

**MINUTES OF THE
NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S
COMMITTEE ON INDUSTRIAL PROGRAMS
(NRS 209.4817)
June 16, 2010**

The second meeting of the 2009–10 Interim for the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs was held at 9:30 a.m. on Wednesday, June 16, 2010, in Room 4412 of the Grant Sawyer State Office Building in Las Vegas, Nevada. The meeting was simultaneously videoconferenced to Room 3137 of the Legislative Building in Carson City, Nevada.

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Howard Skolnik, Director, Department of Corrections
Senator Dean A. Rhoads

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Senator David R. Parks, Chairman
Assemblyman John Hambrick, Vice Chairman
Assemblyman Moises Denis
Bruce Aguilera, Vice President/General Counsel, Bellagio
Mike Magnani, Labor Union Representative
Allen J. Puliz, Puliz Moving and Storage

COMMITTEE MEMBERS ABSENT:

Michael Mackenzie, Principal, Operations Improvement Company
Greg Smith, Administrator, Purchasing Division

STAFF MEMBERS PRESENT IN CARSON CITY:

Natalee Binkholder, Deputy Legislative Counsel, LCB Legal Division
Tracie Battisti, Secretary, LCB Fiscal Analysis Division

STAFF MEMBERS PRESENT IN LAS VEGAS:

Tracy Raxter, Assembly Fiscal Analyst, LCB Fiscal Analysis Division
Cheryl Harvey, Secretary, LCB Fiscal Analysis Division

OTHERS PRESENT IN LAS VEGAS:

Brian Connett, Deputy Director, Industrial Programs, Department of Corrections
Diane Dastal, ASO II, Department of Corrections

EXHIBITS:

[Exhibit A](#) – Agenda and Meeting Packet

I. CALL TO ORDER

Chairman David Parks called the meeting to order at 9:38 a.m. He asked that the Committee secretary take roll and it was determined a quorum was present.

II. APPROVAL OF MINUTES OF THE MEETING OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS FOR JANUARY 19, 2010.

Chairman Parks requested a motion for approval of the minutes from the January 19, 2010, meeting.

ASSEMBLYMAN DENIS MOVED TO APPROVE THE MINUTES OF THE JANUARY 19, 2010, MEETING OF THE COMMITTEE ON INDUSTRIAL PROGRAMS.

MR. AGUILERA SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

III. STATUS REPORT FROM PRISON INDUSTRIES AND COMMITTEE RECOMMENDATIONS REGARDING THE FOLLOWING ITEMS:

Mr. Connett, Deputy Director, Prison Industries, introduced himself and reported on the status of the following Prison Industries facilities.

A. SHELBY AMERICAN (AUTOMOBILE MANUFACTURING) – SOUTHERN DESERT CORRECTIONAL CENTER

Mr. Connett explained Shelby American (Shelby) was a long-standing program under the direction of Director Howard Skolnik. Due to the economy, Shelby had to vacate its space at the Southern Desert Correctional Center (SDCC) in mid-May. He said upper management was uncomfortable letting go of its own employees to keep the inmates working. Another reason for Shelby closing shop at SDCC was the supervisor at the facility retired and a suitable replacement could not be found.

Shelby located another place that could produce the hoods and other component parts at a less expensive cost. Shelby had occupied roughly 15,000 square feet, contributed about \$40,000 a year in rent, about \$190,000 a year in room and board, and approximately \$38,000 a year in capital improvements and victims of crime funds. Mr. Connett said the loss to Prison Industries was significant. The vacated bay was available to be leased.

Mr. Aguilera asked if there were any prospects on leasing out the bay and how it was being advertised. Mr. Connett answered the bay for lease was advertised on Craig's List, and currently there were no prospects.

Assemblyman Denis asked if Prison Industries worked with the Nevada Development Authority to bring in new business. Mr. Connett stated a meeting was set up for July 2010 with the Economic Development Council to discuss how Prison Industries could provide space and labor to potential businesses.

Assemblyman Denis asked what incentives were offered to interested businesses. Mr. Connett explained Prison Industries offered below average lease rates per square foot. However, lease rates were less expensive because the location was almost 40 miles outside of town.

