

**MINUTES OF THE
NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S
COMMITTEE ON INDUSTRIAL PROGRAMS
(NRS 209.4817)
January 19, 2010**

The first meeting of the 2009–10 Interim for the Nevada Legislature's Interim Finance Committee's Committee on Industrial Programs was held at 1:00 p.m. on Tuesday, January 19, 2010, in Room 4412 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, Nevada.

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Howard Skolnik, Director, Department of Corrections
Greg Smith, Administrator, Purchasing Division

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Senator David R. Parks, Chairman
Assemblyman John Hambrick, Vice Chairman
Senator Dean A. Rhoads
Assemblyman Moises Denis
Bruce Aguilera, Vice President/General Counsel, Bellagio
Suze Davis, Alternate for Mike Magnani
Michael Mackenzie, Principal, Operations Improvement Company
Allen J. Puliz, Puliz Moving and Storage

COMMITTEE MEMBERS ABSENT:

Mike Magnani, Labor Union Representative

STAFF MEMBERS PRESENT IN CARSON CITY:

Nicolas Anthony, Senior Principal Deputy Legislative Counsel, LCB Legal Division
Natalee Binkholder, Deputy Legislative Counsel, LCB Legal Division

STAFF MEMBERS PRESENT IN LAS VEGAS:

Tracy Raxter, Assembly Fiscal Analyst, LCB Fiscal Analysis Division
Cheryl Harvey, Secretary, LCB Fiscal Analysis Division

OTHERS PRESENT IN LAS VEGAS:

Brian Connett, Deputy Director, Industrial Programs, Department of Corrections
Diane Dastal, ASO II, Department of Corrections

EXHIBITS:

[Exhibit A](#) – Meeting Packet

I. CALL TO ORDER

Tracy Raxter, Assembly Fiscal Analyst, Legislative Counsel Bureau, Fiscal Division, called the meeting to order at 1:10 p.m. He asked that the committee secretary take roll and it was determined that a quorum was present.

II. SELECTION OF CHAIRMAN AND VICE-CHAIRMAN – NRS 209.4817

Mr. Raxter directed the committee to page 3 of the meeting packet, [Exhibit A](#). *Nevada Revised Statutes 209.4817* described the composition of the committee, and indicated a chairman was to be selected from among the membership. Although not required by statute, the tradition was to select a vice chairman also.

The regular members of the committee were appointed by the Interim Finance Committee at the June 25, 2009, meeting. The regular committee members were Senator David Parks, Senator Dean Rhoads, Assemblyman Moises Denis, Assemblyman John Hambrick, Bruce Aguilera, Michael Mackenzie, Mike Magnani, and Allen Puliz. Mr. Raxter also noted that Howard Skolnik, Director, Department of Corrections, and Greg Smith, Administrator, State Purchasing Division, were standing members of the committee by virtue of their positions.

Mr. Raxter indicated he would accept nominations for the chairman of the Interim Finance Committee's Committee on Industrial Programs.

DIRECTOR SKOLNIK MOVED TO SELECT SENATOR PARKS AS CHAIRMAN OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS.

MR. AGUILERA SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

Senator Parks stated this was the first meeting of the Interim Finance Committee's Committee on Industrial Programs and asked members to nominate a vice chair.

DIRECTOR SKOLNIK MOVED TO SELECT ASSEMBLYMAN HAMBRICK AS VICE CHAIRMAN OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS

BRUCE AGUILERA SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

III. APPOINTMENT OF ALTERNATE MEMBERS OF COMMITTEE ON INDUSTRIAL PROGRAMS – NRS 209.4817

Mr. Raxter explained NRS 209.4817 provided for the appointment of alternate members of the Committee on Industrial Programs. The alternate members would serve for a two-year term. Mr. Raxter noted staff had received the names of three alternates: Richard Serlin for Bruce Aguilera; Suze Davis for Mike Magnani; and Scott Stolberg for Allen Puliz. Senator Rhoads requested Senator Mike McGinness; Assemblyman Hambrick recommended Assemblyman McArthur, Assemblyman Moises Denis recommended Assemblyman Ruben Kihuen; and Senator Parks recommended Senator Joyce Woodhouse.

SENATOR RHOADS MOVED TO APPROVE THE APPOINTMENT OF ALTERNATE MEMBERS OF COMMITTEE ON INDUSTRIAL PROGRAMS.

ASSEMBLYMAN DENIS SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

IV. APPROVAL OF MINUTES OF THE MEETING OF THE NEVADA LEGISLATURE'S INTERIM FINANCE COMMITTEE'S COMMITTEE ON INDUSTRIAL PROGRAMS FOR OCTOBER 1, 2008

Chairman Parks pointed out a correction to page 15 of the minutes. The middle paragraph referred to the print shop, but should have referred to the furniture shop.

Chairman Parks requested a motion for approval of the minutes from the October 1, 2008, meeting.

MR. SMITH MOVED TO APPROVE THE MINUTES OF THE OCTOBER 1, 2008, MEETING OF THE COMMITTEE ON INDUSTRIAL PROGRAMS WITH THE CORRECTION.

