

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 839 (Delegate Benson, *et al.*)
 Commerce and Government Matters

Public Safety - Correctional Institutions - Telephone Contracts

This bill prohibits contracts that provide telephone service for inmates from providing for the State or a local government to receive a commission or other form of revenue. The bill prohibits the State or a local government from receiving a commission or other revenue from such contracts. The bill also requires that any reduction in the cost of a telephone contract for inmates due to the above provisions be reflected in the charges for inmate calls.

The bill is effective June 1, 2002, and must be only applied to State or local government inmate telephone contracts entered into on or after that date.

Fiscal Summary

State Effect: Special fund revenues would decrease by about \$7.3 million annually beginning in FY 2003. Special fund expenditures are not directly affected. However, unless supplanted, Inmate Welfare Fund expenditures could decrease by corresponding amounts.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
SF Revenue	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)

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

Local Effect: Local revenues would decrease by varying amounts, totaling about \$2.9 million statewide.

Small Business Effect: None.

Analysis

Current Law: The general tariff of a telecommunications carrier is required to be received, reviewed, and approved by the Public Service Commission (PSC). However, PSC is not involved in State contract negotiations with carriers, nor does it review or regulate to any extent the rates of such contracts.

Background: There are two current contracts for telephone service in State facilities. Verizon Communications has the contract for local calling service, and AT&T is the long-distance carrier. Both contracts are due to expire on June 30, 2002. Under a proposal taken to the Board of Public Works by the Department of Budget and Management (DBM) last May to replace the current contracts after expiration, the State would have received a higher commission rate of 58.5% for local calls and 63% for long distance calls.

State agencies do not contract directly with telephone service providers. DBM is responsible for the contracts relating to the use of telephones at all State facilities, including State correctional facilities. Generally, State agencies receive commissions from the vendor and deposit these revenues into the general fund. However, Department of Public Safety and Correctional Services (DPSCS) facilities are allowed to retain the commissions to support and direct inmate services.

The contract governing inmate calls from DPSCS facilities is structured to be a revenue producing instrument for the agency. DPSCS currently includes about \$7.3 million from the telephone contract in its annual budget appropriation. The funds are expended for items benefiting the inmate population including education and vocational training, hygienic supplies for indigent inmates, salaries relating to clergy and medical staff, special recreational equipment and supplies, and support of the inmate grievance process and inmate legal support.

According to PSC, the five largest telephone service providers for operator-assisted telephone calls in the State are AT&T, Frontier Communications of the Mid-Atlantic, Sprint, Verizon, and WorldCom, Inc. The rates for these companies are as follows:

<u>Provider</u>	<u>Payphone Surcharge</u>	<u>Payphone Rate per Minute</u>	<u>Station Collect Surcharge</u>	<u>Station Collect Rate Per Minute</u>
<i>AT&T</i>	\$3.45	\$0.45	\$3.45	\$0.45
<i>Frontier</i>	\$3.50	\$0.09 - \$0.19	\$3.50	\$0.09 - \$0.19
<i>Sprint</i>	\$4.90	\$0.45	\$3.45	\$0.45
<i>Verizon</i>	\$3.00	\$0.06 - \$0.31	\$2.00	\$0.06 - \$0.31
<i>WorldCom</i>	\$4.90	\$0.16 - \$0.28	\$1.55	\$0.16 - \$0.28

A station collect call uses an automated service to allow a customer to place a collect call to a specific “station” or phone number, but not to a specific person. The call is placed without the use of an operator, but instead records the calling party’s name then plays the name back to the called party so the called party can decide whether or not to accept the call.

Under the current contracts, the State receives a commission of 20% on local calls and service from Verizon, and 42% on long distance calls from AT&T.

State Fiscal Effect: DPSCS reports that all calls made by inmates at correctional facilities in the State, local and long distance, are made through an automated system. Currently, the statewide long distance charge for the first minute of a collect call from any publicly accessible pay phone is \$4.95. Inmates’ pay phone charges are \$3.45 for the first minute of a long distance call and a flat call charge of \$0.85 for a local call.

Under the provisions of this bill, Inmate Welfare Fund revenues would decrease by about \$7.3 million annually beginning with the onset of new contracts for local and long distance calls. Since the current contracts are due to expire on June 30, 2002, the loss of revenue would begin in fiscal 2003. Special fund expenditures from the Inmate Welfare Fund would also have a corresponding reduction. Any monies unspent or unencumbered in the fund after the beginning of fiscal 2003 would be expected to be spent for the same allowable purposes as is currently in place for fund expenditures.

While the bill requires that inmate phone charges be reduced to reflect the non-payment of commissions to State or local governments, the extent or magnitude of any actual reduction in charges for inmate telephone calls would depend on the result of competitive bidding, and cannot be reliably predicted at this time.

Local Fiscal Effect: Statewide, local income from commissions and other revenue related to inmate telephone calls totals approximately \$2.9 million. Future contracts for inmate telephone calls under this bill would reduce revenue to local governments and local correctional facilities. Income from such contracts varies widely. For instance,

Washington County's revenue from inmate telephone calls is about \$20,000 annually, while Prince George's County receives about \$660,000 annually. Twenty county detention facilities offer inmate telephone calls through the State contract. Thirteen of Maryland's counties deposit telephone commissions to the county general fund.

Additional Information

Prior Introductions: In 2001, a bill relating to State and local government telephone contracts for inmate calls (HB 663), which would have required certain studies to be conducted, passed the House, received a hearing before the Senate Finance Committee, and had no further action taken on it.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Public Safety and Correctional Services, Department of Legislative Services

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