

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION

PRISON INDUSTRY BOARD

PUBLIC MEETING

TUESDAY, DECEMBER 18, 2012

THE BOARD OF PAROLE HEARINGS

1515 K STREET

SACRAMENTO, CALIFORNIA

REPORTED BY:

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**ATTENDEES**

**BOARD MEMBERS:**

MARTIN HOSHINO, CHAIR

JIM BUTLER

BRUCE SAITO

DARSHAN SINGH

MICHELE STEEB

RAY TRUJILLO

JEANNE WOODFORD

**STAFF:**

CHARLES L. PATTILLO, EXECUTIVE OFFICER

SCOTT WALKER

GARY ALARID

ERIC RESLOCK

PHYLLIS GUARE

LEE DOREY

DEVIN FONG

NATALIE McCORKLE

**COUNSEL:**

JEFF SLY

**GUEST SPEAKER:**

SCOTT HAMMON

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Sacramento, California

TUESDAY, DECEMBER 18, 2012, 10:10 A.M.

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CHAIR HOSHINO: I call this meeting to order at approximately 10:10 a.m., Pacific Standard Time.

Good morning. I would like to welcome you all to the Prison Industry Board, staff and others. Specifically the Board Members, as always, thank you for you dedication and time and commitment to this public effort.

At this time I will begin by asking the Board secretary to call the roll.

MS. GUARE: Good morning, everybody.

Chair Hoshino.

CHAIR HOSHINO: Here.

MS. GUARE: Delegate for DGS is --

MEMBER BUTLER: Jim Butler for Chief Deputy Director Almanza.

MS. GUARE: Thank you.

Member Chapjian is absent.

Member Davidson is absent.

Member Kelly is absent.

Member Masteller is absent.

Member Saito.

1 MEMBER SAITO: Present.

2 MS. GUARE: Member Singh.

3 MEMBER SINGH: Here.

4 MS. GUARE: Member Steeb.

5 MEMBER STEEB: Here.

6 MS. GUARE: Member Trujillo.

7 MEMBER TRUJILLO: Good morning. I'm  
8 here.

9 MS. GUARE: And Member Woodford.

10 MEMBER WOODFORD: Good morning. I'm here,  
11 also.

12 MS. GUARE: Thank you. We have a quorum.

13 CHAIR HOSHINO: Thank you, Madame  
14 Secretary.

15 Let the record reflect we have a quorum. I  
16 would like to start by opening with two general  
17 comments. Namely, about the strategic planning  
18 session that we are planning to have in January, I  
19 think, the 23rd of next year. I think it is going  
20 to be a good opportunity for us to have a broad  
21 conversation about PIA, our role in the California  
22 correctional system and the communities of  
23 California and things that we can do. I think it is  
24 a chance also for folks to get together and to  
25 integrate together, and, let's face it, some old



1 fashion team building opportunities in a typical --  
2 in a different kind of setting that we traditionally  
3 operate in.

4 My impression, we talked about this a little  
5 bit at the last Board meeting, how there is so much  
6 change going on in the Department right now. And  
7 everybody's touched and affected by what is going on  
8 in what we call a post-realignment world. It  
9 actually started before realignment, and you really  
10 have a correctional system that at its peak was at  
11 172,000 inmates. A parole system that had 120,000  
12 parolees. You are looking at a parole system that's  
13 dropped about 42,000 of that population. Plans to  
14 drop more of that population in its brick and mortar  
15 prisons, as well as a parole population that has  
16 been cut in half. Literally to about 60,000 today,  
17 and could end up somewhere in the 30- to 40,000  
18 range.

19 Given all that change and a whole lot of -- I  
20 won't call it turmoil, but there's been a lot of  
21 things going on in the Department right down to a  
22 guard changing, a housing unit changing, a mission  
23 changing. At the same time we've embarked on an  
24 ambitious classification project in the Department.  
25 We've also embarked on some more progressive

1 techniques for dealing with security threat groups,  
2 also known as gangs, in the prison system. We've  
3 also gotten some more construction pieces that we're  
4 planning to do in terms of expansion. We've got a  
5 new prison hospital coming on line in June of next  
6 year, which will shift other elements of the  
7 population around and might bring with it more  
8 changes across the spectrum of the system.

9         So it seems appropriate that every program, A,  
10 be very informed about what is going on and, B,  
11 think about what the opportunities are there and how  
12 it will continue to add value to the good work that  
13 it's doing today in order to maintain that, but also  
14 to take a step back, to take a look at different  
15 things or other things we should be doing along the  
16 way and getting organized for that.

17         I would like to commend the Board staff for, I  
18 think, doing an amazing job, like many of the other  
19 programs that have been out there, to try and stay  
20 in step and in tune with what is going on in terms  
21 of the dimension of the change, the level of the  
22 change. Right down to high levels, but down to the  
23 organic level in keeping things working.

24         It hasn't been easy, I would say, on any  
25 executive or any manager with the Department to

1 whittle their way through all of this. And by no  
2 means is it really owed to some extent. But the  
3 good news, I think things are settling in. So  
4 really an appropriate time in January for us to at  
5 least have a first discussion and conversation.

6 And I think it was Member Steeb that let us  
7 know, or at least reminded me, that there had been  
8 some discussion about this in prior Board meetings.  
9 And I'm happy to say -- I'm happy to see that we're  
10 going to be doing something like this in January.  
11 Whether we get it all done then, I don't know, but I  
12 know that Mr. Pattillo has been organizing that  
13 effort for us. So looking forward to that.

14 At this time, then, I invite any other Board  
15 Members to make any comments for the record, if they  
16 wish.

17 Seeing none, we will move to the General  
18 Manager's comments.

19 MR. PATTILLO: For the record, my name is  
20 Charles Pattillo. I am the General Manager of  
21 CALPIA, California Prison Industry Authority,  
22 Executive Officer of this Prison Industry Board.

23 Today we have four action items and two  
24 information items on the agenda. One of the items  
25 is revising the annual plan, which includes an



1 operating budget that reduces our current year  
2 revenues based on many of those things that  
3 Secretary Hoshino went through about implications  
4 from downsizing Corrections, as well as changes in  
5 various revenue sources.

6 And we are still working on actions to reduce  
7 the deficit that we say is going to be \$3.7 million  
8 in the current year. One of the fortunate things  
9 for us is that we had such a substantial ability to  
10 garner cash over the last couple of years. And  
11 we've been able to do things like run an operating  
12 deficit at this time, but it can only go for so  
13 long.

14 One of challenges we have right now of our  
15 cash balances is most of our cash is segregated for  
16 OPEB, which is other post-employment benefits, as  
17 we've discussed numerous times. And currently there  
18 is a pending proposal to transfer about \$25,000,000  
19 of that from PIA to the general fund, and that is  
20 not a loan we're talking about. So there is a lot  
21 of moving parts that are going on right now.

22 You know, there is also significant increase in  
23 overhead payments that we are seeing across the  
24 board. I know we have a couple department level  
25 directors here that can relate to the pro rata in

1 their own department, as well as pro rata going up  
2 significantly. Over the past year, our OPEB went  
3 from about \$3.7 million to \$4.8 million in one year.  
4 That's the overhead that we pay to other state  
5 agencies, the Legislature, the Treasurer.

6 The biggest changes that we see in revenue are  
7 from the actions the Board took last month to  
8 diminish the modular building program, as well as  
9 the construction program, offset by some increases  
10 in pricing which we were catching up on where our  
11 margins had decreased.

12 The budget does have -- does include the  
13 proposed layoffs that were included in the  
14 diminishment of those facilities last month.  
15 However, given some civil service restraints,  
16 constraints, we probably won't do any actual layoffs  
17 until, probably, May at this point, given it's about  
18 a four-month to five-month process with the  
19 department of Cal HR, which is a combination of DPA  
20 and SPB.

21 The operating loss is exacerbated by fully  
22 funding the CTE programs that we have been  
23 operating. The Board put over from last time for  
24 discussion the staff's proposal that we de-fund  
25 those programs, based on the fact that they are not



1 statutory expenditure. And we had been funding it,  
2 but we are trying to work out some kind of agreement  
3 with CDCR for future funding. The Secretary has  
4 been working on this.

5 In addition, I sent you the other day a copy  
6 of the proposed legislation to fund that program  
7 that was passed by this Board several years ago that  
8 didn't go forward. And I think it needs to be  
9 addressed again with the Governor's office as well  
10 as the Legislature.

11 We are continuing to work on day-to-day cost  
12 control. One of the things, our administrative  
13 costs have gone down from last year, but they  
14 increased from what we thought it was at midyear.  
15 The retirement contributions are also becoming a  
16 significant issue. A lot of the stuff changes after  
17 we do our annual budget. Because we pass our budget  
18 every year before the 30th and that is not always  
19 the way that the State runs. Certain things happen  
20 after the State budget closes, including an increase  
21 in retirement contributions on our end. That  
22 usually impacts us. This budget takes into  
23 consideration that.

