

1 **VIRGINIA TOBACCO INDEMNIFICATION**
2 **AND COMMUNITY REVITALIZATION COMMISSION**

3 701 East Franklin Street, Suite 501
4 Richmond, Virginia 23219

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9 **Education Committee Meeting**

10 Monday, January 7, 2013

11 1:00 o'clock p.m.

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15 Hilton Garden Inn
16 Richmond, Virginia

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1 APPEARANCES:

2 The Honorable Frank M. Ruff, Chairman

3 Ms. Linda P. DiYorio, Vice Chairman

4 Ms. Gayle F. Barts

5 Mr. Burgess "Butch" H. Hamlet, III

6 Mr. Scott M. Harwood, Sr.

7 The Honorable Joseph P. Johnson

8 The Honorable Donald W. Merricks

9 Mr. Kenneth O. Reynolds

10 The Honorable William M. Stanley, Jr.

11 Ms. Cindy M. Thomas

12 Mr. Gary D. Walker

13 The Honorable Thomas C. Wright, Jr.

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16 COMMISSION STAFF:

17 Mr. Neal Noyes, Executive Director

18 Mr. Ned Stephenson, Deputy Executive Director

19 Mr. Timothy S. Pfohl, Grants Program Administration Director

20 Ms. Sarah K. Capps, Grants Coordinator - Southside Virginia

21 Ms. Sara G. Williams, Grants Coordinator - Southwest Virginia

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1 January 7, 2013

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3 SENATOR RUFF: I want to welcome everyone to our
4 Education Meeting, and I'll call the meeting to order and ask Neal
5 to call the roll.

6 MR. NOYES: Ms. Barts.

7 MS. BARTS: Here.

8 MR. NOYES: Ms. DiYorio.

9 MS. DiYORIO: Here.

10 MR. NOYES: Mr. Hamlet.

11 MR. HAMLET: Here.

12 MR. NOYES: Mr. Harwood.

13 MR. HARWOOD: Here.

14 MR. NOYES: Delegate Johnson.

15 DELEGATE JOHNSON: Here.

16 MR. NOYES: Delegate Merricks.

17 DELEGATE MERRICKS: (No response.)

18 MR. NOYES: Mr. Reynolds.

19 MR. REYNOLDS: Here.

20 MR. NOYES: Senator Ruff.

21 SENATOR RUFF: Here.

22 MR. NOYES: Senator Stanley.

23 SENATOR STANLEY: Here.

24 MR. NOYES: Ms. Thomas.

25 MS. THOMAS: Here.

1 MR. NOYES: Mr. Walker.

2 MR. WALKER: Here.

3 MR. NOYES: Delegate Wright.

4 DELEGATE WRIGHT: Here.

5 MR. NOYES: We have a quorum, Mr. Chairman.

6 SENATOR RUFF: Thank you.

7 There are two issues that we are going to deal with.

8 One is the presentation of the BCG Study, and the only action
9 we'll take is to accept or not accept the report. And that'll set in
10 process of how we plan the budget and move forward in the
11 future. The other we're dealing with the portfolio.

12 DELEGATE JOHNSON: I move that we accept the
13 minutes of 9-13-2012.

14 SENATOR RUFF: We've got a motion and a second to
15 accept the minutes, which are on the website. All those in favor,
16 say aye. (Ayes). Opposed? (No response). The minutes are
17 accepted.

18 MR. NOYES: Let the minutes reflect that Senator
19 Stanley is present.

20 SENATOR RUFF: Chris, if you would introduce your
21 colleagues.

22 MR. GOODCHILD: I'm Chris Goodchild, this is J.
23 Puckett, and Michelle Russell.

24 MR. PUCKETT: Good afternoon. Let me give you an
25 overview of the process that we went through as part of the work

1 we did. It was a process of about ten weeks of work, and there
2 were three stages to the ten-week effort. First was to define the
3 requirements and assess the program. And part of that effort we
4 did get interviews with over 40 people, employers, and schools,
5 and leaders in the community to understand the current
6 situation, as well as perform an analysis and benchmark of the
7 Tobacco Region versus other communities.

8 Secondly, there was a three-week gap analysis where
9 we looked at the situation in the Tobacco Region versus other
10 communities to identify the skill worker gaps and develop options
11 to fill those gaps. Then in the last three weeks, we made
12 recommendations and an implementation plan.

13 In terms of the summary, and I'd like to go through a
14 couple of points here of the key findings. First of all, the
15 manufacturing in the region has been hit hard in recent years
16 which has been driving these trends. What we've seen in other
17 communities that have been hit with similar issues is that they
18 have built clusters to deal with these challenges and support job
19 creation, so we've seen declines in employment in older
20 manufacturing sectors or agricultural sectors replacing those with
21 more advanced manufacturing trends has been in a number of
22 communities has been dealt with by building a cluster mentality.

