

**Minutes of the Meeting of the  
Nevada Legislature's Interim Finance Committee's  
Committee on Industrial Programs  
(NRS 209.4817)  
January 19, 2005**

A meeting of the Interim Finance Committee's Committee on Industrial Programs was called to order by Chairman Marvel at 10:00 a.m., Wednesday, January 19, 2005, in Room 3137 of the Legislative Building, 401 South Carson Street, Carson City, Nevada.

The meeting was simultaneously broadcast via videoconference to Room 4412 of the Grant Sawyer State Office Building, Las Vegas, Nevada.

**COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Assemblyman John Marvel, Chairman  
Jackie Crawford, Director, Department of Corrections  
Al Puliz, Chairman, Puliz Moving and Storage  
Greg Smith, Administrator, Purchasing Division

**COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Assemblyman Morse Arberry, Jr.  
Michael Mackenzie, Principal, Operations Improvement Company  
Mike Magnani, Labor Union Representative  
Howard Skolnik, Deputy Director, Prison Industries (non-voting member)

**COMMITTEE MEMBERS ABSENT:**

Senator Bob Beers  
Senator Maurice Washington (Excused)  
Bruce Aguilera, Vice President/General Counsel, Bellagio (Excused)

**LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:**

Leslie Johnstone, Program Analyst, Fiscal Analysis Division  
Mark Krmpotic, Senior Program Analyst, Fiscal Analysis Division  
Yvonne Goodson, Deputy Legislative Counsel, Legal Division  
Denise Larsen, Secretary, Fiscal Analysis Division

**OTHERS PRESENT:**

- Shane Chesney, Deputy Attorney General

William Chisel, CPA, Department of Administration, Internal Audits,  
John McCuin, Chief of Financial Services for Prison Industries  
Cy Ryan, Las Vegas Sun

## **EXHIBITS:**

- Exhibit A: Meeting Notice and Agenda
- Exhibit B: Attendance Record
- Exhibit C: Copy of the January 19, 2005, 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 ASSEMBLYMAN MARVEL.**

- Chairman Marvel called the meeting of the Interim Finance Committee's Committee on Industrial Programs to order at 10:00 a.m. He instructed the secretary to take roll; it was determined that a quorum of Committee members was present.

## **II. APPROVAL OF THE MINUTES OF THE SEPTEMBER 8, 2004, MEETING.**

- Chairman Marvel questioned whether members had any additions or corrections to the minutes of the September 8, 2004, meeting. Being none, he called a motion for approval of the minutes.

**ASSEMBLYMAN ARBERRY MOVED TO APPROVE THE MINUTES OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS MEETING HELD SEPTEMBER 8, 2004.**

**MIKE MAGNANI SECONDED THE MOTION.**

**THE MOTION PASSED UNANIMOUSLY.**

Chairman Marvel apprised the Committee that Senator Beers had been appointed to the Interim Finance Committee's Committee on Industrial Programs at the last IFC meeting. Chairman Marvel directed the Committee to agenda item III for the presentation of the audit report on Prison Industries.

## **III. PRESENTATION OF REPORT ON PRISON INDUSTRIES FROM THE CHIEF OF THE DIVISION OF INTERNAL AUDITS OF THE DEPARTMENT OF ADMINISTRATION, WILLIAM CHISEL.**

- William Chisel, CPA and Chief of the Department of Administration, Internal Audits, introduced himself for the record and indicated he would provide a brief synopsis of the audit for Prison Industries that was presented to the Executive Branch Audit Committee on September 29, 2004. He apprised the Committee that during the audit, it was noted that since 1987, Prison Industries had been self-sufficient; however, in the years 2002 and 2003, Prison Industries had reported losses. Mr. Chisel reported that the audit focused on ways that Prison Industries could enhance its fiscal operations, which included:

- 1) Ensuring that costs are current when estimating overhead rates. Overhead costs include the shared costs of operating a business such as administrative, supervisory and insurance expenses. By using updated overhead rates, shops could improve the accuracy of their cost estimates.
- 2) Up-dating costs and pricing of standard items to ensure they include current costs and that pricing is competitive.
- 3) Including a month-to-month conversion clause for contracts to provide that when a contract expired, the requirements remain in effect on a monthly basis until Prison Industries terminates or prepares a new contract.
- 4) Revising shop forecasting methods. Prison Industries should involve marketing and shop supervisors in developing shop forecasts and addressing budget variances. The information could be utilized by marketing staff to assess competition. Results of the forecasts could be compared to results of the operations to develop necessary corrective actions.
- 5) Evaluating shop labor rates. Prison Industries' Auto and Upholstery Shops have not recently compared the benefits of paying piece rates to hourly wages to ensure the most cost-effective method.

With regard to Chairman Marvel's question concerning the third recommendation, Shane Chesney, Deputy Attorney General, indicated the month-to-month conversion clause for contracts could be incorporated into the contracts. Mr. Skolnik, Deputy Director, Prison Industries, interjected that this was already being done.

