

**MINUTES OF THE
NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S
COMMITTEE ON INDUSTRIAL PROGRAMS
(NRS 209.4817)
September 28, 2012**

SUMMARY OF MINUTES

The fifth meeting of the 2011–12 Interim for the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs was held at 3:06 p.m. on Friday, September 28, 2012, in Room 4401 of the Grant Sawyer State Office Building in Las Vegas, Nevada. The meeting was simultaneously videoconferenced to Room 3137 of the Legislative Building in Carson City, and in Room 137 of the Great Basin College, High Tech Center, Elko, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Assemblyman James Ohrenschall, Chairman
Assemblyman John Ellison
Senator David R. Parks, Vice Chairman
Allen J. Puliz, Puliz Moving and Storage
Mike Magnani, Labor Union Representative
Bruce Aguilera, Vice President/General Counsel, Bellagio
Greg Cox, Director, Nevada Department of Corrections

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

None

COMMITTEE MEMBERS PRESENT IN ELKO:

Senator Dean Rhoads

COMMITTEE MEMBERS ABSENT:

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

STAFF MEMBERS PRESENT IN LAS VEGAS:

Sarah Coffman, Senior Program Analyst, Fiscal Analysis Division

STAFF MEMBERS PRESENT IN CARSON CITY:

Nicolas C. Anthony, Senior Principal Deputy Legislative Counsel, Legal Division
Cheryl Harvey, Committee Secretary, Fiscal Analysis Division

OTHERS PRESENT IN LAS VEGAS:

Brian Connett, Deputy Director, Industrial Programs, Nevada Department of Corrections
Diane Dastal, Administrative Services Officer II, Nevada Department of Corrections

EXHIBITS:

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

I. CALL TO ORDER.

Chairman Ohrenschall called the meeting of the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs to order at 3:06 p.m. The secretary called roll. Mr. Mackenzie and Mr. Smith were absent, and all other members were present.

II. PUBLIC COMMENT.

There was no public comment.

III. APPROVAL OF MINUTES OF THE MEETING OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS FOR JUNE 25, 2012.

Chairman Ohrenschall requested a motion for approval of the minutes from the June 25, 2012, meeting.

ASSEMBLYMAN ELLISON MOVED TO APPROVE THE MINUTES OF THE JUNE 25 2012, MEETING OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS.

MR. AGUILERA SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

IV. REVIEW OF NEVADA DEPARTMENT OF CORRECTIONS RESPONSES TO QUESTIONS FROM THE JUNE 25, 2012, MEETING RELATING TO:

Brian Connett, Deputy Director of Industrial Programs, Nevada Department of Corrections, introduced himself and reviewed the following items on the agenda:

- A. Silver State Industries accounts receivable aging report – Mr. Connett reviewed the aging report on page 19 of the meeting packet ([Exhibit A](#)). Mr. Connett introduced a letter from Randy Bulloch, owner of Alpine Steel. Alpine Steel had generated sales of \$9.3 million in 2008, \$5.6 million in 2009, \$3.5 million in 2010, and \$2.8 million in 2011. Through August 2012, sales generated were \$3.0 million with expectations to generate more than \$4.0 million by the end of the year. Alpine Steel experienced difficult times in the past due to the economy. Mr. Bulloch expected Alpine Steel would generate sales of \$12 million from the Skyview Ferris Wheel project in 2013.

Mr. Connett indicated Alpine Steel had a large amount of steel at High Desert State Prison (HDSP) in anticipation of commencing the construction of the Skyview Ferris Wheel project. However, peer reviews required by the project's engineers were causing delays in the commencement of the project. Despite the delay, Mr. Connett anticipated that Alpine Steel would still be the awarded contractor for the project. Mr. Bulloch said the revenue from the Skyview Ferris Wheel project would be used to pay in full the debt owed to Silver State Industries.

Chairman Ohrenschall asked if Alpine Steel had been able to make any payments toward the balance due to Silver State Industries. Mr. Connett stated Alpine Steel had slowly been making payments to pay off the inmate wages. Alpine Steel was behind in paying inmate wages, as Mr. Bulloch had stated in the past. Mr. Bulloch anticipated that Alpine Steel would be current in its inmate wages owed within the next 35 days. Chairman Ohrenschall wanted to make clear that Mr. Bulloch had pledged inmate wages would be paid in full within 35 days. Mr. Connett confirmed that was correct.

