Welcome

Correctional Industries Advisory Committee Meeting

August 26, 2020

WASHINGTON STATE
CORRECTIONAL INDUSTRIES

Agenda

CI Advisory Committee Meeting

August 26, 2020
10:00AM – 12:00PM

Skype
1 (360) 407-3825
Conference ID: 7628562

10:15AM – 10:30AM	**Opening Remarks**	Sarah Sytsma, Director Correctional Industries Steve Sinclair, Secretary Department of Corrections Danielle Armbruster, Assistant Secretary of Reentry Division
10:15AM – 10:30AM	**Introduction of Committee Members**	Danielle Armbruster, Assistant Secretary of Reentry Division
10:30AM- 11:55AM	**Business Meeting** 1. CI Reorganization/Reduction 2. Class II Operations Report 3. Class II Financial Report 4. Open Forum 5. Market Share Report 6. CI Annual Report 7. Class I Report	Sarah Sytsma, Director Assistant Directors Scott Edwards Danielle Armbruster Lindsey Konrad Lindsey Konrad Calvin Thorpe
11:55AM – 12:00PM	**Closing Remarks**	Sarah Sytsma, Director
12:00PM	**Adjourn**	Sarah Sytsma, Director

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Communications

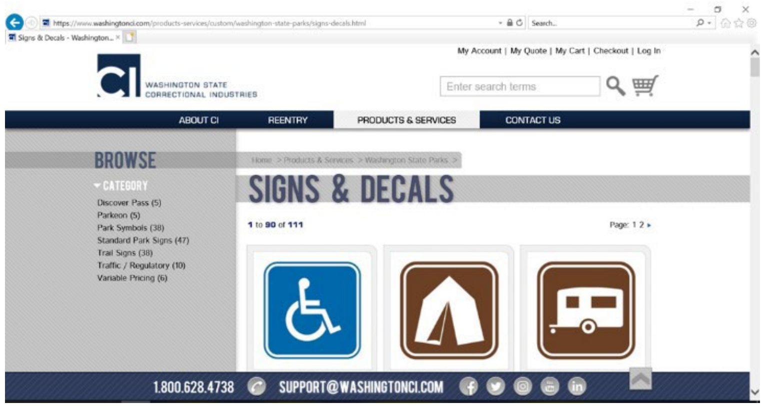
License Plates (Washington State Penitentiary)
Print/Signage and Tabs (Monroe Correctional Complex)

Although a challenging final quarter of FY20, still increased sales by 2.5% over the previous year.

COVID-19 impacted our operations at Monroe and the Washington State Penitentiary.

Opportunities for us to create new print and signage materials.

Updated our website.



Laundry
Servicing All 12 Facilities

Approximately 14M pounds of laundry washed in FY20.

Over the course of the last biennium, laundry has operated at an overall net loss.

Correctional Industries has requested a strategic rate adjustments by facility.

Laundry service is a vital component of a clean and healthy prison.

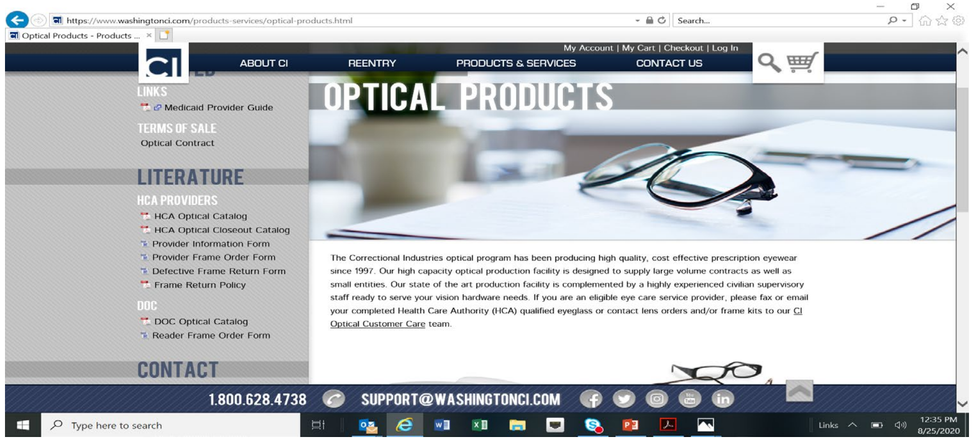
Optical
Airway Heights Corrections Center
Monroe Correctional Complex

Before the COVID-19 pandemic, Optical was working on reducing costs.

During the pandemic many provider offices were closed and our Account Executives were not able to travel to facilities.

As orders have been picking up, we have brought back more workers to match the workload.

The optical catalog has been given an update and facelift!



WASHINGTON STATE
CORRECTIONAL INDUSTRIES

Textiles

Coyote Ridge Correction Center, Airway Heights Corrections Center, Clallam Bay Corrections Center, Washington Corrections Center, Washington Correction Center for Women, Consolidated Distribution Center (CI HQ), and Stafford Creek Corrections Center (PPE)

The Textiles Division reached a milestone in March prior to the impact of COVID.

Textiles was tasked early on to develop PPE for DOC and State Agency use.

To date we have produced:

- 175,035 Protective Gowns
- 189,463 Reusable Adult Masks and 85,397 Reusable Youth Masks
- 134,787 Face Shields

Our regular textiles business has continued for our contracted work with the state, but also with Alaska State DOC and Clark County in Oregon.

Developing an upgraded mattress and improved tracking and replacement program for the incarcerated and the facilities.

WASHINGTON STATE
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Furniture Sales Division

- **CUSTOMER BASE**
  - **195 Customers**
    - State agencies (mandated by RCW)
    - City/Counties (non-mandated)
    - Higher Ed (non-mandated)
    - Non-profits (non-mandated)
- **SPACE DESIGN PROJECTS**
  - 440 space design projects valued in excess of $14M
  - Design programming hours = 5,133
- **MARKET TRENDS & NEW PRODUCTS**
  - Human-centric and ergonomically focused
  - Acrylic screens and space barriers
  - Home office solutions

Furniture Manufacturing

- **ORDERS PROCESSED** July 2019 – June 2020
  - 3,407 Total orders valued at $18.5M

- **INVENTORY**
  - Reduced raw material by 63%
  - Total inventory reduced by 70%

- **NEW PRODUCTS DESIGNED FOR COVID19 RESPONSE**
  - Hand sanitizer dispensers
  - Face shields
  - Vinyl shields as seen for phone booths in the units

McNeil Island Stewardship

- **MULTIPLE AGENCIES HOLD INTEREST IN MCNEIL ISLAND**
  - DOC, DSHS Special Commitment Center, WDFW, DNR, and Ecology
- **CAPITAL PROJECTS**
  - DOH water well project: completion estimated 12/31/2020
  - Electrical infrastructure $525K
  - Marine department electrical improvements $225K
  - Emergent barge slip electrical work $240K
- **MARINE DEPARTMENT**
  - Vessel fleet: 3 (includes recently acquired passenger vessel “Chinook” requiring modifications)
  - 53 year-old passenger vessel Neil Henly surplussed 12/2019
  - Callahan currently dry-docked for annual maintenance
- **ISLAND OPERATIONS**
  - Water filtration and wastewater
  - Diesel vehicle shop, maintenance, and heavy equipment grounds crew

Incarcerated Individual Services
Airway Heights Corrections Center & Monroe Correctional Complex

Commissary (Statewide)

Quarterly Food Program

Monthly Package Program

Bulk Jail Sales

COVID-19 Response

SB 6476

Curtain Barriers on Pick Line

Food Manufacturing
Airway Heights Corrections Center & Coyote Ridge Corrections Center

AHCC Food Factory Overview

CRCC Food Factory Overview

COVID-19 Response

New Product Development

External Sales

Food Service

Statewide Food Service Administration, Airway Heights Corrections Center, Coyote Ridge Corrections Center, Monroe Correctional Complex, Washington Corrections Center, Washington State Penitentiary

COVID-19 Response & Support

Hot Breakfast Update

Menu Developments

Quality Assurance

DOC/DOH Partnership

Food Service Newsletter

Workforce Development

Current Status of Reentry Efforts

- ►*Drastic change in Workforce Development numbers due to COVID-19 outbreaks in facilities which prevented workforce access/change in staffing model during the month of July.
- ►Month of June Correctional Industries offender workers served **533**
- ►Month of July Correctional Industries offender workers served **158**
- ►*Community Employment Specialist (CES) month of July.
- ►Released to the community **8**
- ►Secured work **12**
- ►*No drop seen in CES number from June to July

Workforce Development Cont.….

