



VIEWPOINT

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Privatization of Drake Hospital: A Victory for Hamilton County Taxpayers

By: Marc Kilmer

Summary

The historical financial profligacy of the publicly financed Drake Hospital in Hamilton County again underscores why taxpayers should not subsidize areas of the economy best left to private management. The recent decision by the County Commissioners of Hamilton County to allow Drake to be run by a private entity was a small, but welcome victory for taxpayers.

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County Commissioners in Hamilton County recently scored a victory for taxpayers when they decided that the Drake Center, a hospital supported by taxpayer funds, should be run by a private entity instead of the county. Drake Hospital was unique in Ohio for being directly supported by a county tax levy. It was also unique for the level of mismanagement and waste. The Drake Hospital experience illustrates once again why taxpayers should not be subsidizing areas best left to private management.

The Drake Center has a long history in Hamilton County and has provided services to its residents since the 1800's. What is unusual about Drake is that Hamilton County taxpayers fund it through property taxes, just as they do local schools, the police, and fire department. No other hospital in Ohio is funded that way.

In return for this unprecedented level of public support, the Drake Center essentially ignored any ideas of fiscal responsibility and expected taxpayers to bail them out when this irresponsibility got them into trouble. For example, in 2004 the hospital asked taxpayers to pass a five year levy that would give it \$29 million more in taxpayer dollars than had previously been slated for the center. When this levy was approved, the Center continued to waste money.

This should come as no surprise. After all, the Drake Center had a guaranteed source of income. It did not have to be careful since the taxpayer money came in regardless of how Drake wasted it. And, if they spent too much money, they could always go to taxpayers again and ask for an increase.

The waste of taxpayer money took many forms. There was the \$2.4 million in severance packages for four executives. There was also the nearly \$400,000 a year salary for its CEO. The millions of dollars spent on advertising also didn't help. And, of course, the \$700,000 in campaign contributions to pass the hospital-financing levy, while illegal, certainly contributed to the \$8 million the hospital lost in 2004.

Studies indicate that in return for this wasted money, taxpayers in Hamilton County received nothing they would not have received from a privately-financed hospital. While costs were 70% higher than similar facilities in the county, results were not any better. Studies found that the vast majority



Privatization of Drake Hospital will be a boon to Hamilton County taxpayers.

Source: Corbis

of patients could be served elsewhere in the county. And, to add insult to injury, over one-third of patients were from outside Hamilton County, receiving services on the dime of that county's taxpayers.

Hamilton County Commissioners finally said enough and began looking to unload this white elephant. They were able to find a consortium that will lease the Center and pay the county \$1 million a year, with an option to purchase the facility after 2009. However, taxpayers are not off the hook since the levy they approved runs until 2009. The Drake Center will continue to receive this money until then.

There is one main lesson of the Drake Center fiasco—taxpayers should be wary of calls to bail out entities that are losing money. The Drake Center's mismanagement was only exacerbated by the taxpayer support it received. With a guaranteed stream of funding, there were fewer incentives to clean up the mess.

If taxpayers had failed to come to the Drake Center's rescue, then it would have been forced to either restructure or close. And while the Drake Center does provide important services to the people of Hamilton County and beyond, it is not indispensable. As it is, the Drake Center is now being forced to revamp itself under new owners. The government bailout merely delayed the inevitable and cost taxpayers millions of dollars.

While taxpayers will never lack for businesses seeking handouts, the Drake Center story should serve as the latest example of why bailing out failing businesses is unwise. Thanks to the Commissioners and their recently-completed lease agreement, both Hamilton County and the Drake Center have a chance at a healthier financial future.

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