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Agribusiness Committee

Friday, March 21, 2003
11:00 a.m.
Shenandoah Room – Hotel Roanoke
Roanoke, Virginia

APPEARANCES

- Delegate Joseph P. Johnson, Jr., Chairman
- Clarence D. Bryant, III, Vice Chairman
- J. Carlton Courter, III
- Mr. Fred M. Fields
- Buddy Mayhew
- Claude Owen, Jr.
- John M. Stallard
- Tucker C. Watkins
- Thomas E. West
- Joseph H. Williams

Commission Staff and Others

- Carthan F. Currin, III, Executive Director
 - Mary Cabell Sherrod
 - Stephanie S. Wass
 - Frank Ferguson, Office of the Attorney General
 - Clark Lewis, Troutman Saunders
 - Stanley Duffer, Department of Agriculture and Consumer Services
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DELEGATE JOHNSON: I'll call this meeting to order. I want to welcome all of you to the Virginia Tobacco Indemnification and Community Revitalization Commission, Agribusiness Committee meeting. I don't think this will be a long meeting but a very important meeting. First of all, I'd like to have a roll call, Carthan Currin, Executive Director.

MR. CURRIN: Thank you Mr. Chairman. Commissioner Courter?

1 COMMISSIONER COURTER: Here.
2 MR. CURRIN: Mr. Fields?
3 MR. FIELDS: Here.
4 MR. CURRIN: Mr. Mayhew?
5 MR. MAYHEW: Here.
6 MR. CURRIN: Mr. Owen?
7 MR. OWEN: Here.
8 MR. CURRIN: Mr. Stallard?
9 MR. STALLARD: Here.
10 MR. CURRIN: Mr. Watkins?
11 MR. WATKINS: Here.
12 MR. CURRIN: Mr. West?
13 MR. WEST: Here.
14 MR. CURRIN: Mr. Williams?
15 MR. WILLIAMS: Here.
16 MR. CURRIN: Mr. Vice Chairman?
17 MR. BRYANT: Here.
18 MR. CURRIN: Mr. Chairman?
19 DELEGATE JOHNSON: Here.
20 MR. CURRIN: You have a quorum Mr. Chairman.
21 DELEGATE JOHNSON: All right. We have a quorum and we
22 can legally proceed to transact the business that may lawfully come before the
23 Agribusiness Committee. First, I'll call on the Executive Director for an
24 overview.
25 MR. CURRIN: Thank you Mr. Chairman, I have some brief
26 comments to begin with and a couple of housekeeping issues. Lunch will be
27 provided for the members of the Committee and guests here in this room.
28 Upcoming meetings Mr. Chairman, the E Corridors Taskforce will be meeting at
29 Virginia Tech at 1:00 o'clock at the Torgersen Hall Board Room. Delegate
30 Kilgore, Southwest Economic Development Committee will be having a
31 workshop Monday, the 24th at 6:30 at the Higher Education Center in Abingdon.
32 The Southside Economic Development Committee Workshop will be April 1st in
33 Richmond, Virginia at the Virginia Economic Development Partnership offices.
34 The Southwest Committee application review will be April 7th in Abingdon. The
35 Southside Economic Development Committee Reviews will be April 9th in South
36 Boston. That's for this years' applications. But of course, the full Commission
37 will be meeting April 24th at Berry Hill in Halifax County.
38 Mr. Chairman, I'm also very pleased and delighted this morning to
39 report to the Committee that in the past 48 hours a historic transaction has taken
40 place on behalf of this Commission and the Commonwealth. The issue of course,
41 is one that we know very well securitization. The Governor sent out a press
42 release yesterday afternoon. I was in New York with the Attorney General's
43 Office represented by our counsel, Frank Ferguson, Stephanie Wass our Finance
44 Director and one of our Commission members, Claude Owen. We were in New

1 York over the past couple of days to be there for the pricing of the tobacco bonds
2 that ultimately will provide us with the proceeds for our endowment. I'm very
3 delighted Mr. Chairman and members of the Committee, to report to you that as
4 early as February 6 there had been some concern by the investors on Wall Street
5 and other related expertise that we may not be able to only net \$598 million. I'm
6 very delighted to report to you as of yesterday afternoon that the Tobacco
7 Commission's net proceeds will be \$648 million dollars. That is indeed good
8 news for this Commission, for this Committee and I think it's only that this
9 Committee be the first body to hear that news based on the subject that brought us
10 all together to begin with. That, of course, is tobacco. So I'm delighted to report
11 that to you Mr. Chairman.

12 DELEGATE JOHNSON: Mr. Director, I might say that that is not
13 only good news but it is better than good news in view of the stock market and
14 world events that surround us. I think that's just excellent.

15 MR. CURRIN: A lot of great things went to that decision. I want
16 to thank Mr. Owen and our counsel and Stephanie Wass for all their hard work
17 and others. The treasurer and her team, the underwriters, bond counsel, everyone
18 really worked in a team effort and I think that paid off.

19 Mr. Chairman real quickly and before we get to the business of
20 handling your agenda, as you said earlier this Committee, until today had been
21 referred to as the Tobacco Committee and the Tobacco Committee's major charge
22 had been to determine splits on indemnification and issues dealing with
23 indemnification. Senator Hawkins, our Chairman, has felt for a period of time
24 that with our historical ties to agriculture and the tremendous business that
25 agriculture still presents the Commonwealth, based in Southside and Southwest
26 that maybe the Commission needed to expand this Committee's role to look at
27 potential agribusiness projects. We been getting those through our traditional
28 economic development requests and I felt and the Chairman felt that this
29 Committee needed to have its role expanded because we believe the expertise was
30 here and it's best to look at those potential requests. To that end, the Chairman
31 has expanded this Committee's role and it is now called the Agribusiness
32 Committee. Frankly it also helps us at our staff level working with Commissioner
33 Courter and his office with their staffs to work on various projects that could help
34 us continue to look into diversification in the realm of agriculture in Southwest
35 and Southside. In your packets or Mary Cabell may have handed them out to you
36 in your packet is the summary of projects that will be coming to this Committee
37 in the near future. To date, Mr. Chairman and members of the Committee, this
38 Committee does not have any dedicated funds that the Commission has assigned
39 to it. There are two possibilities as I see them. Number one, at the April meeting
40 next month if this Committee feels that you would like for me or us to
41 recommend to the full Commission to have some funds taken out of special
42 projects if this current fiscal year to be given to this Committee to react to some of
43 these requests and maybe in the next 60 or so days or we can just wait as we
44 formulate the budget that will begin July 1, 2004, fiscal year 2004 and have

1 monies dedicated at that time to this Committee. It's just a matter if you want to
2 act sooner rather than later.

3 Mr. Chairman, unless anyone has any questions, that's the
4 overview I had for you this morning.

5 DELEGATE JOHNSON: Are there any questions?

6 MR. CURRIN: Thank you sir.

7 DELEGATE JOHNSON: Next on the agenda, Committee
8 decisions. Steve's not here so Clark Lewis.

9 MR. LEWIS: Yes, I'll be glad to take up the 2003 indemnification
10 payments which will be very brief or Mr. Duffer can go on with the long term
11 split between the quota owner and the producer. Which would you prefer? Mine
12 will be very brief.

13 MR. CURRIN: I think that will be fine, let Clark give an update
14 on that issue and then Stan Duffer will have a presentation along with Ms. Wass
15 on the issue of the split.

16 MR. LEWIS: Mr. Chairman and members of the Committee, it's
17 spring again or soon to be spring and that means we're coming up on our 2003
18 indemnification payment season. This is our fourth year of indemnification
19 payments. We are proposing to the Commission and this subcommittee the
20 following dates which we would begin the verification process for 2003. These
21 dates are substantially similar to last year's dates. We propose that we mail out
22 verification of payment forms to eligible claimants on Monday, April 28, 2003.
23 Monday, April 28, 2003. We propose that claimants have three weeks to return
24 the forms to Troutman Sanders so the return date would be Monday, May 19,
25 2003 and that's the deadline. We propose that, our goal to transfer the payment
26 data to the Virginia Department of Agriculture for their processing and payment
27 by the treasury to be May 27, 2003, which is a Tuesday. From our past
28 experience since this is our fourth year VDAC, if they receive the data May 27th,
29 it usually takes them about a day or two to process it so the check would start
30 rolling out by Friday, May 30th over that weekend. So, the majority of the
31 claimants would get their checks the following weekend approximately May 30th
32 or 31st. We found that works very well but I haven't checked the calendar but
33 right around the holiday season and people sort of anticipate that's when the
34 checks will be arriving around the end of May and the worst case scenario the
35 beginning of June. This is substantially what we did last year and it worked very
36 well.

37 We also propose that we have our town meeting, you may
38 remember when we first started we had more presentations to potential tobacco
39 producers and quota owners about the process. The last two years or three years
40 we have had them as workshop sessions where we invited people that have
41 problems to come meet with me and others and we work through the problems.
42 We found it's more productive and we sort of educated them about the process
43 and most folks now really understand what they need to do. We propose that we
44 will do those meetings on the week of May 5th. We would be in Lee and Scott

1 Counties on Monday, May 5, 2003 and the following day we would be in
2 Washington County May 6th and the following day we would be in Pittsylvania
3 and Halifax on May 7th. That the ones that my firm has contractually obligated to
4 do five but we found in the last two years we needed to do an extra one so we
5 have agreed to do an extra day in Brunswick County on Thursday, May 8th.
6 There's a total of six workshop sessions. I think that covers very well the burley
7 side, three visits to the flue-cured side. I think the people in Brunswick were
8 having to go to South Boston to meet with us. This makes it a little easier for
9 them. These are the dates we propose for this year's indemnification process. I
10 understand you will be voting on the split and the payment rate that's under
11 consideration today. If at all possible, we would like to have that information
12 before April 28th when we send out our forms because the payment information is
13 the number one most asked question from the people and it's a very important
14 question. Within the last two years we've had that information in advance and we
15 can put that in the information material on the form and that cuts down a lot of
16 questions that we will get. If it's not on the form, that's a problem and that's the
17 number one question. We appreciate your consideration and we thank you very
18 much.

19 DELEGATE JOHNSON: Are there any questions concerning
20 dates and or the forms?

21 MR. WATKINS: Concerning last year, maybe we should put
22 some piece in here to let people know where they are and indemnified.

23 MR. LEWIS: Mr. Currin sent a letter out last year from the
24 Commission and I agreed. The second question I guess is how long and how
25 much are we going to go on. I was deferring those questions to the Commission.
26 I think Mr. Currin did that last year and I think that's a good policy. There's a lot
27 of expectation and anxiety how long.

28 MR. WATKINS: What we sent out last year was total dollars, we
29 didn't send out per pound. I think it would help the growers and quota holders if
30 they knew how much they were indemnified at this point per pound.

31 MR. LEWIS: I'd be glad to include that or if the Commission felt
32 if it would better serve the Commission, I'll be glad to do that. We are debating
33 on the color of our paper this year and I can assure you that my directors
34 suggested pink yesterday for the color of our form. I vetoed that so we have a
35 different color every year but it won't be pink this year.

