Collins Center / Florida TaxWatch Special Report | April 2011

# A Billion Dollars and Growing: Why Prison Bonding is Tougher on Florida's Taxpayers Than on Crime

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## Executive Summary

Over the past 15 years, the state of Florida has increasingly turned to the use of lease revenue bonds to fund the construction of new prison facilities. Little known and not well understood by taxpayers, this funding approach has saddled future generations of Floridians with over a billion dollars in debt without appreciably increasing public safety. This report explores the unprecedented growth in the prison system that triggered the use of bonding, the genesis and history of the use of bonding to finance prison construction, and what Floridians can and should do to curtail the use of prison construction bonding.

Key sections of the report include:

- An analysis of the exponential growth of Florida's prison population in the past 30 years resulting from "tough on crime" policies that have done little to increase public safety and concomitantly have created the need to build a large number of new prison facilities to accommodate that growth.

- A description of the increasing use of lease revenue bonds over the past 15 years to pay for building new prisons, and the impact of those decisions on the taxpayers of Florida.

- An analysis of why bonding is a problem that citizens should be concerned about, because:

    - It denies them a voice in the decision-making process since lease revenue bonds, unlike general revenue bonds, do not require voter approval;

    - it obscures the true cost of prison system growth since full construction costs are not included in the yearly budgets, but are found only in little-known government reports;

    - it makes it difficult for citizens to understand the implications or to weigh the benefits of criminal justice policies enacted by the Legislature over the years;

    - it has created, and will continue to create, significant long-term debt for taxpayers; and

    - it allows policymakers to avoid addressing the root causes of prison growth and to sidestep financial responsibility for their policy decisions by pushing the problem into the future.

Among the findings detailed in the report:

- The total number of inmates in Florida's prisons grew from just under 20,000 in 1980 to 102,000 in 2010 – an 80 percent increase over 30 years.

- In that same period, public spending on prisons has increased from $169 million[1] to about $2.4 billion.

- The exponential increase in the prison population in recent years cannot be explained by increasing crime rates, since crime rates have steadily declined in the past 20 years.

- Florida leads the nation in incarceration rates and stringency in law and sentencing, making its criminal justice system the most punitive of the 50 states as measured by more than 40 variables, such as average prison sentences, life imprisonment, and prison conditions.

- Forty-three percent of the total cost of prison construction and expansion between 2006 and 2010 was paid for by issuing lease revenue bonds.

- There is currently $721.7 million in prison bonding debt outstanding requiring future payments of approximately $1 billion when debt service and interest payments are included.

Finally, the report outlines some of the policy choices in Florida that have led to the increases in the prison population. It describes the wide range of criminal justice reforms undertaken in other states that are successfully reducing prison populations and saving significant money without endangering public safety.

It recommends:

- Florida's legislators seriously review the criminal justice policies and practices which have contributed to the growth of the prison system over the past two decades and have financially strangled the state.

- Florida join the ever-growing number of states undertaking a broad range of criminal justice policy reforms led predominantly by conservatives who understand that highly punitive and incarceration-heavy penalties even for minor, non-violent crimes are unsustainable.

- Implement a moratorium on any new bonding to build prisons until the Governor and Legislature fully disclose to the public all costs created by the use of prison bonding and give citizens a voice in determining whether they want to pay for criminal justice policies that result in the growth of the prison system without increasing public safety.

Florida's prison population has increased significantly over the past three decades. The total number of inmates in Florida's prisons grew from just under 20,000 in 1980 to more than 102,000 in 2010.[2] With this growth has come growth in public spending on prisons. In 1980, the Corrections budget was $169 million annually. By FY2010-11, it had jumped to nearly $2.4 billion annually. Furthermore, the returns from a public safety perspective have diminished over the past decade, even as costs have accelerated.

Annual operations are only part of the overall expense for Florida's prisons. Constructing new prison capacity – or capital investment–to accommodate the state's growing population is a far more significant burden for taxpayers. To fund the cost of prison construction while meeting the constitutional requirement to balance the state budget, Florida, like many states, has resorted to a complicated system of borrowing through issuing lease revenue bonds – certificates of debt issued by government or other public entities to raise money. Lease revenue bonding has become a common means to achieve a balanced state budget. However, it is not well understood by the general public even as it obligates them to considerable debt well into the future.

Since 1995, Florida has issued approximately $825 million in bonds to finance prison construction. As of June 30, 2010, the state owed $721.7 million in bond debt for prison construction. Future payments, including interest, on these bonds will total approximately $1 billion.[3] This debt will be a cost to taxpayers for years to come.

Lease revenue bonds have become popular with elected officials because they provide a way to build more prisons without raising taxes. Because these bonds do not require approval by the voters and are not part of the state's annual budget, the practice obscures significant portions of corrections costs. Furthermore, these bonds make it possible for legislators to put off hard choices necessary to address the underlying causes of growth in the prison population, leaving that problem for those who follow.

With an unprecedented number of people now in prison and a serious and long recession continuing to constrain Florida's fiscal resources, Florida must look for ways to ensure public safety at lower cost. Alternatives do exist. Successful reforms being implemented across the nation have enhanced public safety while saving taxpayer dollars.

# The Growth of Florida's Prison System

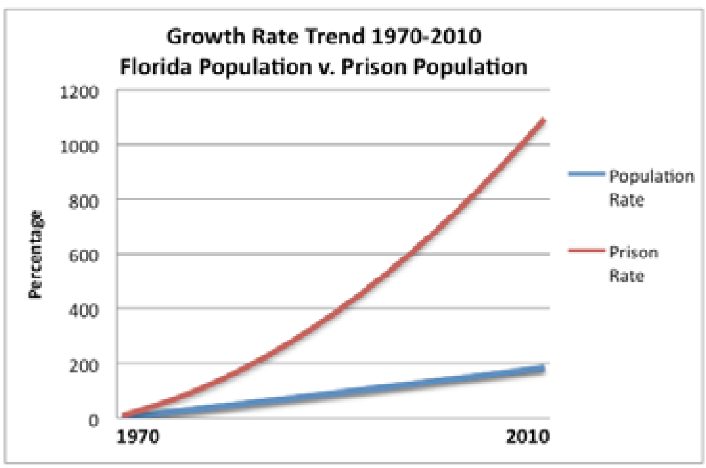
Florida has the nation's third largest prison system with approximately 102,000 inmates.[4] This population has been growing for decades, and only in recent years has it seen a slight decline. However, according to estimates by the Florida Legislature's Office for Economic and Demographic Research (EDR), the prison population will increase 2.2 percent by fiscal year 2015-16.[5] The influx of new prisoners will require additional prison construction.

