

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION

PRISON INDUSTRY BOARD

PUBLIC MEETING

WEDNESDAY, JANUARY 4, 2012

GREEN VALLEY TRAINING CENTER
995 FOLSOM LAKE CROSSING
FOLSOM, CALIFORNIA

REPORTED BY:

ESTHER F. SCHWARTZ
CSR NO. 1564

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ATTENDEES

PANEL MEMBERS:

- WILLIAM DAVIDSON
- ESTEBAN ALMANZA
- TIM VIRGA

STAFF:

- CHARLES L. PATTILLO, EXECUTIVE OFFICER
- SCOTT WALKER
- PHYLLIS GUARE

COUNSEL:

- JEFF SLY

PUBLIC SPEAKERS:

- BRETT NELSON
- MARK NOBILI
- PAULA REAL
- LORI KAMMERER
- KEN DEVORE
- RICH DRYDEN

---oOo---

1 Folsom, California

2 Wednesday, January 4, 2012, 1:00 p.m.

3 ---oOo---

4 MEMBER DAVIDSON: Good afternoon. I would
5 like to call this hearing to order. My name is Bill
6 Davidson. I will be the Chairperson for this
7 hearing today, and to my right is Mr. Esteban
8 Almanza who is also a Prison Industry Board Member.
9 And to my left is Mr. Tim Virga who is the warden of
10 the California State Prison at Sacramento.

11 To begin, Board Secretary, would you please
12 read the legality of the hearing statement?

13 MS. GUARE: Good afternoon, everybody.
14 Thank you for coming.

15 This is a legal hearing. The Prison Industry
16 Board has met all of the requirements of Section
17 2808(i) of the California Penal Code. Approximately
18 14 days before the hearing, notification was mailed
19 to potential vendors located in the geographic area
20 of the enterprise. Persons who have requested
21 notification of Prison Industry Board meetings,
22 persons who have requested notification of public
23 hearings, California Legislators, California Central
24 Labor Councils and the Executive Secretary-Treasurer
25 of the California Labor Federation.

1 Thank you.

2 MEMBER DAVIDSON: Thank you.

3 The California Prison Industry Authority is a
4 self-supporting arm of the Department of Corrections
5 and Rehabilitation that employs inmates in the
6 production of goods and services that are sold only
7 to governmental agencies. The Board oversees CALPIA
8 and is authorized to conduct public hearings under
9 Penal Code Section 2808(i). The purpose of this
10 hearing is to receive testimony from organizations
11 or individuals that may be affected by the items
12 being presented today.

13 The following is a brief description of
14 today's proceedings. First, CALPIA will present the
15 items to the Board for which they are seeking
16 approval or for which they are seeking public input.
17 Then the public will have the opportunity to come up
18 to the podium to present their support or concerns.
19 When you come up to the podium, please limit your
20 testimony to five minutes. And I will remind you
21 there will be an opportunity again a week from this
22 Friday, the 13th, at our next Board meeting to
23 provide testimony again.

24 But, please, identify yourself and your
25 affiliation. Be specific with regards to your

1 concerns, and you may provide us with written
2 information if you have not already done so, which I
3 know a number of you already have. The committee
4 members may ask you to clarify questions.

5 Also, if you are a vendor, the specific
6 information that would be helpful to the Board is
7 the products and/or services sold by your company to
8 governmental agencies during the last three years,
9 the dollar amount of the sales, the percentage of
10 your company's total business which those sales
11 represent, the purchasing agency, and the number of
12 individuals employed, including the number of
13 ex-offenders employed. This is the same information
14 that was requested in the public notice of this
15 hearing.

16 So Scott Walker, the Assistant General Manager
17 for California Prison Industry, will present the
18 first item.

19 MR. PATTILLO: Mr. Chairman, my name is
20 Charles Pattillo. I am CALPIA General Manager and
21 the Executive Officer of the Prison Industry. On
22 behalf of the Prison Industry Board, thank you and
23 everybody else for coming today to the public
24 hearing. There were many who could not make the
25 previously scheduled hearing on December 28th, so we

1 rescheduled that hearing for today.

2 As you said, there's two items on the agenda,
3 individual prepackaged meals and, the second one,
4 Certified Small Businesses and Disabled Veteran
5 Business Enterprises purchasing preferences of food
6 items produced by CALPIA.

7 Penal Code Section 2808(i) authorizes a
8 subcommittee of the Prison Industry Board to hold
9 public hearings to provide an opportunity for
10 persons or organizations who may be affected to
11 appear and present testimony concerning the plans
12 and activities of PIA. The Authority shall assure
13 adequate public notice of those hearings has
14 occurred.

15 The Penal Code specifically states that no new
16 industrial, agricultural or service enterprise,
17 which involves a gross annual production of more
18 than \$50,000, shall be established unless and until
19 a hearing has been conducted. The Penal Code
20 further states that the Board shall take into
21 consideration the effect of proposed enterprises on
22 California industry and shall not approve the
23 establishment of the enterprise if the Board
24 determines it would have a comprehensive and
25 substantial adverse impact on California industry

1 which cannot be mitigated.

2 We say that because of the case of the first
3 item, the prepackaged lunch. We are going beyond
4 the hearing requirements of the law. There is not a
5 Penal Code requirement that CALPIA hold a specific
6 public hearing regarding any individual product. We
7 have a specific food product or existing food and
8 beverage packaging line, such as the individual
9 packaged meal. However, given the known opposition
10 by industry to CALPIA producing this product and
11 given our experience with other food products we
12 have introduced, we would like to add an additional
13 layer of transparency to our development process.

14 Regarding the second item, Certified Small
15 Business and Disabled Veteran Business Enterprises
16 receiving purchase preferences for food items, this
17 subject is borne out of a request by a small vendor
18 group who have been lobbying the Secretary of State
19 and Consumer Services, as well as the Legislature,
20 for a change in law that would redirect the State's
21 purchasing of food products made by CALPIA and,
22 instead, would have those purchases redirected to
23 California Small and Disabled Veteran owned
24 businesses.

25 In this specific case, although such a

1 requested action would require a change of existing
2 statute, the Chairman of the Prison Industry Board,
3 in an effort to assist the Secretary of State and
4 Consumer Services in collecting information
5 regarding this issue, has authorized the PIB
6 subcommittee to collect information regarding this
7 item from both CALPIA, the public, and those that
8 may be affected or those entities that may support
9 or oppose the requested change in law.

10 CALPIA attempted to collect this information
11 independently without success, so that is why the
12 second item is on the agenda. However, for both
13 items, as noticed in our posting of this meeting, in
14 an effort to assist the Prison Industry Board in
15 their deliberations, PIA has requested that
16 testimony by participants include the following, as
17 was stated: The products and services sold to
18 government agencies in the last three years, the
19 dollar amount of those sales, the purchasing
20 agencies, and the number of individuals employed,
21 including the number of ex-offenders employed.

22 That is something we ask at every single
23 hearing, on ever single item that is asked of us,
24 too.

25 No responsive information to that request was

1 received by the PIB. We did receive an email from
2 one lobbyist which we provided to you, but it did
3 not include any requested information. The same
4 information will be again on January 13th.

5 As for the second item, the boxed item, the
6 boxed item will be on the agenda as an action item.
7 The second item will only be an information item.
8 The hearing on the purchasing preference is only
9 solicitation of information that will be reported
10 back to the full Prison Industry Board and the
11 Secretary of State and Consumer Services. The only
12 action that may be considered in the future, if the
13 issue appears in legislation, and then we will take
14 that issue up with PIB.

15 The Chair and PIB is keenly interested in
16 hearing from those certified businesses how CALPIA's
17 Food and Beverage Packaging Enterprise has impeded
18 or harmed business activity, and to find out how
19 many, if any, private vendors are eligible for
20 preferential consideration by PIA. CALPIA is the
21 only agency in the state of California that gives a
22 person a preference if your particular business
23 hires ex-offenders. We do not give preferences to
24 small businesses or disabled veteran business
25 enterprises as that would drive up the end price of

1 our products in some cases. Criteria for that is
2 evidence that a specific business hires
3 ex-offenders.

4 Before we get started, I would remind everyone
5 that we are on prison grounds, as Mr. Virga can
6 remind everybody, and it is against the law to have
7 a personal cell phone on the grounds. If you have a
8 cell phone or tobacco products, take this time to go
9 lock it in your car.

10 With that, I'm going to turn it over to Scott
11 Walker, Assistant General Manager of Operations.

12 MR. WALKER: Good afternoon, Mr. Chair and
13 panel members. My name is Scott Walker, and I am
14 the Assistant General Manager of Operations for the
15 California Prison Industry Authority. I'm here
16 today to present the California Prison Authority's
17 position on individually packaged meals.

18 Without getting too dramatic on this issue,
19 this is literally about the survival of CALPIA. If
20 CALPIA is unable to provide products and services to
21 our parent agency, CDCR, CALPIA will be unable to
22 survive. The basic premise of CALPIA is that State
23 agencies support CALPIA through purchase of our
24 products and services and thereby support CALPIA
25 programs.

1 CALPIA has proven to be the most successful
2 program within the state at reducing recidivism, and
3 thereby providing for a safer California. This is
4 not to say that CALPIA does not have a
5 responsibility to provide the highest quality goods
6 at the lowest possible price, because we do.

7 CALPIA has attempted to engage some of the
8 vendors that will speak here today. Specifically,
9 we have invited them to tour our factories, look at
10 our products and talk about ways that we might
11 partner with them going forward. We have heard
12 little -- actually, heard nothing from them since we
13 toured our factory and talked about some potentials.
14 Subsequent to that, under individually packaged
15 meals, we actually reached out to a broker for one
16 of the vendors that will speak here today, and we
17 were told that they weren't interested in doing
18 business with CALPIA on the boxed lunch program.

19 So with that, I will get into the Board item
20 unless there are some questions of me before I do
21 that.

22 The issue: The California Prison Industry
23 Authority, CALPIA, seeks concurrence from the Prison
24 Industry Board, PIB, to proceed with sales of
25 individually packaged meals, boxed lunches,

1 primarily for the California Department of
2 Corrections and Rehabilitation, CDCR, inmates, but
3 also offered to sell to nonstate, i.e., county,
4 customers.

5 Background. In April of 2008, the Department
6 of General Services, DGS, established a contract for
7 individual packaged meals, also referred to as boxed
8 lunches, for the CDCR institutions for use in
9 emergency situations. The contract was effective
10 from April 2008 to March of 2009. It was
11 subsequently extended into 2010. During the course
12 of this contract there was limited use of it
13 statewide.

14 Boxed lunches can be distributed to inmates in
15 non-cafeteria settings, such as exercise yards,
16 inmate cells and hospitals, or program assignments.
17 All items in the boxed lunch are prepackaged. Bread
18 and sandwich contents are packaged separately. The
19 individual receiving a boxed lunch would assemble
20 the sandwich from the materials provided.

21 Upon DGS review of the need for this contract,
22 it was determined there was inappropriate use of the
23 contract, as well as concern with the lack of
24 competition due to limited vendor response on the
25 previous bid.

1 In 2010, consistent with procedures outlined
2 in California Penal Code, DGS requested that CALPIA
3 consider developing a boxed lunch product for sale.
4 Over the past year, CALPIA has been in the product
5 development stage to produce individually
6 prepackaged meals, specifically boxed lunches.

7 Using primarily individually packaged items
8 already produced by CALPIA, we were successful in
9 creating a boxed lunch product. For the past six
10 months, CALPIA has been providing these boxed
11 lunches to a group of CALPIA workers. The CALPIA
12 product proposed is six limited choices of boxed
13 lunches. The specific details of those boxed
14 lunches are in Attachment 1. They are, basically, a
15 peanut butter and jelly boxed lunch, a poultry
16 bologna boxed lunch, and a poultry ham boxed lunch
17 with or without drink mix.

