Cells for Sale:
Understanding Prison Costs & Savings

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Executive Summary

Ohio taxpayers have purportedly saved more than $45 million over the last decade from the private operation of two state prisons. Now, with the substantial expansion of prison privatization recently proposed by Republican Gov. John Kasich, they're being promised tens of millions more in savings over the next one.

But if past is prologue, there is little reason to be confident in such promises.

Since the first private prisons were opened here in 2000, Ohio 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. And if you believe past state pronouncements, the savings have exceeded that threshold by a factor of three.

But a closer look reveals that, as of last month – 10 years into the privatization experiment, and one day before Kasich's announced expansion – Ohio officials still hadn't developed an accurate, reliable way to compute how much, if anything, they had actually saved.

Their methods for calculating the seemingly robust savings have changed substantially and, in some case, inexplicably over the last several biennia. A detailed examination of those calculations 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.

Acknowledging that previous efforts were both inconsistent and imprecise, state officials more than two years ago started re-tooling those cost-savings calculations, beginning with the 2010-2011 biennium that's now coming to a close. And in preparation for the coming biennium, they started instituting even more fundamental alterations last fall – many of which, had they been instituted in earlier calculations, would have raised significant red flags about the savings Ohio has been touting over the years.

Even last month, on the eve of Kasich's proposal to sell five prisons – which, in a stroke, would triple the number of Ohio prisoners under private supervision – numbers crunchers at the Ohio Department of Rehabilitation and Correction (ODRC) were still tinkering with the cost-savings calculations in fundamental ways, saying they hoped a new formula could be proposed and approved by the state budget office sometime this month (April).

Work on a reconstituted formula may well be ongoing. (Officials, promising transparency in the revision process, said the new methodology would appear on the ODRC website upon completion and approval. As of April 15, it had not appeared.)

On April 6, the state posted its bid request for the purchase and operation of the five prisons. And even though the savings formula was still being modified when the sale was proposed, ODRC's chief budget analyst, Kevin Stockdale, said he is confident the private-prison savings are there, "even without all the decimal places double checked."

But an examination of the calculations the state has relied on to proclaim those savings since 2006 shows that – once apparent errors are corrected and revisions being proposed by ODRC are made – it's far from clear that Ohio's private prisons are producing the savings required by law. Or that they ever have.

In fact, revised calculations suggest that it may actually have cost taxpayers MORE to contract with a private vendor for operations at the Lake Erie Correctional Facility in Conneaut for fiscal years 2006 and 2007 than to have allowed the state to run it. And for both the 2008-09 and the 2010-11 biennia, revised calculations for Lake Erie project savings that appear to fall below – and in some years, well below – the 5 percent minimum required by state law.

If that's been the case, and the touted savings have been largely illusory, then Ohio's 10-year-experiment with prison privatization becomes considerably less successful than its billing, leaving little more than blind ideology or political preference to justify the dramatic expansion now underway. And without a strong fiscal rationale, critics' concerns about the effectiveness and security of private prisons – underscored

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by dramatic events last summer in Arizona, where three inmates escaped from a private prison near Kingman and allegedly murdered a couple, take on that much more weight.

Stockdale and his fellow number crunchers at ODRC, working with the state's office of budget and management, may still devise and publicize a formula that documents the savings that state law requires. That they haven't previously is both telling, given the claims the state has made, and not terribly surprising.

Nationally, there is little or no consensus about whether private prisons save taxpayers much of anything. The private corrections industry and its allies claim substantial savings – in the range of 5 to 15 percent a year. Skeptics say there is little credible evidence for that. What independent research there is tends to be ambiguous.

The hunt for these savings is also politically charged – with Republicans and Democrats and their supporters tending to land on opposite sides of the debate. And it's an exceedingly difficult task to begin with, because it essentially involves comparing the operating costs of a real, privately operated prison with a make-believe facility, identical in every way to the private one, except that it's staffed by state employees and run by the state. That's what Ohio has been trying to do with its various calculations.

But a host of assumptions can crop up in such analyses, some of them quite controversial, which can tip the scale one way or the other depending on how they're handled. For instance, how should one account for the corrections department's central office expenses? And how should the state's payments for inmate labor in the private prison be handled – or reimbursements to the private vendor for outsized medical costs?

In interviews as recently as the day before Kasich's prison-sale announcement, Stockdale said these are among the items the state is now revisiting, in addition to trying to clean up the inconsistencies, oversights and imprecision in past calculations.

The problem is that 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.

For the 2006-07 biennium, for instance, when apparently distorted staffing and overhead estimates are revised in the calculation, the computed savings of $2.4 million for each of the two years becomes a COST of between $380,000 and $700,000 a year.

For the 2008-09 biennium, potential savings of as much as 21 percent a year shrivel to between 1.2 percent and -0.3 percent when errors are corrected and state-proposed revisions made, depending on how state overhead is handled. For 2010, the computed savings could drop from 13.9 percent to 3.6 percent, and for 2011, from 15 percent to 4.7 percent. In each year, once proposed revisions are made to the state's calculations, the computed savings could fall below the 5 percent required by law.

At the very least, that should give taxpayers pause. It may eventually turn out that private prisons do save money. But after 10 years of claiming it, Ohio has fallen well short of proving it.