2010, the Auditor General of Arizona issued a report slamming private prisons as costing as much as 16% more than state facilities.

CCA converted to a REIT this year, and as a result, its share price exploded upwards. But what may be lost on shareholders is that CCA operated as a REIT once before in the late 1990s. Its first foray into the REIT world ended in near bankruptcy. Today, CCA is facing revenue contraction, dwindling demand, and a bleak outlook. From here the road is a short one to earnings issues and dividend cuts.

¹ Ferengi Rule of Acquisition #9.

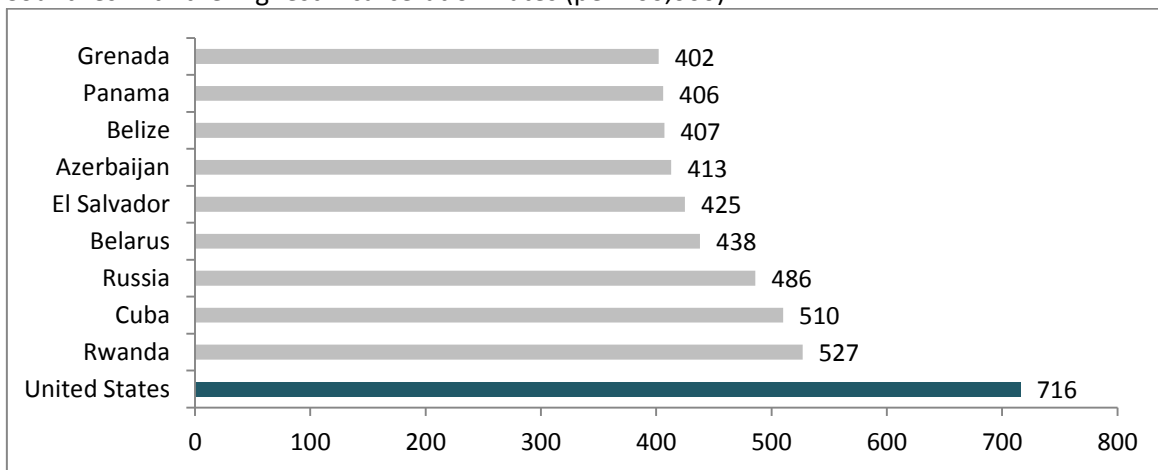
Introduction



The United States accounts for less than 5% of the world’s population, but houses more than 25% of the world’s prisoners.² In both absolute and relative terms, the US has the distinct honour of incarcerating more of its own people than any other nation on Earth – and by a substantial margin.

Exhibit 1 presents the ten countries with the highest incarceration rates in the world. Of note is that this list consists primarily of either developing nations or former members of the Soviet Bloc. Yet, this pack of colorful characters is led by a country that calls itself “the Land of the Free”. In fact, the US has an incarceration rate higher than Rwanda, a country whose statistics includes those suspected of genocide.

Exhibit 1
Countries with the Highest Incarceration Rates (per 100,000)



Source: <http://www.prisonstudies.org> (excludes countries with populations less than 100,000)

Even by its own historical standards, the current US incarceration rate is an anomaly. Prior to the 1970s, the rate hovered around 150 per 100,000 people, consistent with the rest of the developed world. However, that figure climbed to 220 by 1980, 458 in 1990, 683 in 2000, and now surpasses 700.³ This, despite the fact that crime rates peaked in the early 1990s and have trended down ever since.⁴

The explosion in incarcerations over the past 40 years was a result of several factors, including Richard Nixon’s War on Drugs and “tough-on-crime” laws which were seen as politically popular. To support these new laws, a great deal of money was thrown around by all levels of government. In hindsight, these laws had limited impact on public safety. They did however burden state budgets, ruin lives and families, and clog the justice system. And amid this chaos of tough legislation and excess funding, a new industry emerged: for-profit private prisons.

² http://www.prisonstudies.org/images/news_events/wpp19.pdf

³ <http://www.cepr.net/documents/publications/incarceration-2010-06.pdf> pg. 5

⁴ <http://www.ucrdatatool.gov/Search/Crime/State/StatebyState.cfm>

Prior to the 1980s, private prisons did not exist in the US. Today, the two biggest for-profit prisons are Corrections Corporations of America (“CCA”) and The Geo Group (“GEO”). These two companies dominate the private prison industry and trade on the New York Stock Exchange under the tickers “CXW:NYSE” and “GEO:NYSE” for a combined market value of nearly US\$6 billion.

The private prison industry’s rapid ascent can be attributed to a move towards mass incarceration, and legislation that supported longer and harsher sentences – many which were lobbied for by interest groups financed by the private prison industry itself.⁵

But it should come as no surprise that in creating a “market” for its services, the private prison industry has been embroiled in corruption and human rights atrocities. For example, in February 2011, a jury convicted former Pennsylvania Judge Mark Ciavarella of racketeering, money laundering, and conspiracy. Known as the “Kids for Cash” scandal, Mr. Ciavarella accepted nearly US\$1 million in kickbacks from private juvenile detention facilities in exchange for sending children – some as young as 10 – to jail. Children were given unjustifiably long sentences for minor offences, from throwing a piece of steak to writing a satirical MySpace profile.⁶ In one case, Mr. Ciavarella ordered a 14-year old girl shackled in court and sent directly to a detention center for vandalism, ignoring her mother’s cries that she was epileptic and needed her medication. While in detention, the girl had a seizure and banged her head against the cement wall next to her bed so hard that she cracked her dental braces.⁷

In another incident last year, a pregnant woman serving a short sentence in a CCA facility was forced to give birth in a toilet without medical help. The baby died four days later.⁸

As this report will show throughout, the above examples are by no means unique in demonstrating how perverted the justice system can become when the profit motive is introduced. But this report is not meant to focus on the moral failings of for-profit prisons – it’s meant to focus on the financial failings.

In purely financial terms, for-profit incarceration is becoming an increasingly unviable business model. Intuitively, it should be understood that current US incarceration rates are unsustainable. This report will detail how after 40 years of a growing prison system, state budgets have exploded into an unmitigated disaster, and as a result, all manners of government have been forced to undertake sweeping reforms to reduce their prison populations. In the process, CCA has been getting hit by substantial contract losses, which we only expect to get worse.

The idea of profiting from mass incarceration is an affront to the very principles of justice. For a democratic country that espouses individual freedoms and civil liberties as vehemently as the US, allowing a place for profiteers in its justice system is the greatest national disgrace since slavery. Fortunately, legislatures around the country are now starting to dismantle the mechanisms that have allowed for mass incarceration. And those in the investment community who refused to reject private prisons on moral grounds, will be forced to do so on financial grounds.

⁵ http://www.justicepolicy.org/uploads/justicepolicy/documents/gaming_the_system.pdf pg. 29

⁶ <http://abcnews.go.com/US/mark-ciavarella-pa-juvenile-court-judge-convicted-alleged/story?id=12965182#.UZuvE7VthVs>

⁷ <http://hereandnow.wbur.org/2013/01/15/kids-for-cash>

⁸ http://grassrootsleadership.org/sites/default/files/uploads/GRL_Dirty_Thirty_formatted_for_web.pdf pg. 41

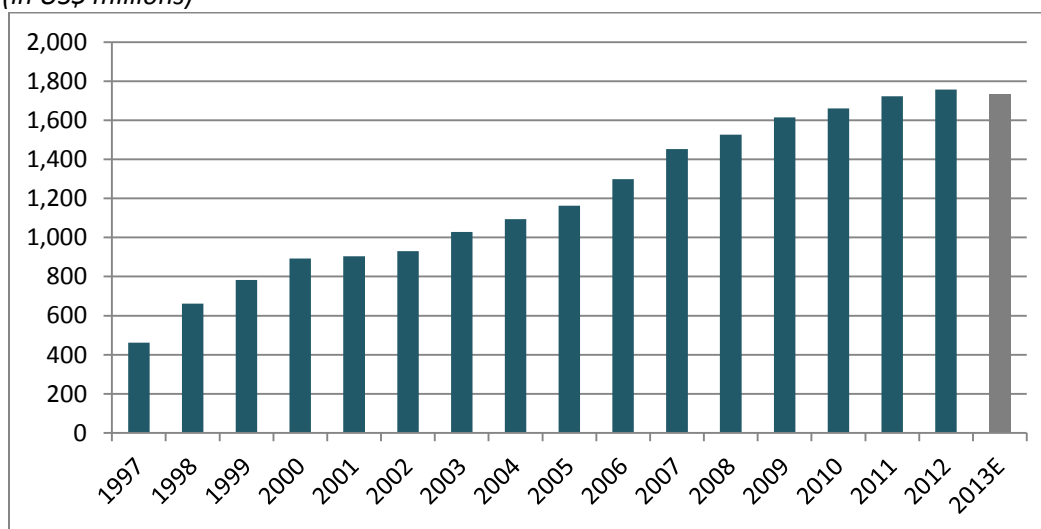
Private Prisons: Decades of Growth



CCA conducts business by building and operating its own facilities, as well as by managing and operating facilities owned by governments. The Company currently operates 67 correctional and detention facilities, including 51 that it owns, in 20 states and the District of Columbia. These facilities have a total design capacity of approximately 92,500 beds⁹ and house nearly 4% of all US prisoners.¹⁰

CCA effectively generates all of its revenue from US government contracts at the federal, state, and local level. In 2012, CCA reported a record US\$1.76 billion in revenue, a four-fold increase from 1997, the year of its IPO. Exhibit 2 illustrates this growth.

Exhibit 2
CCA Revenue
(in US\$ millions)



Source: Company 10-K filings, Bloomberg consensus, 1999 figures are consolidated

But what Exhibit 2 also illustrates is that despite its relentless upward trajectory over the last two decades, revenue growth slowed considerably in 2012 and is expected to decline for the first time this year. In fact, CCA just posted a rare year-over-year revenue decrease with the release of its Q1 2013 results.

So, how did we get here, and what's next?

⁹ <http://www.sec.gov/Archives/edgar/data/1070985/000119312513210815/d515631d10q.htm> pg. 27

¹⁰ <http://www.bjs.gov/content/pub/pdf/p11.pdf> pg. 13 (CCA has a 44% market share in private prisons)

The Need for Private Prisons



The first private prisons in the US emerged in the 1980s following the War on Drugs and several tough-on-crime laws that were adopted nationwide.

The War on Drugs

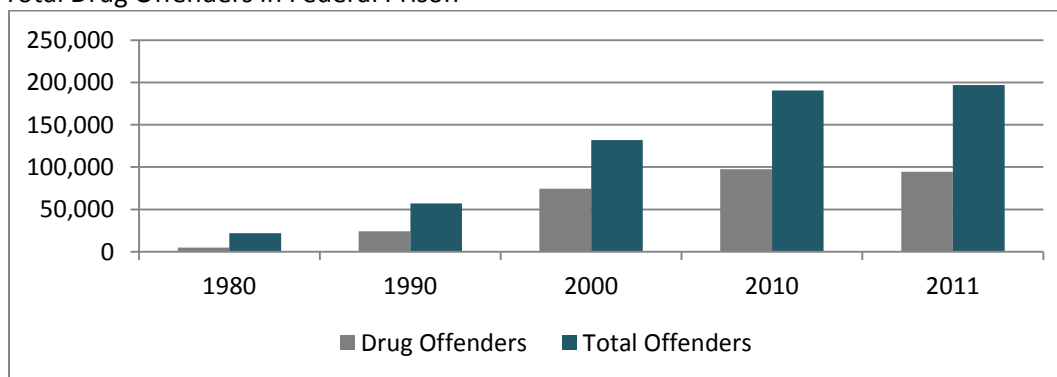
When the War on Drugs was launched in the 1970s, policymakers believed that harsh law enforcement action against those involved in drug production, distribution, and use would curtail the prevalence of controlled substances such as heroin, cocaine, and cannabis.¹¹ The idea was that through legislation and prosecution, we would eventually achieve a “drug free world”.¹²

Sometimes the line between naiveté and stupidity is a fine one, but after nearly US\$1 trillion spent on the War on Drugs,¹³ drug use has “if anything, magnified, intensified,” according to current US Drug Czar Gil Kerlikowske.¹⁴

And while drug use has increased, so have the number of people incarcerated for drug offences. When we think of the type of people behind bars, we often tend to imagine some stereotypical crazy, baby-eating dangerous minority like the infamous Salad-Tossing Man from the HBO documentary ([link here](#)). But the truth is that violent offenders only make up a minority of the US prison population. Most prisoners are locked up for low-level, non-violent crimes – particularly drug and property offences.¹⁵

In 1980, there were less than 5,000 drug offenders in federal prison, representing 20% of the total prison population. In 2010, the number of drug offenders in federal prison peaked at nearly 100,000, representing 50% of the prison population.

