

**Joint Legislative Committee on Performance
Evaluation and Expenditure Review (PEER)**

Report to
the Mississippi Legislature



Breakeven Analysis for Mississippi's Regional Correctional Facilities, October 1, 2009-June 30, 2010

PEER contracted with the accounting firm BKD to compute a breakeven analysis for each of Mississippi's eleven regional correctional facilities—specifically, the minimum daily census of state inmates required for each regional facility to cover its fixed and marginal costs associated with housing state inmates. The period of review was October 1, 2009, through June 30, 2010. During the period of review, the state reimbursed the regional correctional facilities at a per diem rate of \$29.74. The calculation of a breakeven point only encompassed state inmates incarcerated at each facility.

The breakeven point is the level of operations at which a facility's revenues and costs are equal. Seven facilities operated at calculated breakeven points that were higher than the minimum number of inmates—ranging from 200 to 260—that the Mississippi Department of Corrections is required to provide to the respective facilities under the present contracts. Three of the facilities (i.e., Bolivar, Kemper-Neshoba, and Marion-Walthall facilities) operated with a breakeven point higher than the average daily census of state inmates incarcerated in each of the facilities during the review period. One factor contributing to this is that these facilities have higher than average operating costs.

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms, with one Senator and one Representative appointed from each of the U. S. Congressional Districts and three at-large members appointed from each house. Committee officers are elected by the membership, with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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December 14, 2010

Honorable Haley Barbour, Governor
Honorable Phil Bryant, Lieutenant Governor
Honorable Billy McCoy, Speaker of the House
Members of the Mississippi State Legislature

On December 14, 2010, the PEER Committee authorized release of the report entitled **Breakeven Analysis for Mississippi's Regional Correctional Facilities, October 1, 2009-June 30, 2010.**


Senator Nolan Mettetal, Chair

This report does not recommend increased funding or additional staff.

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Breakeven Analysis for Mississippi's Regional Correctional Facilities, October 1, 2009-June 30, 2010

Executive Summary

PEER contracted with the accounting firm BKD to compute a breakeven analysis for each of Mississippi's eleven regional correctional facilities—specifically, the minimum daily census of state inmates required for each regional facility to cover its fixed and marginal costs associated with housing state inmates. The period of review was October 1, 2009, through June 30, 2010. During the period of review, the state reimbursed the regional correctional facilities at a per diem rate of \$29.74. The calculation of a breakeven point only encompassed state inmates incarcerated at each facility.

The breakeven point is the level of operations at which a facility's revenues and costs are equal. Seven facilities operated at calculated breakeven points that were higher than the minimum number of inmates—ranging from 200 to 260—that the Mississippi Department of Corrections is required to provide to the respective facilities under the present contracts. Three of the facilities (i.e., Bolivar, Kemper-Neshoba, and Marion-Walthall facilities) operated with a breakeven point higher than the average daily census of state inmates incarcerated in each of the facilities during the review period. One factor contributing to this is that these facilities have higher than average operating costs.

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Max K. Arinder, Ph.D.
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Dear Dr. Arinder:

We have completed our engagement to compute the fiscal year 2010 breakeven analysis for each of Mississippi's eleven regional correctional facilities; specifically, the minimum daily census of state inmates required for each regional facility to cover its fixed and marginal costs associated with housing state inmates. Our report provides a schedule detailing the average daily census needed to achieve a breakeven point number of state inmates per day along with identified related operating costs for the nine months ended June 30, 2010. Three charts provide a visual comparison of individual facility results to aid with understanding. Additionally, an explanation of the methodology used to calculate breakeven point is included.

The calculation of a breakeven point only encompasses state inmates incarcerated at each facility. Regional facilities also provide incarceration for county, municipal, and other offenders. The related revenues and costs of incarceration of non-state inmates are not included in these calculations. Accordingly, even if the facility is able to maintain its average daily census of state inmates equal to or greater than the identified breakeven point, this would not provide a reliable indicator of the financial viability of the regional facility.

As indicated in the accompanying schedule, three of the facilities operated with a breakeven point higher than the average daily census of state inmates incarcerated during the period covered by the calculations. Seven of the facilities operated at calculated breakeven points which were higher than the minimum number of inmates that the State of Mississippi Department of Corrections is required to provide under the present contracts.

