

**MINUTES OF THE  
NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S  
COMMITTEE ON INDUSTRIAL PROGRAMS  
(NRS 209.4817)  
June 22, 2018**

The fourth meeting of the 2017-18 Interim for the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs was held at 1:00 p.m. on Friday, June 22, 2018, in Room 4401 of the Grant Sawyer State Office Building in Las Vegas, Nevada. The meeting was simultaneously videoconferenced to Room 3138 of the Legislative Building in Carson City.

**COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Senator David Parks, Chairman  
Assemblywoman Daniele Monroe-Moreno  
Bruce Aguilera, Representing Business  
James Dzurenda, Director, Nevada Department of Corrections  
Randy Soltero, Representing Organized Labor  
Beverly Williams, Representing Organized Labor

**COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Jeffrey Haag, Administrator, Purchasing Division, Department of Administration

**COMMITTEE MEMBERS ABSENT:**

Senator Pete Goicoechea  
Assemblyman James Oscarson  
Allen J. Puliz, Representing Manufacturing  
Pete Aguilar, Representing Manufacturing

**STAFF MEMBERS PRESENT IN LAS VEGAS:**

Kristina Shea, Program Analyst, Fiscal Analysis Division  
Brody Leiser, Senior Program Analyst

**STAFF MEMBERS PRESENT IN CARSON CITY:**

Nick Anthony, Senior Principal Deputy Legislative Counsel, Legal Division  
Donna Thomas, Secretary, Fiscal Division

**OTHERS PRESENT IN LAS VEGAS:**

Diane Dastal, Administrative Services Officer II, NDOC  
Bill Quenga, Marketing Coordinator, Prison Industries, NDOC  
Justin Pope, Supervisor, Prison Ranch, NDOC

**OTHERS PRESENT IN CARSON CITY:**

Mary Byington, Supervisor, Prison Industries, NDOC

**EXHIBITS:**

Exhibit A: Agenda and Meeting Packet

**I. ROLL CALL.**

Chair Parks called the meeting of the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs to order at 1:07 p.m. The secretary called roll. All members were present except for Senator Goicoechea, Assemblyman Oscarson and Mr. Puliz who were excused.

Chair Parks stated that the recommendation on the appointment of the Deputy Director of Industrial Programs was not included on the meeting agenda. He said it was his understanding that David Tristan, Acting Deputy Director of Industrial Programs, had several interim projects to complete before his transition out of the position. He noted the topic would be addressed at a future meeting of the Committee on Industrial Programs.

**II. PUBLIC COMMENT.**

There was no public comment.

**III. APPROVAL OF MINUTES OF THE MEETING OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS FOR MARCH 16, 2018.**

Chair Parks requested a motion for approval of the minutes of the March 16, 2018, meeting.

ASSEMBLYWOMAN MONROE MORENO MOVED TO APPROVE THE MINUTES OF THE MARCH 16, 2018, MEETING OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS.

MR. AGUILERA SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

**IV. APPOINTMENT OF ALTERNATE MEMBERS FOR COMMITTEE ON INDUSTRIAL PROGRAMS – NRS 209.4817.**

Chair Parks stated that NRS 209.4817 provided for the appointment of alternate members for the Committee on Industrial Programs. The recommended alternate members would serve for a two-year term. He noted that Robby Conway, was appointed as an alternate for Beverly Williams, who was a non-legislative member of the Committee. Chair Parks indicated that Robby Conway previously served on the Committee and wanted to be considered for reappointment.

MR. SOLTERO MOVED TO APPROVE THE APPOINTMENT OF ROBBY CONWAY AS AN ALTERNATE MEMBER FOR BEVERLY WILLIAMS FOR THE COMMITTEE ON INDUSTRIAL PROGRAMS.

ASSEMBLYWOMAN MONORE MORENO SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

## **V. STATUS REPORT ON OUTSTANDING DEBT OWED TO PRISON INDUSTRIES.**

Diane Dastal, Administrative Services Officer II, Nevada Department of Corrections summarized the status report on outstanding debt owed to Prison Industries (PI), Tab V of the meeting packet ([Exhibit A](#)). She noted the customer aging report was current as of March 31, 2018, and the receivables totaled \$415,791. The largest balances outstanding on the aging report were noted with an asterisk and made up the top ten accounts with balances due, and owed \$360,998, or 87 percent of the total receivables. Six of the top ten accounts were government agencies and the other four accounts were private customers that had continued business with PI. Looking at the 31 – 120 days past due column, all but two customers were government agencies and currently the two private customers have paid; however, not all of the government agencies have paid. She noted that, typically, government agencies seemed to take longer to remit their payments at the end of a fiscal year, but she was confident they would.

Responding to a question from Assemblywomen Monroe Moreno, Ms. Dastal stated that there were two private customers that have paid, but the remaining eight accounts were government agencies, which have not paid to date. She noted that PI never had a bad debt from a government agency. She said the private customer that paid was Open Air Movies.

Chair Parks asked the type of business Open Air Movies was engaged in that was shown on the customer aging report.

