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**VIRGINIA TOBACCO INDEMNIFICATION
AND COMMUNITY REVITALIZATION COMMISSION**

701 East Franklin Street, Suite 501
Richmond, Virginia 23219

Agribusiness Committee Meeting

Thursday, December 7, 2006

1:00 p.m.

Offices of Citizens Telephone Cooperative, Inc.
Floyd, Virginia

APPEARANCES:

- The Honorable Joseph P. Johnson, Jr., Chairman
- Mr. Clarence D. Bryant, III, Vice Chairman
- Mr. Fred M. Fields
- Mr. Jordon M. Jenkins, Jr.
- Mr. Buddy Mayhew
- Mr. John M. Stallard
- Mr. Thomas E. West

COMMISSION STAFF:

- Mr. Neal E. Noyes – Executive Director
- Mr. Ned Stephenson – Director of Strategic Investments
- Mr. Timothy Pfohl – Grants Program Administration Manager

1 Ms. Stephanie Wass – Director of Finance
2 Ms. Britt E. Nelson – Grants Coordinator, Southside Virginia
3 Ms. Sarah Griffith – Grants Coordinator, Southwest Virginia
4

5 OFFICE OF THE ATTORNEY GENERAL

6 Mr. Francis N. Ferguson, Deputy Attorney General,
7 Counsel for the Commission (by phone)
8

9 MR. BRYANT: At this time I'd like to call this
10 meeting to order. I'd like to recognize Mr. Gerald Gallimore who allowed us
11 to meet here at the offices of Citizen's Telephone Cooperative, Inc. Do you
12 have any comments you'd like to make?

13 MR. GALLIMORE: I just wanted to welcome the
14 ladies and gentlemen of the committee and guests and citizens to Floyd. I
15 hope you had a good trip and I hope you have a safe trip to your destination
16 when you leave. I hope you find your accommodations suitable and if
17 there's anything that I or my staff can do to assist you during your meeting,
18 please give us a holler. I welcome all of you, thank you.

19 MR. BRYANT: Thank you very much. I want to
20 thank all the members for your attendance today and especially Delegate Joe
21 Johnson. We're more than happy to see you here today.

22 DELEGATE JOHNSON: Mr. Chairman, I want to
23 thank the Tobacco Commission and the last month it's been kind of rough
24 for me obviously. I received many cards and letters and telephone calls and
25 prayers and I really appreciate all of the concerns that you've had. I'm in

1 God's hands and he's going to take care of me. I appreciate that you're
2 going to chair the meeting today because I am a little bit weak and I
3 probably won't say much but I wanted to be here with you. I appreciate all
4 of the things you've done for me and continue to remember me in your
5 prayers, thank you.

6 MR. BRYANT: Thank you, Joe. Our prayers have
7 been answered seeing you sitting here today. We certainly wish for a speedy
8 recovery for you. Now, I want to welcome everyone here today. I hope
9 everyone will leave this meeting with a better understanding of the kind of
10 projects that this committee is looking for. Our goal is to create a positive
11 economic impact for agriculture in Southwest and Southside Virginia. Let
12 me phrase it this way, when farmers plant a seed we want to plant a
13 perennial and not an annual. And that's basically what I look at when I look
14 at a project that comes before the Tobacco Commission. I am C. D. Bryant
15 and I'm Vice Chairman of the Agribusiness Committee. Of course, due to
16 the illness of Delegate Johnson he's not chairing this committee today. At
17 this time, I'll ask Neal to call the roll.

18 MR. NOYES: Mr. Bryant?

19 MR. BRYANT: Here.

20 MR. NOYES: Mr. Fields?

21 MR. FIELDS: Here.

22 MR. NOYES: Mr. Jenkins?

23 MR. JENKINS: Here.

24 MR. NOYES: Delegate Johnson?

25 DELEGATE JOHNSON: Here.

1 MR. NOYES: Mr. Mayhew?

2 MR. MAYHEW: Here.

3 MR. NOYES: Mr. Stallard?

4 MR. STALLARD: Here.

5 MR. NOYES: Mr. West?

6 MR. WEST: Here.

7 MR. NOYES: Secretary Bloxom?

8 SECRETARY BLOXOM: (No response.)

9 MR. NOYES: Mr. Scruggs is here. You have a
10 quorum, Mr. Chairman.

11 MR. BRYANT: Thank you. Do I hear a motion to
12 approve the minutes of the last meeting?

13 MR. WEST: So moved.

14 DELEGATE JOHNSON: Second.

15 MR. BRYANT: A motion has been moved and
16 seconded, all in favor say aye. (Ayes.) Opposed? (No response.) All right.
17 At this time I'm going to ask Scott Oostdyk to come forward. The Phase II
18 Board that we know as the trust board was set up between the governor and
19 the manufacturers. It's come to an end and our job has completely come to
20 an end about a year ago. We have a balance left over in our trust fund for the
21 state of Virginia. There's some unfinished business that Scott would like to
22 discuss with us today. After the Executive Committee has met in a
23 teleconference, he felt it was appropriate to come before the Commission
24 with the desire of what we wanted to do. Scott, I'll turn it over to you.

25 MR. OOSTDYK: C.D., thank you. I'm Scott

1 Oostdyk, I'm a partner in McGuire Woods and we're legal counsel for the
2 Phase II Board as we call it. The Phase II Board is actually a private
3 corporation that was established in Virginia in 1999 for the purpose of
4 fulfilling the Phase II payment function and the certification of the payment
5 function related to that. Our trustee is J.P. Morgan Chase in New York.
6 They own all the balances and control all the balances. Our function as a
7 board has been to determine payment rules and to distribute and certify the
8 funds to growers and quota holders in Virginia. We've probably passed
9 about a \$130 million in the ballpark over the years through the Phase II
10 process out into the community. We've enjoyed that process immensely but
11 the buyout came along and as a result of that our twelve year payment
12 stream was merged into the buyout legislatively and therefore we were
13 winding down at this point in the Phase II. We had one payment that went
14 out in 2004, which was the result of successful litigation against the tobacco
15 companies who had a dispute as to whether the payment was owed because
16 of the buyout. That got resolved and we made a full payment in 2004 but we
17 kept a residual balance in part to handle the administrative matter in part to
18 deal with claims that are still working their way through the system because
19 of death and divorce and other life events that alter some of the payment
20 valuation. We're probably at a point of having about \$1.65 million when all
21 is said and done left in the Phase II account.

22 The trust agreement said that if that money stays there and the
23 trust ultimately liquidates which it will someday, then that money can only
24 be sent to non-governmental charitable organizations by the directive of the
25 trustee through the action of the Phase II Board who would make a

1 recommendation. Your Phase II Board does not plan to be in existence at the
2 end of the time frame that's called for by the liquidation of the trust. The
3 reason, of course, is by statute your governor is in fact chairman of the Phase
4 II Board. The Attorney General is the secretary; the vice chairman of the
5 board is the Secretary of Agriculture. Senator Warner serves on it as does
6 some other members of the house. It's a board that frankly doesn't anymore
7 have a function. There's a cost of staying open for business, the carrying
8 cost of data, vendor payments and maintenance services and things like that.
9 The board would like to dissolve itself and to do so would like to complete
10 its business.

11 What we did is we started strategizing about what is the best way
12 that we could get the money to the people who are supposed to get it in
13 Phase II who are the growers and quota holders. Get it on a prioritized basis
14 according to the 46, 47 some odd thousand payees under our system and get
15 it there without a transaction cost. As you might imagine to run a check run
16 for 30 cents or 15 cents distributed through one of the world's four top banks
17 and there is an immense process of cost. It seemed to us that to give out
18 1.65 million using the 46 or 47 thousand people, using a mail system, using
19 a check merge and using individually printed checks is too much overhead to
20 warrant it. We sat down legally and started thinking how can we get the
21 money out through this process and use the Phase I payment process to
22 distribute it to the functional same recipients. We've got some great
23 cooperation going right now with J.P. Morgan Chase and the trustee and the
24 bankers and lawyers and everyone else involved in the process of review but
25 we're pretty close to believing that we can probably end up with a system

1 where those funds can be transferred directly to the recipients through a
2 willing recipient such as the Phase I operation and to be added to a Phase I
3 distribution this spring. And that would allow for that money to go out with
4 transaction cost in the main without a separate mailing charge and without a
5 separate printing charge and without a separate handling charge to go out
6 through the Phase I system.

7 Details are still being worked out because number one is because
8 the trustee has a legal duty to care for the money at J.P. Morgan and the
9 board that has a legal duty to see the money, the treasury of Virginia which
10 has a legal duty to receive monies and the Phase I apparatus which has legal
11 duties. A lot of legal duties so we're furnishing all the details. Frank
12 Ferguson and I worked on this project together and hope that by early spring
13 we'll have a pretty clean set of memorandum of understanding and
14 agreements by all the entities that have to be involved. And then we'll be
15 ready to say that we can distribute X amounts of funds if the Phase I
16 apparatus is willing with the Phase I payment this spring.

17 Where we are right now is we know we have a sum of money
18 subject to a final resolution of payments, final resolution of operations and a
19 transfer of our seven year database, which will go to your Phase I vendors
20 for purposes of historical reference and all the other things that have to
21 happen to shut down the corporation. When that process clears in the spring,
22 we're ready to say here's the amount of money that can be distributed and
23 the Phase II Board Dan Duffer, who's been working with us effectively
24 during this process, the Phase II Board would have to adapt some payment
25 rules slightly to accommodate the Phase I payment rules to make sure that

1 there's a seamless distribution. The information we use from the Phase I
2 database to make distribution last year for ease of operation so there's a
3 precedent there. That's pretty much what I have to put before you. My
4 suggestion is that we've got cross-cutting board members, Mr. Bryant, Mr.
5 West, Mr. Stallard, Mr. Fields and others. In our communication process we
6 wanted to make sure that we kind of let you know in advance other entities
7 we're communicating with and this opportunity is here and some of the
8 timing aspects of it. C.D., I hope I've covered the waterfront there. If I can
9 answer any questions that anyone in the Commission has, I'll be happy to do
10 that.

11 MR. BRYANT: Any questions?

12 MR. OOSTDYK: I might be the first one to stand up
13 here and offer money and pull out my wallet and try to figure out a way to
14 make money come to you all but it is the season.

15 MR. FERGUSON: (by phone) Just to echo what
16 Scott said and I agree with everything that Scott has said. It seems to me
17 that it's a very effective and efficient way of distributing the money to those
18 folks that were intended to receive it originally. My own review of the
19 process is that the Commission has the authority to receive this money and
20 to expend it in the way contemplated.

21 MR. BRYANT: Thank you, Frank. Scott, do we need
22 to ask the committee to make a recommendation to the full committee?

23 MR. OOSTDYK: I'm not familiar enough with your
24 procedures. I know Frank's an expert in that. But at some point what we
25 would need or we're going to have to enter into a memorandum of

1 understanding among all the different entities. I would say that whatever
2 you need to do to set yourself up to be able to receive funds. One aspect I
3 would say as counsel for Phase II that we would have to agree for example
4 that the Phase II Board could adopt the Phase I payment rules. We also
5 would have to understand, I think it's the spirit expressed in committee of
6 the Phase II folks that the money would go to the supplemental Phase I
7 distribution and not in the replacement of any funds that might otherwise be
8 due to growers. The idea was the payment streams would parallel and now
9 it's being merged. The idea is we're topping off the tank of the Phase I with
10 a small amount of money. That can all be done in the documentation and
11 will be done by a common legal team.

12 MR. NOYES: I would ask Mr. Ferguson, I don't see
13 where we would need a motion for our January meeting in order to accept
14 the funds since we have authority now to do our Phase I indemnification.
15 Isn't that an administrative matter?