24 I mentioned the \$25,000,000 that the Department  
25 of Finance believes that is uncommitted funds. That

1 is money that the Board has been setting aside to  
2 abide by federal law that says we must fund, future  
3 fund, our other than pension requirements. At the  
4 end of this year we estimate we'll have \$32,000,000  
5 in cash set aside for that funding per federal  
6 requirement. The Department of Finance believes  
7 that is excess cash and has proposed that we  
8 transfer over \$25,000,000 of that money.  
9 Fortunately, that transfer can't occur under the law  
10 without the Department of Finance and Secretary of  
11 Corrections jointly signing a letter that says that  
12 is excess cash.

13       As I'm sure the Secretary's ears are burning  
14 now because I've said it so many times, it can't  
15 happen. I would appreciate the support of not  
16 letting this happen. It would make us insolvent  
17 very quickly. On the flip side of that, the last  
18 couple of years we've been trying to figure out a  
19 way to invest that cash. There is legislation that  
20 was approved approximately two years ago, two years  
21 ago now, that allows many agencies to reinvest that  
22 cash. Unfortunately, they didn't allow for  
23 California State agencies. So we -- it's just kind  
24 of a glitch in the legislation. We found a way to  
25 fall under that legislation. We're hopeful to

1 invest that cash and not have it slip by the  
2 Department of Finance.

3 As a result of that action taken last month in  
4 general restructuring, we submitted a layoff plan to  
5 Cal HR. We have approximately 12 positions, is what  
6 we have it down to after attrition. We had to  
7 submit a layoff of 33 positions because as for every  
8 one position that you propose to lay off, the  
9 department, State department, requests that you  
10 submit three. We are between 33 and 36, is what it  
11 will be. Fortunately, a lot of those folks are  
12 moving to attrition. We have positions that were  
13 available to them to go to other places. Some have  
14 gone to CDCR. So we are hoping that, as this  
15 attrition goes out in the four months it takes, that  
16 it will be minimal in the end, and we will be able  
17 to do a soft restructuring from there.

18 Any questions at this point?

19 Mr. Singh.

20 MEMBER SINGH: The \$25,000,000, what are we  
21 going to do without, you know, all that money?

22 MR. PATTILLO: We would be insolvent,  
23 Mr. Singh, as you and I talked about the issue. And  
24 it's just a real easy answer. As you know, it can't  
25 happen. What we are going to do in the interim,



1 since there's no tentative, there's no actions out  
2 there on paper that says this. We just know. We  
3 had a discussion with Finance. I'll resubmit a  
4 letter tomorrow stating that what would happen and,  
5 if it does become an issue in a legislative action,  
6 that this Board will take it before the board and  
7 oppose the action. I don't think there is anybody  
8 on this Board who would support the transfer and  
9 that doesn't understand what the implications could  
10 be to the PIA for the transfer.

11 MEMBER SINGH: We can stop that?

12 MR. PATTILLO: Mr. Singh, you, like  
13 everybody else, has -- you have a constituency which  
14 is really your appointing authority. And so I think  
15 discussions, especially when you have documents from  
16 us saying what the impact will be, sharing that with  
17 the folks that appointed you, is the best way for  
18 this to happen. And we can help you with anything.

19 MEMBER SINGH: I'll ask you.

20 MR. PATTILLO: Any other questions on that  
21 part?

22 MEMBER TRUJILLO: I, also, Mr. Secretary.  
23 Also, I'm a little concerned with that, Chuck. Not  
24 only that, but at the last meeting you put a letter  
25 together and answered some questions that I had

1 regarding the funding of some projects. The modular  
2 project being one. I received your letter that you  
3 sent CDCR, I believe. And in the letter they stated  
4 that information you were looking for was not public  
5 records. So maybe I should give the rest of this to  
6 the counsel.

7 Are you aware what I am talking about?

8 MR. SLY: Vaguely.

9 MEMBER TRUJILLO: Okay. There was a letter  
10 sent to every Board Member. I requested the letter,  
11 and every Board Member got it, regarding projects  
12 that we put on ice. And General Manager Pattillo  
13 wrote a letter to CDCR, I believe. I don't have the  
14 letter in front of me.

15 MR. PATTILLO: For clarification. I don't  
16 think I walked in with it. Mr. Trujillo at a public  
17 hearing requested any evaluation that CDCR had done  
18 of the modular building program and any response to  
19 that. A copy of previous letters of evaluation and  
20 my response to that evaluation, which was a very  
21 harshly worded critique, was given to Mr. Trujillo  
22 with a copy to every Member of the Board. That's  
23 what Mr. Trujillo is speaking of.

24 MEMBER TRUJILLO: My question, Counsel, is  
25 that not public records?



1           MR. SLY: Let me start with saying that the  
2 public records are defined in California Public  
3 Records Act at Government Code Section 6253, which  
4 basically states that records of a public agency are  
5 public records, unless specifically excluded in a  
6 statute, which 6254 has 31 subdivisions or  
7 specifically carve out exceptions to public records  
8 that wouldn't be subject to disclosure. Some  
9 examples might be preliminary drafts of memos,  
10 pending litigation, personal medical information  
11 about employees, state employees, proprietary  
12 information, investigations and many other numerous,  
13 specifically enumerated, exclusions.

14           Without seeing the letter that you are  
15 referring to, at this moment I can't imagine that  
16 the type of information that you're asking for would  
17 fall under one of those definitions. I would have  
18 liked to see how they referenced that. But my  
19 position at this point would be that I fail to see  
20 how that specifically falls into one of those  
21 exclusions, unless the information was being  
22 categorized as some type of preliminary draft or not  
23 formally requested document.

24           Since I don't have the letter, I can't give  
25 you a definitive answer on that. I would say it is

1 very hard to get to those exceptions.

2 MEMBER TRUJILLO: I will email the letter  
3 and get back with you. It's hard for me to believe  
4 it is not a matter of public record. The request  
5 had been made from our General Manager.

6 MR. SLY: Based on what I recall the  
7 discussion back in the public hearing in the last  
8 board meeting, and, again, without seeing how they  
9 categorized that information, I would find it  
10 difficult to think that the information would  
11 qualify under one of the specifically enumerated  
12 exclusions, but I can't rule out the possibility  
13 that it does. I would like to see their  
14 explanation. But it's not impossible to get to the  
15 exclusions. There are specific -- I said there were  
16 31 of them. But the default position in the State  
17 of California is records of a public agency are  
18 public records.

19 MR. TRUJILLO: Thank you, Counsel. I'm a  
20 little worried, Mr. Pattillo, General Manager, what  
21 is going on now, that they want \$25,000,000 from the  
22 program that we are doing here.

23 MR. PATTILLO: I share your concern,  
24 Mr. Trujillo. This is one of those times where  
25 Board Members -- I end up doing a lot of the banging

1 on people's heads on behalf of the Board on a lot of  
2 things. I get myself in trouble a lot.

3 Yes, Ms. Woodford, I do.

4 This is one of the cases where each of you and  
5 your constituencies need to step up and help us out  
6 on this. You know, Secretary Hoshino knows what the  
7 implications are, but this is just another one of  
8 those things. This is actually a small thing. I  
9 think we can resolve it very easily. But it's just  
10 a combination of things that constantly happen with  
11 PIA, whether it's getting thrown under the bus with  
12 furloughs, which was an easy one that we should have  
13 been out of, versus \$25,000,000. This is about as  
14 easy as a furlough decision. It just shouldn't  
15 happen.

16 Ms. Woodford.

17 MEMBER WOODFORD: Did this have something  
18 to do with the fact that the State Parks has this  
19 fund sitting over in the corner, all that big mess?  
20 Is this tied to that, or just a misunderstanding of  
21 what this fund is about? That we're really  
22 complying with the law.

23 MR. PATTILLO: It absolutely has to do with  
24 what Parks is about, and that is the issue. Some of  
25 you may or may not be familiar. There was a lot of



1 cash that was in certain accounts that weren't  
2 exactly accounted for when people were crying poor  
3 mouth about their state programs. These things  
4 happen.

5 The Department of Finance is looking very  
6 closely at anybody with cash, any type of account.  
7 They're looking at it generally. I explained to  
8 them very succinctly that this cash is for a certain  
9 federal requirement, and it can't happen. So I  
10 don't think anybody is unclear on it, but it is tied  
11 to what you spoke of.

12 MEMBER WOODFORD: Is there -- did we -- is  
13 there a different kind of account we can set up that  
14 makes it very clear that it is retirement?

15 MR. PATTILLO: It is. And our auditor will  
16 speak to it in a second. It is set aside in our  
17 financial statements as a requirement under  
18 generally accepted or, excuse me, Government  
19 Accounting Standard Boards 45, that it is set aside  
20 for that purpose. It is on our financial  
21 statement.