18 CALPIA is not requesting any increase to its
19 existing revenue limits for its Food and Beverage
20 Enterprise as a result of the production of the
21 boxed lunches.

22 In May 2010, the PIB unanimously approved a
23 revenue increase in the Food and Beverage Packaging
24 Enterprise of 8.5 million, raising the base revenue
25 from 14.4 to 22.9 million. CALPIA anticipates that

1 the majority of revenues from the production of this
2 product will be from institutions that wish to
3 switch from purchasing individually packaged CALPIA
4 food products to boxed lunches.

5 There was a survey done by CDCR. There were
6 30 responses, and 11 of them responded in the
7 affirmative as they would like to use the boxed
8 lunch product. Our data from the BIS information,
9 which is the accounting system for CDCR, showed that
10 12 institutions had been using in the last fiscal
11 year. That's been reduced to eight institutions
12 this fiscal year.

13 CALPIA production capacity is limited and, as
14 such, CALPIA can only meet a small percentage of the
15 existing and growing demand for the specific type of
16 packaged food product. However, if CALPIA were not
17 to offer boxed lunches for sale, CDCR's demand, as
18 well as increasing purchasing of this product
19 instead of CALPIA products, would result in a
20 substantial decrease in sales of CALPIA's packaged
21 food products to CDCR at a time when CALPIA's food
22 packaging revenues are decreasing primarily from a
23 reduction in inmates due to the 2011 State and Local
24 Public Safety Realignment Plan, AB 109.

25 So, basically, we are getting hit twice. Once

1 is if we can't sell the boxed lunch program and,
2 two, is from the inmate population that buys the
3 rest of our products. So we are taking a
4 significant hit in revenues potentially if we are
5 unable to sell this product.

6 In previous PIB hearings there was testimony,
7 as Chuck mentioned, that we are going above and
8 beyond this. We've had this hearing before. We are
9 doing this again for transparency, to make sure that
10 nobody is thinking that we haven't done our due
11 diligence under the law. The PIB has taken
12 testimony regarding boxed lunches twice previously,
13 as a part of testimony of PIB's approval of CALPIA's
14 Food and Beverage Packaging Enterprise revenue
15 increases.

16 A public hearing of a PIB subcommittee
17 occurred on March 26, 2010, at Corcoran State
18 Prison. The PIB took testimony again on May 4th,
19 2010. At the May 4, 2010 meeting of PIB, CALPIA
20 reduced our revenue increase request by 588,000.
21 This amount represented the amount the current
22 contract holder, Harvest Farms, was expecting to
23 generate in revenue during the remaining period of
24 their contract.

25 At the PIB hearing, the PIB also unanimously

1 approved CALPIA's revenue increase of 8.6 million,
2 from 14.4 million to 22.9 million. The PIB did not
3 direct the CALPIA to halt production of this product
4 on the May 4th, 2010 meeting, but requested that the
5 CALPIA bring back to the PIB when ready to sell the
6 product to CDCR at the conclusion of the then
7 existing statewide contract, which we plan to do,
8 obviously, after this hearing and at the meeting on
9 the 13th.

10 The Chairman of the PIB has requested that
11 CALPIA present the issue to the PIB to obtain
12 concurrence before the CALPIA further production for
13 sale of the specific boxed lunch.

14 In 2010, then Chief Deputy Director, Stephen
15 Amos of DGS, requested that CALPIA develop a
16 prepackaged boxed lunch that can be offered for
17 institutional use. At the time there was an
18 existing contract for the provisions of the boxed
19 lunch. However, the DGS asserted there was a lack
20 of vendor producing the product to assure
21 competitive bidding. In addition, the DGS found
22 that the use of individual meals, which was intended
23 for emergency use, had evolved into use as a normal
24 feeding tool, inconsistent with the purpose of the
25 contract. Mr. Amos provided an analysis of the

1 previous contact, and the document is attached as
2 Attachment No. 2.

3 The DGS analysis indicates that the initial
4 purpose of the boxed lunch was intended for
5 emergency feedings only, but the demand had
6 increased because of use of general feeding items,
7 and not limited to only emergency feedings. The
8 analysis also indicated that there was concern with
9 the provision of certain products under the contract
10 where they were nearly an unlimited assortment of
11 variables that could be included for inmate
12 population, including items that are not considered
13 basic staple, such as gummy bears.

14 CALPIA's boxed lunch program will compromise
15 three types that I discussed before. This will
16 limit the ability for people to go outside the scope
17 of the contract and increase costs. It is very
18 limited and very straightforward, but still provides
19 a balanced nutrition that the inmates need.

20 Another option that will be offered in the
21 boxed lunch program is to procure the boxed lunch
22 without the drinks. We estimate that last year the
23 Department could have saved \$135,000 if they would
24 not have provided Kool-Aid for the inmates along
25 with their lunch. This year it will be somewhere in

1 the neighborhood of \$270,000.

2 CALPIA developed a basic boxed lunch, taking
3 into consideration the concerns raised by DGS. And
4 CALPIA is currently providing individual prepackaged
5 meals for lunch to its own inmate workers in the
6 program.

7 In August 2011, CDCR initiated and distributed
8 the CALPIA-CDCR Food Service Survey to their
9 correctional food managers statewide. The survey
10 contained various questions pertaining to CALPIA
11 products and services. Two of these questions were
12 specific to the use of premade individual meals for
13 CDCR. Approximately 36 percent responded that
14 premade meals would be a desirable product and about
15 15 percent, according to their survey, are currently
16 using them. We found that the actual number is
17 closer to 39 percent currently using them, unlike
18 the 15 that the survey reflected.

19 According to CDCR BIS data - that is their
20 Business Information System data - for fiscal year
21 2011-12, there were 12 institutions purchasing 3.2
22 million premade boxed lunches at a cost of
23 approximately \$3.2 million. CDCR purchase of
24 premade boxed lunches from private vendors has
25 negatively impacted sales of CALPIA's Food and

1 Beverage Packaging Enterprise.

2 In fiscal 2010-11, CDCR's purchases of premade
3 boxed lunches reduced sales of CALPIA's Food and
4 Beverage Packaging Enterprise approximately
5 \$1,000,000. When CDCR institutions purchased
6 prepackaged meals, their purchases of similar CALPIA
7 products declined. We expect this to increase to
8 about \$2,000,000 this year in declining sales from
9 PIA and CDCR if the boxed lunch issue is not
10 resolved and approved.

11 While there is a demand for the production of
12 this prepackaged boxed lunch, CALPIA's research
13 indicates that CDCR is continuing to buy the lunch
14 products in bulk and assemble it at the institution
15 level by CDCR inmates. This appears to be a less
16 costly alternative. However, as CDCR continues to
17 purchase an increased purchase of prepackaged meals,
18 CALPIA is a competitive option for those who wish to
19 purchase this higher priced item. Boxed lunches
20 cost approximately 10 percent more than individually
21 packaged items. Unpackaged bulk food costs even
22 less and also provides culinary jobs for inmates at
23 CDCR institutions; and inmates assemble the lunches
24 en masse.

25 While the boxed lunch is convenient and in

1 demand by some CDCR managers, it is a more costly
2 product, creates greater waste from the packaging,
3 and it eliminates the need for inmate culinary
4 positions at CDCR institutions and idles inmates in
5 institution run culinary operations.

6 CALPIA producing of this product will only
7 offset a small portion of the inmate positions lost
8 at the various institutions. A majority of the
9 products which are included in the boxed lunch will
10 be products already produced by CALPIA: sliced
11 bread, peanut butter, jelly, cookies and almonds.
12 Due to the limited production capacity in CALPIA's
13 meat processing enterprise, CALPIA will source a
14 majority of the sliced meat from California
15 businesses for inclusion in the lunches as well as
16 the powdered drink mix for the meals that may
17 include that item.

18 Production of boxed lunches will be
19 accomplished using existing factory capacity in the
20 two food and beverage factories at the Substance
21 Abuse Treatment Facility, SATF, and Corcoran State
22 Prison, Corcoran. Both located in Corcoran,
23 California, in the Central Valley. CALPIA
24 anticipates no additional equipment to be purchased
25 other than what has been previously appropriated by

1 the PIB to open the satellite facility at Corcoran.
2 And no additional civil service staff will be
3 required at this time.

4 The current food and beverage operation at SATF
5 was opened in 2004. Currently employs a hundred
6 inmates and four civil service positions. The
7 satellite factory at Corcoran employs 32 inmates and
8 one civil service position. And the juice factory
9 at Chino employs 30 inmates and three civil service
10 staff positions.

11 Revenues for the entire Food and Beverage
12 Enterprise are estimated to be approximately 13.7
13 million in current fiscal year. Revenue is down
14 approximately 2.26 million from the 15.96 million in
15 fiscal year 2010-11. It is anticipated thatn as a
16 result of AB 109n the decrease in state-housed
17 prisoners will reduce food packaging sales to CDCR
18 by approximately 19.9 percent, \$2.7 million, over
19 the next 36 months. The Food and Beverage Packaging
20 Enterprise line also includes the beverage packaging
21 facility at CIM that I discussed earlier.

22 The primary products for the Food and Beverage
23 Packaging Enterprise at Corcoran and SATF are
24 individually packaged breads, bread slices, hoagie
25 rolls, cookies, peanut butter, jelly and syrup.

1 The CALPIA estimates that the revenue increase
2 for this specific product line will be nearly 2.4
3 million in this current fiscal year, offset by a
4 reduction of 1.5 million from the current packaged
5 products. A portion of the new revenue will be
6 derived strictly from the packaging of the products,
7 while any additional revenue will be derived from
8 sales to local jails.

9 The PIB approved satellite location for the
10 Food and Beverage Packaging Enterprise in Corcoran
11 is adequate to produce the boxed lunches. CALPIA
12 estimates that the annual sales of this packaged
13 product will increase to 7.2 mill in 2013, with a
14 substantial offsetting decrease in CDCR's purchases
15 of individually packaged food items. Future
16 customer requests and demands may require capital
17 investment, but no additional investment at this
18 time, other than what has already been approved.

19 As part of the fiscal year 2010-2011
20 California Prison Industry Authority annual plan,
21 the PIB approved 250,000 for additional improvements
22 at the Corcoran satellite facility and an additional
23 500,000 was appropriated for fiscal year '11-12 and
24 approved in the annual plan by the PIB.

25 There are over 450,000 opportunities daily to

1 utilize a prepackaged meal in CDCR institutions.
2 That is 150,000 inmates times three meals a day.
3 This was written before we got the number for AB
4 109. Now that is about 135,000. So that is to
5 mention about 405,000 opportunities per day. So
6 135- times three is about 435- opportunities per day
7 and 3,100,000 opportunities to utilize prepackaged
8 meals weekly in institutions if this product is used
9 more than that, more than just the previously
10 indicated emergency feedings.

11 CALPIA's production capacity will be
12 approximately 200,000 per week, indicating that at
13 most CALPIA can only provide 6.3 percent of the
14 total possible demand for this product, and some of
15 that production capacity will be redirected to local
16 customers. Additionally, CALPIA production is
17 limited by existing revenue limits for this
18 enterprise. To increase revenues above existing
19 limits, CALPIA would be required to hold additional
20 public hearings along with approving action of the
21 PIB. The CALPIA is not asking or anticipating a
22 need to request an increase in existing revenue
23 limits at this time.

24 Current staffing levels for this operation are
25 adequate. The Corcoran location will eventually

1 provide inmate assignments for 40 inmate worker
2 assignments. The inmate workers in all programs
3 receive training in all aspects of the program,
4 including shipping and receiving, food handling and
5 safety, equipment operation, maintenance inspection,
6 quality managing, testing, and inventory control.
7 Inmates assigned to the packaging operation are
8 enrolled in certification programs through the
9 National Restaurant Associations ServSafe and Hazard
10 Analysis Critical Control Program, HACCP. All
11 inmate workers are required to be certified in the
12 food handler ServSafe program. In addition, inmates
13 who have not received a high school diploma or
14 equivalent are required to participate in the
15 General Education Diploma Program and complete their
16 GED within two years of starting employment with
17 CALPIA.

