

**MINUTES OF THE
NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL
PROGRAMS
(NRS 209.4817)
MARCH 13, 2006**

A meeting of the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs was held at 10:00 a.m. on Monday, March 13, 2006, in Room 4412 of the Grant Sawyer Building in Las Vegas. The meeting was simultaneously videoconferenced to Room 2134 of the Legislative Building

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Senator Maurice Washington
Al Puliz, Chairman, Puliz Moving and Storage

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Assemblyman John Marvel, Chairman
Assemblyman Morse Arberry, Jr., Vice Chairman
Senator Bob Beers
Bruce Aguilera, Vice President/General Counsel, Bellagio
Mike Magnani, Labor Union Representative
Howard Skolnik, Deputy Director, Prison Industries, Department of Corrections, (non-voting member)
Greg Smith, Administrator, Purchasing Division
Glen Whorton, Director, Department of Corrections

COMMITTEE MEMBERS ABSENT:

Michael Mackenzie, Principal, Operations Improvement Company

STAFF MEMBERS PRESENT:

Yvonne Goodson, Deputy Legislative Counsel, Legal Division
Mark Krmpotic, Senior Program Analyst, LCB Fiscal Analysis Division
Tracy Raxter, Program Analyst, LCB Fiscal Analysis Division
Denise Larsen, Secretary, LCB Fiscal Analysis Division

OTHERS PRESENT:

Taylor Allen, Las Vegas, Nevada
Bill Burgos, Teamsters Local 995, Las Vegas, Nevada
Greg Cox, Department of Corrections, Las Vegas, Nevada
Tom Fronapfel, Division Administrator, Field Services, Department of Motor Vehicles, Carson City, Nevada
Pat Hines, Friends and Family of Incarcerated Persons (FFIP), Yerington, Nevada
Ginny Lewis, Director, Department of Motor Vehicles, Carson City, Nevada
John McCuin, Chief of Financial Services for Prison Industries, Carson City, Nevada
Deborah Reed, Budget Analyst IV, Department of Administration, Carson City, Nevada
Pat Sanderson, Carson City, Nevada

Clay Thomas, Deputy Director, Department of Motor Vehicles, Carson City, Nevada
Jesse Wadhams, Deputy Attorney General
Nancy Wojcik, Department of Motor Vehicles, Las Vegas, Nevada

EXHIBITS:

Exhibit A - Agenda

Exhibit B - Attendance Roster

Exhibit C - Copy of the March 13, 2006, meeting packet prepared and distributed by Legislative Counsel Bureau (LCB) staff

Because of their size, the exhibits are not attached to these minutes; however, upon request, 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 10:00 a.m., Monday, March 13, 2006, in Room 4412 of the Grant Sawyer State Office Building, Las Vegas, Nevada. The meeting was simultaneously videoconferenced to Room 2134 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Chairman Marvel introduced Glen Whorton, Director for the Nevada Department of Corrections (NDOC). He congratulated Director Whorton on his appointment and indicated he looked forward to working with the Director on the committee.

Chairman Marvel welcomed committee members and requested the secretary call roll. Noting that a quorum of committee members was not yet present, Chairman Marvel indicated Agenda Item IX would be taken out of order.

IX. INFORMATIONAL ITEM – FUTURE OF LICENSE PLATE FACTORY AND REVENUE EARNED FROM LICENSE PLATE FEES COLLECTED BY THE DEPARTMENT OF MOTOR VEHICLES.

Chairman Marvel introduced and welcomed Ginny Lewis, Director for the Department of Motor Vehicles (DMV). Chairman Marvel informed committee members that rumors had been circulating regarding moving the License Plate Factory out of the Nevada State Prison (NSP). Relating the meeting was not intended to be contentious, Chairman Marvel indicated it would be good to "clear the air" in reference to plans for license-plate manufacturing and the importance of the program to Prison Industries. Apprising the committee that he had started out with the program many years ago, Chairman Marvel opined it would be devastating to Prison Industries to lose the program for the production of license plates.

Ginny Lewis introduced herself for the record and extended her appreciation to the committee for allowing her testimony to be taken out of agenda order. Although she had met with the Governor's staff regarding the move for the License Plate Factory, Ms. Lewis said no decisions had been finalized on the issue. Ms. Lewis indicated she had been probing, gathering and reviewing information with regard to the move to determine whether it would be beneficial for the DMV and the state of Nevada as a whole.

Ms. Lewis advised the committee the DMV was transitioning into digital technology for the production of license plates, which would require a considerable amount of new equipment. She further advised there would no longer be a need for much of the equipment presently located at the NSP, such as the massive oven or the presses. Ms. Lewis explained that with the change in equipment, it would no longer be necessary to have the License Plate Factory located within the confines of the NSP. She further explained

having the License Plate Factory with the NDOC on the prison compound posed daily constraints for the DMV's staff.