B. AUTO AND UPHOLSTERY SHOP (AUTOMOBILE RESTORATION) – SOUTHERN DESERT CORRECTIONAL CENTER

Mr. Connett explained the auto shop encountered \$50,000 in warranty problems that had to be fixed. The management in the facility experienced turnover. He explained that Prison Industries replaced two managers in his short tenure. The manager currently running the facility now had very little for warranty work.

Mr. Connett said the facility was trying to get work completed, but there were issues with throughput. The shop had a lot of fixed and hourly costs. He planned to increase the shop's throughput. The shop had difficulty getting new jobs completed, primarily because of the warranty work. Prison Industries has sustained a substantial loss at the automobile restoration shop.

Mr. Puliz asked if the warranty work was a one-time loss or a continuing issue. Mr. Connett replied it was one-time warranty work. The issue had been fixed and the customers were satisfied with the work.

Chairman Parks asked if the warranty work was on restoration of older vehicles. Mr. Connett explained the warranty work had been completed on late model vehicles, not antiques.

Chairman Parks asked about the throughput for the facility. Mr. Connett said the throughput was expected to increase since the auto and upholstery shop was allocated an additional 4,000 square feet in space, which was previously occupied by Shelby. The additional capacity should enhance the shop's ability to increase the throughput of the facility.

Mr. Connett further explained to the Committee the shop needed to keep the vehicles for an extended period of time. Most of the inmates trained in automobile restoration had no skills at all, and were being trained by other lead inmates. There was a waiting list of customers because it took time for vehicles to get through the shop.

Assemblyman Denis asked how the automobile restoration business was advertised and whether there was a plan to increase the throughput. Mr. Connett explained the auto shop had a waiting list of approximately 18 months and he would not

overextend the list. The shop had been promoted primarily by previous customers. Mr. Connett stated the management was under control and the shop now needed to increase its volume.

Chairman Parks asked Mr. Connett to comment on developments relative to the motorcycle shop operation. Chairman Parks stated the operation did not sound promising at the last meeting. Mr. Connett replied Big House Choppers brand had no significant changes. The inmates continued to rework or restore motorcycles. The inmates restored a moped that had been in a lake for a number of years. The inmates also performed work on several peace officers' motorcycles. The shop's revenue was primarily from restoration of motorcycles.

Mr. Connett also discussed the advertising of the choppers. He stated the prices were lowered, and the choppers were listed for sale on Craig's List with little response. People looked at the pictures and made inquiries, but no qualified leads were attained. There was still one motorcycle at the Harley Café. Mr. Connett hoped to work with some of the other casinos to promote the bikes.

Mr. Puliz asked how many newly-built motorcycles were available for sale and, whether Prison Industries was using the motorcycles as a marketing tool to help the program show off its work. Mr. Connett stated Prison Industries had three motorcycles left for sale. Two were extravagant motorcycles. One of the extravagant motorcycles was displayed at the Harley Café. The other motorcycle was to be shown at the Chamber Expo at the World Market Center in Las Vegas. Prison Industries took every opportunity to show the motorcycles. Mr. Connett explained the first two extravagant bikes were the expensive units, and he would sell them if the right price was.

Mr. Puliz suggested instead of discounting the motorcycles until sold, Prison Industries should wait until the price was right to sell. Mr. Connett stated, at this time, he would like to use two bikes as a marketing tool. He initially thought the bike at the Harley Davidson Café would be on display for about a month. He has been pleasantly surprised by Harley Davidson's willingness to display the bike longer than he originally anticipated.

C. ALPINE STEEL (STRUCTURAL STEEL FABRICATION) – HIGH DESERT STATE PRISON

Mr. Connett explained Alpine Steel was a local company that fabricated steel in the Southern Nevada area. The inmates were trained to be welders. Once the inmates finished the training they were awarded a welding certification, which was also recognized by California. The training Alpine Steel provided was a great opportunity for the inmate. Alpine Steel also started training some inmates on computer-aided design (CAD). Prison Industries was also doing some extensive training with Alpine Steel through a grant opportunity that the Department received.

Alpine Steel operates two bays at the High Desert State Prison (HDSP) where a decent number of inmates were employed. Mr. Connett said the owner has reported Alpine Steel was only getting small jobs at the time. Previously the inmates had been working ten hours a day, five days a week, but had been cut back to four days a week. The owner was waiting for the award of new jobs. If those jobs did not come through he may need to reduce his operation at HDSP to occupy only one bay.