36 DELEGATE JOHNSON: Any other questions?

37 MR. FERGUSON: Mr. Chairman, I think for Clark's benefit, it
38 may be helpful to have the Committee vote to approve those dates and
39 recommend to the full Commission.

40 DELEGATE JOHNSON: I was going to do that as soon as we had
41 finished. Any other questions. All right, we have a motion.

42 MR. FIELDS: So moved.

43 DELEGATE JOHNSON: Do we have a second? All right. It's
44 been moved and seconded. All in favor let it be known by saying aye (ayes)

1 opposed (no response.) All right.

2 MR. LEWIS: Thank you Mr. Chairman.

3 DELEGATE JOHNSON: Stan Duffer.

4 MR. DUFFER: Thank you Mr. Chairman, it's good to be with you
5 this morning on an issue that we have talked about in one form or another for
6 several years now. I'm assuming each of you got a copy of the memo, the
7 emailed memo that I sent out early in February in your packet and hopefully you
8 have reviewed that. That pretty much explains the issue from where I'm coming
9 from here relative to some decisions that need to be made. Before we get to some
10 of the details relative to these decisions, I would like to throw up a couple of
11 graphs that shows where you are. She's got the high tech stuff and we don't have
12 that. Okay, flue cured. Can you see that pretty well? What we have here on the
13 top line is total obligation based on \$12 per pound for the quota loss in those
14 individual years. For example, in 1999, the quota loss we had multiplied by \$12
15 and this is just flue cured on this one, that equals \$248.4 million. Then we went
16 on and had a quota loss in 2000 and we were up to \$380.4. Then we had the
17 increases that reduced that obligation.

18 The letter that Carlton sent out in the fall indicating that this would
19 be the last Phase I payment in May was based on the assumption that if there were
20 no more quota cuts. This May payment for flue cured would have been the last
21 payment or the last Phase I payment assuming that Phase II goes on as in the plan.
22 We did have a quota cut so that obligation is now \$398.5. These are the payments
23 that have been made in total in flue cured. This is including Phase I from this
24 Commission, the TLAP payment for 2000, one TLAP payment went into this
25 compilation plus Phase II. At this point in time for flue cured as of December,
26 this last Phase II payment we have paid \$180 million dollars out of a total
27 obligation of \$398.5.

28 What we're going to be talking about a little bit later here today is
29 this obligation we have relative to 1999, that's the first one we've got to get out of
30 the way. Now, I'm going to throw in something just to muddy the water and
31 something that we don't know. Obviously there's a lot going on and you've all
32 heard the term buyout, potential buyout. Depending on how the buyout is
33 structured, we'll have an impact on Phase I for this Commission. Let me explain
34 a couple of things. For instance, if in fact it is funded by an increase in federal
35 excise tax or user fee or assuming an assessment on the tobacco company based
36 on their sales and so forth, whereby part of that money collected goes back in the
37 form of direct payments to producers, Phase I and Phase II is no more. The
38 obligation of the companies that were set up in the contract and that sidebar
39 agreement, Phase II, that is part of that contract. If that were to happen and
40 assuming Phase II was gone and any obligation you have here as far as this
41 Commission, you be picking up on Phase I but the Phase II monies will not be
42 there.

43 Another thing that could happen depending on the base unit, if you
44 went back and a buyout was structured where the base years were on 1998 for

1 example, then this Commission would probably have no obligation because the
2 buyout would occur assuming 8 and 4 at the level you used to make whole. If it
3 goes back to a 1998 base, there is no obligation because the growers and
4 producers received the \$12. However, if the base is 2002 which there is some
5 bills out there right now floating around and proposals based on 2002. If that be
6 the case and that's a decision you'd have to make but as it stands now, you'd have
7 the obligation in front of you up through 2002 then it would stop. So there's
8 some things we don't know yet and like a moving target. That's flue.

9 Now, here's the burley situation, set up the same way based on the
10 first year cut. You can see right now the situation on burley \$158 million total
11 obligation of which \$68.1 million has been paid through this past December.
12 That's just some background there.

13 What we'll go to next is the policies. You recall we talked about
14 Phase I and Phase II and Phase II came about before Phase I, Phase II was a
15 sidebar agreement. That's how the Virginia Tobacco Trust Board is the funds,
16 they don't really control but they make decisions relative to the rules, regulations
17 and policies on how the Phase II money is distributed in Virginia and they certify
18 payments. Frank, I guess that's the main roll certification of payments to the
19 growers. Frank, if I remember correctly, after we went through the first payment
20 in the fall of '99 and I think the Board got together like in December after the
21 payments went out or January of 2000 and reviewed what had been done and then
22 came out with some modified policies for the year 2000. Your first payment was
23 either in May or June of 2000. They adopted these particular modified policies
24 and there are more policies but these particular ones need to be concentrated
25 upon.

26 Then I believe in January or February of 2000 Mr. Chairman this Commission
27 was in effect and you all adopted these same policies. I think Stephanie if you
28 check back, that is the case.

29 The one I want to direct your attention to is this one concerning the made whole
30 issue. We've talked about this and some of us have joked about this term over
31 time but it is an issue that we have to address and this is the crux of the made
32 whole issue. Quota owner payment policy. This used the term for the next six
33 years and I think Frank that was a misprint and that applied only to the producer
34 side. The Board policy is that any quota owner who sold quota after July 1, 1998
35 and that was the base year at this point in time, paying on the '99 loss. Any quota
36 owner that sold quota after July 1, 1998 or sales hereafter would receive payments
37 until made whole for losses sustained from the recent reduction in quota.
38 Defining the point at which such a quota owner has been fully compensated if
39 ever, will be determined later and will depend on additional compensation to the
40 owners from Phase I payments, basically Phase I will determine this. Once the
41 seller of quota has been fully compensated for the loss, the purchaser of that quota
42 will be entitled to payments for quota loss incurred after the purchase date.
43 Subsequent to this meeting when this was adopted, the Board went on record,
44 maybe at that same meeting, adopting \$12 as the value of a pound of quota

1 whether it be flue cured or burley of \$12. No split has ever been made other than
2 in the annual splits. What we're getting into here and you take a year at a time.
3 July 1, 1998 is sort of the year that the world changed so to speak. The quota
4 owner that owned that quota July 1, 1998 is the person that's entitled to payment.
5 In flue cured and burley you have sales of quota. There were some sales that
6 actually occurred that fall prior to us going out with the first payment. They were
7 not legal sales in the sense that no sale is official until after the quota has been
8 announced for the following year. You're talking about those unofficial sales that
9 were ratified by FSA in the winter and sales that occurred prior to July 1 of 2000.
10 Once the quota changes hands, what you're basically doing is once we pay off the
11 '99 quota loss and that person that owned that quota and got paid for the '99 quota
12 loss, he's out of the picture after he sells that quota. Then we go to the next year
13 and the person that purchased this quota then gets payment for 2000 quota loss
14 and thereafter. The reason we talk about that is that we're reaching a point in
15 time as we saw in my memo that in burley we're basically at a point that we need
16 to make a decision because the '99 quota loss has basically been almost paid off
17 and we'll get to that in a minute.

18 The producer payment policy.

19 MR. OWEN: May I ask a question? What you just said about
20 transferring the benefit if you will, to the '99 producer, I mean the quota holder, I
21 thought I understood Clark and Frank that we have a fixed list of recipients and
22 that doesn't change under any circumstances?

23 MR. DUFFER: We do have a fixed list as far as the producer
24 payment policy. For the next six years and this means through 2005, producer
25 payments will be made to those that produce flue cured or burley tobacco in 1998
26 whether or not they grew tobacco thereafter and that's been set. Going back to
27 the quota owner and if you didn't sell your quota, it makes no difference as far as
28 the quota owner because you're going to continue to get payments. The reason
29 we need to change the base and it will not affect the amount of money but it's just
30 a different base year you're basing it on. The reason we're moving the base is to
31 pick up the new owners and move out of the database those that sold the quota
32 and have been compensated or indemnified.

33 MR. OWEN: I understand that's the fair way to do it. I just
34 misunderstood I guess that we had a fixed list of quota holders and it didn't
35 change.

36 MR. LEWIS: During the past four years, we have worked off of a
37 database of July 1, 1998 as far as the quota owners. When asked, like Stan is
38 saying, my response is that if the Commission elects to go to the next database
39 based on policy that would be a decision of the Commission, that's what I've
40 been saying.

41 MR. DUFFER: We're on the same database right now and have
42 been because we haven't paid off '99.

43 MR. WATKINS: What would be the reason and I have a
44 particular grower that got sick and didn't raise quota one year and then raised it

1 the next year and he happened to be one of the guys who felt he was wronged one
2 year. He was well one year and didn't grow a pound the next year and has been
3 growing ever since. He's not drawing any grower payments whatsoever. Why is
4 it right to move one policy and not move the other?

5 MR. DUFFER: I go back to some of the reasons that were used
6 back at that time. The reason to hold the producer base. If you recall back at that
7 time Tucker, a decision was made Tucker, we were in a situation where the MSA
8 came about and there was large quota cuts and it was pretty dramatic. If you went
9 out there and just had a moving database and let's say it was only one year where
10 we used '98 and the next year was '99 except some of the people that were
11 harmed the most only got one year of payments and they were the people that
12 basically got forced out of business. We have had people that have gone out of
13 business since these drastic cuts started in '98, '99 and 2000 and 2001 and what
14 have you. That's one reason. The people that were forced out were forced into a
15 pretty tough situation. It was deemed reasonable not to knock them out. There's
16 another one from the practical side that some states went to a moving database.
17 What happened is they sort of had a cannibalization situation develop? Went out
18 there and people knew that the producer payments would move with the year.
19 You had a situation out there that people were leasing if you will, quota from
20 another person and indicating okay to the quota owner you're going to get all the
21 producer payments as well as the lease and all these things. Whereas this way in
22 the policy the producer would continue to get payments and it lessened and made
23 more difficult unscrupulous behavior.

24 MR. WATKINS: I understand that but there's a number of cases
25 like the guy I referred to who was a life long tobacco farmer and because he was
26 sick one year and didn't grow his tobacco, he got the shaft.

27 MR. DUFFER: Like I say, most of these things that occur any
28 kind of payments, it's not easy to give away money, it's easy to receive and hard
29 to give away sometimes. Most of the things you have to determine is the date that
30 the world changed. Sometimes individuals like that and I know what you're
31 talking about –

32 MR. WATKINS: - There's other individuals that have been out of
33 business not for that reason but they got out of business just because they had a
34 desire to get out and they're still getting payments even though they are not in the
35 tobacco business and don't want to be and they have a right to the payments.

36 MR. DUFFER: Up until this time but nevertheless I won't argue
37 with you about some of the numbers that were around that we added onto the
38 policy.