- Continuing his report, Mr. Chisel informed the Committee that at the end of January, the Internal Audit Division would be meeting with Mr. Skolnik to review how the recommendations had been implemented.

- In response to Chairman Marvel's question regarding the implementation of recommendations, Mr. Skolnik advised that Prison Industries has started recording actual hours in addition to the piece rate in the auto shop. He said that traditionally, Prison Industries had paid a wage based on a book rate (a standard set time frame for an automotive job) and minimum wage for a job. Henceforth, Prison Industries would compare actual time to the book rate for a job and would then make whatever adjustments necessary. Mr. Skolnik estimated it would take up to a year of comparisons in order to decide which pay plan would be most beneficial to the Prison Industries.

- Chairman Marvel questioned whether Prison Industries' staff was qualified to do forecasting. Addressing Chairman Marvel's question, Mr. Skolnik advised that Prison Industries had already implemented most of the audit recommendations and had done a preliminary market forecast for 2005. He further explained that the forecast was a gross number that had not yet been broken down into individual products. Noting that Prison Industries had a minimal staff, Mr. Skolnik explained that priorities dictated staff concentrate on sales rather than forecasting.

Chairman Marvel questioned whether other state agencies performed market forecasting. Greg Smith, Administrator, Purchasing Division, informed the Committee that through Global-Insights, his staff had the ability to go on-line and obtain forecasting reports. Mr. Smith offered to provide reports to facilitate Prison Industries with their review of marketing plans and pricing strategies. Expressing his gratitude, Mr. Skolnik indicated he would be happy to utilize Mr. Smith's offer to provide the reports.

With regard to Chairman Marvel's question regarding Prison Industries' response to the audit, Mr. Skolnik opined that the audit was a good experience for Prison Industries. He said that Prison Industries had already encountered benefits in some of the operations with implementation of some of

the recommendations, such as a current updated overhead rate for all of the operations to apply to standard products.

Responding to Chairman Marvel's questions concerning a follow-up to the audit and the number of people on the Audit Committee, Mr. Chisel affirmed there would be a follow-up in six months and every year thereafter. He advised that the Audit Committee was comprised of seven people including constitutional officers and an outside CPA.

Chairman Marvel called for any further comments or questions on the audit report. Hearing none, he indicated he would accept a motion to accept the report.

**GREG SMITH MOVED TO ACCEPT THE AUDIT REPORT FOR THE DEPARTMENT OF CORRECTIONS' PRISON INDUSTRIES DIVISION PREFORMED BY THE DIVISION OF INTERNAL AUDITS, DEPARTMENT OF ADMINISTRATION.**

**DIRECTOR CRAWFORD SECONDED THE MOTION, AND THE MOTION PASSED UNANIMOUSLY.**

Chairman Marvel thanked Mr. Chisel for the report. He requested that Mr. Skolnik present the next agenda item.

**IV. DISCUSSION OF POTENTIAL INDUSTRY PROGRAM AND COMMITTEE RECOMMENDATIONS FOR MICRO BREW – HIGH DESERT STATE PRISON (NRS 209.4818):**

Mr. Skolnik informed the Committee that Micro Brew, a company that had been operating in the California prison system, had expressed interest in relocating to the High Desert State Prison (HDSP). Answering the unspoken question, Mr. Skolnik assured the Committee that Prison Industries would not be manufacturing beer in the prison; the industrial program for Micro Brew would entail manufacturing large brew tanks and related metal machine products. Mr. Skolnik explained that due to a recent lawsuit in California, and changes in how California was conducting business with the private sector, Micro Brew had expressed interest in moving to Nevada's Prison Industries at HDSP. Although Micro Brew had not visited HDSP, Prison Industries had provided floor plans to Micro Brew.

In response to Chairman Marvel's question regarding how many inmates the industrial program would employ, Mr. Skolnik advised approximately 25 to 30 inmates would be employed in a single day. He pointed out that the program would provide inmates with a skill level that could guarantee post-release employment. Inmates would have to become certified welders in order to perform the job.

With regard to Chairman Marvel's question regarding the contract, Mr. Chesney replied he had reviewed and approved the contract. Chairman Marvel indicated that he would entertain a motion for approval to proceed with the industrial program for Micro Brew.

**GREG SMITH MOVED FOR APPROVAL FOR PRISON INDUSTRIES TO PURSUE NEGOTIATIONS WITH MICRO BREW AS A POTENTIAL PRISON INDUSTRY AT HIGH DESERT STATE PRISON.**

**AL PULITZ SECONDED THE MOTION.**

Chairman Marvel called for any questions or comments concerning the industrial program and contract with Micro Brew. Mike Magnani, Labor Union Representative, questioned the method of

compensation for the industrial program. With regard to Mr. Magnani's question, Mr. Skolnik advised that the industrial program for Micro Brew would be a federally certified program and inmate employees would be compensated by the rate set by the Employment Security Division. He estimated the pay would be no less than \$5.50 per hour.