22 MEMBER WOODFORD: Is there a different kind  
23 of account so it doesn't look like a slush fund?

24 MR. PATTILLO: What the proposal is right  
25 now is to transfer that money over to CALPERS in a

1 higher investment fund. Take it off our books. So  
2 it's sitting as invested, as an investment. So it  
3 can't be swept. You can't sweep money out of  
4 invested funds. So that's what we're looking at  
5 right now. I was a little behind. I should have  
6 known that this was going to happen. When we were  
7 at \$20,000,000, we should have done it instead of  
8 waiting till we are at \$32,000,000.

9 CHAIR HOSINO: To demystify this a little  
10 bit because Member Woodford is dialing in on this.  
11 I think the General Manager is doing a job that he  
12 should be doing, just putting it on the screen or  
13 radar, so to speak, for the Board Members. There  
14 isn't an action that is pending that we know of in  
15 the administration.

16 MR. PATTILLO: No.

17 CHAIR HOSHINO: It is arising out of --  
18 because I want to tamp this down a little bit for  
19 everybody. It is arising out of proper diligence  
20 out of the State government, which is driven by the  
21 Department of Finance to identify all of the funding  
22 sources that are out there, that are either off  
23 general fund or off book or special fund, or however  
24 you want to describe it. But they generally don't  
25 come into the orbit typically of the general fund,



1 which has been their primary focus for the last 15  
2 years or so.

3       The State Parks scandal or example, if you  
4 describe it that way, but that's the way the media  
5 described it, certainly made the issue pop. So what  
6 they're continuing to do is the proper financial  
7 diligence, I think, which can also have benefits for  
8 this program or any other program. If we truly know  
9 the amount of dollars that are available and  
10 decisions get made about how to allocate those  
11 throughout state government, including this  
12 particular program.

13       So the money in the fund that Mr. Pattillo  
14 just described was identified as one of those. So  
15 the discussion has been occurring between the Prison  
16 Industry Authority as well as finding out what that  
17 means. We know now, at least for this budget round,  
18 January 10 being the date, it is unlikely there is  
19 anything in there related to this \$25- or  
20 \$32,000,000. And the reason, of course, to get the  
21 attention is that the fund grew, as the General  
22 Manager described, to a large amount over time.

23       In response to that, I think they're doing the  
24 right, diligent thing. Is there a better way to  
25 categorize this or place it, for lack of a better

1 term, protect it so it is more defined and more  
2 linked to what its true purpose is, which is the  
3 OPEB funding and things related to that?

4 I presume there's going to be more  
5 conversation about this in the coming meetings,  
6 about this, as the General Manager and myself and  
7 the Department of Finance talk about what this is.  
8 But I would characterize this more as they're doing  
9 their diligence. They stumbled upon it, and the  
10 right action is taking place in conversations about  
11 what this is and what it is for and what it is  
12 about. So we can demonstrate that it is not what  
13 you saw over at State Parks.

14 I hope that is helpful.

15 MR. PATTILLO: The Secretary is correct.  
16 It is due diligence on their part to go through and  
17 look at every fund that may have extra cash. To do  
18 whatever potential if it transfers. What is going  
19 to happen, though, is after -- hopefully, we've done  
20 enough push back that it won't happen January 10th  
21 right now.

22 We do need to bring it to your attention  
23 because what's going to happen is after January  
24 10th, that look again is going to be done by the  
25 Legislature. They're going to look through and see

1 what all the funds are. Finance, Governor, why  
2 didn't you transfer those funds? When I was an  
3 analyst, that is exactly what I did. So this will  
4 come back around. But I think with the right set of  
5 facts, it defeats everything.

6 MEMBER BUTLER: May I ask a question,  
7 Mr. Chairman? Is this partly a discussion over the  
8 amount of the reserve? It seemed -- you seemed to  
9 indicate the amount -- they're not sweeping the  
10 entire fund, leaving a portion? Does that intimate  
11 that they have a disagreement with you about the  
12 level of reserve that is required?

13 MR. PATTILLO: They have a belief that I  
14 can deal with \$25,000,000 less. That's kind of how  
15 the initial discussion is.

16 MEMBER BUTLER: Is the answer then to that  
17 an accounting question? Is it reading of the GASB  
18 rules for this type of a fund? Who is the final  
19 authority, or is this just really at the end of the  
20 day a matter of opinion?

21 MR. PATTILLO: It's really just a matter of  
22 opinion. When the auditor comes up, we can talk  
23 about months of operating fund. We put it out that  
24 we would only have about two months of operating  
25 fund if they took the 25,000,000. That is really --



1 for us that is about, that is another two months is  
2 what it equates to. There is no set in stone for,  
3 especially, government budgets, what the operating  
4 budget is.

5 MEMBER BUTLER: I guess I misunderstood  
6 what the funds were. I thought they were related to  
7 future obligations for employee benefits or related  
8 to employee costs. Is that an accurate statement?

9 MR. PATTILLO: They are other  
10 post-employment benefits. Everything other than  
11 pensions. The way we keep it, we keep it in one  
12 fund.

13 MEMBER BUTLER: I guess something that  
14 would concern me is whether or not those funds were  
15 being intermingled inappropriately, being used for  
16 the investment of the operation. Again, I'm not an  
17 accountant. But when you're thinking about employee  
18 obligations, those are very important obligations.  
19 They need to be protected against risk of  
20 operational loss and things like that. So I don't  
21 know if that is part of the discussion, too. It  
22 would seem to me that the right thing to do would be  
23 to determine what the appropriate level of reserve  
24 to make for this specific purpose and then not  
25 intermingle that with the operating. Just as my

1 opinion.

2 MR. PATTILLO: Mr. Butler, that amount is  
3 identified each year by the controller's office, the  
4 exact dollar amount. That's what we're talking  
5 about setting aside, is exactly what the controller  
6 has identified.

7 MEMBER TRUJILLO: Mr. Pattillo, I do have a  
8 letter that was addressed to Mr. Chris Meyer from  
9 you. I think at this point I would encourage my  
10 colleagues on this Board. I think I'm going to send  
11 an email, write a letter, to the Inspector General  
12 and get my answer from him regarding this issue.

13 MR. PATTILLO: I would appreciate any  
14 response that you get.

15 MEMBER TRUJILLO: Absolutely.

16 MEMBER SINGH: I just want to know when is  
17 this going to happen? When are they going to take?

18 MR. PATTILLO: Mr. Singh, this was an  
19 initial proposal in building the budget. I think  
20 there's been enough push back between me and the  
21 Secretary, the Secretary and I, that it may not  
22 occur on January 10th. He seems very confident that  
23 it won't occur on January 10th, given that it  
24 requires his signature to happen. But as we stated,  
25 once other folks see the cash balances that we've



1 incurred - we put our financial statement out in  
2 February - it's going to -- the subject will be  
3 broached again with your constituencies, which is  
4 the Legislature. Then we will address it then  
5 again.

6 MEMBER SINGH: I would talk to Marc Leno.  
7 He is the chairman of budget committee, finance. We  
8 can go over together.

9 MR. PATTILLO: Thank you.

10 Any questions so far? I've taken up my two  
11 minutes.

12 Lastly, I want to apologize for a comment I  
13 made last time at the Board meeting. I think you  
14 guys know I am very protective and very proud of  
15 what PIA does. The CTE programs are one of the most  
16 important things we have done.

17 I made a comment regarding another program  
18 which was not -- it was with CDCR, regarding what  
19 their abilities are compared to our abilities. It  
20 is not right to denigrate another program,  
21 especially when I have the facts that show we do run  
22 a very good program. We do have the facts that  
23 support it. So I do apologize for that comment. It  
24 had to do with saying that another program built  
25 stuff out of popsicle sticks. So I apologize.

1           The Secretary did mention that this is -- he  
2 is still the acting Secretary. And one of the  
3 things that's going on right now is that there is a  
4 nationwide search for a Secretary. As you are  
5 members of a constituency, again, I would take it  
6 upon yourselves to educate, not only the Governor's  
7 office or your own constituencies, on what your  
8 expectations are of a Secretary and Chair of the  
9 Board. This is the opportunity to do this.

10           I think Mr. Hoshino has come in here as an  
11 interim, thrown into something, and has done a very  
12 good job. Luckily, we have a working relationship  
13 that goes back a lot of years. But, in general,  
14 this is your opportunity to say what the expectation  
15 of this Board is and what this Board should be doing  
16 and what the Secretary should be doing for the  
17 Board.

18           I would also encourage you to spend some time  
19 with Secretary Hoshino - he has none, but when he  
20 does - and you will find that he's been around this  
21 Department for a long time.

22           I think my expectations of a Secretary, and I  
23 want to be very clear, I've had conversations, to do  
24 the help that we need as the General Manger of PIA  
25 and represent me and this organization, in State

1 government. So I appreciate that in a secretary.

2 I look forward to the upcoming strategic  
3 planning session and the Board's willingness to  
4 provide extra focus on CALPIA. I will send you a  
5 copy of our strategic planning document so we have a  
6 working document. The person that we would be  
7 dealing with is Laura Mason Smith, who has a very  
8 long pedigree of doing these kinds of facilitations  
9 for a lot of state agencies. So I'm looking forward  
10 to it. I will send you her bio.