Mr. Quenga replied that Open Air Movies was a privately-owned company that provided large inflatable screens, which were produced at the Lovelock Correctional Center. The screens included an air pump and could be used outdoors. The screens could be up to 20 feet high and 20 feet wide, or larger.

## **VI. REVIEW THE NUMBER OF INMATES THAT WORKED JULY 2014 THROUGH MARCH 2018.**

Ms. Dastal directed the Committee to the report on the number of inmates that worked from July 2014 through March 2018, Tab VI of the meeting packet ([Exhibit A](#)). She stated in FY 2015, PI averaged 492 offenders working, or 4.1 percent of the offender population; in FY 2016, PI averaged 482 offenders working, or 3.6 percent of the offender population; and in FY 2017, PI averaged 465 offenders working, or 3.3 percent of the total offender population. She stated the first nine months of FY 2018 had an average of 3.6 percent of the prison population working with 495 offenders. Ms. Dastal noted the number of offenders working in FY 2017 had been flat, with 496 offenders working in July 2017 and

495 offenders working in March 2018. The average prison population decreased slightly by 232 offenders compared to the start of Fiscal Year 2017. Fiscal Year 2017 started with an average of 14,070 offenders working with an average of 13,838 offenders working in March 2018, or a 1.5 percent decrease, which was also relatively flat.

Chair Parks asked Ms. Dastal about the increase in the Auto/Upholstery Shop from 13 inmates working in February 2018 to 45 inmates working in March 2018, and Ms. Dastal replied that she did not have that data but would look into the reason and provide the information to the Committee.

## **VII. REVIEW THE DEDUCTIONS FROM INMATE WAGES FOR ROOM AND BOARD, THE PRISON INDUSTRY CAPITAL IMPROVEMENT FUND, AND THE VICTIMS OF CRIME FUND – FY 2016, FY 2017 AND FY 2018 YEAR-TO-DATE.**

Ms. Dastal summarized the deductions from the inmate wages for room and board, the Prison Industry Capital Improvement Fund (CIP) and the Victims of Crime Fund, Tab VII of the meeting packet ([Exhibit A](#)). She stated that 24.5 percent of the wages for offenders were deducted for room and board; 5 percent of wages for offenders were deducted for the Victims of Crime Fund; and 5 percent of wages were deducted for the Prison Industry CIP fund. In FY 2016, \$405,016 in wages were deducted from offenders' wages for the three funds; in FY 2017, \$450,620 in wages were deducted for the three funds; and for the first nine months of FY 2018, \$353,461 in wages were deducted, which was \$251,009 for room and board; and \$51,226 was deducted for the Victims of Crime Fund and PI CIP, respectively. Ms. Dastal noted that it looked like PI would end the year with \$471,000 deducted from inmate wages, a 14 percent increase over FY 2016 and a 4 percent increase over FY 2017.

Chair Parks commented that he recently toured the Florence McClure Women's Correctional Center with Assemblywoman Monroe Moreno and staff, which was very informative.

## **VIII. REVIEW SILVER STATE INDUSTRIES FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDING MARCH 31, 2018.**

Ms. Dastal reviewed the financial statements from Silver State Industries, Tab VIII of the meeting packet ([Exhibit A](#)). The cash for the Prison Industries increased approximately \$525,000, or 25 percent compared to the same period last year. The total cash for the Prison Ranch decreased approximately \$87,000, or 7 percent. The total unrestricted cash balance for both the PI and the Ranch increased approximately \$438,000, or 13 percent. The PI capital restricted cash balance increased by \$68,000, or 20 percent. Retained earnings increased approximately \$455,000, or 14 percent.

Continuing to the Consolidated Statement of Operations, Ms. Dastal stated the net income for the three quarters of FY 2018 was approximately \$196,000, a decrease of approximately \$48,000, or 20 percent over the same time last year. She said that PI contributed approximately \$115,000 toward program support; the Prison Ranch contributed

approximately \$36,000; and PI Capital Projects Fund contributed approximately \$45,000 toward program support.

Ms. Dastal stated that the fund equity for PI has increased \$455,000, or 8 percent compared to the same time last year. Central Administration Statement of Operations showed that total revenue was down \$88,000; license plate fees were down \$19,000; and administrative fees for Diamond Mountain Distributors were down approximately \$77,000. She indicated that PI increased the price of sorting playing cards from \$9.50 to \$10.00 a case, which would take a while to catch up with the financials. General and Administrative Expenses decreased approximately \$135,000 and the big change was that there was no bad debt expense in FY 2018. The State Cost Allocation decreased approximately \$112,000. The total loss decreased \$66,000 ending the nine months with \$111,000 net loss.

Continuing, Ms. Dastal moved to the Northern Nevada Correctional Center (NNCC) Mattress Shop Statement of Operations, Tab VIII of the meeting packet ([Exhibit A](#)), and noted sales for the Mattress Shop decreased approximately \$95,000, or 28 percent. The mattress factory's contribution toward program support decreased approximately \$77,000; however, it had a \$27,000 contribution toward program support.