16 MR. FERGUSON: I think that's probably correct.
17 What I'd say is that it may be worthwhile to go ahead and formulate a
18 motion or a recommendation to the full Commission that this be agreed to
19 just for the record but more importantly the second piece then would be to
20 authorize you or the Agribusiness Committee or the chairman or someone to
21 sign off on eventually all the paperwork and memorandum of agreement that
22 would be necessary to make this actually happen and you won't have to wait
23 for another full Commission meeting after January to proceed with the
24 business of doing this.

25 MR. NOYES: Mr. Chairman, we should have a

1 motion recommending that we adopt an agreement per Mr. Ferguson's
2 advice to accept the remaining balance of the Phase II payments and
3 administer them consistent with the agreement that is provided.

4 MR. JENKINS: Mr. Chairman, I would make a
5 motion to adopt the language that's been expressed by –

6 MR. BRYANT: A motion is made by Mr. Jenkins,
7 seconded by Delegate Johnson.

8 MR. FIELDS: Mr. Chairman, when do you foresee
9 Phase II being dissolved and the money coming to the appropriate people?

10 MR. OOSTDYK: Phase II will not be dissolved
11 before the money comes. Those are two separate independent things. The
12 money will be available we're projecting by spring, probably in the late
13 March, April time frame. The reason is, I think, because that's how long it
14 will take to effectuate all the various agreements with the trustee and with
15 the Commonwealth and the Commission and the boards. That also requires
16 a little bit of a window. Even this morning, Mr. Stallard advised me of a
17 dispute bubbled up out in the hinterland. When there's a bus accident and
18 there's fifty seats in the bus, there's 53 people that claim that they were there
19 that day. We've got to make sure that all of the business of a nine-year
20 operation wrapped up or a seven-year operation is wrapped up. So the
21 dissolution of Phase II, that's a separate issue. But I would think that we
22 would at least have a sense that the Phase II Board can determine what the
23 sum certain will be but I would say springtime.

24 MR. FIELDS; What happens –

25 MR. FERGUSON: - Mr. Chairman –

1 MR. BRYANT: Frank, we've got somebody speaking
2 right now.

3 MR. FIELDS: What happens when there is this or the
4 money comes to the Phase I and there is some question about funds being
5 distributed?

6 MR. OOSTDYK: Is there a question about the funds
7 being distributed for the Phase I process?

8 MR. FIELDS: If someone had a question they were
9 deserving or entitled to a payment and there is no money in Phase II
10 anymore.

11 MR. OOSTDYK: Fred, I'll say as counsel we've
12 been through this process of the payments so much that we have a pretty
13 good idea of who's out there. The one today was a surprise and we'll have
14 to look into it. But by and large, there's been so much communication and
15 the last payment went out in 2005, 2004 based payment. Most people if
16 they're missing money they know by now where to find us and it's amazing
17 how many people can find you when they think you owe them money.
18 We're pretty confident we're getting to the end of the trail.

19 MR. FERGUSON: Mr. Chairman, just to add to that,
20 first of all one of the things we discussed was having some risk coverage in
21 place when the transfer occurs. I guess what Scott would call tail coverage.
22 That will protect the trust board members and if we think there's some
23 potential liability out there we could probably insure against that as well.
24 Those details will all be addressed and considered in the memorandum of
25 understanding. We're aware those concerns are there. The second thing is, I

1 didn't hear in the motion that was made a recommendation to the full
2 Commission that someone whether the executive director or the chairman of
3 the Agribusiness Committee, be authorized to follow through with the
4 business of having the transfer affected. I'd like to hear the full delegation
5 of that authority. I think the executive director is fine with the guidance of
6 the Agribusiness Committee is what I would recommend I think.

7 MR. JENKINS: Mr. Chairman, I would amend the
8 motion to include this language that the executive director plus some named
9 group.

10 DELEGATE JOHNSON: I'll second it.

11 MR. BRYANT: Any other discussion? All in favor of
12 the motion, aye. (Ayes.) Any opposed? (No response.) The ayes have it.

13 Scott, before you leave I would like to point out to everyone on
14 this committee what an important part he has played in everything we've
15 done in Virginia. Phase II was the first entity that came about between the
16 governor and the manufacturer. We had to invent the wheel and Scott did
17 not know hardly anything about the mechanization of tobacco and all the
18 litigation and all the different entities from the companies down to the
19 producers and quota holders. He did a quick study and helped us invent that
20 wheel and we inherited that in the commission or the committee and that
21 propelled us forward tremendously. I want to thank you and you have stuck
22 by us through thick and thin. I look forward to doing more.

23 MR. OOSTDYK: Thank you, C.D. I'll say it's been
24 a pleasure serving not just the Phase II Board but also crossover relationship
25 with Phase I. Frankly, when we walked in the room being ignorant about

1 this process, there were two people standing up front to give us comfort to
2 go forward and that was Stan Duffer and Frank Ferguson. They were
3 actually the architects and the brains of the operation; we were facilitators.
4 And I want that on the record. Thank you very much.

5 MR. BRYANT: Next, I'll call on Linda Wallace,
6 who'd like to address us with an issue.

7 MS. WALLACE: Good afternoon, gentlemen. Glad
8 to see you all again, I haven't seen you for a while. It's with great pleasure
9 to stand up here and tell you that the Southside Value-Added Beef Initiative
10 has been a success and I have some facts and figures and a preliminary
11 analysis by Dr. John Hall at Virginia Tech. Right now we currently have
12 spent, you gave us 1.4 and right now we're standing at about \$1,300,000, we
13 still have about 100,000 out there. Just to throw some figures at you real
14 quickly, this report can certainly be made available to staff if you'd all like
15 to see it. The Southside portion of the grant and remember we served six
16 counties, which were Brunswick, Charlotte, Halifax, Lunenburg,
17 Mecklenburg and Pittsylvania.

18 In this round of funding, we served an additional 161 applicants
19 for an average cost share payment of about \$3300. You all invested about
20 692,000 in Southside. I'm pleased to tell you that the producers invested
21 about 830,000. Mr. Bryant, I think that's a pretty good return and that's not
22 counting the trickle down effect of all of this. Southwest looked equally
23 impressive. In Southwest we assisted 208 participants at an average cost
24 share of about 2600 and remember they had a lower cap to start with in
25 Southwest than we had in Southside. Southwest has currently spent about

1 545,000 and their producers have spent about 685,000. The producer
2 investment exceeded that of the Tobacco Commission, which is what we
3 intended and hoped for all along.

4 I asked Phil Blevins earlier if I could quote him for this project.
5 Phil provided a summary of the project in Southwest; I'm quoting Mr.
6 Blevins on this. One benefit of this program, which is hard to quantify is the
7 enthusiasm for doing a better job as beef producers that has been generated
8 among area cattlemen. Producers are taking the necessary steps to produce
9 better feeder cattle and market them in such a way that they are more
10 profitable. As we all know certainly an issue with this problem from the
11 very beginning was the definitive demonstration of return on money
12 invested. I think comments like this or some of the results of the Virginia
13 Quality Assurance Sales this year clearly demonstrate to me that benefits of
14 this program go way beyond just a couple of hundred people that we cost
15 shared with.

16 We referred to one of my producers in Southside, we called it the
17 boot on the fence. I think you have generated much activity in the beef
18 industry among neighbors, non-participants in the program as well as
19 participants in the program. I applaud you all for engaging in this concept,
20 that's three or four years ago. I think this has done a tremendous job of rapid
21 improvement in the beef industry in Southside Virginia. I daresay you could
22 say the same thing for Southwest Virginia. I was talking to Bill McKenna,
23 the executive director of the Virginia Cattlemen's Association and we talked
24 about the Beef Initiative among others and I was telling him about some of
25 the new areas that are coming and he said the same thing to me that Dr. Hall

1 said one time. You all managed to accomplish probably in three or four
2 years what it would have taken an extension agent and Virginia Cattlemen
3 ten or fifteen to do. I think you've brought the cattle industry in Southside
4 Virginia and Southwest Virginia up a couple of notches. I think we're
5 competitive now with some of our other beef producing states on the East
6 Coast. Our cattle are selling well and certainly the Ag Marketing Center.
7 This is really the first year that we saw some of those cattle from these
8 improved genetics. We've had better sales this year, consistently better
9 grade cattle. We saw fewer hues Mr. Stallard, than we've ever seen. That's
10 a direct result of the investment you all made in the genetic improvement as
11 well as cattle handling facilities. Your staff told me to be brief so the
12 preliminary surveys from Dr. Hall at Virginia Tech, as you gentlemen may
13 recall we asked all participants to complete questionnaires, like a four-page
14 questionnaire.

15 We forwarded those all up to Virginia Tech and Dr. John Hall is
16 doing an analysis of those surveys. What is interesting and John made a
17 great point here. This is a preliminary analysis and we can certainly make
18 this available to staff. The preliminary analysis covers 519 applicants. This
19 is a little skewed because of what I was telling Phil Blevins earlier. Fifty-
20 two percent of those 519 surveyed are from the pilot project counties,
21 Halifax, Mecklenburg and Pittsylvania. That's easily explained because we
22 have the pilot projects, we have more questionnaires in there. One
23 interesting thing that John noted here, Dr. Hall noted in here. From this
24 survey as we're all under the impression that the average herd size in
25 Virginia is about 32, 25 to 40 and John made it 25 to 40 and John made it on

1 32. The herd size is considerably larger than the average of 32 cows. This
2 larger size operation indicates that the beef operation that producers
3 surveyed makes a greater and more significant contribution to family farm
4 income, thereby farm income. So I was pleased to hear that. There's some
5 very interesting information in the surveys and I would offer these.
6 Certainly one thing that jumps out is the significance of the genetic
7 improvement dollars that are spent and also improvements in the cattle
8 handling facilities, which are only enhanced by the producers ability to add
9 value to the calves and get more money for them. Phil Blevins said that
10 Abingdon had one of their first sales that was back in October or November.
11 The VQA cattle averaged for the steers were almost four dollars higher.

12 MR. BLEVINS: We hit the worst day of the year and
13 the bottom of the market and still did well.

14 MS. WALLACE: You all did well on your earlier
15 VQA sales. I think they averaged \$65 more per head in comparable sales. It
16 may not sound like a lot of money but if you're that farmer, \$65 a head and
17 you sold 15 cattle that day and do that a couple of times a year that will
18 increase your income of course. Certainly, Britt and I hope to have some
19 figures and have that by the end of January. I cannot tell you how many
20 favorable remarks that I've heard from producers that have participated in
21 this project. Many of them ask questions about you all and I think you've
22 done a tremendous job in sponsoring this project and you did a lot to change,
23 this project does much to change the public's perception of this body. I can
24 certainly make this information available to the staff. John intends to do a
25 more extensive analysis and all the Southwest questionnaires are in as well

1 the questionnaires from the Amelia project that you funded the last round of
2 funding.

3 MR. MAYHEW: I'd like to take this opportunity to
4 commend a lot of the work that Ms. Wallace and she has poured her heart
5 and soul into this program. And I think the early beginnings have proved so
6 successful they were translated into some of the other programs further
7 down the line and in no small part due to the success that the program has
8 had. On behalf of the Commission and personally I'd like to thank you for
9 that.

10 MR. WEST: I concur and say the same thing.

11 MS. WALLACE: Thank you all. I hope you'll
12 consider projects like this in the future and I think you've got about two
13 million in the project and when you talk to anyone in the cattle industry, we
14 can't demonstrate it to you on paper but we think your return on investment
15 is probably closer to four or five million dollars.