Cognitive Coaching in Learning Management System (LMS)

- Response to restrictions due to COVID
- COG coaching submitted and approved by Curriculum Development
- Developing script and test questions

FareStart Re-opening plan

- Tracking as of 7/22/20 all times frames changed since Phase I
- 21 Correctional Industries workers waiting for FareStart placement
- 5 of those are released
- Temporarily pausing applications and interviews unless the person has an ERD 1 year from the date of application

Trades Related Apprenticeship Coaching
TRAC

Offered at Washington Corrections Center for Women and Mission Creek Corrections Center

Number of Graduates

Relationships with several trades

Employment numbers

Moving forward with partnerships

Safety and Risk

2019-2021 Safety Audit Cycle

- Current State
- Scoring Comparison – 2017-2019 vs 2019-2021

Accident Severity

- Rating Categories
- Historical Trends – 2016 to 2020

Financial Operations

Financial Page – Format and Orientation

- Structure
- Cost Allocations
- Fund Reimbursement

Financial Overview

- Fund 401
- Historical Trends

FY 2020 Year-end Summary (Draft as of June 30, 2020)

Outlook – Corrective Actions

- Full Cost Recovery
- Cost Avoidance

Market Share Report

PURPOSE

Determine CI's percentage of revenue compared to similar businesses operating within the State of Washington.

Identify any markets in which CI holds a significant share.

Analyze current and potential impact of private sector businesses.

SUMMARY – FY2019

3 of 13 CI businesses evaluated hold a market share greater than two (2) percent.

- Laundry – primarily services DOC facilities statewide (2.264 percent market share)
- Food Service - DOC facilities only (3.838 percent market share)
- Field Crops (Wheat) - $157,014 total revenue (4.971 percent market share)

Market Share Report

EVALUATION PROCESS

Identify appropriate North American Industry Classification System (NAICS) codes for CI's 13 lines of business.

Request Gross Business Income (GBI) data from WA State Department of Revenue (DOR) for each of the identified NAICS codes.

Add CI's annual external revenue per line of business to the total GBI (*CI does not report revenue to DOR, therefor this step is necessary for an accurate total).

****CI does not include license plate manufacturing or vehicle validation tabs in the lines of business as CI is the sole source supplier to the WA State Department of Licensing.**

FY2019

Market Share Report

Business Line	WA GBI	CI Revenue	CI Market Share
Cardboard Boxes	$ 806,108,026	$ 79,598	0.010%
Embroidery & Screen Printing	$ 306,444,334	$ 861,179	0.281%
Field Crops - Wheat	$ 3,158,769	$ 157,014	4.971%
Food Service	$ 874,444,203	$ 33,393,688	3.819%
Food Manufacturing	$ 6,709,520,479	$ 6,875,115	0.102%
Furniture	$ 2,454,467,850	$ 26,198,910	1.067%
Janitorial Products	$ 3,016,097,652	$ 729,186	0.024%
Laundry	$ 156,086,457	$ 3,533,673	2.264%
Mattresses	$ 218,899,895	$ 1,050,303	0.480%
Optical Laboratory	$ 359,376,407	$ 4,820,844	1.341%
Printing & Signage	$ 993,298,961	$ 1,072,414	0.108%
Sanitary Paper Products	$ 2,096,253,023	$ 1,420,559	0.068%
Textiles	$ 397,124,568	$ 4,482,114	1.129%

Market Share Report

TOTAL WA STATE MARKET

WA State GBI for businesses within CI’s same industry totaled over $18.3 billion.

CI’s external revenue for FY2019 for evaluated businesses was $84.6 million.

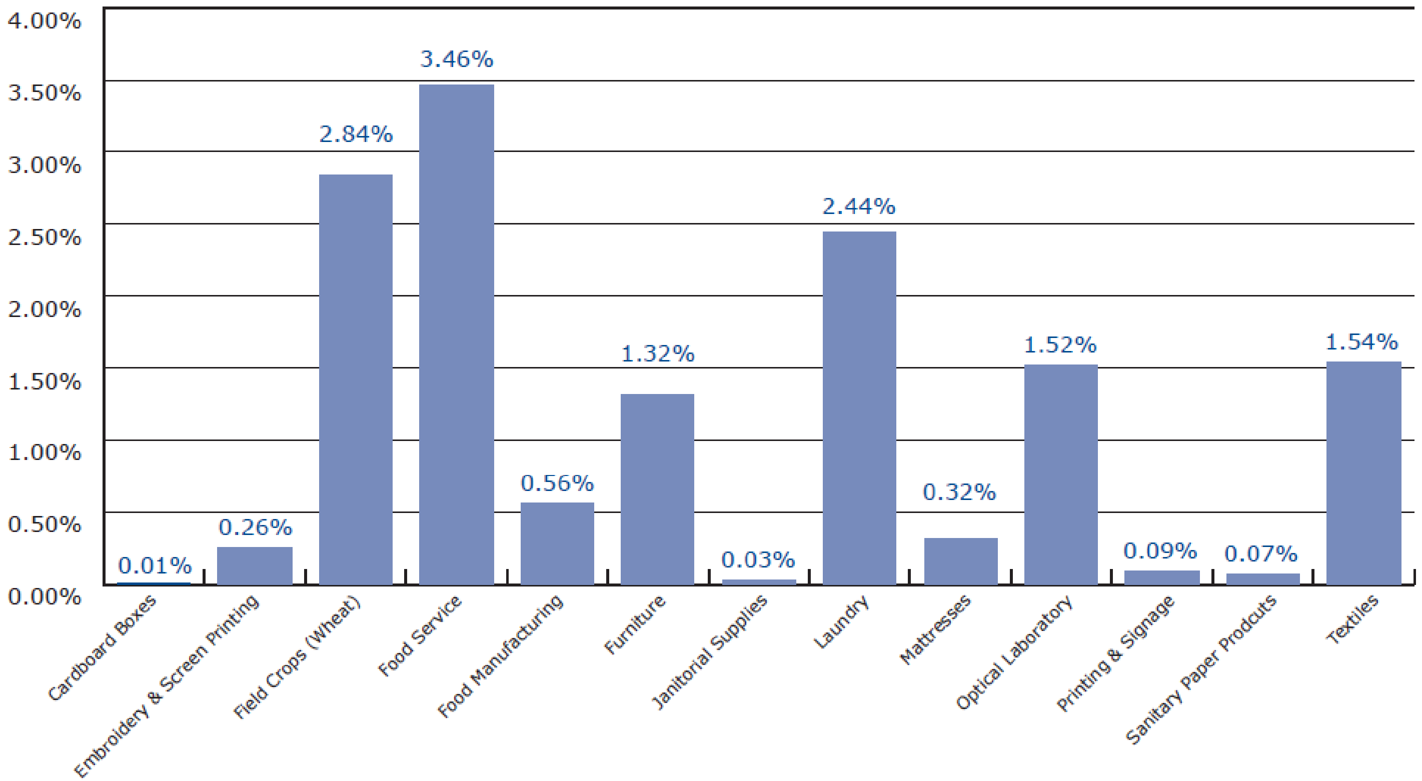
CI’s total market share in FY2019 was 0.46 percent.