Exhibit 3
Total Drug Offenders in Federal Prison



Source: http://sentencingproject.org/doc/publications/inc_Trends_in_Corrections_Fact_sheet.pdf

¹¹ http://www.globalcommissionondrugs.org/wp-content/themes/gcdp_v1/pdf/Global_Commission_Report_English.pdf pg. 4

¹² http://www.foreignpolicy.com/articles/2007/08/15/think_again_drugs

¹³ <http://www.cnn.com/2012/12/06/opinion/branson-end-war-on-drugs>

¹⁴ <http://www.foxnews.com/world/2010/05/13/ap-impact-years-trillion-war-drugs-failed-meet-goals/>

¹⁵ <http://www.bjs.gov/content/pub/pdf/p11.pdf>

The driving force behind these statistics was the Anti-Drug Abuse Act of 1986 signed by Ronald Reagan as part of the War on Drugs which changed the system of federal supervised release from a rehabilitative system to a punitive system.¹⁶ Specifically, this Act created mandatory minimum sentences for drug offences, and also established much tougher sentences for crack cocaine offences than for powder cocaine cases.¹⁷ For example, the Act instituted a 100-to-1 ratio between crack and powder cocaine, treating one gram of crack as equivalent to 100 grams of powder cocaine for sentencing purposes.¹⁸

While chemically identical, crack and cocaine have vastly different users. Crack is cheaper and therefore more accessible to poor people – mostly minorities. Cocaine on the other hand, with all the allure of the models and bottles lifestyle, is anecdotally used by the Gordon Gekkos of the world.



Greed is good, but cocaine is better.

And because of this disparity, almost overnight the Anti-Drug Abuse Act of 1986 turned federal prisons into warehouses for minorities and the poor. In 1986, before the enactment of federal mandatory minimum sentencing for crack cocaine offences, the average federal drug sentence for African Americans was 11% higher than for whites. Four years later, the average federal drug sentence for African Americans was 49% higher.¹⁹

“The War on Drugs is a failure and a success. And it’s a failure in that it’s not stopped drug use in this country – a miserable failure. But it’s a great success because it’s the best economic boom that we have ever seen. It’s provided jobs for people like me, for policemen, for lawyers, for judges, people that make guns and belly chains, people that run prisons now – the private prison industry.”

- Jack Cowley, Prison Warden, Oklahoma Department of Corrections

¹⁶ http://www.stanford.edu/class/e297c/poverty_prejudice/paradox/htele.html

¹⁷ http://www.aclu.org/files/pdfs/drugpolicy/cracksinsystem_20061025.pdf pg. i

¹⁸ <http://www.ca6.uscourts.gov/opinions.pdf/13a0141p-06.pdf>

¹⁹ http://www.aclu.org/files/pdfs/drugpolicy/cracksinsystem_20061025.pdf pg. ii

Tough-on-Crime Legislation

During the 1980s and 1990s, state and federal governments said ‘goodbye’ to common sense and passed a raft of tough-on-crime measures including mandatory minimum sentencing, truth-in-sentencing laws, and three-strikes laws. As a result, the country’s prison population doubled from 1990 to 2010 to more than 1.5 million.²⁰

Mandatory minimum sentencing laws: prior to these laws, judges had wide-ranging discretion over the sentencing process. The problem with this was that the sentence imposed by one judge could be materially different than the sentence imposed by another judge for a similar offence. Mandatory minimum sentencing laws were adopted in part to correct for these disparities by limiting judicial discretion and forcing judges to impose standard penalties chosen by policy makers.²¹

And so in correcting for one problem, the pendulum swung wildly in the other direction to the point where judges were no longer able to consider factors relevant to the case, such as the defendant’s role in the offense, their circumstances, or the likelihood of committing a future offense.²² And because the most common mandatory minimum sentences are for five and 10 years, thousands of low-level offenders started getting locked up for unjustifiably long periods.

Truth-in-sentencing (TIS): these laws were adopted to ensure that offenders served the period of time that they had been sentenced to. For example, TIS advocates argued that it was deceptive to sentence an individual to “seven to nine years” and then release the individual after he or she had served only six years.²³ As a result, these laws sharply curtail the probation and parole eligibility requiring inmates to remain in prison long after they have been rehabilitated.²⁴

Three-strikes laws: these laws subject defendants convicted of three crimes to extremely long sentences.²⁵ In one case heard by the US Supreme Court, a man charged with stealing children’s video tapes was given a 50-year sentence under a three strikes law.²⁶ In another case, a man was given a life sentence for stealing socks worth \$2.50.²⁷

“It is not because crime has gone up. That is point number one. It is, rather . . . dozens of sentencing enhancement bills that have added to the average length of sentence . . . I’d hate to get to the point where, like many other states, we are spending more on prisons than we are on higher education.”

- Ohio State Senator Bill Seitz

²⁰ <http://www.thecrimereport.org/viewpoints/2012-06-rethinking-tough-on-crime>

²¹ <http://www.prisonpolicy.org/scans/famm/Primer.pdf>

²² <http://www.prisonpolicy.org/scans/famm/Primer.pdf>

²³ http://en.wikipedia.org/wiki/Truth_in_sentencing

²⁴ http://www.aclu.org/files/assets/bankingonbondage_20111102.pdf pg. 10

²⁵ http://www.aclu.org/files/assets/bankingonbondage_20111102.pdf pg. 11

²⁶ <http://www.cnn.com/2003/LAW/03/05/scotus.three.strikes/>

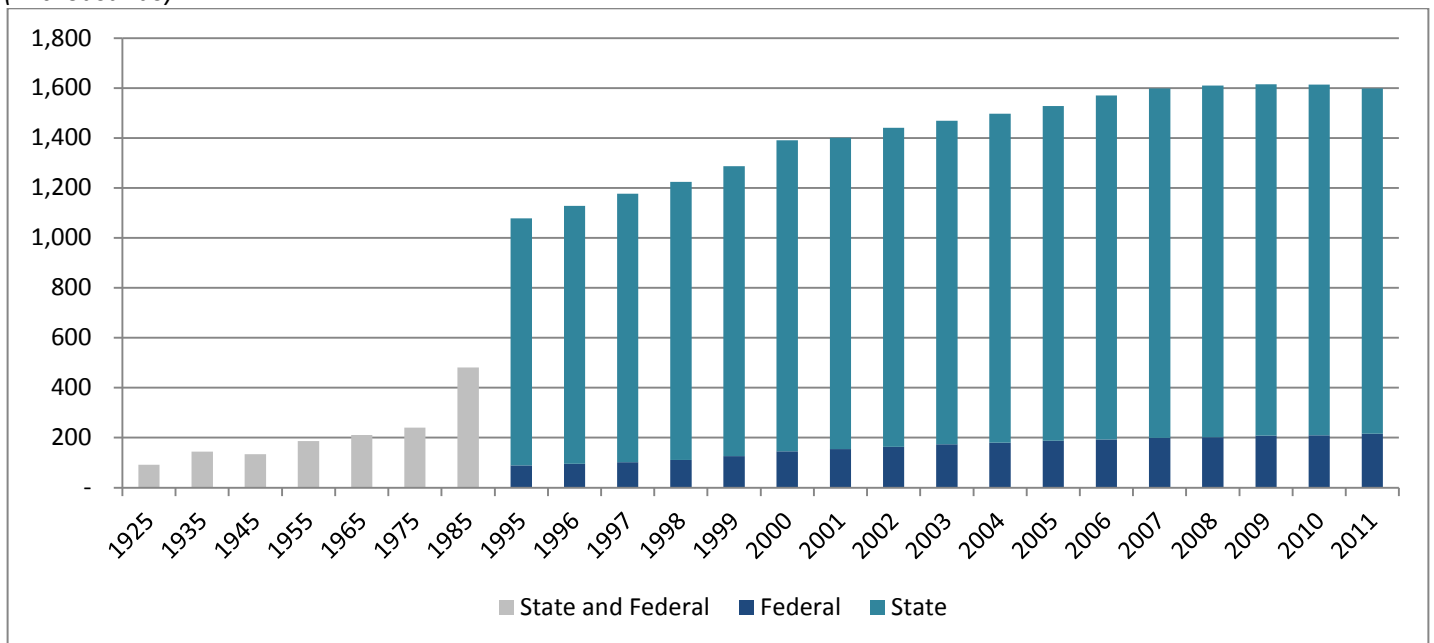
²⁷ <http://www.rollingstone.com/politics/news/cruel-and-unusual-punishment-the-shame-of-three-strikes-laws-20130327>

The combination of the War on Drugs and tough-on-crime laws emphasized punishment as the primary and often sole response to crime, giving more people longer and harsher sentences than any other time in US history.

The end result was that policies adopted in the latter part of the 20th century paved the way for an explosion in incarceration rates and the overcrowded prison system today – so much so, that public prisons simply ran out of space for offenders.

And so, in all the horrors and beauty of a free market, governments began to rely increasingly on private prisons to handle the overflow.

Exhibit 4
State and Federal Prison Population
(in thousands)



Source: Bureau of Justice Statistics, Prisoners Reports. (Split between state and federal is not available for 1925-1985)

Exhibit 4 shows the incredible growth in US prisoners between the 1970s and today. This graph goes a long way in explaining how CCA has continued to grow so rapidly, despite the fact that crime rates have been falling since 1991.²⁸

But as depressing as this graph is, it also illustrates hope in the US justice system: the prison population peaked in 2009 and has been on a decline ever since. This change in trend isn't a statistical anomaly. It is the result of something rare in US politics: bipartisan action.

²⁸ <http://www.cepr.net/documents/publications/incarceration-2010-06.pdf> pg. 8

The End of Growing Prison Populations



Long seen as a liberal issue, the need to reduce the prison population has recently received some unexpected champions: hardcore conservatives, evangelicals, and libertarians. One stunning example is Newt Gingrich, who in his '1994 Contract with America' promised an anti-crime package focused on more incarcerations, more prisons, and death penalty provisions.²⁹ That's a stark contrast to his 2011 remarks in the Washington Post where he discusses the new conservative 'Right on Crime' initiative:

"We joined with other conservative leaders last month to announce the Right on Crime Campaign, a national movement urging states to make sensible and proven reforms to our criminal justice system – policies that will cut prison costs while keeping the public safe... There is an urgent need to address the astronomical growth in the prison population, with its huge costs in dollars and lost human potential."³⁰

It's worth noting that the Right on Crime Campaign isn't a fringe segment of the political right. Its supporters include Reagan administration attorney general Ed Meese, former Drug Czar Asa Hutchinson, David Keene of the American Conservative Union, and Grover Norquist of Americans for Tax Reform. In fact, the 2012 Republican platform's official policy is that "prisons should do more than punish; they should attempt to rehabilitate and institute proven prisoner reentry systems to reduce recidivism and future victimization."³¹

While the political left has historically pushed prison reform as a social issue, conservatives are now embracing the issue in terms of costs and efficacy. But whatever the motive, the end result is the same: less people behind bars.

And so its dark days if you're a private prison operator like CCA, who admits in its most recent 10-K filing with the SEC that a reduction in the prison population is bad for business:

"The demand for our facilities and services could be adversely affected by the relaxation of enforcement efforts, leniency in conviction or parole standards and sentencing practices or through the decriminalization of certain activities that are currently proscribed by criminal laws. For instance, any changes with respect to drugs and controlled substances or illegal immigration could affect the number of persons arrested, convicted, and sentenced, thereby potentially reducing demand for correctional facilities to house them. Immigration reform laws are currently a focus for legislators and politicians at the federal, state, and local level. Legislation has also been proposed in numerous jurisdictions that could lower minimum sentences for some non-violent crimes and make more inmates eligible for early release based on good behavior. Also, sentencing alternatives under consideration could put some offenders on probation with electronic monitoring who would otherwise be incarcerated. Similarly, reductions in crime rates or resources dedicated to prevent and enforce crime could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities."³²

²⁹ http://en.wikipedia.org/wiki/Contract_with_America#The_Taking_Back_Our_Streets_Act

³⁰ <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/06/AR2011010604386.html>

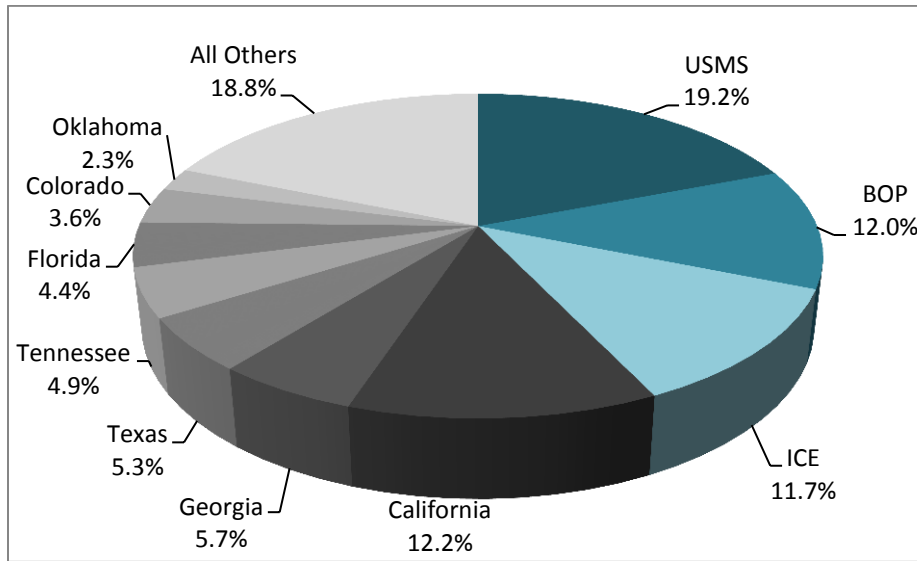
³¹ http://www.gop.com/2012-republican-platform_renewing/

³² http://www.sec.gov/Archives/edgar/data/1070985/000119312513080296/d452767d10k.htm#tx452767_15 pg.28

Indeed, CCA has every reason to be concerned. In just the last three years, a cascade of new reforms aimed at reducing the national prison population has swept across the country. Some of these reforms have already started chipping away at the financial health of CCA; but as more laws and initiatives take effect, we expect the damage to CCA's operations to grow exponentially.