Mr. Connett expressed his pleasure in working with Alpine Steel. He hoped they would be able to continue to operate as they had been.

Assemblyman Denis asked what skills the inmates learned. Mr. Connett responded the inmates learned the correct and safe use of welding, cutting, various metal fabrication techniques, and metal bending. Alpine Steel manufactured stairwells, railings and structural steel used inside metal buildings.

Assemblyman Denis asked if the skills were useful when the inmates were released. Mr. Connett responded the skills the inmates learned were transferable to any area with construction jobs. With the slow economy, many of jobs had evaporated; however, the inmates' skills were fairly marketable as they could be used in other states.

Chairman Parks asked if Alpine Steel trained inmates assigned to Casa Grande, which was off-site from the High Desert State Prison. Mr. Connett explained Prison Industries was working with Alpine Steel to initiate a program dedicated to using inmates from Casa Grande, through the assistance of a federal grant.

Vice Chairman Hambrick asked if the inmates applied for journeyman or masters certificates while in the system. Mr. Connett answered the inmates would be trained as far as Alpine Steel had the ability to do so.

D. INDUSTRIAL PARK DEVELOPMENT – INDIAN SPRINGS

Mr. Connett informed the Committee since the last meeting there had been no changes at the Industrial Park. The individuals that had the arrangement to build the Industrial Park needed 70 percent occupancy prior to getting the funding to build the park. He said the individuals had not been able to get the 70 percent occupancy rate; therefore, they have not been able to move forward with construction.

Mr. Connett stated Prison Industries was working with a local group of individuals that would like to put a hog farm at the Industrial Park site, or just to the east of it. The individuals had a hog farm in the area already. The hog farm was featured on the television show Dirty Jobs. Mr. Connett preferred not to put the farm on the 22 acres. He explained that if the hog farm was placed on the east side of the site, Prison Industries would still have the option of an industrial park without changing the zoning. Prison Industries was working with the Clark County on the zoning issues and with State Lands to get the hog farm established at the Park.

Chairman Parks asked if the east side of the Park was downwind. For the record, Mr. Connett said it was downwind. Prison Industries took that into consideration. Mr. Puliz said he had been a neighbor of the hog farm for 24 years, and it hardly smelled at all. Mr. Puliz agreed it might be a good place for the hog farm.

Chairman Parks asked if inmate labor might be put to work at the pig farm operation. Mr. Connett said he was not interested in the project unless it put inmates to work. He said the farm would employ a minimum of 20 inmate workers.

Mr. Puliz inquired about the marketing of the Industrial Park. He thought it would be hard for anyone to locate a business at the Park because it was 40 miles out of town. Because of the economy, commercial building lease rates have declined in Las Vegas. Mr. Puliz said it would be a good marketing tool to offer the inmate labor Prison Industries had to offer. Mr. Connett responded the contract pertaining to the Industrial Park was dependent on using inmate labor. The whole concept was for a prison industry-style operation. The Industrial Park would be built to minimum-security inmate requirements. It would have a sally port and a double fence if the medium-security requirement was necessary. Mr. Connett said the Industrial Park was highly dependent on using inmates at the facility.

Mr. Aguilera asked if Prison Industries was still involved with the Horse Gentling Program. Mr. Connett said it was working with BLM and currently housed 600 horses. Prison Industries charged BLM about \$3 per day per horse, netting about .40 to .50 cents per horse per day. The program had low fixed costs, but also had some high variable costs per horse. Mr. Connett said the more horses housed, the lower the variable cost per horse.

Mr. Connett explained Prison Industries had lost the stray horse program because the State did not have the funding. It once housed about 100 stray horses. There was no longer a market for stray horses. There were a lot of articles in local newspapers and international publications advertising the horse program. Prison Industries worked with BLM to try to increase number of horses at the facility.

Chairman Parks asked if there was any discussion of a similar horse operation in Southern Nevada. Mr. Connett recalled that BLM had approached Prison Industries about putting another horse facility at the Jean Conservation Camp in Southern Nevada. Shortly after talks started the Jean Conservation Camp was vacated. Prison Industries had made BLM aware of its interest in establishing additional BLM Horse Gentling Programs.

