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STATE OF CALIFORNIA
Office of the Auditor General

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June 27, 1988

F-806

Honorable Bruce Bronzan, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 448
Sacramento, California 95814

Dear Mr. Chairman and Members:

This report identifies the estimated total costs that we determined that the State has incurred or will incur to build the Mule Creek State Prison (Ione), the California State Prison, Folsom (Folsom), the California Medical Facility-South (Vacaville), and the Southern Maximum Security Complex (Tehachapi). The estimated total costs that we identified include the costs for site acquisition, construction of the prison facility, equipment, departmental overhead, and legal and interagency consultant services. In addition, our estimated total costs include bond issuance costs and interest payments. Table 1 on page 6 of this letter summarizes the estimated total cost that we identified for building each of the four prisons. This report also identifies the costs that the Department of Corrections (department) reported to the Legislature as the costs for building those four state prisons. The costs that the department reports as the prisons' total costs are in accordance with budgetary guidelines, which exclude the costs for departmental overhead, legal and other professional services, and bond funding. Finally, using the total cost that we determined for each of the prisons, we calculated each of those prisons' cost per cell, cost per inmate, and cost per bed. The department is not required to calculate the cost per inmate or cost per bed; however, it calculates a prison's cost per cell in accordance with guidelines established by Chapter 958, Statutes of 1983, which exclude from a prison's cost-per-cell calculation the costs for the installation of off-site utilities and the purchase of equipment. The department interprets this statute also to exclude site-acquisition costs from the calculation of a prison's cost per cell.

Because the department's cost-per-cell calculation excludes these items, our estimated total cost and cost per cell for building each of the four state prisons are higher than the costs that the department reports. For example, based on our estimates, Ione's total cost is

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approximately \$286 million while the department calculates a total cost of \$140 million. Similarly, based on our calculations, Ione's cost per cell is \$167,968, and based on the department's calculations, the cost per cell is \$65,618. Bond issuance costs and interest payments represent the most significant difference between our estimated total cost and cost per cell and the department's total cost and cost per cell.

Background

Since 1977, the inmate population in state prisons has risen from less than 22,000 to approximately 65,000 in 1987, and the department estimates that, by 1993, the prison population will be approximately 105,000 inmates. In response to such growth, the Legislature approved the renovation of existing prison facilities and the construction of 13 new prison facilities. To finance the costs of renovating existing and constructing new prison facilities, the Legislature approved the sale of approximately \$2.3 billion in bonds between 1981 and 1986. The department budgeted approximately \$551 million of the proceeds from these bonds for the construction of the four new prison facilities at Ione, Folsom, Vacaville, and Tehachapi.

The department, which is responsible for planning, designing, and building state prisons, designed the new prison facilities at Ione to house 1,700 inmates, at Folsom to house 1,728 inmates, at Vacaville to house 2,404 inmates, and at Tehachapi to house 1,000 inmates. To meet the housing needs for the expected increase in the prison population, the department installed two beds in most of the cells at each of these new prison facilities, thereby nearly doubling each prison's capacity for housing inmates.

Scope and Methodology

The purpose of our review was to identify all of the costs that the State incurred to build the state prisons at Ione, Folsom, Vacaville, and Tehachapi and to calculate these prisons' cost per cell, cost per inmate, and cost per bed. We identified the building costs of these specific prisons because the department has either recently completed or nearly completed their construction.

To determine the types of costs that the State incurs to construct prisons, we interviewed staff from the department's Planning and Construction Division (division). We also analyzed the department's budget, cost records and reports, and state guidelines for reporting

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construction costs. To determine the department's guidelines for reporting prison construction costs and calculating a prison's cost per cell, we reviewed the department's written guidelines and interviewed the same division staff.

To determine the department's estimated total costs under these guidelines for acquiring each of the prison sites, for constructing each of the prison facilities, and for purchasing the equipment for each prison, we interviewed staff from the department's division and analyzed the department's cost reports and contract files for each of the four prisons.

In addition, to determine the costs of departmental overhead and legal and interagency consultant services, we interviewed officials from the department's division and its Legal Affairs Division, as well as officials from the Department of Justice. We prorated these costs to each of the four prisons based on the department's estimates of how much time it spent on each prison facility.

Because certain records that we analyzed were incomplete or because some of the costs could not be applied directly to a prison facility, we could not determine the precise overhead or legal and interagency consultant costs that should be applied to specific prison projects. As a result, certain legal costs and all of the overhead and interagency consultant costs that we calculated and applied to each of the four prisons are estimates.

To determine the bond issuance costs and bond interest payments for the bonds that the State issued to finance the construction of state prison facilities, we interviewed officials of the Trust Services Division of the State Treasurer's Office. We also analyzed the bond interest payment schedules for each applicable bond issue. We prorated these costs to each of the four prisons based on the bond proceeds used to acquire the sites and construct each facility.

Finally, we calculated the cost per cell, cost per inmate, and cost per bed for each of the four prisons according to the total costs that we identified. Except for the cost per cell at Ione, the department was not required to calculate such costs. However, for comparative purposes, we also calculated these costs based on the department's total reported costs.

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In conducting this review, we relied on financial information provided by the department and other state departments. Because the procedures described above were not sufficient to constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the financial information referred to or used in this report.