The state currently operates 147 correctional facilities, including "major institutions" (*i.e.,* traditional prisons), work camps, work release centers, and road prisons. There are 63 Correctional Institutions, including seven private correctional facilities[6]; 46 work and forestry camps, 33 work release centers/facilities, and five road prisons.[7] The budget for the Department of Corrections exceeds $2.4 billion.

## Why Has This Happened?

In the 30 years from 1980 to 2010 Florida's prison population increased from 20,000 to 102,000. The state's population nearly tripled during that period, but that growth cannot explain the nearly ten-fold increase in the prison population.

The graph below illustrates the disparity between Florida's total population growth and the state's prison population growth from 1970 to 2010.




Source: Florida TaxWatch based on data from the Florida Legislature's Office of Economic and Demographic Research and the Florida Department of Corrections.

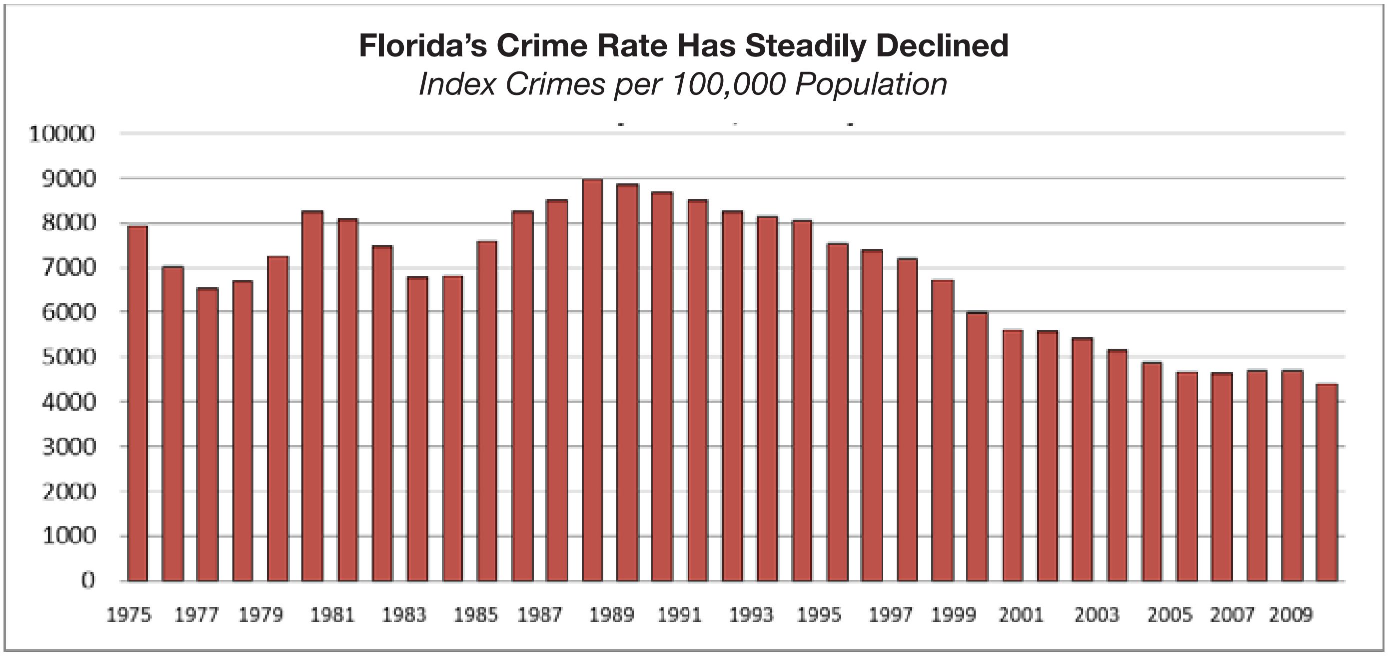
If population growth cannot account for the rapid increase in the prison population, the incidence of crime does not explain it either. The graph on page six shows that while crimes rates have fluctuated over time, there has been a general decline in index crimes since the late 1980's while the prison population rate has increased dramatically.[8]

**Correctional Institutions** are prisons with fences, razor wire or ribbon, electronic detection systems, perimeter towers with armed correctional officers and/or officers in roving perimeter vehicles. These facilities are divided into seven levels of security ranging from minimum-custody facilities to maximum-custody facilities.

**Work/Forestry Camps** are minimum- to medium-security custody facilities. Inmates are usually transferred to a work camp after completing part of their sentences at a correctional institution and demonstrating satisfactory adjustment. Their jobs include cleaning up roadways and right-of-ways, grounds and building maintenance, painting, building construction projects, moving state offices, and cleaning up forests. Eleven (11) percent of the prison population resides in work camps.

**Work Release Centers (WRC)** house community-custody inmates who are participating in community work release with paid employment in the community, and minimum-custody inmates serving in a support capacity for the center (such as in food services and laundry). They must be within two or three years of their release date, depending on their job assignment. Sex offenders may not participate in work release or center work assignments. Inmates must remain at the WRC when they are not working or attending programs such as Alcoholics Anonymous. Approximately 3 percent of the prison population is enrolled in WRCs.

**Road Prisons** house minimum- and medium-custody inmates, most of whom are part of community work squads and perform highway road work. Other jobs include support services to state agencies, such as collecting recycling materials and moving furniture. Less than 1 percent of the prison population is housed in road prisons.




