Department of Planning and Budget
2001 Fiscal Impact Statement

1. **Bill Number** HB 1426

House of Origin	☐ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☒ Substitute	☐ Enrolled

2. **Patron** O'Brien

3. **Committee** Senate Finance

4. **Title** Prison enterprises

5. **Summary/Purpose:**

The Department of Corrections (DOC) operates numerous prison enterprise programs, in which inmates are employed in manufacturing and service operations. The primary function of these activities is to keep inmates occupied in productive activity, which enhances the security of correctional facilities. Other important goals of the programs are to teach inmates good work habits, provide them with skills which could be used to obtain employment when they are released, and provide quality products for state agencies. The programs include making automobile license plates, producing metal and wood furniture, making uniforms and other prison apparel, operating a commercial laundry, and printing services. The programs are administered by a division of DOC, Virginia Correctional Enterprises (VCE) and are largely self-supporting.

Except in limited circumstances, VCE is prohibited from selling its products and services on the open market to the public at large. It is restricted to dealing with public agencies. State agencies are required by law to purchase goods and services through VCE if they are produced in prison operations. There is a process whereby agencies may be exempted from this requirement.

The proposed substitute bill would significantly change the operations of VCE. The key provisions of the bill are the following:

?? Repeal of the prohibition of selling to the public at large.
?? Effective July 1, 2006, repeal of the requirement that state agencies purchase products and services from VCE.
?? In the interim between now and 2006, exemption of colleges and universities from the mandatory use of VCE for goods less than $5,000 in value.

In summary, the substitute bill would establish a five-year transition period during which VCE would move from being limited to dealing with a captive market to competing broadly with the private sector for business.

6. **Fiscal Impact:** See Item 8.

7. **Budget amendment necessary:** None.

8. **Fiscal implications:**

The proposed bill has both short-term and long-term fiscal implications. There are two obvious short-term effects. The bill has a provision prohibiting VCE from employing certified interior designers. VCE currently has two such positions, which would be eliminated in FY 2002, for an annual saving of $110,000.

The other short-term effect would be a loss in revenue resulting from colleges and universities being allowed to use other sources for purchases under $5,000. According to VCE officials, approximately 91 percent of the orders it receives from colleges and universities are for under $5,000. Last year, these orders accounted for $5.7 million in revenue, about 57 percent of VCE's total revenue from higher education and 16 percent of VCE's total overall revenue. The state's procurement regulations would allow higher education purchasing officials to use a credit card for purchases up to $5,000. Because VCE is not set up to handle credit card purchases nor is it equipped to offer electronic ordering, any agency purchasing from VCE must use "old-fashioned" order forms, as well as invoices and interagency transfers to process their payments. Because higher education purchasing agents could probably be able to submit their orders faster and with less paperwork with private vendors than they can with VCE, officials believe that VCE would lose most of higher education's purchases under $5,000 if this legislation is enacted.

If VCE received fewer orders from higher education institutions, its expenses would also be lower. In FY 2000, VCE's total expenses in its furniture and office systems operations (the area in which virtually all of its sales to higher education occur) were 84.5 percent of its revenues. Applying this percentage to the estimated revenues from sale to higher education ($5.7 million) yields $4.8 million in estimated expenses attributable to higher education orders. It will probably not be possible for VCE to cut all these expenses, however, because it will still operate the programs, although on a reduced scale. Therefore, for this fiscal impact statement, it is assumed that the proposed bill would result in a decrease of $4 million in expenses, for a net loss in revenue of $1.7 million.

Just as important as this potential loss in revenue is the likely loss of inmate jobs. However, it is not feasible to estimate the extent of this decrease.

VCE may be able to mitigate or offset this potential loss of revenue. It could mitigate, it by accepting credit card purchases and developing the capability of offering electronic ordering. It may be able to offset it with revenue generated from sales to the private sector, which will be authorized beginning July 1, 2001. However, it will probably take some time both to install the automated systems needed for electronic commerce and to develop business outside government agencies.

The long-term effects of the bill are more difficult to project because much will depend on how VCE responds to the changes imposed by the bill, as well as on factors beyond VCE's control. VCE officials feel that the biggest impact will be on its furniture and office system manufacturing operations. On the one hand, these activities are among VCE's least profitable. On the other hand, they are the largest, providing approximately 680 inmate jobs (about 48 percent of VCE's inmate work force).

The issue of VCE competing with the private sector is a complex one. The biggest advantage VCE has is the low wages it pays its "employees." This advantage is, however, offset to a large extent by the inefficiencies inherent in a prison industry system. The biggest inefficiency is posed by the primary mission of a prison industry--providing jobs to inmates, rather than making a profit. Whereas a private company would use one employee and advanced machinery to perform a task or activity, a prison industry would probably use several inmates. There are other inefficiencies related to workers' skills, quality control, and the need to maintain tight security in a prison setting.

Whether or not DOC will continue to be able to operate a prison enterprises program that provides jobs for a large number of inmates and generates enough revenue to pay for itself after this bill's provisions become fully effective will depend on how well the department can:

?? Improve the quality of the products and services it currently produces it currently produces.
?? Improve the efficiency of its current operations.
?? Improve its customer services.
?? Identify services and products with which it can compete with the private sector on the open market.

9. **Specific agency or political subdivisions affected:**

Department of Corrections
All executive agencies
Higher education institutions

10. **Technical amendment necessary:** None.

11. **Other comments:** None.

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cc: Secretary of Public Safety

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