Estimated Total Costs
To Build a State Prison

The estimated total costs that we determined that the State has incurred or will incur to build each of the four state prisons include the costs for site acquisition, facility construction, equipment purchases, departmental overhead, and legal and interagency consultant services. In addition, the estimated total costs that we determined include bond issuance and interest payments either paid to or owed to bondholders. The departmental overhead that we identified is the prorated cost of departmental divisions and other units that provide services related to building state prisons but not identifiable to a specific prison. The legal costs are for private law firms for litigation services and for the Department of Justice's services to review construction contracts and pending contractor claims. The consulting services costs are for miscellaneous consultant services that the Department of Water Resources and the Department of Transportation provided to the department.

The bond funding that we identified includes the bond issuance costs and interest payments of bonds issued to finance the construction of each prison. Bond issuance costs and bond interest payments represent approximately 41 to 51 percent of the total cost of building a prison. We estimated the interest payments based on the bonds' payment period of 20 years. However, the State has the option to pay those bonds early and thus may reduce the cost of building state prisons. Attachments 1 and 2 present the interest payment schedules of the bonds issued to finance the construction of each prison in our review.

Although we identified the cost for disputed contractor claims, we did not include them in the total cost for each of the four prisons. These contractor claims arise when the department and contractor disagree on how much the department should pay for certain construction work. As of April 30, 1988, the prison at Ione had no pending contractor claims while the prison at Folsom had \$240,551 in pending contractor claims, the prison at Vacaville had approximately \$23 million in pending contractor claims, and the prison at Tehachapi had approximately

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\$21 million in pending contractor claims. Since these claims are subject to certain legal proceedings, we could not determine the time or amount of the final settlements and thus did not include them in the prisons' total construction costs that we identified.

Table 1 summarizes the total financial costs that we estimate that the State has incurred or will incur to build each of the four prisons. In accordance with the request to estimate total costs to build state prisons, we included the additional costs of departmental overhead, legal and interagency consultant services, and bond issuance and interest payments. However, these costs are not presented in accordance with generally accepted accounting principles (GAAP). Under GAAP, the additional costs that would be part of building state prisons would be the bond interest paid, departmental overhead, and legal and interagency consultant costs incurred during construction. However, bond interest paid after construction, as well as bond issuance costs, is not a cost of construction. For these prisons, only approximately 10 percent of the total bond interest payments were paid during construction. Thus, under GAAP, a large part of the additional costs that we identified for each of the four prisons would not be a cost of prison construction.

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TABLE 1

OFFICE OF THE AUDITOR GENERAL'S
 ESTIMATED TOTAL PRISON COSTS,
 INCLUDING BOND FUNDING*
AS OF APRIL 30, 1988
 (In Thousands)

	<u>Ione</u>	<u>Folsom</u>	<u>Vacaville</u>	<u>Tehachapi</u>
Facility Construction Costs	\$129,183	\$143,440	\$147,834	\$ 94,133
Facility Site and Equipment Costs	<u>8,711</u>	<u>11,498</u>	<u>11,620</u>	<u>4,134</u>
Total Facility Costs	<u>137,894</u>	<u>154,938</u>	<u>159,454</u>	<u>98,267</u>
Bond Funding**	144,826	127,703	122,862	69,476
Other Costs	<u>2,826</u>	<u>713</u>	<u>1,637</u>	<u>1,883</u>
Total Bond Funding and Other Costs	<u>147,652</u>	<u>128,416</u>	<u>124,499</u>	<u>71,359</u>
Total Prison Costs, Including Bond Funding	<u>\$285,546</u>	<u>\$283,354</u>	<u>\$283,953</u>	<u>\$169,626</u>

* Attachment 3 details the cost categories for each prison's construction.

** Had the State used existing cash rather than bonds to finance each of the four prison's construction, the State would not have been able to invest that cash, resulting in potential lost interest earnings that would exceed the bond issuance costs and interest payments for each of the four prisons.

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The Department Reports Prison
Construction Costs in Accordance
With Budgetary Guidelines

According to the chief of the department's construction support branch, the department reports prison construction costs in accordance with budgetary guidelines. These guidelines require the department to include in a prison's total construction cost only the costs that it pays from the department's capital outlay budget, which is for major construction expenditures. Specifically, the department includes the costs for preliminary plans and drawings, architectural and engineering fees, construction materials, labor, management and certain consultant fees, site acquisition and preparation, and equipment. Also, the department includes in a prison's total construction cost builders' improvement costs for the Prison Industry Authority (PIA) if the department's capital outlay budget includes the funding for such costs. However, in accordance with budgetary guidelines, the department does not include in a prison's total construction cost the costs for departmental overhead or certain legal and interagency consultant services that we identified because the department pays these costs from its general operating budget. Finally, the budgetary guidelines do not require the department to include the financing costs in the calculation of a prison's construction costs. Consequently, the department does not report bond issuance costs or interest payments for the bonds that the State issues to finance prison construction. Table 2 summarizes the department's total costs according to budgetary guidelines and the total costs that we identified and estimated for each of the four prisons. The table shows that the total costs to the State are approximately double what the department spends through its capital outlay budget.