39 MR. LEWIS: Mr. Chairman, Stan and I have had this same
40 conversation and I know a few of the producers. Stan also mentioned to me that
41 this only goes to 2005. So in 2005 if I'm correct, technically the board then can
42 decide to move that data or do whatever the board wants to do with that database.
43 So it would only be for two more years that the producer –

44 MR. DUFFER: Yes, it's up to the Board based on the current

1 policy that was also adopted by this Commission.

2 DELEGATE JOHNSON: Suppose in 2005 if there are producers
3 that have been affected as Mr. Watkins said, could we take care of it at that time?

4 MR. LEWIS: Yes, sir. We have the data from the farm service
5 agencies.

6 MR. WATKINS: We leave them out three, four or five with not
7 any money effectively; there will be a very little amount of money to compensate
8 that guy.

9 MR. DUFFER: I disagree with you there.

10 MR. WATKINS: Relative to who got payment for six years and
11 growing for one. The guy that's been growing all his life is going to be left
12 largely out.

13 MR. FIELDS: He's only getting reimbursed for one year and it
14 took five or six years to reimburse him, but only for one year.

15 MR. DUFFER: Keep in mind that if you have a rolling database,
16 you're in effect only rewarding those that survive. That's really what you're
17 doing. You're not giving any compensation for harm done to those that didn't
18 survive. Now, that being said and I assume Stephanie you can back me up, that is
19 the policy of this Board or this Commission.

20 Let me throw some scenarios up here for you. This is flue cured.
21 Keep in mind now and get away from the totals. This is only the '99 year. Quota
22 loss, '95 to '98 base, flue cured '95 to '99 base; flue cured \$80.1 million for
23 Virginia. The '99 quota subtracted from that base we lost 20.68 million pounds of
24 tobacco that year. First is the '95 to '98 average multiplied by \$12 a pound \$248
25 million obligation. Total obligation. This assumption here is made of six and six
26 because as you saw in my memo there had been annual splits and that's what I use
27 for this example. At this point in time we have paid out \$248 million, excuse me,
28 that is the obligation. We have paid out \$189.9 million after the spring payment
29 from Phase I. I put that in to primarily show the burley problem. As you see here
30 on flue cured, there's an obligation after the May payment of \$58.352 million
31 dollars.

32 On flue cured I don't think we have any problem this year and
33 more than likely flue cured would not be in danger of paying out and needing to
34 moving the database year until possibly 2005. There's not a whole lot to be said
35 there, out of the obligation for this crop of the \$12 obligation \$9.17 has been put
36 out on flue cured through this May payment and dealing only with the '99 loss
37 now.

38 Okay, let's go to burley and that's the critical issue. Same
39 methodology. You got a '95 to '98 base and subtract the '99 quota and you had a
40 quota loss in burley that year of \$6.83 million times \$12 and that's an \$82 million
41 obligation. Coming on down through the payments over time, Phase I, Phase II
42 and TLAP, we have paid or would have paid with these assumptions that I'm
43 using and the assumption that the split would be this May, the splits would be
44 62/38 like it has been on Phase I; 62 percent producer, 38 percent the quota

1 owner. At that time they'd only be after May, you would only have a remaining
2 balance there of \$3.44 million. At this point in time obviously we're fine. We
3 have not overspent one side or the other but with a \$3.44 million obligation left,
4 we would then go into Phase II in December and it would force us to have two
5 bases running at the same time. You'd still have your '98 base running to clear
6 out the '99 crop and then in Phase II as you can see, we put out over \$7 million to
7 burley on Phase II this past December. We only have a \$3.4 million obligation
8 left on the '99 crop. So that would leave us with the '98 base and the '99 base.
9 So an individual producer, Mr. Chairman, would be getting a verification form as
10 far as the quota holder, be getting a verification form for '98 and '99 quota loss.
11 A completely new application that goes to the 2000 quota loss. Plus the producer
12 would be getting a verification form for both. We can't change it. That would be
13 confusing to Clark Lewis and myself; I don't think we could stand it. We need to
14 keep when we go out with the database; we need to make sure we're only
15 working with one database at a given period of time.

16 Now, what we got here now, we cleared out the producer leaving the quota
17 owner. This is the attachment I had on the spreadsheet that went out via email.

18 DELEGATE JOHNSON: Are we still talking about burley?

19 MR. DUFFER: Still talking about burley and I'm giving you
20 another alternative way of handling it. We're still assuming that using the 62/38
21 percentage split but just showing you from a processing side how we can do this
22 and this is one way. We'll come in in May and it's out of the \$10.5 million that
23 you've got. Instead of suing the 62/38 you would actually come in and use \$5.79
24 million and actually clear out the producer obligation for that particular year.
25 That would leave you the entire \$3.44 million obligation left of that crop to be
26 cleared out Johnny in Phase II in December. That will be cleared out but we'll
27 still go in with the producer payment in December. That producer payment in
28 December made by Phase II would be credited toward the 2000 loss.

29 MR. LEWIS: Mr. Chairman, we talked about the fact that the
30 producer would not change the database for the Phase II producers for flue and
31 burley would still be the same database so they would keep really the same
32 database in Phase II.

33 MR. DUFFER: Doing it this way you would go out with the
34 verification forms to the producers just like we have in the past with the same data
35 they've been using. They would sign their name; date it and send it back in.
36 However, on the quota owner side on burley, we're not this year and everything is
37 the same but when we move to the spring, this spring everything will be the same.
38 We go out to the same '98 database because you're paying out '99 quota. The
39 producer verification form is the same because you continue on for the next five
40 years and no upset whatsoever and it's the same. What this does cause is by
41 virtue of this; you would have cleared out the '99 in December then next spring
42 you as a Commission through Troutman Sanders need to go out with an
43 application using '99 as the database year rather than '98 for the quota owner. So
44 that will be a new application for the quota owner. However, you'll still have a

1 verification form for the producer because you're still on the same base. This is
2 mandatory, this is a change from education meetings, et cetera. However, if
3 we're forced to go out with two databases, it would be very unmanageable and
4 confusing.

5 MR. LEWIS: Mr. Chairman, as I understand it, what would
6 happen next spring is that there is four components. The flue producer, the flue
7 quota, burley producer and burley quota. Three of the four, the flue producer, the
8 flue quota and the burley producer would stay the same and we would only have
9 to change one of the four which is a very manageable process and from a cost
10 issue, a very much less expensive proposition than jumbling two entirely different
11 databases.

12 MR. TUCKER: I'd like to ask you a question. You're saying with
13 this that the burley quota holder has been fully indemnified at \$4 a pound?

14 MR. FERGUSON: Under the '98 database.

15 MR. DUFFER: I'm not saying that, I'm using the assumption
16 based on the annual splits of 38 percent went to the quota holder and whatever 38
17 is of 12, a little over four.

18 MR. TUCKER: What you're saying is that dollar per pound the
19 quota holder has been fully indemnified at \$4.05 a pound if I read this right.

20 MR. DUFFER: Yes, \$4.05, that's correct.

21 MR. TUCKER: If you're going to take the '98 quota holder and
22 tell him he's fully indemnified and you said he is fully indemnified at \$4.05 a
23 pound?

24 MR. DUFFER: Based on the assumptions that I made which is the
25 annual split that we have made for burley, that's the assumption I made.

26 MR. OWEN: And you would have fully paid the producer for
27 '98?

28 MR. TUCKER: No.

29 MR. DUFFER: Yes.

30 MR. OWEN: You would have paid the full \$12 a pound for all the
31 '98 quota loss?

32 MR. DUFFER: By December.

33 MR. OWEN: That's supplemental payment; the burley would
34 have been paid off in '98.

35 MR. DUFFER: Yes.

36 MR. FERGUSON: Stan, say for me again if you will the Phase II
37 payments in December of '03 since we will have gotten to zero on the burley
38 quota owner. In this payment cycle we would have paid them off of the old
39 database and credited it against the new database payments, is that what you're
40 telling me?

41 MR. DUFFER: On the producer side –

42 MR. FERGUSON: - Which one is zeroing out? Producer side,
43 I'm sorry, my question then is suppose in fact they are entitled to that credit and
44 when we go to the new database it turns out they sold that data –

1 MR. DUFFER: - The policy we have now indicates that we will
2 stay with the producer on the database 2005. Really the way you handle the
3 producer is really you're just running a set of books in total and not by
4 individuals. In other words for that year you've got this much that went to the
5 producer payment. Then on the quota owner side you've got that and that's how
6 it works. That's one way. Stephanie would you put this up on the screen, this is a
7 third option and frankly from a management standpoint, - -

8 DELEGATE JOHNSON: You're still on the burley?

9 MR. DUFFER: Yes. Flue cured is all right right now. They're
10 not at the same point. All right. In this case we would clear out the quota owner
11 side. Clear them out and then you've got the producer to finish up with. What
12 this will do if we do this in May, you're forcing us to go out then, then in the fall
13 on Phase II with new applications to the burley quota owner then we do the same
14 thing with the producers on the '98 base. As far as mechanically, we can do it in
15 the fall or spring. The reason I prefer the other alternative where you're going to
16 clear out the producer rather than the quota owner, let's look at some unknowns
17 and this is number one. We don't know what's going to happen with buyouts. If
18 you come up with a buyout and they make this thing effective at most, the last
19 Phase II payments would be this December then there would be no more Phase II.
20 If you're talking about getting in and revising the database, new applications and
21 so forth, you probably ought to keep it within the Phase I side because if you
22 continue, in Phase II with the buyout very likely it's gone plus doing it this way
23 the other way I presented it let's us go even further without any change unless, as
24 far as change goes. To do it the other way we go through May with no change in
25 the database and go through December with no changes and the growers and
26 quota holders wouldn't even know the difference, not changing the season. We're
27 doing the same thing and no one gets treated any differently.

28 That's pretty much it, I'm sorry I can't make this more interesting.

29 MR. OWEN: Can you comment a little bit further in your crystal
30 ball on the buyouts and particularly the base year on what are the likely scenarios?

31 MR. DUFFER: I think the most likely scenario and you Mr. Owen
32 know better than most, I have no way of knowing what these politicians up there
33 are going to do. I would say that based on the current thinking out there, that
34 2002 is probably the most likely scenario for base.

35 MR. CURRIN: Mr. Chairman, I'd ask Mr. Watkins what his
36 understanding is of what's up there.

37 MR. TUCKER: I can't tell you, I know there's enough bills up
38 there as I understand for 2002 and more workable and more fundable because it's
39 half of -

40 MR. DUFFER: - I will say that Senator McConnell's staff has put
41 out a proposal for discussion and McConnell is in a pretty powerful position and
42 whether he uses 2002 as base with the 8 and 4 payment on the 2000 base and no
43 program. That would be my guess Mr. Chairman.

44 DELEGATE JOHNSON: On the burley and the examples that you

1 gave us, are there any particular ones that favor either side?

2 MR. DUFFER: No, sir.

3 DELEGATE JOHNSON: So we're looking at efficiency and
4 harmony –

5 MR. DUFFER: Less confusion.

6 DELEGATE JOHNSON: Less confusion.

7 MR. DUFFER: Your burley growers will get the same amount of
8 money with the assumptions I made on the split. They're going to get the same
9 deal.

