State Notes

TOPICS OF LEGISLATIVE INTEREST

Spring 2010

Searching for Savings: Prevailing Cost Drivers for the Michigan Department of Corrections
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Upon initial inspection, recent expenditures on behalf of the Michigan Department of Corrections (MDOC) may seem inconsistent with declines in the prison population that have occurred in the past three calendar years. Accordingly, several variants of the following question have been posed:

> *Given the recent reductions in the prison population and associated facility closures, why has the MDOC been unable to achieve significant reductions in spending?*

Under closer inquiry, however, it becomes apparent that the MDOC budget is subject to a range of cost drivers that are not invariably linked to the overall level of incarceration. While there is undoubtedly a correlation between the prison population and State expenditures on corrections, the convergence of other variables has largely negated the savings associated with reductions in the population of Michigan's correctional facilities. Among these variables are employee economic costs, prisoner health care costs, prisoner reintegration, and community supervision programming. This analysis attempts to draw attention to these underlying cost drivers within the MDOC budget; in doing so, this report endeavors to provide a satisfactory response to inquiries on the savings (or apparent lack thereof) associated with reductions in the prison population and the closure of numerous correctional facilities.

Population and Expenditure Trends

Tables 1 and 2 provide a 10-year history of MDOC appropriations and year-end prison population, respectively. As shown in Table 1, gross appropriations to the MDOC increased steadily between fiscal year (FY) 2002-03 and FY 2007-08. Both FY 2008-09 appropriations and FY 2009-10 appropriations (to date) represent reductions from preceding years.

Table 1

Department of Corrections Funding History

Fiscal Year	Full-Time Equated Positions (FTEs)	Gross	% Change in Gross Appropriations
2000-01	19,768.8	$1,706,276,900	NA
2001-02	19,390.5	1,688,016,300	(1.1)%
2002-03	18,827.9	1,687,056,831	(0.1)
2003-04	18,296.7	1,705,829,881	1.1
2004-05	17,753.8	1,768,907,800	3.7
2005-06	17,509.2	1,885,554,200	6.6
2006-07	17,782.0	1,953,623,000	3.6
2007-08	17,637.4	2,079,681,100	6.5
2008-09	17,285.0	2,038,478,100	(2.0)
2009-10	15,746.1	1,956,122,800	(4.0)

Source: Annual Appropriations Acts

Table 2 shows a prison population that increased significantly from calendar year (CY) 2000 to the end of CY 2002. Overall incarceration then declined in both CY 2004 and CY 2005 before reaching a record high by the end of CY 2006.[1] Between January 1, 2007, and January 1, 2010, Michigan's prison population declined by nearly 6,000 inmates. This precipitous decline has been the primary impetus for additional scrutiny of the MDOC budget.

Table 2

Year-End Prison Population (Institutions and Camps)

Calendar Year	Year-End Population	Numerical Change	Percent Change
2000	45,821	NA	NA
2001	47,317	1,496	3.3%
2002	49,459	2,142	4.5
2003	48,887	(572)	(1.2)
2004	48,557	(330)	(0.7)
2005	49,377	820	1.7
2006	51,454	2,077	4.2
2007	50,203	(1,251)	(2.4)
2008	48,686	(1,517)	(3.0)
2009	45,478	(3,208)	(6.6)

Source: MDOC Client Census Report

While MDOC appropriations and the prison population have generally trended along parallel paths, FY 2008-09 and FY 2009-10 are exceptions in a sense. Given that the prison population has declined by nearly 9.1% since October 1, 2008, one might expect a corresponding reduction in MDOC appropriations. In fact, the reduction in gross appropriations to the MDOC since that date has been $123.6 million -- only a 5.9% reduction. Furthermore, reductions in the State's prison population have permitted the MDOC to close 19 individual correctional facilities in the past six fiscal years.[2] This total includes 10 prison camps and nine State prisons.[3]

In light of these facility closures, it may be appropriate to question whether current appropriations are necessary for the supervision of approximately 45,000 prisoners and 82,000 parolees and probationers by the MDOC. Although it can be unambiguous to claim that MDOC should have realized savings equivalent to the costs of operating the closed facilities, such an approach does not account for any reallocation or reinvestment of those savings within the MDOC budget. A more detailed inspection of recent appropriations to the MDOC reveals that personnel, prisoner health care, and community supervision have become the primary cost drivers in the MDOC budget.