Source: Florida TaxWatch based on data from the Florida Legislature's Office of Economic and Demographic Research and the Florida Department of Law Enforcement.

Beginning in 2007, the number of both violent crimes and non-violent crimes has been declining as shown below. However, these declines have not led to greater declines in incarceration.

| Violent Crimes | | | Non-Violent Crimes | |
|---|---|---|---|---|
| Year | Total | % Change from Prior Year | Total | % Change from Prior Year |
| 2007 | 65,011 | 2.00% | 362,635 | 4.20% |
| 2008 | 63,421 | -2.40% | 371,142 | 2.30% |
| 2009 | 57,253 | -9.70% | 342,814 | -7.60% |
| 2010 | 51,113 | -10.70% | 329,937 | -3.80% |

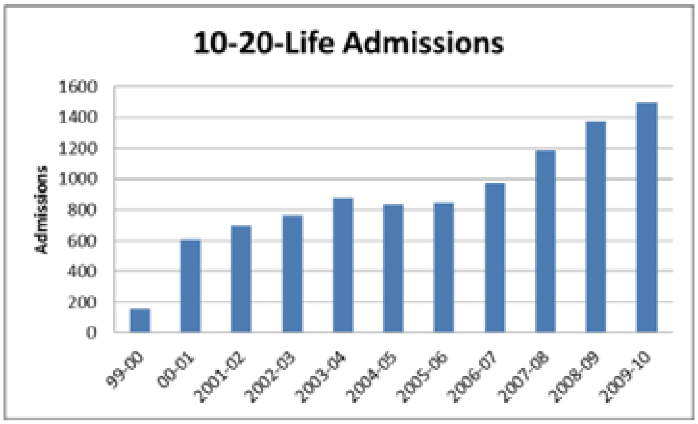
Source: EDR February 2011 Criminal Justice Estimating Conference.

In fact, Florida arguably leads the nation in incarceration rates and stringency in law and sentencing, making it the most punitive of the 50 states as measured by more than 40 variables, including average prison sentences, life imprisonment, and prison conditions.[9] A report issued by the *Florida TaxWatch Government Cost Savings Task Force for FY 2011-12* clearly states the problem: "The increase in the prison population was achieved by an increasing rate of incarceration. Policy choices dictated that result. The rate of incarceration is the percent of people that Florida locks up in state prisons. It has jumped from .13 percent to .54 percent. Forty years ago, the rate of incarceration was one quarter of what it is today."[10]

Florida, like many states, has made a series of purportedly "tough on crime" policy decisions over the past 20 years that have driven increases in incarceration. Those increases have led to dramatic increases in costs. Policy decisions contributing to that growth include the elimination of parole and the adoption of policies lengthening both sentences and the period of incarceration; widespread use of very short state prison sentences in lieu of community-based alternatives (*e.g.,* jail, probation, treatment, electronic monitoring); and state prison incarceration for technical probation violations.

Perhaps the most significant factor is the trend toward determinate, or "mandatory minimum," sentencing brought about by the public's fear of crime and the corresponding desire of politicians to pander to those fears for the sake of not appearing to be "soft on crime." Sentencing laws such as the "85 percent rule," which mandates that inmates must serve 85 percent of their sentences before release, and other mandatory minimum sentencing policies, such as "10-20-Life" for offenses in which a firearm is involved, have combined to balloon the prison population and keep inmates there longer, thereby necessitating more prison beds (*i.e.,* more prison construction).

For instance, the number of people sentenced to prison under 10-20-Life has increased each year since 1999. According to the most recent data for FY2009-10, nearly 1,500 offenders were sentenced under this policy with 13 percent receiving a mandatory sentence of at least 25 years.




Other factors contributing to Florida's growing prison population include the increasing use of year-and-a-day (366-day) sentences (The percentage of prisoners receiving those sentences has grown from 8.8 FY2001-02 to 17.7 percent in FY2006-07.); increasing admissions due to "technical" probation violations; overcrowding of county jails; and a growing number of new felonies on the books.[11] In recent months, the percentage of the population in prison under these circumstances has leveled off, but these factors remain a serious challenge to the long-term reduction of the prison population.

## How Are Decisions About Prison Construction and Expansion Made?

Funding decisions for Florida's prisons begin with the Criminal Justice Estimating Conference (CJEC), which includes professional staff from the Office of Economic and Demographic Research (EDR), the Executive Office of the Governor, the Senate, and the House of Representatives. As required by statute, the conference meets at least twice a year to analyze official information relating to the criminal justice system. Based on these analyses, the estimating conference issues official state projections, including forecasts of future prison admissions, civil commitments, and population. Projections for new prison beds are based on projections of the growth in incarceration based on historical performance. Once a year, projections are also made for the state's community supervision needs.[12]

Using CJEC's estimates, the Department of Corrections (DOC) develops and updates an annual comprehensive correctional master plan to project the number of prison beds needed for the next five-year time period. Planning for future prison construction has proven difficult due to frequent revisions by the CJEC of the projected prison population. The CJEC projections are updated two to three times per year based on newly available information, such as monthly prison admissions.

For example, between February 2007 and February 2009, the CJEC revised its prison population estimates for Fiscal Year 2012-13, each time concluding with widely different figures:

- Feb. 2007 – 15,000+ new inmates by FY 2012-2013
- Oct. 2007 – 26,000+ new inmates by FY 2012-2013
- Feb. 2008 – 33,000+ new inmates by FY 2012-2013
- Feb. 2009 – 48,000+ new inmates by FY 2012-2013

The most recent projection of prison admissions and releases from EDR's revision of the criminal justice estimating conference from February 2011 is shown below. It reflects a declining prison population through 2012-13, followed by steady increases through FY2015-16.

| Year | Admissions | Releases | End of Year Population |
|---|---|---|---|
| FY 10-11 | 35,457 | 35,453 | 102,236 |
| FY 11-12 | 34,159 | 35,026 | 101,369 |
| FY 12-13 | 34,319 | 34,535 | 101,153 |
| FY 13-14 | 34,810 | 34,744 | 101,219 |
| FY 14-15 | 35,476 | 34,717 | 101,978 |
| FY 15-16 | 36,241 | 34,717 | 103,502 |

Source: Florida Office of Economic and Demographic Research, February 2011.