10 DELEGATE JOHNSON: Thank you sir.

11 MR. DUFFER: Any other questions?

12 DELEGATE JOHNSON: Sir, which option would you, if you
13 could, give us your thoughts. Which one would be preferable or

14 MR. DUFFER: This is the one I would go with. It will clear out
15 the producer and you're left with that much and when you go into the fall there's
16 no new applications, no nothing.

17 DELEGATE JOHNSON: That's your second one?

18 MR. DUFFER: That's my second one, yes, sir.

19 MR. DUFFER: You can call this, you'd be clearing out the
20 producer side for burley with this Phase I payment.

21 DELEGATE JOHNSON: Southwest burley, do any of you have
22 any questions?

23 MR. STALLARD: It's a little bit complicated.

24 DELEGATE JOHNSON: As long as there's no losers, the second
25 option would be the easiest and the most manageable.

26 MR. DUFFER: That first option, Mr. Chairman, I put it up there
27 for information and I wouldn't even call it an option. That first one would be
28 unmanageable.

29 MR. LEWIS: Stan, the option you're recommending is the one
30 where this Commission next spring would send out the burley quota form?

31 MR. DUFFER: Yes.

32 MR. TUCKER: That's all based on the 62/38?

33 MR. DUFFER: Yes, if you go with a different split then we got to
34 be working to see where we are. We'd have to rework the numbers. The first
35 decision you have to make today I guess is what your long term split because if
36 you change the split we'd have to go into the computer and redo some numbers
37 and change the whole thing. I gave you this more or less, for background to see
38 how it works.

39 MR. FERGUSON: Mr. Chairman, Stan, simply put, which under
40 this option, what you're really doing is prepaying future obligations to the
41 producers for burley and just using the current database to calculate that and then
42 get a credit once we get the database on the books against those payments in the
43 future?

44 MR. DUFFER: You can do that on the producer side very easy

1 because it's just a running number anyway.

2 MR. FIELDS: Mr. Chairman, the three we owe after May and
3 June we're going to owe, we have an obligation left to the quota holder?

4 MR. DUFFER: Yes, sir.

5 MR. FIELDS: The \$3.4 million?

6 MR. DUFFER: Yes, sir.

7 MR. FERGUSON: Do you have enough money in Phase II to do
8 that?

9 MR. DUFFER: Yes, in Phase II, Frank, we put out combined flue
10 and burley on Phase II up to \$30 million bucks in December. We anticipate being
11 relatively close to that figure this coming December. We put out in Phase II for
12 burley \$7.3 million. \$7.3 million more than covers the \$3.4 obligation. You can
13 pay the \$3.4 obligation and you've still got \$4 million left for the producer
14 payment.

15 DELEGATE JOHNSON: Mr. Owen.

16 MR. OWEN: We have budgeted for 2004 total burley payment of
17 \$2.7 million in May I guess 2004. Are you suggesting that we increase that
18 number to \$3.4 and pay it out or a total additional supplement and keep paying the
19 \$2.7?

20 MR. DUFFER: No, sir. That's a good question. What I have
21 assumed right here is that you budgeted for this spring of 2003.

22 MR. OWEN: I'm talking about next year.

23 MR. DUFFER: Oh, next year. I haven't went that far.

24 MR. FERGUSON: I guess your questions is, that \$3.4, that will be
25 paid out by Phase II this December so it will not affect the budget for next year.

26 MR. OWEN: That's all Phase II money?

27 MR. DUFFER: Yes. This remaining obligation will be cleared
28 out in December by Phase II. Maybe what's confusing you is that doing it this
29 way that when you come in next spring on Phase I with a new database, a new
30 application for the quota owner.

31 MR. OWEN: That doesn't change the amount of money?

32 MR. DUFFER: No, sir. Now the cleanest way to handle it is that
33 you all appropriate another \$3.4 million for this May's payment and we can
34 balance the books real nice and clean and that would be great. Thank you all very
35 much.

36 DELEGATE JOHNSON: Are there any more questions?

37 MR. FIELDS: Would you hold it one second. I'd like for burley
38 to just talk here for a minute and maybe flue would like to.

39 MR. WATKINS: I'd like to ask Frank a question.

40 DELEGATE JOHNSON: When we break for lunch we can –

41 MR. WATKINS: I'd like to ask a question. I would like to ask
42 this question before we break for lunch. Frank, I'm a quota holder and I grow no
43 pounds. I believe I have a tremendous conflict of interest voting today at all. I
44 think anyone who either grows or has quota has a tremendous conflict of interest

1 because it directly affects my pocketbook voting on this. I don't see any way in
2 the world that it's proper for a quota holder and producer as well to vote on the
3 split between the quota holder and the producer is going to be. I asked someone
4 else and they told me exactly that. So would you tell me what –

5 DELEGATE JOHNSON: Sir, we'll have to cross that bridge when
6 we get to it.

7 MR. WATKINS: I just wanted to get to that before we get there.

8 MR. FERGUSON: I'll tell you what I think the answer to that
9 questions is and it will come in two or three parts. This Commission is
10 established by statute to be consistent of in part burley and quota growers and
11 producers. That statute then at least implicitly if not explicitly contemplates that
12 members will have that interest. Secondly, it is sort of an analogous to the
13 General Assembly, members obviously often have votes that affect their industry
14 or the business that they're in. The general rule is if it affects everyone equally in
15 a broadly based rule or in a broadly based group a member may vote on it. If it's
16 individualized it could be a conflict. That may or may not run counter intuitive
17 but that's the rule. So my advice in the past because others have asked me that
18 same question in years past, my advice has been that you are permitted to vote or
19 if you feel you want to abstain or if you feel you at least want to put on the record
20 that you have this interest before you vote then that's certainly up to the
21 individual member. This Commission was established and obviously part of the
22 make up was intended to be people that would know the issues that the farmers
23 and quota owners would have that they'd be entitled to vote.

24 DELEGATE JOHNSON: I agree with what Mr. Ferguson said but
25 I don't know how we'd ever get a Commission that could see through the issues if
26 we didn't have farmers.

27 MR. WATKINS: I understand you'd have to have people on this
28 committee that are farmers.

29 DELEGATE JOHNSON: I'm a quota holder and I used to raise
30 tobacco and I don't anymore. My vote for the Southwest would be voting against
31 my interest because I felt that what we decided was the right thing to do. As Mr.
32 Ferguson said and I have on two occasions, I have abstained from voting on
33 certain issues because I felt there was an issue but I think it's up to each
34 individual. If I feel like there is something that I have a conflict or it bothers me a
35 little bit or I can't sleep at night then I either abstain or I vote against it and I think
36 that's up to each individual. Otherwise if we had to follow certain suggestions,
37 then we'd never be able to accomplish our work.

38 MR. FIELDS: Mr. Chairman, I doubt that Commissioner Courter
39 or Mr. Owen would like to make these decisions for us.

40 DELEGATE JOHNSON: Are there any other comments?

41 MR. BRYANT: Mr. Chairman, I'd like to make a comment.
42 These are difficult issues and I think most of the tobacco producers are quota
43 owners and producers alike. I, myself, I would probably be more favorable to me
44 if it went for the quota owners side because of the quota that I own and still own.

1 I think all of this has been looked at in the most fair and equitable manner to
2 everyone. If you just talk about the producer setting here and not owning quota
3 and not wearing both hats, that would be different.

4 MR. WATKINS: I understand that but I think the majority of the
5 producers at the table produce significantly more pounds than they own quota.
6 They have an opposite interest that I might have. I look at this 62/38 and I look at
7 this 50/50. I have gone back and looked at the legislation and I have gone back
8 and looked at the minutes of people testifying before the legislature. I have asked
9 staff to go back to this page 16 at this meeting when these splits were done and
10 Don Anderson is explaining how the \$12 a pound was arrived at and in no case
11 have we been paying out to quota holders and producers as this \$12 a pound was
12 justified to either the General Assembly or to this Commission. I think we have
13 an obligation to do so. Both a moral obligation because that was the way it was
14 sold to the Legislature of Virginia and a legal obligation for that same reason.
15 With that said, I will not vote today because I think I have a financial interest. In
16 my case it's small but I have twenty some thousand pounds of quota or whatever
17 so my financial difference would be significant but I think we have to live by the
18 spirit of the way this was put into the legislature and you go vote on the
19 legislature \$12 a pound and it's justified to the Legislature that \$12 a pound and
20 the quota holder is suffering an \$8 loss and the producer is suffering a \$4 loss and
21 that's the way it was explained to this Commission at the first meeting. Sat in that
22 Commission meeting and listened from the back. It was said at that meeting we
23 do this for the first part of this and then we will adjust it to come out to the eight
24 and four. Until it's adjusted to come out as eight and four, it's just wrong.

25 DELEGATE JOHNSON: I would say that everyone has the right
26 to their own opinion and I respect that. We've got Mr. Ferguson here who I
27 respect greatly and I would bet my last dollar that he's not going to let us do
28 something wrong. Time and time again he has assured me that and each of us that
29 there would be no conflict. We have to rely on someone and we all respect each
30 other's decisions and positions. We just have to vote so we can sleep at night.

31 MR. OWEN: Mr. Chairman, I have question and I think I know
32 the answer but I want to ask it to be sure I'm right. The burley gets paid out or
33 gets \$12 for its loss for quota somewhat faster than the flue cured has. It's my
34 understanding that has arisen because Southwest has devoted more of its split of
35 the big pie toward indemnification than Southside has and that's the reason. It's
36 not a matter of this Committee treating one more favorable than the other.

37 DELEGATE JOHNSON: Mr. Currin, you might be able to answer
38 that better.

39 MR. CURRIN: Yes.

40 MR. FERGUSON: I think that's right, partly that and partly
41 because of the different splits that you've gotten one quicker than the other but the
42 whole base for payment ultimately is that the quota poundage split that we've got.
43 I'm not aware of anything that says ultimately they are, burley versus flue is
44 treated fairly on a per pound basis.

1 MS. WASS: The rate of loss has been different too.

2 MR. DUFFER: Flue cured got hit worse the first year and burley
3 the second.

4 DELEGATE JOHNSON: Okay, are there any other comments?
5 Are there any other members that wish to express an opinion or thoughts or ideas?
6 We want to do what's right and we don't want to do anything that we should not.
7 Any comments or suggestions? If not, then we'll go ahead and break for lunch 30
8 minutes or a quarter to one.
9

10 NOTE: A luncheon recess is had.

11
12 MR. JOHNSON: We're back in session, I'll call the meeting back
13 to order. Next on the agenda we're at the long term split between quota owner
14 and producer.

15 MR. CURRIN: Mr. Chairman, the burley decision that was made
16 in 2000 by this Commission, time has expired to revisit and review this issue and
17 we need some direction from the Committee as to how this split should proceed
18 from this date forward.

19 MS. WASS: This was the long term that Stan was talking about
20 when he left off. The long term split. What makes the quota holder and the
21 producer whole.