With regard to the License Plate Factory, it was Ms. Lewis' opinion the DMV was not operating with maximum efficiency. Ms. Lewis pointed out the following issues with the License Plate Factory on the prison compound:

- The DMV staff had to wait for guards to assist them daily,
- Problems arose when delivery of materials were received, and
- Any issues with inmates had a direct impact on the DMV's operations.

From Ms. Lewis' perspective, the location of the License Plate Factory within the confines of the NSP was not a safe environment for the DMV employees. She reported that in 1999, a DMV employee was shot at NSP. Although the shooting at the NSP was an accident, Ms. Lewis opined the DMV employees were subjected to an environment that was not as safe as offsite.

Referring to Nevada Revised Statutes (NRS) 482.268, Ms. Lewis related that according to the NRS, a 50-cent fee was collected from customers by the DMV on each license plate issued. Reporting the fees totaled approximately \$600,000 in FY 2005, Ms. Lewis informed the committee the funds collected from the 50-cent fee per license plate were transferred to Prison Industries and said to defray the cost of license-plate production. Ms. Lewis stated that, collectively, the Legislative Branch and the Executive Branch had a responsibility to the taxpayers. Ms. Lewis advised that the DMV was funded from an appropriation from the Highway Fund. She further advised the budget for license-plate production was over \$2.7 million per fiscal year. As one of her responsibilities as the Director of the DMV, Ms. Lewis related she was continually looking to offset Highway Fund appropriations. Ms. Lewis' interpretation of the law was that the 50-cent fee should be used to defray license-plate production. She pointed out the funds from the 50-cent fee could come into the budget for the DMV and reduce the need for the Highway Fund appropriation.

Ms. Lewis indicated she respected the fact the funds from the 50-cent fee per license plate were a significant part of Prison Industries' funding. However, it was her opinion that as long as the law was worded that the funds were to be used to defray license-plate production, there should be an open discussion on the subject. Ms. Lewis reiterated a decision had not been finalized on the License Plate Factory with regard to the move, and the Governor would make a decision with consideration as to what would be best for the state as a whole.

Chairman Marvel conveyed his appreciation for Ms. Lewis' testimony. Chairman Marvel indicated that if analyzed, results would show that Prison Industries saved the state of Nevada more than \$600,000 in a fiscal year. Noting that he had been on the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs since 1987, Chairman Marvel said the funds Prison Industries had paid back to the state of Nevada totaled several million dollars. It was Chairman Marvel's opinion that Prison Industries' services at the License Plate Factory had provided the taxpayers with their money's worth.

Howard Skolnik, Deputy Director, Prison Industries, Department of Corrections, informed the committee that in 1986, the Legislative Commission and Legislative Counsel Bureau created a study whose members traveled around the country and observed industrial programs for prisons. Although at the time it was not the case in Nevada, the study revealed that most prison industry programs generated the majority of their income through license-plate production revenue. Referring to the report (Bulletin 87-8) presented by members of the study of industrial programs, Mr. Skolnik advised the second recommendation in the report was for a 50-cent registration plate fee that was to go to Prison Industries to offset the expense of operating a license-plate manufacturing plant within the prison. Mr. Skolnik further advised that, although it was not in

the bulletin, the committee for the study conferred that the 50-cent registration plate fee was to provide income for Prison Industries to allow the program to expand, develop and provide employment for inmates. Presently, the program provided employment for approximately 800 inmates throughout the state. Noting the majority of these inmates earned minimum wage, Mr. Skolnik advised that 24.5 percent of this minimum wage went back into the state's General Fund to defray the cost of the inmate's incarceration. He noted that the total of inmate deductions for Prison Industries was greater in the last year than that generated by the 50-cent license-plate fee. Mr. Skolnik further noted that since 1987, these deductions had been greater than the 50-cent license-plate fees generated.

Mr. Skolnik informed the committee that were Prison Industries to lose the revenue generated by the 50-cent license-plate registration fee, the impact would be devastating for the Prison Industries program. He informed the committee Prison Industries performed a review of costs of the business with the elimination of the revenue. The results of the review revealed the necessity for either a substantial increase in the pricing of most of Prison Industries products across the state and an increase for the rent Prison Industries charged to private industries (which would discourage many of the present renters), or a reduction in Prison Industries' Central Office by 50 percent and the elimination of any marginal programs. Mr. Skolnik indicated the cost of cutting the central office or the elimination of programs would be in excess of the \$600,000 generated by the 50-cent registration plate fee.

Calling attention to the impact these programs had on the institution that was not measurable, Mr. Skolnik pointed out that the industrial programs afforded 800 inmates meaningful activity off the prison yard that was not disruptive and did not require intensive supervision. It was Mr. Skolnik's opinion the overall negative impact of eliminating these funds from the NDOC far outweighed any benefits that would be provided to the DMV and the Highway Fund. It was Mr. Skolnik's hope that the statutes as they currently stood, which required the license plates be made within the prison and the 50-cent fee for registration, would continue to provide for the operation of the industrial program.