23 The vision here was to create an advanced
24 manufacturing cluster focused on three areas: aerospace,
25 automotive, and heavy machinery. To achieve this, there would

1 be a need to create what's called a talent base that could serve
2 the needs of these sectors over time.

3 A couple of facts to highlight as a part of this,
4 manufacturing employment has been shrinking in the region by
5 about four percent on an annual basis over the period of the last
6 decade. It's been driven by a loss of a number of employers and
7 working age population is shrinking. The unemployment is
8 actually at a higher level in Virginia overall. In fact, the number
9 of the population that have a degree versus Virginia as a whole is
10 much lower.

11 So as part of this effort, it was a vision that was
12 developed in cooperation with the Steering Committee, and that
13 vision was to develop an advanced manufacturing cluster. That's
14 built off of a set of best practices we observed in other
15 geographies that experience similar declines, to attract
16 employers with cost competitiveness and skilled workforce and to
17 leverage the existing infrastructure in the state and the
18 ecosystem here in order to do that. This will require
19 development of workforce training to facilitate job creation
20 potential and to drive economic development in the sector.

21 If you have a cluster like this, then in our view is that
22 over the next 20 years, you can transform the economic base of
23 the region, develop a top ten advanced manufacturing center
24 nationally, and create 15,000 new jobs by 2032. Then ultimately
25 secure \$20 billion indirect investment into the region and then

1 increase economic value by a figure of \$15 billion.

2 So, we're going to go through some of the facts that
3 led to these visions, including some recommendations that we're
4 making, but this is a high level summary of the vision cluster.
5 And Chris will go through the details.

6 MR. GOODCHILD: When we look at the potential
7 needs of the Tobacco Region, we want to try to prioritize where
8 the greatest needs will be. When we look at the supply, as well
9 as what the demand will be. The projected demand comes in
10 two areas.

11 The first is the baseline needs in looking at current
12 employers and understanding what needs they're looking at in
13 the coming years. Secondly, looking at the potential for clusters
14 the next five years, and we believe there'll be a need for 4,200
15 new employees there. One of the priorities that we looked at,
16 given the profile of the clusters, aerospace, heavy machinery,
17 and automotive, and looking at the potential job profile that are
18 needed to fill those manufacturing clients. We see that there's
19 high-skilled needs, low-skilled, and we see an increase from what
20 it is currently today.

21 If you'll look at the supply in some of the skilled
22 areas, and you'll notice that there's high skilled and low skilled
23 jobs, there is ample supply for these types of jobs. There's still
24 going to be some initiatives taken to make sure that we attract
25 people to these professions. We see where there's an increase in

1 the medium-skilled jobs in three areas, machinists, welders, and
2 machinery mechanics. When we developed the programs, we
3 developed them based on these, or the recommendations based
4 on these skilled areas.

5 Next, looking at the demand and supply in the next
6 five years. Another part of this is we assessed the readiness of
7 technical education within the Tobacco Region for potential
8 employees. We looked in four areas. The first one is
9 coordination, making sure there's a coordinated approach to how
10 educators are coordinating with industry to determine the needs
11 they have, focused on skills, as well as the number of people, as
12 well as coordinating with the school themselves, making sure
13 there is a specific standardized curriculum. Another piece is the
14 attractiveness of or lack thereof of manufacturing in the region.
15 So there needs to be an effort made to make sure that we're
16 attracting the right people.

17 We looked at three components of the technical
18 education system, the K through 12 system, community colleges,
19 and four-year universities. The focus of our engagement was
20 primarily on the community colleges and discussed and met with
21 each one individually. When we looked at the community college
22 system in the Tobacco footprint, we looked into the areas of
23 curriculum, facilities, and capacity. There is currently wide
24 variation of composition of different machine programs and
25 curriculum, and some of the facilities don't have the latest

1 equipment, state-of-the-art equipment and related to the past
2 and that's got to be corrected if we're going to reach that
3 employment level in the coming years and we need to expand
4 capacity to reach these goals.

5 When we look at supply and demand, as well as
6 readiness of the technical education system, our
7 recommendations are focused on some of these challenges. The
8 recommendations we have here, our ability to work together,
9 increasing the practices of this process, and there's still a lot
10 more to do. We're looking at four options that need to be
11 addressed, local courses and instructors, dedicated equipment,
12 allowing reasonable physical access to classes and equipment
13 throughout the Tobacco Region, local courses and instructors and
14 dedicated equipment, access to classes and equipment, and
15 similarly with instructors. Remote courses, local courses, that
16 can be shared, and the equipment. Sharing instructors can be
17 very beneficial, as well as equipment access. And that can be
18 across the two regions Southside and Southwest.

