

State Department of Corrections

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	10,015.2	10,118.2	9,384.0
Correctional Officer Personal Services	317,201,000	317,807,400	318,935,700
Health Care Personal Services	40,009,500	2,656,500	2,665,000
All Other Personal Services	59,638,800	63,173,700	63,472,300
Personal Services Subtotal	416,849,300	383,637,600	385,073,000
Employee Related Expenditures	196,753,100	186,331,800	194,179,800
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	32,135,200	15,507,900	15,760,300
Health Care All Other Operating Expenditures			
Professional and Outside Services	14,536,800	2,143,700	2,143,700
Travel - In State	22,700	50,000	50,000
Travel - Out of State	2,000	10,000	10,000
Other Operating Expenditures	57,689,900	888,300	888,300
Equipment	193,800	17,600	17,600
Health Care Operating Subtotal	72,445,200	3,109,600	3,109,600
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	4,127,300	5,375,000	5,375,000
Travel - In State	558,600	775,800	775,800
Travel - Out of State	44,100	119,100	119,100
Food	43,302,700	46,290,700	46,290,700
Other Operating Expenditures	99,160,900	102,674,100	104,787,800
Equipment	7,681,300	3,466,200	3,529,400
Non-Health Care Operating Subtotal	154,874,900	158,700,900	160,877,800
OPERATING SUBTOTAL	873,057,700	747,287,800	759,000,500
SPECIAL LINE ITEMS			
Private Prison Per Diem	123,479,400	127,636,600	132,380,300
Inmate Health Care Contracted Services ^{1/}	0	130,274,900	125,274,900
Leap Year Costs	800,100	0	0
Narrowband Radio Conversion	3,902,700	0	0
AGENCY TOTAL	1,001,239,900	1,005,199,300^{1/}	1,016,655,700^{2/-3/}
FUND SOURCES			
General Fund	953,781,400	960,291,600	971,743,900
Other Appropriated Funds			
Alcohol Abuse Treatment Fund	425,200	554,400	554,400
Corrections Fund	26,699,200	27,517,600	27,517,600
Penitentiary Land Fund	1,728,400	979,200	979,200 ^{6/}
Prison Construction and Operations Fund	13,072,700	11,499,400	12,499,400
State Charitable, Penal and Reformatory Institutions Land Fund	1,647,000	360,000	360,000 ^{2/}
State Education Fund for Correctional Education	497,000	512,100	516,200 ^{8/}
Transition Program Fund	930,000	3,485,000	2,485,000 ^{9/}
Transition Services Fund	2,459,000	0	0
SUBTOTAL - Other Appropriated Funds	47,458,500	44,907,700	44,911,800
SUBTOTAL - Appropriated Funds	1,001,239,900	1,005,199,300	1,016,655,700
Other Non-Appropriated Funds			
Federal Funds	44,616,400	54,059,000	53,980,100
	18,253,200	10,566,900	10,269,800
TOTAL - ALL SOURCES	1,064,109,500	1,069,825,200	1,080,905,600

AGENCY DESCRIPTION — The Arizona Department of Corrections (ADC) maintains and administers a statewide system of prisons for adult and minor offenders legally committed to the department. The department is also responsible for the supervision of offenders on parole and other prison release mechanisms, as specified by law.

Operating Budget

The budget includes \$759,000,500 and 9,384 FTE Positions in FY 2014 for the operating budget. These amounts consist of:

	FY 2014
General Fund	\$755,084,900
Alcohol Abuse Treatment Fund	554,400
State Charitable, Penal and Reformatory Institutions Land Fund	360,000
State Education Fund for Correctional Education	516,200
Transition Program Fund	2,485,000

These amounts fund the following adjustments:

Privatization of Inmate Health Care Services

The budget includes a decrease of (740.2) FTE Positions from the General Fund in FY 2014 to reflect the privatization of correctional health care services provided by the state.

