The fifth meeting of the 2005-06 Interim for the Nevada Legislature’s Interim Finance Committee’s Committee on Industrial Programs was held at 2:00 p.m. on Tuesday, November 14, 2006, in Room 3137 of the Legislative Building in Carson City, Nevada. The meeting was simultaneously videoconferenced to Room 4412 of the Grant Sawyer Building in Las Vegas, Nevada.

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Assemblyman John Marvel, Chairman
Senator Bob Beers
Senator Maurice Washington
Al Puliz, Chairman, Puliz Moving and Storage
Howard Skolnik, Deputy Director, Prison Industries, Department of Corrections, (non-voting member)
Greg Smith, Administrator, Purchasing Division

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Assemblyman Morse Arberry Jr.
Bruce Aguilera, Vice President/General Counsel, Bellagio
Michael Mackenzie, Principal, Operations Improvement Company
Mike Magnani, Labor Union Representative

COMMITTEE MEMBERS ABSENT:

Glen Whorton, Director, Department of Corrections

STAFF MEMBERS PRESENT:

Yvonne Goodson, Deputy Legislative Counsel, Legal Division
Tracy Raxter, Senior Program Analyst, LCB Fiscal Analysis Division
Denise Larsen, Secretary, LCB Fiscal Analysis Division
OTHERS PRESENT:

Cameron P. Vandenberg, Deputy Attorney General, Office of the Attorney General
John McCuin, Chief of Financial Services for Prison Industries, Carson City, Nevada
Deborah Reed, Budget Analyst IV, Department of Administration, Carson City, Nevada

EXHIBITS:
Exhibit A - Agenda
Exhibit B - Attendance Rosters
Exhibit C - Copy of the November 14, 2006, meeting packet prepared and distributed by the Legislative Counsel Bureau (LCB) staff

Because of their size, the exhibits are not attached to these minutes; however, upon request, they may be reviewed in the Fiscal Analysis Division of the Legislative Counsel Bureau, Carson City, Nevada. You may contact Denise Larsen at (775) 684-6821.

I. CALL TO ORDER AND OPENING REMARKS BY CHAIRMAN MARVEL.

A meeting of the Interim Finance Committee’s Committee on Industrial Programs was called to order by Chairman Marvel at 2:09 p.m., Tuesday, November 14, 2006, in Room 3137 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was simultaneously videoconferenced to Room 4412 of the Grant Sawyer State Office Building, Las Vegas, Nevada.

Chairman Marvel welcomed committee members and requested the secretary call roll. It was determined a quorum was present.

II. APPROVAL OF MINUTES OF THE MARCH 13, 2006, and June 22, 2006, MEETINGS.

Chairman Marvel reminded the committee that since a quorum of committee members was not present at the last meeting, the approval for the minutes of the March 13, 2006, meeting had been deferred. He indicated he would accept a motion to approve both the minutes of the March 13, 2006 and the June 22, 2006, meetings.


AL PULIZ SECONDED THE MOTION.
Chairman Marvel questioned whether members had any changes or discussion regarding the minutes.

THE MOTION PASSED UNANIMOUSLY.

Chairman Marvel announced that staff members, Yvonne Goodson, Deputy Legislative Counsel, Legal Division and Denise Larsen, Secretary, LCB Fiscal Analysis Division, would no longer be serving on the Committee on Industrial Programs. Ms. Goodson planned employment with a private law firm and Ms. Larsen planned to retire. Chairman Marvel wished both staff members the best in their new endeavors.

III. DISCUSSION OF POTENTIAL INDUSTRY PROGRAMS AND COMMITTEE RECOMMENDATIONS (NRS 209.4818) FOR TREVI MANUFACTURING CORPORATION (CONCRETE PRODUCTS) - HIGH DESERT STATE PRISON.

Directing the committee to page 39 of the meeting packet (Exhibit C), Mr. Skolnik, Deputy Director, Prison Industries, Department of Corrections, advised the committee that Prison Industries had been in a relationship with the Trevi Manufacturing Corporation since 2004. He indicated that with the existing contract, Prison Industries provided community-trustee inmates from the Jean Conservation Camp and that Trevi had been transporting the female inmates from the Jean Conservation Camp to their operation at North Las Vegas to manufacture concrete castings.

Mr. Skolnik explained that, last year, Trevi had enlarged and moved their facility closer to the Jean Conservation Camp. As the company had already outgrown this enlarged facility, Trevi representatives had approached Prison Industries regarding placing an operation inside the institution at the High Desert State Prison (HDSP). Mr. Skolnik advised that by rearranging existing tenants, Prison Industries could provide a 30,000 square-foot area at HDSP for Trevi to lease. Initially, Trevi would employ 40 inmates. Once Trevi’s industrial program was fully operational, employment could increase to approximately 100 inmates with the possibility of multiple shifts. Mr. Skolnik further apprised the committee that due to the Parole Board situation and the possible need to turn the bays at HDSP into dormitories for the increased inmate population, Prison Industries had not yet submitted the contract to the Board of Examiners for approval.

Chairman Marvel announced that, although the industrial program for Trevi had previously been approved by the committee, he would accept a motion for the expansion of the industrial program to be located within the facility at HDSP.