16 DELEGATE JOHNSON: I would just like to thank
17 you, too, and Phil Blevins in the Southwest Virginia Cattlemen's
18 Association. I say to Mr. Chairman and members of the committee, this just
19 goes as I see it to show that we have facts and figures and hard evidence that
20 should convince doubting Thomas' that this is a great program and very
21 beneficial. I think it's revived a lot of interest in the community, the farming
22 community and the cattle industry is going to continue. I thank you also.

23 MR. BRYANT: As recent as yesterday, I had
24 testimony from a cattle producer that does not live in a tobacco county. His
25 comment to me was what the Commission has done with this Beef Initiative

1 has allowed the industry to look at the state of Virginia more seriously as a
2 qualified producer of cattle now and in the future. And Ms. Wallace, I think
3 it goes back to the comments that have been made that Southside Virginia is
4 a sleeping giant. We've never pursued cattle because we've always had
5 tobacco. With the decline of tobacco, I think we needed to steer those
6 producers into better management, new marketing techniques. I think now
7 we're getting some of that recognition, not only in the western market but
8 certainly in the northern market. The majority of feeders head north; we
9 certainly can go west, too. I think we have buyers now that are looking at
10 Virginia feeders where before I don't think they knew where we work.
11 Thank you all. Next is Tim Pfohl, Grants Program Administration Manager.

12 MR. PFOHL: Good afternoon. About a week ago
13 you should have received a set of staff recommendations on the fifteen
14 proposals that were submitted by the Agribusiness deadline of November 1st.
15 Those proposals are requesting just over 3.4 million and the committee has
16 a balance of just over 1.5 million in the current year's budget. I will be
17 happy to describe the proposals briefly for the folks that are here in the
18 audience. The recommendations represent the consensus of the entire
19 Commission staff and the executive director to the field office people
20 including Britt Nelson for Southside and Sarah Griffith from Southwest
21 Virginia. We've had conversations with several of you and we try to be
22 available to consult with you before the applications come in and then also
23 when the applications are in and then afterward we're certainly happy when
24 the process has run its course to talk to you about how we've reviewed your
25 proposal as we did. We'll make ourselves available at your convenience to

1 do that. We try to make the best informed decision that we can and present
2 that to the committee but this is another step in the process of learning about
3 your proposal. The committee members do not have a lengthy prepared
4 presentation but they typically may have some questions for you. You'll be
5 asked to stand up and please identify yourself for the record. The court
6 reporter is taking the minutes of these meetings so we will know who you
7 are and who you're representing.

8 With that, you've got a spreadsheet listing the proposals and I'll
9 say the five recommended projects were the five that were highest in our
10 process. We use a scoring system and we'll be happy to share that with folks
11 if they're interested in seeing that. We also have applied some qualitative
12 decision making in addition and you'll probably see some of that in some of
13 the staff remarks. I can very briefly describe these and if you want me to go
14 into more detail I can certainly do that and invite some of the folks
15 representing these projects and applicants up to speak to you.

16 MR. BRYANT: Before you move forward, let me say
17 that we will review and discuss these proposals before I will entertain a
18 motion.

19 MR. PFOHL: Leading off on page one, the first one
20 is the Abingdon Feeder Cattle Association, which is the applicant on behalf
21 of a ten county region. This has been funded twice previously. The
22 Southwest Value-Added Beef Initiative. This is a 501(c)5 non-profit. The
23 ten counties are listed in your handout and this will continue the same
24 process that the ten counties have used over the past two fiscal years. They
25 do have 81 applicants that currently have gone through the process and meet

1 the program requirements but don't have sufficient funds from the previous
2 grants to award funds to these 81 tentatively approved folks. We're
3 recommending that the award be made the third and final award for these ten
4 counties to serve the 81 approved but unfunded applicants. That amount we
5 estimate to be approximately \$247,860.

6 MR. BRYANT: Any questions?

7 MR. STALLARD: Mr. Chairman, I'd like to say one
8 thing. I'd like to see this Southwest Region continue. I don't want this to be
9 the last payment. I appreciate and I am thankful for the 247,000 but I'd also
10 like to ask for 52,140 of uncommitted funds to sort of even up the board.
11 We also have another class of people who have not been VQA certified yet
12 to take advantage of this Beef Initiative in Southwest. I'll be happy to put
13 that in a form of a motion. I'd like to even this 247,860 up to an even
14 300,000. Phil might want to speak to that.

15 MR. PHIL BLEVINS: I'm Phil Blevins. I appreciate
16 the opportunity to be here to clarify a couple of things regarding this but
17 before I do that I'd like to thank you on behalf of all the producers in the
18 counties that we serve in Southwest Virginia. I'd echo what Linda said in
19 regard to the benefit it will do the region in a lot of ways and for
20 improvement. Some enthusiasm and things like that that are hard to get a
21 handle on when it comes down to hard numbers. A couple of things I'd like
22 to mention, this is the second round for four of the counties that are involved
23 in this group rather than the third round. We're talking about the 81
24 applicants that are standing right now and those are those that have been
25 approved. We have other applicants that have not been approved yet in the

1 pool. We also have producers that are very interested in this project that
2 have not gone through the VQA certification so they're not eligible for
3 application or for funds. The ten counties we're requesting funds for, we
4 have about 5500 beef herds in those counties representing about 280,000
5 calves and so far we've been able to fund just under sixty percent of
6 producers in those areas and in those counties. There's a tremendous
7 amount of potential out there and we're grateful for any amount that we can
8 get, I don't want to sound ungrateful. We'd be real grateful if we could get
9 more. That's probably the best way I know to describe it. We certainly
10 appreciate what we have received, but I just want to clarify those couple of
11 things. I'd be willing to answer any questions if anyone has any.

12 MR. BRYANT: Any questions from the committee?
13 What I'll do is this will be earmarked for the full amount of the block when
14 we start voting and we can come to this separate and entertain your motion
15 at that time.

16 DELEGATE JOHNSON: Mr. Chairman, I'd like to
17 ask a question. If you look at the amount that's been recommended to be
18 spent, the amount left over \$255,574, come January 1, if we don't spend that
19 money today, what happens to it?

20 MR. NOYES: The funds remain in the Agribusiness
21 account and don't revert to any other place.

22 DELEGATE JOHNSON: Would it remain in the
23 Agribusiness so to speak?

24 MR. NOYES: Yes, sir. Mr. Chairman, if I could ask
25 your indulgence. A matter has come to my attention in the last two or three

1 weeks that concerns the potential for an ethanol producer to locate a major
2 facility in the Commonwealth of Virginia. Before that happens, it will be
3 necessary for there to be a bio mass inventory. This is a cellulose based
4 ethanol producer, not corn but what it is we believe we have. In discussions
5 with the Secretary's office and others and I've discussed this with both Mr.
6 Bryant and Senator Hawkins to the extent that it is possible, they would like
7 us to leave as much of the balance of the staff's recommendations available
8 in the Agribusiness Committee pot. Let's see where this goes. We should
9 have better information as soon as six weeks to eight weeks from now. But
10 certainly we could if the funds are not needed and the application process
11 will have to go forward and the project will come before this committee for
12 your consideration. Certainly before our April meeting, you will know. To
13 the extent you're comfortable doing this, I would ask that you initially
14 consider it.

15 DELEGATE JOHNSON: Mr. Blevins, what about
16 waiting until April, would that affect the program any?

17 MR. BLEVINS: With this particular phase, that
18 would help some.

19 MR. JENKINS: How much do you anticipate needing
20 for this?

21 MR. NOYES: 255,000 that, my information is right
22 now that it might be more than 255,000. That doesn't mean the Commission
23 will be asked for the full amount, there are some other alternatives.

24 MR. BRYANT: Any other questions?

25 MR. FIELDS: Neal, also for projects like that, I don't

1 know if it will all come from Agribusiness.

2 MR. NOYES: That's correct.

3 MR. FIELDS: We have a couple other possibilities
4 that I would think would be very interested in funding something like that.

5 MR. NOYES: Yes, sir.

6 MR. PFOHL: The second applicant is Appalachian
7 Sustainable Development, which is a 501(c)3 non-profit in Southwest
8 Virginia. They're requesting 400,000 to expand two of their principal lines
9 of business. One is the Appalachian Harvest Network of certified organic
10 farmers and are looking to expand their facility and equip that, expand a
11 building in Sticklelyville. The second piece of their request is to expand their
12 sustainable wood processing center in Castlewood by adding a millwork
13 production line. Currently they're outsourcing the millworking, the woods
14 that are being harvested and cut in Castlewood. We have corresponded with
15 the applicant and they're responding to our suggestion that some of the
16 buildings could be financed and offered to seek some of the equipment
17 through some other sources. Staff recommends an award of \$300,000 to do
18 the building expansion for the Appalachian Harvest Program as well as the
19 equipment for the two business lines.

20 MR. BRYANT: Anyone want to speak on this
21 proposal or any questions?

22 MR. ANTHONY FLACCAVENTO: I did bring a
23 couple of handouts and this might be useful, there's not too much paper. The
24 first one is a little chart that shows the demand that we have from our
25 supermarket customers which is the red line and the supply that we've been

1 able to build up from our brothers in Southwest Virginia. What you might
2 notice is the yellow line, which is the supply line, is growing steadily and
3 we've been increasing supplies between 60 and 100 percent per year. The
4 red line and the buyer's demand is still far above that. To give you some
5 specifics on that this is the matrix that we developed. We go to our buyers to
6 get specific demand on crop by crop and that matrix is what that represents.
7 This is their low ball estimates of what they want on a monthly basis from
8 this. You'll see on the right hand corner on the bottom the number and that's
9 6309 and that's the number of boxes of produce that they feel minimally
10 they want on a weekly basis. That represents roughly \$110,000 of sales each
11 week for farmers. We're no where near that supply but our supply is
12 increasing by 60 to 100 percent per year. Eventually we hope the yellow
13 line will catch up with the red line and we'll be able to meet that demand
14 well over \$1,000,000.

15 On the wood products side, I'll say that the committee two years
16 ago provided \$70,000 for the construction of a second dry kiln and it took us
17 a while to get the additional funding but we did do that, it was a combination
18 loan and grant. That second kiln has been operational since July of this past
19 year and has been not only double our production of wood but it's also a
20 faster kiln. It's all done by the wood waste. As a result, we can respond to
21 our buyers more quickly than with the first kiln. Mr. Noyes is familiar with
22 it because when he was with EDA they were the first ones to come on board
23 on that project. The market for the wood products and produce and now the
24 eggs are sky high. Our challenge is to getting the producers and training
25 them adequately and having a good enough facility that we can really

1 manage the produce business, which is not an easy business to manage. Are
2 there any questions?

3 MR. STALLARD: Do you know how many farmers
4 you have involved in the organic business and in the sawmill how many
5 customers you have and how many foresters you're buying from?

6 MR. FLACCAVENTO: On the sawmill, our
7 customers are a combination of contractors, architects and retail outlets.
8 Right now we have about two dozen buyers regularly. We've got a wider
9 base than that but they're the ones that we can count on to continually come
10 back. They're scattered from Charlottesville, we've got a retail outlet in
11 Salem and Roanoke that we'll be adding in this year and of course, the far
12 Southwest. The number of landowners that we work with each year ebbs
13 and flows because it all depends on the size of their property. If they have
14 200 acres of forestland, that obviously is going to provide more wood than if
15 they have fifteen or twenty, but we have been averaging somewhere around
16 six woodlots each year. That's averaging about fifty to seventy-five acres of
17 forestland. With the addition of the second kiln, that can be a doubling for
18 more than doubling our production. We estimate going up to about ten or
19 twelve private woodlots per year supplying right now about fifty to seventy-
20 five customers through those contractors. One contractor might do three or
21 four homes using our wood per year so it's about fifty to seventy-five. On
22 the producer and egg side, this past year we finished with about forty
23 producers, 36 on the produce and we've added more and we anticipate 50 to
24 60 farmers and growing steadily from that. We really need a hundred
25 farmers but the process of getting them prepared for commercial production

1 and organic production takes a lot of work in preparing each farmer. The
2 growth is actually about 20 or so a year rather than the 100 that we'd like to
3 have.

