Department of Public Safety and Correctional Services

Maryland Correctional Enterprises
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BILL: House Bill 1123 - Correctional Services – Maryland Correctional Enterprises Minimum Wage and Inmate Financial Accounts

DATE: March 3, 2023

LETTER OF INFORMATION:

MCE strives to teach real-world, marketable, hard and soft skills to incarcerated persons (IPs) across that state of Maryland. The passage of HB1123 would have a tremendous impact on the operations of MCE and the Department of Public Safety and Correctional Services. In order to maintain equal or expanded programming, MCE would require additional, significant contributions from the state's general fund as allowed in subsection (c) of the Maryland Correctional Services Code § 3-507:

"…General Fund money may be appropriated to Maryland Correctional Enterprises to be used for the direct expenses of training inmates".

With the implementation of HB1123, and Maryland moving towards a minimum wage of $15.00/hour by 2023, MCE's expenditures for IP stipends would increase from $1.8 million in FY'22 to $37 million for 1200 program participants in the first full fiscal year this bill would be implemented, FY'24. This would undoubtedly cause the bankruptcy of MCE and the layoff and/or relocation of almost 200 dedicated MCE civilian staff. As more program participants are added to our program the annual expenditures will increase by $3 million for every 100 participants. In future years, in alignment with the anticipated goals of MCE, expenditures for IP stipends would exceed $45 million annually.

Passage of this bill would eliminate our ability to maintain a self-supporting status. Should the General Fund not be able to sustain the payment of stipends, MCE would face a decline in our operations which would directly result in decreased IP programming. In turn, this would place a further strain on the supervision duties of state facilities. It can be assumed that a reduction in the MCE participants would cause an increased need for staff in the institutions resulting in increased IP idleness and additional incarceration costs for DPSCS. **Without significant contributions from the general fund**, in excess of the current budget, passage of this bill would result in a complete deterioration of the rehabilitation and reentry service for the incarcerated individuals in the State of Maryland. This would be detrimental to every community in Maryland, as 95% of incarcerated individuals will be returning home at some point. Consideration should also be given to those within the community who are making this same rate, but also must pay for living expenses, including taxes. **Those who are incarcerated would have discretionary income far greater than the discretionary income of most Marylanders as IPs do not receive deductions from stipends unless they are court mandated.**

Assuming that MCE would be required to maintain production, our revenues would continue on the current trajectory. However, our funding capabilities would be diminished. MCE's self-supporting status would be non-existent and we would require General Fund contributions in excess of $37 million dollars in FY'24 and exceeding $45 million in future years. Should MCE be forced to downsize our training participants, we would see a decline in our revenues based on participant availability. MCE strives to increase business opportunities in order to maximize our ability to provide training to our incarcerated participants.

Revenues generated by MCE are utilized to acquire the raw materials, equipment, machinery, and other resources necessary to continue to offer additional opportunities for incarcerated individuals. **A Financial Summary of MCE is included in Appendix A found on the following page of this letter**. This provides a detailed view of MCE's expense allocation and demonstrates our inability to supplement the costs of this bill solely through Special Funds.

With the minimum wage increase to $15.00 by FY'24, MCE would now pay over $37 million in IP stipends in FY'24. By FY'25 IP stipends would balloon to $40.5 million annually. This is compared to $1.8 million for participant stipends in FY'22. MCE would be unable to provide payment for these additional required "wages" and would consequently become a bankrupt state agency.

Assuming MCE continues to provide programming for over 1,200 participants as planned, we anticipate an increase and continued annual expense exceeding $37 million in participant stipends in FY'24 should HB1123 pass.