MICHAEL MACKENZIE MOVED TO APPROVE THE EXPANSION OF THE INDUSTRIAL PROGRAM FOR THE TREVI MANUFACTURING CORPORATION TO BE LOCATED AT THE HIGH DESERT STATE PRISON.
AL PULIZ SECONDED THE MOTION.

THE MOTION PASSED UNANIously.

Mr. Skolnik assured the committee he would keep them apprised on the progression of Trevi’s industrial program at HDSP. He added that the industrial program would be a certified program under the federal Prison Industry Enhancements Certified Programs (PIECP), which would require approvals from Employment Security regarding wages. Mr. Skolnik noted the approval given by the Committee on Industrial Programs would satisfy other requirements needed to certify the industrial program.

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

A. INDUSTRIAL PARK DEVELOPMENT – INDIAN SPRINGS

Mr. Skolnik advised he had hoped to provide the committee with figures regarding the Industrial Park; however, they were not yet available. He apprised the committee that Prison Industries had met with representatives from Buena Vista Partners of Kansas City and Nigro Development of Las Vegas regarding the development of the Industrial Park at Indian Springs.

Pointing out that a brief synopsis was available on page 55 of the meeting packet (Exhibit C), Mr. Skolnik reported that Buena Vista Partners was hired by Tamkin (the original successful bidder on the Industrial Park) to assist in locating prospective tenants for the Industrial Park project. Mr. Skolnik reminded the committee that Prison Industries had been working for two years with Tamkin Development for development of the Industrial Park at Indian Springs; however, Tamkin was unable to understand the concept that Prison Industries was looking for regarding the project and was not going to be able to develop the Industrial Park.

Mr. Skolnik informed the committee that, with the advice of Kimberlee Tartar of the Nevada State Purchasing Division, Prison Industries was investigating possible developments for the Industrial Park project with interested parties willing to negotiate a contract. Providing background on the construction company, Nigro Development, Mr. Skolnik informed the committee that the company interested in the Industrial Park project was an old-family business that specialized in commercial development and had developed many gaming properties in the Las Vegas area. Mr. Skolnik reported that, thus far, representatives from Buena Vista Partners had identified prospective tenants willing to lease 200,000 square feet of space at the proposed Industrial Park. He advised the committee that Prison Industries was in contract negotiations with Buena Vista Partners as the lead contractor and carry-over from the original bid and Nigro Development as the general contractor on the project.
Mr. Skolnik related the issue with the Industrial Park project was how to proceed while keeping costs of the project competitive. He noted this issue pertained to Agenda Item V on the Committee on Industrial Programs’ agenda. Mr. Skolnik requested the committee’s guidance on how to proceed with the Industrial Park project. He reported that in meetings with Pam Wilcox from the Division of State Lands, several options had been discussed.

Mr. Skolnik explained that in order for the project to come to fruition and retain the land as state land, Prison Industries would have to be competitive in leasing the land. In order to have the construction of the project reasonably competitive, costs of the project must align with construction performed in Las Vegas, which, according to Mr. Skolnik, was generally not at prevailing wage. Since the land was state-owned land, requirements demanded prevailing wage.

Mr. Skolnik explained that the developer was working on cost estimates with the use of prevailing-wage labor regarding the option of retaining the land as state land. In addition to prevailing wage labor, medium-security prison specifications would be required for the facility, which would add another element of cost. Mr. Skolnik estimated the perimeter fence would run $75 to $100 per foot. Additionally, requirements for a sally port and a locator system (such as the one used at Jean - Southern Nevada Correctional Center) would increase costs. He reported the developers agreed that a 70-year lease was adequate.

Noting that Prison Industries purchased the land from the Bureau of Land Management (BLM), Mr. Skolnik said one option would be the sale of the land to a private entity with a highly restricted deed in which the only use of the land would be to employ inmate workers. Since a pocket of privately owned land would exist in the middle of two sections of the Nevada Department of Corrections’ (NDOC) land designated for the expansion of prison facilities, this scenario raised concerns.

Mr. Skolnik apprised the committee that due to location, the cost of the land would not be prohibitive should the developer buy it. He added that should the land be leased, the amount of the lease would be negligible; Prison Industries’ revenue would come from inmate labor.

After summarizing the advantages and disadvantages of both options, Mr. Skolnik reiterated his need for suggestions from the committee on how to proceed with the development of the Industrial Park project at Indian Springs.

Chairman Marvel expressed his concern regarding private ownership of the land in the middle of a state institution. He asked whether committee members had any ideas regarding the issues Mr. Skolnik brought forth. Chairman Marvel opined a lease would be preferred.

In response to questions Chairman Marvel raised concerning a lease, as opposed to private ownership for the project, Mr. Skolnik explained that with a long-term lease
on state land, construction requirements on the land were subject to all public works statutory requirements. This would include SPWB oversight, plan review, and prevailing wage, which would place the cost of construction at least one-third more than the comparable cost of construction in Las Vegas. With regard to private ownership, Mr. Skolnik said he had been informed that Prison Industries could condition the land deed to stipulate that the property would only be used as an industrial park under prison oversight, using inmate labor. Mr. Skolnik indicated that until he received estimations back from Nigro Development regarding costs, he did not want to request the opinion of the Office of the Attorney General concerning the project. He explained if the costs would work out with the lease, there would be no problem.

