

U.S. Department of Justice

FY 2017 Performance Budget
Congressional Submission
Federal Prison System
Federal Prison Industries, Inc.

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I. 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 2017, a total of 1,950 positions and 1,147 work-years are requested for FPI. This request represents no change in positions from the FY 2016 Enacted. Further, \$2,700,000 is included as the administrative 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 Chief Executive Officer.

FPI reduces inmate idleness by providing a full-time work program and strives to attain the goal that 25 percent of inmates released by the BOP who have spent two 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 received 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, and 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 FPS, who serves as Chief Operating 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.

As of September 30, 2015, there were 12,278 inmates employed in 80 FPI factories and 3 farms with a projected employment of 12,076 inmates in Fiscal Year 2016. 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 re-entry programs, providing valuable job skills training and work experience to 12,278 Federal inmates in FY 2015. 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 will reduce the future costs of enforcement and incarceration. FPI is a program with proven lasting benefits, including a reduction in government spending on fighting crime, as well as a positive impact on the U.S. economy through the raw materials purchased from 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 is an ongoing challenge for FPI. This is evidenced by the continued decline in customer orders during FY 2015, which has led to a reduction in inmate employment from 12,468 at the beginning of the fiscal year to 12,278 as of September 30, 2015.

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 2015 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. More recently, Section 827 of the National Defense Authorization Act of 2008 further eroded FPI's procurement preference.

Sales, Factory Earning and Net Income for Federal Prison Industries
FY 2011 – FY 2015
(Actuals)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sales	745,423,000	606,114,000	533,337,000	389,131,000	471,900,000
Factory Earnings	62,009,000	31,713,000	46,215,000	9,007,000*	27,032,000
Net Income/(Loss)	-\$1,810,000	-\$28,251,000	-\$4,252,000	-\$37,528,000	-\$17,973,000

increased by \$18 million while the Net Loss decreased \$19.6 million. The decrease in Net Loss was as a result of a increase in sales orders in FY 2015.

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. FPI has been able to sustain itself despite the continued large numbers of incarcerated inmates.

The 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 2015, FPI incurred an operating loss of \$17.9 million. FPI's accounts receivable increased by \$14.3 million; inventories increased by \$52.2 million while operating cash decreased by \$48.1 million.

To guard against future losses, FPI began reorganizing operations in FY 2009, which continued into FY 2015. FPI implemented cost containment measures by delaying inmate employment and factory activations at new Federal prison facilities while consolidating operations, downsizing and/or closing some existing factories. Despite these efforts to create additional savings and efficiencies, additional adjustments were needed to ensure FPI's ability to sustain itself in the future. Cost containment measures continue in FY 2016.

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 developed a three-year audit cycle schedule to second-party certify 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 in furtherance of its greening initiatives.

III. Appropriations Language and Analysis of Appropriations Language

Federal Prison Industries, Incorporated

The Federal Prison Industries, Incorporated (FPI), 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.

(Department of Justice Appropriations Act, 2016)

SEC. 219 Federal Prison Industries: Pilot Programs

- (a) ACQUISITIONS BY DEPARTMENT OF JUSTICE. - The Attorney General may conduct a pilot program in which, notwithstanding any other provision of law, the Department of Justice, or any agency or component thereof, may make a contract award directly to Federal Prison Industries (FPI), without conducting market research or using competitive procedures to acquire goods or services authorized for sale by FPI.
- (b) FPI ACTIVITIES WITH STATE ENTITIES. - The Attorney General may authorize FPI to conduct a pilot program in which FPI may, notwithstanding any other provision of law:
 - (1) enter into agreements with state correctional industries to sell and/or purchase goods and services; and
 - (2) sell goods and services to state and local government agencies for disaster relief and emergency response purposes.
- (c) FPI PROCUREMENT PILOT. -
 - (1) The Attorney General may authorize FPI to conduct a pilot program in which FPI may, in procuring goods and services necessary for carrying out FPI programs, waive the following provisions of law, regulation, and policy governing procurement:
 - (A) the competition requirements set forth in chapter 33 of title 41, United

States Code; and

(B) any other procurement-related statutory, regulatory, or policy requirement, except those requirements addressing integrity or ethics, protests, contract disputes, or requirements that provide for criminal or civil penalties to the extent any such requirements described in this subparagraph otherwise apply to acquisitions made by FPI.

(2) FPI may not exercise the waivers authorized by paragraph (1) until FPI has issued and posted guidance on a publicly accessible website describing the procedures it will use to acquire goods and services under the pilot. Such procedures shall require FPI to:

(A) provide maximum practicable opportunities for small business concerns in its acquisitions and

(B) follow regulations and procedures established by the Small Business Administration regarding the removal of work from the 8(a) Business Development Program (established by section 8(a) of the Small Business Act).