Hearing no other questions, Chairman Marvel called for a vote on the motion.

**THE MOTION ON THE FLOOR FOR PRISON INDUSTRIES TO PURSUE  
NEGOTIATIONS WITH MICRO BREW AS A POTENTIAL PRISON INDUSTRY  
PASSED UNANIMOUSLY.**

Chairman Marvel directed the Committee to the next agenda item.

**V. STATUS REPORT FROM PRISON INDUSTRIES AND COMMITTEE RECOMMENDATIONS  
REGARDING THE FOLLOWING PROPOSALS AND PRISON INDUSTRY ENHANCEMENT  
CERTIFICATION PROGRAM.**

**A. Thomson Equipment Company – Southern Desert Correctional Center**

Mr. Skolnik recalled for the Committee that the Thomson Equipment Company had replaced the company ITSAR at the Southern Desert Correctional Center (SDCC). He said that Thomson Equipment Company had recently obtained a contract to manufacture 300 water trucks during the current calendar year, and once the company became fully operational, Prison Industries would be manufacturing more than one truck per day. Mr. Skolnik apprised the Committee that Thomson Equipment Company was waiting for approval for the installation of a paint booth that was under review by the State Public Works Board and the Fire Marshal.

Continuing, Mr. Skolnik said that Thomson Equipment Company had signed a preliminary contract for a 20,000 square-foot area at High Desert State Prison (HDSP). He noted that Thomson Equipment Company was partnered with companies from Thailand and Phoenix, Arizona. The industrial program at the HDSP would entail rebuilding and repairing hydraulic components for Caterpillar and could employ approximately 50 to 60 inmates. Relating that the Phoenix company charged training fees of over \$1,000, Mr. Skolnik indicated that the training would provide high-level skill and would be free to the inmate employees. He indicated the contract for the potential industrial program had been sent to the Attorney General's Office for Shane Chesney's review and approval.

Mr. Chesney informed the Committee that he had not yet received the contract; however, he did not anticipate any problems with the contract. Chairman Marvel request that Mr. Chesney inform Leslie Johnstone, Program Analyst for the LCB Fiscal Analysis Division, if he did find any problems with the contract. Mr. Chesney agreed to do so.

Mr. Skolnik stated that since the proposed industrial program for HDSP was essentially the same operation that existed at SDCC with Thomson Equipment Company, Prison Industries proceeded without formal approval from the Committee. Chairman Marvel indicated the Chair would entertain a motion to proceed with Thomson Equipment Company at HDSP.

**AL PULITZ MOVED FOR APPROVAL FOR PRISON INDUSTRIES TO PURSUE  
NEGOTIATIONS WITH THOMSON EQUIPMENT COMPANY AS A POTENTIAL  
PRISON INDUSTRY AT HIGH DESERT STATE PRISON.**

**DIRECTOR CRAWFORD SECONDED THE MOTION.**

**THE MOTION PASSED UNANIMOUSLY.**

Chairman Marvel asked Mr. Skolnik to proceed to the next agenda item.

**B. TREX (Polysort) – Lovelock Correctional Center**

Mr. Skolnik recalled for the Committee that TREX (Polysort) was the company with a previous industrial program located in the Idaho prison system. He advised that representatives from TREX had toured the Lovelock Correctional Center (LCC) and had expressed interest in establishing an industrial program at the facility to sort recycled plastics. Mr. Skolnik advised that TREX had not followed up with Prison Industries and he did not believe the program would come to fruition. He pointed out that LCC would have been an ideal location for the industrial program, as one of TREX's operations was located in the Fallon area.

Responding to Chairman Marvel's question whether the Committee had already approved Prison Industries to proceed should TREX decided to go forward with the industrial program, Mr. Skolnik affirmed the motion for to negotiate with TREX was approved at the last meeting.

**C. ADCOR – High Desert State Prison**

Mr. Skolnik informed the Committee that ADCOR had installed an inflatable, temporary building at HDSP in a 12,000 square-foot area. He indicated that the industrial program presently manufactured concrete castings. He advised that ADCOR had also expressed interest in an additional 30,000 square-foot area at the new facility at HDSP to manufacture concrete castings, mill work and decorative iron work. Indicating that Prison Industries had sent ADCOR a contract for the 30,000 square-foot area in the new facility at HDSP, Mr. Skolnik said if he did not hear back shortly from ADCOR, the footage available to them would be reduced to 20,000 square feet. He indicated that Prison Industries may want to keep a 10,000 square-foot area for their own operations, as the automotive operation at SDCC requires more space. Mr. Skolnik explained that the Imperial Palace (auto collection restoration industrial program) had given notice they no longer wanted to rent space from Prison Industries; however, they wanted to sub-contract the restoration work to Prison Industries. This would eliminate the Imperial Palace's need for a supervisor over the restoration operation.

