

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION

PRISON INDUSTRY BOARD

PUBLIC MEETING

ORIGINAL

FRIDAY, OCTOBER 21, 2011

THE BOARD OF PAROLE HEARINGS

1515 K STREET

SACRAMENTO, CALIFORNIA

REPORTED BY:

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CAPITOL REPORTERS (916) 923-5447

1 **ATTENDEES**

2 **BOARD MEMBERS:**

3 MATTHEW CATE, CHAIR

4 ESTEBAN ALMANZA

5 WILLIAM DAVIDSON

6 CURTIS KELLY

7 KIRA MASTELLER

8 BRUCE SAITO

9 DARSHAN SINGH

10 **STAFF:**

11 CHARLES L. PATTILLO, EXECUTIVE OFFICER

12 SCOTT WALKER

13 ERIC RESLOCK

14 PHYLLIS GUARE

15 **COUNSEL:**

16 JEFF SLY

17 **GUEST SPEAKER:**

18 J. CLARK KELSO

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Sacramento, California

FRIDAY, OCTOBER 21, 2011, 10:00 A.M.

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CHAIR CATE: This meeting is called to order at 10:04 a.m. Can we call the roll, please?

MS. GUARE: Good morning, everybody.
Chairman Cate is here.
Member Almanza.

MEMBER ALMANZA: Here.

MS. GUARE: I'm just going to do last names.

Member Chapjian not here.

Member Davidson.

MEMBER DAVIDSON: Here.

MS. GUARE: Member Kelly.

MEMBER KELLY: Here.

MS. GUARE: Member Masteller.

MEMBER MASTELLER: Here.

MS. GUARE: Member Saito.

MEMBER SAITO: Here.

MS. GUARE: Member Singh.

MEMBER SINGH: Here.

MS. GUARE: Member Trujillo.

And Member Woodford.

Looks like we have a quorum.

1 CHAIR CATE: Very good. So I want to
2 welcome everyone to this meeting of the Prison
3 Industry Board. Before we go into closed session, I
4 just -- for the Board and for anybody else who is
5 here from the public I want to introduce Esteban
6 Almanza to my left. And he joins us from the
7 Department of General Services. He is Chief Deputy
8 Director there.

9 Welcome.

10 MEMBER ALMANZA: Thank you.

11 CHAIR CATE: If we can, I understand from
12 our Executive Director we have some issues for
13 closed session, pursuant to Government Code Section
14 11126(e)(1), which I'm sure you are all familiar
15 with. At this time we'll go into closed session,
16 and ask the members of the public to please excuse
17 themselves for just a moment; and we'll be right
18 back into open session shortly.

19 (Board in closed session.)

20 CHAIR CATE: We are back in open session.
21 For the record we met in closed session to discuss a
22 pending litigation matter.

23 Turning back to our agenda, if we could.
24 Before we move to the General Manager's comments, I
25 would like to raise a couple of issues. One is that

1 I received a letter from our General Manager
2 requesting that I appoint several of this Board to
3 become a subcommittee of PIB Development and
4 Operations Committee. We haven't had subcommittee
5 appointments in a couple years. This one in
6 particular considers, obviously, changes in
7 discussions to business development and operations.
8 We've had discussions of late concerning both
9 modular enterprises and food and beverage. So
10 they'll hopefully be able to provide us with
11 additional information and take public comment and
12 hearing on those to better inform the general
13 Board's work in those areas.

14 And so I signed those letters, and I want to
15 publicly thank Board Members Almanza, Kelly,
16 Masteller and Woodford for agreeing to take part in
17 the new Development and Operations Committee. Thank
18 you all very much for that. We'll be looking
19 forward to hearing from you more.

20 So with that, let's see, we have some
21 informational items. But are there any Board
22 comments or any additional information, anything
23 that the Board wants to raise?

24 Anything else, Chuck, that I'm forgetting
25 before we turn to your comments?

1 MR. PATTILLO: No. On the Board
2 appointments, there are several folks, like
3 Mr. Singh is on the Finance Committee and one other
4 committee. So a lot is happening because people are
5 transitioning out. So we are putting the new Board
6 Members in those areas.