18 The technical skills and certifications
19 obtained in this program will allow the inmate
20 worker, when paroled, to seek employment in this
21 growing industry. According to the California
22 Employment Development Department, approximately
23 6,500 new jobs are expected to be created in the
24 State of California in this field over the next
25 eight years.

1 Currently, inmates assigned to CALPIA work
2 programs have recidivism rate that is 25 percent
3 less than inmates in the general population of CDCR.

4 The primary manufacturer of boxed lunches
5 purchased by CDCR is Harvest Farms of Lancaster,
6 California, a subsidiary of Evergreen Pacific
7 Partners of Washington state, which is also the
8 parent company of Good Source. That is all in
9 Attachment 3.

10 However, in the current year and for a
11 majority of the previous fiscal year, since the
12 contract expired, Harvest Farms has been selling
13 very little product to CDCR. Instead, a small
14 business, McGinty Sales, has been invoicing CDCR for
15 sales of boxed lunches. Although the CDCR is
16 purchasing the boxed lunches from the small vendor,
17 CDCR's institution procurement staff indicates that
18 the boxed lunches they are purchasing are actually
19 produced by Harvest Farms and also delivered in
20 trucks that have Harvest Farms on the side of the
21 truck. A review of bids for the products indicates
22 Harvest Farms participates in bids to sell these
23 boxed lunches, but the bids reviewed indicate that
24 the small business secures the winning bid utilizing
25 small business preferences in price, which further

1 drives up the end user price.

2 If these lunches are manufactured by Harvest
3 Farms and delivered by Harvest Farms trucks, it is
4 unclear what the commercially useful function is of
5 this small vendor when they sell to CDCR.

6 Commercially useful function is defined, as
7 stated in Chapter 623, Statutes of 2003: A business
8 performing a commercially useful function is one
9 that does all of the following: Is responsible for
10 execution of a distinct element of the work of the
11 contract. Carries out its obligation by actually
12 performing, managing or supervising the work
13 involved. Performing the work that is normal for
14 its business, services and function. Is not further
15 subcontracting a portion of the work that is greater
16 than that expected to be subcontracted by normal
17 industry practices. A contractor, subcontractor or
18 supplier will not be considered to perform a
19 commercially useful function if the contractor's,
20 subcontractor's or supplier's role is limited to
21 that of an extra participant in a transaction,
22 contract or project through which the funds are
23 passed in order to obtain the appearance of small
24 business, microbusiness or DVBE participation.

25 As required by the Penal Code, CALPIA publicly

1 noticed this hearing as well as invited the McGinty
2 Sales Company and Harvest Farms to submit supporting
3 data, whether in writing or through testimony at
4 this public hearing, as to the impact of their
5 organizations from CALPIA's production of this
6 product.

7 CALPIA's manufacture of a limited line of
8 boxed lunches will result in additional business for
9 California vendors. One of the primary items in two
10 of the meals is sliced meat; and currently CALPIA's
11 meat plant does not have the additional capacity to
12 meet this demand and will purchase sliced meats from
13 approved vendors.

14 That concludes my presentation. I will be
15 glad to answer any questions.

16 MEMBER DAVIDSON: Thank you, Mr. Walker.

17 Mr. Almanza, Mr. Virga, do you have questions?

18 MEMBER ALMANZA: You talked about the
19 potential demand for boxed lunches. What do you
20 estimate to be the real demand?

21 MR. WALKER: Kind of waiting on CDCR to
22 define that. Right now, like I said, about \$3.2
23 million purchased last year. They were up to 3.9
24 million, which is about 3.9 million lunches. It's
25 about a dollar a piece they're buying them for. So

1 we estimate this year their demand to be somewhere
2 in the neighborhood of 7.5 million units.

3 Having said that, given the budget crunch of
4 the Department, and Warden Virga can probably speak
5 to this better than I, they're really looking to
6 redirect their resources and tech resources. And so
7 as evidenced in here, it's going to be somewhere
8 between the 7.5 million that we think is going to
9 happen in the standard course of business right now
10 and the potential to have 405,000 meals a day. So
11 I'm not sure. I'm not sure.

12 If you look at it and you just did the simple
13 math and you said you're going to get down to
14 somewhere in a hundred thousand and there are 365
15 days in a year and we're feeding lunch to them every
16 day -- I'm not good on math. What did I come up to?
17 36.5 million would be the high. I doubt that's ever
18 going to get there. If we had to draw a range,
19 somewhere between 36.5 million and 7.5 million.

20 MEMBER ALMANZA: Does the PIA's usually cost
21 a dollar?

22 MR. WALKER: The PIA unit, right now we
23 price it at less than a dollar. What I'm referring
24 to is the dollar is pretty much the average price
25 that the boxed lunches that CDCR has bought to date,

1 that average around a dollar. Some are a little
2 higher; some are a little lower. PIA is proposing
3 to sell the boxed lunches for -- the peanut butter
4 and jelly would be 83 cents, 83 and a half cents a
5 piece. The poultry bologna would be about 90 cents
6 as well as the poultry ham which is about 90 cents.
7 So it would be the 83, 84, 90 and 90.

8 MEMBER ALMANZA: So the \$1 is the average
9 cost incurred from --

10 MR. WALKER: Outside.

11 MEMBER ALMANZA: -- private industry?

12 MR. WALKER: Right.

13 MEMBER ALMANZA: And your proposed cost?

14 MR. WALKER: Between 80 and 90 cents each.

15 WARDEN VIRGA: I have a couple quick
16 questions. You answered most of them. Overall, how
17 many of the inmates in the system will this PIA
18 employ?

19 MR. WALKER: We're looking to -- right now
20 we called to -- SATF is employing about a hundred
21 and Corcoran is employing about 32. We will look --
22 and, again, this goes back again to Mr. Almanza's
23 question. If we're talking about 7.5, we may get up
24 to 50 or 60 at the current location; at Corcoran
25 another 20 or so. If it goes beyond that, it really

1 is going to be the scale of what we can serve. And
2 so I don't have a real good answer.

3 But if we did the simple math, we can get up
4 to a hundred or 200 inmates in that factory if we
5 started to do statewide on a grand scale.

6 MR. PATTILLO: Given the demand that's
7 being declined because of 109 reduction, a lot of
8 this is offset. Not only in dollars, but also in
9 inmates. A lot of our production, as Scott said,
10 2.2 million. We're thinking probably just from 109
11 reductions is 2.7 over the next 36 months.

12 WARDEN VIRGA: Is there any plans to make
13 this kind of -- if you get to this process where you
14 really started using it, this would be outsourced --
15 from the CSP standpoint, with the reduction of the
16 population we have today and our ability to produce
17 the product that we need internally, especially when
18 you're talking about a Level 4 prison that has
19 issues like the Level 4 prisons, has drastically
20 reduced the ability to take this type of boxed lunch
21 and take it out of the freezer and just pass it out
22 without having inmates to put it together. In the
23 circumstances, I'm going to a modified program and
24 see if in the facility that will work. I'm barely
25 surviving in terms of getting inmates to produce the

1 lunches and the dinners. And when I lose more
2 population out of the minimums and the gen
3 [phonetic], I'll be in a worse position to provide
4 workers to produce that type of a meal.

5 From my standpoint it's cheaper. It's easier
6 to produce and it's easier to store. From my
7 standpoint, I would be interested in doing it. And
8 you're talking about just under 3,000 inmates per
9 day, not counting Old Folsom, which is another
10 3,400, because we provide all the food to Old
11 Folsom. So you're looking at almost 6,400 inmates
12 365 days a year for lunch, at least. Not counting
13 the modified program where you have to give them
14 boxed lunches in between.

15 I understand the reduction affects you, but it
16 hits us at a Level 4 much harder when we have issues
17 like you do in a Level 4 institution.

18 MR. PATTILLO: I think there is some
19 increased cost associated with going to boxed lunch,
20 but some of those costs are going to be offset by
21 your reduction, as you spoke. You're losing a lot
22 of personnel with 109. This may be the only option
23 for you. But as it is right now, I think you're
24 purchasing a combination of bulk and packaged from
25 us right now. This would just turn into shifting of

1 that. So I think pretty much from CSP-SAC and
2 Folsom, it's almost a wash in that case.

3 But you brought up a point that we haven't
4 discussed, is actually the overall reduction of
5 staff that normally oversee the building of those
6 lunches inside the institution, which is another
7 factor to factor in.

8 WARDEN VIRGA: You stated an anomaly.
9 Losing the inmates and losing staff who are
10 responsible for the production of the food as well.

11 Are you, by any chance, looking at making
12 this, like, a milestone-type credit? Can you make
13 it a -- give them an asset --

14 MR. WALKER: We tried to get into that
15 process. It does -- it takes us a while. We are
16 still trying to figure out who is actually first on
17 that old milestone insertion. The step answer is
18 everything that we possibly can, that is either
19 externally or internally certified via some
20 sanctioned process, we are trying to get into the
21 milestone credit earning process.

22 MR. PATTILLO: In addition, at the next
23 Board meeting one of the proposals that's coming up
24 is to revisit 2003 legislation that authorized fire
25 camps to get two-for-one credit. Given that we have

1 a low recidivism and we've placed more people in
2 employment than the fire camps have, it seems to me
3 that the PIA should be considered for increased
4 sentence credits for those nonviolent offenders that
5 we deal with.

6 Right now, if we did it today, the State would
7 save \$33,000,000 a year.

8 WARDEN VIRGA: 33,000,000.

9 MR. PATTILLO: And it will decline. As you
10 know, we are going to get -- just like you, we're
11 going to get a bigger, badder inmate as we go down
12 the road.

13 WARDEN VIRGA: Right. I don't have any
14 other questions.

15 MEMBER DAVIDSON: Just a couple quick
16 questions. When would you be able to start
17 producing and providing these boxed lunches if you
18 got the --

19 MR. WALKER: We are looking at March of
20 this year to be totally ramped up. Obviously, right
21 now we have the ability to do a limited quantity.
22 But March of this year is what we are looking at to
23 be ramped up.

24 MEMBER DAVIDSON: And another question. I
25 believe it was addressed in a previous question. If

1 it is cheaper for CDCR to purchase the individual
2 items as opposed to the boxed lunch, is there
3 anything in addition to what the Warden just talked
4 about, any other reasons why CDCR, that you are
5 aware of, would want to purchase the boxed lunches
6 as opposed to the individual --

7 MR. WALKER: Like Warden Virga spoke to,
8 there is a resource, a person resource, the human
9 being resource issue, that's coming into the
10 institutions. As the population goes down, there is
11 a methodology. Quite frankly, the Department of
12 Finance out there says: You lose this many inmates;
13 you lose this many staff. It would be great if that
14 methodology - and certainly the Warden can speak to
15 this better than I can - addresses all those
16 nuances. It can't; there's just too many of them.

17 We were just talking earlier as an anecdote,
18 we have an off-site warehouse program right now. We
19 use that to offset the cost of standard PYs and
20 inmate's training and forklift training and all
21 those other things. Well, the officer overseeing
22 that program was attached to the gym over at
23 CSP-SAC. The Warden said the gym is coming down. So
24 that PY that was authorized for those inmates that
25 oversee this program is going away with it. And so

1 that's kind of between a rock and a hard place when
2 it comes to having the resources to oversee.

