

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION

PRISON INDUSTRY BOARD

PUBLIC MEETING

ORIGINAL

FRIDAY, JANUARY 13, 2012

THE BOARD OF PAROLE HEARINGS

1515 K STREET

SACRAMENTO, CALIFORNIA

REPORTED BY:

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ATTENDEES

BOARD MEMBERS:

MATTHEW CATE, CHAIR

JIM BUTLER

WILLIAM DAVIDSON

CURTIS KELLY

KIRA MASTELLER

BRUCE SAITO

DARSHAN SINGH

RAY TRUJILLO

JEANNE WOODFORD

STAFF:

CHARLES L. PATTILLO, EXECUTIVE OFFICER

SCOTT WALKER

ERIC RESLOCK

PHYLLIS GUARE

CARLA YOUNG

MARISELA MONTES

BEN WALD

GARY ALARID

JOE ARMOR

PHIL SMITH

JIM BAUMBACH

RUDY REYES

JOHN MALONEY

1 **ATTENDEES (CONT.)**

2 **COUNSEL:**

3 JEFF SLY

4 **MACIAS GINI & O'CONNELL:**

5 SCOTT HAMMON

6 **PUBLIC SPEAKERS:**

7 DAVID LYNCH

8 BRETT NELSON

9 DAVID KNIGHT

10 MARK NOBILI

11 JOE HUGHES

12 ROSA WILSON (With translator)

13 LESLIE PERDOMO (Also acted as translator)

14 JANET WILLIAMSON

15 MARIE BRISENO

16 VICTORIA REVERA (With translator)

17 LORI KAMMERER

18
19 ---oOo---

1 Sacramento, California

2 FRIDAY, JANUARY 13, 2012, 10:00 A.M.

3 ---oOo---

4 CHAIR CATE: Good morning, everyone. My
5 is name Matt Cate. I am the Chair of the Prison
6 Industry Board. Welcome, everyone to this hearing
7 today. Welcome to Board Members, staff and the
8 public. It's just after 10:00. We'll call the
9 meeting to order. Ask madam secretary to call the
10 roll, please.

11 MS. GUARE: Good morning, everybody.
12 We have Secretary Cate.
13 Member Almanza.

14 MEMBER BUTLER: Jim Butler for Almanza.

15 MS. GUARE: Member Chapjian, not here.
16 Member Davidson.

17 MEMBER DAVIDSON: Here.

18 MS. GUARE: Member Kelly.

19 MEMBER KELLY: Here.

20 MS. GUARE: Member Mastellar.

21 MEMBER MASTELLAR: Here.

22 MS. GUARE: Member Saito.

23 MEMBER SAITO: Here.

24 MS. GUARE: Member Singh.

25 MEMBER SINGH: Here.

1 MS. GUARE: Member Trujillo.

2 MEMBER TRUJILLO: Good morning, Phyllis. I
3 am here.

4 MS. GUARE: Member Woodford.

5 MEMBER WOODFORD: Here.

6 MS. GUARE: Secretary, looks like we have a
7 quorum.

8 CHAIR CATE: Thanks, everyone, for being
9 here today. Why don't we begin -- as you noted, we
10 have six action items to confirm. Before we do
11 that, I invite any Board Members who plan to make
12 any opening comments today.

13 Anybody have anything to comment on before we
14 start?

15 Seeing none, then we'll move to our General
16 Manager's comments.

17 MR. PATTILLO: Morning, Mr. Chairman,
18 Members. My name is Charles Pattillo. I am the
19 General Manager of the Prison Industry Authority and
20 the Executive Officer of this Board.

21 The year just passed was probably one of the
22 toughest we've ever had, as far as financially. And
23 our audit report is in there today. Significant
24 numbers that could have been probably mitigated,
25 given a substantial reduction in net assets year

1 over year. Part of that, as we discussed, is the
2 large chunk that has to do with state furloughs and
3 pay back of those. Something we could have avoided
4 if we had gotten the Department of Personnel
5 Administration to concur with our request for an
6 exemption from furloughs. So that is going to cost
7 us upwards of \$8.7 million.

8 This fiscal year we are coming out of forced
9 us to make many tough decisions with regards to what
10 we offer inmates and what we offer staff in their
11 positions, but I think in the end our commitment to
12 the rehabilitation of offenders will be unwavering
13 as well as our commitment to our staff. As you hear
14 me many times, if it wasn't for the staff that we
15 have, we wouldn't be able to do what has to be done.
16 The program is the lowest recidivism rate of any
17 program within California's Department of
18 Corrections and Rehabilitation.

19 Our cash position is pretty strong. Revenues
20 are coming in as we expected this year, and we've
21 got some exciting new products and some pretty good
22 training that's coming along.

23 Going forward, we are well-positioned to grow
24 and continue innovating new training opportunities
25 for inmates. The biggest reality we have facing us

1 is the Governor's corrections realignment program,
2 AB 109. As for us, we're taking it head on. It's
3 impacting us in certain ways, but we know what is
4 coming. Our staff is pretty diligent in doing
5 linear programming as far as for 109; and the
6 impacts that we use, the analysis, is one that's
7 actually been adopted by the Department on how to
8 indicate what the impact of what the program will
9 be.

10 In addition, we're continuing to be a resource
11 for local governments who are recognizing that they
12 have a new influx of inmate population, and they're
13 seeking recidivism reduction solutions, including
14 the correctional industries joint venture program as
15 well as our CTE programs that can be employed at the
16 local level. And we are offering staff assistance,
17 free curriculum, anything that we have to make this
18 work for them much better.

19 At past meetings we made significant changes
20 to Board policy regarding the maintaining of
21 transcripts. Prior to our last meeting, the PIB
22 policy, adopted policy, was to take transcripts,
23 which we just started about four years ago, turn
24 those into a summary, which we gave to you. Once
25 you approved that summary, we just destroyed the

1 transcript. There were some folks that were
2 critical of what was happening.

3 So what we moved to, which you approved at the
4 last meeting, is that we keep all transcripts in
5 perpetuity, and they are posted up to our website.

6 We recently completed a public hearing
7 regarding our production of boxed lunches. And that
8 hearing was conducted to the letter, as detailed in
9 the Inspector General's Report 2007, which kind of
10 laid out how they thought we should implement the
11 Penal Code when doing public hearings. At the time
12 Mr. Cate was the Inspector General. So what he
13 wrote we followed to the letter and put in at this
14 public hearing.

15 We are going to have an opportunity to discuss
16 five action items and six information items, and at
17 the end we have a public session for folks to come
18 up to make public comments. However, the Secretary
19 after each item will offer public testimony -- folks
20 to come up.

21 So with that, does anybody have any questions
22 before we go?

23 MEMBER WOODFORD: I have just one. Have
24 you thought of getting on the schedule for a CPOC
25 meeting to talk to all the counties about how you

1 can help them with realignment?

2 MR. PATTILLO: CPOC, no. We are trying to
3 line up the sheriffs, the two sheriff groups. I'm
4 doing the two sheriff groups. I haven't gone to the
5 probation officers yet. I will get that done.

6 Before we go, I actually had an announcement.
7 Mr. Singh was re-elected as the president of the San
8 Francisco Redevelopment Agency in December. And
9 while we should congratulate him, he also reminded
10 me that they are getting rid of the redevelopment
11 agency, though. So congratulations, Mr. Singh.

12 With me today is Assistant General Manager,
13 Scott Walker, and Carla Young, Marisela Montes, my
14 other AGMs, and a host of other staff that will be
15 here to the end. I didn't want to name everybody
16 off here, but you know all who they are.

17 With that, Mr. Cate.

18 CHAIR CATE: Mr. Pattillo, I just wanted to
19 let you know that we had an agent that was injured
20 in Southern California. Headed down there early
21 this afternoon. So I have a flight to catch. I may
22 not make it through the entire meeting. Hopefully,
23 get the first two items. I may need to pass it off
24 to maybe Ms. Woodford or somebody else who has a lot
25 of experience here. Take it through to the end.

1 So with that, let's take on what I think will
2 probably be the item that takes the most time, which
3 is the item concerning the action item for
4 individual prepackaged meals.

5 Mr. Pattillo.

6 MR. PATTILLO: I'm going to turn it over to
7 Scott Walker, Assistant General Manager, to present
8 that.

9 Mr. WALKER: Good morning, Board Members.
10 My name is Scott A. Walker. I am the Assistant
11 General Manager of Operations for the Prison
12 Industry Authority. I am here today to present the
13 California Prison Industry Authority's position on
14 individually packaged meals, also referred to as
15 boxed lunches.

16 This issue goes beyond the subject of boxed
17 lunches. It is about the survival of CALPIA.
18 CALPIA needs your support and the support of our
19 parent agency, California Department of Corrections
20 and Rehabilitation. Without their support, CALPIA's
21 ability to meet our statutory goal of providing
22 inmates with real-world work training and achieving
23 self-sufficiency is simply not attainable.

24 The foundation of correctional industries is
25 that tax supported agencies support CALPIA through

1 the purchase of products and services, and thereby
2 support inmate work training programs. In return,
3 CALPIA has the responsibility to provide the highest
4 quality goods at the lowest possible price. CDCR
5 and CALPIA share a common goal and share the
6 responsibility towards those goals. As our largest
7 and most important customer, this support is vital.

8 Before I get into the presentation of this
9 item, I would like to discuss a recent survey on
10 food products conducted by CDCR. While CALPIA
11 values customer feedback as an essential component
12 of customer service, unfortunately the summary
13 provided to CALPIA fails to identify specific
14 orders and locations. Without those critical data
15 elements, CALPIA is unable to address most of the
16 specific concerns raised by the respondents. Where
17 issues have been raised with enough specificity,
18 CALPIA has remedied them. We are, however, taking
19 proactive steps to identify issues as best we can
20 and have asked CDCR for additional background that
21 will help CALPIA identify and resolve any issues or
22 concerns.

23 If there is anyone who feels that CALPIA or a
24 CALPIA staff member is not responsive to their needs
25 as discussed in the survey, then that behavior is

1 not consistent with the mission, vision and values
2 of CALPIA and will be corrected. It should be noted
3 that CALPIA has offered to fund a specific third
4 party independent food survey that can be conducted
5 with appropriate survey protocol, including
6 correlation and referencing so that the most
7 actionable and accurate data is collected. I'll go
8 on to this item.

9 CALPIA was approached in 2010 by then DGS
10 Chief Deputy Director, Stephen Amos, to determine if
11 prepackaged meals, i.e., boxed lunches, were a
12 product that CALPIA could produce. DGS stated that
13 while there was a current contract in place for its
14 boxed lunch product, that there was a lack of
15 responsive bidders during the bid process. In
16 addition, DGS had concerns about the manner in which
17 the contract was being utilized.

18 Given the request by DGS and the fact it was
19 well within CALPIA's core competencies, CALPIA began
20 the product development process for a boxed lunch
21 product. In September of 2010, CALPIA started
22 providing boxed lunches to a number of CALPIA
23 inmates as a pilot. CALPIA is currently positioned
24 to start servicing the needs of CDCR with Type II
25 peanut butter and jelly boxed lunches on February

1 1st of 2012. CALPIA anticipates that our product
2 offering will be approximately 10 percent less than
3 the current product being procured by CDCR. Our
4 price will be approximately 84 to 90 cents each,
5 depending on the make-up of the lunch.

6 CALPIA has engaged CDCR in an attempt to
7 identify the Department's need for boxed lunch
8 product. To date the needs of CDCR, as well as
9 product specifications and nutritional content for
10 boxed lunches, have not been defined. This, in
11 effect, has created a vacuum that's increasingly
12 being filled by private vendors, and in doing so has
13 reduced CDCR's procurement of CALPIA individually
14 packaged food items. Specifically, procurement of
15 boxed lunches has increased from 1.6 million in 2008
16 to 3.1 million in 2011. Additional sales for fiscal
17 year '11-12 are expected to top \$8,000,000. They
18 are currently \$3.9 million to date for the first six
19 months of the year.

20 As a result of this increased procurement,
21 CALPIA's sales were reduced approximately \$1,000,000
22 in fiscal year '10-11 and are estimated to decrease
23 an additional 2.5 million in fiscal year '11-12. It
24 should be noted that CALPIA estimates that our
25 packaged food revenues represent approximately

1 one-quarter of 1 percent of the packaged food market
2 in California.

3 The direct impact on our staffing will be the
4 reduction of 16 civil service employees. The
5 majority of which lives in Kings County. Kings
6 County unemployment rate is currently 14.8 percent.
7 The city of Corcoran, where the facility is located,
8 has an unemployment rate of 15.3 percent. There
9 will also be an impact on California small
10 businesses, like Ludford's who supplies the juice,
11 jelly and syrup.

12 MR. PATTILLO: It is one quarter of one
13 one-thousand.

14 MR. WALKER: My math instructor over here.
15 The point there is it is a very, very small slice of
16 the available market.

17 Small businesses in California will also be
18 impacted by this reduction in CALPIA sales.
19 Ludford's who supplies the juice, jelly and syrup;
20 Traditional Baking Company who supplies the cookies.
21 I believe there is a letter submitted for the record
22 that talks about them having to lay off ten
23 employees if we get out of this or diminish this
24 market. The diminishment or demise of this product
25 line will force the small businesses to lay off

1 employees as well.

2 150 inmates will lose their opportunity to
3 work in a rehabilitative program. Not only will
4 these inmates not have an opportunity to better
5 themselves while in prison, the likelihood of them
6 becoming tax paying citizens, once released from
7 prison, will be diminished. It also should be noted
8 that 50 percent of the wages paid to inmates with a
9 restitution order goes directly to the crime
10 victims. CDCR collects 50 percent of prison wages
11 to pay restitution orders.

12 CALPIA has proven to be the most successful
13 program in the state in reducing recidivism, thereby
14 providing for a safer California. CALPIA's
15 recidivism rate is 25 percent less than the general
16 population of CDCR, thereby saving the State
17 approximately \$8,000,000 annually.

18 Harvest Farms has submitted a proposal, and I
19 have a feeling they are going to speak here to PIA.
20 The proposal was submitted to PIA via CDCR, December
21 12, 2011. The document was actually dated December
22 9th. The proposal called for CALPIA to provide food
23 products to Harvest Farms and then being included in
24 the Harvest Farms boxed lunch. There are several
25 challenges to moving forward with the proposal

1 presented by Harvest Farms.

2 One example would be that Harvest Farms has
3 chosen to not include CALPIA sliced bread product.
4 This would continue to erode the market for CALPIA
5 products. Other challenges include distribution,
6 invoicing, contract with Harvest Farms as a sole
7 source, et cetera. Given these challenges, CALPIA
8 chose to pass on the offer at that time.

9 During the public hearing on January 4th,
10 2012, the proposal was raised by Harvest Farms, at
11 which time Mr. Pattillo requested that Harvest Farms
12 submit the proposal directly to CALPIA, and CALPIA
13 would review it again. CALPIA received a second
14 proposal on January 11th via Board Member Davidson,
15 not directly as requested. While the challenges
16 listed above still remain, CALPIA will evaluate the
17 second proposal and respond to Harvest Farms.

18 CALPIA recommends that the Board concur with
19 CALPIA's request to produce and sell a limited
20 selection of individually packaged meals, boxed
21 lunches, effective February 1st, 2012.
22 Additionally, as a reminder, approval of this item
23 will not raise the existing food limit.

24 I'd be happy to answer any questions.

25 MEMBER WOODFORD: Can you repeat the last

1 part?

2 MR. WALKER: As a reminder, we don't need
3 -- the revenue limit is sufficient currently to
4 accommodate for this item.

5 CHAIR CATE: So just to help me clarify in
6 my own mind, you talk about losing existing inmate
7 work. That comes from the idea that if PIA doesn't
8 get involved in boxed lunches, then the share of --
9 and the amount of boxed lunches that CDCR purchases,
10 as it continues to rise, assuming it does, then the
11 amount of individual items that PIA sells to
12 Corrections will go down and some number of the
13 existing inmates who are working on the individual
14 product lines will no longer have jobs?

15 MR. WALKER: Right. And as I said in my
16 presentation, the fact represents that it's doubled
17 and doubled again. And with AB 109 realignment
18 plans and limited resources, the shrinking resources
19 out there, there is a very good likelihood that this
20 is going to continue to increase because sometimes
21 it's the best option for the institutions, given
22 limited resources.

23 So, actually, you're exactly right. It has
24 the direct impact on individually packaged items.
25 We have both packaged items, and the same thing

1 applies to them. As the market diminishes, the
2 economy of scale diminishes. We still have overhead
3 working in a prison, and pretty soon it becomes
4 untenable to --

5 CHAIR CATE: How many inmates are working
6 in food operations now?

7 MR. WALKER: About 150.

8 CHAIR CATE: All right. Other questions?

9 MEMBER BUTLER: You mentioned AB 109. What
10 impact will that have on your ability to -- on all
11 your operations; is it more likely to reduce the
12 number of available inmates to you?

13 MR. WALKER: Certainly going to reduce the
14 number of inmates. Currently there is no impact.
15 We are tracking about 7 percent vacancy rate. It
16 fluctuates between 6 and 7 percent. It's actually
17 down in the last quarter. The first quarter of
18 realignment our vacancy rate actually went down. I
19 don't have certainly a crystal ball, but we've been
20 able to manage it fairly effectively so far. At the
21 end of the day the Department's still going to have
22 a hundred plus, thousand inmates. We're employing
23 52-, 5,400 of those. I think we'll be able to make
24 it work.

25 It's going to be a challenge. I mean, the

1 first part of realignment usually takes those
2 inmates or did take those inmates that weren't
3 necessarily programing. So it's going to impact us
4 somewhere down the road, Jim. How bad and where?
5 We've got some feelers out there. Avenal is one of
6 the areas that we struggle with always to get
7 inmates outside the security perimeter.

8 As Chuck mentioned, we have a great staff that
9 are really adept at managing and have great
10 partnerships with the institutions and their
11 support. So it's going to be a challenge, but I
12 think we will be able to navigate it effectively so
13 it has the least amount of impact on us.

14 MEMBER BUTLER: I had a question about the
15 survey. The information prepared for us indicated
16 that about 40 percent of the respondents said
17 premade meals will be a desirable product. How did
18 that rank compared to other things that they were
19 looking for? Did that make the number one desired
20 option or the number ten?

21 MR. WALKER: I don't have that specific
22 data on which things -- what we do is a process that
23 we meet with CDCR food staff. We kind of let them
24 -- there is a smart team out there which you are
25 aware of that kind of directs our efforts. There's

1 been a lot of demand out there for a sausage patty
2 product that we are working on. There's been a lot
3 of demand for precooked items which we're looking at
4 But 40 percent of them are responding. Given AB
5 109, I would certainly rank it up towards the top.

6 MR. PATTILLO: The current usage is about
7 15 percent, current use.

8 MR. WALKER: Currently at eight
9 institutions. There were 12 institutions last
10 fiscal year using boxed lunches. This year there is
11 eight institutions using boxed lunches, but the
12 eight have gone to using them at a more dramatic and
13 regular pace. So the numbers, even though less
14 institutions using them, the numbers are doubled.

15 MEMBER BUTLER: You indicated that
16 projections for 2013, the overall consumption to
17 about eight-plus million dollars?

18 MR. WALKER: Right.

19 MEMBER BUTLER: What percentage of that
20 market, call it that, could PIA meet within existing
21 authority? Could you do 100 percent of that?

22 MR. WALKER: There is certainly room with
23 our revenue cap. I think we are down to 13.7,
24 revenue cap is 22.9. So dollars it works.
25 Realistically, how much can we do of that? Looks

1 like right now we are able to do about 200,000 boxed
2 lunches a week. It depends on demand. So that's
3 about \$200,000 a week. So it looks like we could
4 probably do the whole thing. As I said in here,
5 we're not positioned to do Type I, which is sliced
6 meat. We still have some things to do to get to
7 there. We plan to be there by the end of fiscal
8 year. So our approach to this is we simply start to
9 roll out the Type II, which is peanut butter and
10 jelly, and at some point go out and source some
11 vendors to work with us on Type I lunches, and,
12 hopefully, run that out the first of the year.

13 MR. PATTILLO: Part of Scott's comment is
14 revenues are increasing for this product. There
15 actually is a corresponding decrease in the
16 individual package, ones they are not going to buy
17 from us. Out of the 8,000,000, I don't know what's
18 the true revenue.

19 MR. WALKER: It's about three to one. So
20 if you look at it that way, it's still going to be
21 probably another \$6,000,000, six and a half million
22 dollars, five and a half million dollars of revenue.

23 MEMBER BUTLER: Some amount of offset is
24 what you're saying?

25 MR. WALKER: Sure.

1 MEMBER BUTLER: The last question I have
2 from the notes I have is the information also talked
3 about the PIA being able to meet 6 percent of the
4 total demand. I really couldn't square that with
5 the other projections of 8,000,000.

6 MR. PATTILLO: What that is -- I will run
7 through it. It has to do with 135,000 inmates on a
8 daily base eating this product 365 days a week.

9 MEMBER BUTLER: If somehow that was the
10 only feeding --

11 MR. PATTILLO: That's what we are talking
12 about. If everybody went to it, that is all we
13 could do.

14 CHAIR CATE: You could do 100 percent of
15 the existing level?

16 MR. WALKER: We will be able to get to a
17 hundred percent.

18 MEMBER TRUJILLO: Mr. Chairman, I have a
19 comment. Mr. Walker, prior to the January 4th
20 meeting, regarding the public testimony, public
21 hearing, if I'm not mistaken, in May this Board
22 here, I think, voted unanimously not to go into the
23 boxed lunch venue, regarding the Harvest Farms
24 contract that we had. And I know it's kind of hard
25 to prove because the transcripts have been

1 destroyed. But I think that some of these, my
2 colleagues, voted -- we voted not to get into the
3 boxed lunch program. I also remember there was to
4 be a subcommittee to look into that.