As described in the accompanying explanation of breakeven methodology, no attempt was made to audit or verify the accuracy of information provided by each regional correctional facility. Our engagement was not designed to provide any level of assurance on the accompanying schedule and charts and, accordingly, we express no opinion or any other form of assurance on them.

BKD, LLP

December 8, 2010

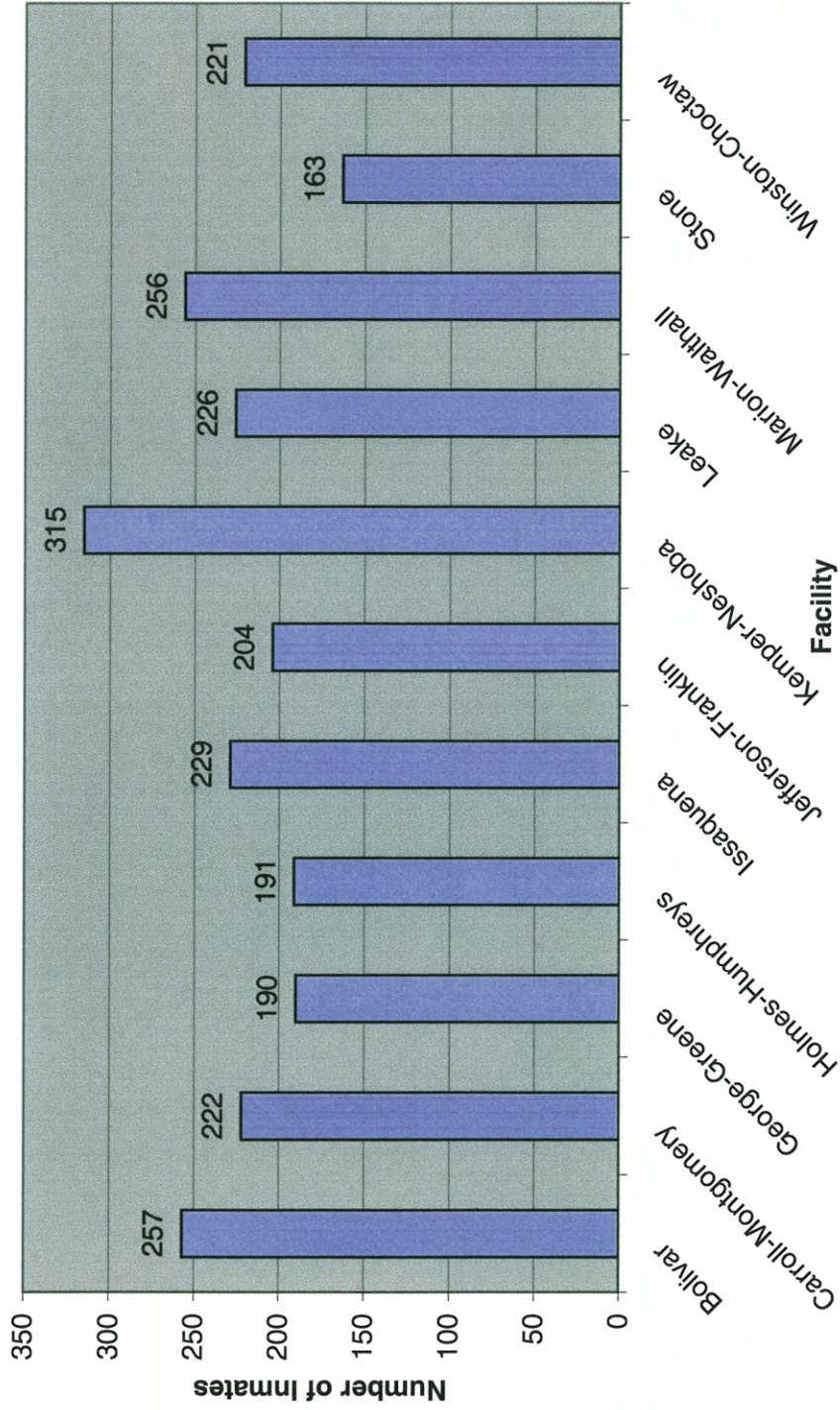
State of Mississippi
 Schedule of Operating Costs and Breakeven Point for State Inmates by Regional Correctional Facility
 For The 9 Month Period Ended June 30, 2010
 (On a Per Day Basis)