11 That is what I have.

12 CHAIR HOSINO: For general comments?

13 MR. PATTILLO: General comments, yes.

14 CHAIR HOSHINO: Would you like to move to  
15 the action items?

16 MR. PATTILLO: Mr. Secretary, if we can, I  
17 would like to take an item out of order. I would  
18 like the auditor to come up first to talk about the  
19 PIA audit, the wrap-up and where we're at. That  
20 will give us context for the rest of our discussion.  
21 The audit is an audit by the PIB. You contract for  
22 this individual. This is not a contracted auditor  
23 between PIA and the audit firm. If I could have  
24 Scott Hammon come up.

25 CHAIR HOSHINO: I want the record to



1 reflect that I have no card for general comments  
2 from members of the public. I do not see members of  
3 the public in attendance today. If that changes, I  
4 will state it on the record.

5 MR. HAMMON: Good morning, Members of the  
6 Board. Scott Hammon. Thank you for your time and  
7 thanks for letting us be here this morning.

8 I've been asked to keep our comments in the  
9 10- to 15-minute range. Hopefully, all of you have  
10 a copy of our presentation document, which should be  
11 distributed as part of your package.

12 We previously had a meeting last week with  
13 Members of the Audit Committee. We went through  
14 this in detail in approximately a one-hour  
15 conference call. I am going to touch on a couple  
16 high points. Also, I do want to leave time at the  
17 end of my comments for any questions you may have.  
18 I will forewarn you my comments are going to be very  
19 brief. If I did not cover something in sufficient  
20 detail or there is an additional question you have,  
21 based on your reading of this document, please don't  
22 hesitate to ask.

23 Having said that, I do want to highlight a  
24 couple things. For those of you that were on the  
25 Board last year, this format, this presentation, is

1 similar to that which we presented last year. So I  
2 think you'll find it pretty easy to work through.

3 I'm going to ask that you flip to Page 2 of  
4 the document. Apologize for my voice.

5 Status of our Audit. And I just want to  
6 highlight a couple of things here. One, first, we  
7 are substantially completed with the audit. The  
8 only thing pending at this point in time is  
9 finalization on some edits that we proposed to the  
10 organization relating to a portion of the financials  
11 called management's discussion and analysis. We  
12 expect to have that resolved in the very near  
13 future. At that point in time we will go ahead and  
14 issue the financial statements.

15 My voice chose a bad time to go out on me this  
16 morning.

17 To highlight, when we do the audit, it is in  
18 accordance with generally accepted auditing  
19 standards and also the government auditing  
20 standards.

21 To highlight and clarify, when we do an audit,  
22 we are really responsible for the opinion of the  
23 financial statements. The ultimate responsibility  
24 for the financial statement and numbers themselves  
25 stays with management. That is consistent with how

1 an audit is performed. When we do an audit, we are  
2 looking for what we call reasonable assurance that  
3 there aren't any misstatements. Because we use  
4 sampling and other techniques that involve less than  
5 testing 100 percent of all transactions, there is  
6 always the chance that there could be an error in  
7 the financials that we would not locate.

8 As mentioned, as part of the audit we did look  
9 at management's discussion and analysis. We don't  
10 issue an opinion on management's discussion and  
11 analysis. When we go through that part of the  
12 document, we're looking for either numbers or facts  
13 or comments that are inconsistent with the financial  
14 statements themselves, primarily. So that is our  
15 focus there. We do not issue a separate stand alone  
16 opinion.

17 Finally, I do want to thank everybody  
18 associated with PIA for their help and support  
19 during the audit process. We've got a good working  
20 relationship, and that continued this year.

21 Unless any questions on these comments, I'm  
22 going to next focus on the back of the document,  
23 towards the back, specifically Page 7. And this  
24 page is highlighted on Internal Control Over  
25 Financial Reporting(Continued). The page number is



1 in the lower left in small print. I apologize for  
2 the small font.

3       What I want to do here is to highlight what we  
4 might call here some of our findings and  
5 recommendations that came from the audit process.  
6 When we do an audit, we are focused on the accuracy  
7 of financial statements. We do look at internal  
8 controls in the context of determining the extent of  
9 our testing, the nature of that testing as opposed  
10 to issuing a separate report specifically on  
11 internal controls. It is inevitable that as part of  
12 that audit process, as we are doing our testing, we  
13 see things, areas, that we believe could be  
14 improved, processes, transactions that we think the  
15 organization should consider for change. And we  
16 highlight both the current year comments we have, as  
17 well as the status of some of the comments that we  
18 had last year, and have provided an update on  
19 those.

20       The current year comments are at the top of  
21 the page. First one under subheading Significant  
22 Deficiencies. When we look at recommendations, we  
23 break them into three buckets. The first listed  
24 here is what we call material weakness. We didn't  
25 have any that we thought were material weaknesses

1 this year. A material weakness would be a failure  
2 or potential failure that is so strong or so likely  
3 that the financial statements themselves could be  
4 materially misstated.

5 A significant deficiency is the next step  
6 down. It's something that wouldn't necessarily  
7 cause a material weakness, but is significant enough  
8 that we think the organization should take steps to  
9 address it.

10 The third category is called other matters for  
11 consideration. Are really suggestions for  
12 improvement. They may not have a direct impact on  
13 the financial numbers in a day-to-day sense.

14 Going back to look at the first item, which is  
15 timely reconciliations of subsidiary ledgers. One  
16 of the basic accounting controls is that the  
17 underlying records, the detailed records, whether it  
18 be listings or fixed assets, inventory records, bank  
19 statements, should be reconciled to what we call a  
20 trial balance or a general ledger on a periodic  
21 basis. Frequently it would be monthly.

22 When we went out to do the audit this year, we  
23 noted that, primarily due to some of the staff  
24 shortages they incurred, they're behind in this  
25 process. The problem with being behind in

1 reconciling information like this is, if they're  
2 either inadvertent errors or deliberate errors,  
3 perhaps as a result of a fraud, it can take longer  
4 to uncover those things as a result, particularly if  
5 it's fraud. There is a likelihood the amount would  
6 be larger because it goes undetected for a long  
7 period of time.

8         As we finished up the audit, we noted that  
9 they had basically caught up and basically addressed  
10 that issue. But that is something we have mentioned  
11 to the Audit Committee, that perhaps periodically  
12 the Board would want to check and just make sure  
13 they're on pace with these and have continued to  
14 stay up to speed.

15         The second item relates to identifying slow  
16 moving inventory items. As you know, towards the  
17 significant balance at the organization, critical to  
18 its function. And one of things that is done on a  
19 periodic basis is to identify whether there are any  
20 parts or finished goods that may not be selling at a  
21 sufficient pace to get consumed. Basically, if  
22 something is sitting on the shelf for an extended  
23 period of time, there is an issue whether that value  
24 is represented or should be carried over or written  
25 down.



1           So the organization goes through a process to  
2 potentially identify those items, based on how much  
3 has moved over a period of time. And then, if they  
4 have fallen into that threshold, they will then go  
5 through a more specific evaluation process and look  
6 at each of those identified numbers.

7           Our concern in the current year was that the  
8 threshold we thought was not broad enough. Our  
9 approach is we want to cast a reasonably wide net  
10 when you're doing this, and then you can go through  
11 and kick things out, based on your specific  
12 evaluation. The threshold that was used in this  
13 past year we felt was too low, and made suggestions  
14 for improvement. Our understanding is that those  
15 will be adopted.

16           The other matters for consideration: One had  
17 to do with State policy about the level in which  
18 they would capitalize expenditures as a fixed asset.  
19 Currently, the State has a threshold of \$5,000. So  
20 if it is below that amount, you do not capitalize.  
21 And that is an individual level. Meaning, if I buy,  
22 in PIA's case, 50 sewing machines that collectively  
23 exceed \$5,000, I'm not allowed to capitalize it  
24 unless each individual machine was over that \$5,000  
25 threshold.

1           PIA has asked for an exception for that policy  
2 because of how they operate. It is uncommon to buy  
3 these assets on an infrequent basis. So there might  
4 be significant amounts of money, like sewing  
5 machines, once every 10 to 20 years. Each  
6 individual item wouldn't come close to the  
7 threshold, but collectively it's a large amount of  
8 money. They're waiting for a response for the  
9 exception from the Department of Finance. I hope to  
10 expect it shortly. I'm hopeful it would be granted,  
11 but can't predict.

12           The next item is compensated absences. This  
13 is not uncommon in State agencies, but for this year  
14 there was a threshold in the amount of accrued  
15 vacation and PT that you're allowed to record, allow  
16 a person to carry into the next fiscal year. There  
17 is a relatively small amount, but, nonetheless, we  
18 are highlighting it. A lot of that had to do with  
19 the impact of the furloughs and staffing, where  
20 people weren't able to take vacations.

21           Our comment here is to keep an eye on it, and  
22 make sure it doesn't grow unchecked, and just touch  
23 base on it periodically and just make sure it stays  
24 at a reasonable level.