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TABLE 2

TOTAL PRISON CONSTRUCTION COSTS, INCLUDING BOND FUNDING
AS OF APRIL 30, 1988

	Office of the Auditor General's Estimated Costs, Including Bond Funding*	Department's Reported Costs*
IONE		
Facility Construction Costs	\$129,183,000	\$131,558,000
Facility Site and Equipment Costs	<u>8,711,000</u>	<u>8,711,000</u>
Total Facility Cost	<u>137,894,000</u>	<u>\$140,269,000</u>
Bond Funding	144,826,000	
Other Costs	<u>2,826,000</u>	
Total Bond Funding and Other Costs	<u>147,652,000</u>	
Total Prison Cost, Including Bond Funding	<u>\$285,546,000</u>	
FOLSOM		
Facility Construction Costs	\$143,440,000	\$142,609,000
Facility Site and Equipment Costs	<u>11,498,000</u>	<u>11,498,000</u>
Total Facility Cost	<u>154,938,000</u>	<u>\$154,107,000</u>
Bond Funding	127,703,000	
Other Costs	<u>713,000</u>	
Total Bond Funding and Other Costs	<u>128,416,000</u>	
Total Prison Cost, Including Bond Funding	<u>\$283,354,000</u>	
VACAVILLE		
Facility Construction Costs	\$147,834,000	\$144,777,000
Facility Site and Equipment Costs	<u>11,620,000</u>	<u>11,620,000</u>
Total Facility Cost	<u>159,454,000</u>	<u>\$156,397,000</u>
Bond Funding	122,862,000	
Other Costs	<u>1,637,000</u>	
Total Bond Funding and Other Costs	<u>124,499,000</u>	
Total Prison Cost, Including Bond Funding	<u>\$283,953,000</u>	
TEHACHAPI		
Facility Construction Costs	\$ 94,133,000	\$ 88,231,000
Facility Site and Equipment Costs	<u>4,134,000</u>	<u>3,646,000</u>
Total Facility Cost	<u>98,267,000</u>	<u>\$ 91,877,000</u>
Bond Funding	69,476,000	
Other Costs	<u>1,883,000</u>	
Total Bond Funding and Other Costs	<u>71,359,000</u>	
Total Prison Cost, Including Bond Funding	<u>\$169,626,000</u>	

* Attachment 3 details the cost categories for each prison's construction.

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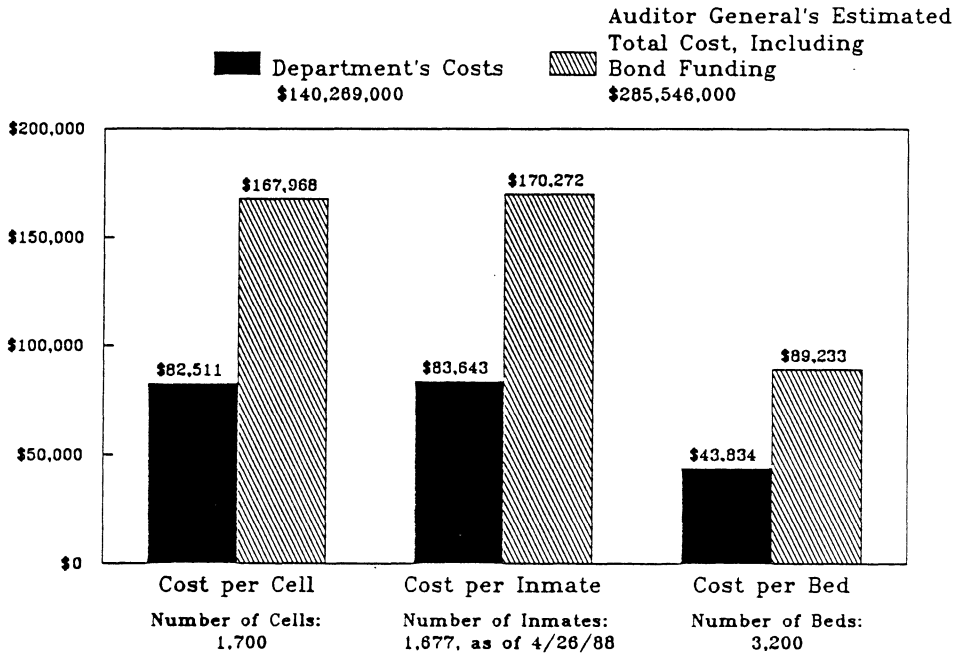
Estimated Costs Per Cell,
Costs Per Inmate, and Costs Per Bed

Because of the different costs per cell that the department reported, part of our scope was to calculate a cost per cell based on the total costs that we estimated. Additionally, because the department installs two beds in most of the cells and plans to double-up many of the inmates, we also calculated the prisons' costs per inmate and costs per bed. To calculate the cost per cell, we divided the total costs that we identified by the number of cells that each prison was designed with. To calculate the cost per inmate based on the prison's anticipated capacity, we divided the total costs that we identified by the number of inmates occupying each of the four prisons as of April 26, 1988. To calculate the cost per bed, we divided the total costs that we identified by the total number of beds available at each of the four prisons.

Except for the prison at Ione, the department has not been required to calculate the cost per cell for the four prisons in our review. Additionally, we are not aware of any requirements for the department to calculate or report a prison's cost per inmate or cost per bed, and the department did not have figures for these costs. Therefore, for comparative purposes, we also calculated the cost per cell, cost per inmate, and cost per bed for each of the four prisons using the department's reported total costs. Graphs 1 through 4 summarize these costs for each of the four prisons.

