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**VIRGINIA TOBACCO IDEMNIFICATION AND
COMMUNITY REVITALIZATION COMMISSION**

EXECUTIVE COMMITTEE MEETING

TUESDAY, JUNE 4, 2002

11:00 a.m.

DANVILLE REGIONAL AIRPORT

EASTERN ROOM

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EXECUTIVE COMMITTEE:

THE HONORABLE CHARLES R. HAWKINS, CHAIRMAN

THE HONORABLE TERRY G. KILGORE, Vice Chairman

Members:

Thomas W. Arthur

Clarence D. Bryant, III

The Honorable Kathy J. Byron

The Honorable Allen W. Dudley

The Honorable Isiah G. Hopkins

The Honorable Joseph P. Johnson, Jr.

The Honorable Frank M. Ruff

Cindy M. Thomas

The Honorable Gary D. Walker

The Honorable William C. Wampler, Jr.

COMMISSION STAFF

CARTHAN F. CURRIN, III, Executive Director

Janet T. Bruce, Director of Policy

Stephanie S. Wass, Director of Finance

Mary Cabell Sherrod, Special Assistant to the Commission

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ATTORNEY GENERAL'S OFFICE

Frank Ferguson

Anne Marie Cushmac

Stephanie Hamlett

SENATOR HAWKINS: Good afternoon, welcome to Danville. We've got a fairly tight agenda. Let me tell you basically what will have to take place today. At 2:30 there is a subcommittee meeting of Senate Transportation that will be held here as well. Those of you in the General Assembly may want to stay and listen to this because it's a fairly important six-year plan. What I plan to do at that juncture is adjourn this meeting around 2:30 and recess and give y'all time to go to the hotel and check in, do all the things you need to do, and then come back and we'll start back up. That's, unfortunately, the schedule we're on today.

The Commissioner of Transportation is flying in today at 2:30 and no way we could make it any different. This was scheduled to take place at 11:00 this morning, but there was a conflict in several schedules of members and in trying to work with everyone involved, we postponed it until the 1:00 hour. Having said that, we may have to wait for a quorum. Carthan, call the roll.

MR. CURRIN: Mr. Bryant?
(No response.)

Delegate Byron?
(No response.)

MR. CURRIN: Delegate Dudley?

DELEGATE DUDLEY: Here.

1 MR. CURRIN: Mr. Hopkins.

2 (No response.)

3 MR. CURRIN: Delegate Johnson?

4 DELEGATE JOHNSON: Here.

5 MR. CURRIN: Vice Chairman Kilgore?

6 DELEGATE KILGORE: Here.

7 MR. CURRIN: Senator Ruff?

8 SENATOR RUFF: Here.

9 MR. CURRIN: Mrs. Thomas.

10 (No response.)

11 MR. CURRIN: Mr. Walker?

12 (No response.)

13 MR. CURRIN: Senator Wampler?

14 SENATOR WAMPLER: Here.

15 MR. CURRIN: Mr. Chairman?

16 SENATOR HAWKINS: Here. Thank you all, we barely have a
 17 quorum. The first thing, in order to facilitate things, I'm going to make a couple of
 18 announcements. In order to deal with the educational component of this Commission
 19 in trying to deal with the charge that, I believe, we have, it's becoming more and
 20 more important to concentrate more on the different aspects of Education. So, with
 21 the permission of the Commission itself, I plan to expand the Educational
 22 Subcommittee, which Senator Ruff will be Chairing and give them a little bit more
 23 authority and some more money to deal with other problems other than just
 24 Community Colleges and approving the grants from Community Colleges. Having
 25 said that, all the requests for Higher Education that shows up on Page 2 of the agenda,

1 starting with UVA College at Wise, down to LENOWISCO, all that will be referred
2 to the Committee of Education. And Senator Ruff will have charge of dealing with
3 those particular requests and make sure they meet our criteria.

4 Second, we're running into some real problems when it comes to dealing with
5 workforce training.

6 SENATOR WAMPLER: Mr. Chairman, can I interrupt you for a
7 minute? On the Education Subcommittee I think I serve on that, and probably
8 serving on too many. Would you entertain a friendly suggestion to delete me from
9 that committee and maybe place another Southwest person on that? Maybe Senator
10 Puckett?

11 SENATOR HAWKINS: There's been a motion to abandon ship
12 and throw another to the wolves. Senator Puckett has been nominated, and I'll
13 appoint him to serve in your seat. Thank you.

