



Commissary Fulfillment Operation Business Plan Proposal

Mission Statement:

To provide essential products and services to offenders while maintaining security and compliance with all regulations.

Business Objectives:

1. Operate a profitable commissary program within a correctional facility.
2. Offer a variety of products and services.
3. Ensure the safety and security of staff and offenders.
4. Comply with all relevant laws and regulations governing correctional commissary operations.

Products and Services:

1. Offender Personal Care Products (toiletries, hygiene items).
2. Snacks and Beverages.
3. Stationery and Reading Materials.
4. Electronic Funds Transfer (EFT) Services.
5. Offender Care Packages.

Executive Summary

Currently, the Department of Corrections outsources all aspects of commissary services to a private contractor. The contractor provides paperless ordering on the offenders' tablets, online deposits from family and friends, inventory, warehouse management, and delivery of goods. Offenders may order up to \$25/week of commissary which is delivered to the facilities on a weekly basis by the contractor.

The proposed business operation would allow Pheasantland Industries to assume operational management of the commissary program. The department believes that bringing the management of these services in-house will support a sustainable, revenue generating operation that targets job skills that are relevant in the modern labor market while providing essential services to the department.

The department proposes a joint venture partnership with a supplier to leverage expertise in warehousing, distribution, and logistics; and to provide the inventory and resources needed to establish a commissary fulfillment operation. Pheasantland Industries will provide the offender labor, warehouse, and manage the operations of the program.

As part of the department's reentry initiative, this proposal will create new offender jobs in a positive work environment that will prepare offenders for a successful return to their communities. The proposed commissary operation embodies the three major tenets of the National Institute of Corrections' model for a successful reentry initiative: (1) the goal is offender success in pursuit of recidivism and public safety, (2) the approach is a collaborative one, requiring the resources and expertise of a range of stakeholders, and (3) the practices adopted are effective, as demonstrated by good research.

If approved, the commissary program would be overseen by Pheasantland Industries and be operated full-time at the South Dakota State Penitentiary in Sioux Falls.

Anticipated market, volume, and potential impact on private sector competitors.

Market: Offenders in the custody of the Department of Corrections, as well as their friends and families who may use the deposit EFT service make up the anticipated market.

Volume: There was an average of 3,528 offenders in custody per day in fiscal year 2023. The volume of orders per week average around 2,500.

Competitors: There was one private sector contractor that submitted a proposal for services in 2021 when the department last went out to bid for commissary indicating a lack of competition. However, there are at least three large private sector companies that provide commissary to correctional facilities including Summit Food Services, Keefe Group, and Trinity Services Group.

Number of staff and offenders to be employed.

Pheasantland Industries Staff: One warehouse manager and potentially two product staff/supervisors to oversee the warehouse operations. This will be finalized based on the proposals received for the joint venture partnership. There are currently 3.0 vacant FTE that can be utilized due to recent program changes.

Offender Workers: Pheasantland Industries plans to hire and train a team of an estimated 20-25 offenders to provide commissary services to the department. This will also be finalized upon the proposals received for the joint venture partnership.

Projected revenues, expenditures, and net profits over a three (3) year period.

The financial plan will be finalized upon the joint venture partnership agreement. It is assumed that the department would retain 5% commission of sales and lease the 100,000 square foot warehouse at \$0.85/sf as net profits. Cost of goods sold, labor, depreciation, freight, and equipment expenses would be the responsibility of the partner. The chart below shows net profit over the next three years.

	FY25	FY26	FY27
Revenues			
5% Commission	175,000	183,750	192,938
Lease	85,000	85,000	85,000
Total	260,000	268,750	277,938

General fund cost saving calculations and determinations.

Pursuant to South Dakota codified law, 27-7-9, at the end of the fiscal year the state treasurer shall transfer any cash balance in excess of five hundred thousand dollars from the prison industries revolving fund to the general fund. Since the law was passed in 2016, Pheasantland Industries has transferred almost five million dollars to the general fund.

