

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION

PRISON INDUSTRY BOARD

PUBLIC MEETING

MONDAY, JANUARY 30, 2017

CALIFORNIA PRISON INDUSTRY AUTHORITY

CONFERENCE CENTER

2125 19TH STREET

SACRAMENTO, CALIFORNIA

REPORTED BY:

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CSR NO. 1564

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ATTENDEES

BOARD MEMBERS:

SCOTT KERNAN, CHAIR
DARSHAN SINGH (Telephonically in San Francisco)
WILLIAM DAVIDSON
FELIPE MARTIN
JEFF McGUIRE
MICHELE STEEB
RAY TRUJILLO

STAFF:

CHARLES L. PATTILLO, EXECUTIVE OFFICER
MICHELE KANE
SCOTT WALKER
RAYMOND MEEK
GARY BUSH
RANDY FISHER
RUSTY BECHTOLD
THY VUONG
MELISSA SCHANE

COUNSEL:

JEFF SLY

PUBLIC MEMBERS:

(NO AUDIENCE PARTICIPATION)

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1 **SACRAMENTO, CALIFORNIA**

2 **THURSDAY, JANUARY 30, 2017, 11:05 A.M.**

3 **---oOo---**

4 CHAIR KERNAN: Good morning, everybody. We
5 are going to start the Board meeting at --
6 What time is it?

7 MS. VUONG: 11:05.

8 CHAIR KERNAN: -- 11:05. Let's take
9 roll.

10 MS. VUONG: Chair Kernan.

11 CHAIR KERNAN: Here.

12 MS. VUONG: Vice Chair Singh.

13 MEMBER SINGH: Here from San Francisco.

14 MS. VUONG: Member Alegria.
15 Member Davidson.

16 MEMBER DAVIDSON: Here.

17 MS. VUONG: Member Davison.
18 Member Jenkins.

19 Member Kelly.

20 Member Martin.

21 MEMBER MARTIN: Here.

22 MS. VUONG: Member McGuire.

23 MEMBER MCGUIRE: Here.

24 MS. VUONG: Member Steeb.

25 MEMBER STEEB: Here.

1 MS. VUONG: Member Trujillo.

2 MEMBER TRUJILLO: Here.

3 MS. VUONG: Let the record show that we
4 have a quorum of seven members.

5 CHAIR KERNAN: Very good. Thank you.

6 Before we begin I would like to congratulate
7 Mr. Martin for his reappointment to the Prison
8 Industry Board.

9 Congratulations to Mr. Martin.

10 MEMBER MARTIN: Thank you.

11 CHAIR KERNAN: So there's a lot going on in
12 Corrections that I will tell you guys with Prop 57
13 being proposed and our budget. We got a number of
14 monumental changes going on as a result of Prop 57
15 that we're working diligently on with many
16 stakeholder reviews. We anticipate having
17 regulations out as early as spring, March, April, to
18 begin regulations with Prop 57 that will have a
19 profound impact on the Department.

20 I hope Ms. Steeb will appreciate this. Maybe
21 more than most. Increased hope in the system with
22 inmates being able to earn their way to an early
23 release by completing participation in
24 rehabilitative programs. A new way of doing things,
25 and I think the Governor would say to that, that the

1 old ways just doesn't work. So I'm really excited
2 about that.

3 In addition, we are finally moving from taking
4 over the Department of State Hospital Facilities
5 that are running our prisons, affectionately called
6 the lift and shift. A monumental effort with three
7 departments, including our friends at the Receiver's
8 Office to CDCR taking over a number, about three
9 facilities, inpatient psychiatric facilities.

10 By the way, the impact on PIA from Prop 57 and
11 many others are still unknown, but we do know that
12 this is going to have an impact in the budget. It's
13 anticipated about 2017-18 Average Daily Population
14 reduction and that grows to 9,500. Even those
15 numbers are rather sketchy. If you can imagine
16 trying to predict how many inmates will participate,
17 complete programs, it is a real shake of the dice.
18 But it will undoubtedly have an impact on our
19 operations.

20 There's a number of other changes, Video
21 Surveillance Pilot. We're going to try to get CDCR
22 into the 21st century and get cameras up so that we
23 can monitor what our inmates and staff are doing and
24 try to have Big Brother looking over their
25 shoulders, which I think leads to a better run

1 prison system.

2 Of course, we're continuing to work with the
3 Receiver's Office on a number of agenda items he has
4 so that we can ultimately, I'll say, good news. San
5 Quentin which was just delegated back over to CDCR.
6 Monumental task for our CDCR employees. So a real
7 positive thing. So we now have ten prisons that
8 have been delegated back to CDCR control and many
9 more in the hopper. So we're making some
10 significant progress and hopefully taking the
11 Receiver out of CDCR so we can run it.

12 Please don't tell the Receiver I said that.
13 This is a public forum.

14 On the serious side, I think we would agree
15 we're on the right track.

16 So at this point I would like to note any
17 members of the public who are present right now that
18 there will be opportunities for public comment after
19 each item is presented to the Board. If any member
20 of the public would like to comment, please fill out
21 a speaker request form and hand it to the Board
22 Secretary.