19 We propose three regional centers, each with the
20 capacity for 70 to 75 students, one in Southwest and two in
21 Southside. The objective of the regional centers is to compliment
22 the current educational system. You can see here the goal is
23 these proposed regional centers of excellence.

24 Then we still mentioned the hands-on foundational
25 training would be provided in the community, as well as the

1 community colleges and satellite facilities or mobile labs, as well.
2 Then the course skills, classroom programs, they can be
3 delivered at the community colleges or through distance learning.

4 Now, the cost of all this is estimated to be between
5 \$17 million and \$20 million, and a lot of this is driven by
6 equipment and the state of the equipment used for training. And
7 there's a lot of incentive for the manufacturers to provide some
8 of this below regular prices, but we believe there's an opportunity
9 to do that.

10 We believe these regional centers for excellence will
11 be attractive for students, first, the awareness of it and, second,
12 the access. The awareness can be increased by using career
13 coaches and a marketing campaign to make students aware of
14 this opportunity. And marketing, we need an effort to
15 recommend a campaign to make sure that these programs get
16 out to the intended targets, to make sure we're getting all this
17 information out. And lastly, access to education and access to
18 experience that students can get hands-on experience, and most
19 importantly, to insure that prospective students are aware of a
20 flexible course and lab scheduling and internships and
21 apprenticeships and that type of thing.

22 Michelle Russell is now going to continue the
23 presentation.

24 MS. RUSSELL: I'm going to talk about the
25 implementation. The implementation across industries, one of

1 those is a commitment from leadership. The second is clearly
2 defined milestones and objectives. And the third is effective
3 communication and employee stakeholder buy-in, and sufficient
4 funding. So while we have developed the implementation plan,
5 we've addressed all of these, and we'll go through them very
6 briefly.

7 We recommend a government structure that defines
8 its own strategic vision and oversees the working committees.
9 We have three working themes, and they're focused on the area
10 that Chris discussed, and one is around the curriculum. It's
11 critical to design an appropriate curriculum that is standardized
12 across the community colleges, a second is around resource
13 coordination, clearly given the need and level of resources for
14 creating these centers. It's critical to have that happen and
15 activities around site locations and other things that you need to
16 do quickly.

17 Then the third is around marketing and how you
18 promote advanced manufacturing careers. We recommend that
19 all those working teams be reporting through the director of
20 workforce development, who drives the implementation and
21 helps facilitate the process across the board.

22 We see CCAM supporting the program predominantly
23 around programs on their own strategic vision and program
24 success. Driving the overall implementation plan and guiding
25 committee recommendations, coordinating efforts with CCAM

1 member companies, and extended groups, educators, and
2 governmental entities. We also need to play a secondary role in
3 training and operation and helping to provide the expertise for
4 the training center.

5 In terms of implementing, the first thing on
6 implementing the timeline, it started in November and
7 December, 2012, and we're talking about January now. Our
8 tendency is to be aggressive in the timeline where there needs to
9 be some adjustments for that. We want to make sure you have
10 facilities that will be open in the calendar year and Calendar Year
11 2013. There is activity that needs to happen in each of the three
12 committees. We recommend creating a committee that will be
13 identified as part of this, and then undertaking that and that will
14 be key. And we think the first half of the year is curriculum
15 development, and all that is captured in the formal report and
16 documentation. A second piece is around resource coordination
17 and creating a financial plan, then the site selection process.

18 On marketing, the key activity looks like keeping the
19 campaigns underway that are already going and define a
20 marketing plan. So we would envision a steering committee
21 meeting every other month with the key timeline of site selection
22 in the first quarter of 2013, and then launching a marketing
23 campaign in the second half of 2013, with the goal of having met
24 the construction of the new facility starting in 2014.

25 With that, we'll open it up to questions from the

1 group.

2 SENATOR RUFF: Thank you. In my humble opinion, I
3 think this frames the issue pretty well. It does not provide all the
4 answers, nor address all the potential employment needs. It
5 does, however, focus on building a pipeline based on those
6 industries that do have advanced manufacturing. It gives us a
7 point of reference and a comfort level that we can supply them
8 with employees that they're going to need, whereas they build
9 their buildings and retrain people and make it come together.

10 As far as questions, the Commission's objective in
11 providing funds for this effort was securing an independent
12 expert analysis that's needed to develop an advanced
13 manufacturing common cluster in order that Southern and
14 Southwest Virginia might compete successfully for on-shore and
15 organic growth that require advanced manufacturing skills,
16 recognizing the specific details regarding curriculum, allocation of
17 resources, and marketing remain to be decided by yet the
18 committees.