Even more of an issue for shareholders is that the states which are CCA's biggest customers are generally the same states that have been most eager to adopt reforms. Exhibit 5 shows CCA's revenue source by state and federal agency.

Exhibit 5
CCA Source of Revenue in 2012



Source: CCA investor presentation

As presented in Exhibit 5, federal contracts accounted for 43% of total revenue in 2012 and came from the USMS (US Marshals Service), BOP (Bureau of Prisons), and ICE (Immigration and Customs Enforcement). However, most contracts came from the state side, which accounted for 50% of total revenue in 2012. Indeed, state spending on corrections quadrupled to US\$50 billion in the last two decades, making it the fastest growing area of state budgets, behind Medicaid.³³

But now, prompted both by budgetary concerns and an understanding that there are more effective, less expensive ways to handle non-violent offenders than handing out long prison sentences, states are reducing their corrections budgets and cutting their imprisonment rates.³⁴

³³ http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/sentencing_and_corrections/State_Recidivism_Revolution_Door_America_Prisons%20.pdf pg. 1

³⁴ http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Time_Served_report.pdf pg. 5

The infographic on the right from Pew Charitable Trusts shows the change in imprisonment rates between 2006 and 2011.

In that time, 29 states reduced their imprisonment rate for a national average decline of 3%, without affecting public safety.

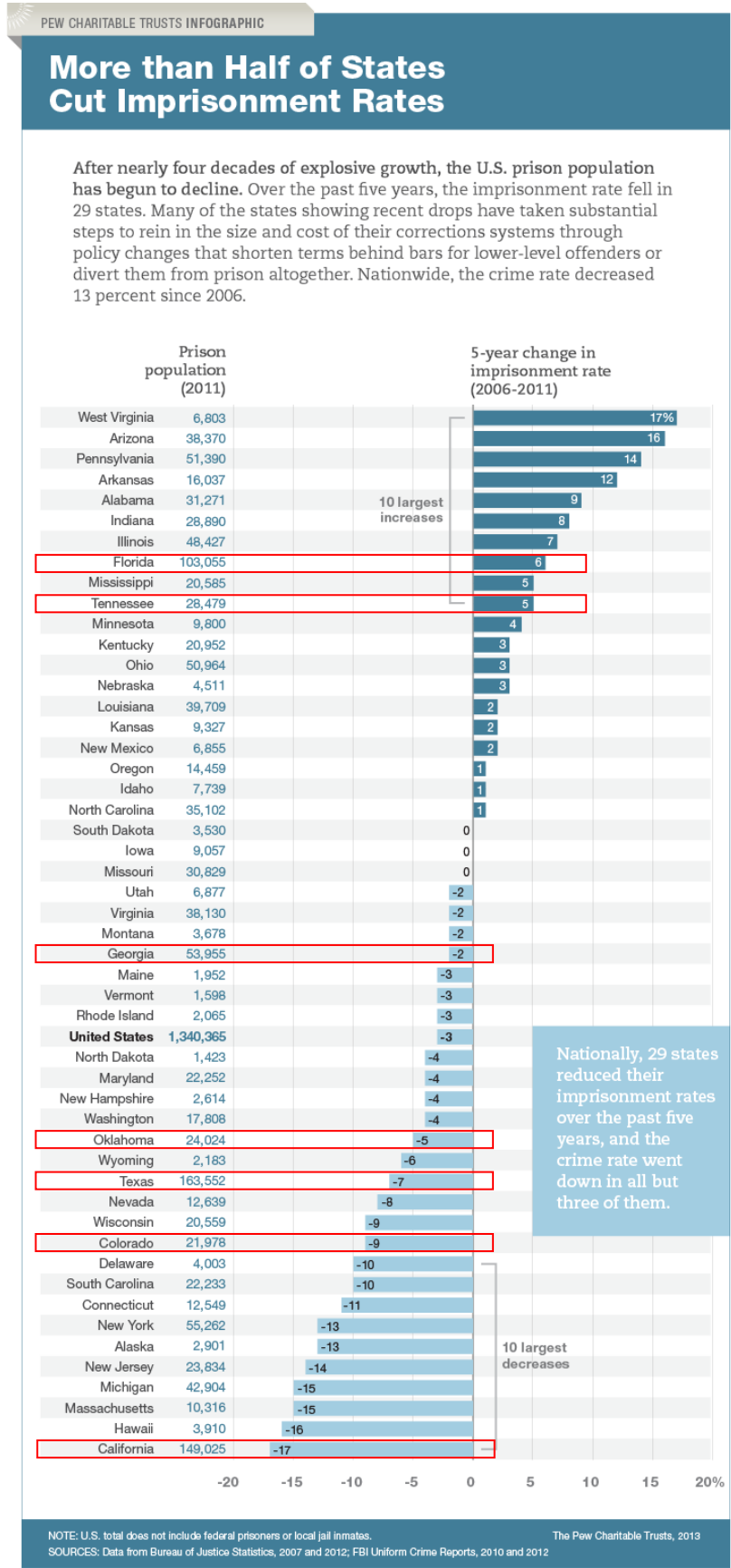
However, what this graph does not show – and what we’ve highlighted – is that most of the states that have reduced their imprisonment rates are also some of CCA’s biggest customers.

For example, of CCA’s seven biggest state customers, five have reduced their imprisonment rate. Of these five, three are CCA’s largest customers (California, Georgia, Texas) and represent 23% of the Company’s revenue.

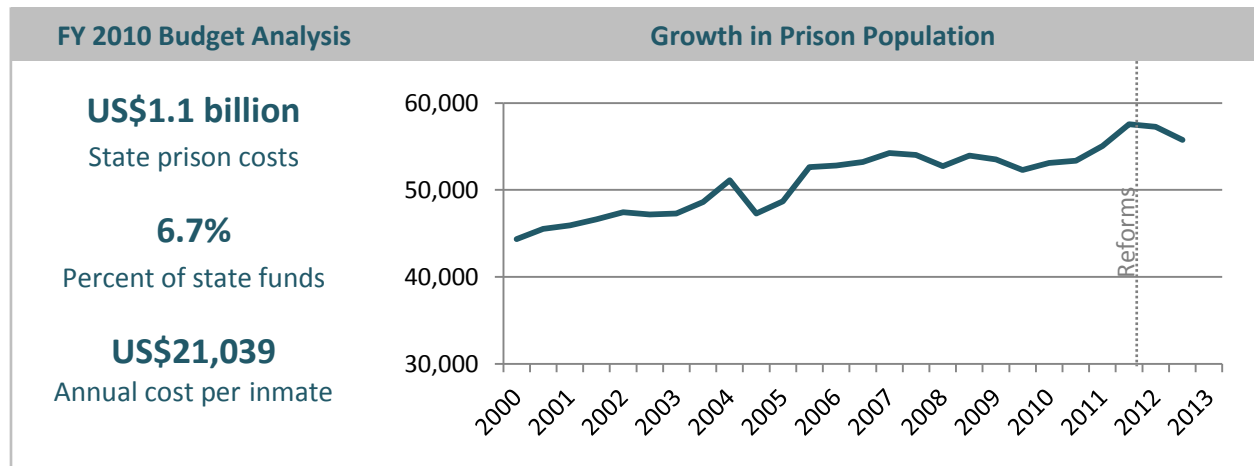
But this is only the beginning. Because of the time frame used (2006 to 2011), this graph does not adequately capture the exponential reforms that have been adopted in the last three years alone.

Next, we discuss some of the more recent reforms enacted by CCA’s largest state customers and what impact we expect they will have on the Company moving forward.

(Note: California is CCA’s largest state customer, but we discuss it last given the complexity of its prison system.)



Georgia



Source: Vera Institute of Justice, Georgia Budget in Briefs, Georgia Department of Corrections

Overview: Georgia is CCA’s second largest state customer, and accounted for 5.7% of revenue in 2012. Since 2000, the state inmate population has grown by more than 30%, with 1 in 13 adults in Georgia either on probation, parole, or behind bars.³⁵ The mind reels.

In 2011, the Georgia General Assembly established the Special Council on Criminal Justice Reform to address the state’s prison population. The Special Council’s research showed that drug and property offenders represent almost 60% of all prison admissions, most of which are lower-risk. Moreover, the average length of prison sentences for these crimes had tripled between 1990 and 2010.³⁶

Reform: Based on recommendations from the Special Council, a major reform package was passed unanimously and signed into law by Governor Nathan Deal in May 2012. This package prioritized prison space for serious offenders by creating a new system of graduated sanctions for low-level crimes and alternatives to prison for low-level, first-time offenders.³⁷ Moreover, in April 2013, Governor Deal signed a second round of criminal justice reforms allowing a departure from mandatory minimum sentences in some circumstances.

Impact: As the above graph shows, the first round of reforms (marked by grey-dotted line) appears to have already had an effect on Georgia’s inmate population. However, Governor Deal believes that the full magnitude of the reforms will start being felt five years from now as more initiatives are rolled out.³⁸

“As we reserve more of our expensive [prison] bed space for truly dangerous criminals [we] free up revenue to deal with those who are not necessarily dangerous but are in many ways in trouble because of various addictions.”

- Governor Nathan Deal, Georgia

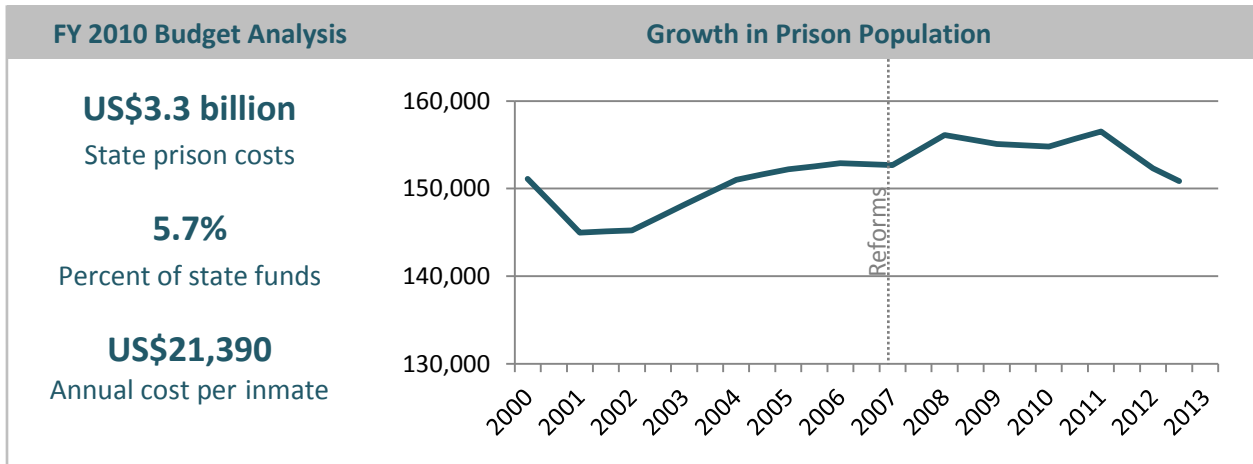
³⁵ <http://www.rightoncrime.com/reform-in-action/state-initiatives/georgia/>

³⁶ <http://www.legis.ga.gov/documents/gacouncilreport-finaldraft.pdf> pg. 9

³⁷ <http://www.rightoncrime.com/reform-in-action/state-initiatives/georgia/>

³⁸ <http://chronicle.augusta.com/news/crime-courts/2013-05-21/georgia-prison-population-declines>

Texas



Source: Vera Institute of Justice, Texas budget, Texas Department of Criminal Justice

Overview: Texas is CCA’s third largest state customer, and accounted for 5.3% of revenue in 2012. Known as *the* tough-on-crime state, Texas has served more last meals than any other state in the US – until officials took even that perk away from death row inmates. So it might be surprising to learn that Texas has actually led the way in criminal justice reform, having started major initiatives as early as 2007.

Reform: In May 2007, faced with a need to control the prison budget, the legislature passed several bills with strong bipartisan support aimed at reducing the prison population. This package expanded drug courts and created parole and probation programs as an alternative to incarceration for technical probation offenders. It also increased judicial discretion to impose probation for low-level drug offences and required judges to impose probation for certain state jail felonies. On the juvenile side, the package mandated that judges sentence juveniles convicted of misdemeanors to non-prison alternatives. In 2009, another set of reforms were passed that expanded parole as well as juvenile probations.³⁹

Impact: Between 2007 and 2011, the Texas prison population stabilized instead of increasing by over 5,000 prisoners as had been projected.⁴⁰ Since 2012, reforms appear to be in full swing as the prison population has started plummeting to the point where Texas closed two prisons operated by CCA just last month.⁴¹ Moreover, the fact that Texas is leading states in criminal justice reforms validates and legitimizes the whole movement – as does the fact that Texas is experiencing its lowest crime rate in 30 years.⁴²

“We’re in the process of sharply turning the ship... to focus more on treatment of people’s problems so they can do their time and return to society as productive citizens... in 10 years, we may look back on this as one of the most significant changes we’ve made.”

