
Border Jails Facing Bond Defaults as Immigration Boom Goes Bust.

Jails built to profit from an illegal immigration boom are weighing down the finances of rural counties in the U.S. Sunbelt as border apprehensions slow and the federal government orders the release of more migrants.

In Texas, the heart of a jail-building boom over the past decade, nine of 21 counties that created agencies to issue about $1.3 billion in municipal bonds to build privately run correctional facilities largely for migrants have defaulted on their debt. A dozen other facilities from Florida to Louisiana to Arizona, many that housed immigrants, have also defaulted, according to figures from Municipal Market Analytics, a bond-research firm based in Concord, Massachusetts.

The slowdown in border detentions is putting a fiscal strain on counties that rushed to build jails in anticipation that a two-decade boom in immigrant inmates would continue. Municipalities that banked on those facilities for revenue and jobs are desperate to keep them afloat as a glut of beds goes empty and walls gather dust.

"My fear's always been that this would happen," said Joel Rodriguez Jr., judge of La Salle County, Texas, about 67 miles (107 kilometers) north of the U.S.-Mexico border, who is overseeing the fate of a distressed detention center. "When this facility was sold to the county, they sold it as a money-making facility that was going to be a great economic boon."

Almost Empty

Today the 566-bed facility, called the La Salle County Regional Detention Facility, sits almost empty behind thick coils of razor ribbon in tiny Encinal, whose 579 residents barely outnumber prison beds. Another border detention center was destroyed in a riot by prisoners after cost-cutting efforts led to deplorable conditions. Another, on the banks of the Rio Grande River, is slated to close next month after too few inmates walked through the doors to keep up with big debt payments.

"The number of people detained and incarcerated for immigration matters hasn't kept up with the pace of construction for these new beds," said Bob Libal, executive director of Grassroots Leadership, an advocacy organization based in Austin, Texas, that opposes private prisons.

The drop-off follows an almost two-decade boom that saw the number of immigrant detainees mushroom, partly as a result of more people crossing into the U.S. and partly due to a get-tough attitude toward illegal border crossers. County jails grew overcrowded.

Good Bet

"The populations were just hanging off the trees," recalled Michael Harling, executive vice president at Municipal Capital Markets Group Inc., a Dallas firm that co-managed many of the jail bond issuances in Texas.

Prison operators crisscrossed the South pitching rural towns on the purported economic salvation of detention facilities. Under the arrangement, local governments would typically receive daily fees from the federal government based on the number of beds or persons filling them, and private prison operators would get a portion, usually the lion's share.

For some of the nation's smallest and most impoverished communities, locking up immigrants seemed like a good bet. To finance their construction, counties issued debt through conduit borrowers, limiting the county's liability, while allowing projects to be built quickly.

Lease-Purchase

Last year, Texas counties had $709 million in scheduled debt service for so-called lease-purchase obligations, most of which are for jail facilities, up from $273 million in 2000, according to figures from the Texas Bond Review Board.

The increased debt grew right before migration patterns and immigration policy began to shift. Last year, there were 487,000 apprehensions, about the same level as in 1973, compared with a peak of nearly 1.7 million in 2000, according to the U.S. Border Patrol. That's partly because an improving Mexican economy and drug cartel violence kept fewer people from venturing north.

At the same time, the trend of locking up migrants has eased. More local officials are refusing to detain migrants at the behest of federal immigration officials and the Obama administration recently narrowed the categories of migrants that should be detained.

The number of immigration detainees last year was down 11 percent from 2012, when incarcerations were at an all-time high, according to figures from U.S. Immigration and Customs Enforcement. The average daily population in ICE detention was 31,164 in June, down 16 percent over the same time period a year earlier.

Fewer Detentions

Detentions may continue their downward march. Last month, a federal court rebuked the administration for its policy that jailed a wave of women and children fleeing violence in Central America.

"The system has been built up to be able to house criminal aliens," said A. J. "Andy" Louderback, past president of the Sheriffs' Association of Texas. "When all of a sudden at the stroke of a pen those folks are released to live, work and play in our communities, those beds are going to be vacant."

The Encinal detention center was opened in 2004 after a county corporation issued almost $22 million in revenue bonds. At the time, local residents warned that revenue projections were too rosy.

Leaking Roof

Last winter, the facility's private operator, Emerald Correctional Management LLC of Shreveport, Louisiana, suddenly pulled out all inmates, said Rodriguez, leaving the county with empty beds, a leaking roof and almost $20 million in debt.

Since then, the county has assumed responsibility for the facility and, in an effort to salvage the 100 jobs tied to the jail, is working with bondholders to get it back up and running.

Bonds issued for the jail that mature in March 2024 traded July 17 at 40 cents on the dollar, to yield

about 25 percent, data compiled by Bloomberg show. The securities are down from 70 cents at the start of the year.
In 2006, the Willacy County Local Government Corp. issued its first bonds, totaling $61 million, to build a detention facility. The 3,000-bed facility that featured a collection of white Kevlar domes to house inmates became a source of grievances, from maggots in the food to allegations of sexual abuse.

In February, inmates rioted and destroyed the facility with metal pipes. All 2,800 prisoners were removed from the facility, federal officials canceled their contract and Standard & Poor's downgraded the debt to junk.

In Maverick County, where the county seat of Eagle Pass sits along the banks of the Rio Grande River, an immigrant detention facility built in 2007 using $43 million in revenue bonds is slated to close this month after failing to service its debt. Officials say they never got the promised prisoners and that the project now looks like a bad deal.

"The amount of the loan that was taken out on this facility was just ridiculously too high," said Maverick County Commissioner Jerry Morales. "It doesn't add up."

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by Lauren Etter

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