

U.S. Department of Justice

FY 2018 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 2018, 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 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 Federal Bureau of Prisons (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.

As of September 30, 2016, there were 10,896 inmates employed in 63 FPI factories and 3 farms with a projected employment of 10,338 inmates in Fiscal Year 2017. 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 10,896 Federal inmates in FY 2016. 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 is an ongoing challenge for FPI. This is evidenced by the continued decline in customer orders during FY 2016, which has led to a reduction in inmate employment from 12,278 at the beginning of the fiscal year down to 10,896 as of September 30, 2016.

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 2016 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.

If sales continue to deteriorate, BOP estimates that FPI's remaining cash reserves could be depleted in five to six years. For this reason, FPI recently reduced operations in order to limit costs and financial losses. The number of FPI factories has fallen by 33 percent, from 94 in FY 1998 to 63 currently. FPI's contraction has also affected the number of inmates employed, which has fallen by almost 53 percent between FY 2007 (23,152) and FY 2016 (10,896). FPI's inability to sustain its profitability impacts FPI's correctional and work training mission.

Sales, Factory Earning and Net Income for Federal Prison Industries
FY 2012 – FY 2016

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Sales	606,114,000	533,337,000	389,131,000	471,900,000	498,405,000
Factory Earnings	31,713,000	46,215,000	9,007,000	27,826,000	44,180,000
Net Income/(Loss)	-\$28,251,000	-\$4,252,000	-\$37,528,000	-\$17,973,000	\$4,057,000

In FY 2016, Sales increased by \$26.5 million when compared to FY 2015. Factory Earnings increased by \$16 million in FY16 resulting in Net Income of \$4 million. The Net Income was as a result of an increase in sales orders and reduction of overhead in FY 2016.

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.

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 2016, FPI incurred an operating income of \$4 million. FPI's accounts receivable increased by \$4.4 million; inventories decreased by \$24.7 million while operating cash increased by \$32.9 million.

To guard against future losses, FPI began reorganizing operations in FY 2009, which continue into FY 2017. 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 are needed to ensure FPI's ability to sustain itself in the future.

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.

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 FY 2016 Enacted)

Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114-254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

IV. Program Activity Justification

A. Federal Prison Industries

Federal Prison Industries	Direct Pos.	Estimated FTE	Amount
2016 Enacted	1,950	753	613,541
2017 Continuing Resolution	1,950	1,147	553,105
Adjustments to Base and Technical Adjustments	0	0	26,402
2018 Current Services	1,950	1,147	579,507
2018 Request	1,950	1,147	579,507
Total Change 2017-2018	0	0	26,402

Information Technology Breakout (of Decision Unit Total)	Direct Pos.	Estimated FTE	Amount
2016 Enacted	93	85	20,916
2017 Continuing Resolution	93	85	20,916
Adjustments to Base and Technical Adjustments	0	0	-9,319
2018 Current Services	93	85	11,597
2018 Request	93	85	11,597
Total Change 2017-2018	0	0	-9,319

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 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 2016		FY 2016		FY 2017		Current Services Adjustments and FY 2018 Program Changes		FY 2018 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	683,912	1,147	613,541	1,147	553,105	0	26,402	1,147	579,507
TYPE	PERFORMANCE	FY 2016		FY 2016		FY 2017		Current Services Adjustments and FY 2018 Program Changes		FY 2018 Request	
Program Activity	Federal Prison Industries Spending Authority	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
		1,147	683,912	1,147	613,541	1,147	553,105	0	26,402	1,147	579,507
Performance Measure: Efficiency	Number of Inmates Employed	12,076		10,896		10,338		0		10,597	
Performance Measure: Efficiency	* 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 three 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									
Performance Report and Performance Plan Targets		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016		FY 2017	FY 2018
		Actual	Actual	Actual	Actual	Target	Actual	Target	Target
Efficiency Measure	Number of Inmates Employed	13,369	13,001	12,468	12,278	12,076	10,896	10,597	10,597
Efficiency Measure	* Number of eligible inmates employed as a percentage of inmates housed in FPI appropriate facilities.	N/A	N/A	21%	21%	25%	21%	25%	25%
<p>* 25% of inmates released by the BOP who have spent three 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

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 three years or more in FPI-appropriate facilities, who will have had at least 180 days of FPI experience. In FY 2016, FPI's actual percentage for this measure was 21 percent. The targets for FY 2017 through FY 2018 will remain at 25 percent. FPI's inmate employment as of September 30, 2016 was 10,896. FPI's inmate employment is projected to decrease to 10,338 in FY 2017. 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 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 continued through FY 2017.

B. Strategies to Accomplish Outcomes

For FY 2018, 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 2016, FPI employed 10,896 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.