14 MR. CURRIN: Mr. Chairman, we put Mr. Fields on that
15 committee as well.

16 SENATOR HAWKINS: Let's go ahead and read the
17 appointments that are in place now. This will be the new Educational Committee;
18 we'll come back to that. Now, going back to the other part of the discussion,
19 particularly workforce training. We are developing a mix of requests dealing with
20 workforce training, museums, and other things that are on the peripheral of our
21 charge of this Commission. We need to establish some guidelines so everyone will
22 have an understanding of what the baselines are for these monies to be received from
23 the Commission itself. To my knowledge, at this juncture, we do not have an
24 understanding, particularly what definition of workforce training to use or how it
25 applies to the overall structure of the Commission. Does anyone have any

1 suggestions as to how we can probably help the situation along?

2 DELEGATE DUDLEY: Mr. Chairman, are you speaking of
3 special requests or requests coming from areas of formula basis?

4 SENATOR HAWKINS: Well, even with formula basis or special
5 requests, I think we need some sort of guidelines as to what criteria is in place to
6 apply for money for the Commission. For example, we'll get this one out of the way
7 now. Mr. Arthur, who Chairs the Economic Subcommittee of Southside, has some
8 recommendations that we need, probably, to touch base on, which dovetails into the
9 discussion. Tom, do you want to bring us up-to-date?

10 MR. ARTHUR: Yes, in the Southside Economic
11 Development Subcommittee, we're getting a lot of requests for workforce
12 development skills and training. And, it is a fact that we need a trained workforce.
13 We're getting so many of these things from everywhere that there's got to be
14 duplication. We've been approving a disapproving of them sort of willy-nilly type of
15 thing and I would like to be more consistent. We're getting a recommendation for
16 \$40,000 for a study to determine if they need workforce training. If they don't know
17 that, they certainly don't know much about their county or situation. Most of the
18 time, well within their approved money for their county, by the formula-typed basis,
19 but I left two tables from my last subcommittee meeting because we didn't have what
20 I thought was good guidelines on this. I'm going to tell you about a couple of them.

21 Franklin County, and I don't want to pull out Franklin County and not treat it
22 equally with any other county but \$159,500 for workforce development skills and
23 training. That's a lot of money and we need to be sure that we've got guidelines that
24 we can be consistent from county to county on workforce training and we can bring
25 these people all on board as trained, but then not throw good money after bad.

1 I would like to see us have some type of guidelines and give those guidelines
2 to the staff and subcommittee and then never see some of these things. If we could
3 just tell them what we need to do with workforce training.

4 SENATOR HAWKINS: I think the point is well made and I think
5 it's something we need to deal with as we continue to expand and grow this
6 Commission. I think these things need to be worked on and resolved. What I would
7 like to do, with the permission of the Executive Committee, is go ahead and give the
8 Executive Director the authority to work with the two regional chairmen, Senator
9 Wampler and Tom Arthur as well as The Honorable Michael Schewel, who's the
10 Secretary that deals with this subject matter statewide. To work together to come up
11 with some sort of baseline and report back to us, any discussion on that? Yes sir,
12 Senator Wampler?

13 SENATOR WAMPLER: I think I share Tom's view. My concern
14 is that we'd become the banker of last resort again. There are literally millions of
15 dollars in workforce training that flow from the Feds to the State to the Localities. I
16 just think we have to coordinate those efforts because it's duplication in many cases
17 and I'm not sure we're getting the bang for the buck that we should be getting. If
18 there's other dollars, goodness knows there are many other projects that we can fund,
19 rather than using our dollars for workforce training.

20 SENATOR HAWKINS: I think that's important to underscore by
21 having Secretary Schewel participate in these discussions we may be able to find out
22 what monies are actually being spent today and make sure there's not duplication.
23 Without any-

24 DELEGATE KILGORE: Mr. Chairman, how long do you think
25 this process will take for these people to get together and come up with a plan?

1 SENATOR HAWKINS: I would hope fairly rapidly and I would
2 certainly hope within the next sixty days, if not before. At the next meeting, anyway,
3 because we need to have some baseline in place so people understand what we're
4 going to require particularly when it comes to workforce training.

5 MR. ARTHUR: I really don't want to hold these
6 counties' money that's due for their area, unnecessarily. That's going to hold at least
7 two projects in abeyance until we can get some guidelines.

8 SENATOR HAWKINS: There has to be some uniformity in this
9 as well, Tom, as you know. For instance, if we approve one for Franklin County and,
10 because it's in their package, and turn down something for Pittsylvania, that's not the
11 way we need to handle it. So, without objection then, I will give that charge to the
12 Executive Director working with the two Chairs of the Economic Development and
13 Secretary Schewel to come back with recommendations within, when's our next
14 meeting? Report to the Executive Committee, let's try thirty days, and we can extend
15 it if we have to. Tom, anything else you need?

