

State Department of Corrections

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9,534.0	9,534.0	9,541.0
Correctional Officer Personal Services	304,166,500	323,184,100	323,339,300
Health Care Personal Services	2,576,800	2,757,400	2,757,400
All Other Personal Services	62,263,700	64,435,100	64,612,800
Personal Services Subtotal	369,007,000	390,376,600	390,709,500
Employee Related Expenditures	188,516,900	210,196,200	205,099,900
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	39,312,700	15,549,300	15,549,300
Health Care All Other Operating Expenditures			
Professional and Outside Services	6,594,000	1,262,900	1,262,900
Travel - In State	26,000	25,000	25,000
Travel - Out of State	10,300	15,000	15,000
Other Operating Expenditures	639,000	760,000	760,000
Equipment	49,200	15,000	15,000
Health Care Operating Subtotal	7,318,500	2,077,900	2,077,900
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	5,429,200	6,624,000	6,624,000
Travel - In State	229,500	226,400	226,400
Travel - Out of State	51,300	119,100	119,100
Food	38,954,100	42,255,000	42,455,000
Other Operating Expenditures	106,274,100	111,385,600	112,105,700
Equipment	4,965,400	3,522,000	3,631,600
Non-Health Care Operating Subtotal	155,903,600	164,132,100	165,161,800
OPERATING SUBTOTAL	760,058,700	782,332,100	778,598,400^{1/}
SPECIAL LINE ITEMS			
Leap Year	0	929,100	0
Radio Equipment	0	0	2,800,000
Private Prison Per Diem	136,290,200	151,518,600	168,617,100
Inmate Health Care Contracted Services	123,862,200	147,203,900	147,137,100 ^{2/3/}
AGENCY TOTAL	1,020,211,100	1,081,983,700	1,097,152,600^{4/5/6/7/}
FUND SOURCES			
General Fund	976,257,400	1,035,107,500	1,046,682,600
<u>Other Appropriated Funds</u>			
Alcohol Abuse Treatment Fund	214,300	555,300	555,500
Corrections Fund	27,517,600	27,517,800	30,317,800
Penitentiary Land Fund	979,200	979,200	979,300 ^{8/}
Prison Construction and Operations Fund	13,223,100	13,686,000	13,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	338,800	1,861,200	1,861,500 ^{9/}
State Education Fund for Correctional Education	458,500	673,400	669,500 ^{10/}
Transition Program Fund	1,222,200	1,603,300	2,400,100
SUBTOTAL - Other Appropriated Funds	43,953,700	46,876,200	50,470,000
SUBTOTAL - Appropriated Funds	1,020,211,100	1,081,983,700	1,097,152,600
Other Non-Appropriated Funds	50,245,500	54,136,100	54,151,100
Federal Funds	6,712,000	6,755,800	6,732,800
TOTAL - ALL SOURCES	1,077,168,600	1,142,875,600	1,158,036,500

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.

Summary

The budget increases ADC’s General Fund spending by \$11,575,100 or 1.1% in FY 2017. The changes include:

- \$17,098,500 for the cost of opening 1,000 new private beds on September 1, 2017.
- \$723,500 for higher employer retirement expenses.
- \$528,000 for private prison monitoring.
- \$103,500 for a reentry planner.
- \$(5,875,600) for statewide adjustments.
- \$(929,100) to remove one-time leap year costs.
- \$(73,700) for other adjustments.

The FY 2017 budget includes a FY 2016 supplemental for \$5,200,000 for the costs of a 3.6% inflation increase for inmate health care services. The budget includes \$5,133,300 for this increase in FY 2017.

In addition, the FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 119) assumes that \$4,300,000 in General Fund savings from a new financing agreement for a private prison will be reallocated from the Private Prison Per Diem line item for the following adjustments:

- \$2,700,000 for a 4% inflationary health increase for the fourth year of the contract.
- \$1,600,000 for the Maricopa Community Corrections Center.

As part of the budget’s 3-year spending plan, ADC’s General Fund costs are projected to increase by \$7,090,800 in FY 2018 above FY 2017, and remain flat in FY 2019.