- State Representative Jerry Madden, Texas

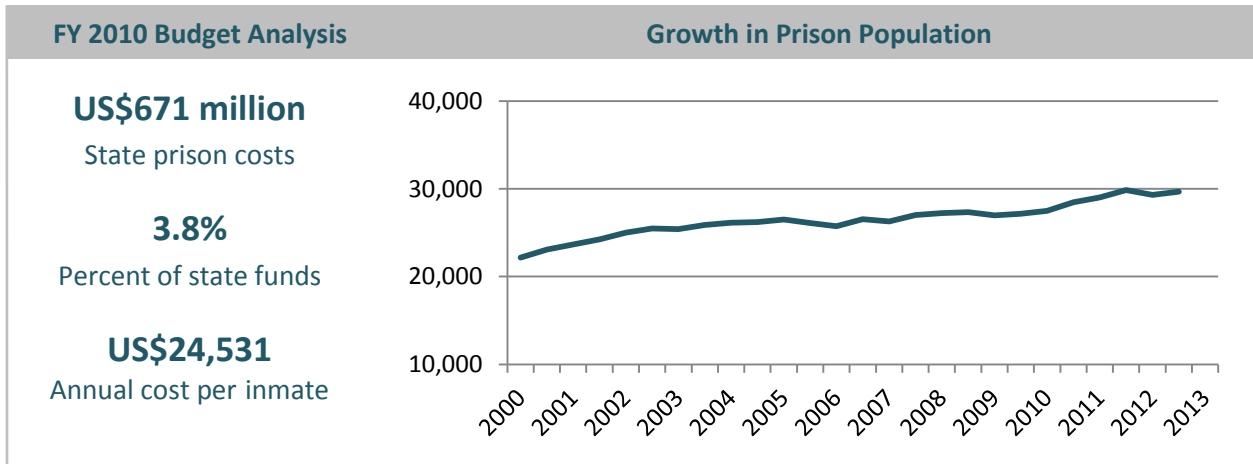
³⁹ <http://www.aclu.org/files/assets/smartreformispossible.pdf> pg. 21

⁴⁰ <http://www.washingtonpost.com/wp-dyn/content/article/2009/07/12/AR2009071202432.html>

⁴¹ <http://finance.yahoo.com/news/cca-cease-operations-certain-facilities-201500043.html>

⁴² <http://www.disastercenter.com/crime/txcrime.htm>

Tennessee



Source: <http://www.tn.gov/correction/faq.html>, TDOC Felon Population Update, Tennessee state budget

Overview: Tennessee is CCA’s fourth largest state customer, and accounted for 4.9% of revenue in 2012. Tennessee is only one of two states (along with Florida) out of CCA’s seven largest state customers to have increased its imprisonment rates between 2006 and 2011.

That may have something to do with the fact that Tennessee is CCA’s home state – and the fact that CCA has been very “generous” to the state’s politicians, having contributed heavily to the campaigns of Lamar Alexander (state senator), Bob Corker (state senator), Zach Wamp (US House of Representatives), and Bill Haslam (current state governor).⁴³

Reform: There have been some minor reforms in Tennessee, but nothing to inspire confidence. In 2010, the state authorized sentencing alternatives for nonviolent property offenses,⁴⁴ and in 2012 authorized the expungement of certain first-time, low-level offences.⁴⁵ Beyond that, there seems to be a lack of material initiatives in the pipeline.

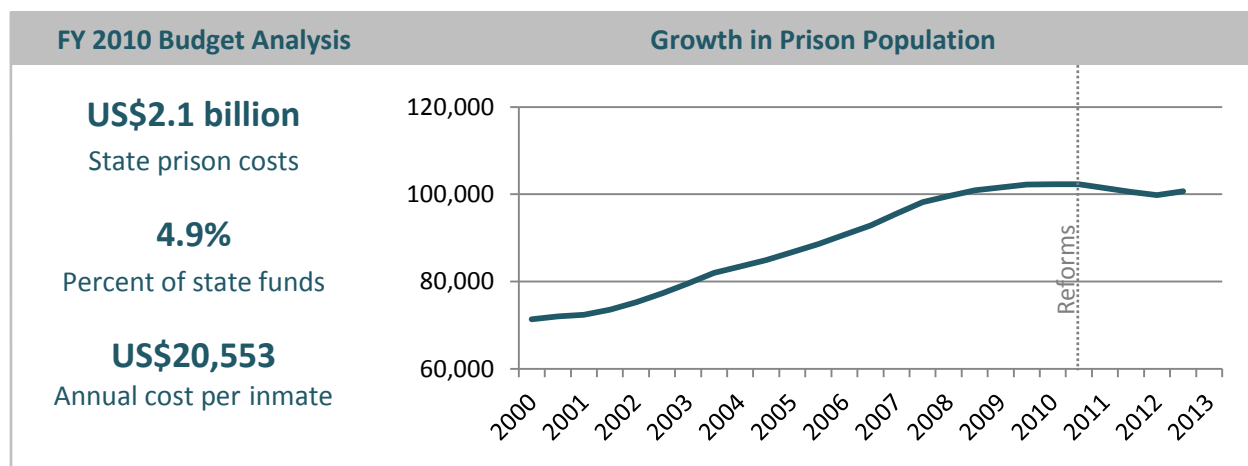
Impact: The impact of these reforms seems limited. Accordingly, we have no reason to expect Tennessee’s prison population to decline, which should bode well for CCA.

⁴³ <http://influenceexplorer.com/organization/corrections-corp-of-america/46a43aff0a6743c59fbabd588e8ee743?cycle=-1>

⁴⁴ <http://sentencingproject.org/doc/publications/publications/Final%20State%20of%20the%20Sentencing%202010.pdf> pg. 6

⁴⁵ http://sentencingproject.org/doc/publications/sen_State%20of%20Sentencing%202012.pdf pg. 19

Florida



Source: Vera Institute of Justice, Florida budget, Florida Department of Corrections

Overview: Florida is CCA’s fifth largest state customer, and accounted for 4.4% of revenue in 2012. Along with Tennessee, Florida is the only other state out of CCA’s seven largest state customers to have increased its imprisonment rates between 2006 and 2011. In fact, Florida’s prison population growth over the last decade has been nothing short of spectacular: with the state’s incarceration rate now 26% higher than the national average, Florida is showing Rwanda how it’s done.⁴⁶

And as with Tennessee, the reason may be the fact that Florida is GEO’s home state – and the fact that GEO is a major contributor to Florida politics, having contributed nearly US\$2 million to the Republican Party of Florida and over US\$200,000 to the Florida Democratic Party, to make no mention of individual campaign contributions.⁴⁷

Reform: Like Tennessee, Florida has been slow to adopt criminal justice reforms. However, with a crippling \$3.8 billion budget gap, momentum is growing to address the corrections system.⁴⁸ In 2011, the Right on Crime campaign launched in Florida with support from various groups and individuals including Florida TaxWatch and former state Attorney General Richard Doran.⁴⁹ That year, Florida expanded its drug courts as an alternative to prisons and eliminated incarceration as a sentencing option for youth with misdemeanor offenders.⁵⁰ With a growing number of groups applying pressure to the current system, we expect prison reforms to slowly gain traction in Florida over the coming years.

Impact: After a decade of fast growth, Florida’s prison population flat-lined in 2009 and has trickled downwards since. Given the modest nature of recent reforms, we don’t expect Florida’s prison population to decline substantially until more sweeping changes are adopted – which could take another two years. But at least the prison population has stopped growing amid declining prison admission rates and the lowest crime rates that Florida has experienced since 1971.⁵¹

⁴⁶ <http://www.rightoncrime.com/reform-in-action/state-initiatives/florida/>

⁴⁷ <http://influenceexplorer.com/organization/geo-group/7dfa33488aad4908ac1c75336c20db05>

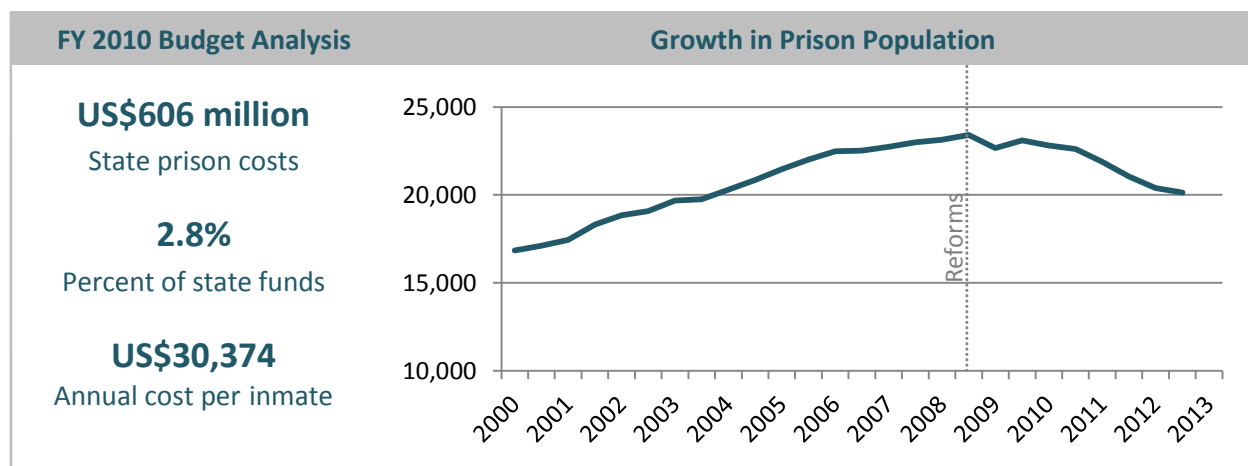
⁴⁸ <http://www.rightoncrime.com/reform-in-action/state-initiatives/florida/>

⁴⁹ <http://www.rightoncrime.com/reform-in-action/state-initiatives/florida/>

⁵⁰ http://sentencingproject.org/doc/publications/publications/sen_State_of_Sentencing_2011.pdf

⁵¹ <http://www.theledger.com/article/20120804/NEWS/120809752?p=1&tc=pg>

Colorado



Source: Vera Institute of Justice, NACAC, Colorado Department of Public Safety

Overview: Colorado is CCA’s sixth largest state customer, and accounted for 3.6% of revenue in 2012. Colorado adopted a get-tough sentencing approach in the 1980s that resulted in the state’s prison population exploding by over 600% from 1980 to 2008.⁵² At the same time, prison spending in Colorado has gone from less than 3% to nearly 9% of general fund spending.⁵³ Budgetary vows resulting from the Great Recession and an understanding that the growth in the state’s prison population was unsustainable forced Colorado to undertake sweeping criminal justice reforms.

Reform: In 2007, a bipartisan commission was set up to develop data-driven, cost-effective solutions to the state’s prison population.⁵⁴ Partly as a result of the Commission’s findings and recommendations, an array of sweeping laws focused on criminal justice reform have been passed since 2009. For example, parole revocation policies were modified to divert technical offenders away from prisons, certain drug laws and sentences were relaxed, and alternatives to prison were prioritized.⁵⁵ Most recently, Colorado expanded earned time eligibility, limited authority to transfer juvenile cases to adult courts, and authorized possession of Marijuana.⁵⁶

Impact: The reforms undertaken by Colorado since 2009 have shown incredible results with the prison population dropping and crime rates down. In fact, the discussion has now moved from “how do we fix our justice system?” to “how fast do we shut down all these empty prisons?”

Despite a growing number of empty state beds, Colorado agreed to keep some CCA prisons operating to minimize the damage to rural communities where the facilities are located.⁵⁷ How long Colorado taxpayers will continue to subsidize CCA is unclear – a recent government-sponsored study identified one of CCA’s facilities for temporary or permanent closure depending on future prisoner trends.⁵⁸

⁵² <http://www.rightoncrime.com/reform-in-action/state-initiatives/colorado/>

⁵³ <http://justice.i2i.org/2010/01/28/a-closer-look-at-sentencing-reform/>

⁵⁴ <http://www.colorado.gov/cs/Satellite/CDPS-CCJJ/CBON/1251617151684>

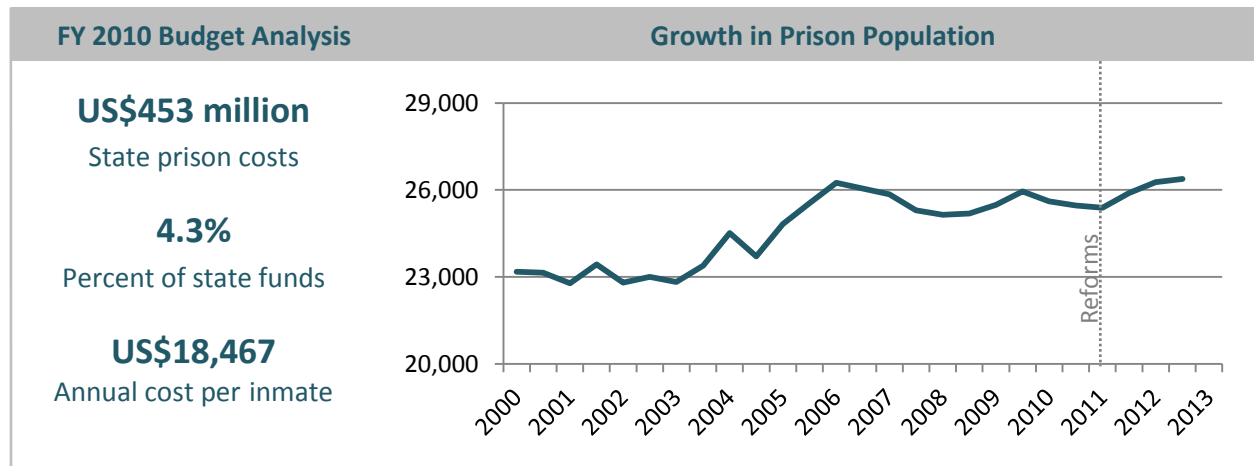
⁵⁵ http://sentencingproject.org/doc/publications/publications/sen_State_of_Sentencing_2011.pdf pg. 5

⁵⁶ http://sentencingproject.org/doc/publications/sen_State%20of%20Sentencing%202012.pdf pg. 3

⁵⁷ <http://gazette.com/state-pays-millions-as-prison-populations-sink/article/152065>

⁵⁸ http://www.journal-advocate.com/sterling-local_news/ci_23527868/doc-study-no-need-close-prisons

Oklahoma



Source: Vera Institute of Justice, NACAC, Oklahoma Department of Corrections, BJS Prisoners series

Overview: Oklahoma is CCA’s seventh largest state customer, and accounted for 2.3% of revenue in 2012. Over the last decade, corrections spending has increased 30% and now accounts for 8% of state appropriations.⁵⁹ Currently in the throes of a budget crisis and facing the reality of their finances, Oklahoma has been forced to look at criminal justice reforms. As one Associated Press article put it:

“When Harry Coates campaigned for the Oklahoma state Senate in 2002, he had one approach to crime: ‘Lock ‘em up and throw away the key.’ Now Coates is looking for that key. He and other tough-on-crime lawmakers across the country, faced with steep budget shortfalls, are searching anxiously for ways to let inmates out of prison and keep more offenders on the street.”⁶⁰

Reform: Oklahoma started delivering material policy changes in 2011. That year, Oklahoma introduced a provision to bypass a requirement for the governor to sign off on every parole decision.⁶¹ More changes were introduced in 2012, including allowing judges and prosecutors to reduce the prison sentences of certain drug offences and cutting in half sentences for second drug offences. The initiatives are continuing this year with the introduction of a bill allowing parole for elderly prisoners, whose incarceration is incredibly expensive, but offers little benefit to public safety.⁶²

Impact: Given the time lag, these recent reforms have not yet translated into a declining prison population. But with more initiatives on the horizon, a decline appears imminent.

