

FISCAL NOTE

Bill #: HB0471

Title: Prison industries manufactured home program

Primary Sponsor: Ken Peterson

Status: Second Reading

Sponsor signature _____ Date _____

Chuck Swysgood, Budget Director _____ Date _____

Fiscal Summary

| | <u>FY2002 Difference</u> | <u>FY2003 Difference</u> |
|--|-------------------------------------|-------------------------------------|
| Expenditures: | 1,607,800 | 1,381,496 |
| Revenue: | | |
| State Special Revenue | 0 | 1,620,000 |
| Net Impact on General Fund Balance: | \$0 | \$0 |

| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| | X | Significant Local Gov. Impact | X | | Technical Concerns |
| | X | Included in the Executive Budget | X | | Significant Long-Term Impacts |
| | X | Dedicated Revenue Form Attached | X | | Family Impact Form Attached |

Fiscal Analysis

ASSUMPTIONS:

Department of Corrections (DOC)

1. HB 471 is an act establishing the Prison Industries factory built modular home program, amending 53-30-132, MCA, which applies to the Department of Corrections Montana Correctional Enterprises (MCE). If passed, the factory built modular home program would utilize inmates in an on the job training program. Inmates entering the program may have little or no skills.
2. The bill requires that the Department of Corrections (DOC) collect 20% of the net wages paid to an inmate who is participating in the factory built modular home program for deposit in the state general fund to be used for the Montana Crime Victim's Compensation and Assistance Program, established under Title 53, Chapter 9, part 1. Based on assumption # 14 for inmate payroll, the approximate amount deposited annually would be \$12,480.

(continued)

3. The bill allows the Board of Investments to extend a line of credit, not to exceed \$2 million to the Department of Corrections for the purpose of purchasing equipment, paying expenses, and hiring staff. Proceeds from the sale of the homes may be used for continuing the program once the line of credit has been repaid.
4. The Board of Investments line of credit allowed by 90-6-104 (new Section 4), MCA, will allow the MCE to use the line of credit to purchase construction materials, necessary construction equipment and employ licensed electricians, plumbers, carpenters and other skilled workers along with correctional officers and other prison staff necessary to maintain facility security.
5. The factory built modular home would be an approximately 1,200 square foot, three bedroom, one bath home, and would be constructed as a two-piece modular unit. MCE would construct homes using one or two basic floor plans. It is the assumption of MCE that the 1,200 square foot home would have a selling price of \$54,000 (\$45.00 per square foot). Homes would not include appliances at this selling price. This would need to be adjusted if it is the intent of HB 471 to include appliances with the finished homes. The cost of producing the home is \$39.91 per square foot for a total of \$47,892 per home. The production costs are comprised of \$2.33 for warranty, delivery, repair and maintenance, miscellaneous supplies, communications and utilities; \$11.04 per square foot for supervisor and inmate payroll costs; \$25.00 per square foot for building materials and \$1.54 per square foot for building and equipment depreciation. This would leave \$5.09 per square foot to be used for loan repayment. This assumption is based on building and selling 30 homes during a one year time period.
6. MCE will need to construct a building large enough to house the manufacturing area for a year around operation. The proposed building dimensions are 90' x 220' for a total of 19,800 square feet at a cost of approximately \$1,000,000 by an outside construction company. [See Technical Note #1.] Included in the cost of the building is an overhead sprinkler system, which would be needed to comply with State regulations. The building would also be used for storage of construction materials and equipment.
7. The factory built modular home program would require the purchase of a wall-to-wall overhead crane to be installed in the building, a forklift, and a semi-truck for delivery of the finished homes, in addition to the various equipment and tools needed for this type of construction program. The estimated cost for these items is \$220,000. MCE Vocational Education has one semi-truck, which is used for CDL training. It is the intention of MCE to also utilize this semi-truck for delivery, as part of the Vocational Education training program. If this were not possible a second semi-truck would need to be purchased. It is also a possibility that set-up and delivery could be contracted to an outside company.
8. There is an anticipated impact on the private sector with the passage of this bill. Some of the factions that would be impacted are the factory built modular home dealers, real estate agents, contractors, plumbers, electricians, and carpenters. Prior to implementation of a program of this type, meetings with the various affected unions or trades should occur.
9. The proposed location of the factory built modular home program is in the MCE logging yard, outside of the fenced perimeter of the Montana State Prison (MSP) compound. The space within the fenced perimeter is limited, and would not be conducive to an operation of this nature.
10. The factory built modular homes will be built through an assembly line process with the following stations. 1. Metal frame assembly 2. Wall framing 3. Electrical, Plumbing, Insulation and trusses (which is completed simultaneously by various crews) 4. Finishing including dry wall, cabinetry, flooring, roofing and exterior finish, etc. (also completed simultaneously by various crews) 5. Quality assurance checks and preparation for shipment 6. Outside delivery and assembly.
11. Three homes would be manufactured simultaneously, keeping all employees and inmate crews occupied through the entire process. This would be the most cost effective means of producing homes of this nature. It is also the assumption that thirty (30) homes could be produced annually.
12. It is anticipated that the manufacturing home program will employ one master plumber, one master electrician, four carpenters (one head carpenter for program coordination, two for manufacturing, one with