Director Whorton introduced himself for the record and indicated he concurred with Mr. Skolnik regarding the importance of the industrial program for license-plate manufacturing. Agreeing the impact of the Prison Industrial programs went beyond the simple dollar amount, Director Whorton said the general purpose of prison industry programs was to generate optimism and hope within the inmates that they would be employed in an industry job. He explained the Prison Industrial programs were a means to control and motivate inmates to perform appropriately within the NDOC.

In response to Chairman Marvel, who questioned whether the elimination of the industrial program to manufacture license plates would have an impact on recidivism, Director Whorton answered he would not make such a statement as he did not like the term recidivism. He opined recidivism was a difficult word to define. Director Whorton explained the Prison Industrial programs as a management tool went beyond the scope of recidivism.

Addressing the issue of the safety of the DMV employees, Mr. Skolnik said the controls for staff working in the Prison Industries' environment were stringent; due to these controls, staff might be safer within that environment than they would be walking to the mall on a weekend. Mr. Skolnik said this was not to take away from the accident that happened in 1999.

In response to Chairman Marvel, who questioned if Ms. Lewis thought there might be a change in the statutes concerning the license-plate manufacturing at the NSP, Ms. Lewis said if the DMV were to propose a change in the statutes and pursue the change in the budget, it would be with the support of the Governor. She reiterated a final decision had not been made regarding the move. Ms. Lewis reported she met with the Governor's Chief of Staff, Keith Munro, who had been Legal Counsel for Prison Industries in the past regarding the issue. Although Mr. Munro understood Ms. Lewis' interpretation of the statutes with regard to

the 50-cent fee and the defrayal of cost for the license-plate production, he had pointed out the impact of the move would be devastating to Prison Industrial programs and did not commit one way or the other.

Chairman Marvel revealed he had a bias with regard to the move as he had been with Prison Industries since 1987 and had watched the program for license-plate production grow. He reiterated he would hate to see anything happen that would devastate the Prison Industrial program. Chairman Marvel called for questions or comments from committee members regarding the potential move. Hearing none, Chairman Marvel expressed his appreciation for Ms. Lewis' appearance before the committee.

Noting the committee now had a quorum, Chairman Marvel indicated he would now accept a motion for the approval of the minutes of the November 14, 2005, meeting.

II. APPROVAL OF THE MINUTES OF THE NOVEMBER 14, 2005, MEETING.

SENATOR BEERS MOVED TO APPROVE THE MINUTES OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS MEETING HELD NOVEMBER 14, 2005.

GREG SMITH SECONDED THE MOTION.

Chairman Marvel questioned whether members had any discussion or changes regarding the minutes. Hearing none, he called for a vote on the motion.

THE MOTION PASSED UNANIMOUSLY.

Chairman Marvel requested Howard Skolnik proceed with Agenda Item III.

III. DISCUSSION OF POTENTIAL INDUSTRY PROGRAMS AND COMMITTEE RECOMMENDATIONS (NRS 209.4818): - ALPINE STEEL (STRUCTURAL STEEL FABRICATION) – HIGH DESERT STATE PRISON

Mr. Skolnik informed the committee Alpine Steel had been a customer at the Southern Desert Correctional Center's (SDCC) Metal Shop for some time. Since Alpine Steel's needs exceeded the space provided at SDCC, they approached Prison Industries with interest in setting up a manufacturing operation at High Desert State Prison (HDSP). Mr. Skolnik advised Alpine Steel was interested in renting a 10,000 square-foot area in order to manufacture structural steel, predominately stair rails and stairs.

Mr. Skolnik apprised the committee a contract had been drafted for the manufacturing operation at HDSP. He requested the committee's approval to continue with the contract between Alpine Steel and Prison Industries for the operation.

Responding to Chairman Marvel, who questioned whether he had time to review the contract, Jesse Wadhams, Deputy Attorney General, indicated he had not yet reviewed the contract.

Chairman Marvel indicated he would entertain a motion for Mr. Skolnik to pursue negotiations with Alpine Steel for the contract for the rental of the 10,000 square-foot area.

BRUCE AGUILERA MOVED FOR APPROVAL FOR PRISON INDUSTRIES TO PURSUE NEGOTIATIONS WITH ALPINE STEEL FOR A CONTRACT TO RENT A 10,000 SQUARE-FOOT AREA AT HIGH DESERT STATE PRISON FOR THE FABRICATION OF STRUCTURAL STEEL.

SENATOR BEERS SECONDED THE MOTION.

Chairman Marvel called for any discussion regarding the motion.

Director Whorton questioned if the contract included language concerning security and compensation for staff.

Mr. Skolnik affirmed the contract contained language that addressed these issues. He explained that at the request of the Warden at HDSP, every contract for HDSP included a request for one-third of a correctional officer per a 10,000 square-foot area. He said with this request, there would be two full-time officers in the area. Mr. Skolnik further explained that any off-shift work would require the occupant to pay 100 percent of the cost for security required. With regard to a question regarding metal detectors for inmates leaving the area, Mr. Skolnik indicated the HDSP was constructed with metal detectors and a secure changing room, thus such protection was inherent in the building.