MR. AGUILERA SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

V. REPORT ON PRISON INDUSTRY PROGRAMS DISCONTINUED DURING THE PERIOD OF OCTOBER 2008 THROUGH DECEMBER 2009

Mr. Brian Connett, Deputy Director, Industrial Programs, introduced himself and Diane Dastal, Administrative Services Officer II, Industrial Programs. Mr. Connett described the programs that had been discontinued.

- **Thomson Equipment – Southern Desert Correctional Center** – Thomson Equipment purchased trucks at auction, refurbished the trucks by adding water tanks and resold them at auction. During the last six months of operation it was

selling the trucks for less than the cost of purchasing and restoring them, causing them to lose money on every truck sold. It closed in December 2008 with about 35 inmates working.

- **Impact Design – High Desert State Prison** – The company produced embroidery products and had about 40 inmates working when it closed in November 2008. Its main customer in Las Vegas closed, forcing it out of business.
- **Krueger Industries – Jean Conservation Camp** – The company never really got off the ground. It was going to employ 8 to 10 inmates but closed in September 2009.
- **TJ Wholesale – High Desert State Prison** – The company was in the business of card sorting, but went bankrupt. A venture capitalist group bought it under an asset sale and operated the company for a few months. The company has since been purchased again and has had some reduction in operations causing a loss of inmate jobs.
- **Artistic Glass – Southern Desert Correctional Center** – The company produced stained glass, but went into bankruptcy.
- **Trevi Manufacturing – Jean Conservation Camp** – The company had done some concrete work in Las Vegas, but closed at the end of 2007 with about 14 inmates working.
- **Somerset Industries – Lovelock Correctional Center** – The company was in the business of canning and labeling, but closed in July 2007 with 8 inmates working.

Mr. Connett said the companies described had about 180 inmates working. The companies closed because of the economic conditions in the Las Vegas area.

Chairman Parks asked Mr. Connett to provide the committee a list of activities and the number of inmates working for all the remaining programs. Mr. Connett replied the information was listed on page 19 of the meeting packet, [Exhibit A](#).

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

- A. INDUSTRIAL PARK DEVELOPMENT – INDIAN SPRINGS** – Mr. Connett explained to the new members that Prison Industries had an arrangement with a company called Nigro Construction to finance and build an industrial park at the Indian Springs site located close to both the Southern Desert Correctional Center and High Desert Correctional Center. Unfortunately, the local market had been decimated and financing had changed. Nigro Construction would need at least 70 percent of the

property to be pre-leased before financing would become available for the project. Nigro Construction was working to garner tenants both locally and nationally for this project. Mr. Connett explained that Nigro Construction wanted to go forth with the project, as did Prison Industries.

Mr. Aguilera asked if there was any cost to leaving the land vacant. Mr. Connett said there was an economic cost. He explained the proposed location was vacant land located across the street from Southern Desert Correctional Center.

Assemblyman Denis stated the original lease had a provision that Nigro Construction had to build within 120 days. He asked if that would affect the 35-year lease. Mr. Connett preferred to address the question to the Legal Division, but if it became an issue, the lease would be amended. Mr. Connett said the lease provided that if Nigro Construction was unable to adhere to the contract, another company could take it over.

Chairman Parks asked if Mr. Connett knew the number of contracts Nigro Construction had negotiated. Mr. Connett replied he did not have the number of tenants or potential tenants. Mr. Connett knew of only one tenant because he had been approached with questions regarding security requirements and the inmate workforce.

Assemblyman Denis understood that in order to move forward with the contract, the occupancy would need to be at 70 percent. The facility could be occupied by one business or multiple businesses. Mr. Connett clarified the bank required the building to be pre-leased at 70 percent occupancy.

B. MATTRESS FACTORY (MATTRESS MANUFACTURING) – LOVELOCK CORRECTIONAL CENTER – Mr. Connett stated the mattress factory was originally located at Nevada State Prison but was moved to Lovelock Correctional Center (LCC) because it was more efficient. Silver State Industries appreciated the efforts of James Padgett, Industry Supervisor II, in moving the factory to LCC. The mattress factory at LCC occupied one of the open bays at the facility.

Assemblyman Denis asked how the mattress factory was more efficient at LCC. Mr. Connett said the mattress factory had been located on the second floor of Nevada State Prison. Raw materials and finished goods had to be lifted by forklift and it was not conducive to operating a production line. At LCC the mattress factory was in an open bay, and had complete openness to set up production.

Senator Rhoads stated Director Skolnik and Assemblyman Marvel worked hard to start Silver State Industries. Senator Rhoads asked Mr. Connett if private industries were critical of Silver State Industries producing mattresses. Mr. Connett responded that a good portion of the business came from tax entities, such as cities, counties, and school boards, which were supported by tax dollars. Due to the efforts of Director Skolnik, Silver State Industries was able to work with and sell to the private

sector. Silver State Industries manufactured both commercial and residential mattresses, and also sold to private citizens.