[1] The Michigan prison population actually reached its peak in April 2007 before declining in the second half of that calendar year.
[2] For additional information, please see "Prison and Camp Closures" on the SFA website at http://www.senate.michigan.gov/sfa/Publications/Notes/2009Notes/NotesMayJun09lh.pdf.
[3] Muskegon Correctional Facility has remained open and is now financed through the housing of prisoners from the State of Pennsylvania.

Employee Economics

For FY 2009-10, the MDOC is authorized to employ 15,746.1 full-time equated positions. The size of the Department's workforce dictates that even small wage or retirement adjustments can have a considerable impact on the overall budget. As shown in Table 3, employee economics costs have outpaced the total MDOC appropriations increases since FY 2004-05. These costs reflect contracted wage and salary increases, as well as increases in the employer-borne costs of health insurance and retirement. When these economic increases are not explicitly funded, as was the case in FY 2003-04, the MDOC must finance the costs through reductions in existing programming.

Table 3

History of *Funded* Employee-Related Economic Increases

Fiscal Year	Salary	Insurance	Retirement	Workers' Compensation	Other	Total Employee Economics	Total Approp. Increase
2002-03	$17,876,300	$0	$2,331,800	$1,365,600	($7,217,100)[a)]	$14,356,600	$17,854,300
2003-04[b)]	0	0	0	2,823,000	28,595,600[c)]	112,628,900	37,450,369
2004-05	61,617,600	21,209,900	68,827,200	(2,549,000)	(46,342,500)[d)]	102,763,200	80,352,719
2005-06	10,590,700	22,831,700	18,362,900	(1,378,000)	46,342,500[d)]	96,749,800	91,198,600
2006-07	36,328,100	13,633,100	32,057,900	(1,105,000)	0	80,914,100	54,867,300
2007-08	41,987,300	16,612,500	24,272,600	(932,000)	0	81,940,400	124,646,100
2008-09	10,004,600	(12,298,700)	7,320,000	(533,000)	0	4,492,900	(39,032,900)
2009-10	9,411,900	6,807,300	15,206,400	473,000	0	31,898,600	(54,869,300)

a) This eliminated a lump sum salary payment that had been part of the contract during FY 2000-01 & FY 2001-02.

b) Salary, insurances, and retirement increases were unfunded this year, but totaled $81.2 million. PA 154 of 2008 required the MDOC to finance economic increases through reductions in programming.

c) Restored FY 2002-03 shortfall in retirement.

d) This reduction and subsequent increase of the same amount marks the start and end of employee concessions such as furlough days and banked leave time.

Source: State Budget Office

In addition to the increases listed above, unionized MDOC employees are scheduled to receive 3.0% pay raises at the onset of FY 2010-11. The cumulative impact of these salary adjustments will result in a further increase of approximately $29.5 million in MDOC employee costs. It should be noted that the MDOC cannot manipulate employee compensation rates at will. Also, as confirmed by recent Senate floor debate, it is extremely difficult for the Legislature to rescind pay increases that are negotiated between labor unions and the Office of the State Employer.

Salary and wage economics aside, additional employee-related costs are an added strain on the MDOC budget. Absent any changes to the current structure of the State Employees Retirement System, one anticipates the continued growth of employer contributions to fund pension benefits. Across the various departmental budgets, Michigan faces a dilemma in addressing both increasing costs and unfunded liabilities in the State retirement programs. A recent report by the Pew Center on the States summarized this challenge as follows:

> *The almost unavoidable upcoming increases in employer contributions could not come at a worse time. These actuarial demands have hit just as states' revenues have been squeezed by the recession. Employer contributions come out of the same pot of money that funds education, Medicaid, public safety, and other critical needs.*[4]

Prisoner Health Care Costs

It should come as no surprise that prisoner health care costs have become a primary cost driver within the MDOC budget. Above and beyond the well documented increases in general health care costs over the past two decades, Michigan's truth-in-sentencing law has produced longer prison terms and an aging prison population. Although age is not necessarily a reliable proxy for health care needs, there can be little doubt that an aging prison population is driving health care costs upward.