IV. REVIEW OF RESPONSES FROM THE STATE DEPARTMENT OF CORRECTIONS TO QUESTIONS OF THE COMMITTEE AT THE JANUARY 19, 2010, MEETING RELATING TO AGING OF PRISON INDUSTRY ACCOUNTS RECEIVABLE, EXPANDING INMATE WORK OPPORTUNITIES, AND MARKETING OF PRISON INDUSTRY PRODUCTS.

Mr. Connett explained the receivables owed by the top ten companies accounted for \$1.1 million of the agencies total receivables as of June 30, 2009, and \$1.5 million as of March 31, 2010. However, if the \$382,000 owed by Core Construction was subtracted from the amount owed by the top ten companies as of March 31, 2010, the receivables owed to Prison Industries remained flat in comparison to the accounts receivable owed as of June 30, 2009. Mr. Connett further explained that he determined the percentage of the amount owed by the top ten companies based on the total amount of receivables, in order to identify the percentage of receivables owed by all other companies. Mr. Connett emphasized the accounts receivable by all other companies, excluding the top ten companies, were current in their accounts receivable. However, the top ten companies account for 80 to 89 percent of Prison Industries total receivables. As of March 31, 2010, \$243,000 owed by the top ten companies was recorded by the Prison Industries as current. For the same time period, \$1.3 million owed by the top ten companies was recorded as 30 or more days delinquent. However, if the \$382,000 owed by Core Construction was subtracted from the delinquent accounts receivable, the amount delinquent was relatively flat in comparison to the delinquent accounts receivable recorded as of June 30, 2009. Mr. Connett indicated that Prison Industries needed to concentrate its efforts on the amount owed by the top ten companies that was uncollectable.

Mr. Connett pointed out that there were three companies whose amount owed to Prison Industries had remained almost unchanged with exception of the interest that was accruing. In FY 2010, Mr. Connett estimated approximately \$851,000 of its accounts receivable was probably uncollectable. Of that amount, the former owner of TJ Wholesale, a card sorting company, owed Prison Industries \$644,000; however that company no longer existed. The current owner of TJ Wholesale bought the company as an asset sale only. As a result, the new owner did not assume any of the company's existing debt. Prison Industries was not high on the previous owner's list of debtors according to Mr. Connett. The previous owner of TJ Wholesale owed its bank three times more and the landlord twice as much as he owed Prison Industries. Mr. Connett indicated the previous owner kept the business running longer than he should have.

The second largest account receivable that would likely be uncollectable was a company that Prison Industries had not done business with for about three years. They owed Prison Industries \$99,000. This was an organization that bought Prison Industry products, mostly mattresses and sheets, and resold them. The owner of the company currently resided in a county jail in California. Mr. Connett did not believe the amount owed by this company would ever be collected, as the owner had written bad checks to Prison Industries.

Mr. Connett believed approximately 50 percent of the receivables owed by the top ten companies were uncollectable. Prison Industries had some success in getting some of the of the top ten companies current, as Prison Industries had been focusing efforts on the companies that had been past due over 120 days.

Mr. Connett thinks Diane Dastal's group was very successful in getting the receivables current. In addition, Mr. Connett had been successful in trying to get the smaller accounts receivable owed to Prison Industries current.

Vice Chairman Hambrick asked if there was a procedure to write-off the uncollectable debt. Mr. Connett responded those particular accounts had been turned over to the State for collection. The largest company had no assets, so there was nothing for the State to accomplish.

Chairman Parks stated there was a full set of procedures that all State agencies followed, whether the agency was part of the General Fund or a special revenue fund. He said the procedure was usually done at the end of year. Chairman Parks questioned how long Prison Industries should keep the debts on the books. Mr. Connett replied the bad debt accounts had been turned over to the Controller's Office for collection. It certainly would impact the financial statements if the debts were written off the books.