3 I believe the thing that I looked at in the
4 numbers I have seen has as overarching notion; it
5 still will be cheaper for the Department to buy in
6 bulk and assemble with inmate labor. Probably the
7 cheapest way to go about doing this. But if you
8 don't have the PY to supervise that, that becomes
9 very problematic. You just don't have the people to
10 do it. So this is not the best option, but maybe
11 the best option that is available to the Warden to
12 get the things done that he talked about, to make
13 sure that those inmates get fed.

14 MR. PATTILLO: There is other variables.
15 Level of the prison that Warden Virga described.
16 He's got supermax, one of the supermax here in the
17 state. If you go down south, like CIM or somewhere
18 else, there is little less supervision required for
19 those guys to pack their own lunch. In this case,
20 you have an excellent point.

21 MEMBER DAVIDSON: One last point. You
22 mentioned the capacity of 200,000 boxed lunches. I
23 forget if that was a day, a week.

24 MR. WALKER: A day.

25 MEMBER DAVIDSON: You said that is about 6

1 percent of the potential demand for that product.
2 So if you guys met that potential 6 percent demand,
3 does that mean outside vendors would still have the
4 opportunity to meet the remaining 94 percent?

5 MR. WALKER: Correct. That was based on
6 the notion that they serve boxed lunches at every
7 meal, which, unless it was an emergency situation,
8 they wouldn't. But, yes, that is correct.

9 MEMBER DAVIDSON: Okay. So questions?

10 MR. PATTILLO: If the Warden will have his
11 way, we'll have boxed lunch for dinner.

12 Can you address that, that they can't serve
13 boxed lunches for dinner?

14 WARDEN VIRGA: Only on an extreme emergency
15 situation do we have the ability to do that, but for
16 a short period of time. But the reality of it is in
17 these institutions we are getting rid of the low
18 level offenders and things are turned out, the
19 ability to have the same kind of workforce isn't
20 there. And every Level 4 prison in the State faces
21 the same issue I face on a regular basis. If I can
22 simplify, and either save costs or a little bit
23 cheaper and I have -- and I know at my institution
24 I'm losing three cooks, one of them out of the
25 minimum.

1 So I no longer have to worry about the inmates
2 in the minimum taking everything that comes in bulk,
3 and it all disappears. I don't get anybody fed.
4 Where I can have amounts put into a tuck -- one, put
5 it into a truck and drive it out there, and then
6 hand it out versus having to have five to seven
7 inmates put it together in a package and send it
8 out. It sounds simple. It was when we had the
9 inmates and staff. It is not as simple today. And
10 it's going to hit everybody; it's not just going to
11 hit my institution.

12 I feed Old Folsom. They're a Level 2, Level 3
13 institution. Well, if I can't produce the food, I
14 can't feed that institution. They have no ability
15 to produce their own food. So I'm in a rock and
16 hard spot on both ends of the deal. I've got to
17 take care of Level 4 and produce the food for Old
18 Folsom. You think you have Corcoran, SATF. Some of
19 the sister institutions are being pushed to share
20 resources more and more. Just, in my opinion, a way
21 to make it easier to deal with the changes this
22 Department is going through.

23 MR. WALKER: At 200,000 per week.

24 MEMBER DAVIDSON: I understand that there's
25 likely to be some public testimony on this issue.

1 If there is anybody from the public who would like
2 to --

3 MR. PATTILLO: You have speaker cards
4 there.

5 MEMBER DAVIDSON: Thank you.

6 Mr. Brett Nelson.

7 MR. NELSON: My name is Brett Nelson. I'm
8 with Harvest Farms. Unfortunately, I only have five
9 minutes to discuss this. But this whole overview is
10 riddled with intentional inaccuracies, that a few of
11 the bullet points that I would like to cover with
12 you that I think are pertinent.

13 First of all, the boxed meal program was
14 started back in the '90s; and it was never intended
15 for emergency use only. And at the 13th hearing I
16 will bring as many documents as I can possibly bring
17 from that individual contract. They were initially
18 for seven to eight feedings and weekend feedings for
19 facilities. And that is how the project was
20 designed. They're intentionally making it sound
21 different, making it sound like we did something
22 inaccurate during our contract, which is not true.

23 Inappropriate use of the contract. At the
24 consumer's request, we substituted a four-pack
25 cookie with a two-pack -- a two-package with a

1 four-package cookie. That is the change we made.
2 So it sounds all glamorous to use inappropriate use
3 of the contract to make a dramatic point, but the
4 point is our customer requested a better cookie; and
5 we gave them a better cookie at the same price.
6 That's how we inaccurately used the contract.

7 The PIA claims that they'll lose revenue, and
8 they lose revenue with facilities going to Harvest
9 Farms boxed meals. And that's true. But at the
10 request of Mr. Cate we met with Steve Amos, and we
11 came up with a proposition to use PIA items in our
12 boxed meals that would not only prevent a further
13 loss of PIA sales, but would also give them
14 additional sales to facilities that they don't
15 currently sell to and have been on the boxed meal
16 program for years. That proposal for no reason was
17 shot down, and we got a big no for that.

18 They claim that the 2010 May hearing, that the
19 Board did not say anything about not using boxed
20 meals. That is a hundred percent inaccurate. Of
21 course, we don't know that because the transcripts
22 were destroyed. However, there was a very
23 passionate, long hearing. Many of our employees
24 testified. And the unanimous decision by the Board,
25 unanimous, was to not go to boxed meals. The

1 \$558,000 was pulled for that purpose, and we were
2 assured by many Board members personally that the
3 Board, PIA, would not go to the boxed meals. This
4 has also been articulated to members of the House
5 and the Senate personally, that PIA would not go
6 into boxed meals.

7 We're just a -- it's kind of hard to figure
8 out why we are here when we had a hearing; and in
9 our world and the way it was understood by everybody
10 in that Board member [verbatim] that this was a done
11 deal, and it was a decided-upon issue back in May.

12 We are a California company that employs very
13 good people that are trying to keep their jobs and
14 have to continually look over our shoulder. Not a
15 very good way to have to run a business.

16 One of the other comments was that the average
17 cost of the PIA boxed meal was going to be less than
18 the Harvest Farms meal. And that also is
19 inaccurate. When I looked at the menu they provided
20 here, which I just got for today, our price listing
21 for this meal would be in the high seventies, low
22 eighty cents as well. Probably a few cents less
23 than the PIA meals.

24 So it is important for me -- I don't want to
25 get into an argument back and forth at this point,

1 but for you Board Members, for getting a snapshot
2 view of what our program is, to see some of the
3 gross inaccuracies in what's being testified to.
4 Also, the procedure that they use to purchase is the
5 procedure that was sent out on an email by Stacy
6 Lopez-Kassis on May 26th, for them to continue
7 purchasing through delegated purchase in the process
8 that we're currently purchasing the boxed meals.

9 Harvest Farms has been a partner with the
10 State of California for many years. Not only with
11 the sliced lunch meat, but we have a vegetable
12 contract, boxed meal contract. And we feel with the
13 DGS we're a preferred vendor. There was no other
14 people who bid against us for the boxed meal program
15 back when we had that contract because they didn't
16 want to compete at the low cost that we competed at.
17 Bridgeford Food, Valley Food, Sun Meadows, Super
18 Bakery, they all make boxed meals. They chose not
19 to compete with us because our prices were so low.
20 It is not our fault that we do too good of a job
21 that no one wants to compete with us.

22 So, we will go into this more on the 13th if
23 the Board decides to go through with the boxed meal
24 program on the agenda. But I would like the Board
25 to pull this item and direct the PIA to stay out of

1 the boxed meals and to let us go about our business
2 in the same spirit of the vote back in May of 2010,
3 and let us continue to employ a hundred employees
4 with a good paying union job and benefits in an area
5 that is very, very high unemployment rate.

6 So we ask -- at this point we would ask the
7 Board to make the recommendation to the full Board
8 that the PIA does get out of the boxed meal as they
9 have promised us and let us go about doing our
10 business as a partner of the State of California.

11 MEMBER DAVIDSON: Can I ask you one
12 question, Mr. Nelson?

13 Your company, do you sell to other
14 governmental entities other than CDCR? Any other --

15 MR. NELSON: Yes.

16 MEMBER DAVIDSON: State and local?

17 MR. NELSON: Yes. It is important to know
18 that those other sales are possible because we have
19 the State of California business. We would not have
20 product on hand to do emergency orders for other
21 facilities. In fact, the lion share of the business
22 we do is boxed meals in the state of California. If
23 we were to lose this business with PIA, we'd be
24 essentially laying off all those people.

25 MEMBER DAVIDSON: CDCR is the largest?

1 MR. NELSON: Absolutely. That is the
2 largest customer for our company. And that would
3 close the Harvest Farms Lancaster facility and put
4 approximately a hundred people out of business, out
5 of work.

6 MEMBER DAVIDSON: Thank you.

7 MR. WALKER: If I could, real quick, a
8 point of clarification. That is DGS' analysis of
9 our contract, not PIA's.

10 MR. NELSON: That is correct. We had a
11 meeting with the DGS, and we provided that
12 information. For some reason they still did that.
13 I would be happy to provide as much information as
14 you want, as far as all the things that were alleged
15 in there. I have the original contracts back in 18-
16 -- 1989, 1990, somewhere in there when the first
17 facility went on board. And it was for weekends and
18 seven-day feeding. In fact, the only time we were
19 in emergency ever is in those contracts or bids when
20 it refers to facilities that want to use the program
21 for an emergency, they can add to the contract
22 emergency situations. We've had that many times.
23 We'd be servicing, like, four or five facilities.
24 And, for instance, Lancaster was on lockdown at one
25 point. So they were able to use that contract.

1 Even though they weren't on the initial contract,
2 they were able to jump on to that contract for
3 emergencies. We got them meals within 24 hours.
4 But that's the only reference to the word
5 "emergency" referenced in that.

6 Every contract that came out or bid that came
7 out, it had an estimated use by the facilities,
8 which clearly shows it's weekend feedings, 52
9 weekends a year or seven-day-a-week feedings, 52
10 days [verbatim] a year. The numbers don't add up to
11 emergency feedings. The numbers add up to a
12 facility wanting it seven days a week. That's what
13 the bids show. That's how we bid the product.
14 That's how the contracts were issued.

15 So this -- it sounds like it's silent on the
16 detail, but it's not. The program was developed
17 back in the day for the same reason that the
18 experience that you are having at Folsom, is that
19 the facility had a need. And we worked with that
20 facility and developed this boxed meal program to
21 fill the need. They could not produce meals without
22 having the product stolen. They couldn't monitor
23 the inmates. For whatever reason, they needed a
24 boxed meal program. That's how it started. The
25 emergency part is just a benefit that many

1 facilities use us in their emergency plan when they
2 have a lockdown because they know we have this
3 contract or this business. And we have the ability,
4 when they have a lockdown, to fulfill their need.
5 But it is a side effect, benefit, to the program.
6 It is not the program. The program is --

7 Because how could you have an emergency
8 feeding situation? You just order bread every week
9 and hope that someone orders a meal. You have to
10 have product in hand, in the cue, in the system, in
11 the inventory. So when an emergency happens you can
12 respond. You can't just have a contract and then
13 the next day someone needs a meal and you have to
14 run out and buy chips and cookies. As far as
15 manufacturing, doesn't make sense.

16 Like I said, I can provide all the
17 documentation that showed from the very initial
18 contract it was meant for standard feeding, not
19 emergency.

20 MEMBER DAVIDSON: You say you have a
21 hundred employees in your Lancaster --

22 MR. NELSON: Probably between 80 and a
23 hundred, depending on. Last payroll like 84 to 87,
24 like to a hundred depending on --

25 MEMBER DAVIDSON: Is that your only

1 location, is Lancaster?

2 MR. NELSON: Harvest Farms is located in
3 Lancaster. We have three buildings right next to
4 each other in Lancaster.

5 MEMBER DAVIDSON: So you employ 84?

6 MR. NELSON: Between 84 and a hundred.
7 Right around there. I would say 87 would be a good
8 guesstimate as an average; 90 average for the whole
9 year.