- With regard to Chairman Marvel's question concerning moving the auto program to HDSP, Mr. Skolnik explained that Prison Industries had a problem of mixing "clean and dirty" in the same location. He pointed out if Prison Industries could keep the clean operation at SDCC with the paint booths and put the wood and body work at HDSP, it would eliminate dust and effectively reduce the re-works at the auto shop. He added that solution would also provide a supervisor from Prison Industries' staff at HDSP. Mr. Skolnik explained that currently, all the supervisors at HDSP were from the private sector, and he would prefer to have some Prison Industries' staff at that facility.

- Answering Chairman Marvel's question regarding when the building would be the available, Mr. Skolnik advised there were still construction locks on the building and he was unsure of the status with the State Public Works Board. He added that Prison Industries was ready to move into the building. In response to a question regarding the completion of the gym at HDSP, Mr. Skolnik affirmed the gymnasium was finished.

**D. Allwire Cable – Southern Nevada Women’s Correctional Facility**

Mr. Skolnik advised the Committee that Prison Industries had renegotiated with Allwire Cable and would be putting in a contract amendment regarding its new building at Southern Nevada Women’s Correctional Facility (SNWCF). He informed the Committee that since Prison Industries' income had been adequate, Prison Industries would be paying higher payments to Allwire Cable in order for the state to own the building earlier than scheduled. He said the initial payment to Allwire Cable would be raised from \$100,000 to \$150,000 with an additional annual payment of \$15,000 per year; thus allowing the state to own the building in less than 7 years versus the previous range of 15 to 30 years. Noting the payment adjustment would result in a much better amortization schedule for the state, Mr. Skolnik advised this proposal would be submitted to the Board of Examiners and the Interim Finance Committee. He added that the payments would come from the Capital Fund; therefore, they would not affect Prison Industries' cash flow. The engineers' drawings for the pre-constructed metal building should be completed shortly and the building should be purchased within 30 days.

With regard to Chairman Marvel's questions concerning the land available for the building and the number of female inmates the industrial program would employ, Mr. Skolnik advised that the building would be located in the back corner in the institution and the industrial program would employ approximately 40 to 60 inmates when fully operational. He explained the industrial program may be a three-shift operation, as the industrial program will be utilizing extruding equipment, which is less expensive to run continually versus turning off and restarting it.

Chairman Marvel asked if Committee members had any questions concerning Allwire Cable. Hearing none, he requested Mr. Skolnik present the next agenda item.

**E. Trevi Manufacturing Corporation – Jean Conservation Camp**

Mr. Skolnik informed the Committee that Trevi Manufacturing Company is operational as a community-work program. The company has been transporting 11 female inmates from the Jean Conservation Camp to Trevi's operation at North Las Vegas to manufacture concrete castings. He said if more trustee inmates were to go on Trevi's industrial program right now, it would impact the Nevada Division of Forestry's program. He advised that once the prison population settles and the shortage of bed space is solved, the program could be moved to North Las Vegas where it would be more convenient for all involved.

Chairman Marvel remarked that he had been informed there was an upsurge in the female inmate population. He asked where the majority of the female inmate population was housed.

Director Crawford affirmed that since October 2004, there had been an increase of approximately 108 in the female inmate population, who were housed according to the female inmate's level classification. Director Crawford explained that 240 trustee inmates were housed at the Jean Conservation Camp; 120 trustee inmates were housed at Silver Springs, and the remaining female inmates (approximately 530) were housed at SNWCF. She added that the Nevada Department of Corrections (NDOC) attempted to classify and locate the inmates as close to their homes as possible. Director Crawford advised the Committee that NDOC is working with Parole and Probation and the Parole Board to consider house arrests for some of the female offenders to address the crowded population.

Answering a question from Chairman Marvel regarding other existing space, Director Crawford affirmed there was no additional space available. She advised that NDOC would ask the Legislature for plans to build a 250-bed re-entry center for female offenders at Smiley Road. In response to Chairman Marvel's question regarding an industry program for the proposed center, Director Crawford indicated that the existing programs for Allwire Cable and Jacobs Trading Company would remain as the industry programs. She added that Jacobs Trading Company, the industrial program for medium-security female inmates, had expressed interest in expansion. Director Crawford advised that approximately 58 percent of female offenders could be classified as minimum-security inmates as they are non-violent. She stressed it was important to get these women into a system so that they could transition out and go back into the home. Noting that many of the female offenders have custody of their children, Director Crawford said the NDOC recently started a re-unification program and had received an overwhelming support of the community in Las Vegas regarding the program. Director Crawford expressed her gratitude to Assemblyman Arberry for his encouragement of NDOC and their programs. She opined that the transition of SNWCF from private to state ownership went very well.