Chairman Parks asked Mr. Connett to estimate when Silverline/Thomson Equipment might pay the \$107,000 due. Mr. Connett stated Silverline/Thomson Equipment was an organization primarily based out of New Zealand. It would be very difficult to collect money. Prison Industries kept in contact with them. Prison Industries held some of the company's assets, including several tools, paint booth, and some buckets. Mr. Connett said he had been approached by other creditors for some of the assets. Both Director Skolnik and Mr. Connett agreed to not let any assets out of the institution. If Silverline/Thomson Equipment expressed a desire to return when the construction industry recovered, they would have to pay their debt in full.

Chairman Parks asked if there were any collection procedures happening through the court system relative to this company. Mr. Connett said there was not. The company was not in the United States and to attempt to bring in the U.S. Department of State to try to go after a foreign company would not be valuable.

Chairman Parks stated this company was very beneficial to the institution and the program. He asked whether future contracts would be welcome when the economy turned around. Mr. Connett said he fully supported welcoming them back because the training skills the inmates learned at this particular industry were phenomenal. The inmates learned everything from metal fabrication, welding, upholstery, plumbing, electrical, and painting.

Chairman Parks questioned a response on page 22 of the meeting packet. The response indicated the marketing coordinator had other duties. Mr. Connett explained there were two marketing coordinator positions. Because of the reduced revenue, both of the positions had additional duties. The Northern Nevada Marketing Coordinator also supervised the manufacturing plants for furniture and metal fabrication. The supervisor, Bill Quenga, had done a fabulous job handling the work. A lot of responsibility had been put on him, which he was able to.

In Southern Nevada the Marketing Coordinator was Craig Korsgaard. He also supervised the auto shop. He was spending more time managing the auto shop than he was marketing the programs. Once revenues increased, the program managers would be hired so the marketing coordinators can resume their full-time marketing responsibilities.

V. REVIEW OF NUMBER OF INMATES THAT WORKED JULY 2007 THROUGH APRIL 2010.

Mr. Connett referred the Committee to page 25 of the meeting packet, [Exhibit A](#). He said for FY 2008 there was a loss of 8 inmate workers. He highlighted the impact recent facility closures had on employment; 15 jobs were lost with the closure of Trevi; 8 jobs were lost with the closure of Somerset Industries; 8 jobs were lost with the closure of Artistic Glass; and 14 jobs were lost with the closure of BMC Truss. In addition, Thompson/Silverline Equipment had reduced its operations by 18 inmates and the card sorting program reduced the number of inmates it employed by 26. Prison Industries added about 11 inmates at the ranch, 20 or so inmates at the auto shop and nine inmates at a different card sorting shop.

Mr. Connett explained that Prison Industries went from 748 inmates in July 2008 to 630 inmates in June 2009. This was a net loss of about 118 inmates. Impact Design employed 42 inmates when it closed. The card sorting program had reduced operations by 37 inmates. The auto shop reduced operations by 21 inmates, and Thompson Equipment employed 36 inmates before it closed. Prison Industries added six inmates at the printing shop and about 12 inmates at Shelby.

Mr. Connett said 624 inmates were working in July 2009 and 496 inmates in April 2010. Drapery had reduced operations to about 13 inmates, Alpine Steel had reduced operations by 7 inmates, and the metal shop had reduced operations by 14 inmates. The ranch reduced operations by 7 inmates, the wood furniture program reduced operations by 10 inmates, the card sorters reduced operations by 55 inmates, and Shelby closed with about 28 inmates employed at the time. Garment added about 5 inmates, and the card sorters at a different location added 6 inmates. Prison Industries had a net loss of about 128 inmates in Fiscal Year 2010.

Assemblyman Denis stated Prison Industries went from 769 inmates working in FY 2008 to 543 inmates in FY 2010, with two months left of reporting for that period. He asked if it was the economy or were other issues affecting inmate employment. He said the population of the facilities was down, but not to the same degree. Mr. Connett explained it was directly tied to the economy. Every one of the private sector companies had reduced operations. That certainly impacted the number of inmates working in those positions. The number of inmates at Prison Industry fluctuated based on the revenue.

VI. STATUS OF FUND FOR NEW CONSTRUCTION OF FACILITIES FOR PRISON INDUSTRIES – NRS 209.192.

Mr. Connett introduced Diane Dastal, Administrative Services Officer II, Department of Corrections, and asked that she review new construction of facilities. Ms. Dastal explained the current balance in the Capital Improvement fund was \$144,590. During the 26th Special Session the Legislature approved sweeping \$948,000 from the fund to help cover the shortfall in the State's budget. The monies were removed on April 22, 2010, and this financial statement covered through March 31, 2010, so the decrease would be reflected on the next financial statements.