Market Share Report

FIVE (5) YEAR AVERAGE MARKET SHARE

CI Five Year Average Market Share

Shown are the five (5) year average market shares for all CI lines of business included in this report. Three (3) businesses have an average share above two-percent - Field Crops, Food Service, and Laundry.



Annual Report

Annual report highlights:

- Current and previous fiscal year financial information
- Fiscal year stats
- Organizational successes

- **Printed at CI's Printshop – located at Monroe Correctional Complex**
- **Posted to CI's website – washingtonci.com**

Annual Report

JUST THE FACTS

FY2019

$1.932 MIL
Approximate amount incarcerated individuals contribute yearly from CI earnings to meet financial obligations

794
Number of workforce development training certificates awarded to incarcerated individuals

$53.5 MIL
CI contributions to the Washington State economy through purchases from local suppliers and staff salaries

96
Number of represented Standard Occupational Classifications for active CI incarcerated workers

3,709,520
Number of programming hours worked by active CI incarcerated workers

$899,833
Amount CI committed to the workforce development program

$0
Amount appropriated from the State's General Fund

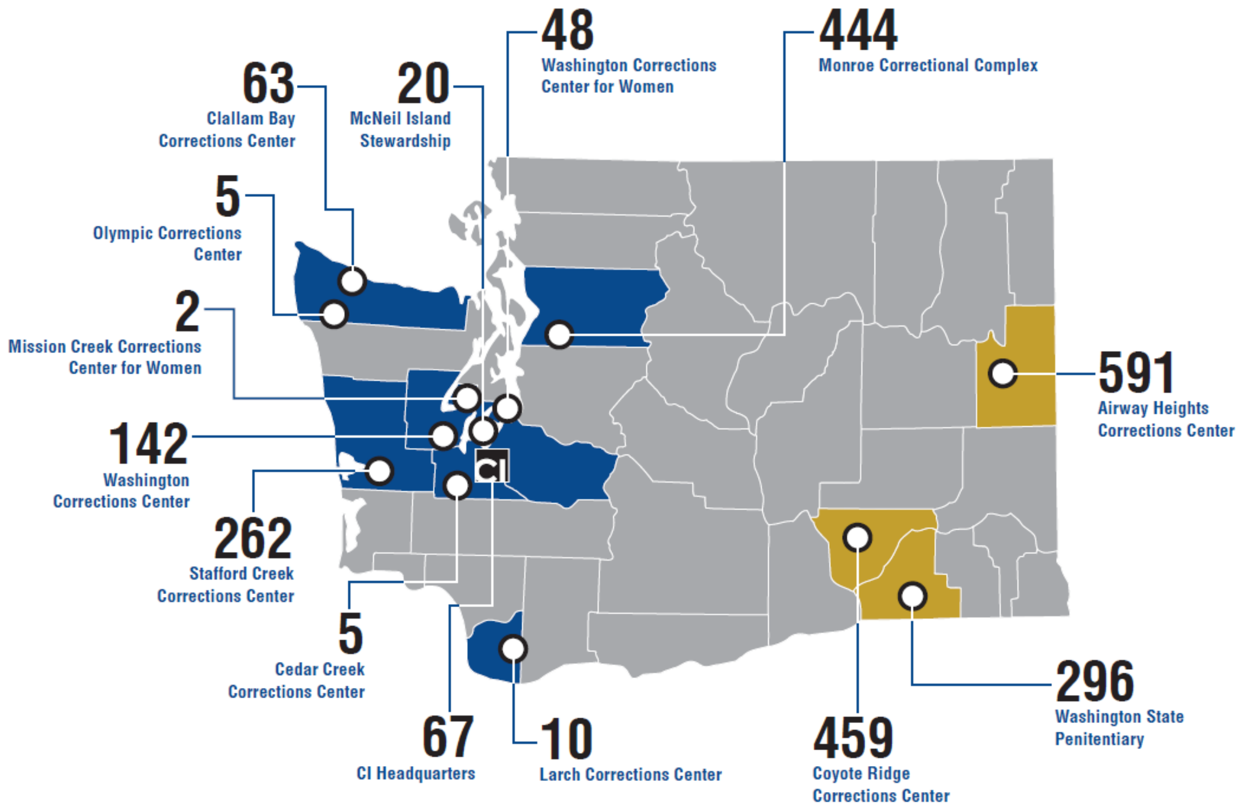
2,728
Number of online orders placed on CI's website totaling **$3,117,098** *in sales*

35
Number of incarcerated women who graduated from the Trades Related Apprenticeship Coaching program

Annual Report

CI LOCATIONS and WORKERS (as of June 30, 2019)

Total Workers – 2,414



WASHINGTON STATE CORRECTIONAL INDUSTRIES

Annual Report

SUCCESS STORIES

- Featured stories:
  - TRAC Program

    “I can get out with a fresh start and have a good job and be a productive member of society.”

    – Shawna Norbert, currently incarcerated individual

  - Braille Program

    “I was able to figure out who I was and what I wanted to do with my life.”

    – Felicia Dixon, currently incarcerated individual

- Food Service

  “Use the opportunity (working for CI) to prepare yourself mentally and acquire all the skills from the particular job you’re working and apply that in the real world.”

  – Charles Wood, previously incarcerated individual

- Metal Manufacturing

  “Now I’ve got a great job and a good life. Correctional Industries and all CI staff, was, and is, a part of what got me to where I am today.”

  – Jacob Sherman, previously incarcerated individual

Class I

- All Class I Time Frames Postponed
- A & I Manufacturing Inc.
- Custom Source Woodworking
- Clean Plumbing
- PlanLED Inc.
- Walla Walla Vineyard Management (WWVM)

DRAFT

ATTACHMENT A

DRAFT

Correctional Industries
CI SUMMARY FUND 401
Internal Operating Statement
For the Twelve Months Ending June 30, 2020