Utilizing the most recent projected population information from EDR, the Department of Corrections creates and presents its budget request to the Governor and the Legislature. It includes a list of facilities needed for the department's activities for the upcoming fiscal year. In preparing the 2010-11 request, the department calculated operating costs per inmate at $19,477 and the capital costs per bed at $52,627.[13] However, if the most up-to-date forecast data were used, operating costs per inmate would have increased to $19,761, an increase of 1.5 percent from FY2009-10, and capital cost per bed would have increased to $53,541, which is an increase of 1.9 percent from FY2009-10.[14]

The appropriations process, which includes the Governor and the Legislature, determines which of the requested facilities need to be funded, and these decisions can vary widely from the Department's initial request. After the Legislature authorizes financing to the appropriate state agency to build or expand prison facilities, the Florida Correctional Finance Corporation issues the bonds.

# Prison Construction Bonding

Over the past 15 years the State of Florida increasingly has turned to the use of lease revenue bonds as a mechanism to fund the construction of new prison facilities in the state. Little known and poorly understood by taxpayers, this funding approach has saddled future generations of Floridians with more than $1 billion dollars in debt without appreciably increasing public safety.

## What is the History of Lease Revenue Bonding for Prison Construction and Expansion?

As early as the 1980's, states that could not meet the costs of building prisons turned to general obligation bonds backed by the full faith and credit of the state to offset current-year costs. A bond "is a formal borrowing arrangement in which a transferable certificate represents the debt. The holder of the bond may sell it, in which case the liability is owed to the new owner."[14] Voter approval to issue general obligation bonds is required in many states, including Florida. In California, a law firm (Orrick) claimed credit for devising a new financing mechanism, "lease revenue bonds," which were first used to finance not just prisons, but offices, schools, transit and a wide variety of other infrastructure needs.

A **lease revenue bond**, also called a lease-rental bond, is a municipal bond that can also be floated by states and is defined by the Municipal Securities Rulemaking Board (MSRB)[16] as:

> Bonds whose principal and interest are payable exclusively from rental payments from a lessee. Rental payments are often derived from earnings of an enterprise that may be operated by the lessee or the lessor.

Traditionally, lease revenue bonds were issued to build projects that generated revenue to pay off obligations. Such projects include "toll roads, bridges, hospitals, parking facilities, recreational projects, telephone systems and colleges."[17] Unlike these projects, prisons do not generate any revenue. To cover prisons, a new iteration of revenue bonds had to be devised.

As *Forbes* described this to investors:

> The difference between traditional revenue bonds and lease revenue bonds is one of mechanics. Traditional revenue bonds fund construction of a facility that actually generates revenue for use in debt repayment. Since prisons don't generate any revenue, the crafty state treasurers had to figure out a way to create some.
>
> Here's what they came up with: The state creates an entity or agency to build the prison. The agency floats bonds to the public to cover construction of the facility. The agency then leases the right to use the completed prison to the state. The state pays the entity lease payments. The entity uses the lease payments to service the bond debt. Essentially,

> the state takes money from one pocket (the general fund appropriations to the prison system) and puts it into another pocket (the agency created for the facility), and then the agency distributes the money to the bondholders.[18]

The entity created for this purpose is typically a not-for-profit organized for the sole purpose of acting as the lessor under lease purchase agreements. It issues the tax-exempt lease revenue bonds. The prison that is financed in this manner is then "leased" to a state agency charged with the responsibility of seeking appropriations each year in amounts to cover the debt service.

Orrick improved on this approach in the 1990's, once again initiating the effort in California. There it developed **Certificates of Participation (COP's)**, which are defined by MSRB as:

> A form of lease revenue bond that permits the investor to participate in a stream of lease payments, installment payments or loan payments relating to the acquisition or construction of specific equipment, land or facilities.

COP's can be used both by states and by private prison companies, which have used them to build prisons "on spec" – on the assumption that states would continue to need more prisons. As with traditional lease revenue bonds for building prisons, the payments are made by the annual appropriations for "rent" and the investors who own bond certificates receive a share of the payments.

Thus, for every prison built with COP's, the state must pay both the capital costs (principal) and interest on the principal. This concept is similar to taking out a home mortgage and paying back the principal and interest over time. *Forbes* reports that in addition to Florida and California, other states active in this financing technique include New York, Texas, Alaska and Michigan.[19]

## How Has Florida Used Lease Revenue Bonds to Fund Prison Construction?

Until 1993, Florida avoided borrowing to build state prisons and instead used fixed capital appropriations of general funds (*i.e.,* cash, pay-as-you-go) to build and expand scores of prison facilities. Bonding to finance prison construction arose in connection with the state's decision to privatize the design, construction, and operation of prisons in an effort to reduce costs. The first privatized prison, South Bay Correctional Facility, opened in 1997. Just two years earlier, the Legislature created the Correctional Privatization Commission "for the purpose of entering into contracts for the design, construction, and operation of private prisons in Florida" with operation costs of at least seven percent less than the state.[20]

The Correctional Privatization Commission was soon involved in financing the construction of these prisons. Initially, the commission was charged with securing financing with the vendors who would build and operate the prisons. The vendors used Certificates of Participation (COP's) to finance the prisons they were building, with each prison project subject to its own stand-alone financing, and the state making the lease payments out of general funds. By then, COP's were widely used to finance the building of schools. The Florida Supreme Court ruled that COP's did not run afoul of the Florida Constitution's Article VII requiring voter approval of debt. They concluded that because, technically, any year's lease payments under a COP could be cancelled by the Legislature, it was not a definitive legal agreement and thus could not be considered "real debt."[21] By 1996, six prisons had been constructed with bond financing. All but one were private. The commission continued to finance and oversee this process until its demise.

