PURPOSE

SUMMARY
At the July 20, 2018, Investment Committee meeting, the Chief Investment Officer, Christopher Ailman, informed the Committee that he was invoking the divestment policy regarding private prisons and that staff would evaluate the risk of investing in private prisons under the ESG Policy and Divestment Policy.

When evaluating divestment options, staff’s experience has revealed the need for concise definitions. Nuances in wording can create significant unintended consequences and even carefully crafted definitions can inspire debate over board intent. For the purposes of this item, staff has defined private prison companies as those companies that derive a majority of their revenue through contracts with governments or their authorized entities, for the operation or leasing of facilities for the primary purposes of incarceration or detention.

Staff has evaluated and identified five public companies globally that operate private prisons. Of the five, only the two U.S. companies, CoreCivic Inc. and Geo Group Inc., derived the majority of their revenue from prisons or detention. Furthermore, staff has decided to focus on the two U.S. companies as the non-U.S. companies that were identified operate under different political, operational, oversight and compensation systems. While staff is not evaluating non-U.S. prison operators for divestment, staff intends to continue to engage the companies under the ESG Policy.

The purpose of this item is threefold. First, to present the research and results of our engagement and analysis of the private prison industry in the United States and analyze incarceration and detention practices against the CalSTRS ESG Policy (Attachment 1) and Divestment Policy (Attachment 2). Second, to present the cases for and against investing in private prisons in the U.S. market. Third, to evaluate the potential impact of divestment and if divesting of private prison companies could negatively impact the CalSTRS portfolio.
POLICY MATTERS

Under the CalSTRS Divestment Policy:

Consistent with its fiduciary responsibility and the concepts of diversification and passive index management, the Investment Committee does not and will not systemically exclude or include any investments in companies, industries, countries or geographic areas, except in cases where: one of the CalSTRS 21 Risk Factors is violated over a sustained time frame to the extent that it becomes an economic risk to the Fund, a potential for material loss of revenue exists, and where it weakens the trust of a significant portion of members to the System.

In the Background Section, staff evaluates the risks of the private prison industry versus the ESG Policy. In the Discussion Section, staff presents the investment case for and against private prisons. In the Investment Performance Section, staff estimates the potential impact to the fund’s value and risk to the portfolio.

Appropriately, the Divestment Policy requires direct engagement before divestment can take place. This allows CalSTRS to hear all sides of the issue and to utilize our clout and asset size to bring about change. CalSTRS has a long and demonstrated history of active corporate engagement.

Through market research, staff has identified two U.S. companies operating private prisons, The Geo Group and CoreCivic (Formerly Corrections Corporation of America). Currently, CalSTRS holds positions in both companies.

CoreCivic, Inc.

“CoreCivic, Inc. operates as a government solutions company, which develops and manages prisons and other correctional facilities. Its services include CoreCivic Safety, CoreCivic Properties, and CoreCivic Community. CoreCivic Safety provides solutions to government partners that seek corrections and detention management services; CoreCivic Properties provides solutions to customers that need real estate and maintenance services; and CoreCivic Community provides solutions to government partners seeking residential reentry services. The company was founded by Thomas W. Beasley, T. Don Hutto, and Robert Crants on January 28, 1983 and is headquartered in Nashville, TN.”
Source: FactSet Fundamentals

The Geo Group, Inc.

“The Geo Group, Inc. is a real estate investment trust, which specializes in the ownership, lease, and management of correctional, detention, and re-entry facilities and the provision of community-based and youth services. It operates through four reportable business segments: U.S. Corrections and Detention, Geo Care, International Services and Facility Construction and Design. The U.S. Corrections and Detention segment primarily encompasses its U.S.-based

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1 Reference to 21 Risk Factors is a discrepancy in policies resulting from the CalSTRS Board updating the ESG Policy in May 2018. References to the 21 Risk Factor Policy are essentially a reference the ESG policy, its successor.
privatized corrections and detention business. The Geo Care segment conducts its services in the U.S., represents services provided to adult offenders and juveniles for non-residential treatment, educational and community based programs, pre-release and halfway house programs, compliance technologies, monitoring services and evidence-based supervision and treatment programs for community-based parolees, probationers, and pretrial defendants. The Facility Construction and Design segment primarily contracts with various states, local and federal agencies for the design and segment primarily contracts with various states, local, and federal agencies for the design and construction of facilities for which it generally has been or expects to be, awarded management contracts. The company was founded by George C. Zoley in 1984 and is headquartered in Boca Raton, FL.”

Source: FactSet Fundamentals

The CalSTRS Corporate Governance group and Committee on Responsible Investment (Formerly the 21 Risk Factor Review Committee) have engaged the private prison operators for several years. In particular, staff has engaged the companies on political spending, internal controls and oversight of inmate treatment, and governance concerns.

Members raised concerns with potential involvement of General Dynamics and United Rentals in immigration detention and family separations. Staff has engaged General dynamics and determined they only provide case management services and training not physical detention which is a de minimis portion of the company’s revenue. United Rentals has been alleged to support the administration’s detention polices by providing equipment for temporary detention facilities. Staff has been unable to confirm the company’s involvement and it would be a de minimis portion of the company’s revenue.

In the course of our research, staff reached out to several non-governmental organizations (“NGO’s”) that focus on immigration and prison issues. Staff was able to obtain meetings in-person or via teleconference with several including:

Freedom for Immigrants

“Freedom for Immigrants is dedicated to abolishing immigration detention worldwide, while ending the isolation of people currently suffering in this profit-driven system.”

Enlace

“Enlace is an international multiracial multisector alliance that does capacity building trainings and engages in strategic campaigning for the self-determination of the working people.

Enlace’s Prison Divestment campaign aims to stop the lobbying power of the private prison industry as a step towards abolishing cages in criminal and immigration policy.

2 https://www.freedomforimmigrants.org/
The National Prison Divestment Campaign targets the investors of Corrections Corporation of America (CCA) and Geo Group (GEO), the two largest private prison companies in the United States.

Urban Justice Center

“The Urban Justice Center is a social justice advocacy organization that works for and empowers the most vulnerable amongst us through a combination of direct legal service, systemic advocacy, community education and political organizing. Through our work, we enable people to surpass the barriers of poverty.

Based out of the Urban Justice Center, the Corrections Accountability Project is an innovative initiative dedicated to tearing down the commercial wall that blocks criminal justice reform and clearing the road for lasting transformational change.”

The Sentencing Project

“Founded in 1986, The Sentencing Project works for a fair and effective U.S. criminal justice system by promoting reforms in sentencing policy, addressing unjust racial disparities and practices, and advocating for alternatives to incarceration.

The Sentencing Project’s work includes the publication of groundbreaking research, aggressive media campaigns, and strategic advocacy for policy reform. As a result of The Sentencing Project’s research, publications, and advocacy, many people know that this country is the world’s leader in incarceration; that racial disparities pervade the criminal justice system; that over six million Americans can’t vote because of felony convictions; and that thousands of women and children have lost food stamps and cash assistance as the result of convictions for drug offenses.”

Additionally, staff met with senior executives and representatives of CoreCivic and Geo Group and conducted site visits at multiple facilities including:

- The South Texas Family Residential Center in Dilley Texas Operated by CoreCivic
- The Karnes County Residential Center in Karnes City Texas operated by Geo Group
- The Leavenworth Detention Center a medium and maximum security facility in Leavenworth, Kansas operated by CoreCivic

Staff is also attempting to conduct site visits at the Adelanto ICE Processing Center in Adelanto, CA operated by GEO Group and the Otay Mesa Detention Center in San Diego CA operated by

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3 http://www.enlaceintl.org/prison-divestment
4 https://cap.urbanjustice.org/node/2617
5 https://www.sentencingproject.org/about-us/
CoreCivic. Unfortunately, due to time constraints staff was not able to organize visits prior to the writing of this agenda item but will hopefully be able to provide a verbal update at the Investment Committee meeting.

Staff requested meetings with both the Department of Justice (“DOJ”) and Health and Human Services (“HHS”) through CalSTRS’ Washington D.C. lobbyist, but did not receive a response. While we were unable to meet with representatives of the DOJ or HHS, we were able to review their reports on use of private prisons as well as reports from the Office of the Inspector General (“OIG”).

The Divestment Policy requires extensive engagement, as outlined in staff’s actions above. While this engagement could also include shareholder resolutions and media campaigns, staff chose not to engage in these activities for the reasons that follow. The Corporate Governance staff thinks a shareholder resolution related to the ESG risk factors would be difficult and ineffective because of the shareholder makeup, governing bylaws, corporate structure, and REIT restrictions. Furthermore, shareholder resolutions would require CalSTRS to maintain holdings in the companies to exercise shareholder rights. The private prisons are subject to oversight by their contracting partners, media campaigns, extensive NGO activist pressure, and scrutiny from the pension and endowment industries. Staff considers the oversight, media coverage, and social media pressure from NGO activists to have already mounted to an effective campaign on the industry. Therefore, staff has concluded that all efforts within CalSTRS control, beyond continued direct management and board engagement that could affect any change, have been exhausted.

**DISCUSSION**

The United States has the highest incarceration rate in the world. Many factors contribute to the United States incarceration rates such as mandatory sentencing, zero tolerance policies, the war on drugs and pretrial detention. The large growth in incarceration, incarceration rates, constrained budgets, aging facilities, and rising cost of holding inmates has led to a reliance on a private prison industry to house the growing number of inmates and detainees.

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6 Private Prisons are real estate intensive business and both companies are structured as Real Estate Investment Trusts (REIT). REITs are a tax efficient structure as the company does not pay taxes at the corporate level and investors are taxed at their individual tax rate for the income distributed. In order to maintain the REIT status, the firm must meet several requirements. The most significant of which are:

- Be an entity that is taxable as a corporation
- Invest at least 75% of its total assets in real estate, cash or U.S. Treasuries
- Receive at minimum 75% of its gross income from rents from real property, interest on mortgages financing real property or from sales of real estate
- Pay a minimum of 90% percent of its taxable income in the form of shareholder dividends each year
The United States population of incarcerated and detained people is divided among multiple jurisdictions from city jails to federal penitentiaries. Additionally, the inmates and detainees range from those accused and awaiting trial, those on death row, and undocumented immigrants detained by Immigration and Customs Enforcement (“ICE”).

Source: The Sentencing Project

Source: Prison Policy Initiative.
The complex nature of this accumulation of jurisdictions and classification of internees has led to a system with several social concerns. Moreover, the general nature of incarcerating people involves a system inherent with potential ESG concerns.

**RISK FACTOR ANALYSIS**

Within the CalSTRS ESG Policy there are several relevant Risk Factors including:

Respect for Human Rights

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**Respect for Human Rights**

The investment’s long-term profitability from its business operations and activities in countries that lack or have a weak judicial system. Assess the risk to an investment’s long-term profitability from its business operations and activities in a country that engages in or facilitates the following: arbitrary or unlawful deprivation of life, disappearance, torture and other cruel, inhuman, or degrading treatment or punishment, arbitrary arrest, detention, or exile, arbitrary interference with privacy, family, home, or correspondence, use of excessive force and violations of humanitarian law in internal conflicts. Consideration should be given to governmental attitude regarding international and non-governmental investigation of alleged violations of human rights.

The United States overall level of incarceration causes several concerns under the CalSTRS’ ESG risk factor on human rights. The large amount of incarceration in the U.S. leads to the possibility that there are some arbitrary arrests and wrongfully convicted people in prison. Additionally, while the system has some available capacity, it is often not in the ideal location or type of facility that is needed. This leads to issues of housing individuals at far away locations including other states or facilities not designed for their type of offense, such as putting immigration detainees in local jails, which leads to mixing civil and criminal offenders. While these issues are generally the concern of the state, private prisons can exacerbate these problems.

In particular, governments and municipalities are generally confined to providing space within their jurisdiction. Contracting with a private operator can allow them to send inmates or detainees far away, including other states. Moving inmates to locations far from where they were apprehended can arbitrarily interfere with the family of the inmate or detainee. In these situations, communication with loved ones can be difficult and some jurisdictions charge inflated prices for inmates or detainees to speak with their family. Indeed, this concern has led New York City to pass Intro 741 which allows prisoners to make free phone calls.7

Lastly, one of the most controversial issues regarding arbitrary family separation has been the now defunct Trump Administration zero tolerance policy for border crossing which led to the separation of children from their parents. Under the policy, as families were detained at the border, adults would be detained and the children would then be turned over to the Department of Health and Human Services, Office of Refugee Resettlement to be placed with families within

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7 [https://correctionsaccountability.org/campaigns](https://correctionsaccountability.org/campaigns)
the United States. However, the poorly executed policy overwhelmed ICE and DHS, which led to children being detained in temporary facilities. The photos of children being separated from their parents and children in makeshift detention centers were met with immediate public outrage and protests. The Administration ultimately changed the policy, but the government’s mismanagement has led to numerous families separated and potentially violating the CalSTRS risk factor “Respect for human rights”.

The Administration policy outraged the public and led to member calls to take action against the private prisons, staff learned from company statements and disclosures that private prisons were not involved in the physical separation of the families or the temporary facilities to detain children. The identified companies do not operate facilities to house unaccompanied children for ICE.

While staff has been informed by both companies that they were not directly involved in the separation of the family, they did provide capacity for the detention of the parents. The companies do not have control over which detainees are sent to their facility or nor do they have knowledge on arrival if the detainees have children that had been turned over to DHS.

While neither Geo Group nor CoreCivic have facilities to house unaccompanied minors, both have a facility to house detained families. These two facilities operate outside San Antonio, Texas are designed to keep children with one of their parents. As part of staff’s research, staff and senior leadership toured both facilities. Staff confirmed that in both facilities detainees are open to roam the grounds, the living units were not locked, and there was no razor wire or weapons carried by staff (ICE and other law enforcement agents at the facility could carry their firearms on parts of the grounds). These detention facilities would not violate the CalSTRS respect for human rights, however staff has not nor is able to trace every family affected by these firms.

While staff was not able to obtain evidence that these companies violate the respect for human rights, private prisons do add capacity, and help facilitate a system, that may be viewed as violating the Risk Factor.

**Respect for Civil Liberties**

<table>
<thead>
<tr>
<th>Respect For Civil Liberties</th>
</tr>
</thead>
<tbody>
<tr>
<td>The investment’s long-term profitability from operations, activities, and business practices in countries or regions that do not allow freedom of speech and press, freedom of peaceful assembly and association, freedom of religion, freedom of movement within the country, allowance for foreign travel, emigration, and repatriation.</td>
</tr>
</tbody>
</table>

While United States citizens have a constitutional right to legal representation, this right is not extended to undocumented immigrants held in ICE detention. For non-U.S. citizens held in ICE detention to receive legal counsel they must pay for an attorney or receive free legal counsel from legal aid groups. Additionally, many of the immigrants detained by ICE are refugees seeking asylum in the United States. These detainees are being held for civil, not criminal offenses and are utilizing a system established in U.S. law. Despite their use of rights
formed in U.S. law these detainees are not provided guidance on the system or their rights. For critics of the system this inability to get quality legal representation to guide them through a complicated U.S. immigration system is a denial of civil rights.

For U.S. citizens, the transparency of our governmental groups is a valued part of this country’s cultural ethos. Indeed, the United States Freedom of Information Act and state Public Record laws are critical tools to hold government accountable and maintain an informed electorate. The private prison industry is structured so that transparency is severely hampered. While government contract and reports are provided under transparency laws, agreements the industry has with other private businesses are not. This has created a system where the transparency of the public prison system is superior and the private prisons bypass the spirit of these laws.