	1 Month To Date							2 Year To Date						
	Forecast	% of Sales	Actual	% of Sales	% of Forecast	Last Year	% of Sales	Forecast	% of Sales	Actual	% of Sales	% of Forecast	Last Year	% of Sales
SALES														
Sales External	$12,329,152	93.1%	$10,909,929	91.7%	88.5%	$18,242,843	96.1%	$99,398,733	90.8%	$99,184,679	90.2%	99.8%	$102,022,191	90.1%
Sales Discounts	(50,604)	-0.4%	(36,938)	-0.3%	73.0%	(116,068)	-0.6%	(188,567)	-0.2%	(245,762)	-0.2%	130.3%	(313,847)	-0.3%
Sales Internal	967,349	7.3%	1,028,744	8.6%	106.3%	865,283	4.6%	10,230,117	9.3%	11,015,472	10.0%	107.7%	11,550,214	10.2%
A ***Total Operating Revenues***	***13,245,897***	***100.0%***	***11,901,734***	***100.0%***	***89.9%***	***18,992,058***	***100.0%***	***109,440,283***	***100.0%***	***109,954,389***	***100.0%***	***100.5%***	***113,258,559***	***100.0%***
Direct Costs of Sales:														
Raw Materials Usage	7,344,827	55.4%	7,060,224	59.3%	96.1%	10,954,030	57.7%	61,951,068	56.6%	67,143,090	61.1%	108.4%	65,075,818	57.5%
Incarcerated Direct Labor	342,451	2.6%	318,148	2.7%	92.9%	359,650	1.9%	4,144,262	3.8%	4,175,806	3.8%	100.8%	4,343,762	3.8%
Direct Consumable Materials	123,138	0.9%	126,130	1.1%	102.4%	158,861	0.8%	1,163,276	1.1%	1,409,140	1.3%	121.1%	1,262,793	1.1%
Freight-in	58,336	0.4%	130,984	1.1%	224.5%	94,783	0.5%	455,202	0.4%	527,934	0.5%	116.0%	545,385	0.5%
Discounts Taken	0	0.0%	(3,518)	0.0%	0.0%	(4,524)	0.0%	0	0.0%	(114,685)	-0.1%	0.0%	(128,664)	-0.1%
B Cost of Goods Sold	7,868,752	59.4%	7,631,968	64.1%	97.0%	11,562,800	60.9%	67,713,807	61.9%	73,141,285	66.5%	108.0%	71,099,094	62.8%
C Gross Margin (A-B)	5,377,145	40.6%	4,269,766	35.9%	79.4%	7,429,258	39.1%	41,726,475	38.1%	36,813,104	33.5%	88.2%	42,159,465	37.2%
OPERATING EXPENSES														
Civilian Salaries & Benefits	3,140,747	23.7%	2,836,134	23.8%	90.3%	2,740,932	14.4%	37,610,288	34.4%	35,317,445	32.1%	93.9%	33,262,213	29.4%
Civilian Overtime	104,780	0.8%	74,974	0.6%	71.6%	200,370	1.1%	960,367	0.9%	1,102,487	1.0%	114.8%	1,151,119	1.0%
Comp Time Pay Out	0	0.0%	14,300	0.1%	0.0%	0	0.0%	0	0.0%	119,240	0.1%	0.0%	0	0.0%
Transportation	(7,095)	-0.1%	0	0.0%	0.0%	0	0.0%	(65,437)	-0.1%	354	0.0%	-0.5%	0	0.0%
Purchased Services	271,639	2.1%	457,032	3.8%	168.2%	354,714	1.9%	1,900,020	1.7%	2,981,220	2.7%	156.9%	1,740,273	1.5%
Janitorial Services	33,856	0.3%	43,682	0.4%	129.0%	42,031	0.2%	419,623	0.4%	480,039	0.4%	114.4%	437,769	0.4%
Disposal Fees	12,229	0.1%	11,999	0.1%	98.1%	22,787	0.1%	94,084	0.1%	112,861	0.1%	120.0%	106,290	0.1%
Postage and Freight Out	27,002	0.2%	38,077	0.3%	141.0%	36,784	0.2%	335,900	0.3%	391,539	0.4%	116.6%	300,263	0.3%
Utilities	16,742	0.1%	30,128	0.3%	180.0%	26,531	0.1%	217,420	0.2%	192,899	0.2%	88.7%	190,266	0.2%
Depreciation	103,601	0.8%	103,839	0.9%	100.2%	(107)	0.0%	1,348,639	1.2%	1,363,749	1.2%	101.1%	1,579,909	1.4%
Maintenance-Equipment	47,591	0.4%	69,868	0.6%	146.8%	81,729	0.4%	676,083	0.6%	758,713	0.7%	112.2%	788,155	0.7%
Rentals & Leases	71,042	0.5%	77,259	0.6%	108.8%	91,571	0.5%	741,298	0.7%	550,428	0.5%	74.3%	605,983	0.5%
Tools & Equipment, Noncapi	26,859	0.2%	100,236	0.8%	373.2%	67,523	0.4%	531,712	0.5%	730,087	0.7%	137.3%	920,483	0.8%
Incarcerated Indirect Labor	163,623	1.2%	212,004	1.8%	129.6%	137,346	0.7%	1,917,338	1.8%	1,916,521	1.7%	100.0%	1,428,503	1.3%
Incarcerated Meals	3,105	0.0%	0	0.0%	0.0%	5,082	0.0%	19,462	0.0%	11,500	0.0%	59.1%	21,195	0.0%
Warranty Expense	303,095	2.3%	2,298	0.0%	0.8%	1,332	0.0%	1,150,954	1.1%	229,761	0.2%	20.0%	11,788	0.0%
Travel	42,906	0.3%	8,167	0.1%	19.0%	27,401	0.1%	395,600	0.4%	216,788	0.2%	54.8%	343,489	0.3%
Training	585	0.0%	4,589	0.0%	784.5%	1,410	0.0%	107,699	0.1%	29,795	0.0%	27.7%	81,146	0.1%
Maintenance-Vehicles	19,965	0.2%	34,701	0.3%	173.8%	45,333	0.2%	294,158	0.3%	338,927	0.3%	115.2%	291,674	0.3%
Fuel	57,788	0.4%	69,159	0.6%	119.7%	97,649	0.5%	616,395	0.6%	534,699	0.5%	86.7%	594,772	0.5%
Marketing	6,410	0.0%	5,624	0.0%	87.7%	743	0.0%	133,658	0.1%	20,740	0.0%	15.5%	78,264	0.1%
Supplies,	18,770	0.1%	34,518	0.3%	183.9%	31,073	0.2%	276,654	0.3%	344,087	0.3%	124.4%	309,789	0.3%
Unemployment	0	0.0%	0	0.0%	0.0%	1,893	0.0%	0	0.0%	21,142	0.0%	0.0%	7,358	0.0%
D TOTAL OPERATING EXP	4,465,239	33.7%	4,228,588	35.5%	94.7%	4,014,127	21.1%	49,681,915	45.4%	47,765,021	43.4%	96.1%	44,250,701	39.1%
E ***OPERATING INCOME*** (C-D)	***911,906***	***6.9%***	***41,178***	***0.3%***	***4.5%***	***3,415,131***	***18.0%***	***(7,955,440)***	***-7.3%***	***(10,951,916)***	***-10.0%***	***137.7%***	***(2,091,236)***	***-1.8%***
NON-OPERATING REVENUES (EXPENSES)														
HR Allocation	199	0.0%	0	0.0%	0.0%	0	0.0%	1,050	0.0%	0	0.0%	0.0%	0	0.0%
Administration Allocation	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0.0%
Risk and Safety Allocation	(193)	0.0%	0	0.0%	0.0%	0	0.0%	(1,352)	0.0%	0	0.0%	0.0%	0	0.0%
HQ Facility Allocation	0	0.0%	0	0.0%	0.0%	0	0.0%	1	0.0%	0	0.0%	0.0%	0	0.0%
Accounting Allocation	591	0.0%	0	0.0%	0.0%	0	0.0%	2,950	0.0%	0	0.0%	0.0%	0	0.0%
Site Allocation	0	0.0%	0	0.0%	0.0%	0	0.0%	900	0.0%	0	0.0%	0.0%	0	0.0%
Continuous Improvement All	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0.0%
Enterprise Solutions Allocati	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0.0%
IT Allocation	1,914	0.0%	0	0.0%	0.0%	0	0.0%	9,596	0.0%	0	0.0%	0.0%	0	0.0%
Marketing Allocation	609	0.0%	0	0.0%	0.0%	0	0.0%	3,068	0.0%	0	0.0%	0.0%	0	0.0%
Commissary Admin Allocati	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	225.0%	0	0.0%
Communication Admin Alloc	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	100.0%	0	0.0%
Food Admin Allocation	0	0.0%	0	0.0%	100.0%	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0.0%
Food Service Admin Allocat	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	233.3%	0	0.0%
Furniture Admin Allocation	(5,990)	0.0%	0	0.0%	0.0%	0	0.0%	(5,990)	0.0%	0	0.0%	0.0%	0	0.0%
Laundry Admin Allocation	0	0.0%	0	0.0%	50.0%	0	0.0%	0	0.0%	0	0.0%	-47.9%	0	0.0%
Optical Admin Allocation	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	0	0.0%	16.1%	0	0.0%
Textile Admin Allocation	0	0.0%	0	0.0%	-66.7%	0	0.0%	0	0.0%	0	0.0%	41.2%	0	0.0%
Comp Time Liability	0	0.0%	16,711	0.1%	0.0%	0	0.0%	0	0.0%	(103,119)	-0.1%	0.0%	0	0.0%
Interest & Amortization Exp	0	0.0%	(75,875)	-0.6%	0.0%	(89,750)	-0.5%	0	0.0%	(90,908)	-0.1%	0.0%	(112,658)	-0.1%
Other Income (COI)	350,990	2.6%	485,487	4.1%	138.3%	356,527	1.9%	2,091,082	1.9%	2,427,086	2.2%	116.1%	2,139,632	1.9%
Non-Operating Revenue/Exp	(122,970)	-0.9%	(428,237)	-3.6%	348.2%	(15,556)	-0.1%	(860,790)	-0.8%	(1,463,551)	-1.3%	170.0%	(1,043,464)	-0.9%
Fund Reimbursement	34,631	0.3%	627,378	5.3%	1811.6%	4,406,555	23.2%	277,048	0.3%	8,770,277	8.0%	3165.6%	4,406,555	3.9%
Obsolete Inventory	0	0.0%	0	0.0%	0.0%	0	0.0%	0	0.0%	(22,550)	0.0%	0.0%	(54,197)	0.0%
Miscellaneous Revenue	0	0.0%	0	0.0%	0.0%	212	0.0%	0	0.0%	401,780	0.4%	0.0%	757	0.0%
Prior Period Adjustments	0	0.0%	2,055	0.0%	0.0%	136,811	0.7%	0	0.0%	(974,533)	-0.9%	0.0%	(320,037)	-0.3%
F ***TOTAL NON-OPERATING EX***	***259,782***	***2.0%***	***627,519***	***5.3%***	***241.6%***	***4,794,799***	***25.2%***	***1,517,561***	***1.4%***	***8,944,482***	***8.1%***	***589.4%***	***5,016,588***	***4.4%***
G Net Income (E-F)	1,171,688	8.8%	668,697	5.6%	57.1%	8,209,930	43.2%	(6,437,879)	-5.9%	(2,007,435)	-1.8%	31.2%	2,925,352	2.6%

