Guest column: Plans to peddle state’s assets seriously flawed

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Amid slashed school funding, Medicaid changes, drilling in state parks, reductions to libraries and local governments, and cutbacks ranging from child care subsidies to adult basic literacy, it’s easy to overlook one of the most far-reaching proposals in the budget approved by the Ohio House this month.

Language in the budget bill would authorize the privatization of six state prisons and Ohio’s liquor distribution business. It would also give the administration authority to lease the Ohio Turnpike for up to 75 years.

Imagine the world in 1936 — before the interstate highway system — and one can see how hard it would be to predict all of the things that might affect such a contract between now and 2086.

Ohio’s experience regarding private prisons should make the General Assembly think twice before ratifying such proposals.

Since Ohio first contracted with private companies to operate two prisons in 2000, state law has required that any private operator produce savings of at least 5 percent compared to what it would cost the state to run the same facility.

According to previous calculations done by the state, the savings have exceeded that threshold by as much as a factor of three.

However, a recent examination of those calculations performed for Policy Matters Ohio (available at policymattersohio.org) shows them not only to be riddled with errors, oversights and omissions of significant data, but also potentially tainted by controversial accounting assumptions that many experts consider deeply flawed.

Once past errors in the state calculations are corrected and revisions made, the private-prison savings computed by the state over the years appear to shrink dramatically.

During the 2006-07 biennium, the state might have even paid more to operate the prisons than if it had operated them itself; more recently, savings appear to have been less than the mandated 5 percent.

In past calculations, the Department of Rehabilitation and Correction has used bloated estimates for what the staffing would be at a state institution, and ignored costs such as inmate pay and reimbursements for inmate hospitalizations.

Though the department's office of prisons oversees operations whether they are public or private, ODRC has counted all of those costs when computing what a public facility would cost, but not when counting costs for Lake Erie Correctional Institution, the privately operated prison in Conneaut that is the easiest to compare to public facilities.

The ODRC has said it will produce a new methodology for comparing private and public prison costs. However, no such new methodology had been completed as of March 14, the day before Gov. John Kasich announced his privatization plan.

This raises serious questions about the proposal to sell five prisons based on the same 5-percent savings. Leaving aside other issues — and they are many — it means that the administration didn't know whether the state had saved the money it had claimed.

The proposed privatization of the liquor-distribution operation also raises questions. This fiscal year, that operation is expected to generate $136 million for the state General Revenue Fund, above and beyond the amount it contributes in taxes, paying off economic-development bonds, and supporting the Department of Public Safety's Liquor Enforcement Unit, an alcoholism-treatment program and other programs.

While the transfer agreement may provide for annuity payments to the state beginning in FY 2014, the deal provides a one-time gain — said to be $500 million — but leaves the state short on a long-term replacement for these funds. This will help balance next year's budget, but leaves a hole in future budgets.

Meanwhile, if the administration should decide to sell the turnpike, virtually no standards or accountability are mandated in the budget bill, apart from its approval by the Controlling Board.

The contractor would be exempt from taxes. And there is no required provision for continued availability of information about the contractor's operation.

In light of some of the privatization fiascoes that have occurred in other places, the lack of accountability is stunning.

For example, after Chicago in 2009 leased its parking meters for 75 years, rates soared and many meters malfunctioned or were mislabeled. A report by the city's inspector general called it "a dubious financial deal" and concluded that the sale lacked meaningful public review.

These proposals lack fundamental public safeguards. The General Assembly should scrap them.