**F. Jacobs Trading Company – Southern Nevada Women's Correctional Facility**

Mr. Skolnik advised the Committee that Jacobs Trading Company had been operating at SNWCF for approximately three years and had approached Prison Industries with a request to transfer the industrial program under the umbrella of Prison Industries. Mr. Skolnik informed the Committee that in order to expand their program, Jacobs Trading Company was willing to pay for a new building sited outside SNWCF and fence the area to make it accessible for medium-security inmates. He related that site plans for the physical location had gone to the building engineer for Jacobs Trading Company and all that was required was soil-sample testing and preparing a contract. With Jacobs Trading Company's move to a new building, approximately 3,000 square-feet would be made available for industrial programs inside SNWCF.

Chairman Marvel called for any questions under agenda item V. Hearing none, he requested Mr. Skolnik continue with agenda item VI.

**VI. STATUS REPORT REGARDING THE FOLLOWING PRISON INDUSTRIES' PROJECTS:**

**A. Construction Project –High Desert State Prison**

Mr. Skolnik informed the Committee that the building at HDSP had been completed and he had conducted a tour for two companies in the construction- and spec-industry building business that expressed interest in the building. Observing that the building had total flexibility, Mr. Skolnik related that Prison Industries relinquished a few things on the building in order to obtain H-4 occupancy construction throughout.

Mr. Skolnik explained Prison Industries had run into a delay in acquiring occupancy certificates due to the fact they now must provide specific bay-by-bay building drawing plans in order to obtain each bay's usage permit. Chairman Marvel questioned why the State Public Works Board was not responsible for obtaining this information. Mr. Skolnik answered that he was required to provide the State Public Works Board with drawings of building plans from a company that may or may not have a contract in order to receive the occupancy permit for the company. Indicating this was problematic, Mr. Skolnik said that he understood a prospective



industrial program's reluctance to sign a contract until it was certain they could move in. Mr. Skolnik speculated he would move the companies in with the expectation that plans would be approved.

With regard to the particular project at HDSP, Mr. Chesney related that the Attorney General's Office would be reviewing the contract, and that he did not anticipate any problems.

In response to Chairman Marvel's questions regarding the location for the industrial program and who would pay for the correctional officers to oversee the industrial programs, Mr. Skolnik replied the industrial program would be located in the back of the facility near the sally-port. He advised that the prospective company/companies would be responsible for the compensation of the industrial correctional officer.

## **B. Potential Development of Industrial Park – Indian Springs**

Mr. Skolnik recalled for the Committee that considering the potential expense of development of the industrial park, there was concern regarding the 35-year limit on a lease for the proposed industrial park at Indian Springs. He advised the Committee that the concern had been resolved. Mr. Skolnik explained that according to Mr. Chesney and Yvonne Goodson, Deputy Legislative Counsel, Legal Division, a renewal option to allow an addition of up to 35 years was permissible with the 35-year lease, which would give a company time to recover their capital investment in the industrial park.

Mr. Skolnik advised the Committee that Prison Industries hoped to have the Request for Proposal (RFP) for the industrial park out within the next few weeks. He advised that Kimberee Tarter from the State Purchasing Division had been diligent in working with Prison Industries on the contract.

In response to Chairman Marvel's question regarding the previous interpretation concerning the 35-year limit on a lease, Mr. Skolnik explained that statute limits land leases to a maximum of 35 years. Since Prison Industries would have a land lease for the developer of the proposed Industrial Park, the question surfaced whether the lease could incorporate a renewal. He noted that most of Prison Industries contracts are for a term of 5 years with a 5-year option for renewal. Mr. Skolnik added that according to legal counsel, there is no prohibition on the options of renewal, thus Prison Industries will include the option in the RFP.

Responding to Chairman Marvel's question regarding the requirement of legislation regarding the limit on a lease, Ms. Goodson indicated that the interpretation had no prohibition to include the renewal. Mr. Chesney concurred with Ms. Goodson with respect to the interpretation; there was no ban regarding the lease renewal option. He said that the option to exercise the renew option would be at the discretion of lessor. Should the lessor not wish to renew the lease, the building would become property of Prison Industries.

Mr. Skolnik clarified for the Committee that it was not Prison Industries' objective to obtain buildings for the state. He emphasized Prison Industries' goal was to employ inmates and this project had the potential to employ 1,500 to 2,000 inmates.

Concurring with Mr. Skolnik that the proposed Industrial Park would be beneficial as it would enhance inmate employment, Chairman Marvel indicated he would like to see the inmate-employment rate increase from the present 6 percent to NDOC's goal of 20 percent.

Mr. Skolnik stated that Prison Industries' limitation to date had been one of space. He expounded, saying that with the exception of a small unit at the facility at Lovelock, all space had been occupied. He pointed out the labor force at Prison Industries was valuable to the manufacturers and the service industries.