In response to Chairman Marvel, who asked when the estimation for costs would be completed, Mr. Skolnik indicated he had hoped to have the figures for the committee at this meeting; however, security costs had not been considered. He was unsure when the estimates would be completed.

Chairman Marvel asked whether committee members had any thoughts regarding the issues surrounding the Industrial Park.

Responding to Greg Smith, Administrator, Purchasing Division, who questioned whether Prison Industries had a project manager to assist with coordinating information on issues such as the proposed Industrial Park, Mr. Skolnik indicated they did not. Mr. Smith offered the assistance of the Special Projects Coordinator for the Purchasing Division, Kimberley Perondi, who had previously worked as a Purchasing Officer. Mr. Smith indicated that Ms. Perondi could assist Mr. Skolnik as a facilitator to help with the project. Accepting Mr. Smith's offer, Mr. Skolnik indicated he appreciated the help. He added that any input from committee members regarding the project would be appreciated.

Chairman Marvel requested Ms. Goodson review the options from the perspective of the Committee on Industrial Programs.

Mr. Skolnik stated that he had confirmed with a representative from the Division of State Lands that either of the options was legal. It was a matter of what was best for the state of Nevada and what was best for the project.

Chairman Marvel welcomed Senator Beers to the committee. Chairman Marvel questioned whether any formal action from the committee to address issues on the Industrial Park was required at this time. Mr. Skolnik said the only other alternative to the issue would be to obtain statutory authority to proceed with the project with superficial oversight from the SPWB and an exemption from prevailing wage for the project. Mr. Skolnik indicated he was not comfortable with this option.
Chairman Marvel request that Mr. Skolnik inform staff on the progression on the project. He offered to call a special meeting of the Committee on Industrial Programs regarding the Industrial Park project should it be required.

B. JACOBS TRADING COMPANY (RETAIL PRODUCT REPACKAGING) – SOUTHERN NEVADA WOMEN’S CORRECTIONAL FACILITY.

Mr. Skolnik reminded the committee that the Jacobs Trading Company had intended to construct a facility at the Southern Nevada Women’s Correctional Facility (SNWCF). Because of the imposed requirements by the North Las Vegas Planning Commission, which increased cost of constructing the original building twofold, these plans were abandoned.

Mr. Skolnik advised the committee that Prison Industries considered moving the Jacobs Trading Company industrial program to an area at the Southern Nevada Correctional Center (SNCC) utilizing female inmates from the Jean Conservation Camp for the industrial program. After negotiations, it was discovered that commitments had been made to the Legislature and the School District to utilize this area for vocational programming. Therefore, Prison Industries was considering a federal-surplus, test-site building that could be located at the Jean Conservation Camp for the Jacobs Trading Company industrial program.

Mr. Skolnik related that presently, Jacobs Trading Company was considering pouring a concrete pad at SNWCF, which would allow them to move product and increase their workforce at SNWCF. Due to space restrictions, presently, there were only 12 female inmates employed with the Jacobs’ industrial program. The additional space would allow employment for up to 40 inmates. Mr. Skolnik informed the committee that Jacobs Trading Company was willing to pay for the proposed concrete, which would be surrounded by a decorative fence in which Jacobs could store their product.

C. THOMSON EQUIPMENT COMPANY (WATER TRUCK PRODUCTION) – HIGH DESERT STATE PRISON.

Mr. Skolnik apprised the committee that Thomson Equipment Company of Nevada had canceled their lease at HDSP, which freed up the space that would be leased to Trevi. Mr. Skolnik related that he had met with a Thomson Equipment Company representative from New Zealand and was informed that Thomson Equipment Company was working on a project with Caterpillar. Should this project come to fruition, Thomson Equipment Company may be interested in leasing a 130,000 square-foot area at the proposed Industrial Park.
D. ALPINE STEEL (STRUCTURAL STEEL FABRICATION) – HIGH DESERT STATE PRISON.

Mr. Skolnik informed the committee that Alpine Steel was operational at HDSP. He noted that Alpine Steel had expanded to two bays and had agreed to move from the second and third bay to the first and second bay to allow Trevi to lease two contiguous bays.

Mr. Skolnik apprised the committee that the industrial program for Alpine Steel had provided excellent training to inmates and had agreed to provide individuals who would certify inmate welders.

In response to Chairman Marvel, who asked whether Alpine Steel would be expanding their industrial program, Mr. Skolnik indicated he did not see an expansion in the immediate future. The industrial program was considering a second shift for their operation once more training had been completed.

Responding to Senator Beers’ question concerning what the inmates did for Alpine Steel’s industrial program, Mr. Skolnik explained that inmates manufactured structural steel components, customarily, steel staircases and railings.

Chairman Marvel called for any further discussion regarding Alpine Steel. Hearing none, he requested Mr. Skolnik continue with the status report on industrial programs.

E. BIG HOUSE CHOPPERS (MOTORCYCLE MANUFACTURING) – SOUTHERN DESERT CORRECTIONAL CENTER.

Mr. Skolnik informed the committee that Prison Industries received positive response to their motorcycles, Big House Choppers, during the Street Vibrations event held in Reno. However, Prison Industries had not yet sold any motorcycles.