“Truthfully, it’s popular to be tough on crime. But when I saw what we were spending on corrections and who was going into our adult prisons and for what reasons, you figure out it’s not exactly like you thought.”

- State Senator Harry Coates, Oklahoma

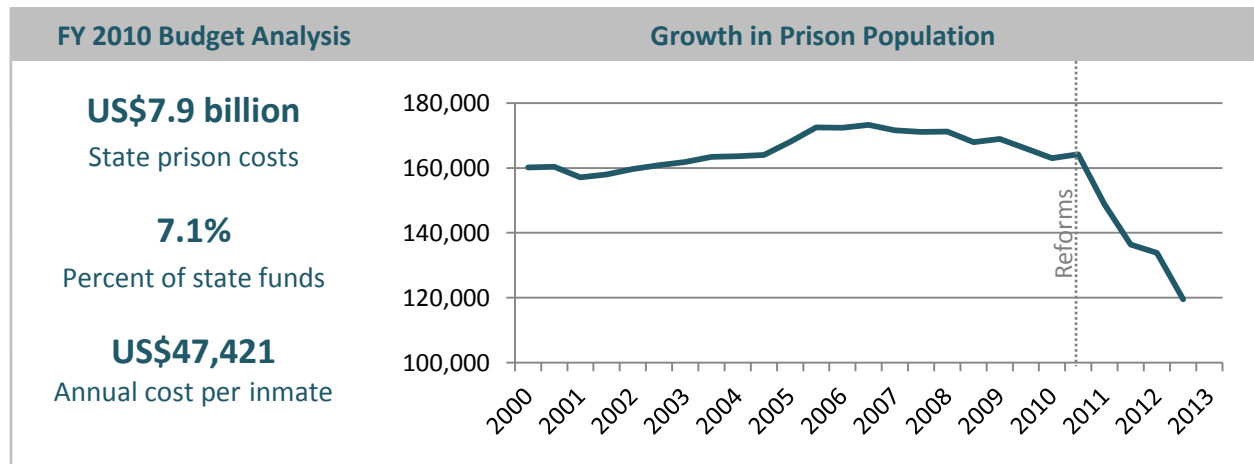
⁵⁹ <http://www.rightoncrime.com/reform-in-action/state-initiatives/oklahoma/>

⁶⁰ http://seattletimes.com/html/nationworld/2014094026_prisonbudget01.html

⁶¹ http://sentencingproject.org/doc/publications/publications/sen_State_of_Sentencing_2011.pdf pg. 8

⁶² <http://www.aclu.org/blog/criminal-law-reform/reducing-our-reliance-incarceration-look-promising-state-level-reforms-2013>

California



Source: <http://www.tn.gov/correction/faq.html>, TDOC Felon Population Update, Tennessee state budget

Overview: California is CCA’s largest state customer and accounted for 12.2% of revenue in 2012. Unlike most other states, California’s corrections institution is a complex mess and involves a convoluted cast of players straight out of a Danielle Steel novel – which is why we saved it for last.

Several decades of rapid growth and tough laws turned California’s prisons into an overcrowded and broken system that invited all manners of lawsuits. At its peak in 2006, the prison system was operating at 202% of its designed capacity and had one of the highest reoffending rates in the US.⁶³ Several lawsuits forced changes in 2007, at which point the prison population stabilized.⁶⁴ Among the changes was the contracting of five out-of-state private prisons operated by CCA to alleviate the system.

But it wasn’t until 2011 that the hammer really dropped.

In a legal battle that went all the way to the US Supreme Court, California was ordered to reduce its inmate population to 137.5% of design capacity. This ruling came as a result of the appalling and largely indifferent prison system that California has created for itself. In one opinion, the US Supreme Court detailed how inmates were placed in cages without toilets and forced to stand in pools of their own urine before receiving medical help.⁶⁵

A cursory look at the above graph shows an amazing drop in the state prison population following the ruling. But this drop is largely a shell game and the result of handing state prisoners to local jurisdictions to meet the court mandated cap order – a process called “realignment”. But even with realignment, California still has nearly 120,000 inmates in a state prison system designed for 80,000 which is still 10,000 inmates over the 137.5% cap order. The obvious answer to meet overcrowding would be to either, ironically, contract more out-of-state private prisons or enact reforms to reduce the prison population instead of just moving it around. But both of these ideas are running up against another force in California: Unions.

⁶³ <http://www.wsws.org/en/articles/2013/01/16/pris-j16.html>

⁶⁴ http://www.law.stanford.edu/sites/default/files/publication/259173/doc/slpublic/Petersilia%20Schwar%20Reform%20FSR2203_03.pdf

⁶⁵ <http://articles.latimes.com/2013/apr/16/opinion/la-ed-prisons-california-brown-20130416>

The key proponent of keeping California's prisons full and in the hands of the public sector is the California Correctional Peace Officers Association (CCPOA), the prison guards' union which has not only been labeled the most powerful force in California politics, but also contributed US\$2 million to current Governor Jerry Brown's election campaign.⁶⁶

Keeping prisons full: The CCPOA has opposed even modest sentencing reform to ease the number of prisoners in the state prison system, such as repealing the state's unpopular three-strikes laws.⁶⁷ The obvious reason that the CCPOA opposes reform is the same reason that private prisons oppose reform: less people behind bars means less business.

Keeping private prisons out: Presumably seen as a threat to the union's power, the CCPOA also opposes the state's use of private prisons.⁶⁸ So much so, that Governor Brown proposed a plan to recall more than 9,000 out-of-state prisoners and terminate all contracts with CCA by 2016.⁶⁹

(It's worth noting that private prisons were first utilized by Governor Arnold Schwarzenegger, who had a hate-on for the CCPOA. Governor Brown seems intent on unwinding that policy in favor of the CCPOA).

And if you're keeping up with this high school drama, an obvious question should have popped up by now: How is the State of California going to reduce its population by another 10,000 inmates to comply with the court ruling, while also bringing back another 9,000 prisoners from out-of-state private prisons by 2016? And how is all of this going to be accomplished without meaningful reforms to the justice system?

We don't think anyone, including the Governor knows. But that was exactly the question that a panel of federal judges asked this April.⁷⁰ In response, California stated that it may lease more beds from county jails, increase good-conduct credit for non-violent inmates, expand medical and elderly parole, as well as slowing the rate of returning out-of-state inmates from private prisons.⁷¹

With California's prison system currently a complete shit-show, the state's plan to bring back all of more than 9,000 of its out-of-state prisoners housed with CCA by 2016 no longer seems realistic. But slowing something down doesn't mean stopping it. CCA is already planning on returning 1,500 inmates to California this year, with about 1,000 beds to be replaced with inmates from Arizona. As for the remaining inmates, in an April 2013 note to clients, Barclays concluded that despite the slowdown, CCA will eventually lose all its contracts with California.⁷²

That's 12.2% of CCA's revenue – gone.

⁶⁶ <http://www.wsws.org/en/articles/2013/01/16/pris-j16.html>

⁶⁷ http://open.salon.com/blog/jakewilliams/2009/09/11/the_ccpoa_and_the_corrupt_prison_system

⁶⁸ <http://www.ccpoa.org/category/news/private-prisons/>

⁶⁹ <http://latimesblogs.latimes.com/california-politics/prisons/>

⁷⁰ http://www.mercurynews.com/politics-government/ci_23164686/gov-jerry-brown-proposes-plan-california-prison-crisis

⁷¹ <http://cdcrtoday.blogspot.hk/2013/05/california-files-court-ordered-prison.html>

⁷² Barclays believes that CCA may be able to eventually offset most of its lost beds, but provides no basis for such a nebulous assertion beyond hoping for a return to "favorable industry trends". Clearly, we disagree.

Concluding on State Customers

So, let's break this down:

- 50% of CCA's revenue comes from state customers.
- Of CCA's seven largest, disclosed state customers, four of them (California, Georgia, Texas, Colorado) are seeing a material, sustained drop in their prison populations. These four states represented 26.8% of CCA's total revenue in 2012.
- Two of the states (Oklahoma and Florida) are in the early stages of the criminal justice reform process and have stabilized the growth in their prison populations. These two states represented 6.7% of CCA's total revenue in 2012.
- Only one of the states named as CCA's major customer (Tennessee) has not undertaken material reforms aimed at curbing the growth in its prison population. Tennessee represented 4.9% of CCA's total revenue in 2012.
- But most drastic of all, California plans to completely end its contracts with CCA over the next few years. In 2012, California was CCA's largest state customer and represented 12.2% of the Company's revenue.

With strong bipartisan reforms spreading throughout the nation, and with state prison populations declining steadily from their 2009 highs, states across the US are experiencing a growing number of empty prison beds. In fact, in 2012, at least six states closed 20 prison institutions with a 14,100 bed capacity.⁷³ That's in addition to the 15,500 beds that were taken offline in 2011.⁷⁴ To put these numbers in perspective, CCA has a total capacity of 92,500 beds.

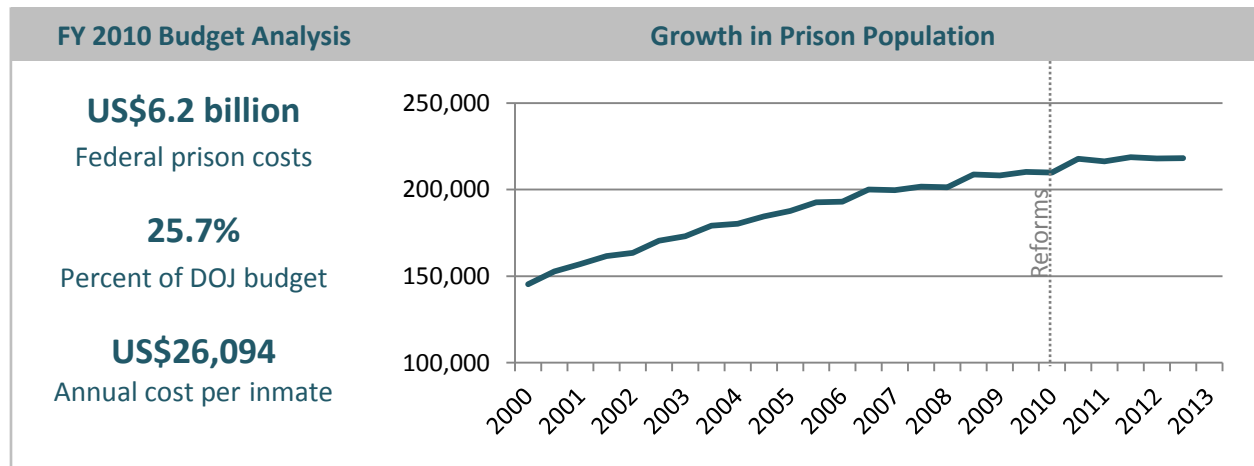
The idea of closing prisons rather than building more would have sounded absurd only a few years ago. Yet here we are.

Still, it will take time to undo more than 30 years of tough-on-crime mentality and replace the current system with progressive, effective, and affordable smart-on-crime reforms. But with states well on their way, the groundwork for change is now being set at the federal level – a topic we discuss next.

⁷³ <http://sentencingproject.org/doc/publications/On%20the%20Chopping%20Block%202012.pdf> pg. 1

⁷⁴ Ibid

Federal: US Marshals Service and Bureau of Prisons



Source: Congressional Research Service, Federal budget, Bureau of Prisons, BJS Prisoners series

Overview: On the federal side, the US Marshals Service (USMS) and the Bureau of Prisons (BOP) accounted for 31.2% of CCA’s revenue in 2012. Unlike states, the federal government is not mandated to keep a balanced budget, and therefore has not felt the same imperative to control its prison population. After all, life is a lot easier when you can print money.

