

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1147

(Chair, Health and Government Operations
Committee)(By Request - Departmental - Public Safety
and Correctional Services)

Health and Government Operations

Judicial Proceedings

**Correctional Services - Maryland Correctional Enterprises Goods and Services -
Sales to State Employees**

This departmental 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 \$438,000 and expenditures increase by \$262,800 in FY 2012. Out-year revenues and expenditures reflect annualization and an assumed 2% growth rate.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
SF Revenue	\$438,000	\$595,700	\$607,600	\$619,700	\$632,100
SF Expenditure	\$262,800	\$357,400	\$364,600	\$371,800	\$379,300
Net Effect	\$175,200	\$238,300	\$243,000	\$247,900	\$252,900

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.

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: Every state has a prison industries program. According to MCE, 32 states do not have an open market restriction and may sell goods or services to the private sector. 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 will 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 a variety of services, including

data entry, mailing and distribution, transportation and moving, AutoCAD design, and furniture restoration.

State Fiscal Effect: MCE had total cash sales in fiscal 2010 of \$50.4 million – down from \$52.9 million in fiscal 2009. Less payments to suppliers (\$32.5 million) and payments to employees (\$15.4 million), the net cash provided by operating activities totaled \$2.6 million. MCE had a special fund balance of \$11.1 million at the close of fiscal 2010. The year-end balance for fiscal 2009 was \$14.8 million. According to the National Correctional Industries Association, MCE’s net sales continue to exceed the national average growth.

A survey by MCE of other states that permit sales of products and services to state employees indicates about 1% of sales revenue from such sales. Under the bill, MCE estimates that overall sales would increase by about \$438,000 in fiscal 2012, which accounts for the bill’s October 1, 2011 effective date, and increases by about 2% annually. Any significant increase in sales revenues could provide for an increase in inmate participation.

To accommodate this increase in sales, MCE also estimates an increase cost of supplies of \$262,800 in fiscal 2012, which also accounts for the bill’s October 1, 2011 effective date, and similarly increases by about 2% annually. Legislative Services notes that the positive net effect of \$175,200 in fiscal 2012, as well as similar positive net effects in the out-years, would likely increase payments to inmate employees by similar amounts or provide additional job training opportunities to inmates.

Small Business: In previous years, MCE has reported that its current market share in any product category is less than 3%. MCE advises that this bill will have minimal or no impact on small businesses in the State. However, Legislative Services assumes that private-sector small businesses engaged in the open market sale of identical or similar products or services as those which would be provided by MCE as a result of the bill could be negatively impacted. The magnitude of such an effect cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 15, 2011
ncs/hlb

Analysis by: Guy G. Cherry

Direct Inquiries to:
(410) 946-5510
(301) 970-5510