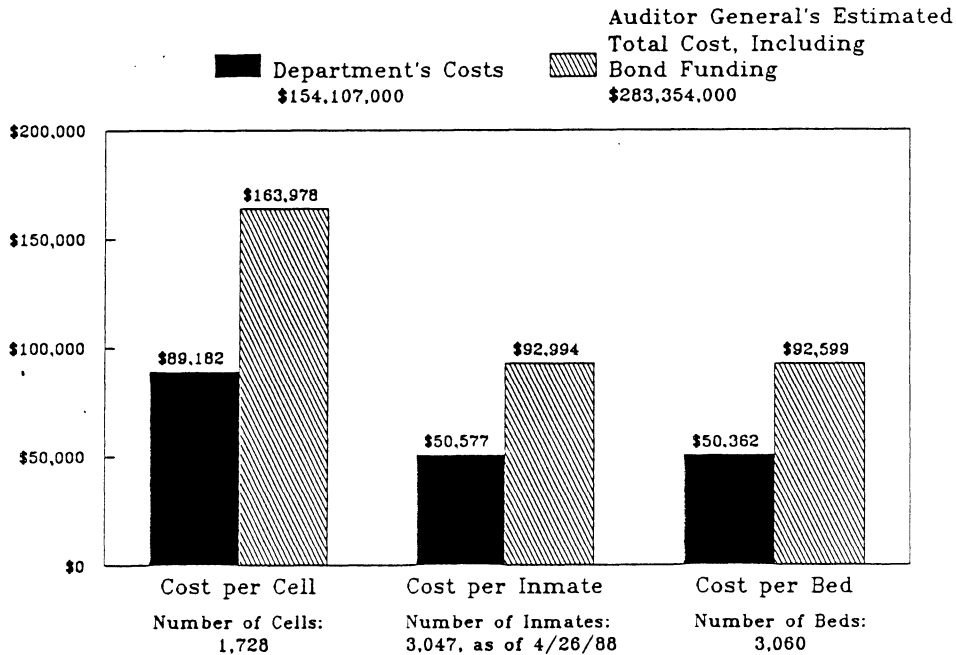
GRAPH 1

**COST PER CELL, COST PER INMATE,
 AND COST PER BED
 MULE CREEK STATE PRISON (IONE)**



GRAPH 2

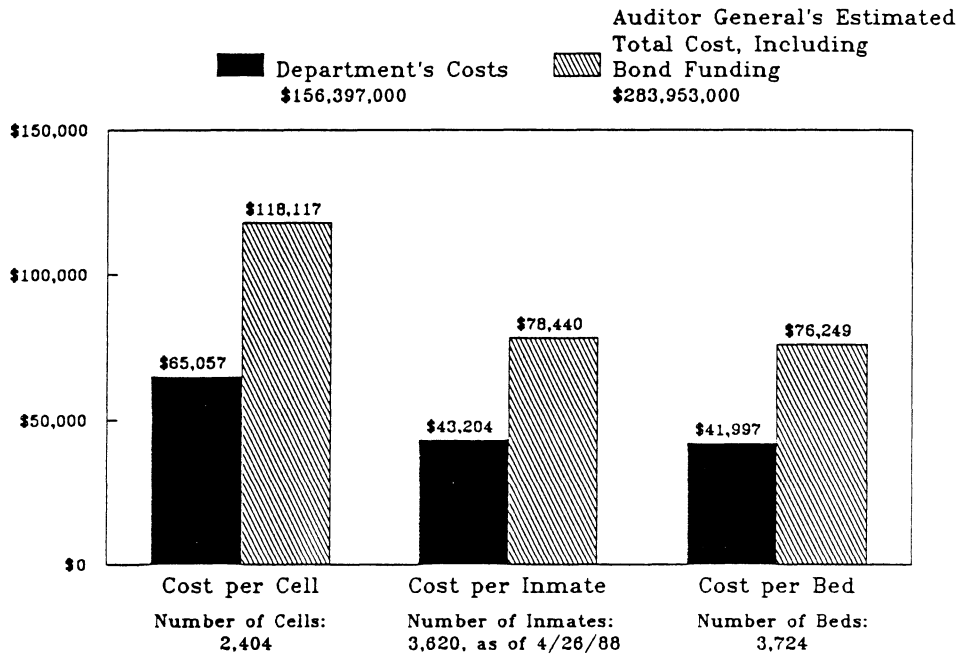
**COST PER CELL, COST PER INMATE,
 AND COST PER BED
 CALIFORNIA STATE PRISON, FOLSOM (FOLSOM)**