The risk factor for Civil Liberties is limited to a particular country’s civil liberties. When developed, it was not contemplated how it would apply to asylum seeking immigrants or immigrants with uncertain status. The long term profitability of private prison companies are not directly linked to the immigration policy in question, however their long term profit is based on U.S. government and municipalities need for incarceration capacity. The identified companies specifically do not rely on the violation of civil liberties, it is the government or municipalities that may have violated the rights of the people. As a result, it is difficult to assess who is at fault and whether this particular risk factor is triggered. Nonetheless, given the unique and complicated nature of this matter, it is an individual judgement as to whether the U.S. government or municipalities are in violation and therefore that these companies profit is at risk from its clientele.

People incarcerated or detained in facilities are entitled to education. Facilities are equipped with libraries including access to legal resources and have educational programs available to adult inmates. Children detained in facilities are entitled to education with minimum standards set by DHS. In the family centers visited by staff, we note that education was provided. Both facilities contract with charter schools, and have low student to teacher ratios. The classrooms were modern with access to computers, books, and iPads.

While contracting agencies potentially violate the CalSTRS’ ESG factor relating to “Respect for Civil Liberties”, based on our analysis, staff is not able to conclude private prisons have direct responsibility or influence to mitigate this risk. Private prisons do add capacity, and help facilitate a system that may potentially violate the Risk Factor.

Worker Rights

<table>
<thead>
<tr>
<th>Worker Rights</th>
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<tbody>
<tr>
<td>The investment’s long-term profitability from management and practices globally in the area of worker’s rights; specifically the right of association, the right to organize and bargain collectively, prohibition of forced or bonded labor, status of child labor practices and minimum age for employment, acceptable work conditions, or human trafficking.</td>
</tr>
</tbody>
</table>

Under the 13th Amendment to the United States Constitution, forced labor is allowed for penal purposes but only for those that have been convicted of a crime. For a large part of the U.S.
detention system, forced labor is not allowed, as those being held have not been convicted or they are being held for civil, not criminal, offenses. Accordingly, staff understands that work in most facilities is voluntary and wages are set very low (at the facilities we visited between $1 and $3 a day). Proponents of the system point out those detainees often want the opportunity to work as time incarcerated is very dull. However, it is worth noting that prison facilities also take advantage of inmate and detainee labor as it occupies their time making a more compliant population and can help defray some of the cost of operating the facility. While work may be voluntary, it is clear prison laborers have few rights to address grievances and there are benefits accruing to the prison operators.

Based on the information available, staff does not sense private prisons materially violate the CalSTRS’ ESG factor relating to “Worker Rights”. Staff notes that the companies do have some influence over working conditions, assignments, and flexibility in how much inmates or detainees are paid. Furthermore, availability of inmate or detainee labor may affect the economics of a facility, but, private prisons use and influence of inmate and detainee labor is largely constrained by the policies of their contracting agency and applicable laws.

Respect for Political Rights

The Investments long-term profitability from business practices and activities in countries that do not allow their citizens the right to advocate for change to their government.

In the United States voting rights are established through the federal constitution and individual state law. State laws regarding inmate access to the political system vary widely from those that allow inmates to vote to a lifetime restriction on voting for convicted felons.

Felony Disenfranchisement Restriction by State, 2016

Source: The Sentencing Project
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While voting rights per state are set through the political process, critics argue that more stringent convict voting laws are unreasonable. Furthermore, given the racial composition of the U.S. prison population (discussed below) strict voting restrictions only serve to disenfranchise minority voters. According to The Sentencing Project the number of disenfranchised felons has increased from 1.17 million in 1976 to 6.1 million in 2016. The dramatic rise in disenfranchisement is the result of both a rising disenfranchisement rate as well as the rising population rate.

Number of Disenfranchised for Selected Years, 196 -2016

![Graph showing the number of disenfranchised felons from 1960 to 2016.](image)

Source: The Sentencing Project

In many cases foreign detainees are seeking asylum in the U.S. on the basis that their political rights in their home country are being violated. Refugees in the U.S. are not afforded the right to vote in federal elections and only on limited basis in some jurisdictions. However, those held in detention have an unclear status so would not be afforded voting rights in the U.S. if they were not detained. Accordingly, based on our research, staff does not find the political rights of foreign detainees are affected by their detention.

Based on the information available, staff is not able to conclude that private prisons violate the CalSTRS’ ESG factor relating to “Political Rights” as private prisons have no direct exposure or influence to mitigate this risk. Private prisons do add capacity, and help facilitate a system, that may be viewed as violating the Risk Factor.

Discrimination Based on Race, Sex, Disability, Language, or Social Status

Discrimination Based on Race, Sex, Disability, Language, or Social Status

The investment’s long-term profitability from business practices and activities on discrimination, such as discrimination against women, children, and persons with disabilities, national/racial/ethnic minorities, or indigenous people.

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Several sources note the discrepancy in the racial constitution of the U.S. inmate population. In particular, the Black and Hispanic proportion of criminal justice system compared to the general population.

![Criminal Justice System Involvement in the United States by Race](image)

Source: The Urban Institute

The discrepancy for racial disparity in private prisons is even greater for Hispanics as the majority of ICE detainees are held in private facilities and the majority of ICE detainees come from Central America.

![Who operates ICE's immigration jails?](image)

Source: National Immigrant Justice Center
Private prisons do not directly determine their inmate population. Inmates of private prisons are determined by the contracting jurisdiction. However, the makeup is influenced by the prison companies' choices regarding which agencies they contract with and the security levels they offer.

While the causes of the racial disparity in prisons are complex and hotly debated, a particularly relevant thesis for teachers is the school-to-prison pipeline. The school to prison pipeline theory focuses on the increasingly harsh school and municipal policies such as school disturbance laws, zero tolerance policies, and an increased presence of police in schools. Critics argue these policies are enforced to a greater degree in disadvantage areas, and accordingly disproportionately affect marginalized communities. This focus, whether intended or not, ultimately flows through the judicial system to be reflected in the rates of incarceration.

Based on our research, staff does not consider that private prisons violate the CalSTRS’ ESG factor relating to “Discrimination Based on Race, Sex, Disability, Language, or Social Status” as private prisons have no direct responsibility or influence to mitigate this risk. Private prisons do add capacity, and help facilitate a system, that may be viewed as violating the Risk Factor.

**Human Health**

The investment’s long-term profitability from business exposure to an industry or company that makes a product which is highly detrimental to human health so that it draws significant product liability lawsuits, government regulation, United Nations sanctions and focus, and avoidance by other institutional investors.
The effect detention has on health is complicated and ranges from first time access to healthcare to increased rates of suicide. Healthcare is one of the largest costs and biggest problems for prisons whether public or private. Furthermore, being detained or incarcerated is regularly the first time a person, particularly of marginalized communities, has access to healthcare. While the access to healthcare is generally positive, the first time nature leads to the recognition and diagnosis of often untreated and/or neglected conditions which flow through health and mortality statistics. Additionally, private facilities generally do not have hospitals on sight, while most government run facilities have options with an on-site hospital. This dynamic incentivizes jurisdictions to keep sicker inmates and detainees in public facilities where it’s more cost effective to treat them but can skew their mortality statistics.

Despite the access to healthcare, including mental health, suicide rates for the incarcerated are significantly higher than the general population and rising.

![Rates of suicide for local jail inmates and U.S. residents, per 100,000](source: The Marshall Project)

![Jail mortality rates by cause of death, 2000-2014](source: Prison Policy Initiative.)
Furthermore, the rate of suicide is much higher for jails than prisons:\footnote{The fundamental difference between jail and prison is the length of stay for inmates. Jails are usually run by local law enforcement and/or local government agencies, and are designed to hold inmates awaiting trial or serving a short sentence. Prisons are typically operated by either a state government or the Federal Bureau of Prisons (BOP). These are designed to hold individuals convicted of more serious crimes, typically any felony. (HG.org: \url{https://www.hg.org/legal-articles/what-is-the-difference-between-jail-and-prison-31513})}

“One reason why jails have a higher suicide rates (46 per 100,000 in 2013) than prisons (15 per 100,000) is that people who enter a jail often face a first-time “shock of confinement”; they are stripped of their job, housing, and basic sense of normalcy. Many commit suicide before they have been convicted. According to the Bureau of Justice Statistics report, those rates are seven times higher than for convicted inmates.”\footnote{https://www.themarshallproject.org/2015/08/04/why-jails-have-more-suicides-than-prisons}

The increased suicide rate is also concerning because of the increased use of pretrial detention. Those incarcerated under pretrial detention are held in jails without having been convicted and are subjected to the increased probability of suicide.

![Pretrial policies drive jail growth](image)

Source: Prison Policy Initiative.

This increased rate of suicide for jails is particularly relevant for private prison companies as they operate several jails which is possibly an area of growth given the value proposition of private prisons and generally constrained budgets of municipalities.

Based on the evidence available, staff is not able to determine that private prisons materially violate the CalSTRS’ ESG factor relating to “Human Health”. Staff notes that the companies do have some influence over the quality of health care provided to inmates or detainees. However, healthcare provided is far too often more and better than inmates or detainees would have access to if not detained. Furthermore, availability and quality of healthcare is significantly impacted by the policies of the contracting agency and security concerns. Moreover, while the suicide rates
within prisons is alarming, it is not clear that private prisons directly contribute to the totality other than providing capacity to a system that has a high rate of suicide.

The detention and incarceration of individuals is unavoidably fraught with ESG risks. Furthermore, many of the risks such as Respect for Civil Liberties and Respect for Political Rights are better suited to a legal analysis and require judgements from a court of law to best determine who is in violation. Nevertheless, the sheer volume of risks raises concern an investor with ESG considerations. While these risks can be deemed tolerable for a government, which is obligated to provide the services, for private actors, the risks are assumed by choice in order to make a profit. The assuming of governmental type risks out of a profit motive has led to accusations of rent seeking behaviors such as lobbying for policies that would increase the prison population or extend sentences and then to provide services to address the problem they lobbied to create. Furthermore, critics argue the profit motive leads to cost cutting behavior that amplifies the risk of the industry.

Both CoreCivic and GEO Group have substantial revenues and profits. For the year ended December 2017 CoreCivic generated $1,765.5 million in revenue and $178.0 million in profit.\(^{11}\) Geo Group generated $2,263.4 million in revenue and $146.2 million in profit.\(^{12}\) Additionally as demonstrated by the charts below, the revenues of private prison companies are diversified by source ranging from municipal jails, States (including a significant portion from California), and the U.S. government departments and agencies.

Source Geo Group 2017 Annual Report

\(^{11}\) CoreCivic 2017 Annual Report page 50.
\(^{12}\) Geo Group 2017 Annual Report Page 103
INVESTMENT PERFORMANCE

The next step in our process is to assess if private prison companies have become “an economic risk to the Fund, if a potential for material loss of revenue exists, and where it weakens the trust of a significant portion of members to the System.”

As shown below, as of August 31, 2018, only two private prison companies are in the U.S. benchmarks, CalSTRS Russell 3000 Custom Index, and Bloomberg Barclays U.S. High Yield 2% Issuer Capped Custom Index. The Global Equity portfolio does not have any excess exposure to private prison companies outside of their policy benchmark.

The Fixed Income portfolio has an overweight to Geo Group and underweight to CoreCivic with a cumulative result of a slight underweight to private prisons in the total relevant Fixed Income portfolio. Despite being over-weighted in Geo Group, neither company is a significant holding in the Fixed Income program.

The subsequent sections will explore the potential impact of divesting the identified companies from the CalSTRS Portfolio.

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13 CalSTRS Divestment Policy
Exhibit 1: List of Companies Subject to Divestment

As of August 31, 2018

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Global Equity Benchmark</th>
<th>Global Equity Index Weight (bps)</th>
<th>Fixed Income Benchmark</th>
<th>Fixed Income Index Weight (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoreCivic, Inc.</td>
<td>CalSTRS Russell 3000 Custom Index</td>
<td>1.04</td>
<td>Bloomberg Barclays U.S. High Yield 2% Issuer Capped Custom Index</td>
<td>9.00</td>
</tr>
<tr>
<td>Geo Group, Inc.</td>
<td>CalSTRS Russell 3000 Custom Index</td>
<td>1.04</td>
<td>Bloomberg Barclays U.S. High Yield 2% Issuer Capped Custom Index</td>
<td>9.00</td>
</tr>
</tbody>
</table>

Source: Russell and Bloomberg Barclays

The following chart shows the 5-year cumulative returns for the two private prison companies that have been in the CalSTRS Russell 3000 Custom Index in the past one, three, and five years as of August 31, 2018.

Exhibit 2: 1, 3, and 5-Year Equity Performance Comparison

As of August 31, 2018

![Chart showing 5-year cumulative returns for CoreCivic and GEO Group compared to Russell 3000 Index](chart.png)

Source: Bloomberg

During this period, private prison companies’ performance was mostly positive on an absolute basis with only CoreCivic slightly negative over the past year. On a relative basis both companies underperformed the broader Russell 3000 benchmark except for Geo Group which outperformed over 3 years. The performance of the private prison companies and the fact that CalSTRS’ equity managers did not significantly overweight these stocks indicates our active equity management program did not find private prisons to be an attractive investment on a relative basis.

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14 Basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.
EXHIBIT 3: GLOBAL EQUITY PORTFOLIO HOLDING EXPOSURE

As of August 31, 2018

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Portfolio</th>
<th>U.S. Portfolio Weight (bps)</th>
<th>U.S. Equity Benchmark Weight (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoreCivic, Inc.</td>
<td>$6,613,419.27</td>
<td>1.07</td>
<td>1.04</td>
</tr>
<tr>
<td>Geo Group Inc.</td>
<td>$4,696,519.77</td>
<td>0.76</td>
<td>1.04</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$11,309,939.04</strong></td>
<td><strong>1.82</strong></td>
<td><strong>2.08</strong></td>
</tr>
</tbody>
</table>

Source: State Street

EXHIBIT 4: FIXED INCOME PORTFOLIO HOLDING EXPOSURE

As of August 31, 2018

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Portfolio</th>
<th>Portfolio Weight (bps)</th>
<th>Benchmark Weight (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoreCivic, Inc.</td>
<td>$823,126.06</td>
<td>5.87</td>
<td>9.00</td>
</tr>
<tr>
<td>Geo Group Inc.</td>
<td>$1,595,728.96</td>
<td>11.38</td>
<td>9.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,418,855.02</strong></td>
<td><strong>17.25</strong></td>
<td><strong>18.00</strong></td>
</tr>
</tbody>
</table>

Source: BlackRock

The majority of CalSTRS equity exposure to private prisons is through our passive portfolios, including equity and fixed income internally managed portfolios, but equity index providers have reduced their weighting as the companies market caps relative to the total market has declined. Furthermore, the active managers that held private prisons are managers that utilize quantitative or algorithmic processes. As the chart below demonstrates, over the last five years the weighting of private prisons in the index has declined from nearly four basis points to the current weight of nearly two basis points. Moreover, CalSTRS has consistently underweighted our exposure to private prisons over the same time period.
IMPACT TO EQUITY PERFORMANCE

While past performance may not be an indicator of future performance, the chart below compares the actual returns of the U.S. Equity Portfolio over the past 3 and 5 years to a hypothetical portfolio assuming we had divested private prisons. Despite the weak performance of private prisons, the chart reveals that private prisons’ impact to the U.S. Equity Portfolio is insignificant. Over the 5-year period, the performance difference was a negligible 0.2 basis points on an annualized basis.
IMPACT TO FIXED INCOME PERFORMANCE

Due to differences between fixed income and equity markets, even portfolios intended to match an index are managed with more active decision making than passive equity portfolios. In particular, due to the supply dynamics of the fixed income markets, managers do not routinely hold securities of all the issuers included in the index. Since fixed income managers are not required to hold every issuer to replicate the index, managers routinely find substitutes for index securities. In addition, because of the relatively small float of private prison bonds to the total market, private prisons can be divested with negligible impact to risk or performance.