23 First on the agenda is the General Manager's
24 comments.

25 MR. PATTILLO: See if the Board has any

1 comments.

2 CHAIR KERNAN: Are you correcting me
3 publicly?

4 MR. PATTILLO: Not really.

5 CHAIR KERNAN: Does the Board have any
6 comments?

7 MEMBER STEEB: Just a question. Where are
8 the three mental health facilities that you are
9 taking back?

10 CHAIR KERNAN: Salinas Valley, CMF and
11 Stockton.

12 MEMBER STEEB: Is the plan that this will
13 continue?

14 CHAIR KERNAN: Yes. We will maintain the
15 inpatient programing there, but it will no longer be
16 under the control of the Department of State
17 Hospitals, effective if the budget is passed. We
18 get it through the Legislature. It would be
19 effective July 1st, and it will take us a couple
20 years to fully transition all the different
21 classifications and changes. But, yes, we will be
22 taking control.

23 Anything else?

24 Am I okay, General Manager?

25 MR. PATTILLO: Okay.

1 Good morning, Mr. Chair and Members. My name
2 is Chuck Pattillo. I am the General Manager of PIA
3 and Executive Officer of the Board.

4 I also would like to extend congratulations to
5 Mr. Martin. I was telling him the other day that he
6 channeled Mr. Greenstone a lot, getting down to the
7 nitty-gritty of finance questions and asking the
8 questions that needed to be answered. So I do
9 appreciate, although it causes me a little more
10 work, but I do appreciate having him back for a
11 another four-year term.

12 Is that correct, another four-year term?

13 MEMBER MARTIN: Four years, Chuck.
14 Ultimately.

15 MR. PATTILLO: I have two updates on
16 CALPIA. The first, the co-located Substance Abuse
17 Program that we're working on, piloted at a number
18 of sites. We're off to a good start. We have six
19 to seven prisons that we are co-locating PIA with
20 substance abuse to maximize both programs. The
21 program's in place in eleven yards.

22 As the year progresses, I think you're going
23 to see more and more partnerships between us and
24 CDCR where you have education programs because it
25 only makes sense. The Board last year approved us

1 to do half-time assignments which was very
2 fortuitive 'cause the impacts that are coming in,
3 like the Secretary talked about, Prop 57, whatnot,
4 we're ahead of the curve on implementing programs
5 that will accommodate that. We're still running at
6 about a 21-22 percent vacancy rate. But it could
7 have been a lot worse if we hadn't made the early
8 changes. So anything that's coming down to us, I
9 think, we'll be able to accommodate.

10 Number two here, our audit.

11 Our auditors, MGO, has given -- we're going to
12 receive a qualified opinion on the audit that just
13 closed out. It will be the first qualified opinion
14 we've ever received. Basically, the opinion is that
15 CALPIA was not able to obtain access to GASB 68
16 related data that was required by our auditors to
17 specifically -- part of the State's Safety Plan and
18 the State's Industrial Plan, and the auditor is not
19 able to audit census data and pensional data related
20 to the plans.

21 The SCO, State Controller's Office, has the
22 data but was not able to release it to MGO or
23 CALPIA. So after the statewide Comprehensive Annual
24 Financial Report is released, which is expected at
25 the end of March, they are not able to verify the

1 accuracy of SCO's data that we're using for OPEB and
2 pension, something like that. Kind of like a gift
3 that keeps giving. So we wouldn't be conforming
4 with the accounting principals.

5 It's not a huge issue, other than the fact
6 that we're getting a qualified opinion for the first
7 time ever. I have faith in the SCO's data, but I
8 will also say that it's kind of up in the air right
9 now because of all the agreements on the funding of
10 the pension. The actual numbers may change a little
11 bit, but we'll see something coming out. I didn't
12 want to shock anybody, including the Audit
13 Committee, about the qualified opinion.

14 The NCIA conference in Tucson. I've been in
15 touch with a couple of you. A couple of you are
16 actually going down. The Undersecretary is
17 traveling down. There's still time to go down if
18 you would like. There's a number of interesting
19 panel discussions, including a few being presented
20 by CALPIA. I encourage you to come if you can.
21 It's a nice place in Tucson. You can come in on one
22 day and get out the next. I think Mr. McGuire is
23 coming in on Saturday night and getting out at 5:30
24 a.m. or 6:00 a.m. on Monday, so there's a way to get
25 back to California.

1 With that, that is all I have.

2 Chair KERNAN: Go to Action Item A.

3 MR. PATTILLO: Our Action Item is we're
4 seeking approval of our report to the Legislature
5 for Fiscal Year 2015-16. Our report to the
6 Legislature is submitted. This is PIB's report to
7 the Legislature pursuant to Chapter 1549, Statute of
8 1982, as embodied in 2800(k) of the Penal Code. The
9 four things that are being reported on is the
10 financial activity of each division, and each
11 condition of each enterprise under the jurisdiction,
12 the plans of the Board regarding any significant
13 change in the existing operations, the plans of the
14 Board regarding the development of new enterprises,
15 and a breakdown by institution on the number of
16 prisons at each institutional working enterprise
17 under the jurisdiction of PIA and CDCR, and the
18 number of folks that will be working for us
19 part-time.

