



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 17, 2003

### **H.R. 1829** **Federal Prison Industries Competition in Contracting Act of 2003**

*As ordered reported by the House Committee on the Judiciary on July 25, 2003*

#### **SUMMARY**

The proposed legislation would amend the laws that authorize the Federal Prison Industries (FPI), a government-owned corporation that produces goods and services for the federal government with prison labor. Under current law, federal agencies are required to purchase products from FPI if products are available to meet the agencies' needs and the cost would not exceed current market prices. Such products include office furniture, textiles, vehicle tags, and fiber optics. Under the proposed legislation, this requirement would be reduced over the next several years, and the share of the federal market that FPI holds for the products and services it provides would be limited to 20 percent and 5 percent, respectively.

CBO estimates that implementing H.R. 1829 would cost \$587 million over the 2004-2008 period, subject to appropriation of the necessary amounts. The bill also would affect direct spending by FPI, but CBO estimates that net changes in direct spending would be insignificant for each year. Major elements of that cost estimate are summarized below.

The legislation would direct FPI to establish a program that would produce products that would be donated to nonprofit organizations. It would authorize the appropriation of \$7 million a year for fiscal years 2004 through 2008 to carry out the new donation program. Assuming the appropriation of the authorized amounts, CBO estimates that implementing this program would cost about \$35 million over the 2004-2008 period. All costs of the donation program would be subject to appropriation action.

Section 10 would authorize the Attorney General to establish a Federal Enhanced In-Prison Vocational Assessment and Training Program in federal institutions and would authorize the appropriation of \$75 million each year beginning in 2004 for such training. Assuming the appropriation of the specified amounts, CBO estimates that implementing this new program would cost \$366 million over the 2004-2008 period.

As FPI operations decline under the legislation, additional security costs paid for with appropriated funds would be incurred. CBO estimates that the Federal Bureau of Prisons would initially need about 300 security officers to guard the inmates that would no longer be working at FPI facilities as a result of the legislation. (Some security costs are paid for now out of FPI's direct spending.) We estimate that implementing H.R. 1829 would cost \$21 million in 2004 and \$177 million over the five-year period for the salaries and benefits of security officers, assuming the appropriation of the necessary amounts.

H.R. 1829 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates the cost to state, local, and tribal governments for complying with this mandate would be insignificant and thus well below the threshold established in the act (\$59 million in 2003, adjusted for inflation). This bill contains no new private-sector mandates as defined in UMRA.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the amendment is shown in the following table. The cost of this legislation falls within budget function 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars				
	2004	2005	2006	2007	2008
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
FPI Donation Program					
Authorization Level	7	7	7	7	7
Estimated Outlays	7	7	7	7	7
Enhanced Vocational Assessment and Training					
Authorization Level	75	75	75	75	75
Estimated Outlays	66	75	75	75	75
Cognitive Abilities Assessment Demonstration Program					
Authorization Level	3	3	3	0	0
Estimated Outlays	2	3	3	1	0
Additional Discretionary Security Costs					
Estimated Authorization Level	24	30	37	43	49
Estimated Outlays	21	30	36	42	48
Total Changes					
Estimated Authorization Level	109	115	122	125	131
Estimated Outlays	96	115	121	125	130

## **BASIS OF ESTIMATE**

CBO assumes that the proposed legislation would be enacted near the beginning of fiscal year 2004 and that the authorized amounts will be appropriated for each year. We estimate that implementing the programs authorized in section 10 of H.R. 1829 would cost \$410 million over the 2004-2008 period. In addition, CBO estimates that implementing H.R. 1829 would cost the Federal Bureau of Prisons \$21 million in 2004 and about \$177 million over the five-year period for additional security officers to supervise inmates that would no longer be working as a result of enacting this legislation. The costs to implement the bill's provisions would be subject to appropriation of the necessary amounts.

### **FPI Donation Program**

The legislation would authorize the Attorney General to establish a new FPI program in federal institutions that, subject to appropriation of the necessary amounts, would produce goods and services to be donated to nonprofit organizations instead of being offered for purchase to the federal government. It would authorize the appropriation of \$7 million in fiscal year 2004 and \$35 million over the 2004-2008 period to operate the new donation program in federal institutions. Costs would include inmate and civilian salaries, raw materials, maintenance, and other expenses to convert manufacturing facilities to produce products desirable to nonprofit organizations.