22 DELEGATE JOHNSON: Stan, do you have something more you
23 want to say?

24 MR. DUFFER: No, sir. We are talking about the long term over
25 time. I might point out that if Phase II still stays in existence, we need to keep in
26 mind that Phase I and Phase II, the first TLAP are together on this. You would
27 assume then that the Virginia Tobacco Trust Certification Board would then meet
28 you on the same split, you all drive the long term. Phase II would come in and I
29 would assume they would match, I can't think that they would not. The long term
30 is decided here and that's what we need to know now and move forward.

31 DELEGATE JOHNSON: This subcommittee of course, acts upon
32 it and decides that anything that we do would only be a recommendation to the
33 full Commission and the full Commission will have to vote upon approving what
34 we do so, I suppose the motion that we will need as to the breakdown of flue
35 cured and burley. Now, I'm looking at a copy of the minutes of February 16,
36 2000. Mr. Bryant made a motion at this Commission meeting in the General
37 Assembly Building, Senate Room A to accept the basis of \$12 per pound for lost
38 quota and then later lost quota Phase I and Phase II \$12 per pound. On the burley,
39 Mr. Kilgore made a motion that the percentage allocation for the burley tobacco
40 farmers/quota holders and producers be divided 62/38 percent for the years 2000,
41 2001 and 2002. That the policies for 2003 and beyond be reviewed and modified
42 at that time, speaking of 2003, 62 percent to the growers and 38 percent to the
43 quota holders. We're at the point now that I suppose our subcommittee could
44 change that if you want to or leave it the same and we'll need a motion and then

1 we need a majority vote. As to the flue cured, Mr. Anderson made a motion that
2 the percentage allocation for the flue cured tobacco farmers, quota holders and
3 producers be divided 50/50 for the years 2000, 2001 and 2002 and that the
4 policies for 2003 and beyond be reviewed and modified at that time. So we'll
5 need a motion for flue cured. That 50/50 can be changed or it can remain. We
6 need a motion on those two.

7 MS. WASS: Let me clarify one thing. There are two issues. One
8 issue is the split between the producer and the quota holder for a particular year
9 based on the money that is available. The real question is long term overall what
10 is the amount that would make the quota holder whole and what is the amount
11 that would make the producer whole? Assuming that you split it 50/50 for flue
12 cured, we can assume that's what you want the long-term split to be or
13 compensation to be but you did only vote for that for three years and what we
14 need now is long term. If that's how you want it to be to make them whole or do
15 you want to change it? There are some problems with changing it because we've
16 gone three years to do this split.

17 DELEGATE JOHNSON: My question to you this morning is, if
18 you say buyout, when would the monies or the amounts change as opposed to no
19 buyout?

20 MR. DUFFER: If there's a buyout and assuming that the tobacco
21 companies are paying for it through increased federal excise taxes or user fees or
22 something like that, then Phase II would be no more. You might have Phase II
23 this year and I'm not sure on that but then there wouldn't be anymore. Then the
24 total obligation of the Commission's as far as Phase I, you'd have to pick up the
25 whole ball of wax and whatever obligation was there. As I said earlier this
26 morning, if the database is 1998, you don't have an obligation because in a sense,
27 they would be buying out the same database that you're working on. If it's 2002,
28 you've got the obligation up through 2002 quota level and you would have it by
29 yourself because Phase II would be gone.

30 MR. WATKINS: The base is 2000 or 2002?

31 MR. DUFFER: 2002.

32 MR. FERGUSON: Mr. Chairman.

33 DELEGATE JOHNSON: Mr. Ferguson.

34 MR. FERGUSON: Mr. Chairman, to address your question,
35 assuming there is any obligation left after a buyout, that still raises the question
36 that Stephanie posed which is whatever the obligation is, it's a percentage
37 breakdown to make us whole. While the buyout may change what the obligation
38 would be unless it's eliminated altogether which I don't think anyone thinks is
39 likely but it's possible. Then the question still needs to be addressed.

40 DELEGATE JOHNSON: Would the question be as to percentage?

41 MS. WASS: You can do it percentage wise or you can do it dollar.
42 Out of the \$12 how much makes a quota holder whole, how much makes the
43 producer whole? For example, on flue cured right now using a percentage 50/50,
44 \$6 of that \$12 is going to quota holders, \$6 to the producer. Long term, is that

1 how much you want us to compensate to make them whole or do you want to split
2 it 8 and 4 or 4 and 8 or 10 and 2, whatever the split is. Long term, what is the
3 amount that makes them whole. We're aiming to make them whole but we don't
4 know what makes them whole.

5 DELEGATE JOHNSON: The \$12 amount would not change?

6 MS. WASS: That's right but it's just how you split that \$12
7 between the quota holder and producer. That's the question. Are you treating
8 them the same or do you –

9 MR. CURRIN: - Ms. Wass is not saying that we have to change
10 that split at all.

11 MR. DUFFER: The thing that forces us to this decision, we have
12 to move the database on the quota owner side and that forces the decision. We'll
13 be seeing some different people.

14 MR. FERGUSON: The numbers Stan showed you, those are all
15 based on the current allocation. If they change, all that might change as well, it
16 will change but it's just a question of whether somebody would be finished up this
17 year on the '98 database or what the difference might be.

18 MS. WASS: The Commission, as a whole, never made the
19 determination of how much is it. They decided the distribution for three years but
20 there was no active decision about establishing a permanent amount that made the
21 producer and quota holder whole.

22 DELEGATE JOHNSON: Suppose we only decided the
23 percentage?

24 MR. DUFFER: Same thing.

25 MS. WASS: A percentage or a dollar?

26 MR. WATKINS: Just put a number on it. Mr. Chairman, to be
27 honest with people you need to put a number that will make them whole on it.

28 DELEGATE JOHNSON: Mr. Williams.

29 MR. WILLIAMS: I would make the motion that it remains the
30 same as a 50/50 split.

31 MR. WATKINS: Six and six?

32 MR. WILLIAMS: Yes.

33 MS. WASS: For the flue cured?

34 MR. WILLIAMS: For flue cured.

35 DELEGATE JOHNSON: We have a motion before us that we
36 split 50/50 which would mean \$6 dollars for the quota holders and \$6 dollars for
37 the producer. Now, do we have a second to that motion?

38 MR. MAYHEW: Second.

39 DELEGATE JOHNSON: We have a second for the motion.
40 Discussion.

41 MR. OWEN: What happens if there is a buyout that gives either
42 the producer or the quota holder something different than \$6 dollars?

43 MR. WILLIAMS: That would have to be settled at the time of the
44 buyout. What if there is going to be a buyout, we can make that determination.

1 MR. OWEN: My point is if we decide the producer gets \$6 and
2 the legislation were to come out 8 and 4, do we still owe the producer \$2 dollars
3 for quota that he lost?

4 MR. DUFFER: That's a good question. I think maybe the
5 precedence would be on the total \$12 dollars per pound of lost quota versus base.
6 If in fact like I said, if it goes back to '98 there's nothing to worry about. If it
7 goes to 2002 then I think, in that case it would be difficult we're talking about 8
8 and 4.

9 MR. OWEN: So the producer would get 4 and we would agree
10 he's due 6 because we would owe him 2.

11 MR. DUFFER: It might be the precedence on the pounds that
12 would be bought out, whatever amount of pounds you take, you just take the other
13 pounds and do your own split and don't try to use their numbers.

14 MR. FERGUSON: I think that would have to be the answer
15 without, they'd have to, they'd go with the total amount that was paid out against
16 the total obligation and the Commission would have to decide whether, because
17 what you're saying could happen, underpay one and overpay the other but the
18 total dollars –

19 MR. OWEN: - Would we not be limited by the \$12 even though
20 we said do 8 and 4, we got to do 6 and 6 and they do 8 and 4, that's 12.

21 MR. FERGUSON: On the 2002 they'll still be an obligation that's
22 unmet. Then the question for the Commission is how do you draw that up against
23 what individuals have gotten if it's an 8 and 4 split or any other split other than
24 what you all chose to make them for that matter at that time?

25 MR. OWEN: So it's clear then under no circumstances any pound
26 of loss quota regardless of the year, that we would not pay more than \$12?

27 MR. DUFFER: Right.

28 MR. FERGUSON: Right.

29 MR. DUFFER: Right.

30 MR. FERGUSON: I think the statute contemplates that there
31 might be other payment sources than just this group or even in Phase II.

32 MR. OWEN: Notwithstanding then, we might say the producer
33 should get \$6. If he gets \$4, if he loses 2002 quota and he only gets 4 but the
34 quota holder has gotten 8. We can't pay him that 2.

35 MR. FERGUSON: That's right. It may be a given there will be a
36 gap assuming the 2002 year for a federal buyout. For example, it may be you
37 want to revisit it depending on whatever you decide to do today to try to accrue
38 that up some, I don't know.

39 DELEGATE JOHNSON: I think that might be the proper thing to
40 do because we can't determine what the future is going to bring.

41 MR. DUFFER: One way of addressing that I think is the fact that
42 or one way of looking at it is if they have a buyout on the 2002, that seems to be
43 the buzz word now. If they have that they'll get paid on the 2002 amount of loss
44 so they're buying out that level and really then you've got X amount of pounds

1 there that's left compared to the '95 and '98 base. So they were paying on that
2 amount of quota as of that date rather than a lost quota. We're paying on loss
3 quota. I say looking at two different sets of pounds, they're buying the current
4 quota and we're paying on lost quota. It may not be quite that but I see where
5 you're coming from.

6 DELEGATE JOHNSON: Mr. Mayhew.

7 MR. MAYHEW: By passing this motion, does not bind this
8 Committee at some future date to make changes based on the buyout or whatever,
9 right? It doesn't mean it's set in stone?

10 DELEGATE JOHNSON: It would be up to the full Commission.

11 MR. FERGUSON: Anything the Commission does it can do
12 differently later.

13 DELEGATE JOHNSON: Other discussion? If not, do we need to
14 restate the motion, does everyone understand it?

15 MR. FIELDS: Who's going to vote on this motion, all of us?

16 DELEGATE JOHNSON: Yes. All in favor of the motion of a
17 50/50 split between the quota holders and producers let it be known by saying aye
18 (aye). Opposed, no (no response).

19 MR. WATKINS: Let it be known that I have abstained because I
20 have a conflict of interest.

21 DELEGATE JOHNSON: Mr. Watkins abstains.

22 MR. FERGUSON: This is for flue cured Mr. Chairman.

23 DELEGATE JOHNSON: That's right. Now, we need a motion
24 for burley. The last motion or what is in affect up until now for 2000, for 2001
25 and 2002 was 62 percent for the producer and 38 percent for the quota holder.
26 Mr. Stallard.

