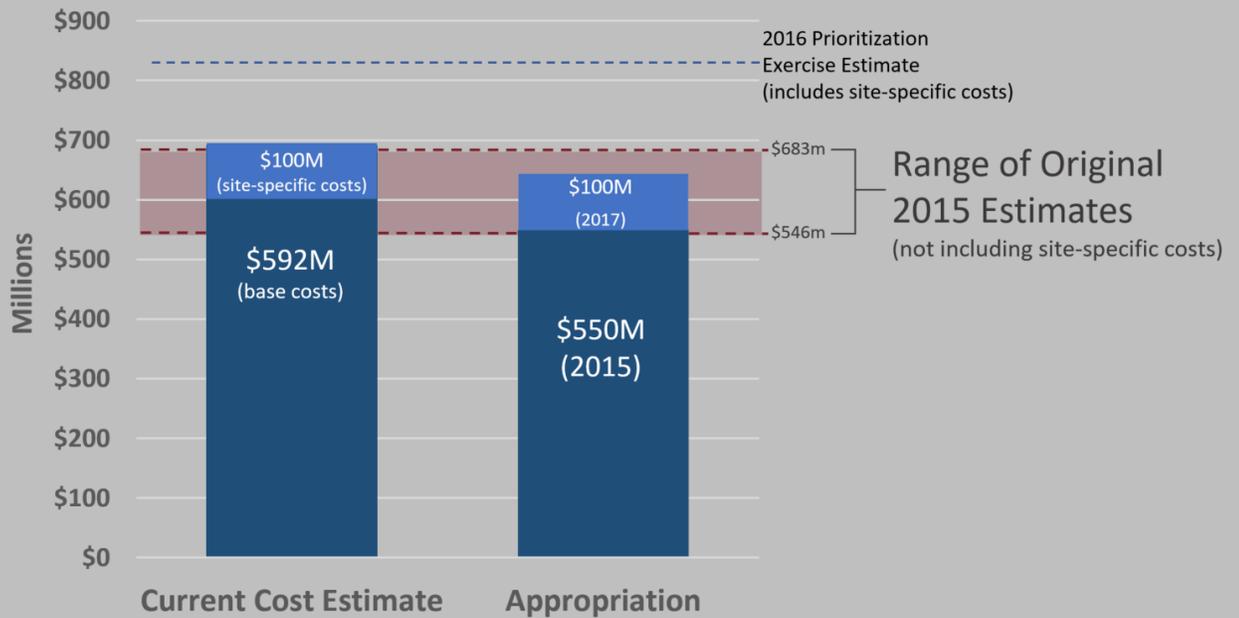


Prison Development Budget

Legislative Estimates and Approach | January 31, 2018

Cost Estimates Explained



Facts on Original \$550 Million Appropriation



Meant to Anchor Costs

To ensure all parties work in a fiscally responsible manner and to prevent a creep in project scope.



Anticipated Future Appropriations

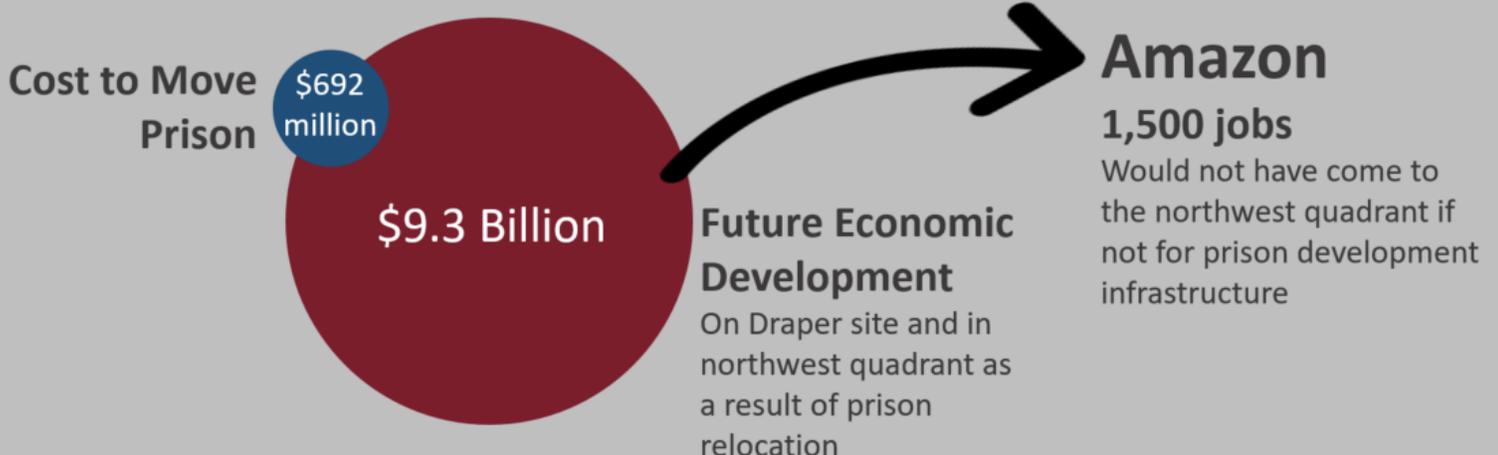
Did not include site-specific costs, which were later learned to be \$154 million for the selected site. Additional appropriations will be strictly based on demonstrated needs.