Mr. Quenga reported that NNCC was awarded the mattress bid for NDOC through the bidding process with State Procurement. He said he obtained some purchase orders for mattresses, which were currently being produced. He stated that approximately 300 mattresses were currently in production, which had to be completed by the end of the fiscal year. In addition, he was working with the Washoe County and Carson City Sheriff's Office, to provide mattresses with built in pillows for the local jails.

Chair Parks asked if there were any discussions with the Las Vegas Metropolitan Police, Sheriff's Office, Clark County Detention Center or the Cities of Henderson regarding purchasing mattresses through PI.

Mr. Quenga replied that PI was registered with Clark County Purchasing and has not received any bids at this point; however, recently there was some interest in purchasing PREA shower curtains.

Assemblywoman Monroe Moreno said that she was aware that the City of North Las Vegas was considering reopening the C Unit at the North Las Vegas Jail within 12 to 18 months. She thought it would be worthwhile to talk to the new Interim Police Chief and the City Manager to inform them of the products provided by PI.

Mr. Quenga replied that PI would make contact with those entities and send product samples to the Interim Police Chief and City Manager.

Chair Parks added that John Jay Lee, the Major of North Las Vegas, was a long-term state legislator, and thought he would be interested in the products produced by PI.

Continuing with her presentation, Ms. Dastal stated that NNCC Printing/Bindery Shop sales decreased approximately \$40,000 and earnings available for program support decreased by approximately \$20,000. The Print Shop still ended the nine months in the black with approximately \$24,000 available for program support.

Mr. Quenga stated that PI was starting to see an increase in sales and products for the Print/Bindery Shop. He noted that the Print/Bindery shop was working on a sublimation patch, which was printed on polymer material and applied with a Merrill's Stitcher. He noted that instead of a fully embroidered patch, many companies were going to the sublimation patch. He said PI was working with the Department of Wildlife and other agencies on patches for their uniforms, which seemed to be working out well. He indicated he reached out to the Las Vegas Chamber of Commerce, various visitor centers and other entities to try to get more work for PI. In addition, he was working with the Special Olympics on t-shirts and patches for its Torch Run. He noted that the Special Olympics has a convention in November, which he planned on attending to promote PI and its products.

Chair Parks commented that during his recent tour of the Florence McClure Women's Correctional Facility, he noticed the shoulder patches on the correctional officers' uniforms and was very impressed with the patches.

Ms. Dastal indicated that the Statement of Operations for the Furniture and Metal Shop showed the Furniture Shop revenue decreased approximately \$32,000; however, the shop was currently busy with \$180,000 in open orders. She said the shop had more open orders than sales all year and the end of the year was also busy. The Furniture Shop and Metal Shop combined – Furniture had 31 percent of the sales and the Metal Shop had 69 percent of the sales. Applying that percentage to the \$68,322 in general and administrative expenses, currently the Furniture Shop experienced a \$33,768 loss; however, she expected that to turn around with all the open orders. Sales for the Metal Shop decreased about \$324,000 and contributed \$89,919 to general and administrative expenses. If PI used the Metal Shop's 69 percent share of sales and applied that percentage to general and administrative expenses, there would be approximately a \$43,000 contribution toward program support.

Mr. Quenga noted that he expected the Furniture Shop to turn around. He stated that Matt Brown, Supervisor, Furniture Shop, has reached out to county agencies and received calls from other entities for work. He said the Furniture Shop has a huge project installing bulletproof glass for the Secretary of State's Office in Carson City, and the Nevada Office of Cyber Defense has contacted PI requesting a quote for desks and other office items. In addition, Nevada Department of Motor Vehicles (DMV) purchased chairs from PI, which they were pleased with. He noted that the DMV previously purchased its chairs from a different company and once the castor, arm or mechanism broke on a chair, the chair was out of commission. He added that PI had a good warranty program for the chairs, and chairs could be serviced in house or replaced if broken. In addition, he was working with the Department of Health and Human Services, Western Nevada College and the Nevada Mining Association on quotes for various items.

Chair Parks asked if there was there a possibility of using the parts from the broken DMV chairs for repairs, or cannibalizing the broken chairs to make them usable for other agencies, although they would have to consider workers' compensation claims and the long-term health of employees.

Mr. Quenga replied that he has not thought of using the parts from the broken chairs but would have that discussion with the DMV. He said it was good idea to reuse the parts to make the chairs usable. He added the chairs that DMV purchased from the Furniture Shop were a better quality than the chairs previously purchased by the DMV from another company.

Ms. Dastal moved to the SDCC Auto and Upholstery Shop Statement of Operations, Tab VIII ([Exhibit A](#)), which showed that auto sales totaled \$85,000. Between the Auto Shop and card sorting operation at HDSP, PI experienced a combined \$28,000 loss, which included two motorcycles that were sold at a loss. She added that the Auto Shop was currently working with Opportunity Village on an envelope project, which would bring more revenue to the Auto Shop.

Mr. Quenga stated that he has been working with the supervisor of the Auto Shop to erase the revenue loss to the Auto and Upholstery Shop. He noted that he was working closely with Opportunity Village and was in the process of completing a greeting card order. He said there were approximately 400,000 cards that needed to be sorted, which consisted of the envelopes, cards, and bellyband, a translucent band to hold the card and envelope together. He said the job was recently completed and was very successful. He looked forward to working with Opportunity Village on future projects.

