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Study: Proof for Private-Prison Savings Is Lacking

After 10 years, Ohio has no reliable comparison with public facilities

A study released today finds that cost calculations performed over a number of years by the State of Ohio have not reliably demonstrated the private-prison savings required under Ohio law.

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

But the study, written by journalist Bob Paynter for Policy Matters Ohio, found that as of last month – 10 years into the privatization experiment, and one day before Gov. John Kasich announced a plan to sell five state-owned prisons – 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 cases, 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. 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.

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 facility 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 most easy to compare to public facilities.

The Department has been reassessing such judgments and has said that a new methodology for comparing private and public-prison costs could be approved this month. However, no such new methodology had been completed as of March 14, the day before Kasich announced his privatization plan, which faces the same 5 percent savings requirement that the state has been unable to reliably demonstrate.

"It may eventually turn out that private prisons do save money," said Paynter, a veteran journalist. "But after 10 years of claiming it, Ohio has fallen well short of proving it."

"There are many reasons to be concerned about prison privatization even if cost savings exist," said Amy Hanauer, Policy Matters Ohio executive director. "This history of error-ridden calculations sheds serious doubt on new claims of cost savings. We urge legislators to reject the proposal to sell Ohio prisons to private bidders."

Policy Matters Ohio is a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.