Between 1980 and 2010, the US prison population grew 388%. During the same period, however, the federal prison population increased by 761%.⁷⁵ As the above graph shows, only recently has the federal population started to stabilize.

As we discussed at the beginning of this report, the overwhelming majority of this growth had to do with the federal prosecution of drug offences and the accompanying use of harsh and mandatory sentences. But even without the need for a balanced budget, the increasing cost of operating the federal prison system is becoming an issue for Congress. As a recent committee report stated:

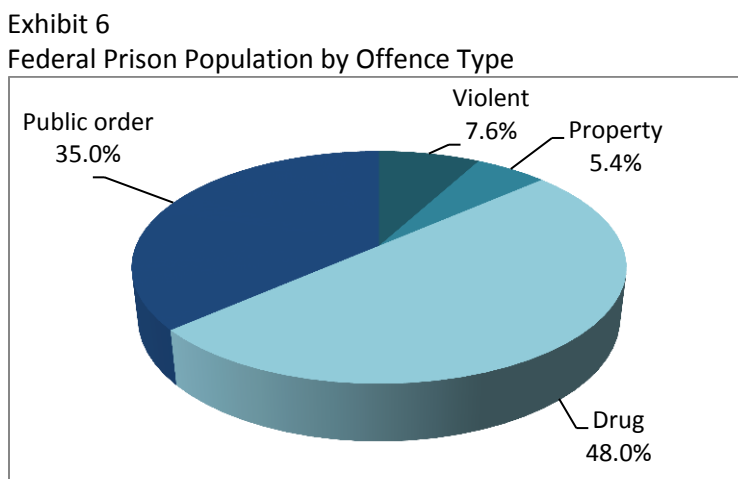
“The conferees are concerned that the current upward trend in the prison inmate population is unsustainable and, if left unchecked, will eventually engulf the [Department of Justice’s] budgetary resources.”⁷⁶

And so in that spirit, the debate over criminal justice reforms is already underway at the federal level, which will certainly have a profound impact on the federal prison system, as well as CCA and the rest of the private prison industry.

⁷⁵ <http://www.justicestrategies.org/sites/default/files/publications/Private%20Operated%20Federal%20Prisons%20for%20Immigrants%209-13-12%20FNL.pdf> pg. 8

⁷⁶ http://thomas.loc.gov/cgi-bin/cpquery/?&sid=cp112TVz23&r_n=hr284.112&dbname=cp112&&sel=TOC_697605&

Reforms: As presented in Exhibit 6, violent offenders make up less than 8% of the federal prison population. In fact, violent crimes have continued to decline since 1992.⁷⁷ The vast majority of federal prisoners are convicted of non-violent crimes, and in particular, drug offences.



Source: <http://www.bjs.gov/content/pub/pdf/p11.pdf>

There is a self-evident absurdity to the notion of having so many non-violent offenders behind bars. So it should come as no great surprise that the first major breakthrough in federal criminal justice reform occurred in 2010, and was aimed at current federal drug laws. In particular, the Fair Sentencing Act of 2010 reduced the crack/cocaine disparity we discussed on page 7. Instead of the 100-to-1 ratio between crack and powder cocaine, the ratio was brought down to 18-to-1, treating one gram of crack equivalent to 18 grams of powder cocaine for sentencing purposes.

But there's more: earlier this year, Senator Rand Paul (R-Ky) and Patrick Leahy (D-Vt) introduced The Justice Safety Valve Act of 2013, a bill which would apply to all federal crimes carrying mandatory minimum sentences.⁷⁸ If passed, the bill will allow federal judges the discretion to depart from mandatory minimum sentences based on the merits of the case. As Senator Patrick Leahy stated:

"As more and more people are incarcerated for longer and longer, the resulting costs have placed an enormous strain on the Justice Department's budget and have at the same time severely limited the ability to enact policies that prevent crimes effectively and efficiently."⁷⁹

If signed into law, the bill will go a long way in correcting for some of the draconian prison terms that are imposed on non-violent offender. But perhaps more significant than the nature of the bill is the strong bipartisan support the bill has received in both houses of Congress.⁸⁰ Just as Texas leading the way validated criminal justice reforms at the state level, so too has conservative support of this bill validated reforms at the federal level.

⁷⁷ <http://www.ucrdatatool.gov/Search/Crime/State/StatebyState.cfm?NoVariables=Y&CFID=23296050&CFTOKEN=858a1759359e1ba0-065F0AC6-DBB5-29EE-01986C1E3332FB46>

⁷⁸ <http://www.famm.org/Federal/USCongress/BillsinCongress/S619TheJusticeSafetyValveActof2013.aspx>

⁷⁹ http://www.judiciary.senate.gov/hearings/testimony.cfm?id=6ea314ce2753398fcd07c38b2296c227&wit_id=6ea314ce2753398fcd07c38b2296c227-0-4

⁸⁰ <http://online.wsj.com/article/SB10001424127887324266904578462770395465286.html>

As great, and beautiful, and common sense as the Justice Safety Valve Act and its like are, they are still narrow in scope – small drops of chlorine in a pool of absurdity. The US federal justice system is one defined by a culture of overzealous prosecution and federal overreach, something [Aaron Swartz](#) found out the hard way.

But perhaps ‘narrow in scope’ is the first step to greater change.

This May, the House Judiciary Committee created a bipartisan task force on over-criminalization.⁸¹ In a promising sign for criminal justice reform, the Task Force will assess current federal criminal laws and make recommendations for improvements. A report with recommendations by the Task Force is due by November 2013. To understand what the task force might mean to federal criminal reforms, it’s worth quoting statements from those who established the Task Force:

House Judiciary Committee Chairman Bob Goodlatte: *“Over-criminalization is an issue of liberty. As federal criminal laws and regulations have increased, so has the number of Americans who have found themselves breaking the law with no intent of doing so.”*

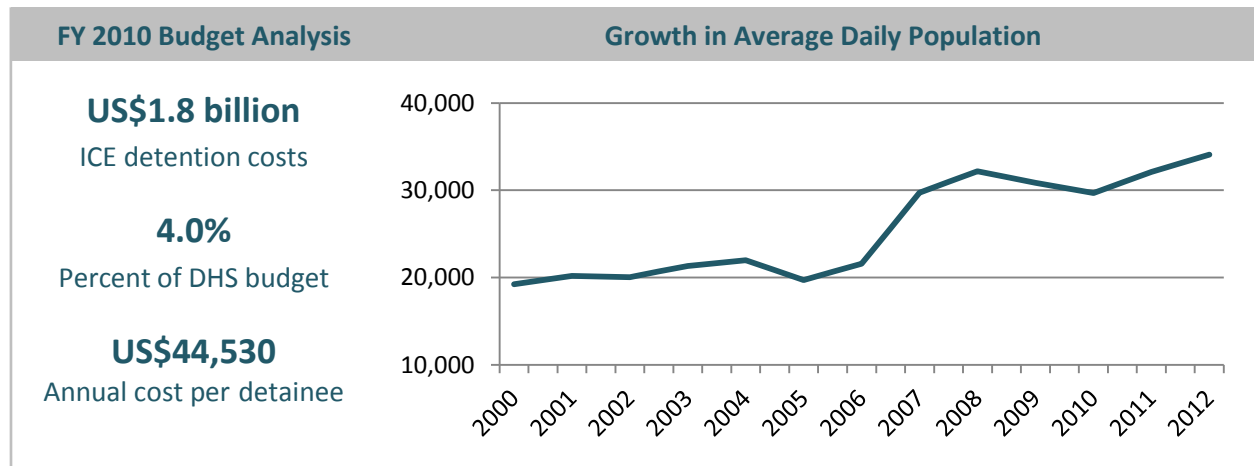
Crime Subcommittee Chairman Jim Sensenbrenner: *“This bipartisan task force will review federal laws in Title 18 and work to clean it up. Congress must ensure the federal role in criminal prosecutions is properly limited to offences within federal jurisdiction and within the scope of constitutionally-delegated federal powers.”*

Ranking Member John Conyers: *“Unduly expansive criminal provisions in our law unnecessarily drive up incarceration rates. Almost one-quarter of the world’s inmates are locked up in the United States, yet America constitutes only 5 percent of the world population. In addition, the incarceration rate of African Americans is six times that of the national incarceration average.”*

Impact: With recent bipartisan support and the newly created task force, there is hope that this is the start of meaningful criminal justice reform at the federal level. Still, for everything the federal government is known for, speed is not one of them. But at least the concept of reform is no longer a question of ‘if’ but ‘when’. And so, for the moment, it seems that the saving grace for the private prison industry isn’t so much that the federal prison population is rising – it’s that the federal prison population has not yet started to decline.

⁸¹ <http://judiciary.house.gov/news/2013/05082013.html>

Federal: Immigration and Customs Enforcement



Source: Congressional Research Service: Homeland Security Department FY2011 Appropriations, www.ice.gov

Overview: Immigration and Customs Enforcement (ICE) is the third and last federal agency that contracts with CCA, and represented 11.7% of the Company’s revenue in 2012. Whereas the USMS and the BOP operate the federal criminal system where inmates are charged or convicted of federal crimes, ICE operates a separate civil detention system consisting of illegal immigrants, asylum seekers, and anyone who has been found in the US illegally. Currently, Congress ties its annual funding of ICE to a requirement that the agency must fill 34,000 beds daily, regardless of whether or not detainees warrant the use of detention. This arbitrary quota explains why the above-graph hovers around the 34,000 mark.

Reforms: Immigration reform is a topic that has come to the forefront of US politics. This April, a bipartisan group of senators drafted a comprehensive bill which will grant a path to citizenship for America’s 11 million undocumented workers. If the current bill becomes law, then a large number of undocumented immigrants will receive Registered Provisional Immigration (RPI) status within 180 days of the bill’s passage. Individuals with RPI status will no longer be targeted for detention or deportation.⁸²

Moreover, because individuals held under ICE detention are *not* serving criminal sentences, the bill embraces far cheaper alternatives to detention for those who will still need to appear for immigration hearings. It currently costs as much as \$164 per day to detain a person, while the use of ankle monitors and parole costs less than \$14 per day.⁸³

Impact: A recent article in the [Wall Street Journal](http://www.wsj.com) notes that private prisons are likely to benefit from the immigration bill as expanded border enforcement will add inmates to the federal prison system (BOP/USMS), and that’s true. But that’s only part of it. On the other side of the ledger, the RPI provision means a mass exodus of immigrants under ICE detention. If the current bill passes into law with the relevant provisions intact, we expect the damage to CCA’s ICE contracts to be swift and merciless. This concern may explain why CCA stresses immigration reform as a material risk to its business in its recent 2012 10-K filing.⁸⁴

⁸² <http://hiaschicago.org/storage/articles/CLINIC%20Summary.pdf>

⁸³ <http://immigrationimpact.com/2013/03/15/budget-cuts-led-ice-to-release-immigrants-from-detention/>

⁸⁴ <http://www.sec.gov/Archives/edgar/data/1070985/000119312513080296/d452767d10k.htm> pg. 28

Financial Impact

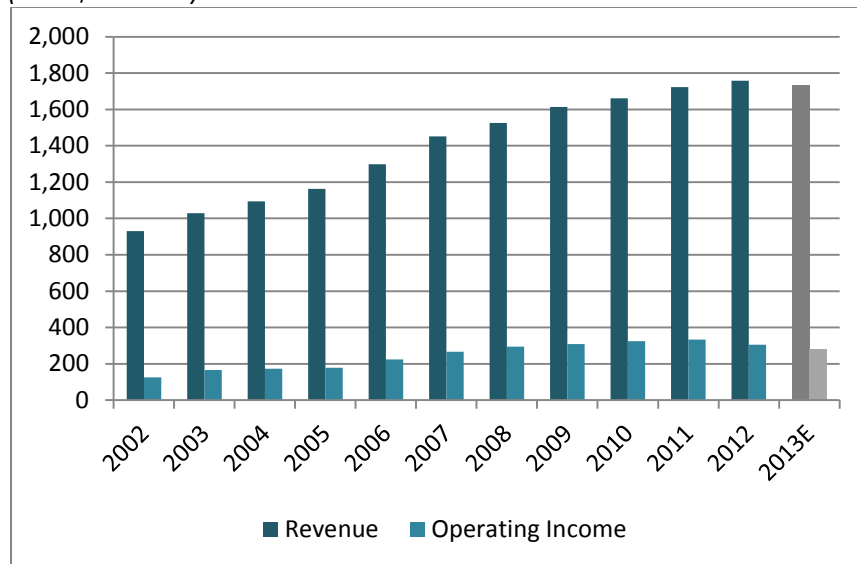


With the federal prison population stabilizing, state prison populations on the decline, and immigration reform on the horizon, CCA is finding itself in an increasingly hostile business environment. In this section, we show how reforms have fundamentally deteriorated CCA's financial position, and what it means for the Company's expansion plans and recent REIT conversion.

Revenue Decline

In the decade between 2002 and 2012, CCA grew revenue by an average of 6.6% annually. However, that growth slowed to 2% in 2012 and analysts expect the Company to report its first revenue decline this year. Likewise, analysts also expect CCA's operating income to decline, after having already dropped in 2012 from its 2011 highs.

Exhibit 7
Revenue and Operating Income Trends
(in US\$ millions)



Source: SEC filings, Bloomberg consensus

Lending credibility to these estimates is that in its Q1 2013 earnings release, CCA reported year-over-year declines of 2.2% in revenue and 14.7% in operating income.