Table 4 underscores the changing age dynamics of the Michigan prison population. In December 2009, the MDOC was responsible for twice as many prisoners over the age of 55 as had been incarcerated in December 2000. As elderly and near-elderly prisoners comprise an increasing share of the total prison population, the Department faces the daunting task of providing adequate care for individuals prone to chronic and degenerative health problems.

Table 4

Prison Population Over the Age of 55

Calendar Year	Total Population	Prisoners Average Age	Prisoners Age > 55	% of Prisoners Age > 55
2000	47,718	35.1	2,107	4.4%
2001	48,849	35.4	2,365	4.8
2002	50,591	35.6	2,674	5.3
2003	49,357	35.9	2,865	5.8
2004	48,831	36.3	3,096	6.3
2005	49,139	36.6	3,370	6.9
2006	51,515	36.9	3,760	7.3
2007	50,233	37.2	4,021	8.0
2008	48,713	38.0[a)]	4,662	9.6
2009	45,478	38.0[a)]	4,217	9.3

[a)] Beginning in 2008, MDOC age stats were rounded to the nearest year.

Source: MDOC Annual Stat Report. Numbers reported collected in December of each year.

From a broader perspective, aggregate appropriations for prisoner health care have increased by a factor of five in the past two decades. As shown in Table 5 increases in health care costs borne by the MDOC have generally outpaced increases in the gross appropriations to the Department. In FY 1990-91, prisoner health care costs accounted for just 6.0% of the gross appropriations to

[4] "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform", Pew Center on the States, February 2010.
http://downloads.pewcenteronthestates.org/The_Trillion_Dollar_Gap_final.pdf

the MDOC; in contrast, prisoner health care accounts for 13.3% of the FY 2009-10 year-to-date appropriations.

Table 5

Health Care Appropriation History

Fiscal Year	Gross Appropriation	Health Care[1)]	Health Care as of % of Gross Appropriation
1990-91	$844,834,100	$50,813,500	6.0%
1991-92	961,815,700	52,378,700	5.2
1992-93	1,034,639,100	74,056,000	7.2
1993-94	1,151,482,100	76,413,000	6.6
1994-95	1,222,204,800	84,639,900	6.9
1995-96	1,315,090,800	89,495,400	6.8
1996-97	1,350,709,533	95,882,100	7.1
1997-98	1,389,827,700	107,563,400	7.7
1998-99	1,450,202,500	108,582,700	7.5
1999-2000	1,564,700,800	120,151,100	7.7
2000-01	1,706,276,900	140,086,100	8.2
2001-02	1,688,016,300	148,907,800	8.8
2002-03	1,687,056,831	156,308,800	9.3
2003-04	1,705,829,881	162,015,700	9.5
2004-05	1,768,907,800	170,036,500	9.6
2005-06	1,885,554,200	191,892,800	10.2
2006-07	1,953,623,000	231,010,300	11.8
2007-08	2,079,681,100	236,407,300	11.4
2008-09	2,038,723,100	270,124,900	13.2
2009-10[2)]	1,956,122,800	259,647,300	13.3

1) Includes health care administration, clinical complexes, prisoner health care services (formerly hospital and specialty care), and vaccinations.
2) Year-to-date appropriations.

Source: Annual Appropriations Acts

On April 1, 2009, the Michigan Department of Corrections entered into a new, three-year contract for prison health care services with Prison Health Services, Inc.. Because this new agreement establishes a limited-risk capitation payment schedule for prisoner health services, the MDOC is hopeful that the upward trend in prison health care costs will be restrained.