4 MR. BRYANT: Any other questions? Thank you.

5 MR. PFOHL: Next we have the Blue Ridge Soil and
6 Water Conservation District. To initiate a beef cattle project in three
7 Southside counties that have not participated in the beef cattle program thus
8 far. That's the counties of Henry, Franklin and Patrick. Blue Ridge Soil and
9 Water Conservation will be the fiscal agent on the project working in
10 conjunction with extension agents and their SWCD field staff. They'll use
11 the disbursement oversight committee process that's been used to date with
12 the beef cattle program, a very similar process. I think what you've seen in
13 funded projects and three counties represent over 1100 beef farms and
14 27,000 head of cattle. The distribution of funds by county is always a
15 question with these projects. Staff is proposing that a base level of funding
16 of \$50,000 be provided for each county and then the balance of the award be
17 distributed on a weighted average of the beef farms in each of the three
18 counties. We're suggesting that the cap on this one as with the other
19 proposal you'll hear about today be lowered to \$3,000. We're not
20 recommending they get the full request in the amount of 545,000. This
21 means it will reach more producers and put more incentive out there and
22 we're suggesting the cap be lowered to 3,000 per producer. The staff
23 recommended an award of 300,000 and the base of 50,000 per county and
24 the balance of the award distributed by a weighted average of the beef farms
25 and a cap per producer of 3,000.

1 MR. BRYANT: Anyone here from Blue Ridge Soil
2 and Water Conservation District?

3 MR. ROGER SEALE: I'm Roger Seale and I
4 strongly appreciate your consideration and look forward to hopefully and
5 finally the end of this process. We started out with quite an initiative. We're
6 here to ask for your help and we appreciate anything that you can do for us.
7 I'll be glad to answer any questions concerning our application.

8 MR. BRYANT: Any questions from the committee?
9 All right, Tim.

10 MR. PFOHL: Moving to page three, Campbell
11 County application on behalf of another Southside Beef Cattle Initiative.
12 These are four counties that have not participated previously in the
13 Southside Beef Initiative. The counties in this case are Appomattox,
14 Buckingham, Cumberland and Campbell counties. The proposed cap is
15 \$4,000 per producer and they're proposing to use the disbursement oversight
16 committee. It's obvious that the benefits of having funded the previous
17 grants, one of the benefits is that these folks are not having to reinvent the
18 wheel and in fact using similar program designs can allow us to compare
19 similar efforts of not only the previous grants but also these grants if you see
20 a way fit to approve these. They're very similar and we're trying to be
21 consistent in this approach. We're recommending a base funding of \$50,000
22 per county and the balance distributed by the weighted average of the beef
23 farms in these four counties. The four counties represent 1,000 beef farms
24 and 40,000 head of cattle. We're recommending that the cap be lowered to
25 3,000.

1 DELEGATE JOHNSON: It says 40,000 head of beef
2 cattle. My question is to be one head, is that the baby calf all the way up to
3 the 20 year old bull? Is there a definition for what a head of cattle is?

4 MR. PFOHL: Typically we're using the national
5 agricultural census and I can't say I'm familiar with their definition, I'll have
6 to defer to the professionals in the audience to help us with that.

7 MR. MIKE DAVIDSON: I'm Mike Davidson,
8 Director of Economic Development for Campbell County. That number
9 represents the adult beef feeder cattle population in those counties. I should
10 say the adult female.

11 MR. BRYANT: Any other questions from the
12 committee? All right.

13 MR. PFOHL: The next proposal on page three is the
14 Elk Creek Fire Department in Grayson County to construct a 50 foot by 80
15 foot metal frame building to serve as a livestock show barn on property
16 owned by the fire department in Grayson County. The structure would host
17 an annual 4-H and FFA livestock fair. I believe they initiated that fair in the
18 past year and they're hoping this will become an annual event. The request
19 is 20,000 and in looking at this we were not fully convinced that that was a
20 reliable cost estimate. It's a livestock show rather than a sale and we didn't
21 see identifiable direct commercial outcome. Another concern is that the
22 facility would be used for other community events that was a low priority for
23 the Commission so the staff recommended no award.

24 MR. BRYANT: Is anyone here from Grayson County
25 that would like to speak, come forward please.

1 MR. JIMMY OSBORNE: I'm the extension agent for
2 Grayson County and we have 4-H volunteers. I worked with the folks to put
3 this proposal together. This past year we tried to start a county livestock
4 show, which we don't have in Grayson County and never had a fair in
5 Grayson, so this is our efforts to start a fair. In our show this past year it was
6 sheep and dairy cattle and hosted by one of our local livestock brokers. Our
7 intent was try to get to a location of which the Elk Creek Fire Department
8 was very active in the community. They've been trying to help start a
9 county fair. By moving and trying to get a county fair started in the
10 Wytheville area and we've had their support and leadership to make that
11 thing work. It also opens the door for our youth in the county and we think
12 it's important to us to be able to exhibit livestock in an atmosphere that
13 would not be as open to disease with the cattle moving through. We don't
14 have any purebred dairy cattle or beef cattle and commercial beef cattle at
15 this time being shown for that particular reason. We've been in contact with
16 a company in Kentucky that puts up these metal frame buildings and their
17 estimate for this building is just 20,000 for the shell itself. Elk Creek Fire
18 Department has agreed that they would furnish the building with electricity
19 and we'd have power and electricity where this proposed building would be.
20 Their in kind contribution would be an estimated \$10,000 and the livestock
21 committee, which I'm a part of, would try to develop this fair. So we put
22 together some proposals for the county to help furnish, install some gates
23 and these kinds of things. That's sort of a quick rundown of what it's about
24 there. I'll be glad to answer any questions.

25 MR. BRYANT: Any questions from the committee?

1 MR. PFOHL: Page four, Halifax County Agriculture
2 Development Office, which is the switchgrass utilization as a 4-H and the
3 potential for green energy. The request is \$60,000. This is going to get a
4 little hard to follow so bear with me then we'll go back and try to explain it
5 again. The proposal as submitted and the suggestion is that producers be
6 paid \$40 per acre per year for up to three years to establish plots of
7 switchgrass in four counties, which are Charlotte, Halifax, Mecklenburg and
8 Pittsylvania. That would be \$40 times three years, \$120 per acre with the
9 maximum acreage for each producer. The producers would have to be folks
10 that have applied to the State Department of Conservation Best Management
11 Practices Program. It's a cost sharing program and provides 75%
12 reimbursement for the establishment of permanent vegetative cover. In this
13 case, Halifax is proposing that producers that applied for that state cost share
14 program and select switchgrass as their permanent vegetative cover get that
15 \$40 per acre per year for a maximum of 10 acres for three years. The staff
16 has talked to the applicants and proposed a different way to approach that
17 and to address the upfront cost of the producer to have to come up with 25%
18 of the cost to establish a plot. What we're proposing is that we assist the
19 producers with that upfront cost that's required to get access to the state 75%
20 of the cost share. We're recommending a cap of \$500 per producer, which
21 will cost to establish the maximum of 10 acres of switchgrass. Under our
22 proposal, we think we could reach potentially a hundred producers in those
23 four counties. One of the side benefits of this proposal is that the state DCR
24 and soil and water staff will have to go back and make sure that those plots
25 are maintained for five years to keep that state cost share funding in place.

1 Not to say we're passing the torch for enforcement over to our colleagues in
2 the other agencies but it's something they're going to have to do anyway so
3 it gets us out of the business of having to go back each year and verify that
4 there's sustained plots of switchgrass and then provide that per acreage
5 reimbursement. In effect to reimburse them for their production cost of
6 crops that could have been grown on that land. That is the proposal as
7 revised. The applicant is agreeable and they have talked with soil and water
8 agents in those counties about using that approach. They seem to feel like
9 this is something that could be worked out.

10 MR. BRYANT: Any questions?

11 MS. WALLACE: It's as clear as mud.

12 MR. BRYANT: Any other questions from the
13 committee? All right. Tim?

14 MR. PFOHL: Moving on to the Patrick County
15 Board of Supervisors is the applicant along with the counties of Henry and
16 Pittsylvania for the enhanced facilities at the Reynolds Homestead, a project
17 which is requesting \$270,000 to construct a new state of the art greenhouse
18 and a facility for plant production, packing and cooling, and provide backup
19 power generation at Virginia Tech's Reynolds Homestead Forestry Research
20 Center in Patrick County. The staff has been working with the applicant
21 over the last year or so on some pre-applications regarding the project and
22 try to identify commercial outcomes from these research based programs at
23 the Homestead's site. We have not got to the point where we can clearly see
24 what kind of commercial outcomes result from the research that's been
25 going on at the Homestead for 35 years. Clearly some of the research could

1 help some of the projects that this committee has funded in the past
2 including the ornamental landscape plants, bio-fuels and Christmas tree
3 production. We simply can't get our arms around what would be a
4 reasonable projection on return of investment. We've also discussed with
5 the applicants that there is economic development allocations for those
6 projects in Patrick County. Until we can get our arms around what kind of
7 commercial return on investment might be, the staff is recommending no
8 award at this time.

9 MR. BRYANT: Anyone from Patrick County here?

10 MR. KYLE PIER: I am Kyle Pier and I am the
11 superintendent of the Reynolds Homestead. I know we've been through this
12 a couple of times already and it is a problem trying to put a dollar value on
13 the research effort. I've come across sometimes in my extension work, they
14 ask me to put a dollar value on our Christmas tree shearing workshop and
15 it's hard to put a dollar on that. All we can do is look at what we've done in
16 the past. I know Harold tried to put together a sheet of the economic impact
17 of our forestry work in the past. All I can do is add to that and talk about
18 some research projects that we have just started. In the springtime we're
19 doing some work for a bio-tech company of South Carolina. We'll be
20 testing clones for them that we'll grow in the Piedmont. Along with that
21 we're going to do a 50 acre planting and the nutrition study on those clones.
22 It's really hard to put a dollar value on this. They're looking for clones to
23 produce that we can grow here in the Piedmont, loblolly pine. We've started
24 a project looking at bio-fuels for trees. We're talking about ethanol
25 production and there's a grant from the Department of Energy. We'll be the

1 field test site for those clones. When you look at the forestry operation and
2 kind of carry that over to what we're trying to do here the wood plant
3 ornamentals, we're trying to produce a high tech facility and when we want
4 to bring companies in to look at the area we can say this is what the
5 Reynolds Homestead consists of in the past. It's been a testing facility for
6 forestry production. It's been a testing facility for forest products for 39.
7 Now we're going to do the same thing for woody plants. We do have that
8 problem and I just can't give you a specific number or a dollar figure. All
9 we can do is look at our past numbers and what we've done as far as the
10 forestry aspects. Thank you. I am here for questions.

11 MR. BRYANT: Anyone have any questions?
12 Committee? All right.

13 MR. PFOHL: The next project on page five is the
14 Scott County Cattle Association a 501(c)5 non-profit requesting \$5,513.95
15 for the Beef Cattle Value Added Marketing Utilization Technology project.
16 This is to purchase a laptop computer, printer, radio frequency reader and
17 500 radio frequency tags for beef cattle to accomplish animal sourcing in
18 anticipation of national beef identification standards. The staff has
19 suggested to the applicant that rather than doing an individual county
20 demonstration and potentially this is or it might be demonstrated on a multi-
21 county basis and get a little bit broader application of the results. The details
22 have not been worked out on that. We also have a concern that the
23 technology that will be purchased may or may not match whatever the
24 federal ID standards are that come out in the next year or two as expected.
25 So at this point, staff is recommending no award.