In response to Chairman Marvel's questions regarding union issues and the tight labor market in the southern part of Nevada, Mike Magnani, Labor Union Representative, indicated he did not foresee problems with the labor force. Mr. Magnani said that with the opening of the Wynn property, the labor force may be tighter; however, his office was not experiencing a tight market at this time. Mr. Marvel clarified that his concern was that Prison Industries may be in competition with the union labor force. Mr. Magnani indicated he would like to have the opportunity to address the construction trades of southern Nevada regarding the industrial park; however, he did not perceive any problems. Chairman Marvel requested that Mr. Skolnik keep Mr. Magnani informed as the industrial park project progressed. Mr. Skolnik agreed to do so. Mr. Magnani expressed his appreciation regarding being informed of the decisions on the construction labor force prior to the industrial park's construction.

Chairman Marvel asked if there were further comments or questions from the Committee regarding the industrial park. Hearing none, he directed the Committee to the next agenda item.

### **C. Cook/Chill Process – High Desert State Prison**

Mr. Skolnik informed the Committee that one of two interested vendors that qualified for the Cook/Chill program had decided they did not want to partner with the public sector. He said that Prison Industries would be meeting on January 21, 2005, with Aramark, the other interested vendor, to review program expenditures. Mr. Skolnik advised the Committee that Aramark had been in Nevada's food service business for some time and if all seems feasible, negotiations on a contract for the Cook-Chill program would follow.

In response to Chairman Marvel's question regarding the viability of the Cook/Chill project, Mr. Skolnik advised that Aramark was very interested in the partnership of the industrial program. He added that Aramark was also involved in a large uniform operation that may afford Prison Industries the potential to manufacture uniforms for Aramark. Mr. Skolnik further added that Aramark could potentially use the proposed industrial park at Indian Springs for their distribution center for the southwest.

Responding to Chairman Marvel's question regarding the transportation of the product of the Cook/Chill process, Mr. Skolnik indicated that the transportation was subject to the final negotiations with Aramark. He explained that the capital investment for the Cook/Chill project would be Aramark's responsibility, as would equipment needs. Prison Industries made it clear to Aramark that they would not make capital investments, nor would they ask the state of Nevada for capital investments.

With regards to Chairman Marvel's question concerning whether Aramark would provide a secondary kitchen in the northern part of the state for the Cook/Chill Program, Mr. Skolnik explained a phase-in implementation is anticipated. He added that thus far, Prison Industries received "a package" estimate from Aramark, which had not been broken down; therefore, Prison Industries was not sure what all was included.

Jackie Crawford, Director, Department of Corrections (NDOC), expressed her support of the potential Cook/Chill industrial program and related that other states that had implemented the Cook/Chill concept had experienced substantial savings. She voiced concern regarding the staffing pattern for the program.

With regard to Director Crawford's concern, Mr. Skolnik explained that the vendor had been informed that state employees would not lose their jobs due to the conversion. He further explained that employees who qualify for retirement could take the option to retire and change their employment to Aramark. With regard to Chairman Marvel's question concerning the number of employees, Mr. Skolnik advised that Aramark's staffing pattern was substantially larger (three times as many staff) than that of NDOC's.

Responding to Chairman Marvel's questions concerning a time frame and the space availability for the Cook/Chill industrial program, Mr. Skolnik related that the next meeting would determine the viability of the project. He advised that if all went well at the January 21, 2005, meeting, negotiations for the contract could proceed.

Mr. Skolnik noted that Aramark had toured the High Desert State Prison (HDSP) facility and reported that the culinary at the facility was adequate for the industrial program. He added this facility could be expanded if need be in the future. With regard to a question from Chairman Marvel concerning the capital investment cost for Prison Industries, Mr. Skolnik replied there would be no capital investment for Prison Industries; Aramark would make the capital investment.

Mr. Skolnik reminded the Committee that the Cook/Chill Program would provide post-release culinary skills for inmates that would afford the inmates jobs upon release. He related that a portion of the RFP and the negotiated package addressed inmate training. Mr. Skolnik indicated that Aramark had spoken with the Community College of Southern Nevada to set up a formal training program and that there would be formal training for the inmates on the industrial program.

Chairman Marvel commented that the proposed industrial program for Cook/Chill would cut down on recidivism. He asked if Committee members had further questions on the Cook/Chill industrial program. Hearing none, he welcomed John McCuin, Chief of Financial Services for Prison Industries, and requested that Mr. McCuin address agenda item VII regarding the financial statements for Silver State Industries.

## **VII. REVIEW OF FINANCIAL STATEMENTS FOR QUARTER ENDING JUNE 30, 2004.**

John McCuin, Chief of Financial Services for Prison Industries, introduced himself for the record and directed the Committee to page 72 of the meeting packet, Exhibit C, which contained information on the total loss for the industry program. Mr. McCuin indicated approximately one-third of this loss occurred in 2003. He pointed out that page 73 depicted a breakdown of the \$113,000 loss, which showed all of the loss occurred within the industries section (budget account 3719). With regard to the drop in the Prison Dairy (budget account 3728) from \$52,000 down to \$15,000, Mr. McCuin explained that prior to the Bureau of Land Management (BLM) horse program, the Prison Dairy was always a break-even operation. Beginning in 2004, an annual administrative fee was charged to the Prison Dairy; the administrative fee for 2004 was \$48,000.