5 Was that subcommittee ever put together?

6 MR. WALKER: I don't believe so. As far as
7 the amendment that was offered that day, the
8 recollection we had was that -- the transcript, as
9 you mentioned, they have been destroyed, so we can't
10 refer to them, reflected a reduction of about
11 \$580,000 in revenue with a recognition that that
12 would be used, the amount of boxed lunches that PIA
13 would be able to do during the remaining duration of
14 that contract. So as far as we recall, our
15 recollection, and certainly, again, no transcript,
16 there was no prohibition, ultimate prohibition, to
17 say that we can't do boxed lunches ever. It was
18 simply you are not going to do them until that
19 contract expires.

20 CHAIR CATE: As I recall, don't do boxed
21 lunches, and this may have not been this year or not
22 2011-2012. So 18 months ago. It was -- perhaps it
23 was more advice of the Board at that time. Was due
24 to the impact on the private sector, we asked you
25 not to do boxed lunches until and unless you came

1 back and got approval from the Board to do boxed
2 lunches.

3 Just so you know, I basically told -- at CDCR
4 we are not buying PIA boxed lunches until this Board
5 approves the PIA of doing that. So they've gone
6 ahead and prepared to do boxed lunches in a pilot
7 boxed lunches. But I think that is the reason
8 they've come back, is to see if we will grant
9 permission to do boxed lunches. I am not even sure
10 we agree as to whether it is necessary, as a new
11 enterprise, to come back here. I believe it is, and
12 Chuck probably doesn't. But the point is I think
13 that is the purpose of this hearing.

14 MEMBER TRUJILLO: I would like to see that
15 subcommittee, before we move forward, be put
16 together to study this, take a look at it. In fact,
17 if I'm not mistaken, at that last hearing, public
18 hearing that we had, Harvest Farms actually invited
19 Board Members to come down to take a look at their
20 facility. I was one Board Member who did that, and
21 met the employees and stuff down there that worked
22 there for quite sometime. A pretty nice facility in
23 Lancaster, California, which is a place where
24 livable wages and benefits aren't paid very much to
25 people.

1 So that was my big concern. Was putting these
2 people out of work, especially at a time like it is
3 today.

4 MR. PATTILLO: If I may, Mr. Chairman.

5 CHAIR CATE: Sure. Then Ms. Woodford.

6 MR. PATTILLO: The reason this has come
7 back here is actually at my suggestion. I do
8 believe it came back to the Board so we can be very
9 clear on what we're doing. I'm not one that
10 believes it doesn't have to come back here.
11 Mr. Trujillo, I actually have a different opinion,
12 and that is the reason we have gone to such lengths
13 to show a second public hearing and whatnot. I
14 understand about the transcript, but there was
15 nothing inappropriate done whatsoever. In going
16 forward, we've tried to meet all the Penal Code
17 specifications that have been presented before the
18 Board as required.

19 Also gone a step higher with Secretary Cate as
20 Inspector General by the letter of what his
21 recommendations are. So as far as -- I forget the
22 subcommittee. It was decided that it would go to
23 the Operations and Development Committee that was
24 reappointed last time. I believe Ms. Woodford,
25 Mr. Kelly and a few others were appointed to that.

1 That would be the venue for that, for that purpose.

2 MEMBER WOODFORD: The only thing I was
3 going to say is what I recall is the subcommittee,
4 and I think we are all in agreement with that. I
5 don't recall direction being given that they
6 couldn't produce boxed lunches. I actually recall
7 you withdrawing your request at that point.

8 Am I wrong with that?

9 MR. PATTILLO: What I did was we reduced
10 our revenue request by \$580,000, what we thought
11 would be the revenue for the duration of the current
12 contract at that time, two years ago with Harvest
13 Farms, and that's what we discounted out.

14 MR. WALKER: I would like to say, either
15 way it works. We have been consistent with whatever
16 direction. We have not produced boxed lunches. We
17 are back here, and we're asking for sale.

18 MEMBER MASTELLAR: I have a question. I
19 wasn't at the May 2010 hearing, but I have heard
20 this issue come up when at the Capital building.
21 Mr. Trujillo brought up what occurred and the vote
22 that occurred at the May 2010 hearing. And I've
23 asked a lot of questions about it since then. My
24 understanding is that the contract that Harvest
25 Farms had with DGS was ending. And in our materials

1 and in conversations with several of you, I have
2 found out that DGS actually came to PIA and asked
3 for us to develop a boxed lunch program product. So
4 that there was yet another option out there and
5 available.

6 So what I'm not understanding is why we would
7 be asked to provide that product if there were an
8 issue with Harvest Farms and a contract. Seems to
9 me that we are being asked for a specific reason.
10 And why aren't we able to come out and provide a
11 product just like other companies are able to
12 provide a product and go through the process?

13 Am I misunderstanding that we were actually
14 requested by DGS to develop this?

15 MR. WALKER: You're absolutely correct.
16 There were a couple issues that DGS's then Chief
17 Deputy Director Amos approached us with. One was
18 providing the boxed lunch. And their reason, their
19 rationale behind it, was twofold. One was that the
20 current process wasn't being competitively bid,
21 i.e., one bid, Harvest Farms. There was
22 inappropriate use of that contract, according to
23 DGS's analysis, not ours. I want to make that
24 clear. Last time it got confused. That wasn't our
25 analysis. That was DGS's analysis.

1 Given those two facts, they approached PIA and
2 said, "Hey, can you look at this and see if you can
3 produce this product? So we have somebody other
4 than a captive market out there as a private
5 vendor."

6 MEMBER MASTELLAR: Have we done anything
7 inappropriately with respect to developing a
8 product?

9 MR. WALKER: No, ma'am.

10 MEMBER MASTELLAR: I also read that the
11 warden, who was involved in the public hearing
12 January 4th, presented information which was new,
13 new information. Basically, saying that boxed
14 lunches are going to need to be utilized more often,
15 and that orders would be increasing because there is
16 reduction in staff that would supervise inmates
17 preparing bulk item lunches.

18 And so it seems to me that the market share is
19 going to open up. It is going to be larger. And
20 PIA can be a part of that as well as small business
21 and veterans, which is kind of stepping into another
22 issue. It seems -- again, I'm misunderstanding
23 where we are doing something inappropriate by
24 putting ourselves in the marketplace.

25 MR. WALKER: I don't believe we are.

1 MEMBER MASTELLAR: Thank you.

2 MEMBER KELLY: I was at that hearing. I
3 have to agree that we never gave direction not to do
4 boxed lunches. We took out the dollar amount for
5 the duration of that contract, and that was it. So
6 I don't know where all the rest of this came. I
7 guess if it was now we have it, but as I recall,
8 that's exactly what we did. We took the dollar
9 amount out of the duration of the contract. We
10 never did give staff direction not to do boxed
11 lunches at all.

12 MEMBER SINGH: Thank you, Mr. Chairman. I
13 think we should table this item and we'll study
14 more, and we can appoint a subcommittee and take the
15 action at the next meeting, Board meeting.

16 CHAIR CATE: I might suggest before we take
17 that up, I would like to -- certainly, I know we
18 have a room full of people that came to testify. I
19 would like to hear from them before we take any
20 motions on the matter, either motion to table or
21 motion to vote. Either way would be my preference.
22 I didn't hear a formal motion.

23 Would you mind if we waited until --

24 MEMBER SINGH: Sure.

25 CHAIR CATE: Not hearing a motion on that,

1 any other questions from the Board before we open it
2 up to public comment?

3 At this time I think it would be helpful to
4 open this matter up for public comment. I have a
5 list of speaker request forms. If there is someone
6 here -- we do these forms to just try to manage, so
7 it's helpful that we get a name and we kind of keep
8 track.

9 Certainly, nothing prevents someone if you are
10 here and you would like to speak, you haven't filled
11 out a form, you can go to our secretary, and Phyllis
12 we'll add it to our list. Then we have one more.

13 Great. So we have, looks like, nine requested
14 speakers. The first is David Lynch.

15 MR. LYNCH: Good morning. David Lynch on
16 behalf of Senator Sharon Runner. She apologizes she
17 couldn't be here herself this morning. This is
18 actually an item that she has been particularly
19 interested in over the course of her term.
20 Something that she inherited from former Senator
21 Runner. She's been keenly active on it for the last
22 year that she's been in office.

23 From the Senator's perspective it is pretty
24 cut and dry. While I appreciate the statistics of
25 unemployment in the Central Valley, the unemployment

1 statistics in the Antelope Valley where Harvest
2 Farms is located hovers around 17 to 18 percent. As
3 we all know, unemployment statewide is incredibly
4 high right now. Particularly high in the Antelope
5 Valley. An action by any sort of governmental body
6 right now to not be creating jobs but taking jobs
7 away from the Senator's district is unconscionable
8 to her.

9 Just from a policy perspective. Clearly we
10 are now in about three weeks, four weeks of AB 109
11 being fully realized. The policy implications of
12 which is going to be a ripple effect over the next
13 couple of years. Obviously, prison inmate
14 population is going to go down. So why would we be
15 having this conversation of trying to employ more
16 inmates, while a logical goal, while prison
17 population is going to go down, at the expense of
18 the private sector doesn't make sense to the
19 Senator.

20 Thank you.

21 CHAIR CATE: Thank you.

22 Brett Nelson.

23 MR. NELSON: My name is Brett Nelson. I
24 represent Harvest Farms. Quite a few things I want
25 to talk about. First of all, I do have a question.

1 There has been implications made in this document
2 you have handed out that have been made before, and
3 I would like to ask the General Manager of PIA: If
4 you have an accusation of something you are making
5 toward Harvest Farms, I would ask you to formally
6 make that. I have corrected your inaccuracies
7 before. We have a corporate chart here in the back
8 that is riddled with inconsistencies. I'm not sure
9 what the message or relevance is of what you are
10 trying to send. If you have an accusation, I would
11 like you to please formally make that.

12 CHAIR CATE: This is not the right forum,
13 for example, of back and forth between you and the
14 General Manager. If you have concerns of accuracy
15 of anything that the Board has received, you can
16 address those directly. We will certainly --

17 MR. NELSON: Would I be able to hand
18 something out?

19 CHAIR CATE: Sure.

20 MR. NELSON: I apologize for that. I get
21 emotional about employees that I care very much
22 about. One of the things I handed you is a document
23 of information. One of the things that we come back
24 to is that the DGS asked the PIA to go into boxed
25 lunch meals. Interestingly enough, we had a meeting

1 with DGS before they decided not to do this contract
2 over again. We asked that question directly of the
3 DGS. Are you considering not renewing the contract
4 because you are going to ask PIA to get involved in
5 boxed meals? They directly said no. So I'm not
6 sure where the inaccuracies are. That is what we
7 were told directly at a meeting with the Department
8 of General Services?

9 CHAIR CATE: Can I ask who you talked to?

10 MR. NELSON: I cannot --

11 CHAIR CATE: Who was the person in charge?

12 MR. NELSON: Matt Bender. He also had a
13 few other people from DGS there at that time.

14 CHAIR CATE: Mr. Butler can maybe help.

15 MEMBER BUTLER: Let me just chime in. You
16 may have more to offer on this. I believe that
17 there was a lot of information about DGS. DGS is a
18 large organization. And the direction that you get
19 from one part of the organization may be different
20 than what PIA gets from a different part of the
21 organization.

22 MR. NELSON: Absolutely.

23 MR. BUTLER: So just on that point.

24 Matthew Bender is the food acquisition program
25 manager. He may not have been aware of concerns

1 that were held by the Chief Deputy Director at that
2 time about the food contract. So he may not have
3 been able to accurately communicate to you what the
4 policy of the State was.

5 MR. NELSON: I respect that. Being a large
6 organization, that's probably accurate. However,
7 the small businesses in California are trying to
8 have a business plan and how to project, how to run
9 a business. All we can do is reach out to the
10 people that directly we deal with and go with the
11 information given to us.

12 In this document that you are presented over
13 on that table there, there are a few things in here
14 that I believe are in there to try and make it look
15 like Harvest Farms did something wrong and acted
16 inappropriate during the contract. There is
17 constant referring that the boxed meals were
18 designed for emergency use only. I brought the last
19 contract bid paperwork, and I have bid documentation
20 from -- going back ten, 15 years. This contract was
21 never designed for emergency uses. Every bid we did
22 had estimates on there that would show a facility
23 using it full-time for weekends or seven-day-a-week
24 feedings.

25 There is an inappropriate use of the contract.

1 We substituted a cookie with a cookie of a higher
2 quality and cost more, but we did not raise the cost
3 to the institution. As you can see in the
4 documentation there, we were well within the
5 contract right to do so. It's clearly specified
6 that substitutions can be made at no cost to the
7 institution. And we did that.

8 There was a reference there that it was a sole
9 source contract, and no one else bid on it. Well, I
10 would like to address that in two ways. The PIA is
11 a sole source contract. No one is allowed to bid
12 against them. And the other thing is that this is
13 an open bid, open for any business to participate in
14 it. And at that meeting with DGS we were told that
15 they would provide names of other food manufacturing
16 companies - Bridgeford Food, Valley Foods, Sun
17 Meadows, Super Bakery - that also makes boxed meals,
18 and we would give them contact information to make
19 sure they were available to bid on this contract.
20 They opted not to bid on the contract because the
21 price points that we sell to the DGS are so low that
22 they opted not to participate at such a low margin
23 of competition.

24 As far as pricing goes -- I'm sorry I'm
25 jumping all over the place. I looked at the menus

1 that are provided here in a packet. Our menus, our
2 prices for those same menus would be anywhere from
3 four to ten cents less than the PIA's price offered.
4 So I just thought important information for you to
5 know.

6 We did -- it was mentioned that we had a
7 proposal that we had sent at the request of a
8 meeting we had with Mr. Amos. We put together a
9 presentation of what we thought we could work
10 together with PIA. We presented that to him. At
11 the last hearing Mr. Pattillo said he did not get
12 that, so we sent it out again. I believe it was
13 emailed to all Board Members and Mr. Pattillo, a
14 copy of that. So they were all given a copy of what
15 we proposed to do.

16 Will there be bumps and bruises along the way
17 to try to make a proposal like that work? Sure.
18 The response we got was just no. And shot it down
19 completely.

20 I understand that there is going to be
21 potential job loss of people in the area where
22 Corcoran is, and that's part of when inmates are let
23 go and you have less product to buy. We don't have
24 any effect on Ludford issues. We don't have any
25 effect on all those people. We don't use any of

1 those products. We don't have any effect on those
2 businesses that he mentioned, as far as losing more
3 revenue because they are not included. They are not
4 part of what we do.

5 When AB 109 goes into effect, inmates are let
6 go. Everybody is going to feel a hit. I don't know
7 that it is Harvest Farms's responsibility to fill
8 the void where the Department of Corrections loses
9 inmates to the PIA to make up revenue. That is
10 really not our responsibility.

11 Basically, what I want to talk about is
12 Harvest Farms. I brought a number of employees here
13 that will be affected, that will be terminated if
14 PIA goes into boxed meals. I wanted them to talk to
15 you personally. Harvest Farms is a bunch of
16 families working together. We have two and three
17 generations of people working there. People worked
18 there for decades. It's a very valued job in the
19 Antelope Valley. We get applications coming through
20 the door constantly because there is, first of all,
21 no one who pays the wages we pay, and very few give
22 benefits.

23 So for the employees it is a very valued job.
24 To give you an example of the type of family
25 atmosphere that is there, we had our employee,

1 Marcelino, that was coming to work to actually fill
2 a rush bread order at 4:00 in the morning. He was
3 involved in a hit and run accident. He's paralyzed.
4 And the girls here still clean his house, bring him
5 food, care for him because it's not just numbers,
6 employees. The people there, it is a big family of
7 people that have been there, and they cherish their
8 jobs working at Harvest Farms.

9 CHAIR CATE: I don't want to interrupt.
10 But it would be helpful for me to get a sense of how
11 many people. I know you told us this before. Just
12 not on the tip of my -- not in front of my head
13 here. How many people work for you? How many
14 people work on boxed lunches? How big a piece is
15 this? What do you think the overall impact will be
16 on this business?

17 MR. NELSON: There is currently 93
18 employees at Harvest Farms; 77 in the facility and
19 16 drivers. Over 35 would immediately lose their
20 jobs. And as they grew into the Type 1 lunches, the
21 rest of them. We would close the whole plant. We
22 would lose all of them. The impact would be 93
23 employees.

24 CHAIR CATE: Is CDCR your only customer?

25 MR. NELSON: Our largest customer and is

1 the majority of what we do. Because of the business
2 that we do with the California Department of
3 Corrections, it allows us to do other contracts. We
4 would not be able to sustain any of those other
5 businesses, any of the other contracts or any other
6 business if we lost this component. We would have
7 to close Harvest Farms. That is the long and short
8 of it. They don't like to hear that news of the
9 house payment and kids. The long and short of it is
10 they would close the Harvest Farms plant completely.

11 MR. BUTLER: May I just ask an additional
12 question? For whatever reason, the Department of
13 Corrections decided it was no longer economically
14 feasible to buy boxed lunches, they just started
15 doing this themselves, that would have a similar
16 impact on you?

17 MR. NELSON: Absolutely. Right now with
18 the current situation -- first of all, our boxed
19 meals, when it's all penciled out, when you factor
20 in yield, less theft, supervision, trash pick up,
21 the list goes on, our boxed meals do save the
22 facilities money. And many of the facilities have
23 proven that over and over again. Now with the
24 reduction in staff from both the inmate, staff,
25 lower level inmate maybes, as well as supervisor

1 staff getting cut off the payroll for the Department
2 of Corrections, more facilities are finding it's
3 necessary and at an incredibly huge cost saving to
4 use our product.

5 Our prices have been fixed. If you look at
6 other contracts with the Department of Corrections,
7 you see 5 percent, 15 percent increase year after
8 year in contracts. These are the same prices that
9 we've had on the books now since late 2005, 2006.
10 We've maintained our pricing.

11 CHAIR CATE: Mr. Nelson, the figures that
12 Mr. Pattillo gave us, as far as the volume of sales
13 going up from 1,000,000 to 3,000,000, are those
14 accurate? Do you have -- does that sound about
15 right?

16 MR. NELSON: Ours have gone up 1,000,000 to
17 3,000,000? No.

18 CHAIR CATE: The boxed lunch sales, do you
19 have -- what year -- I will just ask. Let ask me
20 you, regardless of what Mr. Pattillo described as
21 market share, can you describe the history of how
22 many boxed lunches or the dollar volume or something
23 that gives me a sense of how the market has been
24 tracking over the last couple of years?

25 MR. NELSON: We've seen more facilities

1 interested in boxed meals lately because of the
2 cutbacks. The boxed meals have been fairly stable
3 as far as which facilities have used them and which
4 have not. You are starting to see more movement
5 now. Have more facilities that are interested in
6 it, but what happens is they're --

7 (Inaudible comment by Mr. Nobili.)

8 MR. NELSON: We have two weekend feedings.
9 We have four or five full-time, and two of those are
10 fairly new. One last year and one this year. And
11 we're seeing more interest in the program.

12 CHAIR CATE: If you don't have these
13 numbers --

14 MR. NELSON: I don't have the exact number.
15 I don't want to give inaccurate information. I can
16 certainly provide that.

17 MR. NOBILI: Ballpark.

18 CHAIR CATE: Total volume sales?

19 MR. NELSON: It's about a third, I would
20 guesstimate.

21 CHAIR CATE: Third of what?

22 MR. NELSON: A third of all sales.

23 CHAIR CATE: So growth, numbers that you're
24 -- the number of items that you are selling or the
25 amount of money that's coming into Harvest Farms for

1 the sales, in year over year how that's grown? If
2 you don't have it, that's okay.

3 MR. NELSON: Sales numbers I don't have.
4 Certainly, the PIA wasn't doing 200,000 boxed meals
5 a week. That would be devastating to the Harvest
6 Farms. We'd have to start letting people go
7 starting February, February 1st.

8 I understand there is a difference of what
9 technically happened at the last Board meeting. It
10 seems like just a quick little shift of product. I
11 believe the message that the Board sent was not to
12 do boxed meals. The dialogue, the communication
13 back and forth to the Board, the testimony. I know
14 Assemblyman Knight was here, and he walked away
15 feeling like the message of the Board was not to do
16 boxed meals. How it was technically moved around
17 the agenda. The message was clear in our opinion,
18 and we've gone -- continuing the business in that
19 direction.

20 CHAIR CATE: If it helps you in any way
21 shaping your testimony, you can say what you want.
22 Just know from the Chair's point of view, I don't
23 believe the Board or PIA has done anything wrong.
24 This Board can decide to allow PIA to expand or
25 contract as we decide. Even if we had made the

1 decision that you shall not do boxed lunches in May
2 of 2010, we can come in today and say you are going
3 to -- we want you to do boxed lunches in January of
4 2012. That is why we're here.

5 So on the other hand, I don't think that
6 Harvest Farms has done anything wrong. I don't want
7 to feel that you need to defend anything about you.
8 For me personally, I just speak now as the Chair,
9 what I am most interested in is what is the impact
10 on PIA because that impact is how many of our
11 inmates are working. That's important to me as the
12 Chair and the Secretary of CDCR. But it is also
13 important as the Chair to hear about the impact on
14 you and your employees and what this impact of
15 opening boxed lunches would have for you. That, I
16 can tell you, is 95 percent of what will sway my
17 personal vote, is the impact on you and the impact
18 on inmates. The rest of this stuff is maybe between
19 you guys to kind of hammer it out. It is really not
20 much import to me.