	Bolivar County	Carrroll- Montgomery Counties	George- Greene Counties	Holmes- Humphreys Counties	Issaquena County	Jefferson- Franklin Counties	Kemper- Neshoba Counties	Leake County	Marion- Walthall Counties	Stone County	Winston- Choctaw Counties	Averages
State Per Diem on October 1, 2009 to June 30, 2010	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	\$ 29.74	29.74
Operating Costs (Per State Inmate Day)												
Housing and visitation	13.90	15.40	14.75	13.76	15.97	15.26	16.10	15.46	18.65	10.55	15.54	15.03
Education and treatment program cost ¹	2.77	0.44	1.11	0.67	1.20	0.55	1.30	1.10	1.19	1.11	0.89	1.12
Food service	2.80	2.20	3.62	2.86	5.22	2.71	3.92	3.64	3.26	2.74	3.56	3.32
Medical services	0.57	0.58	0.14	0.20	0.44	0.55	0.26	0.70	0.94	0.66	0.43	0.50
Administrative costs	8.35	6.71	2.00	4.98	3.16	2.51	4.01	4.17	4.49	5.96	4.35	4.61
Total operating costs	28.39	25.33	21.62	22.47	25.99	21.58	25.59	25.07	28.53	21.02	24.77	24.58
Debt Service (Per State Inmate Day) ^{3,4}	3.48	2.79	3.31	2.10	4.05	4.21	5.37	3.69	3.17	0.81	4.25	3.38
Total Costs	\$ 31.87	\$ 28.12	\$ 24.93	\$ 24.57	\$ 30.04	\$ 25.79	\$ 30.96	\$ 28.76	\$ 31.70	\$ 21.83	\$ 29.02	\$ 27.96
Daily State Inmate Census Needed to Breakeven ¹	257	222	190	191	229	204	315	226	256	163	221	225
Minimum Contractual Commitment of Inmates by MDOC	200	200	200	200	240	200	260	200	200	200	200	209
Total Inmate Days Per Period Analyzed												
State inmates	68,182	65,024	64,872	65,209	63,616	64,964	83,023	65,201	64,946	65,023	65,050	66,828
Non-state inmates	46,195	7,513	35,738	16,221	13,514	11,791	15,441	19,403	26,795	45,993	13,385	22,908
Average Inmates Per Day												
State inmates	250	239	238	239	234	238	305	239	238	239	239	245
Non-state inmates	170	28	131	60	50	44	57	72	99	169	50	85
Prison Capacity for State Inmates	294	280	280	280	274	280	355	280	280	280	280	316

