

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 11 (Delegate Folden)
 Health and Government Operations

**Correctional Services - Maryland Correctional Enterprises Goods and Services -
 Sales to Individuals Employed by the State Government**

This bill allows the sale of goods and services of Maryland Correctional Enterprises (MCE) on the open market to an individual employed by the State government.

Fiscal Summary

State Effect: Special fund revenues increase by \$319,100 in FY 2019 from the sale of additional goods and services. Special fund expenditures increase by \$309,500 in FY 2019 for supplies. Out-year estimates reflect annualization and a 1% decrease in sales annually.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	\$319,100	\$408,900	\$393,000	\$377,600	\$362,900
SF Expenditure	\$309,500	\$396,600	\$381,200	\$366,300	\$352,000
Net Effect	\$9,600	\$12,300	\$11,800	\$11,300	\$10,900

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: MCE (formerly State Use Industries) is an organization in the Division of Correction (DOC) that:

- is financially self-supporting, generates revenues for its operations and capital investments, and reimburses DOC at a reasonable rate for services exchanged between DOC and MCE;
- provides meaningful work experiences for inmates;
- seeks to develop industries that provide full-time work experience or rehabilitation programs for all eligible inmates;
- operates correctional industries in an environment that resembles as closely as possible the environment of private-sector business operations; and
- makes DOC responsible for and accountable to the Secretary of Public Safety and Correctional Services and the Governor for the MCE program.

In addition, DOC must annually submit a complete financial and operational report of MCE and its revolving fund to the Governor, the Secretary of Public Safety and Correctional Services, and the Secretary of Budget and Management.

MCE is allowed to market goods and services to units of State government, political subdivisions of the State, units of the federal government, governmental units of other states, and their political subdivisions. Goods and services manufactured by MCE are prohibited from being sold on the open market unless they fall under one of the specified exceptions in statute.

Background: MCE provides work and job training for inmates that is funded by sales revenues from the goods it produces and the services it supplies to local, State, and federal agencies. These goods and services are also available for purchase by charitable, civic, educational, fraternal, or religious organizations. MCE's cost is at or below the prevailing average market price. MCE currently provides a variety of services, including data entry, mailing and distribution, transportation and moving, agricultural services, and furniture restoration.

MCE had total cash sales in fiscal 2017 of \$59 million. According to the National Correctional Industries Association (NCIA), MCE's net sales continue to exceed the national average growth. A survey by NCIA of the 24 other states that permit the sale of products and services to state employees indicates that about 0.78% of total sales revenue is attributable to such sales. MCE anticipates that this bill will increase production and inmate training hours resulting in employment to a greater number of inmates.

State Fiscal Effect: Special fund revenues from additional sales by MCE increase by an estimated \$319,119 in fiscal 2019, which accounts for the bill's October 1, 2018 effective date. This estimate is based on information provided by MCE relating to the experience of other states that allow sales to state government employees. As noted above, among the states that permit the sale of goods by prison industry programs to state government employees, such sales represent an average of 0.78% of total sales. MCE advises that its fiscal 2019 sales are projected to total \$54.6 million. Based on the experience in other states, MCE projects that, as a result of the bill, sales increase by 0.78% annually beginning October 1, 2018.

To accommodate this increase in sales, special fund expenditures for supplies increase by an estimated \$309,546 in fiscal 2019, which also accounts for the bill's October 1, 2018 effective date.

Future year estimates are annualized and assume a 1% decrease in sales annually.

Additional Information

Prior Introductions: HB 1147 of 2011 passed in the House but received an unfavorable report from the Senate Judicial Proceedings Committee.

Cross File: None.

Information Source(s): Department of General Services; Department of Public Safety and Correctional Services; Department of Legislative Services

Fiscal Note History: First Reader - January 16, 2018
md/lgc

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