

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 145 (Chair, Judicial Proceedings Committee) (By Request -
 Departmental – Public Safety and Correctional Services)

Judicial Proceedings

Health and Government Operations

Correctional Services - Maryland Correctional Enterprises - Goods and Services

This departmental bill repeals a prohibition against the sale of services by Maryland Correction Enterprises (MCE) on the open market. The bill also authorizes MCE to sell goods on the open market to an individual employed by the State. MCE goods may not be sold for use in any political campaign activity.

Fiscal Summary

State Effect: Potential special fund revenue increase of about \$1.0 million in FY 2009. Out-year revenue growth is projected at 2% annually. Special fund expenditures may or may not be directly affected. MCE has not budgeted any additional expenditures as a result of the additional revenues.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	\$1,000,000	\$1,020,000	\$1,040,000	\$1,060,000	\$1,080,000
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$1,000,000	\$1,020,000	\$1,040,000	\$1,060,000	\$1,080,000

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

Local Effect: None.

Small Business Effect: The Department of Public Safety and Correctional Services has determined that this bill has minimal or no impact on small business (attached). Legislative Services disagrees with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: MCE (formerly State Use Industries) is an organization in 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: Every state has a prison industries program. According to the National Correctional Industries Association (NCIA), 31 states do not prohibit the sale of goods or services by their prison industry program. The federal program, UNICOR, is allowed to sell services to the general public. According to MCE, restrictions against the sale of goods and services to the private sector have historically placed impediments against the State program in terms of generating revenues. MCE believes that this bill would increase revenues and broaden MCE's business market providing for increased training and employment to a greater number of inmates.

MCE provides work and job training for inmates incarcerated in DOC 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 the following services: data entry, mailing and distribution, transportation and moving, AutoCAD design, and furniture restoration.

State Fiscal Effect: MCE had total cash sales in fiscal 2007 of about \$47.8 million. Less payments to suppliers (\$32.7 million) and payments to employees (\$12.5 million), the net cash provided by operating activities totaled \$2.6 million. MCE had a special fund balance of \$9.4 million at the close of fiscal 2007. The year-end balance for fiscal 2006 was \$8.2 million. According to NCIA, MCE has experienced a 10-year growth in net sales of 69.3%. The national average growth during that period was 26.1%.

With the exemptions provided under this bill, MCE estimates that overall sales would increase by about 2% annually, which translates to increased sales of about \$1.0 million in fiscal 2009. This is admittedly a conservative estimate since a survey of other states by MCE revealed that eliminating these restrictions could increase sales by as much as 16%. The states which most closely resemble MCE (Kentucky and South Dakota) yielded more modest revenues of between 2% and 6% annually. MCE's current annual business plan reflects the more modest 2% projected annual increases. Any significant increase in sales revenues could provide for an increase in inmate participation.

Small Business: It is assumed that private sector small businesses engaged in the open market sale of identical or similar services as those provided by MCE could be negatively impacted as a result of this bill. To a lesser degree, this effect could also apply to permitting the sale of MCE goods to employees of the State or a State-aided or State-controlled entity. The magnitude of such effects cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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