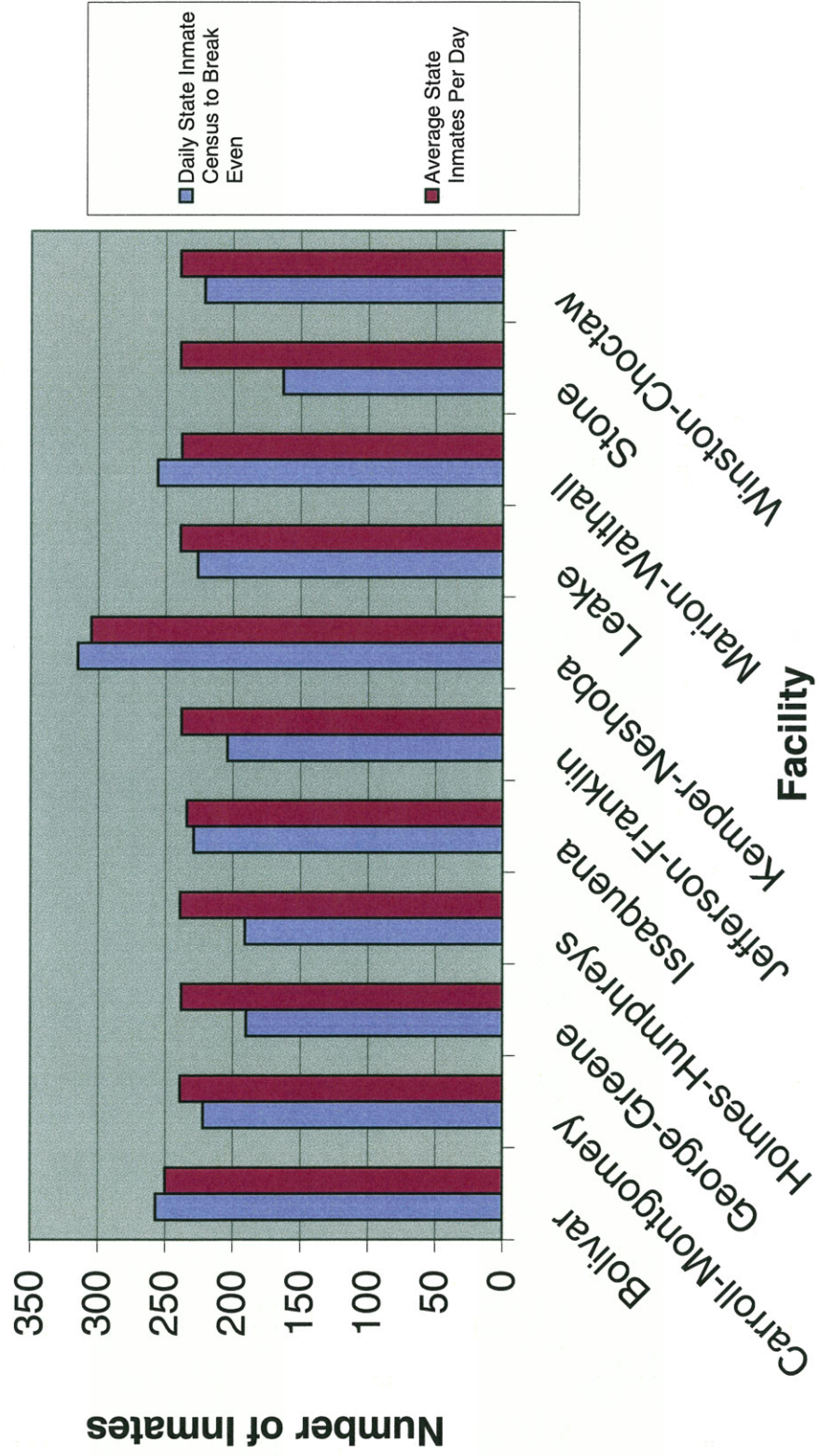
Notes:

- As seen by the correlation between required number of inmates to break even and the average number of inmates per day, Bolivar County, Kemper-Neshoba counties, and Marion-Walthall counties require more inmates per day to break even than the average number of inmates housed by the facility per day. One factor contributing to this is these facilities have higher than average operating costs.
- Food cost was calculated using inmate days rather than actual meals reported as served. See explanation section for more information.
- Debt service for Holmes-Humphreys counties is scheduled to increase significantly in the latter part of 2010. The effect of this increase, if applied to the existing data, would be to increase the cost per inmate day by \$2.93 and increase the breakeven point to 216 inmates.
- Debt service for Stone County is scheduled to increase significantly in the latter part of 2010. The effect of this increase, if applied to the existing data, would be to increase the cost per inmate day by \$2.08 and increase the breakeven point to 195 inmates.