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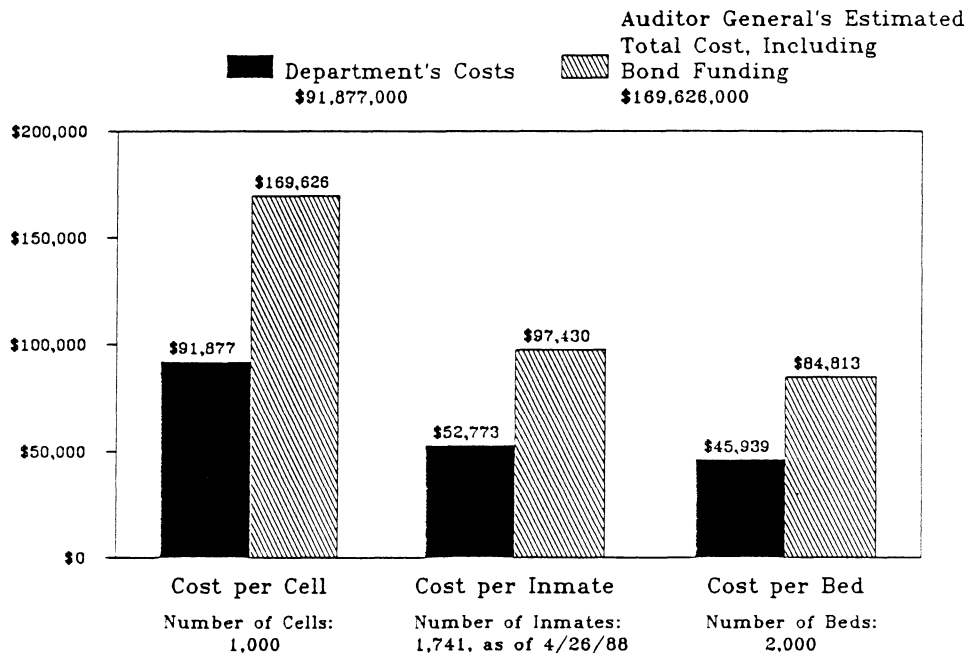
GRAPH 3

**COST PER CELL, COST PER INMATE,
 AND COST PER BED
 CALIFORNIA MEDICAL FACILITY-SOUTH
 (VACAVILLE)**



GRAPH 4

**COST PER CELL, COST PER INMATE,
 AND COST PER BED
 SOUTHERN MAXIMUM SECURITY COMPLEX
 (TEHACHAPI)**



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The Department Calculated a Prison's Cost
Per Cell Using Statutorial Guidelines

The department calculated a prison's cost per cell in accordance with guidelines established by Chapter 958, Statutes of 1983. Although this statute related only to the cost-per-cell calculation for the prison in San Diego County, the chief of the department's construction support branch informed us that the Joint Committee on Prison Construction and Operations later made an informal request that the department calculate the cost per cell for all prisons in the planning phase since planning began on the San Diego prison. The department uses the statutory guidelines to calculate a prison's cost per cell so that it can provide the Legislature cost-per-cell figures that are comparable between prisons. Based on these guidelines, which exclude certain costs, the department calculates a cost per cell that is lower than a prison's actual cost per cell as we calculated.

The guidelines in Chapter 958, Statutes of 1983, require the department to exclude from a prison's total construction cost the costs for off-site utilities and equipment, before calculating the cost per cell. In addition, the department interprets this statute to exclude the costs for site acquisition from a prison's cost-per-cell calculation. Further, because the department uses the costs paid from the department's capital outlay budget to calculate a prison's cost per cell, the cost per cell will not reflect the costs that we identified for overhead, certain legal and interagency consultant services, and bond issuance and interest payments. Finally, the department will not include in the calculation of a prison's cost per cell the costs for some PIA improvements because the cost-per-cell calculation for the prison in San Diego County, which the department uses as a model, does not include these costs.

The Legislature did not make its cost-per-cell calculation request during the planning phase of the prisons at Folsom, Vacaville, or Tehachapi. Consequently, the department did not calculate a cost per cell for these prisons. However, because the prison at Ione was in the planning phase when the Legislature made its request, the department did calculate Ione's cost per cell and submitted the cost per cell to the Joint Committee on Prison Construction and Operations. Table 3 summarizes Ione's cost per cell based on the estimated costs that we determined. In addition, the table shows Ione's cost per cell as of April 30, 1988, based on the department's interpretation of the guidelines presented in Chapter 958, Statutes of 1983.

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TABLE 3

MULE CREEK STATE PRISON, IONE
COST PER CELL AS OF APRIL 30, 1988

	<u>Office of the Auditor General's Estimated Costs, Including Bond Funding*</u>	<u>Department's Reported Costs Per Chapter 958, Statutes of 1983*</u>
Prison Facility Costs		
Facility construction costs	\$129,183,000	\$131,558,000
Facility site and equipment costs	<u>8,711,000</u>	<u>8,711,000</u>
Total Prison Facility Costs	<u>137,894,000</u>	<u>140,269,000</u>
Prison Facility Costs Excluded by Statutory Guidelines		
Off-site utility costs	0	(16,556,000)
Equipment costs	0	(5,390,000)
Site acquisition costs	0	(1,500,000)
PIA building improvements	0	(2,897,000)
Previous planning costs for Ione	<u>0</u>	<u>(2,375,000)</u>
Total Prison Facility Costs Excluded	<u>0</u>	<u>(28,718,000)</u>
Adjusted Total Prison Facility Costs	<u>\$137,894,000</u>	<u>\$111,551,000</u>
Cost per Cell, Excluding Bond Funding (1,700 Cells)	<u>\$ 81,114</u>	<u>\$ 65,618</u>
Adjusted Total Prison Facility Costs	<u>137,894,000</u>	
Bond Funding and Other Costs Excluded by Budgetary Guidelines		
Bond issuance costs and interest payments	144,826,000	
Other costs	<u>2,826,000</u>	
Total Bond Funding and Other Costs	<u>147,652,000</u>	
Total Prison Costs, Including Bond Funding	<u>\$285,546,000</u>	
Cost Per Cell, Including Bond Funding (1,700 Cells)	<u>\$ 167,968</u>	

* Attachment 4 details these cost-per-cell categories for each prison's construction.