Operating Budget

The budget includes \$778,598,400 and 9,541 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$766,424,600
Alcohol Abuse Treatment Fund	555,500
Corrections Fund	3,000,800
Penitentiary Land Fund	100
Prison Construction and Operations Fund	3,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,500
State Education Fund for Correctional Education	669,500
Transition Program Fund	2,400,100

- 1/ Laws 2016, Chapter 153 appropriated \$596,000 from the Transition Program Fund for the cost of expanding the Transition Program.
- 2/ Before implementing any changes in per diem rates for inmate health care contracted services, the State Department of Corrections shall submit its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 3/ The amount appropriated for the department includes sufficient monies to fund a 4% adjustment for the fourth year of the contract. (General Appropriation Act footnote)
- 4/ 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)
- 5/ The State Department of Corrections shall forward 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 a monthly report comparing department expenditures for the month and year-to-date as compared to prior year expenditures on or before the 30th of the following month. The report shall be in the same format as the prior fiscal year and 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)
- 6/ 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, 2016. The report shall reflect the bed capacity for each security classification by gender at each state-run and private institution, divided by rated and total beds. The report shall include bed capacity data for June 30, 2015 and June 30, 2016 and the projected capacity for June 30, 2017, 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)
- 7/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 8/ 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)
- 9/ 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)
- 10/ Before the expenditure of any State Education Fund for Correctional Education monies in excess of \$669,500, 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)

These amounts fund the following adjustments:

CORP Fund Adjustment

The budget includes an increase of \$723,500 from the General Fund in FY 2017 for an increase to the employer contribution rate for the Corrections Officer Retirement Plan (CORP) Fund. This employer contribution rate will rise from 18.54% to 18.74% in FY 2017. The 3-year spending plan in the FY 2016 budget included a projected employer contribution rate increase for FY 2017. (For more detailed information, please see the Consolidated Retirement Report.)

Transition Program Expansion

Laws 2016, Chapter 153 appropriates \$596,000 from the Transition Program Fund in FY 2017 for the costs of expanding the Transition Program.

The Transition Program allows certain inmates the opportunity to be released 90 days prior to their release date. Participants are located in homes or half-way houses across the state, and receive counseling through a vendor which includes substance abuse counseling and case management services. The FY 2017 Criminal Justice BRB removes the prohibition on having DUI offenders as participants and amends the behavioral qualifications for potential participants. (For more detailed information on the Transition Program, please see Reentry Legislation in Other Issues.)

Private Prison Monitoring

The budget includes an increase of \$528,000 and 6 FTE Positions from the General Fund in FY 2017 for the costs of monitoring new private beds and increasing the overall monitoring capacities of the department. The total amount includes \$83,200 for one-time equipment costs.

Reentry Planner

The budget includes an increase of \$103,500 and 1 FTE Position from the General Fund in FY 2017 for the costs of a reentry planner to assist prisoners, primarily older inmates, in transitioning out of prison. The total amount includes \$25,000 in one-time equipment costs.

Maricopa County Community Corrections Center

The budget includes an increase of \$200,000 from the Transition Program Fund in FY 2017 for the costs of operating a community corrections center in Maricopa County. The Maricopa County Community Corrections Center will provide 100 short-term beds for prisoners needing intensive treatment, emergency housing, or for inmates that have violated the conditions of their release that face a short-term sanction stay. ADC currently operates a similar facility in Tucson.

The FY 2017 Criminal Justice BRB allowed ADC to enter into a new financing agreement for an existing prison capital lease. At the June 16, 2016 JCCR meeting, the Committee favorably reviewed the department’s plans to expend \$1.6 million in GF savings from refinancing the current debt obligation on the program. This amount will be transferred from the Private Prison Per Diem line item. (Please see the Kingman Refinancing discussion for further details.)

One-Time Named Claimants Funding

The budget includes a decrease of \$(6,948.18) from the General Fund in FY 2017 for the elimination of one-time funding of prior year unpaid claims. (Please see the Named Claimants discussion in ADOA Other Issues.)

Statewide Adjustments

The budget includes a decrease of \$(5,877,800) in FY 2017 for statewide adjustments: This amount consists of:

General Fund	(5,875,600)
Alcohol Abuse Treatment Fund	200
Penitentiary Land Fund	100
Prison Construction and Operations Fund	300
State Charitable, Penal and Reformatory Institutions Land Fund	300
State Education Fund for Correctional Education	(3,900)
Transition Program Fund	800

(Please see the Agency Detail and Allocations section.)

