

State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2014



An Assessment of the Principal Cost Growth in the Michigan Department of Corrections By John Maxwell, Fiscal Analyst

In 2010, the Senate Fiscal Agency examined the cost drivers of the Michigan Department of Corrections (MDOC) budget from fiscal year (FY) 2000-01 through FY 2008-09. In that analysis, an effort was made to reconcile a declining prison population and MDOC full-time equated positions (FTEs) with an overall increased appropriation figure. The analysis identified two trends that explained some of the reasons for a declining prison population without a corresponding drop in budget appropriations: employee economic costs and prisoner health care expenditures. This report will update the data with five years of additional data to determine whether those trends are still apparent in the MDOC budget.

Trends in MDOC Appropriations

Tables 1 and 2 reflect the changes that have occurred over the 10-year history of MDOC appropriations and year-end prison population between FY 2005-06 and FY 2014-15. Table 1 shows that since FY 2006-07, there has been a consistent decline in the number of FTEs while the Gross appropriations have been more uneven. The Gross appropriations include Federal and Restricted funds as well as General Fund/General Purpose (GF/GP) revenue. Despite the inconsistent nature of the Gross appropriations, the GF/GP appropriations have increased year over year since FY 2011-12. Over the 10-year period of appropriations between FY 2005-06 and FY 2014-15, Gross appropriations have increased nearly \$155.0 million in nominal terms while GF/GP appropriations have increased nearly \$175.0 million in nominal terms, leading to an increased GF/GP portion of the budget.

Table 1

Department of Corrections Funding History					
Fiscal Year	Full-Time Equated Positions (FTEs)	Year-to-Date Gross Appropriation	Year-to-Date GF/GP Appropriation	% Change in Gross Appropriation	% Change in GF/GP Appropriation
FY 2005-06	17,509	\$1,885,554,200	\$1,806,098,500	1.1%	5.4%
FY 2006-07	17,782	1,953,623,000	1,871,877,500	3.6	3.6
FY 2007-08	17,637	2,079,681,100	1,996,084,500	6.5	6.6
FY 2008-09	17,285	2,038,478,100	1,778,041,400	(2.0)	(10.9)
FY 2009-10	16,005	1,999,606,600	1,919,711,100	(1.9)	8.0
FY 2010-11	15,878	1,991,313,500	1,900,078,400	(0.4)	(1.0)
FY 2011-12	15,569	1,990,534,400	1,921,594,300	0.0	1.1
FY 2012-13	14,758	2,021,915,600	1,941,235,600	1.6	1.0
FY 2013-14	14,560	2,047,106,400	1,972,725,400	1.2	1.6
FY 2014-15	14,179	2,040,521,700	1,980,798,400	(0.3)	0.4

Source: Annual Year-to-Date Appropriations Acts

As Table 2 shows, after five consecutive years of prisoner population decreases from 2007 to 2011, the population has rebounded to an extent and has seemingly plateaued at an average of between 43,000 and 44,000 prisoners.

The number of people committed to prison increased to over 10,000 in 2013. This represents an increase of about 400 over 2012. Notwithstanding the nearly 8,000-prisoner decrease from the peak in 2006, the appropriations have stayed relatively constant.



Table 2

Prison Population Figures			
Calendar Year	Year-End Population	Numerical Change	Percent Change
2004	48,557	330	N/A
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)
2010	44,113	(1,365)	(3.0)
2011	42,904	(1,209)	(2.7)
2012	43,594	690	1.6
2013	43,704	110	0.3
2014 ^{a)}	43,414	(290)	(0.7)

^{a)} Population number taken from FY 2014-15 appropriation bill, Public Act 252 of 2014.

Source: MDOC Annual Statistical Report

MDOC Employee Expenditures

As the budget has remained at consistent levels even as the Department has experienced changes in the number of prisoners, the workforce has become an area with a greater impact on the MDOC appropriation. According to the FY 2013-14 MDOC spending plan¹, of the \$2,039,605,800 budget for Department operations, \$816,348,100 went to State employee wages and \$672,279,500 went to State employee benefits. The total salary and wage expenditure of \$1,488,627,600 makes up 73% of the MDOC spending plan. Though Table 1 shows a decrease in FTEs and Table 2 shows a decline in prisoner population, the increase in the appropriation over the 10-year period is partially explained by changes in employee economics. These changes in economics have been necessitated by the demographic trends among MDOC employees as well as modifications to State employment benefits and the provision of funds for unfunded accrued liabilities for Other Post-Employment Benefits (OPEB) rather than on a "pay-as-you-go" basis. In FY 2003-04, the average age of the employees was 43.4 years, the average length of service was 12.1 years, and the average hourly pay was \$21.54². In the second quarter of FY 2013-14, the average age of MDOC employees was 45.8 years, the average length of service was 14.6 years, and the average hourly pay was \$25.77³. Even as the employee workforce has shrunk, the simple demographic shift toward an older, more experienced workforce has resulted in an increase in economic expenditures. Compared with the other State departments, the MDOC has the second-highest percentage of employees eligible for longevity pay, at 80.7%⁴. Additionally, due to the older makeup of the MDOC workforce, there has been an increase in the number of sick days taken by the MDOC employees: in FY 2003-04, the MDOC had an average of 11.5 sick days (92.0 hours) per employee while in FY 2012-13, the average was 13.01 sick days (104.1 hours) taken. Table 3 reflects that, even with a decline in prison population as well as FTEs, the employee economics have increased in keeping with the contracted terms of employment.