27 MR. STALLARD: I'd like to make a motion that we leave it the
28 same as stated by Delegate Kilgore earlier, 62/38.

29 DELEGATE JOHNSON: The breakdown would be \$8 and \$4?

30 MS. WASS: \$7.44 for the producers and \$4.56 for the quota
31 holder.

32 MR. STALLARD: 62 the producer and 38 the quota holder.

33 MR. WATKINS: You said \$7.44 for the producer and \$4.56 for
34 the quota holder.

35 DELEGATE JOHNSON: We have that motion, do we have a
36 second?

37 MR. FIELDS: Second.

38 DELEGATE JOHNSON: Mr. Fields seconds it. Discussion?

39 MR. WATKINS: What's the justification for the big difference on
40 the burley side? Favoring the producer? What does quota sell for?

41 MR. STALLARD: I don't know that there's a set price. It's
42 somewhat like horse trading. Someone most affected by this master settlement
43 agreement was the producer. In fact down in burley which I know you're not
44 familiar with, the quota holders down there are receiving more money now for

1 quota than they did back in '98 because of supply and demand. Quota has
2 become a lot scarcer and it's really inflated the price which is almost putting the
3 growers out of business. In fact, the reason for the whole buyout thing was
4 because of the artificially inflated prices of quota. Down there you have a lot of
5 people who own the quota and grow it and no conflict at all.

6 MR. WATKINS: Roughly how much is quota selling for today in
7 burley?

8 DELEGATE JOHNSON: \$.50 a pound. Also, in Southwest
9 Virginia in the burley most of the allotments are small.

10 MR. WATKINS: Is that the rent or the sales price?

11 DELEGATE JOHNSON: Each year \$.50 a pound.

12 MR. STALLARD: Doesn't have to be a private treaty –

13 MR. TUCKER: Just a ballpark figure.

14 MR. STALLARD: Well, there's some things like getting the use
15 of the barns, the tractors, we get hunting rights. As far as straight out quota being
16 traded, there's not much, a very small percentage of it has been traded. At the
17 same time you asked me about the price of the burley quota, how much did you
18 pay for the quota that you own?

19 MR. WATKINS: It sells anywhere from about two dollars and a
20 half to three dollars and a half to four dollars a pound depending on what county
21 you're talking about.

22 DELEGATE JOHNSON: I want to say in burley it's \$2 to \$2.50.

23 MR. DUFFER: Burley back in 1998 I think we had close to 40
24 million pounds of affected quota and 20 million pounds or a little over of base
25 quota which indicates we couldn't produce it, we didn't have enough producers or
26 enough barns or the will to do it. Therefore, so at one time people were giving
27 away pounds if someone would just grow it and you couldn't sell it and that's the
28 time when this happened in burley.

29 DELEGATE JOHNSON: We need to understand that.

30 MR. LEWIS: Mr. Chairman, I'd like to say that if you look at my
31 database, you compare flue, producers and quota owners and burley and quota
32 owners, there's a lot more of the same people as a producer and quota owner on
33 the flue side than burley. The burley quota owner's look at the database and
34 really disbursed more so, some live outside Virginia and they pass on the smaller
35 parcels more than on the producer side. The money is more disbursed on the
36 quota owner side on the burley side.

37 MR. FIELDS: We actually felt in the burley that the quota holder
38 did not need to be nearly or anywhere near as badly as the producer did.

39 DELEGATE JOHNSON: Us poor old quota holders.

40 MR. WATKINS: The growers kind of stuck it to you.

41 DELEGATE JOHNSON: He stuck it to me and I voted for him
42 (applause). Any other discussion? If not, all in favor of the motion on the burley
43 let it be known by saying aye (aye). Opposed, no?

44 MR. WATKINS: No.

1 DELEGATE JOHNSON: Are you abstaining on that?

2 MR. WATKINS: No, I don't have an economic interest in that so
3 I'd say no to it.

4 DELEGATE JOHNSON: So it's unanimous?

5 MR. WATKINS: No, I voted no.

6 MR. FERGUSON: Mr. Watkins voted no.

7 DELEGATE JOHNSON: That takes care of that.

8 MS. WASS: The second decision on this particular year's split,
9 I'm assuming that flue cured wants to continue to split this year's \$9.8 million
10 available for flue cured indemnification. Assuming you split it 50/50 since that's
11 the long term intention, you might handle that one separate from burley.

12 DELEGATE JOHNSON: Do we need a motion on that? Do I
13 hear a motion?

14 MR. WILLIAMS: I'll so move.

15 DELEGATE JOHNSON: Is there a second to that motion?

16 MR. BRYANT: I'll second it.

17 DELEGATE JOHNSON: That motion is seconded. Sir, you have
18 the motion down that Stephanie just recited?

19 MS. WASS: Basically that the 2003 indemnification payment for
20 flue cured will be distributed 50 percent to the quota holder and 50 percent to the
21 producer.

22 DELEGATE JOHNSON: Do we have a discussion on the motion
23 which has been made and seconded? If not, all in favor let it be known by saying
24 aye (aye). Opposed no. (No response). Mr. Watkins abstains. For burley?

25 MS. WASS: For burley and earlier Stan was saying for long term
26 the intention is to split it 38 percent to the quota holders and 62 percent to the
27 producers, for this one year's payment in order for administratively for it to be
28 easier to process we're asking that the producer payment for the '99 quota be
29 carried out which would equate to about, out of the \$10.5 million budgeted for
30 burley indemnification approximately \$5.8 million would be paid to the producer
31 and \$4.7 would be paid to the quota holder. That does not equal the 38/62 split
32 and it's more like 45/55 but it does zero out the producer for '99. Do we have a
33 motion on that? This is for the year 2003 only.

34 MS. WASS: 2003 only, yes.

35 DELEGATE JOHNSON: Do you understand Mr. Fields and Mr.
36 Stallard?

37 MR. MAYHEW: By the end of the year if it works out for just a
38 six-month period it's a little out of –

39 DELEGATE JOHNSON: This is only for the year 2003.

40 MR. STALLARD: What was that split money wise again?

41 MS. WASS: Out of the \$10.5 million budgeted for burley, \$5.8
42 million would go to the producer and \$4.7 million would go to the quota holder.
43 That is approximately 55 percent going to the producer and 45 percent to the
44 quota holder.

1 MR. FIELDS: I'll make that motion.

2 DELEGATE JOHNSON: Mr. Fields makes that motion.

3 MR. STALLARD: I'll second it.

4 DELEGATE JOHNSON: And Mr. Stallard seconds it. Now,
5 discussion. If not, all in favor let it be known by saying aye (aye). Opposed no.

6 MR. WATKINS: No.

7 DELEGATE JOHNSON: Mr. Watkins voted no.

8 MR. CURRIN: Mr. Chairman, Ms. Wass has the next point of the
9 securitization splits in place.

10 MS. WASS: After securitization is in place, as you probably know
11 the securitization proceeds will be deposited in an endowment and the earnings of
12 that endowment will be used by the Commission for its annual operations and a
13 portion of the principal. Based on the long range plan that endowment will be
14 segregated into different accounts and there is a portion that is set aside for
15 indemnification. That amount annually is estimated to be about \$12 million that
16 will paid out annually, total for indemnification between burley and flue cured.
17 For the past two years budget, each region has decided what percentage of its
18 funds it wanted to give to indemnification and what percentage to economic
19 development. After securitization there will be one pot of money for
20 indemnification and it will need to be split between flue cured and burley. In the
21 past that split has been 77.2 percent for flue cured and 22.8 percent for burley.
22 The question is whether you want to maintain that percentage split.

23 MR. FIELDS: Mr. Chairman, I think we're going to have to look
24 at the burley and quota losses and things like that.

25 MR. DUFFER: The 77.2 percent is the, you're going to look at
26 losses other than quota?

27 MR. FIELDS: The \$12 –

28 MR. DUFFER: - The 77.2 percent is based on that amount of the
29 '95 to '98 base for flue cured 22.8 for burley. Stephanie, I thought there was
30 something passed that lessened that percentage on Phase I, 72.8.

31 MS. WASS: That was budgetary, that was based on economic
32 development.

33 MR. DUFFER: I thought at that time when they were doing that
34 you had Southside and Southwest and then you determined within those groups,
35 how much went to indemnification.

36 MS. WASS: Now it's securitization and that's not the case. One
37 pot.

38 MR. DUFFER: My point was it wasn't 77.2 or 22.8.

39 MS. WASS: Well, the two regions decided what percentage they
40 wanted out of the fund. Southside and Southwest are separate.

41 MR. DUFFER: So the 77.2 we haven't been doing that?

42 MS. WASS: The first year of existence.

43 MR. DUFFER: That was based on the quota for the '95 through
44 '98 base and that's what Phase II used on the split.

1 MR. MAYHEW: That's what we're still indemnifying for, right?
2 The loss on those years? Two more years?
3 MR. DUFFER: No, as long as you're in existence you'll be –
4 MR. MAYHEW: I thought you were going to reset the base year?
5 MR. DUFFER: No, the base year, we're talking about the base of
6 funding, your lost quota as compared to a '95 to '98 base and that's fixed by law
7 and the same one used for Phase II.
8 MR. MAYHEW: That's not negotiable then is it?
9 MR. DUFFER: What we're saying is this is a budgetary thing. Of
10 that '95 through '98 base 77.2 percent of that base is flue cured and 22.8 percent
11 is burley.
12 MR. MAYHEW: Based on the quota?
13 MR. DUFFER: Based on the quotas. That's what we're saying.
14 MR. TUCKER: So that really hasn't changed?
15 MR. DUFFER: It won't change.
16 MR. TUCKER: I'll make a motion we continue those splits.
17 MR. DUFFER: The only reason I brought it up is because that's
18 what you started with in Phase I.
19 MR. FERGUSON: The only difference is how fast you get there.
20 Hopefully you end up there. When all is said and done, it's even, it's a matter of
21 how you pay it out or what percentage.
22 DELEGATE JOHNSON: Are there any other comments?
23 MR. TUCKER: I made a motion to continue the same splits.
24 DELEGATE JOHNSON: If you would, since this involves
25 something that we have not had an opportunity to think about before today,
26 maybe it should be delayed until a later meeting.
27 MR. MAYHEW: I think we're ready to make that determination
28 today, I think it's in our packet.
29 DELEGATE JOHNSON: To make a recommendation?
30 MR. MAYHEW: It was in our packet that we talked about and we
31 had a chance to look at it and think about it.
32 DELEGATE JOHNSON: Whatever the Committee wants to do.
33 MR. FERGUSON: It must be a recommendation and the full
34 Commission will vote on that.
35 MR. BRYANT: I'd second the motion.
36 DELEGATE JOHNSON: The motion was to continue the current
37 split between the flue cured and burley and Mr. Bryant seconds that motion. Is
38 there discussion? If not, all in favor let it be known by saying aye (ayes).
39 Opposed no. (No response). The ayes have it.
40 MR. CURRIN: Mr. Chairman, the last issue on this subject is the
41 indemnification payment database.
42 MS. WASS: We covered that.
43 MR. CURRIN: We've covered that already. Mr. Chairman,
44 earlier I handed out a sheet for you of the applications that will be coming before

1 this Committee. The staff has processed and has been reviewing the applications.
2 I will be meeting with the Chairman to discuss future dates to deliberate after
3 these applications are reviewed by the staff and you will receive our
4 recommendations. You will be sent the applications and the Chairman will work
5 with me to identify a meeting date to discuss and make recommendations to the
6 full Commission on these recommendations. Remember today this Committee
7 doesn't have dedicated funds to it. I made two suggestions earlier and if you all
8 want to give me some directions today, would you like me to go to the full
9 Commission with a recommendation and attract some funds out of the current
10 special projects allocation to come to this Committee to be used for these
11 applications this fiscal year or delay that until the budget is approved which
12 begins the next fiscal year which begins July 1. A couple of these may be
13 somewhat time sensitive but the bulk of them are not.