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Finally, because the department estimates that the prisons have a useful life of 70 years or more, we have also calculated the cost per bed over the prison's estimated minimum life. Table 4 shows these calculations.

TABLE 4
COST PER BED OVER THE ESTIMATED MINIMUM
USEFUL LIFE OF THE PRISON FACILITY
AS OF APRIL 30, 1988

	<u>Ione</u>	<u>Folsom</u>	<u>Vacaville</u>	<u>Tehachapi</u>
Cost Per Bed (single year)	\$89,233	\$92,599	\$76,249	\$84,813
Cost Per Bed (70 years)	\$ 1,275	\$1,323	\$ 1,089	\$ 1,212

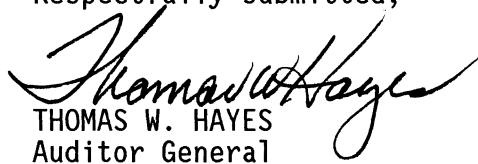
Conclusion

The costs that we determined for building the four prisons that we reviewed are higher than the construction costs that the department reported because the department determines a prison's total construction cost in accordance with budgetary guidelines that exclude certain costs. Similarly, the cost per cell that we determined is higher than the cost per cell that the department calculated because the guidelines established by Chapter 958, Statutes of 1983, limit the types of costs that the department may include in its calculations. Budgetary guidelines do not require the department to include in a prison's total construction cost the costs for departmental overhead and certain legal and interagency consultant services. Further, the statutory guidelines require the department to exclude from a prison's total construction cost the costs for off-site utilities and equipment, before it calculates the prison's cost per cell. Both the budgetary and statutory guidelines require the department to exclude from prison construction costs bond issuance costs and interest payments that the State will incur for using bonds to finance prison construction. These bond issuance costs and interest payments alone are nearly twice what the department reports as a prison's total construction cost and cost per cell.

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We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Attachments

Department of Corrections' response to this report

**DEPARTMENT OF CORRECTIONS
DEBT SERVICE SCHEDULE
(Rounded)**

Mule Creek State Prison, Ione
Lease Purchase Agreement*

<u>Calendar Year Payment Dates</u>	<u>Payment of Principal to Bondholders</u>	<u>Payment of Interest to Bondholders</u>	<u>Annual Payments to Bondholders**</u>
1986	\$ N/A	\$ 5,665,113	\$ 5,665,113
1987	N/A	11,330,226	11,330,226
1988	5,070,000	11,330,226	16,400,226
1989	5,335,000	11,064,051	16,399,051
1990	5,630,000	10,770,627	16,400,627
1991	5,955,000	10,446,901	16,401,901
1992	6,310,000	10,089,601	16,399,601
1993	6,700,000	9,698,381	16,398,381
1994	7,130,000	9,269,582	16,399,582
1995	7,600,000	8,799,001	16,399,001
1996	8,120,000	8,282,201	16,402,201
1997	8,685,000	7,713,801	16,398,801
1998	9,305,000	7,097,167	16,402,167
1999	9,975,000	6,427,206	16,402,206
2000	10,700,000	5,699,031	16,399,031
2001	11,490,000	4,909,907	16,399,907
2002	12,340,000	4,062,519	16,402,519
2003	13,245,000	3,152,444	16,397,444
2004	14,225,000	2,175,625	16,400,625
2005	<u>15,275,000</u>	<u>1,126,531</u>	<u>16,401,531</u>
Total	<u>\$163,090,000</u>	<u>\$149,110,141***</u>	<u>\$312,200,141</u>

* Chapter 1743, Statutes of 1984, as amended by Chapter 932, Statutes of 1985, authorized the department to enter into a lease purchase agreement with the Public Works Board for the Mule Creek State Prison, Ione.

** The department will make biannual lease payments of \$8,201,500 for the Mule Creek State Prison, Ione, beginning November 1, 1988, and ending November 1, 2005, or until the bonds are fully paid.

*** The actual total bond interest paid by the department will be less than the \$149,110,141 because the department will use interest earned on the bond principal to pay some of the bond interest.

N/A - Not applicable

ATTACHMENT 2

STATE TREASURER'S OFFICE
DEBT SERVICE SCHEDULE
(Rounded)