Mr. Aguilera asked why direct labor costs were up by \$9,400 and material costs were high for the Auto and Upholstery Shop compared to the last year, and Ms. Dastal replied that two motorcycles from 2006 were sold at a huge loss, which always showed on the shop's overhead.

Chairman Parks stated that the motorcycles were a good quality and it was a great effort, but it was hard to find the right buyers for the motorcycles.

Mr. Quenga added that the Auto Shop was sitting on the motorcycles for some time so they kept depreciating; therefore, after much discussion PI decided to sell the motorcycles. He noted that one motorcycle was sold to a customer in Arizona, and the other customer was from Texas.

Moving to the Garment Factory Statement of Operations, Ms. Dastal noted garment sales increased 45 percent, or \$275,000 compared to the same period in FY 2016. She added that the Garment Factory was the best performing shop. Earnings available for program support increased from \$59,000 to \$236,000.

Mr. Quenga stated that the Garment Factory had over \$1.0 million in business and he commended the supervisor of the shop. He said the Garment Factory had a private

customer that serviced county jails and similar operations, and although he could not name the product made by the shop, he said it was a high-quality product used for suicide rooms in institutions.

Chair Parks asked about the excess drapery material that was left at the Garment Factory from a previous project, and Mr. Quenga replied that a lot of the material was from overruns on a project. He stated the excess material was returned to the customer. Mr. Quenga added that he was starting to see an increase in the drapery operation, which was somewhat surprising. He indicated the drapery operation slowed down so the shop started making t-shirts. However, the shop was starting to pick up with three large customers that serviced new motels and hotels with a need for draperies, which were manufactured through the Drapery Shop.

Chair Parks said it was his understanding that the Lovelock Correctional Center had a substantial amount of space to expand new industries.

Mr. Quenga replied that the space on one side of the Garment Factory was utilized; however, there was still approximately 5,000 square feet available on the east side of the facility. Currently, that area was being used for storage. He added that a manufacturing company from Sparks, Nevada, needed backs and bottoms of chairs sewed and was going to tour the facility soon. There was no capacity at NNCC, although he would like to expand that facility. However, PI could employ more inmates at the Lovelock Correctional Center because of the sewing operation already in place. He said the company was local, and excited and wanted to know how many inmates it could employ and when the inmates were being released so it could hire the inmates upon release at \$13.00 per hour with benefits.

Ms. Dastal directed the Committee to the Prison Ranch Statement of Operations, Tab VIII ([Exhibit A](#)). She said total sales decreased approximately \$61,000 compared to the same period in FY 2017, which in part was due to the Bureau of Land Management (BLM) horse headcount. She stated that PI had a new contact with the BLM effective June 6, 2018. Head count was currently at 812 horses and the BLM advised PI to expect more horses. With the old agreement, the daily per diem rate on 812 horses was \$3.56 per horse and was now \$5.10 per horse, which was \$1.54 more per horse per day. She noted that the formula was still on a per diem basis, but obviously they were receiving more per diem per horse than previously. The training fees, which were a separate per diem, PI proposed \$2,310 per horse, but the BLM countered with \$1,890 per horse, which was accepted. The Prison Ranch ended with a contribution to program support of approximately \$36,000.

Mr. Aguilera stated that the livestock non-cash inventory adjustment and the revenue for the crops seemed higher than the previous year, and Ms. Dastal replied the decrease in livestock revenue usually reflected livestock that died or other situations.

Justin Pope, Manager, Prison Ranch, replied that there were inventory adjustments for hay based on what was fed to the horses. For example, in 2017, the Ranch used a lot more hay to feed the horses, because the Ranch was unable to put the cows out in pasture,



which would cause an inventory influx. The same influx could happen with cattle based on the market, and he would adjust the number of cattle at the Ranch. Currently, the Ranch would keep some heifers to build up its herd, because beef prices were not great. Therefore, the Ranch was better off building its herd and buying more cattle. When the market turned around, the Ranch would end up selling the beef and the inventory would change and the adjustment would be different.

Chair Parks noted that Ms. Dastal indicated that trained horses were sold to the BLM for \$1,890 per horse, and Ms. Dastal replied that the previous contract per diem rate on 112 horses was \$3.56 and the new contract rate was \$5.10 per horse.

Mr. Pope indicated that the Prison Ranch charged the BLM \$1,150 per trained horse, which was increased in the new contract.

Mr. Haag asked Mr. Pope about the new contract with BLM because there were successful gains in the contract. He asked if the state was capped at the number of horses it could expect. In addition, he asked if he was given any indication as to how the current head count may be impacted based on the new agreement.

Mr. Pope replied that the BLM would not provide any indication on the number of horses the state could receive. However, he has been talking to the lead of the horse program for Nevada, who indicated the BLM was going to conduct some emergency gathers, and there was a chance the state would get 300 to 400 ungelded horses to be gelded at the Prison Ranch, which was unusual. He said it was an opportunity to get more horses, which was what he was hoping for. In addition, there would be more gathers in 2018 and he expected the number of horses to increase substantially with those additional gathers.