The FY 2017 Criminal Justice BRB continues to require the department to report actual FY 2016, FY 2017, and requested FY 2018 expenditures as delineated in the prior year when the department submits its FY 2018 budget request.

Leap Year

The budget includes no funding in FY 2017 for Leap Year expenses. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(929,100) from the General Fund in FY 2017 for the elimination of one-time operating costs for the extra day in FY 2016.

Monies in this line were used to pay operating expenses and costs for contracted services for the extra day in FY 2016 due to the leap year.

Radio Equipment

The budget includes \$2,800,000 from the Corrections Fund in FY 2017 for one-time funding of 2,500 radios.

The department owns 10,079 radios, and 25% of the radios are over 10 years old. This money will be used to replace obsolete radios. Monies in this line item were transferred from other department funds to the Corrections Fund. *(Please see the Fund Transfers section in Other Issues for more information on the transfers.)*

Private Prison Per Diem

The budget includes \$168,617,100 in FY 2017 for Private Prison Per Diem. This amount consists of:

General Fund	143,120,900
Corrections Fund	24,517,000
Penitentiary Land Fund	979,200

These amounts fund the following adjustments:

Open 1,000 Male Medium Beds

The budget includes an increase of \$17,098,500 from the General Fund in FY 2017 for 1,000 new private male medium custody beds based on opening in September 2016. ADC may open some of the beds sooner.

The annualization cost for the beds is expected to be \$7,090,800 in FY 2018, for a total annual cost of \$24,189,300. The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) authorized the department to issue requests for proposals (RFP) for up to 2,000 male medium security beds at new or existing contracted bed facilities. The department was authorized to award a contract or contracts to open up to 1,000 beds on July 1, 2016, and the remaining 1,000 beds could be awarded with specific legislative authorization. The FY 2017 Criminal Justice BRB repeals the authority for the legislature to authorize the remaining 1,000 beds.

The FY 2017 Criminal Justice BRB provides conditional authorization for 1,000 male medium beds if the male inmate state daily population exceeds the April 22, 2016 level of 38,762 by 1,000 prisoners by November 30, 2016. If 39,762 is reached, ADC may present their plans before the Joint Committee on Capital Review (JCCR). Approval by JCCR must occur on or before December 31, 2016. With the awarding of any contract from this RFP, counties with a population of less than 200,000 would have the first right of refusal for no more than 250 beds if they can meet the needs of the RFP and offer a per diem at the same rate or less than other non-county bidders. As written, counties with a population under 200,000 could

make a joint offer. ADC can also award more than the 250 beds if desired, or award a contract for less than 250 if that is what is made available by the eligible counties.

Background – Monies in this line item are paid to private prison contractors for housing and providing medical care to Arizona inmates in 8,538 beds under contract and operational by June 30, 2017. Private prison beds are considered permanent beds. ADC will usually own the facilities after a specified amount of time (typically 20 years) because the per diem rate includes a portion of the facilities' purchasing cost. Administrative expenses related to monitoring private prison contracts are included in the department's operating budget.

Inmate Health Care Contracted Services

The budget includes \$147,137,100 in FY 2017 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	135,637,100
Prison Construction and Operations Fund	10,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

These amount funds the following adjustments:

Year 3 Inflation Increase

The budget includes a decrease of \$(66,800) from the General Fund in FY 2017 to fund a 3.6% inflation increase that occurred at the start of the third year of ADC's contract with its health care vendor. A FY 2016 supplemental included \$5,200,000 from the General Fund for the costs in FY 2016. The FY 2017 budget allocated \$5,133,200 for this purpose.

This adjustment funded the increased per diem which went from \$11.20 to \$11.60 as of March 2015. The JLBC favorably reviewed the 3.6% inflation increase on June 18, 2015. The costs in FY 2015 were covered by the department.

