

**U.S. Department of Justice**  
**FY 2019 Performance Budget**  
**Congressional Submission**  
**Federal Prison System**  
**Federal Prison Industries**

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## **II. Overview for Federal Prison Industries**

### **1. Introduction**

The mission of Federal Prison Industries, Inc. (FPI) is to protect society and reduce crime by preparing inmates for successful reentry through job training.

FPI assists inmates with developing vital skills necessary to become law abiding citizens. Through the production of market-priced quality goods and services, FPI provides job training and work opportunities to inmates, while minimizing impact on private industry and labor.

For FY 2019, a total of 1,950 positions and 1,147 work-years are requested for FPI. This request continues 2018 levels. Further, \$2,700,000 is included as the administrative expenses limitation for the FPI program. Electronic copies of the Department of Justice's Congressional Budget Justifications and Capital Asset Plan and Business Case exhibits can be viewed or downloaded from the Internet using the Internet address: <http://www.justice.gov/02organizations/bpp.htm>.

### **2. Background**

FPI was created by Congress in 1934 and is a wholly owned Government corporation that operates at no cost to the U.S. taxpayer. The Corporation is authorized to operate industries in Federal penal and correctional institutions and disciplinary barracks (18 U.S.C. §§ 4121-4129). UNICOR is the trade name for FPI. The Director of the Federal Bureau of Prisons (BOP), who has jurisdiction over all Federal penal and correctional institutions, is the Commissioner of FPI.

FPI reduces inmate idleness by providing a full-time work program. It strives to attain the goal that 25 percent of inmates released by the BOP who have spent three years or more in FPI-appropriate facilities will have had at least 180 days of FPI experience. FPI provides a program of constructive work and services wherein job skills can be developed and work habits acquired. Revenues from the Corporation's activities are used to defray all of its operating costs, including the purchase of raw materials and equipment, staff salaries and benefits, compensation to inmates working in the FPI program, and compensation to former inmates for injuries they sustained while employed with FPI.

A board of six Directors, appointed by the President, reviews and approves the policies of the Corporation, long-range corporate plans, establishment of new industries, bylaws, and capital investments in excess of \$500,000. The Board also submits annual reports to Congress on the conduct of the business of the Corporation and the condition of its funds. General management of the Corporation is vested in an Assistant Director of the BOP, who serves as Chief Executive Officer, and is carried out by a staff of 13 Corporate Management employees located in Washington, DC. Expenses for this administrative function are subject to Congressional limitation.

Over the course of FY 2017, a total of 16,792 inmates worked in FPI in 59 factories and 3 farms. For FY 2018, FPI projects employment of 18,607 inmates working in FPI during the fiscal year. Inmates manufacture items such as furniture, clothing, electronics, vehicular and metal products, and provide such services as printing, data processing, call centers, laundry, farming and recycling activities. Products and services of the Corporation are sold primarily to Federal agencies. The Department of Defense (DOD), Department of Homeland Security (DHS), Department of Justice (DOJ), and General Services Administration (GSA) are FPI's largest customers. The large BOP inmate population and the corresponding need to increase inmate

employment while minimizing FPI's effect on private labor and business continues to be FPI's major challenge.

### **3. Challenges**

FPI is one of the BOP's most important inmate work programs, providing valuable job skills training and work experience to 16,792 Federal inmates over the course of FY 2017. FPI directly supports the BOP's mission by keeping inmates productively occupied and by enhancing the likelihood of their successful reentry into society. Inmates who participate in the FPI program are less likely to engage in disruptive behavior, a benefit which contributes significantly to the safe and secure management of prisons, thereby reducing operating costs. Additionally, inmates participating in the FPI program are 24 percent less likely to recidivate than similar non-participating inmates, a result which reduces the future costs of enforcement and incarceration. FPI also positively impacts the U.S. economy through the raw materials purchased from its suppliers around the country and the staff salaries spent in local communities, all without additional tax burden to society.

Increasing the number of inmate opportunities for employment has been an ongoing challenge for FPI, but the Corporation projects an increase to 18,607 in FY 2018 and by 2022, the 5-year goal is an annual inmate employment of 21,105 or a 25% increase over 2017.

### **4. Full Program Costs**

FPI operates as a revolving fund and does not receive an annual appropriation. FPI maintains a proprietary, full accrual accounting system. Cash control measures implemented during FY 2009 through FY 2017 have resulted in a reduction of non-cash assets in order to preserve cash. Based on anticipated orders (Revenues), this budget reflects the associated costs to produce the products and services and maintain the facilities for manufacturing, adjusted for anticipated replenishments. FPI monitors the following program's activities: Sales Volume, Number of Factories, and Inmate Employment. These activities directly relate to FPI's goals of inmate reentry success and a safe, secure, and less costly population management.