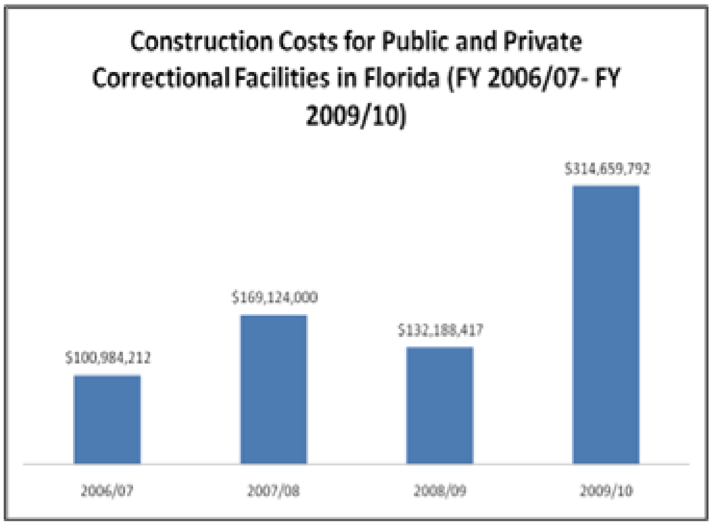
Corruption scandals beginning in 1999 eventually put an end to the Corrections Privatization Commission. Two prominent scandals arose due to a lack of oversight and a fragmentation among decision makers. The first scandal was in 2002, when the commission head resigned "amid a state ethics probe in which he ultimately was fined $10,000. That investigation concluded he was profiting from business relationships with prison contractors outside his role as privatization director."[21] Then in 2006, a former commission head "pleaded guilty to embezzling more than $200,000 from a maintenance fund set up for privately run institutions. He was sentenced to 33 months in federal prison."[22]

With the demise of the Corrections Privatization Commission in May 2004, the job of overseeing private prison contracts was taken up by the newly created Bureau of Private Prison Monitoring, housed in the Department of Management Services (DMS).

The job of issuing COP's and serving as the lessor lies within the Florida Correctional Finance Corporation, which was created by the original Privatization Commission and is housed under the Division of Bond Finance of the State Board of Administration. Initially, this entity did not have an oversight role. However, once the commission was dissolved, the Division of Bond Finance continued its original role but also stepped in to oversee one aspect of this fragmented system.

Between FY2006-07 and FY2009-10, the Florida Legislature appropriated a total of **$716,956,421** to the Department of Corrections for construction and expansion expenses. This figure includes both "pay-as-you-go" appropriations for prison construction costs and rental costs, but does not include the debt-service (or interest payment) obligations on past prison construction borrowing. If debt-service obligations are included, the total figure reaches nearly $1.5 billion. Today, $1 billion is still owed on outstanding bonds and corresponding debt service payments.[24]

As the figure below shows, Florida taxpayers spent more than $100 million on prison construction or expansion each year since FY2006-07.[25]




Source: Florida Department of Corrections (August 2010).

Between 2006 and 2010, bonding of prison construction and expansion in Florida comprised of an unprecedented **43 percent** of the total funding for prison construction and expansion.[26]

In 2009, the Division of Bond Finance combined all existing COP's (and all new COP's) into a Master Lease Purchase Agreement (already being used by school districts financing with COP's), which introduced more transparency into the total amount of debt incurred and the payment responsibilities of the state. It also added COP debt to the annual Debt Affordability Report because, even if technically COP debt is not debt, in all practical respects it must be treated as such. If the state defaulted on making the lease payments, its credit rating would suffer, and future debt would be incurred at higher rates.

Under the Master Lease Purchase Agreement, authorized by Chapters 944, 287 and 255, Florida Statutes, Department of Management Service leases facilities from the Florida Correctional Finance Corporation. COP's are issued and the rent payments made by the Department of Management Service and the Department of Corrections are equal to the principal and interest on the bond. The rent payments for these facilities are subject to annual appropriation by the Florida Legislature. Under a Master Lease structure, which cross-collaterizes all of the projects, the Legislature is required to appropriate "all or nothing" for annual rent payments.

Prior to FY 2009-10, there have been a total of six series of COP's issued and $350.6 million in principal was outstanding, which has funded seven private correctional facilities.[27]

## How Does the Process Work?

The entire system of determining the need, funds, and financing of prison facility construction and expansion is a fragmented process involving several entities, none of which are ultimately accountable. The prison bonding system currently involves all of the following entities:

- The Criminal Justice Estimating Conference, which includes senior staff from the Governor's Office and the Legislature
- The Department of Corrections
- The Governor
- The Legislature
- The Bureau of Private Prison Monitoring, housed in the Department of Management Services
- The Florida Correctional Finance Corporation and the Division of Bond Finance under the State Board of Administration

While these entities work together at different steps in the bonding process, these steps are largely independent from one another and no one actor is consistently involved throughout the entire process.

As mentioned, the Department of Corrections submits a request for prison facility funding based on its projected needs but does not have a direct role in deciding which facilities to will be built, whether they will be public or private, or how they will be financed. Those are all ultimately decisions made by the Legislature.

It is also important to highlight the fragmentation of contract oversight for the construction and operation of new prison facilities. Currently, the contract management of public and private prisons is housed under different agencies. DOC has oversight of public prisons. The Bureau of Private Prisons (housed under DMS) has oversight responsibility for private prisons. The Department of Management Services (DMS) issues requests for proposals for contract bids to find vendors to operate and construct private prisons. The Department of Corrections has a third-party role, typically helping to evaluate the contract proposals. However, DOC has no formal role in this process and has no oversight of the private prisons once opened, despite the fact that all inmates in private prisons remain the responsibility of DOC as wards of the state.