16 MR. ARTHUR: No, that's basically what I wanted to
17 say.

18 SENATOR HAWKINS: I'm going to refer all of those
19 recommendations to that study.

20 Another piece of housekeeping that we need to deal with, excuse me, Tom, do
21 you have anything else?

22 MR. ARTHUR: No.

23 SENATOR HAWKINS: For Southside?

24 MR. ARTHUR: No.

25 SENATOR HAWKINS: Thank you, sir. Before we get into the

1 next presenter, I would like to thank you all for coming and also mention another
2 problem that is beginning to crop up that we need to deal with. I'm going to charge
3 the Executive Director to also deal with this. As we get into these Special Project
4 requests, that probably will be more and more the focus of this Commission because
5 it will deal with across jurisdictional lines. Trying to put in place basic infrastructure
6 and helping Economic Development throughout an area rather than concentrate on a
7 county or a town or a city. What I'm seeing taking place troubles me. There are
8 peripheral, smaller counties that are not participating in Special Projects the way that
9 I would like to see them participate, because we're not getting requests from them. I
10 plan to direct the Executive Director to meet with the Economic Development entity
11 of these counties, as well as maybe the County Manager or County Administrator to
12 work out some sort of coordinated effort to bring recommendations for Special
13 Projects into these areas that would help job situations. We cannot continue to
14 overlook this. We're dealing with some significant investments and Special Projects
15 but they have come out of a concerted effort from localities trying to put together
16 some basic infrastructure to be competitive. We're going to continue to do that, but I
17 don't want to see us lose the initiative from these smaller counties by not being able
18 to participate. I'd like to see Prince Edward, Appomattox, Charlotte, Cumberland,
19 Lee, in that area, work up something on Special Projects that has significance, also
20 Southwest Virginia. And bring all of these counties together and work out something
21 that would fall under Special Projects because it will be my desire within the next
22 year or so to concentrate much more of our efforts for these multi-regional efforts on
23 Special Projects, any comments on that?

24 DELEGATE KILGORE: Mr. Chairman, you said the Executive
25 Director's going to go out and talk to these Economic Development people, do we

1 have any other way to get the word out? Maybe Economic Development Director
2 may not be the person who can bring all of these folks together.

3 SENATOR HAWKINS: The County Administrators as well be
4 brought together. What I'd like to see take place is, have regional meetings and have
5 these individuals invited to be able to tell them what the Commission is trying to do.
6 And what we have done in areas using the Danville, Pittsylvania County, Franklin
7 and Halifax areas as examples of what Special Projects money can do. To ask them
8 to start working together as communities to come up with ideas number one, that
9 creates jobs, creates opportunities, creates things that are not in place today. Let them
10 also know that we cannot replace normal funding for fire stations and rescue squads
11 and that sort of thing. We're just not into that business. We're after jobs and
12 education and those components that create those basic infrastructures that will have
13 lasting implications for those communities. I'm very concerned at this juncture that
14 we are creating a division between the more populated counties and the less
15 populated counties that we just need to bring back together.

16 SENATOR RUFF: Mr. Chairman, I would encourage
17 Carthan to be cautious. Some of those partnerships, economic partnerships, have
18 worked together very well. Nottoway County is the only county in that planning
19 district that did not join. I don't want to sit around and encourage those counties to
20 separate at this point.

21 SENATOR HAWKINS: We need to do all that we can do to
22 make sure they stay together. What I'd like to see done, Frank, is have Carthan be
23 able to provide adhesion to encourage these counties to continue those relationships
24 and become stronger in those relationships. The things that we're dealing with now
25 on these internet connectors, any kind of cross-county or city lines has more

1 implications than just one jurisdiction and we need to let the counties understand we
2 want to work with them but it has to be with a broader vision today to create as many
3 job bases as we can.

4 SENATOR RUFF: I believe what the General Assembly has
5 done in the last several years with that regional partnership thing has taught them how
6 important it is. Stephanie works with Heartlands and she knows how they got
7 together and it wasn't an easy thing to do. They've been working together and I don't
8 think they're going to go backwards because they understand the critical mass issue.

9 SENATOR HAWKINS: You don't have to, right here in
10 Pittsylvania County, they're doing things, they're doing things together that was not
11 taking place three years ago. Just because they understand they'll get more bang for
12 the buck to work with the Tobacco Commission to get some investments done, that's
13 what I want to see.

