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BILL ANALYSIS

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Senate Bill 632 (as enacted)  
Sponsor: Senator Jason E. Allen  
Senate Committee: Judiciary  
House Committee: Judiciary

**PUBLIC ACT 102 of 2007**

Date Completed: 10-8-07

**RATIONALE**

Michigan State Industries (MSI), or correctional industries, is a program in the Department of Corrections in which prisoners manufacture products such as license plates, uniforms, furniture, banners, and bed sheets and blankets. The Correctional Industries Act allows these products to be sold, exchanged, or purchased by institutions of this or any other state, political subdivisions of this or any other state, the Federal government and its agencies, a foreign government and its agencies, a private vendor operating a correctional facility in Michigan, and any organization that is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code (a nonprofit charitable organization).

A similar program in the Oregon prison system, known as Prison Blues, manufactures and markets a line of denim clothing. Prison Blues products are sold not only to nonprofit organizations and government agencies, but also to retail outlets for sale to the general public and directly to consumers via the Prison Blues website. Some people believe that Michigan's correctional industries program also should be authorized to manufacture and market textile products to private businesses or individuals, as the Prison Blues program does, as long as a comparable product is not manufactured by a private business in Michigan.

by correctional industries to be sold, exchanged, or purchased by any private business or individual, but only if the same product, or one that is comparable in style, is not manufactured by a private business in Michigan.

Also, the Act previously allowed correctional industries products to be sold, exchanged, or purchased by a private vendor that operated the youth correctional facility. The bill, instead, allows those products to be sold, exchanged, or purchased by a private vendor that operates a correctional facility in Michigan.

The bill took effect on October 1, 2007, and was tie-barred to House Bills 5194 and 5198.

(House Bill 5194 (Public Act 94 of 2007) amended the Income Tax Act to do all of the following:

- Increase the income tax rate from 3.9% to 4.35%, effective October 1, 2007.
- Reduce the rate from 4.35% by 0.1 each October 1, beginning in 2011, until it is 3.95%.
- Reduce the rate from 3.95% to 3.9% on October 1, 2015.

House Bill 5198 (Public Act 93 of 2007) amended the Use Tax Act to extend the 6% use tax to the use or consumption of certain services.)

MCL 800.326

**CONTENT**

The bill amended the Correctional Industries Act to allow cut and sewn textiles produced

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Correctional industries programs provide an opportunity for prisoners to learn marketable skills and acquire sound work experience. The programs also attempt to address the perennial problems of tension and idleness in prisons, by providing work opportunities, which enable inmates to earn a little money for themselves and their families. The MSI program already conducts some manufacturing and marketing operations for certain products, such as furniture, and produces license plates as well as prison uniforms and bedding. By law, however, the correctional industries program may sell products only to governmental agencies and nonprofit corporations.

The bill allows the MSI program to expand its current operations by manufacturing cut and sewn textiles and selling them to private businesses and individuals, following the successful model of Oregon's Prison Blues clothing line. Reportedly, cut and sewn textiles—such as shirts and trousers—are not currently produced in Michigan. Under the bill, the State's correctional industries program could supply wholesale and retail customers with domestically produced clothing, which is difficult to find as most clothing lines these days are manufactured overseas. At the same time, a clothing manufacturing and marketing operation in MSI could offset the State's costs of incarcerating prisoners while also expanding the opportunity for inmates to engage in a productive activity, learn marketable job skills, and earn a small income.

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

The bill will have an indeterminate fiscal impact on State government. The Department of Corrections' (DOC's) prison industries' revenue for 2006 was approximately \$39.9 million. This revenue went into the Correctional Industries Revolving Fund. This was spent on the salary and wages for the employees who run the program, administrative costs, prisoner wages, and product materials.

Approximately 78.8% of the revenue was from sales to the DOC, 15.2% from sales to other State agencies, 0.5% to local units of government, 0.1% to public and private schools, 3.6% to tax-exempt organizations, and 1.1% to out-of-State buyers (some of which may be tax-exempt). In FY 2005-06, the textile factory's gross margin of \$646,197 was the fifth highest of MSI's 31 operations. Any additional revenue from manufacturing and selling textile products to private entities will increase the budget for the program, as it is completely supported by the Fund. According to the DOC, MSI facilities currently have excess capacity, which will allow for such an expansion. If the program is expanded, however, additional equipment will need to be purchased. The cost of any equipment purchased will be offset by the revenue from the additional production. Currently, 959 prisoners are employed by MSI. There are no data to indicate the effect of MSI program expansions on other programs in the DOC.

Fiscal Analyst: Lindsay Hollander

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.