Chairman Marvel called for any further discussion regarding the motion. Hearing none, he called for a vote on the motion.

THE MOTION PASSED UNANIMOUSLY.

Mr. Skolnik related that committee member Michael Mackenzie, Principal, Operations Improvement Company, was reviewing the contract. He assured the committee the contract would be reviewed by Mr. Wadhams prior to its finalization.

Chairman Marvel requested Mr. Skolnik proceed with Agenda Item IV.

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

A. GARMENT FACTORY (MANUFACTURING CLOTHING) AT LOVELOCK CORRECTIONAL CENTER.

Noting the Garment Factory at the Lovelock Correctional Center (LCC) was progressing nicely, Mr. Skolnik informed the committee the *Las Vegas Sun* had recently published a complimentary article with regard to Prison Industries' private clothing line. With regard to Chairman Marvel's request for a copy of the article, Mr. Skolnik agreed to provide a copy of the article to staff for distribution to the committee members.

Continuing, Mr. Skolnik advised the committee Prison Industries planned to expand the clothing line by adding clothing that would supplement the motorcycle production. He pointed out the financial reports depicted the Garment Factory's sales were substantially ahead of last year's sales.

B. ALLWIRE CABLE (CABLE SHEATHING) – SOUTHERN NEVADA WOMEN'S CORRECTIONAL FACILITY.

Reminding the committee that Allwire Cable had planned to construct a building at the Southern Nevada Women's Correctional Facility (SNWCF), Mr. Skolnik said he was unsure of Allwire Cable's status. He explained that Allwire Cable had indicated their negotiations with their largest customer, Nevada Power, had been successful concerning a law regarding costs incurred by public utilities. Mr. Skolnik reported

that Allwire had been advised by Nevada Power that they would retain the pre-formed, conduit-wrapped cable, as opposed to requesting developers pull cable. He reiterated he was unsure whether Allwire would proceed with their plans for construction of their building.

Mr. Skolnik advised the committee that Jacobs Trading Company, who planned to construct a 20,000 square-foot building to be located in front of the facility across from the sallyport at the SNWCF, had abandoned their plans due to rising costs. The original cost estimate for the proposed building was approximately \$700,000; however, with imposed requirements by the North Las Vegas Planning Commission and the Public Works Board, the estimate had risen to \$1.8 million.

Mr. Skolnik apprised the committee if Allwire Cable did not move quickly, his recommendation would be to put Jacobs Trading Company's building inside the perimeter at the SNWCF to free up the space inside the institution for other industrial programs. In response to Chairman Marvel, who questioned whether there was room for both programs, Mr. Skolnik indicated there was room inside the perimeter for one of the industry programs, but not both. Mr. Skolnik said it was a disheartening experience to watch the climb of construction costs for proposed buildings.

Agreeing, Chairman Marvel indicated that the cost for every Capital Improvement Project (CIP) the state funded during a legislative session had soared out of site by the time construction of the project was started. He said many projects had to be scaled down in an attempt to cope with rising costs.

C. COOK/CHILL PROCESSING PROJECT (MEAL PREPARATION) – HIGH DESERT STATE PRISON.

Mr. Skolnik informed the committee that, at the request of Director Whorton, the Cook/Chill processing project for Prison Industries had been tabled pending the election of the next governor. Mr. Skolnik apprised the committee it was Director Whorton's opinion (and Prison Industries concurred) that it was unfair to "saddle" a new governor with such a significant change in policy and procedure.

Responding to Chairman Marvel's question regarding the amount the Cook/Chill processing program could save the state, Mr. Skolnik reported Prison Industries was unsure of the savings.

Referring back to the possible move of the proposed building for the Jacobs Trading Company, Chairman Marvel questioned the amount that could be saved by moving the building from the front of the facility to within the perimeter at the SNWCF.

Mr. Skolnik explained that approximately seven years ago, the Legislature passed a bill that allowed local government control over state buildings on state land within their jurisdiction; therefore, the North Las Vegas Planning Commission would still have jurisdiction over the proposed building. He apprised the committee Prison Industries was not sure of the amount that could be saved by the move.

Chairman Marvel welcomed Assemblyman Arberry to the meeting and introduced Deborah Reed, Budget Analyst IV, Department of Administration, to committee members.

D. THOMSON EQUIPMENT COMPANY (WATER TRUCK PRODUCTION) – SOUTHERN DESERT CORRECTIONAL CENTER.

Mr. Skolnik apprised the committee that 90 percent of the Thomson Equipment Company of Nevada had been purchased by a group from Australia and New Zealand and production at the SDCC had begun. He indicated the water tanks had been shipped from Bangkok and were due to arrive at the SDCC at the end of March 2006. Mr. Skolnik noted a number of trucks were currently under renovation for the industry program.