Responding to Chairman Marvel’s question concerning the manuals for the motorcycles, Mr. Skolnik advised that the manuals were due to Prison Industries on November 15, 2006. He further advised a videoconference meeting was scheduled with regard to proceeding with the industrial program and sales of the motorcycle.

Chairman Marvel noted that Prison Industries received good press from the Reno newspapers regarding the Big House Choppers industrial program.

Agreeing with Chairman Marvel concerning the good press Prison Industries received regarding the choppers, Mr. Skolnik advised there was considerable interest in the motorcycles; however, Prison Industries had been struggling to cover all the governmental requirements related to the manufacturing and sales of a motor vehicle. He apprised the committee that Prison Industries had manufactured five choppers and had components for the sixth chopper. Mr. Skolnik pointed out that,
although the market for motorcycles had slowed, he thought Prison Industries had a unique product that should sell well.

Mr. Skolnik advised the committee that Prison Industries had received orders from retailers at the Street Vibrations event for the clothing line that complemented the choppers. He noted that the contract with the designer for motorcycle apparel had been approved and the Garment Factory at the Lovelock Correctional Center (LCC) was ready with the clothing line.

In response to a question from Senator Beers regarding the pricing for the motorcycles, Mr. Skolnik replied the price was easily determined. However, the warranties and manuals for the motorcycles had been a challenge; Prison Industries was on their fourth draft for the chopper’s manual.

In response to questions Chairman Marvel asked regarding spare parts for the motorcycles, Mr. Skolnik indicated Prison Industries would either have to develop working relationships with various motorcycle dealers and custom shops around the country, or pay for shipping parts and repair the choppers at Prison Industries. He explained Prison Industries had a warranty that was consistent with the rest of the motorcycle industry. Although some components were under warranty with the original manufacturer from which Prison Industries purchased the engines, frames and wheels, Prison Industries would have the warranty on the overall motorcycle.

In response to Chairman Marvel’s question as to who made the engines for the motorcycles, Mr. Skolnik indicated S & S was the current manufacture of engines for the choppers. Mr. Skolnik further indicated that S & S was the company that produced the engines considered the current engines of choice for custom motorcycles. He noted that although S & S engines were more expensive than some, staying with S & S as a sole source for engines would provide Prison Industries with the advantage of consistency for the choppers.

Pointing out the popularity of motorcycles and the positive response indicated at the recent Street Vibrations event, Chairman Marvel commented if Prison Industries could get the industrial program for the choppers implemented, it would be a great program.

F. GARMENT FACTORY (CLOTHING MANUFACTURING) – LOVELOCK CORRECTIONAL CENTER.

Mr. Skolnik reported that although the Garment Factory at the LCC had unused capacity, it was doing well. Prison Industries was in the process of a negotiation for a contract to manufacture towels to a supplier to athletic clubs. Mr. Skolnik informed the committee that since Prison Industries was competing for the contract against Pakistan or India, he was uncertain if they could manufacture the towels at a price that would be competitive.
In response to Chairman Marvel’s questions concerning the market for the towels, Mr. Skolnik advised the contract would require approximately 100,000 towels per month. Should Prison Industries obtain the contract to manufacture towels, the contract would not provide large profits for Prison Industries; however, it would provide employment for many inmates.

Chairman Marvel asked whether committee members had further questions regarding the garment factory, hearing none, he requested Mr. Skolnik proceed with Agenda Item V.

V. DISCUSSION CONCERNING POTENTIAL BILL DRAFT REQUESTS CONCERNING EXEMPTIONS FROM CERTAIN LOCAL BUILDING CODE REQUIREMENTS AND PUBLIC WORKS REQUIREMENTS FOR CONSTRUCTION PROJECTS BY PRISON INDUSTRIES, AND REQUEST FOR APPROVAL FROM THE LEGISLATIVE COMMISSION TO SUBMIT SUCH BILL DRAFT REQUESTS TO THE LEGISLATIVE COUNSEL AS REQUIRED PURSUANT TO NRS 218.2429.

Mr. Skolnik advised the committee that Agenda Item V related to the building that was proposed for the SNWCF and the pricing issues associated with the proposed Industrial Park. Mr. Skolnik apprised the committee that a bill had passed that provided for local zoning of state buildings. Prison Industries had planned a soft-sided building that was to be constructed with Jacobs Trading Company at the SNWCF. He advised the committee the original building was to cost approximately $650,000 with improvements. Due to North Las Vegas’ local zoning requirements, the cost rose to approximately $1.8 million. The construction of the building was to be completed by the Jacobs Trading Company, and Prison Industries planned to purchase the building from them within seven years utilizing the Capital Projects (Budget Account 3728), operating funds or inmate deduction funds. Mr. Skolnik added the prevailing wage requirements and the inability to utilize inmate labor on any part of the Industrial Park would also substantially increase the cost on that project.