14 Charlotte County bothers me; they are not doing what I'd like to see us do with
15 Special Projects. Prince Edward and Appomattox and even Campbell working with
16 Region 2000 has done some things but we need to make sure that everybody's in the
17 mix.

18 DELEGATE JOHNSON: Mr. Chairman, if they have no more
19 interest than some of them shown, why should we push things on the county, other
20 than the counties that are encouraged and enthused and want to go forward.

21 SENATOR HAWKINS: Joe, what I'd say in response to that is
22 that we have the charge to try to help all the counties that are under a listing. Just
23 because the county has not participated fully in the available finances and the
24 resources of this Commission, may be because they do not fully understand what we
25 have to offer. We certainly owe them the courtesy of trying to make available to

1 them all the resources that the Commission brings into play. I don't think it's
2 desirable to have one or two counties that are lost in this overall restructuring of what
3 we're trying to do. That's something I don't think is desirable at all.

4 DELEGATE JOHNSON: I agree with you. But in our area, I don't
5 think anyone's been left out who stepped up to the plate. I think they have to step up
6 to the plate and show some interest that the money is well spent and those that are not
7 enthused that we've got to wisely spend the money.

8 SENATOR HAWKINS: Well, we still have oversight of that
9 money, how the money's spent, and that's for sure but we may need to make sure
10 they still have availability to resources. And try to coordinate the best we can with
11 local government to guarantee access to everything that this Commission wants to put
12 in place for them for both regions. I think probably due to the geographic make-up of
13 Southwest Virginia, they have a little more than some of the other areas and that's
14 you all's strength, we need to build on that. In Southwest Virginia I'm sure there are
15 places that could be improved upon when it comes to opportunities. Having said that,
16 I'll move along.

17 Getting back to the agenda, I would entertain a motion for approval of the
18 March 4th meeting minutes. It's been moved and seconded that we approve the
19 minutes of the meeting. All in favor say "Aye." (Aye's) "Opposed" (No response.)

20 SENATOR HAWKINS: Next we have the Virginia Small
21 Business Financing Authority: Revolving Loan Fund. This is an informational piece
22 for the Executive Committee. Due to the fact that the Commission itself will be
23 entertaining requests from others and myself, we're beginning to understand the
24 availability of Venture Capital, or Capital Resources and that's something we need.
25 To put in place some monies to be able to direct investments in fledgling businesses

1 and start-up capital that may not be available through normal resources. This gives us
2 an update of how it works in some other areas as we get into this, Carlton?

3 MR. CURRIN: Thank you, Mr. Chairman. Mr.
4 Chairman and members of the Committee, we have today Mr. Scott Parsons and Ms.
5 Patty Thorne with the Virginia Small Business Financing Authority to give a
6 presentation to us this afternoon. Scott, would you like to lead off?

7 MR. SCOTT PARSONS: Thank you, I have some packages here
8 I'd like to distribute. I appreciate your attention today. My name is Scott Parsons
9 and I am the Director of Financial Services for the Virginia Department of Business
10 Assistance and I also serve as the Executive Director of Virginia Small Business
11 Financing Authority. Some time back, the Executive Director of the Tobacco
12 Commission and I began a conversation in talking about ways in which the
13 Commission perhaps would be looking at trying to leverage some of the funds and get
14 money into the community, both directly to businesses as well as to various
15 communities. Because the financing authority is the state's arm for lending directly
16 to small businesses, it seemed a natural fit. So we began talking, and one of the first
17 things that Carthan had asked us to do, was to touch base with some of the local
18 economic developers in the Tobacco community and get some understanding of what
19 the need was there for access to capital to help economic development for small
20 business and to try to make a determination of where a need might be that was not
21 otherwise being met.

22 What we found was, that in talking to those communities, principally the need
23 seemed to be in the area of working capital financing and the need for direct loans
24 that did not require some bank or private lending institution to participate. We
25 currently run some loan programs today, both direct loan programs and the credit

1 enhancement but all of them require bank participation of some sort. What we were
2 hearing in the locality is that sometimes that's not enough. With a business that's
3 looking at rapid expansion, for a start-up and sometimes even with the credit
4 enhancement to provide, it's not enough to get the bank interested and therefore you
5 can't get the ultimate project done. So, we have put forth a proposal in your packet.
6 It starts on Page 4 of your handout. It basically talks to some of the findings from the
7 different communities that we've received input from in the tobacco areas.

8 As far as the loan program goes, what we have proposed is an ability to lend
9 both directly to small businesses as well as industrial development authorities and any
10 other authority that is empowered by the Commonwealth to borrow money and, in
11 turn, lend it out. Giving us that flexibility to be able to lend to both the communities
12 and the businesses.

