

Director: Dora B. Schriro

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	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	10,039.4	10,322.4	9,726.9
Personal Services	336,795,800	345,890,800	349,318,600
Employee Related Expenditures	108,801,600	122,596,800	135,431,200
Professional and Outside Services	85,638,300	86,998,600	33,196,100
Travel - In State	363,600	291,500	310,800
Travel - Out of State	189,900	151,900	137,600
Other Operating Expenditures	76,774,600	80,335,900	92,952,600
Food	31,128,100	34,736,000	35,946,400
Equipment	4,271,100	467,000	3,166,100
<b>OPERATING SUBTOTAL</b>	<b>643,963,000</b>	<b>671,468,500</b>	<b>650,459,400</b>
<b>SPECIAL LINE ITEMS</b>			
Kingman Prison Supplemental	0	2,000,000 <sup>1/</sup>	0
Overtime/Compensatory Time	0	7,500,000 <sup>2/</sup>	18,227,700 <sup>3/4/</sup>
Private Prison Per Diem	0	0	74,118,400 <sup>4/5/</sup>
<b>AGENCY TOTAL</b>	<b>643,963,000</b>	<b>680,968,500</b>	<b>742,805,500<sup>6/-11/</sup></b>
<b>FUND SOURCES</b>			
General Fund	604,686,800	638,613,900	697,612,400
<u>Other Appropriated Funds</u>			
Alcohol Abuse Treatment Fund	441,300	449,300	599,300
Corrections Fund	36,971,900	31,174,300 <sup>12/</sup>	29,024,300 <sup>13/</sup>
Penitentiary Land Fund	379,600	869,200	869,200
Prison Construction and Operations Fund	0	6,250,000 <sup>12/</sup>	10,250,000
State Charitable, Penal and Reformatory Institutions			
Land Fund	208,400	2,070,000 <sup>12/</sup>	2,070,000 <sup>14/</sup>
State Education Fund for Correctional Education	1,275,000	1,541,800	1,528,900 <sup>15/</sup>
Transition Office Fund	0	0	351,400
Transition Program Drug Treatment Fund	0	0	500,000
<b>SUBTOTAL - Other Appropriated Funds</b>	<b>39,276,200</b>	<b>42,354,600</b>	<b>45,193,100</b>
<b>SUBTOTAL - Appropriated Funds</b>	<b>643,963,000</b>	<b>680,968,500</b>	<b>742,805,500</b>
Other Non-Appropriated Funds	40,279,800	44,713,500	44,713,500
Federal Funds	8,481,700	50,422,200	43,976,900
<b>TOTAL - ALL SOURCES</b>	<b>692,724,500</b>	<b>776,104,200</b>	<b>831,495,900</b>

**AGENCY DESCRIPTION** — The Arizona Department of Corrections (ADC) maintains and administers a statewide system of prisons for adult and minor offenders legally committed to the department. The department is also responsible for the supervision of offenders on parole and other prison release mechanisms, as specified by law.

- 1/ Laws 2005, Chapter 300 appropriated \$2,000,000 from the General Fund for a FY 2005 Kingman Prison supplemental to cover expenses associated with housing Arizona inmates.
- 2/ Laws 2005, Chapter 6 provides \$7,500,000 from the General Fund for supplemental FY 2005 monies for employee compensatory time payouts.
- 3/ The Overtime/Compensatory Time line item includes monies for Personal Services and Employee Related Expenditure costs from overtime and compensatory time payouts accrued by department employees in FY 2006. (General Appropriation Act footnote)
- 4/ Notwithstanding A.R.S. § 35-173C, any transfer to or from the amounts appropriated for Overtime/Compensatory Time or Private Prison Per Diem line items shall require review by the Joint Legislative Budget Committee unless otherwise authorized by this act. (General Appropriation Act footnote)
- 5/ The Private Prison Per Diem line item includes \$840,000 from the General Fund for a 3% inflationary adjustment for private prison contracts for facilities located within Arizona that housed Arizona inmates before July 2004. The department shall provide this 3% cost adjustment, appropriated pursuant to A.R.S. § 41-1609.01E, to all applicable contractors by August 1, 2005. (General Appropriation Act footnote)
- 6/ Before altering its bed capacity by closing state-operated prison beds, canceling or not renewing contracts for privately-operated prison beds, the Department of Corrections shall submit a bed plan detailing the proposed bed closures for approval by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2006
	Actual	Actual	Approved
• Escapes from secure facilities	0	5	0
• Number of inmates receiving the General Equivalence Degree	791	1,433	1,512
• Number of inmate random positive urinalysis results	1,037	1,012	1,000