Pursuant to Laws 2011, Chapter 278, the department established a contract with a private entity to provide health care services for inmates in state-run prisons, which was implemented on July 1, 2012. Funding for the health care services contract is reflected in the Inmate Health Care Contracted Services Special Line Item. A total of \$6,712,100 remains in Health Care Personal Services and Health Care All Other Operating Expenditures for 34 FTE

Positions and administrative costs associated with monitoring the contract, as well as to pay for health care related legal expenses. *(Please see the Inmate Health Care Contracted Services Special Line Item section for further details on funding for the department's health care contract.)*

Monitoring of Private Prison Beds

The budget includes an increase of \$374,500 and 6 FTE Positions from the General Fund in FY 2014 to provide contractual oversight and other state-provided services associated with the addition of 500 medium-security private prison beds starting in January 2014. This amount includes \$63,200 in one-time equipment costs. *(Please see Private Prison Per Diem narrative below for further details on the additional beds.)*

Funding Shift

The budget includes an increase of \$1,000,000 from the General Fund and a decrease of \$(1,000,000) from the Transition Program Fund in FY 2014 to bring the Transition Program Fund into structural balance. An additional shift in the Inmate Health Care Contracted Services Special Line Item means that the net agencywide impact is to shift \$1,000,000 of costs off of the Transition Program Fund and onto the Prison Construction and Operations Fund.

The FY 2014 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 5) permits

- 1/ In addition to these amounts, the FY 2013 General Appropriation Act included a one-time FY 2013 adjustment of \$(8,956,300) GF for a state employee health insurance premium holiday. *(Please see the FY 2013 General Fund Adjustments section.)*
- 2/ Before placing any inmates in out-of-state provisional beds, the department shall place inmates in all available prison beds in facilities that are located in this state and that house Arizona inmates, unless the out-of-state provisional beds are of a comparable security level and price. (General Appropriation Act footnote)
- 3/ A monthly report comparing State Department of Corrections expenditures for the month and year-to-date as compared to prior year expenditures shall be forwarded to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee on or before the 30th of the following month. The report shall be in the same format as the prior fiscal year and shall include an estimate of potential shortfalls, potential surpluses that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 4/ The State Department of Corrections shall provide a report on bed capacity to the Joint Legislative Budget Committee for its review on or before August 1, 2013. The report shall reflect the bed capacity for each security classification at each state-run and private institution, divided by rated and total beds. The report shall include bed capacity data for June 30 of the previous fiscal year, June 30 of the current fiscal year and June 30 of the subsequent fiscal year, as well as the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds. If the department develops a plan subsequent to its August 1 report to close state-operated prison rated beds or cancel or not renew contracts for privately operated prison beds, the State Department of Corrections shall submit a bed plan detailing the proposed bed closures for review by the Joint Legislative Budget Committee before implementing these changes. (General Appropriation Act footnote)
- 5/ General Appropriation Act funds are appropriated as a Operating Lump Sum with Special Line Items by Agency.
- 6/ One hundred percent of land earnings and interest from the Penitentiary Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 7/ Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 8/ Before the expenditure of any State Education Fund for Correctional Education receipts in excess of \$516,200, the State Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 9/ The State Department of Corrections shall submit a report to the Joint Legislative Budget Committee on or before October 1, 2013 concerning the uses of the Transition Program Fund established by A.R.S. § 31-284 so as to allow the Legislature to consider returning the use of these monies to the intended statutory purpose in the FY 2015 budget. (General Appropriation Act footnote)

the department to use the Transition Program Fund and the non-appropriated Interagency Service Agreement Fund for department operating expenses in FY 2014. In addition, a FY 2014 General Appropriation Act footnote requires the department to submit a report to the Joint Legislative Budget Committee by October 1, 2013 concerning the use of the Transition Program Fund to allow the Legislature to consider returning the use of fund monies to their intended statutory purpose in the FY 2015 budget.

Increased Retirement Contributions

The budget includes an increase of \$8,281,200 in FY 2014 for increased retirement contribution costs. This amount consists of:

General Fund	8,276,300
State Education Fund for Correctional Education	4,900

These amounts fund increases in the employer’s share of contributions for its employees in the Arizona State Retirement System and the Correctional Officers Retirement Plan. *(Please see the State Retirement Systems discussion in the General Provisions section at the back of this Appropriations Report for more details on contribution rate changes.)*

Statewide Adjustments

The budget includes an increase of \$3,057,000 in FY 2014 for statewide adjustments. This amount consists of:

General Fund	3,057,800
State Education Fund for Correctional Education	(800)

(Please see the Agency Detail and Allocations section.)