Highlighted line-items reflect cost-allocated program areas. Beginning in FY 2020, CI implemented cost allocations to reflect each industry's proportional share of indirect expenses, enhancing transparency while promoting full-cost recovery in product/service pricing, effective business decisions, and long-term program viability

Unaudited Interim Statement

ATTACHMENT B

WASHINGTON STATE
CORRECTIONAL INDUSTRIES

Department of Corrections
PO Box 41115
Olympia, Washington
98504-1115

December 2019

FORECASTING AND PRODUCT PRICING

REFERENCES:

RCW 72.09.090; RCW 72.09.100; DOC Policy 710.400; WAC 137-80; SAAM; GAAP Core Principles

POLICY:

Correctional Industries (CI) will:

I. Maintain compliance with the State of Washington's statutory provisions and administrative regulations concerning financial operations.

II. Model administrative and financial practices emphasizing accuracy, consistency, and transparency to support effective business decisions.

III. Maintain financial alignment of respective programs and lines-of-business by site, industry, revenue and expense.

IV. Allocate headquarters, site, and industry administration expenses to all Fund 401 revenue generating programs and industries as well as General Fund supported programs.

V. Develop and implement long-term financial strategies to ensure ongoing program reinvestment through phased equipment replacement.

VI. Develop and maintain appropriate product pricing to ensure full cost-recovery of all forecasted direct and indirect expenses and program reinvestment.

DIRECTIVES:

Staff will support CI policy compliance by adhering to Forecasting and Product Pricing directives.

I. FORECASTING REQUIREMENTS AND RESPONSIBILITIES

The following general requirements shall be maintained when developing the CI forecast.

A. SCHEDULE

The Headquarters Accounting Unit will develop and publish an annual forecasting schedule, with sufficient milestones to achieve the following deadlines. This will ensure timely implementation, effective July 1 of each year.

1. December 10 – Forecast Development Schedule Published
2. April 15 – Cost Allocated Expense Forecast and Equipment Replacement Schedule Published
3. May 1 – Phase 1, Proposed Forecast and Product Pricing
4. June 15 – Phase 2, Final Forecast and Product Pricing
5. June 30 – Final Forecast Published

B. DEVELOPMENT

Forecast development is a collaboration by and between staff assigned to programs (e.g., Workforce Development), services (e.g., Human Resources, Information Technology), sites (e.g., General Manager, Business Manager) and industries (e.g., Statewide Program Manager/Administrator, Operations Manager, Shop Manager, Account Executive), with support and assistance from the Headquarters Accounting Unit and respective members of the CI Leadership Team. Accordingly, the following general responsibilities shall apply:

1. <u>Schedule</u> – Staff participating in annual forecast development, including Product Pricing and the Equipment Replacement Schedule, shall prioritize their work and timelines to ensure completion according to the published schedule for both Proposed and Final Forecast.

2. <u>Preliminary Approvals</u> – Both Proposed and Final Forecast, Product Pricing, and the Equipment Replacement Schedule shall be reviewed and approved by each site and industry's corresponding Assistant Director prior to submittal to the Headquarters Accounting Unit.

3. Revisions – Following review by the CI Leadership Team, the Proposed Forecast, Product Pricing, and Equipment Replacement Schedule may require revision by respective sites, industries, programs, and services. Staff responsible for completing the amendments will do so according to the published schedule for Phase 2 (Final Forecast and Product Pricing).

4. Final Review and Approval – Following review and revision by the CI Leadership Team, a Final Forecast, Product Pricing, and Equipment Replacement Schedule shall be approved by the CI Director.

C. REVENUE AND EXPENSE ESTIMATES

Forecasted revenue and expenses will be guided by templates located on SharePoint, which must be prepared for respective sites, industries, programs, and services. Descriptions and forecasting requirements are provided as follows.

1. Internal/External Sales – Sales forecasts shall be developed by industry staff based upon the known customer base, historical activity and industry trends. At a minimum, forecast considerations must include:

    a) Contractual provisions concerning order volumes and/or allowable price adjustments (e.g., Inflationary Increases).

    b) Industry staff (e.g., Account Executives, Operations Managers, Brand Managers) contacting the known customer base to discuss and confirm anticipated changes in order volume.

    c) Communication by and between an industry's sales, manufacturing, and delivery functions to ensure sales order volumes inform other forecast areas (e.g., raw material procurement, freight, warranty, travel, overtime).

    d) Proposed and Final Forecast Sales must reflect Product Pricing that demonstrates full cost recovery (i.e., direct and indirect expenses). This includes proportional shares of all cost allocated expenses.

    e) Sales Discounts – Sales discounts are derived as a percentage of forecasted sales, which is included in the "Line Items as a % of Sales" template.

2. Cost of Goods Sold (Line Items as a % of Sales) – With exception of Direct Inmate Labor, Cost of Goods Sold components are derived as a percentage of forecasted sales. These items are forecasted using the “Line Items as a % of Sales” template, and include the following:

   a) Raw Materials Used – Raw materials are materials or substances used in the primary production or manufacturing of goods for sale. This line item represents an industry’s beginning inventory values, plus raw material purchases, less ending inventory values.

   b) Direct Consumable Materials – A material consumed or depleted upon use during the manufacturing process. Examples include, but are not limited to, laundry soap, gloves, sandpaper, drill bits, and welding gas.

   c) Freight In – Represents in-bound freight (i.e., shipping) charges for raw materials and/or consumables purchased for manufacturing.