IMPACT TO RISK PROFILE

**Equity**

CalSTRS utilizes two broad techniques of investment management: active and passive. Of note, both are outlined by years of academic study with Nobel Prizes awarded to proponents of each style. Most investors are familiar with active management, where a manager selects specific individual investments. Active management is common in many mutual funds and with such companies as Fidelity. The other style, passive management, is where the manager owns all the securities in a particular market, for example owning all 3000 stocks in the Russell 3000 index. This style is found in most Exchange Traded Funds (ETF’s) and with mutual funds such as Vanguard.
In regards to private prison companies, as discussed above, CalSTRS has historically underweighted private prisons. Currently, about 82 percent of CalSTRS exposure to private prison companies comes from simply owning the passive Russell 3000 Index. The other 18 percent of the exposure comes from active managers. However, the active managers that have invested in private prisons have historically been quantitative managers investing models, not fundamental analysis of the companies or industry.

If the Committee decides to divest of private prison companies, this decision will impose an active stock and industry decision on CalSTRS passive management strategies. Since the Committee has already divested of thermal coal, tobacco, Sudan, Iran, and firearms illegal in California, this will cause the passive indexes to deviate further from the overall market cap weighted U.S. indexes. These current exclusions currently create 11 bps of tracking error to the unmodified index. As a result, adding U.S. private prison companies to the divestment list, albeit a very small sub-industry, constitutes a further shift away from the overall market. The cumulative effect of divestment is causing increased tracking error and calls into question whether CalSTRS is committed to a passive strategy that tracks the market to an active ‘enhanced’ index managed and modified by the Committee. Importantly, the degree and size of the tracking error is therefore critical to the discussion of additional divestment.

While portfolio risk can be measured by a variety of metrics, forecast tracking error is the primary attribute that staff utilizes to quantify the level of risk present in the Global Equity portfolio. Forecast tracking error measures the expected standard deviation in a portfolio’s return relative to its benchmark.

As shown in the table below, if the risk evaluation is isolated to the two companies identified, divesting private prisons would introduce approximately 0.23 basis points of tracking error to the Global Equity portfolio, 0.42 basis points of tracking error to the Custom Russell 3000 portfolio, and 5.38 basis points of tracking error to the CalSTRS Russell 2000 portfolios. The 0.42 basis points of tracking error increase in the CalSTRS Custom Russell 3000 portfolio (the portfolio with the bulk of assets managed) represent a 4.2 percent increase in the objective tracking error range of ±10 basis points for the indexed portfolios. For the enhanced index and active managers the 5.38 basis point increase in small cap tracking error is the most significant representing a 10.76 percent increase in the target tracking error range of 50 to 300 basis points. While the tracking error increase for small cap portfolios is notable, small cap portfolios are a relatively minor portion of the assets managed by Global Equity (approximately 4%). On a total portfolio basis, the additional tracking error introduced to Global Equity by divesting prisons would be minor.
Staff estimates that excluding private prisons from the Fixed Income portfolios would not affect tracking error with current weightings. When taken in context with the totality of the CalSTRS portfolio, the aggregate impact of divesting private prisons is negligible.

**EXPLICIT COSTS**

Should the Committee decide to divest from U.S. private prison companies, CalSTRS would incur liquidation and potential custom benchmark costs. Staff estimates that the commission cost of liquidating these names from all the Global Equity portfolios will be approximately $100,000. In addition, divesting these securities will require index providers to modify the custom benchmarks to exclude U.S. private prison companies. If CalSTRS were to divest and expand the portfolio restrictions, staff would need to contract with a research service provider to monitor the market for securities related to the private prisons. Staff expects the required services would cost around $5,000 annually. Since, CalSTRS has already modified the CalSTRS Custom Indexes to exclude certain industries, there will not be an additional cost to further modify the indexes.

**POTENTIAL RISKS**

If the Committee determines to divest from private prison companies, staff would divest, remove from the index, and restrict CoreCivic Inc., Geo Group Inc. Additionally, on an on-going basis staff would restrict and any other companies that are identified as private prisons that derive a significant amount of their revenue from contracts with governments or their authorized entities for the operation or leasing of facilities for the primary purposes of incarceration or detention.

While these actions would likely have minimal impact on the current portfolio, staff remains concerned that other companies could join the industry through acquisition, going public, or issuing of bonds. If a company is identified for divestment and staff believes it may not be prudent to divest, staff would promptly bring an analysis of the investment in question before the Committee prior to taking divestment action.
In addition to the risks of divesting, staff is concerned that the further restriction of the investable universe will hamper the ability to attract top-tier investment managers. Some investment managers may choose not to respond to CalSTRS RFP’s, if they believe their opportunity set could be constrained. Furthermore, managers that do apply for CalSTRS manager postings could require higher fees for the additional work of implementing CalSTRS restrictions.

Short of implementing full divestment, the Committee could choose to modify the CalSTRS benchmarks to be private prison free. Benchmark modification would remove all private prisons from the CalSTRS benchmarks and eliminate the passive investments in private prisons. However, managers could still choose to invest in private prisons as an active decision. Based on the current exposures, this option would significantly reduce CalSTRS exposure to private prisons but not eliminate it. Staff notes this was the approach taken to divest tobacco from the 2000 to 2010 but ultimately turned out to be untenable.

CONCLUSION

Undeniably, when done without the authority of the state, incarceration is a clear violation of the CalSTRS ESG policy. Indeed, like our members, staff was affected by the headlines and images of family separations and children in temporary detention facilities resulting from the federal government’s policies and actions and the potential bothered by the possibility that CalSTRS investments were supporting those actions.

Clearly private prisons provide a legal service, but one that many CalSTRS members find offensive. After a thorough review of the research and available materials, staff confirms controversial nature and inherent potential ESG concerns of investing in private prisons. While conditions in prisons and detention facilities are not expected to be luxurious, media reports like the October 8th LA Times report on the Adelanto Detention facility run by Geo Group highlights the questionable conditions endemic to such facilities.15

For a government, incarceration and detention are duties that must be undertaken in order to protect its citizen and enforce its laws. Additionally, governments also have a duty to the taxpayers to provide the services as efficiently and cheaply as possible. However, government goals should not be solely economic. Certainly, the humane treatment, rehabilitation, and creation of a society where incarceration and detention are only used when necessary are all objectives that should override economic concerns. While these concerns do not necessarily exclude the privatization of services, they do create a difficult standard to justify their usage.

While the state takes on the invasive power of detention and incarceration its nature, private companies choose to take on the responsibilities and risks for profit. This profit motive can materially alter the dynamics of incarceration. As the Israeli Supreme court described in their ruling outlawing private prisons in Israel:

“…the right to use force in general, and the right to enforce criminal law by putting people behind bars in particular, is one of the most fundamental and one of the most invasive powers in the state's jurisdiction Thus when the power to incarcerate is

transferred to a private corporation whose purpose is making money, the act of depriving a person of [their] liberty loses much of its legitimacy."16

The majority of risk around incarceration is created and borne by the government in the lawmaking, apprehension, and adjudication process. Private prisons mostly have derivative involvement and exposure to these risks. However, the responsibility involved in incarceration is so great, one could argue that even minor violations are more risk than CalSTRS should accept in the portfolio and are a violation of the ESG Policy that cannot be mitigated. Staff notes this is a more moralistic zero-tolerance position on private prisons significantly different from the definition that was used for this analysis. Accordingly, staff would need to expand research into the non-U.S. private prison operators and bring that as a separate item in the future.

While from a philosophical lens it’s easy to rule out privatization of prisons, from a practical standpoint, they may be a necessary part of the justice and penal systems. In its obligation to enforce laws and incarcerate, the state should be able to use any available resource as long as they maintain oversight, contract, and incentivize in ways that meet the state’s economic and social objectives. While the data on the private prison industry is mixed, the value proposition for governments can be appealing.

Private prisons allow governments often with stressed budgets and aging facilities access to more efficient capital. Since private prison companies specialize in prison construction and maintenance and are not subject to the bureaucratic contracting rules of the government, they can construct and staff facilities in a fraction of the time. Additionally, since private prisons companies have more flexibility in their staffing and can offer unused space in existing facilities, allowing for a more flexible prison system if there is a temporary surge in demand for bed space. Lastly, the private prison market allows for efficiency in the building of public prisons by providing a benchmark for public prison construction projects. While critics may argue the ability to provide bed space quickly only exacerbates the problem of mass incarceration, it fills a need for officials with a legal duty to house inmates or detainees. Accordingly, even without a private prison industry providing options for governments there is no clear evidence the ESG risks of prisons would be alleviated, only that it would be completely under government responsibility.

In review of the investment risk, it is unclear that private prison companies pose a threat to the portfolio. Past performance has been mixed, with the identified companies underperforming, on a relative basis, but mostly positive on an absolute basis. Furthermore, because of the REIT structure, private prisons have dividend yields over CalSTRS actuarial return target of 7%. Lastly, the tax pass through structure of REITs is advantageous to CalSTRS as a tax free entity.

In the short to medium term, private prisons have strong demand and governmental support. The longer term prospects for the industry are less clear. Private prisons are under tremendous scrutiny. Despite these pressures, the fate of the industry is largely a political issue subject to the policies of the leadership at the time. Nevertheless, the long-term nature of the contracts and inability for jurisdictions to provide enough inmate beds make it a long-term issue. Even in scenarios of declining prison populations or declining private prison usage, the private prison

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16https://www.haaretz.com/1.5042291
industry could survive by gaining a larger share of the shrinking population or focusing on high margin solutions such as temporary facilities, capacity in strategic locations, and/or specialized services. While it is clearly possible for the industry to disappear, it does not appear there are any market or political threats that can abolish it in the near future.

Despite any long-term potential viability issues of the industry, private prisons do not pose a significant risk or benefit to the portfolio because they are so small relative to the U.S. equity and fixed income allocations. Consequently, owning private prison companies is de minimis to the overall portfolio return and tracking error.

While de minimis to the portfolio, CalSTRS has thus far managed this risk of private prisons through active engagement and the fact active managers have largely avoided the stocks limiting CalSTRS exposure to passive enhanced index exposures.

**RECOMMENDATION**

Staff does not take a position on whether or not private prisons violate the ESG Policy to the point of justifying implementation of the CalSTRS Divestment Policy. Staff realizes the operation of prisons (public or private) pose noteworthy risks under the CalSTRS ESG policy. However, in several cases it is the contracting agency, such as the US Government, that creates and carries the risk. Despite the source and influence of the risks to which private prisons are exposed, the sum of accumulated minor exposures potentially facilitating a system for others to violate the risks included in the CalSTRS ESG Policy is troubling. Nevertheless, the exposure private prisons have to ESG risks do not appear to pose a threat to the long-term profitability of private prisons.

Additionally, staff is concerned that a definition that is not carefully crafted could add significant risk to the portfolio. In particular, staff’s research involved the evaluation of the risks private prison operators pose and not general services contractors such as commissary, telephone, uniform, catering, or transportation services. Furthermore, a definition with a strict prohibition and no revenue threshold would expose several non-U.S companies to the Divestment Policy.

Staff does not have a position on whether or not holding private prisons weakens the trust of a significant portion of members to the system. Anecdotally, the issue of private prisons has garnered petitions, letters, social media attention, and several members of the public speaking out at the board meetings. Despite the attention, staff does not have visibility to how many of those actively engaged on the issue are members. Furthermore, it is difficult to ascertain how many of the 933,000 CalSTRS members have concerns. However, given the divisive nature of private prisons and the likelihood those engaged represent the viewpoint of many members but are unengaged, it’s possible the threshold has been met.
ATTACHMENTS/POWERPOINT

Attachment 1 – CalSTRS ESG Policy
Attachment 2 – CalSTRS Divestment Policy
Attachment 3 – PCA Recommendation
Attachment 5 – CoreCivic Statement Regarding Immigration Policies and Family Separation
Attachment 6 – CoreCivic Moody’s*
Attachment 7 – CoreCivic S&P
Attachment 8 – CoreCivic Wells Fargo*
Attachment 9 – Geo Group Moody’s*
Attachment 10 – Geo Group S & P
Attachment 11 – Geo Group Wells Fargo*
Attachment 12 – DOJ Statement Phasing Out Private Prison Usage
Attachment 13 – DOJ Memo Rescinding Phase Out of Private Prisons
Attachment 14 – Executive Order Rescinding Zero Tolerance (Family Separations)
Attachment 15 – Adelanto Warden Response Letter (9-6-18)
Attachment 16 – GEO Response to OIG Adelanto Report (10-3-18)
Attachment 17 – Adelanto GEO Statement (10-3-18)
*Public availability subject to permission from copyright owner.

Additional Optional Reading:
Warehoused and Forgotten - ACLU
Capitalizing on Mass Incarceration – The Sentencing Project
Report on Abuse Motivated by Hate - Freedom for Immigrants
Spot Inspections Family Residential Centers (06-02-17) - OIG
Adelanto Spot Inspection (9-27-18) – OIG

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Corporate Governance

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Associate Portfolio Manager
Fixed Income

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Investment Officer III
Corporate Governance

Sharon Jou, CFA
Investment Officer II
Global Equity
Recommended by:

Christopher J. Ailman
Chief Investment Officer
Investment Policy for Mitigating Environmental, Social, and Governance Risks (ESG)

Investment Branch
May 2018
Attachment A:  
Investment Policy for Mitigating  
Environmental, Social, and  
Governance Risks (ESG)

POLICY

The fiduciary responsibility of the Board, as described in detail within the overall Investment Policy and Management Plan, is to discharge its responsibility in a manner that is in the sole and exclusive interest of the participants and beneficiaries and will assure the prompt delivery of benefits and related services.

CalSTRS invests a multi-billion dollar fund in a unique and complex social-economic milieu and recognizes it can neither operate nor invest in a vacuum. As a significant investor with a very long-term investment horizon, the success of CalSTRS is linked to global economic growth and prosperity. The System’s investments impact other facets of the global economy and actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund.

Consistent with its fiduciary responsibilities to CalSTRS members, the Board has an obligation to ensure that the corporations and entities in which CalSTRS invests strive for long-term sustainability in their operations. Managers of our investments who do not strive for sustainability jeopardize achieving the long-term expected rate of return we expect. Therefore, CalSTRS incorporates ESG considerations into its analysis of the riskiness of its investment decisions and its ownership policies and practices, to the extent that ESG factors are material to the long-term success of an investment.

Since CalSTRS is a long-term investor and may hold an investment in a corporation or entity for many decades, short-term gains at the expense of long-term gains are not in the best interest of the Fund. Sustainable returns over long periods are in the economic interest of the Fund. Conversely, unsustainable practices that hurt long-term profits are risks to the System.

Since CalSTRS must invest huge sums of moneys for long periods of time to pay for future benefits promised to California Teachers, our decision to invest in corporations and other entities predominately reflects a judgment that the ownership will produce a sustainable rate of return which will make it an attractive investment and help CalSTRS meet its long-term obligations. It is important to note that CalSTRS ownership of a security in a company does not signify that CalSTRS approves of all of the company’s practices or its products or that CalSTRS believes a particular company is an attractive investment since the security may be owned due to its membership in a particular index. CalSTRS utilizes “index” investing due to its low cost and efficient structure. These “index” investments are broadly diversified and composed of thousands of individual companies.

