Policy Matters Ohio

Press release

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Study finds prison privatization moves could cost Ohio more than previous approach

A study released today finds that recent prison privatization moves could cost Ohio more than the previous approach was costing.

In September, the state announced it would sell one prison, privatize the management of two others, and combine the operations of two more, one of which had been privately run for the last decade.

A close look at the sale of the Lake Erie Correctional Institution in Conneaut 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* millions of dollars instead. In addition, the state's claim that private operation of two Marion facilities that are being combined 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 of all the announced moves – $7 million a year – would come from converting the North Coast Correctional Treatment Facility (NCCTF) from private to state operation and merging it with the state-operated Grafton facility, saving by consolidating operations. Ironically, the state could have ordered such a move at any time over the last decade. The 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.

The study, written by journalist Bob Paynter for Policy Matters Ohio, follows up on a study by Paynter released last April for Policy Matters that found that 10 years into the privatization experiment, Ohio officials still hadn't developed an accurate, reliable way to compute how much, if anything, the state had actually saved. It concluded 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. Since the first contracts for private operation of Ohio prisons started 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.

After the earlier study, and even as the prison privatization move was being debated, the state adopted a completely different cost analysis. It chose a new set of state-run institutions with which to compare the privately run prisons, and a new set of supposed cost-saving sources – sources never before mentioned in its private-prison savings analysis. However, in the study released today, Paynter finds that 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.

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 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 Ohio 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).

And that does not take into account the possibility that CCA could seek an increase in rates after a few years – not unlikely, 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 the other prisons it owns. 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 the company will have the right to fill the facility with out-of-state prisoners – at a potentially higher rate – if negotiations break down and Ohio is compelled to terminate the agreement to use the facility for Ohio inmates.

"By giving up its ownership of the prison, Ohio may well have ceded ultimate control over what goes on there," said Paynter, a veteran journalist. "Things could work out for taxpayers, but it's not hard to see ways that this deal could end badly."

"There are many reasons to worry about prison privatization," said Amy Hanauer, Policy Matters Ohio executive director. "Private prisons are less transparent and accountable than public facilities and may spend less on safety, programming and rehabilitation. This new study shows that selling off Ohio prisons might also end up costing the state more. That's a final nail in the coffin, confirming that prison privatization is a bad idea for Ohio."

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