10 MEMBER DAVIDSON: Could you estimate what
11 percentage of your sales are for government purposes
12 versus non-government? What would you estimate
13 that?

14 MR. NELSON: We're basically -- basically,
15 what we do is corrections. We have a few, small
16 things that we do as an add-on. But --

17 MR. NOBILI: Department of Forestry when
18 there is a fire. They'll -- there is situational
19 purposes. They do have some small contracts that
20 are federal or local facilities, but they're
21 nominal.

22 THE COURT REPORTER: Could you just
23 identify yourself?

24 MR. NOBILI: Mark Nobili.

25 MR. WALKER: You mentioned sales to CDCR.

1 We can't find any information that you're selling
2 boxed lunches to CDCR.

3 MR. NELSON: We sell through this small
4 business. But another inaccuracy is when we bid 90
5 cents, they bid 90 cents. There is no additional
6 cost for the small business that was referenced.
7 Our bids were the same, but the facilities need to
8 use small business for their tab, for their takeout.
9 So we actually pay money to have McGinty do it, to
10 follow the procedures. Their business bids are the
11 same as our bids. So we are not -- they are not
12 getting 5 percent business and not marking up the
13 price and spending more money. That is another
14 bullet point that was inaccurate.

15 Just, it's hard not to be passionate about
16 this because I'm representing a hundred employees.
17 We have people who've been with our company for
18 years - families, mothers, fathers, sons and
19 daughters - that work there; that have been there
20 forever. So I get a little passionate about it. I
21 don't want to see them lose their jobs.

22 And to be honest with you, because as a
23 California taxpayer, with all the business leaving
24 California, the revenues of the state going down, I
25 don't understand why we are trying to put a

1 California business out of business. I do have a
2 little bit of my own personal spin on this. From my
3 position, it doesn't make sense. We are doing a
4 good job. We do what the customer wants. Our level
5 of satisfaction is extremely high. Our lunch meat
6 program, we're the only one that bids on it now.
7 But our prices now, I think, are less than they were
8 when Land Across [phonetic] had the contract 15
9 years ago. We saved the State money. We've proven
10 to be a time-trusted partner with the State to save
11 money.

12 Being the only vendor for boxed sliced lunch
13 meat, we could have raised those prices 5 or 10
14 percent every year. We don't do that. We are a low
15 cost provider of the State. We've always viewed the
16 State as a partner in our business. Same thing with
17 our boxed meal program. We are the only ones to
18 sell them. We could be the same price as Bridgeford
19 Foods and Valley Food. Those guys are four or five
20 bucks a piece. We don't do that. We do a good job,
21 buy a high value product for the State. We want to
22 keep doing the same thing.

23 WARDEN VIRGA: I have a question. Scott
24 was talking about their ability in terms of the
25 total amount of product they are going to be able to

1 put out.

2 You were saying 6 percent?

3 MR. WALKER: Yes.

4 WARDEN VIRGA: Which would leave 94 percent
5 open for the current contract.

6 MR. NELSON: I don't understand that now.
7 I mean, if you have 103,000 inmates -- 130,000
8 inmates that had only one cold meal a day, 200,000
9 can't be 6 percent of that number any way you do the
10 math on that.

11 WARDEN VIRGA: The way it sounded to me,
12 that there wouldn't be an exclusion of your
13 business.

14 MR. NELSON: There would absolutely be an
15 exclusion of your business. The intent would be to
16 grow and take over all the business that we have, I
17 think.

18 MR. PATTILLO: What you're talking about
19 is, as the resources go down, there is 135,000
20 opportunities per day. If we did it three times a
21 day, it would be 405,000. So 135- times seven, what
22 is that? We can do 200,000 out of 900,000
23 opportunities a week, which is almost 20 percent.
24 If we went that way, we're talking about the full
25 use of it.

1 MR. NELSON: You're talking about the long
2 hanging fruit. This is also customers we've
3 developed. The other ones that are out there, sure
4 they're out there, there's potential. But the
5 intent is going to take the ones that we have and
6 have us start over again with the new facility.
7 Some of the facilities don't need it. Lower impacts
8 don't use boxed meals. Higher impact facilities do.
9 So that 200,000 -- so if all facilities went on and
10 all of them went on seven-day-a-week feedings,
11 you're talking about a completely different animal
12 than what we have here. That is not what is
13 currently the situation.

14 MEMBER DAVIDSON: Thank you, Mr. Nelson.

15 MR. NELSON: Thank you.

16 MEMBER DAVIDSON: Next, Mark Nobili. I
17 hope I got the pronunciation right.

18 MR. NOBILI: Actually, that's the accurate
19 way. Thank you.

20 I did have a question of this Board. Is your
21 action today a recommendation, or is it just simply
22 a support or non-support of the proposal? Or do you
23 guys do hybrids? Or is it nothing which you give to
24 the full Board?

25 MR. DAVIDSON: It is an opportunity for the

1 public to testify on --

2 MR. NOBILI: So there is no recommendation?
3 We are not really asking anything of you guys?

4 MEMBER DAVIDSON: Correct.

5 MR. NOBILI: Just filling in the blanks on
6 a couple things that Brett had already talked about.
7 I don't want to retread a few things.

8 One of the things we will be asking on the
9 13th of the full Board is to the very core of what
10 the Board's mission is. And when the Board was
11 created and PIA was created, there was a recognition
12 that there is an inherent advantage to the PIA
13 structure. And that is mostly that there is a
14 mandate that the State purchase what they produce.
15 It is only government entities. They are not
16 allowed to compete in the private sector.

17 The Board, what they were asked to do, the
18 main thrust of the Board is to weigh that benefit
19 against or that mandate against protecting small
20 businesses, protecting employees and employers.

21 This is an employer in the city of Lancaster,
22 which has one of the highest unemployment rates in
23 the state, in a terrible economy. The vast majority
24 of the employees that he is referring to, of those
25 84 I would say in the 70s are working in the

1 warehouse and on the lines. Those people make above
2 minimum wage and they have benefits. They have good
3 paying benefits right now. If they lose these jobs,
4 they're not finding another job. There's not a
5 bunch of people knocking on the doors to hire
6 ex-warehouse and packaging employees that have
7 benefits.

8 So from a board's perspective, there is an
9 absolute fact that if we lose this business those
10 people -- we are laying people off. I don't know
11 the company well enough to tell you exactly if the
12 entire company shuts down or if they layoff 50 or 70
13 of those people, but a vast majority of them are
14 losing their job in an area where they are not going
15 to find another job. Currently, they get benefits
16 and they have decent pay that's above the minimum
17 wage. That's an important fact when you lay it
18 against what's the benefit on the State side.

19 On the State side, Mr. Virga, right, we agree
20 with them. There is some ease of use. But he
21 should be -- he shouldn't care whether it's the PIA
22 or if it's a private sector. Heck, we would argue
23 that he should probably prefer that it be us. He's
24 insulated against lockdowns where it might affect
25 the PIA. He's insulated against mandated price

1 increases.

2 Some of the things that were in that survey
3 that they referenced I think were very interesting.
4 I hope you all get a chance to read -- it was the
5 PIA's own survey. It was a survey of, I think, 30
6 respondents, and it was the food service managers,
7 the people in charge of running their kitchen, in
8 charge of meeting their budgets. And the vast
9 majority of them -- actually, I think 28 of the 30
10 actually said that PIA in the food service industry
11 was doing a poor job. Of the people that they
12 reference for the boxed lunch program, eight said
13 they would not get -- they would not utilize the
14 boxed lunch program if the PIA was the one providing
15 those services. They specifically said, eight of
16 them of the 11, we would not do it if the PIA was
17 actually the one providing those services.

18 As the Board looks at the impact on a small
19 business and employees of that small business, I
20 would also hope that they know a larger, broader
21 problem that's facing PIA coming, and that is the
22 reduction in the inmate population. They already
23 are having a hard time filling positions. There
24 might be a wait list, but in terms of filling
25 positions, there is a vacancy rate in current jobs

1 within PIA. Those inmates that are the prime
2 inmates for those positions at PIA are the very
3 inmates that realignment was targeting to shift down
4 to the local levels.

5 Now, the true impact of realignment is not
6 known yet. We don't really know exactly how many
7 inmates are going to be shifted to the local levels.
8 So the PIA has got to be looking at across the
9 board. Not just in food service. A very good
10 problem: Where are you going to get your inmate
11 employees? As the Department of Corrections makes
12 decisions to maybe change the mission of some
13 institutions, that will impact PIA and their ability
14 to find candidates to fill these positions. The PIA
15 also has to compete with other services, such as the
16 fire camps. And it is very difficult for PIA to win
17 a candidate over somebody -- the same candidate
18 wants to go to a fire camp. He gets good time
19 credits if he goes up there. It is very difficult,
20 and that is a challenge.

21 So prior to expanding into a new business,
22 which they've already done, which we believe is in
23 violation of current law, by the way, so prior to
24 expanding into a business -- if there is not a real
25 demand for the PIA to get into that business and

1 putting our employees out of work, which is going to
2 force them onto -- create a net cost to the State in
3 terms of government services. That's the only place
4 for these employees to go. They are going to go on
5 to government service. So to create a net cost in
6 an environment where they cannot find a job in that
7 area, we don't understand the common sense behind
8 it.

9 We were asked by Mr. Cate if there was some
10 way we could work this out, if we could find a way
11 that could benefit both Harvest Farms and PIA. We
12 offered what I think is -- I can't find anything
13 wrong with it. We offered a proposal that - you
14 will see the full proposal on the 13th - that, in
15 short, essentially said, "Look, we'll take those
16 goods and products that you provide that are
17 currently under our contracts. We'll include your
18 goods and services, or your goods and products."

19 That means that they are going to have an
20 immediate increase in revenue. Immediately. We
21 figured it out to be at least a half million
22 dollars. They testified today that they are about
23 \$700,000 short if they swap over to the new boxed
24 lunch program for their own dollars because some
25 demand will do down and some would go up. That

1 proposal right there almost washes that out.

2 The other thing what we offered, we'll include
3 it in our other government contracts. And the way
4 that the mechanism would work and is key to the
5 whole thing, we wouldn't charge for those products
6 that we include in the boxed lunch because we can't
7 buy anything, since we are a private company, from
8 the PIA. So what we said is almost all our clients
9 are government contracts. Invoice them directly.
10 Piece of bread is produced by PIA. We just happen
11 to put it into a sandwich. We deliver it to Folsom,
12 CSP-SAC. PIA can invoice CSP-SAC directly for that
13 bread that was put into our boxed lunch program.

14 So day one, you end this fight and you protect
15 our employees at Harvest Farms. We become the
16 company that actually has to service it. Since we
17 are private sector, we have to be a good service
18 provider to the prisons. So you immediately
19 increase your production at PIA right away. You
20 protect our jobs, and we can get the PIA into
21 government entities that they haven't been able to
22 get into - locals, feds, forestry. We don't see a
23 downside to that at all.

24 I find it stunning that it would be suggested
25 that we never talked to PIA, that we never responded

1 after a visit. I am not sure where that comes from.

2 So if there were to be a recommendation or if
3 you can take it under consideration, we'll raise
4 that issue again on the 13th. Please do so.

5 MEMBER DAVIDSON: Thank you.

6 MR. NOBILI: Were there other questions on
7 other subjects that we talked about?

8 MR. WALKER: You are a lobbyist?

9 MR. NOBILI: At times I'm a lobbyist. At
10 times I'm a consultant.

11 MR. WALKER: You are kind of loose and fast
12 with the facts. You said that the vast majority of
13 the people that were surveyed said that PIA does a
14 poor job. Is that an accurate statement?