Chairman Parks asked if there was any prospect of the money being returned to the Prison Industries account. He presumed the question would probably be answered by the legislators. Mr. Connett said it had been his experience that once the money was taken it was not returned.

Mr. Connett said Prison Industries currently had a balance of \$144,590. The money would be used should Prison Industries have to relocate the tag and the printing plants. Plans were being made to move the two industries. Mr. Connett and Ms. Dastal had meetings with design and build companies to look at building two different facilities at the Northern Nevada Correctional Center (NNCC) to house the printing and tag plant.

Mr. Connett said the tag plant had contributed about \$595,000 every year to Prison Industries since 2007. In Fiscal Year 2010 there was a reduction in revenues of about \$200,000. This was directly related to the economy and the number of people purchasing cars. The tag plant still contributed a significant amount of financial support to this organization.

Mr. Connett explained to the Committee that, by statute, Prison Industries was required to provide a location for the tag plant. He said a short-term plan for operating the tag and printing plant would be to put a walkway fence from Warm Springs Correctional Center to Nevada State Prison (NSP) so inmates housed at Warm Springs could work at the tag and printing plant at NSP. Prison Industries estimated the cost to build the fence for the walkway would run close to \$100,000. There would be additional cost for peace officers to provide security to both plants.

The long-term plan would be to relocate both of the plants to NNCC. Mr. Connett said the existing security staff at the NSP Prison Industries facilities would be transferred to NNCC once the new facilities were constructed.

Chairman Parks said there was an article in the paper about the potential for the Governor to issue an executive order to close down NSP. That would create difficulty to keep both industries in operation. Chairman Parks stated he did not know exactly the entire process, but presumed the Board of Examiners would have to give its approval. Chairman Parks asked if the NSP was closed by Executive

Order was there consideration to temporarily transport the inmates instead of spending \$100,000 to build a walkway fence. Mr. Connett said they had looked into transporting the inmates but it would require additional staffing to put these inmates in a vehicle. Prison Industries was required by statute to provide the labor to the department of Motor Vehicles for the tag plant. He said to try to transport those inmates you would have to go through a number of gates and sally ports and perform pat-down inspections because they would be going outside the Prison. The inmates that were housed at Warm Springs were not allowed to be outside of a prison facility, which was why the Department recommends the fenced walk way.

Chairman Parks said the DMV went from raised letter plates using a heavy press to the flat printed plates. He asked if there was a marketing operation beyond the DMV license plates. Mr. Connett replied the DMV handled the distribution and manufacturing of the tags. The old technology used a heavy press to emboss the tag. The market place has now moved on to flat plate technology which utilizes printing technology. There was no set-up time associated with printing the tags. A Nevada State tag can be printed directly after a specialty tag. All the different tags could be printed one right after another. The embossing process had set-up time, which required changing the sheeting from one type of tag to the next. The plates would have to be batched for each special tag, which created inventory issues. According to the DMV, approximately 90 to 95 percent of its current production was using flat plate technology. The DMV was responsible for deciding whether they wanted to continue using the embossed process. The embossed process required the use of ovens, paint, and hazardous materials. It was a 1930's technology that Prison Industries had been using.

Chairman Parks asked how many inmates currently worked in the tag plant and print shop. Mr. Connett answered there were 16 inmates in the tag plant and 28 inmates in the print shop.

VII. REVIEW OF FINANCIAL STATEMENTS OF SILVER STATE INDUSTRIES FOR THE QUARTER ENDING MARCH 31, 2010.

Diane Dastal explained the financial statements were for nine months, starting July 1, 2009, and ending March 31, 2010. Prison Industries cash was down about \$558,000, but the Prison Ranch's cash increased approximately \$100,000. Accounts receivable was up about \$273,000. However, Ms. Dastal referred to Mr. Connett's earlier explanation of the \$336,000 in aging receivables related to Core Construction. Core Construction did pay in April 2010. Both inventories and harvested crop balances had dropped. In that, the balance sheet had decreased by about \$390,000.