Private Prison Per Diem

The budget includes \$132,380,300 in FY 2014 for Private Prison Per Diem. This amount consists of:

General Fund	103,883,500
Corrections Fund	27,517,600
Penitentiary Land Fund	979,200

These amounts fund the following adjustments:

500 Medium-Security Private Prison Beds

The budget includes an increase of \$4,743,700 from the General Fund in FY 2014 to fund the activation of 500 medium-security private prison beds beginning in January 2014. This increase assumes the department will open 150 beds on the first of each month, concluding with the final 50 beds on April 1, 2014.

The FY 2013 Criminal Justice BRB (Laws 2012, Chapter 302) required the department to award a contract for up to 500 male, medium-security private beds to open on January 1, 2014 and up to 500 more male, medium-security beds to open on January 1, 2015. These contracts

were to be awarded by September 1, 2012 from the 2000-bed Request for Proposals (RFP) issued by the department in February 2012. On August 31, 2012, the department awarded the contract to Corrections Corporation of America (CCA) at a per diem rate of \$65.43 per bed. CCA will house these prisoners at their existing Red Rock Correctional Center in Eloy. The FY 2014 Criminal Justice BRB prohibits the department from awarding the remainder of the 2,000 beds without legislative authorization.

Background – Monies in this line item are paid to private prison contractors for housing Arizona inmates in 7,038 beds under contract and operational by June 30, 2014. Private prison beds are permanent beds the department typically owns on average after a period of 20 years. ADC will own the facilities after a specified amount of time because the per diem rate includes a portion of the facilities’ purchasing cost. Administrative expenses related to private prison contracts are included in the department’s operating budget.

Inmate Health Care Contracted Services

The budget includes \$125,274,900 in FY 2014 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	112,775,500
Prison Construction and Operations Fund	12,499,400

These amounts fund the following adjustments:

Contract Savings

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2014 to reflect savings from implementing a new inmate health care services contract.

Laws 2011, Chapter 278 required the department to issue a Request for Information regarding privatization of its correctional health care services and then, within 90 days of committee review of that information, issue an RFP. The department issued the RFP on October 21, 2011, and on April 2, 2012, awarded a contract to Wexford Health Sources, Inc. The winning vendor bid \$9.51 per prisoner per day at state-operated prisons, or an estimated \$116,915,300, to provide services under the terms of the contract, which became fully operational on July 1, 2012.

On January 30, 2013, the department and Wexford announced that they had mutually agreed to dissolve the contract. The department then contracted with Corizon to provide inmate health care services effective March 4, 2013. Corizon’s price is higher than that bid, but the estimated FY 2014 cost of \$125,274,900 is still \$(5,000,000) lower than the original FY 2013 appropriation for health care services.

Funding Shift

The budget includes a decrease of \$(1,000,000) from the General Fund and an increase of \$1,000,000 from the Prison Construction and Operations Fund in FY 2014 to bring the Transition Program Fund into structural balance. (Please see the *Funding Shift* issue in the *Operating Budget* section for more details.)

Background - Funding to reimburse the contractor is redirected from Health Care Personal Services, Employee Related Expenditures, and Health Care All Other Operating Expenditures as ADC only provides supervisory and administrative health care functions. Although the FY 2013 General Appropriation Act did not include the Inmate Health Care Contracted Services line item, the FY 2013 funding for the contract has been redirected to this line item for comparability.

As the population fluctuates, so will the cost of the contract. Additionally, the contract allows for annual price adjustments that could affect the per diem rate, which the department must approve. The contract does not allow price increases above the percent of change in the average medical consumer price index for the Phoenix Metro area.

Leap Year Costs

The budget includes no funding in FY 2014 for Leap Year Costs. This line item was established in the FY 2012 budget to pay for the increased per diem costs associated with the extra day in 2012's leap year.

Narrowband Radio Conversion

The budget includes no funding in FY 2014 for Narrowband Radio Conversion. This line item was established in the FY 2012 budget to pay for the one-time costs of converting department radios and other equipment to narrowband frequency by January 2013 as mandated by the Federal Communications Commission.

Additional Legislation

Budget Structure

The FY 2014 Criminal Justice BRB requires the department to report FY 2013 actual expenditures, FY 2014 estimated expenditures, and FY 2015 requested expenditure amounts for each line item as delineated in the prior year when the department submits its FY 2015 budget request pursuant to A.R.S. § 35-113. This provision is a continuation of prior year policies.