Chairman Ohrenschall asked if the rears of inmate wages due reflected in the aging report of \$401,876. Mr. Connett said the inmate wages were not included in the outstanding amount shown on the summary report (beginning on page 19 of the meeting packet, [Exhibit A](#)). Chairman Ohrenschall asked if Mr. Bulloch had given any indication about the progress he planned to make on reducing the outstanding debt. Mr. Connett said it was heavily dependent on the Skyview Ferris Wheel project.

Assemblyman Ellison stated he had several concerns with Alpine Steel. His primary concern was with the \$401,000 in debt owed to Silver State Industries. In his experience with construction projects, he had to guarantee that his suppliers were paid pursuant to the Nevada contractor's license law. He asked if any precautions had been taken by Silver State Industries to become a lien holder on the project. Mr. Connett replied Silver State Industries did not have a guarantee. Mr. Connett was working with Mr. Bulloch to establish certain guarantees before work on the Skyview Ferris Wheel project started.

Mr. Aguilera asked if Alpine Steel had any assets available that Silver State Industries could pursue legally if the debt owed was were not paid back. Mr. Connett replied he had not performed any asset searches.

Chairman Ohrenschall asked if Mr. Connett knew the amount in inmate wages that Alpine Steel owed to Silver State Industries. Mr. Connett said the amount of inmate wages owed was approximately \$78,000. He expected Alpine Steel to make a \$40,000 payment in the following week, and become current with inmate wages by the end of October 2012.

In response to a question posed by Assemblyman Ellison, Mr. Connett confirmed that Alpine Steel owed \$78,000 in inmate wages and \$401,000 in lease payments and correctional officer wages that had not been paid over the last two years. He said none of the debt owed was from raw materials. Alpine Steel purchased the raw material and brought it into the prison for the inmates to manufacture.

Mr. Puliz asked if Alpine Steel had signed a note for the outstanding debt and questioned if there was interest being charged on the debt. Mr. Connett stated interest was being charged on the debt at the state mandated interest rate. He further indicated he would discuss with Alpine Steel the possibility of establishing a note.

Chairman Ohrenschall asked if the \$401,000 included the compounded interest charges. Mr. Connett confirmed the amount due included interest. Chairman Ohrenschall asked if there were other Prison Industry entities that had outstanding inmate wages due. Mr. Connett said Alpine Steel was the only company that was overdue in its inmate wages.

Chairman Ohrenschall asked if Alpine Steel had incurred any other debt. Mr. Connett answered Alpine Steel had an account with Ahern Equipment Rental, but he was not aware of any other outstanding debt owed by Alpine Steel.

- B. The cost of an appraisal performed on Nevada State Prison – Mr. Connett informed the Committee that the Division of State Lands estimated an appraisal on the institution would cost approximately \$20,000. He said Division of State Lands indicated it would conduct the appraisal, funding had not been allocated in the budget for an appraisal of Nevada State Prison (NSP).
- C. The liquidation of abandoned vehicles at the Auto/Upholstery Shop – Ms. Diane Dastal, Administrative Services Officer II, Nevada Department of Corrections, reviewed the list of abandoned cars listed on page 17 of the meeting packet ([Exhibit A](#)). She informed the Committee that the Deputy Attorney General had identified certain legal requirements associated with disposing of abandoned vehicles. There was not a time limit to dispose the vehicles. Since Prison Industries was a licensed body shop, it was allowed to process a lien sale. Each vehicle must undergo a DMV appraisal. Once the appraisal was completed a demand letter would be sent to the legal owner of the vehicle giving notice of the place and time when the vehicle would be auctioned. Sixty days' notice must be given before a vehicle could be auctioned. The auction must be held close to the place where the vehicle was abandoned, and advertised in the newspaper for three consecutive weeks. The auction must be open to the public, and notice of the sale must be sent to the legal owner and DMV.

- D. The possibility of inmates cultivating hay on state property outside the confines of prison – Mr. Connett said the Prison Industry’s supervisor of the ranch identified state properties in close proximity to Northern Nevada Correctional Center (NNCC). The land identified did not have good access to irrigation or agricultural water rights. They would continue to investigate other state land parcels that could possibly be used to cultivate hay.

At the last Committee meeting, Assemblyman Ellison recalled that Mr. Connett mentioned he would look into using grass hay instead of alfalfa. Mr. Connett said he had worked closely with state procurement to purchase a combination of both products. For example, if Prison Industries needed 1,000 tons of hay, someone could provide 750 tons of one type of hay, combined with 250 tons of another to help reduce the costs. Prison Industries tried to utilize the most inexpensive hay that met the minimum specifications required of the BLM project.