15 MR. NOBILI: For the food service, yeah.

16 MR. WALKER: That is an accurate statement?

17 MR. NOBILI: You had 20 --

18 MR. WALKER: I've got it right here.

19 MR. NOBILI: You are on Page 1?

20 MR. WALKER: Right.

21 Does PIA perform well in the following areas:
22 Customer Service, returning calls, meeting and
23 addressing in a timely manner?

24 MR. NOBILI: We just provided a copy --

25 MR. WALKER: Seventy-five percent of the

1 respondents said yes. Right?

2 MR. NOBILI: Do you guys have a copy of the
3 survey? This was a survey that PIA did.

4 MR. WALKER: PIA didn't do this. CDCR did
5 it.

6 MR. NOBILI: Quality of product from PIA:
7 26 -- three said they liked the quality; 26 said
8 they didn't like the quality of the products from
9 the PIA.

10 There was a pricing issue. These are the food
11 service managers. These are the people that
12 actually run the kitchens. They also have a budget
13 to meet. Of those, many of the comments were to the
14 costs where essentially -- you have some here saying
15 you are 30 percent more expensive than private
16 sector for a spot purchase, which is just picking up
17 the phone and calling somebody and saying, "Tomorrow
18 I need the following." Those are the most expensive
19 ways to purchase goods. This is not our survey.

20 MR. WALKER: No. It's CDCR's. But you are
21 getting anecdotal in here. If you look at --

22 MR. NOBILI: That was the question.

23 MR. WALKER: If you look at the rest of the
24 survey and look at the responses there, if you talk
25 about spot buying, Mark --

1 MR. NOBILI: Customer service, you guys did
2 well.

3 MR. WALKER: I wouldn't expect you to know
4 this. When you're talking about spot buys, there is
5 a big difference between a product that is specified
6 by CDCR and has certain specifications. I will give
7 you an example. Ground beef. Ground beef is
8 specified by the Department. It is not to have any
9 connected tissue. And when you go out and do a spot
10 buy, that's not a requirement.

11 So when you go out and try to compare those
12 two products, you say, "Look, you were buying this
13 for 30 percent less or PIA is 30 percent more," it
14 is not a fair and accurate statement.

15 MR. NOBILI: Ground beef with soy bulk that
16 I get from --

17 MEMBER DAVIDSON: I'm going to have to
18 interject. I'm not sure that this dialogue and this
19 interaction is really going to help any of us here
20 in entirely understanding the situation.

21 MR. NOBILI: Actually, here is -- this is
22 an extension of the point. We offered something
23 that benefits the PIA, benefits the State, benefits
24 the employees of the PIA, and it protects our
25 employees in Lancaster. It does so in an

1 environment where you have at least an unknown to a
2 severely shrinking inmate population as you go
3 forward. Probably the last time that I would be
4 looking to vastly expand my operations without
5 knowing for sure what to expect.

6 Then this survey, it even says that PIA is
7 \$3,000,000 above what they projected as would be
8 your required food services purchases. You're
9 already doing better than you should be, 3,000,000
10 bucks. Eight percent above what your projections
11 are.

12 In that environment I would request that the
13 mission that's given to the Board of considering all
14 the elements against protecting employees, that you
15 guys just weigh on the side of employees on this
16 one. There is also no time sensitive nature to do
17 this. The Board has already revisited three times.
18 I would encourage the Board to, a bare minimum, wait
19 for three years or two years, until the economy
20 turns around. Until unemployment in Lancaster is
21 below 15, 18 percent. There is really no time
22 sensitive nature for this.

23 Thank you.

24 MEMBER DAVIDSON: Thank you.

25 MR. PATTILLO: I want to say that we'd been

1 more than willing to consider any formal proposal
2 that they send to our attention. The proposal we
3 got was an email that Mark kind of laid it out, what
4 it was. For us to ship product to Lancaster to be
5 distributed by them and for us to bill folks like
6 Mr. Virga, kind of just mitigates any kind of
7 savings that would have been out there. If they can
8 send us something more than just an email, we would
9 be more than willing to look at it.

10 MR. NOBILI: We already did put it through
11 CDCR. We did present that to you.

12 MR. PATTILLO: That is what I just said.

13 MEMBER DAVIDSON: I think he is saying that
14 CALPIA has not --

15 MR. PATTILLO: We will consider all
16 proposals sent to us to look at. More than just an
17 email floated through CDCR to us.

18 MR. NOBILI: So could we, since there is
19 just one week to consider that, possibly you guys
20 consider pulling this off the hearing for the 13th
21 and hearing it on a different date while we work
22 through this with PIA?

23 MEMBER DAVIDSON: I don't know that we're
24 at liberty at this point to decide to pull it off
25 the agenda for the 13th. I think there is time to

1 send that proposal to CALPIA.

2 MR. NOBILI: Thank you.

3 MEMBER DAVIDSON: Thanks.

4 Next one is Paula Reed.

5 MS. REAL: Paula Real.

6 MEMBER DAVIDSON: I'm sorry. Easiest one,
7 I got it wrong.

8 MS. REAL: I'm just here to -- I'm the
9 fourth generation owner of a California company
10 incorporated in the State of California since 1926.
11 And we have -- I know how tough it is to be a small
12 manufacturing state. Back in 1995 we had 16
13 different competitors. And now we have -- in over
14 90 percent of my line I have no competitors at all.
15 Basically, everybody has fled California, and it is
16 a very tough economy.

17 We have sold to the prison for over 30 years.
18 We've done it through DGS, the procurement division.
19 We've sold all different types of beverages, from 10
20 percent beverages to 46 ounce, 100 percent to the
21 hospitals, youth authorities. We've done 50 percent
22 of number ten-ten.

23 About three and a half years ago we partnered
24 with PIA to look at working with them on the juice
25 side. And they were, at least six, seven of them

1 came down and went through our plant. We sat
2 together. We went through the possibility, the
3 different things we could do together. And we came
4 up with single strength juices that we would provide
5 in tankers, that we would ship over to Chino, and
6 Chino would put them in the small, four-ounce
7 juice cartons and sell them to all the different
8 prisons.

9 From that date we worked with them on many
10 different ways. In fact, they've been good enough
11 to call us and say, "Do you do this?" "Do you do
12 that?" "How about this how?" "How about that?"
13 And that has actually grown our business in the last
14 three and a half years where we started at nothing
15 with PIA to just under a million dollars right now.
16 We're a small company. We only have 20 employees.
17 We employ two ex-offenders. So it's about 10
18 percent of our business. And PIA is our third
19 largest customer. Right now not only are we doing
20 the juices, but we just put together a maple
21 project. We're doing maple syrup up to Corcoran.
22 We're getting it up to them to put in portion packs.
23 We've got two other projects that we're working with
24 them right now on extended items. And then we are
25 also doing concentrates, apple and grape, that they

1 are putting in their Jellos.

2 I understand how difficult it is as a small
3 manufacturer to be up against a big entity like
4 that, looking at your very important business, which
5 my DGS business was extremely important to us. So
6 what we were able to do, thank the Good Lord, was to
7 partner with PIA and to work with them so that now
8 they're even more, even a bigger customer. My
9 prison business is bigger than it was three and a
10 half years ago, when we were just doing for those 27
11 years before that all of the sales to them in the
12 various different forms.

13 So, basically, I just wanted to say that we
14 basically have found a way to work with them. Not
15 doing what we were doing before, but working in
16 conjunction with them and partnering with them to
17 increase our business and to extend what we are
18 doing now. And now, I guess, I would say that they
19 have helped me, and now I have my son working with
20 me. A fifth generation. So, thank you.

21 MEMBER DAVIDSON: What is the name of your
22 business?

23 MS. REAL: Ludford's, Incorporated.

24 MEMBER ALMANZA: Are you a partner with PIA
25 on this prepackaged lunch?

1 MS. REAL: I am not.

2 MEMBER DAVIDSON: Thank you.

3 Are there other members of the public that
4 want to present testimony?

5 So please note for the record that testimony
6 that was offered on this item.

7 Now, Mr. Pattillo, General Manager of the PIA,
8 will present the second item.

9 MR. PATTILLO: No more testimony regarding
10 the boxed lunch?

11 MEMBER DAVIDSON: No.

12 MR. PATTILLO: Thank you.

13 The second item on today's agenda is to gather
14 information and to hear testimony regarding the
15 proposal by the Coalition of Small and Disabled
16 Veteran Businesses. This specific coalition,
17 through their lobbyist, is requesting that State and
18 Consumers Services Secretary implement through DGS
19 what is called an off-ramp. That would enable state
20 agencies to purchase similar food products now
21 produced by CALPIA in an amount up to \$250,000 from
22 certified small and disabled veteran business.

23 Under current law, California state agencies
24 may preferentially purchase items provided by state
25 certified small businesses and disabled veteran

1 business enterprises under certain conditions. This
2 provision is commonly referred to as an off-ramp.

3 This proposal would have a substantial impact
4 to CALPIA. CALPIA saves the state general fund
5 millions annually from both the recidivism rate of
6 its participants as well as offering rehabilitation
7 program slots that the Department of Corrections and
8 Rehabilitation does not have to fund. I think this
9 year we are averaging about 5,400 slots which will
10 roll through about 7,000 inmates. And that's 7,000
11 slots they don't have to come up with the money to
12 fund.

13 CALPIA also saves the State through price. If
14 a proposal impacts CALPIA, it also impacts those
15 savings. CALPIA provides the State as well as
16 public safety. Under law, CALPIA must be
17 self-sufficient. The Legislature does not
18 appropriate money from the budget to support CALPIA
19 enterprises. Our food and beverage packaging has
20 been a break-even business. Revenues for the
21 enterprise are declining and are expected to decline
22 further due to realignment. Some of that decline
23 will be offset by the sales of prepackaged meals as
24 Scott discussed previously.

25 In June 2011, the PIA approved reduction of

1 \$2.2 million in food and packaging for the current
2 year. Some of that was because of realignment, and
3 some of that was just because of shifting purchases
4 into things like packaged boxed lunches. Many of
5 the lost sales will follow inmates as they stay at
6 the local level, which will be another opportunity
7 for small businesses to compete. We don't have a
8 big footprint out in county jails very much. We are
9 pretty much limited to the state, which have some
10 small business customers, small county customers.

11 The implementation of the proposed off-ramp
12 for price is solely the determining factor that
13 would result in a 31 to 59 percent reduction in
14 revenue for the CALPIA Food and Beverage Packaging
15 Enterprise. When I say solely priced, we are not
16 taking into consideration recidivism savings,
17 reincarceration rates which DGS receives when you
18 don't purchase from us. Because it is a break-even
19 business, this drastic reduction of revenue would
20 result in the insolvency of the enterprise and its
21 closure. Consequently, 155 inmate positions and
22 eight civil service positions would be eliminated at
23 the three locations.

24 As a result of the closure of the food and
25 beverage packaging, the State of California would

1 experience increased general fund costs for
2 incarceration and rehabilitation programs of about
3 \$644,000 and forego the ongoing savings provided by
4 the enterprise.

5 Just a point. When we save you, Mr. Virga,
6 49,000 for a guy that is not going to come back,
7 that is not for one year, that is for the rest of
8 the guy's life.

9 In addition, the business that CALPIA offers
10 to small business and DVBEs through CALPIA purchases
11 amounts to 1.1 million last year. That would be
12 eliminated.

13 The proposed off-ramp would result in
14 increased charges by DGS for processing orders not
15 fulfilled by CALPIA. This transaction cost is right
16 around 102,000 a year, for that amount of loss. As
17 I stated previously in opening statement, we have
18 this item today because the Chair of PIB, Matt Cate,
19 Secretary of CDCR, in an effort to assist Secretary
20 Carballero, authorized this hearing to collect data
21 on both the impact to CALPIA from implementation of
22 the proposed off-ramp and from those business groups
23 that say the off-ramp is necessary to mitigate
24 impacts to their business from CALPIA, and that the
25 businesses provide help to reduce recidivism and are

1 major employers of ex-offenders.