Year 4 Inflation Increase

The budget includes a 4% inflationary increase for inmate health care spending. This adjustment is expected to require \$2,700,000 in increased General Fund spending in FY 2017. The FY 2017 Criminal Justice BRB allowed ADC to enter into a new financing agreement for an existing prison capital lease. At the June 16, 2016 JCCR meeting, the Committee favorably reviewed the department's plans to expend \$1.6 million in GF savings from refinancing the current debt obligation for the program. *(Please see the Kingman Refinance discussion for further details.)*

A FY 2017 General Appropriation Act footnote states the money appropriated in the budget is sufficient to fund a 4% increase for the fourth year of ADC’s contract with its health care vendor. On June 16, 2016, the JLBC approved this increase. With the increase, the per diem would increase from \$11.60 to \$12.06 retroactive to March 2016. The department will cover the FY 2016 costs of this increase.

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$12.06. The line item funds the costs of the contract; ADC expenditures for monitoring the contracted services are included within the department’s operating budget. Additional monies from Medicaid reimbursement of hospital stays outside prison facilities augment funding in this line item. (See below.) A General Appropriation Act footnote requires review of any changes to the per diem. The contract can be amended for changes to scope, and the vendor may request adjustments for inflation.

The budget presumes that the department will recover \$6,000,000 in savings annually for Medicaid reimbursement of the costs of outside health care. This is an increase of \$2,773,000 over the FY 2016 presumed savings. Any savings above \$6,000,000 can be used to offset growth in the prison population. In FY 2015, ADC reported a total of \$7.2 million in savings from services rendered in FY 2014 and FY 2015.

(For more detailed information on inmate health care, please see the Other Issues section.)

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Supplemental
- Fund Transfers
- Automation Projects Fund - Arizona Inmate Management System
- Proposition 123
- Additional Legislation
- Reentry Legislation
- ASP - Kingman Refinance
- Inmate Health Care
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - Bed Surplus/Shortfall

Long-Term Budget Impacts

Beyond FY 2017 budget changes for ADC, the budget estimates that policy changes approved in the FY 2017 budget will require an additional \$7.1 million in FY 2018 above FY 2017 and no changes in FY 2019. This estimate assumes the opening of 1,000 private medium custody beds opening in September 2016 and does not assume the opening of any additional beds in FY 2017, FY 2018, or FY 2019. *(Please see Private Prison Per Diem line item for further details.)*

FY 2016 Supplemental

The FY 2017 budget includes a FY 2016 supplemental appropriation of \$5,200,000 from the General Fund to ADC for funding the 3.6% inflation increase that commenced in March 2015 at the start of the third year of the contract. The department assumed the costs for FY 2015, the supplemental funds the FY 2016 costs, and the FY 2017 budget includes an adjustment for this increase. *(Please see the Inmate Health Care line item and Inmate Health Care in Other Issues for more information.)*

The FY 2017 budget includes a FY 2016 supplemental appropriation of \$6.948.18 from the General Fund in FY 2016 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Fund Transfers

The budget includes the following FY 2017 transfers from this agency’s funds to the Corrections Fund for purchasing replacement radios. This amount consists of:

Inmate Store Proceeds Fund	\$1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	500,000
State Department of Corrections Revolving Fund	500,000
Special Services Fund	400,000
Penitentiary Land Fund	400,000

(Please see the Radio Equipment line item for more information.)

Automation Projects Fund - Arizona Inmate Management System

The budget includes the transfer of \$8.0 million from department funds to the Automation Projects Fund (APF) in FY 2017 for the replacement of the Adult Inmate Management System (AIMS).

This amount consists of:

Special Services Fund	\$4,000,000
Arizona Correctional Industries Revolving Fund	1,000,000
Inmate Store Proceeds Fund	1,000,000
Penitentiary Land Fund	1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,000,000

The FY 2017 Criminal Justice BRB provides authorization for monies from the Special Services Fund to be transferred for use in this project.

The replacement of the system is estimated to cost a total of \$24.0 million over 3 years. The APF received a transfer of \$8.0 million in FY 2014 and \$8.0 million in FY 2015 from department funds for the project. The FY 2017 General Appropriation Act allows the department to expend the FY 2015 monies in FY 2017. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Proposition 123

As a beneficiary of the Arizona State Land Trust, ADC, receives monies generated from lease revenues and the proceeds from land sales that are invested into a “permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, ADC received \$906,200 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ADC will receive \$1,794,000 in additional revenue from the Treasurer’s distributions in FY 2016 and a total of \$3,122,975 from the Treasurer’s distributions in FY 2017. Since ADC land funds are subject to appropriation, ADC will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Additional Legislation

Corrections Fund Administrator

The FY 2017 Criminal Justice BRB establishes the Department of Corrections as the administrator of the Corrections Fund. The Corrections Fund is the recipient

of monies from liquor taxes, and these monies per A.R.S. 41-1641 are designated for use by the Director of the Department of Administration, the Director of the Department of Corrections, and the Director of the Department of Juvenile Corrections for maintenance and operations of adult and juvenile correctional facilities. By establishing the ADC as the administrator of the fund, this will improve the reporting of the funds expenditures by the different agencies.