Other Issues

Status of Maximum-Security Beds

The FY 2013 Capital Outlay Bill (Laws 2012, Chapter 295) appropriated \$20,000,000 from the General Fund in FY 2013 and \$30,000,000 from the General Fund in

FY 2014 to the Arizona Department of Administration (ADOA) to construct 500 male maximum-security beds. The Lewis Rast Unit has been selected as the site for the beds. These beds will be operated by the Department of Corrections.

The Joint Committee on Capital Review (JCCR) favorably reviewed the ADOA plan for construction of the 500 beds at its June 6, 2013 meeting. The Department of Corrections currently expects construction to be complete in time to accept prisoners by October 1, 2014.

Arizona State Prison (ASP)-Marana RFP

Since 1994, the department has contracted with Management and Training Corporation (MTC) to operate ASP-Marana, a self-standing 500-bed unit providing services to male, minimum-security inmates. ADC signed a new 10-year contract with two 5-year renewals with MTC in October 2000.

Pursuant to a mutually-agreed-to June 2011 contract amendment, the contract permits the department to purchase the Marana facility and the land on which it sits for \$150,000 on October 5, 2013 and the department notified MTC at the time of signing the amendment that it intended to purchase the Marana facility and issue an RFP to solicit bids to operate the Marana facility, a process open to MTC and other vendors. The JCCR favorably reviewed ADC's plan to purchase the facility at its April 2, 2013 meeting.

Inmate Growth Rate

There is uncertainty regarding inmate growth. The inmate population has been essentially flat over the past 48 months, though it has grown an average of 110 inmates per month in the last 6 months. In comparison, monthly inmate growth rates averaged 144 between FY 2002 and FY 2008 and exceeded 300 inmates per month at times. The budget assumes that the inmate population will remain flat at the June 30, 2013 level of 40,686 through the end of FY 2014. Given the rate of increase seen in the second half of FY 2013, this assumption may need to be revised.

Bed Capacity

There are 2 methods of defining bed capacity:

- "Rated" beds: Beds originally designed for housing prisoners. This amount was 37,109 in public and private prisons on June 30, 2012, which was the same level as on June 30, 2011.
- Operating Capacity: "Rated" beds plus temporary beds established, for example, in areas not originally intended for housing prisoners or double-bunked beds in areas intended for single-bunked beds. As of June 30, 2012, public and private prisons have a total 4,880 temporary beds, which was reduced from 5,842, the level on June 30, 2011.

In addition to rated and temporary beds, special use beds are used for investigative detention, disciplinary isolation, maximum behavior control, mental health observation, or medical inpatient care. Due to their short-term usage, these beds are not counted as part of ADC's operational capacity. The number of special use beds in public and private prisons was 1,555 as of June 30, 2012, (58) fewer beds than June 30, 2011.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification). As a result, a FY 2014 General Appropriation Act footnote requires the department to provide a report to the JLBC for its review regarding bed counts and reasons for changes in the number or classification of beds; this footnote also clarifies when the department needs to provide closure plans to the JLBC for its review after submitting the bed plan above. (See the *Footnotes section*.)

FY 2014 Bed Surplus/Shortfall

At the end of FY 2012, the department had a total rated bed shortfall of (2,768). ADC addressed this shortfall by placing prisoners in temporary beds as discussed above. After adjusting for the 4,880 temporary beds in the overall ADC system, the rated bed shortfall became a 2,112 bed surplus as shown in *Table 1*.

Assuming the population remains flat through the end of FY 2014, the rated bed shortfall is expected to be (3,505). This increase from the June 30, 2012 bed shortfall results from the FY 2013 inmate growth (see *Inmate Growth Rate above*). In addition, bed shortfall estimates may vary by level of security (e.g. minimum, medium, or maximum). The department's largest shortfalls are in male medium- and maximum-security beds. This issue will be addressed with the 1,000 medium-security private beds and the 500 maximum-security state beds being activated in FY 2014 and FY 2015.

Department of Corrections Building Renewal Fund

The FY 2013 Criminal Justice BRB transferred administration of the Department of Corrections Building Renewal Fund from the Director of the Arizona Department of Administration to the ADC Director.

The FY 2013 General Appropriation Act transferred \$2,500,000 from the Corrections Fund into the Building Renewal Fund to compensate for lower-than-estimated fee revenue into the fund. This one-time transfer ensured a sufficient balance in the Building Renewal Fund to fund its FY 2013 capital appropriation of \$4,630,500.