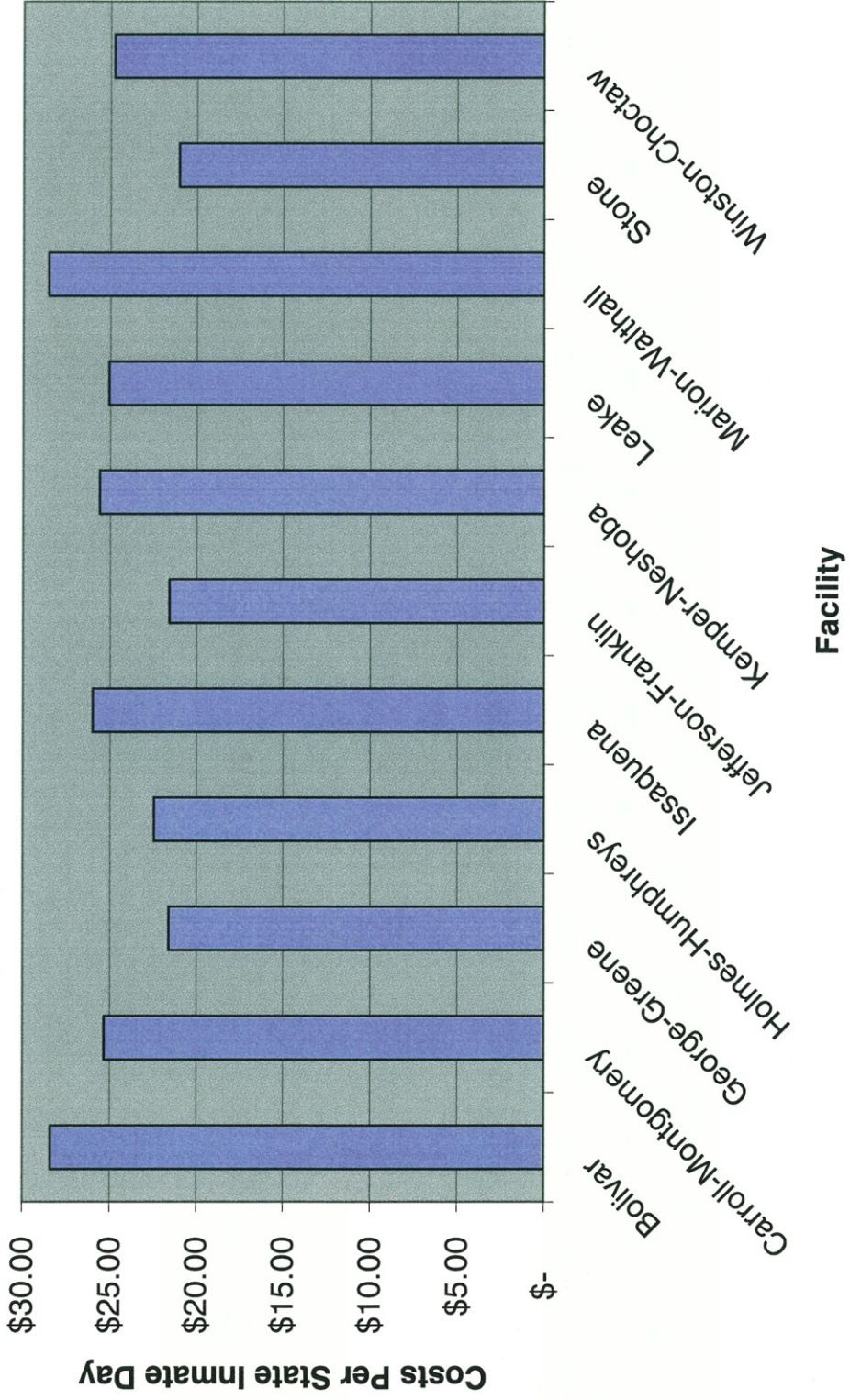
**Chart of Daily State Inmate Census Needed to Break Even
by Regional Correctional Facility
Nine Months Ended June 30, 2010**



**Chart of State Inmates Per Day to Break Even vs.
Average Inmates Per Day
by Regional Correctional Facility
Nine Months Ended June 30, 2010**



**Chart of Operating Costs Per State Inmate Day
By Regional Correctional Facility
Nine Months Ended June 30, 2010**



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Explanation of Breakeven Methodology
Nine Months Ended June 30, 2010

Overview

In 1995, the Legislature authorized the creation of county-owned regional correctional facilities, which would be allowed to house up to 250 medium-security state inmates each. For the nine months ended June 30, 2010 used in this analysis, the state reimbursed the regional correctional facilities at a per diem rate of \$29.74. In addition to the state inmates, regional correctional facilities also house inmates from cities, counties, and possibly federal inmates utilizing the beds available for non-state inmates. The facility is reimbursed at a varying per diem rate by these municipalities, police departments, counties and, in some cases, the federal government.