Extension of Corrections Fund Revenue Sources

Laws 2016, Chapter 125 extends the distribution of luxury tax revenues to the Corrections Fund, permanently, retroactive to July 1, 2015. *(For additional information, please see Luxury Tax Revenue Allocation in Department of Revenue’s Additional Legislation section.)*

End Half-Time Release

Laws 2016, Chapter 89 ends the early release of certain prisoners after the prisoner has served at least one-half of their sentences to the custody of the United States Immigration and Customs Enforcement.

During FY 2015, ADC reported 959 inmates were released under A.R.S. § 41-1604.14, which this bill repeals. The department estimates that an average of 268 bed days were saved per inmate for a total of 257,012 bed days saved, or the annual equivalent of about 700 inmates. The JLBC Staff assume this increase will be phased in: 175 in FY 2017, 525 higher than currently projected in FY 2018, and 700 by FY 2019. The budget does not address potential costs for this law. At the present time, it is likely given slow growth that the FY 2017 increase can be absorbed within the current growth projections.

Prison Education Services Budget

Laws 2016, Chapter 262 extends the use of prison education services budgets for each state prison to include prisoners incarcerated in a special management unit.

Reentry Legislation

Transition Program

Under the Transition Program, eligible prisoners are released 90 days before their release date if they have met behavioral standards. The FY 2017 Criminal Justice BRB expands eligibility of the Transition Program Fund to include DUI convictions. Laws 2016, Chapter 153 provides an additional \$596,000 from the Transition Program Fund for this purpose and made the following changes:

- Allows participation of prisoners that committed a DUI.

- Changes the behavioral qualification provisions to that prisoners must be classified as minimum or medium custody, not have been found in violation of any major violent rule during the inmate's current period of incarceration or in violation of any other major rule within the previous 6 months.
- Clarifies that multiple minor rule violations cannot equal a major rule violation.
- Participants no longer need to be current on restitution payments.

Arizona Health Care Cost Containment System (AHCCCS)/ADC Collaboration

The FY 2017 Criminal Justice BRB, as permanent law, requires the collaboration of ADC and AHCCCS for inmates exiting ADC facilities reentering society. The law allows ADC to order certain prisoners as a condition of supervision to apply for AHCCCS. The law permits coordination between ADC, AHCCCS, and Regional Behavioral Health Authorities, especially for those in need of mental health assistance and requires AHCCCS/ADC to have an agreement to reinstate coverage for those prisoners that previously had health insurance and are serving a sentence of less than 12 months upon release.

Department of Corrections (DOC) Revolving Fund

Laws 2016, Chapter 153 expands the uses of the State DOC Revolving Fund for reentry, education, and medical health programming in addition to drug treatment programs. The legislation also modifies provisions to permit ADC to administer drug treatment programs and clarifies that other programs should be certified by either the Department of Health Services or the Board of Behavioral Health Examiners.

Re-Entry Work Program

Laws 2016, Chapter 311 allows ADC to establish a community reentry work program for prisoners who meet certain eligibility requirements. This provides the legislative authority for the development of future reentry work programs. At this time, there is no cost associated with this legislation.

ASP - Kingman Refinance

A July 2015 disturbance resulted in the temporary closure of the Hualapai Unit at the Kingman facility under the direction of a private vendor, Management and Training Corporation. This resulted in the temporary deactivation of (1,272) male medium custody beds, and the use of 1,259 temporary beds at other sites. After investigation, ADC reassigned the management-only contract with similar terms to a new vendor, GEO Group, effective December 1, 2015, maintaining the same per diem rates. The facility returned to full capacity by March 2016.

With this contract, the vendor is subject to an operating agreement with a third party that holds the lease for the land and buildings. Money from the per diem is designated to pay for the buildings. This arrangement qualifies as a capital lease, and is reported as part of the state's debt obligation.