In recent years, there has been increased oversight by the Division of Bond Finance, which stepped up to play an informal yet important advisory role in oversight by enhancing the transparency of bonding. As mentioned previously, the Division of Bond Finance implemented the practice of combining all bond-related financial obligations into a Master Lease Agreement rather than reporting it on a project-by-project basis, so that state officials and the public at least can find the true amount of outstanding debt created by prison construction and expansion in the yearly reports published by the Florida Division of Bond Finance.[28]

## Many Players in Prison Bonding

1. **Office of Economic and Demographic Research Criminal Justice Estimating Conference**:
   - Forecasts official prison population estimates
2. **Department of Corrections:**
   - Generates Legislative Budget Request (LBR) to Governor using the official EDR estimates
3. **The Governor:**
   - Reviews and approves LBR and incorporates it in the Governor's Proposed Budget to the Legislature.
4. **The Legislature:**
   - The House and Senate determine how much to approriate for building specific criminal justice facilities
5. **Florida Correctional Finance Corporation and the Division of Bond Finance (SBA)**
   - Issues bonds backed by the full faith and credit of the state of Florida that are used to finance facilities
   - Issues and monitors the Master Lease Agreement to monitor all bond-related financing in the state
6. **Contract management, construction, and operation of major prison facilities:**

**Private Prisons**

Bureau of Private Prison Monitoring,
housed in the Department of Management Services

**Public Prisons**

Department of Corrections

Unfortunately, little has been done to create continuity of oversight or, at a minimum, a check-and-balance system for the bonding process, from the creation of prison population projections to the breaking of ground. Without proper communication between and oversight of entities involved in the process, the current system produces skewed decision-making and incoherent results.

The public safety system in Florida has been criticized as disjointed and lacking coherent accountability, oversight, and transparency. Former secretaries of the Department of Corrections as well as staff have complained that they have had alarmingly little oversight of or control over the decision to bond facilities, which facilities to build, or the process generally despite their responsibility to construct and operate public facilities and provide for the needs of inmates.

“There is a lack of coordination with many separate and distinct players who feel compelled to keep their own counsel,” said former Department of Corrections Secretary Jim McDonough of the current bonding system. “This is a great system for everyone to point at the other guy when something goes wrong. The Department of Correction’s role in this process is to take the blame.”

## To What Extent are Lease Revenue Bonds Currently Used for Prison Construction?

Following authorization of the Master Lease Purchase Agreement by the Legislature in 2009, $337 million in additional COP’s were issued. Of these, $62.5 million were Series 2009B and $274.5 million were Series 2009C. The Series 2009C Certificates were “Build America Bonds,” authorized by Congress through the American Recovery and Reinvestment Act. For these certificates, the federal government will pay Florida a cash subsidy equal to 35 percent of the interest payable. This financing replaced “pay-as-you-go” funding or planned general revenue appropriations providing budget relief for the state.

The Legislature authorized the construction of 17 state facilities with this financing in the 2009 General Appropriations Act,[29] all of which will be constructed and operated by DOC. This single General Appropriations Act obligated taxpayers to nearly $340 million in new debt.

Of the authorized facilities, seven projects were fully financed through bonding, and 10 were financed through a combination of bonding and general revenue funds. Of all the prison facilities in Florida, there are six bonded public correctional facilities; 10 facilities financed by a combination of bonding and general revenue funds; and seven privately-run, publicly-bonded prison facilities.[30] These numbers reflect a significant increase in the use of lease revenue bonds to fund prison construction and expansion.

### Bonded Prisons in Florida

| Public | Private | Mixed Financing (Cash & Bonds) |
|---|---|---|
| Okeechobee | Moore Haven | Mayo – Annex |
| Demilly | Bay | Suwannee – Annex |
| Everglades Re-Entry Center | Lake City – Youth Offender Facility | Lancaster – Special Housing Unit |
| Gadsden Re-Entry Center | Gadsden | Liberty Work Camp |
| Baker Re-Entry Center | South Bay | Franklin Work Camp |
| Sago Palm | Graceville | Cross City Work Camp |
| | Blackwater River | Santa Rosa Work Camp |
| | | Okeechobee Work Camp |
| | | New River Work Camp |
| | | Lowell Reception Center |

The authorized construction schedule approved by the 2009 Legislature was based on prison population estimates from April 2009 that showed the inmate population would grow to 111,836 by FY2011-12. However, since then, new projections of prison population have declined to 101,833 inmates by FY2011-12, which has created an excess capacity situation. Although these facilities have been allocated funds for construction, the actual construction schedule has been delayed and the funds to operate these prisons will not be requested until the beds are needed. However, the bonds to finance this construction have already been issued and sold, obligating taxpayers despite this changing need.[31]

| FUNDING OF NEW BEDS AUTHORIZED BY THE 2009 LEGISLATURE | | | | | |
|---|---|---|---|---|---|
| | **Beds** | **Est. Completion Date** | **Bond Financing** | **General Revenue Funded** | **Total Appropriation** |
| Mayo CI – Annex | 1,335 | Complete | $42,900,000 | $23,380,000 | $66,280,000 |
| Suwannee CI – Annex | 1,335 | Complete | $26,866,902 | $48,653,507 | $75,520,409 |
| Lowell Reception Center | 1,335 | Oct-11 | $92,016,580 | $483,420 | $92,500,000 |
| Liberty Work Camp | 432 | Apr-12 | $9,363,951 | $456,049 | $9,820,000 |
| Franklin Work Camp | 432 | Aug-12 | $9,391,871 | $168,129 | $9,560,000 |
| Cross City Work Camp | 432 | Jul-12 | $9,465,071 | $354,929 | $9,820,000 |
| Santa Rosa Work Camp | 432 | Mar-11 | $8,426,930 | $833,070 | $9,260,000 |
| Okeechobee Work Camp | 432 | Complete | $14,241,033 | $588,967 | $14,830,000 |
| New River Work Camp | 432 | Aug-12 | $9,767,602 | $115,629 | $9,883,231 |
| Lancaster CI - Special Housing Unit | 240 | Feb-11 | $16,509,194 | $400,806 | $16,910,000 |
| Gadsden Re-Entry Center | 576 | Oct -12 | $19,980,918 | — | $19,980,918 |
| Baker Re-Entry Center | 432 | Oct-12 | $16,801,021 | — | 16,801,021 |
| Everglades Re-Entry Center | 288 | Oct-12 | $15,048,561 | — | $15,048,561 |
| Santa Fe Work Release Center * | 150 | Feb-11 | $4,589,910 | — | $4,589,910 |
| Lake City Work Release Center * | 150 | Feb-11 | $4,589,910 | — | $4,589,910 |
| Kissimmee Work Release Center * | 150 | Feb-11 | $4,589,910 | — | $4,589,910 |
| Hollywood Work Release Center * | 150 | Feb-11 | $4,589,910 | — | $4,589,910 |
| **Total** | **8,733** | | **$309,139,274** | **$75,434,506** | **$384,573,780** |