20 Actually several years ago, there was an
21 option to get out of this, out of the Paperwork
22 Reduction Act, and we actually chose, the Board did,
23 to stay and have this annual report because it's a
24 good way to communicate to the Legislature on
25 exactly what we're doing versus them having to send

1 a bunch of requests all year long.

2 The report this year does not include the
3 audit, as the audit is not done. We prefer to have
4 our audit right in that report, but we have met the
5 requirements of the Penal Code on the data that was
6 reported. There is not a requirement to have the
7 audit in there. Just the data.

8 We got a few feedbacks from Board Members,
9 specifically Board Member Davison wanted us to
10 elaborate on CIW, what we're doing down in the CIW
11 in next year. We're actually adding a new
12 Facilities Maintenance Program. It's a higher level
13 than our janitorial but lower than construction.
14 And working on that for CDCR has put that out
15 statewide so we can work on the backlog of
16 facilities maintenance all over the prison system;
17 and that way we are able to add anywhere from about
18 six- or 700 new positions that can help CDCR help
19 maintain the new certification.

20 Additionally, our Code.7370 Program at San
21 Quentin is being expanded to CIW, but it's not us
22 running the program. However, we are building the
23 facility and putting all the computers and desks and
24 everything else in for CDCR and a joint project that
25 they're working on with the nonprofit vendor that

1 does San Quentin. We're just building the facility
2 at CIW for them. Otherwise this thing wouldn't have
3 gotten off the ground. Those two things are
4 happening down there. We're doing a lot of work
5 down at the CIW.

6 Ms. Davison, who is New York today, just
7 stepped down on December 31st as the Acting Warden,
8 so this was kind of a work in progress with her. We
9 also have a large landscaping project that we're
10 putting together just to bring CIW back where it
11 needed to be.

12 CHAIR KERNAN: It was a real pleasure for
13 me, anyway, and I think others to see the CIW and
14 the graduation. Something to see.

15 MR. PATTILLO: It was.

16 I think Michele's done a great job on this.
17 Michele Kane has done a great job on this report to
18 the Legislature. It has all the data that needs to
19 be in there. It was, obviously, a good year for
20 pictures, too. We had some notable visits that
21 we're able to document with pictures, and then we're
22 still taking edits on it. It is actually due in two
23 days, so we'll turn it around real quick.

24 If there is any questions on the specific
25 report.

1 MEMBER STEEB: Are you planning to note
2 that you're waiting on audit results and that is why
3 you are not -- you know, they won't be included in
4 there and what the pending issue is?

5 MR. PATTILLO: We can update the report.
6 Like I said, it's not required so that's why we
7 probably even wouldn't note it, but I will put a
8 note in there that says why they are not here. That
9 is not a requirement every year for us to put it in
10 there, but it is smart on our part not to have to
11 issue the thing twice.

12 MEMBER STEEB: Okay.

13 MR. PATTILLO: We'll put a note in to that
14 effect.

15 Any other question?

16 MEMBER TRUJILLO: I don't have a question;
17 I have a comment. Excellent, the book for the
18 report to the Legislature with the photos and stuff.
19 Nice job.

20 MR. PATTILLO: Michelle and marketing did a
21 good job. Actually, Phyllis, who used to be the
22 Executive Secretary, is actually the leader of that
23 unit that put that together. She did a great job.

24 CHAIR KERNAN: Did you touch up the picture
25 of me in there?

1 UNIDENTIFIED MEMBER: Absolutely.

2 CHAIR KERNAN: Is there any member of the
3 public that would like to make a comment regarding
4 this item?

5 Seeing none, may I have a motion to approve
6 Action Item A.

7 MEMBER TRUJILLO: So moved.

8 MEMBER MARTIN: Second.

9 CHAIR KERNAN: And I have a second.

10 Board Secretary, call the roll.

11 MS. VUONG: Member Davidson.

12 MEMBER DAVIDSON: Yes.

13 MS. VUONG: Member Martin.

14 MEMBER MARTIN: Yes.

15 MS. VUONG: Member McGuire.

16 MEMBER MCGUIRE: Yes.

17 MS. VUONG: Member Steeb.

18 MEMBER STEEB: Yes.

19 MS. VUONG: Member Trujillo.

20 MEMBER TRUJILLO: Yes.

21 MS. VUONG: Vice Chair Singh.

22 MEMBER SINGH: Yes.

23 MS. VUONG: Chair Kernan.

24 CHAIR KERNAN: Yes.

25 MS. VUONG: The motion passes seven-zero.

1 CHAIR KERNAN: Yes.

2 MR. PATTILLO: That was Mr. Trujillo moving
3 and Mr. Martin second.

4 That was the only Action Item. Moving on to
5 the Information Item. If you will bear with me
6 because this one got a little confusing.

