



North Carolina Department of Public Safety

Adult Correction and Juvenile Justice

Pat McCrory, Governor
Frank L. Perry, Secretary

W. David Guice, Commissioner

May 19, 2014

TO: Senator Phil Berger, President Pro-Tempore of the Senate
Representative Thom Tillis, Speaker of the House of Representatives

FROM: Frank L. Perry, Secretary
W. David Guice, Commissioner

RE: Report on privatized prison maintenance

Pursuant to Section 1.2 of Session Law 2011-412, the Department of Public Safety is required to study the potential benefits and costs of contracting for maintenance services at prison facilities and report its findings to the 2013 Session of the General Assembly.

Below are the details of that report. If there are any questions regarding this, please contact the Division of Adult Correction and Juvenile Justice Deputy Commissioner Joe Prater at (919) 825-2732.

Methodology

This analysis of the potential benefits and costs of contracting for maintenance services at prison facilities takes into consideration three (3) major areas:

1. Monetary impacts;
2. Risk management impacts; and
3. Other associated benefits and costs.

It should be noted that for purposes of comparing costs, only the actual expenditures related to the privatized maintenance operations are included in the contractor's costs. The risk management and other associated costs that are included in this report for consideration are not quantified and therefore are not included in the reported costs of the contractor.

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Background

To provide context to this study, the following brief background information is provided regarding “prison maintenance,” and how that relates to this report’s analysis of the potential benefits and costs of contracting for maintenance services at prison facilities.

Currently, the majority of adult and juvenile facilities maintenance is managed and operated by the staff of the Division of Adult Correction and Juvenile Justice’s Prisons Facility Services Section. Those facilities include:

- Fifty-six (56) adult prison facilities;
- Four (4) juvenile youth development center facilities;
- Six (6) juvenile detention centers; and
- Two (2) Alcohol and Dependency facilities.

The Facility Services Section is also responsible for the maintenance of numerous DPS office facilities, located across the state.

The primary purpose of the Facility Services Section is to direct and manage correctional facilities long-range planning, provide maintenance and preventative maintenance, coordinate privatized maintenance, manage all telecommunications systems (inmate and administrative) and direct or coordinate construction and renovation projects for all of the above-referenced locations.

As presently configured, the Facility Services Section manages an extensive network of maintenance operations. The section consists of on-site staff at larger facilities due to operational requirements, as well as four (4) regionalized maintenance yards, which provide a range of services to smaller facilities. The regional maintenance yards provide delivery of statewide services through: 1) direct maintenance support at smaller and/or “hubbed” facilities at a greater level of expertise than is available at other facilities; 2) enhanced electronic and telecommunication expertise; and 3) performance of all minor maintenance construction.

The Facility Services Section’s facilities maintenance management includes approximately 600 employees, with 12 employees located in the central offices in Raleigh, 223 staff assigned to regional maintenance yards, and the remainder assigned directly to large facilities. These staff would be directly impacted by expansion of privatized maintenance operations, depending on the extent of those expansions.

Currently, privatized maintenance is provided at three (3) adult prison facilities, Maury, Bertie, and Tabor Correctional Institutions, by contract with Keith and Keith Corrections. These maintenance contracts were initially awarded in January 1, 2006 for Maury and Bertie, and May 1, 2006 for Tabor, at start-up of these new facilities. These contracts currently operate on a two-year fixed with one (1) one-year extension term and are scheduled to expire on December 31, 2014 for Maury and Bertie and on April 30, 2015 for Tabor. At that time, the department may: 1) let the contracts expire, and perform maintenance at these locations with departmental staff; or 2) go back to the market with a competitive Request For Proposal (RFP) for consideration of continued contracted maintenance at these locations. Legislative action is required to expand privatized maintenance contracts to additional prisons, as established in Section 1.2 of Session Law 2011-412.

