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Kasich's \$55.5 Billion Ohio Budget Will Sell Prisons

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By Mark Niquette

Ohio Governor [John Kasich](#) proposed a \$55.5 billion biennial spending plan that calls for selling five prisons and issuing bonds for economic development backed by liquor-distribution profits in what he called “the jobs budget.”



Ohio Governor John Kasich. Photographer: David Maxwell/Bloomberg

“We’re creating a platform for growth, for [job creation](#), for resurgence of a state,” Kasich told reporters today during a briefing after releasing his budget proposal for the nation’s seventh-largest state. Ohio lost 610,000 jobs during the past decade, according to the [U.S. Bureau of Labor Statistics](#).

U.S. state budget deficits that may reach \$125 billion in the next fiscal year are forcing governors to turn to banks and builders to help lease or sell assets ranging from turnpikes and lotteries to liquor stores while seeking investors in bridges, roads and other public facilities.

Kasich, 58, a Republican who took office in January, had promised not raise taxes to address a projected \$8 billion shortfall from current revenue levels. His plan includes “significant reductions” for most agencies while increasing general-revenue spending by 1 percent in the fiscal year that starts July 1, and by 6 percent in the second year, said Tim Keen, the budget director.

Road Ahead

Kasich said there will be efforts apart from the budget to have companies take over state assets or services, including the lottery and the 241-mile (388-kilometer) [Ohio](#) Turnpike.

Such plans should improve investor perception of Ohio debt, said Alan Schankel, fixed-income research director at Janney Montgomery Scott LLC, a Philadelphia-based money-management firm.

“Generally, when states move to privatization, it’s a credit positive,” he said in a telephone interview, “It shows the administration is working to tighten the ship and make things work more efficiently.”

Moody’s Investors Service rates Ohio debt Aa1. [Standard & Poor’s](#) rates it AA+. Both are second highest.

Keen said overall spending would increase in part because the current budget contains about \$5 billion in federal stimulus money that is no longer available. Some of that spending, as well as allocations for Medicaid, would be shifted to the general-revenue fund, he said.

Kasich’s 2012-2013 budget, which the Legislature must pass by the July 1 start of the fiscal year, would authorize selling the prisons to private entities that would operate them. They would be sold through competitive bids to generate an estimated \$200 million, Keen said.

Booze Bonds

The budget also proposes transferring the state’s wholesale liquor distribution system to JobsOhio, a private board created to oversee economic development, effective Jan. 1, for up to 25 years.

[JobsOhio](#) would use the revenue for development work and would make a \$1.2 billion payment to the state, including \$500 million to compensate for foregone liquor profit and \$700 million toward outstanding liquor-profit bonds, according to Kasich’s budget document. The state would issue revenue bonds backed by liquor money to fund the payment, the document said.

Holding the Keys

The Ohio Civil Service Employees Association, which represents 10,000 prison employees, opposes the sales. Union leaders say running safe, secure prisons is a responsibility for government, not profit-driven companies.

“This does not help Ohio,” Tim Shafer, a guard at the Pickaway Correctional Institution about 17 miles southwest of the capital in Columbus, said in a telephone interview yesterday.

A limited number of companies may bid on the prisons, including Corrections Corporation of America in Nashville, [Tennessee](#), and [Boca Raton](#), Fla.-based [GEO Group Inc. \(GEO\)](#), said Tobey Sommer, an analyst with SunTrust Robinson Humphrey Inc. who follows both.

The main factor will be the condition of the prisons and capital costs for the companies, Sommer said.

[Arizona](#) proposed selling and leasing back 10 prison complexes and a mental health facility in 2009 without striking deals, he said.

Innovation Ohio, a new Columbus group led by Janetta King, policy director for former Democratic Governor Ted Strickland, said Kasich's budget does not ask the wealthy to sacrifice while cutting funding for local governments and schools. That will force them to raise taxes, the group said.

Biting the Bullet

Kasich said in briefing documents that state funding for education would increase under his budget. That doesn't count the federal stimulus dollars that schools get in the current budget, so actual funding would decrease \$395 million in 2012 and \$305 million in 2013, according to an Innovation Ohio analysis. That would cost 7,000 teachers their jobs, the group said.

"If Governor Kasich is allowed to pass the buck, middle-class taxpayers will be forced to bite the bullet," Dale Butland, a spokesman for the group, said in a statement.

Kasich told reporters he proposes giving districts and local governments more flexibility to control costs, including creating a state-managed health-care pool for schools and local governments.

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