*TO INCREASE CAPACITY

The 2010 Legislature appropriated approximately $50 million for lease-purchase payments for the existing and new facilities. While the 2010 Legislature did not authorize any additional correctional facility debt, it did appropriate $72.4 million in debt service, including $35.6 million in interest. The outstanding debt initiated by the 2009 Legislature when it authorized two bonds series (2009B and 2009C) for prison construction represents a significant recurring financial commitment of the state for decades to come.

The Department of Corrections is asking the 2011 Legislature for a base budget of $72.4 million in recurring general revenue for its facilities lease-purchase program and another $13.7 million for major repairs, renovation, and improvements of existing correctional facilities. The only additional capacity issue in the agency's legislative budget request is $4.6 million for planning and construction of a Mental Health Unit at Lowell Correctional Institution in Marion County.

On March 15, 2011, the Department of Corrections announced that it was closing six correctional facilities in an effort to consolidate program resources.[32] The closing of three prisons and three other correctional institutions highlights that the need to construct additional prisons was overstated.

## Should Taxpayers Be Concerned About Bonding?

Easy access to investment capital allowed the commitment of thousands of new prison beds that will cost billions of dollars to operate over the coming decades while blurring the balanced budget requirement intended to keep Florida fiscally stable. At this point, the debt-service payments for the lease-purchase financing arrangements will very quickly result in much higher actual costs to the taxpayers.

As of June 2010, $721.7 million of prison debt and $12.7 million of juvenile justice debt was outstanding,[33] requiring future payments of approximately $1 billion when debt service and interest payments are combined.[34]

At current projections of inmate populations and related construction requirements, these debts are likely to increase if prison lease revenue bonding continues to be used to fund prison construction. The cost could total an additional $109 million by the end of Fiscal Year 2015-16.[35] It is unclear how much of this taxpayer cost will be financed though bond obligations and how much will be pay-as-you-go, especially during difficult fiscal times.


# The Way Forward

As Governor Rick Scott's Law and Order Transition Team Review and Report clearly stated, "Lawmakers can face prison growth with vision and courage, as they are in the majority of states, or they can borrow the problem away [through bonds for prison construction]. Thus far, in Florida, the solution has been to borrow – by floating bonds for the construction and expansion of prisons. At this point the state's future financial obligations for prison construction exceed $1 billion. This is precisely the wrong way to address prison growth."

Essentially, bonding the cost of prison construction has obscured both the near- and long-term costs of failing to make needed policy changes. Unfortunately for the taxpayers of Florida, by avoiding the hard but necessary choices required to change the criminal justice system, our state leaders have added more finance charges associated with the cost of prison construction on top of the enormous costs that are already associated with failing to properly address the problem of prison growth. Our political leaders are forfeiting our present and future by authorizing the underwriting of these costs as if the public debt was an open-ended credit card. However, the bill to taxpayers will come due when these political leaders have moved on and no longer can be held accountable.

If lawmakers continue to build more prisons as a result of their failure to address antiquated and ineffective criminal justice policies, they should at least muster the courage to deal with the financial implications of their choices by raising taxes and appropriating money in the annual state budget for any new prison construction or expansion they support. Lease revenue bonds only exacerbate the costs and allow legislators to perpetuate failed policies.

### How Are Other States Dealing With The Issue?

Armed with extensive analysis and clear understanding of the drivers of prison growth, states around the country have enacted "smart justice" reforms, like changing sentencing policies instead of expanding prison capacity. While Florida was borrowing hundreds of millions to expand capacity, Texas was enacting sentencing reform to save billions. Since 2008, states like Mississippi, South Carolina, and Arkansas have enacted Texas-style proven reforms that save money and enhance public safety. Meanwhile, Florida continues to pay millions of taxpayer dollars to bond-finance on prison construction and billions of taxpayer dollars for the Department of Corrections in operating expenses, yet continues to do nothing to reduce the long-term costs of prison growth.

### Texas

It is often said that "things are bigger in Texas." There is no doubt that this statement applies to the state's prison system. However, elected officials and policymakers in Texas realized that bigger was not necessarily better. Despite spending billions of dollars to add more than 100,000 new prison beds between 1985 and 2005, Texas prisons remained overcrowded.[36] In 2007, an official state projection estimated that 17,000 prisoners would be added to the system within five years. To accommodate the increase, Texas would need to build three new prisons immediately and three or four more prisons over the next four years. The cost would be $523 million to build and operate them in the fiscal 2008-09 biennium, with additional spending needed for each inmate at a cost of $40 per day, or $14,600 per inmate per year.

At this point, Texas officials decided the status quo was unsustainable, so they developed a comprehensive strategy based on a data-driven reexamination of each part of the corrections system and a careful cost-benefit analysis of corrections expenditures. This new strategy came to be known as "justice reinvestment" and seeks to find the most effective way to spend limited resources in order to protect and improve public safety.

What Texas discovered was that the correctional system was overwhelmed by prisoners who could receive alternative treatment to incarceration, which could result in significant cost savings to the taxpaying public and preserve precious resources for the incarceration of dangerous, violent offenders. More specifically, Texas learned that there were approximately 5,500 prisoners in its correctional system who have been convicted of multiple DUI's; more than 50,000 drug offenders – most of whom are non-violent or first-time offenders; and large numbers of mentally ill offenders who would be better served in community-based mental health facilities.