21 MR. NELSON: Fair enough.

22 CHAIR CATE: I do care about the rest of
23 it, about the impact on you and the business, your
24 employees.

25 MR. NELSON: To be honest, if I could make

1 a magic wand, everything perfect, I would say let us
2 do our boxed meals. Let us do our business. Let us
3 continue as we grow. We are experts in the
4 manufacturing. We have a lot to offer as far as
5 guidance in a joint venture program, perhaps at the
6 Lancaster facility three miles away.

7 I would like to see, if it were to me, I would
8 like to see the Board let us continue to survive in
9 an area that needs jobs. Let us continue doing our
10 business. Let's work on a joint venture program of
11 another product, food product. See if we can offer
12 guidance, expertise, help in another way, in another
13 venture. And it could be a win-win for everybody,
14 that can continue to grow sales in something that
15 doesn't affect us. We can continue to grow our
16 sales and stay alive in the Antelope Valley as well.
17 I think there is ways we can work together.

18 Obviously, at this point is a very contentious
19 thing. It has to be. They are trying to do what
20 they need to feed their families. We are trying to
21 feed our families. When it comes to personal level,
22 how you pay for your kids, it does become personal.
23 It is not a business thing anymore. So, yeah, I
24 apologize if it is a little bit confrontational, but
25 it is to us. So I would --

1 MEMBER WOODFORD: Can I make a comment? I
2 need to say this at this point. This Board, we have
3 to be sure that we are not making decisions that
4 reduce the number of inmates that are working. And
5 to hear you, that it has to be confrontational, I
6 think that that has to be set aside at some point
7 and understand that we can't make the decision that
8 reduces the number of inmates that work, in my
9 opinion. And that I think that there could be a
10 plan that could be worked out between the two
11 groups, if people were sincere about doing that.

12 MR. NELSON: I agree.

13 MEMBER WOODFORD: I just get the sense that
14 what you are saying is we need to stay out of boxed
15 lunches totally. And I think that's stopping coming
16 to some kind of common agreement that could benefit
17 both organizations.

18 MR. NELSON: That is what we tried to do
19 with our proposal, was try to offer something that
20 said we can maintain what we have. You won't lose
21 your sales. You will add additional half million
22 dollars of component sales you don't currently have.
23 And as we grow our program, it doesn't affect you.
24 You still make the same amount of -- will the
25 component sales go down if they continue to let go

1 inmates? Oh, yes. You're only going to order only
2 so many peanut butter and jelly packets for how many
3 bodies you have. That is not by anybody's choice or
4 anything. It is because they are letting the
5 inmates physically go. That number will --

6 Certainly, if other facilities join the boxed
7 meal program, instead of those component sales being
8 lost to Harvest Farms buying product made from
9 outside, we would be using PIA product. Nothing
10 would change. It actually will probably save the
11 PIA money instead of delivering components of
12 different types, some eight to ten different
13 components, to multiple sites. You're delivering it
14 to one location, and we put it in boxed meals and we
15 deliver it out.

16 Would seem like a sure win-win. That is what
17 we proposed, was to do that. We could work -- it
18 didn't matter if one facility or 30 facilities were
19 on boxed meals, the same number of peanut butter and
20 jelly packets would be made whether or not. Like I
21 said, there are facilities that currently don't use
22 PIA products that use our own product we buy. Those
23 would be picked up. That would be additional
24 revenues that the PIA would pick up.

25 So that was what we thought was a win-win

1 scenario for everybody. Then it wouldn't have any
2 effect of how many facilities went on board. Just
3 be a matter of whether you sold it and put it on
4 your truck or we sold and put it on our truck. That
5 is kind of what we proposed. We thought was a
6 win-win scenario.

7 CHAIR CATE: I will say that Mr. Nelson did
8 provide my staff a proposal to pass along to PIA,
9 proposing some kind of mutual agreement on this
10 issue. And I don't -- it sounds like PIA is still
11 considering that.

12 Mr. Kelly.

13 MEMBER KELLY: You mentioned about doing
14 out of box lunches, doing another venture and you
15 would help us. You know, everything we do,
16 everything that PIA makes, everything that we do has
17 an impact on business on the outside. Every single
18 thing we do. So if don't do this, ten employees are
19 going to be left. If we do another, the room is
20 going to be filled with more people saying, "Don't
21 do this to us."

22 So I think our job as Board Members - I speak
23 for myself - is that we have to look at the total
24 industry, not all these good people over here on the
25 side here that are going to get up to speak to us

1 and tell us they love their jobs. I am sure they
2 are hard working people. But in the end we have a
3 mission, and that is to help the State of California
4 to have prisoners learn jobs to go on the outside so
5 they don't come back and cause the State of
6 California more money. That is our job. That is
7 what we have do.

8 It is not easy to sit here and listen to these
9 great hard workers come up here and say, "We are
10 going to lose our job." But on an industry-wide
11 basis it is a pretty small portion of what the
12 industry does. And those things are what we have to
13 look at. If we are going to do something different,
14 it just changes the faces in the audience, is what
15 it does.

16 MR. NELSON: It doesn't. Not all products
17 that are purchased by the California Department of
18 Corrections from industries are made in California.
19 For instance, there was a contract out for graham
20 crackers. That product was Keebler Foods. That is
21 made in another state. Certainly, there are other
22 products that could be made that don't have an
23 effect on California business. And I think if we
24 put our minds to it and work at finding those
25 products, they're out there. I think there is a

1 balance between keeping the inmates employed and
2 learning skills.

3 I live here, too. I don't want the inmates
4 coming back to my neighborhood. I want them to
5 learn job skills as well. I'm also a taxpayer. I
6 know if you lose a good paying job that is going to
7 have a negative impact. Every day in the newspaper
8 there are articles about Sacramento suffering
9 revenue loss because business are leaving. So there
10 are certainly a concern on both sides of the story
11 there. There are products that are purchased.
12 There are items that are purchased that don't affect
13 California companies. If I'm the Arizona guy that
14 makes graham crackers, I'm sorry, PIA doesn't make
15 graham crackers, yeah. Do I have a valid argument?
16 Probably not. Not as much as someone who is a
17 California company employing 20 people.

18 So I do agree with what you're saying. And I
19 would offer the same, that there are other
20 opportunities, other products that are purchased
21 that could be done that won't affect California
22 employees and California jobs.

23 MEMBER SAITO: Could I suggest if we can
24 hear from other speakers. Maybe you can come back.

25 MR. NELSON: I will be available to answer

1 questions. And I was just going to leave it with
2 the Board. It is personal to me. I'm sorry if I am
3 passionate about it, over the top on this. But I
4 care about these people because we've work together
5 for a long time. That is what I am trying to do, to
6 protect them.

7 Thank you very much for your time.

8 MR. WALKER: Mr. Chair, if I can clarify a
9 couple things Mr. Nelson said. One is the small
10 businesses that I mentioned, it will have a direct
11 impact on them. Ludford's supplies the jelly for
12 the peanut butter and jelly lunches. And
13 Traditional Bakery provides the cookie. So there
14 will be a direct impact on them.

15 CHAIR CATE: That's if you don't do -- that
16 is if you -- to the extent that you no longer do
17 peanut butter and jelly direct sales.

18 MR. WALKER: Right, right.

19 CHAIR CATE: I don't want to give the
20 impression that if we don't agree to do boxed
21 lunches, you are no longer going to produce peanut
22 butter and jelly. Your concern is that over time
23 that is going to eat away at your ability to produce
24 anything.

25 MR. WALKER: The statement was made by him,

1 that it will have no impact on those companies.
2 That is just not true. Over time it will eat away
3 at us or those companies.

4 MR. NELSON: I was unaware that they
5 produced jelly. I apologize for that.

6 MR. WALKER: Secondly, he made a statement
7 that we said we did not receive the proposal. We
8 never said that. We said clearly and directly that
9 we would appreciate it if you'd directly dialogue
10 with us on these proposals. We got the one; we got
11 it via Stephen Amos, as I said in my testimony. We
12 got the other via Mr. Davidson. It was addressed to
13 him. So we got both of those. That's just another
14 inaccuracy in his testimony that I want to
15 clarify.

16 CHAIR CATE: I think it's without much
17 meaning whether they give it to Stephen or gave it
18 to you, how you got it. I don't see the import.

19 MEMBER KELLY: Mr. Chairman, can I just ask
20 our staff to address the speakers by their name and
21 not he and them? They have a name. Let's use the
22 name.

23 CHAIR CATE: I saw Assemblymember Knight
24 arrive in the back.

25 MR. KNIGHT: Good morning, Mr. Chair and

1 Members of the committee. I'm here to speak as the
2 Legislator and one of the elected officials of the
3 area that could be hurt or could be changed in this
4 proposal. And I'm go to speak a little bit
5 differently than give you facts and figures, and
6 give you what Mr. Nelson could give you. I'm going
7 to give it to you at a personal level.

8 I have been in the Legislature now for three
9 years. This is my fourth year. I have yet to deal
10 with anything but the budget, and that is our
11 purpose up here. Some people get to get elected and
12 they get to run their bills and do all those things.
13 We are 100 percent in the budget; that is what we
14 do. And it is a little bit unfortunate that our
15 recession has lasted so long, but it has. That is
16 something we have to deal with.

17 There are a couple different schools of
18 thought. My school of thought is that the private
19 sector will pull us out of this. Some people
20 disagree with me. The people that disagree with me
21 are quite wrong. We have seen this for the last
22 hundred years. The private sector will pull us out.
23 So my point in this little dissertation here is that
24 a company like Harvest Farms is one of those
25 companies in my district that does employ 93 people,

1 that does have a dramatic impact on what happens in
2 our ability to pull out of this. Now a small
3 impact. We have many businesses and we have many
4 people that are employed and all of them are very
5 important to us. But when I look at the jobs that
6 Harvest Farms creates, and they have, these are not
7 the jobs that typically built the Antelope Valley.

8 Antelope Valley was built on aerospace jobs,
9 and it was built on engineers and mathematics
10 degrees, and the stem people that we are so heartily
11 working to get them back into our economy today.
12 And that was what the Antelope Valley was built on.
13 And unfortunately for that, we have 60,000 people
14 that go over the hill and go into L.A. every day.
15 We don't have the types of jobs that Harvest Farms
16 produces. These are the types of jobs that can and
17 do provide a good living for people. And they are a
18 skill and they are in the manufacturing sector. So
19 those are the types of jobs that we desperately want
20 here in California. We desperately need in the
21 Antelope Valley.

22 And so when I come up and I speak in front of
23 this distinguished Board, it is to say these jobs
24 are such an impact to an area like that. And I
25 could say that about Merced or Stockton or many

1 other places up and down the State of California,
2 that those types of jobs are crucial.

3 So I don't want to take a lot of time. I
4 think the testimony of the employees of Harvest
5 Farms is very important. But I did want to come and
6 say from my standpoint of a lifelong resident of the
7 Antelope Valley and of California, that over the
8 last 30 years we've started to move away from
9 manufacturing. And some people think that that is
10 just a natural progression, and I don't think that
11 that is.

12 These types of jobs that are outside the stem
13 jobs are crucial. And they are crucial to
14 California. So I'm here for questions. I don't
15 have the facts and figures. I have gone through the
16 whole survey. I did get to look at that. But I'm
17 here for more of a personal standpoint of what it
18 means to many districts just like mine.

19 CHAIR CATE: Any questions for the
20 Assemblymember?

21 Thank you very much.

22 MR. KNIGHT: Thank you.

23 CHAIR CATE: Mr. Nobili.

24 I understand our secretary --

25 MR. NOBILI: I'm not sure if I do,

1 actually. I guess I have a question to the Board.
2 Has the Board seen the survey that they have
3 referenced? Or do you guys have copies of those? I
4 assumed you did, so I don't know that I have enough.

5 CHAIR CATE: You're referring to the food
6 quality survey?

7 MR. NOBILI: Yeah.

8 CHAIR CATE: Why don't we do this. I
9 prefer that the Board not sit and read the survey
10 while we --

11 MR. NOBILI: That's fine. That's fine. I
12 was just going to reference it, so it's not
13 critical. I have some visuals on that, also.

14 CHAIR CATE: Can we just hold it, and, if
15 people need it, they can pick it up.

16 MR. NOBILI: That's fine. I'm not -- this
17 is Mark Nobili, for the record. I'm not sure I'm
18 going to go through all these. I'll get into --

19 Can I also give you testimony on behalf of
20 Adam Loveall from the UFCW 8. The UFCW represents
21 most of our employees at Harvest Farms. His twin
22 brother just passed away. So, really, this was not
23 something that he could make it to. He testified at
24 the last hearing on behalf of the UFCW 8 and the
25 employees. And if this is postponed or the issue

1 comes up, I'm sure he'll make himself available for
2 any questions on the impact. I think he might be
3 sending a formal letter to the Board maybe next week
4 or when things settle down in his life.

5 CHAIR CATE: The import are that these are
6 represented employees --

7 MR. NOBILI: Represented employees of UFCW
8 who will be unfortunately losing their jobs. And
9 that is Adam Loveall. I will try and be as brief as
10 possible, but I want to touch on a couple things.

11 To get at what Mr. Kelly said. This Board is
12 also in a difficult position. I think one of the
13 proposals that we put forward actually removes them
14 from that traditional position of making the
15 decision of somehow impacting negatively a small
16 business or private sector jobs, but then benefiting
17 the other side, inmates' lives and quite possibly
18 even the State.

19 If you go to the code section that drives the
20 Board and creates the Board, multiple times it's
21 mentioned the responsibilities of the Board, a
22 similar aim, and I will read just a couple them. In
23 Section 2808, Section H of the Penal Code, one of
24 the things that the Board is supposed to do is to
25 establish, expand, diminish or discontinue

1 industrial, agricultural and service enterprises
2 under the authority's jurisdiction to enable it to
3 operate as a self-supporting enterprise and to
4 provide as much employment for inmates as feasible
5 and to provide diversified work activities that
6 minimize the impact on existing private industry in
7 the state.

8 You can go into further code sections where
9 you will see the same thing quoted. Later in the
10 code it says the Board shall take into consideration
11 the effect of a proposed enterprise on California
12 industry and shall not approve the establishment of
13 an enterprise if the Board determines it would have
14 a comprehensive and substantial adverse impact on a
15 California industry which cannot be mitigated.

16 Now, industry might be a word for
17 interpretation. I would suggest that if you go back
18 and look at the history of the PIA and the
19 legislative discussions, what they are really
20 talking about, exactly what we are talking about
21 here. They are not talking about what's the impact
22 to Wal-Mart. They are not talking about what's the
23 impact to Doritos. This is, please take serious
24 consideration about protecting jobs that cannot be
25 mitigated. Harvest Farms cannot mitigate the impact

1 of the PIA moving in and taking over the boxed lunch
2 program. They can't. They don't have enough
3 revenue from other sources to protect those jobs.
4 It is one of the few -- that mission is one of the
5 few things that directs Board Members to consider
6 outside of the find jobs for inmates, expand PIA
7 operations. It is the only thing that the
8 legislative crafters of this law said. We don't
9 want you to put guys out of business. That is
10 really the overall summary of what we are asking you
11 to do.

12 A picture has been painted that Harvest is
13 something other than what it really is. It is a
14 small business of 93 people in Lancaster,
15 California, that will not be able to replace the
16 revenue at a level that will protect those jobs. I
17 think Mr. Walker had mentioned the sliced meat
18 program. That's it. Those are the only two things
19 that Harvest Farms does. The Department of
20 Corrections probably represents, I would venture to
21 say, 90 percent of the revenue of Harvest Farms
22 currently.

23 The mission of the Board in the creation and
24 direction of the Legislature, this is what they are
25 talking about. I think this is as close to that one

1 time you're supposed to be protecting the private
2 sector; it's this kind of impact. It's not the
3 impact to the entire tobacco, construction. It's
4 the Harvest Farms type jobs.

5 One of the things that -- we didn't maybe do a
6 good job of flushing out that proposal that was
7 requested of us. Those letters that you have are
8 not applicable to our proposal. We are not taking
9 business from those individuals. We are not taking
10 business for the bread. If this hybrid model where
11 we include PIA products in our lunches, we won't
12 buy them because we legally can't. We only provide
13 our boxed lunches to the Department of Corrections
14 right now and occasionally to some emergency
15 feedings for Department of Forestry if there is a
16 fire, or a few other things. Those are government
17 entities that PIA could sell to.

18 What we would do, the accounting is very, very
19 simple. It's a few minutes of reshifting and
20 tinkering with your billing system. PIA currently
21 makes bread. PIA currently has a peanut butter and
22 jelly manufacturer. They would deliver it to a
23 prison normally. On its way to the prison it goes
24 to Harvest Farms. Gets included in our boxed lunch.
25 Gets sent to that prison also. We can set up an

1 accounting system so PIA is billing them for the
2 same peanut butter and jelly as before. PIA doesn't
3 lose anything. If we ever grow, we agree we will
4 put them into our boxed lunch programs that our
5 other clients are utilizing. There is no negative
6 impact. There is only a net growth of the PIA.

7 If you get into the PIA survey, there is
8 other benefits to that type of plan. So what we
9 talked about, there isn't a negative impact. The
10 only thing is a net increase immediately of a half
11 million dollars to your bottom line, a net increase
12 to whatever demand there would be in employee slots,
13 et cetera.

14 Those letters don't apply to the proposal that
15 we put forward. The back and forth of what happened
16 and how it came together, I personally don't care
17 about. We are trying to find a way out of this. We
18 have been before the Board. I don't care what the
19 vote meant the last time. But this issue keeps
20 coming up, the PIA taking over the boxed lunch
21 program. We have authored a way out. How we go
22 about negotiating that, seeing how it would work, we
23 don't care. We're interested in doing that. A
24 subcommittee was going to be set up to come down and
25 take a look at it. It wasn't set up and then we

1 reached out. We asked those Board Members who said
2 I would like to be on a subcommittee. We were the
3 ones who said, well, let's do this.

4 We are very interested in working, and we know
5 there are ways that we can actually avoid the
6 situation that you've described. I believe that
7 things like the joint venture and working with the
8 private sector is where the PIA's future is. It has
9 to be, particularly in this environment. So you
10 don't always have to be in a situation where one job
11 leaves the private sector and goes to a prisoner.
12 It is very a dangerous way to move, anyway. Because
13 there is a bunch of guys across the street who don't
14 necessarily care about that mission of the PIA. It
15 makes it dangerous when you have a valuable program
16 like the PIA to get politicians into a situation
17 where they have to make that determination and pick
18 between the two of them. I venture they are usually
19 going to pick the business sector. So those are
20 those two things.

21 You know, there is few things that I -- some
22 of this is going to seem like piling on, so I'm
23 going to skip it. These are some of the highlights
24 out of the food service survey, and you didn't get
25 to see those. Before I get into that, can I address

1 one thing you asked?

2 The reason that we have an issue also is we
3 cannot co-exist with the PIA unless we do the type
4 of plan that we described. Because there is a
5 mandate, essentially, that if the PIA produces a
6 product, we can't compete with them. So the client
7 buys from the PIA. The only way that they can get
8 out of that is if they request a waiver so that they
9 don't have to buy from the PIA, and they request
10 that waiver to the PIA. The PIA management makes
11 the determination who can and can't reach outside of
12 their product line. So that's why we -- they're
13 kind of describing something like -- I think that
14 the impression that they are trying to leave you
15 with is that there is room for everybody. In
16 reality there isn't, unless they say we will let you
17 exist at a certain level.

18 CHAIR CATE: Mr. Nobili, if you're going to
19 go over the food service survey --

20 MR. NOBILI: No. There are two things I
21 want to say. I will skip most of it. I would say
22 most of it is not -- does not paint a very
23 flattering picture. I will not get into those, but
24 there are important things here for this issue at
25 hand.

1 One of them is the Department of Corrections
2 found that the Department is actually buying more
3 food than the PIA suggested they were supposed to be
4 buying. About almost \$4,000,000 more. And you can
5 see the bottom, you can see the breakdown on Page 2
6 of those surveys. And so you can see, essentially,
7 the summary of the purchases. This is what PIA was
8 supposed to be selling. This is what the Department
9 of Corrections was actually selling. It is
10 4,000,000 bucks, 8 percent above what the PIA was
11 supposed to.

12 So you're making a decision or you are being
13 asked to make a decision that is going to negatively
14 impact employees, which we can't avoid. I would
15 argue that for your bottom line, for your existing
16 position is not really necessary to do from the
17 PIA's perspective. I'm not going to go through all
18 these.

19 There is one other issue. It goes to the
20 point where there are big challenges that the PIA is
21 being faced with. One of those is even in their
22 existing food program was quality and price. The
23 survey asked about the quality. Of the 29
24 respondents to the service, overwhelmingly 26 of the
25 29 said they have issue with quality. I'm not going

1 to -- there is specifics in here that get into that.

2 The other, if you look at Page 4 of it, there
3 is a question that is asking about price. Nineteen
4 of the 24 responded, said you don't have a good
5 price. You are above market. As you get into the
6 specifics of the food service --

7 CHAIR CATE: Let's not.

8 MR. NOBILI: There is 30 percent more. I
9 will stop the rest piling on. You have the survey.
10 You can read it.

11 My point is this: You are already selling
12 more than you need to be selling for the PIA. You
13 have vacant positions. Mr. Pattillo and Mr. Walker
14 have testified in January that they -- some of the
15 positions or some of the programs have as much as 40
16 percent vacancy. There was a dialogue between
17 Ms. Woodford, and I think Mr. Kelly participated in
18 dialogue, what those challenges are. The challenges
19 for those vacancies exist today. They still exist
20 today. It is competing with fire camps. It's
21 getting qualified individuals into those positions.
22 Those are difficult challenges.