The scope of work of the current maintenance contracts is as follows:

Provide routine, preventive and corrective maintenance to include but not limited to the following systems and services:

- Electrical
- HVAC
- Plumbing
- Pneumatic Controls
- Fire Alarms/Protections
- Laundry
- Elevator
- Kitchen
- Ground Maintenance
- Boilers
- Chillers
- Waste Disposal
- Pest Control

These private maintenance contracts place a cap on the repair costs that must be borne by the contractor; repair costs beyond that established cap are paid by the department. Currently, and since FY 11-12, repairs of \$5,000 or less are the contractor's responsibility and repair costs above \$5,000 are paid by the department. However, from FY 05-06 through FY 10-11, which includes the time period of the cost comparison analysis contained in this report, the contractor was responsible for repairs of \$2,500 or less and the repair costs above \$2,500 were borne by the department.

Routine, preventative and corrective maintenance for the following systems and services are not included in scope of work of these maintenance contracts:

- Electronic Intrusion Systems (EIS)*
- Video Surveillance*
- Telephones*
- Personal Computers
- Radio
- Medical Equipment
- Water and sewer lines outside of property boundary

* Maintenance items which were removed from the vendor's responsibilities, effective January 1, 2012.

On February 10, 2014, the current contractor requested and received, in accordance with contract provisions, a 1.5% consumer price index (CPI) price increase, two of which are effective January 1, 2014 and one which is effective May 1, 2014. The department's total annual cost for the 3 privatized maintenance prison facilities is \$2.99M. The details of the previous and current annualized amounts for each of the contracts for the three (3) privatized maintenance facilities are as follows:

Location	Previous Annual Amount	1.5% Increase Amount	Current Annual Amount
Maury	\$1,022,993.00	\$15,345.00	\$1,038,338.00 (Eff. 01/01/14)
Bertie	\$986,095.08	\$14,791.44	\$1,000,886.50 (Eff. 01/01/14)
Tabor	\$945,168.12	\$14,177.52	\$959,345.64 (Eff. 05/01/14)

Monetary Benefits/Costs

The three (3) prisons where privatized maintenance is being provided (Maury, Bertie, and Tabor Correctional Institutions) were built according to a prototypical 1,000-bed design that is shared with three (3) other earlier-constructed prisons: Scotland, Lanesboro, and Alexander Correctional Institutions, which are maintained by departmental maintenance staff. Therefore, for purposes of determining potential monetary benefits and costs of contracting for maintenance services at prisons facilities, this report compares the costs of maintenance at the aforementioned three (3) privatized 1,000-bed design facilities to the three (3) comparable facilities maintained by departmental maintenance staff through the department's Facility Services Section.

In this report, the department has attempted to assure full cost comparability in reviewing the private maintenance versus departmental maintenance costs. In addition to the invoiced expenses, other maintenance-related expenditures are included in the reported contractor's costs. These necessary expenses support the maintenance work of the contractor and are borne by the department at the private maintenance locations. Those other associated costs, which are nominal in amounts, include maintenance and improvement repair support items, including tools and miscellaneous maintenance supplies, consistent with the support items included in the department's costs. Therefore, in order to compare "apples to apples" between the department's costs at its facilities with those of the contractor's, those associated costs must be included in both cost calculations.

"Contract Monitoring" costs, totaling \$24,319.52 per facility per year, are included in the contractor's total costs, as well. This contract monitoring amount is derived by applying 20% of the department's Maintenance Manager and Accounting Technician positions' salaries and benefits equally to the costs of the three (3) contracted facilities. The 20% described above is based on a workflow analysis which estimated the time associated with monitoring the contracts.

This analysis includes equally fully-burdened costs in its comparisons of the private maintenance versus departmental maintenance costs, as indicated in this report's Fiscal Analysis on page 9.

It is also important to note that during the time period covered in the cost comparison analysis, some of the repairs in the initial years at the newer facilities maintained by the private contractor were still covered by warranties, thus shifting some of the maintenance costs normally included as part of the contractor's operating budget to those warranties. Conversely, the three (3) facilities maintained by the department were built a few years earlier and most of the warranties on original equipment there had expired, requiring most of those repair costs to be reflected in the department's operating costs, which are included in the cost analysis, as well.

Risk Management Benefits/Costs

Consistent with the typical benefit/cost analysis of service contracts and the accounting for the direct and indirect impacts of those, the evaluation of trade-offs of contracting those services versus providing those services in-house must be done with a broad perspective, which includes not only an analysis in monetary terms but also in terms of what represents an acceptable level of risk – in this case, the non-monetary factors relating to staff and public safety.