1 MR. BRYANT: Anyone here from Scott County?

2 MR. DAVID REDWINE: I'm David Redwine a
3 member of the Scott County Cattle Association. First of all, I want to say
4 it's a pleasure to be here. I'm glad to come face to face with the people who
5 have done so much for Southwest Virginia and we appreciate everything that
6 this Tobacco Commission has done. I've heard a lot this afternoon about
7 beef cattle production and how it's changed. I tend to agree that in the last
8 five years, beef cattle production has probably come as far as it came fifty
9 years before that in terms of technology and in terms of the type of
10 information that beef cattle producers are looking for in order to guide them.
11 They're no longer just breeding cattle and selling them, they want to know
12 what the people that are buying those cattle, the feeders and what the
13 consumers in the grocery stores are looking for. It's important for them to be
14 able to get some data back. I understand the federal government is going to
15 have a volunteer source identification program and very possibly at some
16 point it will be mandatory but we don't know that yet. That's not the most
17 important thing about this particular project. The beef cattle producers in
18 Southwest Virginia would like to be able to put identification on the cattle,
19 the VQA cattle. We'd like to be able to do or collect growth data and
20 performance data and when we sell the cattle have another piece of
21 information that we'll hand to the buyers that will have individual
22 performance data and genetic information on where those cattle came from,
23 how they're bred and allow the buyers to see that when they buy them.
24 We'd like to be able to go to that feeder at the end when they're already
25 hanging on the rail and be able to get information. I think this source

1 identification is going to be a very good way for us to collect that
2 information. It's also going to be a public health issue at some point. If
3 cattle came say from Oregon and we want, and something happens, we want
4 to be able to know where they came from and I think this can be a very good
5 pilot project. It's a very miniscule amount of money. There's a chance for
6 this if it's done correctly to bring the information back and I think the
7 economic impact may not be shown until those producers change their
8 production methods to meet some of the directions that this information says
9 they should and until they get the farm programs in the way or in the area
10 that shows the best performance. There's a chance for a hundred to one
11 return on investment if this is done. Basically, I know you're talking about
12 information going into the laptop and the technology may be obsolete in five
13 years. I'd like to think the information we gain in the next five years might
14 guide the direction of beef cattle production between now and then. The
15 same as what you learned in a semester of college. It's a small amount of
16 money and there's a lot of merit to this project. I think the information we
17 get back would be very important for us. I appreciate any consideration.
18 Thank you very much.

19 MR. BRYANT: Any questions? All right.

20 MR. PFOHL: Moving along to Scott Farmers
21 Cooperative Inc. They're requesting \$571,958.22 to purchase and install a
22 feed milling, mixing and bagging system at a new facility to be located in
23 Gate City. They've been operating a cooperative milling facility for 60 years
24 and that's what they're looking to replace. It would allow them to double
25 their mill production and utilize feed sales to local farmers including some

1 of the beef cattle and hair sheep. And those are some folks we have
2 supported with other projects. Staff looked at this and this is a strong project
3 and certainly one that we would like from the standpoint that it has revenue
4 generating capacity but also the organization has a sixty year track record
5 that they could take to the bank and get the project financed. We have
6 concerns that to assists this cooperative project that could potentially set a
7 precedent competing against private operators and there's a constitutional
8 concern regarding the use of public funds here. And the staff is
9 recommending no award.

10 MR. REDWINE: I'll speak on this, too. I appreciate
11 you entertaining this request. The Scott County Cooperative is a three
12 thousand member cooperative in Scott County that serves five or six
13 counties I would suspect in that area. They've done a great deal in providing
14 the kind of feed nutrition information that the feed cattle people need and the
15 sheep industry and the horse industry need. They're looking to change and
16 meet that as well. The coop has secured, there's actually two parts to this.
17 They're building a retail store in a new location to help them meet their
18 needs. They're also looking to build a mill which will handle bulk feed and
19 the type of new generation feed production nutrition that these producers are
20 looking for. There's been some private funding secured for the retail facility
21 to the tune of something over a million dollars that's already done in order to
22 move the mill out there and get the kind of millwork it takes to provide the
23 kind of performance and feed production and guidance that they need to the
24 new producers and current producers. They're looking for any help the
25 Commission could give. The amount of money they've requested is the

1 amount for the entire mill process. They don't expect anything I don't think,
2 like that from the Tobacco Commission. Any help they could get on these
3 particular projects would touch a bunch of producers in Southwest Virginia
4 and help them in turn do a better job. The economic impact doesn't show up
5 until some of those production methods go to market two or three years
6 down the line. It's a good project and it's a good stable company and
7 they've been there 50 or 60 years. I understand you have guidelines you
8 have to operate under and that's the way it is. I appreciate that. Any help at
9 all that this would fit under we certainly would appreciate it.

10 MR. BRYANT: Do you understand the constitutional
11 concerns that Mr. Pfohl raised?

12 MR. REDWINE: I certainly do, yes. I understand
13 that and I'm aware there's some guidelines this may not fall under but we do
14 appreciate consideration. The fact that you consider it a viable and merit-
15 able company request even though you may not be able to fund it. Thank
16 you very much.

17 MR. BRYANT: Any questions?

18 MR. PFOHL: On page six, Southwest Virginia
19 Agricultural Association is requesting \$200,000 for a specialty crop
20 demonstration and implementation center of Southwest Virginia. The
21 applicant is a 501(c)5 non-profit applying on behalf of Southwest Virginia
22 Agricultural Research and Extension Center. The request is essentially the
23 same request we saw a year ago in the process where equipment, supplies,
24 including greenhouses and vehicles and coolers and an array of lab and field
25 equipment plus some operating funds. This, like the Reynolds Homestead,

1 is a facility that's been embedded in the tobacco region for many years and
2 provides an array of assistance projects that we've funded through some of
3 our other awards. This is one because of the research and outreach
4 education but again because of the research and outreach education it is
5 difficult to quantify measurable outcomes. This application lacks specific
6 measurable outcomes to identify commercial adoption of the Center's
7 research findings and the staff recommends no award.

8 MR. BRYANT: Anyone here from Southwest
9 Virginia Agricultural Association?

10 MR. ALLEN STRAW: My name is Allen Straw and I
11 appreciate the opportunity to visit with you all today and to share this
12 information. We started this on a small scale and we've been able to use
13 some matching funds from Virginia Tech and purchase some of the small
14 pieces of equipment and started to put together some demonstrations this
15 past year with some grower's funds from Southwest Virginia. This will
16 hopefully give us some moneys to be able expand that program. Our goal is
17 to help growers who are looking for alternative enterprises to try to increase
18 production whether it be vegetables or fruit and allow them to have some
19 input financially as well as to require them to spend or put some money in
20 projects and to purchase equipment and obtain expertise so that they can try
21 and find out if this is an opportunity for them if they want to do it and if it's
22 successful for them. Then after that they can go out and make those
23 investments. For a lot of these growers it would take from five to twenty-
24 five thousand in equipment that they might not want to invest in until they
25 find out that is profitable. We've done some limited work this year got some

1 equipment, trailers, trucks, tractors, et cetera. The goal is to get some money
2 to buy some equipment we could commit to this full time. But I appreciate
3 your consideration and thank you for your time.

4 MR. BRYANT: Any questions?

5 MR. PFOHL: Next project is Tazewell County
6 applying for \$80,000 for the Tazewell County grassland improvement
7 project. It would be a 50/50 cost share program in which the county would
8 purchase two spray rigs and make those available to producers in the county
9 to deal with weed infestation. The proposal that's as submitted would be
10 that the producers would be eligible for up to \$5,000 per farm and that
11 would be \$5,000 on a dollar for dollar matching basis to purchase the
12 herbicides to spread on the farms. The applicants indicated to us this would
13 end up with the growers \$2,000 per producer depending on the dollar for
14 dollar match from the producer. This is a project in the original cap we
15 figured it would probably reach only fourteen of the 400 landowners who
16 could potentially participate. With a \$2,000 cap we could potentially reach
17 35 farms. With all that in mind, we also felt it was difficult to measure the
18 need when you talk about weed infestation the potential for re-occurrence
19 and the commercial outcomes of the project. With all that the staff
20 recommended no award.

21 MR. BRYANT: Any questions?

22 MR. MIKE HARRIS: My name is Mike Harris. I'm
23 the agriculture extension agent in Tazewell. Let me thank the Agribusiness
24 Committee for their support of the beef industry back our way. I can assure
25 you that it's making a big a positive impact on the industry and the most

1 important industry we have back this way. We had a unique set of
2 circumstances last fall from August to March we didn't have much fall rain.
3 This spring a high percentage of the weed seed stopped. When the policy
4 makers and I sit down and talk about the issues that are affecting our
5 producers, it shows the concentrate on a forage base. Basically it's a fifty
6 percent cost share. The \$5,000 cap that I put in there to start with is a
7 mistake. We were thinking about two major landowners in the west end of
8 the county that predominantly seeds the rest of the county. We thought if we
9 did that we would help everybody. Thank you for your consideration and
10 I'll answer any questions.

11 MR. STALLARD: What do you think might be a
12 more appropriate cap per farm?

13 MR. HARRIS: I considered looking back on it I
14 would say 2,000 maybe 1,000. That was a mistake on my part because we
15 have a preponderance of larger operations. It takes us several more acres to
16 make a dollar than it does folks that can cultivate land and raise some high
17 value crops. Our farm size average is pretty large. I was thinking of the
18 larger farms in the western part of the county and if you kill the weeds there
19 you can save everybody else in the county.

20 MR. STALLARD: I was thinking a thousand dollars,
21 weed killer you can cover several acres.

22 MR. HARRIS: Yes, sir. Our average farm is 260
23 acres.

24 MR. BRYANT: When I look at your total cost of
25 80,000 and then you say 70,000 I assume for herbicide, and 10,000 for the

1 spray rig?

2 MR. HARRIS: Yes.

3 MR. BRYANT: If this committee entertained the idea
4 of funding the spray rig, would that help your situation? Would the
5 producers participate and buy the herbicide to develop their pastures?

6 MR. HARRIS: I think they would. What I'm
7 proposing is two rigs, 100-gallon tank could be pulled behind a pickup truck
8 or a tractor. One 25-gallon rig, both of those rigs would have 250 foot of
9 hose to go down over ridge tops and both of those would be powered by the
10 Honda motors. You really wouldn't need, they're both primed up to use a
11 hand gun and also a boom-less nozzle where we could get a 20-foot swath.
12 Those were the designs we were thinking about. That would certainly help.

13 MR. FIELDS: What's the cost of those two?

14 MR. HARRIS: The quote I got was from a
15 manufacturer in Carolina that was recommended to me. I don't have the
16 figures with me but I think it was about seven or eight thousand delivered. I
17 think one was 36 and one was 3400.

18 MR. BRYANT: Thank you. Any other questions?

19 All right, Tim.

20 MR. PFOHL: On page seven the Virginia
21 Aquaculture Association requesting \$55,000 for Aquaculture Network
22 Market development. The Association is a 501(c)5 non-profit. Funds will
23 be used to contract a part-time marketing director. Specific expenses would
24 be personnel compensation, direct project costs for this marketing
25 coordinator whose role would be to identify end users trout, catfish and

1 other species to be raised by a network of producers throughout Southside
2 Virginia. The Association is wrapping up a feasibility study now. They are
3 embarking on a business plan. This is a very strong partnership of academic
4 organizations, local government, public/private sector organizations. We felt
5 that when the business plan is completed would be a more proper time to
6 entertain a proposal from this group. At this point, the staff is
7 recommending no award.