Mr. Skolnik apprised the committee that in order for Thomson Equipment Company to fulfill their contract for 500 water trucks within the year, the expansion of their existing space was necessary. It was Thomson Equipment Company's hope to complete their expansion to HDSP by April 2006. Mr. Skolnik indicated the initial refurbishing of the trucks would be conducted at the SDCC, while placement of the tanks and final finishing work for the operation would be accomplished at HDSP.

Responding to Chairman Marvel, who questioned whether the industry program was profitable, Mr. Skolnik affirmed it was; Thomson Equipment Company had paid all of their bills and was current with Prison Industries.

E. ADCOR (CONCRETE CASTING, MANUFACTURING) – HIGH DESERT STATE PRISON.

Mr. Skolnik informed the committee that Prison Industries was having issues with ADCOR, the company that manufactured concrete castings and Sedco, the company that owned the equipment that had been placed in the Prison Industries' Building at HDSP. He advised that attorneys had been in contact with Mr. Wadhams, representative for Prison Industries from the Office of the Attorney General, regarding the equipment. Mr. Skolnik further advised representatives from ADCOR could no longer be located.

Responding to Chairman Marvel, who questioned whether ADCOR owed money to Prison Industries, Mr. Skolnik advised ADCOR owed Prison Industries approximately \$10,000. Mr. Skolnik further advised discussions occurred indicating Sedco might donate the building ADCOR was to occupy to Prison Industries to satisfy the debt. Mr. Skolnik pointed out if the donation of the building were to occur, the donation would far exceed the debt owed.

Mr. Skolnik clarified the Sedco company had no debt with Prison Industries. They were a company who paid ADCOR, who, in turn, was to pay Prison Industries. It was Mr. Skolnik's understanding Sedco had paid all of ADCOR's bills except Prison Industries.

F. MICRO BREW (BREW TANK MANUFACTURING) – HIGH DESERT STATE PRISON.

Mr. Skolnik apprised the committee that Micro Brew, a company that had been operating in the California prison system and had planned a prison industry at HDSP, had disappeared. The location at HDSP that Micro Brew had planned to occupy was now the space Alpine Steel would occupy. Mr. Skolnik related there was an issue with debt collection regarding Micro Brew.

Mr. Skolnik recalled for the committee that Jesse Wadhams, representative for Prison Industries from the Office of the Attorney General, had sent Micro Brew correspondence regarding their debt with Prison Industries. He reported Prison Industries had filed for collection against Micro Brew. Referring to the statutes regarding debt collection, Mr. Skolnik requested Mr. Wadhams address the issue for the committee.

Mr. Wadhams, Deputy Attorney General and Counsel to Prison Industries, introduced himself for the record and advised that the collection for Micro Brew raised several issues concerning debt collection. He related it was difficult to track representatives of businesses to collect debt. Mr. Wadhams said he was originally led to believe that debt collection was solely the purview of the Office of the State Controller; however, in reviewing the Nevada Revised Statutes (NRS) 353 C with regard to debt collection, he discovered the statute was generic. He informed the committee he hoped to create a "cookbook style" summary judgment and a certificate of liability in order for Prison Industries to move forward and secure a court order with regard to the debt. Mr. Wadhams explained that a certificate of liability could prevent the movement of valuable property out of county lines and the state in order for

Prison Industries to have some leverage for collection.

Mr. Wadhams said since Prison Industries had not realized much value from the Office of the State Controller in collecting debt and the statutes allowed individual agencies to set up their own collections, he recommended Prison Industries seek a third-party collection agency to pursue amounts overdue to Prison Industries. In response to Chairman Marvel, who questioned the success rate for third-party collection agencies, Mr. Wadhams indicated he was unsure of their success rate. He added the Office of the State Controller contracted with third-party collection agencies for lower-end debts (\$10,000 or less). He speculated the third-party collection agencies were not extremely successful at the low end, but more successful at the higher end, as they do a forensic accounting.

Mr. Skolnik interjected he did not recall Prison Industries receiving any debt owed through collection. He explained that in the case of Micro Brew, by the time Prison Industries could take action, Micro Brew's property was gone. Mr. Skolnik was unsure of any other options to collect the debt, unless Prison Industries could take the owner's house.

Greg Smith, Administrator, Purchasing Division, questioned whether Mr. Skolnik and Mr. Wadhams were referring to the Office of the State Controller's contract with OSI Collections Services, Inc. Mr. Wadhams affirmed this was the specific contract. Mr. Smith reported this contract was established through the Purchasing Division in conjunction with the Office of the State Controller. He said the contract would need to be reviewed if it had been performing poorly. Mr. Smith indicated the nature of the debts might be below the ceiling that OSI Collections Services, Inc., preferred to consider.

Mr. Smith advised that at the last Board of Examiners' meeting, the Governor had discussed debt collection for the Public Employees' Benefits Program (PEBP). Indicating many agencies were somewhat lenient in pursuing debt collection while others were very aggressive, Mr. Smith wondered what level of aggressiveness Prison Industries took in pursuing their debts.