23 I would argue if you have a food service
24 program that needs some work, admittedly, that
25 they're working on. If you have a food service

1 program that is currently \$4,000,000 above what the
2 PIA own projections are. If you have a situation
3 where realignment is hitting and you don't know what
4 your population is going to be, and 30,000 inmates
5 that will be leaving the system are the prime
6 candidates for these positions, they are low level
7 offenders. They are the easiest ones to fit into
8 these programs.

9 So if you already have the vacancies, you
10 would expect that problem to be exacerbated. It's a
11 huge challenge. Mr. Cate couldn't even tell you
12 what the exact population is to be. And you are
13 also probably going to be dealing with repurposing
14 several prisons. It's not certain what certain
15 populations are going to be in what prisons in the
16 future, in the very near future.

17 We would ask, given all those things, given
18 that the mission, again, of the PIA to consider that
19 the Board shall take into consideration the effect
20 of the proposed enterprise on California industry
21 and shall not approve the establishment of the
22 enterprise if the Board determines it would have a
23 comprehensive and substantial adverse impact on
24 California industry which cannot be mitigated. That
25 is this. And I would say that at a bare minimum the

1 timing is not right to do this. There is no
2 immediate need to do this. There are several
3 unknowns out there. We have offered a program or a
4 proposal that not only protects our employees, but
5 it mitigates the impact against that and provides
6 immediate expansion of PIA operations.

7 So, thank you.

8 MEMBER MASTELLAR: Secretary Cate, I have a
9 couple comments and questions. And Mr. Kelly's
10 comments and Secretary Cate's comment are important.
11 First of all, there is a discrepancy between what
12 Mr. Nelson said and what Mr. Nobili just said with
13 respect to a third of the business coming from boxed
14 lunches with what Mr. Nelson said and then
15 Mr. Nobili said that 90 percent of the product are
16 coming from --

17 MR. NOBILI: I was referring -- I
18 apologize. I misspoke. I'm trying to give you a
19 ballpark impression, and he was better on the
20 numbers. What I was trying to include was the
21 sliced meat. So what Mr. Walker referred to is a
22 future thing that they are trying to get to at the
23 end of the year; that is the sliced lunch meat
24 program.

25 This Board heard that five years ago and voted

1 against letting the PIA do that program. That key,
2 just combine two of those. Just the boxed lunch
3 program is a significant revenue source. I can't
4 tell you what it is. He would be better suited.
5 But of the 93 employees we are going to lose - I
6 will ballpark and say - half, maybe more.

7 MEMBER MASTELLAR: My direct question to
8 you is: Who else are Harvest Farms's customers?
9 And let me give you the second part of that as well.
10 You have this realignment and effectively you're
11 right next door to the largest, one of largest
12 counties in the State, I would imagine, which is Los
13 Angeles County. And as a result of that
14 realignment, are you not able to sell to Los Angeles
15 County with respect to food product? CALPIA may not
16 be able to go out. We can't go out to the public
17 and sell, but Harvest Farms can. But you also have
18 all of the other inmates moving to the county level.

19 MR. NOBILI: PIA can sell to the county.

20 MEMBER MASTELLAR: I understand, but
21 Harvest Farms can as well. I am asking who are your
22 other customers? Really, if you're going to present
23 us with a factual background with respect to how you
24 cannot mitigate the problem here, I want to know why
25 you can't mitigate. Is there nothing else that's

1 happening to Harvest, to your business, if you will?
2 Are there not any other opportunities out there?

3 MR. NOBILI: I think Brett can get into
4 those, but there is a couple things. The county
5 scenario of the PIA getting into it, and you have to
6 request waivers and the impact to us, it is the
7 same. It is the government. We're essentially
8 blocked out of that business, if that happens.

9 One of big things when you're asking should
10 your business be growing because there is a shift to
11 the local levels, there is immense confusion about
12 what the impact at the local level is right now,
13 first of all. There would be a delay. I have no
14 doubt that in the future there probably is an
15 opportunity to do some boxed lunch programs.

16 Right now the counties don't really do it. It
17 is a different population that is housed in a
18 different way. They have totally different systems
19 than the state when it comes to feeding, housing,
20 everything else. We don't really have a significant
21 footprint at all county levels. We might not at
22 all, period. I don't know that there is any county
23 jails that have a boxed lunch program today. And
24 part of it, though, is even if they did, there's
25 talk about getting into something that they -- they

1 set their systems up. They are already producing
2 these things. They want to turn it on February 1.
3 It is not like we could afford -- that revenue goes
4 away the day they turn it on. So we don't have the
5 ability to say, "Well, let's go get our sales guys
6 into Kern County and convince them they should do a
7 boxed lunch program and convince them that they
8 should request and buy from us and PIA."

9 The impact of what is going to happen to us is
10 immediate for revenue loss. There's nothing we can
11 do about that. So if the shift happens, I don't
12 know, maybe two years from now, people start
13 building jails and housing people differently and
14 there is a demand there, if the program grows. The
15 reality, even with our proposal, that is a
16 non-issue. With our proposal the PIA would benefit,
17 and we would benefit.

18 MEMBER MASTELLAR: With respect to a
19 proposal, obviously when one proposal is made from
20 one side it needs to be considered by the other
21 side. And rarely is the first proposal accepted,
22 the first issue. But I saw with the proposal, which
23 I think via email just a day ago, were the cost of
24 freighting the product from Folsom, as an example,
25 to Lancaster and then back to Folsom seems

1 inappropriate. And then what if Harvest Farms
2 doesn't receive the contract? So Harvest Farms and
3 PIA are not benefiting. So, I mean, there is some
4 concerns that need to be addressed. I think it
5 needs to be put into context because when you're
6 talking to the Board about a proposal that
7 management may have declined, I don't think you are
8 fairly representing that it hasn't been negotiated.
9 It hasn't been discussed. It needs to have
10 opportunity.

11 MR. NOBILI: We agree with you. We were
12 asked to come up with a proposal. We did it, and it
13 was just denied. We never saw that as that's it and
14 it is a firm proposal. It was always -- I think
15 Mr. Amos even called it a draft. It was always,
16 "Hey, you got an idea. Let's start flushing this
17 out." That's what we're asking. Lets flush this
18 out. It might be that it doesn't work. There might
19 be a fatal flaw somewhere in there. We haven't been
20 given the opportunity to try and work through all
21 those challenges.

22 My point is only this: We have a detrimental
23 impact to all our employees. There is just no doubt
24 about it. We would -- there is no time sensitive
25 nature to doing this and to PIA taking over this

1 program. We have asked to find a way that we can
2 work this out, and it was just denied out of hand.
3 So we are now asking you, can you give us the
4 opportunity to at least try to work through these
5 proposals. Maybe six months from now we can't make
6 things workout, and we're back here with the same
7 proposal. We would ask if we can at least have the
8 opportunity to do those things.

9 MEMBER MASTELLAR: We have all heard that.
10 And just, lastly, you didn't answer me who your
11 other customers were.

12 MR. NOBILI: I'm going to sit down.

13 MR. NELSON: You had asked a couple
14 questions that Mark couldn't answer. One of them
15 was the freight issue. The freight issue would be
16 we could make multiple deliveries for peanut butter
17 and jelly to 53 facilities, facilities who are on
18 boxed lunches. They would make one delivery to
19 Harvest Farms. We would do it with the freight out
20 on our trucks. So that is on the freight.

21 Counties, the question about counties --

22 MEMBER MASTELLAR: Customers, who are your
23 customers?

24 MR. NELSON: Inmates released to the county
25 level. The problem with that is -- we do deliver to

1 L.A. County. They do two hot meals and a cold
2 lunch. The other counties do three hot meals. All
3 facilities -- for instance, in Fresno or Sacramento
4 County jails with inmates, there is no opportunity
5 to sell boxed meals to those facilities. They are
6 staffed for hot meal lunch. Your question about
7 growing that into those. When those go, they go on
8 to a hot meal program. So the sliced lunch meat and
9 boxed meal program is lost because they don't do
10 that. As far as the only one that does that is San
11 Diego County on occasion and L.A. County. The rest
12 are on hot meals.

13 MEMBER MASTELLAR: That would just be a
14 suggestion with respect to where the business could
15 shift.

16 Who are your other existing customers aside
17 from --

18 MR. NELSON: Our largest is L.A. County.
19 That's added. The Department of Corrections is this
20 much and Los Angeles County is this much and
21 miscellaneous, other federal prisons, that may do
22 lockdown; is like an infinitesimal supply.

23 Point to be made, though, they mentioned now
24 they're going to be looking at the sliced lunch meat
25 as well. Then that takes a hundred percent of what

1 we do out. So when you're talking about what impact
2 it is on employees, it is 100 percent of our
3 employees will be impacted by the continued growth
4 of PIA from peanut butter and jelly to sliced lunch
5 meat. Then we could have no -- we would just have
6 L.A. County sliced lunch; and that would not be
7 enough to pay the rent. So we would just forfeit
8 that and close the whole business. So the impact is
9 100 percent.

10 MR. WALKER: Point of clarification. We
11 are not considering taking over the sliced lunch
12 meat contract. Sliced lunch meat was a component of
13 boxed lunches. I just want to clarify that
14 testimony. We are not saying we are going into the
15 sliced meat program. Just sliced meat to the
16 institutions. We are just sourcing it outside
17 currently for our boxed lunch program.

18 Just another point of clarification. Counties
19 are not required to get waivers from PIA. There is
20 no requirement that a county comes to us and ask for
21 a waiver. They can simply go to whoever they choose
22 and buy the products they choose.

23 CHAIR CATE: I think he was referring to
24 the institutions.

25 MR. WALKER: He was referring to L.A.

1 County. I want to make that clarification. I could
2 be wrong.

3 The last thing I will say, it is on revenue,
4 and I don't want to get too deep into this. There
5 is a difference between invoiced and billed.
6 Sometimes CDCR does a lot of orders and they don't
7 fill them. I believe that is what that number
8 represents.

9 CHAIR CATE: All right. Joe Hughes.

10 MR. HUGHES: Joe Hughes, General Manager of
11 Harvest Farms. I'm up here representing the
12 employees. They are giving you the facts, but I'm
13 up here -- I work with the employees daily. I'm
14 happy with them. I'm sad with them. One of the
15 comments made a while ago was that they're happy
16 with their jobs. Well, they need their jobs. They
17 really need their jobs. Also, we do keep them happy
18 with the jobs. But employees need their jobs.

19 I have people coming in daily. I will sit
20 down, talk to and try to refer to another company
21 around that's been hiring. I'm not. I'm not. The
22 people we have there really need their jobs.
23 There's no jobs in Lancaster. I talk to
24 professional drivers, aerospace people come in with
25 suits and ties. I don't have those types of jobs

1 for anybody here. What we need are manufacturing
2 jobs for the people that support their families and
3 take care of all sorts of other issues.

4 Again, Ray Trujillo came down and saw our
5 facility, and introduced him to a lot of the
6 families. It's a family place, but the people
7 really need their jobs. Not so much like their
8 jobs; they need them, too. But I brought a group of
9 five that would like to testify. Two of them would
10 like to have a translator, if you don't mind. And
11 that is all I have.

12 Thank you.

13 MEMBER MASTELLAR: Thank you.

14 CHAIR CATE: Rosa Wilson.

15 MS. WILSON: Good morning. My name is Rosa
16 Wilson. I'm asking you guys to not take away our
17 jobs. My family are making minimum wage. We are
18 not the families that take vacations. We're here to
19 work. We work so we can get ahead and help our
20 families. We think every day that we will not have
21 a job is really hard.

22 I'm a single mom with kids, and I work to
23 maintain my kids. I don't want to be dependent on
24 the government. A lot of the workers that work are
25 a lot older; they're 50 and older. We have couple

1 who are going to school right now. We give them
2 opportunity to continue to work. If there is no
3 work, they won't be able to continue to work. I
4 work half an hour away from where I work -- I live a
5 half hour from where I work. I'm always available
6 no matter what time - morning, day it is. If there
7 is emergency order that we need to be done, I am
8 there to complete. All my workers are there to work
9 and put out our orders.

10 That is all I have to say. Thank you.

11 Chair CATE: Thank you.

12 MR. TRUJILLO: Mr. Chairman, I have a
13 question. Does she have benefits with her job?

14 MR. HUGHES: Yes, she does.

15 MR. TRUJILLO: What kind of benefits?

16 MR. HUGHES: Medical, life insurance. She
17 has quite a few.

18 MEMBER TRUJILLO: Thank you.

19 CHAIR CATE: That was Mr. Hughes, for the
20 record.

21 Leslie Perdomo.

22 MS. PERDOMO: Good morning. My name is
23 Leslie Perdomo. I'm the Human Resource for Harvest
24 Farms. I am here to let you know that it makes me
25 really sick to think that I and the rest of our

1 employees can lose our jobs. A lot of the workers
2 -- we're are not just workers; we're a family. Not
3 only do we have mothers and sons, father's,
4 daughters, sisters, husbands and wives that work
5 there. The facility, if it is taken away from us,
6 you are going to have families, husbands and wives,
7 that are going to be without a job. They support
8 their kids. This is their only income. A lot of
9 them are singles from family homes with kids.

10 Not that long ago I was on my own. I actually
11 had to move back home to support my mom. I am also
12 a foster parent. If I don't work, I can't be a
13 foster parent. I've been a foster parent for seven
14 years. I'm doing this so I can make a change in
15 kids' lives. And it hurts and it makes me sad to
16 think that if I were to lose my job, I'm going to
17 lose the kids, too.

18 The workers that we have are from a wide range
19 of ages. We have them young to old. To think even
20 the ones that are seniors, to go out there and
21 restart, to look for jobs, makes me really sad.
22 Right now the way the economy is hard; there is no
23 jobs out there. Every day I have people coming in
24 looking for jobs. I have a minimum from three to
25 five people a day looking, asking, willing to do

1 whatever it takes. Willing to even just sweep, mop,
2 anything. Just so they can, you know, move forward.

3 We are family, Harvest Farms, so please
4 understand that it is going to really affect us.

5 CHAIR CATE: Thank you very much.

6 Victoria Revera.

7 MR. HUGHES: Can we take someone out of
8 order?

9 CHAIR CATE: Janet Williamson.

10 MR. HUGHES: Thank you.

11 MS. WILLIAMSON: Janet Williamson. I am
12 working for Harvest Farms for over 12 years. I am
13 about 51 years old. About the only thing I have
14 every done for 12 years. My husband, he was in real
15 estate, and he is out of a job. I'm the only one
16 supporting the whole family. I'm trying to take
17 care of my grandchildren. My daughter is not
18 working. I try to help them out, try to help my
19 son-in-law. I try to help him find a job. He's
20 kind of not all there right now, and he's had to go
21 on Social Security. But they are not giving him
22 that much. They're trying to cut him off of Social
23 Security. I'm trying to help them.

24 Again, if I lose my job, I won't be able to
25 help myself, my husband or my daughter or

1 grandchildren. And I would like to help everybody
2 out, but I can't if I lose my job. And I'd like to
3 keep my job because it's the only job I've ever
4 known right now for a long time, except for the
5 military. I'm no longer in the military.

6 And the people I work with, we work hard. If
7 they ask you to come in two in the morning, we are
8 there at two in the morning to work because we need
9 to work. We need the money to keep supporting our
10 family. If we went to work, like, 5:30 at night,
11 we'll work till 5:30 at night just to keep our job.
12 I don't know if you guys -- I would like to keep my
13 job. And if they -- I know they need to try to help
14 the prisoners. I'm not against that, but I would
15 like to keep my job. And if they take them, then I
16 lose my job and I don't have nowhere else to go.

17 I hope you guys would help us out. I sure
18 thank you. That is all I've got to say. Thank
19 you.

20 CHAIR CATE: Thank you.

21 MEMBER MASTELLAR: Thank you.

22 CHAIR CATE: Maria Briseno.

23 MS. BRISENO: My name is Maria Briseno.

24 I've been working at Harvest Farms; it's going to be
25 three years ago. A lot of you know me from last

1 time I was here. I am getting insurance for me and
2 my husband. That is my husband gets his medicine,
3 insulin and everything. I'm not the only one that's
4 going to be affected, my two kids, too. My
5 15-year-old and my 11-year-old. My 11-year-old's
6 really worried because I told him I probably will
7 lose my job. He's worried that his mom isn't going
8 to be able find one. Okay.

9 Last time I was here my husband was getting
10 unemployment. He's not anymore. The only money for
11 the house is my money. But if I lose my job, I will
12 lose my benefits, too. I could probably get another
13 job in L.A. There is nothing in Lancaster. I don't
14 have transportation. We have one car. That is my
15 husband taking the kids to school - dropping them
16 and picking them up. And I'm just really worried.
17 And with the decision is in your hand. Just please
18 help us out.

19 Thank you.

20 CHAIR CATE: Thank you.

21 Victoria Revera.

22 MS. REVERA: My name is Victoria Revera. I
23 am here for the same thing, for my job. I'm a
24 single parent. I have my kid and I have a mother
25 that I have to support also in a different country.

1 And I'm the only income that comes in. I thank God
2 for Harvest Farms because I'm able to work and help
3 support my mom in a different country. She does
4 have a lady that lives with her. She is not able to
5 take care of herself. And I hope that you would
6 understand that myself and rest of my co-workers are
7 here asking you for our jobs because this is the
8 only thing we have. This is the only income we have
9 supporting our family, to keep. And just like my
10 boss said, we are workers, and we are there whatever
11 time that she tells us to come. If it is 2:00, we
12 are there to work because we need our jobs. We
13 don't have transport -- I don't have transportation
14 to be working for another job because there is no
15 job in Lancaster, and we can't drive anywhere else.

16 Like I said, we leave this all in your hands
17 for myself and my co-workers that we need our jobs.

18 Thank you.

19 CHAIR CATE: Any other speakers?

20 MR. TRUJILLO: Mr. Chairman, can I request
21 a five minute recess. I need to go to the
22 restroom.

23 CHAIR CATE: On that point just remember
24 that to use -- the doors are locked.

25 MEMBER SINGH: Mr. Chairman, I made a

1 motion. Since there is no second, I would like to
2 withdraw my motion.

3 CHAIR CATE: We'll just take a five-minute
4 recess.

5 (Break taken.)
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1 CHAIR CATE: Back on the record.

2 We heard from Mr. Patillo and Mr. Walker on
3 the matter from PIA. We have also heard from the
4 public and also Assemblymember Knight and a
5 representative of Senator Runner's office. I now
6 turn and ask that maybe we have a discussion on the
7 record from Board Members. Just as a matter of
8 courtesy to one another, it might be helpful to wait
9 on formal motions, at least until everyone that
10 wants to speak generally about the issue. We can
11 then entertain whatever motions people want to make
12 at that time. I just don't want to shorten the
13 discussion before someone has had a chance to talk
14 about kind of where they are at and what they're
15 feeling on it.

16 So I would open it up to discussion by Members
17 of the Board. Anybody that wants to weigh in on the
18 issue.

19 MEMBER TRUJILLO: Thank you,
20 Mr. Chairman.

21 CHAIR CATE: We will work our way down,
22 across. Go ahead, Mr. Trujillo.

23 MEMBER TRUJILLO: Thank you. In listening
24 to the testimony which has been presented here,
25 there is a misconflict going on, I believe. As a

1 labor representative on this Board, appointee on
2 this Board, I am very sensitive to getting involved
3 in a public sector where we have jobs in an area
4 where there isn't very many jobs. Not only do they
5 have jobs, they have benefits. So I'm very
6 sensitive to that. And I think that -- so not only
7 with public and taxpayers, we have a commitment to
8 taxpayers to save taxpayer money.

9 If these folks do lose their jobs and lose
10 their benefits, they will probably go on social
11 services. And that is taxpayers. So I am at a
12 point here where I think that maybe this proposal,
13 two proposals, that are talked about need to be
14 looked at. That is how I feel.

15 CHAIR CATE: Thank you.

16 MEMBER MASTELLAR: Also, after listening to
17 the testimony today and after reviewing all the
18 materials over the last six months, that I have been
19 asking questions and receiving this action item on
20 our agenda today, I believe that CALPIA needs to be
21 included in the packaging of boxed lunches. And I
22 believe there is an opportunity for workers at
23 Harvest Farms to continue working, as well as to
24 have inmates working. I would like to see both
25 sides come to the table and work on a solution where

1 we can have everybody working.

2 I don't know that it's possible based on the
3 contentiousness that is going on, but I would
4 recommend it. I think maybe an outside third party
5 or somebody else should be involved potentially in
6 moving that along. And I think that there is a
7 market for everybody to be put to work here. And it
8 is incredibly important that we continue training of
9 inmates and keep taxpayers happy by reducing the
10 recidivism. And also from the perspective of not
11 paying unemployment or any other type of public
12 benefits that would go to people who are not
13 working.

14 We have an incredible task before us at the
15 Board, and we are sensitive to everything that we
16 have heard. And I hope that there is a solution
17 that lies there for both groups to continue working.
18 And I think it is just at the beginning stages, but
19 I think you can work your way through it because of
20 the market.

21 MEMBER WOODFORD: I, too, agree with all
22 those comments. I will say all I see is
23 opportunity, I think, if you work together. That
24 the need for boxed lunches is only going to grow at
25 county level. You will see that. Many counties

1 are looking at their feeding programs. I think
2 divided you will all go down, but together this
3 could expand. We can all be winners. Everybody has
4 to come to the table with the right attitude. We
5 have to increase the number of inmates working.
6 That is the responsibility of this Board. I think
7 if that is included in the goal and both companies,
8 groups, work together, we can achieve that.

