**State of Washington**

# Joint Legislative Audit and Review Committee

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## Department of Corrections Dairy Farm Cost/Benefit Analysis Report 98-8

By a proviso in the supplemental budget, the legislature directed the Joint Legislative Audit and Review Committee (JLARC) to conduct a cost/benefit analysis of the Department of Corrections' (DOC) Monroe Dairy Farm and to make recommendations concerning the disposition of the farm. The proviso was included with a $1.2 million appropriation to build a new animal waste lagoon at the farm. The farm is operated by the Correctional Industries (CI) program and provides jobs for about 123 inmates.

The cost/benefit analysis found that the costs of operating the farm exceed the quantified benefits. However, the report does not recommend moving or discontinuing the operations of the farm at this time. Costs for capital expenditures that have already been spent are a major reason why costs exceed quantified benefits. These sunk costs will not be recovered if the farm is closed or moved.

An unquantified benefit of the farm is the value of the inmate jobs provided. Because the costs of the farm exceed the quantified benefits, the operation of the farm can be viewed in terms of its annual cost per inmate job provided. The report recommends that DOC conduct similar cost/benefit analyses when considering alternatives for capital investments in CI facilities.

The $1.24 million cost of the new animal waste lagoon is high and is not supported by the economics of the farm. The report recommends that future capital expenditures at the dairy farm be supported by the farm's operations.

### Cost/Benefit Analysis

The JLARC cost/benefit analysis identifies the quantified costs and benefits of the operations of the Monroe Dairy Farm. The report found that the costs of the farm exceed the quantified benefits for each year between 1995 and 1998. While DOC financial statements suggest the farm earns a small profit, these statements do not account for all of the costs and benefits of the farm. When such costs and benefits are included (e.g. capital costs), the costs of the farm exceed the quantified benefits.

An unquantified benefit of the farm's operations is the value of the 123 inmate jobs provided. Because the costs of the farm exceed its quantified benefits, the results of the cost/benefit analysis can be viewed in terms of the cost per inmate job provided.

The report recommends that DOC conduct similar cost/benefit analyses when considering future capital investments to expand correctional industries. This will help the department to identify the most economical investments.

## Disposition of the Farm

While the costs of the farm exceed its quantified benefits, the report does not recommend moving or discontinuing the operations of the farm. The inclusion of capital costs is a major factor in the costs of the farm exceeding the quantified benefits. Many of the capital expenditures needed to maintain the viability of the farm over the next ten years have already been spent. These sunk costs would not be recovered if the farm is moved or closed. Therefore, there is little economic justification for moving or closing the farm at this time.

Economics of the New Animal Waste Lagoon

The $1.2 million cost of the new animal waste lagoon at Monroe is higher than the cost of similar facilities constructed in the private sector. It is also higher than an amount that could be justified by the economics of the dairy farm. In other words, a private sector dairy farm would be unable to spend this amount of money for animal waste handling and still earn a profit.

The report found several reasons for the high cost of the facility, some of which may have been controllable by the department and some of which were probably not controllable.

Among the factors leading to the high cost are:

- Certain aspects of the design exceeds the standards required by the Natural Resource Conservation Service.
- DOC overhead including design fees, project contingencies, and project management costs.
- The public works contracting process requiring the payment of prevailing wages.

The report recommends that future capital expenditures at the dairy farm be supported by operating revenues generated by the farm. This will provide additional incentives for DOC to identify cost/effective capital investment alternatives.

**Recommendations**

1. The Department of Corrections should conduct a cost/benefit analysis of various capital investment alternatives to expand the number of inmate jobs provided by Correctional Industries.

2. Future capital improvements at the Dairy Farm should be financed from revenues generated by the operations of the Farm.