



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **6 VAC 15-80 – Standards for Planning, Design, Construction and Reimbursement of Local Correctional Facilities**

**Department of Corrections**

April 15, 2008

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### **Summary of the Proposed Amendments to Regulation**

The Board of Corrections (Board) proposes to amend its regulations that govern state reimbursement to localities for the building of local or regional jails. Specifically, the Board proposes to reword several definitions and promulgate into regulation its current policy which requires, and set parameters for, value management assessments (VMA) as a part of the jail planning process.

### **Result of Analysis**

There is insufficient data to weigh the magnitude of costs versus benefits for this proposed regulation. Costs and benefits are discussed below.

### **Estimated Economic Impact**

Currently regulation does not address value management analysis (VMA)<sup>1</sup> but current Board policy requires that VMA be performed during the planning phase of any jail building or renovation projects for which state reimbursement will be requested. A VMA currently must be performed at the end of the design development phase (when plans are 35-40% complete). In addition, for large projects in excess of 250 beds, a second VMA is recommended at the construction documents phase (when plans are 90-95% complete). The VMA must be done by a value management team (independent of the locality or authority building the jail) that is headed by a certified value specialist or certified value engineer. Board policy, and this proposed regulation, mandate that the VMA "shall involve a three to four day exercise at the design

development phase or four to five days each at the design development and construction document phases" and also requires certain activities occur on certain days of the VMA. At a minimum, the VMA must include assessment of "(facility) systems, products/materials, quality, efficiency, functionality, long term design and operational needs and cost". The proposed regulation defines long term design and operational needs as those that arise beyond ten years. Localities (or regional authorities) must inform the appropriate staff within the Department of Corrections (DOC) at least three weeks (15 working days) before a VMA is to take place so that DOC can have a representative on-site for any formal presentation of results and recommendations.

The long-term benefits that may accrue to the state and localities (regional authorities) because of VMA will likely vary and will likely depend on how accurately long term (expected lifetime) costs are calculated. If the costs for various combinations of capital expenditures (building costs, equipment costs, etc) are compared over a long time span with proper discounting for expected future repair and/or replacement costs, then VMA is likely to save both the state and localities (regional authorities) money. If, on the other hand, present cost savings for cheaper building methods/materials/equipment are too heavily weighted and costs for repair/replacement that will likely be needed sooner are not given due consideration, then facilities will end up costing more. Project budget constraints, and a project horizon that defines anything after ten years as long term, may lead VMA teams to make recommendations that save money during construction but that end up increasing costs over the usable life of a jail. An example of this type of total cost increase has been reported at Greenville Correctional Center. Greenville opened in 1990 and, because of budget constraints, was built with a cheaper roof (with a 15 year rather than a 30 year warranty) than best practices would have otherwise dictated. The roof lasted fifteen years but has now warped and will need to be replaced.

DOC reports that a one stage (three to four day) VMA costs between \$35,000 and \$60,000; a two stage VMA, where the VMA team works a total of eight to ten days would cost more. Requiring VMA will provide a net benefit for the paying entities if cost savings that accrue on account of VMA are greater than these VMA fees. Any savings that are realized would likely be apportioned according to the state reimbursement guidelines which allow

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<sup>1</sup> Value management analysis is an assessment of building methods, materials and equipment for a project. The aim

reimbursement of 25% of the capital costs of building local jails and 50% of the capital costs of building regional jails.

As described above, this proposed regulation lays out, in a very detailed way, how VMA must be done. This regulation might be improved if the Board had a performance goal instead of this prescriptive language as this would allow regulated entities to find the least expensive, least time consuming method to accomplish the same ends.

## **Businesses and Entities Affected**

This proposed regulatory action will affect all localities and regional authorities that have recently built, or will build, jail facilities. DOC reports that there are seven already approved jail projects, and five projects for which localities are seeking approval, which would be immediately affected by this proposed action.

## **Localities Particularly Affected**

Localities that have recently built, or plan on building, jail facilities will be particularly affected by this proposed regulatory action.

## **Projected Impact on Employment**

Because VMA is already required by Board policy, this regulatory action will likely have no impact on employment in the Commonwealth.

## **Effects on the Use and Value of Private Property**

This regulatory action will likely have no affect on the use or value of private property in the Commonwealth.

## **Small Businesses: Costs and Other Effects**

This regulatory action sets rules for governmental entities rather than private interests. Accordingly, small businesses in the Commonwealth are unlikely to incur any costs on account of this regulatory action.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

Small businesses in the Commonwealth are unlikely to incur any costs on account of this regulatory action.

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of this analysis is to find the least costly way to build and maintain the facility being analysed.

## **Real Estate Development Costs**

This regulatory action will likely have some affect on real estate development costs for jails in the Commonwealth. If the benefits of VMA outweigh the costs, real estate development costs will decrease. If, on the other hand, the costs of VMA outweigh the benefits, real estate development costs will increase.

## **Legal Mandate**

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.