Process for Determining Costs for State Inmates

A standard information request was submitted to each of the eleven regional facilities that house state inmates. Upon receipt of the information, the information was reviewed, and additional requests were made in situations where information was incomplete or appeared inconsistent with other data. In all cases, the personnel of each facility were cooperative and provided sufficient information upon which to make the calculations. If there was a clear indication that such information appeared to be materially incorrect, we obtained clarifications from the responsible regional facility. No attempt was made to audit or verify the accuracy of the information.

Methodology Used in Calculating Breakeven Analysis for State Inmate Days

For the eleven regional facilities analyzed, we used actual operating costs and inmate data from October 1, 2009, the beginning of the fiscal year for each facility, through June 30, 2010. The information used was obtained from each facility and the Mississippi Department of Corrections (MDOC). The information presented on the accompanying schedule includes costs solely for state inmates. Costs associated with non-state inmates are not presented.

Operating costs (less cost reimbursed by the state or another agency) were allocated on the basis of three ratios:

- State inmate days and non-state inmate days
- The facility's square footage dedicated exclusively to state inmates, exclusively to non-state inmates, and shared areas
- Meals served to state and non-state inmates

Facilities that reported meals served averaging substantially greater than three meals or less than three meals per inmate per day were alternatively allocated based on state to non-state inmate days. It was determined that facilities which average considerably more or less than three meals per day per inmate included meals served to employees and meals served to inmates that do not remain in

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the facility's custody for an entire day were included in the information reported. Choosing an alternative allocation, inmate days, provided a more reasonable cost per inmate per day.

Breakeven Point

The breakeven point is the level of operations at which a facility's revenues and costs are equal. At the breakeven point, a facility neither makes a profit nor incurs a loss. In this analysis, "revenues" are any funds received by a facility for the housing and care of inmates and other revenues such as interest earned. The breakeven point is the point at which these revenues are equal to the costs incurred to house the inmates.

Fixed and Variable Costs

A cost is classified as either fixed or variable. A fixed cost is one that remains unchanged over a relevant range of volume. For example, a debt service cost is a fixed cost and remains the same whether a facility houses 50 inmates or 100 inmates. However, a decision to increase the number of inmates to 500 at a facility would require increased debt to finance the additional facilities. The new debt would represent fixed costs at a higher level.

Variable costs are costs that change related to changes in volume. For example, food costs fluctuate with the number of inmates housed at a facility.

Cost Allocation Procedures

To determine the per diem cost of housing inmates at regional correctional facilities, costs were categorized into six basic components. Each component was allocated on the basis of state inmate days to non-state inmate days. The categories of cost allocation are:

- **Housing and Visitation** – This category includes correctional officer or guard salaries and benefits, commodities, and occupancy costs such as utilities. Correctional officer and guard salaries and benefits and commodities were allocated on the basis of inmate days, and occupancy costs were allocated by square footage used by each group.
- **Education and Treatment Program Costs** – This category includes the costs of providing educational, religious, and drug and alcohol rehabilitation courses to inmates. All educational and treatment program costs, American Correctional Association (ACA) consultant costs and in-house personnel assigned ACA responsibilities to state inmates are treated solely as state costs because programs are not offered to non-state inmates and the state mandates compliance with ACA standards. Each facility incurs cost related to ACA accreditation

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requirements and drug and alcohol treatment; however, basic education programs such as adult literacy, General Educational Development (GED), and trades education are generally provided by local community colleges. A summary of the types of services received by each facility is included under the caption "Services Received at Little or No Cost." No value has been included in the calculations for programs that are provided at no cost to the facility.