In the context of evaluating such services that occur within the confines of prison facilities, "risk management" is defined as the extent to which the safety and security of a prison facility can be maintained. While cost, in strict monetary terms, is a major factor in all operational considerations, it must be noted and emphasized that the department's position in its evaluation of privatized prison maintenance, due to the critical public safety nature of prisons operations and the vulnerabilities and liabilities associated with those, "risk management" is hierarchically established at a higher ranking than the monetary cost considerations. Decision-making regarding prison maintenance contracted services must be based on a holistic, multi-objective trade-off analysis philosophy, taking into consideration costs, risks, and other related intangibles. As such, the choice ultimately depends on the level of risk that is acceptable, given the constraints of the available funding resources.

Other Associated Benefits/Costs

In this report, the department identifies for consideration the following risks it believes are associated with the utilization of privatize maintenance operations.

First and most significant of these risks is the aforementioned security of facilities. Direct employees of the contractor go through a criminal background check prior to working on the site, but sub-contractors may not have met this requirement. Furthermore, although the department contractually requires it, due to turnover and other reasons, it is impractical to assume that the department can assure that every contractual employee receives training on undue familiarity with inmates and on policies regarding contraband. In contrast, all maintenance employees of the department are vetted for potential security risks as part of the employment process and receive training relative to policies for maintaining security such as tool control, contraband control, and appropriate interaction with inmates. This level of vetting and understanding of security protocols enables DPS employees to be more responsive to emergent and specialized needs than outside contractors brought in on an as-needed basis.

In response to growing concerns relating to contraband and the escalated threats they bring both within the system and to the safety of the public, more recently (i.e., since the initiation of the aforementioned private maintenance contracts at Maury, Bertie, and Tabor), the Division of Adult Correction and Juvenile Justice has implemented and continues to substantially enhance its critical security process of entrance and exit protocols, requiring more stringent processes, which has recently, and will continue to, slow the ingress and egress at all prison facilities. Outside contractors typically do experience ingress and egress challenges from not being familiar with such security protocols, and consequently assign a cost premium to their work when performed within the confines of a secure correctional facility (upwards to 25%) due to this uncertainty in predicting the duration required to perform the work. Future contract prices are subject to being increased as the enhanced restrictions to facility ingress and egress continue to evolve.

Another significant risk of privatization as identified by the department is a loss of expertise with the disparate character of prison facilities. Currently, the department has maintenance staff familiar with the unique character of each prison in the state. Many prisons have aging infrastructure, such as HVAC systems, controls, fire alarms, etc. that are no longer supported or serviced by the vendor that originally installed them; thus, the only competent service available is provided by in-house maintenance personnel. Further, in response to the statewide character of the prison system, the department provides certain levels of expertise, as well as readily-available spare parts, via regional maintenance yards that enable the department to deploy a regional employee to a facility when the necessary expertise is not available at the facility, itself, and to provide much-needed parts on a timely basis. Due to its unique business requirements, DPS facilities and business systems must be fully operable 24 hours per day, 7 days per week, 365 days per year. This includes not only complex surveillance and intrusion detection systems but more basic systems such as interior and perimeter lighting, stand-by power generation, and hot water for food preparation and hygiene. If these services are fully privatized, then the department will be unable to move and deploy its own staff to meet the needs of a large, complex correctional system. Additionally, should a private contractor decide to terminate the contract, the department is left with no back-up plan for providing maintenance, and no staff to perform the work.

Unless privatized maintenance is fully and comprehensively utilized statewide, thus eliminating the need of statewide regionalized maintenance support operations, in-house staff support is still required for privatized maintenance. To reiterate, because of the statewide nature of North Carolina's prisons system, the usual limited scope of maintenance contract services, including cost caps, and the limit on contracted maintenance expertise, utilizing private maintenance operations does not mean that departmental support operations can altogether be eliminated, necessitating a more inefficient, mixed business model. Therefore, to achieve full cost benefits of privatized maintenance, it would have to be used statewide. However, by the very nature of a 24/7/365 statewide operation, the private contractor would likely be unable to meet the response demands. Thus, the department would continue to operate with a mixed use model, where older facilities that are more costly to maintain, but are also more remote, would likely remain the state's responsibility. Cost shifting costly older facilities to the state, while having the less expensive facilities handled by a contractor, creates a very inefficient and ineffective prison maintenance operation.