Ms. Dastal directed the Committee to page 34 of the meeting packet, [Exhibit A](#). The fund equity had dropped approximately \$326,000 over last year.

Mr. Puliz asked why the balance sheet displayed bad debt of \$175,000. After the discussion today, he thought the bad debt should be closer to \$800,000. Ms. Dastal said the procedure was to wait until the end of the year to make adjustments.

Mr. Puliz said Prison Industries was doing a lot of work for the new card sorting company, and wondered if the company was keeping up on the receivables. Mr. Connett said the new organization started out with a group of venture capitalists who came in and bought the assets. Part of the ownership team from the venture capitalist group bought the card sorting company (Diamond Mountain Distributors) and had been a fairly good steward. Prison Industries had to call them on occasion to collect money. Diamond Mountain Distributors had consolidated most of its operations to two bays at HDSP. They had the warehousing operations at HDSP, which was located next to the sorting operation. Prison Industries hoped to add about 30 more inmates to the process. Prison Industries was paid per unit price, the more units produced the more revenue generated.

Ms. Dastal explained the Central Administration statement of operations remained relatively flat. The administrative fee that had been received had dropped approximately \$20,000. Ms. Dastal said the interest revenue was down about \$32,000, and finance charges were down about \$62,000. Those two accounts alone total about \$94,000 that contributed to the \$104,000 loss.

Assembly Denis asked about the \$64,000 miscellaneous expense reported on the Central Administration statement. Ms. Dastal was not sure, but said some of the expense was for small equipment. Mr. Connett explained the expense was for a number of copy machines and leases. Mr. Connett said he would follow-up with more information for the Committee.

Mr. Denis noted expenses and miscellaneous expenses were down in FY 2010. He wondered if they decline further since there was less production. Ms. Dastal stated there were a lot of fixed costs. Mr. Connett stated Prison Industries understood there had been a reduction in revenue, and was controlling costs.

Ms. Dastal reported on the following statements of operation:

- Mattress Factory – Sales increased in private, state, city and county sales. The bottom line ended on a positive note, approximately \$23,000 over the previous year.
- Print Shop – Sales were down approximately \$25,000. The print shop had two copy machine leases that had expired at the beginning of Fiscal Year 2010. The Print Shop now had a maintenance agreement for the copiers for click charges only. The change in contracts saved over \$21,000 in FY 2010. The print shop ended \$7,000 over last year, even though sales were down. Mr. Connett stated the salaries declined mostly because of the furloughs.

- Furniture and Metal Shop – The Core Construction project at Three Lakes Valley Conservation Camp helped the metal shop in sales by approximately \$380,000. The build-out at SDCC and Florence McClure Women's Correctional Center (FMWCC) helped increase sales at both the furniture and metal shops to approximately \$180,000. The furniture shop received approximately 32 percent of the \$180,000 in sales while the metal shop accounted for approximately 68 percent. Net profit for both the furniture shop and the metal shop was \$35,000 respectively. Mr. Connett stated the net profit for the two shops was based on the amount of revenue. Mr. Connett stated that Mr. Quenga had done a fabulous job managing both the furniture and metal shops, in addition to being the Northern Marketing Coordinator. Mr. Quenga had worked to establish a relationship with the State Public Works Board (SPWB). Mr. Quenga worked with SPWB on NDOC's larger CIP projects, such as the build-out at SDCC and FMWCC. Prison Industries anticipated the sales for the entire year to remain flat in comparison to FY 2009. Mr. Connett praised Mr. Quenga and the other supervisors for the good work.
- Auto and Upholstery Shop – Sales had dropped in the auto shop. Additionally, the shop had done a lot of warranty work as Mr. Connett mentioned previously. The shop had generating a small profit in FY 2009 but lost approximately \$107,000 in FY 2010.

In response to a question from Assemblyman Denis, Mr. Connett said the shop had a waiting list. If a correctional officer or staff had a vehicle they would like to have restored, they were provided a quote and placed on the waiting list.