7 I'm going to resend -- there are four
8 committees. Going to send that out to verify that
9 you still continue to serve on the committee that
10 you are on or if you would like to volunteer for a
11 different assignment. So we can get everybody
12 staffed up by the end of the year. We used to have
13 a lot more committee meetings. It is very helpful
14 for you to be informative and bring it back to the
15 entire Board to discuss.

16 CHAIR CATE: Thank you.

17 General Manager comments, Chuck.

18 MR. PATTILLO: Thank you, Mr. Chairman.

19 My name is Charles Pattillo, and I am the
20 General Manager of PIA and the Executive Officer of
21 this Board.

22 The biggest thing that's looking PIA in the
23 face is probably AB 109, which is the Governor's
24 Correctional Realignment Plan; and I notice it is
25 one of biggest things that's looking at the

1 Secretary, also. For us it is really just a number
2 in a linear program. Our annual plan that we just
3 passed reflects what we think the revenue changes
4 are going to be based on 109. We're talking about
5 30- to 35,000 inmates over a span of the next 36
6 months. That's basically bodies that will not be
7 eating PIA food, wearing PIA clothes, those kind of
8 things. So we know what that is number is, and
9 we're taking considerations for it.

10 On the other side, though, is the number of
11 bodies that we're going to lose. A majority of the
12 folks, probably about almost 2,000 inmates that we
13 work with right now that, under this current
14 scenario, probably wouldn't be with us under the new
15 realignment scenario. However, what is happening,
16 though, at the CDCR level we are seeing folks, as
17 minimum camps are opening up, a lot of the folks in
18 the points are coming down for other folks that
19 normally, probably because of room and whatnot, they
20 wouldn't have looked at the risk factor to bring
21 them back down. So I think we're going to be okay
22 in that aspect.

23 We've developed a -- our staff has developed
24 an enterprise worksheet based on CDCR's institution
25 activation schedules and CALPIA's needs that clearly

1 defines the needs of all CALPIA enterprises in every
2 institution. We are in these weekly meetings. So
3 we know where the bodies are going, and we know
4 where they're coming from. Our enterprise
5 institutional worksheet includes basic information -
6 operating hours, enterprise location, our enterprise
7 needs, whether inmate worker waiting pools required,
8 unique inmate criteria required. Certain inmates
9 can't work in certain -- arsonists can't work in
10 certain places. Computer-related crimes can't work
11 in certain places.

12 Current enterprise workforce information
13 identifies the yard and the facility the inmates are
14 drawn from, total available inmate workforce, total
15 number of assignments on in the entire prison. This
16 information was sent to CDCR to apprise them of the
17 needs. CALPIA is very communicative on this. And
18 after review, CDCR actually adopted our model to the
19 EIW to define their own programmatic needs. So it's
20 kind of kudos for our staff. They came up with a
21 document that works, and everybody else is adopting
22 it.

23 We will continue to monitor the institution
24 activation schedules and the EIW. And Scott's
25 really the lead on it. Scott Walker, operations, is

1 really the lead on it. His staff is in the meetings
2 most of the time.

3 First quarter revenues.

4 Scott, if you can do me a favor hand this out.

5 This is our unaudited financials for the first
6 90 days that came out last night. We usually issue
7 our quarterlies about 20 calendar days after the end
8 of the month. At this point in time, I think we
9 have done a very good job of planning. Our
10 operating income right now is \$2.1 million for the
11 year. I expect that to smooth out a little bit.
12 Our revenues are actually ahead of where we thought,
13 about five percentage points. It's in various
14 things. So it's nothing really to point to. A lot
15 of these revenues will smooth out as we go through
16 out the year.