In response to Chairman Marvel’s questions regarding amending the requirements, Yvonne Goodsen, Deputy Legislative Counsel, Legal Division, suggested the Nevada Legislature’s Interim Finance Committee’s Committee on Industrial Programs or an individual legislator could submit a bill draft request (BDR) to amend the provision of the Nevada Revised Statutes (NRS) 278.580, which required state buildings to comply with the zoning regulations. Ms Goodsen explained that due to the late timing of such a request, permission to submit the BDR would be required from the Legislative Commission. She related that the request could be placed on the agenda for the next meeting of the Legislative Commission, which was scheduled for December 7, 2006.

Chairman Marvel called for committee member’s opinion on the proposed request to amend.
Mr. Skolnik stated that if Prison Industries were allowed an exemption from the rest of the requirements concerning building on state lands, he would like to have plan approval and final building approval from the State Public Works Board for the protection of Prison Industries and the committee.

Chairman Marvel indicated he would entertain a motion to pursue a bill draft to amend NRS 278.580

SENATOR BEERS MOVED TO DRAFT LEGISLATION THAT WOULD AMEND NEVADA REVISED STATUTES 278.580 TO EXEMPT CONSTRUCTION PROJECTS BY PRISON INDUSTRIES FROM CERTAIN LOCAL BUILDING ZONING REQUIREMENTS.

SENATOR WASHINGTON SECONDED THE MOTION.

THERE WERE NO OBJECTIONS TO THE MOTION, AND IT PASSED.

Noting that it was often difficult to obtain a quorum for meetings, Chairman Marvel indicated he would also like to draft legislation that would allow the Nevada Legislature’s Interim Finance Committee’s Committee on Industrial Programs to select alternate members in order to have a quorum for meetings. He indicated that if the committee did not draft such legislation, he would submit the BDR as an individual legislator.


Directing the committee to page 57 of the meeting packet (Exhibit C), Mr. Skolnik said there had been a gradual increase in the number of inmates working. In terms of percentage, Prison Industries had not been able to keep up with the growth of the inmate population. He said Prison Industries had held back on leasing some of their empty bays due to the possibility of converting the space for dormitories needed for overcrowding.

Responding to a question from Chairman Marvel concerning the stabilization of the inmate population and the decline of paroles by the Parole Board, Mr. Skolnik advised that Director Whorton reported the growth had evened out over the month of October. Mr. Skolnik informed the committee that currently, there were approximately 380 convicted felons in the system waiting for placement in the NDOC.

In response to Chairman Marvel, who questioned how the increase in minimum wage would affect Prison Industries, Mr. Skolnik advised he had requested the Office of the Attorney General to review the wording of the minimum-wage statute. He explained that since inmates were provided with health care, the provision might be used to maintain the current minimum wage paid by Prison Industries. Consultation with private employers revealed that should private employers be subject to both the state and
federal minimum wage increase, they would be priced out of business. Mr. Skolnik indicated this would create a serious issue for Prison Industries. Mr. Skolnik speculated that with the provision of health care for all inmates, the exemption would be allowed.

In response to Chairman Marvel, who asked whether the issue had been addressed by the Legal Division of LCB, Ms. Goodsen related she had not been approached on the subject. She agreed that Prison Industries should be covered regarding the Workers' Compensation. Ms. Goodsen said she would like to review the minimum wage issue prior to commenting on the compliance of the requirements.

Senator Beers informed the committee that the exemption requirements stipulated coverage for the employee and their dependents, which would be problematic for Prison Industry programs.

Cameron P. Vandenberg, Deputy Attorney General, Office of the Attorney General introduced herself for the record and indicated that she was representing Prison Industries. She informed the committee that Mr. Skolnik had requested her to look into the possibility of the exemption concerning the payment of minimum wage. Ms. Vandenberg advised she did not have a definitive answer regarding the issue at this time.

Chairman Marvel welcomed Ms. Vandenberg to the committee. He opined the stipulation noted by Senator Beers concerning dependents would be problematic.

Responding to a question from Chairman Marvel, Ms. Vandenberg advised she would review the stipulation of coverage and would have information for the committee within a few days. She agreed to contact Tracy Raxter, Senior Program Analyst, LCB Fiscal Analysis Division, and Mr. Skolnik with the results of her review.

Continuing with his report on inmates employed, Mr. Skolnik advised that with the expansion Trevi and other pending industrial programs, inmate employment would increase; thus, the funds would increase. However, due to the limitation of space, the inmates employed would not be proportionate to the inmate population increase until the Industrial Park could be completed.

Indicating that providing space for industrial programs tied in with responsibilities of the Committee on Industrial Programs, Chairman Marvel questioned whether the state would have to build more prisons. He said that when a new prison was constructed, normally, space was provided for industry programs.

In response to Chairman Marvel’s questions regarding the need for the state to build more prisons, Mr. Skolnik advised that the NDOC was requesting a significant increase in funds in their budget for new construction and construction on present facilities. He indicated that the NDOC was asking for short-term relief in the means of modular buildings and fast-track construction. He noted some existing prisons, such as the HDSP, could be converted to a maximum prison with staffing changes. Mr. Skolnik
explained that the nature of Nevada’s inmate population would require medium and maximum containments. He advised there was a 400-bed expansion planned for the women’s facility. Currently, the NDOC was using 100 beds at the Jean - Southern Nevada Correctional Center to house female inmates. Mr. Skolnik further advised there was no space for an industrial program for the SNWCF for any program. He reported the original target population for the SNWCF was 450 inmates. Presently, there were over 600 female inmates at the facility.