Responding to Mr. Smith's question, Mr. Skolnik indicated that Prison Industries would pursue collection on a \$10 debt. He related that Prison Industries had done so with staff. He explained Prison Industries' internal process: 1) initially, Prison Industries sent out a demand letter; 2) subsequently, Prison Industries requested the Office of the Attorney General get involved and a stronger letter was sent by the Attorney General's Office; and 3) ultimately, Prison Industries turned the debt over to the Office of the State Controller for collection. Mr. Skolnik added Prison Industries tried to obtain collection prior to turning debts over to the Office of the State Controller; thus far, their success rate was nil.

Mr. Wadhams clarified he did not want to give the impression the contract with OSI Collections Services, Inc., was performing poorly. He explained that at a certain level of debt, not as much aggressiveness was exercised by the company. In response to Chairman Marvel, who questioned whether any statutory changes with regard to debt collection were anticipated, Mr. Wadhams said he did not foresee any changes. He opined that NRS 353 C allowed latitude for state agencies to pursue debts. He explained obtaining a certificate of liability in each case of debt collection would be beneficial to Prison Industries, as it would allow assets to remain within Prison Industries' custody until debts were settled.

Chairman Marvel suggested the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs could submit a Bill Draft Request (BDR) to facilitate debt collection if committee members thought it would be beneficial for Prison Industries.

Questioning the nature of the debt, Senator Beers asked whether Prison Industries was writing the payroll for the companies and then seeking reimbursement from the companies for the payroll.

Affirming payroll was a portion of the debt, Mr. Skolnik explained that since officers were on state payroll, Prison Industries paid the officers overseeing the prison industry and billed the companies involved. Although rent and payroll constituted the most significant portion of Prison Industries' losses, in past cases, product also attributed to debt. Mr. Skolnik informed the committee that Prison Industries had done structural steel work for a company in Northern Nevada and was considering taking criminal action against the company as fraud might have been involved in their nonpayment.

In response to Senator Beer's question whether the companies paid the inmates, Mr. Skolnik affirmed the companies were required to pay the inmates directly. He advised that in instances where Prison Industries and a company had a partnership, Prison Industries paid the inmates (as Prison Industries was making a profit from the inmate labor) and subsequently billed the partner company. Mr. Skolnik added, that to date, no debt problems had arisen with any of Prison Industries' partner companies.

Responding to Senator Beers, who questioned whether Prison Industries had investigated the feasibility of an Automatic Clearing House (ACH) transfer at the time of Prison Industries' billing, Mr. Skolnik advised that in the past, Prison Industries had collected and created deposits for companies. However, these deposits had never been sufficient, and Prison Industries ended up losing money. He advised the committee there was a \$3,000 deposit with regard to ADCOR's \$10,000 debt. Therefore, Prison Industries was facing a \$7,000 loss.

Senator Beers asked whether Prison Industries had the capability of accepting an automatic electronic funds transaction from a company and questioned whether Mr. Skolnik knew how to set up such a transfer.

Answering Senator Beers' questions, John McCuin, Chief of Financial Services for Prison Industries, affirmed that Prison Industries could accept electronic payments. He explained Prison Industries had been set up through the Office of the Attorney General to receive electronic payments and had taken them in the past.

Noting that Prison Industries offered these companies a competitive business advantage, which gave them motive to do business with Prison Industries, Senator Beers questioned whether Prison Industries had explored the feasibility of modifying contracts to extract instant payment from the companies upon generation of an invoice as a policy.

Responding to Senator Beers' question, Mr. McCuin opined since it was difficult to obtain companies/partners for prison industry programs, and Prison Industries did not want to discourage companies, they had not requested immediate electronic transfers for payments as their policy. He indicated most companies/partners involved with Prison Industries paid their debts in a timely manner. Correcting Mr. Skolnik's testimony on the amount of the deposit required for ADCOR, Mr. McCuin informed the committee the deposit for ADCOR was a \$10,000 deposit, not a \$3,000 deposit. He explained ADCOR was one of the companies that Prison Industries paid salaries for inmate employees, and since their payrolls were large, \$20,000 in debt was accrued before there were signs of any problems.

Senator Beers disagreed that an automatic electronic transfer would be a deterrent to a potential company/partner.

Mr. Skolnik agreed with Senator Beers and indicated Prison Industries could incorporate a requirement for a letter of credit in their contracts. He said a letter of credit would not be that costly to the company/partner and would provide Prison Industries with assurance and protection.

Senator Beers advised more businesses were utilizing electronic payments with the payment being pulled from the company that owed the funds, rather than waiting for that company to trigger the payment when the payments were an ongoing cost. Were Prison Industries to use this method, they would have to be responsive to the company/partner's comfort zone with relationship to overcharging.

Mr. Skolnik agreed that Prison Industries could investigate both the letter of credit and the use of electronic payment transfers as solutions to debt issues.