(continued)

- quality assurance and delivery – this person must have a Commercial Driver's License) and two security officers for a total of 8.00 FTE. Supervisor payroll will be based on the blue-collar state pay matrix for those positions. The anticipated cost for eight FTE, including benefits is \$335,296 per year.
13. The inmate crew would consist of approximately thirty inmates to cover all stations. The anticipated custody level of the inmate crew is minimum restricted or minimum unrestricted, as the operation will be housed outside of the fenced perimeter of the MSP facility. At the current time, the MSP facility may not house the adequate number of inmates needed at the right custody level for the operation of this program. This could affect the DOC Contract Placement Bureau and Regional and Private Prison contracts.
 14. The estimated cost for thirty inmates per year is \$62,400, averaged at \$1.00 per hour per inmate.
 15. One civilian and two inmates would be responsible for the delivery and set-up of the constructed home. The anticipated set-up and delivery time is three days. Inmate's traveling away from the facility would need the appropriate custody level and security clearance. These inmates would be housed at county jails or pre-release centers while away from the facility. Delivery and set-up is estimated at \$15,000, which is \$500 per home, for 30 homes.
 16. The appropriate insurance to run this program would be obtained through the Department of Administration Tort Claims.
 17. As part of the factory built modular home program, the homes would need to have a designated warranty period. Warranty work would be completed with a civilian supervisor traveling to the home site for completion. Inmate crews would not be used for this purpose. The cost of warranty work would include supplies and travel expenses, which are estimated at \$10,000 and \$3,000 respectively.
 18. The utility cost projection for a building of this size, based on current usage of similar buildings at MSP, is anticipated at an annual cost of \$36,000. This projection is based on the current cost of both natural gas and electricity and could increase.
 19. Other anticipated expenses are communications - \$1,800; supplies - \$8,000; and repair and maintenance - \$10,000.
 20. MCE would secure a loan in the amount of \$1.5 million through the Board of Investments to be used for start-up costs including the building construction, purchase of needed equipment and supplies and operating costs to carry over through the sale of the factory built modular homes.
 21. The Board of Investments and local government units will be responsible for locating vacant lots for donation to the program, selling the homes and setting up financing with potential buyers. If it were the intention of HB 471 that MCE is responsible for all or part of these duties, an additional FTE would be added. This FTE cost is not included in this fiscal note.
 22. Prior to the construction of factory built modular homes, it will be necessary to have the Department of Commerce State Building Codes Division review and certify the home process. The appropriate permits and licenses would be obtained prior to the beginning of the process.
 23. There will be a guarantee sale of thirty homes per year. MCE has a breakeven cost based on 30 homes per year. Any number of homes under 30 per year will result in a deficit to MCE, and the inability to run the factory built modular home program.
 24. Once the home is constructed and ready for delivery, funds for the sales of the homes will be forthcoming from the Board of Investments within a thirty day time-period, as MCE will not be able to shoulder the cost of home production without an ongoing cash flow. Many of the costs associated with the production are fixed costs and will be incurred whether MCE produces one or thirty homes.
 25. The delivery of the modular home will be to a site, which has been prepared to building specifications of the appropriate parties. This may include a concrete slab, foundation or combination of both. All utility work must be complete prior to delivery and set-up. MCE will furnish home blueprints for site preparation. It is the responsibility of the homebuyer to purchase and install skirting if needed.
 26. The construction of the manufacturing building would begin 7/1/01 with completion on 6/30/02. This process would include design, review, bid, and construction. FY 2002 reflects expenditures for the

(continued)

construction of the building and purchases of the equipment, building materials inventory, utilities and communications for a total of \$1,607,800. FY 2003 reflects the entire year of operation.