7 Last month we pulled the Action Item on the --
8 our proposal was to take the OPEB funds we've been
9 setting aside for almost ten years and set them
10 aside into an interest-bearing account with CalPERS.
11 There was some concern from Department of Finance,
12 so we pulled it off the agenda at my request, and we
13 thought we were going to be able to work through it.
14 We've visited it back with them. Then the budget
15 came out.

16 Unfortunately, in the Budget, the Department
17 of Finance has a transfer in there of \$62.6 million
18 from us, but not to CalPERS as we were requesting,
19 but to the General Fund. And they submitted two
20 letters to the Secretary to implement Penal Code
21 2806, which is to certify that we don't need the
22 money and to transfer the money from PERS to the
23 General Fund. It doesn't run through the budget;
24 it's actually just a letter, the same letter that we
25 had four years ago for \$13 million that was

1 transferred, kind of.

2 The Secretary wanted to speak with the Board
3 regarding the issue. He didn't sign the letter. He
4 wanted to let Finance know he needed to confer with
5 the Board, and also we conferred.

6 I respectfully request that the Chair not sign
7 the letter. And there is one sentence acknowledging
8 that the State -- we are asking for one sentence in
9 the transfer letter, and that sentence says: The
10 State or CalPERS are responsible for delivery of
11 post-retirement benefits, not CALPIA, and going
12 forward they don't want us funding this unfunded
13 liability.

14 And I get that point. I actually agree with
15 it because it's really the State's obligation. I
16 just want that in the letter that that's going to
17 transfer. I think that's a reasonable request and a
18 minimal request.

19 Their statement, we don't need these funds
20 because it sets aside the obligation. There was a
21 negotiated labor agreement where it was taking money
22 from employees as well as employer. And it works
23 over a 30-year period. I mean, every year the State
24 is probably going to be paying a little more than
25 they thought. That's the way things seem to go.

1 But DOF has also stated multiple times that we, PIA,
2 are not responsible. We shouldn't be funding this
3 because we're not responsible for the eventual
4 payment.

5 We concur with that. We are not going to be
6 the ones writing the checks, the retirement checks,
7 or the benefits. You know, there will still be an
8 unfunded liability. There will be an unfunded
9 liability for 30 years. That doesn't take that
10 booking on our books away. So we first asked for
11 language that would grant us -- instead of an
12 information item, we first asked for language that
13 would grant us a variance from GASB and GAAP so that
14 we could cut these liabilities and follow the DOF
15 demand and not fund them. And DOF rejected that
16 request.

17 Their opinion is that GASB is a federal rule
18 making body and GAAP is somehow a federal law. They
19 are neither. I have a couple accountants in the
20 room. GASB, as you know, I will read this to you,
21 established in 1984, the Governmental Accounting
22 Standards Board, is the independent, private-sector
23 organization based in Norwalk, Connecticut, that
24 establishes accounting and financial reporting
25 standards for U.S. state and local governments that

1 follow Generally Accepted Accounting Principles.

2 Sounds like a fun group, but it's not federal
3 law. We showed DOF existing law where they can
4 specifically give us a variance without even putting
5 language into the statute, but we were again refused,
6 stating the federal law belief. Then we reduced our
7 ask, and we're discussing now in the DOF transfer
8 letter to include language that would put the stated
9 opinion that CALPIA is not responsible for payout.
10 It's asking for the one sentence. I even joked that
11 the Secretary put this on a Post-it. I think that
12 that gets us where we need to be in the long-term
13 because fiscal credibility wise, creditors, whatnot,
14 they will see a huge unfunded liability on our
15 books. We do this transfer without this language,
16 tomorrow we have a negative net worth. PIA goes
17 into the red immediately.

18 We have worked too hard ten, 12 years now to
19 put this together, and I would be more comfortable
20 recommending that to the Board. And hence my
21 request not to sign the transfer without this
22 specific language.

23 My overall, and I'm going to use a technical
24 term, my overall concern with DOF trying to jam the
25 Secretary and without giving us the language to

1 secure what we need: The moment he signs that
2 letter we've lost all leverage to get what we need
3 to maintain our credibility.

4 The other additional thing is if this transfer
5 happens tomorrow, we lose \$175,000 this year in
6 interest earnings that we were booking. It will hit
7 our bottom line.

8 You know, I'm a little concerned about the
9 overall approach to this. I understand that DOF are
10 the budget experts, but I've got the DOF expert over
11 state pensions making calls or requests on GAAP or
12 GASB, like these are federal law. I have another
13 analyst that didn't know the difference, and is
14 causing some issues, between Net Position, financial
15 Statement of Net Position, and the number of people
16 we hired, the number of janitors that we've hired
17 over two years; and I have one more that's looking
18 for where our \$58 million in gross profit went from
19 last year and asking, like, if we've hidden cash
20 somewhere. So it's kind of -- these are the same
21 people that are refusing to put their opinions in
22 writing.