25           Prior year comments. I think these speak for

1 themselves, by and large. One item I do want to  
2 highlight is at the very bottom, financial analysis  
3 and reporting. Those who were here last year  
4 remember we spent a fair amount of time talking  
5 about this issue. Part of it had to do with,  
6 perhaps, hiring somebody within the organization  
7 that could act as a conduit for better financial  
8 analysis and dissemination of information in the  
9 organization. The phrase was used, whether you  
10 agree with it or not, getting someone to act as a  
11 CFO, chief financial officer, to serve in that role.  
12 And the organization, I know, has made an offer to  
13 somebody and is hopeful of closing the door and  
14 finding that person that can provide more in-depth  
15 financial analysis and take action to perhaps  
16 identify trends, sort of in the process to act more  
17 quickly with regards to losses or where revenue  
18 opportunities exist and act upon those.

19 Unless there are any specific questions on the  
20 document or what I presented, I'm finished with my  
21 comments. I would be happy to take any questions  
22 you may have or any other issue you may want me to  
23 discuss at this time.

24 [Inaudible question.]

25 As I said, we're waiting for feedback from



1 management. We're hoping to do it before the first  
2 of the year, but to a large degree have to defer to  
3 PIA, and we're waiting for those edits that were  
4 proposed to come back, and whether there is further  
5 discussion.

6 MEMBER BUTLER: Question. You are or are  
7 not offering an opinion on the sufficiency of OPEB,  
8 the obligation that the funds have been set aside?

9 MR. HAMMON: I will respond in two parts.  
10 One is the OPEB liability is recorded on the books  
11 and financial statements, in that context. We issue  
12 an opinion on the appropriateness of that amount.  
13 It is based on an actuarial study performed by a  
14 third party. The issue at this time that was talked  
15 about from my perspective is a broader and somewhat  
16 more complicated one. Because you have a situation  
17 where the accounting rules do not match with the  
18 organization's legal contractual obligations.

19 So as you currently sit here today, from my  
20 perspective as a layperson, there is a significant  
21 contractual and legal obligation which the  
22 organization has, which is not fully reflected on  
23 its financial statements because of how the  
24 accounting rules are drafted. Similar situation  
25 exists for pension liability.

1           The accounting rule makers have taken steps to  
2 address that pension liability, and some of you may  
3 be familiar with this issue. It's been written up a  
4 fair amount in the Wall Street Journal, The Bee and  
5 other publications. Starting June 30th, 2015,  
6 governmental organizations will be required to more  
7 accurately reflect the amount of their future  
8 pension obligations as opposed to kind of the  
9 pay-as-you-go approach that's currently being taken.

10           While there is currently no rule that has been  
11 issued for the OPEB obligation, in talking to all of  
12 our technical people and reading tea leaves, it is  
13 expected that rules would be issued in the near  
14 future. I don't have a date. That will take a  
15 similar stance and require organizations to  
16 similarly, like pensions, accrue the full amount of  
17 the OPEB obligation. Currently, it is more -- it's  
18 something called an ARC basis, which is an acronym  
19 to use, which is not the full liability you  
20 currently have.

21           Sorry for the long winded answer.

22           MEMBER BUTLER: Just to follow up. I know  
23 you can't predict the outcome of the rules, but did  
24 I hear you intimate that the current reserve may  
25 still be insufficient, even before this sweep, that

1 PIA may still have insufficient funds to meet future  
2 obligations?

3 MR. HAMMON: I would caution, from my  
4 perspective as an accountant, I would not use the  
5 phrase "reserve" necessarily. These are assets, the  
6 organization's. They are not legally restricted,  
7 per se, as I perceive from an accounting  
8 perspective. But from a pragmatic operational --

9 MEMBER BUTLER: Cash flow.

10 MR. HAMMON: Exactly. From my  
11 perspective, it is a prudent action to take, knowing  
12 that you have a legal, contractual obligation,  
13 regardless of whether current accounting rules  
14 reflect all of those things. As we know, accounting  
15 is a language. And like all languages, it may  
16 occasionally lack the words to properly reflect  
17 underlying reality. That is the case here.

18 Unfortunately, the rule makers haven't acted  
19 on the OPEB portion, but given what they've done on  
20 the pension side to fix the exact same issue, again,  
21 we expect they will take action on OPEB, as well.

22 MEMBER BUTLER: Thank you.

23 MR. HAMMON: Yes, Mr. Singh.

24 MEMBER SINGH: Mr. Chairman, I am a member  
25 of the Audit Committee, and it was explained to us



1 very, very properly, and it was satisfactory. So I  
2 move the motion, move this.

3 MEMBER BUTLER: Second.

4 MR. PATTILLO: Mr. Singh, we actually don't  
5 have to an action today because, unfortunately, due  
6 to our full operations, we haven't finalized it yet.  
7 There won't be an action necessary today. Your  
8 concurrence in the PIB Audit Committee was to, and  
9 you've done it, was to point out any discrepancy  
10 that you saw at the same time. So we won't have an  
11 action, just an issuance. That will probably come  
12 in January.

13 CHAIR HOSHINO: So, Mr. Pattillo, do you  
14 want to continue with the informational items?  
15 There is one more on the agenda.

16 MR. PATTILLO: Go back to the action items.  
17 Take care of that.

18 CHAIR HOSHINO: Mr. Hammon, thank you very  
19 much.

20 MR. HAMMON: Thank you for your time. Take  
21 care.

22 MR. PATTILLO: Mr. Chairman and Members, if  
23 I could take a second. We do have a member of the  
24 public here. Jennifer Shaffer is my counterpart.  
25 She is the Executive Director of the Board of Parole

1 Hearings. And it was a position Mr. Hoshino held,  
2 too. And she is here just to observe. This is her  
3 room, and I appreciate her letting us use it.

4 MS. SHAFFER: Good morning.

5 CHAIR HOSHINO: Good morning. Hello,  
6 Executive Officer Shaffer. Thank you for joining  
7 us.

8 MR. PATTILLO: Mr. Chair, Members, if we  
9 can go back to the action items. We are starting  
10 with the very first one, which is adoption of the  
11 midyear revised, FY 2012-2013. And in your -- there  
12 should be a sleeve that's got a picture of a whole  
13 lot of copy being on the front of it. And that is  
14 the actual plan.

15 We are submitting a midyear plan to reflect  
16 adjustments that occurred after we closed the annual  
17 plan. We kind of hit on the high points of that,  
18 whether it was an increase in retirement  
19 contributions or an increase in OPEB. Coupled by  
20 decreases in revenues in the areas that diminished  
21 last month in construction and modular building.  
22 Some of that is offset by some pricing increase that  
23 we've done over the last six months. If I can run  
24 through it real quick, I can tell you what the  
25 highlights of this are.

1           We are proposing that our revenues will  
2 decrease \$7.7 million, about 4.4 percent, to  
3 \$172,000,000. That was just audited, \$165,000,000.  
4 And as a change, a decrease from the annual plan  
5 that we passed, what our proposal was, of \$2.2  
6 million.

7           Manufacturing overall a decrease of about \$.3  
8 million. And it's offset by -- we have a bunch of  
9 increases and lowering. Run through them really  
10 quick.

11           Metal products: About \$3.5 million increase  
12 because of huge orders from Cal Trans for truck  
13 bodies that we're building out at Solano, which is a  
14 great trade in welding, which has a very low  
15 recidivism rate.

16           Fabric products: Decreasing about 1.5 million  
17 because of a reduction in CDCR orders because of a  
18 realignment issue.

19           Modular construction: A million and a half  
20 decrease, a 100 percent decrease because of the  
21 diminishment of that program.

22           And shoes: We're seeing about a \$600,000  
23 decrease because of CPP reduction of inmates.

24           The other thing that we're seeing happen is a  
25 lot of our products are having a longer life cycle



1 and that's kind of catching up from -- the longer  
2 they wear, the less they're going to buy. We've got  
3 some pretty high quality fabric products out there  
4 that are lasting a long time. We're trying to get  
5 more into the local markets, but local markets seem  
6 still to be in the mindset of 90-day clothes and  
7 things like that. With realignment, they're going  
8 to realize that they need a lot longer product. So  
9 we are having success with a couple large agencies,  
10 Los Angeles County Sheriff's Department and the San  
11 Diego County Sheriff's Department, which are very  
12 large organizations.

13 In services we have a decrease of \$2.4  
14 million. In printing, a million-seven. That's  
15 mostly because CDCR forms and records that we're  
16 digitizing for folks.

17 Food and beverage packages: A decrease of  
18 about \$.9 million. That is mostly because of  
19 pricing in everybody's favorite topic, peanut  
20 butter. So peanut butter will never go away.

21 Last year what happened, we lost a little bit  
22 of money on our food packaging, specifically in  
23 peanut butter because of the peanut shortage in the  
24 United States. We became the only game in town  
25 because most private vendors got out of it. All the

1 state agencies had to turn to us because we were the  
2 only ones who could go out and get it because of  
3 volume and because of the high price increase.