Year	Amount
2016	1,698,380
2017	1,354,954
2018	206,864
2019	492,294
2020	179,908
2021	471,889
2022	-
2023	515,751
Total	4,920,040

Any financial impact to the general fund including identifying any financial burdens to ensure Pheasantland Industries is operating financially independent of the DOC.

Since Pheasantland Industries is a self-supporting enterprise of the Department of Corrections, the commissary program will not receive taxpayer funding. The program will operate entirely on revenues received from the program. The joint venture partnership will allow the supplier to retain title and ownership of any equipment needed to operate the program. The partner would invest in the capital expenditures as part of the agreement.

Due to changes in the existing programs within Pheasantland Industries, there is an available warehouse that will be vacated within the next couple of weeks which would be used for the commissary program.

Other non-financial benefits provided (e.g., program participation and offender employment).

Offender work programs and employment play a critical role in developing skills and abilities which will serve offenders after release, contribute to the good order and management of correctional facilities, and contribute to offender's success in the community. Our goals with this program are to provide offenders with the opportunity to develop job skills and work ethics as a means of improving employability after release and to maintain effective operations that provide constructive work opportunities while providing the services at a high level to the department.

Long-term profitability assessment and strategy development to maintain a successful program.

The department will enter into the joint venture partnership for a set amount of time contingent upon the final contract negotiations which could be renewed in the future. The partnership will optimize sales and customer satisfaction. Challenges will always happen even with the best intentions and planning, but we will strive to recognize issues before they become problems and react immediately to resolve the issues before they cause any disruptions.

The program will be monitored from a fiscal standpoint continuously by the Pheasantland Industries manager and through a quarterly review by the Deputy Secretary and Director of Finance and Administration to ensure profitability. This requirement is outlined in the Pheasantland Industries Business Management policy.

Information on the potential for post release employment for participating offenders.

Given the rapidly changing nature of the job market, it is imperative that Pheasantland Industries recognize and create new business opportunities that focus on the skill sets identified in the labor market information as areas of future growth. The commissary fulfillment operation will train offenders in marketable skills that are in high demand in today's era of e-commerce, such as inventory management, the flow process of a pick and pack operation, inventory put-away procedures, equipment operation, and shipping and receiving. Offenders may also become certified in the operation of forklifts and other industrial equipment.

Currently, there are over 1,354,187 warehouse employees working in the United States. According to supply chain trade publications, "the labor-intensive processes of picking, packing, and shipping require supply chains to hire more workers as e-commerce sales reach record levels." Warehouse employment has reached a new peak as e-commerce sales are higher today than at any previous point in time. Retail and logistics companies are opening warehouses at a record pace in an attempt to meet the growing demand for e-commerce, as orders need to be picked, packed and shipped to customers urgently to stay competitive in this market.

Although employment in warehouses spiked at all-time high levels between 2020 and 2022 due to COVID-19, the warehouse industry has been on an upward trend in employment and wages since 2012, according to the Bureau of Labor Statistics. "The continued growth in e-commerce will create an increased demand for packaging activities, supporting the demand for stockers and order fillers to prepare orders for pickup or delivery." The Bureau of Labor Statistics projects a six percent (6%) growth in employment of hand laborers and material movers from 2021 to 2031. About 1,056,000 openings for hand laborers and material movers are projected each year, on average, over that decade. Additionally, the largest employers of hand laborers and material movers are transportation and warehousing companies, making up 21% of the total employers.

In short, the fulfillment operation targets the development of skills relevant to market trends. Those transferrable skills and the projected growth in employment of warehouse workers during the next 10 years, coupled with the essential services the operation will be providing for the department, will ensure the operation achieves sustainable growth and maximization of job opportunities for offenders.

Potential training opportunity for offenders.

The commissary program will provide training opportunity for offenders. Offenders will have the opportunity to learn inventory management, the flow process of a pick-and-pack operation and could even become forklift certified. The national supply chain demand for warehouse workers who have warehouse experience and training is growing with each year and promises competitive starting wages for workers.

Contribution to the community.

Even though Pheasantland operates as a business within a secure environment, we are committed to supporting a diverse workforce with marketable job skills and a solid work ethic learned here that will prove useful for successful reentry into their communities, and to producing high-quality products and services for our customers.