13 We have proposed a pilot program and we wanted to suggest that we see how
14 this plays out and what kind of reception that we get and try to assess how much need
15 there is. We have recommended starting out relatively small with perhaps \$2 million
16 to lend out in the form of loans in the range as low as \$5,000 up to as much as
17 \$250,000 directly to businesses and then, with the flexibility of perhaps going higher
18 than that when lending directly to Industrial Development Authorities. We're talking
19 here, primarily about patient loans to try to help these companies and communities
20 that are struggling and be able to give them longer terms, lower interest and perhaps
21 no interest.

22 In all these cases, we would work, obviously, with the Commission. You
23 would set the criteria or the staff as they're directed, to determine what kind of terms
24 you think would best fit their needs. We can run a loan program based on any of
25 those terms, it really depends on how much risk tolerance there is.

1 I would like to mention the financing authority, for those of you who are not
2 aware of our abilities. We currently run six loan or credit enhancement programs
3 throughout the state, lending to both small businesses and communities. All of our
4 staff have government lending as well as commercial lending experience and very
5 extensively so. We already have an infrastructure set up in that we handle the billing,
6 we handle the reporting, and we do collections. All of that is already in place so there
7 would not necessarily be a need to recreate anything new.

8 SENATOR HAWKINS: One question, Scott, an investment from
9 the Commission of \$2 million that's been mentioned, that can be leveraged to how
10 much is actual available capital?

11 MR. SCOTT PARSONS: Well that depends, sir. And, honestly,
12 would depend on how much we can, how fast the loans revolve. We currently, if
13 we're talking about a direct loan program here, where there is no other bank
14 involvement, then ours would be the only money, or this program's money would be
15 the only money that goes out. If you partnered with another bank, then obviously you
16 can leverage the money more so, but we already have currently in those areas, in loan
17 programs that require that. And what we've heard sometimes that's an impediment.

18 SENATOR HAWKINS: You're very fortunate with the Executive
19 Committee, because we have two bankers that can probably bring us up to speed on
20 this very rapidly, any questions from the banking experts?

21 MS. THOMAS: Mr. Parsons, Mr. Chairman, we have
22 worked with the Small Business Development Center in just such a program. Where
23 the development center would fund a portion of the loan and pretty much a down
24 payment or maybe up to 25 or 40 percent of the loan package and the bank would
25 fund the rest. And the bank would be able to come in as a first lien position in a

1 revolving type of loan. Small Business Development for loans up to \$15,000 or
2 \$25,000. These work very well with these small businesses trying to get some real
3 estate and get buildings, equipment and that type of thing. I'm very interested in your
4 proposal, and I read over it last night. I could see how the Commission could do a lot
5 of good with a loan program such as this.

6 SENATOR HAWKINS: The Rural Prosperity Commission that
7 met last year, one of their primary findings was the lack of capital in rural areas and
8 this was one of the top priorities and recommendations of the General Assembly.
9 And, something I thought we could enhance by letting the Tobacco Commission
10 concentrate in that area with a program of capital access.

11 SENATOR WAMPLER: Ms. Thomas and I discussed this and I
12 think, we agree the need is there. My question is how do we best get it into the
13 marketplace, Mr. Chairman. I guess, Mr. Parsons, I have a couple of questions for
14 you. Tell me, and what I picked from your memo is that you do have market
15 penetration in Southside and Southwest, give me some examples. I would admit, I'm
16 not as familiar with what you have done in my region as, perhaps, as I should be. Can
17 you help me there?

18 MR. PARSONS: Yes, I believe so. We've done, in our
19 loan program, we currently have a loan program ran by the Economic Development
20 Loan Fund. That is one where we partner with banks and non-bank lenders and we
21 do gap financing up to 40 percent up to a million dollars. In that program, the most,
22 the program we have is most similar to what we're recommending here today. We
23 have done 63 percent of the loans we've made in that program have been in Southside
24 and Southwest. We certainly would like to do more, but what we have found, a part
25 of what has limited us, in that program is, has been that the way it's set up, it's fixed

1 asset financing only, until recently and we got some increased flexibility. It was only
2 directed toward basic employment industry and primarily manufacturing. Given the
3 way that the manufacturing industry cycles have gone as of late, there just has not
4 been the ability to use that money. We went back and went to the Economic
5 Development Administration as well as our Board and EDA is responsible for
6 providing individual funding in this program and asked for more flexibility to be able
7 to provide, be involved in the life enhancement, to do some lending in the area so that
8 they can pro-actively try to attract business.