2 CALPIA -- we strive to support businesses that
3 employ ex-offenders. As I mentioned, we are the
4 only entity in the state that provides a preference
5 for those businesses that hire ex-offenders.

6 That is why we preferentially buy from those
7 vendors who demonstrate that they do so. To
8 demonstrate that, there is a form at EDD that you
9 fill out that says you hire ex-offenders. You get
10 credits. It is on file. You can show us.

11 So we are very interested in employment
12 opportunities for ex-offenders. We made numerous
13 efforts through meetings and direct requests with
14 the Coalition of Small and Disabled Veteran
15 Businesses and their lobbyist to get information
16 that support their claims that they do hire
17 ex-offenders. Thus far we have been provided no
18 information either on the impact of the food and
19 beverage packaging on these specific small
20 businesses. We did review State Controller records
21 of primary food vendors of the coalition and found
22 that rather than their business being so affected by
23 CALPIA, as they claim, that there's actually been an
24 increase in revenue to these food vendors from the
25 State of over 160 percent in the last three years.

1 Similarly, we attempted to find out whether
2 those specific small businesses in the coalition who
3 are requesting the off-ramp employ ex-offenders.
4 Specifically, the Coalition of Small and Disabled
5 Veteran Businesses stated in an August 26 letter
6 that was sent to all 120 members of the Legislature
7 that members of the coalition employ ex-offenders,
8 and unless this off-ramp is implemented those
9 employment opportunities for ex-offenders would
10 disappear.

11 In a November 11th *Capitol Weekly* article, the
12 representative for the coalition, Lori Kammerer,
13 stated that the coalition was a major
14 anti-recidivism program. And according to the
15 article, she estimated that ex-offenders made up
16 about half of those employed by business in this
17 coalition. We repeatedly solicited information
18 about employment of ex-offenders from this
19 coalition. The response to date has been to state
20 that they didn't make the assertion or to provide
21 data that does not apply to the coalition
22 specifically.

23 Additionally, some of these same businesses do
24 business with us. And so they win bids with us. So
25 we looked at their bid sheets, and they never

1 claimed the preference that they employ
2 ex-offenders. We have no way to verify the claim of
3 ex-offenders. This is why the hearing is useful.

4 Bottom line, we do affect the economy. We
5 affect it in a positive way. We have about
6 497,000,000 multiplying factor of about 1,700 jobs
7 statewide that result from us. So we are a tax
8 producing agency employees as well as the vendors,
9 that we purchase almost a hundred million dollars of
10 raw materials from. We save the State through
11 recidivism reduction, price and alternative
12 programs, and we do employ offenders. It is hopeful
13 in the near future we will be getting a day-for-day
14 credit that we talked about.

15 In general, the requested change in policy
16 that they request from the Secretary to implement or
17 asking the Secretary to ask DGS to implement would
18 require a change in statute, as we believe it cannot
19 be implemented without legislation. The proposed
20 off-ramp is contrary to Penal Code Section 2807 that
21 requires that prior to purchasing a product or
22 service or executing a statewide contract, the
23 Department must verify that CALPIA does not offer
24 the product or service, which in many of the cases
25 we do.

1 I will be happy to answer questions for you.

2 MR. ALMANZA: There is no legislative
3 proposal?

4 MR. PATTILLO: No legislative proposal.

5 Mr. Almanza, as a member of DGS, you heard my
6 spiel a few times now. I bet you could've given it.
7 Right now your Secretary has asked to do this. And
8 our research indicates that it has to be done
9 through legislation. It has been proposed
10 previously twice in legislation. We are just doing
11 this as a favor. The Chairman asked to get the
12 information. Your Secondary asked the same
13 information. So that's kind of how we got here.

14 This will be an information item today. I'm
15 hoping we can elicit some information. Just like
16 all the items that we have, we've asked specific
17 four questions: What do you sell? What do you do?
18 How many offenders? Those kind of things. And
19 we've yet to get that. We are hoping through this
20 and January 13th that we will get more information.

21 That would be it for me. Thank you.

22 WARDEN VIRGA: I don't have any questions.

23 MEMBER DAVIDSON: First person, Lori
24 Kammerer.

25 MS. KAMMERER: Good afternoon. Lori

1 Kammerer, representing the Coalition of Small and
2 Disabled Veterans Businesses, in addition to the
3 Small Business California. The Coalition of Small
4 and Disabled Veterans Businesses has a board of 17
5 small business vendors, ranging from food to
6 trucking to warehousing, primarily located in the
7 Central Valley.

8 Small Business California has 5,000 members,
9 and there are many certified small businesses and
10 not certified. For the purpose of this discussion
11 today and my comments today, I'm speaking on behalf
12 of the Coalition of Small and Disabled Veterans.

13 Both the Coalition and Small Business
14 California are also members of the DGS Small
15 Business Advisory Council. And back at the
16 beginning of this year, all of us sat down, which
17 includes members of NFIB, National Federation of
18 Independent Businesses, the Hispanic Chamber of
19 Commerce, the Black Chamber of Commerce, and several
20 other small business associations. We met with DGS
21 procurement and talked about different ways that we
22 can help small businesses improve their contracting.

23 And I'm going to jump into, I guess, the
24 off-ramp. The discussion that I'm supposed to be --
25 or topic that I'm supposed to be discussing today is

1 on preferences, but I will start with the off-ramp
2 because the off-ramp, basically, enables small
3 businesses to compete with PIA for the State's
4 business.

5 In utilizing an off-ramp, the preferences do
6 not apply. And the preferences for small business
7 is 5 percent, and for the disabled veterans
8 businesses it is 3 percent. And so we are looking
9 for a way, representing small businesses to try to
10 compete, to increase opportunities for small
11 businesses to compete with PIA.

12 Mr. Pattillo had said that we had not provided
13 information on ex-offenders, et cetera. We had sent
14 an email a couple times, actually. The first one,
15 December 14th, through information that we were able
16 to obtain through EDD. Rather than going to
17 individual members and give what we thought might be
18 an inaccurate count on who is an ex-offenders, who
19 is a worker that is certified under WOTC or who is
20 an at-risk employee, we went to the Department of
21 Industrial Relations and asked them to provide a
22 five-year snapshot of how many ex-offenders had been
23 hired. So rather than targeting our coalition and
24 the 17 people that are 17 of 17,000 certified small
25 businesses, we decided to give you guys a bigger

1 picture in terms of how many ex-inmates are actually
2 put to work. Are working.

3 The numbers in 2005 --

4 And did you get that, Mr. Pattillo, that
5 email, December 14th, that showed the five-years?

6 MR. PATTILLO: I did. But, specifically,
7 the question asked by both Secretaries, and there
8 were several people in this room that were in that
9 meeting - specifically the number of ex-offenders
10 your coalition employs.

11 MS. KAMMERER: Yes.

12 MR. PATTILLO: And that was the information
13 that Secretary Caballero asked you twice for. You
14 have not responded to that specific request. I
15 received your email. It was not responsive to the
16 Secretary's request.

17 MS. KAMMERER: Specifically, we did
18 respond specifically to the request that we were not
19 able to provide legally the information because of
20 EEOC, because federal and discriminatory laws. In
21 most cases, and I will give the example of how an
22 email that I sent to you guys and Caballero and
23 Secretary Cate. Most of the small businesses, and I
24 know we have some small -- certified small
25 businesses in the room as well.

1 Many of them go to temporary agencies rather
2 than say, "Okay, we're going to hire. We've got
3 several positions." They will go through a
4 temporary agency who will be able to screen
5 employees and be able to determine is this an
6 at-risk employee, is this an ex-offender, et cetera.
7 So the employer then contacts the temporary agency
8 and brings in an employee. In many cases the
9 employer doesn't know if that, in fact, is an
10 ex-offender. The only way the employer finds out is
11 when they contact the EDD to get the hiring
12 preference.

13 I'm not sure about the PIA preference in terms
14 of what preference PIA would give. But for all
15 intents and purposes the small business gets a
16 hiring credit because they have hired someone out of
17 the WOTC program, Work Opportunity Program. Our
18 guys in terms of telling you how many we have, some
19 of the employees that they hire are anywhere from
20 five to 17 to 25. It depends on the level of work.
21 It depends on the level of contract that they have
22 been awarded. And so a lot of it depends. It
23 fluctuates.

24 I think you've heard from some of the other
25 small businesses. So we did provide that

1 information. Rather than singling out, as I
2 mentioned, the coalition's specific membership, we
3 basically gave you a statewide average. That
4 information has -- is fine, as far as I know, with
5 Secretary Caballero, Congressman Costa, Senator
6 Rubio and Assemblymember Raia. That information was
7 sufficient for them. As far as -- and I have to be
8 very honest, I'm not quite sure what the purpose is
9 of telling, here are 17 members, here are the people
10 they hire, here are the amount of employees they
11 have rather who are ex-offenders, et cetera.

12 I think the point is, and that has been
13 stressed with Mr. Nobili and the speaker prior to
14 me, is that this is about jobs. And we very much --
15 the coalition, and I don't speak for NFIB or for any
16 of the other five organizations who support this
17 off-ramp, we are all about jobs. In talking with
18 Legislators and talking with the Governor's office
19 and talking with numerous Legislators, et cetera, we
20 have asked what can we do to the State of California
21 to help put people to work. Help small business.

22 We've heard of all the different issues,
23 access to capital, providing small business with
24 more incentives to hire people that are at-risk
25 employment. What we're looking to do is try to

1 bring in the ability for small business to compete
2 with PIA. We are not saying to PIA, "Halt your
3 operations." That is not what we are proposing. We
4 are proposing that you enable small business to
5 compete. We are companies. We are the small
6 businesses. These are the guys who will, in fact,
7 hire ex-offenders. The jobs that they are providing
8 are basically light industrial. These aren't
9 accountant positions. They are not legal positions.
10 These are working people, minimum wage.

11 And the more we are able to provide positions
12 for ex-offenders, or just the population at large,
13 we know that is going to help the economy. That's
14 my -- did you have any questions?

15 MEMBER DAVIDSON: I have a question. How
16 would you plan to achieve this off-ramp?
17 Mr. Almanza asked a question earlier about
18 legislation and no proposed -- how would you propose
19 to do that?

20 MS. KAMMERER: That is a very good
21 question. Thank you. There is a couple ways.
22 Secretary Caballero and her undersecretary basically
23 feel that she does have the authority to go ahead
24 and do an off-ramp. One of the correspondent that
25 we had made was: Can a director at DGS exempt the

1 procurement of goods from the Prison Industry
2 Authority? The answer was yes. Government Code
3 Section 14612(e) states that: Notwithstanding
4 Section 2807 of the Penal Code, the Director or his
5 or her designee could procure goods from the private
6 sector even though the goods may be available from
7 the Prison Industry Authority when his or her
8 discretion -- when, in his or her discretion, it is
9 cost beneficial to do so, and the Director or his or
10 her designee continues to include the Authority in
11 soliciting quotations for goods.

12 And there is a couple of other areas in the
13 Government Code that would give the Secretary the
14 authority to do so. However, in discussions with
15 Congressman Costa and Legislators, et cetera,
16 especially Secretary Cate and Caballero, it was
17 their feeling that we would work with you guys,
18 trying to do - I heard the word - partnership. That
19 if we can form some kind of agreement, perhaps a
20 memorandum of understanding, that small businesses
21 would be able to compete. We are looking just right
22 now at food. We are not looking at other areas that
23 PIA produces or manufactures. We are looking
24 primarily in food.

25 That is the membership of the coalition

1 primarily in the Central Valley, north and south.
2 That is kind of the hub of the small business
3 warehousing and supply and trucking and everything
4 else. That is what we are trying to do.