4 In ag we're seeing an increase of half million  
5 in dairy, about \$700,000 increase. Most of that is  
6 marketing, market price. However, there could be a  
7 significant increase in pricing in the public sector  
8 in milk if things don't go as well. I think we've  
9 all heard enough in the fiscal cliff. There is also  
10 a dairy clip out their right now that December 31st  
11 there is some very large subsidies that go out to  
12 dairy farmers in the United States; that if they  
13 don't go through, the price of milk in the public  
14 will go through the roof. So there are very few  
15 dairies in the state as it is.

16 Crops: About a \$200,000 decrease. This is  
17 mostly a decrease in our almond sales, but those  
18 almond sales have been picked up because we're  
19 packing somewhere else.

20 Cost of goods sold: The \$13,000,000 estimate  
21 increase from unaudited actuals of cost of goods  
22 sold to \$127,000,000 is actually a reflection of  
23 lower revenues. And then changing the annual plan  
24 is about \$8 to \$9,000,000. And the change is  
25 primarily in manufacturing, about \$.2 million change

1 in the cost of goods. Services, about \$.7 million.  
2 And agriculture will have a decrease of \$.03  
3 million, very small decrease.

4 Raw material pricing: Overall about \$1.7  
5 million increase in raw materials, based on  
6 unaudited actuals.

7 Civil Service costs: Overall the actual cost  
8 is about \$1.1 million decrease in our field  
9 operations. So we're trying to right-size our field  
10 as it is. Take into consideration that we've lost  
11 42,000 paying customers, that on an average our  
12 daily rate for inmates is about \$1.52. So if you  
13 multiply that by 42,000, you can see we're losing  
14 about \$60,000 a day in reduced revenues as part of  
15 the realignment. We are picking it up in areas  
16 where we're increasing our sales. Doing different  
17 volumes of products.

18 The gross profit increase from the unaudited  
19 actuals is \$5.4 million. That primarily is from  
20 pricing increases, where we were deficient in our  
21 pricing. Raw materials got ahead of us. We were  
22 doing a lot more 12-month forward contracting.  
23 We'll see a lot less forward contracting and a lot  
24 more quarterly and monthly pricing adjustments now.

25 Selling and administration: About \$.3 million



1 decrease from the unaudited actual of \$41.2 million,  
2 which is some decrease in distribution. Offset by  
3 some increase in distribution to bring ourselves in  
4 line with California Air Resources Board  
5 requirements on the trucking. And just the cost of  
6 diesel has not gone down as much as gasoline has.

7       Central office: Decrease about half a million  
8 from the unaudited actuals. We basically have a  
9 hiring freeze on. We have had one for a while. We  
10 won't go above 542 positions. We think some of that  
11 will be reduced, about 12 positions, by the end of  
12 the year.

13       State mandated costs: One of the big  
14 adjustments we did was about \$700,000 increase of  
15 OPEB already unaudited actuals, what we had in the  
16 annual plan at the end of the year. That's because  
17 the State Controller doesn't issue that number till  
18 about a month after our budget closes. So they have  
19 increased our part of OPEB by \$700,000.

20       Our pro rata allocation, which we talked about,  
21 has gone from \$3.7 to \$4.8 million. It's another  
22 issue that's increasing.

23       Overall operating income is going to be \$3.8  
24 million, and that is a decrease from where we were  
25 at about \$700,000, we thought in the annual plan.

1 Most of that's been taken into consideration for  
2 having these decreases in revenues, which I  
3 identified. Plus we have fully funded the CTE  
4 programs, as I mentioned. Right now we are hoping  
5 to work something out with CDCR on reimbursement  
6 funding. We are going to pursue the legislation  
7 that we have that was approved by this Board. I  
8 think that we have to have a discussion about that.  
9 In the interim I can't see shutting down a program  
10 when we do actually have the cash to operate this,  
11 even though we'll be running into a deficit in the  
12 current year.

13       So for the time being, so we can get our ship  
14 right through the next months and get everything  
15 rectified, including accomplishing layoffs,  
16 right-sizing our organization and increasing  
17 revenues, which we've actually been doing in certain  
18 areas. The big revenue loss that you see, the  
19 change, is mostly modular, MSF, modular systems  
20 furniture, which, as Mr. Butler can tell you, is a  
21 declining business in the state, although we're  
22 trying to grab as much of the business as we can  
23 with a declining product.

24       Any questions at this time in?

25       MEMBER BUTLER: I would just congratulate

1 the management for doing such a good job in the  
2 really difficult circumstances that you're in. As I  
3 look at the profitability of your business line is  
4 nearly all of them are profitable at the op inc  
5 level, which says you've got good core businesses.  
6 I understand the actions you're taking in modular  
7 furniture, which hasn't been profitable and support  
8 those.

9 I did -- had a -- it's really more of just a --  
10 I think there's maybe a typographical error in the  
11 exhibits. I just want to clarify, If I could.  
12 Under Exhibit B1 -- don't let me get ahead of you if  
13 this for a different issue.

14 MR. PATTILLO: It's the next item.

15 MEMBER BUTLER: I will wait to talk about  
16 those things.

17 CHAIR HOSHINO: So, not seeing anybody from  
18 the public who wants to comment on this, the  
19 recommendation is, and we're seeking a motion to  
20 approve this action item for approval. Fiscal Year?

21 MR. PATTILLO: Yes, Mr. Chair.

22 CHAIR HOSHINO: Midyear revised.

23 Is there a motion?

24 MEMBER TRUJILLO: So moved.

25 MEMBER SAITO: I second.



1 CHAIR HOSHINO: Are we doing ayes now or by  
2 role?

3 MS. GUARE: By aye.

4 CHAIR HOSHINO: Those in support, say aye.  
5 Those opposed.  
6 Motion carries.

7 Item B, Mr. Pattillo.

8 MR. PATTILLO: Item B, which I think has a  
9 typographical error, is the designation of cash.  
10 The purpose of this item is something we started  
11 several years ago, is identifying the amount of cash  
12 in our cash balances that we'll be setting aside to  
13 do our operations during the year. The purpose is  
14 to update PIB on the designation of cash, based on  
15 our midyear revised.

16 Our proposed cash position for FY is projected  
17 to decrease the ending year to \$68.2 million, which  
18 is reflected in the document. What I'm working from  
19 is Exhibit B1. And of that cash at the end of the  
20 year, we're obligated, between OPEB and short-term  
21 liabilities, mostly payables, is a total of \$54.4  
22 million is obligated, OPEB is about \$39.3 million.  
23 Worker's Comp is 1.9 million. Since we self-fund  
24 our workers' comp, we set that money aside every  
25 year. We get an actuarial report on what we need to

1 set aside for that year from SCIF.

2 Accounts payable is about \$7.9 million. And  
3 all over, \$5.3 million. And then we have various  
4 cash flow issues.

5 Our capital schedule is \$13.4 million which is  
6 a \$100,000 increase. We did various adjustments  
7 throughout the capital schedule for this year.  
8 However, we did increase \$200,000. And the reason  
9 for that \$200,000 increase, this Board has  
10 previously appropriated approximately \$3,000,000 for  
11 us to build prototypes for marketing purposes for  
12 the modular program. We built three. One is the  
13 telemedicine facility which we installed at Pelican  
14 Bay. The second one is the Office of Correctional  
15 Safety and Emergency Operations Center, which we are  
16 building into another training center for emergency  
17 responders up at Camp 12. We hope to market that  
18 building. It has been installed.

19 We're opening it when?

20 MR. WALKER: Should be the end of  
21 January.

22 MR. PATTILLO: About January we will start  
23 having folks use it for classes up there. Our hope  
24 is somebody goes in there and says, "I'd like to  
25 have one of these in my backyard." Is what we're

1 looking at.

2       The third one was a modular light, which is a  
3 very light type modular. It is not a heavy duty.  
4 As former Secretary Tilton said, modular on steroid,  
5 but a lighter duty one. And we need about \$200,000  
6 to finish that project out. That is going to be a  
7 replication of our business services building which  
8 is about near to be condemned. We are installing it  
9 in the back of our parking lot right now.

10       That is the major changes in the capital.  
11 We're hoping when folks see that building, it will  
12 revive our modular building program. This is the  
13 only way we can do it. As you may recall, you had  
14 appropriated about four years ago about \$600,000 for  
15 one building, that we ended up turning around and  
16 selling \$42,000,000 worth of those buildings?

17       CHAIR HOSHINO: Questions? Comments,  
18 Members?

19       MEMBER BUTLER: So the number that stood  
20 out to me was your operating expense number for the  
21 proposed midyear revised of '12-13 at \$189,240.  
22 That same number shows up in Exhibit B2 at the last  
23 page as one \$169,240. I think there was just a  
24 transpositional error made from the six to the  
25 eight. If the eight were correct, I think the math



1 would mean that you lost 24,000,000 on the revised.  
2 Does that make sense?

3 MR. PATTILLO: What page?

4 MEMBER BUTLER: The first one is on B1, the  
5 operating expense number for FY '12-13 proposed  
6 midyear revise. My copy shows 189-; I don't know if  
7 that's what the others show.