9 MEMBER BUTLER: So, obviously, I would
10 support everything that has been said and echo my
11 sentiments very well. We really have two terrific
12 stories. On the one hand we have a program that
13 reduces recidivism and provides wonderful
14 opportunities. And I have been affiliated with this
15 Board on and off for a period of three years. Very
16 impressed by the work that it's done, not only
17 within, but also the leadership. I commend them for
18 the excellent work that they have done.

19 We have another terrific story at Harvest
20 Farms. I had staff ask me questions during the
21 meeting. They got back to me. Harvest Farms is a
22 small business for many years, up until 2002. And
23 they've grown to the point now where they're no
24 longer a small business. Their revenues exceed the
25 amount that the State would allow to be certified as

1 a small business. That is a great story. That is
2 the whole point of the small business program and
3 the reason why we offer preferences. So I think
4 that they are also a very terrific story in the work
5 they have done to become who they've become.

6 I'm very sensitive of the testimony offered
7 by the employees. I know how important the benefits
8 are to a family. I also have a Type I diabetic, my
9 son who, without that benefit, would be very
10 difficult for us to be able to provide the
11 medications, supplies that he needs. There are so
12 many conditions that require the amount of resources
13 that the individual just cannot provide on their
14 own.

15 So my sentiment and desire, my appetite is to
16 see the two programs work together. I will offer up
17 DGS and our contracting folks to help look at the
18 proposal made by Harvest Farms, to look for any
19 categories that perhaps these two groups can work on
20 together. The one caution I state for the record,
21 for all small businesses, it is important they do
22 not become 100 percent dependent on the State for
23 their business. It is a very risky business model.
24 The State makes changes all the time. Our programs
25 change. Legislation gets passed and competitors

1 exist. And that does put employees at risk when
2 those business models are adopted.

3 They are working hard to diversify. And I
4 hope that by working together we can come up with a
5 program that would allow them to diversify more.
6 Bring on other customers that are not related to the
7 State so that their employees have even further
8 protection.

9 Thank you.

10 CHAIR CATE: I ask for the courtesy of
11 going last, if you don't mind.

12 Mr. Singh, do you have a comment?

13 MEMBER SINGH: Thank you, Mr. Chairman. I
14 am the past president of the Council of District
15 Merchants, which represents pretty close to 45,000
16 members. And there is a very large organization of
17 merchant associations. So about 3 or 4 percent of
18 the business went out of business in this recession.
19 So I am also very sensitive, but I don't know what
20 to say.

21 Thank you.

22 MEMBER SAITO: In my limited experience
23 with PIA I still believe and think that it is within
24 the prerogative and mission of PIA to do this kind
25 of work. But I also believe in -- we heard the

1 testimony, testimonies, here; and we have listened
2 to the other members of the Board. So I agree that
3 it would behoove us to strike some kind of, if not,
4 compromise.

5 But I understand that and I think that one of
6 the recent points that was made was that I wouldn't
7 depend on the state for income. And I think a lot
8 has been said. It's really not my, again, forte.
9 This is about -- we are aware of the markets, and a
10 couple of years ago we had this discussion. If I
11 were in business, I would be looking for where those
12 other markets are. An example used is in
13 realignments, if most of the stuff is over here in
14 Corrections and a little bit here in Los Angeles
15 County, and realignment shifts a whole bunch of
16 folks over to the counties, localities, maybe those
17 are some of the markets or maybe at some point the
18 markets are going to be little pills that we take
19 and not boxed lunches.

20 It sounds like we are headed toward some
21 middle ground here, and I hope we can use facts and
22 remove emotion in the discussion and make the best
23 business decision and model.

24 CHAIR CATE: Thank you.

25 Mr. Davidson.

1 MEMBER DAVIDSON: Just real brief. I would
2 echo a little bit of what Ms. Mastellar said. In
3 whatever direction we go forward from here, I would
4 hope that we can tone down the rhetoric a little
5 bit. Really just focus on key issues and come to a
6 solution, whatever that is, but stop some of the
7 personnel stuff and really focus on the real issues.

8 CHAIR CATE: Mr. Kelley.

9 MEMBER KELLY: It seems as the Board wants
10 to make some kind of solution that would make
11 everybody happy. I don't know if we can do that.
12 But if we go in that direction, we should have a
13 real small window period, three months, let's say.
14 That if we can't come to a conclusion, that we move
15 forward with our program and have the committee
16 involved in all the discussions so both sides are
17 represented and the Board gets to hear everyone's,
18 how should I say, sell I guess. You know, why we
19 should send all the stuff to Lancaster and put in
20 our boxes, vice versa.

21 Again, I appreciate all the comments of all
22 the workers. It's never easy. I deal with people
23 being out of work every single day. It is not easy.
24 Right now I understand that we do have a direction.
25 We do have our obligations to do. So that's my

1 comments.

2 CHAIR CATE: Thank you. I think that my
3 colleagues on the Board have covered really most of
4 my views, one way or the other. A couple things
5 that I think we were struck by. Number one is I
6 want to make sure that I focused on the long-term
7 health of PIA, and that has a double edge sword. On
8 one hand we need to look out for areas like this
9 where we may see over time -- food production is a
10 very small part of PIA; 150 inmate workers out of 5-
11 or 6,000. We would see it erode if we went into
12 boxed lunches and PIA wasn't included. So that
13 concerns me.

14 It also concerns me, though, to take jobs away
15 from hard working people in hard hit areas because
16 that has a bad public relations impact on PIA, a bad
17 legislative impact on PIA. It can hurt the
18 long-term health of PIA if we weren't sensitive to
19 the commercial concerns of our communities as well.
20 Moreover, we have an obligation to balance those as
21 we go forward as a board. It's not only to seek
22 inmate jobs, but ideally in those areas where we can
23 have the least commercial impact. There is always
24 going to be some.

25 The point is well taken when it comes to a

1 furniture manufacturer in Indonesia and imported to
2 California. I have very little interest or
3 compassion in supporting that industry over PIA
4 furniture. On these issues I definitely have more
5 concern and more interest. I think that is a point
6 well taken.

7 On the issue of the vitriol, I think that I
8 appreciate what the representatives from Harvest
9 Farms have said about the willingness to do their
10 part to tone that down, to work out a partnership.
11 I can say for people who work for PIA, we should
12 never be in a position where we are, even if baited,
13 we should never been in a position where we are
14 anything but polite and level-headed and
15 open-minded and courteous and conscientious when
16 dealing with members of the public. Anything else
17 is inexcusable and will never be tolerated. Just so
18 we are clear.

19 MR. WALKER: Has there been instances of
20 that?

21 CHAIR CATE: If I have a question for you,
22 Mr. Walker, I will ask it. I wasn't accusing you of
23 anything. All I was saying, okay, yes, yes, I have
24 seen vitriol from both sides. I own some of it
25 because I have instructed both you and Mr. Pattillo

1 to be as aggressive as possible at seeking new
2 business for PIA. And some of it is human nature.
3 As emotions go up, people act that way. All I'm
4 saying is we can't rise to it. We have to --

5 MR. WALKER: I totally agree.

6 CHAIR CATE: Great. We are in agreement.

7 If the vote were today, I can tell you that
8 I'm -- tell you what, I'll hold that comment. My
9 suggestion would be and I would entertain a motion
10 to table the matter, to allow a subcommittee which I
11 would love to see be made of people who have strong
12 interest on both sides of this issue. To see if we
13 can broker something between PIA and Harvest Farms.
14 If it doesn't work out, then I agree to come back in
15 90 days and put it to a vote and see how we land.
16 We may be divided on this issue; that is okay, too.
17 But that would be my inclination at this time.

18 Mr. Trujillo.

19 MEMBER TRUJILLO: Mr. Chair, Director or
20 Board Member Singh made a motion earlier. If he is
21 willing to reintroduce that motion, I stand ready to
22 second it, to table this matter.

23 CHAIR CATE: Any other comments before we
24 get a formal motion?

25 MEMBER SINGH: My motion died. There was

1 no second. So I don't know if I would like to do
2 that again.

3 CHAIR CATE: We just hoped there would be
4 some conversation before we take up a motion.

5 MEMBER KELLY: Again, you know, we've had
6 how many hearings? We've had how many discussions?
7 And I wouldn't want to have Harvest Farms have to
8 bring up all these employees again in 90 days to do
9 this all over again. If we're going to do something
10 in 90 days, I think we can pose a motion - I'm not
11 making the motion - but the motion should be that if
12 the committee and PIA and Harvest Farms, if we can't
13 come to agreement, I believe it is in the best
14 interest of California and PIA to move forward with
15 our boxed lunch program, if we can't come to a deal
16 that satisfies both parties.

17 CHAIR CATE: My view is just the opposite.
18 If we can't come to a deal, I'd be opposed to
19 expanding at this point for all the reasons I have
20 said. But, again, and maybe the answer is we don't
21 prejudge the issue either way. I don't think we'll
22 need to hear from folks again. They have given very
23 compelling testimony, in my opinion. I've heard it.
24 We've all heard it. I would love, again, to see the
25 matter tabled in favor of a partnership. We may

1 have to come back after 90 days and then provide PIA
2 with the authority to do this, if they're going to
3 get into the boxed lunches, but at least we'll know
4 what the impact would be commercially. I'm just one
5 Board Member.

6 MEMBER BUTLER: I'd be happy to make a
7 motion to table the issue and have the committee
8 study it and make a report back to the Board within
9 90 days.

10 MEMBER TRUJILLO: I second that motion,
11 Mr. Chairman.

12 MR. PATTILLO: The Operations and
13 Development Committee?

14 MR. BUTLER: Yes.

15 CHAIR CATE: Who is on the Operations and
16 Development Committee?

17 MR. PATTILLO: The four people you just
18 appointed. Raise your hands.

19 Ms. Mastellar, Mr. Kelly, Mr. Singh.

20 CHAIR CATE: I would like to have
21 Mr. Trujillo on the committee if you're willing to
22 serve.

23 MR. TRUJILLO: Absolutely, Mr. Chairman.

24 CHAIR CATE: Is there anybody else who
25 would like to be on it?

1 MEMBER WOODFORD: I'm sorry, is DGS on it?

2 MEMBER BUTLER: We are not, but we would be
3 happy to act as an advisor. Happy to be a member
4 and advise, provide information.

5 CHAIR CATE: That would be helpful.

6 MEMBER SINGH: I think, Mr. Chairman, Chuck
7 should be there to.

8 CHAIR CATE: Oh, I'm sure he will be.

9 MR. PATTILLO: The maximum is five.

10 CHAIR CATE: They are just going to attend
11 and provide counsel. They are not -- this won't be
12 a voting member of the committee. Are you saying
13 so, because you are afraid we will have a quorum?

14 MEMBER BUTLER: It wouldn't be me
15 personally. It would be somebody from DGS.

16 MR. PATTILLO: Mr. Trujillo, five, and just
17 a representative from DGS.

18 CHAIR CATE: That is fine. Great. I won't
19 either, but I may have a representative from CDCR as
20 the largest client of PIA.

21 We have a motion and a second. Any further
22 discussion on the motion to table this matter for 90
23 days and wait for the report from the subcommittee
24 that has been described?

25 Hearing none, all those in favor of the

1 motion, please raise your hand.

2 Anybody opposed, raise your hand.

3 So it is -- Mr. Davidson, did you vote? You
4 were in favor?

5 MEMBER DAVIDSON: Yes.

6 CHAIR CATE: So it is unanimous. That
7 covers that matter.

8 MEMBER TRUJILLO: One more comment,
9 Mr. Chairman, if I can.

10 CHAIR CATE: Yes.

11 MR. TRUJILLO: I would just like
12 Mr. Pattillo to know that I have all the confidence
13 in the world with the job he's been doing with PIA,
14 and I'm sure that this matter will be resolved
15 between the two parties. Again, Mr. Pattillo has
16 done an excellent job in revenue for PIA and the
17 programs we're pretty proud of so --

18 CHAIR CATE: Thank you.

19 Let's turn to the next action item.
20 Mr. Pattillo.

21 MR. PATTILLO: Action Item B, approval of
22 legislative proposal. Service credit parity for
23 CALPIA inmates. And this issue actually came out of
24 a couple discussions the Secretary had and Ms.
25 Woodford. We had a couple table discussions.

1 What we're suggesting is that CALPIA inmates
2 should get two days of credit for each day of
3 service. That has been discussed previously, but
4 not as an action item. What it would do is
5 establish parity with fire camps. We are not asking
6 something out of blue that is not being done. Fire
7 camps, if you to go fire camps, you get two-for-one
8 on your service credit. That leads to a lot of
9 people wanting to go to fire camps rather than come
10 to PIA. We are look for an incentive for folks to
11 stay with us. As I said, currently fire camps are
12 two-for-one. In addition, the other inmates are
13 receiving day-for-day credit who are not
14 participating in PIA, if not working.

15 It turns out that two days for one credit is
16 not only offered to those assigned to fire camps,
17 but it is also provided to those who have undergone
18 fire training but not assigned to a camp. I submit
19 the training and experience provided by CALPIA is
20 much more beneficial for post-incarceration
21 employment than fire camps are. I think we've had
22 -- fire camps are a very incremental part of the
23 state. However, as far as getting them employed as
24 firefighters, we haven't done such a great job. It
25 is very hard for guys to get hired when they have a

1 felony. Ms. Woodford has been successful in getting
2 a couple people employed as firefighters in the
3 state after they went to the female firefighter
4 program.

5 If the Board approves the legislative concept,
6 we will find out the exact number of folks who can
7 participate on an annual basis, but right now it is
8 about 675 CALPIA inmates would be eligible for the
9 increased credit. We have a \$33,000,000 general
10 fund savings on an annual basis. As realignment
11 picks up, that will come down. We are going to
12 have, for lack of a better term, we're going to be
13 working with a lot tougher inmates. I'm not talking
14 lifers, we are just talking guys that are going to
15 be doing more extended sentences versus the -- I'm
16 not sure of the official term is. We just go by
17 non-non-non that will be at the local level. It
18 used to be our inmate.

19 For all these reasons, staff recommends
20 approval of this legislative concept. The sample
21 language to be submitted to Leg Counsel is in your
22 binders. It's just a simple concept that adds
23 another benefit for PIA from the State of
24 California.

25 Any questions?

1 MEMBER SAITO: I have one. What would
2 limit the fire camps from increasing their incentive
3 as well? Are there any statute that says --

4 MR. PATILLO: The statute right now
5 specifically says two-for-one for the fire camps.
6 Obviously, legislation was meant to be changed. So
7 just --

8 MEMBER SINGH: I think we should do the
9 same thing that the inmate definitely complies.

10 CHAIR CATE: So I have concerns with this.
11 Again, my overall concern is that if PIA bites -- if
12 the Department bites off too much too fast, there
13 can be some concerns with that. We just got the
14 inmate firefighter legislation passed. Inmate
15 firefighters put their lives on the line every day.
16 I see this different. It may be that at some point
17 we need to provide this to incentivize inmates to be
18 willing to work for PIA. Right now we don't have
19 that problem. The question is: Are they going to
20 be able? Not do they want to, typically.

21 I just think -- I have concerns, speaking for
22 myself about putting a spotlight on PIA workers so
23 quickly after we just added the two-for-one to the
24 inmate firefighters. It's just -- I'm concerned
25 about it being too much, too fast.

1 MEMBER TRUJILLO: I have a question, too,
2 Mr. Chairman. Is there a liability involved with
3 this?

4 CHAIR CATE: PIA will be criticized as
5 being an early release program is my concern. It's
6 not. I agree with Mr. Pattillo, his rationale for
7 it. I understand it. It provides extra incentive.
8 Those inmates tend to recidivise at a lower level.
9 Some of that is that a lot of those serve a longer
10 period of time. They are older and whatnot. May
11 not be apples to apples.

12 I still think it is critical that inmates get
13 up, go to work, do all those things. That is why
14 I've been aggressive about this. I just -- as I
15 stick my toe in the water on the politics of this,
16 we're doing realignment right now. It is the
17 biggest change in criminal justice in the history of
18 California since determinate sentencing. And I'm
19 speaking for me. The Board can vote how they want.
20 I have enough on my plate over there right now.

21 MEMBER KELLY: Quick question. Inmates
22 that are being released to county, would there be --
23 can they opt out, not go and stay with us and get
24 the extra days off?

25 CHAIR CATE: Nobody gets released to the

1 county. AB 109, it is not really an early release
2 program. No one gets out of prison to go to the
3 counties, as far as a transfer. You have to serve
4 all your time in prison. Once you're out, they
5 might be supervised by the county probation
6 department instead of California parole. That is
7 one difference in realignment.

8 Secondly, if you commit a parole violation,
9 you spend your violation term in the county jail
10 instead of coming back to prison, which is going to
11 be a huge benefit to public safety. We won't be
12 dealing with the churning of those inmates that Ms.
13 Woodford is so familiar with at San Quentin and
14 other places that act as reception centers. And,
15 third, if you are a low level offender, non-serious,
16 non-violent, non-sex offender with no strikes in
17 your past, then you serve all of your time in county
18 jail instead of going to state prison at all.

19 So that is why Mr. Pattillo is right. Over
20 the course of time those non-serious, non-violent,
21 non-sex offenders who would be eligible for
22 two-for-one credit will begin to attrite out of our
23 system. Most of the serious and violent guys are
24 mandatory minimums. They have to serve 80 or 85
25 percent of their time. So they typically are not

1 impacted. There is a lot now who could be impacted.

2 Again, I don't fault Mr. Pattillo for bringing
3 the matter before us. There is some merit to it.

4 But, again, I expressed my concern.

5 MEMBER WOODFORD: Secretary Cate, I
6 appreciate your comments. And so I have two things
7 to say. The evidence suggests that these
8 incentivized programs really help and reduce
9 recidivism. At the same time it has to get through
10 the Legislature. If you're saying politically this
11 is the wrong time, I certainly can appreciate that
12 with the many changes that we have before us.

13 If what I hear -- if I'm hearing you
14 correctly, if you think it is to our benefit to wait
15 some time, I certainly can appreciate that.

16 CHAIR CATE: That is all I'm saying.

17 Any other discussion?

18 MEMBER MASTELLAR: Can I ask with respect to
19 the legislation that was passed for the fire camps
20 or inmates that are working for fires, was there a
21 problem with getting that legislation passed? Is
22 that what you are concerned about? I heard what you
23 said about the PIA being looked at as an early
24 release program. Is the fire program looked at as
25 an early release program? Is that a bad thing if

1 you got people who are willing to work and put their
2 lives on the line?

3 CHAIR CATE: Right. No, It wasn't. Well,
4 there was some criticism from some quarters about it
5 as an early release program. But the fact because
6 those inmates literally have given their lives in
7 some cases to protect Californians on the fire line,
8 I think that those objections were overcome without
9 too much difficulty. My guess is this proposal
10 would have to stand alone, on its own, and maybe it
11 would get through. Maybe it wouldn't.

12 All I'm telling you is I think it would have a
13 better chance if we let a little water go past the
14 bridge on the inmate firefighter program and
15 realignment, and we let the dust settle a little
16 bit. And we see what the impact is on PIA and
17 whether this is necessary to incentivize inmates to
18 take part in PIA.

19 Ultimately, my best argument before the
20 Legislature, if I was ever asked is there a need for
21 this, would be to incentive inmates to sign up to
22 work for PIA. If we got to a point where we need an
23 incentive to sign up, I would be happy to testify
24 that PIA ultimately saves lives, reduces
25 victimization, is good for the economy. It is a

1 win-win for California. And if we need to reduce
2 the sentences of these people to get them to be
3 involved in PIA, then I am in favor. I just don't
4 know until I see realignment roll out whether it's
5 necessary. So then to adjust -- the sentences were
6 laid out by the Legislature for each crime. For us
7 to say, if you are involved in PIA, you get -- you
8 serve less time regardless of what you've done, it's
9 an ask because now we are into the sentencing laws.

10 It would be helpful for me as a potential
11 voice on the matter to know whether it's necessary
12 to move inmates into the program, or maybe it is
13 necessary to reduce crowding further. That was one
14 impact, right, on reduce crowding. It reduces cost
15 because you have the inmates for a shorter period of
16 time. But it reduces crowding and reduces cost
17 because it gets inmates out earlier. Ultimately, we
18 may decide to do that, either to incentivize PIA or
19 because we can't afford to house the inmates we
20 have.

21 My only concern, as I sit here today, is that
22 I don't know yet what the impact is. Because the
23 sentencing laws were so drastically changed, I would
24 prefer to wait and see. I don't think there is
25 anything immoral or unjust to the proposal.

1 MEMBER MASTELLAR: How long would we be
2 waiting to see?

3 CHAIR CATE: Well, we'll know probably
4 within a year. We will have -- we'll be through the
5 first year of realignment in October. So that is
6 eight and a half months from now. I would like a
7 year under our belt to see what the impact is. I
8 have no idea what the administration's position on
9 the bill is. And I sit here as the Chair of PIA,
10 not as Secretary of Corrections and so -- but it
11 ultimately has to be signed to be law. Has to be
12 passed or none of -- we can stand up and down, jump
13 up and down and do all we want, but unless, unless
14 ultimately the Legislature and the Governor want to
15 do it, we can only make a recommendation. I think
16 our recommendation would be stronger a year into
17 realignment, than it would be today.

18 MEMBER MASTELLAR: Chuck, what are you
19 thoughts with respect to the need to get inmates
20 interested in participating?