Assemblywoman Monroe Moreno asked if the Prison Ranch needed to employ more inmates if the number of horses increased substantially.

Mr. Pope replied that less inmates were used on the holding side, so only one or two additional inmates were needed to keep up with the task of feeding the horses, trimming hoofs and for additional care of the horses. Currently, four inmates were employed for the feeding program and care of the horses. However, at least two more inmates would be needed if the horse count increased to approximately 1,600 horses.

Ms. Dastal continued with the Schedule of Interfund Sales, which showed that the gross profits from PI the nine months ending March 31, 2018, was \$195,811 available for program support.

Mr. Quenga added that he has been working with State Procurement, Nevada Division of State Parks and the Department of Wildlife to utilize some of state property at the Mason Valley Wildlife Refuge for hay production because of the escalating hay prices. He indicated that he was working on an interlocal agreement with the two agencies and hoped to have a contract soon to grow hay to help support the horse and cattle program and reduce operating costs.

Chair Parks added the state was very fortunate to get some large parcels of land along the East Walker River to expand its parks and recreation operation. He said that some of the parcels were associated with fully operational farm ventures, and it was a good idea to preserve the land to keep the operations functional. He added that it seemed like a good opportunity for the Prison Ranch operation.

#### **IX. STATUS OF AND PROPOSED EXPENITURES FROM FUND FOR NEW CONSTRUCTION OF FACILITIES FOR PRISON INDUSTRIES – NRS 209.192.**

Chair Parks stated that the department was requesting \$233,315 in proposed equipment funding through the Fund for New Construction of Facilities for Prison Industries. He said that pursuant to NRS 209.192, before any money could be spent from the Fund, the Director of Corrections should submit a proposal for the expenditure to the Committee on Industrial Programs. The State Board of Examiners would then make a determination whether the expenditure was appropriate and necessary, and if so, make a recommendation to the Interim Finance Committee that the expenditure be approved. The Committee may wish to defer recommendations of the Feeder Steers (\$75,000) and Game Birds (\$7,500) until the next Committee meeting to allow the necessary time to vet the potential new industries pursuant to NRS 209.4818 due to concerns regarding potential impacts on private industries.

Ms. Dastal referred to Tab VIII ([Exhibit A](#)) and stated the Capital Improvement Project (CIP) ending balance decreased \$31,000 from FY 2014 to FY 2018, as a result of PI purchasing \$297,118 in needed equipment in FY 2016. The beginning CIP balance at the start of FY 2018 was \$371,715 and wage assessments totaled \$61,149 for 11 months. Interest received was \$3,832 for the first nine months of FY 2018 and the current CIP balance was \$436,696. She noted that PI wanted to purchase \$233,315 more in new equipment. She noted the list of Silver State Industries proposed purchases through the CIP Fund seemed lengthy, but was scaled down to half of the requested purchases.

Chair Parks asked for approval of the proposed expenditures with the exception of the Feeder Steers and Game Birds.

Mr. Aguilera stated that if the Feeder Steers and Game Birds were not approved it would reduce expenditures approximately \$100,000, and Chair Parks agreed.

Mr. Haag asked if the request for the baileigh box and pan brakes complimented an existing industry or if it was for a new product line, and Mr. Quenga replied that PI was working with Nevada State Parks and needed the equipment for benches and barbeque pits, because the current equipment was antiquated and slowed down production. Therefore, the machine requested would help PI provide a more precise and a better quality for existing products.

MR. HAAG MOVED TO APPROVE THE PROPOSED EXPENDITURES FROM THE CIP FUND WITH THE EXCEPTION OF THE FEEDER STEERS AND GAME BIRDS.

MR. SOLTERO SECONDED THE MOTION, THE MOTION CARRIED UNANIMOUSLY.

**X. INFORMATION ITEM: DISCUSSION OF STATUS OF APPROVED NEW PRISON INDUSTRIES PROGRAMS – NRS 209.4818.**

Mr. Quenga stated that Nevada Organics, LLC, started operating on March 3, 2018, and currently employed 13 inmates at the site. He stated that the owner wanted to increase to 15 inmates. He said the operation with the new owner was running smoothly and was a clean operation.

Continuing, Mr. Quenga said that Erickson Framing NV, LLC, started operating on June 5, 2018. He noted that one officer was assigned to transport four inmates from the NNCC in Carson City to the work site in Reno. He indicated that Erickson Framing was a wood framing company that made doors and wall panels. The company added three additional inmates on June 12, 2018, and currently eight inmates were working at the site. The company also requested an additional inmate worker. Mr. Quenga said that he, along with the shop foreman and a human resource representative from Erickson Framing, interviewed 14 inmates prior to the selection and the company was impressed with the inmates. He noted that all 14 inmates interviewed were employable. He said the inmates were placed in groups, because the company wanted to gradually employ the inmates so that the civilian workers would not feel threatened. He said the company was a week behind in production and indicated that the inmates added a lot of value to its production. Mr. Quenga stated that upon release the offenders working could get a job with Erickson Framing to erect the trusses and wall panels. He added that he planned on interviewing an additional ten inmates to have a continuous list of inmates available to work. He noted he lost one inmate because of a disciplinary action within the department.