FPI sales have been negatively impacted by the passage of Sections 811 and 819 of the National Defense Authorization Acts of 2002 and 2003, and Section 637 of the FY 2004 and FY 2005 Omnibus Appropriations Bills, which changed the nature of FPI's mandatory source status. Additionally, Section 827 of the National Defense Authorization Act of 2008 further eroded FPI's procurement preference.

However, beginning with execution of a new Strategic Plan in 2016, FPI has taken significant steps to improve its financial condition and operations. Though FY 2017 sales decreased by \$44.6 million when compared to FY 2016, factory earnings increased by \$5.9 million, resulting in a net income of \$16.8 million. This net income resulted from an increase in investment and other income including fees for contract services provided to other agencies and reimbursement for space used and a decrease in overhead. The net income goal for FY 2018 is \$21 million, based on a goal of \$458 million in sales.

Sales, Factory Earning and Net Income for Federal Prison Industries  
*FY 2013 – FY 2017*

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sales	533,337,000	389,131,000	471,900,000	498,405,000	453,763,000
Factory Earnings	46,215,000	9,007,000	27,826,000	44,180,000	50,142,000
Net Income/(Loss)	-\$4,252,000	-\$37,528,000	-\$17,973,000	\$4,057,000	\$16,821,000

## 5. Performance Challenges

### External Challenges

FPI does not receive appropriated funding for operations and sustains itself through its operations. Historically, FPI operates on a very low margin. The margins are much lower than that of a non-government corporation of similar size and longevity.

Despite receiving zero appropriations, FPI's growth is limited due to customer limitation laws yet FPI is tasked with remaining self-sufficient. This delicate balancing act between self sufficiency and growth creates a sizable challenge for FPI. Additionally, FPI is faced with challenges that may impact this balance, including changes to FPI's position as a supplier to the Federal Government (preference provided to FPI) and increases in costs not directly controlled by FPI (Federal staff pay schedule and benefits costs).

### Internal Challenges

FPI faces challenges similar to that of a non-government corporation. These challenges include: control of costs, collection of accounts receivable, control of raw materials inventory levels, and stability of sales.

During FY 2017, FPI incurred an operating income of \$16.8 million. FPI's accounts receivable decreased by \$10 million; on September 30, 2017, inventories remained at the same level as FY 2016 at a record low of \$106 million while operating cash increased by \$56 million to a record high of \$274 million. For FY 2018, FPI has set an operating income goal of \$21 million.

## 6. Environmental Accountability

The BOP has implemented an Environmental Management System (EMS) policy, which covers FPI. FPI integrates environmental accountability in its day-to-day decisions locally through membership and representation from each FPI factory on BOP's institution EMS Committees, which consist of staff responsible for environmental concerns for that institution. Each institution has now self certified that an EMS has been implemented -- this includes FPI factories within those facilities. An FPI factory representative also participates on the Environmental Management and Occupational Health and Safety Committee (EMOHSC), which oversees EMS policy and institution-wide environmental concerns.

The BOP has developed a three-year audit cycle schedule in an effort to provide a second-party certification for each BOP institution's EMS.

In addition, FPI continues to be proactive in its environmental accountability by taking measures such as efforts to manufacture and sell solar panels to the Federal government.

### **III. Appropriations Language and Analysis of Appropriations Language**

#### **Federal Prison Industries, Incorporated**

*The Federal Prison Industries, Incorporated, is hereby authorized to make such expenditures within the limits of funds and borrowing authority available, and in accord with the law, and to make such contracts and commitments without regard to fiscal year limitations as provided by section 9104 of title 31, United States Code, as may be necessary in carrying out the program set forth in the budget for the current fiscal year for such corporation.*

#### **Limitation on Administrative Expenses, Federal Prison Industries, Incorporated**

*Not to exceed \$2,700,000 of the funds of the Federal Prison Industries, Incorporated, shall be available for its administrative expenses, and for services as authorized by section 3109 of title 5, United States Code, to be computed on an accrual basis to be determined in accordance with the corporation's current prescribed accounting system, and such amounts shall be exclusive of depreciation, payment of claims, and expenditures which such accounting system requires to be capitalized or charged to cost of commodities acquired or produced, including selling and shipping expenses, and expenses in connection with acquisition, construction, operation, maintenance, improvement, protection, or disposition of facilities and other property belonging to the corporation or in which it has an interest.*

*Note.- A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.*

#### **Analysis of Appropriations Language**

No change in language on limitation of administrative expenses.