17 Cashwise. We are in a very good cash
18 position. As I stated before, this morning, \$83
19 million in cash in our account right now. However,
20 some of that is tied up for liabilities or whatnot,
21 sitting there. Then OPEB, which we are running
22 about \$24,000,000, something like that, we're just
23 holding it and collecting interest on it right now.
24 However, our interest earnings are actually reduced
25 because the -- in light of the cash crunch in this

1 state, the Treasurer's office has seen fit to borrow
2 about 21- to \$22,000,000 from us on a daily basis at
3 no interest. So we lose that interest earning
4 there. Just the way it is. We are hoping to work
5 out something there, like maybe we can get a loan
6 note from him or something. I don't think he's ever
7 going to pay the interest.

8 Reorganization. One of things, as we look at
9 the entire organization, over the last two years
10 we've reduced our staff 89 folks more. When I
11 started at PIA about seven years ago, we had about
12 720 staff. We've cut it down to about 500 staff
13 now. Even when our revenue numbers were going up
14 quickly, staff was actually going down. A lot of
15 that staff reduction was in the optical, fabric,
16 some of the ones that we closed -- the five
17 factories that we closed over the last two years due
18 to economic reasons. As you know, the optical
19 factories were directly related to Medi-Cal.
20 Furniture was due to economic, as well as fabric was
21 due to economic.

22 I'm intending to transition into an executive
23 model that gives me two assistant general managers.
24 Right now I have a three assistant general manager
25 model. I have one acting assistant general manager,

1 Ms. Marisela Montes - I sent you a note out - is on
2 board with us. She formerly was the first Chief
3 Deputy Secretary of the new CDCR, formerly director
4 of paroles, the deputy director of adult
5 institutions. And her admin credentials, she was
6 chief of admin for CalTrans. She has the admin
7 credentials.

8 Carla Young has indicated that she will be
9 retiring in the spring after the NCIA conference.
10 And so right about the first of the year is when we
11 will move into the two AGM model. I think it makes
12 a lot of sense. We will be streamlining the
13 organization.

14 Scott said he is retiring after I retire, so
15 he's staying for the duration.

16 January consolidation will also include the
17 consolidation of our entire construction business,
18 which we are not -- significantly not profitable
19 from last year. The bottom has dropped out of our
20 modular building program. The only modulars we have
21 going right now are prototypes. We have a prototype
22 telemedicine facility for the receiver. We're
23 having some difficulty getting it up and running,
24 but it is about ready to be installed at Pelican
25 Bay. And two new modular buildings, one we are

1 going using to use at our own facility as a
2 prototype and an emergency operations center that we
3 are building out at Camp 12.

4 However, the entire construction division for
5 us throughout the state will be slimmed down to two
6 locations: California Institution for Men will have
7 the dive center and some welders and whatnot down
8 there. Northern California at Old Folsom. The
9 locations that we are closing: CSP Sacramento. The
10 women's construction program at CIW will probably go
11 down around January 1. And we may open up some work
12 at CMC San Luis Obispo because we have some work
13 going on with the Department of Military over there.

14 The CTE programs is where the big hit is.
15 We're going to talk a little bit more about funding
16 the CTE later. Looking for that direct
17 appropriation for that. That is the most successful
18 program for PIA and CDCR, with the exception of dive
19 program. The dive program is just kind of its own
20 out there, where nobody comes back. We want to keep
21 this thing running.

22 In the spring we really ran out of work in our
23 modular factories. Most of those construction guys,
24 these positive stories that you are seeing,
25 essentially doing free work for the community, being

1 Cal Expo, Parks and, as you saw the other day, we
2 finished up the graveyard here in El Dorado County.

3 One of specific things with Marisela, in full
4 disclosure, is she is not going to be handling any
5 financial aspects for the time being. All finances
6 report to me now, which is a little different. The
7 reason being that Marisela is married to someone who
8 works for MGO Accounting, somebody who we had on
9 contract. She has nothing to do with that side of
10 it at this time. And until the job is done and the
11 person she is married to will be off that job; and
12 then we will revisit the issue then. She has
13 absolutely zero to do with finance. More conflict
14 of interest, and I want full disclosure.