23 We've proposed solution after solution with
24 either indifference toward our request or ignoring
25 our request. When we push for a response, flat-out

1 "no." I think we're at a flat-out no. You know, I
2 think, and I'm sorry to use the leverage because
3 that's what I look at it as, leverage.

4 I understand the position that you're in,
5 Mr. Chair, but I think the Board would also,
6 probably, sure are poised to speak on this. I think
7 DOF would like to paint me as a pest that doesn't
8 understand budget policy and has only seen this from
9 the PIA review. And that's kind of how they've been
10 pushing it.

11 I will say that I've got five years as a DOF
12 consultant; that's where I started. I've got nine
13 years in the Legislature where I had the corrections
14 and the PIA budget. This is before the R in CDCR,
15 the audit. But moreover, I understand, not only
16 budget policy, but I understand budget politics. So
17 I understand where we're at on this thing. I also
18 know that this is not in the best interests of PIA.

19 I would say that my opinion and recommendation
20 does not come from the position of being the head
21 cheerleader for PIA, which I am, but also the
22 Executive Advisor to this Board. But I'm
23 respectfully requesting that we not approve the
24 language as included, not approve the transfer
25 language that's included. Because to do so without

1 this minimal, this minimal protection easy language,
2 will be harmful to CALPIA but also to the morale of
3 this entire team that's worked so hard for the past
4 12 years to position PIA as the most successful
5 prison rehabilitation program in the United States.

6 With that, that is the end of my Information
7 Item.

8 CHAIR KERNAN: Any questions or comments
9 from the Board?

10 MEMBER MARTIN: You get questions from me.

11 CHAIR KERNAN: That's why we're so happy
12 you got another four years.

13 MEMBER MARTIN: Just real quick. Since
14 they removed 62 and a half million, what does that
15 do to our cash position?

16 MR. PATTILLO: Our cash position, we're
17 down to about -- I'm thinking last Friday, we're
18 down to about, after payments, about 45 million
19 which is less than six weeks of operating capital.
20 We can deal with that. We can deal with that, that
21 cash. This extra cushion would be nice to have. We
22 will operate without the cushion, but not without
23 the language.

24 MEMBER MARTIN: \$45 million?

25 MR. PATTILLO: \$45 million.

1 MEMBER STEEB: Net revenue of operating
2 capital?

3 MR. PATTILLO: Yes. We're averaging about
4 \$19 million a month right now on revenue.

5 MEMBER McGUIRE: Our proposal was to
6 transfer the money to CalPERS, anyway, so we were
7 planning to move the funds, anyway.

8 MR. PATTILLO: Yes, we were planning to
9 move it.

10 MEMBER McGUIRE: Make sure we still have
11 cash.

12 MR. PATTILLO: What we've done is we still
13 have the cash, but it would have been offsetting the
14 liability. Now we're no cash but the liability,
15 technically. We're just looking for technical
16 variance on this. I mean, as long as we all step in
17 this together, knowing that we're not going to be
18 funding this, and this is why we footnote it, I
19 think we're good. But I think we need that one
20 statement about the acknowledgement of who really is
21 responsible for the eventual payout.

22 MEMBER MARTIN: So looking at financial
23 resources and, obviously, what's in their financial
24 footnote in there that the money will transfer to
25 Department of Finance.

1 MR. PATTILLO: To the General Fund, yes.

2 MEMBER MARTIN: And meant to offset the
3 liability. With that footnote alone, you do away
4 with some of the questions.

5 CHAIR KERNAN: That's a footnote that we
6 put in, you're saying?

7 MEMBER MARTIN: It's a footnote that gets
8 put in by whoever our auditor is right now, and that
9 gets put in there. It would still be nice to have
10 something from the Departments of Finance stating
11 that we're not responsible for that dollar amount.

12 CHAIR KERNAN: I think that the Governor
13 planned to address the ongoing retirement liability
14 and is planned for all state government. And PIA is
15 an independent entity; they're different. So I
16 think there is a difference of opinion between the
17 Department of Finance and PIA on what actually needs
18 to be done.

19 I didn't feel comfortable signing the letter
20 until I had a chance to talk to you all. At least
21 from their perspective Chuck raises a very common
22 sense argument. From their perspective, though,
23 it's clear that it is not an ongoing PIA liability
24 in that we had already planned on to a point of
25 moving the \$62 million over.

1 And I'm going to sign that letter this
2 afternoon, and I believe it's the right thing to do.
3 I think it does, to use Chuck's word, maybe reduce
4 the leverage. But perhaps the Board should take up
5 writing a letter to the Department of Finance and
6 saying that we think that this is what our
7 understanding was and put them on record with that
8 language. I think that would be a reasonable action
9 from the Board. Not that I don't have many crosses
10 in this job. This is one of those crosses. I need
11 you all to know that I'm going to sign the letter
12 and move the money over when I get back to the
13 office this afternoon.