Since 1978, CalSTRS has used a written policy, the Statement of Investment Responsibility, SIR,
to navigate the complex landscape of ESG issues. The long history of this document is testimony to the national leadership of CalSTRS among pension funds in addressing ESG matters through a written policy. The SIR will continue to guide CalSTRS proxy voting; however this ESG Policy is CalSTRS’s preeminent policy on ESG matters and will guide active investment decisions and passive index strategy engagements.

PROCEDURES

To help manage the risk of investing a global portfolio in a complex governance environment, CalSTRS has developed a series of procedures to follow when faced with any major environmental, social or governance issue as identified by the ESG risk factors.

When faced with a decision or other activity that potentially violates CalSTRS ESG Policy; the Investment Staff, CIO and Investment Committee will undertake the following actions:

A. The CIO will assess the potential ESG policy violation both as an ESG risk and as an impact to the System. The extent of the responsibility of the System to devote resources to address these issues will be determined by: 1) the size of the investment, and 2) the gravity of the violation of CalSTRS ESG Policies.

B. At the CIO’s direction, the Investment Staff will directly engage corporate management or other appropriate parties to seek information and understanding concerning the ESG policy violation and its ramifications on the System.

C. The CIO and investment staff will provide a report to the Investment Committee of the findings associated with an ESG policy violation engagement and recommend any further action of engagement or need to commit further System resources. The Investment Committee can marshal further resources given the gravity of the situation.

To assist CalSTRS Staff and external investment managers in their investment analysis and decision-making, CalSTRS has developed a list of ESG risk factors that should be considered as part of the financial analysis of any active investment decision. For passive index strategies, CalSTRS uses the ESG risk factors to guide engagement activities. This ESG list is not exhaustive and does not attempt to identify all forms of risk that are appropriate to consider in a given investment transaction or engagement; however, they do provide a framework of other factors that might be overlooked. These risk factors should be reviewed for any CalSTRS investment or engagement in any asset class.

CalSTRS expects all investment managers, both internal and external to assess the risk of each of the following factors when making an active investment. The manager needs to balance the rate of return with all the risks including consideration of the specific investments exposure to each factor in each country in which that investment or company operates.
### CALSTRS ESG RISK FACTORS

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monetary Transparency</strong></td>
<td>The investment’s long-term profitability by whether or not a country or company has free and open monetary and financial data, and its observance of applicable laws.</td>
</tr>
<tr>
<td><strong>Data Dissemination</strong></td>
<td>The investment’s long-term profitability by whether or not a country is a member of the IMF (or similar organization) and satisfies the conditions for access, integrity, and quality for most data categories.</td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
<td>The investment’s long-term profitability by whether or not the accounting standards are formulated in accordance with International Accounting Standards or the U.S. Generally Accepted Accounting Principles.</td>
</tr>
<tr>
<td><strong>Payment System: Central Bank</strong></td>
<td>The investment’s long-term profitability by whether the activities of a country’s central bank encompass implementing and ensuring compliance with principles and standards which are established to promote safe, sound, and efficient payment and settlement.</td>
</tr>
<tr>
<td><strong>Securities Regulation</strong></td>
<td>The investment’s long-term profitability by exposure to operations in countries that have not complied with IOSCO objectives, which provide investor protection against manipulation and fraudulent practices.</td>
</tr>
<tr>
<td><strong>Auditing</strong></td>
<td>The investment’s long-term profitability by whether or not the country uses International Standards on Auditing in setting national standards.</td>
</tr>
<tr>
<td><strong>Fiscal Transparency</strong></td>
<td>The investment’s long-term profitability by its exposure or business operations in countries that do not have not some level of fiscal transparency such as publication of financial statistics, sound standards for budgeting, accounting, and reporting.</td>
</tr>
<tr>
<td><strong>Corporate Governance</strong></td>
<td>The investment’s long-term profitability by whether or not the government recognizes and supports good corporate governance practices and whether it generally adheres to OECD principles.</td>
</tr>
<tr>
<td><strong>Banking Supervision</strong></td>
<td>The investment’s long-term profitability from its exposure to countries that have not endorsed/complied with the Basel Core Principles. An endorsement includes an agreement to review supervisory arrangements against the principles and bring legislation in line with the principles where necessary.</td>
</tr>
</tbody>
</table>
**Payment System: Principles**

The investment’s long-term profitability by whether a country complies with the 10 Core Principles for Systemically Important Payment Systems, which includes operational reliability, efficiency, real time settlement, final settlement in central bank money; and whether rules and procedures are clear and permit participants to understand the financial risks resulting from participation in the system.

**Insolvency Framework**

The investment’s long-term profitability from its business operations and activities in specific countries with regard to bankruptcy reform or insolvency legislation.

**Money Laundering**

The investment’s long-term profitability from exposure and whether or not a country has implemented an anti-money laundering regime in line with international standards; consideration should be given to compliance with the 40 recommendations in the Financial Action Task Force, FATF, on Money Laundering; and whether it is a member of FATF.

**Insurance Supervision**

The investment’s long-term profitability from whether or not a country has a regulatory framework in line with International Association of Insurance Supervisors, IAIS, Principles.

**Respect for Human Rights**

The investment’s long-term profitability from its business operations and activities in countries that lack or have a weak judicial System. Assess the risk to an investment’s long-term profitability from its business operations and activities in a country that engages in or facilitates the following: arbitrary or unlawful deprivation of life, disappearance, torture and other cruel, inhuman, or degrading treatment or punishment, arbitrary arrest, detention, or exile, arbitrary interference with privacy, family, home, or correspondence, use of excessive force and violations of humanitarian law in internal conflicts. Consideration should be given to governmental attitude regarding international and non-governmental investigation of alleged violations of human rights.

**Respect for Civil Liberties**

The investment’s long-term profitability from operations, activities, and business practices in countries or regions that do not allow freedom of speech and press, freedom of peaceful assembly and association, freedom of religion, freedom of movement within the country, allowance for foreign travel, emigration, and repatriation.

**Respect for Cultural and Ethnic Identities**

The investment’s long-term profitability from operations, activities and business practices that do not adequately respect cultural values and ethnic identities.
<table>
<thead>
<tr>
<th>Clause</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Respect for Property Rights</strong></td>
<td>The investment’s long-term profitability from operations, activities and business practices that dispossesses or degrades peoples’ lands, territories or resources, or does not adequately respect established property rights.</td>
</tr>
<tr>
<td><strong>Respect for Political Rights</strong></td>
<td>The investment’s long-term profitability from business practices and activities in countries that do not allow their citizens the right to advocate for change to their government.</td>
</tr>
<tr>
<td><strong>Discrimination Based on Race, Sex, Disability, Language, or Social Status</strong></td>
<td>The investment’s long-term profitability from business practices and activities on discrimination, such as discrimination against women, children, and persons with disabilities, national/racial/ethnic minorities, or indigenous people.</td>
</tr>
<tr>
<td><strong>Worker Rights</strong></td>
<td>The investment’s long-term profitability from management and practices globally in the area of worker's rights; specifically the right of association, the right to organize and bargain collectively, prohibition of forced or bonded labor, status of child labor practices and minimum age for employment, acceptable work conditions, or human trafficking.</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td>The investment’s long-term profitability from activities and exposure to environmental matters such as; depleting or reducing air quality, water quality, land protection and usage, without regard for remediation.</td>
</tr>
<tr>
<td><strong>Climate Change</strong></td>
<td>The investment’s long-term profitability from inadequate attention to the impacts of climate change, including attention to relevant climate policy considerations and emerging climate risk mitigating technologies.</td>
</tr>
<tr>
<td><strong>Resource Efficiency</strong></td>
<td>The investment’s long-term profitability from inadequately managing resource usage in a resource-constrained environment amid growing resource demand.</td>
</tr>
<tr>
<td><strong>War/Conflicts/Acts of Terrorism</strong></td>
<td>The investment’s long-term profitability from business exposure to a country or region that has an internal or external conflict, war, acts of terrorism or involvement in acts of terrorism, and whether the country is a party to international conventions and protocols.</td>
</tr>
<tr>
<td><strong>Human Health</strong></td>
<td>The investment’s long-term profitability from business exposure to an industry or company that makes a product which is highly detrimental to human health so that it draws significant product liability lawsuits, government regulation, United Nations sanctions and focus, and avoidance by other institutional investors.</td>
</tr>
</tbody>
</table>
DIVESTMENT POLICY

INVESTMENT BRANCH
MARCH 2009
N. Divestment Policy

DIVESTMENT POLICY

As set forth in the California Constitution, Article 16, Section 17, and the California Education Code, Section 22250, the CalSTRS Retirement Board, its Investment Committee, and staff have fiduciary duties with respect to the system and the plan. These duties include duties of loyalty and prudence to invest “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.” (Ed. Code, sec. 22250(b).)

This policy sets forth CalSTRS’ policy for responding to external or internal initiatives to divest of individual or groups of securities for purposes of achieving certain goals that do not appear to be primarily investment related. The Investment Committee opposes any divestment effort that would either implicitly or explicitly attempt to direct or influence the Investment Committee to engage in investment activities that violate and breach the Trustees’ fiduciary responsibility. Consistent with its fiduciary responsibility and the concepts of diversification and passive index management, the Investment Committee does not and will not systemically exclude or include any investments in companies, industries, countries or geographic areas, except in cases where: one of the CalSTRS 21 Risk Factors is violated over a sustained time frame to the extent that it becomes an economic risk to the Fund, a potential for material loss of revenue exists, and where it weakens the trust of a significant portion of members to the System.

When pressured to divest, CalSTRS firmly believes that active and direct engagement is the best way to resolve issues. Face to face meetings with shareowners and senior management, or the Board of Directors, are essential to bringing about change in a corporation. No further action will be taken until all efforts at engagement have been fully exhausted; efforts at engagement include, but are not limited to: shareholder resolutions, media campaigns, and other efforts at engagement.

CalSTRS’ commitment to engagement with companies rather than divestment is based on several considerations: (i) divestment would eliminate our standing and rights as a shareowner and foreclose further engagement; (ii) divestment would be likely to have negligible impact on portfolio companies or the market; (iii) divestment could result in increased costs and short-term losses; and (iv) divestment could compromise CalSTRS’ investment strategies and negatively affect investment performance.

If engagement fails to resolve the risk factor sufficiently, the CIO will bring the issue before the Investment Committee for consideration of divestment from the applicable securities. The Investment Committee will receive input from the following, but not limited to: investment managers, investment consultants, investment staff, fiduciary counsel, academics, and experts in the particular field or issue. If the Investment Committee determines that the making of an investment or continuing to hold a security is imprudent and inconsistent with the fiduciary duty,
the Investment Committee will instruct investment staff to remove the security from the portfolio.

Divestment does not apply to segments of the portfolio that track market indices, as CalSTRS policies require those segments to invest in all companies included in an index. Additionally, the policy does not apply to investments in a Limited Partnership due to CalSTRS position of limited liability as a Limited rather than General Partner.

CalSTRS will exclude or eliminate investments that fall within the terms of a State or Federal law regarding divestment, if the Investment Committee finds that divestment is consistent with its fiduciary duties and divestment is determined not to be imprudent.

REPORTING

On at least a quarterly basis, the Chief Investment Officer will prepare a comprehensive report that shows the performance difference between any divestment taken under this Policy and the unmodified CalSTRS benchmark of the respective asset class.

Any divestment decision should be reviewed at least annually by the CIO to ensure the key factors and risks continue to warrant divestment. The Investment Committee, at any time, can request a divestment decision be revisited.

Approved: March 5, 2009
Date: October 24, 2018
To: CalSTRS Investment Committee
From: Pension Consulting Alliance, LLC (PCA)
CC: Allan Emkin; Neil Rue, CFA; Sarah Bernstein, PhD, FSA – PCA

RE: PCA Opinion: CalSTRS Divestment Policy – Private Prisons

Opinion

PCA reviewed CalSTRS’ Staff engagement and investigation regarding the private prisons investment risk issue. In our opinion, the CalSTRS decision of whether to divest from the two U.S. private prison companies in the CalSTRS investment portfolio is a judgement call, with very limited impact on CalSTRS’ investment portfolio returns, tracking error, the risk factors driving the investigation, or the general situation occurring at prisons in the United States.

However meaningful the subjective/qualitative factors may be, private prisons do not pose a significant quantitative risk or benefit to the portfolio because the quantities are so small relative to the U.S. equity and fixed income allocations. CalSTRS’ active managers have largely avoided the stocks. CalSTRS’ exposure is limited to passive enhanced index exposures.

We concur with Staff that should the Investment Committee decide to divest, the definition of which companies should be carefully crafted to avoid adding significant risk to the portfolio by either (i) not specifying private prison operators, and inadvertently including general services contractors such as commissary, telephone, uniform, catering or transportation services, or (ii) by using a prohibition with no revenue threshold, which would include several non-U.S. companies.

Background

In PCA’s opinion, Staff conducted an extremely thoughtful and thorough analysis of CalSTRS’ potential divestment from private prisons. Staff research included examining potential direct and indirect responsibility for the six relevant CalSTRS’ ESG risks by the companies in question, on-site visits to facilities, analysis of the industry, and discussions with four non-governmental organizations that concentrate on immigration and prison issues. PCA finds these very difficult issues. We concur with Staff’s perspective that prisons (public or private) pose noteworthy risks under the CalSTRS ESG policy, but given the fact that these private prison companies contract to governments, it is difficult to reasonably conclude that the private prisons directly violate the CalSTRS risk factors because responsibility often directly lies with governmental agencies and systems to which private prison companies contract, on which private prisons can have minimal impact.

We concur with Staff that while they did not find sufficient evidence to clearly conclude that private prison companies directly violate CalSTRS’ ESG risk factors, despite the source and influence of the risks to which private prisons are exposed, the sum of accumulated minor exposures potentially facilitating a system for others to violate the risks included in the CalSTRS ESG policy is troubling. Staff findings indicate that private prisons do add capacity and help facilitate a system that may be viewed as violating the CalSTRS ESG risk factors. However, Staff also found that these risks do not threaten the long-term profitability of the private prisons companies.
Staff research finds that they do not expect any material impact on CalSTRS’ returns or portfolio diversification from divestment; however, as part of a cumulation of divestments, divesting from private prisons would add to the overall restrictive nature of the CalSTRS portfolio.
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The information contained in this report may include forward-looking statements. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the Firm, which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect PCA’s current judgment, which may change in the future.
The GEO Group Statement on Immigration Policies and Separation of Families

While there has been some inaccurate speculation regarding our company’s involvement in immigration and border enforcement policies and the separation of families, GEO in fact has no involvement, and has never had any involvement, in any way with the policies in question. Our company does not and has never managed facilities that house unaccompanied minors nor has our company ever provided transportation or any other services for that purpose. Furthermore, GEO does not take a position on nor have we ever advocated for or against immigration enforcement or detention policies.

For three decades, our company has managed ICE Processing Centers providing services for adults in the care of federal immigration authorities in partnership with both Democrat and Republican Administrations, and since 2014, we have managed the Karnes Family Residential Center, which has cared exclusively for mothers together with their children.