Another major operational risk factor to be taken into account in considering privatized maintenance for the department is the juvenile justice factor. In September 2013, subsequent to the entering of the private prison maintenance contracts, the Juvenile Justice Division was merged with the Division of Adult Correction to form a consolidated Division of Adult Correction and Juvenile Justice. Since that time, the division has spent considerable time and effort to learn the unique operational demands and maintenance needs of the juvenile justice facilities, state-wide. The end product has been to develop a facilities maintenance system which has substantially improved maintenance of juvenile justice facilities by incorporating the adult correction maintenance resources, including staff at its regional yards, to support the needs of the juvenile justice facilities. It is important to note that this change has not only improved the physical conditions of those facilities, but has enhanced the safety of the youth and staff at those facilities. This is an effort that the department intends to continue for its critical juvenile justice operations. Additionally, on April 10, 2014, the Division of Adult Correction and Juvenile Justice presented to the Joint Legislative Oversight Committee on Justice and Public Safety a Juvenile Justice Facilities Strategic Plan, a plan which among other things, recommends phasing out the use of facilities that are outdated, unsafe and/or underutilized, and renovating and expanding the use of existing facilities that are safer, securer, and more cost-efficient – all of which creates a substantial cost savings to the state and which is dependent upon maintaining the current departmental regionalized maintenance operations intact.

Lastly, the department identifies accountability as a risk of privatization of maintenance services in terms of timeliness and cost containment. Very often, maintenance needs within a prison are not scheduled preventative efforts, but rather, are emergencies due to system failures, none more serious than a failure in an Electronic Intrusion System, the lynchpin of a facility's safety plan. Immediate response is mandatory in such situations, a response that the department believes, because of its expertise, can be provided by the department in a much more responsive manner than by a contractor. In fact, when the current contract was renegotiated in 2011, maintenance of the electronic intrusion systems (EIS), cameras, and inmate telephone systems at the facilities maintained by the contractor were removed from the coverage areas of the contract.

The assessment of the private contractor's maintenance of the EIS, video and telephone systems, when the department assumed maintenance responsibility in 2012, revealed the following deficiencies:

- EIS
 - Limited expertise on site
 - Fence testing sporadic at best
 - Limited spare parts inventory (Israel based supplier)
 - Semi-annual PM's not being completed
 - Repair and/or replacement of numerous electronic components required
 - Problem uncovered at Maury where a section of outdoor insulated fiber had been replaced with incorrect fiber, requiring extensive troubleshooting and staff time incurred by DPS to trouble-shoot and resolve this problem
 - DPS expended \$27,000 in parts to bring EIS systems back to required operating conditions with all work completed by maintenance yards' electronic technicians.

- Video Surveillance System
 - Fifty-four (54) cameras required repair and/or replacement
 - DPS expended \$5,100 in parts to bring video surveillance systems back to required operating condition with all work completed by maintenance yards' electronic technicians.
- Telephone System
 - All problems found were handled by the maintenance yards' electronic technicians with very limited additional cost

The removal of those operations from the contractor's responsibilities allowed for the reduction of one staff from the contractor's FTEs per location; however, despite the aforementioned reduction in the contractor's maintenance responsibilities for EIS, video surveillance, and telephone systems, beginning with the 2012 contract renewal, which included a standard price increase, the annual contract cost, before add-ons, of the three (3) privatized prisons is \$2,645,284, which is 5.1% higher than the FY 2011-12 cost of \$2,516,419.

In a related accountability risk, it is important to note that the in-house operation of maintenance implies accountability for cost containment, while there is no such similar accountability on a contractor. With the limited scope of the maintenance work required of the privatized maintenance contractor, the short term nature of the contract, and most notably, the monetary cap placed on the contractor's maintenance obligations, by the nature of the contract, itself, preventative maintenance is not typically a priority of the contractor's; given the continued aging of the state's prison facilities and the potential cost of that, long-term, preventative maintenance is, however, a priority of the department's.