Mr. Quenga stated that recently he had a conference call with the vice president of Sewing Collection and the company was holding off on the contract with PI because they were looking at signing a contract with a major company. Therefore, the outcome of that contract would determine whether Sewing Collection proceeded with the PI contract. He added that Sewing Collection, Inc. was highly interested in conversations with PI, so the operation was still on the table. He said the company wanted to close its 10,000 square foot operation in Mexico that employed approximately 25 to 30 workers. He noted the operation in Mexico was not keeping up with production and things were missing, so the owner wanted to move the operation to Nevada, which was costly to transport goods across the border. He said Sewing Collection was working with Oregon and Ohio, but was still interested in a western distribution center in Nevada.

## **XI. INFORMATION ITEM: DISCUSSION OF PROPOSED NEW PRISON INDUSTRY PROGRAM – NRS 209.4818 – Ink2Work, LLC.**

Mr. Quenga stated that he has been in contact with a representative from Ink2Work, LLC, for approximately a year on the possibility of a potential new prison industry recycling ink cartridges. He added that Terry Herbert, Ink2Work has visited the Southern Desert Correctional Facility (SDCC) and High Desert State Prison (HDSP) and showed an interest in employing inmates. He indicated the company had operations with correctional industries in Virginia, and in Europe.

Terry Herbert, Ink2Work stated that Ink2Work existed to provide employment opportunities to people furthest from work. He said the company was founded in 2010 in the United Kingdom (UK) as a social enterprise. He noted that there was a particular form of business structure in the UK called a Community Interest Company, which was halfway between a profit and nonprofit, and the company reinvested the profit of the business back into programs to provide employment opportunities for people.

Mr. Herbert stated that primarily, Ink2Work worked with offenders in custody, in addition to service users for drug abuse programs and veterans that come into contact with the criminal justice system. In the UK, the company operated workshops in all types of secure environments from maximum security prisons to fully open conditions, and the program has proven flexible enough to work in either environment. In 2014, Ink2Work began a cooperative arrangement agreement with the Department of Corrections in Virginia and operated a workshop in the Indian Creek Correctional Facility, which was an experimental facility described as a two-year community college with barbed wire designed to take long sentence drug offenders, in their last two years of incarceration, through a program of educational work to prepare them for release.

Continuing, Mr. Herbert stated the vehicle Ink2Work used to prepare inmates for release were printer cartridges, because they are ubiquitous with approximately 400,000 million sold a year. The cartridges lend themselves very well because to produce the product, the remanufacture in the process was very labor intensive and was a complex electrical mechanical devise that required manual disassembly and rebuild and could not be automated. Consequently, the remanufacture of the cartridge has moved to low-cost economies, either in Eastern Europe or South East Asia, such as Cambodia, Thailand and China.

Mr. Herbert explained that his background was in technology and he worked for Hewlett Packard (HP) for 12 years in a variety of manufacturing roles in the UK and United States, and for 10 years with the Seagate Technology, a disk drive manufacturer. He said Ink2Work took the same six sigma type approach as it used to build the original product to six sigma remanufacture them. He noted that there was a negative perception for a remanufactured printer cartridge because the industry was being characterized by ultra low-cost and it becomes a drill and fill fix. Therefore, rather than disassemble a toner cartridge and rebuild it with new component, a hole was drilled in the side, the puller and uturner were removed, tape was put over the gap, and then people would cross their fingers and hoped for the best.

However, extremely high temperature was used to fuse the toner to the paper, so if the puller was dumped, because of the differential rates of expansion, basically the tape comes off and the toner comes out, and most people that have used remanufactured cartridges have had that type of experience.

Mr. Herbert stated that Ink2Work's cartridge remanufacture process was completely different. The empty printer cartridge was dismantled, cleaned and rebuilt with new components, which included drums, seals, and a chip, and then was refilled with the same volume of toner or ink as a new cartridge. The cartridge was sealed and tested on a printer to produce a high-quality output. He stated that process achieved two things – for the offender it provided a huge amount of satisfaction from being able to take the desperate parts and turn them into something that functioned well. For the company, as he was aware from his background at HP, 90 percent of cartridges fail, also called “dead-on-arrival,” and if a 100 percent end-of-line test was performed, the opportunity for error was eliminated. He noted the second biggest issue was called info mortality, a cartridge was put into the printer to print, and three pages printed and the machine jammed because the gears inside the cartridge were not assembled correctly. Mr. Herbert stated that consequently, in Virginia, 69,000 toner cartridges to date have been shipped, and the annualized failure rate was approximately 0.4 percent, which meant there were incidence of failure 4 times in 1,000 cartridges. For a new cartridge, approximately 0.9 percent failed, so 9 cartridges per 1,000 had incidence of failure. He stated that the Committee might wonder why the revel to achieve a higher performance than a new cartridge, which was simply because Ink2Work conducted a 100 percent end-of-line test.