14 MEMBER MARTIN: Well, this is a public
15 forum, and we are on the record. So I believe that
16 the money is being transferred to offset our
17 unfunded liability. And what I'm hearing is that
18 the Department of Finance is of the position that
19 PIA is not responsible for that unfunded liability
20 and, therefore, we should not carry it on our books.
21 Is that --

22 CHAIR KERNAN: That's fair, wouldn't you
23 say?

24 MEMBER McGUIRE: That would include future
25 years, too, right, because we keep moving forward

1 and we're accruing at this point unfunded liability?
2 Finance's position is we should not be building into
3 our cost structure recovering in that amount.

4 CHAIR KERNAN: That's true.

5 MEMBER STEEB: Why would they not affirm
6 this in writing?

7 MEMBER MARTIN: They essentially have, by
8 taking that money, because that money was set aside
9 for unfunded liability. By taking it, they're
10 taking the responsibility of making sure that the
11 unfunded liabilities are no longer personally PIA's
12 responsibility, although we are supposed to be
13 self-funded. The actual PERS liability is not to be
14 carried on PIA's book is what my understanding is.

15 MEMBER STEEB: But it is.

16 MEMBER MARTIN: We don't need to.

17 MR. PATTILLO: But it's not the unfunded
18 portion on the books. The language I need is that
19 the eventual payout is not our obligation, so we can
20 have this complete unfunded liability off our books
21 and it doesn't matter because the eventual payout is
22 not PIA's responsibility. There's other state
23 agencies that opted to do the same thing. There's
24 about five that do the same thing as us. As far as
25 I know, we're the only one that's getting our money

1 taken at this time. SCIF, on the other hand, has
2 \$900 million liability, but they also have some
3 language that says DOF cannot take their money.
4 That's how they've gotten around it. They don't
5 take any SCIF liability because -- not SCIF, excuse
6 me, Earthquake Authority and SCIF. Because they
7 have other liabilities that they didn't want to
8 assume. So we're still out there with the
9 liability.

10 I think that if we can at least -- if I have
11 authorization to draft a letter for the Secretary's
12 signature that says, "Look, we can do this but we
13 need this one language, one piece of language, on
14 record." If he can maybe wait a minute on signing
15 this.

16 CHAIR KERNAN: I don't know that I would
17 wait a minute to sign it, but I think that if we did
18 a letter to them explaining that I think there's a
19 disagreement on the specific language from their
20 perspective. I know you went back and forth, and I
21 think that the reality of it is, is that we are all
22 clear. You have direct conversations with Finance
23 where they, in essence, said this money is not going
24 to -- this is going to alleviate you from paying
25 those benefits to your employees when they retire.

1 Is that not true?

2 MR. PATTILLO: They haven't. We've just
3 had conversations. They won't put anything in
4 writing. But also, remember, it's not only OPEB.
5 It's also net pension liability. We also have \$39
6 million in pension liability that's on our books
7 that's funded now, too, that they didn't take. We
8 would like to be able to not have that money tagged.
9 If they can just make this one statement, that will
10 allow us to alleviate that other \$39 million on our
11 books.

12 MEMBER STEEB: What's driving the urgency
13 of this? What is driving the urgency of you signing
14 this? What's driving the urgency of Department of
15 Finance wanting this money right now? Why do we
16 need -- why can't we take a week or two and try and
17 work through this? The Board can write a letter.

18 CHAIR KERNAN: The letter essentially came
19 to me.

20 MEMBER SINGH: Mr. Chairman, from San
21 Francisco. I just want to know how much money will
22 be left after transferring the \$62.6 million, to
23 PIA?

24 CHAIR KERNAN: I think I heard \$45 million.

25 MEMBER SINGH: So is there enough money to

1 fund us, to pay on?

2 CHAIR KERNAN: Yes.

3 MEMBER SINGH: Okay. Thank you.

4 CHAIR KERNAN: As to the urgency, and I
5 wouldn't even try to tell you the complicated
6 balancing of the budgets that the administration is
7 going through. This letter was presented to me
8 about two or three weeks ago, and I was asked for
9 the signature. I think with the previous \$13
10 million that Chuck mentioned, the then-Chair
11 Secretary Beard signed the memo and the money was
12 gone. So from their perspective I think they're
13 trying to get an overall budget worked out, and they
14 need this money to do that. So there is some great
15 urgency on their part.

16 MEMBER STEEB: Should this money be used to
17 balance the budget? I mean, it's funded liability,
18 right?

19 CHAIR KERNAN: That's -- am I right, this
20 \$62 million is for the long-term liability when they
21 eventually retire?

22 MR. PATTILLO: This is going to go towards
23 the General Fund; it's going to go directly --

24 CHAIR KERNAN: I get that, but the \$62
25 million that you set aside was for the benefit of

1 our PIA employees?