The Karnes Family Residential Center was established by the Obama Administration. The facilities, programs and services at the Karnes Family Residential Center are specifically developed to provide a safe and humane environment for those in our care. This includes educational programming, around-the-clock quality medical care, a range of recreational options, and visitation facilities. Following intake, all residents are provided with six sets of non-institutional clothing and receive a medical examination.

All residents of school age are offered educational services through a certified charter school. Other features at the Karnes Center include state-of-the-art smart-boards for classroom instruction, a library, activity games, multipurpose rooms for social activities, laundry facilities and food services catered to the residents’ local cuisine. Unlimited access to fruit, snacks, drinks and infant formula is provided at all times. Recreational options at the Karnes Center include an indoor gymnasium, artificial turf soccer field, covered pavilion playground and picnic areas. Each room is equipped with bathroom and shower facilities, individual TVs and microwaves.

We strongly dispute allegations related to the care provided at the ICE Processing Centers we manage. On a daily basis, our dedicated employees deliver high quality services, including around-the-clock medical care, that comply with performance-based standards set by the federal government and adhere to guidelines set by leading third-party accreditation agencies. Our employees are proud of our record in managing ICE Processing Centers with high-quality, culturally responsive services in safe, secure, and humane environments. Members of our team strive to treat all of those entrusted to our care with compassion, dignity and respect.

As a three-decade long service provider to the federal government, our focus has always been and remains on providing high quality services that meet or exceed the strict standards set by the federal government, and we have never advocated for or against immigration enforcement or detention policies.

Attached for your review is a report from the Department of Homeland Security, Office of Inspector General detailing the positive findings of unannounced spot inspections of family residential centers, including the Karnes Center, that were conducted by the Obama Administration in July 2016.
Statement Regarding Immigration Policies and Family Separation

CoreCivic cares deeply about every person in our care. None of our facilities provides housing for children who aren’t under the supervision of a parent.

It's important to note that, under long-standing policy, CoreCivic does not advocate for or against legislation or policies that determine the basis for or duration of an individual’s detention. We also do not enforce immigration laws or policies or have any say whatsoever in an individual’s deportation or release. CoreCivic does not know the circumstances of individuals when they are placed in a facility, and our responsibility is to care for each person respectfully and humanely while they receive the legal due process that they are entitled to.

All of our immigration facilities are monitored very closely by the government, and each and every one is required to undergo regular review and audit processes that include ensuring an appropriate standard of living for all detainees. More than 500 Immigration and Customs Enforcement (ICE) officials are currently assigned to CoreCivic's eight detention facilities. CoreCivic has partnered with the federal government to operate detention facilities for more than 30 years, and we’ve worked with both Democrat and Republican administrations to meet their detention needs.
CoreCivic Moody’s

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CoreCivic Inc.'s Proposed Senior Unsecured Notes Rated 'BB'

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NEW YORK (S&P Global Ratings) Oct. 11, 2017--S&P Global Ratings today said that it assigned its 'BB' issue-level rating, with a '3' recovery rating, to Nashville, Tenn.-based CoreCivic Inc.'s proposed senior unsecured notes. The '3' recovery rating indicates our expectation for meaningful (50%-70%; rounded estimate: 65%) recovery of principal in the event of a default. CoreCivic will use the proceeds for general corporate purposes.

Our ratings reflect CoreCivic's position as the largest private-prison owner and operator in the U.S., its relatively stable revenue stream, and high barriers to entry. Profitability has been somewhat pressured this year due to the renegotiation of the high-margin South Texas Family Residential Center (STFRC) contract. However, we expect CoreCivic's credit metrics to remain appropriate for the rating, with debt to EBITDA in the mid- to high-3x area and funds from operations (FFO) to debt in the mid- to low-20% area by the end of 2017. We characterize the company's business risk profile as fair, financial risk profile as significant, and liquidity as adequate.

We could lower our ratings if CoreCivic's financial policy becomes more aggressive or operating performance materially weakens, resulting in debt to EBITDA rising to and remaining above 4x. We could raise the ratings if CoreCivic sustains leverage comfortably below 3x. This is unlikely, however, as the company must distribute most of its free cash flow to shareholders to retain REIT status. We could also consider raising the ratings if CoreCivic diversifies its business meaningfully away from owner/operator of detention centers, which we believe carries inherently more risk than the own/lease
model and the residential re-entry business.

RECOVERY ANALYSIS

• The proposed $250 million unsecured senior notes will be issued by CoreCivic Inc. and guaranteed by all subsidiaries that also guarantee the senior secured credit facility and the existing senior notes. These new notes will be pari passu with existing notes.
• Our simulated default scenario contemplates a default in 2022, reflecting a significant decline in revenue and operating profits from severe pressure on state tax revenues (which results in significant budget deficits); a reduction in U.S. prison populations over time; and increased use of probation, parole, and other alternatives to prison such as electronic monitoring and drug courts. Generally, contracts can be canceled with advance notice. Certain terms and conditions could open up contracts to competitors or allow public prison management to step in.
• We estimate a gross recovery value of $1.9 billion assuming emergence net operating income (NOI) of $280 million and a distressed capitalization rate of 15%.

Recovery assumptions and simplified waterfall:
• Simulated year of default: 2022
• Jurisdiction/jurisdiction ranking assessment: U.S./Group A
• Emergence net operating income/blended capitalization rate/gross enterprise value (EV): $280 million/15%/$1,858 million
• Net recovery value after property related and administrative expenses (5%+5%): $181 million (93+88)

- Nonobligor value avail. to obligors (collateral + unpledged): $0
- Value avail. to first priority debt (collateral + unpledged share): $1,677 million (1,677+0)
- Secured first priority claims: $848 million ($900 million revolver assumed 85% drawn plus $62 million term loan o/s)
- Remaining value available to unsecured claims: $829 million
- Estimated senior unsecured notes claim: $1,202 million
- --Recovery range: 50%-70% (rounded estimate: 65%)

Note: All debt amounts include six months of prepetition interest. Collateral value includes asset pledges from obligors (after priority claims) plus equity pledges in nonobligors. Cash flow and asset-based lending (ABL) revolver usage at default is generally assumed to be 85% and 60%, respectively.

RELATED CRITERIA

• General Criteria: Methodology For Linking Long-Term And Short-Term Ratings
CoreCivic Inc.'s Proposed Senior Unsecured Notes Rated 'BB'

, April 7, 2017

• Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
• Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
• Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
• General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
• Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
• General Criteria: Group Rating Methodology, Nov. 19, 2013
• General Criteria: Methodology: Industry Risk, Nov. 19, 2013
• Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
• General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
• General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RATINGS LIST

Ratings Unchanged
CoreCivic Inc.
Corporate Credit Rating BB/Stable/--
Senior Secured BBB-
  Recovery Rating 1(95%)
Senior Unsecured BB
  Recovery Rating 3(65%)

New Rating
CoreCivic Inc.
  Senior Unsecured
$250 mil sr. notes due 2027  BB
  Recovery Rating 3(65%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.
CoreCivic Inc.'s Proposed Senior Unsecured Notes Rated 'BB'
CoreCivic Wells Fargo

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Geo Group Moody's

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Summary:
The GEO Group Inc.

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Our Base-Case Scenario
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Business Risk
Financial Risk
Liquidity
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Summary:
The GEO Group Inc.

Business Risk: FAIR
- Vulnerable
- Excellent

Financial Risk: AGGRESSIVE
- Highly leveraged
- Minimal

CORPORATE CREDIT RATING
BB-/Stable/--

Rationale

<table>
<thead>
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<tbody>
<tr>
<td>• Narrow geographic presence and business scope, with a focus on U.S-based private corrections and detention services;</td>
<td>• S&amp;P Global Ratings' adjusted debt leverage (excluding non-recourse debt) in excess of 5x;</td>
</tr>
<tr>
<td>• Operates in an industry with high barriers to entry and relatively low competitive threats;</td>
<td>• Relatively well-laddered debt maturity schedule, with minimal upcoming maturities over the next few years;</td>
</tr>
<tr>
<td>• High customer concentration and dependence on government agencies; and</td>
<td>• Adequate liquidity supported by substantial borrowing capacity under the revolving credit facility; and</td>
</tr>
<tr>
<td>• Some geographic diversity, but high concentration of revenues in the U.S.</td>
<td>• To maintain its status as a REIT, the company will likely use free cash flow for distribution to shareholders and acquisitions.</td>
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</table>
Outlook: Stable

S&P Global Ratings' stable outlook reflects our view that The GEO Group Inc. will generate moderate top line growth over the next 12 months, driven by Community Education Centers (CEC) acquisition contributions, revenues from the newly constructed Ravenhall prison in Australia, benefits from new contract awards, stable inmate population growth, and increased capacity needs from Immigration and Customs Enforcement (ICE) and U.S. Marshals Service (USMS). This growth will likely be offset by elevated operating costs, which in addition to a modest reduction to margin on a competitively rebid BoP contract, will pressure margins and result in a slight increase in leverage over the current year. We expect S&P adjusted debt/EBITDA to increase to the mid- to high-5x area in 2018 before declining to the mid- to low-5x area in 2019.

Downside scenario

Although unlikely over the next year, we could lower the ratings if FFO/debt remains below 12% and debt to EBITDA rises to and is sustained in the high-5x area, which could occur if operating performance falls significantly short of our forecast, likely the result of contract losses, falling occupancy rates, a dramatic change in federal policies, or unforeseen operational problems at Ravenhall. We could also lower our ratings if we perceive the company's financial policy as more aggressive, likely from larger-than-expected, debt-financed acquisitions or increased shareholder distributions.

Upside scenario

Although unlikely over the next year, we could raise our ratings if the company adopts a more modest financial policy that results in permanent debt reduction or if operating performance significantly exceeds our forecast, likely through new contract wins or greater than expected border apprehensions and prosecutions, such that debt to EBITDA declines below 4x and FFO/debt increases to the high teens percent area and remains there on a sustained basis.

Our Base-Case Scenario
### Assumptions

- Real U.S. GDP growth of 2.8%, 2.2%, 1.9% for 2018, 2019, and 2020, respectively;
- U.S. consumer spending growth of 2.7%, 2.7%, 2.3% for 2018, 2019, and 2020, respectively;
- CPI growth of 2.2%, 1.9%, 1.7% for 2018, 2019 and 2020, respectively;
- The current administration has a favorable view on private prisons and the 2019 budget proposal calls for increases in capacity across ICE and USMS. BoP populations have been declining over the past few years as prisons remain over-utilized, but the outlook is positive as budget expectations assume that BOP prisoner populations will rise by 10,000 people;
- Low- to mid-single-digit revenue growth in 2018 and 2019, driven by CEC contributions, the ramp up of prisoner intake at Ravenhall, increased demand for Intensive Supervision Appearance Program (ISAP) and electronic monitoring services, expansion of the continuum of care program, and an increase in border apprehensions and prosecutions. In 2019, we also anticipate a full year of revenue attributable to the Montgomery ICE contract and awards for publicly known procurements;
- EBITDA margins tighten modestly, to the high teens percent area in 2018 before improving to around 20% in 2019, because of lower per diem rates on certain contracts that were rebid in 2017, activation expenses on new facilities (namely Ravenhall), and some additional CEC expenses;
- The company generates about a 10% return on their investment in Ravenhall, which is included in net interest income and captured in our calculation of FFO;
- Capital spending remains elevated in 2018 at around $175 million, as the company invests in internal programs (ISAP, BI, and GEO Continuum of Care) and facility development. The bulk of capital spending pertains to two construction projects, a new corporate headquarters and the development of an ICE facility in Conroe, Texas. We expect spending to start to normalize in 2019 as both

### Key Metrics

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<th>2017A</th>
<th>2018E</th>
<th>2019E</th>
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<tbody>
<tr>
<td>FFO/debt (%)</td>
<td>13.7</td>
<td>13-15</td>
<td>13-15</td>
</tr>
<tr>
<td>Debt/EBITDA (x)</td>
<td>5.5</td>
<td>5.5-6.0</td>
<td>5.0-5.5</td>
</tr>
<tr>
<td>EBITDA Interest Coverage (x)</td>
<td>2.8</td>
<td>3.0-4.0</td>
<td>3.0-4.0</td>
</tr>
<tr>
<td>DCF/debt (%)</td>
<td>(0.1)</td>
<td>(0) – (3)</td>
<td>(0) – (3)</td>
</tr>
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A—Actual; E—Estimate.
projects approach completion by late 2018;

- Annual dividends of around $225 million in accordance with REIT status requirements to pay out at least 90% of its taxable net income. Although a permanent drain on cash flows, the mandatory payment is linked to taxable income and could be adjusted if earnings fall;
- Opportunistic share repurchases under the new authorization;
- No material M&A activity;
- Our forecast does not explicitly include the impact of the revised U.S. corporate tax code due to a lack of sufficient information, but we assume that any savings would be returned to shareholders due to the company's REIT status; and
- We exclude the non-recourse debt associated with Ravenhall from our calculations of leverage.

### Company Description

The GEO group is a leading provider of private corrections and detention centers to federal, state, and local government agencies in the U.S. Outside of its core corrections and detentions business (64% of 2017 revenues), the company also provides Community Services (22.7%), International Services (8.7%), and Facility Construction & Design (5%).

Though the majority of its operations are domestic, GEO also generates revenues internationally through partnerships in Australia, South Africa, the U.K., and Canada. Australia accounts for the bulk of its global operations. In November 2017, the company completed its construction of and started receiving prisoners in the Ravenhall prison in the State of Victoria. The Ravenhall project was financed through a public-private partnership structure with the State. The non-recourse debt is issued through GEO's wholly-owned Australian facility, the payments of which are guaranteed by the State. We believe GEO is isolated from default risk on this debt and as such, have elected to exclude the debt from our leverage calculations.

### Business Risk: Fair

GEO is well positioned in the highly regulated, high barrier domestic market for private corrections and detentions services. Two large players, CoreCivic and GEO, and a smaller third competitor, Management and Training Corp., dominate the industry. Within the corrections and detentions space, GEO is the second-largest for-profit prison operator in the U.S. (by bed count) after CoreCivic. It is the largest domestic provider of residential re-entry services.
Given the high levels of regulation, required investment spending and specialized expertise needed to compete successfully, the threat of new entrants is low and the private prison market is controlled almost entirely by CoreCivic and GEO. Though the top players compete against each other for new contract bids, they don’t have much geographic overlap in facility locations and therefore will likely win an in-state contract if it resides where they have available detention space. This supports a relatively low competitive environment. For contracts that serve out of state populations, the bid process may be more aggressive.

Organic growth depends on favorable correctional policies and regulations, and therefore M&A is a key expansion vehicle for private prison operators. In early 2017, GEO completed the acquisition of CEC, solidifying their position as the largest provider of re-entry services in the U.S. Organically, the company has been investing into the expansion of their electronic monitoring services, which provide monitoring and supervision for individuals involved in the process of detention or deportation but not physically residing in a detention center. Demand has been favorable as it improves the tracking of individuals and provides an alternative for managing capacity. We expect this to be a source of growth for the company over the next few years.

The bulk of the inmate population in private facilities consists of immigration detainees. Of the three federal agencies, ICE and USMS account for 24% and 10% of GEO’s revenues, respectively. ICE and USMS tend to utilize private facilities more than state and federal jurisdictions because of the volatility related to shorter lengths of stay. State and federal populations tend to be more static and longer term, thereby requiring less private prison capacity than immigrations enforcement. Of the total incarcerated state and federal population, private prisons hold a fraction of inmates (8% as of 2015, the latest available statistic according to the Bureau of Justice). By contrast, about two-thirds of ICE detainees are held in private detention centers. Though customer concentration is a limitation to our assessment of the business risk profile, this is somewhat offset by the Trump Administration’s policies and outlook on immigration enforcement which bode favorably for GEO and its peers. Favorable tailwinds stemming from the new administration include the 2019 budget proposal, which calls for a 22% increase in funding for Customs and Border Protection (CBP) and ICE.