5 As far as legislation, there are numerous -- I
6 shouldn't say numerous. I know of two that may be
7 introduced in terms of doing legislation. Several
8 years ago Assemblyman Mendoza had put together
9 legislation that would enable small business to
10 compete with the PIA. Those bills were stuck in
11 appropriations because of the fiscal concerns. I
12 think sometimes it takes a crisis in the State of
13 California for people to take notice. Okay.

14 We now have the highest unemployment. We have
15 more people out of work. Maybe at this time, maybe
16 to sit down and kind of think outside the box. We
17 need to tighten our belt.

18 And that is why we're coming to PIA. We would
19 like to partner with you guys. Be able to do a
20 pilot project. That was another thing that we had
21 proposed. Can we look at a pilot project for one or
22 two years to enable small business to compete with
23 PIA? We are confident that we can be at or below
24 the prices. In some cases there will be areas where
25 we can't be below. We can't compete with PIA. In

1 that case, then PIA's got it.

2 MEMBER. DAVIDSON: Any other questions?

3 WARDEN VIRGA: No.

4 MR. PATTILLO: Clarification. The
5 Government Code she's quoting is actually the best
6 value consideration that DGS takes into
7 consideration. Usually, it turns on major products.
8 PUC (phonetic) was one where we looked at 16142.

9 MEMBER ALMANZA: It is not an off-ramp like
10 an off-ramp that we have in place for --

11 MR. PATTILLO: It's a huge ramp.

12 MEMBER ALMANZA: -- awarding to small
13 businesses. It allows the Director to approve an
14 exemption when a State agency wants to make a
15 purchase for a product that PIA offers and can
16 demonstrate it is cost beneficial to put it out to
17 competition, go out to bid. That it can result in
18 saving taxpayer dollars.

19 The Secretary of Department of Corrections and
20 Rehabilitation wanted to ask the Director of General
21 Services for approval to go out to compete on a
22 product that PIA offers. The Director could
23 consider that, that request, and approve it if it is
24 demonstrated that it is cost beneficial to the State
25 to do so.

1 MR. PATTILLO: Usually occurs with larger
2 products, like a mod furniture and things like that.

3 The second thing I want to clarify, you said
4 you don't understand what our purpose is in asking
5 for the ex-offender data. Our specific purpose is
6 that you personally have written 120 Legislators
7 saying that you employ -- your group employs
8 ex-offenders. In addition, you've been quoted in
9 the paper as saying 50 percent of your employees in
10 the coalition are ex-offenders. That was the
11 information that we were looking to verify.

12 And you're telling us you cannot verify the
13 information?

14 MS. KAMMERER: I'm telling you what I told
15 you at the last meeting we had at Secretary Cate's
16 office. The article -- when I was contacted by
17 Malcolm Maclachlan from *Capitol Weekly*, his article
18 was already written. The fact that I think 50
19 percent or whatever I said, there were quotes in
20 there that -- and gross inaccuracies, in fact. That
21 is what I am telling you. I would not have known 50
22 percent. And, you know, what I heard is up to 50
23 percent.

24 The bottom line, the article was already
25 written because he wants to talk about AB 150 and SB

1 67, which was the 25 percent goal legislation, which
2 has been held. And we got on the topic about who I
3 represent, who my clients are, and the fact that
4 Titus Enterprises was founded in 1959. The
5 president of the company wasn't born yet. So there
6 were other little things like that and words being
7 twisted. And it is very interesting because the
8 writer has now gone to work for Assemblymember Huber
9 who is one of the Legislators who signed on the
10 support of the off-ramp.

11 MR. PATTILLO: That is a no?

12 MS. KAMMERER: That's a no. I don't know
13 where it came from in the article. I'm sorry, for
14 the record.

15 Any other questions?

16 MEMBER DAVIDSON: No.

17 Thank you.

18 MS. KAMMERER: Thank you very much.

19 WARDEN VIRGA: Can I ask a question real
20 quick?

21 You talked earlier about, if this went
22 through, it could be that demise, so to speak, of
23 PIA.

24 MR. PATTILLO: Of food and beverage
25 packaging. The methodology of the analysis, we do a

1 straight run on pricing. There is no real profit
2 margin in hardly any of that. What we did is some
3 areas were just so far below what the common price
4 is and some were not. It is more that big bulk
5 stuff that -- the packaging of peanut butter and
6 stuff like that. The commodity price was all over
7 the ground. If we just did it on price, we didn't
8 take into consideration recidivism, other savings,
9 alternative programing, that's what the 15 to 59.
10 At that point, I'm at break-even now. I'd be
11 insolvent. I've got two entities. This is one item
12 out of 26 business lines that we do. And we only
13 have two that we're declaring we know we have an
14 upfront loss. We just can't have another one like
15 that. That is what it would drive us to.

16 WARDEN VIRGA: The end result would be a
17 loss of the workforce that's inside the institution.

18 MR. PATTILLO: We asked the same question.
19 What's the value of an employed inmate? You know
20 he's occupied.

21 What's the value to you, Warden, of a hundred
22 inmates that are focused on something else than
23 harming staff?

24 WARDEN VIRGA: It is a lot cheaper to have
25 them working than it is to pay for the end result of

1 when they are idle.

2 MR. PATTILLO: We know the Pelican Bay
3 story. One riot can cost a lot of money when folks
4 aren't working.

5 WARDEN VIRGA: Basically, you're saying?

6 MR. PATTILLO: That would be the demise of
7 food and beverage. I think our computation shows
8 that.

9 MEMBER DAVIDSON: Rich Dryden.

10 MR. DRYDEN: I am Executive Director of the
11 California Disabled Business Alliance. Good
12 afternoon to everyone. We are a nonprofit that came
13 together in 1994 to support the implementation of
14 the California Disabled Veterans Business Enterprise
15 Program, which was enacted in 1989. It got off to a
16 slow start, so we got together to try to get some
17 oversight on the program and allow the completion of
18 the 3 percent goal for disabled veteran business.
19 To make some general comments.

20 First of all, we support at least you
21 considering a \$25,000 off-ramp pilot program as has
22 been discussed earlier. We are on record with that
23 in some correspondence. But my purpose is really a
24 little different. It's to give you some insight
25 into the importance of the DVB program and why it is

1 here, and then at the end to make sure you
2 understand that we want to be a partner with PIA in
3 working these issues specifically for DVBEs, 95
4 percent of which are also small businesses.

5 In 1989, the DVBE program came together for
6 two particular reasons. The first being recognition
7 of service above and beyond for those who served
8 their country and came back with injuries. But
9 secondly, perhaps not as grandiose but certainly as
10 important if not more important, was rehabilitation
11 of these disabled veterans through opportunity, to
12 bring them back into their economic societies as
13 providers and not as those who take, because they
14 have disabilities, but for those, in this particular
15 case, that are entrepreneurs and pay taxes and are
16 employers.

17 PIA has a similar mission from the aspect of
18 rehabilitation of those who are convicted felons
19 that have to return to the same financial societies.
20 There are many pieces of this that are tied to
21 legislation, obviously. The Penal Code, Contracting
22 Code, Veterans Code. But I have to state a couple
23 things that I think are so important that I really
24 would like you to take away and understand from the
25 aspect of what I believe the people of California

1 think.

2 Rehabilitation is a balance. Just like a
3 seesaw, business issues require the weight to be
4 added or subtracted, to balance operations. In this
5 case we need equitable participation of DVBE, most
6 of which, as I've said, are small businesses, within
7 the PIA procurement system. A piece of what we
8 would like to be a part of, to make happen. We must
9 consider the laws. Our aligned point is this: Good
10 laws have been enacted to rehabilitate our
11 constituents as they return to our economic
12 societies. But this is a critical piece. There is
13 a huge difference in these rehabilitations in that
14 convicted felons had their chance. Failed once,
15 twice, and are now getting a second chance, paid for
16 by the State of California. Disabled veterans had
17 their chance also. They succeeded. They suffered
18 injuries in heroic actions and are now getting
19 support, an opportunity with a goal at no cost to
20 the State of California.

21 If you don't believe in anything else today
22 regarding DVBE program, please leave with that. We
23 would like to assure in your deliberations that you
24 never misbalance the needs of convicted felons with
25 the needs of disabled veteran entrepreneurs. We ask

1 that you administer the programs to ensure that DVBE
2 get the most weight on the seesaw. Use them in the
3 small business DVBE option, which is different than
4 the off-ramp program, and ensure PIA meets the 3
5 percent DVBE goal, regardless of legal relief that
6 you may have from legislation. There is nothing in
7 legislation that says you shall not meet a 3 percent
8 goal or you shall not use disabled veteran
9 businesses. It simply gives you relief from
10 reporting. Our alliance, as your partner, stands
11 ready to help in this endeavor and is at PIA's
12 service.

13 Any questions?

14 WARDEN VIRGA: No.

15 MEMBER DAVIDSON: Thank you.

16 Ken Devore.

17 MR. DEVORE: Thank you for hearing us. I
18 am Ken Devore. I am here on behalf of the National
19 Federation of Independent Business, the largest
20 small business association in the United States and
21 in the California. Relatively new to this.
22 Something that we have been looking at and on behalf
23 of members. We represent over 20,000 small
24 businesses in California. And, by the way, the
25 Executive Director, John Cavett, sends his regards

1 to Chuck.

2 Our big concern. We just want business to
3 have an opportunity. California recognizes
4 experiencing 2.2 to 2.3 million unemployed. In a
5 boom year California can create 150,000 jobs. We
6 need about 15 consecutive boom years to wipe out
7 unemployment, which we'll always have some. Right
8 now it is the high unemployment that is reducing
9 CDCR's budget.

10 I just spent the last ten years in the Capital
11 as a chief of staff. So I am familiar with the
12 budget that you folks are experiencing. Public
13 safety, all across the spectrum, the different
14 agencies. And if we could put a third of those
15 people back to work, we would be running a surplus
16 in the state right now. So two-thirds of all jobs,
17 net jobs, created in the state right now are by
18 small business.

19 We are just asking for opportunities for small
20 business to compete. We are not asking for a
21 preference. If PIA can do it, more importantly,
22 hey, that's the market. It's my understanding -- I
23 heard the discussion earlier and I'm not experienced
24 on that particular section of law. It is my
25 understanding there is some question as to possibly

1 the Secretary of State and Consumer Services has
2 some discretion. It is my understanding that the
3 PIA has the ability to enter into an MOU or some
4 type of an understanding to allow for an off-road --
5 off-ramp, excuse me, for these types of contracts.
6 We just ask for that. I also understand there might
7 be some legislation this year coming out by a couple
8 different authors in the Legislature.

9 So appreciate the time. And if you have any
10 questions.

11 MEMBER DAVIDSON: Thank you.

12 MEMBER ALMANZA: Thank you.

13 MEMBER DAVIDSON: Is there any other public
14 testimony on this item?

15 Thank you.

16 Thank you all for your presentations and your
17 attendance here today. Testimony received today
18 will be considered by the full Board at our next
19 Board meeting scheduled for Friday, January 13th at
20 10:00 in Sacramento.

21 And this meeting is adjourned at 2:54. Thank
22 you.

23 (Public hearing concluded at 2:54 p.m.)

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1 REPORTER'S CERTIFICATE

2
3
4 STATE OF CALIFORNIA)
5 COUNTY OF SACRAMENTO) ss.
6
7

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

12 That I thereafter caused my shorthand writing
13 to be reduced to printed format, and the pages
14 numbered 3 through 90 herein constitute a complete,
15 true and correct record of the proceedings.
16

17 IN WITNESS WHEREOF, I have subscribed this
18 certificate at Sacramento, California, on this 10th
19 day of Januar, 2012.
20
21

22 /S/

23 _____
24 ESTHER F. SCHWARTZ
25 CSR NO. 1564