FPI BOARD OF DIRECTORS MEETING
October 31, 2019

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held in Washington, DC, on Thursday, October 31, 2019.

**IN ATTENDANCE:**

David Spears, Chairman (via teleconference)
Donald R. Elliott, Vice Chairman
Lee Lofthus, Member
Deline Reardon, Member
Audrey Roberts, Member

**QUORUM:** A quorum was present.

**ALSO IN ATTENDANCE:**

Kathleen Hawk Sawyer, Director, Bureau of Prisons; Commissioner, FPI
Thomas Kane, Deputy Director, Bureau of Prisons
Patrick T. O'Connor, Chief Executive Officer, FPI
Ken Yeich, Senior Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Bonita Mosley (via teleconference)
Stephanie Santucci, Chief Financial Officer, FPI
Greg Burke, General Manager, Business Development Group, FPI
Julia Buyak, Management Analyst, FPI

Chairman Spears called the meeting to order and thanked everyone for attending. Director Hawk Sawyer began by telling the group how grateful she was for the Board of Directors and how she has been amazed by their dedication through the years. She noted that Federal Prison Industries is a great program and that there are many new opportunities with the passing of the First Step Act. Director Hawk Sawyer mentioned that she has noticed a positive correlation between inmate conduct and FPI factories, and she has asked the research team to look at the data.

**I. Chief Financial Officer's Report**

The fiscal year (FY) 2019 Operating Plan predicted business group earnings before general and administrative expenses (G&A) of $65.7 million, or 22% above FY18 actual results. The third and fourth quarter forecasts slightly reduced these predictions, by 7%, but business group earnings before G&A were still expexted to be 13% above FY18 results.

Corporate G&A was expected to be 11% below the Operating Plan's estimate and in line with actual G&A for FY18. The lower-than-expected corporate G&A is directly related to staffing levels, because 54% of corporate G&A is comprised of staff salaries. Actual expenditures depend on how quickly positions are filled. At the end of September there were 683 staff on board in comparison to the fourth quarter forecast of 743, a reduction of 9%.

Other income was expected to be approximately $2 million lower than FY18. This decrease is a result of moving the Interagency Solutions Group, which used to be accounted for under this category, to the Services Business Group (SBG). In the fourth quarter forecast, FPI predicted that investment income would be higher than the amount predicted in the FY19 Operating Plan because the daily investment rate of return is currently greater than 2%. The fourth quarter forecast net income projections were 15% above the Operating Plan, which is due primarily to lower G&A and increased investment revenue.

The fourth quarter forecast predicted that sales for FY19 would be approximately 7% below Operating Plan levels, which is primarily due to the Office Furniture Group (OFG) and the Electronics Business Group (EBG). The fourth quarter forecast for all the other business groups were in line with their operating plans.

Moving to the actual fiscal year-to-date results, business group earnings before G&A were 13.3% greater than FY18's actual results, 6.8% below the Operating Plan, and within the fourth quarter forecast. Corporate G&A was 2% lower than the fourth quarter forecast and 13% below plan.

Other income was 2.3% above the Operating Plan and slightly above the fourth quarter forecast, which is due to a slight increase in rental income. Investment income was 33% stronger than the Operating Plan and 27% higher than FY18's actual results. As a result, net income was 27% greater than the Operating Plan and nearly 49% greater than the previous year's results.

Total year-to-date sales were 8.6% lower than the Operating Plan and 6% above the previous year's performance. All business groups met or exceeded the fourth quarter forecast with the exception of OFG and the Fleet Business Group (FBG), which both were 5% below the forecast.

Business group earnings before G&A were 7% below the Operating Plan and 7% higher than FY18's actual results. The Agribusiness Group (ABG), Clothing and Textiles Group (CTG), and OFG had lower than anticipated earnings. ABG is required to adjust the assets (cattle) to the fair market value. At the end of FY18, the market value of cattle at El Reno Farm was approximately $1,000 per cow. By the end of FY19, the value had decreased to approximately $600 per cow; generating a loss on paper of $878 thousand. Lompoc Farm's cattle did not decrease in value. CTG's earnings were lower than anticipated due to the activation of three operations. FPI's profit margin in FY18, the FY19 Operating Plan, and actual results for FY19 was 11%.