The FY 2017 Criminal Justice BRB allows the Arizona Department of Administration (ADOA) with the participation of ADC to enter into a financing agreement in FY 2017 for this existing prison capital lease. This legislation included a provision that the proposed agreement and expenditure of any cost savings be submitted to the JCCR. Further, any agreement must generate savings of at least \$25 million over the lifetime of the agreement. By executing a lease-purchase agreement, the state can lower the state's debt obligation since the new agreement would be at a lower interest rate.

At the JCCR meeting on June 16, 2016, ADOA and ADC received a favorable review for the refinancing agreement. As submitted, the state will purchase the \$137.8 million buildings and facility through a lease-purchase agreement. The annual debt service payment is about \$17.3 million during most years. Over the 9-year term, the state will pay \$158.3 million at a projected 2% interest rate. The new financing agreement is projected to generate \$77.5 million in total savings through FY 2025. ADC proposed the following allocation of the savings:

<u>Allocation</u>	<u>FY 2017</u>	<u>FY 2018</u>
ASP - Kingman Adjustment	\$1.7	\$2.5
ADC Health Care Adjustment	2.7	2.7
Maricopa County Community Corrections Center	1.6	1.6
Unallocated Savings	<u>2.0</u>	<u>1.9</u>
Total	\$8.0	\$8.7

Inmate Health Care

On March 4, 2013, ADC entered into a contract with the vendor, Corizon, to provide inmate health care contracted services at a daily rate of \$10.10 per prisoner, replacing the original vendor, Wexford. The contract was for 3 years, with the option for two 1-year renewals. During FY 2015, the vendor and ADC amended the contract twice raising the per diem for prisoners in state facilities from \$10.10 to \$11.20:

- \$0.32 for increased vendor staffing for mental health and pill distribution effective June 2014.

- \$0.09 for additional vendor staffing at inpatient care unit effective March 2015.
- \$0.06 for additional vendor staffing at new maximum custody unit effective March 2015.
- \$0.63 for additional staffing to meet scope changes for the health care litigation agreement effective March 2015. As of May 2016, plaintiffs in the health care litigation case alleged that ADC has not met the conditions of the settlement.

The FY 2016 budget appropriated an increase of \$16.8 million for these per diem changes and the increased population.

The per diem rate further increased from \$11.20 to \$11.60 effective back to March 4, 2015 to account for the change in prices for medical goods and services. This 3.6% increase was based on the inflation rate for medical goods in Metropolitan Phoenix in 2014. The department covered the FY 2015 costs, and the adjustment was paid for in FY 2016 and FY 2017 by a budget adjustment to the Inmate Health Care Contracted Services line item.

This May 2015 amendment included other contract changes:

- Extends the contract to March 3, 2017 with vendor agreeing to renew for Year 4.
- Extends the contract for Year 5 if the Legislature funds a 4% inflation increase for Year 4.
- Permits the vendor to exit the contract without penalty in November 2016 if the Legislature does not fund the Year 4 increase.

The Legislature included sufficient monies in the FY 2017 budget to pay for a 4% inflation increase for Year 4 retroactive to March 2016. The cost of this increase, which will raise the per diem from \$11.60 to \$12.06, will be paid for from savings from refinancing a private prison lease. Funding the Year 4 increase extends the contract through March 2018, at which time the contract will be re-bid. *(Please see the ASP - Kingman Re-Finance discussion for further details.)*

Bed Capacity Issues

Inmate Growth Rate

During FY 2015, the inmate population increased by 838 from 41,773 to 42,611. This continued the moderate growth seen in FY 2014.

During the first half of FY 2016, the average monthly inmate growth was lower than expected. As of June 20, 2016, the total inmate population is 42,953. This is an increase of 342 inmates since June 30, 2015. The FY 2017

Baseline assumed an increase of 900 inmates by June 30, 2016.

The budget assumes inmate growth of 75 prisoners per month in FY 2017, or approximately 900 annually (744 male inmates and 156 female inmates). There is uncertainty regarding population growth due to several factors:

- Growth has been lower than expected in FY 2016.
- The expansion of the Transition Program and other reentry efforts like the Maricopa Community Corrections Center may contribute to a small decrease in population.
- Laws 2016, Chapter 89, which eliminates early release for certain inmates, may increase the population by 175 in FY 2017.