19 A motion from the Education Committee accepting the
20 CCAM report as delivered is in order. Your recommendation to
21 the full Commission will help the staff in preparing project
22 reviews for implementing the conclusions of the consulting group.
23 That's kind of the lay of the land. Any questions you'd like to
24 ask?

25 MS. THOMAS: As I was reading through the report, I

1 did notice that looking at the people that were interviewed, and I
2 noticed that it did not appear people from Mecklenburg,
3 Lunenburg, and Halifax were not interviewed. I wanted to ask
4 the presenters were any contacts made in those areas, as well?

5 MR. GOODCHILD: Would you restate the question.

6 MS. THOMAS: Looking at the people that were
7 interviewed, I noticed community colleges and their economic
8 development directors, I did not notice where you had
9 interviewed people from Greenville, Mecklenburg, Lunenburg,
10 Nottoway County, were any contacts made with those folks?

11 MR. PUCKETT: We didn't have any contact there. We
12 discussed with Neal and other members of the steering team to
13 make sure that we had appropriate contacts and no one
14 mentioned that.

15 DELEGATE WRIGHT: I thought in your previous
16 remarks you said each community college, each area was
17 contacted or consulted.

18 MR. GOODCHILD: Maybe I misunderstood the
19 question. Were there specific schools or --

20 MS. THOMAS: Southside Community College?

21 MR. GOODCHILD: We spoke with John Craven.

22 MS. THOMAS: That wasn't mentioned in the report.

23 MR. GOODCHILD: I'll change that, we spoke to him in
24 September.

25 DELEGATE WRIGHT: At some point in time, I'd like to

1 hear from the people from Southside and the community colleges
2 and those areas Cindy just mentioned. I'd just like to see what
3 kind of input they had into this. I'm of the opinion one of these
4 centers should be in Southside Virginia. When you mentioned
5 the fact that you accept the report and the report has been paid
6 for, I assume, but, therefore, my vote to accept the report, I'm
7 more or less putting my stamp of approval on it, in my opinion,
8 and before I do that, I want to hear from the people which have
9 come to speak to this.

10 SENATOR RUFF: In response to that, I would say this
11 is a game plan and if they left out anybody in the process, I'm
12 sorry, but the problem we have and the problem we have in the
13 upper level of training is region-wide, and whether you talk to
14 every employer or every county, the problem at the end of the
15 day comes up with basically the same thing.

16 DELEGATE WRIGHT: I would agree, Mr. Chairman,
17 but I'd still make the request. I think they should have spoken
18 to some people in our areas at some point in time to make it
19 complete.

20 MR. NOYES: In terms of the number of contacts, the
21 Steering Committee would have an opportunity to have input into
22 this thing and some employers that are engaged in advanced
23 manufacturing activities be aware that the study was ongoing
24 and have an opportunity to contribute. The timelines for visits by
25 Boston Consulting were very, very tight in the region with 41

1 jurisdictions, very, very large. If no one was contacted, for
2 example, in Buckingham County, not that anybody is going to
3 exclude them, only providers of training services and industries
4 that we use and engage in advanced manufacturing, those were
5 the focus of this limited number of visits. It was a very tight
6 timeline. Nobody was intentionally excluding these folks in this
7 process. Ten pounds in a five-pound bag, that's how quickly the
8 process went along.

9 The timeline when folks have more opportunity to
10 have direct input into the decisions on resources and facilities
11 and marketing at that subcommittee level, those will be public
12 meetings and people will have an opportunity to address the
13 subcommittees directly or to have input to a representative on
14 those subcommittees. Not everybody is going to get touched
15 during the process. That would be physically impossible to do.

16 DELEGATE WRIGHT: My concern is that if information
17 is gathered from this area or the Tobacco Region, then how
18 serious is the consideration for placing one of these study groups
19 be recommended for that area? I'm not sure all the information
20 has been gathered. I want those people to be able to discuss
21 that.

22 SENATOR RUFF: Again, there's been no decision on
23 this committee or on the Commission as to the size. The
24 question of the needs, I think is pretty universal. We're not
25 producing enough people to fill the slots we have currently.

1 When Rolls-Royce needs people and they went down to the
2 Danville Community College and the folks down there said we
3 know there's a demand out there. Do we want all of our young
4 people to go to Rolls-Royce, no, but if we don't train these people
5 to do the jobs, it's not a question of whether they go to Rolls-
6 Royce or not a question of whether they're staying here, the
7 question is where do they go? If they want to provide for their
8 families and don't have those skills that are in demand, then
9 they'll go to Richmond. If I've misstated the case, I invite
10 anyone else.