FISCAL ANALYSIS

As summarized below, based on a three-year fully-burdened comparison of the analogous facilities, **there is no conclusive evidence that privatized maintenance produces significant savings benefits over in-house, departmental maintenance operations.** In fact, for each of the three years, two (2) of the in-house-maintained facilities had lower costs for maintenance than the average contract rate.

Maintenance Cost Comparisons (Per Square Foot)

PRISON MAINTENANCE									
SCOTLAND			LANESBORO			ALEXANDER			
Net Square Feet	376,228	376,228 / 431,997	467,172	376,228	376,228	376,228	378,828	378,828	414,003
Fiscal Year	09-10	10-11	11-12	09-10	10-11	11-12	09-10	10-11	11-12
Employee Salaries and benefits	\$724,961.20	\$791,890.14	\$924,139.08	\$800,881.65	\$769,663.03	\$774,478.04	\$746,088.52	\$774,724.90	\$834,078.35
Repairs	\$163,448.37	\$124,347.33	\$157,452.11	\$134,792.09	\$133,220.47	\$137,054.68	\$124,931.01	\$117,214.66	\$146,713.13
Other - Garbage, Pest Control	\$26,358.89	\$32,126.87	\$46,366.74	\$42,997.46	\$41,992.56	\$52,152.48	\$52,683.80	\$48,998.24	\$56,097.90
Contract Monitoring	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
532199 Contract Amount:									
Fiscal Year Total	\$914,768.46	\$948,364.34	\$1,127,957.93	\$978,671.20	\$944,876.06	\$963,685.20	\$923,703.33	\$940,937.80	\$1,036,889.38
Costs/Sq. Ft.:	\$2.43	\$2.35	\$2.41	\$2.60	\$2.51	\$2.56	\$2.44	\$2.48	\$2.50
PRIVATIZED MAINTENANCE									
MAURY			BERTIE			TABOR			
Net Square Feet	347,031	347,031	347,031	347,031	347,031	347,031	347,031	347,031	347,031
Fiscal Year	09-10	10-11	11-12	09-10	10-11	11-12	09-10	10-11	11-12
Employee Salaries and benefits	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Repairs	\$8,849.59	\$7,796.45	\$6,570.92	\$18,915.44	\$18,381.34	\$14,069.78	\$15,481.43	\$3,141.59	\$34,981.52*
Other - Garbage, Pest Control	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Contract Monitoring	\$24,319.52	\$24,319.52	\$24,319.52	\$24,319.52	\$24,319.52	\$24,319.52	\$24,319.52	\$24,319.52	\$24,319.52
532199 Contract Amount:	\$848,128.93	\$834,439.22	\$852,777.06	\$808,126.75	\$800,197.44	\$821,239.56	\$869,969.00	\$851,974.00	\$842,402.60
Fiscal Year Total	\$881,298.04	\$866,555.19	\$883,667.50	\$851,361.71	\$842,898.30	\$859,628.86	\$909,769.95	\$879,435.11	\$901,703.64
Costs/Sq. Ft.:	\$2.54	\$2.50	\$2.55	\$2.45	\$2.43	\$2.48	\$2.62	\$2.53	\$2.60

* Large amount of repair cost indicated for Tabor CI in FY 11-12 is due to unusual and unforeseen major repairs which occurred and which were expended from the department's budget.

CONCLUSIONS

Based on the analysis contained in this report, the department has concluded that there are no significant savings to be realized through the privatizing of prison maintenance operations, and that the department's statewide maintenance operations allow for the department to maintain a higher level of internal security for maintenance operations within its correctional facilities, a complete range of necessary maintenance expertise statewide, a more timely response to maintenance emergencies, and a greater emphasis on cost-containment and preventative maintenance for both adult and juvenile correctional facilities. Finally, it is important to note that as presently configured, the department's maintenance operations are supported by an extensive network, which provides for synergies and economies of scale that result in an efficient and effective delivery of services to the wide range of correctional facilities statewide; conversely, a partial use of privatized maintenance creates a more inefficient and less effective prison maintenance system.

cc: Chairs of the Joint Legislative Oversight Committee on Justice and Public Safety
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