- **Food Service** – Food service includes the cost of food purchased for inmates, salaries of kitchen personnel, and kitchen supplies. Food service costs are allocated based on the ratio of state inmate meals served to non-state inmates served except as indicated on the accompanying chart.
- **Medical Services** – Medical services include the unreimbursed cost of providing a nurse, medical supplies, and medical services to state inmates. Medical costs are allocated between state and non-state costs on the basis of inmate days. MDOC's medical provider reimburses each regional facility a pro rata share of the nurse's salary, medical supplies, and medical services based on inmate days not to exceed a set amount. The state inmate's allocated share of medical costs is reduced by the reimbursement received.
- **Administrative Costs** – This category includes a cost other than correctional officers (e.g., personnel costs of the regional facility warden, office staff and attorney fees). Also included are costs for supporting the administrative function, such as telephone, office supplies, and document reproduction. Administrative costs are allocated on the basis of inmate days.
- **Debt Service** – Includes the cost of repaying bonds issued to build a facility. Each regional facility's inmate housing agreement with MDOC states that the bonds are payable by the county only from revenues of the facility. Revenues are derived from the state, counties, municipalities, and the federal government if the facility houses federal inmates. Debt service costs are allocated to state inmates on the basis of square footage.

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Services Received at Little or No Cost

Type of Program	Bolivar County	Carroll-Montgomery Counties	George-Greene Counties	Holmes - Humphreys Counties	Issaquena County	Jefferson-Franklin Counties	Kemper-Neshoba Counties	Leake County	Marion - Walthall Counties	Stone County	Winston - Choctaw Counties
Education Programs	Provided at no cost ¹	Provided at no cost ²	Provided at no cost ³	Provided at no cost ⁴	None	Provided at no cost ⁵	Provided at no cost ⁵	None	Provided at no cost ⁷	Provided at no cost ⁸	Provided at no cost ⁹
Chaplain Services	None Indicated	None Indicated	None Indicated	None Indicated	Chaplain services are provided by local volunteers.	None Indicated	Various programs are offered weekly by volunteer ministers.	None Indicated	None Indicated	None Indicated	Discipleship training is provided by religious volunteers.

- 1 Life skills classes are provided to inmates by Correctional Management Services. A GED instructor is provided by Coahoma Community College. The value of these services has not been determined by the facility.
- 2 Holmes Community College provides funds for GED, Adult Basic Education (ABE), ABE Literacy, and building trades programs when available. Instructors are compensated at a rate of \$20 per hour by the college. The total value of these services has not been determined by the facility.
- 3 Mississippi Gulf Coast Community College provides education services at an hourly rate of \$20 and totaling \$72,800 of annual value.
- 4 Holmes Community College provides education services at no cost, but requires a minimum of ten inmates to be enrolled in each work training class. The value of these services has not been determined by the facility.
- 5 Copiah Lincoln Community College provides a GED instructor at no cost to the facility. The value of these services has not been determined by the facility.
- 6 GED, ABE, and computer classes are provided by East Mississippi Community College.
- 7 Pearl River Community College provides a GED instructor at no cost to the facility. The value of these services was not given.
- 8 Mississippi Gulf Coast Community College provides basic life skills and GED instruction at an estimated annual cost of approximately \$54,400 that is paid by the college.
- 9 East Central Community College provides GED, ABE, Literacy and Pre-release programs at no cost. The value of these services was not given.

Risks and Limitations of Breakeven Calculations

The calculation of a breakeven point for the number of inmates necessary to provide that expenses are equal to revenues of a facility is subject to a number of risks and limitations. These include but are not necessarily limited to the following:

- Cost increases might be incurred for which management does not have direct control such as utilities, unusual repairs, or inflation.
- Management may change the design of its security through increases in staffing.

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- A decrease in the number of non-state inmates would require more expenses to be absorbed by the state inmates.
- Shifts in the local labor environment might create a high demand for personnel, thereby driving up the costs to hire and retain appropriate security staff.
- The costs included in the analysis period only cover a portion of the facility's fiscal year. There may be additional costs that are incurred infrequently that have not been identified in the period under analysis.
- The quality of financial information received from each facility is dependent on the internal controls over financial reporting at each facility, particularly procedures to ensure appropriate revenue and expense classification, appropriate accruals of revenue and expense, and procedures to ensure that revenues and expenses are reported in the correct period. No assurance as to the accuracy of the information received was obtained.
- Data received from the facilities is provided in various formats and, frequently, information is duplicated in reports and other sources and is subject to misinterpretation by the analyst.

These limitations and others should be considered in connection with any reliance that may be placed on the daily state inmate census needed to break even for a regional correctional facility as indicated in the accompanying schedule.

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