Director Skolnik stated when the mattress factory originated there was only one small mattress manufacturer which was located in Reno. The owner died about four years ago, and someone from Las Vegas was sent to run the estate. It was now closed, so Silver State Industries was not competing with any Nevada businesses in terms of manufacturing mattresses.

Director Skolnik continued saying Silver State Industries operations were developed in conjunction with the private sector, and in general did not compete with any Nevada business.

C. BIG HOUSE CHOPPERS (MOTORCYCLE MANUFACTURING) – SOUTHERN DESERT CORRECTIONAL CENTER – Mr. Connett explained Big House Choppers had built five bikes, two of which had been sold. One of the bikes was on display at the Harley Davidson Café located on the Las Vegas Strip. Silver State Industries was looking into selling the remaining bikes on the Internet, but has had no success. Big House Choppers displayed the bikes at a couple of hotels, but was not able to sell the remaining three bikes.

Assemblyman Denis asked how many inmates worked at Big House Choppers. Mr. Connett said one or two inmate's refurbished bikes that belonged to correctional officers. Assemblyman Denis asked if more inmates would be employed. Mr. Connett said as the bikes were sold, Silver State Industries would manufacture more bikes, and employ more inmates. He said the inmates were learning skills that could be used outside the facility. Assemblyman Denis asked how many inmates were anticipated to work on manufacturing bikes. Director Skolnik stated at its peak there were about eight or nine inmates working.

Chairman Parks asked for an estimate of how many bikes had been refurbished. Mr. Connett said since his tenure eight to ten bikes had been refurbished. Chairman Parks said it seemed likely that Big House Choppers would continue to refurbish bikes. But the concept of Big House Choppers was to build a bike to a customer's specification. He asked if the program was likely to discontinue. Mr. Connett said it was not planned to discontinue the program.

Mr. Aguilera asked if eBay had been used to sell the bikes. Mr. Connett said he had attempted to set up a website specifically designed for the bikes, but the website never materialized. Mr. Aguilera suggested eBay should be used because it was very inexpensive. He said Mr. Connett could just take pictures of the bikes and put them on eBay.

D. PRISON RANCH/DAIRY – NORTHERN NEVADA CORRECTIONAL CENTER – Mr. Connett explained that due to budget cuts, the state estray horses had been removed. Northern Nevada Correctional Center (NNCC) housed 25 to 30 horses at

about \$2.90 a day per horse. Northern Nevada Correctional Center was currently housing about 475, one- to five-year-old gelding horses at the ranch for BLM at a rate of \$3.00 a day per horse. Prison Industries hoped to get another 150 to 200 horses from BLM by mid-February. At times the ranch housed upwards of 800 horses, but BLM had removed some of the horses to other sites around the country.

Mr. Connett pointed out that NNCC had a training program run by Mr. Hank Curry. Mr. Curry worked with 14 to 20 inmates to train mustangs to become somewhat domesticated. It was well worth it to come to an auction to see the inmates walk their wild mustang with only a halter. There was also an entrance routine where the inmates rode their horses into the center of the arena carrying flags.

Mr. Connett continued to explain that the auctions were done quarterly. Silver State Industries got a minimum of \$1,000 per horse whether the horse was sold for that amount or not, which helped reimburse the training program. This program got a lot of good publicity. Mr. Connett invited the committee members to attend the next auction.

Turning to the next item, Mr. Connett said the dairy ranch had 100 head of dairy cows. The Prison Dairy was a 24-hour, 7-day-a-week small milking operation with very high overhead costs. The Prison Dairy has a pasteurizing process, a full lab, and delivery service. Prison Industries was looking for a new tank to increase sales, and was very close to getting Grade A standard for the milk process, which made them very proud.

In answer to a question from Assemblyman Denis, Mr. Connett explained Silver State Industries was trying to expand the Prison Dairy by adding a used tank for processing the milk. Costs were incurred because milk processing was a 24-hour, 7-day-a-week operation. To increase the capacity of the operation, the prison dairy planned to add a new tank.

Chairman Parks asked if the existing tank was adequate, or whether the operation needed a tank with greater capacity for expansion. Chairman Parks also asked if Silver State Industries continued to sell dairy products to others outside of Nevada Department of Corrections (NDOC). Mr. Connett replied that when Silver State Industries had an excess of milk that the NDOC did not purchase, the milk was sold back into the co-op. Responding to a question from Assemblyman Hambrick, Mr. Connett answered the only dairy product sold was milk.

Chairman Parks asked if Silver State Industries sold hay. Mr. Connett replied the ranch had land on the grounds that grew hay, but the hay was used for the BLM horses, stray horses, and some of the dairy herd.

E. PRINTING/BINDERY SHOP – NEVADA STATE PRISON – Mr. Connett informed the members that the printing/bindery shop purchased an embroidery machine with a 15 head from Impact Design, and an embroidery machine with a 5 head. Mr. Connett displayed an old briefcase, showing that the embroidery shop could remove an old patch and put a Nevada seal in its place. Silver State Industries could embroider shirts, baseball caps, or anything that could be embroidered.