At the last meeting Mr. Allen Puliz recalled that Mr. Connett stated that BLM would tie the price of hay to the rate charged by Prison Industries for boarding the wild horses as part of the new signed contract. Mr. Connett informed the Committee that a ten-year contract had been signed with BLM that had a variable pricing structure that allowed the rate to increase or decrease based on the price of hay and the quantity of horses boarded. The revised contract stipulations would protect Silver State Industries from the volatility of hay prices. Prison Industries increased its rate charged per horse by over \$1.

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

- A. Alpine Steel – Mr. Connett reminded the Committee that the engineering crew had delayed the process, but anticipated the Skyview Ferris Wheel project would start by mid to late fall. Alpine Steel had seen an upward trend in its demand based on the number of bids it had experienced. Alpine Steel currently had several projects in process that they had been awarded. One was the Skyview Ferris Wheel. Other jobs included a car dealership, and a hospital.

Mr. Greg Cox, Director, Nevada Department of Corrections (NDOC), informed the Committee that he was aware of Alpine Steel’s promise to pay \$40,000 in inmate wages as discussed earlier. He would inform the Committee members when the money was received by Alpine Steel. In the event that the money was not paid, NDOC would take appropriate actions to resolve the issue. Alpine Steel had raw materials and equipment inside the prison. The materials cannot be removed by Alpine Steel without clearance from the NDOC. Mr. Cox explained he would have a discussion with the Deputy Director and the Warden concerning a way to insure that the materials would remain inside the facility.

Chairman Ohrenschall assumed Silver State Industries would try to get some monetary value from the equipment if Alpine Steel did not pay. Director Cox concurred, adding that he would work closely with Mr. Connett regarding the \$40,000 that was owed by Alpine Steel.

Chairman Ohrenschall asked if any company that worked with Silver State Industries ever filed bankruptcy. Mr. Connett explained when he first started with Silver State Industries there was a company that did card sorting. The owner left the country, leaving a debt owed to Silver State Industries. Prison Industries increased the price charged to the current owners of the card sorting business in order to recoup the debt.

Assemblyman Ellison said he had been in business for 20 years and he had always established contracts with entities that conducted business with him. He explained if he was awarded a state job he had to have a bond and a financial guarantee. Chairman Ohrenschall asked if other states required a bond to be posted with private entities participating in Prison Industries, and if Mr. Connett thought that would dissuade the efforts of getting more inmates into job training programs by requiring a bond. Mr. Connett responded it would dissuade companies if they had to provide financial instruments. Most of the states across the country have a situation where private companies operate inside prisons. The amount paid to Prison Industries depended on the companies process. The companies pay for the rent or lease of the facility and the inmate wages. Sometimes Prison Industries do ask the companies to provide bonding. A bond was a less expensive avenue to avoid these financial issues. He would discuss with Alpine Steel the possibility of establishing a guarantee.

- B. Diamond Mountain Distributors – Mr. Connett explained Diamond Mountain Distributors was the card sorting company. The company lost its account with the MGM hotel in Las Vegas. Silver State Industries had seen a huge increase in the number of inmate workers. Diamond Mountain established relationships with a number of retail companies across the country that would increase there need for special projects.

Chairman Ohrenschall asked if Mr. Connett thought the card sorting company may expand to other prison facilities. Mr. Connett replied Diamond Mountain Distributors had reopened at Southern Desert Correctional Center facility.

- C. Auto/Upholstery Shop – Mr. Connett explained the auto shop continued to struggle financially. Chairman Ohrenschall said in 2008 there were 52 inmates working at the auto/upholstery shop, present date there are 29 inmates working. He asked if there were any plans to increase the business at the auto shop. Mr. Connett said he was always trying to increase the revenues.

D. Big House Choppers – Mr. Connett informed the Committee the three remaining motorcycles had been advertised on eBay and Craig’s list but not yet sold. The motorcycles were displayed on Russell Road in Las Vegas in front of the offices.

Mr. Allen Puliz suggested auctioning the motorcycles on eBay. Mr. Connett said an auction had been conducted on eBay with a minimum bid amount which had not been successful. Prison Industries has lowered the price of the motorcycles.

Assemblyman Ellison asked if the casinos had been solicited as they sometimes buy motorcycles for street vibrations and other events held throughout the state. Mr. Connett said he had contacted the New Orleans and they expressed an interest, but never followed through with the purchase. Mr. Connett had also approached the Grand Sierra Resort in Reno about the motorcycles.