Cash levels decreased $4 million from the previous month; inventory levels increased $10 million; and accounts receivables were consistent with the prior month. The decrease in cash was caused by capital expenditures and an increase in inventory levels due to end of the year orders.

## II. Chief Executive Officer Update

Mr. O'Connor announced that FPI had a total of 10,989 monthly inmate jobs at the end of FY19, and a total of 16,430 inmates worked for FPI in FY19. These figures are lower than FPI's FY19 inmate job target levels, due in part to a number of FPI's inmate workers being released early under the First Step Act. In FY19, FPI increased its staff numbers from 600 to 683. For FY19, FPI did well in defects PPM, having significantly fewer than in FY18. This was primarily driven by CTG and FBG. Quality notices were down due to improved customer relations. The customer survey score was up slightly over FY18 levels. In FY19, Mr. O'Connor visited 19 factories, including assisting the U.S. Government Accountability Office (GAO) with their audit under the First Step Act. Some highlights of the year included attending the National Association of Institutional Agribusiness (NAIA) conference, where Mr. O'Connor had the opportunity to hear experiences and problems other correctional institutions were having, which were similar to FPI's challenges.

Director Hawk Sawyer told Mr. O'Connor that the BOP will provide FPI with a list of institutions where factories would be the most beneficial, and that she would talk to wardens about the importance of buying from FPI.

**III. Business Development Presentation**

Mr. Burke, General Manager of FPI's Business Development Group, informed the Board of the notable activities the Business Development group has conducted in the past fiscal year. Mr. Burke explained that FPI is working with a variety of sales agents and new technology, such as Salesforce and GovWin, to increase business and explore the new authorities granted under the First Step Act. He explained how the Business Development team was growing in size, with plans to hire more staff. Mr. Burke discussed how the repatriation program was performing, with $2.5 million in sales in FY19. Additionally, the Prison Industries Enhancement Certification Program (PIECP) yielded $2.6 million in sales in FY19. Mr. Burke noted some of the challenges that the Business Development team faced including the wide scope of business groups and models, capacity planning, and product development. Moving forward, the Business Development Group will be responsible for marketing efforts, including business group support, such as attending trade shows and providing marketing material.

**IV. FY2020 Operating Plan**

Mr. O'Connor and Ms. Santucci provided an overview of the FY20 Operating Plan. The plan predicts a 7% increase in invoiced shipments over FY19 due to anticipated growth in CTG, EBG, OFG, and the Recycling Business Group (RBG). CTG anticipates a 51% increase in sales. CTG has secured several contracts that are expected to maintain sales at its FY20 operating plan level for the next five years, with an increase of 1% per year. EBG's sales plan predicts an increase of 17%. OFG's sales plan estimates an 11% increase. RBG has expanded operations in the west and east coast, which should increase sales approximately 30% in FY20, with a growth potential of 10% per year. Although it appears on paper as if the Fleet Business Group's (FBG) sales plan will decrease, $60 million in services that was previously counted as part of FBG's sales will be categorized as other income in FY20. When this change is accounted for, FBG's FY20 sales plan is 8% higher than FY19. SBG's FY19 sales and earnings were strong due to completing the orders transferred from the now closed Lompoc Sign Factory. SBG's FY20 plan predicts lower sales due to this change as well as the cancellation of one of SBG's longstanding contracts.

The FY20 Operating Plan predicts business group earnings after G&A of 3%, in comparison to 2% to FY19. The FY20 Operating Plan includes a 19% increase in corporate G&A. The increase is attributed to salary expenses, the investment to refresh the Cisco network, and staff training. The G&A staff plan is for 230 staff in comparison to the current level of 185. The increase is to the Procurement, Business Development, Management Information Systems (MISB), and Employee Development branches. The cost associated with refreshing the network system is $3.265 million. The investment in staff and inmate training is $3.1 million.

After the presentation, the Board approved the plan.

## V. Action Items/Legal Updates

Ms. Cantwell noted that the next Board meeting will take place on December 18 via teleconference. She said she would provide a proposed 2020 schedule to the Board for review. The Board unanimously approved the minutes from the August 15, 2019 Board meeting. Ms. Cantwell provided a legislative update, and provided an overview of the Manufaturing Day held on October 10th. The Board members then were provided with an ethics training by the BOP's Ethics Office.

The meeting concluded and the Board adjourned into an Executive Session.

/s/

Patrick O'Connor, Chief Executive Officer