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**BILL ANALYSIS**

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Senate Bill 978 (as introduced 1-24-06)  
Sponsor: Senator Mike Goschka  
Committee: Commerce

Date Completed: 3-27-06

**CONTENT**

**The bill would amend the Correctional Industries Act to allow tax-exempt organizations to purchase correctional industries products only if similar products were not available from a private business. The bill also would require the Michigan State Industries Advisory Board to report to the Legislature annually on the activities of correctional industries and ways to minimize competition with the private sector.**

Under the Act, correctional industries products may be sold, exchanged, or purchased by institutions or agencies of State or local government, the Federal government, or a foreign government; by a private vendor that operates the youth correctional facility; or by a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Under the bill, a 501(c)(3) tax-exempt organization could sell, exchange, or purchase correctional industries products only if the same or a similar product were not available for purchase by the organization from a private business.

(Section 501(c)(3) provides a Federal tax exemption for nonprofit corporations and other entities organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes; to foster national or international amateur sports competition under certain conditions; or for the prevention of cruelty to children or animals.)

The bill would require the Michigan State Industries Advisory Board to submit a written report to the Legislature by January 1 of each year, beginning in 2007. The report would have to summarize the activities of correctional industries for the preceding fiscal year and include recommendations on ways to integrate correctional industries better into the business community and foster their growth while minimizing competition with the private sector. Copies of the report would have to be delivered to the chairpersons of the House and Senate standing committees responsible for corrections issues, and to the chairpersons of the House and Senate Appropriations Committees.

MCL 800.326

Legislative Analyst: Curtis Walker

**FISCAL IMPACT**

The bill would have an indeterminate fiscal impact on State government. The Department of Corrections' (DOC's) prison industries' revenue for 2005 was approximately \$36.5 million. This revenue goes into the Correctional Industries Revolving Fund. Of this, \$18.7 million

was spent on the salaries of the 220 FTEs who run the program in the DOC. The rest of the Fund was spent on administrative costs, prisoner wages, and product materials. Approximately 84.6% of the revenue was from sales to the DOC, 10% from sales to other State agencies, 0.5% to local units of government, 3% to tax-exempt organizations, and 1% to out-of-State buyers (some of whom may be tax-exempt). There are no data to indicate how many products purchased by tax-exempt organizations are available for purchase from a private business. To the extent that private businesses make the same or similar products as those made by Michigan State Industries (MSI), the bill would result in a loss of revenue for the Fund. A loss of revenue would reduce the budget for the program, as it is completely supported by the Fund. An average of 1,300 prisoners are employed by MSI. There are no data to indicate the effect of MSI program cuts on other programs in the DOC.

The DOC also would incur administrative and personnel costs as a result of the workload increase associated with the annual report. Under the bill, the MSI Advisory Board would have to submit a report to the Legislature. According to the DOC, this 11-member board is now defunct, and the DOC would incur the cost of recreating the board and training its members.

Fiscal Analyst: Lindsay Hollander

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.