14 MR. WATKINS: Which ones are time sensitive?

15 MR. CURRIN: From my understanding Mr. Watkins, number two
16 on that list. If you're interested in having some monies taken out of the special
17 projects and we of course, have applications coming to that Committee as well
18 and we're trying to get that Committee meeting also before the April 24th
19 meeting. I think there is a balance of around \$10 million in that.

20 MR. OWEN: It seems to me Carlton in light of the decision that
21 the full Commission made about how we are going to evaluate and analyze future
22 investments that we ought not to have separate pots for technology, agriculture or
23 anything else like transportation and infrastructure. We're going to have a limited
24 amount of money and we ought to select the best project irrespective of what
25 industry they fall into. Not speaking as a member of this Committee but as a
26 Commissioner, I'd rather see us working out of one pot. I think agricultural kinds
27 of projects should come to this Committee for evaluation and recommendations
28 but once they're cleared here, they also compete against other projects that the full
29 Commission has to consider rather than having any further division of the pot into
30 specific money to delegate to agriculture or technology or whatever.

31 MR. CURRIN: My only comment for that is that you do based on
32 the long range plan and report received by this Commission. There are silos. I
33 hear what you are saying, there are silos where monies are identified to come
34 from. In some cases you're going to have and you got some requests that
35 encompass Southwest and Southside. So I guess I'm saying in my judgment the
36 best place for these funds to come from would be the, agribusiness would go to
37 the general special projects group of funds and come from that pot.

38 MR. WATKINS: Would they go there or go to the Southwest and
39 Southside economic development?

40 MR. WILLIAMS: Mr. Chairman, I'd like to see some amount of
41 money come to this Committee and I'm not saying that because we get some
42 money we don't necessarily have to spend it and just because you get money
43 doesn't necessarily mean you have to use it. In order for this Committee to have a
44 little bearing about it, I think we should have some money that could be allocated

1 or recommended to be allocated by this Committee.

2 MR. WEST: Mr. Chairman, are we going to inherit some projects
3 from the Special Projects Committee?

4 MR. CURRIN: Yes, sir.

5 MR. WEST: Then that will lessen their obligation then maybe we
6 should receive some funds from the Special Projects Committee in proportion to
7 the projects that we're going to take off their shoulders. If we inherit those
8 projects and don't get an appropriation until July then that will give them more
9 money to fund the projects that they have there from their list and that will give us
10 less money when it comes to July. If we have those projects that we inherit plus
11 the normal projects.

12 MR. CURRIN: The long range plan has been split up with monies
13 for education, we've got money for both regions. We have monies dedicated to
14 technology, infrastructure and then we have a fund called job creation and special
15 projects. If you'll recall we had money under that fund and maybe we can keep
16 this Committee under that umbrella. I hear what Mr. Owen is saying but
17 ultimately money is coming from the same pot. It was the intent to give
18 agribusiness an opportunity to have some focus and development and continue to
19 work with our partners and state government and other departments to work on
20 projects that were specific to the agricultural industry in Southwest and Southside.
21 It's a policy decision and I'm just letting you know basically where we are at this
22 particular point. We don't have to make a decision on that today and if that's the
23 will of the Committee.

24 DELEGATE JOHNSON: My thought is shouldn't we make a
25 recommendation to the full Committee? Is it a recommendation that you can
26 develop for us? Do you have any thoughts on that?

27 MR. BRYANT: When this Committee was restructured, previous
28 to that who was involved when that decision was made, was it you or Senator
29 Hawkins?

30 MR. CURRIIN: Yes.

31 MR. BRYANT: What was the intention when this was changed to
32 agribusiness?

33 MR. CURRIN: I think there were a couple of things CD. The
34 intention was before this Committee was named Agribusiness, it was the Tobacco
35 Committee and it had one purpose. That was the only purpose for it primarily. It
36 was felt by Senator Hawkins because he had been getting more requests from the
37 two regions to the Economic Development Committee or Special Projects
38 Committee that had an Agribusiness relationship to their request. The Senator felt
39 that you had a half dozen or more tobacco growers and quota holders on the
40 Commission. You had the Commissioner of Agriculture on this Commission. It
41 was his view that because we were getting some of these requests that maybe
42 these requests needed some special focus and that's how basically it came about.
43 He also felt it might lessen the competitive nature that we sometimes found over
44 the past couple of years, when it came to these kind of requests that are decided

1 within the Economic Development Committee for traditional economic
2 development requests. All these are coming through that same process. He felt
3 and I concurred with him that you had some expertise on the Commission that
4 could be better used and could give a subject that the Governor has put a lot of
5 emphasis on and be invigorating with some initiatives of agriculture. We had a
6 variety of subjects along those lines that came up. So he felt again that we needed
7 some special attention and give the Committee some additional responsibilities.
8 From a budgetary standpoint I'm trying to figure out with you what is the best
9 way for, if indeed we continue to keep this Committee, how can we best go about
10 this.

11 MR. MAYHEW: I have a questions. At the beginning of each
12 year or whenever you set up the budget or a projection of how much money we
13 have to give to the Committees and understanding you put up so much for
14 indemnification and then I think off the top you've got some stuff coming from
15 there, special projects and whatever. Whatever is left when and how is it decided
16 which Committee's certain amounts of money go to?

17 MR. CURRIN: Buddy, that budget process is underway and you'll
18 be voting on the budget in April. The staff is sending out a recommendation. We
19 have followed somewhat a historical precedent. Over the past several years and
20 we've had a different focus that we have developed and we've tried to give those
21 different developments some attention. It's not an exact science how we have
22 come up with the funds. Special projects seem to be elevated in its funding
23 because it was created initially to support projects that were different, creative,
24 unique. So we kind of kept that funding somewhat larger than maybe we should
25 have. After the two regional splits between indemnification and economic
26 development, that kind of drives where those two committees receive their funds.
27 Education received funds and I'm not sure from memory how the lines of this
28 Committee was put together and those funds were put together and given
29 somewhat to what the two regions wanted to do as far as scholarship funding.
30 We've also had a history over the past four years of supporting community
31 colleges and that was added into that mix. That kind of is how we came up with
32 that figure for education. Some of what's been driving it is historical precedence
33 of what the Commission has funded in the past and some of it is educated but
34 nonetheless still guess work.

35 MR. MAYHEW: I'd like to qualify this by saying having the best
36 projects gets the money and, if it all fell in one or distributed evenly but you don't
37 really know sometimes when you set your money up, you don't know what's
38 going to come in after that time as to which of these Committees might really
39 have some good projects and some that are not so good. If there was some way
40 we could have the projects up and nail them down to the best ones before the
41 money is allocated, we'd have a much better way after the fact than you would
42 projecting that we think next year we're going to need so much before we even
43 find out exactly what's going to be requested or might come up. We try to do the
44 best job we can.

1 MR. CURRIN: Absolutely.

2 MR. OWEN: Mr. Chairman, my theory is that if we request some
3 money we'll get a pittance and then that's what we're going to be stuck with like
4 a million or couple of million dollars. I think this Committee could be more
5 effective as an advocate if first doing an analysis and promoting agriculture in the
6 respective regions and promoting and supporting agriculture development and
7 then if anyone year we need half or we need these funds, let's have the gumption
8 to get up and say this is the kind of thing we ought to be funding rather than being
9 allocated a million or two million a year and we have to sort of put away is a
10 quarter million at a time. I'm afraid the more we get pigeon holed the less we'll
11 be able to do.

12 DELEGATE JOHNSON: Mr. Ferguson.

13 MR. FERGUSON: I was just going to observe Mr. Chairman a
14 couple of things. One, of course, is the allocation for economic development and
15 indemnification are about to change in the vote that you just took. The current
16 committee structure will put this Committee in a position where you have to do
17 one, two or three things if your view is to back and support some particular
18 program or a grant application or whatever comes through. You can receive
19 them, analyze them and then recommend them and send them back to the
20 subcommittee that does have the money or you can ask for a pot of money and
21 certainly the issue Mr. Owen raised is a significant one. Or you can go up with
22 the full Commission's recommendation. Then you have a concern I think, of
23 other committees, at least under the current structure, have allocated pots of
24 money and I'm not sure if there's any money left than to fund something unless
25 some of the other committees decide you can have some of ours.

26 MR. CURRIN: To answer that question the budget reflects
27 changes regardless.

28 MR. FERGUSON: As you do that, you have the question whether
29 you want to put some pot of money for this committee or do you want this
30 committee to be an analysis committee and that the funding goes to some other
31 place unless you change things and then one big pot of money that all committees
32 have to vie for. That would be a policy change.

33 MR. WATKINS: What should we do with this list of projects we
34 have in front of us, do we refer them back to the Committee from which they
35 came or should we hope to operationally sit down and look at them and tie them
36 up before they have an opportunity to go to those other committees?

37 MR. FERGUSON: Perhaps my suggestion then and obviously it's
38 only a suggestion, to allow us to have to go ahead with the analysis and be
39 prepare to report what they think about them and some of them may be things that
40 you have no notion that you want to do and some maybe very good ones and as
41 you're doing that, I think some thought can be given to what vehicle you're using
42 to recommend this funding. There's several options, each of which has some
43 downsize the way things are currently structured.

44 MR. WATKINS: Well, you're talking about between now and the

1 full Commission meeting we need to do something on one of those committees or
2 in some way with these projects to make a recommendation to the full
3 Commission at that meeting.

4 MR. MAYHEW: You all are in the process of going through them
5 now, right?

6 MR. CURRIN: Yes, as Tucker was saying, his comments are well
7 taken.

8 MR. WATKINS: I think the meeting is April 24th. Have either
9 Southwest or Southside or special projects look at them. I don't think this
10 Committee is inclined to come back and look at them and then refer them back to
11 one of those committees because you just flat don't have time to do it. This year
12 we need to make some decision what to do with these things this year so on April
13 24th the Commission can act on them one way or the other.

14 MR. MAYHEW: Has it always been late January or February
15 before the deadline to get in a project that would be funded by July?

16 MR. CURRIN: Those have been for economic development
17 projects. Historically special projects there's been no set time. It's been the call
18 of the Chairman to get projects in and if you get more than two or three at a time,
19 we then start developing a time to meet. The Education Committee now has in
20 place some set benchmarks and within that Committee they have two rounds a
21 year. I'm eagerly awaiting this one. Maybe you all prefer to come back and I can
22 tell the Chairman that this Committee and of course, that's up to you Mr.
23 Chairman, but this Committee would like for these requests to go back through
24 one of them is special projects and the rest Southwest economic and Southside
25 economic.