8 MR. BRYANT: Anyone here to speak to this?

9 MS. BEVERLEY HAWTHORNE: My name is
10 Beverley Hawthorne. I'm from Lunenburg County. I'm with the county
11 government involved in this project and we're also working with the
12 Business Development Center, Virginia State University and several
13 independent aquaculture facilities at this time. And some people used to be
14 tobacco farmers at one time who found something else to do. What we're
15 centering on here is the small tobacco farmers. Since the application was
16 sent in, we've done some actual site visits at aquaculture specialists and
17 found that case culture is what all of these people need to start with. We
18 have two farmers that have built ponds and are ready to go forward right
19 now. We're finding out through the Farm Bureau, who are also one of our
20 partners, and through questionnaires that there's quite a bit of interest in
21 there. Actually, nobody wants to jump out on a limb without some kind of
22 backing. Therefore, we're trying to develop. It will be an LLC on the style
23 of a cooperative. We're rapidly picking up people that are interested in it.
24 We'll have a producer meeting on December 19th to find out people that have
25 returned our questionnaires if they're truly interested in coming forward

1 with some money to support the programs. We hope we'll be able to come
2 back to you during the next round with an agribusiness project and have
3 more information and some active dollars to put forth. Thank you for your
4 consideration.

5 MR. BRYANT: Thank you.

6 MR. PFOHL: The next item is Virginia Polytechnic
7 Institute and State University Office of Sponsored Programs requesting
8 \$60,550 for freshwater prawn farming producer trials. These funds will be
9 used to conduct four field trials, two in each region to demonstrate
10 management practices and evaluate profitability of freshwater prawn. The
11 funds will be granted to four private producers, \$12,500 each to construct
12 ponds and acquire necessary equipment and supplies, including fingerlings,
13 feed and so forth. Funds are requested also to prepare a video, compact disk
14 and a training manual documenting the results of the demonstrations, and to
15 conduct field days and training sessions. The staff would point out the
16 Commission has already supported a demonstration in Lee County as well as
17 your award last year to Virginia State, which is one of the outreach projects
18 educating folks on freshwater prawn. We did a web search and found an
19 array of publications out there on every aspect of freshwater prawn
20 production, including the growers association and the economics of growing
21 and so forth as well as the technical aspects. We had a constitutional
22 concern with the purchase of providing a fixed asset, the pond, for these
23 producers and have some concerns about that. Lastly, the match entirely
24 waives the indirect overhead cost from Virginia Tech. The project has no
25 other dollars in it other than overhead that the University would take on to

1 process the project. The staff is recommending no award.

2 MR. BRYANT: Anyone from Virginia Tech?

3 MR. PETER VAN WYK: I'm Peter Van Wyk and I'm
4 the agriculture specialist at the Southwest Virginia Agriculture Research and
5 Extension Center in Saltville. I'd like to thank the Tobacco Commission for
6 entertaining our request. I'd like to say we've had a tremendous amount of
7 interest that have been expressed on the parts of farmers, freshwater prawn
8 farming. Very few of them have ventured into it at this point and the reasons
9 they have cited is lack of confidence in the technology and that could be
10 remedied if they'd see demonstration projects and also lack of competence
11 in the economics. While there has been some published studies, economics
12 vary a great deal regionally. The economics of growing prawns in Kentucky
13 are vastly different from growing in Mississippi. Virginia is likely to be a
14 different case as well. The purpose of the proposal is to remedy both of
15 those things and try to provide a demonstration project where we can not
16 only demonstrate the project and help the farmers that are participating to
17 extend to them the impact or exposing the information from a number of
18 other people to the technology. It would make a great deal of difference in
19 the testing of the markets. At Virginia Tech, we've had some resources to
20 help develop markets. We have an expert in live marketing of agricultural
21 products who would be participating in the project. We feel that we have the
22 ability to do a lot more with this by promoting and development of
23 freshwater prawn farming than has been done in the past. There is a facility
24 at Virginia State but Southwest Virginia is so far away that we're
25 underserved by that facility. We'd like to take advantage of our proximity

1 and our presence in Southwest Virginia to try to help producers in the area of
2 Southwest Virginia.

3 MR. BRYANT: Any questions? Thank you.

4 MR. PFOHL: Page eight, Virginia Tech is also an
5 applicant in promoting bio-energy business opportunities in Southern
6 Virginia. And that project is requesting \$88,748 for a two year period to
7 provide educational programs featuring a bio-fuel production business
8 model that is currently being implemented by private convenience store
9 retailer in Henry County. The retailer is in the process of acquiring facilities
10 to produce their own ethanol and bio-diesel, which they will mix and
11 provide and their gas pumps at their current retail location. The funds being
12 requested by the Virginia Tech Biological System Engineering Facility,
13 faculty at Virginia Tech and staff to conduct field days, advertise the
14 business model in trade journals and television and present the model at state
15 and national conferences. Their request specifically includes wages,
16 benefits, travel, printing, conference registration, advertising, facility rental,
17 and catering. The staff points out that the grant funds would not affect the
18 actual bio-fuel implementation by the private retailer, it will only advertise
19 the retailer's business model. We feel like if the business model was
20 successful, we don't need to pay to advertise it. Conferences and trade
21 journals would be available or would print stories that would feature that.
22 Again, there's an educational aspect of the program identifying specific
23 commercial outcomes and challenging to estimate those and put a dollar
24 amount on those. In this case, the staff is recommending no award.

25 MR. BRYANT: Anyone here to speak to this from

1 Virginia Tech?

2 DR. ZHIYOU WEN: My name is Zhiyou Wen. This
3 is Dean Price, my collaborator.

4 MR. DEAN PRICE: My name is Dean Price and I'm
5 the owner of the truck stop. Our plans are to produce bio-diesel and ethanol
6 at this truck stop facility with Dr. Wen's help, he's going to help me get my
7 recipes in order and use the money hopefully from this committee to
8 promote that project.

9 DR. WEN: We want to promote this project. We are
10 focusing on using this money to produce this bio-fuel, and transfer this bio-
11 fuel based on the information, our communications with various agencies,
12 we certainly know there's a need for this and the public needs this. I know
13 that the diesel engine, there is a need for this especially now and Virginia
14 Tech is helping to promote this by educating the public. The idea of
15 pumping the gas or pumping this at the gas pump and into your car we hope
16 to demonstrate how this will work and eventually end up with the
17 consuming public using this. We have a specific proposal. The purpose of
18 this, and the money is not for ourselves but this is for, this will just benefit
19 the consumer. We just want a chance to demonstrate the model to the
20 producer.

21 MR. BRYANT: How much of the population do you
22 anticipate the education program would be reaching?

23 DR. WEN: We plan to have a workshop across the
24 state, five workshops across Southside Virginia. I think we had about 25 to
25 30 and we'd also work with the extension agents to promote and advertise

1 the workshops. Each workshop I estimate 20 to 30 that we can demonstrate
2 the bio-diesel, the ethanol. We've had people come to the convenience store
3 and mostly farmers, 15 people. By this we can encourage more people to
4 come.

5 MR. MAYHEW: Are you in touch with Dr. Nowak,
6 do you know him?

7 DR. WEN: Yes.

8 MR. MAYHEW: I'd be very interested to know about
9 this production facility that you're having built or that you have that's going
10 to transfer the raw product into a finished product and do it in a short period
11 of time. Is that what you're telling us?

12 MR. PRICE: Yes, I've been in the convenience store
13 business for about 10 years before that I was a tobacco farmer. I was
14 looking for something to get into with my convenience store because I've
15 been having trouble with the margins on the gas and the diesel. Using my
16 tobacco experience and petroleum experience, I've started looking at the
17 bio-diesel. I've found that there's some crops such as canola that yields a
18 much higher value of oil than soybeans. I have a spreadsheet of the canola
19 farm. This is from Oregon who are growing this canola oil has been
20 producing the oil and taking that oil and turning it into bio-diesel. We have a
21 facility that we can put about 8,000 gallons of diesel a day. In order to take
22 care of about 20 percent of the volume it will be about 1600 gallons of bio-
23 diesel a day. We want to take the canola from the local farmers, extrude that
24 oil out and process the oil right there at the store, transfer it into our pumps.

25 MR. MAYHEW: Do you have a facility that would

1 do that extruding processing and turning it into a diesel product?

2 DR. WEN: We will demonstrate how that works.

3 You have to produce that and handle it and eventually encourage the local
4 farmers who are growing the canola oil.

5 MR. PRICE: Initially we plan on buying that –

6 MR. MAYHEW: - I'm more concerned about how
7 you're going to turn this oil into the diesel product you're talking about. Do
8 you have a device that you'll utilize to convert it?

9 MR. PRICE: We're going to start producing the bio-
10 diesel in three weeks. We have the device in the building next to the truck
11 stop in connection with Virginia Tech, we'd like to use this in a workshop or
12 as a workshop. Bring people in and farmers in, anyone interested in the
13 production of bio-diesel eventually and then we'll get into the ethanol part.
14 The bio-diesel production equipment is there and we plan on producing bio-
15 diesel in the next three weeks. In the production of bio-diesel, there's five
16 steps. The first step is a farmer and the second is the oil producer. The third
17 is the transporter and the fourth is the bio-diesel producer. And the fifth is
18 the retailer. We want to take these two and combine them and work here and
19 only have two, cut out these middlemen. In order to do this, we need an
20 extruder. Extruders are common on the market and you can buy them for
21 fifty or sixty thousand. That's what we would do with the money. When
22 you talk about a perennial versus an annual, this is a perennial. This is
23 something that the farmers can really use and it will help them.

24 MR. MAYHEW: What byproduct do you get from
25 this process, the bio-diesel product?

1 MR. PRICE: With the glycerin, either a fertilizer or it
2 can be weed killer. It's according to how you do your reaction in bio-diesel
3 production. So those are the two areas that Dr. Wen specializes in.

4 DR. WEN: It's about ten percent each part of the bio-
5 diesel, it's not the feed.

6 MR. MAYHEW: What is the BTUs per gallon of this
7 compared to the diesel –

8 MR. PRICE: The BTUs in diesel you have, number
9 one you can get 20 percent bio-diesel and, you're speaking of capacity.
10 Number two I think that the canola, the canola is something that is, I feel
11 like from what I've learned and talked to and some of the farmers and some
12 of the farm extension agents in other counties feel this is a very viable crop
13 in the state. It contains three times the amount of oil that soybeans do. The
14 protein value of canola is 90 percent of what soy is. You don't lose that
15 much there, the byproduct there the canola meal.

16 MR. MAYHEW: Since you haven't used it yet
17 locally, wouldn't this be a little bit premature at this time?

18 MR. BRYANT: Are there any other questions? All
19 right, Tim.

20 MR. PFOHL: The bottom of page eight, a Virginia
21 Tech switchgrass production and logistics for a bio-energy industry in South
22 Central Virginia. The request is for \$89,993. There's essentially two
23 components for this request. The first is to pay the land rent for five years to
24 five private landowners who agree to plant stands of switchgrass in five
25 Southside counties. The second piece of the request, which is the bulk of the

1 request for a cost to go find equipment that would accelerate the speed of
2 unrolling a five foot pound bale of switchgrass and chopping it up for co-
3 firing in an industrial setting. The request specifically is for a land grant for
4 five switchgrass plots as well as wages, fringe benefits, travel for researchers
5 and technicians who work on that equipment for unrolling the bales. Then
6 lastly for the mechanical components that are needed to take some existing
7 equipment and refine some of the elements of this, the production of the
8 machinery that would unroll the bales. Staff has suggested that the
9 landowner should take advantage of this cost program that we talked about
10 earlier in the switchgrass proposal. We're also suggesting that the speed of
11 unrolling the bales or chopping that is just one of several areas to getting
12 switchgrass in production in a large scale co-firing setting. There's not
13 enough crop established right now. There's also issues about the economics
14 of the cost to transport bales to get them to co-firing facilities. This proposal
15 doesn't address that. Based on those aspects, the staff recommends no
16 award.