11 MS. THOMAS: I don't disagree at all, Mr. Chairman.
12 We're just concerned that no one came to our area and no one in
13 those areas, whether it be manufacturers or government or
14 community colleges were represented in this report.

15 SENATOR RUFF: I appreciate that and appreciate
16 where both of you all are coming from, but we haven't changed
17 the report one iota for somebody in South Hill to say they needed
18 more machinists. We just don't have enough of them or enough
19 plumbers for that matter. We don't have people that are
20 learning those skills, we just don't have enough of them, much
21 less the expansion.

22 MS. THOMAS: When you came up with your
23 projections of numbers of employees needed, what areas were
24 included?

25 MR. GOODCHILD: I'd have to get you the full list of

1 counties, but all the counties within the Tobacco Commission
2 footprint to assess the current employee count, as well as
3 projected needs in the future in that area and the Virginia
4 Employment Commission. The projection of the cluster for the
5 whole region.

6 DELEGATE MARSHALL: On Slide 14, how did you
7 come up with that number?

8 MR. GOODCHILD: We came up essentially with an
9 estimate for this type of activity.

10 UNIDENTIFIED: Is there universal equipment that
11 would satisfy the majority --

12 MR. GOODCHILD: I would say that would be up to
13 the Resource Coordination Committee to make sure the
14 equipment is in place, the employers are aware of specific
15 curriculum in those programs.

16 MR. NOYES: The life expectancy is in years, and
17 unless there are upgrades at intervals which it may be that they
18 need to be replaced in the first generation of equipment,
19 subsequent generation, and variety of equipment that is
20 appropriate to be located. In most sites, it might be at the
21 community colleges or higher ed. sites. The hands-on, that's
22 going to be a narrower range. Yes, we looked at it, and, yes,
23 vendors are very interested in having their equipment involved in
24 this. People would introduce software. Providers indicated a
25 willingness to supply the software across Southside and

1 Southwest Virginia. We want to make sure we have updated
2 equipment.

3 SENATOR RUFF: So we're not behind the curve on
4 day one.

5 MR. HAMLET: Mr. Chairman, the existing clusters,
6 and I guess you need to study this concept, did they become a
7 cluster and hit your radar because they did something similar,
8 too, and was successful. In other words, that is automotive
9 clusters throughout the Southeast. They followed a similar
10 strategy to make themselves attractive to high tech
11 manufacturers.

12 MR. GOODCHILD: Yes, we looked especially in South
13 Carolina, a lot of strong coordination between different entities to
14 help design and tailor the training programs to meet the needs of
15 specific employers and looking through or across the numbers.
16 We spoke to a program in South Carolina that had five schools
17 and a standardized curriculum to help meet the needs of this
18 automotive manufacturer.

19 MR. HAMLET: Those programs are in place prior to
20 landing those big manufacturers? How did the timing work?

21 MR. GOODCHILD: I think on that specific program
22 they worked in conjunction with BMW requirements after they
23 were there. In another example, some small parts of the
24 program are in place and they work in a similar way with the
25 manufacturer and employers making sure that they were

1 meeting their needs and growing the program as needed.

2 MR. NOYES: Two points. Very specifically, there will
3 be aside from the initial, this will absolutely be tailored training
4 and providing the training and the provider of the training needs
5 to prepare to do that. As to your original question, I found it
6 very interesting and wished I would have been the one that
7 asked the question on the Steering Committee, and I was not.
8 The Steering Committee asked Boston Consulting Group to look
9 at folks that tried this and failed, and which things were most
10 lacking in terms of following through on leadership and things
11 like that. It was not necessarily equipment and it wasn't
12 necessarily facilities, it was the leadership and engagement of
13 the private sector from an ongoing basis over time. We
14 anticipated, not me, but others on the Steering Committee
15 anticipated that this Boston Consulting Group looked very
16 carefully at where folks had made an effort and failed and why.
17 What you see emphasized here is emphasized for a very good
18 reason.

19 SENATOR RUFF: A proper motion would be the
20 Commission joins CCAM in accepting the Boston Consulting
21 Group study. We have a motion and a second. Any further
22 discussion. All right. All those in favor, say aye. (Ayes).
23 Opposed? (No's). Three no's.

24 All right, Ned, I believe you're up on the next issue?

25 MR. STEPHENSON: Yes, with the help of my

1 colleague, Stephanie Kim, and members of the Committee, back
2 in November, it was not contemplated that we would have a
3 meeting before the Commission which we're having today. So
4 back in November, you may remember your staff polled the
5 Committee on the question of whether or not the Commission
6 should move forward to offer the student loan portfolios for sale.
7 You voted seven to two in favor of moving forward and the
8 foreperson did not resolve it, a nonbinding poll, two of you did
9 not vote no, but you did vote to discuss it today, so you'll have
10 that opportunity. So we're bringing the matter before you today
11 for discussion. Stephanie has prepared a few remarks.