**Comments:** In FY 2003, the General Equivalence Degree test was suspended for 5 months due to test answers being compromised in another state and has since then returned to normal testing levels. The agency does, however, anticipate an increasing number of General Equivalence Degree recipients due to an increased emphasis on obtaining higher educational standards.

### **Operating Budget**

The budget provides \$650,459,400 for the operating budget in FY 2006. This amount consists of:

	<b>FY 2006</b>
General Fund	\$633,940,600
Alcohol Abuse Treatment Fund	599,300
Corrections Fund	360,000
Penitentiary Land Fund	869,200
Prison Construction and Operations Fund	10,250,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,070,000
State Education Fund for Correctional Education	1,518,900
Transition Office Fund	351,400
Transition Program Drug Treatment Fund	500,000

The approved amount includes an increase of \$26,775,100 in FY 2006 for statewide adjustments. These statewide adjustments include an increase of \$12,920,900 from the General Fund for a \$1,410 salary increase for each correctional officer in lieu of the 1.7% statewide salary adjustment being received by other state employees. The budget also provides an increase of \$350,000 from the Corrections Fund in FY 2006 for a parole officer salary increase. This parole officer salary increase is in addition to any statewide salary adjustments and the amount per officer is to be determined by the department. Non-

correctional officer positions within the department will receive the general statewide salary adjustment of 1.7%. These amounts consist of:

General Fund	26,438,000
Corrections Fund	350,000
State Education Fund for Correctional Education	(12,900)

*(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

#### *Vacant FTE Position Reduction*

The approved amount includes a decrease of \$(4,181,900) and (595.5) FTE Positions from the General Fund in FY 2006 for the elimination of vacant FTE Positions. By reducing the number of vacant FTE Positions, the budget reduced the amount of money appropriated for health, dental, and life insurance. These monies are passed through directly to the Arizona Department of Administration for statewide insurance costs and will not affect the amount of monies the agency has for other purposes. All other funding for these vacant positions had been previously eliminated.

#### *Out-of-State Travel Reduction*

The approved amount includes a decrease of \$(17,200) from the General Fund in FY 2006 for a 25% reduction in the agency's FY 2004 out-of-state travel funding.

- 7/ The Arizona Department of Corrections shall continue to proceed with privatization of a prison for the female inmate population. The female inmates would be relocated to a privately-operated facility during FY 2006. (General Appropriation Act footnote)
- 8/ Prior to placing any additional inmates in out-of-state provisional beds, the department shall place inmates in all available prison beds within privately operated facilities located in Arizona that house Arizona inmates, unless the out-of-state provisional beds are of a comparable security level and price. (General Appropriation Act footnote)
- 9/ The Department of Corrections may use Overtime/Compensatory Time savings generated by correctional officer pay raises authorized by this act as a funding source for Lewis Prison Blue Ribbon Panel recommendations. (General Appropriation Act footnote)
- 10/ In addition to any other salary adjustments made pursuant to this act, the amounts appropriated to the Department of Corrections include \$350,000 from the Corrections Fund for a parole officer salary increase. (General Appropriation Act footnote)
- 11/ General Appropriation Act funds are appropriated as a Modified Lump Sum by Agency.
- 12/ Laws 2005, Chapter 3 reduced the department's FY 2005 appropriation from the Prison Construction and Operations Fund by \$(4,000,000) and provided FY 2005 supplemental appropriations of \$2,500,000 from the Corrections Fund and \$1,500,000 from the State Charitable Fund due to a DUI revenue shortfall in the Prison Construction and Operations Fund.
- 13/ One hundred percent of land earnings and interest from the Penitentiary Land Fund shall be distributed to the Department of Corrections in compliance with Section 25 of the Enabling Act and the Constitution to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 14/ Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the State Department of Corrections in compliance with Section 25 of the Enabling Act and the Constitution to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 15/ Before the expenditure of any State Education Fund for Correctional Education receipts in excess of \$1,528,900, the Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