The ratings are constrained by the company’s narrow focus in an industry that is frequently under public and policy scrutiny and subject to headline risks and changes in policy and government budget allocations, all of which can contribute to fluctuations in the imprisoned population. Another limitation to the rating is the company’s dependence on a concentrated base of customers from various levels of the U.S. and state governments, which reduces its bargaining power. Though they continue to diversify, BOP, ICE, and USMS account for more than 45% of revenue.

**Financial Risk: Aggressive**

In 2017, GEO’s credit metrics weakened on account of increased debt and expenses related to the acquisition of CEC and activation expenses related to Ravenhall. In addition, elevated capital spending and dividend distributions limited available cash flow, resulting in higher-than-expected revolver usage despite the contribution from proceeds of a $288 million equity issuance in early 2017. We expect GEO’s credit metrics to improve steadily in 2018 and 2019 as its revenue and margins increase and capital spending normalizes. GEO’s debt maturity schedule is relatively well laddered, with no material upcoming maturities and a weighted average maturity of 5.6 years at Dec. 31, 2017. While
its average interest rate was just 4.57% at year-end 2017, GEO carries a fair amount of floating-rate debt (41%), exposing the company to interest rate risk.

In early 2018, the company announced a $200 million share repurchase authorization, which we expect GEO to execute in an opportunistic fashion. We do not expect any material impact from the revised U.S. corporate tax code as the majority of the company’s net income is distributed to shareholders given its obligation as a REIT.

**Liquidity: Adequate**

We view GEO’s liquidity as adequate and expect sources of liquidity to exceed uses by more than 3.7x over the next 12 months. In addition, we estimate liquidity sources would remain positive during the period, even if EBITDA drops 15%. While GEO qualifies for a higher liquidity assessment based on certain quantitative metrics, the company does not meet our qualitative characteristics and does not have enough cushion in its covenants to support a Strong or Exceptional assessment.

While GEO’s liquidity sources meaningfully exceeds its uses over the next 12 months, we do not believe GEO has the ability to withstand high-impact, low-probability events without refinancing, a high standing in the credit markets, or have policies in place to maintain above-adequate liquidity. Nevertheless, we view its standing in credit markets as satisfactory and bank relations as sound.

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<tr>
<th>Principal Liquidity Sources</th>
<th>Principal Liquidity Uses</th>
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<td>• Approximately $81 million of cash and cash equivalents;</td>
<td>• Debt maturities over the next two years of about $15 million to $20 million annually.</td>
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<tr>
<td>• About $560 million of availability under the company’s $900 million revolving credit facility maturing in 2021; and</td>
<td>• Capital expenditures of around $175 million over the next year.</td>
</tr>
<tr>
<td>• Annual cash funds from operations (FFO) in excess of $250 million over the next year.</td>
<td>• Annual dividends in excess of $200 million, reflecting that the company must distribute at least 90% of REIT taxable income.</td>
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**Other Credit Considerations**

**Covenants**

There are financial covenants under the company’s bank loan agreement, including a maximum leverage covenant of 6.25x and minimum interest coverage of 3.0x. We expect the company to maintain cushion of at least 15% on these covenants over the next few years.
Ratings Score Snapshot

Corporate Credit Rating
BB-/Stable/--

Business risk: Fair
- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Aggressive
- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Issue Ratings--Recovery Analysis

Key analytical factors
- Our simulated default scenario contemplates a default occurring in 2022 compared with 2021 in our previous analysis, as we typically assume four years to default for a 'BB-'-rated company.

- Our simulated default scenario contemplates a large and prolonged decline in revenue and operating profits, likely caused by drastic government policy changes, a reduction in U.S. prison population over time, and losses of key federal or state facility management contracts. We believe that if the company were to default, it would continue to have a viable business model due to the continued opportunities for public-private partnership in detention facilities worldwide.

- To best assess the value of GEO's real estate properties at default, we use an income capitalization approach and consider the company's mix of property types. Specifically, for correctional and detention facilities, we apply a distressed capitalization rate of 15%, the same rate we apply to key peer CoreCivic Inc. We choose a less stressed 12.5% capitalization rate for community-based reentry services and youth services facilities to reflect their more favorable location and easier-to-repurpose building structures.

- With regards to the managed only segment, including facility management (both domestic and international), non-residential services, and electronic monitoring business, we apply EBITDA multiples of between 4.5x and 5.0x, given their solid EBITDA margins but offset by high sensitivities to state budgetary constraints.
**Simulated default assumptions**
- Simulated year of default: 2022
- Jurisdiction/jurisdiction ranking assessment: U.S. /Group A
- Gross enterprise value--real estate valuation approach: 1,837
- Valuation split--obligor/non-obligor: 91%/9%

**Simplified waterfall**
- Net recovery value after admin. costs (5%): 1,745
- Net recovery breakdown
  - Owned Facilities: 72%
  - Managed Only: 10%
  - Non-Residential Services: 18%

We estimate about 9% of recovery value derives from the company's Australia business to which all recovery value therein would benefit the company's Australian debt.
- Non-obligor subsidiary value: 150
- Claims at non-obligor subsidiaries: 292
- Net residual value from non-obligors: $0

We estimate a very high recovery prospects for first-lien lenders in the event of a payment default with approximately 91% of total net recovery value or $1.6 billion from direct claims on collateral value.

After the first-lien debt is satisfied, we estimate net residual value of $172 million that goes to the benefit of unsecured noteholders, resulting in modest (10%-30%) recovery prospects.
- Value avail. to first priority claims : 1,595
- Secured first priority claims: 1,513
  - Recovery range: 90% - 100%/rounded estimate 95%
- Net residual value available to unsecured noteholders: 172
- Unsecured note claims: 1,183
  - Recovery range: 10% - 30%/rounded estimate 10%

Notes: Debt amounts include six months of accrued interest that we assume will be owed at default. Collateral value includes asset pledges from obligors (after priority claims) plus equity pledges in non-obligors. We generally assume usage of 85% for cash flow and 60% for asset-based lending (ABL) revolvers at default.
Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Business And Financial Risk Matrix

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<th>Business Risk Profile</th>
<th>Minimal</th>
<th>Modest</th>
<th>Intermediate</th>
<th>Significant</th>
<th>Aggressive</th>
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Geo Group Wells Fargo

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MEMORANDUM FOR THE ACTING DIRECTOR
FEDERAL BUREAU OF PRISONS

FROM: Sally Q. Yates
Deputy Attorney General

SUBJECT: Reducing our Use of Private Prisons

Between 1980 and 2013, the federal prison population increased by almost 800 percent, often at a far faster rate than the Federal Bureau of Prisons could accommodate. In an effort to manage the rising prison population, about a decade ago, the Bureau began contracting with privately operated correctional institutions to confine some federal inmates. By 2013, as both the federal prison population and the proportion of federal prisoners in private facilities reached their peak, the Bureau was housing approximately 15 percent of its population, or nearly 30,000 inmates, in privately operated prisons. ¹

Since then, for the first time in decades, the federal prison population has begun to decline, from nearly 220,000 inmates in 2013 to fewer than 195,000 inmates today. In part, this is due to several significant efforts to recalibrate federal sentencing policy, including the retroactive application of revised drug sentencing guidelines, new charging policies for low-level, non-violent drug offenders, and the Administration’s ongoing clemency initiative. Now, three years since the Department of Justice announced its Smart on Crime initiative, our efforts to address the pressures facing the Bureau are seeing real and positive results.

Private prisons served an important role during a difficult period, but time has shown that they compare poorly to our own Bureau facilities. They simply do not provide the same level of correctional services, programs, and resources; they do not save substantially on costs; and as noted in a recent report by the Department’s Office of Inspector General, they do not maintain the same level of safety and security. The rehabilitative services that the Bureau provides, such as educational programs and job training, have proved difficult to replicate and outsource—and these services are essential to reducing recidivism and improving public safety.

¹ As you know, the Bureau also maintains contracts with private companies to operate hundreds of community-based Residential Reentry Centers, or “halfway houses,” across the country. These facilities provide short-term transitional housing and community-based reentry services such as employment assistance. The use of private companies to operate Residential Reentry Centers is not the focus of this memorandum.
For all these reasons, I am eager to enlist your help in beginning the process of reducing—and ultimately ending—our use of privately operated prisons. As you know, all of the Bureau’s existing contracts with private prison companies are term-limited and subject to renewal or termination. I am directing that, as each contract reaches the end of its term, the Bureau should either decline to renew that contract or substantially reduce its scope in a manner consistent with law and the overall decline of the Bureau’s inmate population.

I am aware that the Bureau is already taking steps in this direction. Three weeks ago, the Bureau declined to renew a contract for approximately 1,200 beds. Today, concurrent with the release of this memo, the Bureau is amending an existing contract solicitation to reduce an upcoming contract award from a maximum of 10,800 beds to a maximum of 3,600. Taken together, these actions will allow the Bureau to end the housing of inmates at three or more private contract facilities over the next year, and will reduce the total private prison population to less than 14,200 inmates by May 1, 2017—a greater than 50 percent decrease since 2013.

These steps would be neither possible nor desirable without the Bureau’s superb and consistent work at our own facilities. I am grateful for the tremendous and often unheralded work done by Bureau staff. When a higher proportion of America’s prison population benefits from those efforts, we will improve outcomes for them, for law enforcement, and for the wider community we serve. As a career prosecutor and fellow law enforcement professional, I thank you and your staff for your extraordinary service to this nation.

CC: Lee Lofthus, Assistant Attorney General for Administration
MEMORANDUM FOR THE ACTING DIRECTOR  
FEDERAL BUREAU OF PRISONS  

FROM: Jefferson B. Sessions III  
Attorney General  

SUBJECT: Rescission of Memorandum on Use of Private Prisons

I hereby rescind the memorandum dated August 18, 2016, sent to you by former Deputy Attorney General Sally Q. Yates, entitled “Reducing our Use of Private Prisons.” In that memorandum, former DAG Yates directed “that, as each contract reaches the end of its term, the Bureau should either decline to renew that contract or substantially reduce its scope in a manner consistent with law and the overall decline of the Bureau’s inmate population.” The memorandum changed long-standing policy and practice, and impaired the Bureau’s ability to meet the future needs of the federal correctional system. Therefore, I direct the Bureau to return to its previous approach.

cc: Lee Lothust, Assistant Attorney General for Administration
Executive Order: Border Security and Immigration Enforcement Improvements

Issued on: January 25, 2017

By the authority vested in me as President by the Constitution and the laws of the United States of America, including the Immigration and Nationality Act (8 U.S.C. 1101 et seq.) (INA), the Secure Fence Act of 2006 (Public Law 109-367) (Secure Fence Act), and the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (Public Law 104-208 Div. C) (IIRIRA), and in order to ensure the safety and territorial integrity of the United States as well as to ensure that the Nation’s immigration laws are faithfully executed, I hereby order as follows:

Section 1. Purpose. Border security is critically important to the national security of the United States. Aliens who illegally enter the United States without inspection or admission present a significant threat to national security and public safety. Such aliens have not been identified or inspected by Federal immigration officers to determine their admissibility to the United States. The recent surge of illegal immigration at the southern border with Mexico has placed a significant strain on Federal resources and overwhelmed agencies charged with border security and immigration enforcement, as well as the local communities into which many of the aliens are placed.

Transnational criminal organizations operate sophisticated drug- and human-trafficking networks and smuggling operations on both sides of the southern border, contributing to a significant increase in violent crime and United States deaths from dangerous drugs. Among those who illegally enter are those who seek to harm Americans through acts of terror or criminal conduct. Continued illegal immigration presents a clear and present danger to the interests of the United States.

Federal immigration law both imposes the responsibility and provides the means for the Federal Government, in cooperation with border States, to secure the Nation’s southern border. Although Federal immigration law provides a robust framework for Federal-State partnership in enforcing our immigration laws – and the Congress has authorized and provided appropriations to secure our borders – the Federal Government has failed to discharge this basic sovereign responsibility. The purpose of this order is to direct
executive departments and agencies (agencies) to deploy all lawful means to secure the Nation’s southern border, to prevent further illegal immigration into the United States, and to repatriate illegal aliens swiftly, consistently, and humanely.

Sec. 2. Policy. It is the policy of the executive branch to:

(a) secure the southern border of the United States through the immediate construction of a physical wall on the southern border, monitored and supported by adequate personnel so as to prevent illegal immigration, drug and human trafficking, and acts of terrorism;

(b) detain individuals apprehended on suspicion of violating Federal or State law, including Federal immigration law, pending further proceedings regarding those violations;

(c) expedite determinations of apprehended individuals’ claims of eligibility to remain in the United States;

(d) remove promptly those individuals whose legal claims to remain in the United States have been lawfully rejected, after any appropriate civil or criminal sanctions have been imposed;

(e) cooperate fully with States and local law enforcement in enacting Federal-State partnerships to enforce Federal immigration priorities, as well as State monitoring and detention programs that are consistent with Federal law and do not undermine Federal immigration priorities.

Sec. 3. Definitions. (a) “Asylum officer” has the meaning given the term in section 235(b)(1)(E) of the INA (8 U.S.C. 1225(b)(1)).

(b) “Southern border” shall mean the contiguous land border between the United States and Mexico, including all points of entry.

(c) “Border States” shall mean the States of the United States immediately adjacent to the contiguous land border between the United States and Mexico.
(d) Except as otherwise noted, “the Secretary” shall refer to the Secretary of Homeland Security.

(e) “Wall” shall mean a contiguous, physical wall or other similarly secure, contiguous, and impassable physical barrier.

(f) “Executive department” shall have the meaning given in section 101 of title 5, United States Code.

(g) “Regulations” shall mean any and all Federal rules, regulations, and directives lawfully promulgated by agencies.

(h) “Operational control” shall mean the prevention of all unlawful entries into the United States, including entries by terrorists, other unlawful aliens, instruments of terrorism, narcotics, and other contraband.

Sec. 4. Physical Security of the Southern Border of the United States. The Secretary shall immediately take the following steps to obtain complete operational control, as determined by the Secretary, of the southern border:

(a) In accordance with existing law, including the Secure Fence Act and IIRIRA, take all appropriate steps to immediately plan, design, and construct a physical wall along the southern border, using appropriate materials and technology to most effectively achieve complete operational control of the southern border;

(b) Identify and, to the extent permitted by law, allocate all sources of Federal funds for the planning, designing, and constructing of a physical wall along the southern border;

(c) Project and develop long-term funding requirements for the wall, including preparing Congressional budget requests for the current and upcoming fiscal years; and

(d) Produce a comprehensive study of the security of the southern border, to be completed within 180 days of this order, that shall include the current state of southern border security, all geophysical and topographical aspects of the southern border, the availability of Federal and State resources necessary to achieve complete operational control of the southern border, and a strategy to obtain and maintain complete operational control of the southern border.
Sec. 5. Detention Facilities. (a) The Secretary shall take all appropriate action and allocate all legally available resources to immediately construct, operate, control, or establish contracts to construct, operate, or control facilities to detain aliens at or near the land border with Mexico.