Mr. Connett further explained Silver State Industries recently started carving and painting rocks that could be placed in yards as figurines. The rocks could be in the shape of a horse head, or painted with a name or house number. The rocks came from a sandstone quarry located at the Nevada State Prison. Continuing, Mr. Connett said the print shop could screen print pencils, coffee cups and shirts made from all kinds of fabrics. The operation was limited to a four-color print. The print shop increased its product line. It has a showroom at Casa Grande Transitional Housing, which was where the Silver State Industries office was located.

Mr. Connett said the Silver State Printing supervisor, Mary Byington, had done a good job incorporating the different operations including the embroidery machine, which she initially knew nothing about. One or two inmates from Impact Design were transferred back to the embroidery shop to help produce the products. Ms. Byington was marketing the products at local city and county markets.

Chairman Parks asked if the Legislative Counsel Bureau's gift store was one of the vendors. Mr. Connett stated Legislative Counsel Bureau gift store had some embroidered products, and possibly some of the rocks.

Mr. Smith mentioned to the committee members that the Purchasing Division's website had a link to the Silver State Industries website. Its buyers were educated on the offerings and referred customers whenever possible. Mr. Connett said Silver State Industries had been working diligently on its website (www.silverstateindustries.com).

Chairman Parks asked if there had been a business plan for the embroidery equipment to determine the number of inmates it might put to work, and the amount of potential revenue to be generated back to Silver State Industries. Mr. Connett stated Silver State Industries looked at the market and saw a need to be filled in the local area and for the NDOC. The inmates were producing embroidered hats for the Correctional Officers at NDOC. A business plan was not done. Unfortunately, Impact Design was pulling out and Silver State Industries had a very short time to make the purchase of the embroidery machine. Mr. Connett thought it was a wise decision to purchase the equipment

Director Skolnik told the committee that Silver State Industries hardly ever prepared a business plan. He said Mr. Connett inherited an environment that was not business-plan oriented.

Mr. Connett remarked that with the assistance of State Purchasing, Silver State Industries worked with the federal surplus to get equipment at very low cost. Silver State Industries had purchased forklifts, trucks, generators, milk crates, compost turners, batteries, and much more. It took advantage of the budgetary constraints on equipment. Silver State Industries appreciated the assistance from State Purchasing.

VII. REVIEW OF NUMBER OF INMATES THAT WORKED JULY 2007 THROUGH NOVEMBER 2009

Mr. Connett explained to the committee that between July 2007 and August 2008, the number of inmate workers remained relatively flat. About 785 inmates worked in July 2007 and 750 inmates worked in August 2008, which was a decline of about 35 inmates. Mr. Connett continued, saying from September 2008 to November 2009 there was a decline of 512 working inmates, which was roughly a 29 percent decrease. Two industries closed, Impact Design and Thomson Equipment, which were responsible for the loss of about 83 inmate jobs. Reduced operations from Silver State Industries and private companies accounted for the loss of approximately 125 inmate jobs. Between the two closed companies and reduced operations, the total number of inmates that lost jobs was 208. Between July 2007 and November 2009 the number of working inmates declined from 785 to 512, which was a reduction of 273 inmate workers, or a 35 percent decrease.

Chairman Parks asked for the maximum number of potential inmates working; and whether other prison industry programs across the country had a higher percentage of inmates working compared to Nevada. Mr. Connett replied it was difficult to compare the number of working inmates to other states, because of the different industries and the size of the systems. States with larger systems, such as California, Florida, Texas, New York, and North Carolina, had upwards of 80,000 inmates, making it more difficult to keep a larger percentage of inmates working. Mr. Connett said he had been working in the prison industry business for some time, and it was his goal to have every inmate working.

Director Skolnik said he would not want for more than 15 percent of the prison population to be employed by Silver State Industries. Silver State Industries was a reward mechanism within the system, which was used to control behavior. When the number of inmates working rose to over 10 to 15 percent it was no longer a reward; rather it became a right. Some of the quality and attitude that existed within prison industries was lost with the additional number of working inmates. Director Skolnik reported that very little supervision and a high level of productivity could be found in Nevada's Prison Industries. Other states required more supervision and more correctional officers. Director Skolnik did not want all inmates working regardless of Mr. Connett's desire.

Senator Rhoads remarked during fire season the number of inmates working increased dramatically. Nevada had some massive fires in the last five years. The Nevada Division of Forestry coordinated with Prison Industries to fight fires. Senator Rhoads continued, saying that conservation camps within his district, which included two-thirds of the state of Nevada, had been very helpful fighting fires. He said he had heard that some of the conservation camps might close, which he thought was a real negative approach. Senator Parks concurred with Senator Rhoads' remarks.

VIII. REVIEW OF DEDUCTIONS FROM INMATE WAGES FOR ROOM AND BOARD, PRISON INDUSTRIES CAPITAL IMPROVEMENT FUND, AND THE VICTIMS OF CRIME FUND – FY 2008 AND FY 2009.