Calendar Year Payment Dates	New Prison Construction Bond Act of 1981*			New Prison Construction Bond Act of 1984*		
	Payment of Principal to Bondholders	Payment of Interest to Bondholders	Total Annual Payments to Bondholders**	Payment of Principal to Bondholders	Payment of Interest to Bondholders	Total Annual Payments to Bondholders**
1983	\$ 7,500,000	\$ 8,832,500	\$ 16,332,500	\$ N/A	\$ N/A	\$ N/A
1984	7,500,000	8,007,500	15,507,500	N/A	N/A	N/A
1985	12,500,000	21,222,500	33,722,500	5,000,000	11,180,000	16,180,000
1986	17,500,000	31,015,375	48,515,375	7,500,000	17,831,250	25,331,250
1987	27,250,000	35,664,500	62,914,500	15,000,000	21,832,500	36,832,500
1988	24,750,000	32,987,000	57,737,000	15,000,000	20,220,000	35,220,000
1989	24,750,000	30,689,500	55,439,500	15,000,000	18,861,250	33,801,250
1990	24,750,000	28,671,375	53,421,375	15,000,000	17,595,000	32,595,000
1991	24,750,000	26,888,625	51,638,625	15,000,000	16,597,500	31,597,500
1992	24,750,000	25,122,125	49,872,125	15,000,000	15,616,250	30,616,250
1993	24,750,000	23,303,687	48,053,687	15,000,000	14,599,375	29,599,375
1994	24,750,000	21,430,875	46,180,875	15,000,000	13,546,250	28,546,250
1995	24,750,000	19,511,000	44,261,000	15,000,000	12,465,000	27,465,000
1996	24,750,000	17,556,375	42,306,375	15,000,000	11,361,250	26,361,250
1997	24,750,000	15,567,000	40,317,000	15,000,000	10,240,000	25,240,000
1998	22,250,000	13,550,500	35,800,500	15,000,000	9,060,000	24,060,000
1999	22,250,000	11,736,875	33,986,875	15,000,000	7,858,750	22,858,750
2000	22,250,000	9,903,500	32,153,500	15,000,000	6,595,000	21,595,000
2001	22,250,000	8,052,813	30,302,813	15,000,000	5,399,375	20,399,375
2002	22,250,000	6,195,937	28,445,937	15,000,000	4,200,000	19,200,000
2003	19,750,000	4,337,813	24,087,813	15,000,000	3,040,625	18,040,625
2004	19,750,000	2,705,000	22,455,000	15,000,000	1,871,875	16,871,875
2005	14,750,000	1,060,000	15,810,000	10,000,000	712,500	10,712,500
2006	9,750,000	243,750	9,993,750	7,500,000	187,500	7,687,500
Total	<u>\$495,000,000</u>	<u>\$404,256,125</u>	<u>\$899,256,125</u>	<u>\$300,000,000</u>	<u>\$240,811,250</u>	<u>\$540,811,250</u>

* Chapter 273, Statutes of 1981, authorized the sale of \$495 million in general obligation bonds and created the New Prison Construction Fund. Also, Chapter 4, Statutes of 1984, authorized the sale of \$300 million in general obligation bonds and created the 1984 Prison Construction Fund.

** The State Treasurer's Office is responsible for paying the annual payments to bondholders.

N/A - Not applicable

TOTAL PRISON COSTS, INCLUDING BOND FUNDING
AS OF APRIL 30, 1988
(In Thousands)

Cost Categories	Mule Creek State Prison (Ione)		California State Prison, Folsom (Folsom)		California Medical Facility-South (Vacaville)		Southern Maximum Security Complex (Tehachapi)	
	Auditor General's Estimated Total Costs	Department's Reported Costs	Auditor General's Estimated Total Costs	Department's Reported Costs	Auditor General's Estimated Total Costs	Department's Reported Costs	Auditor General's Estimated Total Costs	Department's Reported Costs
Facility Construction Costs								
Project administration and planning	\$ 17,174*	\$ 19,549	\$ 19,537	\$ 19,537	\$ 14,962	\$ 14,962	\$ 18,039***	\$ 14,895
Construction of facilities	112,009	112,009	123,903**	123,072	132,872**	129,815	76,094** ***	73,336
Total Facility Construction Costs	129,183	131,558	143,440	142,609	147,834	144,777	94,133	88,231
Facility Site and Equipment Costs								
Site acquisition and site work	3,321	3,321	7,086	7,086	4,120	4,120	1,424***	936
Equipment	5,390	5,390	4,412	4,412	7,500	7,500	2,710***	2,710
Total Facility Site and Equipment Costs	8,711	8,711	11,498	11,498	11,620	11,620	4,134	3,646
Total Prison Costs, Excluding Bond Funding and Other Costs	137,894	\$140,269	154,938	\$154,107	159,454	\$156,397	98,267	\$91,877
Bond Funding								
Bond interest paid or owed	140,683		127,649		122,817		69,446	
Bond issuance	4,143		54		45		30	
Total Bond Funding	144,826		127,703		122,862		69,476	
Other Costs								
Overhead	2,729		678		988		339	
Legal services	80		29		641		1,541	
Interagency consultants	17		6		8		3	
Total Other Costs	2,826		713		1,637		1,883	
Total Bond Funding and Other Costs	147,652		128,416		124,499		71,359	
Total Prison Costs, Including Bond Funding and Other Costs	\$285,546		\$283,354		\$283,953		\$169,626	

* The difference of approximately \$2.4 million between the department's cost and our estimated total costs for this category for Ione represents costs for preliminary project administration and drawings for a facility that the department cancelled, as directed by Chapter 931, Statutes of 1985, in favor of a new prison facility. The new facility is the Mule Creek State Prison (Ione). We do not consider these costs to be construction costs associated with Ione, and, accordingly, did not include them in the prison's estimated total costs.

** These costs include improvement costs for the Prison Industry Authority of \$831,256, \$2,747,886, \$228,708 for the prisons at Folsom, Vacaville, and Tehachapi, respectively. These costs represent construction costs and, accordingly, we included them in the prisons' estimated total costs.

*** The differences between the costs reported by the department and our estimated total costs for Tehachapi for these categories represent costs spent by the Office of the State Architect before the department took administrative control over prison construction.

