Policy Matters Ohio

Executive Summary
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Prison privatization risks higher costs for Ohio

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In the spring of 2011, Ohio Gov. John Kasich proposed the sale of five Ohio prisons – a dramatic expansion of the state's 10-year-old prison-privatization experiment – as a way to save millions of dollars in the face of a deep budget crisis.

Key findings

- Prison sale could cost millions more than keeping state ownership.
- Half of claimed savings comes from switching prison back to state operation.
- State's estimated cost savings based on flawed assumptions.

By September, after all the numbers had been crunched and the bids received and analyzed, the scope of the new prison realignment was considerably less dramatic: Only one prison – the Lake Erie Correctional Institution, in Conneaut, was to be sold; a second – the North Central Correctional Institution (NCCI), in Marion, was to be combined with a newly reopened former juvenile facility nearby and operated by a private vendor; and a third – the North Coast Correctional Treatment Facility (NCCTF), in Lorain County, which had been operated by a private company for the previous 10 years, was to be returned to state supervision and merged with the nearby Grafton Correctional Institution.

Despite its scaled-back proportions, the state still claimed that the prison restructuring would save taxpayers about $13 million a year. But just as with earlier claims – that the private operation of two state prisons had saved Ohioans more than $45 million from 2000 to 2010 – taxpayers have a right to be highly skeptical about that figure.

A close look at the sale of the Lake Erie facility to Corrections Corporation of America (CCA) suggests that that deal, rather than saving up to $3 million a year as the state projects, could easily wind up *costing* taxpayers millions of dollars instead. In addition, the state's claim that private operation of the combined Marion facility will save another $3 million a year is based on what appear to be highly dubious accounting assumptions that one expert calls "bogus" and that seem to bear little relation to reality.

In fact, to the extent that the state's savings claim is accurate at all, it represents as much a repudiation of prison privatization as an endorsement. More than half of the purported savings – $7 million a year – would come from converting NCCTF from private to state operation and merging it with the state-operated Grafton facility, saving by consolidating operations. The state could have ordered such a move at any time over the last decade. And since the $7 million in annual savings from that merger is well over twice what the state claimed that NCCTF was saving each year by virtue of its private operation, what does that move say about the efficacy of prison privatization?

In April, a Policy Matters study raised fundamental questions about the claims of hefty savings from privatization, concluding that the state's calculations were not only riddled with errors, oversights and omissions of significant data, but also were tainted by controversial accounting assumptions that many experts considered deeply flawed.

At the time, state officials acknowledged that their previous calculations – which were done to establish that privately operated prisons were meeting Ohio's legal requirement that they save at least 5 percent against what it would cost the state to operate them – were both inconsistent and imprecise. Even as the prison-sale proposal went out for bids, officials were still tinkering with fundamental elements of the calculation. When the new savings formulas were released in May, it was clear that rather than "updating" the methodology, as the Kasich administration had claimed it was doing, the Ohio Department of Rehabilitation and Correction (ODRC) had blown up its old method for calculating purported savings and started from scratch.

For instance, new state spreadsheets showed that a completely new set of comparison institutions – state-run prisons used as benchmarks to help determine what the costs would be if the state were running the private facility – had been introduced. The substantial "savings" that privatization purportedly would produce in ODRC's central office expenses – a past claim that was based on dubious accounting assumptions pointed out in the April Policy Matters study – were slashed by more than 83 percent in the new model (from $3.94 per inmate per day, down to just $0.66). And a whole new set of supposed cost-saving sources had been rolled out to make up the difference.

Problem is, the rosy savings projections from those sources are based on some of the same flawed accounting assumptions that tainted the old calculations. Once the likely savings are trimmed to more realistic proportions, the Marion privatization looks more like a break-even proposition, with savings, if any, falling well below the 5 percent threshold required by law. And it could turn into an actual loser for taxpayers.

Meanwhile, based on the terms of the deal and on the numbers available from both parties, the sale of the Lake Erie facility to CCA – along with the 20-year agreement to have CCA operate it – may not produce any taxpayer benefits at all. In fact, assuming that all terms remain constant over the life of the deal, it potentially could cost taxpayers millions of dollars more than if the state had retained ownership of the prison and allowed the Utah company that currently runs it under contract to keep operating it. (State officials say taxpayers will save because any capital improvements to the 12-year facility – among the newest of Ohio's prisons – must now be borne by the new owner. But they provided no numbers to justify the claim).

One thing you can probably be sure of is that the terms of the deal won't stay unchanged. It's likely, in fact, that CCA will try to extract more favorable terms from the state down the road, which could increase costs to taxpayers. That's both because that's part of its business strategy and because, without new terms, the Lake Erie facility looks like a less efficient money maker for CCA than its other prisons.

There is no certainty the company will seek or obtain such a boost. The state maintains that it doesn't have to grant such a request, and that any price increases would be capped under the contract. But CCA will own the prison. And because it will have the right to fill the facility with out-of-state inmates if talks break down and Ohio is compelled to terminate the deal, an argument could be made that CCA would have the upper hand in negotiations. Especially with a state that, for the moment at least, has an overcrowded prison system that needs every bed it can get.

Bottom line? This deal looks like it could turn into a loser for Ohio taxpayers. Only time will tell if it will.