Chairman Marvel thanked Senator Beers for his comments regarding electronic transfer payments. He called for further discussion on any of the industrial programs; hearing none, he requested Mr. Skolnik proceed to Agenda Item V.

V. REVIEW OF WORK PROGRAM SUBMITTED BY PRISON INDUSTRIES TO THE INTERIM FINANCE COMMITTEE REQUESTING AN INCREASE IN THE REVENUE AND EXPENSE BUDGET AUTHORITY FOR THE FURNITURE AND METAL SHOPS AT NORTHERN NEVADA CORRECTIONAL CENTER.

Mr. Skolnik reported business for the Furniture Shop and Metal Shops at Prison Industries had accelerated. Collectively, the two shops had over \$800,000 in open orders to be completed before the end of the fiscal year. Mr. Skolnik explained the request was for expenditure authority to purchase raw materials to cover the increase in business.

Responding to Chairman Marvel, who questioned the status of the silk-screening program at HDSP, Impact Design LLC, Mr. Skolnik indicated the program was progressing nicely. He added Impact Design LLC had increased inmate employment to approximately 40 inmates by adding a second shift. He reminded the committee that, while in the Kansas prison system, Impact Design LLC had increased employment from 12 inmates to over 300 inmates within a few years.

In response to Chairman Marvel's request for an update of further development on the Industrial Park project at Indian Springs, Mr. Skolnik related a meeting occurred recently with the architect, the general contractor and representatives from Tamkin Development and Prison Industries regarding the project. He advised that Tamkin Development had hired an individual with private sector and prison industry experience in his background to help solicit tenants. Mr. Skolnik further advised another meeting was planned with this individual, the Nevada Development Authority (NDA) and Prison Industries to discuss partnering. He opined that building the Industrial Park in increments with room for expansion as interest in occupancy increased, verses building all at once, was a more realistic approach to the project. Mr. Skolnik informed the committee he should have a memorandum of understanding within the next few weeks that would lead to the development of a contract.

Chairman Marvel requested Mr. Skolnik keep staff informed on the progression concerning the Industrial Park project, and he agreed to do so. Chairman Marvel called for further discussion on other industrial programs. Hearing none, he directed the committee's attention to Agenda Item VI.

VI. REVIEW OF FINANCIAL STATEMENTS FOR QUARTER ENDING DECEMBER 31, 2005.

Directing the committee to page 29 under tab VI of the meeting packet (Exhibit C), Mr. McQuin said the mid-year financial statements depicted improvement in all areas except the SDCC and the Ely Drapery Shop. He attributed the loss at the Ely Drapery Shop to the loss of experienced inmates on the program due to the changes in procedures implemented connected to the inmate escape.

In response to Chairman Marvel's request for clarification regarding the changes implemented, Mr. Skolnik

explained that in August 2005, an individual escaped from the Northern Nevada Correctional Center (NNCC) on a Prison Industries' truck. A review of classifications of inmates throughout the state followed the escape, which resulted in the removal of ten inmates from the Prison Industry program in Ely because they had prior escapes in their records. Mr. Skolnik said due to the new classifications, the Ely Drapery Shop lost skilled inmates who had been in the program for 10 to 12 years.

Continuing, Mr. Skolnik advised that in order to avoid another incident, NDOC had changed operation procedures and had purchased heartbeat monitors for industrial programs at the NNCC and the SDCC. He explained these monitors were attached to vehicles to determine whether there were heartbeats on the vehicles. Although not effective in high winds, the monitors provided another level of security for Prison Industries in the two facilities that had the most movement in and out of the institutions. Mr. Skolnik informed the committee that due to the escape, more than 17,000 production hours were lost in the month of October 2005 in Prison Industries' own operations (aside from losses in private industries) and three days of production were lost at DMV. He added that DMV had lost four days of production for the calendar year (three due to the escape).

Responding to Chairman Marvel's question regarding the increase in net loss at the SDCC Auto and Upholstery Shop, Mr. Skolnik advised the operation had been cyclical from the start of the program. Although the operation was under reevaluation, Mr. Skolnik speculated the motorcycle manufacturing would help with the profitability of the program. Review of the Prison Industries' operation revealed that vehicles had sat at the SDCC Auto and Upholstery Shop awaiting parts for as long as 18 months, which was not an effective way to earn revenue. Reiterating the entire process was still under reassessment for increased productivity, Mr. Skolnik said one of the benefits of the revenue earned by manufacturing license plates for the DMV was the continuation of such programs. These industry programs may not be making a profit; yet the operations provided training and skills for inmates, which resulted in job opportunities upon the inmate's release. Should the DMV program be cut, the operation at the SDCC Auto and Upholstery Shop would be one of the first programs to be eliminated.

In response to Chairman Marvel's question whether the motorcycle manufacturing could "pick up the slack" in the SDCC Auto and Upholstery Shop, Mr. Skolnik indicated it was his hope the motorcycle manufacturing would increase profitability for the shop. He advised Prison Industries had designated a 2,500 square-foot area in the shop at the SDCC and the operation should be capable of producing five motorcycles per month. If calculations were correct, the operation should generate profits of approximately \$50,000 per month.