2 MR. PATTILLO: Yes, it was.

3 CHAIR KERNAN: Over the long-term?

4 MR. PATTILLO: Yes.

5 CHAIR KERNAN: So that money is not needed
6 because the State is going to assume that liability.
7 Chuck and Finance are in a death struggle over the
8 language, and there's a disagreement. But that's
9 not taking away the urgency of Department of Finance
10 in the overall because that \$62 million will be a
11 part of the General Fund budget to the address the
12 Governor's overall budget plan.

13 MR. PATTILLO: But the money they're asking
14 for is the current year transfers, not next year's
15 budget transfers. It's to shore up the hole in the
16 budget in the current year. There's a billion and a
17 half shortfall that they testified about a week and
18 half ago that they attribute to a math error -- a
19 billion and a half. We're just a small piece of
20 this. That's really what's driving the urgency of
21 this, because the first thought is that this can
22 wait until after July 1 when the budget comes out.
23 But there is a huge hole in the budget.

24 MEMBER STEEB: That is a fiscal policy and
25 that means that this is not -- we're not -- this is

1 not what our responsibility is, but --

2 MEMBER MARTIN: I do want to go on the
3 record that we are doing the responsible thing by
4 ensuring that CALPIA employees have that liability
5 funded, and we're doing the right thing by setting
6 that money aside to ensure that whoever retires from
7 PIA, the money is there. By the State removing it
8 and using it for the General Fund, it increases that
9 liability to CalPERS, ultimately the State, that
10 much further. So I don't think it's responsible for
11 them to do it, but it's nothing left. They can do
12 what they can do.

13 MEMBER McGUIRE: I like the idea of a
14 letter to Department of Finance from the Board
15 saying this is our understanding of what the facts
16 are, so if there is a question in the future. I
17 think the question also becomes is that this is what
18 we've accrued up to this point as unfunded liability
19 and our rate structure is built upon having to
20 recover that cost.

21 And so the question is: Are we going to then
22 not try to recover that cost in the future or are we
23 going to build up another fund and then have someone
24 raid it again? Because the State departments that
25 currently are buying things from PIA, they pay, you

1 know, that part of it into the fee structure to
2 cover that cost. And if that cost is going to be
3 borne by State as a whole through finance of a
4 30-year plan to fund those unfunded liabilities for
5 these State employees, which are State employees,
6 I'm just wondering are we going to adjust our rates
7 moving forward?

8 MR. PATTILLO: A couple of things,
9 Mr. McGuire. We haven't had a price increase in a
10 couple years. We're actually are competing with a
11 majority of it right now. We're not funding the NPL
12 through a rate structure, and we're not completely
13 recovering the OPEB because, I will tell you, the
14 largest contract we have, HFM, we specifically do
15 not have an OPEB requirement covered because that
16 was deducted by the Department of Finance before
17 they signed off on the budget for the Receiver to
18 contract with us. So it's already been cut down
19 pretty far. So there are some things that are going
20 to see some decreases, but there is some increases
21 we know that are coming in. There will be a
22 balancing.

23 MEMBER MARTIN: Sorry, I didn't mean to
24 interrupt you. I would actually agree with what
25 Jeff was saying. We need to get a total letter

1 together stating exactly what we believe our
2 position is. As far as I'm concerned, our position
3 is that they are taking the entire responsibility
4 going forward; to put that footnote on our
5 financials that retirement is no longer our
6 responsibility. It's the State's responsibility and
7 it will not be carried on our books.

8 We put that in writing, so that is what our
9 understanding is taking the money, and they make
10 sure that they understand that this is what your
11 understanding is. You can have the money and the
12 liability is yours.

13 CHAIR KERNAN: To that end, Chuck, would it
14 be reasonable to ask you to prepare a letter that we
15 can distribute to the Board and happy to ultimately
16 sign it, asking, you know, laying out why we think
17 that? We want to make sure we are on the same page,
18 irrespective of the disagreement on language, but
19 something coming from the Board asking Mr. Cohen to
20 evaluate this specific language.

21 MR. PATTILLO: But also, in addition, as
22 Mr. Martin said, not only the liability for OPEB,
23 but liability for pension liability -- a portion of
24 -- they're not taking -- going forward, like I said,
25 we have no issue with not funding it and not

1 carrying it as long as it is footnoted properly and
2 everybody is on record.

3 I just -- it's very difficult just to get a
4 common sense solution. You know, ten words would
5 resolve everybody's fears in this. I don't know why
6 we can't do ten little words.

7 MEMBER MARTIN: I think we can resolve it,
8 what our understanding is, with a letter to them and
9 going forward footnoted, don't carry it on the books
10 any more.

11 CHAIR KERNAN: Countless countries went to
12 war because they can't agree on ten words. I really
13 feel that ultimately I am required to do this. I
14 know I really wanted to have this discussion with
15 the Board. I think your position of writing a
16 letter on behalf of us to Mr. Cohen and being very
17 clear about both will set a record, and I think it
18 gets us even. If we can't agree on the language,
19 it at least sets forth our position.