12 MS. KIM: I want to give you some background
13 information. In May, 2011, you approved the end of the
14 Southwest Loan Forgiveness Program effective in 2012-'13
15 school year. The final loans were made in the 2011-'12 school
16 year. What we'd like to do is a request to authorize Southwest
17 Virginia's Higher Ed. Center, the administrator of the loan
18 program to begin to negotiate the sale of the loan portfolio -
19 the Public Procurement Act, and authorize the Southwest
20 Higher Ed. Center or its designee be authorized to solicit and
21 negotiate.

22 A lot of them are still in school or working for
23 forgiveness or to retain them. So the loan portfolio we have
24 right now potentially could go another 15 or 16 years, and after
25 one year of a grace period from the school, then they have ten

1 years to pay off the loan. What we're looking to do with the
2 portfolio so that somebody else would manage the selection and
3 billing and hunting people down for repayment. That's the
4 request we have.

5 SENATOR RUFF: This question I have, Ned, and we
6 never figured out a good way to do that. We're going to discount
7 these to some degree, and we don't know how much. And we'd
8 be wise to send a letter to each outstanding person saying we
9 will give you a discount X if you'll pay these off. I have a feeling
10 we could raise more money that way, but I'm not sure.

11 MS. KIM: It's hard to tell because obviously the best
12 or the most reliable student loans come from those that pay it off
13 early. We're sort of over a barrel, and it's really hard to tell the
14 best way. If we can get more money through discounting and
15 then sell what's left, but there's a question of whether it's an
16 attractive portfolio.

17 SENATOR RUFF: My concern is that the potential
18 buyer would assume that there are some bad loans, and if they
19 can get some pearls out of it, it's to their advantage, and they're
20 not going to offer us top dollar. So I don't know what the
21 breaking point is.

22 DELEGATE MERRICKS: Banks do this all the time.
23 They know what they're doing and they know what's best and
24 know what they're liable for. I'm not sure that's going to play
25 into the price so much as it is because they do it all the time. I

1 agree with you, maybe trying to unload it, the entire portfolio.

2 DELEGATE JOHNSON: In Southwest Virginia, would
3 you be able to pick someone?

4 MS. KIM: UVA and their fiscal agent, UVA might have
5 a staff and then maybe identify with them or end up with them.
6 They would work on Higher Ed.'s issue. I think the thing is we're
7 not really sure what the value of this portfolio is until you put it
8 out for bid. It could be that it's not worth selling, but we don't
9 know that until we put it out for bid.

10 SENATOR STANLEY: In a perfect world under this
11 portfolio, every student they paid it back what they've been
12 given is the value of it.

13 MS. KIM: Right now, there's approximately 14 million
14 in outstanding loans.

15 SENATOR STANLEY: Is that principal and interest?

16 MS. KIM: Of that, about \$12 million is in a gray area,
17 they're in school or they're working for forgiveness or they're in
18 the one-year transition period. Potentially, a large portion of that
19 \$12 million or maybe half of that may be forgiven, so the
20 portfolio we're looking at is maybe \$6 million or \$7 million.

21 SENATOR STANLEY: Right now, currently, of those
22 which are being paid back, do you have an understanding of
23 what the rate of default is currently and what may be in the
24 grace period?

25 MS. KIM: I don't have the numbers, but based on

1 historical numbers and very roughly of the loans that are made,
2 approximately half are forgiven, and then of those that are
3 repaid, I believe it's about 40 percent that are in collection. It's
4 very high.

5 MR. NOYES: That's about right. Forty percent of the
6 half, 54 percent is the last figure I saw. Fifty-four percent are
7 forgiven, which means that 40 percent of the four go to
8 collection.

9 MR. STEPHENSON: Mr. Chairman, I'd like to respond
10 to what Delegate Merricks said about the potential or quantifying
11 what it's worth. If your staff follows the procurement process
12 and issues an RFP and seeks market bids, you will get a bid that
13 will tell you exactly what it is worth. You might think it's worth
14 something other than that, but that's what it's worth, and
15 whatever that number will be, will be what the marketplace is
16 telling you the value of what you have. I think it's speculative for
17 us to talk about what that might be or how many might be
18 forgiven or whatever, but the marketplace will tell you that. You
19 might accept or reject that value. There is no better
20 determination of value than what's in the marketplace.