Continuing, in terms of customer satisfaction for Ink2Work, there were no complaints and the customers were getting a good quality cartridge. In terms of the offender community, Mr. Herbert said that he found from the start that the work was interesting and exciting for inmates and it was not a simple mechanical alteration. The offenders were excited about the job and formed an informal quality circle and would offer suggestions to achieve faster speed and more reliability. In addition, the job was teaching people not only simple manufacturing skills, which in itself was capable of being subject to a vocational qualification, but it was also teaching the offenders things like six sigma, which was total quality technique designed to reduce variation and therefore waste. He noted that people may think there was no value in teaching someone the six sigma process if there was no indigenous printer cartridge remanufacturing in the United States. However, he explained the six sigma process was used across a variety of industries, for example, a Big Mac from McDonalds could be bought in Las Vegas, Tokyo or London and be exactly the same, because McDonalds used the six sigma process. Citing another example, Mr. Herbert stated a Toyota Corolla made in Japan or Tennessee were identical because Toyota used the six sigma process to reduce variations. Therefore, offenders with those demonstrated skills were very attractive to potential employers. He noted the Ink2Work used a statistical process control so the offenders buy into the whole program, which was very successful.

Mr. Herbert stated that from a social point of view, the process worked very well. Environmentally, the printer cartridges that were consumed by state governments were primarily HP because it dominated the market. Originally, the cartridges were manufactured

in China, but looking at the life cycle of that cartridge, the cartridge was made in China then shipped to a distribution center in the U.S., possibly Florida or Texas, and then transported to a government office in Nevada. If the cartridge was recycled through HP, the cartridge was shipped back to China and crushed to use in low volume, low value plastics. In contrast, Ink2Work took the same cartridge and moved it to a prison 40 miles away, it was remanufactured and brought back into town and instead of traveling 16,000 miles. Therefore, the cartridge traveled 80 miles, so the sustainability impact was huge, which had environmental benefits. Economically, another advantage was that the program was self-funding and did not require capital expenditures and the little capital expenditure there was, was provided by Ink2Work; however, more importantly, there was a significant level of cost reduction to state government purchases. For example, one of Ink2Work's largest customers in Virginia were the Virginia State Police. The first year Ink2Work operated in Virginia, the Virginia State Police spent \$334,000 buying new original equipment manufacturers (OEM) cartridges and by switching to the remanufactured cartridges from Virginia Correctional Enterprises, the state saved \$84,000 in the first year, a significant 20 percent savings, which he believed was equivalent to the cost of a police cruiser in Virginia.

Mr. Herbert added that he has seen a similar level of performance in the UK and Ink2Work supplied the Ministry of Justice and Ministry of Defense with very comparable levels of quality to new cartridges.

Mr. Aguilera asked how companies would get access to the cartridges, and Mr. Herbert stated companies had to be extremely careful about what was coming into a secure environment, such as the prison system. He noted that Ink2Work does not have a program where users could ship cartridges to a prison, because if people were sorting empty cartridges and the confederate knew those people were sorting the cartridges, it would be very easy to slip contraband into the cartridge. Therefore, Ink2Work worked with a broker, and the broker sorted between five and seven million cartridges per month, so the large end user would be provided a link for shipping labels to send the product to the broker. Accordingly, the chance of an individual cartridge making it back to a particular person in prison was impossible.

Mr. Aguilera asked how long it took to dismantle the old cartridge, reassemble it and fill with ink, and Mr. Herbert replied it depended on the printer cartridge, which could vary from the size of a matchbook, which would take three minutes to reassemble, to the size of a medium desk, which could take an hour-and-a-half. He added that it varied according to complexity of the cartridge. Obviously, there was a learning curve, so as the offenders get more adept to building the products there was significant reduction in cycle time without any corresponding issues with quality.

Mr. Aguilera asked if the manufacturers of the copy equipment had issues with using the reassembled ink cartridges from the standpoint of their warranty.

Mr. Herbert replied that issue of warranties for printer cartridges was vexed, but the federal government in the Magnuson-Moss Warranty Act, enacted in 1975, essentially

stated that if a product was provided that relied on a consumable item, warranties could not be invalid if someone used a third-party product. He believed the act was instigated when the large three automobile manufactures tried to sue Jiffy Lube and Grease Monkey. He added that HP led the market by far and a statement on its website noted that the use of a non-HP cartridge would not invalidate a customer's warranty; however, the company would charge a lot on the material to repair a piece of equipment if it was proven to be an issue with the cartridge. He added the warranty offered by Ink2Work would indemnify a customer against that situation.

Chair Parks asked if Ink2Work had a local presence at this time, and Mr. Herbert replied that Ink2Work would be starting from scratch in Nevada. He noted that there was an existing demand because there was a distribution center in Malibu, California, which has proven to be more expensive than the company thought. He noted the company would like to relocate the Malibu distribution center to Nevada, which had an existing customer base that the state could initially support, and then the operation would be supplemented with a manufacturing facility in one of the two prisons in Nevada and the operation would gradually grow.

He added that one thing that Ink2Work learned from having business in Europe and in the State of Virginia, was that it needed to build the operation with baby steps and not giant leaps. However, he was confident the operation would grow quickly in Nevada.