20 MEMBER STEEB: Can we request and will it
21 be heard and an acknowledgement of a letter from
22 them?

23 CHAIR KERNAN: I always am reticent to say
24 that I can speak for somebody else, but I will
25 certainly ask that. I suspect that they would. I

1 think you need to know that the Department of
2 Finance and the administration are so proud of the
3 work that PIA does. Chuck mentioned in his earlier
4 comments about the rehabilitative programs and
5 adding substance abuse and Prop 57 and all the
6 things. There's not anybody over there that doesn't
7 think PIA is a long-term partner with this
8 Department, if that's a question in anybody's mind.
9 So I will make sure to talk to Mr. Cohen myself and
10 talk to him about giving us a response. But I'm
11 reticent to agree that he will.

12 MEMBER STEEB: Even more, can we ask in the
13 letter for an acknowledgement because PIA
14 acknowledges that he received it and he understands
15 it, then that is in essence what we wanted in
16 writing, right?

17 MEMBER McGUIRE: If he doesn't acknowledge,
18 it's like potentially running the risk of we saying
19 we never agreed to that. If he just puts it on
20 record, then with no response it goes forward.

21 MEMBER MARTIN: Actually, you can look both
22 ways. If he doesn't respond, it's his
23 responsibility.

24 MR. PATTILLO: Unless we hear otherwise,
25 it's like the air conditioning and trim on a new

1 car. It's like buying a used car.

2 CHAIR KERNAN: I would not want his job.
3 He has a pretty challenging job. We can ask for a
4 response and see what happens.

5 Can I ask you to do that?

6 MR. PATTILLO: Yes. It will take me a day
7 to get that put together.

8 CHAIR KERNAN: Any other comments on this
9 issue?

10 Do any members of the public get to comment on
11 this informational item?

12 MR. PATTILLO: Yes. You can ask for
13 comments.

14 CHAIR KERNAN: Any public comments?

15 Seeing none, let's go to the External Affairs
16 update.

17 MS. KANE: Good morning. I am Michele
18 Kane, Chief of External Affairs for the California
19 Prison Industry Authority.

20 A few highlights that have happened since we
21 last met. Sirius XM Radio host, Sway Calloway, who
22 is also a reporter/executive producer for MTV News,
23 is featuring some of our offenders in the Code.7370
24 program. I was out at San Quentin last week with a
25 crew from Sirius XM. They signed an agreement with

1 The Last Mile to launch a radio program. There will
2 be six one-hour pilot programs that are going to be
3 featuring our offenders. It will be talking about
4 what led them to prison and about the positive
5 transformation they all have experienced through the
6 positive programming and education. The shows are
7 expected to launch in March on Sirius XM.

8 *The Folsom Telegraph* featured our Braille
9 Program this month. I'm working with the reporter
10 this month to also highlight our other enterprises
11 at Folsom State Prison, including metal fabrication
12 and license plates.

13 This year, CALPIA marks an important milestone
14 for correctional industry. It's our 70th
15 anniversary, 70 years of correctional industries.
16 CALPIA was formerly California Correctional
17 Industries Commission, and that was back in 1947.
18 And it was reconstituted as CALPIA in 1982.

19 External Affairs and Marketing are both working
20 together sending out press materials and pictures
21 for website and social media. We have a lot of
22 great black and white photos to show then and now.

23 An upcoming graduation to tell you all about.
24 Put it on your calendars. CALPIA will hold a
25 graduation for the participants of Code.7370 on

1 March 23 at 10:00 a.m., and that is at San Quentin
2 State Prison. I will be sending out invitations and
3 save the date this week.

4 Yes, yes. And NBC.

5 MR. PATTILLO: It is driven around a
6 network show that we happen to coincide with. So it
7 will be a good PR for the Department and CALPIA.

8 MS. KANE: With that, I will see you at our
9 next Board meeting in April.

10 Any questions?

11 CHAIR KERNAN: Thank you very much.

12 Now we move on to the portion of meeting
13 reserved for comment regarding items not on the
14 agenda.

15 Under the Bagley-Keene Act, the Board cannot
16 act on items raised during public comment but may
17 respond briefly to statements made or questions
18 posed or it may request clarification or refer the
19 item to staff.

20 Would anyone like to make a comment or address
21 the Board?

22 Seeing none, is there any last comments from
23 the Board Members?

24 This concludes this Prison Industry Board
25 meeting of January 30, 2017.

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Is there a motion to adjourn the meeting?

MEMBER SINGH: I move that. In San Francisco.

MEMBER McGUIRE: I second it.

CHAIR KERNAN: I have a second. Thank you very much. The motion carries. The meeting is concluded at 11:46.

Thank you.

(Public meeting concluded at 11:46 a.m.)

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REPORTER'S CERTIFICATE

STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

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 shorthand writing those proceedings;

That I thereafter caused my shorthand writing to be reduced to printed format, and the pages numbered 3 through 39 herein constitute a record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 7th day of February, 2017.

ESTHER F. SCHWARTZ
CSR NO. 156