9 We have just embarked upon a marketing campaign to make people aware
10 that that's what's happening.

11 SENATOR WAMPLER: Tell me a couple of the folks that you
12 have provided some capital to in Southwest Virginia?

13 MR. PARSON: Okay. We made loans to Montgomery
14 County IDA. There was a telephone communications company that was a relative
15 start-up and two-years in business and we tried to enhance their ability to purchase a
16 building, partnered with Bank of America on that. We've done some loans in the Lee
17 County area that Super Sac, and that's one that we started in.

18 MS. PATTY THORNE: We had a foundry, a Bristol Garment, at
19 Bristol.

20 SENATOR WAMPLER: Mr. Chairman, what I'm getting to, and I
21 guess I see the profile developing. It's folks that probably are in manufacturing and
22 that have a piece of equipment that you can attach a lien to and maybe a boat anchor
23 at the reposition. But, if you have something you can attach.

24 MR. PARSONS: We can subordinate our position to the
25 bank, but you're correct, and that's because that's the way the program guidelines

1 required us to do.

2 SENATOR WAMPLER: What we're looking for, or at least, what
3 I'm looking for, something that's different in the marketplace, something that Cindy
4 or Allen tried to underwrite, it's questionable and it's probably more on goodwill
5 rather than a tangible asset that you can try to sell in the secondary market. That's the
6 niche I'm trying to find and it may only be 50 percent of this fund is used. But, and
7 I'm not sure whether you have the guidelines or whether it's housing and community
8 development or a group of bankers telling us what those guidelines are.

9 SENATOR HAWKINS: That's the niche we need to work on.
10 That creates that incentive for people to create jobs, create businesses and create
11 ownership and create a new level of wealth. To makes those investments that are
12 somewhat on the fringe.

13 MR. PARSONS: I would agree and that's the basis for this
14 recommendation. And that is to have a loan program that is different than anything
15 that is currently out there today from the government's side that we're aware of.
16 Senator, you're exactly right, what we've heard is that they need working capital and
17 that working capital typically does not have strong collateral that you can take, but
18 that's the kind of lending that we need to do and that's what this recommendation is
19 all about.

20 SENATOR HAWKINS: What I'm hearing from you then, is that
21 by working with you, we can use your infrastructure, your expertise, your
22 understanding of the market, but with our guidelines.

23 MR. PARSONS: Absolutely.

24 SENATOR HAWKINS: If we want to put in place certain
25 guidelines, we would adhere to those guidelines as you go through the process. We

1 don't have to necessarily reinvent the wheel to be able to do what we need to do.

2 MR. PARSONS: That's correct. I might cite just a couple
3 of examples. The Small Business Financing Authority had just that occur. The
4 Department of Environmental Quality, about two years ago, came to us and said they
5 wanted to create a loan program and they wanted it under certain guidelines that they
6 created and wanted us to help market it and administer that program. We worked
7 with them, and they set the guidelines for the program and they said how much credit
8 risk they wanted to take, what the approval mechanism would be. We simply
9 supplied the marketing and the lending expertise and the administrative end on the
10 back. We've done the same for the Department of Social Services for the Child
11 Daycare Financing Program. That's the model we're seeking here today.

12 SENATOR HAWKINS: If we can define the geography, we can
13 define the terms.

14 MR. PARSONS: Yes, it's all in your control.

15 DELEGATE DUDLEY: How much control does the Department
16 of Business Assistance have? Is it control or encouraging certain ventures or what?

17 MR. PARSONS: It would really not have any. Our
18 memorandum of understanding between the two groups would outline the Tobacco
19 Commission or however you structure it and whatever power you put into it would
20 control the eligibility requirements and the credit structure. As a practical matter, I
21 report to the Director of the Business Assistance. As far as getting involved in the
22 loan structure and policy there, he is not involved in that, in our loan program today.
23 We have a Board of Directors that are all appointed by the Governor, they have to
24 approve our loans from a credit perspective at the hundred thousand or above level.
25 As we work with the Department of Environmental Quality on their loan program, we

1 set up a biofracated system where we approve it from a credit perspective and they
2 approve it based on their environmental criteria. It's only until both sides have
3 agreed, that the loan is funded. We can set up something similar here and our credit
4 approval can be based on whatever credit structure is developed.

5 DELEGATE DUDLEY: Would this program be similar to what
6 you're doing now. With your Department putting up a certain percentage of funds
7 like the-

8 MR. PARSONS: Well, no, sir. With, like the DEQ loan,
9 we did not put up any money; that money came from DEQ and the same was from
10 Social Services. The financing authority itself has loan programs, but all of those are
11 legislated as to how that money can be used. I don't have a pool of funds necessarily
12 that I can move to do something different. Those monies are earmarked for those
13 programs.

