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Testimony to the Senate Finance Committee Bob Paynter Prepared for delivery on June 2, 2011

Good afternoon Chairman Widener, Ranking Member Skindell and members of the Senate Finance Committee. Thank you for giving me the opportunity to speak to you today. My name is Bob Paynter. I am a journalist with more than 25 years experience as an investigative reporter and editor for Ohio newspapers, and for the last three years I have operated a private investigations, research and writing company.

In February, anticipating a possible expansion in Ohio's 10-year-old experiment with private corrections, Policy Matters Ohio retained me to ask a simple question with a potentially complicated answer: Have private prisons actually saved Ohio taxpayers any money? And if so, how much?

Ohio officials have claimed savings of more than \$45 million over the last decade for their two private prisons – well in excess of the 5 percent savings that state law requires relative to a comparable facility run by the state. My inquiry focused on the spreadsheets officials used to calculate their savings figures for the last several years. I was surprised by what I found.

Not only were the state's calculations riddled with errors, oversights and omissions of significant data, but they also were seriously tainted by controversial accounting assumptions that distorted the results.

Even on the day before the governor's announced expansion, officials of the Ohio Department of Rehabilitation and Correction – who had been tinkering for more than a year with what they admit was a seriously flawed savings formula – were still proposing fundamental revisions to the calculations that appeared to call into question much, if not all, of the private-prison savings they have been touting for years.

I'll not go into detail on the numbers. They are in the report. But this is the bottom line: At this point, there is no reason for any objective observer to be confident in the private-prison savings claimed in the past by Ohio officials or those projected for the future. Here are just some of the problems found in the state's savings calculations for one of its private prisons – the Lake Erie Correctional Facility, in Conneaut. Among other things, officials:

- Overstated the staffing requirements – and therefore the personnel costs – for a comparable state-run facility by anywhere from 12 to 16 percent, depending on the year;
- They calculated that Lake Erie would “save” taxpayers as much as \$4.36 per inmate per day in department overhead costs each year, a figure at least 5 times too high, based on the latest state revisions;

- They neglected to include in Lake Erie’s costs up to \$350,000 per year in inmate pay that the state reimbursed to the private operator;
- And they neglected to account for excess medical expenses that the state was required by contract to reimburse to the private operator, a figure that nearly reached \$440,000 in 2010.

In interviews with state officials while preparing the report, I was assured that the “new methodology” they were developing – once finalized and approved – would be posted on the ODRC website for all to see. I have found no such posting to date.

The department has released a new set of numbers – also, not surprisingly, touting dramatic savings – but its new calculation raises as many questions as it answers. For instance:

- Payroll estimates are now about 4.2 percent higher than the previous estimate, with no explanation as to why;
- Two new categories of costs – both of which appear to be related to medical expenses and neither of which has appeared in previous calculations – are now attributed to the comparable state-run facility;
- Based on what’s been provided, there is no way to tell whether these and other costs would actually be saved by a switch to private institutions or are simply an accounting mechanism for expenses that will remain.

I have asked ODRC – in writing and by phone – for an explanation of the source and justification for these new categories and numbers.

I have not heard back.

Thank you for your time and attention.