17 MR. BRYANT: Questions?

18 MR. JOHN CUNDIFF: John Cundiff with Virginia
19 Tech. I'm a biological systems engineer. I think this overlaps with the
20 Halifax County proposal, so if I'd have known that, I wouldn't put objective
21 one in. The other part deals with the equipment, you really need to see it.
22 What I'd like to do is take one moment and be an advocate for bio-energy.
23 This is an area where we can beat the Midwest. You can't do that many
24 times, though. Here's the proof of that. Say you stick a pen in the map and
25 draw your circle around that area and that's the area that you're going to be

1 delivering from to the plant. In the Midwest, about 40 percent of that land
2 area is corn. In South Central Virginia, if we were to do that, we might get
3 10 percent of that land area in the production of feed stock. If you look at
4 that and you say oh, this is not going to work for us, that's not true and
5 here's why. Corn stover is what they're talking about. You can get about
6 one ton of corn stover an acre on a sustainable basis. If we do the
7 switchgrass that's being discussed, it's six tons per acre. Within this radius
8 of ten miles, you're going to have 80,000 tons of feed stock production.
9 Over here, only ten percent of the land here into the production of the feed
10 stock. With six tons per acre, you're going to have 120,000 tons. Anybody
11 that's going to build a plant is going to choose a location where they can get
12 the highest density of feed stock and that minimizes their cost. South
13 Central Virginia can beat the Midwest in bio-energy and we need to do it.
14 I'd like to advocate that you play a leadership role anyway that you can.
15 Please help get this going because this is an area where we can compete and
16 we can be competitive and it's something that needs to be done and we need
17 to be doing it. That's my comment and thank you for the opportunity to get
18 on my soapbox for a moment and preach for a moment.

19 MR. JENKINS: I have a question and you were
20 talking about unrolling the bales. Is it necessary to unroll the bales?

21 MR. CUNDIFF: Yes, sir. You have to use a driver,
22 which is the alternative and end up with a higher energy requirement and
23 more non-uniform production. Higher energy and less uniformity in size
24 production.

25 MR. JENKINS: With a background in tobacco

1 manufacturing, you have a cutter that constricts something. If you got that
2 revolved and you can cut any size any way you want it, it's a very simple
3 operation.

4 MR. CUNDIFF: I reckon you're talking about, that's
5 basically the thing they do with the teeth into the material.

6 MR. JENKINS: No, this is like a blade on the saw, a
7 higher RPM you can cut it to any length. One operation had three foot
8 square teeth and it ends up cutting it. I think that's the quickest way to do
9 something like that by band saw, rather than unrolling it and then trying to
10 drive it.

11 MR. CUNDIFF: Well, it's certainly true you've got to
12 make the round bale work for our area and that's our best option for getting
13 materials out of the field.

14 MR. JENKINS: If you cut something up and if you're
15 trying to bunch it up in a small place and it's already bunched up, spread it
16 out.

17 MR. BRYANT: Any other questions? Before we talk
18 about these, let's take a short recess.

19

20 NOTE: A RECESS IS HAD; WHEREUPON THE MEETING
21 CONTINUES, VIS:

22

23 MR. BRYANT: We're back in session. If it's the
24 pleasure of the committee we'll take the projects that have been presented by
25 Tim –

1 DELEGATE JOHNSON: I would move that we vote
2 up on the recommendations as a block.

3 MR. BRYANT: You're making that as a motion?

4 DELEGATE JOHNSON: Yes, sir.

5 MR. BRYANT: Is there a second?

6 MR. WEST: Are we moving them as a block?

7 MR. BRYANT: We'll vote on the recommendation by
8 staff on these projects as a block. We know we're going to exclude
9 Abingdon Feeder Cattle Association and any others that the committee
10 would like.

11 MR. JENKINS: You're going to exclude them?

12 MR. BRYANT: You can exclude what you want.
13 What's left to put in the block?

14 MR. JENKINS: We're voting to approve the ones the
15 staff has recommending funding for? And to exclude the ones that have not
16 been.

17 MR. BRYANT: All that are in the block, the ones the
18 staff recommended.

19 MR. JENKINS: Then I would request we revisit the
20 Virginia Aquaculture Association and pull that out of the block.

21 MR. FIELDS: It's not in the block.

22 MR. BRYANT: 1260.

23 MR. STALLARD: Mr. Chairman, there's another one
24 I'd like to exclude.

25 MR. FIELDS: That's not in the block.

1 MR. JENKINS: It's not a done deal.

2 MR. STALLARD: Mr. Chairman, there's another one
3 I'd like to exclude from the block beside the Abingdon Feeder Cattle and
4 that's the Scott County Cattle Association Beef Value-Added Cattle
5 Marketing.

6 MR. BRYANT: Is that 1248?

7 MR. STALLARD: That's right, the request for \$5500.
8 I'd like to move those two.

9 MR. BRYANT: Any others?

10 MR. NOYES: You've got 1261, 1248, and 1260 are
11 removed from the block at the request of the committee.

12 MR. MAYHEW: Mr. Chairman, I move that we vote
13 as a block to accept the staff recommendations on all that remain.

14 MR. BRYANT: I have another one I'd like to pull out
15 of the block and that's 1270. Now, I'll entertain the motion.

16 MR. MAYHEW: I so move.

17 MR. FIELDS: Second.

18 MR. BRYANT: All in favor say aye? (Ayes.)
19 Opposed? (No response.) All right, first we're voting as a block to accept
20 the staff recommendations on 1253 Appalachian Sustainable Development,
21 1265 Blue Ridge Soil and Water Conservation District, 1257 Campbell
22 County, 1258 Elk Creek Fire Department, 1267 Halifax County Agricultural
23 Development Office, 1254 Patrick County Board of Supervisors, 1268 Scott
24 Farmers Cooperative, 1252 Southwest Virginia Agriculture Association,
25 1251 Virginia Tech Office of Sponsored Programs, 1255 Virginia Tech

1 Office of Sponsored Programs and 1256 also Virginia Tech Office of
2 Sponsored Programs.

3 MR. FIELDS: 1260 is excluded?

4 MR. BRYANT: 1260 has been excluded. I need a
5 motion.

6 MR. MAYHEW: Didn't we vote for everything?

7 MR. NOYES: We have a motion and I didn't hear a
8 second.

9 MR. STALLARD: Second.

10 MR. NOYES: We need to vote on the block as it
11 stands with four projects removed.

12 MR. BRYANT: All in favor of accepting the staff's
13 recommendation on these projects say aye. (Ayes.) Any opposed? (No
14 response.) All right, now we'll do the projects that have been pulled out.
15 Abingdon Feeder Cattle Association, John.

16 MR. STALLARD: Mr. Chairman, I would like to first
17 say that this is one of the few things that I think we can unanimously agree
18 on. The Beef Initiative has been a success. As you mentioned earlier, we're
19 funding a perennial instead of annual. I'd like to add \$52,140 to the
20 Abingdon Feeder Cattle Association. At the same time, I'd like to ask for
21 this committee to approve the Scott County Cattle Association Beef Cattle
22 Value-Added Marketing. One thing that I think the collection of data and
23 the learning process is very important.

24 MR. BRYANT: Hold on, you moved into another
25 project, you said Scott County Cattle.

1 MR. STALLARD: I was trying to speed up the
2 meeting by doing them both at the same time.

3 MR. BRYANT: I think we need to do it one at a time.

4 MR. STALLARD: One at a time? I first ask for the
5 Abingdon Feeder Cattle to be raised to an even \$300,000 and hope this
6 committee will agree with me.

7 MR. BRYANT: Is that in the form of a motion?

8 MR. STALLARD: Yes, it's in the form of a motion.

9 MR. BRYANT: Do I have a second?

10 MR. FIELDS: Second.

11 MR. BRYANT: Discussion?

12 MR. WEST: Are they the same guidelines and so
13 forth outlined in the original application for this also?

14 MR. BRYANT: Tim, what was the reason for cutting
15 back to 247,860?

16 MR. PFOHL: That's taking \$3,000 per producer cap
17 and multiplying it by the 81 folks that have already accepted and approved,
18 81 have already gone through the paperwork process.

19 MR. STALLARD: The staff's recommendation was
20 that this be a final award. I would like to ask this committee that it not be a
21 final award on this project because there's more people out there that
22 complete the VQA information, I'd ask this not be the final award and it be
23 open for how many more people can complete that class, it's not ended.

24 MR. NOYES: That's in future years.

25 MR. BRYANT: Can we eliminate the term final?

1 MR. NOYES: We can eliminate the term final, strike
2 the term final from the staff recommendation, if that's part of the motion
3 then that's something that this committee can consider.

4 MR. BRYANT: Can you amend your motion to state
5 to strike final from the recommendation?

6 MR. STALLARD: I would, Mr. Chairman.

7 MR. BRYANT: I have a motion and a second.

8 MR. FIELDS: What have we done?

9 MR. BRYANT: The motion is the staff
10 recommendation for the Southwest Region Value-Added Beef Initiative
11 Expansion Project was to be funded at \$247,860. Mr. Stallard made a
12 motion to raise that 52,140, which brings it up to 300,000 even. We'd strike
13 the word final from the staff recommendation.

14 MR. FIELDS: I think the thing I mixed up are people
15 who want that 52,000 is applications for that.

16 MR. STALLARD: The staff has recommended that
17 people who applied last year and were turned down, they just approved
18 enough money for those people that were turned down last year after they
19 completed a program. I figured there would be more people that would be in
20 the VQA program this year, without additional funding they may not see any
21 point in taking the class. The Beef Initiative has been such a success that
22 we've all patted ourselves on the back for it. I don't want this to be the final
23 round of funding for Southwest Virginia and its 280,000 head of cattle.

24 MR. WEST: I wonder if you're going to open up
25 another round of applications for the 52,000?

1 MR. STALLARD: Yes.

2 MR. WEST: To open up another round of
3 applications.

4 MR. BLEVINS: The application process is ongoing,
5 if we have funds available, we don't turn anyone down because you never
6 know when somebody is going to submit an application and not use all the
7 funds that they applied for. We like to give, we don't tell people you can't
8 apply and figure it's not our business to tell people you cannot apply. What
9 Mr. Stallard is talking about is we have applications now that haven't been
10 approved yet.

11 MS. WALLACE: Mr. Chairman, can I make a
12 comment? We're going to have a remaining balance in Southside on the
13 Beef Initiative. As I told you earlier, we were not allowed to take additional
14 applications in Pittsylvania County, your home county because of the
15 county's location. I guess I'm concerned you're setting a precedent here. If
16 you're going to let Southwest utilize their remaining fifty some thousand or
17 Southside?

18 MR. BLEVINS: We don't have any remaining.

19 MS. WALLACE: Where did the fifty come from?

20 MR. BRYANT: That's in addition to what the staff
21 has recommended. All in favor of the motion made by John Stallard say aye.
22 (Ayes.) Any opposed? (No response.) All right, thank you. Next project
23 pulled out was the Scott County Cattle Association.

24 MR. STALLARD: I want to be as clear as I can on
25 this one. I'd like to ask this committee to fund the small amount of \$5500

1 for the data collection and for the learning process and educational process
2 and go ahead and start with what's going to happen. This is all eventually
3 going to happen. This can speed up a lot of things like finding out about
4 mad cow disease and it is a good marketing tool to have all the data you can
5 collect on cattle. I'd like to ask this committee to approve this small amount
6 of money and at least get this thing started and hope for a big return on this
7 investment.

