



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 27, 2002

H.R. 1577 **Federal Prison Industries Competition in Contracting Act of 2002**

As reported by the House Committee on the Judiciary on April 24, 2002

SUMMARY

H.R. 1577 would amend the laws that authorize the Federal Prison Industries (FPI), a government-owned corporation that produces products 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 bill, 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.

Section 11 would authorize the Attorney General to establish a Federal Enhanced In-Prison Vocational Assessment and Training Program in all federal institutions and establish an FPI program that would produce products to be donated to nonprofit organizations. The bill also would appropriate a minimum of \$75 million per year for such programs. Based on information from the Department of Justice (DOJ) and major FPI customers, CBO estimates that enacting this provision would result in direct spending of about \$1.9 billion over the 2003-2007 period and \$5.3 billion over the 2003-2012 period. Because enactment of H.R. 1577 would affect direct spending, pay-as-you-go procedures would apply to the bill.

The bill also would authorize the appropriation of \$4 million to \$5 million each year over the 2003-2007 period for the Bureau of Prisons and the federal courts to establish a Federal Reentry Center Demonstration project. CBO estimates that implementing this provision would cost \$24 million over the 2003-2007 period to establish and operate the program, assuming the appropriation of the authorized amounts.

H.R. 1577 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1577 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				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
FPI Donation Program					
Estimated Budget Authority	177	276	387	441	497
Estimated Outlays	177	276	387	441	497
Enhanced Vocational Assessment and Training					
Estimated Budget Authority	28	29	29	30	30
Estimated Outlays	25	28	29	30	30
Total Cost					
Estimated Budget Authority	205	305	416	471	528
Estimated Outlays	202	304	416	471	528
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Federal Reentry Demonstration Project					
Authorization Level	4	5	5	5	5
Estimated Outlays	4	5	5	5	5

BASIS OF ESTIMATE

CBO assumes that H.R. 1577 will be enacted near the end of fiscal year 2002 and that amounts authorized by the bill will be appropriated. The bill's effects on direct spending and spending subject to appropriation are described in the following paragraphs.

Direct Spending

H.R. 1577 would authorize the Attorney General to spend no less than \$75 million a year to establish and administer the programs authorized in section 11. CBO estimates that direct spending as a result of enacting H.R. 1577 would exceed that minimum level and would total about \$1.9 billion over the 2003-2007 period and \$5.3 billion over the next 10 years. Our

estimate is based primarily on the assumption that all able inmates continue to work as under current law.

FPI Donation Program. The bill would facilitate developing a significant donation program by restricting the portion of the federal market for goods and services that FPI can serve and by reducing the requirement for federal agencies to purchase such goods and services from FPI. H.R. 1577 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. H.R. 1577 would prevent FPI from providing more than 5 percent of that service. In addition, the bill would gradually reduce the requirement for federal agencies to purchase FPI products and services. Based on information from 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 2003 and that such sales would continue to decline—eroding by 50 percent of anticipated sales by 2008.

H.R. 1577 also would authorize the Attorney General to establish a new FPI program in every federal institution that would produce goods and services to be donated to nonprofit organizations instead of being offered for purchase to the federal government. Because the Bureau of Prisons requires all able inmates to work, CBO assumes that the loss in production due to reduced demand by federal agencies for FPI products and services would be offset by the production of goods and services for donation under this new program.

CBO estimates that the donation program would cost \$137 million in fiscal year 2003, about \$1.1 billion over the 2003-2007 period, and about \$3.1 billion over the 2003-2012 period to operate in existing facilities. Costs would include inmate and civilian salaries, raw materials, maintenance, and other expenses to convert manufacturing facilities to produce products desirable to nonprofit organizations.

The cost of operating the FPI donation program would increase as more prison facilities are added to the federal system. DOJ anticipates that about 25 new federal prison facilities will open during the next 10 years. Based on information from DOJ, CBO estimates that implementing the FPI donation program in those new facilities would cost \$700 million over the 2003-2007 period and about \$1.9 billion over the 2003-2012 period.

Enhanced In-prison Vocational Assessment and Training. Section 11 would authorize the Attorney General to establish a Federal Enhanced In-Prison Vocational Assessment and Training Program in all federal institutions. Federal institutions currently participate in vocational assessment and training programs, and we assume that the program that would be authorized by H.R. 1577 would be an expanded version of the current program. Based on information from DOJ, CBO estimates that the enhanced program would cost \$28 million

to \$30 million per year to increase the number of inmates who participate in the training and expand the services provided by the program.

Spending Subject to Appropriation

Section 10 would authorize the appropriation of \$1 million each year to the Bureau of Prisons and \$3 million to \$4 million each year to the federal courts to establish the Federal Reentry Center Demonstration project. The project would include substance abuse treatment, vocation and educational training, conflict resolution skills training, and assistance with affordable housing. CBO estimates that this provision would cost \$24 million over the 2003-2007 period, assuming the appropriation of the authorized amounts.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The changes in direct spending that would be subject to pay-as-you-go procedures are shown in the following table. For the purposes of pay-as-you-go procedures, only the effects through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	205	305	416	471	528	624	647	670	693	717
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1577 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no cost on state, local, or tribal governments.

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