8 MR. PATTILLO: You're right; there is an  
9 error.

10 THE COURT REPORTER: Could you identify  
11 yourself, please?

12 MR. ALARID: I'm Gary Alarid, Chief of  
13 Budget for California Prison Authority.

14 MEMBER BUTLER: If you have the last page  
15 of Exhibit B2, you see the same numbers where it's  
16 169-.

17 MR. ALARID: What I'm thinking is I would  
18 have to calculate real quick is for the purpose of  
19 the display on the midyear revise pamphlet, we  
20 actually pull out the pro rata.

21 MEMBER BUTLER: If that's the case, the  
22 math is wrong.

23 MR. PATTILLO: The math is wrong.

24 CHAIR HOSINO: Mr. Pattillo, can you  
25 correct the record here of what the report will

1 reflect so you can still move the item?

2 MR PATTILLO: The bottom line numbers will  
3 remain the same. Mr. Butler correctly pointed out  
4 the number on operating expenses, four columns over,  
5 should reflect \$169,240. And it was a typographical  
6 error, instead of \$189,240.

7 CHAIR HOSINO: Thank you.

8 Any more comments on this item, Members?

9 Is there a motion to approve the designation  
10 of cash to support Fiscal Year '12-13 subject to the  
11 adjustment in the record that Mr. Patillo referenced  
12 moments ago?

13 MEMBER SINGH: So moved.

14 CHAIR HOSHINO: Member Singh.

15 Do we have a second?

16 MEMBER STEEB: I will second.

17 CHAIR HOSHINO: Members in support, say aye.  
18 Opposed.

19 Motion carries.

20 Item C, Mr. Pattillo.

21 MR. PATTILLO: Thank you, Mr. Butler.

22 MEMBER BUTLER: I should have gotten to you  
23 before the meeting. My apologies for not reading  
24 this binder. You gave it to me.

25 CHAIR HOSHINO: No. This is a good example

1 of open public meetings and the work in records that  
2 we make as you spoke.

3 Thank you, Mr. Butter.

4 MEMBER BUTLER: Thank you.

5 MR. PATTILLO: C, Prison Industry Board  
6 report to the Legislature. A couple of years ago  
7 the Governor's Office gave us the option of invoking  
8 his own executive orders that says we didn't have to  
9 make a report to the Legislature, and we were given  
10 the option of saying yea or nay.

11 We didn't concur with that because we think  
12 this is one of the most important documents that we  
13 can put out on an annual basis. It includes what  
14 the plans of this Board are. What CALPIA's plans  
15 are and if the Board's blessed those plans and also  
16 the financial audit. It's a great tool for  
17 communication. We have it posted so anybody can  
18 read it. We didn't want to hide anything  
19 whatsoever.

20 We have a draft item in here, but given that we  
21 do have a meeting in January, this is not due until  
22 February 1st. We want to take the time to have more  
23 Board Members give us some input on it. It is a  
24 very basic item. We do it -- we don't have a lot of  
25 pictures in it. We just have text, and this is the



1 report of it.

2 But given that there are some things that  
3 still aren't finished right now, including the  
4 Governor's budget coming out, we thought it would be  
5 wise to wait until the Governor's budget is  
6 finalized, just in case 25,000,000 things pop up.  
7 So we can have that conversation with the  
8 Legislature. The document is there for your  
9 perusal. We are suggesting that we put it over to  
10 the next January meeting, have the strategic  
11 planning and have this one item. Serve as a road  
12 map for the strategic planning session.

13 CHAIR HOSHINO: Comments? Questions,  
14 Members?

15 So I think the recommendation is, this is not  
16 an action item for today's meeting. It is something  
17 we will defer until the next meeting. Correct?

18 MR. PATTILLO: Yes, sir.

19 CHAIR HOSINO: There is no opposition to  
20 that. Then let's move to Item D.

21 MR. PATTILLO: D, I am going to bring in  
22 the attorney.

23 CHAIR HOSINO: Because it is regulatory.

24 MR. SLY: Jeff Sly, General Counsel for  
25 Prison Industry Authority.

1       Item D is our next installment in our  
2 regulatory process. Comes to you in three parts.  
3 In the way of little background.

4       Department of Corrections has personnel  
5 regulations set forth in their Title XV, and they  
6 apply to all employees of the Department of  
7 Corrections. We have a lot of employees that work  
8 in institutions along with those folks. They asked  
9 us to promulgate some regulations that would be  
10 similar to, coincide, and have our employees be  
11 subject to the regulations that are already in place  
12 for CDCR employees.

13       So under Exhibit 1, those personnel regs  
14 essentially are established to be very similar to  
15 and hold some of the same requirements that the  
16 Title 15 for CDCR employees. These will apply to  
17 PIA employees. One of the important parts to this  
18 is there is a catch-all regulation there that says  
19 PIA employees, when you're working at the CDCR  
20 institution, the CDCR Title 15 rules apply to you.

21       First of all, just kind of in the way of  
22 preliminary comments as well. Because of the large  
23 number of regulations we put together here, the  
24 Office of Administrative Law says to break this up  
25 into three groups so they can look at them in

1 smaller packages. Easier for them to process.

2 Exhibit 2 is some more personnel regs, but  
3 these are additional personnel regs that go beyond  
4 a little bit what the first exhibits of personnel  
5 regs did. Here we've got our statement of  
6 incompatibility, which all state agencies have in  
7 their regulations. This one specifically applies to  
8 PIA employees and their outside employment, outside  
9 activities that they have. One of important parts  
10 of the second group is that we took these regs and  
11 made our personnel regs applicable to our  
12 contractors. So contractors who are working at or  
13 on Prison Industry Authority areas are now subject  
14 to the same -- will be subject to the same  
15 regulatory requirements as regular PIA employees.

16 We also added a reg in there that makes them  
17 responsible if they are on our behalf on institution  
18 property, that they are also subject to the CDCR  
19 regulations as well. So we are trying to make sure  
20 that everybody's following the same rules and  
21 subject to the same requirements as CDCR has for  
22 their employees.

23 And the third section, third exhibit, is the  
24 Prison Industry Authority Conflict of Interest Code.  
25 Since we are having -- since it was determined that



1 PIA has its own regulatory authority through the  
2 Board, the Office of Administrative Law and the Fair  
3 Political Practices Commission -- the Fair Political  
4 Practices Commission is statutorily charged with  
5 approving all conflict of interest codes for all  
6 state agencies. Prior to us creating our own and  
7 working with FPPC to do that, PIA was included in  
8 the Department of Corrections Conflict of Interest  
9 Code, and so was the Prison Industry Board.

10 In looking at how they included PIA and what  
11 positions they had and what disclosure categories  
12 they had, we decided we needed to expand on that a  
13 bit. In cooperation with CDCR, we are in the  
14 process of removing PIA and Prison Industry Board  
15 from their Conflict of Interest Code. We are now  
16 putting forth our own conflict of interest code  
17 which will take both Prison Industry Authority  
18 employees and the Prison Industry Board. The FPPC  
19 has already approved the code that's been presented  
20 to you today. The Office of Administrative Law  
21 defers to the FPPC approval.

22 Essentially, you approve this today, will go  
23 right into your 45-day public notice period for all  
24 three units here. Once that process is complete,  
25 we'll submit Exhibit 1 and 2 to the Office of

1 Administrative Law for their further review.  
2 We will take the third exhibit back to the Fair  
3 Political Practices Commission and make sure there  
4 is no changes we want to make, based upon the public  
5 comments. Once the FPPC approves it, it will go  
6 straight to the Secretary of State's Office through  
7 the Office of Administrative Law and be approved.

8 What we need from you today, what we are  
9 asking from you today, is to approve these regs as  
10 they are presented. Start the 45-day notice period,  
11 very shortly, and then we come back if there are any  
12 proposed changes we have. Otherwise, they will go  
13 through the regulatory process and look to be  
14 adopted sometime in April of next year.

15 CHAIR HOSINO: Comments? Questions from  
16 the Members of the Board?

17 I have one. I want to make sure I understand.  
18 So the first two items are regulations, it seems to  
19 me, to conform with the existing standards for all  
20 employees in the Department, extending them to PIA.

21 MR. SLY: Correct. Yes.

22 CHAIR HOSINO: The third one is  
23 enhancement or expansion of the list of folks that  
24 might be relevant to conflict of interest, to make  
25 designation here to PIA, given the nature of PIA

1 business?

2 MR. SLY: That is correct.

3 MEMBER TRUJILLO: Move adoption,  
4 Mr. Secretary.

5 CHAIR HOSHINO: So the motion is to adopt  
6 the regulations so that they will be submitted in  
7 advance and read, the extensive list. I will  
8 reference that this is a motion to approve the  
9 adoption of these regulations, which are cited as  
10 Item 5D in the public agenda.