Higher- than Expected Inflation

Construction industry inflation has risen at higher rate than rest of economy, averaging 8.6% over the last three years. This degrades the value of the appropriation.

The Big Picture



Facts on Original \$550 Million Appropriation

The Legislature's original 2015 \$550 million appropriation was intentionally set close to the lowest existing estimates for three primary reasons:

- **Cost Anchoring** - To ensure all parties worked in a fiscally responsible manner and to prevent a creep in the scope of the project.
- **Planning for Future** – When the Legislature made the first appropriation, it had not selected a prison site and site-specific costs were unknown. Appropriating all funding upfront with incomplete knowledge would have been unwise. The Legislature anticipated that it might need to make additional appropriations. The Legislature later learned the site-specific costs for the selected site were \$154 million.
- **Inflation and Cost Escalation** – At the time the appropriation was made, it was difficult to project construction cost inflation as the economy recovered from the Great Recession. The construction industry has realized an average 8.6% inflation rate over the last three years. The prison project is facing the same construction cost challenges as other large projects.

The Big Picture

The state is creating economic development opportunities in two ways: 1) by freeing the land in the Silicon Slopes region for economic development; and 2) providing infrastructure for economic development in the northwest quadrant of Salt Lake City. The following are Legislative estimates of the costs and benefits of prison relocation:

Cost of Relocation	Economic Benefit of Prison Relocation
\$692 million Cost to construct new prison	\$6.6 Billion Economic benefit of developing NW quadrant.
	\$2.7 Billion 12- year economic benefit of redeveloping the Draper prison property.
	36,213 Jobs Created by developing the NW quadrant in Salt Lake City.
	23,334 Jobs Created over 12 years by redeveloping the Draper prison property.
	\$Hundreds of Millions Tax revenue generated from development of NW quadrant (actual estimates unknown).
	\$178 million Tax revenue generated over 12 years by redeveloping the Draper prison property.

What information was available when?

2014

The decision to move the prison was based on:

- estimates that the existing prison needed at least \$238 million in repairs; and
- estimates that the Utah economy could realize billions in economic benefits by relocating the prison.

While it was clear the benefits dwarfed the costs when the Legislature and governor made the decision to move the prison, new prison construction estimates were highly variable because important factors, such as how many beds the new prison would have and where it would be located, were unknown.

2015

Winter – Cost estimates ranged from \$546 to \$683 million, depending upon the size of the prison. This did not include site-specific costs. The Legislature allocated \$550 million for the prison (\$470 million in bonding, \$80 million in cash) in advance of the final site selection. This appropriation was largely intended to cover the cost of the land and buildings, but not unknown site-specific costs. The Legislature anticipated that it might need to make additional appropriations.

August – The Legislature approved the Prison Relocation Commission's recommendation to move the prison to Salt Lake City. Every site then under consideration would have required additional funding; the Salt Lake City site was estimated to require an additional \$154 million.

2016

Spring – DFCM contracted with an architect, who engaged the Department of Corrections in a prioritization exercise. Together, they created a program for the prison that met justice reinvestment goals, met national standards, and addressed potential future needs of a growing Utah population. This initial programming is common practice and usually exceeds anticipated budgets. The consultant who assisted with the design exercise estimated the cost of the program to be \$860 million.

Summer/Fall – DFCM and the Department of Corrections, with their consultants, conducted an exhaustive line-by-line review of the program estimate and reduced it to \$700 million.

2017

Spring – As planned, the Legislature authorized another \$100 million in bonding to account for site-specific costs of the selected site, bringing the total allocation to \$650 million.

Summer/Fall – In an effort to continue to reduce costs, overall off-site and on-site costs were reduced to right-size the space and meet the appropriation. The resulting and current estimate is \$692 million – a 19.5% reduction from the highest estimates. This current estimate is only \$9 million more than the upper range of the original 2015 estimates, even though it *also includes site-specific costs* when the 2015 estimates did not.

2018 and Beyond

The current \$692 million figure is an estimate and the final costs of the project will not be known until it is placed for bidding. There are still variables to this estimate, including cost escalation due to high labor demands and rising material costs. DFCM anticipates possible appropriation requests in the 2019 general session. Decisions regarding site transition, fixtures, furniture, and equipment may also affect final costs.

Through the estimation process, numbers are reviewed and challenged by DFCM, BDK (the state's consultant), the contractor team (general contractor, architects, engineers, etc.), and the governor's office. This serves as a multi-faceted cross-check to ensure estimates are as accurate as possible.