21 MR. PATTILLO: I think it helps on the
22 recruitment efforts very much so. The kind of
23 inmate -- and I don't want to seem that I am biased
24 against another program. I just see too many guys
25 go out to fire camps to do fire work, when, in fact,

1 if we kept them -- we can actually teach them a
2 skill that they can get a job when they get out.
3 That's how I look at it. Trying to get more guys
4 into PIA. We have some wonderful welding programs,
5 metal fab, whatnot. We've got an older inmate
6 working when we have these young guys, those are
7 skills; they're the manufacturing skills that are
8 employable in this state. If we can get some of
9 them to stay with us, that would be helpful.

10 On the other hand, it's a purely fiscal thing;
11 an opportunity to save the State of California over
12 \$30,000,000 of general fund savings. It's kind of
13 what your statutory mandate is, is to find out ways
14 to save the general fund. But I fully understand
15 Matt's position, the Chair's position on this. What
16 his thoughts are on what the potential ramifications
17 are, what the potential views can be.

18 This is really something that -- couple times
19 we've had this discussion; that is why it came back
20 in this form.

21 MEMBER BUTLER: If the Board approved the
22 proposal, who would carry the legislation?

23 MR. PATTILLO: Everything is noticed
24 publicly. So every time something is approved, we
25 post it up and we cross our fingers and hope

1 somebody's going to pick it up. If the Governor's
2 office really wanted to do this, they would pick it
3 up and find -- they find -- you know how this works.
4 They find authors. They'd find an author.

5 CHAIR CATE: Your comments raise a second
6 concern. To the extent that equalizing credits
7 means fewer inmates are in the fire camps, I'm going
8 to vote no all day. There are lives at stake,
9 property at stake. That's the other thing I'm going
10 to want to see is, can we keep our fire camps full.
11 I just -- I mean, it is the most important thing
12 that we do for the safety of our communities, as far
13 as just making sure that we do that. I think we can
14 do both. I don't think either side has to suffer.
15 We can keep our fire camps full and keep PIA full.
16 If we can demonstrate over the course of the next
17 several months our ability to keep the fire camps
18 full and then add the additional credits for PIA,
19 then my views could change.

20 Now I am just -- I am just anticipating the
21 arguments from the other side. If we have a fire
22 camp problem and we are telling communities we're no
23 longer going to provide wild fire protection for you
24 because we're going to keep our inmates in the
25 institutions so that we can do the things that PIA

1 does, that is a really hard sell.

2 So that is another area I think I have to do
3 some homework, to make sure we are doing our jobs.

4 MR. PATTILLO: Just for the record. This
5 proposal would only affect 600 -- at this time 670
6 inmates that we have in our programs. That number's
7 going to come down, as Matt mentioned, as 109 --
8 those kind of inmates that I have is going to
9 continue to drop down. When we look at this a year
10 from now, I'd be curious to see how many it would
11 affect at that point. And I can probably venture
12 it's going to be five years from now it is not going
13 to make a difference.

14 MEMBER WOODFORD: The research shows that
15 the more incentives people get, they more they earn
16 those incentives, the better they do. If it was
17 five people, I'd vote for it. But I recognize the
18 politics. You have to have the right time to do any
19 of these things. Based on what Matt just said, I
20 don't think it is the right time.

21 MR. PATTILLO: May I suggest that we,
22 instead of voting, just someone make a motion to put
23 it over.

24 MEMBER WOODFORD: I make a motion to
25 reconsider this next October.

1 MEMBER SAITO: I second.

2 CHAIR CATE: A motion and a second. Any
3 further discussion?

4 Hearing none, all in favor, say aye.

5 Any opposed.

6 Thank you.

7 Third item.

8 MR. PATILLO: Item C is probably my
9 accounting background would say this is the most
10 boring item on the agenda, would be the adoption of
11 the year end audit. Being a former auditor, I find
12 this stuff kind of sexy. I'm going to let Scott
13 Hammon from the firm of Macias Gini & O'Connell come
14 up. Our audit is something that we are -- I'm not
15 saying we are passive. We just kind of standby and
16 give them whatever they need to do their job. And
17 in this case we actually, for lack of a better term,
18 fed them a lot of stuff that we really want them to
19 look at closely. They came back with some
20 recommendations that really took on a couple of
21 issues we had that were pretty serious.

22 If I can introduce Scott Hammon.

23 MR. HAMMON: If I can get some clarity in
24 terms of time constraints, given the agenda and how
25 things evolved.

1 MR. PATTILLO: You have 30 seconds.

2 MR. HAMMON: Well, given that, I believe
3 there was a presentation that we first went over
4 yesterday with certain Members of the Board;
5 specifically, Mr. Davidson, Ms. Mastellar and
6 Mr. Singh. We sat through that one-hour
7 presentation. Obviously, I don't believe this forum
8 has any interest in spending that length of time. I
9 don't know if Members have had an opportunity to
10 review the presentation prior to today.

11 If there is any specific questions that I can
12 address, failing that, I will simply highlight
13 certain items that I selected and chose to speak to,
14 in the absence of any specific items or questions.

15 CHAIR CATE: Any questions?

16 MR. HAMMON: Hearing none, I'll speak ad
17 hoc on a couple of issues. And at one point I will
18 direct Members into what we call the findings.

19 So Chuck mentioned the primary objective we
20 have is an audit of the entity's financial statement
21 as opposed to a performance or program audit. So
22 we're focused primarily on validating the numbers in
23 the financial statements are not materially
24 misstated. Our opinion was what we call a clean
25 opinion. Another phrase you'll hear used is

1 unqualified which, again, sounds like a negative.
2 It is not. An unqualified opinion is the best we
3 can give in the circumstances. Obviously, I think
4 you are familiar with the trends of financial
5 performance, the overall decrease in revenues,
6 decrease in net assets, et cetera, et cetera.

7 This group is very well aware, through some of
8 the past presentations, of some of the causes and
9 sources, and, as we saw at the start of this
10 presentation, some of the challenges the
11 organization is dealing with trying to reverse that
12 trend. Having said that, unless there is any
13 specific issues that members of the board would like
14 me to speak to, I'm going to ask you to flip the
15 presentation document to Page 7, Page 7 of the
16 document. You will find the page number in the
17 lower left-hand of the page.

18 This page is entitled "Internal Control Over
19 Financial Reporting." As I mentioned, the primary
20 objective of what we do when we do audits of
21 financial statements is to validate the accuracy of
22 the numbers themselves. Essentially, we are out in
23 the organization, talking to members in the
24 financial reporting of the business organization as
25 well as operating people. We share our perspectives

1 and thoughts about some things that might be worthy
2 of consideration for improvement or changes.

3 We've summarized some of these here in bullet
4 point fashion. We will be producing a more formal
5 letter within 30 to 60 days that flushes these out
6 in greater detail, including management's response.
7 That will be presented at a later date, I believe,
8 to this group as well. At this point I just want to
9 highlight some of the items.

10 On Page 7 in bullet point fashion we have
11 noted some of these items. The first item has to do
12 with how the organization currently assesses the
13 risk of slow moving inventory. Slow moving
14 inventory is something that, from a financial
15 perspective, has to be identified and possibly
16 revalued or written off. The issue here is, as the
17 organization evolves, looking at new service lines
18 and perhaps moving out of old products and service
19 lines, this is going to become more critical going
20 forward.

21 The current methodology we think could be
22 improved by making the selection or, I should say,
23 the identification process more specific to the
24 actual part number. Right now it is somewhat of an
25 arbitrary process to identify potential part numbers

1 for discussion and investigation. We want it to be
2 based more on a customized approach to ensure that
3 all the items that are at risk are being identified
4 with the operating people.

5 The second item is percentage of completion
6 accounting. And Chuck said accounting in general is
7 boring. This is probably a more boring topic, if
8 possible. It has to do with methodologies used to
9 record revenue in the modular furniture and modular
10 business units. These are units that tend to have
11 what we call a lumpy revenue stream. That means
12 that as you enter into a large contract you may
13 generate a large amount of revenue in a short period
14 of time. It is not steady, consistent or
15 predictable. One of the issues that we found is
16 that there is a timing issue in how that revenue is
17 recognized. We made some specific suggestions to
18 the organization about how it can either revise the
19 practice or at least implement a way of quantifying
20 to make sure it has a handle on what those variances
21 are and to make sure the numbers are accurate on a
22 monthly or annual basis.

23 Third item appears, called allocation of
24 overhead. Again, we have some concerns about
25 overhead being allocated in general, but

1 specifically the issue is how it is allocated on an
2 enterprise basis within an institution. Right now
3 there is a lot of estimation that goes into that
4 process. How a particular institution will allocate
5 a certain type of overhead cost to a particular
6 product or service line. We made some suggestions
7 about how to perhaps document that process better
8 and also streamline it so there is better
9 consistency to make sure you are getting good data
10 as you evaluate which service line perhaps should be
11 expanded or possibly which perhaps you want to pull
12 back, based on gross profits. This is the type of
13 issue that could impact that decision. So we want
14 to make sure that there is good data coming to
15 management.

16 Some of the other matters we noted had to do
17 with the overall financial reporting practices and
18 the utilization of existing IT systems. The
19 organization made a significant commitment to what
20 we call an ERP IT system, Enterprise Resource
21 Planning Program. That is designed with a lot of
22 capabilities, but also very complex. Generally, we
23 feel like there are opportunities to improve the
24 user utilization of that system, to make sure there
25 is better data, more customized data, getting down

1 to lower levels of the organization. Make better,
2 more timely decisions at the management level.
3 Also, within that, because the organization is
4 complex, it is very unique from a governmental
5 perspective, in that it really operates to a large
6 degree as a manufacturer, which is unique in
7 government, and that requires some demands on its
8 financial people that you normally don't find within
9 government or state service. There are issues with
10 accounting for manufacturing operations that are
11 unique. We're encouraging the organization to
12 re-evaluate how it goes about sourcing people and
13 perhaps looking at how data is gathered and
14 communicated to management.

15 Right now, particularly because of some
16 current staffing issues, management's working
17 awfully hard to get the data they need. They are
18 doing a good job of it, but I think on a long-term,
19 sustaining basis we would suggest that they
20 reorganize a little bit and have different
21 individuals and perhaps some stronger financial
22 people in certain roles. Part of that is temporary.
23 We acknowledge some turnover. They didn't have some
24 people in place for part of the fiscal year.

25 The other items are somewhat generic in

1 nature. IT system suggestions for improving how the
2 password process is done, to strengthen password
3 protection. Deferred revenue is a specific line
4 item or amount in the financial statements. We are
5 making the suggestions here about the frequency and
6 depth at which it's evaluated, and perhaps
7 reclassified as a liability issue, somewhat of a
8 technical accounting issue. Similarly for
9 internally constructed assets, the organization does
10 record some of those assets. We noted that there
11 are some things that could be done to improve how
12 those are identified for capitalization and
13 specifically when a budget is being prepared that
14 calls for a constructed asset. If it is not --
15 those expenditures aren't being made, processes to
16 investigate and make sure there is an understanding
17 of why, so it is not left off the books, so to
18 speak.

19 Then some updates from prior year items.
20 These were items we noted last year. Those items
21 that we highlighted last year that were addressed
22 and these two are still in the process. One was
23 having to do with employee's access to the IT
24 system, making sure that, as their roles change,
25 their levels of use are either restricted or

1 enhanced to match their responsibilities. So you
2 don't have people with access to data that is not
3 needed for their job description.

4 Finally, a highly technical issue related to
5 livestock accounting. For those of you with a more
6 urban background, I will skip this. For those of
7 you with a country background, I am happy to discuss
8 it. It is simply suggesting that the organization
9 perform a cost study, what it cost to raise a calf
10 to the age or point at which it goes into production
11 in a dairy herd.

12 So if there's any issues or comments on what I
13 spoke to or if there are other parts of the document
14 that you would like me to address, I am happy to do
15 so now.

16 MR. PATILLO: Make a clarification. Scott
17 made a statement about our current financial
18 structure and needs somebody with a stronger
19 background in finance. I think what he meant to say
20 was we need somebody who is focused on finance,
21 because it was kind of a backhanded shot at me. I'm
22 actually the acting CFO right now because of the way
23 we are structured. I've been doing all the CFO work
24 for the last 120 days. We are looking to fill that
25 position currently, right now.

1 MR. HAMMON: To give Chuck his do and to
2 acknowledge his skill set, he did flag one issue
3 prior to the audit process that no one else caught
4 within the management team. That was a good catch
5 and resulted in a potential adjustment. I did not
6 want to imply that you're not performing in your
7 temporary role as temporary CFO.

8 MR. PATTILLO: None taken, Auditor.

9 MEMBER TRUJILLO: Mr. Chairman, I have a
10 question. Can you give an example when you're
11 talking about slow moving inventory? What you are
12 talking about?

13 MR. HAMMON: It can take a wide variety of
14 aspects. Can be driven by a number of factors. In
15 this year one specific issue had to do with an order
16 that was made and then production was developed, and
17 the customer ended up not taking that product. It's
18 been sitting there for a while. There essentially
19 was no way to repurchase or reutilize that
20 inventory.

21 From an accounting perspective we felt because
22 the market for that was nonexistent and there was
23 minimal net realizable value or inability to get an
24 economic value in some way, shape or form, it was
25 written down. In this particular case it was a

1 special order for vests in a particular color that
2 the customer chose not to take.

3 MR. PATTILLO: Mr. Trujillo, we are not
4 talking about \$53,000,000. We are not talking
5 furniture sitting in warehouse.

6 MEMBER TRUJILLO: That is good.

7 MR. PATTILLO: I figured that maybe was
8 where you were going.

9 MR. HAMMON: One has to keep in mind that
10 the adjustment that we proposed was approximately
11 \$400,000; that was on top of an adjustment that the
12 organization had taken based on its own analysis.

13 One of things to keep in mind is that the
14 organization has a large number of product offerings
15 and service lines that complicates the process. The
16 more parts you have, the larger your part numbering
17 within your inventory system, the more complicated
18 it is to track it. So we do want to give the
19 organization credit for analyzing it; just that we
20 think it could be done in a better, more effective
21 way.

22 MR. PATTILLO: Mr. Trujillo, that issue,
23 when it was first addressed about seven years ago,
24 if you recall, we took two adjustments. Year after
25 year one was 7,000,000, and the second one was

1 6,000,000. It was specifically about the issues
2 that you're talking about. About the furniture was
3 really the thing. Now 400,000, it is not a bad
4 thing. We'll just liquidate it in some way, shape
5 or form.

6 MR. TRUJILLO: Thank you.

7 MEMBER SAITO: I'm an urban guy, so silly
8 question. Do you depreciate the livestock for the
9 cows in the dairy?

10 MR. HAMMON: Yes. Once they're
11 capitalized, the cows not the calfs. Technically,
12 according to accounting rules, is that when a calf
13 is born, the cost of raising it to the age of
14 production, which is usually around 18 months, would
15 be deferred and then the amount of expense would set
16 up on a balance sheet as deferred cost. At that
17 point it would be moved into a fixed asset category
18 and start to depreciate at that point. The
19 organization does something slightly different. The
20 effect of it we analyze every year, but it
21 materially approximates what is called for in the
22 technical literature. So we haven't proposed an
23 adjustment. Yes, you would capitalize and
24 depreciate a calf at some point when it begins to
25 produce.

1 MEMBER SINGH: How long does it take from
2 born to maturity?

3 MR. HAMMON: The question?

4 MEMBER SINGH: When the calf is born to
5 maturity.

6 MR. PATTILLO: To when it starts producing
7 milk, 18 months.

8 MEMBER SINGH: That is it?

9 MR. HAMMON: Varies a little, but when the
10 calf is dropped and when it is actually ready to be
11 bred, which is kind of the starting point of milk
12 production, and generally considered to be 18
13 months. I think I made my ranching grandparents
14 proud at this moment.

15 CHAIR CATE: Any other questions?

16 Mr. Pattillo, do you need a motion to --

17 MR. PATTILLO: Motion to adopt the new
18 audit that is out. There was not -- from the draft
19 we gave you, the only thing they gave you, they
20 pulled the management letter out because it wasn't
21 supposed to be in there.

22 We need a motion to adopt the audit as
23 presented.

24 MEMBER SAITO: Motion to approve.

25 CHAIR CATE: Thank you.

1 MEMBER SINGH: Second.

2 CHAIR CATE: All those in favor, say aye.
3 Opposed.

4 Great. That will pass. Thank you.

5 MR. PATTILLO: That we just completed -- I
6 want to inform the Board that it is my intent to
7 implement the two-year extension that was voted for
8 this agency in the spring, to have them as our
9 auditors for two more years as part of the existing
10 contract. If anybody would like to discuss that
11 with me after, we can sit down and talk about it.
12 Normal course of business, but I couldn't say
13 anything until we got done.

14 MR. HAMMON: Thank the Board Members for
15 their time.

16 CHAIR CATE: Next item.

17 MR. PATTILLO: Next item is our mid-year
18 review. That is Item D, mid-year review, the fiscal
19 mid-year review. We are required to do a budget at
20 least once a year. We do it twice a year, just
21 because things have been swinging so much lately
22 that we really want the Board to know exactly what
23 is happening every six months. This is not like the
24 May revised that we do for the state. The state
25 doesn't do a mid-year one. We are small enough

1 where we can kind of pull something off like this in
2 order to keep you well-informed.

3 Last year was a pretty extraordinary year. We
4 were able to see it coming, and we got out of the
5 way as much as possible. The Board's actual data
6 indicates that our revenue is going to increase by
7 about 2.3 mill at mid-year, from 158,000,000 to
8 160.5, which is about a 1.5 percent increase.
9 However, our revenue right now is running a little
10 ahead, but our fourth quarter revenues that we used
11 to see a lot - agencies at the fourth quarter used
12 to do a lot of purchasing that last quarter with us
13 because they had surplus cash and - we don't see a
14 lot of surplus cash in the fourth quarter anymore.
15 Only surplus cash is being borrowed; so there is not
16 a lot going on in the fourth quarter.

17 Our increase is made up of generally most of
18 the changes in manufacturing. Increase of 2.3
19 million is all in manufacturing. General fab, 2.3
20 up. Fabric products, 2.5 million increase offset by
21 a metal products decrease of 1.7 million and 1.2
22 million in modular construction.

23 Our modular construction number is probably
24 going to change a little bit in the spring as we get
25 to have our building on-line. The cost of goods

1 sold increased about 4 percent. A lot of these
2 increases that we're seeing are actually not
3 material. They're actually driven by the State
4 Controller recognizing what the actual cost of the
5 employee is. They adjust it every year. Our
6 employee costs are driving a lot of this.

7 The 1.2 of that is material prices. A million
8 is due to civil service staffing. The cost of goods
9 sold by enterprise is changing. Manufacturing is
10 going up by 8 percent, services .7, and ag about
11 1.2. Our gross profit is anticipated to be
12 38,000,000, which is a reduction of 2.5. Our
13 selling and administrative expense, we dropped it
14 down to \$1,000,000, mostly in central office.
15 Unfortunately, that was offset by a 5 percent
16 increase in our transportation cost. Our operating
17 income were decreasing in half, to 1.9. And the
18 bottom line net profit is going to be 1.5 million, a
19 decrease of 2.0 over the midyear.

20 The AB 109 we talked a little bit about,
21 correction realignment. We consider over the next
22 36 months sales to CDCR could decrease as much as 20
23 percent, and it could affect us in -- this is the
24 max effects: 725 inmates and about 72 staff. That
25 is the outer spectrum. As we're going through the

1 36 months, we're doing everything in our power to
2 mitigate that, whether it is getting into new
3 business through the Board, expanding our business
4 to locals when they want it. We actually have a lot
5 local customers. I don't know if you guys saw the
6 article that went out yesterday. We are selling
7 shoes in Nevada now. Anywhere we've got an
8 opportunity, we've really got to push it. We are
9 also selling products in the canteen, which is a
10 non-mandated customer. At certain institutions it
11 turns out that the inmates like our coffee better
12 than they like the stuff from the general. I can't
13 mention by name.

14 Our inmate assignments. Really, on paper it's
15 reducing by 324; that's down to 5,400 assignments.
16 That's really on positions that weren't being filled
17 anyway, that were kind of chewed up. I would expect
18 to see a little bit of an adjustment in the spring.
19 Program-wise, any increases that we're seeing -- we
20 are going to see an increase in our construction
21 training program down at CMC, the men's colony. And
22 Scott's going to talk about some consolidation of
23 the construction program. Our women's construction
24 program is probably going to be folded up at CIW
25 because we don't have the work to support it.

1 Our construction programs at Folsom will be
2 combined. We have one at New Folsom and one at Old
3 Folsom. They will be combined. We are looking to
4 expand our welding program at CIM. We have a lot of
5 work going on over there.

6 With that, if there is any questions regarding
7 that, we are willing to answer them. I know it is
8 not as exciting as the audit.

9 CHAIR CATE: Do you need a motion, Chuck?

10 MR. PATTILLO: Yes, I do.

11 CHAIR CATE: Motion to accept?

12 MR. PATTILLO: Motion to approve mid-year
13 report.

14 CHAIR CATE: As stated by the General
15 Manager, do I have a motion?

16 MEMBER SINGH: Make a motion.

17 MR. TRUJILLO: Second.

18 CHAIR CATE: Any discussion?

19 All in favor, say aye.

20 Any opposed.

21 Very well. That passed.

22 Next item.

23 MR. PATTILLO: The next issue is the
24 designation of cash. This is something that we
25 started doing back in 1999. It's really not part of

1 the statutory, but what we want to do is recognize
2 what cash we are moving through during the year.
3 And in this case we're increasing our annual plan
4 capitalization by 3.3 million. Only 298- of that is
5 an increase. The remainder was money that we've
6 appropriated in previous years that we haven't
7 expended yet. We don't have like the state when
8 you've appropriated and you have three years to
9 expend it. We don't have that policy.