Mr. Connett directed the committee to page 23, [Exhibit A](#), which showed room and board expenses for FY 2009 of \$466,417. He and Ms. Dastal looked at the figures and arrived at an amount of a little over \$743,000. Mr. Connett would contact inmate services to investigate the discrepancy. Silver State Industries calculated that FY 2009 room and board expenses were \$743,614, and the Victims of Crime fund and Prison Industry Fund was \$151,758 each, for a total of \$1,047,130. Mr. Connett said one discrepancy was that Florence McClure Women's Correctional Facility room and board expenses should be \$53,000, rather than the amount of \$11,703 listed. For Southern Desert Correctional Center, Silver State Industries calculated room and board cost of \$189,000, not the amount of \$112,272 listed in the packet, [Exhibit A](#). There was a discrepancy of about \$242,000 in those two cases.

IX. STATUS OF FUND FOR NEW CONSTRUCTION OF FACILITIES FOR PRISON INDUSTRIES – NRS 209.192

Mr. Connett referred the committee to page 27, [Exhibit A](#). He said the current balance in the fund for new construction was \$1,040,911, for FY 2010 through November 2009. The ending balance was \$987,434 for FY 2009 and \$815,794 for FY 2008.

Assemblyman Denis asked why the construction fund had no expenditures. He asked if it was being saved for a new project. Mr. Connett explained there were no outstanding projects; the money was being saved in case it was needed to construct a building or move an industry. Assemblyman Denis asked if the funds were used to move the mattress factory. Director Skolnik stated, by statute, the fund was not to be used for existing industries, except for an expansion. The move did not qualify for use of money from the fund. The fund money was used to purchase 22.5 acres designated for the Industrial Park. It also purchased a 20,000 square foot building, which housed the Silverline Trucking Company at Southern Desert Correctional Center.

Mr. Connett clarified that the new construction fund money was mandated for certain uses by NRS 209.192. Director Skolnik explained one of the reasons the fund had been allowed to grow was the possible closing of Nevada State Prison (NSP), which housed two very important prison industries. If NSP closed, a new building would be needed at the Warm Springs Correctional Center.

Chairman Parks asked if Thomson Equipment contributed to the cost of the building in which the water trucks were refurbished. Director Skolnik said Thomson Equipment was not the first company located in the building. The building was funded entirely from the capital improvement fund for Silver State Industries. Thomson Equipment and its predecessors paid rent to Silver State Industries to occupy the facility.

In response to a question from Assembly Denis, Mr. Connett said the building was still vacant. There were tools and a paint booth that Thomson Equipment maintained in the building. Senator Parks asked if Thomson Equipment planned to return when the economy improved. Mr. Connett said that was the assumption, but Prison Industries was always looking for other possible tenants. Mr. Connett further explained the tenants that rented the building were responsible for improvements to suit their processes.

X. REVIEW OF WORK PROGRAM #C17215 SUBMITTED BY PRISON INDUSTRIES TO THE INTERIM FINANCE COMMITTEE TO INCREASE EXPENDITURE AUTHORITY FOR THE LOVELOCK CORRECTIONAL CENTER GARMENT FACTORY AND TO DECREASE EXPENDITURE AUTHORITY FOR THE NORTHERN NEVADA CORRECTIONAL CENTER METAL SHOP

Ms. Diane Dastal explained metal sales had dropped in FY 2010, but the garment shop had remained strong. Silver State Industries requested to transfer the expenditure authority. Chairman Parks asked if the total amount of that transfer was \$80,443. Ms. Dastal confirmed the amount of the transfer, and added that the supervisor at the garment shop hoped that was enough money based on sales.

Senator Parks said the garment shop manufactured denim jeans and denim shirts. He asked if products were sold to other states. Mr. Connett noted the garment shop issued state jeans and sweatshirts, but had not sold any to another state in his tenure.

XI. REVIEW OF FINANCIAL STATEMENTS OF SILVER STATE INDUSTRIES FOR THE YEAR ENDING JUNE 30, 2009, AND THE QUARTER ENDING SEPTEMBER 30, 2009

Mr. Connett gave a general overview of the financial statements. The economy had a devastatingly negative impact on state and local revenue that reduced the dollars available to purchase the products Silver State Industries manufactured. State agencies had not ordered furniture as in the past and construction of new facilities

halted. Silver State Industries saw drastic declines in the revenue. In FY 2007, total revenue from Silver State Industries, private companies, and the ranch were about \$5.9 million. Fiscal year 2008 total revenue was \$6.2 million, and in FY 2009 total revenue was \$5.1 million, a decrease of about \$1.13 million. Mr. Connett continued, explaining in FY 2009 the revenue generated from tags produced for the Department of Motor Vehicles dropped by \$100,000, which reduced the cash paid to Silver State Industries. The wood furniture shop's revenue dropped by \$300,000 and the metal furniture shop's revenue dropped by \$300,000. Rent and interest from these accounts, and the private sector accounts, dropped by about \$112,000. Silver State Industries attempted to control costs as the revenue declined. Mr. Connett thought, company wide, Silver State Industries had done a good job controlling costs.