Table 2 details the projected annual population growth rate by custody and gender for FY 2017:

<u>Custody</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Minimum	72	12	84
Medium	492	96	588
Close	120	24	144
Maximum	<u>60</u>	<u>24</u>	<u>84</u>
Total	744	156	900

As with the overall growth rate assumptions, the projections by gender and custody level may need further revision in light of growth and the availability of temporary beds.

Bed Capacity

In measuring ADC's ability to house its inmate population, there are 2 methods of defining bed capacity:

- "Rated" beds are permanent and were originally designed for housing prisoners. This amount was 38,085 public and private prisons on June 30, 2015, an increase of 904 from the 37,181 on June 30, 2014. This increase came from the opening 500 private medium custody beds at ASP - Red Rock in January 2015, the opening of 500 public maximum custody beds at ASPC - Lewis, and the loss of (96) permanent maximum custody beds upon their return to special use beds. ADC projects a total of 38,085 rated beds on June 30, 2016 as shown on Table 4. With the addition of 1,000 new male medium private beds in September 2016, the projected number of rated beds for FY 2017 is 39,085.

- Operating Capacity represents “rated” beds plus temporary beds. The latter may be located in areas not originally intended for housing prisoners or double-bunked beds in areas intended for single bed cells. From June 2011 to June 2014, the range of temporary beds available was 5,129 to 5,842. During FY 2015, the department increased its total operating capacity by 1,274 beds, from 42,415 to 43,689. As of June 30, 2015, public and private prisons have a total of 5,604 temporary beds, an increase from 5,234 as of June 30, 2014. This increase came from the activation of 6 minimum custody beds at ASPC - Phoenix, 40 medium custody beds at ASPC - Eyman, and the reactivation of 324 temporary medium beds at ASPC - Cheyenne. ADC projects 5,754 temporary beds in use at the end of FY 2016 as shown on *Table 4* for a total operating capacity of 43,839. This includes plans to activate 150 public medium custody temporary beds. The projected operating capacity for FY 2017 is 44,839 based on the opening of 1,000 rated private beds.

In addition, special use beds are employed 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 1,689 as of June 30, 2015, 80 beds more than on June 30, 2014.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification) as discussed in this section. A FY 2017 General Appropriation Act footnote continues to require 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.

Bed Surplus/Shortfall

During FY 2015, the inmate population increased by 838 inmates. At the end of FY 2015, the department had a total rated bed shortfall of (4,526). After adjusting for the 5,604 temporary beds in the overall ADC system, the rated bed shortfall became a 1,078 bed surplus as shown in *Table 4*.

Presuming an annual growth of 450 inmates in FY 2016 at the same proportion by gender and custody level as FY 2017, the projected rated bed shortfall in FY 2016 is (4,976). With a total of 5,754 temporary beds, this becomes an operational surplus of 778.

Presuming an annual growth of 900 inmates in FY 2017, the rated bed shortfall is projected at (4,876) by June 30, 2017. The proposed opening of 1,000 beds in September would offset inmate growth. The operating capacity is a bed surplus of 878, assuming 5,754 temporary beds.

Bed shortfall estimates vary by level of security (e.g. minimum, medium, or maximum), and by gender. While there is an overall projected operational capacity of 878 beds in June 2017, that estimate reflects a male surplus of 816 and a female surplus of 62. Within the 816 male surplus, there are differences by classification. For example, there is a projected male minimum custody surplus of 332, a male medium custody surplus of 147, and male close custody surplus of 218 as shown in *Table 3*.

Custody	FY 2015	FY 2016	FY 2017	FY 2018
Minimum	440	404	332	260
Medium	119	23	147	(745)
Close	14	(46)	218	498
Maximum	<u>209</u>	<u>179</u>	<u>119</u>	<u>59</u>
Total	782	560	816	72

The FY 2017 projections include the 1,000 male private medium custody beds scheduled to open by September 2016 and the department’s plans to reclassify 384 medium custody beds to close custody. Without the reclassification of the 384 medium beds, the medium custody bed shortfall would be 531 and the close custody bed shortfall would be (166).