(3) FPI shall consult with the Administrator for Federal Procurement Policy and the Administrator for the Small Business Administration prior to issuing the guidance described in paragraph (2).

(d) SUNSET. -

(1) The pilot authorities provided in subsections (a) and (b) of this section shall expire 6 years after the date of enactment of this Act.

(2) (A) Except as provided in subparagraph (B), the authority to award contracts for goods and services under the pilot authority described in paragraph (c) shall terminate 3 years after the date FPI issues guidance pursuant to subsection (c)(2).

(B) The Attorney General may extend the pilot for a period not to exceed 3 years after the termination date described in subparagraph (A) if, at least 60 days prior to such termination date, the Attorney General submits a report to Congress providing the following regarding activity under the pilot:

(i) a description of the products and services acquired;

(ii) the number of awards made;

(iii) the total dollar amount of the awards;

(iv) the percentage of dollars identified in subparagraph (iii) awarded to small businesses; and

(v) a representation that the pilot has maintained or increased awards to FPI; and that the results of regular federal customer surveys indicate general satisfaction with FPI's products.

Analysis of Appropriation Language

No change in language on limitation of administrative expenses.

To increase procurement efficiency and enter into agreements with state entities, the language is proposed in DOJ's General Provisions. The following is a general description of the proposed authorities and their objectives:

- Authorizing waivers of procurement laws, regulations, and policies when FPI procures goods and services. This will increase acquisition efficiency and enable FPI to procure with more of the speed of private-sector companies that do not have to comply with Government procurement requirements. With increased efficiency, FPI can better serve existing customers and attract new business, both of which are important to increasing inmate employment.
- Authorizing DOJ and its components to award contracts to FPI without conducting market research or using competitive procedures. This will streamline intradepartmental procurement with the aim of increasing the volume of contracts awarded to FPI. DOJ will be able to put more inmates to work in FPI, which reduces recidivism, and generate cost savings for the Department due to fewer inmates returning to BOP custody.
- Authorizing FPI to enter into agreements with state correctional industries to sell and/or purchase goods and services. This will enable FPI to work directly with state prison industries and collaborate on work opportunities. With new markets to sell to, FPI will be positioned to increase its workload and inmate workforce.
- Authorizing FPI to sell goods and services to state and local government agencies for disaster relief and emergency response purposes. FPI has diverse factory operations and can respond quickly to the needs of disaster relief operations. This will open up new markets to FPI with the aim of creating more business opportunities and inmate jobs.

IV. Program Activity Justification

A. Federal Prison Industries

Federal Prison Industries	Direct Pos.	Estimated FTE	Amount
2015 Enacted	1,950	869	564,172
2016 Enacted	1,950	1,147	683,912
Adjustments to Base and Technical Adjustments	0	0	-80,420
2017 Current Services	1,950	1,147	603,492
2017 Request	1,950	1,147	603,492
Total Change 2016-2017	0	0	-80,420

Information Technology Breakout (of Decision Unit Total)	Direct Pos.	Estimated FTE	Amount
2015 Enacted	93	85	20,916
2016 Enacted	93	85	20,916
Adjustments to Base and Technical Adjustments	0	0	-8,946
2017 Current Services	93	85	11,970
2017 Request	93	85	11,970
Total Change 2016-2017	0	0	-8,946

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 two 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, classroom instruction is provided by FPI staff.

FPI makes capital investments in buildings and improvements, machinery, and equipment as necessary in the conduct of its operations. 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.

As required under the federal rules, commonly referred to as the Guidelines process, when FPI proposes to produce a new product or expand its market share of an existing product subject to the provisions of 18 U.S.C. § 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 hearings that the public can attend and provide testimony at.

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.

2. Performance and Resource Tables

PERFORMANCE AND RESOURCES TABLE												
Decision Unit: Federal Prison Industries												
RESOURCES			Target		Actual		Projected		Changes		Requested (Total)	
			FY 2015		FY 2015		FY 2016		Current Services Adjustments and FY 2017 Program Changes		FY 2017 Request	
Total Costs and FTE (reimbursable FTE are included, but reimbursable costs are bracketed and not included in the total)			FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
			1,147	582,809	869	564,172	1,147	683,912	0	-80,420	1,147	603,492
TYPE	STRATEGIC OBJECTIVE	PERFORMANCE	FY 2015		FY 2015		FY 2016		Current Services Adjustments and FY 2017 Program Changes		FY 2017 Request	
Program Activity	3.3	Federal Prison Industries Spending Authority	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
			1,147	564,172	869	564,172	1,147	683,912	0	-80,420	1,147	603,492
Performance Measure: Efficiency	3.3	Number of Inmates Employed	10,887		12,278		12,076		-1,287		10,789	
Performance Measure: Efficiency	3.3	* Number of eligible inmates employed as a percentage of inmates housed in FPI appropriate facilities.	25%		21%		25%		0		25%	

* 25% of inmates released by the BOP who have spent two years or more in FPI appropriate facilities will have at least 180 days of FPI experience. This resulted from a Board proposal that was approved on January 23, 2014.