(b) The Secretary shall take all appropriate action and allocate all legally available resources to immediately assign asylum officers to immigration detention facilities for the purpose of accepting asylum referrals and conducting credible fear determinations pursuant to section 235(b)(1) of the INA (8 U.S.C. 1225(b)(1)) and applicable regulations and reasonable fear determinations pursuant to applicable regulations.

(c) The Attorney General shall take all appropriate action and allocate all legally available resources to immediately assign immigration judges to immigration detention facilities operated or controlled by the Secretary, or operated or controlled pursuant to contract by the Secretary, for the purpose of conducting proceedings authorized under title 8, chapter 12, subchapter II, United States Code.

Sec. 6. Detention for Illegal Entry. The Secretary shall immediately take all appropriate actions to ensure the detention of aliens apprehended for violations of immigration law pending the outcome of their removal proceedings or their removal from the country to the extent permitted by law. The Secretary shall issue new policy guidance to all Department of Homeland Security personnel regarding the appropriate and consistent use of lawful detention authority under the INA, including the termination of the practice commonly known as “catch and release,” whereby aliens are routinely released in the United States shortly after their apprehension for violations of immigration law.

Sec. 7. Return to Territory. The Secretary shall take appropriate action, consistent with the requirements of section 1232 of title 8, United States Code, to ensure that aliens described in section 235(b)(2)(C) of the INA (8 U.S.C. 1225(b)(2)(C)) are returned to the territory from which they came pending a formal removal proceeding.

Sec. 8. Additional Border Patrol Agents. Subject to available appropriations, the Secretary, through the Commissioner of U.S. Customs and Border Protection, shall take all appropriate action to hire 5,000 additional Border Patrol agents, and all appropriate action to ensure that such agents enter on duty and are assigned to duty stations as soon as is practicable.
Sec. 9. Foreign Aid Reporting Requirements. The head of each executive department and agency shall identify and quantify all sources of direct and indirect Federal aid or assistance to the Government of Mexico on an annual basis over the past five years, including all bilateral and multilateral development aid, economic assistance, humanitarian aid, and military aid. Within 30 days of the date of this order, the head of each executive department and agency shall submit this information to the Secretary of State. Within 60 days of the date of this order, the Secretary shall submit to the President a consolidated report reflecting the levels of such aid and assistance that has been provided annually, over each of the past five years.

Sec. 10. Federal-State Agreements. It is the policy of the executive branch to empower State and local law enforcement agencies across the country to perform the functions of an immigration officer in the interior of the United States to the maximum extent permitted by law.

(a) In furtherance of this policy, the Secretary shall immediately take appropriate action to engage with the Governors of the States, as well as local officials, for the purpose of preparing to enter into agreements under section 287(g) of the INA (8 U.S.C. 1357(g)).

(b) To the extent permitted by law, and with the consent of State or local officials, as appropriate, the Secretary shall take appropriate action, through agreements under section 287(g) of the INA, or otherwise, to authorize State and local law enforcement officials, as the Secretary determines are qualified and appropriate, to perform the functions of immigration officers in relation to the investigation, apprehension, or detention of aliens in the United States under the direction and the supervision of the Secretary. Such authorization shall be in addition to, rather than in place of, Federal performance of these duties.

(c) To the extent permitted by law, the Secretary may structure each agreement under section 287(g) of the INA in the manner that provides the most effective model for enforcing Federal immigration laws and obtaining operational control over the border for that jurisdiction.

Sec. 11. Parole, Asylum, and Removal. It is the policy of the executive branch to end the abuse of parole and asylum provisions currently used to prevent the lawful removal of removable aliens.
(a) The Secretary shall immediately take all appropriate action to ensure that the parole and asylum provisions of Federal immigration law are not illegally exploited to prevent the removal of otherwise removable aliens.

(b) The Secretary shall take all appropriate action, including by promulgating any appropriate regulations, to ensure that asylum referrals and credible fear determinations pursuant to section 235(b)(1) of the INA (8 U.S.C. 1125(b)(1)) and 8 CFR 208.30, and reasonable fear determinations pursuant to 8 CFR 208.31, are conducted in a manner consistent with the plain language of those provisions.

(c) Pursuant to section 235(b)(1)(A)(iii)(I) of the INA, the Secretary shall take appropriate action to apply, in his sole and unreviewable discretion, the provisions of section 235(b)(1)(A)(i) and (ii) of the INA to the aliens designated under section 235(b)(1)(A)(iii)(II).

(d) The Secretary shall take appropriate action to ensure that parole authority under section 212(d)(5) of the INA (8 U.S.C. 1182(d)(5)) is exercised only on a case-by-case basis in accordance with the plain language of the statute, and in all circumstances only when an individual demonstrates urgent humanitarian reasons or a significant public benefit derived from such parole.

(e) The Secretary shall take appropriate action to require that all Department of Homeland Security personnel are properly trained on the proper application of section 235 of the William Wilberforce Trafficking Victims Protection Reauthorization Act of 2008 (8 U.S.C. 1232) and section 462(g)(2) of the Homeland Security Act of 2002 (6 U.S.C. 279(g)(2)), to ensure that unaccompanied alien children are properly processed, receive appropriate care and placement while in the custody of the Department of Homeland Security, and, when appropriate, are safely repatriated in accordance with law.

Sec. 12. Authorization to Enter Federal Lands. The Secretary, in conjunction with the Secretary of the Interior and any other heads of agencies as necessary, shall take all appropriate action to:

(a) permit all officers and employees of the United States, as well as all State and local officers as authorized by the Secretary, to have access to all Federal lands as necessary and appropriate to implement this order; and
(b) enable those officers and employees of the United States, as well as all State and local officers as authorized by the Secretary, to perform such actions on Federal lands as the Secretary deems necessary and appropriate to implement this order.

Sec. 13. Priority Enforcement. The Attorney General shall take all appropriate steps to establish prosecution guidelines and allocate appropriate resources to ensure that Federal prosecutors accord a high priority to prosecutions of offenses having a nexus to the southern border.

Sec. 14. Government Transparency. The Secretary shall, on a monthly basis and in a publicly available way, report statistical data on aliens apprehended at or near the southern border using a uniform method of reporting by all Department of Homeland Security components, in a format that is easily understandable by the public.

Sec. 15. Reporting. Except as otherwise provided in this order, the Secretary, within 90 days of the date of this order, and the Attorney General, within 180 days, shall each submit to the President a report on the progress of the directives contained in this order.

Sec. 16. Hiring. The Office of Personnel Management shall take appropriate action as may be necessary to facilitate hiring personnel to implement this order.

Sec. 17. General Provisions. (a) Nothing in this order shall be construed to impair or otherwise affect:

(i) the authority granted by law to an executive department or agency, or the head thereof; or

(ii) the functions of the Director of the Office of Management and Budget relating to budgetary, administrative, or legislative proposals.

(b) This order shall be implemented consistent with applicable law and subject to the availability of appropriations.

(c) This order is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its
departments, agencies, or entities, its officers, employees, or agents, or any other person.

DONALD J. TRUMP

THE WHITE HOUSE,
September 6, 2018

Gabriel Valdez
Assistant Field Office Director
Adelanto ICE Processing Center
Los Angeles Field Office
Office of Enforcement and Removal Operations
U.S. Immigration and Customs Enforcement
10400 Rancho Road
Adelanto, CA 92301

Adelanto ICE Processing Center
Contract #: OIG-17-123-ISP-ICE

Dear Mr. Valdez:

On behalf of The GEO Group, Inc. (GEO), I write to respond to the U.S. Department of Homeland Security’s Office of Inspector General’s (OIG) draft report regarding “ICE’s Detention Oversight of Adelanto,” OIG-18-XXX. The Adelanto ICE Processing Center (AIPC) team appreciates receiving the preliminary results from the OIG’s draft report, received August 29, 2018. After the review, the AIPC took quick and comprehensive actions taken to address each concern. We continually strive to resolve concerns and implement corrective actions that strengthen our processes and produce sustained compliance with all contract requirements and the Performance-Based National Detention Standards (PBNDS). Please see our detailed responses and corrective action plans below.

Finding 1: Nooses Made from Braided Bed Sheets Present Ongoing Safety and Security Risks

Corrective Action:
Initially, we respectfully note that what are described in the report as “nooses” were sheets hung by detainees to provide privacy when using the toilet facilities in
their rooms. Without doubt, the AIPC takes the safety and security of all detainees very seriously. We also take very seriously the feedback from ICE officials. Ensuring that cells are free of conditions that could present a danger or a security risk is of paramount importance. Thus, as of May 7, 2018, the warden directed the assistant wardens, chief of security, captains, and fire safety manager to specifically identify any visual impairments when making daily and weekly rounds. Next, these staff were instructed to immediately remove any improvised curtains or any other visual obstructions. Any non-compliant issues are immediately addressed with the security staff on duty. Security staff log all detainee violations and use progressive discipline process to address continued non-compliance.

Next, on May 11, 2018, town hall meetings were conducted by the chief of security in all units. Detainees were advised that no items are to be attached to the walls, ceilings, or beds. Clothes lines, or use of blankets or towels that block the view of sleeping areas or toilets are expressly prohibited. In addition, security staff were reminded of these same requirements during shift briefings, and they were instructed to enforce compliance during daily rounds and cell inspections. Additionally, this issue was added to the shift packets for each shift. Last, photos of how cells are to be kept are posted in each dayroom living area.

Further, effective September 4, 2018, during weekly rounds in each housing unit, the administrative duty office (ADO) began addressing any non-compliant issues directly with the staff and capturing non-compliant issues in the ADO log. Also, as of September 4, 2018, the AIPC’s “pre-service” and “in-service” training curricula were updated to provide specific instruction regarding the hanging of sheets or items. This training update directs staff, as noted in the detainee handbook that “the hanging of sheets, towels, blankets or clothing from bunks, rails, tables etc. is prohibited.” This includes hanging any papers, pictures, magazine clippings on wall or bunks. Obstructing any lighting fixtures (e.g., using toothpaste, paper, or any item to aid in covering, blocking or altering of a light fixture) is also prohibited.

In addition, the facility is currently in the process of examining viable options that provide detainee privacy when using the toilet, and still maintaining a partial view for security purposes.

Attachment 1 – Shift Supervisor Summary
Attachment 2 – Training Slides
Segregation

Finding 2a: *Detainees Placed in Disciplinary Segregation Prematurely and Inappropriately.*

Corrective Action:  
The detainees referenced in the report were placed in the restricted housing unit (RHU) pending investigation or pending disciplinary hearings. Under the Performance-Based National Detention Standard (PBNDS) 3.1.E.3, each investigation must commence within 24 hours and be completed within 72 hours of the triggering incident. Detainees are placed in segregation on a case-by-case basis and only through an official approval process. Detainees are only placed in RHU when: the detainee poses a threat to life, property, self, staff, or other detainees; the detainee poses a threat to the secure and orderly operation of the facility; as a result of the detainee’s medical conditions; or, under other circumstances enumerated in the PBNDS.

The OIG’s review did reveal that in certain cases the disciplinary paperwork was not being filed timely and detainees were in the RHU while the investigation was pending. The AIPC acknowledges that without complete paperwork in detainee files, the OIG had difficulty in determining the precise status of each detainee’s status. Accordingly, on May 3, 2018, the RHU lieutenant was reminded by the assistant warden of security regarding the time deadlines of detention orders and the requirement that all pertinent paperwork that needs to be placed in the detainee’s file in RHU. Effective May 2018, the RHU lieutenant began conducting reviews of all RHU operations every Monday through Friday to confirm that all required paperwork, including paperwork generated each weekend, is placed timely in the detainees’ files kept in RHU. With this corrective action plan in place, timelines will be met, and each detainee’s status in the disciplinary process will be readily discernable. We also note that applicable PBNDS standards do permit a detainee to be housed in the RHU while an investigation is pending or to ensure the safety and order of the facility, e.g., after a fight. See PBNDS §3.1. The PBNDS also provides in each offense category for the “loss of privileges (e.g., commissary, vending machines, recreation, etc.)” as an available sanction when discipline is imposed. See PBNDS Appendix 3.1.A, et. seq. Finally, PBNDS §2.12.T allows the facility to modify a detainee’s visitation privileges when the
detainee violates facility rules or whose behavior is a threat to facility operations or the operation of the visiting room.

As of September 5, 2018, large magnetic signs that read “Pending Hearing” have been ordered for the doors in RHU to clearly identify detainees who are under investigation and/or pending hearing. While in this status, these detainees have the same privileges as administrative segregation detainees, including commissary and visitation.

Finally, the detainee identified in the OIG report is not confined to a wheelchair; he is blind and walks with a cane. The wheelchair was provided as convenience when needed. This detainee had refused to move cells after completing his disciplinary time. Instead of using force to remove him, the AIPC made an exception for him to remain in the cell with the same privileges of an administrative segregation detainee. Prior to placement in RHU, the detainee was evaluated and cleared by mental health for placement in RHU. During his time in RHU, the detainee received daily visits from mental health staff and twice daily visits from medical staff. In addition to the standard encounters, he received four separate mental health encounters during the nine days.

**Finding 2b: Detainees in Disciplinary Segregation Are Improperly Handcuffed and Shackled.**

**Corrective Action:**
The AIPC uses the minimum amount of restraints necessary to ensure the safe and secure operation of the facility. In this regard, the PBNDS section 2.15.V.B.1. specifically grants a facility latitude on the use of restraints, which may be used “...as a precaution...to prevent self-injury, injury to others, or property damage.” In accordance with the PBNDS, restraints are “...applied for the least amount of time necessary to achieve the desired behavioral objectives.” Detainees in RHU are handcuffed before any escorted movement for the safety and security of the detainee, other detainees, and staff. Detainees in disciplinary detention are handcuffed in the front for visitation. Detainees are only placed in leg irons (shackles) when they are being escorted outside of the secure perimeter. This is a sound correctional practice to prevent self-injury, injury to others, or property damage.
Finding 2c: Detainees in Disciplinary Segregation Lack Communication Assistance.

Corrective Action:
Since January 19, 2016, training curriculum for all employees includes instruction on the language line and interpretation services. This is provided during pre-service and in-service training. Additionally, all staff carry on their person a laminated card with instructions on the use of the language line, that they receive upon hire and before being assigned to duty. The card makes it easy for staff to use the language line at any time and from anywhere in the facility. Detainees with visual impairments have all documents read out loud. In addition, cordless phones are available in West RHU for additional communication assistance.

AIPC receives a monthly invoice for the language line usage which includes: date and time of call, language used, and phone number from where the call was initiated. Since CRCL’s audit in November 2017, invoices show AIPC has called the language line 19,939 times for a total usage of 320,615 minutes. This equates to approximately 1,054 minutes (18 hours) of usage every day. These calls are made at all hours of the day, and from different areas of AIPC including: restrictive housing unit, intake, supervisor’s office, medical officers, medical satellites, off-site hospitals, etc. For these calls, AIPC has spent a total of $245,366.98 on the language line.

Attachment 3 - Language Line Card
Attachment 4 - Language Line Call Summary

Medical Care

Finding 3a: Medical Oversight in Disciplinary Segregation is Ineffective in Ensuring Detainee Well-Being.

Corrective Action:
The AIPC has redoubled its efforts to ensure that detainees placed in the RHU have the same access to medical care as any detainee at the AIPC. Specifically, the HSA reemphasized the requirement for meaningful communication with detainees to the health care staff. The HSA will continue to reinforce that staff take the time to engage detainees in RHU to have a meaningful assessment of their medical/mental health. During the staff meeting in May 2018, staff were advised to check the welfare of detainees by initiating contact with detainees through the
cell door. Detainees are engaged by knocking on the door and asked if they have any medical issues. If the detainee has some concerns, medical staff immediately communicate with the detainee to determine the appropriate action.