3. Direct /Indirect Incarcerated Labor – Represents the actual (not authorized) number of incarcerated workers with corresponding gratuity rates. Site and industry staff shall input their existing incarcerated workforce and gratuity rates at the time of Proposed Forecast development. Unless required by an approved change in operations, adjustment to account for recruitment challenges, or identified error, incarcerated labor should not be revised between Proposed and Final Forecast. Incarcerated labor will be forecast in two categories:

   a) Direct – Represents labor in support of manufacturing a finished product or providing a service (e.g., Food, Laundry).

   b) Indirect – Represents labor not directly involved in manufacturing a product or service provision. All other work performed in support of an industry or line-of-business, including janitorial, clerk, and safety job functions.

4. Payroll (Civilian Salary/Benefits) – Represents the authorized (not actual) positions by classification and existing Salary and Benefits level. This worksheet shall also include corresponding cost-of-living adjustments (COLA) for each authorized position and Periodic Increment increases where applicable (i.e., represented positions). The following applies to forecasting CI payroll:

a) The Headquarters Accounting Unit shall develop both Proposed and Final Forecast payroll templates based upon authorized positions, current Salary and Benefits values, and estimated COLA. To the extent practicable, the Final Forecast will reflect final COLA as approved by the State Legislature and Collective Bargaining Agreements.

b) Each site, industry, program and service shall review respective Proposed and Final Forecast payroll templates to confirm the accuracy of Classifications, Salary and Benefits, COLA, and Periodic Increment increases. Errors, omissions, and/or changes must be communicated to the Headquarters Accounting Unit for correction.

c) Salary and Benefits, COLA, and Periodic Increment increases shall only be included for authorized vacant positions <u>if approved to be filled during the forecast year</u>. The Headquarters Accounting Unit will collaborate with respective staff to determine the appropriate month to forecast a vacant position being filled based upon the anticipated recruitment timeline.

d) Authorized positions identified to remain vacant for the entire forecast year shall be included on the payroll template. However, corresponding Salary and Benefits, COLA, and/or Periodic Increment increase expenses will be omitted.

e) New and/or modified positions shall only be included with the Proposed Forecast payroll template if previously authorized by the CI Director or supported by a proposed Decision Document for CI Leadership consideration. If dependent upon a proposed Decision Document, new and/or modified positions shall only remain in the Final Forecast upon CI Director approval.

5. <u>Civilian Overtime</u> – Represents the anticipated overtime necessary to sustain normal operations. All forecasted overtime will require justification, with review by the Headquarters Accounting Unit and approval by CI Leadership prior to inclusion in the Final Forecast.

   In preparing the overtime forecast, site and industry staff must consider:

   a) Routine Operational Requirements (e.g., Holiday and Vacation Coverage)

b) Historical Activity – This should include unanticipated overtime requirements (e.g., staff vacancies, equipment failure, emergent events)

c) Anticipated Industry Impacts – This includes, but is not limited to, planned changes in normal work schedules (e.g., Construction Projects).

d) Comp Time Payout – The fiscal impact of employee comp time payouts will be isolated in the agency's financials, separate and distinct from Civilian Overtime.

6. Comp Time Payout – Represents an expense of accrued Compensation Time, which is dependent upon a payout request (of comp time not used as leave) from eligible benefiting employees.

7. Purchased Services – Represents service technicians (i.e., Copier Maintenance, Exterminator, Document Shredding), third-party carriers for out-of-state shipments, and monthly cell phone service. When forecasting Purchased Services, consideration must be given to:

    a) Accurate Inventory – During forecast development, the Headquarters Accounting Unit and Information Technology Unit will collaborate with sites and industries to confirm accurate cell phone inventories.

    b) Changes in Services (e.g., increased/decreased service frequency)

    c) Contractual Adjustments (e.g., changes in hourly rate or other cost escalators)

8. Contractual Services – All contractual services including consultants and software licensing (included in the Information Technology Unit cost allocation). When forecasting Contractual Services, consideration must be given to:

    a) Accurate Inventory – During forecast development, the Headquarters Accounting Unit and Information Technology Unit will collaborate with sites and industries to confirm accurate software license inventories.

b) Changes in Services (e.g., increased/decreased hours, scope of service)

c) Contractual Adjustments (e.g., changes in hourly rate or other cost escalators)

9. Janitorial Supplies – General housekeeping supplies (e.g., latex/rubber gloves, toilet paper, paper towels, simple green, floor wax, general disinfectant). To the extent practicable, CI industries shall purchase janitorial supplies from CI lines-of-business (e.g., Textiles).

10. Disposal Fees – Local dump charges and fees incurred to properly discard operational waste and excess materials. Consideration must be given to anticipated increases in associated fees (e.g., dump fees or other inflationary adjustments).

11. Freight All Other – Charges to ship or receive product other than raw materials.

12. Utilities – Represents facility support expenses, including electrical, water, sewer, and garbage. When forecasting utilities, consider historical activity as well as:

    a) Operational Changes – Operational changes resulting in increased or decreased consumption (e.g., LED light upgrades)

    b) Rate Changes – Identify and apply anticipated rate increases for respective utility service providers.

13. Depreciation – Represents the annual operating expense (i.e., depreciable value) attributable to all fixed assets assigned to a specific site and/or industry. The Proposed Forecast will be prepared by the Headquarters Accounting Unit based upon existing fixed assets with remaining book value. The Final Forecast will be refined in collaboration with site and industry staff based upon the approved Equipment Replacement Schedule (See Section G. Phased Equipment Replacement) and anticipated procurement timeline during the forecast year.

14. Equipment Maintenance – Service performed to ensure machine operations sustain optimal performance and useful life. Equipment maintenance must follow the manufacturer's recommended service schedule. Site and industry staff shall confirm service to be performed on

existing equipment during the upcoming fiscal year and forecast the expense accordingly.

15. Rental and Leases – Facility (e.g., warehouse space), vehicles, copiers, multi-function devices, and computer leases. When forecasting this expense, consideration must be given to the following:

    a) Rate Adjustments – Annual lease rates reviewed and confirmed, ensuring escalators are reflected.

    b) Utilities – If leased facility space results in added utility expenses (e.g., electrical, water, sewer), ensure those associated costs are reflected in the corresponding Utilities Forecast Template (or notation is provided as to why it does not apply).

    c) Maintenance – If facility and/or equipment leases result in added maintenance expenses, ensure those associated costs are reflected in the corresponding Purchased Service or Maintenance Forecast Template (or notation is provided as to why it does not apply).

16. Tools and Equipment (Non-Capitalized) – Hand tools or equipment with a purchase price less than $5,000. The forecast template must be itemized based upon anticipated tool and equipment requirements.

17. Incarcerated Meals – Meals for incarcerated individuals not returned to an institution prior to the facility meal time. For example, an installation crew may not complete its work prior to lunch and/or dinner periods. Accordingly, the incarcerated will be fed and CI will incur a meal expense. When forecasting Incarcerated Meals, staff must base expenses upon the approved per diem meal rate in effect at the time of Proposed Forecast development.

18. Warranty Expense – Expenses incurred to correct product deficiencies following delivery to a customer. Examples include, but are not limited to, cosmetic, structural, or other damage. It may also include a finished product not reflecting order requirements or customer specifications.

19. Travel – Planned employee travel including, but not limited to, conferences, training (including CORE), site visitation, and audits. Travel associated with investigations shall be forecast by the Human Resources Unit and cost allocated accordingly. Sites and industries will forecast Corporate Management Team (CMT) travel based upon an approved meeting

schedule determined by CI Leadership. It is anticipated CMT meetings will be split equally between eastern and western Washington.

20. Training – Planned employee registrations (e.g., professional development), excluding travel. Training expenses with agency-wide benefit will be forecast by the Human Resources Unit and cost allocated accordingly.

21. Vehicle Maintenance – Service performed to ensure vehicle operations sustain optimal performance and useful life. This includes, but is not limited to, standard oil changes, major engine service, and tire rotations/replacement. Site and industry staff shall confirm service to be performed for each vehicle during the upcoming fiscal year and forecast the expense accordingly.