A decline in the functionality of MCE negatively impacts the state as a whole. According to the National Correctional Industries Association (NCIA) studies continue to show that involvement in a correctional industries program has a positive effect on lowering states' recidivism rates. It can be assumed that a reduction in MCE's operations would negatively impact the recidivism rate in Maryland. As our work progresses, it has become evident that training and education have become vital to a person's success upon release. In conjunction with the Justice Reinvestment Act, DPSCS has been tasked with implementing additional training and vocational programs within the institutions; MCE does this at no cost to the taxpayer. Passage of this bill has the potential to negatively impact the level of programming leading to damaging effects for citizens and the formerly incarcerated alike without significant financial support from the General Fund. Higher recidivism rates result in more victims of crime, as well as increased public safety and incarceration costs on both state and local levels at an unknown rate.

If you have any questions or need additional information please do not hesitate to contact Jennifer Beskid at jennifer.beskid@maryland.gov or 443-240-8696.

Appendix A

Maryland Correctional Enterprises
Financial Summary
Fiscal Years 2018 - 2022

	2018	2019	2020	2021	2022	Total
Revenues (in Millions)	$ 55.00	$ 52.50	$ 55.80	$ 50.20	$ 51.00	$ 264.50
Expenses (% of Revenues)	93.0%	97.9%	99.9%	98.6%	96.7%	97.2%
Inventory Used	49.0%	53.0%	56.5%	53.8%	56.8%	53.8%
Stipend paid to Incarcerated Persons	3.9%	4.4%	4.1%	2.6%	3.2%	3.6%
Shop Civilian Labor	12.6%	12.3%	12.3%	13.2%	12.0%	12.5%
Other Manufacturing Costs	9.4%	9.2%	8.2%	10.6%	5.8%	8.6%
Sales, Admin, Marketing Costs	11.8%	12.5%	12.3%	12.8%	12.3%	12.3%
Warehousing Costs	6.3%	6.5%	6.5%	5.6%	6.6%	6.3%
Profit (in Millions)	$ 3.80	$ 1.10	$ 0.08	$ 0.68	$ 1.60	$ 7.26
Profit %	7.0%	2.1%	0.1%	1.4%	3.3%	2.8%

Capital Investments (In Millions)	2018	2019	2020	2021	2022	Total
Buildings/Improvements	$ 2.90	$ 0.30	$ 0.10	$ -	$ -	$ 3.30
Machinery & Equipment	$ 0.50	$ 0.60	$ 0.70	$ 0.90	$ 0.70	$ 3.40
Vehicles	$ 0.40	$ -	$ 0.20	$ -	$ 0.30	$ 0.90
Total Capital Investments	$ 3.80	$ 0.90	$ 1.00	$ 0.90	$ 1.00	$ 7.60

The chart shows sales for the past 5 fiscal years, the % of of expenses related to those sales, and the profit for each fiscal year. In addition, the chart show the re-investment of profits in capital assets.

MCE has a profit goal of 3% each fiscal year, is a self-supporting agency by law, and receives no General Funds.

The percentage of Inventory Used represents the amount of materials consumed to produce revenues.
Wood, metals, meats, spices, paper, fabrics, inks

Stipend paid to Incarcerated Persons is the percentage of sales paid to workers.
The amount includes both base pay and incentive pay
The average stipend is over $150 per month and should be viewed as "discretionary income".
Discretionary income = gross income of an average citizen, less taxes & monthly expenses.
For example: A citizen earning $18 per hour in Maryland averages $115 a month in discretionary income.

Shop civilian labor is the percentage of sales used to compensate staff working inside the prisons.
The civilian workforce is entitiled to salary, paid time off, pension, and health insurance.

Other manufacturing costs is the percentage of sales used for :
Contractual Services, Safety Supplies, Utilities, Production Supplies
Security, Depreciation, Equipment Repairs

The percentage of sales used for Selling, Administration, and Marketing used for:
Information Technology, Finance, Design, Sales Team, and Management)

Warehousing Costs is the percentage of sales used for:
Salaries for Warehouse Staff and Drivers, Communications, Buliding Lease with DGS
Depreciation, Fuel, Vehicle Maintenance & Repairs, Insurance