26 MR. MAYHEW: Until we have some money to spend they have
27 to go back don't they?

28 MR. CURRIN: They can also be taken off the table and the
29 Chairman can give you all these applications. We can tell the applicants that this
30 Committee now is going to review these applications and then at a later date to be
31 determined and also deciding where the money should come from and then they
32 would be awarded or the request would be declined.

33 MR. MAYHEW: You mean to carry them over?

34 MR. CURRIN: Yes.

35 DELEGATE JOHNSON: I think that would be the proper thing.

36 MR. CURRIN: That's where the staff and the Chairman can say
37 take these off the table altogether and let them be decided later in the spring or
38 early summer. We have a July meeting scheduled and between now and July we
39 can make a determination how do you want to handle these from a budgetary
40 standpoint.

41 MR. MAYHEW: Will there be any change in the time that money
42 is released for a given year's budget now that indemnification will take place as
43 opposed to what it has been?

44 MR. FERGUSON: It could be. You could tie it to the April

1 payments in years past. January was the last payment I believe but now you'll
2 have a little more flexibility.

3 MR. MAYHEW: The April payment is in the pipeline now,
4 they're not part of the indemnification, right?

5 MR. CURRIN: You mean the April payment from the MSA?

6 MR. MAYHEW: Yes.

7 MS. WASS: This year's '03 budget is based on the payments
8 received this past January and this coming April. We do get the money toward
9 the end of our fiscal year.

10 MR. MAYHEW: The April payment will come through
11 conventional channels or is it part of a new –

12 MS. WASS: No, it's already –

13 MR. MAYHEW: It's in the pipeline then?

14 MS. WASS: Yes.

15 MR. BRYANT: Mr. Chairman, I'm not ready to sign off on the
16 suggestion that Mr. Owen and Mr. Mayhew brought forth. I understand it and I
17 appreciate where you're coming from. I think we really need to think about this
18 because when Mr. Currin talked about it being competitive and that's what's
19 going to happen. You're going to become a subcommittee that is going to
20 become very competitive for that special projects money. I can tell you that a lot
21 of times those projects are already in the minds of certain people and I'm afraid
22 this subcommittee will have a voice that's not heard so, let's think about it before
23 we go that route and let's talk about it. I understand it and I don't disagree with
24 the concept of having a pot of money and let everybody vie for the best project
25 but in reality, when you look at agriculture and the concept or the mindset of a lot
26 of people, I'm afraid we're going to come out on the short end of the stick. I'm
27 just not ready.

28 MR. CURRIN: Mr. Chairman, Mr. Owen is Chairman of the
29 Search Committee looking to hire a director of strategic planning or a manager of
30 strategic planning or strategic initiatives and hope to have that person chosen
31 within the next two or three months. That person should also be very helpful in
32 evaluating all of these proposals and in helping the Commission to decide what is
33 in our best interest totally as opposed to divisions of money.

34 MR. WILLIAMS: Mr. Chairman, I have a question about these
35 requests. Will they be acted upon at the next board meeting. Did you say a
36 moment ago you continue to put them off? What do you do with the requests
37 when they come in Carthan?

38 MR. CURRIN: Most of them, February 18th I think. All of them
39 except for one has been channeled through the Economic Development
40 Committee of Southwest and Southside. The Halifax one is going through special
41 projects for 14 counties.

42 MR. WILLIAMS: But they just have them before the Economic
43 Committee?

44 MR. CURRIN: No, they haven't met yet.

1 MR. WILLIAMS: They haven't meet yet?

2 MR. CURRIN: No, sir. They'll be meeting early next month.
3 The Chairman has directed me to send them here for evaluation and
4 recommendation.

5 MR. OWEN: We don't have enough information do we?

6 MR. CURRIN: No, not at this meeting. I was just bringing it to
7 your attention that he directed me to do that. The prime reason for this meeting
8 was the indemnification.

9 MR. WATKINS: If we let them sit, they don't come before this
10 Committee?

11 MR. WILLIAMS: There's a lot of time that these agriculture
12 related projects are handled on or should be on a more timely basis than just
13 economic development. The longer they're put off the less effective they might
14 be. I'm just thinking they should be recognized at some point in time or looked
15 at.

16 MR. CURRIN: Yes, sir.

17 MR. WILLIAMS: We don't have a deadline on any of these
18 projects, do we?

19 MR. CURRIN: I'm only familiar with one that is time sensitive.
20 It's my understanding there's one that's somewhat time sensitive. The rest,
21 there's nothing that's indicated to me that says they're that time sensitive that
22 waiting a couple of months won't hurt.

23 MR. WATKINS: Which one is time sensitive?

24 MR. CURRIN: This project had something to do and I don't
25 know, something to do with the Smithsonian.

26 DELEGATE JOHNSON: Do you have any suggestions?

27 MR. CURRIN: Mr. Chairman, I can only relate to you what
28 Senator Hawkins asked me to do when we got the application or this Committee
29 was created. He asked me to pull these applications and refer them to this
30 Committee. I guess my recommendation would be to double check and see if
31 these are that time sensitive and if you're interested in these types of proposals
32 that we delay action on these until you've had a chance to review the applications.
33 In the meantime staff will figure out a way to make recommendations how to fund
34 them, however that's done. Whether it's dedicated funds to this Committee or
35 Mr. Owen's suggestion or out of our long range planning we had this area of
36 money that's for job creation, innovation which is what we called it in the past a
37 special project. Maybe the best thing to do is have all these things put under that
38 one pot of money and compete. At this point Mr. Chairman I have followed the
39 Chairman's direction so I guess my recommendation would be that these are not
40 that time sensitive and to pull these back to be acted upon at our summer
41 Commission meeting which will be July 11th.

42 DELEGATE JOHNSON: I think that's a good suggestion. We
43 have no money so I think that would be the appropriate thing to do.

44 MR. CURRIN: But at the same time we can't divide ourselves up

1 so much in committees that it becomes almost a nightmare for the staff, this is a
2 large Commission and the committees is where the work is done and we've made
3 some consolidations. I think this subject deserves its own attention agribusiness
4 and the Chairman believes that and the Governor believes that.

5 DELEGATE JOHNSON: I do too. So we'll leave this on the table
6 for the next meeting.

7 MR. CURRIN: That's all I have Mr. Chairman from the staff
8 perspective. We have guests here.

9 DELEGATE JOHNSON: Martha Moore and Bill Scruggs. Would
10 either of you like to make any comments? We appreciate your appearance and
11 thank you for coming by. Martha Moore.

12 MARTHA MOORE: Thank you Mr. Chairman, members of the
13 subcommittee, certainly good to be back with you. It's been quite awhile since I
14 been here at one of your meetings. I'm speaking on behalf of the Virginia Farm
15 Bureau. We're in the process of making comments to the Governor working
16 group on plans to develop plans for doubling bag receipts. I don't think anybody
17 has a corner market on ideas. I think in order to help agriculture statewide,
18 whether it's through the Rural Prosperity Committee recommendations or through
19 other groups that have come, certainly I would solicit any input that you have that
20 I can funnel to that working group as to what plan or what series of things that we
21 need in order to accomplish this goal. In the end we may not accomplish the goal
22 but if we accomplish anything then that's going to help people. I think we have to
23 take whatever opportunities there are to help the largest industry in the state
24 which is agriculture and forestry to continue driving it. It's been the mainstay of
25 our economy and I think we've got to continue that and I believe there's a lot of
26 public support for that. There is no one solution but only a multitude.

27 What the Virginia Farm Bureau is advocating is that we not
28 reinvent the wheel and look at what is currently done and build off those models
29 and work on things that may not have been accomplished through other reports
30 and other Commissions. Certainly that tags into some of the things from this
31 Commission as far as how to revitalized the community. One in the same goals is
32 to revitalize Virginia's rural areas. I'd be happy to receive any comments you
33 have and I'd funnel those to that group. Thank you.

34 DELEGATE JOHNSON: Thank you.

35 MR. CURRIN: Mr. Chairman, the staff reminded me that the one
36 that I thought was sort of time sensitive is not in this list so I apologize. The
37 Smithsonian is not a part of that group.

38 DELEGATE JOHNSON: Before adjournment, we have another
39 item on the agenda, public comment. Is there any member of the public that
40 would like to come forward and speak we'd be glad to take your comments.
41 There being none, no comments. I'll take this opportunity to thank you all for
42 being here today. This has been a very interesting meeting. I appreciate your
43 attention and your participation and cooperation. Mr. Currin, I certainly want to
44 thank you and your staff and all of you for the great work that you're doing. It

1 amazes me how you keep on track and doing the things you do. Ms. Sherrod has
2 done a great job running the staff and Stephanie and the Attorney Generals, I
3 appreciate your being here. As I was telling Mr. Fields, if you tell me it's okay,
4 I'll bet my last dollar it's okay and I feel safe and comfortable in doing what we
5 do and saying what I say because I feel like we can rely on what you're telling us.

6 MR. FERGUSON: Thank you.

7 DELEGATE JOHNSON: Mr. Lewis, we appreciate your input
8 and Stephanie and Stan you're an expert on the computer and we appreciate the
9 assistance and help from all the staff members.

10 MR. CURRIN: Mr. Chairman, one more housekeeping matter and
11 I don't know if I mentioned this or not. The underwriters for securitization are
12 hosting a dinner in Richmond and the staff has been invited. What are the details
13 Stephanie?

14 MS. WASS: You will be receiving invitations and this dinner will
15 be held on April 2nd in downtown Richmond. There will be a dinner hosted by
16 Morgan Stanley, the Underwriters for the securitization. They will be inviting all
17 the Commission members.

18 MR. CURRIN: The Commission has been invited and the work
19 group, the Attorney General's Office, our bond counsel and other staff related
20 individuals will also be included. I think that will be at the Tobacco Company.

21 DELEGATE JOHNSON: Then if I have a motion we will adjourn.
22 Motion to adjourn.

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24 PROCEEDINGS CONCLUDED
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35 CERTIFICATE OF THE COURT REPORTER
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38 I, Medford W. Howard, Registered Professional Reporter and
39 Notary Public for the State of Virginia at large, do hereby certify that I was the
40 court reporter who took down and transcribed the minutes of the Tobacco
41 Indemnification and Community Revitalization Commission public meeting,
42 Agribusiness Committee, when held on Friday, March 21, 2003 at 11:00 a.m. in
43 the Shenandoah Room of the Hotel Roanoke, Roanoke, Virginia.

44 I further certify this is a true and accurate transcript to the best of

1 my ability to hear and understand the proceedings.
2 Given under my hand this ____ day of March, 2003.
3
4
5

6 Medford W. Howard
7 Registered Professional Reporter
8 Notary Public for the State of Virginia at Large
9 MY COMMISSION EXPIRES: October 31, 2006
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