PERFORMANCE MEASURE TABLE										
Decision Unit: Federal Prison Industries										
Strategic Objective	Performance Report and Performance Plan Targets		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015		FY 2016	FY 2017
			Actual	Actual	Actual	Actual	Target	Actual	Target	Target
3.3	Efficiency Measure	Number of Inmates Employed	14,200	13,369	13,001	12,468	10,887	12,278	12,076	10,789
3.3	Efficiency Measure	* Number of eligible inmates employed as a percentage of inmates housed in FPI appropriate facilities.	N/A	N/A	N/A	21%	25%	21%	25%	25%
<p>* 25% of inmates released by the BOP who have spent two years or more in FPI appropriate facilities will have at least 180 days of FPI experience. This resulted from a Board proposal that was approved January 23, 2014.</p>										

3. Performance, Resources, and Strategies

Federal Prison Industries (FPI) contributes to the Department's Strategic Goal 3: Ensure and Support the Fair, Impartial, Efficient, and Transparent Administration of Justice at the Federal, State, Local, Tribal, and International Levels. Specifically, FPI implements one of the Department's Strategic Objectives: 3.3 – Provide safe, secure, humane, and cost-effective confinement and transportation of federal detainees and inmates.

A. Performance Plan and Report for Outcomes

As illustrated in the preceding Performance and Resources Table, the performance measure for FPI is the percentage of inmates released by the BOP, having spent two years or more in FPI-appropriate facilities, who will have had at least 180 days of FPI experience. In FY 2015, FPI's actual percentage for this measure was 21%. The targets for FY 2016 and FY 2017 will remain at 25 percent. FPI's inmate employment as of September 30, 2015 was 12,278. FPI's inmate employment is projected to decrease to 12,076 in FY 2016. Due to several factors external to the work environment, FPI has encountered a decline in customer orders during FY 2008 through FY 2015. During the same time frame, FPI experienced the impact of rising costs, legislation restricting its mandatory source and imposing limits on its output in certain product classes, and an economy recovering from a severe recession. In order to maintain itself, FPI implemented considerable cost reduction measures, which included the closing of factories and therefore unavoidably reducing the number of inmates it employs.

In its FY 2012 submission, FPI proposed legislation to open new markets and was successful in obtaining additional authorities through the Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55), which authorized FPI to participate in the Prison Industry Enhancement Certification Program (PIECP) and repatriate the foreign manufacture of products in certain circumstances as approved by FPI's Board of Directors.

FPI continues its renewed emphasis on the use of job-share and half-time inmate workers to increase the number of inmates participating in the FPI program while reducing the per-inmate cost of employment. This initiative will be carried forward into FY 2016.

The FY 2017 President's Budget proposes new language in DOJ's General Provisions to enhance FPI opportunities. There are four pilot programs in Section 219 which will assist FPI in increasing inmate work opportunities and enhancing its mission capability of protecting society and reducing crime by preparing inmates for successful reentry through job training. Section (a) will streamline intradepartmental procurement from FPI, enabling the Department to place more inmates in the FPI program, which reduces recidivism, and generate cost savings for the Department due to fewer inmates returning to BOP custody. Section (b)(1) will permit FPI to work directly with state prison industries and collaborate on work opportunities, thereby entering new markets and positioning the program to increase its sales and inmate workforce. Section (b)(2) will allow FPI to leverage its diverse factory operations and quick response time to meet the needs of disaster relief operations and increase inmate work opportunities. Finally, section (c)(1)(A)-(B) will increase FPI's acquisition efficiency so it can better serve existing customers and attract new business, thereby increasing inmate job training opportunities.

B. Strategies to Accomplish Outcomes

FPI's performance goals support the DOJ's strategic goals and objectives. For FY 2017, a total of 1,950 positions and 1,147 workyears are requested. Further, \$2,700,000 is established as the Administrative Expenses limitation for the FPI program.

FPI's primary goal for population management is to proactively manage the offender population through meaningful work programs. FPI meets this objective by reducing inmate idleness, the number one cause of inmate unrest and violence in prison, through diversified work programs that provide constructive work wherein job skills can be developed and work habits acquired. At the end of FY 2015, FPI employed 12,278 inmates and provided work skills training to help ensure the safe and secure operation of BOP institutions. In this way, FPI plays a vital role in the management of inmates, and also improves the likelihood that inmates will remain law abiding after their release from BOP custody.

C. Priority Goals

N/A