14 SENATOR WAMPLER: I don't know if we've come to the point
15 of discussing what we do with this, but I'd be ready to-

16 SENATOR HAWKINS: I think the point of the discussion is that,
17 how we approach this and it's, of course, very complicated in one way but it should
18 be very simple in another. What we want to do is put in place access to money for
19 fastest track possible to make sure that we create as many jobs and as many new
20 businesses started in these areas that we possibly can with the money available.
21 Having put those criteria down, we do not want to create such a maze of confusion
22 that people walk away from it without having any sort of conclusion as to what
23 business plans may be. I think it's worth our effort to be able to pursue this.

24 SENATOR WAMPLER: I would offer this; one size does not fit
25 all. What may work in Lee County, may not work in Lunenburg. I go to several,

1 community-action agencies in our neck of the woods and have done a very good job
2 at having small businesses. It may be that it might not be what for-profit entities want
3 to get involved with. I think you ought to appoint a committee of our bankers and
4 another person for a little sanity to look at some other options. Perhaps Housing and
5 Community Development should help us develop guidelines and ask for a wider
6 dissemination of whom else might be interested in administering.

7 SENATOR HAWKINS: I think that's a point well made, any
8 more discussion, Joe?

9 DELEGATE JOHNSON: Recognizing that there are no free
10 lunches, I'm sure you are getting or your agency's getting a cut out of the monies that
11 come here. What would that be?

12 MR. PARSONS: In your package from the seventh page,
13 there is a proposed budget. Because we talked about a pilot program, what we had
14 proposed, is basically during that pilot only some marketing expenses, and we
15 proposed \$15 thousand to be used to cover promotion of brochures, printing and that
16 kind of thing. That would only be for the pilot period and the only expense, and that
17 would come from the fund, we would supply everything else. Any of the office
18 equipment and anything like that we would supply as well. Then let's see how the
19 program goes. If the program were to take off, I'm projecting we might need one
20 part-time person to help with the administrative load, assuming we do get, and
21 hopefully a number of loan applications there to handle the increased reporting in
22 billing. There's some money outlined here for the travel, conferences and office
23 equipment, but basically \$40,000. That money works for all of our other loan
24 programs and it's paid through the interest generated in the loans as well as the funds
25 on deposit, so it doesn't touch the principle.

1 DELEGATE JOHNSON: Looking at the proposed operating
2 budget, it says, "...agrees to take on the majority of the financing." What other costs
3 would be in there?

4 MR. PARSONS: We're saying during the financing or
5 during the pilot phase, basically, we would take on everything except this \$15,000 in
6 marketing expense. That means our current FD, our Project Managers, Loan
7 Administration Person, Credit Manager, Credit Analyst, would absorb the additional
8 application volume without expense to the fund. That's what I mean by us absorbing
9 the financial burden. We're willing to take that on, that additional work on in the
10 hopes that this program will take off.

11 SENATOR HAWKINS: Does that answer your question, Joe?

12 DELEGATE JOHNSON: Yes.

13 SENATOR HAWKINS: Without objection then, I want to put this
14 in Special Projects and the reason for that is because the personnel already involved
15 as well as the charge of Special Projects. Lawson, Dudley, Byron, Schewel, Walker
16 Montgomery and Osborne are already on Special Projects. But I would suggest
17 strongly to the two Co-Chairman of this very broad-range committee, add Cindy
18 Thomas and Joe Johnson to the study and bring in some more banking expertise, but
19 I'll leave that up to you to make that appointments. Moving ahead, any other
20 questions? Thank you very much.

21 MR. PARSONS: Thank you.

22 SENATOR HAWKINS: Next we have, Asia Venture Capital
23 Partners.

24 MR. KINCAID: Thank you very much. My name is Tom
25 Kincaid, I'm Project Manager for the Virginia Economic Partnership and pass along

1 regards from Mr. Kilduff and Jerry LaClaire, and Keith Boswell, my team leader. I
2 appreciate the Commission making time available for us this morning. We'd like to
3 offer our thanks to Carthan. Carthan's been very helpful in our work to jointly try to
4 bring more economic development and more job opportunities for the areas of
5 Virginia that are serviced by the Commission. Carthan does a good job and we're
6 glad to have him on our team. He didn't pay me to say that.