Before the end of its 2007 legislative session, Texas enacted a package of criminal justice policies based on justice reinvestment that was designed to prevent the predicted prison population growth and save $443 million. This package worked to improve rehabilitation rates for people in prison with $241 million reinvested to expand the capacity of community-based treatment of substance abuse and mental illness and diversion programs, and enacted parole reforms to enhance the use of parole for low-risk offenders. The Texas justice reinvestment strategy resulted in an immediate savings of $210.5 million for fiscal years 2008 and 2009, and decreased the state's prison populations by 1,257 in 2009.[37]

### Mississippi

Like Florida, Mississippi struggled with an ever-increasing prison population and the burgeoning costs associated with this trend. To curb the upward spiral, Mississippi enacted a series of sentencing reforms with bipartisan support that have resulted in a fundamental shift in its prison population trends. In 2008, Mississippi lawmakers approved SB 2136, which permits all nonviolent offenders to become eligible for parole after serving 25 percent of their sentences. A few months after this legislation went into effect, the projected prison population growth was revised downward and Mississippi's prison population has steadily declined. In 2009 Mississippi's prison population decreased by 1,233 inmates. From Dec. 31, 2008 to Jan. 1, 2010, the prison population declined by 5.4 percent.[38] By modifying its sentencing laws and adjusting correctional practices that govern how long a person is imprisoned, Mississippi effectively halted its surging rate of incarceration.

### South Carolina[39]

South Carolina's correctional population almost tripled during the past 25 years, reaching nearly 25,000 in 2009 at significant financial cost to state taxpayers. Since 1983, state spending on prisons increased by more than 500 percent to $394 million. All the while, South Carolina's crime rate remained high. According to the FBI's Uniform Crime Report, South Carolina was the state with the highest violent crime rate in the nation in 2008, an unfortunate distinction it held for the previous seven years. A study by the Pew Center on the States found several key factors driving the state's prison growth:

- Sentencing policies showed an increase in admissions of inmates for prison terms of fewer than 18 months
- The number of persons in prison for non-violent offenses, mostly drug and property crimes, rose dramatically. At one point, 49 percent of inmates were being held for non-violent offenses.
- Increasing numbers of South Carolina offenders on parole and probation were being sent back to prison for breaking the rules of their release, not for committing new crimes.
- The South Carolina Board of Paroles and Pardons substantially cut the rate at which it released inmates who were eligible for parole.

In 2008, the South Carolina Legislature established the Sentencing Reform Commission, which included members of the state Legislature, Judiciary, and the Department of Corrections. Lawmakers tasked the commission with finding ways of controlling the costly increase in the prison population. For nearly a year, the commission held more than a dozen hearings and numerous workgroup meetings to analyze data and reach consensus on recommendations. For the most part, the conclusions were similar to those in Texas, such as increasing the property value threshold from $1,000 to $2,000 for all felony property crimes and making all property crimes below $2,000 misdemeanors.

However, one recommendation was written with South Carolina's approximately 3 million taxpayers squarely in mind. It called for requiring an accurate fiscal impact statement in advance of any legislative action that would establish a new criminal offense or that would amend the sentencing provisions of an existing criminal offense. Taxpayers, who ultimately foot the bill for incarceration, would be assured someone was looking out for their interests. The prison population in South Carolina declined by 235 between 2008 and 2009 – a one percent change in a year.[40]

## Other State Initiatives

In addition to Texas, Mississippi, and South Carolina, at least 18 other states have enacted criminal justice reforms designed to reduce costs and increase public safety. They are Alabama, Arizona, California, Colorado, Connecticut, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Missouri, Nebraska, New York, North Carolina, Ohio, Pennsylvania, Vermont, and Virginia. Traditionally, criminal justice reform has been mischaracterized as reflecting "liberal" political leanings; however, the voices calling for smarter approaches now includes prominent conservative policy-makers, activists, and commentators. Conservatives, such as Pat Nolan at Prison Fellowship, Grover Norquist at Americans for Tax Reform, and others have formed a partnership known as Right on Crime to serve as a clearinghouse for conservatives to lead the way in justice reform. As the group notes on its website: "Conservatives are known for being tough on crime, but we must also be tough on criminal justice spending. That means demanding more cost-effective approaches that enhance public safety."

Florida has been lagging behind, locked into antiquated concepts that are now as out-dated as they are unsupportable. Florida's political leadership has barely paid lip-service to the notion of improving public safety at affordable costs. In 2008, for example, the Florida Legislature passed a law that would have created a correctional policy advisory council to study and address criminal justice policies driving growth. However, instead of convening the council and getting to work as states like Texas did, Florida held fast to existing criminal justice policies and then borrowed its way out of the problem the following year. Instead of being a hold-out state, Florida should be moving in the direction of other states to address what is driving the growth, rather than just borrowing and building.

# Some Straight-forward Recommendations

- Florida's legislators should seriously review the state's criminal justice policies and practices which have contributed to the growth of the prison system over the past two decades and have financially strangled the state. There is no lack of good information and reports that outline what needs to be done. For instance, the Collins Center's Statewide Justice Summit Report, the Florida TaxWatch December 2010 report, and the Governor's own Criminal Justice Task Force all have made serious recommendations including specific proposals for sentencing reform, time-served (the so-called 85 percent rule), changing probation practices, and increasing community-based sanctions.[41]

- Florida should join the ever-growing number of states undertaking a broad range of criminal justice policy reforms shown to reduce the prison population while ensuring public safety. These are led predominantly by conservatives who understand that highly punitive and incarceration-heavy penalties even for minor, non-violent crimes are unsustainable.

- There should be a moratorium on any new bonding to build prisons until the Governor and Legislature fully disclose and discuss with the public all costs generated by prison bonding. Taxpayers should have a voice in whether they want to pay for criminal justice policies that result in the growth of the prison system without increasing public safety.

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## About the Report

The Collins Center for Public Policy commissioned Florida TaxWatch to examine the cost to taxpayers of bonding prison construction.

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