Ms. Dastal referred to the statement of operations for the mattress shop on page 44, [Exhibit A](#). For FY 2009, ending June 30, 2009, sales were down, but the mattress shop showed a profit. In FY 2008 the mattress shop's full-time supervisor was due retirement leave payouts, causing most of the loss in FY 2008. In FY 2009 the garment and mattress shop shared a supervisor, splitting the expense between the two industries. The mattress shop had a change in net earnings of about \$55,000 to the good.

Mr. Connett further explained the mattress shop moved to LCC, where it was adjacent to the garment shop. The supervisor had a lot more duties within the two shops, which helped to control some of the costs.

Assemblyman Denis questioned why the numbers for the mattress shop were low, but the sales were up. Ms. Dastal explained sales were down for the mattress shop, but profit was up due to the retirement pay out for the employee during FY 2008, and sharing the supervisor duties between the two shops.

Mr. Aguilera asked how dues and subscriptions for the mattress shop in FY 2008 were zero, but in FY 2009 the amount jumped to \$1,800. Ms. Dastal explained every two years the shop had to renew its mattress manufacturing license in California, which was the reason for the expense in FY 2009. Mr. Aguilera also questioned the warranty expenses of \$3,294 in FY 2008 and \$119 in FY 2009. Mr. Connett explained the facility at NSP was not conducive to the manufacturing of the mattresses, because pulling mattresses down from the second floor caused damage. By moving the shop to LCC a lot of the warranty expense was eliminated.

Mr. Michael Mackenzie testified the overall performance was very good, having declining sales and increasing the margin. He observed that labor costs were relatively flat, sales were lower, but the cost of inmate labor for the office tripled. Mr. Connett explained part of the office labor expense was for the supervisor to train on the mattress operation. Some of the inmates were transferred from NSP to LCC to help keep up with the orders. Mr. Connett anticipated the labor expense should drop back down.

Senator Rhoads asked what percentage of the total inmate population was involved in a work program. Director Skolnik said Silver State Industries was one of a variety of work programs within the department. Some inmates went to school, but during the course of the day had a work assignment, unless the inmate was in detention segregation.

Senator Rhoads asked if 4.6 percent was of the total inmate population that participated in work programs. Director Skolnik stated 4.6 percent was the percentage participating in Silver State Industries. There were 1,300 other inmates working throughout the institutions that were not part of Silver State Industries. Director Skolnik stated that 60 to 70 percent of the inmates could be working in some kind of program.

Senator Rhoads asked if there was any tracking done of the prisoners who worked while incarcerated that did not return to prison. Director Skolnik indicated Parole and Probation might track that information, but not NDOC. A number of inmates left the state and it was not known whether they had been re-incarcerated someplace else. The in-state violation rate for parole was about 28 percent, which was one of the best rates in the country. Mr. Connett included there had been studies that inmates provided with education, skills and trades upon release were less likely to re-offend and be sent back to prison.

Ms. Dastal continued, directing the committee to page 45, [Exhibit A](#), regarding the printing/bindery shop. The print/bindery shop had a 12.5 percent decrease in revenue. Some print jobs had been lost due to the economy, but the embroidery shop had helped out with sales. The print/bindery shop had a loss of \$8,061 in FY 2008 and a profit of \$38,202 in FY 2009.

Ms. Dastal moved on to the statement of operations for the Northern Nevada Correctional Center's furniture and metal shop, saying the shops had also been hit hard by the economy. The furniture and metal shops' sales were down about \$300,000 each for FY 2009. The shops would have had a greater loss if the Supervisor II position had been filled. The Supervisor I had done a good job controlling the cost.

Assemblyman Denis recalled that Mr. Connett said furniture sales to state agencies decreased. He worked for a state agency that purchased furniture. The agency used to purchase from Silver State Industries but recently began purchasing furniture from another source. Assemblyman Denis asked if the cost was higher from Silver State Industries than from other sources. He also asked how prices compared to other outlets. Mr. Connett responded its prices were always extremely competitive, but Silver State Industries was not always the lowest in the market. It developed products and prices to make a profit, but the prices were very competitive within the market place.

Assemblyman Denis asked if the sales were down because people were not buying furniture. Mr. Connett said a lot of metal businesses in past years came from the private sector. Silver State Industries would build metal beams and a private company would purchase the beams. The home building business has been hit very hard by the economy.

Addressing a question from Assemblyman Denis, Mr. Connett stated the cost of raw materials for the wood furniture in FY 2008 were high, but dropped in FY 2009.

Mr. Puliz asked if the \$300,000 decline in sales was mostly from the metal shop. Ms. Dastal said both the furniture and metals shop's sales were down about \$300,000 compared to FY 2008.

Chairman Parks said Ms. Dastal indicated a large share of costs decreased due to an unfilled Supervisor II position. He asked, was there potential revenue lost to reduced expenditure for having the position vacant. Mr. Connett stated it was Silver State Industries plan to have the position filled to have a full-time marketing representative in the north and in the south during FY 2010.