As we've discussed, part of this decline has to do with current reforms. But it's also likely that with crime rates down from the early 1990s to current generational lows, and with offenders finishing up their decades-long sentences, the US prison system is experiencing an attrition of inmates.

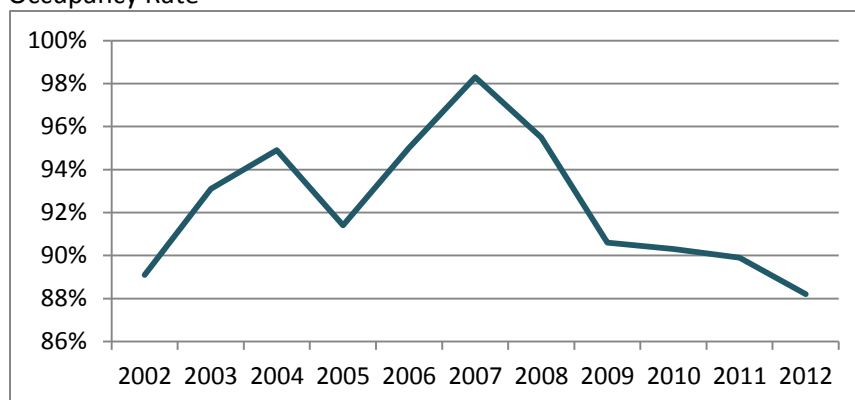
Occupancy Rate

Among the underlying reasons that revenue and operating income are declining is the drop in the number of inmates housed in CCA facilities.

CCA uses a metric called ‘occupancy rate’ to measure how full its facilities are – just like a hotel. ;)

As presented in Exhibit 8, this rate has been on a gradual decline and is currently at its lowest point of the last decade. Part of the decline is related to an increase in the number of beds. But more recently, it’s also been a result of a drop in the inmate population. In the first quarter of 2013, the occupancy rate appears to have dropped even further, with CCA losing 1.7% of its inmate population from the same period last year.⁸⁵ How low the occupancy rate will go is anybody’s guess, but the mantra so far is: ‘the trend is not your friend’. More concerning is that CCA’s cost structure includes a great deal of fixed costs that can’t easily be cut in the face of the declining number of ‘guests’ leaving Hotel California.

Exhibit 8
Occupancy Rate



Source: SEC filings

On the topic of bed utilization, the Company and several analysts who recommend CCA shares point to the number of empty beds as “potential upside”. This strikes us as incredibly bizarre behavior. For example, Barclay’s writes that if all of CCA’s 5,000 empty beds are utilized, it would increase EPS by \$0.30, which would translate to an additional \$6.00 increase in share price.

This is clearly a relevant analytical exercise we would like to try as well.

For example, we know that Apple (AAPL:NYSE) currently has an 8.7% market share of the mobile phone market, which is reflected in Apple’s recent share price of \$430.⁸⁶ However, Apple’s potential market share is 100%. Accordingly, we believe that Apple shares have an upside potential of ten bajillion dollars.

We therefore recommend Apple as a ‘super buy™’ with infinite upside.

⁸⁵ <http://www.sec.gov/Archives/edgar/data/1070985/000119312513210815/d515631d10q.htm> pg. 32

⁸⁶ <http://9to5mac.com/2013/04/26/apples-global-market-share-of-mobile-phones-grows-6-6-year-on-year-samsung-up-22-9/>

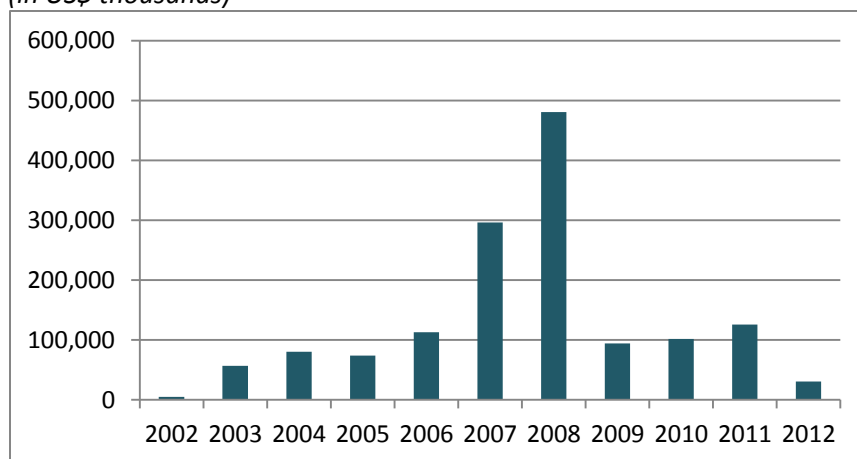
Expansion Spending

In the most recent conference call, Management notes that “looking on state budgets, we’re seeing very, very limited investment for new public sector capacity.”⁸⁷ This observation is meant to show shareholders that with states spending very little on the construction of new prisons, private operators such as CCA are in a prime position to provide additional bed space. And certainly, that’s one way of interpreting the situation.

But perhaps a more realistic way of looking at things is that states are no longer constructing prisons because they no longer need the space due to the myriad of reforms we’ve discussed.

For all of Management’s bluster, states aren’t the only ones that have cut back on prison construction; CCA has as well. Exhibit 9 shows CCA’s expenditure on acquisitions and development since 2002.

Exhibit 9
Expansion Spending
(in US\$ thousands)



Source: 10-K filings

In 2012, CCA spent less on expansion than any year since 2002. That’s a far cry from the expansion spree the Company went on in 2007 and 2008. In fact, in February 2008, CCA began construction of a 2,040 bed prison which was expected to cost US\$143 million. At the time of the announcement, Management touted the construction project as the result of “strong demand for prison beds.”⁸⁸

But it’s amazing how fast things can change in a year.

In February 2009, almost a year to the date that the project was announced, CCA “temporarily” halted construction of the facility amid uncertainty over the demand for additional bed space.⁸⁹

⁸⁷ <http://seekingalpha.com/article/1420161-corrections-of-america-management-discusses-q1-2013-results-earnings-call-transcript?page=5>

⁸⁸ <http://ir.correctionscorp.com/phoenix.zhtml?c=117983&p=irol-newsArticle&ID=1332788&highlight=>

⁸⁹ <http://www.correctionalnews.com/articles/2009/03/5/cca-halts-construction-2040-bed-tennessee-facility>

What started as a “temporary” halt appears to be turning into a permanent one. With softening demand, state prisons closing, and a growing number of unutilized beds in its own facilities, CCA’s US\$143 million prison project has become nothing more than a patch of dirt on the edge of Trousdale County, Tennessee:

Halted CCA Prison Project
Trousdale County, Tennessee



Source: Google Earth

REIT Conversion

On 1 January 2013, CCA decided to effectively convert from a standard corporation to a Real Estate Investment Trust (REIT).

By converting to a REIT, corporations can avoid paying federal taxes on their earnings as long as at least 90% of those earnings are paid out to shareholders in the form of dividends. For dividend-hungry shareholders this is a win-win situation and one of the reasons that shares of CCA are trading up since April 2012, when murmurs of a REIT conversion hit the market.

This corporate maneuvering to avoid paying federal taxes is yet another one of CCA's questionable business practices. As a New York Times article explained:

"When [REITs] were created in the 1960s, they were meant to be passive investment vehicles, like mutual funds, that buy up a broad portfolio of real estate – whether shopping malls, warehouses, hospitals or even timberland – and derive almost all of their income from those holdings.

One of the bedrock principles – and the reason for the tax exemption – was that the trusts do not do any business other than owning real estate.

But bit by bit, especially in recent years, that has changed as the IRS, in a number of low-profile decisions, has broadened the definition of real estate, and allowed companies to split off parts of their business that are unrelated to real estate."⁹⁰

Somewhere along the way, CCA and a host of other companies with fixed assets started taking advantage of the designation by claiming that they effectively manage real estate, and thus fit the criteria for REIT status. But while CCA owns prison real estate, common sense dictates that the Company doesn't rent them out – it gets paid to run them. This distinction is an important one and certainly not lost on CCA's silver-tongued lawyers.

For example, the Company's 10-K filing in 2011 (and prior) describe its business as:

"We are compensated for operating and managing facilities at an inmate per diem rate based upon actual or minimal guaranteed occupancy levels."

However, that wording was changed in their 10-K filing in 2012 to:

"We are compensated for providing prison bed capacity and correctional services at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels."

It seems that this deliberate change in wording was a tortured attempt by Management to reinforce the idea that CCA rents out bed capacity instead of operating and managing facilities, making CCA appear more as a 'land lord' and less as an 'operations and management' service.

⁹⁰ <http://www.nytimes.com/2013/04/22/business/restyled-as-real-estate-trusts-varied-businesses-avoid-taxes.html?ref=business& r=0>

But it's not just private prisons that are stretching the definition of "real estate". Driving the absurdity even further, Penn National Gaming (PENN:NASDAQ) recently announced its plans to convert to a REIT. PENN is a gaming and gambling operator with a portfolio of real estate properties that house slot machines, gaming tables, and race tracks.

Now, how long do you think a gambling company can avoid paying its fair share of federal taxes before Uncle Sam cracks down on the entire REIT industry?

The answer as it turns out, is not very long at all. Just this June, the IRS launched a review to define what type of companies can qualify for REIT status. What the IRS review will mean for CCA and a host of REIT imitators is anyone's guess, but in a time of budgetary deficits and vitriol against corporate tax loopholes, growing abuse of the REIT structure was bound to get the attention of IRS and Congress.⁹¹

In any case, this is not the first time CCA has dabbled with a REIT structure. An interesting facet to this story is that CCA used to actually operate as a REIT between 1997 and 2000. However, the Company's first foray into the world of REITs was a short-lived disaster as overleveraging, overbuilding, and poor management nearly destroyed the Company.⁹² By 1999, terms like 'going concern' were peppered throughout CCA's 10-K filing. In fact, the only reason CCA avoided a total collapse in 2000 was because of a restructuring plan led by Fortress and Blackstone Investor Group.⁹³

But here we are again.

As a new REIT, CCA will have to maintain a healthy dividend to keep and attract income investors. Today, the stock is yielding 6.0% and it's hard to deny that CCA is stronger now than it was its first time around. But, even with a stronger balance sheet the Company is facing a multitude of the same headwinds that it once did, including overcapacity in its facilities, and diminishing demand.

We find it doubtful that CCA will be able to maintain its current dividend payout given its dwindling financial position and deteriorating fundamentals, to say nothing of the fact that the Company is expected to lose all of its California contracts in the next few years. This might explain why the two activist hedge funds that pushed CCA to convert into a REIT last year – Corvex Management and Marcato Capital Management – have since sold most of their combined 7% stake in the Company.⁹⁴

It's first time as a REIT, CCA struggled to maintain its dividend obligation. We doubt this time will be any different.

⁹¹ <http://online.wsj.com/article/SB10001424127887323551004578441260298575162.html>

⁹² http://www.opensocietyfoundations.org/sites/default/files/CCA_Report.pdf pg. 19

⁹³ http://www.opensocietyfoundations.org/sites/default/files/CCA_Report.pdf pg. 34

⁹⁴ <http://www.sec.gov/Archives/edgar/data/1535472/000114036113021076/form13fhr.txt>
http://www.sec.gov/Archives/edgar/data/1541996/000095014213001190/ea1300720_13fhr-q0113.txt Corvex has only 205K shares left and Marcato sold out completely.

The Bleak Future of CCA



Since its founding, CCA's primary revenue driver has been the growing US prison population. But as reforms move us away from a world where incarceration is the sole answer to crime, this vapid growth has been replaced by a quickening decline. And so, faced with deteriorating fundamentals, CCA has been forced to look at new ways of growing its business.

In early 2012, CCA sent a letter to 48 state governors offering to buy up their state-owned and operated prisons and put them under CCA control.⁹⁵ Described as CCA's *'Corrections Investment Initiative'*, the Company has earmarked US\$250 million for purchasing and managing correctional facilities that are currently owned by state governments. Under this initiative, CCA hopes to entice cash-strapped states to accept an upfront payment for their facilities in return for a 20+ year management contract and the promise of keeping the facilities at least 90% occupied over that term. The idea here seems to be that if CCA can no longer organically grow its business, it will just take over the current operations of public facilities.

On paper, this strategy makes sense: states who accept the offer get a quick cash infusion from selling their prisons to CCA, as well as the efficiencies and cost savings of having a private company manage the facilities – or so the story goes. In return, CCA gains ownership of the facilities and long-term contract with minimum occupancy guarantees.

As precedent, CCA cites its recent purchase of the Lake Erie Correctional Facility from the state of Ohio as a shining example of this type of partnership. CCA began operating the Lake Erie Correctional Facility on 1 January 2012, after buying the facility for US\$73 million from Ohio. This was the first-ever such purchase of a state prison by a private company⁹⁶ and has been touted by CCA as a model of future deals. Indeed, in its letter to the 48 state governors, CCA laid out multiple benefits that Ohio and its taxpayers are expected to receive from the deal, including US\$3 million in annual operational cost savings.

Unfortunately, if CCA's new growth strategy is to buy up state prisons and operate them, then shareholders are in for a rude awakening. We are well into our second year since CCA sent the *'Corrections Investment Initiative'* letter to the 48 state governors, and so far, not a single state has taken CCA up on its offer.

Why?

Because after a year and a half, the Lake Erie Correctional Facility transaction has had a chance to play out – and what was heralded by CCA as a precedent-setting deal has instead turned into an utter and embarrassing nightmare on every front.