10 So the Secretary and I discussed this the
11 other day. We will be bringing back a policy that
12 really sets us up on how long your appropriations
13 are good for rather than having to roll them over on
14 a constant basis. The large number over there, the
15 3,000,000, that is primarily the money that you
16 appropriated for the prototype modular buildings
17 that we're building. There is three of them.

18 One is at Pelican Bay that we're getting ready
19 to install as soon as the weather gets better.
20 Telemedicine. Our correctional training facility
21 that we're building a national incident management
22 system we're putting up at Camp 12. A lot of
23 institutions, and Matt may want to talk about this a
24 little bit. At the institution levels, when we have
25 emergencies, the emergencies will have time to run

1 from inside the prison. And it's kind of a
2 difficult thing to do if your emergency is there and
3 you're running inside. This allows an external way
4 for folks to have a command post, whatnot. It is a
5 national model. We're building it as a training
6 facility at Camp 12 in conjunction with the Office
7 of Correctional Safety who oversees all of this. It
8 is a second building you appropriated. The third
9 one is a our new modular light. We built a new
10 modular building -- I don't want to say it's ten
11 times lighter. How much lighter?

12 MR. WALKER: About half.

13 MR. PATTILLO: About half lighter than the
14 one we built over the last couple years. The one
15 we've been building the last couple of years is a
16 correctional model. It is a secure model. What
17 we're looking at now is a lighter one that can be
18 used outside the institution grounds. Our first one
19 will be a triple wide that we've designed that is
20 going in our parking lot up there in Folsom so we
21 can use it as a model and working office. The
22 remainder of that is equipment, and a decrease of
23 379,000 for livestock, as well as an increase of
24 300,000 capital improvement. Really offsetting.

25 The other thing that we're doing at our Folsom

1 office, if you haven't known, you can access our
2 office 24/7. That is not really a good thing being
3 on a correctional property. So we partnered with
4 the institution to build a higher security entrance
5 that has gate coded and everything else to keep
6 folks out of that side of the institution because we
7 can't control the traffic going in and out. That
8 will be an improvement. It will make it a safer
9 building for our employees.

10 With that, if I could get a motion to approve
11 the capital request in consideration of 14.9 million
12 total for the year, which is a 298,000 increase over
13 before, with a rollover of 3.3.

14 MEMBER SAITO: So moved.

15 CHAIR CATE: We have a motion.

16 MEMBER WOODFORD: Second.

17 CHAIR CATE: Thank you, Ms. Woodford.

18 Any discussion?

19 All in favor, say aye.

20 Any opposed.

21 None. Thank you.

22 MR. PATTILLO: Last action. We are on Item
23 F. Rolling through here. F, this is the Prison
24 Industry Board's report to the Legislature, not
25 PIA's report. The statute is very clear on what we

1 have to put into this report every year. The
2 Governor recently sent out a call to all departments
3 saying: Is there a report that you are doing that
4 you should not be doing anymore in terms of saving
5 money? We declined. We said, no. We still think
6 that the Board should do this. The reason being it
7 answers every single question 120 Legislators could
8 have. It is a great document for us to send
9 electronically to folks. It lays out what we are
10 doing this year, what we did last year, the number
11 of inmates, what expansion there is. As we talked
12 about, it's financial activity and condition of each
13 enterprise under jurisdiction, the plans of the
14 Board regarding any significant changes, the plans
15 of the Board regarding development of new programs
16 and breakdown by institution of the number of
17 prisoners at each institution. They are in a draft
18 report. I think the draft report is either right
19 behind there.

20 MS. GUARE: In the back.

21 MR. PATTILLO: In the back. What we also
22 did, and I'm not going to single the Board Member
23 that called me and said, "Where were the pictures?"
24 But I love pictures, I also know, given the times we
25 are in, I would like to have a basic. I hate to say

1 this, putting black and white on the ground. But
2 just the facts. It's really what we need in there.
3 It's not as pretty. We are not going to win any
4 award that NCIA puts on every year. It does contain
5 all the facts. That is what the thought is.

6 I think the staff's done a wonderful job of
7 putting this together, the writing. We have
8 basically an ISO standard, what is supposed to be in
9 here. Whether it is recidivism charts, whatnot, and
10 it's a lot of good information in there.

11 Are there any questions regarding the content
12 or the process?

13 MEMBER WOODFORD: I would say I appreciate
14 the report. I'm glad you are going to continue to
15 do it.

16 MR. PATTILLO: As part of the report, also
17 the auditors report will be attached to the back of
18 it. And that is what -- we always put the two of
19 them together. And it is accessible on our website.
20 We will print ten copies which is still a
21 requirement that we have to deliver to the mail room
22 at the Legislature. The rest of it will be on disk
23 and electronic. So we're not wasting a lot of
24 paper.

25 MEMBER TRUJILLO: Mr. Chairman, I have a

1 question. Mr. Pattillo, regarding, we're discussing
2 legislation. Are we trying to get legislation
3 repassed again regarding the Department of
4 Corrections come before this Board for approval for
5 their projects?

6 MR. PATTILLO: Well, Mr. Trujillo, I
7 actually submitted that to your folks a couple
8 times. I haven't seen anything. So if Ceasor can
9 get on the line, we can talk about it. The
10 unfortunate thing -- let me give a little
11 background, Mr. Trujillo.

12 Four years ago the Department of Corrections
13 came before this Board when they were doing inmate
14 ward labor jobs, IWL, the construction project.
15 That went away a couple years ago in a piece of
16 legislation that former Senator -- late Senator Cox.
17 Now it is Secretary's signature on this for those
18 approval projects. Mr. Trujillo has asked about
19 this a couple times. We provided your agency that
20 language, that the old language shows that. But we
21 really haven't -- just like the proposal, we run it
22 through here. Would you like us to bring that back
23 to the committee?

24 MR. TRUJILLO: What I will do, I will take
25 that to the legislative department and find out what

1 the hang-up is. Appreciate your time on that.

2 MR. PATILLO: The best chart is recidivism.
3 But as you see the number is -- I was looking today,
4 again, is the number of parolees that are actually
5 going down for the last couple years. And part of
6 that is because we are getting a pre-effect for 109.
7 We are just getting a harder inmate. Not a lifer,
8 but a longer serving inmate. If we are getting some
9 of the non-non-nons, I can see our numbers going
10 down a little bit. The data is based on what
11 Corrections put out. We do the comparison. We use
12 this document.

13 Mr. Kelly, we talked about this sometimes.
14 You and Mr. Frank and I just had this conversation.
15 We've only gotten 5,471 positions, how are we
16 serving 7,000 inmates? It's the roll through effect
17 when we roll through that many folks. Just like at
18 PIA I had 500 slots, but I probably run 580 folks
19 through there on an annual basis. Because of
20 attrition. People go through and parole.

21 CHAIR CATE: Everyone had an opportunity to
22 read the report or feel comfortable with it?

23 Obviously, there is a section in here about
24 prepackaged lunches. I know all it says is that
25 you're anticipating going into. So I don't know

1 that it needs to be amended.

2 MR. PATTILLO: Let's say spring.

3 CHAIR CATE: That is fine. Any other
4 discussion of the matter?

5 MEMBER DAVIDSON: I have one quick
6 question. Are there any other reports that CALPIA
7 has that may fall into the definition of the
8 executive order?

9 MR. PATTILLO: I wish there was, Mr.
10 Davidson. No. Just that one.

11 CHAIR CATE: Even if the mandate was
12 removed, you could still produce it and submit it.

13 MR. PATTILLO: I think it is to this
14 Board's best interest to put this out. This is the
15 information that gets read.

16 MEMBER WOODFORD: It is also very handy
17 when appearing at a hearing, in our favor.

18 MR. PATTILLO: Yes, it is.

19 CHAIR CATE: Motion to accept the record.

20 MEMBER MASTELLAR: I move.

21 CHAIR CATE: We have a second?

22 MEMBER SAITO: Second.

23 CHAIR CATE: Any discussion?

24 Seeing none, all in favor, say aye.

25 Any opposed.

1 Thank you.

2 MR. PATTILLO: We have three items, and
3 what I was going to suggest is that why don't we do
4 these backwards because we know a couple are no
5 discussion items and we can get them knocked out
6 real quickly.

7 Scott, start with H.

8 MR. WALKER: Good afternoon again, Mr.
9 Chairman and Board Members. Item H is regarding the
10 career technical education program. This issue --
11 basically, what we are going to do is tell the state
12 we're going to collapse the program down. We're
13 still going to keep it going. But our notion is to
14 curtail the one at CIM, CIW and the one that's
15 operating at Folsom. This is unfortunate, given the
16 outstanding work that the CALPIA team has done on so
17 many projects for CDCR, state parks and CalExpo, to
18 name a few. Later, hopefully, I'm going to take a
19 couple of minutes and recognize some of the staff
20 that worked on the DJJ project. Did an outstanding
21 job.

22 CALPIA established the CTE program in 2005.
23 The CTE program was the first of its kind in the
24 nation to partner an inmate rehabilitation program
25 with trade unions in a way that served not only the

1 rehabilitative needs of the inmates, but also
2 provided a well-trained labor force for maintenance
3 and construction projects at a reduced cost.

4 The program was founded on two principles:
5 reducing inmate recidivism and lowering the cost to
6 CALPIA and other state agencies, including the
7 California Department of Corrections and
8 Rehabilitation for construction projects. This
9 program was the first in the nation to approach
10 these two principles in collaboration with trade
11 unions.

12 In 2005, CALPIA worked with the Northern
13 California Regional Carpenters Council, the
14 International Association of Bridge, Structural,
15 Ornamental and Reinforcing Iron Workers, Local Union
16 118, and the Northern California Laborers Joint
17 Apprenticeship Training Committee to establish a
18 program in California prisons that would adopt the
19 apprenticeship and pre-apprenticeship curriculum
20 being used to train union apprentices outside of
21 prison.

22 Additionally, CALPIA contracted with the
23 unions to supply a union certified trainer to
24 administer the curriculum to the inmates, ensuring
25 consistency with the apprenticeship training program

1 operated outside of the prison.

2 The CTE program has proven immensely
3 successful with the two principles I mentioned
4 earlier. First and foremost, the impact this
5 program has had on recidivism reduction. The
6 recidivism rate for inmates graduating from the CTE
7 program is approximately 89 percent less than the
8 general population. It now stands at 7.13 percent.
9 To date the program has paroled 449 participants,
10 and only 32 of them have returned. The decrease in
11 recidivism allows for an annual savings to the
12 State's general fund of approximately 11.3 million.

13 Secondly, the CTE program also provided a 9.2
14 million in labor cost avoidance for multiple state
15 agencies and host institutions by utilizing CTE
16 programs and participant labor instead of retail
17 contract cost. CTE program's cost totaled 9.7
18 million over the span of fiscal year '7-8 to the
19 current year, last year, '10-11. Given the labor
20 cost avoidance of 9.2 and the reincarceration cost
21 of 11.3 million, the program's cost benefit amounted
22 to a total net savings of \$10.8 million to the State
23 of California.

24 Given that, simply said, the State of
25 California receives a \$2 return on every dollar

1 invested in this program. Unfortunately, like I
2 stated earlier, CALPIA will be closing the CIW
3 female carpentry program and combining the two
4 programs at Folsom into one, which will eliminate
5 approximately 60 inmate training assignments.

6 I would be happy to answer any questions.

7 MEMBER KELLY: I have a question.
8 Regarding the information we talked about on the
9 first agenda, what would it do to PIA if the CTE
10 program went away?

11 MR. WALKER: Well, certainly it would
12 disincentivize a lot of inmates to come to work in
13 PIA. A lot of inmates look at CTE programs as one
14 of the best opportunities they have to benefit
15 themselves. It wouldn't provide us the opportunity
16 we have now to use that same reduced labor cost that
17 we use currently in CTE factories to build modular
18 buildings and do the on-site repairs for tenant
19 improvements for CALPIA. It would also reduce our
20 ability to help the Department, CDCR, reduce their
21 cost of construction projects. CalExpo was another
22 example of -- not an affect on PIA but outside of
23 PIA that reduced their costs greatly on projects
24 that were done out there.

25 MEMBER KELLY: Just ballpark. What if day

1 labor programs went away, what would that do to the
2 Department of Corrections inner costs?

3 MR. WALKER: I would suspect it would
4 increase them greatly for the projects they do.

5 MEMBER KELLY: I'd just like to remind the
6 Board that construction and unions look at these
7 programs as being programs. So \$10.8 million is a
8 lot of carpenters, a lot of laborers out of work.
9 Remind the Board while we greatly appreciate the
10 offer to partner with you, it still takes jobs away
11 from our members. So how do we tell our members it
12 is a good thing; it is a program that works?

13 The discussion we had this morning, you know,
14 if we can't have a program and we have to abide by
15 every single person that comes to the Board asking
16 us questions. It's not good for us. It's not good
17 for the construction industry either. So we need to
18 be careful that a program that is working, and when
19 people find out, well, it is not a program because
20 we can't make that decision as a program, and it is
21 going to be based on one small element of industry,
22 we could do that, too. So we need to be careful
23 when we discuss these things, that there is a longer
24 picture that is involved here. And I just want to
25 remind the Board we need to make sure we cherish

1 those. They can be taken away.

2 Thank you.

3 MEMBER TRUJILLO: Mr. Chairman, I have a
4 question or a comment. That program, the reason
5 it's been successful is what the inmates are
6 learning is a career. Not a job, but a career.
7 Some type of vehicle where they can take and get
8 respect, make a decent living. With that incentive
9 and being able to supply their families benefits,
10 that there is probably the number one deterrent of
11 them returning back. We have a success record with
12 this program, the International Iron Workers
13 Program. And the Chuck has adopted the
14 pre-apprenticeship as the Local Union 118, along
15 with a couple other local unions, have put inmates
16 to work through the apprenticeship. And we have
17 some success stories of a couple graduations.

18 But the thing that I keep or want to keep
19 reminding this Board is legislatively we need to do
20 something about. When an inmate is released from
21 incarceration, he is released to the county where
22 he's offended. Construction is not just in that
23 county. Construction goes all over. So it would be
24 helpful if we could make sure that if they're in the
25 construction industry, they are going to be able to

1 travel wherever they need no travel. And we are
2 going to need more. Like Mr. Kelly says, he is
3 worried about members taking work away from members.
4 There is a lot of work coming up, and we do need the
5 extra workforce.

6 MR. PATTILLO: What I want to do is put you
7 in touch with some folks, and go meet with the
8 parole division. This issue, Matt, has become an
9 issue. Jeanne, this was an issue of yours several
10 years ago. After we started looking at it, I am not
11 sure that you have to go back and get legislation.

12 Specifically, the number of parolees that
13 people are going to be supervising is about 70
14 percent, a pretty significant number. But even with
15 those folks, their key administrative remedy where
16 they can get approval across counties, especially if
17 they are employed. I don't think we have to go to
18 the Leg. What I would like to do is put you in
19 touch with not only the parole folks, but our leg
20 folks. So you can sit down and talk with them to
21 see what the best way of doing that, because I think
22 it is doable.

23 MEMBER TRUJILLO: I would look forward to
24 that meeting.

25 MEMBER WOODFORD: So my concern is that for

1 not only he's paroled, but she's paroled. We now
2 have lost an opportunity for all the women, right,
3 nothing?

4 MR. PATILLO: At CIW we have run out of
5 work down there. They have -- we don't have that
6 kind of work -- that we had five years of work that
7 we funded ourselves. It's kind of dried up. It's
8 really dried up.

9 MEMBER WOODFORD: As things improve, and
10 they will, I only ask that when we go to open this
11 back up it is at a women's prison.

12 MR. PATILLO: Not a problem.

13 MEMBER WOODFORD: In the future.

14 MR. PATILLO: We will look at the other
15 locations, work with the Secretary. We have one
16 other location that potentially where we can move
17 this to. CIW doesn't necessarily have to be the
18 one. There is another women's prison.

19 MEMBER WOODFORD: Thank you.

20 CHAIR CATE: Mr. Trujillo, if you'd like,
21 I'd volunteer my legislative aide to help you. If
22 you'd like, to include her in meetings as well.

23 MR. TRUJILLO: I would appreciate that.

24 MR. PATILLO: That is who I was offering
25 up.

1 MEMBER WOODFORD: Matt, on the issue of
2 people moving out of the county and all that, I
3 worked on a project where we looked at what every
4 county is doing on this issue. And everybody is
5 doing something different. Some counties have that
6 permission from the probation officer. So as a
7 statewide policy it might be something really good
8 to look at. Come up with some legislation that
9 covers it.

10 MEMBER TRUJILLO: One other thing, too.
11 The state building trades has a woman in building
12 trades construction careers which is celebrating 11
13 years. You'd be surprised how many women get into
14 the construction industry. Some of our Legislators
15 were very surprised when they attended these
16 meetings and also celebrations of the women who do
17 work on construction. And I think if we all want to
18 admit it, women can do anything a man can do.

19 CHAIR CATE: Is that a motion?

20 MEMBER TRUJILLO: I am on the record.

21 MR. PATTILLO: Request Mr. Walker move on
22 to the next, lost hours certification.

23 MR. WALKER: Lost hours. CALPIA'S hours
24 increased approximately 34,500 in the first quarter
25 of fiscal year '11-12. Additional lost hours

1 decreased approximately 83,000. The decrease was
2 primarily due to a reduction in industry-related
3 hours. In the previous quarter industry-related
4 lost hours were high due to CALPIA's physical
5 inventory.

6 Lost hours that were custody related were
7 relatively unchanged this quarter. There were
8 several inmate disturbances at Folsom State Prison
9 that drove a significant increase at that
10 institution. Since then the situation stabilized
11 and is back to a normal program.

12 Lost hours due to ducats were down slightly,
13 4,000 hours. CALPIA staff continued to work with
14 institution staff to schedule as many ducats as
15 possible during non-working hours.

16 Everybody know what a ducat is?

17 Lost hours for industry-related issues were
18 down significantly. As I mentioned before, the
19 previous quarter we conducted a physical inventory.
20 So that was just a perfunctory thing, when they go
21 up and they come back down.

22 Lost hours due to other issues were fairly
23 consistent with the previous quarter. This category
24 of lost hours is being driven primarily by staff
25 vacancies and lack of customer orders.

1 Lost hours due to vacancies were down
2 approximately 13,000 hours for this reporting
3 period. As you know, CDCR is currently in the
4 process of implementing AB 109, better known as
5 realignment. And to date CALPIA has been largely
6 unaffected.

7 Inmate assignments are down 58 due to a
8 decrease in some fabric and furniture factories
9 caused by insufficient customer orders.

10 Any questions on the lost hours?

11 Certifications. CALPIA continues to focus on
12 both internal and external inmate certifications.
13 455 inmates were enrolled in external certifications
14 for the first quarter of fiscal year '11-12, with
15 423 inmates receiving certification during that same
16 time frame. We really turned the corner on this and
17 started to show improvement. 314 inmates were
18 nominated for internal certification during the
19 first quarter.

20 I would be happy to answer any questions on
21 that information item.

22 CHAIR CATE: Don't hear any.

23 MR. PATTILLO: The last two information
24 items. The first one, I'm going to do the final
25 information item first, which is the NCIA

1 conference. It is the National Correctional
2 Industry Association. We are honored to be the
3 United States host for this, April 1 through 4.
4 Actually an honor to do this. Not much of a burden.
5 We get an opportunity to bring 49 states here to see
6 how we do it. One day alone will be dedicated to
7 taking them out to Folsom Prison, just to see what
8 we do out there. Three-day training conference. We
9 are actually teaching the segment on leadership for
10 all the folks that are out there. There are four
11 others tracks. One has to do with jail, private
12 industry, a few other nits and nats.

13 It will be here at the Hyatt and the
14 Convention Center. A lot of vendors come, whatnot.
15 It's a very good PR for us, for NCIA. And it is a
16 boon to the downtown because this is a convention.
17 We are very lucky to have this.

18 Carla Young, head of sales and marketing for
19 us, is heading this up. I think I just saw her duck
20 out the door. If she hadn't ducked out -- maybe we
21 will get to see her again. She actually announced
22 she is retiring right after the NCIA conference.
23 This is her last hoorah. She's done a great job for
24 us for over 23 years, and she said time to call it
25 quits. And so we've been very fortunate to have

1 her. She is putting this together.

2 And I would encourage you all to come. I will
3 send you all the cards. As Members of the Board,
4 you are also members of NCIA. So everything is
5 there for you. If you want to come and stay
6 overnight, we'll just get it arranged for you to
7 stay right at the Hyatt.

8 MEMBER TRUJILLO: No bars?

9 MR. PATTILLO: Open bar.

10 MR. TRUJILLO: Not that kind of bar.

11 MR. PATTILLO: No bars on the windows.

12 The last item -- switch around here. Going
13 back to the beginning.

14 The last item here is actually - I don't know
15 how to put it another way - it was actually a favor
16 done by Chairman Cate to Secretary Anna Caballero
17 because there was a proposal out there that would
18 provide state agency preferences for food items
19 currently produced by CALPIA, a preference to buy
20 from these small and disabled veteran businesses
21 that are state certified.

22 The issue's been out there. There is no
23 legislation or action to be taken here, but
24 Secretary Cate had committed for us to hold a public
25 hearing regarding this issue so we can get testimony

1 on the record. There was a lot of questions out
2 there regarding how were they contributing to the
3 state, were they hiring ex-offenders. There was a
4 lot of data. So we wanted to flush it out for the
5 Secretary.