Chairman Marvel called for further questions for Mr. McCuin regarding the financial statements. Calling on Senator Beers, Chairman Marvel noted that although Michael Mackenzie, Principal, Operations Improvement Company, was not able to attend the meeting, it was good to have Senator Beer's Certified Public Accountant (CPA) expertise with regard to the review of Prison Industries' financial statements.

Indicating the Summary of Financial Statements on page 29 under tab VI of the meeting packet (Exhibit C), was beneficial, Senator Beers questioned whether a revenue figure could be provided for cost centers in the financial reporting. He further questioned whether the positive figure on the line "Contrib to G & A Exp" was revenue.

Mr. McCuin informed Senator Beers that the document, Summary of Financial Statements, was provided by LCB staff. Senator Beers indicated he would discuss his request and questions with LCB staff at a later time.

Observing the turn around for the Prison Farm/Dairy, Chairman Marvel noted he was pleased to see positive improvement.

Referring to the balance sheet on page 43 under tab VI of the meeting packet (Exhibit C), Mark Krmpotic,

Senior Program Analyst, LCB Fiscal Analysis Division, pointed out Unrestrictive Cash was down from last year. He noted greater amounts were tied up in Accounts Receivable and Inventories - Accounts Receivable increased from \$1.1 million to \$1.4 million and Inventories had increased from approximately \$1 million to \$1.3 million.

Mr. Skolnik responded the increases were due to growth of the program. He added the accounts receivable aging was approximately the same as it had been; however, Prison Industries was selling more and required more material for production.

Chairman Marvel indicated he had no problem with the increase in inventory, since Mr. Skolnik was confident the inventory would be used in product.

Senator Beers said the balance sheet depicted a \$700,000 increase in Total Assets and miniscule increase in Liabilities and \$700,000 in Retained Earnings. He pointed out when the increase in assets was attributed to retained earnings, rather than Current Liabilities, it was a good thing.

VII. REVIEW OF NUMBER OF INMATES EMPLOYED JULY 2003 THROUGH DECEMBER 2005.

Mr. Skolnik noted there had been a gradual increase in the amount of inmates employed since the aftermath of the August escape. He indicated Prison Industries had returned to the "profitability mode" as opposed to the "workers mode" with regard to inmate employment. It was Mr. Skolnik's opinion this change would be beneficial to the future of Prison Industries.

Pointing out the rapid increase in inmate population for the NDOC and the need for industrial programs to sustain the increase, Chairman Marvel questioned whether inmates were being released/paroled at a similar accelerated increase.

Director Whorton reported the release rate was down. Over the last year, the rate of parole had declined somewhat. He reported the male population had grown approximately 4 percent per year over the last ten years. The challenge for the NDOC was the growth of female population, which had increased nationwide.

In response to Chairman Marvel, who expressed concern with regard to overpopulation for the NDOC due to the increase in the police force in the Las Vegas area, Director Whorton said he did not believe there was a direct correlation. He said an increase in inmate population would take place simply because the number of crimes would increase and the number of people who were victimized would increase with the demographics of the state.

With regard to the need for new prisons, Director Whorton informed the committee that in the past, the state had done well in planning. Since Nevada no longer housed out-of-state prisoners, the NDOC recovered some costs by utilizing existing beds that were obtained by contracts when housing prisoners for the states of Washington and Wyoming. Director Whorton said there was not a risk of overbuilding; however, lack of planning, when contractors knew you had to build immediate accommodations, raised expenses. He advised the committee the NDOC planned an increase of 300 medium beds and 100 transition beds at the Southern Nevada Women's Correctional Facility (SNWCF). He said the NDOC was designing two additional units at HDSP, and there was room for another two units when needed. The units would be constructed for medium security in clusters of four located near the Prison Industries' building.

In response to Chairman Marvel, who question whether the NDOC had been funded for the design of the additional units, Director Whorton affirmed they had been. He advised Jim Austin's business, JFA Associates, was used for projections. Wendy Naro was the assistant who conducted the projections. Director Whorton apprised the committee the life of a projection was only two years.

With regard to Chairman Marvel, who requested (for the record) the amount Prison Industries had received from the production of license plates, Mr. Skolnik indicated the amount was approximately \$600,000. He reiterated the fees were of critical importance to the Prison Industries program.

Chairman Marvel called for any questions from the committee regarding the number of inmates employed. Hearing none, he called for any public comment to come before the committee.

X. PUBLIC COMMENT.

Chairman Marvel questioned whether there was further public comment. There was no further public comment.

X. ADJOURNMENT.

Chairman Marvel asked if there was any further business to come before the committee. Hearing none, he thanked committee members for their attendance and adjourned the meeting at 11:07 a.m.

Respectfully submitted,

Denise Larsen, Committee Secretary

APPROVED:

Assemblyman John Marvel, Chairman

Date: _____