**Bed Annualization/Backfill**

The budget provides an increase of \$37,353,300 from the General Fund in FY 2006 to provide full-year funding for new beds added in FY 2005 and partial-year funding for 1,000 new privately-operated beds anticipated to open in FY 2006.

The 46<sup>th</sup> Legislature convened in Special Session in October 2003 to address prison overcrowding. During that session, the Department of Corrections received supplemental FY 2004 funding to temporarily send inmates to facilities located in Oklahoma and Texas. In addition, the Legislature authorized the department to house inmates at county jails, construct 1,000 permanent state-operated beds and purchase 1,000 permanent privately-operated beds within Arizona.

The enacted FY 2006 budget continues funding for some of the temporary (“provisional”) out-of-state beds, fully funds the county jail beds, fully funds the 1,000 state-operated beds, fully funds the Kingman private prison contract, and adds partial-year funding for private beds during FY 2006. As of June 2005, the department was utilizing 1,950 provisional beds, holding 136 inmates in county beds, and operating 1,000 new Level 1 state beds. The department had not awarded a contract for the 1,000 new permanent private beds and did not anticipate housing inmates in such a facility until FY 2006.

Table 1 shows the estimated FY 2005 expenditures and the FY 2006 allocation for these beds.

Of the \$37,353,000 increase, \$6,445,300 is to fill in one-time federal Violent Offender Incarceration and Truth-in-Sentencing (VOI/TIS) grant monies used in FY 2005. In addition, the budget also continues \$2,000,000 in supplemental monies added in FY 2005. The additional monies are for the following projects:

*Provisional Beds*

The budget provides a total funds amount of \$20,805,000 in FY 2006 to provide full-year funding for 1,176 temporary out-of-state beds. As shown in Table 1, the cost for provisional beds is anticipated to decline in FY 2006 by \$(8,303,200) as the state returns inmates to permanent private beds located in Arizona. (See “1,000 New Private Beds” narrative for more information.)

*1,000 State Prison Beds*

The budget provides a total funds amount of \$15,173,100 in FY 2006 to provide full-year operating costs for 1,000 state-operated beds. The approved amount provides an increase of \$12,630,400 to annualize state-operated beds authorized by Laws 2003, Chapter 5, 2<sup>nd</sup> Special Session, including 500 beds at Perryville, 300 beds at Tucson, and 200 beds at Douglas. The beds house Level 1 inmates (minimum-security) and opened in December 2004. The funding includes \$3,193,800 in FY 2006 for the lease-purchase payment required to cover the costs for COPs issued to fund construction of the state prison beds. The total project cost is \$45,002,900, which will be paid over a 15-year period. This amount includes interest totaling \$11,727,900.

*1,000 New Private Beds*

The budget provides an increase of \$11,692,200 in 2006 to open 1,000 new privately-operated beds authorized by Laws 2003, Chapter 5, 2<sup>nd</sup> Special Session. The 2003 Special Session legislation assumed that these beds would be operational March 2005. The department, however, has not awarded the contract as of the publication date of this Appropriations Report. The FY 2006 budget provides funding to contract for the additional beds beginning in December 2005. Given the department’s delay in awarding a contract, these beds may not open in FY 2006. Once open, the beds will have annualized costs of \$22.6 million. (See “Provisional Beds” policy issue for more information.)

*1,400 Kingman Private Beds*

The budget provides an increase of \$14,888,600 in FY 2006 to provide full-year funding for 1,400 privately-operated prison beds. The Kingman private prison project was funded by the Legislature to open March 2003. Due to delays in finalizing the contract, the facility did not become fully operational until June 2005.