21 Our proposal is that you allow your staff to expose
22 this to the marketplace and see what counts.

23 SENATOR STANLEY: Nothing is binding, and we can
24 determine, based on the bids that come in, we can determine
25 whether to hold onto the portfolio. Based on the bids that come

1 in, then we can determine whether to hold on or go to the
2 market to sell.

3 MR. STEPHENSON: Yes and no. Let me just explain
4 this. The process of offering an RFP and receiving the bids and
5 forming a committee to review the bids and getting the process
6 all the way to conclusion whether to sell or not sell is fairly labor
7 intensive. There are many steps along the way during which
8 decisions have to be made about moving forward or not, and the
9 manner in which to move forward. Staff is happy for you to meet
10 every ten days and decide on those questions, but we don't think
11 you'd want to do that and it's not going to be possible to conduct
12 a sale if the sale takes 18 months for bidders to wait for us to be
13 deliberate and get to the last minute and decide I don't think we
14 want to do that.

15 What we're saying is that the Virginia Public
16 Procurement Act is very comprehensive in guiding this process so
17 that there's no abuse and you have market value and that you
18 have an opportunity to review that information and we follow
19 that process which could be no sale, but we don't know that yet.

20 MS. KIM: We'd have to review that and make that
21 decision rather than coming back to the Committee and have a
22 review.

23 MR. NOYES: Following up on that, Stephanie and Ned
24 have emphasized one point. We have a 15, 16, or 17 year
25 process moving forward if you do nothing. In speaking for

1 myself, I'm reluctant to buy ripe bananas at this point, and when
2 do we make this decision? At what better point in time does it
3 make sense to make the call to sell the portfolio? We're
4 currently paying to have Southwest Virginia do the work. I don't
5 know how much of our annual payment is, but we would realize
6 something, but we wouldn't be spending for the next 15, 16, or
7 17 years for something else. So there is a financial argument to
8 do this now rather than later.

9 SENATOR STANLEY: The services of this portfolio for
10 us right now, are we upside down?

11 MR. NOYES: We're paying annually to the Southwest
12 Higher Education Center for a new four-year program to manage
13 this other piece. I don't know what the cost would be, but I
14 believe it was like \$100,000 last year, and 15 years, that way,
15 we wouldn't be spending it.

16 DR. FOWLKES: We have about \$380,000 coming to
17 the Higher Ed. Center for the management of the whole
18 scholarship program. We have two full-time staff persons and
19 one part-time person, who takes care of the whole scholarship
20 program. Out of that staff, the person who works on this part-
21 time does the loan portion of the portfolio. So I'm assuming or
22 thinking about roughly half of this person's salary, full-time
23 position, half of the loan program. About half of that would be
24 about \$20,000 a year roughly. That's what you're spending out
25 of that management portfolio, the loan component of the

1 program.

2 All of the money that we collect for the program
3 comes directly back to the Commission. So we don't keep a
4 percentage of that loan portfolio. The bulk of the costs for
5 managing the scholarship program, the applications, the
6 tracking, and literally hundreds of colleges where they're
7 attending and making sure the money is flowing to the college,
8 that's really the administrative work of the scholarship program.

9 So I think the point that Neal is trying to make is the
10 longevity of it. This is the last year. Last year was the last year
11 the loans were made. The students are in the grace period right
12 now. After next year, we'll have a better handle on how much or
13 how many students will still be in the loan program going
14 forward. We know how many are in it today, but we still have
15 some that have a year to go before they actually have to start
16 repaying. I hope that makes sense.

17 UNIDENTIFIED: Do you as the administrator of the
18 Loan Program, is the rate of default higher than other loan
19 programs?

20 DR. FOWLES: I don't know.

21 UNIDENTIFIED: What are the costs of people not
22 making or people that don't come forward with the financial
23 application for not doing the forgiveness part?

24 MS. KIM: The main point is that when loans are made
25 or when you apply for any loan and these loans were made

1 without any credit or ability to repay were just made.

2 UNIDENTIFIED: I'm new to this.

3 DR. FOWLES: The other factor is that the loans are
4 tied to the fact that they return to Southside to work. One of the
5 challenges we have is that for every year they work in Southside
6 Virginia, a year of the loan is forgiven. Let's say a student comes
7 back and stays for one, starts to work and then leaves the job.
8 So there's a program out of the program. Then we don't know
9 where they are and we have to track them down, and that's
10 challenging because you're trying to track them and they might
11 move back to the area. It's a real problem. Even though they
12 might not be the signer of the loan and the parents might have
13 signed it, all that's very difficult for us.

14 DELEGATE JOHNSON: And what are we doing about
15 collecting --

16 MR. NOYES: -- Turn them over to enforcement.

17 MR. STEPHENSON: There's ongoing collection efforts
18 to process these default loans according to state law, that is
19 happening. The minute they go into default, 90 days later, we
20 send a letter, and then it might go to collections.