### **Enhanced In-Prison Vocational Assessment and Training**

Section 10 would authorize the Attorney General to establish a Federal Enhanced In-Prison Vocational Assessment and Training Program in federal institutions and would authorize the appropriation of \$75 million each year after 2003 for such program. Federal institutions currently participate in vocational assessment and training programs, and we assume that the program that would be authorized by the amendment would be an expanded version of the current program. Assuming the appropriation of the specified amounts, CBO estimates that the enhanced program would cost \$366 million over the 2004-2008 period to increase the number of inmates who participate in the training and to expand the services provided by the program.

### **Cognitive Abilities Assessment Demonstration Program**

Section 10 also would authorize the appropriation of \$3 million in fiscal years 2004, 2005, and 2006 to the Bureau to establish the Cognitive Abilities Assessment Demonstration

Program in 12 federal institutions. The project would assess inmate cognitive abilities and perceptual skills to determine what rehabilitative activities would be most successful for the project's participants. CBO estimates that this provision would cost \$9 million over the 2004-2008 period, assuming the appropriation of the authorized amounts.

### **Additional Discretionary Security Costs**

The bill would restrict the portion of the federal market for goods and services that FPI can serve and reduce the requirement for federal agencies to purchase such goods and services from FPI. Based on information from the Department of Justice (DOJ) and major federal customers of FPI, we expect that FPI's total sales to the federal government would decrease under the bill by 20 percent of projected sales in 2004 and that such sales would continue to decline—eroding by 40 percent of anticipated sales by 2008. Because of the reduction in federal sales, CBO expects there would be a corresponding reduction in the number of inmates employed by FPI.

Because the demand for FPI goods and services is expected to decline under H.R. 1829, FPI would provide security for fewer inmates during work hours. The costs of FPI operations, including security, are directly financed from the sale of its goods and services. No discretionary costs are incurred to provide security to prisoners participating in FPI programs during work hours.

Based on information from DOJ about the number of prison security personnel needed to guard the prison population, CBO estimates that the Federal Bureau of Prisons would need to increase discretionary spending to pay for 300 security officers to supervise prisoners no longer supervised by FPI during the work day. We estimate the number of guards required would grow to 600 by 2008 as the operations of FPI decline. We estimate that implementing H.R. 1829 would cost \$21 million in 2004 and \$177 million over the five-year period for the salaries and benefits of such officers, assuming the appropriation of the necessary amounts.

### **Changes in FPI Direct Spending**

The legislation would limit the portion of the federal market for any product or service that FPI can provide to the government to 20 percent and 5 percent, respectively. For example, FPI provides 94 percent of all mail carrier bag repair for the U.S. Postal Service. The legislation would prevent FPI from providing more than 5 percent of that service. In addition, it would gradually reduce the requirement for federal agencies to purchase FPI products and services. Based on information from the DOJ, and major federal customers of FPI, we expect that FPI's total sales to the federal government would decrease by 20 percent

of projected sales in 2004 and that such sales would continue to decline—eroding by 40 percent of anticipated sales by 2008.

The cost to Federal Prison Industries to manage and produce products for the federal government is currently funded entirely by collections from the agencies that purchase FPI products. Those current collections and FPI's spending are considered direct spending. CBO estimates that the total amount collected by FPI would decrease over the five-year period under the proposed legislation as agencies procure fewer FPI products. But that reduction in collections would be offset by a reduction in the cost to produce such products. Therefore, CBO estimates that enacting this legislation would result in no significant net change in direct spending for each year.

### **ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

H.R. 1829 contains an intergovernmental mandate as defined in UMRA because it would require work programs in state and local prisons that provide services in interstate commerce to obtain federal certification in order to continue operating after September 2005 or the end of their current contract. CBO estimates that the administrative cost to obtain this certification would be insignificant and well below the threshold established in UMRA (\$59 million in 2003, adjusted annually for inflation). This bill would impose no other significant costs on state, local, or tribal governments.

### **ESTIMATED IMPACT ON THE PRIVATE SECTOR**

This bill contains no new private-sector mandates as defined in UMRA.

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