11 Is there a second?

12 MEMBER STEEB: I second that.

13 CHAIR HOSHINO: Those in support, say aye.  
14 Opposed.

15 The motion carries.

16 CHAIR HOSINO: Thank you, Mr. Sly.

17 On to the balance of information items.

18 MR. PATTILLO: Our next item is a report of  
19 general education, GE requirements, and reporting on  
20 the number of GEDs that we have been issuing  
21 throughout the year. This is an item that was  
22 brought up a couple times now by Member Steeb. I  
23 think she understands what the importance of getting  
24 the GED are, given that she has a better track  
25 record than us with her own organization, getting



1 more GEDs than anybody I've ever seen in a nonprofit  
2 organization.

3 I want to put my hat out to her for asking for  
4 it and also for the accomplishment of what she's  
5 done with her organization, of getting women that  
6 are in need their GEDs.

7 Mr. Walker.

8 MR. WALKER: Good morning, Mr. Chairman and  
9 Board Members. I'm Scott Walker, the Assistant  
10 General Manager of Operations Division. I will be  
11 presenting the item on GED this morning.

12 This is our first reporting of this, as  
13 Mr. Pattillo mentioned. This will become part of  
14 the regular report on certifications, lost hours and  
15 now GED. It will be a standard report that we'll do  
16 every quarter for the Board going forward.

17 As you know and as you approved and concurred  
18 with, CALPIA requires inmates to possess high school  
19 diplomas - I'm Exhibit F1, is the document itself -  
20 or a general education diploma upon entering PIA or  
21 within two years of entering PIA if they don't have  
22 one. The PIB adopted a policy in April 2012  
23 requiring inmates without a high school diploma or  
24 GED to participate in GED programs and obtain the  
25 GED within two years to continue participation in

1 the program.

2 CALPIA maintains data on inmate compliance  
3 with that requirement now. So that would be  
4 reported to the Board, as I mentioned before, at  
5 every quarter. Exhibit 1 shows that we currently  
6 have 4,307 inmates currently assigned to CALPIA and  
7 3,238 or approximately 75 percent possess a high  
8 school or GED diploma. 252 inmates, 5 percent, are  
9 currently enrolled in the GED, which leaves us with  
10 20 percent of the inmates that are currently in our  
11 program that aren't enrolled in a program. Part of  
12 that is attributable to the fact Secretary Hoshino  
13 mentioned, the yard swap. We are going to some  
14 conversions out there. So we are kind of in a state  
15 of flux, getting inmates back into the program. We  
16 are working on that diligently.

17 Every institution that we're in, every  
18 program, has access to a GED. We operate some of  
19 them internally within PIA and some externally. We  
20 have very good cooperative relationship with the  
21 education department out there. So we are pushing  
22 this forward. They like it because it gives the  
23 inmate some incentive to get a GED, i.e., they can  
24 get a good paying job with a GED. Kind of works in  
25 everyone's best interest.

1       There's minimal cost for this program, but  
2 there is some cost. Basically for study guides and  
3 other supplies for inmates to complete the GED  
4 process.

5       Any questions I might answer on this?

6       CHAIR HOSHINO: Thank you, Mr. Walker.

7       Now turning to Item 7 of the public agenda,  
8 external affairs. Mr. Reslock.

9       MR. RESLOCK: Thank you, Mr. Chairman and  
10 members. I am very pleased to announce we have  
11 scheduled a graduation day, and it is going to be a  
12 double header. January 25th, starting at 10:00  
13 a.m., at the Leonard Greenstone Marine Technology  
14 Training Center and the California Institution for  
15 Men. And then at 2:00 p.m., at the California  
16 Institution for Women. And Under Secretary McDonald  
17 has very graciously accepted our invitation to be  
18 our guest speaker. She's a wonderful, very dynamic  
19 speaker, and I hope you can come.

20       As far as press release, we are still waiting  
21 what I hope to be a very, very good story on the CBS  
22 Los Angeles news station on our braille program at  
23 Folsom. The were produced for sweeps, but I think  
24 they're looking for more footage in the L.A. area.  
25 Just to make more of a local news item.



1           And I believe we should be expecting a story  
2 from California Watch. It's an Internet government  
3 focused news site, looking into the CTE program.

4           That's it.

5           MEMBER WOODFORD: What is the date of the  
6 graduation?

7           MR. RESLOCK: January 25th, 10:00 a.m. and  
8 2:00 p.m. We will get invitations out to everyone.

9           MR. PATTILLO: The second graduation is for  
10 carpentry, female carpentry graduation.

11          CHAIR HOSHINO: Thank you, Mr. Reslock.

12          Item 8, public comment. This portion of the  
13 meeting is reserved for comments not on the agenda.  
14 Under the Bagley-Keene Act, the Board cannot act on  
15 items raised during public comment, but may respond  
16 briefly to statements made or questions posed,  
17 request clarification or refer the item to staff.

18          Is there anyone who would like to make a  
19 comment or address the Board?

20          Ms. Shaffer, last call. Forgive me, for not  
21 including you as a member of the public. Just know  
22 you so well. Don't see you that way anymore.  
23 Probably vice versa.

24          Now we move to adjournment of the meeting. I  
25 want to close by thanking the Members of the Board,

1 as well as the staff. In the short time that I've  
2 been here, in the two meetings, I have found the  
3 Members here to be forceful and passionate advocates  
4 of things that they believe in and that the Members  
5 are very strong in their convictions. And I think  
6 that is a very impressive thing.

7 This is my 37th day in the interim role. Not  
8 that anybody is counting. Candidly, I do not know  
9 whether it is three more days or three months or  
10 three years, but I've really enjoyed the tenure and  
11 time here with you all, and look forward to working  
12 with you in any other capacity that I'm lucky to be  
13 in.

14 I think we are very lucky to have Governor  
15 Brown. He is moving very quickly and very swiftly  
16 and is very engaged on this particular important  
17 appointment. He knows how important it is. To some  
18 extent it is, but at the same time I want you all to  
19 appreciate the fact that to some extent the  
20 selection is locked in in terms of what the  
21 Secretary, he or she, needs to be. Because we are  
22 still in the midst of the biggest public safety  
23 realignment in the history of California that will  
24 continue in years to come, we have issued the  
25 blueprint. And there are many things in play that

1 kind of govern the future and the destiny of the  
2 Department. That burden and responsibility will  
3 fall to whoever the Governor selects.

4 I want to thank you all for making me feel  
5 welcome, not just last month but also this month.

6 Is there a motion to adjourn the meeting?

7 MEMBER TRUJILLO: Before we adjourn, I  
8 would like to make a comment, Mr. Secretary. I  
9 would like to thank Mr. Pattillo and his staff for  
10 an excellent report and for outstanding service in  
11 educating this Board throughout the year.

12 I thank you.

13 CHAIR HOSHINO: I would second that.  
14 Again, I just reiterate that I share the challenges  
15 from the Board as well as the staff here. Having to  
16 superintend the \$1,000,000,000 reduction in  
17 downsizing of the Department, which grows to \$1.5  
18 billion over the next two or three years. There is  
19 no program or area or function or unit or employee  
20 or individual that is not touched by the dimension  
21 of what we're doing. It is far more than just a map  
22 exercise. These are humans. These are lifers.  
23 These are things that we impact every single day, up  
24 and down the state; and it makes a big difference on  
25 every decision that we do. This Board is no



1 exception to the decision makers and shakers of the  
2 world that we're operating in.

3 Again, a motion to adjourn.

4 MEMBER SINGH: Mr. Chairman, I want to know  
5 when you're confirmation for the job is going to be.  
6 I want to make your promotion here.

7 CHAIR HOSHINO: I appreciate the promotion  
8 and appointment, Member Singh. The process is that  
9 the Governor will have to make a selection, appoint  
10 that individual. That would be announced and then  
11 the clock would run for confirmation. And I'm sure,  
12 whether it's me or anybody else, would be happy to  
13 have your support when we roll into the State Senate  
14 for something like that. But thank you.

15 MEMBER SINGH: Do you know?

16 CHAIR HOSHINO: I know the Governor is  
17 moving very quickly. I know it is 37 days, and that  
18 seems to be a long time to some people. But in the  
19 business that all of us are in, we know the  
20 appointments process. This is actually my  
21 professional opinion. We are moving along very  
22 quickly because these things can sometimes take  
23 months, if not sometimes borderline on a year. We  
24 are very lucky to have Governor Brown. He's very  
25 focused and very engaged on this particular

1 appointment. Knows how important it is to this  
2 Board, to the public and to California.

3 So thank you, sir.

4 MEMBER SAITO: Move for adjournment.

5 MEMBER BUTLER: Second.

6 CHAIR HOSHINO: Said meeting is adjourned at  
7 approximately 11:30 a.m., Pacific Standard time.

8 (Hearing concluded at 11:30 a.m.)

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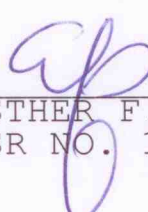
REPORTER'S CERTIFICATE

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 3 through 68 herein constitute a complete, true and correct record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 12th day of February, 2012.

  
\_\_\_\_\_  
ESTHER F. SCHWARTZ  
CSR NO. 1564