Department of Commerce

27. HB 471 as amended, would allow the Board of Investments InterCap Loan Program to establish a line of credit for the Department of Corrections Factory-Built Modular Home program. Any line of credit or loan would be approved by the board after meeting established underwriting criteria.

Department of Administration

28. Risk Management & Tort Defense Division (RMTD) may have to pay slightly more for claims/ lawsuits arising out of construction projects. If that is the case, RMTD would have to increase insurance assessments to MCE.

FISCAL IMPACT:

| | <u>FY2002 Difference</u> | <u>FY2003 Difference</u> |
|--------------------------------------|------------------------------|------------------------------|
| Dept. of Corrections | | |
| <u>Expenditures:</u> | | |
| Personal Services including benefits | 0 | 335,296 |
| Inmate Payroll | 0 | 62,400 |
| Home Construction Materials | 350,000 | 900,000 |
| Operating Expenses | 37,800 | 83,800 |
| Equipment | 220,000 | 0 |
| Building | <u>1,000,000</u> | <u>0</u> |
| TOTAL | \$1,607,800 | \$1,381,496 |
| <u>Funding:</u> | | |
| Other | \$1,607,800 | \$1,381,496 |

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:**Department of Corrections**

1. Once the factory built modular home process started, there would be substantial impact on local government, as it pertains to building permits, income from real estate taxes, and the added utilities to name a few.
2. The counties could likely provide additional impact information.

LONG-RANGE IMPACTS:**Department of Corrections**

1. If the Board of Investments cannot guarantee the purchase of 30 homes per year, MCE will not have sufficient funds to service the loan.

TECHNICAL NOTES:**Department of Corrections**

1. The construction of the building to house the manufacturing process is anticipated at \$1,000,000 if MCE hired an outside contractor. If the building could be constructed using the MCE supervisors and inmate labor, the anticipated cost is \$600,000 (\$400,000 – design, construction materials, \$200,000 – labor). This would require an amendment to 53-30-132(1)(i), MCA, which allows the use of inmate labor on building projects less than \$200,000, and to 90-6-104 (New Section 4), MCA, to allow for the construction of a building through the line of credit.

(continued)

2. MCE suggests a one-year pilot program, as a test run to finalize what costs will be associated with this project. During this pilot time-period MCE would need to consult with a factory built modular home builder and the private sector impacted as noted in assumption # 8. During the pilot program, MCE would construct one modular home using the existing supervisors and work crews. Existing facilities will be utilized in a makeshift manner to produce the one home. As this will take considerable time away from already demanding schedules, the pilot program will not be able to run longer than a six-month time-period. During the pilot program, all costs and time frames will be tracked to help with costing of the actual homes. Based on the pilot program a determination could be made as to the feasibility of this program.
3. Montana Correctional Enterprises does not have the sufficient cash flow or operating capital to finance the requirements of HB 471. Adequate start-up financing must be made available either through a one time general fund appropriation or a loan from the Department of Commerce, Board of Investments. If MCE received a Board of Investment loan to finance the start-up costs associated with this bill, a ten year pay back period would be needed, as MCE would need the net proceeds from the sale of the factory built homes to service the loan. Based on a financial analysis of the factory built modular home program, a ten year pay back period was needed to allow for sufficient cash flow to service the needs of the program and the loan. If the loan pay back period is less than ten years, the program would not be economically feasible.
4. MCE would be responsible for manufacturing the factory built modular home and the set-up and delivery of the home. MCE would not be responsible for locating vacant lots, selling the homes, or setting up financing for potential buyers. If the intention of HB 471 is different than this assumption, an additional FTE and operating costs (including training, licensing, etc.) would need to be added to this fiscal note. This would increase both the cost of building the home and in turn the selling price.