Laws 2005, Chapter 300 provides supplemental funding of \$2,000,000 from the General Fund in FY 2005 for inmate per diem costs related to housing Arizona inmates in the Kingman private prison. The money allows the

<b>Issue</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Approved</b>
Provisional Prison Beds	\$29,108,200	\$ 20,805,000
County Jail Beds	2,518,500	2,518,500
1,000 State Beds	2,542,700	15,173,100 <sup>1/</sup>
1,000 New Private Beds	0	11,692,200 <sup>2/</sup>
1,400 Kingman Private Beds	<u>11,831,600</u>	<u>26,720,200</u>
Total Expenditures	\$46,001,000	\$76,909,000
Fund Sources:		
General Fund	\$11,256,500	\$48,609,800
Corrections Fund	2,493,700	2,493,700
Prison Construction and Operations Fund	10,250,000	10,250,000
Federal VOI/TIS Grant	<u>22,000,800</u>	<u>15,555,500</u>
Total Fund Sources	\$46,001,000	\$76,909,000

<sup>1/</sup> The department was authorized to issue Certificates of Participation (COPs) not to exceed \$37.5 million to build the beds. Included in the expenditures shown is \$3.2 million in COP payments.

<sup>2/</sup> Not an annualized cost. These new beds are funded to open in December 2005 with an estimated annualized cost of \$22,630,000 beginning in FY 2007.

department to occupy all 1,400 beds beginning in May 2005.

*FY 2005 Supplemental*

Laws 2005, Chapter 3 provides a decrease of \$(4,000,000) from the Prison Construction and Operations Fund in FY 2005 due to lower-than-expected driving under the influence (DUI) revenue collections. As part of the 46<sup>th</sup> Legislature, 2<sup>nd</sup> Special Session to address prison overcrowding, the Legislature created a new assessment to be paid by persons convicted of DUI offenses. Revenues from this new assessment are deposited in the appropriated Prison Construction and Operations Fund (PCOF). The FY 2005 General Appropriation Act appropriated \$10,250,000 million from PCOF for costs related to additional prison beds. Through May 2005, however, the new assessment has only generated \$4,267,800. The FY 2005 supplemental shifts a portion (\$4,000,000) of costs to other funds within the department. Any remaining DUI revenue shortfall after the supplemental would be absorbed by the department.

Chapter 3 includes a corresponding increase of \$1,500,000 from the State Charitable, Penal and Reformatory Institutions Land Fund and \$2,500,000 from the Corrections Fund in FY 2005 to offset the DUI revenue shortfall. The FY 2006 budget does not continue this shift as the Prison Construction and Operations Fund is expected to generate sufficient DUI revenue to cover PCOF's appropriation.

*Bed Capacity*

Table 2 provides a comparison of the projected fiscal year end prison population, the number of beds (expressed as Operational Capacity), the projected bed shortage, and the percent of the bed deficit over operational capacity (% Over Capacity). The projections in the table assume the prison population grows by 115 new inmates per month, which is the average growth rate for the past 4 fiscal years.

<u>Mo/ Year</u>	<u>Operational Capacity</u>	<u>Actual Population</u>	<u>Bed Shortage</u>	<u>% Over Capacity</u>
6/03	27,178	30,898	(3,720)	13.7
6/04	29,386	31,937	(2,551)	8.7
6/05 <sup>1/</sup>	31,786	32,631	(845)	2.7
6/06	31,898	34,011	(2,113)	6.6

<sup>1/</sup> As of June 22, 2005.

**Other Issues**

The operating budget includes the following adjustments:

*Establish Private Prison Per Diem  
Special Line Item*

The approved amount includes a transfer of \$(73,278,400) in FY 2006 from the operating budget to establish a

separate Special Line Item for costs associated with housing inmates in private Arizona prison facilities. This amount consists of \$(44,604,100) from the General Fund and \$(28,674,300) from the Corrections Fund. This shift results in no net change to the Department of Corrections budget. (See the *Private Prison Per Diem Special Line Item* section for more information.)

*Establish Overtime/Compensatory Time  
Special Line Item*

The approved amount includes a transfer of \$(17,900,000) from the General Fund in FY 2006 from the operating budget to establish a separate Special Line Item for overtime and compensatory time payouts. This shift results in no net change to the Department of Corrections budget. (See the *Overtime/Compensatory Time Special Line Item* section for more information.)