¹ MDOC Spending Plan FY 2013-14

² FY 2003-04 Civil Service Workforce Report

³ FY 2013-14 2nd Quarter Michigan Civil Service Workforce Report

⁴ Id

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Table 3

History of Employee-Related Economic Increases								
Fiscal Year	Salary	Insurance	Retirement	OPEB	Worker's Compensation	Other	Total Change in Employee Economics	Total Departmentwide Appropriation 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)
2010-11	27,236,600	18,810,200	37,169,500	0	1,822,000	0	85,038,300	(8,293,100)
2011-12	0	(6,563,100)	62,857,700	0	126,100	0	56,420,700	(779,100)
2012-13	24,591,300	(9,864,600)	(88,938,100)	\$121,618,700	2,284,600	0	49,691,900	31,381,200
2013-14	7,905,500	3,139,300	30,120,600	6,670,200	852,800	0	48,688,400	25,190,800
2014-15 ^{e)}	14,552,800	0	16,850,200	(8,198,800)	(1,447,900)	0	21,756,300	(6,584,700)

^{a)} This eliminated a lump sum salary payment that had been part of the contract during FY 2000-01 and FY 2001-02.
^{b)} Salary, insurances, and retirement increases were unfunded this year, but totaled \$81.2 million.
^{c)} Restored FY 2002-03 shortfalls in retirement.
^{d)} This reduction and subsequent increase of the same amount marked the start and end of employee concessions such as furlough days and banked leave time.
^{e)} Based on FY 2014-15 initial appropriations.

Source: State Budget Office



Prisoner Health Care Costs

Along with an aging workforce, the "silver tsunami" has hit the prisoner population as well. As [Table 4](#) shows, both the average age and the median age of the prisoners have gone up since 2000. More importantly, however, the share of those prisoners over the age of 55 has increased substantially. In 2000, less than 5% of the overall population was over 55, but by 2013, the share was nearly 12%. This represents an increase of 138% over the 13-year period. More than one out of every 10 prisoners is over the age of 55.

Table 4

Prisoner Age Data					
Calendar Year	Total Population	Prisoners' Average Age	Prisoners' Median Age	Prisoners Age 55+	% of Prisoners 55+
2000	47,718	35.1	34	2,107	4.4%
2001	48,849	35.4	34	2,365	4.8
2002	50,591	35.6	34	2,674	5.3
2003	49,357	35.9	35	2,865	5.8
2004	48,831	36.3	35	3,096	6.3
2005	49,139	36.6	36	3,370	6.9
2006	51,515	36.9	36	3,760	7.3
2007	50,233	37.2	36	4,021	8.0
2008	48,713	38.0	37	4,662	9.6
2009	45,478	38.0	37	4,217	9.3
2010	44,113	38.0	36	4,145	9.4
2011	42,904	38.0	36	4,318	10.1
2012	43,594	38.0	37	4,712	10.8
2013	43,704	38.0	37	5,013	11.5

Source: Annual MDOC Statistical Report

Table 5

Prisoner Health Care Appropriations History			
Fiscal Year	MDOC Gross Appropriation	Health Care Gross Appropriation¹⁾	Health Care as a % of Gross Appropriation
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	1,999,606,600	259,647,300	13.0
2010-11	1,991,313,500	253,730,000	12.7
2011-12	1,990,534,400	311,774,200	15.7
2012-13	2,021,915,600	316,782,500	15.7
2013-14	2,047,106,400	296,360,600	14.5
2014-15	2,040,521,700	281,871,800	13.8

¹⁾ Includes health care administration, clinical complexes, prisoner health care services, and vaccinations.

Source: Annual Year-to-Date Appropriations Acts

As the prisoner population has aged, the medical costs associated with taking care of the inmates have also risen by 79% in the past 16 years, as [Table 5](#) shows. There has been some moderating of the rising costs in the past couple of years, which may be an effect of the limited-risk capitation



health care model that the Department has had in place since 2009. As the demographics continue on a course of increasing age among the prisoner population, there should not be an expectation that health care costs will decrease.

Conclusion

As was the case the last time this subject was covered in a State Notes article (Spring 2010), there has been a decline in the prison population as well as in the number of FTEs but a lack of savings that might be expected. Since that time, the number of FTEs has decreased by nearly 2,000, but savings associated with these positions have not been realized due to two main factors: employee compensation including payment on unfunded accrued liabilities and increased prisoner health care costs mainly due to aging. Both factors are largely external to the annual appropriations process. The calculation of employee benefits is decided on a statewide basis and the provision of "non-deliberately indifferent" health care to prisoners has been required by courts.

As both the employees and the prisoners age, a greater amount of resources will be required to maintain the status quo of a stabilized prison population. As prison cohorts have moved through the system, the resources dedicated to provide for health care have gotten progressively greater. The population of elderly prisoners is likely to remain as large as in 2013, when 31% of the prison population was between the ages of 40 and 55. Employee benefits highlighted in Table 3 show that since FY 2002-03, the overall changes in employee economic costs have increased far more rapidly than the overall appropriation has, due to changes in calculating employee benefits and funding for unfunded accrued liabilities. To realize savings in the Corrections budget, any strategies undertaken must address the cost drivers of employee demographics and prisoner health care expenses.