Assemblyman Denis asked if the restoration was on collector type cars. Mr. Connett said the shop restored any car. Currently, the shop had a 1938 Rolls Royce. The shop had worked on wood bodies (Woodies) in the past. Assemblyman Denis had asked because he belonged to Specialty Equipment Market Association (SEMA), which had a convention every year in Las Vegas. For the last two years the convention had been getting bigger. It seemed the economy did not hit the car restoration industry. Mr. Connett was dumbfounded as to why the market had not hit Shelby a lot sooner. Shelby was able to continue on for some time, but the economy had finally caught up to Shelby.

Mr. Aguilera asked about the capitalized institutional overhead on the statements of operation. It seemed the amount was very different in FY 2009. Ms. Dastal said it related to the work in progress. The overhead related to each project was different, which accounts for the fluctuation between reporting periods.

- Garment Factory – Both sales and profits were flat. The supervisor held down costs. The utilities declined because the mattress shop shared the utilities since it moved to Lovelock Correctional Center (LCC). Mr. Connett reminded the Committee that the mattress factory relocated from NSP to LCC. The supervisor ran both the garment plant and the mattress plant. The operations were similar,

even though the projects were completely different. The supervisor had done a good job at taking over both facilities, and Prison Industries had been very successful in integrating the mattress process into the garment process. The shops operated from side-by-side bays at LCC.

- Drapery Factory – The general and administration expenses were down about \$5,000. Unfortunately, drapery losses increased about \$12,000 compared to FY 2009. Mr. Connett said the industry depended upon revenue. The shop had little or no raw material costs as most of the material was provided by the customer. An escape that occurred some time ago caused major customers to walk away, because they could not get their products in a timely manner. The escape devastated this industry. Mr. Connett said he had made contact with those companies multiple times to get them back as customers. The companies were really hurt because in-turn it affected their customers. The drapery supervisor had been actively seeking new jobs for the factory.

Chairman Parks asked if this was a business the Committee should consider discontinuing. Mr. Connett said he was optimistic. He had spoken with some current customers, and had been assured that more work was coming. This was the only industry at Ely State Prison (ESP), which was a maximum security facility. Director Skolnik added there was very little in way of rewards for the inmates at ESP. A substantial number of ESP inmates were serving long sentences. Without having something positive to offer the inmates, ESP would be more difficult to manage. Director Skolnik shared Mr. Connett's optimistic views, and added Prison Industries had a tremendous operational and managerial need to keep that industry going.

- Prison Dairy Ranch – Sales decreased about \$800,000 compared to last year. Cost of sales was down about \$850,000. The ranch lost \$48,000 in FY 2009 but had a \$27,000 profit in FY 2010. This net profit was mainly due to hay costs going down. The hay cost had been \$235 a ton last year; however, the State Purchasing Division negotiated a contract for \$92 a ton. Unfortunately, during the first part of the fiscal year the hay inventory was still at the \$235 a ton. Mr. Connett said it acquired several pieces of equipment through the federal surplus supply program, including milk crates, forklifts, grinders, shipping containers, pallet jacks, and trucks. The federal surplus supply equipment was provided free of charge, however, Prison Industries had to accommodate the delivery of the equipment. The pick-up location was usually in northern or southern California. The ranch started a compost operation to increase alfalfa production. The ranch staff members were being certified to sample from the Nevada Dairy Commission. The ranch housed 650 to 700 BLM horses.

Mr. Connett said since the last meeting a stainless steel tank had been purchased, also replaced the pasteurizer. The stray horse program has been suspended. The ranch had a milking operation, of which the NDOC was 91 percent of the customer base. Prison Industries had also worked with State

Lands, to acquire at no charge a double wide mobile home. Three dairy and ranch operations staff had been operating out of an office that was approximately 10 feet by 12 feet for the last 25 years. They were in the process of moving the mobile home over from the National Guard armory. This would allow the ranch staff the opportunity to expand the lab and tank operations.

The ranch was seeking a company to help utilize more of its cream. Currently a lot of the dairy's cream was dumped down the drain. Prison Industries would like to sale its cream to local company that made ice cream, which would increase the revenues.

VIII. PUBLIC COMMENT.

Chairman Parks called for any further testimony to come before the Committee. There was no public comment.

IX. ADJOURNMENT.

Chairman Parks thanked the Committee members for their attendance and adjourned the meeting at 11:27 a.m.

Respectfully submitted,

Cheryl Harvey, Committee Secretary

APPROVED:

Senator Parks, Chairman

Date:_____