WASHINGTON STATE
CORRECTIONAL INDUSTRIES

Division Update
September 2021

Financial Operations

FY 2021 Year-end Activity

FY 2021 Financial Overview – June 2021

Correctional Industries (CI) continues to experience the financial impacts of the Covid-19 pandemic. Overall, June 2021 financials reflect a $7.43M Operating Loss and $6.26M in Net Income, which is primarily attributable to heightened Cost of Incarceration proceeds ($4.12M) and $10.66M in Fund Reimbursement activity for the year. The following provides a brief summary of FY 2021 year-end activity by key indicator.

Key Indicators

- Sales
  Through June 2021, CI experienced $112.74M in actual sales, which exceeded forecasted sales by $8.93M. This is primarily attributable to higher than anticipated sales in Textiles (+$10.69M), Incarcerated Services (+$2.01M), Food Manufacturing & Distribution (+$1.11M) and Communications (+$824K). These increases are partially offset by shortfalls in other industries, including Furniture (-$4.47M), Food Service (-$714K), and Laundry Service (-$654K). Heightened Textiles activity was primarily driven by Covid-related sales (i.e., Personal Protective Equipment) to the Department of Social and Health Services.

- Cost of Goods Sold (COGS)
  Through June 2021, CI experienced $76.43M in actual COGS, which exceeded forecasted COGS by $10.84M. The increase is primarily attributable to Textiles (+$7.78M), which is expected with increased sales activity (i.e., Raw Materials Used). That said, CI experienced heightened raw material costs due to Covid and other factors, which remains an ongoing focus when evaluating product pricing to ensure full cost recovery.

- Operating Expenses
  Through June 2021, CI experienced $43.74M in actual operating expenses, or $1.38M below forecast. Year-over-year, CI operating expenses were down $4.13M when compared to FY 2020. This reflects the significant staffing reductions and operational realignments implemented at the end of the prior fiscal year.

- Operating Income/(Loss)
  Through June 2021, CI experienced a $7.43M operating loss, or $531K more than forecasted for the year. Rising COGS reduced gross margin by $1.91M, which more than offset the $1.38M positive variance in operating expenses. While CI remains committed to actively driving cost out of operations, wherever possible, the ongoing focus will be timely pricing adjustments to achieve sufficient operating income to cover all direct and indirect expenses incurred throughout the year.

- Net Income/(Loss)
  Through June 2021, CI experienced Net Income of $6.26M, representing a $11.79M positive variance for the year. This is primarily attributable to $10.66M in Fund Reimbursement activity, including $6.80M at year-end closing for Food Manufacturing ($1.04M), Food Service ($2.20M), Laundry Service ($214K), CI Administration ($2.77M), the CI Enterprise Resource Planning Project ($471K), and Fixed Assets ($106K). The variance is also attributable to Cost of Incarceration (COI) proceeds, which exceeded forecast by approximately $2.23M for the year. Increased COI is primarily attributable to Federal stimulus payments associated with the Covid-19 pandemic.