## IV. Program Activity Justification

### A. Federal Prison Industries

<b>Federal Prison Industries</b>	<b>Direct Pos.</b>	<b>Estimated FTE</b>	<b>Amount</b>
2017 Enacted	1,950	1,147	647,053
2018 Continuing Resolution	1,950	1,147	662,060
2019 Current Services	1,950	1,147	662,060
2019 Request	1,950	1,147	662,060
<b>Total Change 2018-2019</b>	<b>0</b>	<b>0</b>	<b>\$0</b>

<b>Information Technology Breakout (of Decision Unit Total)</b>	<b>Direct Pos.</b>	<b>Estimated FTE</b>	<b>Amount</b>
2017 Enacted	93	85	20,916
2018 Continuing Resolution	93	85	20,916
2019 Current Services	93	85	20,916
2019 Request	93	85	20,916
<b>Total Change 2018-2019</b>	<b>0</b>	<b>0</b>	<b>\$0</b>

#### 1. Program Description

Federal Prison Industries (FPI) employs many inmates who do not have marketable skills when they enter prison. FPI provides a program of constructive work wherein job skills can be developed and work habits acquired, thereby reducing the likelihood that inmates will recidivate upon release. FPI employment reduces inmate idleness by providing a diversified work program that improves prison safety and security. FPI strives to attain the goal that 25 percent of inmates released by the BOP who have spent three years or more in FPI-appropriate facilities will have had at least 180 days of FPI experience.

FPI's operations are self-sustaining. Revenues are primarily derived from the sale of products and services to other federal departments, agencies, and government institutions that purchase products listed on FPI's Schedule of Products. FPI provides services on a non-mandatory, preferred-source basis. Operating expenses such as the costs of raw materials and supplies, inmate wages, staff salaries, and capital expenditures are applied against these revenues, resulting in operating income or loss, which is reapplied toward operating costs for future production.

Institution factories are operated by civilian supervisors and managers responsible for training and overseeing the work of inmates. The factories utilize raw materials and component parts purchased from the private sector to produce finished goods. FPI's major government customers include the Departments of Defense (DOD), Department of Homeland Security (DHS), Department of Justice (DOJ), and General Services Administration (GSA). Institution factories manufacture such items as furniture, clothing, electronics, vehicle retrofit and metal products, and provide such services as printing, data processing, call centers, laundry, farming and recycling activities. Orders for goods and services are obtained through marketing and sales efforts by civilian staff. A portion of the earnings realized by these operations is reinvested to improve and build new facilities, purchase equipment, maintain the existing equipment base, and provide working capital.

Extensive testing and product development procedures are required to operate modern factories that produce products which meet government specifications. Inmate training is also extensive because most of the inmates have no previous training, experience, or skills. Most training is on-the-job, with the civilian supervisors and experienced inmates explaining and demonstrating the work to newly assigned inmates. Where skills require more formal training, such as soldering, FPI staff provide classroom instruction.

FPI makes necessary capital investments in buildings and improvements, machinery, and equipment. Other expenses charged to the manufacturing program include payments pursuant to the Inmate Accident Compensation Act (18 U.S.C. § 4126(c)(4)).

In 1988, Congress amended FPI's statute regarding the production of new products and significant product expansion (18 U.S.C. § 4122). Before any significant product expansion or new products subject to these provisions are manufactured, a review process is conducted, which includes full notice to and input from the public and interested parties. Implementing guidelines were first promulgated in 1990 and updated in 1997, with input from the private sector.

Under 18 U.S.C. § 4122, when FPI proposes to produce a new product or expand its market share of an existing product subject to the provisions of § 4122, it first must conduct a market impact study. This study must identify and consider the number of vendors currently meeting the requirements of the Federal Government; the proportion of the federal market for the product currently served by small businesses, small disadvantaged businesses, or businesses operating in labor surplus areas; the size of the federal/non-federal markets for the product; the projected growth in the Federal Government's demand for the product; and the projected ability of the federal market to sustain both FPI and private vendors. FPI then must announce in Federal Business Opportunities (Fed Biz Opps) its proposal and invite comments from private industry. FPI must also directly notify those trade associations affected and allow them to provide comment.

FPI's Board of Directors is appointed by the President, and by statute is composed of six members representing Industry, Labor, Retailers and Consumers, Agriculture, the Secretary of Defense, and the Attorney General. The Board receives copies of the market impact study, the comments received, and FPI's recommendations. The Board also holds public hearings where attendees are given the opportunity to provide testimony.

At the conclusion of this process, the Board renders its decision, which is also published in Fed Biz Opps. Parties can appeal to the Board if and when market conditions change or new facts could impact the decision.



Performance and Resource Tables

Performance Materials will be provided at a later date.

Performance Materials will be provided at a later date.

## 2. Performance, Resources, and Strategies

Performance Materials will be provided at a later date.