22. Fuel – All gas, diesel, and propane fuel costs incurred to sustain CI operations.

23. Marketing – Expenses benefiting an individual site, industry, function, or program. Note: Expenses generally benefiting all CI functions, programs, and industries (e.g., Golf Tournament, Annual Report) will be forecast under Headquarters Administration or the Marketing Unit, with the cost allocated accordingly.

24. Interest Expense – Interest charged by vendors for late payments. Payments to vendors should be made timely, with interest only paid on a late payment due to CI actions. The Headquarters Accounting Unit will forecast this expense. Accordingly, no template is required.

25. Bad Debt Expense – Bad Debt represents receivables a customer will not pay. The Headquarters Accounting Unit makes every effort to fully collect all receivables. A site/industry forecast template is not required.

26. Supplies – Standard supplies used to sustain CI operations (not used for production or services provided to a customer). This includes, but is not limited to, office supplies, paper, pencils, and printer toner. The forecast template must be itemized based upon anticipated tool and equipment requirements.

27. Unemployment – Unemployment represents a quarterly expense billed by the State Unemployment Office, subject to eligible former employees initiating unemployment draws. Accordingly, a site/industry forecast template is not required.

28. Discounts Taken – Discounts Taken reflects vendor terms including a sale discount for paying early. This line items is included with the "Line Items by % of Sales" template. Forecasting this savings will reduce the forecasted Cost of Goods Sold, overall.

D. COST ALLOCATIONS

Cost Allocations shall be developed and implemented to support full cost-recovery of non-revenue generating services, functions, and program areas. Allocations will be based upon reasonable and defensible methodology demonstrating proportional cost-sharing for respective benefiting industries. CI will endeavor to refine the following methodologies over time for the purpose of heightened transparency and accuracy.

1. Full-Time Equivalent (FTE) Basis – All industries and program areas will share in the following costs based upon the number of proportional FTE positions.

   a) CI Headquarters Administration

   b) Human Resources

   c) Risk and Safety

   d) CI Headquarters Facility

   e) Site Administration

   f) Continuous Improvement

   g) Enterprise Solutions

2. Instance Basis – All industries and program areas will share in the following costs based upon the number of site/industry instances.

   a) Marketing

   b) Industry Administration

   c) Information Technology

3. Transactions Basis – The CI HQ Accounting Unit will be allocated to all industries and program areas based upon the proportional number of transactions processed.

4. Transportation Industry – Costs will be allocated to all benefiting industries based upon the mileage incurred to the customer location (i.e., Delivery Zip Code). While the customer location will be the primary methodology in allocating industry-specific transportation costs, a secondary allocation may be applied to further allocate costs to respective sites within an industry based upon proportional sales.

5. General Fund Support – Support for the McNeil Island Stewardship and Department of Corrections (attributable to the General Fund) shall be accrued under the Support Services – General Fund financials page. CI shall endeavor to recover these expenses via collaboration with DOC Budget.

E. DECISION DOCUMENT – FORECAST SUPPORTING MATERIAL

CI shall utilize the Decision Document located on SharePoint to support staffing, equipment, and other proposed changes to existing site, industry, program, and service operations. Changes may be included in the Proposed Forecast provided a Decision Document has been previously approved by either the CI Director (i.e., full approval) or corresponding Assistant Director (i.e., preliminary approval) and submitted with the Proposed Forecast as supporting material. Proposed changes will only be included in the Final Forecast following review by CI Leadership and final approval by the CI Director.

F. COST OF INCARCERATION – SUPPORTED PROGRAMS/SERVICES

Cost of Incarceration (COI) proceeds shall be forecast by the Headquarters Accounting Unit. COI is considered a dedicated funding source for the following programs and services, with corresponding forecast development responsibilities.

1. Workforce Development – Forecast developed by the Workforce Development Administrator in collaboration with respective site General Managers.

2. Class I/II Business Development – Forecast developed by the Business Development Manager in collaboration with affected General Managers.

3. Trades Related Apprenticeship Coaching (TRAC) – Forecast developed by the TRAC Program Administrator in collaboration with the Washington Corrections Center for Women General Manager and DOC Education Program Administrator. Full program expenses shall be included in both

Proposed and Final forecasts, with Education Program reimbursements forecast as a non-operating revenue.

4. Braille – Forecast developed by the Washington Corrections Center for Women General Manager in collaboration with the DOC Education Program Administrator. Full program expenses shall be included in both Proposed and Final forecast, with Education Program reimbursements forecast as a non-operating revenue.

G. PHASED EQUIPMENT REPLACEMENT

A multi-year (i.e., phased) Equipment Replacement Schedule (ERS) shall be developed and maintained, promoting strategic planning and optimal cash flow to address ongoing agency-wide fixed asset requirements. The ERS template is located on SharePoint. Effective ERS development and administration must include stakeholders at all industry levels (i.e., Shop Supervisor, Operations Manager, General Manager, Assistant Director).

1. Schedule – The ERS shall be reviewed and updated annually consistent with Proposed Forecast development. The Headquarters Accounting Unit will develop and publish the ERS schedule, with sufficient milestones to achieve the following phase deadlines. This will ensure timely implementation, effective July 1 of each year.

    a) January 15 – Phase 1

    b) March 1 – Phase 2

    c) April 15 – Phase 3

2. Phase 1 Requirements – The Headquarters Accounting Unit will distribute the current asset list, by site and industry. Site and industry staff shall review the current ERS for accuracy concerning each asset listed. At a minimum, the review must confirm:

    a) Description – Equipment brand, model, and other relevant descriptive information. This includes the asset tag number.

    b) Location – Verification of each asset's physical location.

3. Phase 2 Requirements – A comprehensive evaluation of existing equipment, the strategic replacement plan, and associated costs. Site and industry staff shall confirm the ERS replacement timeline remains accurate

for years one (1) through four (4). Site and industry staff shall also add proposed replacements for year five (5) planned equipment requirements. At a minimum, the evaluation will assess the following:

a) Equipment Age – Equipment approaching its end-of-useful-life or manufacturer support. Consideration must be given to signs of wear resulting in accelerated or delayed replacement despite equipment age.

b) Functionality – The equipment continues to provide effective support of industry operations. The equipment is performing as expected.

c) Maintenance and Repair Experience – Consideration must be given to the maintenance history, including type, frequency, and cost. Site and industry staff shall confirm respective equipment maintenance schedules, with a primary focus upon planned maintenance for the forecasted fiscal year. Scheduled maintenance must be included in the annual forecast to promote optimal equipment performance and useful life.

d) Current Technology – Has new or modified technology emerged resulting in a change to the previously planned equipment replacement, its replacement timeline, or anticipated cost.

e) Asset Alignment – Consideration must be given for aligning both existing and planned equipment replacement with future industry operational requirements.

f) Depreciation Schedule – Consideration must be given for the anticipated month to acquire new and/or replacement equipment in the forecast fiscal year. Site and industry staff shall communicate the appropriate acquisition month to the Headquarters Accounting Unit to ensure an accurate Depreciation Schedule is developed.

4. Phase 3 Annual Contributions – With confirmation of the five (5) year ERS, site and industry staff shall collaborate with the Headquarters Accounting Unit to identify the annual cash contribution necessary to achieve planned equipment replacements. At a minimum, this process will include:

a) Inflationary Adjustments – The Headquarters Accounting Unit will apply an appropriate inflationary factor to determine estimated future year equipment replacement values for the five (5) year ERS.

b) Amortization – The combined five (5) year ERS value, including inflationary adjustments, shall be amortized to determine the annual cash contribution necessary for the upcoming fiscal year.