The FY 2014 Criminal Justice BRB authorized as permanent law an annual \$2,500,000 transfer from the Corrections Fund into the Building Renewal Fund. With this annual transfer, the Building Renewal Fund should have sufficient annual revenues to support its current

capital appropriation (Please see the *Capital Budget - ADOA narrative for more information*.)

Automation Projects Transfer

The budget includes one-time FY 2014 transfers from this agency's funds associated with its proportionate share of costs for replacement of the state's financial accounting system. (Please see the *Automation Projects narrative for more details*.)

Arizona Inmate Management System

The budget includes FY 2014 transfers from Department funds associated with beginning the replacement of the Adult Inmate Management System. (Please see the *Department of Administration – Automation Projects Fund section for details regarding this information technology project*.)

Table 1

Fiscal Year-End Operating Capacity

	FY 2012 Actual			FY 2013 Estimate			FY 2014 Estimate		
	<u>Rated</u>	<u>Temp.</u>	<u>Operating Capacity</u>	<u>Rated</u>	<u>Temp.</u>	<u>Operating Capacity</u>	<u>Rated</u>	<u>Temp.</u>	<u>Operating Capacity</u>
State:									
Douglas	1,925	417	2,342	1,925	417	2,342	1,925	417	2,342
Eyman	4,104	1,107	5,211	4,024	1,187	5,211	4,024	1,187	5,211
Florence	3,644	697	4,341	3,440	677	4,117	3,440	677	4,117
Perryville	4,202	72	4,274	4,202	72	4,274	4,202	72	4,274
Phoenix	552	162	714	552	162	714	552	162	714
Lewis ^{1/}	4,604	630	5,234	4,604	752	5,356	4,604	752	5,356
Safford	1,453	316	1,769	1,453	316	1,769	1,453	316	1,769
Tucson ^{2/}	4,749	545	5,294	4,605	545	5,150	4,605	545	5,150
Winslow	1,626	216	1,842	1,626	216	1,842	1,626	216	1,842
Yuma	4,350	80	4,430	4,350	80	4,430	4,350	80	4,430
Subtotal	31,209	4,242	35,451	30,781	4,424	35,205	30,781	4,424	35,205
Private (Per Diem):									
Kingman (\$62.16)	3,400	108	3,508	3,400	108	3,508	3,400	108	3,508
Phoenix West (\$49.28)	400	100	500	400	100	500	400	100	500
Marana (\$49.03)	500	-	500	500	-	500	500	-	500
Florence West (\$44.95-55.79)	600	150	750	600	150	750	600	150	750
Florence II (\$67.22)	1,000	280	1,280	1,000	280	1,280	1,000	280	1,280
Eloy (\$65.43) ^{3/}	-	-	-	-	-	-	500	-	500
Subtotal	5,900	638	6,538	5,900	638	6,538	6,400	638	7,038
Total - All Beds ^{4/}	37,109	4,880	41,989	36,681	5,062	41,743	37,181	5,062	42,243
State Prison Population	33,504		33,504	34,304		34,304	34,304		34,304 ^{5/}
Private Prison Population	6,373		6,373	6,382		6,382	6,382		6,382
Total Population	39,877		39,877	40,686		40,686	40,686		40,686 ^{6/}
Bed Surplus/(Shortfall)	(2,768)		2,112	(4,005)		1,057	(3,505)		1,557
Bed Surplus / (Shortfall) (% of Beds)	(7)%		5%	(11)%		3%	(9)%		4%

^{1/} Another 500 maximum security beds are scheduled to open in FY 2015.

^{2/} During FY 2013, the department converted 144 rated beds at the Tucson SACRC unit to create a community corrections facility that will provide released offenders on community supervision temporary transitional housing. The new community corrections facility capacity is not reflected in this chart.

^{3/} Another 500 medium-security beds are scheduled to open in FY 2015 (for a total of 1,000 including the 500 medium-security beds opening in FY 2014).

^{4/} Excludes special use beds totaling 1,555 in FY 2012, 1,553 in FY 2013, and 1,533 in FY 2014.

^{5/} The department announced in July 2013 that it signed a contract to house 50 male, medium-security inmates in temporary beds in Navajo County facilities for no more than 6 months in FY 2014. The rate will be \$49.44 per inmate per day.

^{6/} With the addition of 500 private prison beds in FY 2014, it is uncertain how the department will allocate inmates. If the department shifts inmates from state prisons, temporary beds may be decommissioned, reducing operating capacity.