For FY 2018, *Table 3* assumes a growth rate of 900 with the same growth rate assumptions by gender and custody level as FY 2017. There would be an overall male custody beds surplus of 72 beds, with the greatest shortfall of (745) for male medium custody beds. A proposed department shift of 400 medium custody beds to close custody at APSC - Winslow contributes to the shortfall at the medium custody level in FY 2018. Without the shift, the male medium bed shortfall would be (591) beds

The FY 2017 Criminal Justice BRB eliminated the option for the State Legislature to authorize the remaining 1,000 beds of the RFP issued in May 2015. Instead, the Criminal Justice BRB included conditional authorization for 1,000 additional private male medium beds if the male population is 1,000 higher than the April 2016 population of 38,762 by November 30, 2016 and ADC receives approval from the JCCR. As of June 20, 2016, the male population was reported at 38,904, or 858 short of the

trigger level. (For additional discussion, please see the Private Prison Per Diem line item.)

State	Fiscal Year-End Operating Capacity								
	FY 2015 Actual			FY 2016 Estimate			FY 2017 Estimate		
	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity
Douglas	1,925	417	2,342	1,925	417	2,342	1,925	417	2,342
Eyman	3,928	1,359	5,287	3,928	1,359	5,287	3,928	1,359	5,287
Florence	3,440	697	4,137	3,440	697	4,137	3,440	697	4,137
Perryville	4,202	72	4,274	4,202	72	4,274	4,202	72	4,274
Phoenix	552	168	720	552	168	720	552	168	720
Lewis	5,104	752	5,856	5,104	852	5,956	5,104	852	5,956
Safford	1,453	316	1,769	1,453	366	1,819	1,453	366	1,819
Tucson	4,605	565	5,170	4,605	565	5,170	4,605	565	5,170
Winslow	1,626	216	1,842	1,626	216	1,842	1,626	216	1,842
Yuma	4,350	404	4,754	4,350	404	4,754	4,350	404	4,754
Subtotal ^{1/}	31,185	4,966	36,151	31,185	5,116	36,301	31,185	5,116	36,301
Private (Per Diem)									
Kingman (\$40.37)	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 (\$46.60)	500	-	500	500	-	500	500	-	500
Florence West (\$44.98 - 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)	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Eloy II (\$66.35)							1,000	-	1,000
Subtotal ^{2/ 3/}	6,900	638	7,538	6,900	638	7,538	7,900	638	8,538
Total - All Beds ^{4/}	38,085	5,604	43,689	38,085	5,754	43,839	39,085	5,754	44,839
State Prison Population	35,206		35,206	35,581		35,581	35,989		35,989
Female	3,998		3,998	4,076		4,076	4,232		4,232
Male	31,208		31,208	31,505		31,505	31,757		31,757
Private Prison Population									
Male	7,405		7,405	7,480		7,480	7,972		7,972
Total Population	42,611		42,611	43,061		43,061	43,961		43,961
Bed Surplus/(Shortfall)	(4,526)		1,078	(4,976)		778	(4,876)		878
Male	(4,750)		782	(5,122)		560	(4,866)		816
Female	224		296	146		218	(10)		62
Bed Surplus / (Shortfall) (% of Beds)	-11%		3%	-12%		2%	-11%		2%

^{1/} In FY 2015, ADC added 500 rated maximum custody beds at ASPC - Lewis, and lost (96) rated maximum custody beds with their return to special use beds. For temporary beds, the state activated 6 minimum custody beds at ASPC - Phoenix, 40 medium custody beds at ASPC - Eyman, and 324 medium custody beds at ASPC - Cheyenne. In FY 2016, ADC reported plans to open 150 public medium custody beds at ASPC - Safford and ASPC - Lewis. Including those beds, ADC reports 5,210 temporary beds in use at state facilities as of June 2016.

^{2/} The base rate for the private (per diem) bed rate for each facility is listed. ADC may be charged a lower rate due to amendments or contract provisions that grant lower rates for temporary beds or beds used over an occupancy threshold.

^{3/} In FY 2015, 500 private medium custody beds opened in January 2015. ADC will activate 1,000 private medium custody beds at Eloy II in FY 2017. The beds are displayed in the table.

^{4/} Excludes special use beds totaling 1,609 in FY 2015, 1,689 in FY 2016, and 1,689 in FY 2017.