8 MR. BRYANT: That's in the form of a motion?

9 MR. STALLARD: All that, yes.

10 MR. FIELDS: Mr. Chairman, I want to amend that
11 corner a little bit. I'll be glad to second that.

12 MR. BRYANT: Are you going to amend it?

13 MR. FIELDS: No. There is a question about how
14 long these instruments will be in vogue or that sort of, what the technology,
15 how much faster can you get it. I predict that before we're ready to do that
16 the government thing, that the computer and everything will be out of,
17 because it don't take long to get that done. There's a group of people in
18 Scott County, I wish we had it in my home county, but their group is
19 interested in making a living and want to be the pioneers in the beef industry
20 in Virginia. That's a very hard working group of people, there's a cattle
21 group there in Scott and they meet a lot and they work a lot and they study. I
22 think the knowledge they gain for five thousand dollars far outweigh the
23 losses that we may get.

24 MR. BRYANT: All right, that's our discussion.

25 Anyone else? You agree with the assessment and the gentleman that

1 addressed this project? He talked about all the values that he thought would
2 be carried forward. Our concern and your concern and the staff's concern
3 was that federal guidelines were not in place and thought it was premature.

4 MR. PFOHL: That's right.

5 MR. BRYANT: Do you concur with what the
6 gentlemen that got up here said?

7 MR. PFOHL: I would point out that the
8 recommendations are the consensus of the entire staff and not just me and so
9 I probably would be speaking out of turn.

10 MR. BRYANT: We have a motion for \$5513.95.
11 Does everyone understand it? All in favor say aye. (Ayes.) Any opposed?
12 (No response.) 1270 Tazewell County Grassland Improvement Project. I
13 asked for this one to be pulled out because I think the gentleman's name was
14 Mr. Harris. I asked him the question that if we purchased the equipment for
15 \$10,000 and did not participate in the herbicide, which I think is something
16 we can never get into, we'd be buying fertilizer and everything else, we
17 can't go on that avenue. I'd like for us maybe to consider the equipment if
18 the producers would participate and buy the herbicide. I think that would
19 definitely make a difference on the production. Can I make a motion?

20 MR. NOYES: We're talking about two pieces of
21 equipment for Tazewell County. There are other counties in Southwest
22 Virginia that may wish to have an opportunity to use this equipment under
23 the same rules that the herbicide be purchased separately. That if the
24 committee determines to go forward, it would be worthwhile to at least make
25 that equipment available beyond Tazewell County borders.

1 MR. BRYANT: Mr. Harris, would that be feasible?

2 MR. HARRIS: If we can have it in April. There's no
3 problem in sharing that equipment.

4 MR. BRYANT: What county are you talking about?

5 MR. HARRIS: I don't know.

6 MR. FIELDS: Would you share it with Russell and
7 Washington?

8 MR. HARRIS: Absolutely, yes.

9 MR. BRYANT: I'd like to be specific on the counties
10 that you're talking about.

11 MR. WEST: Mr. Chairman, I'm wondering who is
12 going to maintain the equipment and keep it up or who's responsible.

13 MR. NOYES: The owner of the equipment.

14 MR. FIELDS: Maintenance on the equipment is
15 going to be a big issue.

16 MR. HARRIS: Tazewell County, that was in our
17 original proposal.

18 MR. WEST: By the local governing body of
19 Tazewell?

20 MR. BRYANT: That might present a different
21 equation here. I'm not sure the county would be willing to keep the
22 equipment up for other counties that are using it.

23 MR. HARRIS: We can talk to the other counties later.

24 MR. JENKINS: Do you anticipate charging any fees
25 for the use of that equipment or is this provided free?

1 MR. HARRIS: Not the first year, if we need some
2 maintenance after a year we might start charging fees to cover maintenance.

3 MR. JENKINS: I can't understand why local farmers
4 wouldn't be willing to pay something to use some equipment that will
5 benefit that.

6 MR. HARRIS: I think they will.

7 MR. JENKINS: There's a precedent for that in my
8 area and other areas.

9 MR. HARRIS: The people that would use the
10 equipment in my county are people that are smaller farmers. Most of the big
11 farms have their own, the larger ones have their own spray equipment.

12 MR. JENKINS: Do you charge them by the acre?

13 MR. HARRIS: We didn't put that in the application.
14 We talked about charging a fee for maintenance after the first year.

15 MR. JENKINS: You better charge the first year.

16 MR. BRYANT: I'm not willing to make a motion.

17 MR. MAYHEW: Mr. Chairman, I think it's fairly
18 convoluted and lacks some specifics. I think we need to leave it like it is.

19 MR. BRYANT: I agree. It is out of the block.

20 MR. NOYES: It's out of the block so we need to act
21 on it.

22 MR. MAYHEW: Mr. Chairman, I move we accept
23 the staff's recommendation on this one.

24 MR. WEST: Second.

25 MR. BRYANT: All in favor say aye. (Ayes.) Any

1 opposed? (No response.) Next project, Virginia Aquaculture Association.

2 MR. JENKINS: I'd like to make a comment on it
3 before I make a motion. Since I'm the only one on this committee that
4 represents anything east of Halifax County and this is the only project I
5 think that might affect Halifax County, I think it's my duty to comment.
6 Looking at the merits of the request, I hope that's what you will concentrate
7 on. I think this offers something that many of our projects don't in that
8 historically farmers that do something then try to find a market. Here's an
9 approach to try to see if there's a market before you invest too much
10 production of something. But if you wait until you do all the other things
11 suggested here and then come back it may be too late and you've already
12 wasted money. Already it's too late if you don't have a market for it. This
13 fish production has been in the public eye in the area for a number of years.
14 There's been several people who have been very successful in producing it
15 but never could get a market. I think the market study should be the first
16 thing that's done before people invest money in something like this. The
17 question of producing it is not that big of a problem it's how you're going to
18 get rid of it. To me, I'd require that they get everything in order and if you
19 put money into it before you go into the market it's kind of a backward spin.
20 I'm hoping agriculture will move forward. For that reason, I would move
21 that we reinstate the request on this item.

22 MR. BRYANT: I have a motion to reinstate the
23 Virginia Aquaculture Association. Do I have a second? All right, the motion
24 fails for lack of a second. It's out of the block because it failed. That
25 concludes the projects that we will address today. Next item on the agenda

1 is the selection of the base year for the 2007 indemnification. Stan Duffer
2 has agreed to come forward.

3 MR. DUFFER: I'll try to make this short and sweet.
4 As you all are aware, the Phase I and Phase II work together. The state
5 legislation basically asked Phase I and Phase II and TLAP to make whole the
6 indemnification responsibility of that legislation. In January of 2000, the
7 first or second meeting of this body, it was brought before the group a list of
8 payment rules, regulations, et cetera, that has been adopted by the Phase II
9 Board. This body accepted that rule back at that time. During that first
10 meeting, it was agreed that for at least the next six years being 2000 to 2005
11 the following would apply. The base year being 1998 and that applied
12 specifically to producer payments. Last year at this similar meeting, you
13 took up the issue for the 2006 year and you chose to go forward with the
14 same base year 1998. You have that responsibility again to determine what
15 base year you want to use as far as producer payments. Then the base is
16 moved to 1999. Nothing requires you to change the base however, you can
17 change the base if you so wish to.

18 Clarence wanted me to go into a couple of things. I do this at
19 risk of, I've taken risk before. The first thing, the indemnification
20 requirements and responsibilities that you have as a body. You have already
21 expended eighty percent of the fund. Counting this year's payment
22 budgeted ninety some million left as far as the indemnification requirements.
23 I think I'm close Neal on that. Now, if you choose to change your producer
24 base the processing costs will go up because your body of information out
25 there now is based on the people that were producing in 1998 and the

1 amount of tobacco they had at that point in time. If you change your data
2 base to another year, whether it's '99 or 2000, you're going to have to go
3 back out and survey the producers in that particular year and come up with a
4 different data base. Your cost by your contractor will go up. Now you're
5 talking in relatively small terms of money compared to the past anyway.
6 One thing, it's going to increase your cost. Number two, back at that point
7 in time the base entity and this body made that decision and it was the
8 wisdom of this body and Phase II it was their position that at that point in
9 time the producers had been hurt and they needed some compensation over a
10 longer period of time. We were at a period of time in 1998 and during that
11 period of time we were taking extreme quota cuts those years. From 1998,
12 1999 et cetera. We had extreme quota cuts. We were losing producers. One
13 school of thought is if you were to change your database to a forward year,
14 you're eliminating potentially some of the people that were hurt the worst.
15 That's one thing you need to consider there. If you move your data base
16 forward, you're reducing the number of payees, you're not adding folks. I
17 would almost defy anyone to tell these folks, the people that got into the
18 tobacco field after 1998 in my area in Southwest either. So I think these are
19 some things that need to be considered but if the wisdom of this body, it's up
20 to you what you want to do. Keep it the same or change the data base. Any
21 questions?

22 MR. FIELDS: We need to do that today?

23 MR. BRYANT: Yes.

24 MR. STALLARD: I've got one question. Does the
25 distribution of the check costs go up if we change the base year of the quota

1 holders?

2 MR. DUFFER: Yes, sir.

3 MR. STALLARD: How much?

4 MR. DUFFER: I don't know.

5 MR. STALLARD: For the check distributors, how
6 much more would they charge if we did base year, how much increase are
7 we talking about?

8 MR. DUFFER: I can't answer that.

9 MR. NOYES: I can get that information from
10 Troutman Sanders, I don't have that here today.

11 MR. FIELDS: Then we can't make a decision today.

12 MR. WEST: I move we stay with the '98 base.

13 MR. BRYANT: We have a motion to stay with the
14 base year 1998.

15 MR. MAYHEW: Second.

16 MR. BRYANT: Any more discussion? All in favor
17 say aye. (Ayes.) Any opposed?

18 MR. STALLARD: No.

19 MR. BRYANT: Let the record indicate we have one
20 no. Thank you. Next on the agenda is the indemnification budget for 2007.

21 MR. NOYES: The budget for 2007 provides \$7.5
22 million for the flue-cured quota and \$3.2 million for the Burley quota, for a
23 total of \$10.7 million. That will leave \$85.7 million outstanding as the
24 indemnification obligation of the Commission to the current year's
25 payments. I'll advise the committee that the staff is actively seeking an

1 increase using unused 2005 indemnification funds and other monies to
2 increase the total amount available in 2007 above the \$10.7 million.

3 MR. WEST: When the Phase II money comes in, that
4 will be added to this?

5 MR. NOYES: The Phase II money will be added to
6 this and distributed. When that happens, it certainly will go up from \$10.7
7 in addition to that that we're seeking here, additional funds.

8 MR. JENKINS: The Phase I money that's transferred,
9 will that all be paid out first?

10 MR. NOYES: It will all be paid out over the course
11 of the cycle. There may be some questions that come up and there always
12 are.

13 MR. JENKINS: The intent is to pay that amount that
14 is due and the first payment will be that?

15 MR. NOYES: Yes, sir.

16 MR. BRYANT: Any other questions. There's no
17 action needed on this?

18 MR. NOYES: No.

19 MR. BRYANT: The next committee meeting date will
20 be Thursday, December 6th, 2007. Now, any public comments before we
21 adjourn? All right, I believe we're adjourned.

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23 PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **Virginia Tobacco Indemnification and Community Revitalization Commission Agribusiness Committee Meeting when held on Thursday, December 7, 2006 at 1:00 p.m. in the Offices of Citizens Telephone Cooperative, Inc., Floyd, Virginia.**

I further certify this is a true and accurate transcript to the best of my ability to hear and understand the proceedings.

Given under my hand this ____ day of December, 2006.

Medford W. Howard
Registered Professional Reporter
Notary Public for the State of Virginia at Large

- 1 My Commission Expires: October 31, 2010.