If the detainee does not speak English, a cordless phone and the language line are used. If the medical staff determines the need for the detainee to be evaluated, the detainee is advised to either complete a sick call request form or, if determined to be urgent, the medical staff will request detention officers move detainee to health services for further evaluation. On a daily basis, the RHU rounds conducted by medical/mental health staff are documented in the RHU rounds log kept in the medical department. Any detainee requiring urgent medical attention is documented on the daily log. On a weekly basis, the QA nurse reviews a sampling of the daily log, and compares it with the “walk in” patient encounters for detainees housed in the unit to determine if the detainees were seen the same day for their medical/mental health issues.

Effective September 4, 2018, AIPC security staff announce the arrival of medical staff in the RHU via the intercom system, prior to medical rounds being made.

**Finding 3b: Medical Care for Detainees is Delayed and Inadequate.**

**Corrective Action:**
To address the scheduling of appointments process being ineffective, in December 2017, a corrective action plan was implemented to streamline the appointments within the health services. In December 2017, a clinical coordinator was made responsible to coordinate detainee and clinic movements. The clinical coordinator is responsible for rescheduling canceled appointments or redirecting detainees to alternate providers within the required timeframes. Scheduling on the electronic system (eCW) has been re-evaluated to limit overbooking for providers, and scheduling rights have been limited to certain nursing staff. As of December 2017, the health services department integrated callout schedule utilizing the eCW. Detainees are scheduled for all providers during predetermined time frames. Tele-medicine, dental screenings, and mental health evaluations will be conducted in the satellite offices to streamline operations within the main health services unit. Sick call will be conducted in the medical offices located in the intake department in the event the satellite offices are fully occupied.

As of December 4, 2017, the clinical coordinator leads the clinic operations. The clinical coordinator verifies the officer assigned to health services continually
moves detainees to and from health services, to facilitate an efficient flow of detainees. The clinical coordinator also oversees the movement of detainees to each provider to eliminate significant down time for providers. The clinical coordinator reschedules any canceled appointments, provider call-offs; emergencies; unavailability of detainees due to ICE interviews, etc. The clinical coordinator is responsible for providing the next day’s schedule to the medical staff via email. The clinical coordinator provides a daily report to the QA nurse on canceled and rescheduled appointments for appropriate tracking and evaluation.

On February 13, 2018, the health services administrator (HSA) analyzed 8 weeks of clinic statistics regarding the number of appointments per week and the reschedule rate. Of note, since the implementation of the CAP, the reschedule rate has dropped from 16-20% to +/- 2%.

Finding 3c:

Timely and Adequate Medical Care for Detainees: Dental Providers Do Not Provide Basic Dental Care.

Corrective Action:

On February 7, 2018, the HSA met with the dental staff responsible for scheduling and providing a dental cleaning timeline for existing backlog. After careful review, AIPC identified that at the time of the OIG audit, there were no detainees on the waiting list from the east housing unit and, 8 detainees remained on the waiting list from the west housing unit. As of May 2018, daily, the clinical coordinator provides a report to the quality assurance nurse (QA nurse) on the previous day’s cancellation and rescheduling. The report includes the reasons as to cancellation and rescheduling. A weekly data analysis and trending on the cancellation and re-scheduling of detainees is tracked by the QA nurse. The data is reported to the HSA. A copy of the report is forwarded to the ICE assistant field office director, GEO’s warden, and Immigration Health Services Core’s (IHSC) field medical coordinator (FMC).

The callout process is continuously evaluated by the HSA to verify processes are operating efficiently and effectively. If any issues are identified, they are corrected and discussed immediately. The data will be reported by the QA nurse at the CQI committee’s monthly meeting. Effective May 7, 2018, the dental staff was directed by the HSA to schedule detainees on a weekly basis until all requests for restorations are completed. There were a total of 15 restorations on backlog. As of
May 30, 2018, the backlog was completed. Each day, the dental assistants provide a report to the QA nurse, the assistant HSA, and the HSA detailing the completed restorations. On a weekly basis, the dental assistants provide the dental restoration log to the QA nurse, the assistant HSA, and the HSA. The restoration log will be regularly reviewed by the HSA to ensure the waiting time of 30 days is not exceeded. This process will be the subject of a performance improvement study by the continuous quality improvement (CQI) committee.

In addition, on May 7, 2018, the dental log was updated and implemented. The revised log includes the “date in ICE custody.” As of this writing, there is no backlog for dental cleaning. To ensure there is adequate tracking of dental treatment requests, the updated form contains the following information: name, a-number, housing unit, arrival date, ICE custody date, description of request, date of request, and date of completion.

Attachment 5 – Dental Log

We are committed to providing high-quality care to ICE’s detainees housed at AIPC. We look forward to your feedback on our corrective action plans and stand ready to clarify any areas where additional information would be helpful. If I can be of assistance, please contact me directly.

Respectfully,

James Janecka
Warden
Statement by GEO Group on Adelanto ICE Processing Center OIG Inspection
October 3, 2018

For purposes of background, The GEO Group manages and/or owns 139 correctional, detention and community reentry facilities. We manage these facilities on behalf of our customers, which include state corrections agencies, the U.S. Department of Justice, and U.S. Immigration and Customs Enforcement.

We take the findings outlined by the Department of Homeland Security’s Office of Inspector General (OIG) regarding the Adelanto ICE Processing Center very seriously. While we believe that a number of the findings lacked appropriate context or were based on incomplete information, we have already taken steps to remedy areas where our processes fell short of our commitment to high-quality care.

It’s important to note that in some instances, the report failed to consider all aspects related to the implementation of the federal government’s Performance-Based National Detention Standards. For the instances in which we have identified the standards were not properly met, GEO immediately worked with ICE to rectify procedures and has already implemented corrective actions and increased oversight and compliance measures well ahead of the public release of the OIG report. We are also conducting an in-depth review with our third-party medical services subcontractor to ensure all medical and dental care is provided at the highest quality and in a timely manner, and to hold accountable those who are not meeting these expectations.

Our commitment is always, first and foremost, to high-quality care. For over thirty years, our employees have taken pride in our ability to provide quality services in safe, secure and humane environments for those entrusted to our care, and these findings of inadequacies are not consistent with our core values.

We believe every human being entrusted to our care must be treated with dignity and his or her basic human rights must be respected and preserved at all times. Whenever and wherever these values are threatened, our company’s leadership will take appropriate action to ensure that standards are met, and – most importantly – these men and women are cared for and provided with quality services.

While we are proud of our record in providing safe and secure environments, we take full responsibility when faced with shortcomings and pledge to redouble our efforts to ensure safe and humane treatment in all of our facilities.

**GEO Response / Corrective Action**

- Initially, we respectfully note that what are described in the OIG report as “nooses” were bed sheets hung by detainees to provide privacy when using toilet facilities in their rooms. Detainees would do so by braiding a bed sheet, so it could be attached from end to end as a string from which another bed sheet or towel could be hung as a privacy curtain or screen.

- While the OIG report accurately describes this as a commonplace practice, it is inaccurate to infer that GEO does not take safety and security risks seriously. Ensuring that cells are free from conditions that could present a danger or a security risk is of paramount importance.

- Immediately after being notified of this finding, on May 7, 2018, the Warden directed the assistant wardens, chief of security, captains and fire safety manager to specifically identify any visual impairments when making daily and weekly rounds.

- Next, on May 11, 2018, town hall meetings were conducted by the chief of security in all units. Detainees were advised that no items are to be attached to the walls, ceilings, or beds. Clothes lines, or use of blankets or towels that block the view of sleeping areas or toilets are expressly prohibited.

- Additionally, as of September 4, 2018, the Adelanto ICE Processing Center’s “pre-service” and “in-service” training curricula were updated to provide specific instruction regarding the hanging of sheets or items. This training update directs staff, as noted in the detainee handbook that “the hanging of sheets, towels, blankets or clothing from bunks, rails, tables etc. is prohibited.”

- In addition, GEO is currently in the process of examining viable options, including the installation of stainless steel partitions anchored with posts to the wall and floor in all detainee rooms, in order to provide detainee privacy when using the toilet, and still maintaining a partial view for security purposes.
II. OIG Finding: Detainees Are Placed in Disciplinary Segregation Prematurely and Inappropriately

**GEO Response / Corrective Action**

- The detainees referenced in the report were placed in the restricted housing unit (RHU) pending investigation or pending disciplinary hearings. Under the Performance-Based National Detention Standard (PBNDS) 3.1.E.3, each investigation must commence within 24 hours and be completed within 72 hours of the triggering incident. Detainees are placed in segregation on a case-by-case basis and only through an official approval process.

- Detainees are only placed in RHU when: the detainee poses a threat to life, property, self, staff, or other detainees; the detainee poses a threat to the secure and orderly operation of the facility; as a result of the detainee’s medical conditions; or, under other circumstances enumerated in the PBNDS.

- The OIG’s review did reveal that in certain cases the disciplinary paperwork was not being filed timely and detainees were in the RHU while the investigation was pending. The Adelanto ICE Processing Center acknowledges that without complete paperwork in detainee files, the OIG had difficulty in determining the precise status of each detainee’s status.

- Effective May 2018, the RHU lieutenant began conducting reviews of all RHU operations every Monday through Friday to confirm that all required paperwork, including paperwork generated each weekend, is placed timely in the detainees’ files kept in RHU. With this corrective action plan in place, timelines will be met, and each detainee’s status in the disciplinary process will be readily discernable. We also note that applicable PBNDS standards do permit a detainee to be housed in the RHU while an investigation is pending or to ensure the safety and order of the facility, e.g., after a fight.

- As of September 5, 2018, large magnetic signs that read “Pending Hearing” have been ordered for the doors in RHU to clearly identify detainees who are under investigation and/or pending hearing. While in this status, these detainees have the same privileges as administrative segregation detainees, including commissary and visitation.

- Finally, the detainee identified in the OIG report is not confined to a wheelchair; he is blind and walks with a cane. The wheelchair was provided as convenience when needed. This detainee had refused to move cells after completing his disciplinary time, and the Center made an exception for him to remain in the cell with the same privileges of an administrative segregation detainee. Prior to placement in RHU, the detainee was evaluated and cleared by mental health for placement in RHU. During his time in RHU, the detainee received daily visits from mental health staff and twice daily visits from medical staff as well four separate mental health encounters during the nine-day period.
III. OIG Finding: Detainees in Disciplinary Segregation Are Improperly Handcuffed and Shackled

**GEO Response / Corrective Action**

- The Adelanto ICE Processing Center uses the minimum amount of restraints necessary to ensure the safe and secure operation of the facility. In this regard, the Performance Based National Detention Standards, Section 2.15.V.B.1., specifically grants a facility latitude on the use of restraints, which may be used “...as a precaution...to prevent self-injury, injury to others, or property damage.”

- In accordance with the PBNDS, restraints are “…applied for the least amount of time necessary to achieve the desired behavioral objectives.” Detainees in RHU are handcuffed before any escorted movement for the safety and security of the detainee, other detainees, and staff. Detainees in disciplinary detention are handcuffed in the front for visitation. Detainees are only placed in leg irons (shackles) when they are being escorted outside of RHU. This is a sound practice and ICE-approved policy to prevent self-injury, injury to others, or property damage.

IV. OIG Finding: Detainees in Disciplinary Segregation Lack Communication Assistance

**GEO Response / Corrective Action**

- Since January 19, 2016, training curriculum for all employees includes instruction on the language line and interpretation services, during pre-service and in-service training.

- Additionally, all staff carry on their person a laminated card with instructions on the use of the language line, that they receive upon hire and before being assigned to duty. Detainees with visual impairments have all documents read out loud.

- The Adelanto ICE Processing Center receives a monthly invoice for the language line usage which includes: date and time of call, language used, and phone number from where the call was initiated.

- Since November 2017, invoices show the language line has been called 19,939 times for a total usage of 320,615 minutes. This equates to approximately 1,054 minutes (18 hours) of usage every day. For these calls, The Center has spent a total of $245,366.98 on the language line.
V. OIG Finding: Medical Oversight in Disciplinary Segregation Is Ineffective in Ensuring Detainee Well-Being

**GEO Response / Corrective Action**

- The Adelanto ICE Processing Center has redoubled its efforts to ensure that detainees placed in the RHU have the same access to medical care as any detainee at the Center. Specifically, the HSA reemphasized the requirement for meaningful communication with detainees to the health care staff. During staff meetings beginning in May 2018, staff have been advised to check the welfare of detainees by initiating contact with detainees through the cell door.

- On a daily basis, the RHU rounds conducted by medical/mental health staff are documented in the RHU rounds log kept in the medical department, and on a weekly basis, the QA nurse reviews a sampling of the daily log to determine if the detainees were seen the same day for their medical/mental health issues.

- Effective September 4, 2018, Adelanto ICE Processing Center security staff announce the arrival of medical staff in the RHU via the intercom system, prior to medical rounds being made.

VI. OIG Finding: Medical Care for Detainees Is Delayed and Inadequate

**GEO Response / Corrective Action**

- To address the scheduling of appointments process being ineffective, in December 2017, a corrective action plan was implemented to streamline the appointments within the health services unit. In December 2017, a clinical coordinator was made responsible to coordinate detainee and clinic movements.

- The clinical coordinator is responsible for rescheduling canceled appointments or redirecting detainees to alternate providers within the required timeframes. Scheduling on the electronic system (eCW) has been re-evaluated to limit overbooking for providers, and scheduling rights have been limited to certain nursing staff. As of December 2017, the health services department integrated callout schedule utilizing the eCW.

- Detainees are scheduled for all providers during predetermined time frames. Telemedicine, dental screenings, and mental health evaluations will be conducted in the satellite offices to streamline operations within the main health services unit. Sick call will be conducted in the medical offices located in the intake department in the event the satellite offices are fully occupied.
On February 13, 2018, the health services administrator (HSA) analyzed 8 weeks of clinic statistics regarding the number of appointments per week and the reschedule rate. Of note, since the implementation of the Corrective Action Plan, the reschedule rate has dropped from 16-20% to approximately 2%.

VII. OIG Finding: Dental Providers Do Not Provide Basic Dental Care

**GEO Response / Corrective Action**

- After careful review, the Adelanto ICE Processing Center identified that at the time of the OIG audit, there were no detainees on the waiting list from the east housing unit and eight detainees remained on the waiting list from the west housing unit.

- Effective May 7, 2018, the dental staff was directed by the Health Services Administrator (HSA) to schedule detainees on a weekly basis until all requests for restorations are completed. There were a total of 15 restorations on backlog. As of May 30, 2018, the backlog was completed.

- Each day, the dental assistants now provide a report to the QA nurse, the assistant HSA, and the HSA detailing the completed restorations. On a weekly basis, the dental assistants now provide the dental restoration log to the QA nurse, the assistant HSA, and the HSA.

- In addition, on May 7, 2018, the dental log was updated and implemented. The revised log now includes the “date in ICE custody” in order to ensure that the time detainees have spent at other ICE facilities is properly accounted for. As of September 2018, there is no backlog for dental cleaning at the Adelanto ICE Processing Center.

- The comments attributed in the OIG report to the contracted dental provider are wholly inconsistent with GEO’s values and commitment to high quality services. GEO will conduct an in-depth review of dental services at the Center, in conjunction with our medical services subcontractor to ensure that dental care is provided at the highest quality and in a timely manner, and to hold accountable those who are not meeting those expectations.