Directing the Committee to page 76 of the meeting packet, Exhibit C, Mr. McCuin said that all losses

could be attributed to Central Administration or General Administrative costs. He advised that in 2003, revenue was enhanced by approximately one-fourth of the reissue license-plate fees, which with the normal issue of license plates in 2004, decreased by \$200,000. Mr. McCuin advised the Committee that Prison Industries showed a \$20,000 increase in rental income due to the loss of the 10,000 square-foot area, which was utilized by the Pershing County School District in Lovelock, and the gain the 20,000 square-foot area in the sprung building in SDCC. He noted the increase in Administration fees of \$71,000 and explained that \$48,000 of that was due to fees from the Prison Dairy.

Highlighting expenses for the Committee, Mr. McCuin pointed out that the increase in the Depreciation account of \$20,000 was due to the start of depreciation on the sprung building (he noted this was a paper expense and the money had already been outlaid). Addressing Chairman Marvel's question regarding the reduction in Staff Salaries and the increase in Staff Fringe Benefits, Mr. McCuin explained the decrease was to the vacancies of two positions that had not yet been refilled. Increase in Staff Fringe Benefits was a result of increases in accrued annual leave and sick leave, based on information provided to Prison Industries by the State Controller.

Mr. McCuin said that three main accounts attributed to the increase in Bad Debt expense. With regard to Chairman Marvel's question concerning the number of bad accounts, Mr. McCuin replied there were three major bad accounts. He explained that one account was an invoicing error for the shipment of beds for the Clark County Detention Center, which was detected in the financial audit. Mr. McCuin further explained that negotiations by the Prison Industries' market coordinator included the price of shipping with the beds without informing the shop supervisor, who had billed \$20,000 separately for shipping. Continuing, Mr. McCuin said that one company that owed Prison Industries \$20,000 had filed bankruptcy. He added that Prison Industries had written off \$40,000 from another company; however, Prison Industries had learned that this company was slow to pay due to poor quality of the product. Prison Industries had been working on remedying the product problem, and in Mr. McCuin's opinion, they may recover the \$40,000. Answering Chairman Marvel's question concerning the net amount of bad debt considering the incorrect invoicing and quality of product problem, Mr. McCuin related that the net amount would be approximately \$40,000 once the administrative errors were corrected.

Chairman Marvel expressed his hope that Prison Industries would not experience such a high Bad Debt expense in the future. Mr. Skolnik advised that review of the individual categories showed improvement in most areas. He noted the improvement from the previous years in operations in the two areas of most concern: the Furniture and Auto shops.

Chairman Marvel questioned whether Mr. Skolnik felt there were any Prison Industries that were no longer cost effective and should be considered for termination. Mr. Skolnik replied that Prison Industries was taking into consideration the elimination of the Detergent business which was no longer profitable. He pointed out that the Detergent business was part of the Mattress Production Program. He added that this was a one person industry, so it would not eliminate a large number of inmate jobs. With regard to Chairman Marvel's question on the status of the Printing/Bindery program at the Nevada State Prison, Mr. Skolnik commended Mary Byington on the shop's improvements and the excellent job she had done in the Printing/Bindery operation. Mr. Skolnik informed the Committee that they may want to review the Garment Industry for elimination as it was in the negative for the third year. He added that the inventory problem had been solved and there was a substantial improvement in the Garment Industry from the prior years; however, there was not enough volume to make a profit. In response to Chairman Marvel's question concerning contracts to manufacture garments throughout the state, Mr. Skolnik said that Prison Industries had not pursued contracts due to difficulty in obtaining material in a timely fashion. Chairman Marvel questioned if all 60 machines were still operational at LCC. Mr. Skolnik affirmed they were and that 68 inmates were employed at various jobs related to the

Garment Industry. Mr. Skolnik expressed concern whether Prison Industries could maintain a competitive advantage in manufacturing clothing with the lift of the trade tariff on imports from foreign countries such as China and India. Mr. Skolnik advised the Committee that Mr. Boxer, the private-sector customer in the Las Vegas airport, was still doing well.

With regard to the trade tariff, Mr. Smith said that a year ago, there was a push from the White House to get states on board with trade pacts. Mr. Smith reported that Governor Guinn had decided Nevada would not participate as a formal member of the trade pacts. Mr. Smith indicated that at times, he could acquire better prices from out-of-state or foreign vendors; however, State Purchasing, as a governmental entity, also recognized responsibility to the Nevada vendors. Mr. Smith opined that there was no end in sight on these trade pacts.

Mr. Skolnik recalled for the Committee that the tanks for the Thompson Equipment Company's water trucks are manufactured in Bangkok and shipped to Prison Industries empty. He pointed out that the tanks could possibly be used to transport materials to be utilized in the Garment Factory at LLC to give them a competitive edge.