6 We had that hearing on January 4th. We gave
7 you a summary, the transcript on that. We forwarded
8 those over to the Secretary's office. There is
9 really not -- that really kind of ends what our
10 obligation was for that.

11 Just briefly, kind of what my notes were here,
12 real quick. The Chairman of the PIB, in an effort
13 to assist the Secretary, authorized a January 4th
14 hearing to collect data on both the impact to CALPIA
15 from the implementation of the proposed off-ramp and
16 the impact to those business groups who say the
17 off-ramp is necessary to mitigate impacts to their
18 business from CALPIA, and that the businesses
19 provide help to reduce recidivism and are major
20 employers of ex-offenders.

21 You got the transcripts and the summaries. We
22 sent that to you. We wish to support companies that
23 hire ex-offenders. This Board several years ago
24 voted not to provide small and disabled veterans
25 preferences because it actually drives up our prices

1 in the end. There is an added value. However, we
2 do find there is a lot of small businesses out there
3 that we can partner with. We are doing a lot more
4 reaching out to them, especially through DGS, which
5 is inviting us to every one of their small business
6 meetings now, which is a very helpful thing for us.

7 What we do provide, if anybody on the Board
8 has noticed, we provide a preference to a company if
9 they hire an ex-offender. We are the only one to do
10 that in the state. And as I found out, we are the
11 only one in the United States that does this.

12 Anytime that anybody is applying, we always go
13 look and see if they are hiring ex-offenders. We've
14 had several meetings with the Secretary's office,
15 Secretary Cate and Secretary Caballero. We wanted
16 to find out on January 4th what the impact would be,
17 and if these folks that said they were hiring
18 ex-offenders, what were their numbers and how would
19 it get -- we really haven't had good luck getting
20 all the information out.

21 One of the things we're trying to verify is
22 that one of the representatives from the group had
23 stated in an article that they were -- they
24 estimated that ex-offenders made up half of their
25 employees in the businesses in the coalition. And

1 the other thing was that we were impacting them
2 significantly by just -- similarly like you heard
3 Harvest Farms. We were impacting them in some way,
4 and we wanted to find out what that data was.

5 We haven't been provided any of that data. So
6 what we did is we polled that data from the folks
7 that were in that coalition, State Controller
8 payments, and we looked at 36 months. And 36 months
9 showed us that the revenues had all increased 163
10 percent versus being severely impacted like they
11 were at.

12 And there was a point I wanted to make, and I
13 should have made during Harvest Farms. What we need
14 from folks that come in here, we hear all the
15 testimony, but we need to know what the financial
16 data is. We really know -- we have to know that.
17 We are very transparent. We have everything on
18 paper. We are laying it all out, and we are just
19 asking everybody else to do the same so this Board
20 can make a correct decision.

21 What we looked at in this proposed impact was
22 -- we said this would impact us by about 30 to 60
23 percent in loss of business if we started giving the
24 preference to small businesses - the State gives a
25 preference, not us - to buy stuff that we already

1 make. The way we did that was we just ran the
2 commodity prices, what we would lose. Some things
3 were really low on. Some things were a couple
4 points over. So if you don't take into
5 consideration things like recidivism savings, it
6 could go away.

7 Couple things real quick. Right now just our
8 food and beverage, and Scott didn't really hit on
9 this too much. Talked about 150 inmates. But the
10 food and beverage enterprise experiencing --
11 increased general fund cost of 644,000 a year for
12 savings for recidivism. And we also purchased about
13 1.1 million in the fiscal year, which would be
14 limited if we buy from small businesses. The other
15 issue is, and, Mr. Butler, correct me if I say this
16 wrong, if a state agency buys through DGS, there is
17 actually a processing fee because they are doing the
18 processing. That processing fee for us is actually
19 included in our price. So it is kind of an apples
20 and oranges comparison.

21 So when you are doing all theses comparisons,
22 you have to include what DGS would do. What is the
23 price here? What the sales tax is. As you know, we
24 don't charge state agencies sales tax. Sales tax is
25 in our price. So sometimes those comparisons you

1 really have to really look at what is there. The
2 law right now -- it is not a law, but the BOE rule.
3 Is that we have to pay sales tax on raw material
4 purchases. We are the only manufacturer in the
5 state of California that has to do this. So it is
6 kind of something we need to reverse because it just
7 doesn't make sense. What it leads to is a lot of
8 unfair comparison because our price already includes
9 the sales tax versus what is out there. And we
10 wrote about it in the annual report.

11 MEMBER SINGH: Mr. Pattillo, what do you
12 suggest we can do?

13 MR. PATILLO: Well, a BOE representative
14 out of San Francisco picked up on the issue a while
15 ago and would like to meet on it, Ms. Betty Yee.
16 She wants to find out what all the facts are. So
17 when we facilitate that, if you would care to join
18 us or any Board Member, I would like you to. It is
19 an administrative action. It's like DGS; they can
20 do it administratively, certain things. We're
21 saying that the BOE can do this, reverse their
22 opinion for us very easily. We just have to get
23 enough of the Board Members convinced.

24 Their request of an off-ramp, even though some
25 folks believe the Secretary of State and Consumer

1 Services can direct DGS to do this preference, we
2 actually have a differing opinion. We believe that
3 anything that would amend the current Penal Code,
4 which it would do, would have to amend the Penal
5 Code, would have to go through legislation. That is
6 a discussion we can have when it comes up. But
7 right now we don't believe it can be done
8 administratively as it is being asked to be done.

9 We are sending a formal letter to Secretary
10 Caballero saying that, per your request, we've
11 completed this. We sent it over unofficially to
12 them already. We will send a formal document out.

13 MEMBER MASTELLAR: I have a question. I
14 recall the last time we met we had a copy of a
15 letter from Secretary Caballero which discussed,
16 like, a two-year pilot for the off-ramp, the
17 \$250,000 off-ramp. And the Secretary's concerns
18 about weighing the interest of small business and
19 veterans against PIA. And my concern is, and I
20 guess I just need to kind of understand how DGS
21 would work with the other two organizations as well
22 as the CALPIA. If there is something that we are
23 already making and we are already selling to DGS and
24 now a small business or a veterans group is coming
25 in and trying to get that contract, is there

1 something that's stopping a discussion from
2 occurring as to how to share that business at that
3 point or if is there some other market that they can
4 get into? Is there something that we're actively
5 doing to stop that business or are we just
6 automatically getting that business because of the
7 Penal Code?

8 MR. PATTILLO: We are automatically getting
9 some of that business because of the Penal Code. So
10 we are not taking any contracts. We're not
11 infringing on anything. This is our normal food
12 packaging operation. The only thing that's changed
13 over the last couple of years that we've gotten into
14 is maple syrup in the last 24 months. We work with
15 DGS.

16 It is not like I get up in the morning and
17 throw a dart at a board and say, "No, I want to go
18 make boxed lunches today." We go through a process.
19 It's outlined in the Penal Code and discuss it with
20 us and go through there. We follow the process.
21 This proposal, that two-year pilot, it would be the
22 same impact as just doing it outright. It would be
23 an impact of 30 to 60 percent of our business.
24 Because there were certain things that we were right
25 on the margin, but some of that savings is made up

1 in recidivism.

2 MEMBER MASTELLAR: It seems to me that the
3 off-ramp just completely defeats the purpose of the
4 code, in the first place.

5 MR. PATTILLO: It does. We have been
6 opposed to it, and I think we will continue to be
7 opposed to it. We'd like to have somebody suggest
8 something that would be workable for everybody. I
9 think it is more important that we work with DGS to
10 focus on those small businesses and figure out how I
11 can buy raw materials from them because we do buy
12 raw materials. The same group that claim they hire
13 ex-offenders, we do buy from them. So we went and
14 checked their bids, and they've never claimed
15 preferences. We want to work with those.

16 One of the things that we need to do a better
17 job is with our disabled veterans businesses. At
18 out last hearing, Rich Dryden came to the alliance
19 meeting. He made a very pointed case about weighing
20 the needs of inmates versus disabled vets. And
21 myself, I'm actually a service connected disabled
22 veteran. I have a soft spot for that one. I
23 understand these folks and I can understand weighing
24 the two things together. So I think we may be
25 talking about adjusting our policies as it relates

1 to DVBES or doing as much outreach as we can with
2 DGS. They do a wonderful job of it. We just don't
3 do as good a job as they do.

4 MEMBER MASTELLAR: I think you're going to
5 see there is a lot more disabled veterans in the
6 next few years as we're having troops come back. So
7 I think it is going to be very important for PIA to
8 hold its position and to not lose business. And I
9 don't want to say that veterans, disabled veterans,
10 shouldn't get the opportunity or businesses that are
11 hiring them, but the reality is it is going to be
12 more competitive.

13 MR. PATTILLO: It is. But I think we have
14 to reach out to that group of businesses that we can
15 benefit, and we can benefit these folks through
16 purchasing of raw materials. Not on the competition
17 side.

18 CHAIR CATE: Mr. Pattillo, are there
19 concerns about shell businesses in this area? Do
20 you know what I mean by that?

21 MR. PATTILLO: I actually do. And there is
22 an increased number or amount. But I think DGS does
23 a pretty good job of ferreting that out, for lack of
24 a better term, Jim. There is a lot of legislation
25 that's come across that prevents it. They have a

1 lot more authority to going out, chasing these kinds
2 of things. We've got a current one that we know
3 about that we have been speaking of that we have
4 been talking to DGS. Yeah, there is some out there,
5 Matt. It is unfortunate.

6 As I mentioned, I am a disabled veteran. I
7 get calls all the time from private business, folks
8 just want me to sit on the contract just so they can
9 get the point. And it's offensive. It's really
10 offensive to those people that are legitimate.

11 MEMBER BUTLER: I can comment about that.
12 What I think you're referring to, in law there is
13 what we refer to commercially useful function. So
14 for a small business or disabled veteran business,
15 enterprise, to get the preference to perform that
16 function. What we call it, CUF. The legislation
17 that established that part, those requirements, if
18 you go read through it carefully, you realize it
19 doesn't take much to meet the explicit demand of the
20 law. You essentially perform one of 15 literally
21 different functions of the contract and you meet the
22 CUF.

23 What you find out is that some of the
24 industries where we source goods, that the
25 marketplace really does allow for this kind of

1 participation to happen. You have, for example in
2 the food business, when we ask companies that are
3 bidding on food contracts, what percent of the total
4 contract do you participate in? They will sometimes
5 quote as little as 5 percent or even 3 percent of
6 the total contract. I think to a lay person you
7 look at that and say they are really just a
8 pass-through. It looks like a pass-through. If you
9 go back and ask the question: What are you actually
10 doing? I'll just quickly quote from an actual CUF
11 declaration from a business that is participating in
12 food sales to the State.

13 DGS determined that this company meets the CUF
14 because they perform the distinct elements of the
15 work. It could be order taking, delivery
16 scheduling, problem resolution, usage reporting,
17 managing, others performed by subcontractors,
18 warehousing and delivery. These activities meet the
19 requirements of CUF.

20 So while I understand to a layperson, you have
21 this discussion with your neighbor, what it looks
22 like is a pass-through. We are really required to
23 abide by the law, the way that it reads today. You
24 know, short of some change in that law, which we are
25 not opposing it, there is nothing we can do that

1 prevents that.

2 What we have done, because there are
3 pass-throughs, in all of our state-wide contracts we
4 audit. After we award the contracts we actually do
5 an outside audit sometimes within the first six
6 months and every year thereafter to make sure they
7 are performing the work. We don't want it to just
8 be a plaque on the wall in some attorney's office
9 where there is absolutely no activity taking place.
10 We do what we can.

11 We have found in certain categories there is a
12 lot of abuse a number of years ago. In the water
13 tender business there was a number of people that
14 were essentially renting trucks and getting water
15 tender contracts with Cal Fire and never showing up.
16 DGS did the research and it was widely reported in
17 newspapers and we disqualified a number of
18 companies.

19 In fact, every year we disqualify or reject
20 certification for about 10 percent of all small
21 business and DVBES. There is actually a large -
22 over 2,000 complaints a year lose the
23 certification.

24 CHAIR CATE: Thank you.

25 Anything else on this?

1 MR. PATTILLO: Public testimony.

2 CHAIR CATE: Information. That closes our
3 business after the public testimony?

4 MR. PATTILLO: Yes, sir.

5 CHAIR CATE: We call for public testimony
6 on any matter before the Board.

7 MS. KAMMERER: Good afternoon. You have a
8 speaker card for me. I was going to jump in here.
9 I was going to wait until I was called upon.

10 CHAIR CATE: I'm sorry, you are right. I'm
11 sorry, Ms. Kammerer. This is Lori Kammerer.

12 MS. KAMMERER: Thank you. Lori Kammerer.
13 I represent the Coalition of Small and Disabled
14 Veterans Businesses and Small Business California.
15 I'm also here today with the permission on behalf of
16 National Federation of Independent Businesses,
17 California Black Chamber of Commerce, Alliance of
18 Disabled Veterans Businesses and the California
19 Small Business Association. There are about six of
20 us who are very eager and anxious to work with the
21 PIA. And will make this very brief because I know,
22 I think, I am the last person of the day.

23 One of things that I want to just comment on
24 in terms of the contract. Over the course of the
25 last, probably, decade, and I could be off maybe

1 five or six years. But previously there were many
2 contracts that PIA had and products that you were
3 manufacturing or producing and selling to CDCR that
4 formerly were held by small businesses. And that
5 would include jelly, bulk peanut butter, maple
6 syrup, coffee, almonds, milk and cookies.

7 I want to basically say that as far as what
8 small businesses used to have, PIA has them now. We
9 are very eager to work with Secretary Cate and
10 Caballero and Congressman Costa in developing a way
11 that small businesses -- that we can open up
12 contracting opportunities for small businesses.
13 When we talk about numbers and how many ex-offenders
14 and how many employees we have, a lot of our members
15 -- basically, we are looking forward to working
16 with PIA.

17 One of the examples I wanted to give kind of
18 just very briefly that has happened in the last
19 couple of months. I would direct this perhaps to
20 Mr. Butler. There is a bulk peanut butter contract
21 that was -- there were two bidders, both certified
22 small businesses that had -- the lowest responsible
23 bidder had sent in the bid. They were most likely
24 going to win that bid. There was a technical, I
25 guess, problem with the source code or something,

1 technical issue that was addressed. The bidder was
2 notified at day 45 that they would not get that
3 contract. The contract was canceled and that the
4 bulk peanut butter would be going to PIA.

5 MEMBER BUTLER: Clarify. The department
6 received no responsive bids. So we were unable to
7 award that contract. The contractors that bid did
8 not meet the requirements of the bid; and in one
9 case they actually bid the wrong product. The
10 specification was for, I believe, creamy peanut
11 butter and they bid crunchy. Trivial as that may
12 sound, state law you have to bid what we ask for.

13 MS. KAMMERER: I completely understand and
14 will double check the information. But we were also
15 told that the information -- that the product for
16 product, that it was at best a source code. So if
17 you have different information, obviously we will go
18 back to the member.

19 We do look forward to working with PIA,
20 Corrections and DGS and to try to see how we can
21 expand contracting opportunities for small business.
22 We do want to hire the ex-inmate. We do want to be
23 able to -- we represent a lot of the small
24 businesses in the Central Valley. And that's really
25 been the hub for a lot of the small businesses, and

1 it is in the most depressed areas.

2 If you have any questions, I'd be happy to
3 answer them. Thank you very much.

4 MR. PATTILLO: Mr. Chair, I actually have
5 one other item, Eric Reslock is here with a quick
6 leg update and then I want to introduce the
7 employees.

8 MR. RESLOCK: Good afternoon, Members. I
9 will be very brief. First leg update. Senator
10 DeSaulnier has a bill that the Board opposed last
11 spring. It was set for public safety on January
12 10th. Senator La Malfa has amended the bill and is
13 taking PIA out of it. And he pulled it from the
14 committee. So that bill has totally no effect on
15 PIA.

16 Senator DeSaulnier has agreed verbally to
17 carry the CTE incentive appropriation bill.

18 In a few weeks we will be doing our first
19 round of school supplies with the K to college
20 organizations. This will be our first chance to
21 actually charge them because we now have the
22 statutory ability to do so. Channel 2, San
23 Francisco, is very interested in that event. We
24 should get some positive press.

25 Finally, there will be a graduation at CIW on

1 January 27th at 10:00 a.m., and kind of special
2 graduation because it is a twofer. We have the CIW
3 CTE graduating inmates and we also have a large
4 group of inmates from the fabric enterprise that
5 will be receiving the International Standards
6 Organization certification for being internal
7 auditors. They are the first inmates in the nation
8 to achieve that certification. That is pretty good
9 news hook. I will be working on getting some media
10 there for that event. Undersecretary Terri McDonald
11 will be the speaker as well.

12 That is all I have. Thank you.

13 MEMBER MASTELLAR: Thank you, Eric.

14 MR. WALKER: Fellows come on up. Thanks
15 for waiting. Just real quickly I just wanted to do
16 the last recognition of staff. They certainly are
17 the backbone of PIA.

18 We were contacted, I don't know, last May by
19 the Department, Department of Juvenile Justice, to
20 help them install some modular programs based down
21 in Ventura. It was actually last May. And we
22 agreed to do that, and the time frame to do that was
23 about 12 months.

24 Later in the summer, after a court hearing, we
25 got a call from then Undersecretary Scott Kernan who

1 said, "Hey, Guys, the time frame just changed.
2 Instead of being done at the end of May, we now need
3 it done at the end of December."

4 We said, "Okay." We took a deep breath and we
5 looked around. I talked to the General Manager. He
6 gave me explicit instructions because there was a
7 contempt hearing to keep Secretary Cate out of jail.

8 CHAIR CATE: Appreciate that.

9 MR. WALKER: We got these fellows that you
10 see here to my right. All we do is facilitate it.
11 These guys are the ones that do the absolute hardest
12 work in the world. They were down there and
13 on-site. They completed the project and the site
14 construction in 11 weeks. Took them 11 weeks from
15 start to finish.

16 I have Bill Smith, chief of our --

17 MR. PATTILLO: The tribe.

18 MR. WALKER: Nine modular buildings, 8,640
19 square feet at four different sites at the Ventura
20 location, 1,400 linear feet of voice and data, and
21 about 7,250 square feet of sidewalks.

22 MR. PATTILLO: Not only did we move this
23 thing twice; we went out and found them for DGS.
24 Bought them, picked them up and moved them to a
25 second location, renovated them and picked them up

1 and dropped them in the new location in 11 weeks.

2 MR. WALKER: Eleven weeks. And right in
3 the middle of that there were these huge wind storms
4 we had down there that made it interesting in
5 bringing some of the units in.

6 This is Phil Smith, chief of ISB.

7 Rudy Reyes who was on-site, at the project.
8 Without Rudy's guidance and direction on a daily
9 basis and navigating through a myriad of problems
10 and issues down there, this would have never
11 happened.

12 So thank you, Rudy.

13 Jim Baumbach, who is our chief electrician who
14 was down there, worked with the state fire marshal,
15 which was, again, a process that is out of our
16 hands. And Jim did a great job of navigating us
17 there.

18 John Maloney is kind of our building guy. He
19 took care of the building himself. He gets them all
20 up to speed.

21 With that I would like to present you guys
22 with this plaque. It basically says, real briefly:
23 In recognition of the staff that contributed to the
24 successful completion of the California Department
25 of Corrections and Rehabilitation, Division of

1 Juvenile Justice project in Ventura, California. A
2 job well done.

3 Thank you, fellows.

4 MR. PATTILLO: Another example of why the
5 Department relies on us really heavily for our
6 construction service. We get it done on time and on
7 budget every single time. The best part of this is
8 these folks never come back to prison, including
9 these guys.

10 I just had the attorney tell me about the fine
11 print. Let members know they will receive in the
12 Statement of Economic Interest, Form 700, the first
13 part of February, and it will be due at the end of
14 March. Everybody is familiar with that. We do it
15 every year.

16 With that, I am asking the Chair to stick his
17 head in the door so we can get a motion.

18 Ms. Woodford, can you assume the role of
19 Chair?

20 MEMBER WOODFORD: Can we have a motion to
21 adjourn?

22 MEMBER TRUJILLO: I have one comment to
23 make before we adjourn. I would like to publicly
24 thank the Administrative Assistant, Phyllis Guare,
25 for her thoughtfulness in making us comfortable here

1 at these Board meetings and for keeping me aware of
2 what is going on while traveling.

3 Thank you very much, Phyllis.

4 UNIDENTIFIED AUDIENCE MEMBER: Here, here.

5 MEMBER BUTLER: I move.

6 MEMBER TRUJILLO: Second.

7 MEMBER WOODFORD: Meeting is adjourned.

8 (Hearing concluded at 1:45 p.m.)

9 ---oOo---

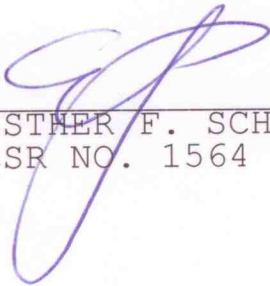
REPORTER'S CERTIFICATE

STATE OF CALIFORNIA)
COUNTY OF SACRAMENTO) ss.

I, ESTHER F. SCHWARTZ, certify that I was the official Court Reporter for the proceedings named herein, and that as such reporter, I reported in verbatim shorthand writing those proceedings;

That I thereafter caused my shorthand writing to be reduced to printed format, and the pages numbered 4 through 169 herein constitute a complete, true and correct record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 30th day of January, 2012.



ESTHER F. SCHWARTZ
CSR NO. 1564