Chair Parks asked Mr. Quenga if he was looking at both HDSP and Southern Desert Correctional Center (SDCC) as potential locations for the operation, and Mr. Quenga concurred. He said he would like to set up a small operation at SDCC and the distribution and remanufacturing of the cartridges at HDSP. He noted that Volvo opened an operation in North Carolina that employed offenders, who were gaining six sigma process skills and obtaining employment with the Volvo Corporation upon release.

Assemblywoman Monroe Moreno asked the number of inmates required to start up the operation and how long would it take to train staff and inmates to get the program operational.

Mr. Herbert replied that they were looking at two operations in Nevada – a distribution center and a warehousing and remanufacturing center. He noted that distribution center would probably take four to six weeks to set up and train the offenders. In terms of cartridge remanufacturing, typically they would monitor customer's usage and find two or three high volume cartridges and then a team would set up the manufacturing operation, which was straightforward and not complicated. Following, the team would provide training to staff and the offenders. Typically, by the end of the week of training the operation would be up and ready to go. He said that in the beginning the cycle time to build a cartridge might be 60 minutes and three months later it would be down to 25 minutes. Therefore, the operation could be started fairly quickly, and then the cycle time would go down from there. Mr. Herbert stated that Ink2Work used job cards, which showed each of the functions that needed to be performed, both in the disassembly and reassembly, so the offenders had a constant reminder of what they were doing on a particular task. In addition, there were essentially measurement points at each stage of the process where the success rate was

measured, for example, how many times the cartridge failed at that particular point, which allowed them to intercede and change the process. He reiterated that the process was very straightforward. Mr. Herbert stated that the distribution and warehousing operation would initially employ eight to ten offenders, and the remanufacturing facility would also employ eight to ten offenders to start the operation.

Chair Parks thanked Mr. Herbert for his presentation. He stated that pursuant to NRS 209.4818, the Committee may wish to request NDOC prepare the reports and studies required to determine the impact of Ink2Work, LLC, on private industries. Once the appropriate studies were completed, NDOC would submit the studies for inclusion in the meeting packet for the next Committee on Industrial Programs meeting in September.

Assemblywoman Monroe Moreno asked if the bonding issue with Sewing Collection, Inc. had been resolved, and Mr. Quenga replied that the owner of Sewing Collection was hesitant on the surety bond, but after recent conversations, the vice president of the company was looking at a personal guarantee. He stated there were three options – the security agreement, surety bond or the personal guarantee.

Chair Parks noted for the record that Agenda Items X and XI were combined.

Chair Parks asked Mr. Haag if the State of Nevada had experience using recycled toner cartridges, and Mr. Haag replied the state did not. He said the he and the previous Deputy Director of Prison Industries, Brian Connett had the opportunity to meet with Ink2Work, and the company certainly seemed to have merit at the time, and it was something the state was open to exploring. Initially, what comes to mind was that the majority of copy companies included a toner replacement program in their contract. Therefore, the state would have to understand that part of it and identify certain agencies that could enter into a pilot program for the recycled toner cartridges. He believed the issue was the concern of the agencies in the reliability of the products, but if the run rate was 4 cartridges that failed for every 1,000 produced, he thought the state could certainly develop confidence in the product.

Mr. Aguilera asked if Ink2Work has ever approached a major company, such as Staples, to see if the company was interested in the product, which could be sold less than the original cartridge as long as it did not affect the warranty. He added that once the company was up and running in Nevada, he would provide the information to the purchasing director for MGM Grand in Las Vegas.

Mr. Herbert responded that Ink2Work has had dialogue with the two largest office suppliers in the U.S., which were Staples and Office Depot. However, the challenge was that those companies had such aggressive pricing from their vendors in Southeast Asia and it was very difficult to compete with them. In addition, the other issue with the largest office suppliers was that they wanted to start with huge volumes and Ink2work needed to build up to those volumes to be able to satisfy their demand. However, one of the manufactures of the office supply company was based in Chicago and Ink2work met with them recently about



potentially supplying the cartridges and they could then supply the larger companies, but it was margin stacking exercise and was challenging, although something to consider.

Mr. Herbert stated that when the state leased a printer or copier and paid a fee per page and the company supplied the toner cartridges and maintenance, he stated that Ink2Work had the exact same environment in Virginia and the U.K. He stated that in practice, he found that the Information Technology (IT) departments would mandate the use of network printers, but wrenching printers away from individual users was extremely difficult. For example in Virginia, the state IT department mandated that users could no longer buy desktop laser printers, so instead purchased desktop ink printers. Therefore, half of Ink2Works volume in Virginia was selling ink cartridges for the printers, which he thought would be a similar situation in Nevada, certainly anecdotally in the government offices that he visited in Nevada.

## **XII. PUBLIC COMMENT.**

There was no public comment.

## **XIII. ADJOURNMENT.**

The meeting was adjourned at 2:32 p.m.

Respectfully submitted,

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Donna Thomas, Committee Secretary

APPROVED:

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Senator David Parks, Chair

Date: \_\_\_\_\_