Chairman Marvel opined some kind of industrial programs for inmates was necessary.

Mr. Skolnik said that as Prison Industries expanded, money generated at a faster rate from inmate-wage deductions to the Capital Projects fund (Budget Account 3728), which would allow for further development. Mr. Skolnik anticipated that with money from the Capital Projects fund, lease-purchase options could be utilized that would allow for future development without the use of the Bond Fund, the General Fund or operating funds.

Chairman Marvel questioned whether there were further comments concerning inmate employment and expansion from committee members. Hearing none, he directed the committee to Agenda Item VII.


John McCuin, Chief of Financial Services for Prison Industries, introduced himself for the record and directed the committee to the spreadsheet on page 63 under tab VII of the meeting packet (Exhibit C). Mr. McCuin pointed out that the spreadsheet contained comparisons with FY 2005 and FY 2006.

Mr. McCuin noted that the Southern Desert Correctional Center (SDCC) was presently at its potential with Thomson Equipment Company, which had been in operation for a full year. He pointed out that assessments for the HDSP could increase as, presently, only half of the space was being utilized. Mr. McCuin reported that the total assessments for FY 2006 was $100,000 over the previous year. He projected approximately the same increase for FY 2007.

Responding to Chairman Marvel, who questioned how much the state had collected since Mr. Skolnik had been with Prison Industries, Mr. Skolnik reported that since the start of Prison Industries, approximately $15 million had been paid back to the state.

In response to Senator Beers, who questioned whether the revenue from deductions from inmate wages was built into the state’s budget, Mr. Skolnik said that room and board payments were built into the NDOC’s institutions operating budgets.
Mr. Raxter affirmed that room and board payments were included in the operating budgets for each institution, which offset the General Fund need.

Senator Beers speculated that with the minimum-wage change, which would be in place within two weeks, significant changes would occur. If there were no changes in staffing, the increase for the minimum wage would result in a 20 percent increase in room and board, which was based on a wage percentage. Senator Beers said if inmate programs and jobs were to be eliminated due to the minimum-wage issue, it would affect the percentage adversely.

With regard to Chairman Marvel’s statement that the changes could price some Prison Industry programs out of the market, Mr. Skolnik informed the committee that it would make competition difficult. He noted that Nevada’s wage requirement would be $1 over the surrounding states of Arizona, Oregon, Washington and Utah that all had the same enabling legislation for private-sector industries. Noting that California had its own minimum wage, Mr. Skolnik said the only state that had a higher minimum wage than the federal minimum wage was the state of Washington.

Senator Beers related that the sponsors of the initiative assured there would be no such impact.

Chairman Marvel opined that any increase would have to be passed on, as Prison Industries was not in the business to take a loss.

Senator Beers indicated, as the session resumed, the committee should evaluate the issue. He said that, at the time of budget closures, Prison Industries should know of any industrial program closures due to the minimum-wage issue.

Mr. Skolnik speculated that most of Prison Industries’ partners should be able to survive the changes; however, there were a few programs struggling financially that may be affected and forced out of business.

In response to questions from Chairman Marvel, Mr. Skolnik explained that only the Prison Industry Enhancements Certified Programs (PIECP) that had to comply with federal regulations had to comply with the minimum-wage changes. Programs under state and local government would not have to comply with the minimum-wage changes. He pointed out that internal problems might occur with the disparity in pay to inmates. Mr. Skolnik related that the Vinyl Products program (the longest continuing industries program with Prison Industries) would be one program that might be forced to close due to the wage requirements.

**VIII. REVIEW OF FINANCIAL STATEMENTS FOR YEAR ENDING JUNE 30, 2006.**

Mr. McCuin directed the committee to the Consolidated Balance Sheet for Silver State Industries located on page 75 of the meeting packet (Exhibit C) and noted that Prison
Industries’ cash position in Industries and the Prison Dairy had increased over the previous year.

In response to Chairman Marvel, who had questions regarding doubtful accounts, Mr. McCuin said there was approximately $34,000 due from companies who had filed bankruptcies. He pointed out that approximately $22,000 of these funds was under management of a receivership company, which indicated Prison Industries might recover some of the funds. Mr. McCuin explained that to write off the debts, Prison Industries had to seek approval from the Board of Examiners.

Mr. Skolnik informed the committee that the vast majority of items sent to the State Controller's Office for collection would not be recovered. He further explained that companies who had larger debts with Prison Industries signed contracts with Prison Industries to lease property and could not get their businesses started.

Responding to Senator Beer, who questioned whether most of the doubtful accounts were for back rents, Mr. Skolnik affirmed the majority of the debts (approximately 70 percent) were for back rents or for reimbursements to pay correctional officers, who were simultaneously covering required supervision on other prison industrial programs. Although most the debt was not product related, the two bankruptcies were for product.

Mr. McCuin anticipated Prison Industries could recover 50 percent on approximately $5,000 of the debt, since some customers on the list had made minimal payments. He said that after reviewing the Accounts Receivable that had no known problems, Prison Industries had set aside $25,000 for doubtful accounts.