15 NCIA, the National Correctional Industries
16 Association. We are hosting this on April 1 through
17 4. We have asked the Governor to be the keynote
18 speaker at that event. This is all 49 states and
19 now Alaska, which doesn't have a correctional
20 institutional program, we are inviting them to come.
21 All 50 states show up. All 58 counties show up,
22 too, in this state because we do a jail industry
23 program also for them. It's a pretty big deal for
24 us to host this. I hope you guys will go. It's
25 obviously free for you as members of NCIA as Board

1 Members. It's really a training program for us. We
2 are in training classes for three of the four days.
3 I'm chairing one of the tracks which is the
4 leadership class we do for all our employees. We
5 are sharing that with the other industries from the
6 other states.

7 MEMBER. SAITO: What date?

8 MR. PATTILLO: April 1 to the 4th.

9 MEMBER SAITO: Where?

10 MR. PATTILLO: In Sacramento. It will be
11 at the Convention Center. They have -- NCIA has
12 booked a contract with the Hyatt, who actually won
13 that bid for them. We will be taking over the Hyatt
14 for those four days. This is the one we normally
15 travel out. We did Minnesota. We did Cincinnati
16 before, and the garden spots like New Jersey.
17 Things like that.

18 The last -- any questions?

19 We will send out an update email right after
20 this meeting just so you can get it on your radar,
21 send out a meeting notice.

22 The last portion I want to talk about is past
23 year revenue. As I indicated at our last Board
24 meeting, we were not going to make our even reduced
25 revenue numbers; and a lot of that was just shut

1 down in purchasing in fourth quarter. Nobody knew
2 what was going on. So we saw a lot of orders
3 getting pulled back, a couple million dollars worth
4 of orders. On top of that, any profitability we had
5 was eaten up really quick by about \$2,000,000 in
6 direct cost for materials, a lot of food costs which
7 we did not pass on to Corrections and whatnot,
8 because we sell on a quarterly basis. And those
9 costs came up so quick, we had no methodology for
10 adjusting those contracts. We are doing it a little
11 better now and things seem to be leveling out.

12 But just as an example, cost of peanut butter
13 53 percent increase in the cost of peanut butter.
14 We do a lot of peanut butter. That was a very big,
15 unexpected one. Had to do with weather, everything
16 else; droughts going on in the South. Peanut butter
17 prices are going to go up. You're going to hear the
18 complaints over at DGS. If anybody reads the paper,
19 that's what's going on.

20 The other additions. We're going to be
21 increasing about \$1.8 million for overtime variances
22 because of furloughs as well as us banking vacation
23 that was not taken because of the furloughs. The
24 closure of the factories between quality issues, raw
25 material reductions and finished good materials that

1 we're liquidating. We have a \$2.8 million charge at
2 this point. Unexpected benefits for staff, nearly
3 \$1.8 million. The last one will be an equipment
4 charge for obsolete inventory at a minimum of a
5 million dollars.

6 On top of what we talked about in closed
7 session, about a potential hit of 8,000,000, we are
8 looking at an additional 4,000,000 to come down. So
9 we'll be more clear with that when the audits go
10 through. We've issued all the forms to the
11 auditors, all of the statements to the auditors.
12 They're taking various adjustments. But I think in
13 the end of the day you're going to see a minimum of
14 about 12.6 million, at a minimum.

15 I don't want anybody to be shocked when you
16 add those two things together. One that we have
17 severely no control over, and one we had even less
18 control over. We can discuss that more at length.

19 MEMBER KELLY: I want to know what the
20 unexpected benefit costs are.

21 MR. PATTILLO: We had an increase in the
22 state share in the spring, half a million dollars
23 for the state portion of our benefits, for staff
24 benefits. We had an actual miscalculation of staff
25 benefits because it wasn't taken into consideration,

1 the 15 percent of furlough of \$1.2 million.