21 DELEGATE JOHNSON: Are the notes under seal?

22 MR. STEPHENSON: They're not. Mr. Chairman, I
23 think the overwhelming motive bringing this to the Committee,
24 we feel that the Tobacco Commission nor the agent of Higher Ed.
25 Center should be engaged in loan administration business, and

1 that's not what we do. And we're not particularly good at doing
2 that, we have shortcomings in the oversight of the Loan
3 Administration Program. As of last year, we're out of the loan
4 business, and we're not making anymore, but we do have a
5 dwindling portfolio. If we have a chance of making this go, now
6 is the time to do it.

7 SENATOR RUFF: Any further questions? An issue has
8 been raised that if we move forward on this, we may be able to
9 do it through the Public/Private Education Act. If there's a
10 motion, I hope it would include the staff being able to look at
11 that statute, whether it could be negotiated.

12 DELEGATE JOHNSON: You want to put it out for bid
13 or collection?

14 MS. KIM: If it goes to collection, that's more like and
15 with the percentage of collection, which is more like going to a
16 collection agency, we still own the loan, somebody else collecting
17 for it. That's in essence what Higher Ed. is doing now. The labor
18 intensive part of this is not so much billing and payment comes
19 in, it's really tracking down these people and getting verification
20 of employment, whether they're still in school, finding out if it's
21 to be forgiven or if they need to make the payment and then
22 finding them and sending the bills, that's the labor part.

23 MR. NOYES: You want to go ahead with that motion?

24 MR. STEPHENSON: The motion that staff is
25 recommending to the Committee is that the Committee authorize

1 the staff to offer the student loan portfolio for sale under the
2 Division of the Virginia Public Procurement Act, and that you
3 authorize your executive director to execute all of the documents
4 required by that act to reach that conclusion.

5 DELEGATE WRIGHT: I so move.

6 SENATOR RUFF: We have a motion and a second.
7 Delegate Marshall raises the issue about investigating whether
8 there are other methods to the public/private process. Are you
9 all willing to amend that to allow that, also?

10 DELEGATE JOHNSON: Question, would that be the
11 best one to do?

12 MR. NOYES: The best bid we've got.

13 DELEGATE JOHNSON: But so much percentage of the
14 amount collected. Can that be negotiated in the price?

15 MR. STEPHENSON: Delegate Johnson, our intended
16 course of action is to issue an RFP and then the terms of that RFP
17 would be without recourse and service release, and that's
18 banker's language, once they buy those loans, we would have no
19 more liability and they would own them and whether they get
20 paid or not, we are absolutely out of it.

21 Service release means all these phone calls and
22 tracking is theirs to do, they must not call us, because we are out
23 of the loan business completely. Anything short of without
24 recourse and release, we're still in the loan business for the next
25 16 years. So then in any course, we want to be under those

1 terms. We don't know what the outcome of this solicitation will
2 be, we may get one bid or ten bids, we don't know what the bids
3 will be, but the Procurement Act provides a process whereby you
4 can negotiate first with the successful bidder or you can refuse
5 the bid and provide the check for it along the way so that you're
6 not disadvantaged in making a sale that is harmful to the
7 Commission if you don't want to. Does that answer your
8 question?

9 SENATOR RUFF: Does that answer your question? All
10 right.

11 Any further discussion? All those in favor, say aye.
12 (Ayes). Opposed? (The ayes have it.)

13 MR. NOYES: Let the record show Senator Ruff
14 abstains from this motion.

15 SENATOR RUFF: All right, any public comment?

16 MR. CARTER: My name is Wayne Carter, and I'm
17 County Administrator for Mecklenburg County, and we're here to
18 discuss the new center that we discussed earlier. We feel our
19 region is made up of Lunenburg, Mecklenburg, Brunswick,
20 Charlotte, Nottoway, Brunswick County, and the City of Emporia,
21 one of the sites located for the center. The Tobacco Commission
22 has come forward to us and funded our organization, and I'd like
23 to say we support the work you all are doing, and thank you.

24 SENATOR RUFF: We look forward to one location that
25 you all can agree on.

1 MR. NOYES: The next application deadline will be
2 Thursday, February 28th, 2013.

3 SENATOR RUFF: All right. If there's no other public
4 comment, then we're adjourned.

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7 **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, Education Committee Meeting**, when held on Monday, January 7, 2013, at 1:00 o'clock p.m., at the Hilton Garden Inn, Richmond, 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 21st day of January, 2013.

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

MY COMMISSION EXPIRES: October 31, 2014.