## **Department of Legislative Services**

Maryland General Assembly 2005 Session

#### FISCAL AND POLICY NOTE

House Bill 1541 (Chairman, Health and Government Operations Committee)
(By Request – Departmental – Public Safety and Correctional Services)
Health and Government Operations

Judicial Proceedings

#### **Correctional Services - State Use Industries - Construction**

This departmental bill authorizes the Commissioner of Correction and the General Manager of State Use Industries (SUI), with approval of the Secretary of Public Safety and Correctional Services, to develop programs to provide "construction" for State correctional facilities. The programs established under this provision subsection are not subject to the procurement provisions of the Correctional Services Article and Maryland's General Procurement Law (except for its definitions of terms).

A construction project under these provisions may not exceed \$500,000 in total costs as determined by the Secretary.

# **Fiscal Summary**

**State Effect:** Annual increases of SUI revolving fund revenues and expenditures of varying amounts, as determined by capital construction plans for the Division of Correction (DOC). Although individual project costs are limited to \$500,000, some annual costs may exceed that amount due to multiple projects.

Local Effect: None.

**Small Business Effect:** The Department of Public Safety and Correctional Services (DPSCS) has determined that this bill has minimal or no impact on small business (attached). Legislative Services disagrees with this assessment. This bill could result in some DOC construction projects being performed by SUI rather than a private sector contractor or subcontractor.

### **Analysis**

**Bill Summary:** "Construction" means the process of building, altering, improving, or demolishing an improvement to real property. It includes any major work necessary to repair, prevent damage to, or sustain existing components of an improvement to real property. It does not include the maintenance or routine operation of an existing improvement to real property, or activities related to an energy performance contract.

**Current Law:** SUI is an organization in DOC that:

- is financially self-supporting, generates revenue for its operations and capital investments, and reimburses DOC at a reasonable rate for services exchanged between DOC and SUI;
- 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 SUI program.

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

**Background:** SUI provides work and job training for inmates incarcerated in DOC funded by the sales revenue 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. SUI's cost is at or below the prevailing average market price.

The fiscal 2006 capital budget request includes eight DPSCS projects for a total of approximately \$49.7 million. Seven of these projects are funded by GO Bonds (\$47.9 million), and one is funded by special fund PAYGO (\$1.8 million). The current Capital Improvement Program (CIP) includes two projects that were not included in the previous 2004 CIP: the State Use Industries Warehouse expansion at the Maryland Correctional Institution – Hagerstown, and the Fire Safety Improvements at the Patuxent Institution. The two new projects represent \$2.0 million of the fiscal 2006 request.

In addition to new projects, the cost estimates for several projects have increased in this year's CIP. The Patuxent Institution Electrical Service upgrade was estimated at \$5 million in last year's CIP but increased by \$300,000 in the fiscal 2006 request. Costs for the Division of Pretrial Detention and Services Property Acquisition and Demolition project have increased by \$940,000 in this year's CIP. Planning costs for the new warehouse at the Western Correctional Institution increase by \$38,000, while the total project cost increased by \$438,000. Finally, the request for the third housing unit at the North Branch Correctional Institution is \$36.2 million, while last year's CIP planned to build both housing units three and four for \$53.8 million.

The State Use Industries Warehouse expansion at the Maryland Correctional Institution expects to use supervised construction services (labor) supplied by SUI, as a subcontract by the general contractor for the project.

As of January 25, 2005, SUI's revolving fund had a balance of \$9,040,038.

**State Fiscal Effect:** This bill allows DOC and SUI to establish a program through which up to \$500,000 (per project) of the annually budgeted capital program appropriation for DPSCS could be used as on-the-job training for participating inmates. SUI advises that funds would be transferred from the overall capital program to SUI's revolving fund, as needed for each project based on bid estimates and prevailing wage requirements. In any given year, SUI estimates that approximately \$450,000 could be expected to be transferred to the revolving fund for the program. In fiscal 2006, this would represent less than 1% of the expected capital appropriation for the year (\$49.7 million). The bill only restricts spending for this program to a limit of \$500,000 per project. Total annual program spending could far exceed the \$450,000 estimate, but would also have to be within the annual limitations of the capital program appropriation. Any contractual supervisors needed for each project would be paid (including fringe benefits) out of each project allotment under the program.

Legislative Services also notes that SUI programs for DOC capital construction projects could be developed absent the provisions of this bill – as will be accommodated in fiscal 2006 with the construction of the SUI warehouse. This bill primarily allows the transfer of DPSCS capital program appropriations to the SUI revolving fund for inmate labor on DOC construction projects (up to \$500,000 per project) without having to tap existing revolving fund balances for such purposes.

The extent to which this bill could result in savings on construction projects for DPSCS cannot be reliably estimated and would tend to vary by project.

### **Additional Information**

**Prior Introductions:** None.

Cross File: None.

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

Department of Legislative Services

Fiscal Note History: First Reader - March 22, 2005

n/jr

Analysis by: Guy G. Cherry Direct Inquiries to:

(410) 946-5510

(301) 970-5510