Ms. Dastal continued to page 47, [Exhibit A](#), Southern Desert Correctional Center, auto and upholstery shop. In FY 2008 the auto shop sold two motorcycles and had a full-time supervisor. Unfortunately, even though sales were up about \$66,000 in FY 2009, the shop lost about \$86,000. The supervisor position was vacant and the cost for the position's salary and fringe benefits was for a partial year. Artistic Glass went bankrupt, which caused a loss of revenue for FY 2009. Also the card sorting business activities decreased in FY 2009, reducing the revenue.

Mr. Smith asked about the "Capitalized Institutional Overhead" category on the statement of operations. He said there was a tremendous difference in the auto and upholstery shop from \$32,306 in FY 2009 to – \$45,353 in FY 2008. Ms. Dastal stated the category included work in progress and finished goods that had not sold. Silver State Industries adjusted its inventory at the end of every month to match the revenue to expenses.

Assemblyman Denis asked if the auto shop rebuilt cars, or just motorcycles. Mr. Connett responded it was an auto restoration facility that performed complete "frame offs". The vehicle was stripped to its frame and rebuilt. It was also a paint and body shop. The inmates learned great skills that would be useful when they were released. Mr. Connett said Director Skolnik allowed the inmates to purchase their own tools so when they were released they had a set of tools. The inmates were very proud of the tools they had purchased.

Assemblyman Denis asked if there was a plan to expand the auto restoration shop. Mr. Connett replied the auto restoration business was not as profitable per unit as he would like for it to be. There was a lot of training involved, which meant additional workers on a particular job. However, the shop offered great training for the inmates.

Ms. Dastal reported the LCC's garment factory had an increase in sales of \$100,000 in FY 2009. She noted in FY 2009 salaries and fringe benefits were down compared to FY 2008 because the supervisor worked for both the garment shop and the mattress shop. Assemblyman Denis asked what created the increase in sales in FY 2009. Mr. Connett replied NDOC had opened a couple of facilities, which created a need for the garments. The sales increased due to the NDOC expansion.

Ms. Dastal explained the operating statement for Ely State Prison's (ESP) drapery shop, page 49, [Exhibit A](#). She said it was a challenge to find drapery customers. The supervisor's salary and fringe benefits was \$89,000, but sales were only about \$130,000. Mr. Connett stated the drapery shop had significant fixed costs, primarily the cost of management. There was a need to increase volume to obtain more revenue, which would allow the fixed costs to be spread over the larger volume.

Mr. Connett said the industry had some large clients, but an escape occurred and the drapery shop was shut down, causing missed deliveries, and the loss of some business. It was a significant challenge to persuade the businesses to return. Director Skolnik pointed out the escape was not from the ESP, and was under a previous administration. After the escape, a decision was made to eliminate all potential escape risks from all Prison Industries statewide; all prisoners who were deemed escape risks were sent to ESP. The drapery shop lost 50 percent of its workforce in one day, which was devastating. It had been very difficult to rebuild because the small group that bought the draperies knew about the failure four years ago. On the other hand, Director Skolnik said, it was critical to have some kind of reward system at ESP. It was important for Prison Industries to maintain the drapery shop even though it operated at a loss.

Director Skolnik continued saying Prison Industries had 28 industry jobs at ESP and about 30 jobs in the culinary, out of almost 1,200 inmates. Granted many of the inmates were locked down, but it needed prison industries for population control.

Chairman Parks asked how the selection was made as to which inmates worked in the industries. Mr. Connett said the industries sent a job description to the institutions. A classification committee decided which inmates in the institutions were available for work. The Prison Industries supervisors interviewed the inmates on the list, just as the private sector would.

Ms. Dastal moved on to the prison dairy's operating statement, page 50, [Exhibit A](#). She said in FY 2009 prison dairy's livestock revenue, dairy sales, and the composting projects were flat. The crop revenue was up \$70,000. Due to budget cuts, no stray horses were expected to arrive. The BLM horse's sales were down about \$34,000. The total revenue increased about \$85,000, but gross profit declined about \$112,000. Mr. Connett said part of the loss was due to the expense of hay. In FY 2009 the price of hay was \$235 a ton. A new contract was agreed to with State Purchasing with the price of hay at \$92 a ton. The dairy used approximately 2,400 tons of hay per year. With the new contract at a lower rate, the dairy anticipated to be more profitable.

Ms. Dastal reviewed the sales from the first quarter of 2009 through September 2009. She started with mattress shop, saying sales were down about \$54,000. There was a small reduction of salaries due to the required furloughs, but fringe benefits increased. Profits were down about \$12,000 for the first quarter. Ms. Dastal went on to explain the print shop sales were down about \$6,000 for the first quarter. Its earnings available for program support were down about \$10,000. The embroidery shop continued to do well.

Ms. Dastal continued with the furniture and metal shop. The economy had continued to hit the shops hard. Historically both shops had done well. The Supervisor II position was vacant. The metal shop should do better in the second quarter because it had finished a project. Ms. Dastal explained auto sales had dropped about \$82,000 the first quarter. The auto shop had not had a supervisor expense, but had to start paying Correctional Officer wages as of September 7, 2009.

