LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 218** SLS 11RS 462
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 18, 2011 7:32 AM
Author: MCPHERSON
Dept./Agy.: Corrections
Subject: Correctional Facilities
Analyst: Matthew LaBruyere

CORRECTIONAL FACILITIES EG SEE FISC NOTE GF EX See Note
Provides for pre-paid lease contracts of state correctional facilities. (gov sig)

Proposed legislation retains present law and adds that the department amend a current operating agreement or contract with a private correctional services contractor, awarded under the provisions of present law to provide correctional or geriatric services, to include a lease of the state facility where those services are being provided. The lease shall be pre-paid in an amount equal to the fair market value of the state facility to be leased, shall be for a period not to exceed 20 years, and shall not contain an option for the lessee to purchase the state facility. Pre-paid lease may provide that the term of the contract to provide correctional or geriatric services be the same as the term of the pre-paid lease. Such pre-paid lease may provide for a per diem to be paid to the private correctional services contractor or for an increase in the per diem paid to the private correctional services contractor under the terms of the contract to provide correctional or geriatric services. Any additional per diem shall be calculated so that it not exceed the pre-paid lease payment and the cost of capital associated with the pre-paid lease amount applied evenly over a period of time equal to the term of the pre-paid lease and the amended contract.

EXPENDITURES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	SEE BELOW	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

To the extent the Department of Corrections (DOC) amends its current operating agreement with the current contractor (s), the proposed legislation may result in an increase in state general fund expenditures since the per diem paid to private contractors would increase over the length of the contract to repay the pre-paid lease amount and the cost of capital (interest). In the event the current contract agreement is amended and the contractor pays a pre-paid amount equal to the fair market value of the facility, DOC will repay the pre-paid lease amount and cost of capital (interest) through an increased per diem.

Currently, the per diem amount paid to the contractors of Winn Correctional Center and Allen Correctional Center is $31.51 per offender per day. Each facility maintains an average daily offender population of 1,461 as noted in the current version of HB 1. The annual contract amount paid to each contractor is $16,803,180 ($31.51 per day x 1,461 offenders x 365 days).

To the extent the current contractor of the facility and DOC agreed upon a pre-paid lease agreement based upon the fair market value of the facility ($33 M according to DOC), per diem would increase to reflect the pre-paid lease agreement amount plus the cost of capitol for the 20 year term of the lease. The potential cost of capital (interest) is unknown at this time. For illustrative purposes, if the market value of each facility is $33 M and the cost of capital (interest) is 4% for a 20 year term, the total amount to repaid back would be approximately $72.3 M ($33 M$(1 + 0.04)^{20 \text{ years}}$)). To repay the $72.3 M in 20 years, the annual payment would be $3.6 M ($72.3 M / 20 years). This would result in a per diem increase of $6.78 ($3.6 M annual payment / 1,461 offenders / 365 days), which would increase the cost to $38.29 per day.

If the per diem increased by $6.80 per offender, the total amount paid to the contractor annually would be $20,187,717 (($31.51 current per diem + $6.78) x 1,461 offenders x 365 days), which is an increase of $3,615,537 ($20,218,717 - $16,803,180).

NOTE: An RFI issued January 2011 included 2 possible options: 1) set per diem for 20 years, or 2) lower per diem for years 1 -3, and a separate per diem range for years 4-20. The Department of Corrections indicated with **(Continued on Page 2)**

REVENUE EXPLANATION

The proposed legislation may result in a one-time increase in self-generated revenue as a result of receiving a pre-paid amount equal to the fair market value of these facilities. The total amount of revenue that would be generated is approximately $66 M as both the Winn Correctional Center and Allen Correctional Center were recently appraised at approximately $33 M each. In the event only one facility's operator agrees to pay the pre-paid amount, the self-generated revenue would be $33 M.

Senate Dual Referral Rules House

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

[x] 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

information received from the RFI, that the per diem would remain at $31.51 for 3 years, then increase to $39.50 per offender in the 4th year, an increase of $7.99 per offender. The above analysis reflects option 1. Both options repay $72.3 M over the 20 year term.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[x] 6.8(F)1 >= $500,000 Annual Fiscal Cost {S} 6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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