2 MEMBER KELLY: Thank you.

3 MR. PATTILLO: I think -- is there any
4 questions on my comments so far?

5 Is our guest here?

6 MS. GUARE: No, not yet.

7 MR. PATTILLO: We actually -- sorry, Mr.
8 Almanza.

9 MEMBER ALMANZA: On the realignment, do you
10 anticipate that will be a higher level of risk to
11 PIA staff?

12 MR. PATTILLO: For the AB 109 alignment?

13 MEMBER ALMANZA: Yes.

14 MR. PATTILLO: No. And I say that with
15 reason. As far as staff safety, we actually have --
16 on per capita, we have more staff killed than CDCR
17 over the years on a per capita basis. However, none
18 of that has happened in years; and those are some
19 real random things. As far as staff safety, we have
20 the lowest level of actual assaults on staff. Women
21 and men that work for us want to be there. They are
22 less likely to be problematic. Even as these folks
23 are coming down in points and moving out, I don't
24 think it's going to be an issue, even though we'll
25 be working with more of a higher level inmate.

1 We tell folks how we make eyeglasses at
2 Pelican Bay, and they can't believe that. We have a
3 metal factory at Corcoran. We just don't have any
4 issues. These are high level prisoners. I don't
5 think it's going to be so much. But any serious
6 matters like that we always report back to you.

7 MR. WALKER: We certainly -- that was one
8 of the issues that came up early on. So we are very
9 proactive in talking to folks about that. We just
10 kind of reemphasizing the fact that they, obviously,
11 work in a prison and safety protocols, and it's very
12 important that they be mindful of that. Whether
13 they're working in a level one or level four,
14 obviously, we want to reiterate that often with AB
15 109. You're going to get a different caliber of
16 inmate eventually.

17 As Chuck said, we are very proactive. Most of
18 the inmates -- PIA is someplace where they really
19 want to be, so they are pretty careful most of the
20 time about screwing around in PIA. They just don't
21 do it.

22 Back in the early '80s it was a different
23 story. That's kind of changed over the years, and
24 it's really a sanctuary, for lack of a better term,
25 where inmates like to get away from politics on the

1 yard, politics in the building, and come up to PIA.
2 You will see the interactions in PIA between inmates
3 are completely different for the most part from
4 interactions of the same inmates on the yard. We
5 are mindful of that. We talk to staff about that.
6 Remind them of the dangers of working in a prison
7 environment, but I suspect they will handle it
8 well.

9 CHAIR CATE: Any other questions?

10 MR. PATTILLO: Our guest isn't here, but we
11 can switch over to our action items first, if that's
12 okay with the Chair.

13 CHAIR CATE: Yes.

14 MR. PATTILLO: Hopefully, we will get
15 through this action item. This will be last time
16 that we ask the Board to approve minutes. One of
17 the action items further down is moving to not
18 having actual minutes bringing back to the Board
19 like we are doing now. We'll talk to that in a
20 couple -- down the road.

21 First two items. Adoption of the April 6th
22 Board meeting minutes.

23 CHAIR CATE: Is there a motion to approve?

24 MR. SAITO: Move approval.

25 CHAIR CATE: Motion. Do I have a second?

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MEMBER SINGH: Second.

CHAIR CATE: All those in favor, say aye.
Okay, it passes.

MR. PATTILLO: Adoption of minutes, Item B.
Is there a motion to approve?

MEMBER SAITO: Move approval.

MEMBER SINGH: Second.

CHAIR CATE: A motion and a second.
All those in favor, say aye.
Any opposed.

Right. That will pass.

MR. PATTILLO: C, I might have Jeff come up
and present real quick. You are seeing one of these
every meeting. If this is adopted, we are putting
our regulations in per code. So we do not have an
issue of underground regulations, we are having to
go all the way back to 1983, put everything in
Office of Administrative Law standard form,
basically.

Jeff.

MR. SLY: Good morning. I'm Jeff Sly,
General Counsel for the Prison Industry Authority.

The action item that you have in front of you
is for the proposed approval of Section 8006 of
Title 15 of PIA regulations. Some of you have seen