Ms. Dastal stated the garment factory sales were down about \$15,000 compared to FY 2009. The earnings available for program support were down about \$20,000. Ms. Dastal went on to say the drapery shop sales were up about \$1,000, but the shop lost about \$4,000. The drapery shop continued to be a poor performer because high fixed costs.

Ms. Dastal moved on to the prison dairy saying sales were down \$157,000. During the first quarter, the cost of hay was still \$235 a ton. Silver State Industries anticipated the second quarter to do better because of the cost of hay was down to \$92 a ton. Staff salaries were down due to furloughs, but the milker was exempt from the furloughs.

Mr. Mackenzie commented that page 37, [Exhibit A](#), showed accounts receivable had increased by 40 percent. Businesses were taking longer to pay. The reserve for bad debt for doubtful accounts remained the same. He asked what was being done to insure the \$400,000 of increased receivables did not become bad debt. He observed if that money had been received, the cash flow for the year would have broke even. Mr. Connett said receivables were becoming more difficult to collect. The top ten companies on the aging report accounted for 93 percent of receivables. Two of the companies were uncollectable, which accounted for about 54 percent of receivables. Those two companies had been turned over to the Attorney General's office for collection. One other company on the aging report was questionable, but the rest of the companies were collectable. Mr. Connett explained it was his responsibility to call these accounts to collect money.

Continuing, Mr. Connett explained the largest account receivable was the card sorting operation, which was indebted over \$600,000. Unfortunately, the card sorting company and its assets no longer existed. Silver State Industries was trying to work out a deal with the company that purchased it. Mr. Connett was trying aggressively to collect some of the money due to Silver State Industries.

Mr. Mackenzie asked if the company that bought the card sorting business agreed to assume the liability. Mr. Connett said when they assumed ownership they did not assume the debt; rather, it was an asset purchase. Mr. Mackenzie asked why the company would pay Silver State Industries. Mr. Connett explained that Silver State Industries was an important part of its business plan, because they can only get the service done through Silver State Industries. Mr. Mackenzie said that leverage might make them agreeable to pay the debt. Mr. Connett said if the company did not agree to pay the debt, Silver State Industries would increase the price of its service to work down the debt.

Mr. Mackenzie went on to the balance sheet on page 37, [Exhibit A](#). He said the inventories had come down slightly, but remained relatively flat. Page 56, [Exhibit A](#), showed details of Prison Industry inventory. The year-to-year price of raw materials went up. The increase was primarily in the garment shop, which was expected because sales were increasing and it was profitable. Mr. Mackenzie asked if there was anything that could be done to sell that inventory. Mr. Connett said the raw material and finished goods for these particular projects were completed for the NDOC expansion. Silver State Industries was given target dates to have the products finished before the construction was done. The products had been delivered and invoiced.

Assemblyman Denis asked what preventive measures were taken so the outstanding accounts receivables did not get so high. Mr. Connett replied the top ten companies that owed money made up about 93 percent of receivables. The Silver State Industries accounting department considered the customer and its financial condition before a sale. A decision was then made to extend credit, ask for a deposit for cost of materials, or ask the customer to pay in full before the product was shipped. Silver State Industries was more aggressive in collection of receivables.

Assemblyman Denis stated the allowance for doubtful accounts had remained relatively unchanged from \$175,135 in FY 2008 to \$177,366 in FY 2009. He asked, since there was such an increase in accounts receivable whether that was an accurate figure. Mr. Connett stated he would do his best to collect, but would possibly make an adjustment at the end of the fiscal year. Senator Parks asked for an update on the progress of the collections at the next meeting.

Senator Rhoads stated if he was making a product that Silver State Industries produced he would be very critical of the state competing with private industry. Director Skolnik replied there had not been any formal criticism about any of the operations in the last 10 to 15 years. Silver State Industries had worked very hard with the business community. Mr. Connett and Director Skolnik had been active in the Chamber of Commerce in Las Vegas; the members toured the Prison Industries facilities. Some of the members had subsequently sub-contracted work. Silver State Industries went out of its way not to compete with businesses based in Nevada.

Assemblyman Denis requested for the next meeting of the Committee that a report be provided on how Silver State Industries markets the products it produces.

XII. PUBLIC COMMENT

Director Skolnik mentioned for the record, in keeping with the Governor's directive, any request for information for the committee should be made through the Governor's office. He would encourage the Governor to allow a response to those requests.

Mr. Connett invited the members to visit the Prison Industry facilities. He instructed members to contact him or Diane Dastal to make the arrangements.

Chairman Parks called for any further testimony to come before the committee. There was no public comment.

IX. ADJOURNMENT

Chairman Parks thanked the committee members for their attendance and adjourned the meeting at 3:25 p.m.

Respectfully submitted,

Cheryl Harvey, Committee Secretary

APPROVED:

Senator Parks, Chairman

Date: _____