⁹⁵ <http://big.assets.huffingtonpost.com/ccaletter.pdf>

⁹⁶ http://www.sec.gov/Archives/edgar/data/1070985/000119312513080296/d452767d10k.htm#tx452767_8 pg52

The Myth of Cost Savings

When Ohio sold the Lake Erie Correctional Facility to CCA, the decision was predicated on the cost savings that Ohio taxpayers would experience as a result of having a private company own and operate the facility. Specifically, the Ohio Department of Rehabilitation and Correction (ODRC) expected to save US\$3 million annually from operational costs, in addition to the US\$73 million upfront purchase price from CCA.⁹⁷

Exhibit 10

Lake Erie Correctional Facility in Conneaut, Ohio



The problem with the ODRC's forecast of cost savings is the same problem that every other forecast has: it may make sense in an Excel spreadsheet, but reality is a vastly different beast.

In Ohio, state law requires that any private prison firm must operate a corrections facility at least 5% below what it would cost the state. By this benchmark, the ODRC – led by Director Gary Mohr, who previously worked for CCA – claims to have saved US\$45 million since it first started utilizing private prison operators in 2002.⁹⁸

But how does the State accurately measure such cost savings?

To answer that question, **Policy Matters Ohio** – a non-profit, nonpartisan policy research organization – used a public records request to obtain the actual spreadsheets that ODRC officials used to calculate the projected savings from private prisons.⁹⁹

⁹⁷ <http://www.drc.ohio.gov/Public/privatizationfaq.pdf>

⁹⁸ <http://www.lsc.state.oh.us/fiscal/bfn/v33n11.pdf> pg. 30

⁹⁹ <http://www.policymattersohio.org/wp-content/uploads/2011/09/CellsForSale2011.pdf> pg. 9

As it turns out, an analysis of the spreadsheets shows that the ODRC had been negotiating contract rates that were acceptable to private operators, and then simply working backwards to create valuation models that showed 5% cost savings based on those rates.¹⁰⁰ Moreover, the spreadsheets were found to be riddled with enough errors, omissions, and inconsistencies that would make Reinhart and Rogoff blush.¹⁰¹

Focusing specifically on the Lake Erie Correctional Facility, Policy Matters Ohio prepared a detailed report showing how ODRC's estimated cost savings were based on flawed assumptions and how instead of the US\$3 million in annual cost savings, the prison sale could actually cost taxpayers millions of dollars.¹⁰² Among the report's findings were:

- The sale of the Lake Erie Correctional Facility to CCA – along with the 20-year agreement to have CCA operate it – may not produce any taxpayer benefits even if all the terms of the contract remain unchanged. In fact, an analysis of the numbers shows the deal will actually cost Ohio taxpayers US\$11 million over 20 years.

The ODRC refuted this finding by pointing out that it would need to spend money on maintenance which is now incurred by CCA. However, the ODRC gives no estimates of how much in maintenance expense it would incur over a 20 year time frame. Moreover, on purchase, CCA announced it would spend US\$3.1 million on capital improvements which is far short of the US\$11 million the deal is costing taxpayers. It's also worth noting that the Lake Erie facility is one of the State's newest facilities.

- The above-noted finding assumes that the contract with CCA will remain constant over 20 years. This is a very generous, very unlikely assumption. The contract provides for re-adjustment every two years as Ohio considers and approves its new budgets. It's a certainty that CCA will use these provisions to increase its rates over a twenty year period. Moreover, given that CCA owns the facility now, the Company would surely have the upper hand in negotiations. Ohio's prisons are already overcrowded and the contract allows for CCA to house out-of-state inmates in the facility if Ohio terminates the contract.

And so through their analysis, Policy Matters Ohio has reached the same conclusion that countless other independent studies have: financially, private prisons cost about the same to operate as public prisons. For example:

- In 1988, an [Economic Policy Institute](#) study concluded “the evidence on potential cost savings is too weak and too questionable to warrant so radical and risky an experiment.”
- In 1996, the [US General Accounting Office](#) conducted a survey which found that “because the studies reported little difference and/or mixed results in comparing private and public facilities, we could not conclude whether privatization saved money.”

¹⁰⁰ <http://www.policymattersohio.org/wp-content/uploads/2011/09/CellsForSale2011.pdf> pg. 9

¹⁰¹ <http://www.policymattersohio.org/wp-content/uploads/2011/12/PrisonDec2011.pdf> pg. iii

¹⁰² <http://www.policymattersohio.org/wp-content/uploads/2011/12/PrisonDec2011.pdf>

- In 2001, a [US Department of Justice](#) study concluded the “privatization model essentially mimics the public model... The promises of 20-percent savings in operational costs have simply not materialized.”
- In 2005, a [Bureau of Prisons](#) study concluded that the costs of the BOP managing a prison versus a private operator were comparable, as was the quality.

But perhaps more interesting than the contents of this BOP report is the fact that it’s co-authored by Harley G. Lappin, the at-the-time Director of the Federal Bureau of Prisons. This same Harley G. Lappin appears to now be working as an executive vice president at CCA, and is the same individual who signed the letter to the 48 governors offering to buy their prisons on the assumption of cost savings.¹⁰³ LOL!!!

- In 2010, the [Auditor General of Arizona](#) issued a report slamming the supposed cost savings of private prisons, noting that the “the State paid more per inmate in private prisons than for equivalent services in state facilities” – as much 16% more in some cases. The report also notes “that there is no consensus among academics and professionals in the field regarding the potential cost savings that private prisons can offer.”

In fairness to CCA, in May of this year, the Company tweeted a link to a study that was prepared by Dr. Simon Hakim and Dr. Erwin Blackstone of Temple University’s Center for Competitive Government.



The study by Messrs. Hakim and Blackstone lauded the benefits of private prisons and found that they can generate 12% to 58% long run savings without sacrificing the quality of service.¹⁰⁴ And in the face of conventional research, that’s a pretty bold statement. But it’s not nearly as bold as the authors omitting the fact that their research was funded by unnamed private prison firms.¹⁰⁵

Unsurprisingly, CCA also forgot to mention this bit of material information when the Company referenced the glowing study on page 18 of its June 2013 investor presentation ([link here](#)).

¹⁰³ <http://www.cca.com/about/management-team/executive-leadership/>

¹⁰⁴ http://articles.sun-sentinel.com/2013-05-07/news/fl-shcol-prisons-oped0507-20130507_1_private-prisons-public-prisons-florida-chamber

¹⁰⁵ http://www.eurekalert.org/pub_releases/2013-04/tu-cpc042913.php

Indirect Costs

Ohio's experiment with the Lake Erie Correctional Facility has become more than a financial quagmire. The deal has brought with it a host of other grievances that have served as warnings to other states considering doing business with CCA.

On 3 October 2012, the ODRC released its first internal audit of the Lake Erie Correctional Facility since having handed the facility over to CCA at the beginning of the year.¹⁰⁶ In those nine months, the facility's compliance rating plummeted from 97.3% to 66.7%.¹⁰⁷ Indeed, so much had gone wrong at the facility that the auditor report reads like an issue of Mad Magazine. For example:

- Some inmates had no access to running water for hydration, showers and the use of a toilet. As a result, inmates were using containers and plastic bags to urinate and defecate.
- The dining area was not clean and emitted a "terrible odor."
- Staff and inmates were mopping the floor with water so dirty that the floor turned a darker shade from the water.
- Drinking cups were not being cleaned and contained residue.
- Inmates convicted of murder were freely working in the prison, against ODRC policy.

We couldn't stop laughing when we read the internal audit report. How did CCA manage to fuck things up so badly in only nine months?

But the lulz don't end there.

The Lake Erie Correctional Facility has experienced a spike in criminal activity since the CCA takeover. Conneaut City police reported fielding 248 calls regarding the prison in 2012, compared to only 157 over the past ten years combined.¹⁰⁸ In fact, things have gotten so bad that early this year Conneaut City Councilman Neil LaRusch pleaded with state officials to assist the city in patrolling the prison parameter as it was costing taxpayers significantly more money.¹⁰⁹

"With the city of Conneaut Police Department already financially strapped and below what I would consider to be acceptable levels, what assistance can the state lend us to deal with this situation? The city is not financially in a position to add more officers to deal with this private prison."

- Conneaut City Councilman Neil LaRusch

¹⁰⁶ <http://big.assets.huffingtonpost.com/CCA1.pdf>

¹⁰⁷ <http://www.aclu.org/blog/prisoners-rights/states-should-run-screaming-cca-avoid-dangerous-and-disgusting-prisons>

¹⁰⁸ <http://www.ohio.com/news/local/aclu-wants-state-help-for-privatized-ohio-prison-1.365182>

¹⁰⁹ <http://starbeacon.com/local/x1633449543/Councilman-asks-state-to-intervene-at-LaECI>

Fraud and Dubious Practices

Beyond the direct and indirect costs associated with prison privatization, states bear the costs that inevitably arise when the profit motive is introduced into the equation. Often times, these costs are the result of fraudulent or otherwise dubious corporate practices. For example:

- A 1992 study by the New Mexico Corrections Department showed that inmates at the women's prison run by CCA lost good time credits at a rate nearly eight times higher than their male counterparts at a state-run lockup.¹¹⁰ The loss of good time credits meant inmates were spending more time behind bars, resulting in CCA charging more to the state. And since officers are compensated with company stock,¹¹¹ there appears to be a financial incentive to take away good time credits.

Can you imagine trying to do your time and some dipshit keeps taking away your good time credit so that his stock compensation appreciates in value? This incentive to keep people behind bars longer is not only morally reprehensible, it's a financial burden on taxpayers.

- With a focus on profits, private prisons have no incentive to provide inmates with rehabilitation programs and activities beyond the legal minimum. As a result, inmates from private prisons appear likely to reoffend and end back in prison. According to a study from the University of Oklahoma, "private prison inmates had a greater hazard of recidivism" compared to state-housed inmates.¹¹²

The idea of having inmates reoffend is no favour to taxpayers, but it likely brings a few smiles to the private prison industry.

- As recently as this April, an investigation by the state of Idaho uncovered payroll fraud at a CCA-operated prison, a prison so violent it's called "Gladiator School". Company employees had falsified nearly 4,800 hours of staffing records over seven months last year in violation of its contract with the state.¹¹³

This discovery follows a lawsuit last November where inmates alleged that CCA falsified staff logs to hide chronic understaffing. The lawsuit alleges that in lieu of proper staffing, CCA used gangs to run the prison. This novel method of cost cutting led to several inmates being attacked and stabbed by gang members in a brutal assault caught on the prison's security cameras.¹¹⁴

Idaho canceled its Gladiator School contract with CCA last month.¹¹⁵

¹¹⁰ <http://www.prop1.org/legal/prisons/980105a.htm>

¹¹¹ <http://www.sec.gov/Archives/edgar/data/1070985/000119312513080296/d452767d10k.htm> pg. F-28

¹¹² http://citation.allacademic.com/meta/p_mla_apa_research_citation/1/8/5/1/3/pages185139/p185139-2.php

¹¹³ http://www.huffingtonpost.com/2013/04/11/corrections-corporation-of-america-private-prison_n_3064795.html

¹¹⁴ <http://www.spokesman.com/blogs/boise/2013/jan/15/cca-wants-lawsuit-dismissed-charges-it-uses-inmate-gangs-help-run-idaho-prison/>

¹¹⁵ [https://www.prisonlegalnews.org/\(S/shddwfulrlyrlo445hi0jd455\)\)/573_displayNews.aspx](https://www.prisonlegalnews.org/(S/shddwfulrlyrlo445hi0jd455))/573_displayNews.aspx)

Conclusion: The Bleak Future of CCA

CCA's decision to bet future growth on the purchase of state facilities has proved a strategic failure. The idea that states would be enticed by the supposed cost savings provided by private prisons shows that Management has been caught up in its own hype.

Even from the start, the vast majority of states and federal agencies didn't contract private prisons because they thought it was more cost effective – they did it for the simple fact that they ran out of beds themselves.¹¹⁶ It should be clear that when it comes to prisons and their inhabitants, there is very little waste to cut from corrections budgets to begin with. Prisoner comfort isn't exactly something politicians are willing to splurge money on. The idea that a private company can come in and cut costs in any meaningful way is delusional.

Moreover, private prisons miss one key aspect that generally makes the idea of privatization so popular: even if state correctional facilities are privatized, taxpayers continue to pay for them.

And so despite nearly two years of trying, it should come as no surprise to Management or shareholders that CCA has yet to find a single state to take the Company up on its privatization offer. In fact, while Management sells a vision of a bright future to investors and analysts, CCA has been quietly lobbying in at least one state (Montana) to make it possible for private corporations to provide probation and parole services.¹¹⁷ One can only speculate as to why CCA would want to enter a lower-margin business when the incarceration industry is apparently doing so well.

In any case, for a company that's facing a declining prison population with a new growth strategy that already seems doomed, the future is dark and full of terrors.

And winter is coming.



¹¹⁶ <https://www.ncjrs.gov/pdffiles1/nij/grants/203968.pdf> pg. 1

¹¹⁷ http://www.justicepolicy.org/uploads/justicepolicy/documents/gaming_the_system.pdf pg. 29

Note: As we were wrapping up this report, our news feed alerted us that CCA has just lost another contract, this time with Kentucky ([link here](#)). This is the fifth contract CCA has lost in the last month alone.¹¹⁸

¹¹⁸ <http://grassrootsleadership.org/blog/2013/06/corrections-corporation-america-loses-four-contracts-one-month>