*Population Growth*

The budget provides an increase of \$3,325,400 from the General Fund in FY 2006 to fund the marginal costs for an estimated average daily population (ADP) increase of 1,380, or 115 net new inmates per month.

*Inmate Fire Crews*

The budget includes an increase of \$413,200 from the General Fund for 3 additional inmate fire crews in FY 2006. With this addition, the department will have 15 authorized inmate fire crews to aid in wildland fires, fire prevention, and control brush in high-risk areas. (See *State Land Department narrative* for more information.)

*Communications and Security Equipment*

The budget provides a one-time increase of \$3,500,000 in FY 2006 for new radio communication equipment and security cameras at prison facilities. This amount consists of \$2,000,000 from the General Fund and \$1,500,000 from the State Charitable Fund. The department will upgrade current radios to provide more reliable communication between officers in emergency situations. As a pilot project for enhanced prison security, security cameras will be installed in kitchens at the Lewis facility.

*Transition Program*

The budget provides an increase of \$851,400 in FY 2006 to fund an inmate transition program created by Laws 2003, Chapter 256. This amount consists of \$500,000 in one-time monies from the Transition Program Drug Treatment Fund and \$351,400 from the Transition Office Fund. The Transition Program Drug Treatment Fund receives 8% of wages earned by drug offenders. The Transition Office Fund retains savings from early release of Transition Program participants. Chapter 256 required the department to contract with a private or non-profit entity to provide transitional services to nonviolent drug offenders. Both the Transition Program Drug Treatment Fund, and the Transition Office Fund are appropriated, however, no appropriation from the funds have been made

to date. This budget would provide the appropriation authority needed to establish the transition program.

#### *Alcohol Abuse Treatment Program*

The budget provides an increase of \$150,000 from the Alcohol Abuse Treatment Fund in FY 2006 to expand the department's treatment program for inmates serving sentences for driving under the influence (DUI) violations. This amount will allow ADC to expand the Alcohol Abuse and Treatment program to another 150-200 inmates. The program currently provides treatment services to 436 inmates.

#### **Special Line Items**

##### ***Overtime/Compensatory Time***

The budget provides \$18,227,700 from the General Fund in FY 2006 to establish a separate Special Line Item for overtime and compensatory time payouts.

The approved amount includes a transfer of \$17,900,000 from the operating budget and an increase of \$327,700 from the General Fund in FY 2006 for statewide adjustments.

The Overtime/Compensatory Time line item includes monies for Personal Services and Employee Related Expenses resulting from overtime and compensatory time payouts accrued by department staff. Due to staff shortages at prison facilities, correctional officers are often required to accrue compensatory time for extra hours worked. With high vacancy rates, officers are unable to utilize all of their leave balance and, as a result, must be monetarily compensated.

Laws 2005, Chapter 6 (Appropriation; Overtime Pay; DOC) provides supplemental FY 2005 funding of \$7,500,000 from the General Fund to the department for costs associated with employee compensatory time payouts. Because of staff shortages, correctional officers may be required to work overtime. At the end of FY 2004, ADC had paid approximately \$2,400,000 towards compensatory time balances, however, approximately \$7,800,000 remained unpaid. ADC paid the remaining balances using monies from the department's FY 2005 operating budget. Chapter 6 provided ADC \$7,500,000 from the General Fund to restore a portion of the department's FY 2005 operating budget.

##### ***Private Prison Per Diem***

The budget provides \$74,118,400 in FY for Private Prison Per Diem costs in FY 2006. This amount consists of \$45,444,100 from the General Fund and \$28,674,300 from the Corrections Fund. The approved amount includes a transfer of \$73,278,400 from the operating budget and an increase of \$840,000 from the General Fund in FY 2006 for a 3% private prison contractor inflationary adjustment. The Private Prison Per Diem line item includes monies for

Professional and Outside Services paid to non-provisional private prison contractors for daily expenses associated with housing Arizona inmates. Department administrative expenses related to private prison contracts are not included in this SLI and are included in the department's operating subtotal amount. Also not included are monies appropriated for temporary out-of-state facilities.