Observing the decrease in the livestock inventory figures, Senator Beer questioned whether Prison Industries would have an increase in the butchery sales.

With regard to the reduction the livestock inventory, Mr. McCuin reported that Prison Industries had sold much of the herd at the beginning of the fiscal year and the Feeder-Beef program was no longer in place. Mr. McCuin pointed out there was an increase depicted in the Revenue account from the livestock.

With regard to Chairman Marvel’s observation of the large difference between the Net Income depicted on page 76 of the meeting packet (Exhibit C), Mr. Skolnik attributed the difference to the increase in sales.

Referring back to the Allowance for Doubtful Accounts, which showed as Bad Debts in Central Administration, Mr. McCuin pointed out that in FY 2005, no Bad Debts were recorded. He said some of the debt shown in FY 2006 should have been recorded in FY 2005.

Responding to Senator Beers, who asked whether an aging was provided in Note 8 of the Accounts Receivable, Mr. McCuin indicated that aging was not part of the financial statements. He offered to provide aging if it were to be requested.
Indicating he knew that aging was not required, Senator Beers said he simply wondered if it was provided in the reporting. Senator Beers questioned the high increase in Prison Industries' Inventory account.

With regard to the increase in the Inventory account, Mr. Skolnik attributed the high figures to the Motorcycle program. He explained Prison Industries had five completed motorcycles and a substantial amount of clothing that had been prepared in advance for the program. Mr. Skolnik further explained that due to the expected increase in the inmate population, Prison Industries’ Garment Factory had built up their clothing inventory.

Mr. Skolnik reminded the committee that a few years back, there was a significant increase in revenue during the re-issue of license-plate fees created by the reissue from the sheep-horn plates to the sunset plates that never showed in the bottom line. This prompted a review of the structure of Prison Industries and resulted in internal changes in terms of staffing, reporting and purchasing priorities. Mr. Skolnik opined the changes made were effective, resulting in an improved bottom line.

Responding to Senator Beers’ questions regarding figures for the Current Accrued Compensated Absences account and the Long-Term Liabilities on the Consolidated Balance Sheet, Mr. McCuin explained the figures were provided to Prison Industries by the Controllers’ Office. He noted that the portion that could be attributed to the Prison Ranch offset to these accounts went to their payroll. The remaining portion for various industries all went to Central Administration as the liabilities could not be broken down on individual employees.

Mr. McCuin asked if there were further questions on the balance sheet; there were none. Mr. McCuin noted that the Consolidated Statements of Operation on page 76 considered the budget accounts for Industries, the Prison Dairy, and the PI Capital Fund, which were broken down on page 77.

Mr. McCuin informed the committee that the Prison Dairy normally paid an administrative fee of $48,000; however, the fee had been waived this year. Because of the Prison Dairy’s need to replace a broiler, a loss would have been depicted for the Prison Dairy had the administrative fee been collected.

Directing the committee to page 87, Mr. Skolnik pointed out that the Ely Drapery Shop had lost their largest account due to the consequences of the inmate escape in August 2005 at another Prison Industrial program. As a result of the inmate escape, inmates had to be reclassified. Ten of the 29 workers were removed from the program at Ely in one day. Therefore, Prison Industries was not able to deliver finished goods in a timely manner to their primary customer, which they lost. Since the Drapery Shop was a small industry, it would require time to reestablish credibility and rebuild clientele. Mr. Skolnik did not anticipate the Drapery Shop to be profitable for another two to three years.
In response to Chairman Marvel, who questioned whether Prison Industries was able to replace the inmate workers, Mr. Skolnik related inmate workers had been replaced and trained. Presently, the newly trained inmate employees were producing quality products that were delivered in a timely manner. However, Mr. Skolnik reiterated it would take time to reestablish Prison Industries’ credibility in the marketplace.

Michael Mackenzie, Principal, Operations Improvement Company, noted the material cost for the Ely Drapery Shop was low and questioned whether material was consigned.

Mr. Skolnik affirmed that the product for the Ely Drapery Shop was customer-owned material.

With regard to the Statement of Operation for the Ely Drapery Shop on page 87 of the meeting packet (Exhibit C), Mr. Mackenzie questioned why Inmate Labor-Office increased from $165 in 2005 to $35,102 in 2006.

Mr. McCuin explained the large increase was due to inmate training for the replacement of those removed due to new regulations as a consequence of the inmate escape.

Addressing Mr. Mackenzie’s question, Mr. Skolnik explained that because the Ely Drapery Shop was a certified shop that shipped finished product interstate, Prison Industries’ training costs cannot be part of the production. The costs had to be maintained separately on a separate payroll. He further explained that until inmate employees were ready to do production, they were not paid the full $5.15 per hour. Once inmate employees move to production, the inmate employees move to direct labor.

Mr. Mackenzie requested clarification that the inmate escape, basically, accounted for the Net Loss at the Ely Drapery Shop.

Mr. Skolnik affirmed that the inmate escape was responsible for the loss at the Ely Drapery Shop. He added that, statewide, the escape cost Prison Industries 176,000 hours of production time in less than two months.