Continuing with the report on the financial statements, Mr. McCuin reported that he had received the draft for the financial statements from the outside auditors, which mirrored Prison Industries' financial statements. In response to Chairman Marvel's question regarding the identity of the outside auditors, Mr. McCuin advised that Fair, Anderson & Langerman, CPAs from Las Vegas performed the audit for Prison Industries.

Chairman Marvel asked if Committee members or staff had further questions on the financial statements for Prison Industries. Hearing none, he said he would accept a motion to approve the statements.

**GREG SMITH MOVED FOR APPROVAL OF PRISON INDUSTRIES' FINANCIAL STATEMENTS AS PRESENTED.**

**DIRECTOR CRAWFORD SECONDED THE MOTION.**

**THE MOTION PASSED UNANIMOUSLY.**

#### **VIII. REVIEW OF NUMBER OF INMATES EMPLOYED JULY 2002 THROUGH OCTOBER 2004.**

Mr. Skolnik directed the Committee to page 99 under tab VIII of the meeting packet, Exhibit C, and advised that Prison Industries had increased the number of inmates employed. He speculated that, with the addition of the space at HDSP, the number would further increase. Mr. Skolnik pointed out that, even without the availability of industry building at HDSP, approximately 100 of the inmates identified as working at Prison Industries are employed at HDSP. He commended his staff on their improvisation and the good job they did in providing jobs without an industry building. Chairman Marvel related that Assemblyman Arberry and he were upset that the buildings were not completed in Phase I as scheduled. Mr. Skolnik agreed those buildings would have been filled.

Chairman Marvel expressed his hope that Prison Industries could meet Director Crawford's goal to employ approximately 20 percent of the inmate population. In response to Chairman Marvel's questions regarding the rate of employment for inmates in prison industrial programs and Nevada's rank among states, Mr. Skolnik answered the rate of employment for Prison Industries was approximately 6 percent, which is about average. He added that the federal prison industry programs,

New York, Texas and other larger states averaged a higher percent of inmates in industrial programs. Mr. Skolnik noted that Nevada's inmate wage ranks the highest in the country; therefore, they contribute more to the state. He further noted that for the size of Nevada, Prison Industries had the largest private sector partnership operation in the country. Mr. Skolnik indicated that working for a private vendor within the institution made a difference in inmate attitude and contributed to the overall management of the institutions.

Chairman Marvel asked if Committee members had any further discussion on inmate employment. There was none.

## **IX. STATUS REPORT CONCERNING POTENTIAL IMPACT OF PROPOSED FEDERAL PRISON INDUSTRY LEGISLATION.**

Mr. Skolnik related that Michigan's Congressman Hoekstra's bill had passed, which stipulated additional controls on federal prison industries; however, the efforts to keep service-oriented industrial programs and the impact on the state out of the legislation were successful. He said that at this time, none of the bills that passed would impact Nevada's Prison Industries. Mr. Skolnik opined that the issue would not be abandoned.

Chairman Marvel commended Director Crawford for her lobbying efforts against legislation that could negatively impact states' prison industry programs. Mr. Skolnik echoed Chairman Marvel's gratitude for Director Crawford's effort and also commended the efforts of the Director's Association; the National Corrections Industries Association; American Correctional Association (ACA); the Director of Governor Guinn's Office in Washington, D.C.; Senator John Ensign; and Senator Harry Reid, who had offered to watch for any amendments concerning such legislation in the future.

With regard to legislation that would have negatively impacted Nevada's Prison Industries', Director Crawford advised that this was a concerted effort and that she did not anticipate such legislation emerging for the next three or four years. Director Crawford opined that the legislation was targeted at federal prison industry programs. She said that federal prison industry programs were monopolizing a number of industries, which became a contentious issue.

Responding to Chairman Marvel's question concerning Senate Bill 2414, Mr. Skolnik explained that S. 2414 was an alternative bill that proposed an evaluation by the Federal Inmate Work Opportunities Review Commission regarding prison industries. He informed the Committee that S. 2414 did not pass.

Chairman Marvel questioned whether there were any further questions or discussion from Committee members on the federal legislation. There was none.

Mr. Skolnik informed the Committee that Prison Industries is in the process of updating their procedures to adhere to new performance standards in order to qualify for re-accreditation with the American Correctional Association (ACA). He indicated Prison Industries' audit with ACA would be scheduled for the fall of 2005. Mr. Skolnik indicated he looked forward to the Committee's support in this objective and pointed out the Nevada was one of six states to achieve accreditation to date.

## **X. PUBLIC COMMENT.**

Chairman Marvel called for public comment. There was no public comment provided.

## **XI. ADJOURNMENT.**

Chairman Marvel called for any other business to come before the Committee. There being none, Chairman Marvel thanked the Committee members and staff for their attendance and adjourned the meeting at 11:17 a.m.

Respectfully submitted,

Denise Larsen  
Secretary

APPROVED:

\_\_\_\_\_  
Assemblyman John Marvel, Chairman

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Date