5. Changes to ERS – Once the ERS is approved, any changes to years one (1) through five (5) must be properly documented and receive prior approval from the corresponding Assistant Director and Headquarters Accounting Unit. All replacements will require a purchase justification in accordance with Asset Purchasing Guidelines located on SharePoint.

6. Equipment Surplus and Disposal – As equipment is replaced, site and industry staff shall adhere to the proper surplus and disposal process required by the State of Washington in collaboration with the Headquarters Accounting Unit. Surplus and Disposal Guidelines are located on SharePoint.

7. General Fund Obligations – The following industry ERS requirements will be primarily supported via General Fund appropriations.

a) Laundry – Laundry operations represent a direct service to the Prisons Division. Accordingly, the CI annual General Fund allotment for equipment shall be dedicated to Laundry Industry ERS requirements. Should General Fund appropriations be insufficient to support annual equipment replacement, Fund 401 may be utilized to the extent annual expenses are recovered via the industry's fixed price-per-pound charged to the Prisons Division.

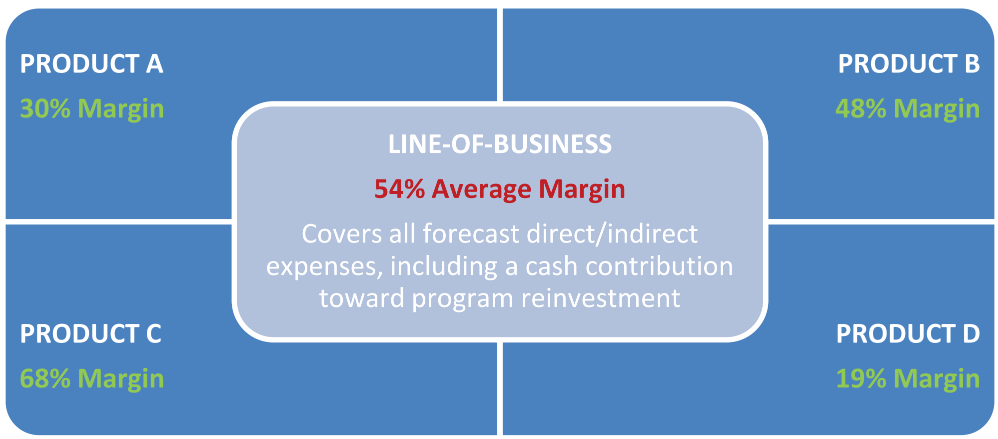
b) Food Service – Fund 401 shall not be used for Food Service ERS requirements, as the industry's fixed price-per-meal does not cover equipment. ERS requirements shall be an obligation of the Prisons Division, with support from annual General Fund appropriations.

II. PRODUCT PRICING REQUIREMENTS

A. METHODOLOGY

CI lines-of-business shall use a Pricing Methodology designed to achieve full cost recovery of all forecasted direct and indirect expenses. Full cost recovery must include an annual cash contribution toward program reinvestment (i.e., phased equipment replacement).

In general terms, each line-of-business will focus upon the average margin necessary to cover annual forecasted expenses and program reinvestment, recognizing product-specific margins will vary depending upon costs of manufacturing, production capacity, market competitiveness, and other factors. The following is provided for illustrative purposes only.



B. PRODUCT COST TEMPLATE

To ensure full cost recovery, each line-of-business must demonstrate a direct correlation between its respective product or service margins and the industry's annual direct/indirect forecasted expenses. A sample Product Cost Template located on SharePoint depicts this correlation, which relies upon the following elements for determining the product manufacturing cost and target margin.

1. Bill of Materials – Each raw material, part, and component required to manufacture a product, including corresponding unit cost and quantity used. This must also account for consumable related costs, unless included in overhead related expenses (i.e., Supplies).

2. Direct Labor – The number of incarcerated workers required for each line of production as well as the average hourly gratuity rate of pay.

3. Overhead – The total operating and non-operating (e.g., cost allocations) expenses associated with manufacturing a product. This value must be based upon the industry's annual forecast, plus the annual contribution toward program reinvestment (i.e., phased equipment replacement).

4. Capacity – The number of units that can be consistently produced in an hour.

C. INTERNAL TRANSFERS AND SALES

Products and related components moved within a division for manufacturing purposes will be processed at Raw Material value, with no overhead applied. Products sold between industries will be charged at full cost recovery value (i.e., all direct and indirect expenses). If products sold between industries must be charged below full cost recovery value, the manufacturing industry will ensure the average margin identified for the industry is still being achieved via margins established for products sold to its remaining customers.

D. PRICING DISCOUNTS/CREDITS

The Pricing Methodology is designed to achieve full cost recovery of all direct and indirect expenses. Accordingly, any proposed price discount or credit resulting in the sale of a product (or service) for less than full cost recovery value must receive prior approval from CI Leadership, including authorization by the CI Director. All pricing discounts or credits, including warranty and donations, must be requested using the Credit Memo process located on SharePoint.

E. SCHEDULE

All CI lines-of-business will review and confirm respective product pricing at the following intervals:

1. Forecast Development – Respective staff in each line-of-business (e.g., Operations Manager, Brand Manager, Statewide Program Manager) will review and develop product pricing to ensure full cost recovery of all direct and indirect expenses, including program reinvestment. Proposed product pricing will be submitted in accordance with the published forecast

development timeline, with preliminary review and approval by the corresponding Assistant Director. Any price adjustments must confirm eligibility (or constraints) given statutory provisions, contractual requirements, and market competitiveness.

2. Quarterly Review – Absent external factors necessitating a price adjustment (e.g., inflationary increase in raw material), respective staff in each line-of-business (e.g., Operations Manager, Brand Manager, Statewide Program Manager) will conduct a quarterly review of product pricing to confirm the accuracy of the margins in effect and ongoing alignment with actual direct and indirect expenses, fiscal year-to-date. Proposed price adjustments must include supporting justification, with confirmed eligibility (or constraints) given statutory provisions, contractual requirements, and market competitiveness. Price adjustments will require review and approval by the corresponding Assistant Director prior to implementation.

3. As-Needed Review – Beyond annual forecast development and quarterly intervals, respective staff in each line-of-business (e.g., Operations Manager, Brand Manager, Statewide Program Manager) will conduct as-needed pricing reviews to assess raw material fluctuations, inflationary adjustments, tariffs, and other factors. Pricing reviews shall also be conducted for any product or service to be included in a bid, quote, or response to a Request for Proposal. In such cases, proposed pricing must include supporting justification, with confirmed eligibility (or constraints) given statutory provisions, contractual requirements, and market competitiveness. Price adjustments will require review and approval by the corresponding Assistant Director prior to implementation.

F. MARKET EVALUATION

A market evaluation shall be conducted at least annually with Proposed Forecast development and at the time of a possible price adjustment during a fiscal year. Market evaluations will assess the ongoing competitiveness of CI products and services against competitor pricing for like-products and services given sales trends and market conditions. At a minimum the market evaluation must include the following components, which are depicted in the sample Product Cost Template:

1. Competitor Pricing – To the extent practicable, each line-of-business must consider competitor pricing for like-products at the proposed CI price-point.

2. Product Demand – Each line-of-business must consider annual product demand (i.e., consumption), including trends in sales volume and the likelihood sales can be sustained at the proposed price-point. Stable or increasing demand, coupled with competitor pricing data, may support proposed price increases. Declining demand, coupled with competitor pricing data, may support price reductions or suggest possible elimination of certain products.

3. Justification – Sufficient narrative must be provided to support CI product pricing. This includes but is not limited to: an explanation of product variations to justify disparities above (or below) competitor pricing; relevant statutory and/or regulatory provisions; and/or contractual requirements.

III. GLOSSARY OF TERMS

A glossary of terms will be developed to clarify certain terminology included in the body of the Forecast and Product Pricing policy.