Mr. Mackenzie pointed out that while revenues declined at the Ely Drapery Shop, page 94 of the meeting packet (Exhibit C) depicted an increase in inventory from approximately $30,000 in 2005 to approximately $117,000 in 2006. Mr. Mackenzie said he assumed that Prison Industries would absorb that increase. Additionally, Mr. Mackenzie noted the increase in inventory at the Lovelock Correctional Center Garment Operation.

Mr. Skolnik indicated he was unsure of why the increase in the Ely Drapery Shop occurred. He speculated the increase might have been due to the Ely Drapery Shop’s purchase of materials from their primary customer that was no longer with them. He said he would research the increase and provide the committee with the reasoning.
With regard to the increase for Garment Operation, Mr. Skolnik explained the increase was intentional to accommodate the expected increase in inmate population for the NDOC.

Continuing his report on the financial statements, Mr. McCuin pointed out that sales for the Mattress Shop at Nevada State Prison (NSP) increased by approximately $200,000 in FY 2006. He reported that the sales for the Northern Nevada Correctional Center’s (NNCC) Metal and Furniture Shops had doubled. Mr. McCuin said Prison Industries did not believe the trend for increase in sales would continue; however, they predicted all three shops would be profitable this year.

Referring to the Consolidated Statement of Operations located on page 76 of the meeting packet (Exhibit C), Senator Beers questioned what was included in the category entitled Other Income and Expenses.

Responding to Senator Beers’ question, Mr. McCuin explained the category for Other Income and Expenses incorporated interest, reimbursements and rents from private companies, and fees from license plates.

In reference to Chairman Marvel’s question on the improvement in earnings for the Furniture and Metal Shop, Mr. McCuin said part of the gain was due to sales to the mental health hospital and the Veterans' Home in Las Vegas. He pointed out the mental health hospital also attributed to the improvement in the sales of mattresses. Mr. McCuin informed the committee that a large project for an animal shelter and manufacturing of metal trusses for construction in the Lake Tahoe area increased production for the Metal Shop.

In response to Chairman Marvel, who wondered whether the increase in sales for the Furniture and Metal Shop was simply a windfall, Mr. Skolnik advised the sales were a spike for Prison Industries. He reported Prison Industries was hoping to acquire bids for additional work for the Furniture and Metal Shop by obtaining accounts with the Clark County’s, Las Vegas’ and North Las Vegas’ detention centers.

Mr. McCuin offered to answer any further questions with regard to the financial statements. There were no further questions from committee members.

Chairman Marvel indicated he was pleased with the positive position of the financial statements. He questioned whether, in Mr. Skolnik’s opinion, any programs should be eliminated.

Mr. Skolnik advised that 2006 might have been Prison Industries’ best year since the start of the program. With regard to the elimination of any programs, Mr. Skolnik opined that with the overcrowded inmate population, the NDOC needed additional prison industries to alleviate pressure from the prison yards and the institutions, which required minimal cost to the General Fund. He speculated that even if industrial programs did not generate a profit, they would be necessary to help ease pressure in the prison
system over the following years. Therefore, Mr. Skolnik opined Prison Industries might be required to expand their operations. Mr. Skolnik reiterated the payment of approximately $15 million contributed to the state’s General Fund over the existence of Prison Industries was positive.

Agreeing with Mr. Skolnik’s remarks, Chairman Marvel pointed out that if the industrial programs merely broke even, it would be a plus for the NDOC. Chairman Marvel called for further comments concerning the financial statements. Hearing none, he directed the committee to Agenda Item IX.

IX. INFORMATIONAL ITEM: ACCEPTANCE OF DONATED BUILDING FOR USE BY PRISON INDUSTRY – APPROVED BY THE LEGISLATURE’S INTERIM FINANCE COMMITTEE ON SEPTEMBER 12, 2006.

Mr. Skolnik advised that Prison Industries had utilized Quality Towing in the past to move buildings from the Nevada test site to the SDCC and had been considering them for the move of the donated building presently located on the site of the expansion planned for the HDSP. He explained that Prison Industries planned to get a site prepared for the donated building to accommodate the Card Sorting Program.

In response to Chairman Marvel’s questions regarding the size of the donated building and the timeframe for pouring the pad for the building, Mr. Skolnik indicated the building was approximately 11,000 square feet and was an inflatable building. He was uncertain how long it would take to pour the concrete pad for the building. Because Prison Industries wanted the building located at a facility where it would be most effective, they may store the building until all options had been reviewed. Mr. Skolnik indicated that plans for the building must take into consideration positioning the building as not to block the line-of-sight at the facility and allowing for expansion.

Chairman Marvel called for any further questions or discussion from committee members regarding the donated building. Hearing none, he proceeded to Agenda Item X.

IX. PUBLIC COMMENT.

Chairman Marvel called for any testimony to come before the committee. There was no public comment.
X. ADJOURNMENT.

Chairman Marvel asked if there was any further business to come before the Nevada Legislature’s Interim Finance Committee’s Committee on Industrial Programs. Hearing none, he thanked committee members for their attendance and adjourned the meeting at 3:19 p.m.

Respectfully submitted,

_________________________________
Denise Larsen, Committee Secretary

APPROVED:

_________________________________
Assemblyman John Marvel, Chairman

Date: ____________________________