Senator Parks asked Mr. Connett if the three remaining motorcycles could be placed on consignment at a motorcycle shop. Mr. Connett said the bikes were placed on consignment in the past but were not sold. Mr. Connett informed the Committee that the motorcycles were located at Southern Desert Correctional Center (SDCC) and Casa Grande Transitional Center.

VI. REVIEW THE NUMBER OF INMATES THAT WORKED JULY 2010 THROUGH JULY 2012.

Ms. Dastal summarized the number of inmates that worked July 2010 through July 2012 on page 23 of the meeting packet ([Exhibit A](#)).

Ms. Dastal further explained that Opportunity Village had contracted with Silver State Industries to sort the cards. They had an agreement to sort the cards for MGM properties. Opportunity Village marks the cards and then ships the cards to SDCC to be sorted.

Chairman Ohrenschall asked if there was a goal Prison Industries would like to meet in the next three years relating to the number of inmates employed. The Committee would like to see the program grow. Director Cox stated he was starting to see an increase in employment for inmates. He said Mr. Connett had been working to increase inmate employment.

VII. REVIEW THE DEDUCTIONS FROM INMATE WAGES FOR ROOM AND BOARD, THE PRISON INDUSTRY CAPITAL IMPROVEMENT FUND, AND THE VICTIMS OF CRIME FUND – FY 2011, FY 2012 AND FY 2013 YEAR-TO-DATE.

Ms. Dastal reviewed the inmate deductions from page 27 of the meeting packet ([Exhibit A](#)).

VIII. DISCUSSION OF OTHER POTENTIAL PRISON INDUSTRY PROGRAMS AND COMMITTEE RECOMMENDATIONS (NRS 209.4818).

Mr. Connett indicated there was a recycling company interested in participating in Prison Industries. He presented the Committee with a video of the processes the company would perform at Prison Industries if the program were approved, [http://www.youtube.com/watch?v= GP3JuiX5BY](http://www.youtube.com/watch?v=GP3JuiX5BY). The company had told Mr. Connett that they would build the building and install the equipment at no cost to the state. If approved, the facility would be located near SDCC. Mr. Connett assured the Committee that the proposed recycling facility would not displace private sector employees in the local economy. The program would reduce material going into the landfills. Initially, the company estimated it would employ about 50-75 inmates and eventually expand its operation to employ 100 – 125 inmates. In return, the company would require an exclusive three-year arrangement with Silver State Industries. Mr. Connett felt comfortable entering into this agreement, and he urged the Committee to move forward with its approval. The company planned to meet with the major players in the garbage business.

Mr. Puliz asked if the location of the proposed recycling facility was the land next to SDCC that was previously slated to be the industrial park, and if this company was going to buy the land or sign a long-term lease with Prison Industries. Mr. Connett was looking at a number of options for the facility in regards to space and availability based on security needs. The company would sign a long-term lease of the land. Mr. Puliz informed the Committee that the industrial park previously proposed would have offered long-term leases to bring in industries of this type.

Mr. Magnani pointed out his concerns that the employment of inmates at the proposed recycling facility may displace Nevadans in the private sector performing the same job. He indicated that Republic Services, a Las Vegas waste management company, offered the same jobs and the employees were paid good wages, and provided health insurance and a pension. He did not want to displace private sector jobs so a company could pay inmates minimum wage to perform the same jobs. He supported the idea of growing the prison industry. Teamsters were currently sorting garbage for Republic Services, and he was aware of other organizations in town who offered the same services. Mr. Magnani stated he would like to meet with the new company so that he could ensure that private sector jobs would not be taken from Nevada citizens. Director Cox and Mr. Connett indicated they had meetings with this company and were assured by the company that it would not take any jobs away from Nevadans. The company would be fulfilling a surplus in demand not being met by the industry.

Director Cox acknowledged there were a number of people in the community currently working in the recycling field. He indicated he would not approve of any prison industry program that would put the jobs of citizens in Nevada in jeopardy.

Mr. Aguilera asked if this company would take the garbage from another company, or if they would go collect the garbage from the residents. Mr. Connett stated the garbage would be delivered to the facility, however, he was unaware of the process prior to its arrival at the facility.

Chairman Ohrenschall asked if the company would pay for the cost of building the facility. Mr. Connett said the company would pay all of the costs for the capital improvements. Director Cox suggested the Committee members speak with the representatives of the company.

Chairman Ohrenschall asked Nicolas C. Anthony, Senior Principal Deputy Legislative Counsel, Legal Division, if this Committee could meet with this company privately, or if the discussion had to take place in a public meeting. Mr. Anthony advised the Committee if they were to consider a meeting with the company at a later time, it should be posted on a public agenda for discussion at a future meeting.