Community Supervision and Prisoner Reintegration

In the past decade, the MDOC has begun to make the transition from a primarily incarceration-oriented organization to one that invests heavily in alternative sanctions and community-based supervision. Furthermore, the MDOC has implemented and subsequently expanded the Michigan Prisoner Re-Entry Initiative (MPRI), which provides services and programming intended to reduce recidivism rates and ease the transition from prison to community. While it is significantly less expensive to supervise an offender in the community than in a State corrections facility, these transitions have required the MDOC to redirect resources and incur additional costs. It is essential to recognize that a prisoner who has been paroled is still under MDOC supervision for a period of time. Thus, savings that may result from reductions in the prison population are offset to some degree by community supervision costs.

Table 6 includes a recent history of appropriations to three key budget areas: field operations, the MDOC electronic monitoring center, and prisoner reintegration (MPRI). The field operations budget line includes funding for parole and probation agents, and reflects overall community supervision to an extent. Funding appropriated for the electronic monitoring center is spent for the remote observation of select individuals using technologies such as GPS tethers and blood-alcohol monitors. The prisoner reintegration line is used to fund MPRI programming including, but not limited to, workforce development, health-related services, and residential stability.[5]

Table 6

Funding History for Select Lines
FY 2004-05 to FY 2009-10

Fiscal Year	Field Operations	Electronic Monitoring Center	Prisoner Reintegration (MPRI)	Total	Total % Change
2004-05	$135,735,600	$3,533,200	$0	$139,268,800	NA
2005-06	138,960,600	4,637,500	0	143,598,100	3.1%
2006-07	146,501,000	5,649,500	0	152,150,500	6.0
2007-08	153,833,000	7,086,900	30,904,700	191,824,600	26.1
2008-09	159,619,400	9,583,500	46,632,400	215,835,300	12.5
2009-10	171,935,100	11,306,300	57,895,700	241,137,100	11.7

Source: Annual Appropriations Acts

As shown here, appropriations for field services have increased 26.7% since FY 2004-05, while appropriations for electronic monitoring have increased more than threefold in the same span. These additional appropriations are driven primarily by increases in the number of parolees under MDOC supervision. Recent census reports released by the MDOC seemingly confirm this assertion. While the number of parolees under MDOC supervision fluctuates daily, periodic snapshots of that population strongly suggest an upward trend. As of April 1, 2010, the MDOC was responsible for 20,120 parolees; just two years earlier, on April 1, 2008, the total number of parolees was 16,796.[6] In sum, the increase in the parole population has forced the MDOC to hire additional parole agents and invest in additional electronic monitoring resources.

Conclusion

The FY 2009-10 MDOC budget, as enacted, assumed $118.0 million in savings resulting from reductions in the prison population and the closure of three State prison facilities and five prison camps during calendar year 2009.[7] Accounting for the additional closures completed by the MDOC between FY 2004-05 and the present, one might expect a reduction to the Department's

[5] Further information on the Michigan Prisoner Re-Entry Initiative is available at www.michpri.com and http://www.michigan.gov/corrections/0,1607,7-119-9741_33218---,00.html.
[6] Michigan Department of Corrections, monthly client census summary reports.
[7] PA 114 of 2009. Muskegon Correctional Facility is now being used to house prisoners from the State of Pennsylvania.

baseline budget in excess of $200.0 million. In practice, however, the MDOC has been obliged to account for increasing employee-related costs and prison health care costs. Moreover, MDOC efforts to assist parolees with the transition from prison to the community have necessitated the reinvestment of savings that resulted from population reductions and prison closures.

If nothing else comes of this analysis, it should be evident that legislators face an arduous task in evaluating expenditures by the MDOC. While prison population reductions and facility closures reduce aggregate incarceration costs, many of these unspent dollars then are redirected to finance community supervision and prisoner re-entry services. Absent additional reductions in the prison population, it is difficult to ascertain methods by which the MDOC can further reduce spending. Ultimately, it seems that successful cost-containment strategies must address the cost drivers outlined here.