



# Comparing the Merits of Lease and Bond Options for Replacing the Lansing Correctional Facility

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December 7, 2017



# Summary

- Audit Question
- Background
- Audit method
- Findings
- Questions??



# Audit Question

1. How do the Costs, Benefits, and Risks of Bonding Versus Leasing Compare as a Way to Pay for the Improvements to the Lansing Correctional Facility?



# Background

- New Lansing Correctional Facility
  - *Lansing is the oldest prison in Kansas*
    - *Original facility built 1860's*
  - *KDOC announced Feb. 2017 plan to rebuild*
  - *Options*
    - *Private company build then lease to state*
    - *More traditional—bond financing*



# Background

- Press
  - *“Plan for new Kansas prison faces skepticism from lawmakers”*
  - *“Negotiations for New Lansing Prison Taking Place in Private”*
  - *“Kansas plan would halve staffing at new Lansing prison”*
  - *“Lansing inmates would be temporarily relocated if new Kansas prison is built”*



# Background

- Legislative Concerns
  - *That KDOC had already decided on lease option*
  - *That legislative approval would not be sought*
  - *That it was a back door to privatizing the prison(s)*
  - *About KDOC and transparency surrounding recent security incidents at other facilities*



# Background

- Time constraints
  - *RFP was out*
  - *Scaled back our work*
  - *Estimates only*
    - *Not based on actually bid information*
    - *Focus on analysis, not actual totals*



# Audit Method

- Life Cycle Cost Analysis
  - *Real Costs*
  - *Financing Mechanism – Cash Flows*
  - *Discount for Net Present Cost*





# Real Costs

- *Design and Construction*
- *Ongoing Maintenance*
- *Rehab & Repair Costs*



# Financing – Cash Flows

- Annual bond debt service payments
- Annual lease payments
- Final purchase price
- Annual maintenance costs
- Annual rehab & repair costs



# Discounting for Net Present Cost

- Makes all future expenditures directly comparable



# Main Finding

- Our Analysis Found the Most Cost Effective Option to be...
  - *Bond Financing with*
  - *Contracted (Private) Maintenance*
- Not surprising because
  - *State would likely have lower borrowing costs than private contractor*
  - *Private contractor has taxes to pay that state doesn't*
  - *Private contractor wants to make a profit*



# Other Finding

- Our result was different from KDOC preliminary estimates because
  - *They didn't include final purchase price*
  - *They did not discount*
  - *They did not compare to bond financing with private maintenance (only state maintenance)*
  - *They used lower construction costs for leasing (higher for bonding)*



# Update

- Bids are in
  - *No construction only bids were received*
    - *Possibly an issue related to how KDOC bid the project*
  - *Still don't know the companies*
  - *Still in negotiations*
  - *Still need approval*



*Questions?*