Assemblyman Ellison asked what the timeline was to initialize the program if the Committee approved of the program. Mr. Connett responded the company would begin meeting with the major garbage companies and form partnerships. This program was not something that could be implemented tomorrow.

Mr. Connett informed the Committee that the company they would like to have an exclusive contract with NDOC. Assemblyman Ellison asked if this company was the only company in town that performed the kind of recycling proposed. Mr. Connett said he did not have much knowledge of the industry, but he thought there might be another recycling organization locally.

Mr. Aguilera asked if this type of recycling was being performed by prison industry programs in any other states. Mr. Connett said he was not aware of this type of program operating in any other state.

Senator Parks asked if security could be maintained in such a facility. Mr. Connett explained security was always an issue when dealing with inmate workers. The NDOC has discussed all of these issues with the company.

Chairman Ohrenschall asked if this company envisioned processing recyclables from other areas. Mr. Connett stated they anticipated starting in southern Nevada and expanding to other areas of the state.

Chairman Ohrenschall asked how southern Nevada currently processed its recyclables, and how many people were employed in the industry. Mr. Connett responded he did not know.

Chairman Ohrenschall asked NDOC if the company would be willing to have a discussion with the Committee at its next meeting regarding the proposed recycling facility. Mr. Connett said they would be more than willing to come to a Committee

meeting. Director Cox stated, that by continuing the discussion to the next Committee meeting, the Committee members would have time to look at other recycling companies and come up with more questions about the proposed program. Director Cox knew there was a number of companies in Las Vegas that recycle from the major resorts. He said the company wanted to expand recycling in Las Vegas to a single line process where all the recyclables were thrown in one can. He also stated other states required recycling but not in Nevada.

SENATOR PARKS MOTIONED FOR THE COMMITTEE ON INDUSTRIAL PROGRAMS TO ISSUE THE SUPPORT OF FURTHER INVESTIGATION OF A POTENTIAL INDUSTRY TO RELOCATE AT ONE OR MORE OF THE PRISON INDUSTRY FACILITIES.

ASSEMBLYMAN ELLISON SECONDED THE MOTION.

Mr. Magnani asked to amend the motion to include the approval be subject to the Committee meeting with the company and providing some type of proof that the facility would not displace workers in the private sector.

SENATOR PARKS AMENDED HIS MOTION TO SUPPORT NDOC TO FURTHER INVESTIGATE THE POSSIBILITY OF CONSULTING A PRISON INDUSTRY RECYCLING FACILITY SUBJECT TO THE COMMITTEE MEETING WITH THE COMPANY AND THE COMPANY PROVIDING PROOF THAT IT WOULD NOT DISPLACE ANY PRIVATE SECTOR JOBS.

Chairman Ohrenschall asked who decided if the facility gets built. Mr. Connett responded it would be the participants that would decide whether they were going to put up the capital for the facility. After that point, it would be subject to the approval of the Interim Finance Committee and the Board of Examiners.

Mr. Anthony stated according to the statutory duty of this Committee under NRS 209.4818, the Committee was charged with reviewing any new industrial program before it was established by the director, and submitting to the director its recommendation concerning the proposed program. Based on the motion today, the NDOC would go forward with its negotiations and ongoing discussions with this business entity. Ultimately, this Committee must provide recommendations to the director to establish any new program.

Director Cox said Mr. Anthony was correct, he would not proceed with the new program without the Committee's recommendation to move forward.

Mr. Aguilera confirmed that the motion did not provide the Committee's approval to move forward with the program, it simply approved the NDOC to continue discussing the possibility of moving forward with the company. The Committee had some concerns about displacing jobs.

Chairman Ohrenschall asked Mr. Anthony if the motion was making a commitment to the company. Mr. Anthony said he believed the motion was only to go forward with the preliminary negotiations and the Committee expected a full report at the next meeting, at which time, the Committee could consider its options. By statute, you are required to look at whether a new program would cause individuals to be displaced out of the private sector. At this point the Committee had not made such recommendations.

THE MOTION PASSED UNANIMOUSLY.

IX. Public Comment.

There was no public comment.

X. ADJOURNMENT.

Chairman Ohrenschall informed the Committee the next Committee on Industrial Programs meeting would be held prior to the November elections so Senator Rhoads could participate. The meeting was adjourned at 4:51 pm.

Respectfully submitted,

Cheryl Harvey, Committee Secretary

APPROVED:

Assemblyman James Ohrenschall

Date: _____