#### **Additional Legislation**

##### ***Schofield v. Arizona Settlement***

Laws 2005, Chapter 6 provides, to the Department of Administration, \$10,000,000 from the Risk Management Fund and \$2,499,100 from the General Fund in FY 2005 for payment of on-call claims made pursuant to Schofield v. State of Arizona. Schofield v. State of Arizona was a 1997 lawsuit brought by state employees who alleged that they were not compensated as required by personnel rules when assigned on-call duty. In accordance with the settlement, the Department of Corrections and Risk Management have paid out a total of \$8 million to claimants in FY 2003 and FY 2004. Chapter 6 pays the remaining \$12.5 million of unpaid settlement monies to officers, which includes \$1.4 million in accrued interest. This total is not part of the Department of Corrections' appropriation and is not reflected in the tables above. (*See the Department of Administration agency budget for more information.*)

##### ***Expenditure Reporting***

Laws 2005, Chapter 331 (State Budget Procedures Budget Reconciliation Bill) requires the department to report actual FY 2005, estimated FY 2006 and requested FY 2007 expenditures by prison complex, community corrections, private prisons and central administration when the department submits the FY 2007 budget request pursuant to A.R.S. § 35-113.

##### ***Corrections Fund Continuation***

The Corrections Fund is for the construction, major maintenance, and purchase or lease of correctional facilities or state-operated juvenile facilities. The Legislature may also appropriate monies in this fund for the operation of these facilities. Revenues deposited to the fund are from luxury taxes on alcohol and tobacco products. The statutory allocation of these monies to the Corrections Fund was to expire at the end of FY 2005. Laws 2005, Chapter 300 (Criminal Justice Budget Reconciliation Bill) makes a statutory change to extend the Corrections Fund distribution for another 5 years through FY 2010. *Table 3* lists current and approved Corrections Fund expenditures.

**Table 3**

**CORRECTIONS FUND**  
**Estimated Revenue and Expenditure Projections**  
**(\$ in Thousands)**

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved
<b>Beginning Balance</b>	<b>\$ 19,909.7</b>	<b>\$ 6,283.6</b>	<b>\$ 732.5</b>
Revenues	27,145.3	27,959.7	29,000.0
<b>Total Funds Available</b>	<b>\$ 47,055.0</b>	<b>\$ 34,243.3</b>	<b>\$ 29,732.5</b>
<u>Expenditures</u>			
ADOA Staffing	614.8	646.7	667.3
<b>Prior Year Capital Projects</b>			
ADC Lewis Complex <sup>1/</sup>	1,165.4	0.0	0.0
ADC Building Renewal	269.2	0.0	0.0
ADC Safety Improvements	941.8	264.7	0.0
ADC Fort Grant Landfill Closure	275.6	43.1	0.0
DJC Building Renewal	147.6	0.0	0.0
<b>Operating Budget</b>			
ADC Administration	1,286.3	1,083.5	350.0
ADC Prison Operations	34,667.6	30,090.8	0.0
ADC Non-lapsing <sup>2/</sup>	1,018.0	1,382.0	0.0
ADC Administrative Adjustment	385.1	0.0	0.0
<b>Private Prison Per Diem SLI</b>	<b>0.0</b>	<b>0.0</b>	<b>28,674.3</b>
Total Expenditures	40,771.4	33,510.8	29,691.6
<b>Fund Balance</b>	<b>\$6,283.6</b>	<b>\$732.5</b>	<b>\$40.9</b>

<sup>1/</sup> Laws 2003, Chapter 1, 1<sup>st</sup> Special Session reverted remaining FY 2003 non-lapsing appropriations. The FY 2004 expenditure is a reversion to the federal grant program Violent Offender Incarceration and Truth-in-Sentencing (VOI/TIS).

<sup>2/</sup> Laws 2003, Chapter 5, 2<sup>nd</sup> Special Session appropriated \$2.4 million in non-lapsing monies to be used as state match for federal VOI/TIS grant.