ATTACHMENT 4

DEPARTMENT OF CORRECTIONS' CALCULATIONS OF A PRISON'S
COST PER CELL AND THE OFFICE OF THE AUDITOR GENERAL'S COST PER CELL
AS OF APRIL 30, 1988

Cost Categories	Mule Creek State Prison (Ione)		California State Prison, Folsom (Folsom)*	California Medical Facility-South (Vacaville)*	Southern Maximum Security Complex (Tehachapi)*
	Office of the Auditor General's Estimated Total Costs, Including Bond Funding	Department's Reported Costs Per Chapter 958, Statutes of 1983	Office of the Auditor General's Estimated Total Costs, Including Bond Funding	Office of the Auditor General's Estimated Total Costs, Including Bond Funding	Office of the Auditor General's Estimated Total Costs, Including Bond Funding
Facility Construction Costs					
Project administration and planning	\$ 17,174,000	\$ 17,174,000	\$ 19,537,000	\$ 14,962,000	\$ 18,039,000
Construction of facilities	<u>112,009,000</u>	<u>92,556,000</u>	<u>123,903,000</u>	<u>132,872,000</u>	<u>76,094,000</u>
Total Facility Construction Costs	<u>129,183,000</u>	<u>109,730,000</u>	<u>143,440,000</u>	<u>147,834,000</u>	<u>94,133,000</u>
Facility Site and Equipment Costs					
Site acquisition and site work**	3,321,000	1,821,000	7,086,000	4,120,000	1,424,000
Equipment	<u>5,390,000</u>	<u>0</u>	<u>4,412,000</u>	<u>7,500,000</u>	<u>2,710,000</u>
Total Facility Site and Equipment Costs	<u>8,711,000</u>	<u>1,821,000</u>	<u>11,498,000</u>	<u>11,620,000</u>	<u>4,134,000</u>
Total Prison Costs, Excluding Bond Funding and Other Costs	<u>\$137,894,000</u>	<u>\$111,551,000</u>	<u>\$154,938,000</u>	<u>\$159,454,000</u>	<u>\$ 98,267,000</u>
Number of Cells	1,700	1,700	1,728	2,404	1,000
Cost Per Cell, Excluding Bond Funding and Other Costs	<u>\$ 81,114</u>	<u>\$ 65,618</u>	<u>\$ 89,663</u>	<u>\$ 66,329</u>	<u>\$ 98,267</u>
Total Prison Costs, Excluding Bond Funding and Other Costs	<u>137,894,000</u>		<u>154,938,000</u>	<u>159,454,000</u>	<u>98,267,000</u>
Bond Funding					
Bond interest paid or owed	140,683,000		127,649,000	122,817,000	69,446,000
Bond issuance	<u>4,143,000</u>		<u>54,000</u>	<u>45,000</u>	<u>30,000</u>
Total Bond Funding	<u>144,826,000</u>		<u>127,703,000</u>	<u>122,862,000</u>	<u>69,476,000</u>
Other Costs					
Overhead	2,729,000		678,000	988,000	339,000
Legal services	80,000		29,000	641,000	1,541,000
Interagency consultants	<u>17,000</u>		<u>6,000</u>	<u>8,000</u>	<u>3,000</u>
Total Other Costs	<u>2,826,000</u>		<u>713,000</u>	<u>1,637,000</u>	<u>1,883,000</u>
Total Bond Funding and Other Costs	<u>147,652,000</u>		<u>128,416,000</u>	<u>124,499,000</u>	<u>71,359,000</u>
Total Prison Costs, Including Bond Funding and Other Costs	<u>\$285,546,000</u>		<u>\$283,354,000</u>	<u>\$283,953,000</u>	<u>\$169,626,000</u>
Number of Cells	1,700		1,728	2,404	1,000
Cost Per Cell, Including Bond Funding and Other Costs	<u>\$ 167,968</u>		<u>\$ 163,978</u>	<u>\$ 118,117</u>	<u>\$ 169,626</u>

* The department did not calculate a cost per cell for these prisons.

** The department includes in the cost-per-cell calculation site-preparation costs such as tree removal and leveling.

YOUTH AND ADULT CORRECTIONAL AGENCY
OFFICE OF THE SECRETARY



June 23, 1988

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

F-806

Dear Mr. ^{Tom} Hayes:

Thank you for the opportunity to provide you with our comments on the draft report to the Legislature in which you examined all costs incurred by the State in constructing the Mule Creek State Prison, Ione, the California State Prison, Folsom, the California Medical Facility-South, and the Southern Maximum Security Complex.

This report clearly states that the costs the Department of Corrections reports as the total costs for construction of each institution, and the method used for determining per cell costs, are in accordance with budgetary and statutory guidelines, which exclude costs associated with bond issuance and interest payments. The report further points out that under generally accepted accounting principles, the vast majority of the additional costs associated with bond interest payments identified by your office would not be a cost of prison construction. In this regard, we are unaware of any state of California capital outlay project that includes costs associated with bond financing in the projects' estimated or actual costs.

Further, we agree as you indicated on page 6 of the report that "had the State used existing cash rather than bonds to finance each of the four prisons constructed, the State would not have been able to invest that cash, resulting in potential lost interest earnings that would exceed the bond issuance costs and interest payments for each of the four prisons."

Thomas W. Hayes
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June 23, 1988

In addition to the above comments, Department of Corrections staff have suggested to your auditors some minor technical changes. In closing, I want to thank you and your staff for the professional manner in which this audit was conducted.

Sincerely,

A handwritten signature in cursive script, appearing to read "Chad", enclosed in quotation marks.

N. A. "Chad" Chaderjian
Agency Secretary