How Wall Street Firms Make Money From Donald Trump's Prison Policy

BY **AVI ASHER-SCHAPIRO** ON 11/17/16 AT 5:03 AM

President-elect Donald Trump is a fan of privatization in general, and the privatization of prisons and detention facilities in particular. That's good news for the two corporations that dominate the industry— Tennessee-based CoreCivic and Florida-based GEO Group. It's also a potential boon for Wall Street banks, which have quietly bankrolled these companies as they profit from detaining and incarcerating people.

A new report released today by In The Public Interest reveals that six major Wall Street firms work in tandem with the industry: financing its debts, servicing its bonds, and extending billions of dollars in credit to pay for its operating expenses and expansion into related markets, like selling ankle GPS systems to monitor immigrants.

By acting as a credit card for private prisons, those six banks — Bank of America, JPMorgan Chase, BNP Paribas, SunTrust, US Bancorp and Wells Fargo — help the prison companies avoid corporate taxes. That doesn't sit well with Oregon Sen. Ron Wyden, a Democrat. He's been trying to push legislation that would make it harder for private prison companies to keep registering themselves as Real Estate Investment Trusts — entities that pay low tax rates, keep little cash on hand, and borrow heavily from banks.

"It is wrong for private enterprises to bring a profit motive to incarceration and rehabilitation in this country, and I'm particularly concerned by how it's fueled by tax laws," Sen. Wyden told International Business Times. "In my view, most taxpayers would be disturbed to learn that their dollars are subsidizing corporate profits from the mass incarceration of minority and low-income Americans."

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Activists working to reduce the incarcerated population also criticized Wall Street for profiting from the expansion of the prison system. “These banks are embedded in our communities,” said Amanda Aguilar Shank, deputy director of Enlace, a coalition of activists who oppose for-profit detension. “At the same time they are financing prison expansion — the institutions that are tearing our communities apart. This is sickening.”

The banks behind the prison industry, of course, see things differently. “We do not as a corporation take positions on public policy issues that do not directly affect our company’s ability to serve customers and support team members,” Ruben Pulido, VP of corporate communications at Wells Fargo, told IBT. “We have banking relationships with tens of thousands of companies in hundreds of different sectors, and we only do business with companies that have demonstrated a strong, ongoing commitment to complying with all applicable federal, state and local laws and regulations.”

The number of prisoners in privately-run prisons has exploded since 1990, from just under 7,000 to over 131,000. The facilities have at times been plagued by public scandal. In 2012, a federal judge called a prison that GEO Group later took over a “cesspool of unconstitutional and inhuman acts and conditions,” and in 2014 the head of the Mississippi prison system was charged with accepting bribes from private prison companies. (He pleaded guilty on related charges.) The ACLU has repeatedly sued CoreCivic for allegedly poor conditions in its facilities. And this past August, the Obama administration announced it would cease the use of private prisons for federal prisoners. This moratorium did not apply, however, to detained immigrants.

Under the Obama administration, private facilities have become the go-to solution for Immigration and Customs Enforcement (ICE), which now holds 73 percent of its detainees in for-profit detention centers. Last week, Trump suggested he could deliver a major business opportunity to the companies that profit off detaining immigrants: He suggested one of his top priorities would be to detain or deport some 2- to 3 million undocumented immigrants.

Critics say that private prisons rely on mass incarceration to be profitable, and that the industry lobbies for punitive and draconian laws to keep its facilities full. Aguilar Shank called the private prisons “a parasite that has to constantly expand.” She said the

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industry spends millions lobbying Congress to fund immigration enforcement agencies, and has indirectly supported harsh sentencing guidelines.

Geo Group did not respond to IB Times request for comment, but CoreCivic disputed that characterization. “It is CoreCivic's longstanding policy not to draft, lobby for, promote or in any way take a position on proposals, policies or legislation that determine the basis or duration of an individual’s incarceration or detention,” Jonathan Burns, a company spokesman, told IBT. “The primary focus of CoreCivic's lobbying efforts is to educate lawmakers on the benefits of public-private partnership generally and the solutions that CoreCivic provides.”

Public-private partnerships aside, CoreCivic and GEO Group would have no way to finance their operations without the financial industry's backing. “They need Wall Street to survive, given their business model,” Benjamin Davis, a researcher with In The Public Interest, told IBT. “They are dependent on the debt.”

Last year, for example, GEO Group bought SoberLink Inc — a tech company that allows authorities to monitor alcohol use remotely — with a $25 million credit line from Bank of America, JPMorgan Chase, BNP Paribas, SunTrust, US Bancorp and Wells Fargo. GEO Group doesn’t rely on Wall Street-financed debt because it’s pressed for cash — the private-prison industry generates more than a billion dollars in annual revenue. The industry finances its operations through debt in order to take advantage of a tax loophole.

Both Core Civic and GEO Group classified themselves as “Real Estate Investment Trusts” (REIT), a tax status originally intended for companies that profit from buying and renting of land. The REIT classification allows the industry to effectively avoid corporate taxes — but it also requires them to treat investors as if they were part-owners in a real-estate trust. So the for-profit prison companies must pay out 90 percent of its profits to shareholders, leaving very little cash on hand.

That’s where Wall Street comes in. Davis combed through the SEC filings and found that, as of June 2016, CoreCivic owed $1.5 billion to Wall Street and GEO Group owed $1.9 billion. The debt is spread throughout a range of financial mechanisms including revolving credit, long-term loans, and bond issuance. At every step of the way, Wall Street banks cash in: In 2015 alone, CoreCivic and GEO Group paid out over $150 million in interest and handed over $10 million for bond-servicing fees.

On top of that, the Wall Street banks operate a consortium to provide revolving credit to both GEO Group and CoreCivic: Both can access up to $900 million set aside by the banks. SEC filings do not make clear how much the Wall Street firms charge to keep the credit line open.

During the course of the presidential campaign, the private prison industry surfaced as an major issue: Under pressure from activists, Hillary Clinton returned donations from GEO Group and eventually called for the end of for-profit detention. Trump charted a different course; the president-elect's Super PAC took in $100,000 from GEO Group, and he praised the industry on the campaign trail. “I do think we can do a lot of privatizations and private prisons,” Trump told Chris Matthews last March. “It seems to work a lot better.”

“GEO group might be licking its lips right about now,” says Davis. “Trump's talking tough on crime, deportations, national stop and frisk — many signs point to a momentum shift towards more private prisons.”

And investors are taking note. The day after the election, the Wall Street Journal cited GEO Group as a “stock to watch.” In the week since Trump’s victory, both CoreCivic and Geo Group’s stock prices have soared, at times rising as much as 40 percent higher than their pre-election value.

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