7 We do appreciate the chance to make a presentation to you this morning. As
8 far as my work, I market Virginia as a business location for technology companies
9 and additionally have responsibilities for Asia, except for Japan, which is covered
10 very well by my colleague, Terry Lintz. In the course of doing my work with Asia,
11 we helped establish an office there about three years ago, so we have a strong interest
12 in Virginia generally from companies in Korean governmental entities and
13 associations and so forth.

14 I mentioned the two gentlemen here today as friends now, and we worked
15 together two or three years on a project in Fairfax County. Mr. Stein Woo, is
16 Director of the Korea Venture Center, which was established in Fairfax County as an
17 incubator for a Korean Technology Company, small and medium-sized technology
18 companies trying to get started and develop a track record in the United States
19 markets and Canadian and Mexican markets.

20 They have successfully established this Venture Center on behalf of the
21 Korean government, small and medium-sized industry promotion corporation. I think
22 at the moment they brought in nine technology companies to Fairfax County alone.
23 All Korean and all in technology, virtually all start-ups and expect to have about
24 eleven more just in Fairfax County before the end of this year. In this situation, Mr.
25 Woo has since left the Korean Venture Center and established his own company,

1 which is called Asia Venture Partners and works with Mr. Daniel Lee, his associate
2 here.

3 We jointly would like to talk about a venture that we think offers and
4 opportunity for technological development in Southside and Southwestern Virginia.
5 Seems to be a lot of synergy at this point in time. We work very closely with our
6 friends at Virginia Tech. We're trying to help Dave Hudgins in his e58 project. We
7 think these things work together to form a promising future for Southside Virginia
8 and Southwestern Virginia. We're going to make a brief presentation today, and
9 we'll be able to certainly able to answer questions that you have. We're going to be
10 at the reception, we're going to be here tomorrow as well, if anybody wants to
11 follow-up with more details what we're talking about, we'll be happy to do that.

12 SENATOR HAWKINS: Mr. Kincaid, I hate to interrupt you, but
13 do you plan to make the same presentation tomorrow before the full Commission?

14 MR. KINCAID: Yes, sir. At this point in time, I'd like to
15 introduce Mr. Stein Woo, the Managing Director of Asia Venture Partners to give
16 you a little more detail about the project. And I'll fill in a little bit later on the end at
17 the Economic Development side and how much we think the Commission can play a
18 big role in making this a successful venture.

19 SENATOR HAWKINS: Not to interrupt you, but we can have the
20 50 cents show today or the 50 cents show tomorrow. So, it depends on where you
21 want to put your biggest bang for the buck. We do not mind going through the entire
22 presentation tomorrow but if we do that today, we probably don't need a full
23 presentation tomorrow.

24 MR. KINCAID: Whatever will serve you better, it's all
25 the same to us.

1 SENATOR HAWKINS: Makes no difference to me.

2 MR. KINCAID: We'll take as much time as you can give
3 us this morning. We'll jump right into it. How much time would you like for us to
4 take. We probably got ten minutes.

5 SENATOR HAWKINS: Ten minutes, yes, we've got another
6 meeting ahead at 2:30

7 MR. KINCAID: Then, I'll introduce Mr. Stein Woo and
8 he'll talk about the Korean side of the project.

9 SENATOR HAWKINS: Mr. Woo, welcome.

10 MR. WOO: I thank you for the opportunity to
11 introduce ourselves as partners in the State of Virginia (portions of this are not clear
12 to the Court reporter). I briefly will introduce my partner, Mr. Lee, behind this. We
13 have offices in Korea and investments of Capital Funds. The partnership also
14 functions as in U.S. markets. There's an investment in high tech companies, let's
15 discuss some of the companies. Higher price for full marketing in the United States
16 creates concern to enter U.S. markets by the Asian community. We are a leader in
17 performing in partnership to, in order to bring Asian companies – the capital fund.
18 We are making these funds, this will help the U.S. markets and local communities
19 and making partners with local institutions and university, such as Virginia Tech. We
20 are involved with technical companies. This is a proposal for 40 million dollars.
21 Korean government 19 million U.S. dollars, Asia- 20 million dollars. We are asking
22 the Tobacco Commission to contribute one million U.S. dollars to this Venture fund.
23 If the Tobacco Commission can contribute one million U.S. dollars to these funds,
24 Asia Venture Partners will two more, two million U.S. dollars to Southside and
25 Southwest Virginia, which means three million U.S. dollars including one million

1 from Tobacco Commission. Asia Venture partners will be providing technical
2 companies to Southside Virginia. The main purpose of this fund is to provide some
3 to Korean High Tech companies forming a partnership with U.S. and local companies
4 and to invest in U.S. biotech companies, which will bring a business partnership.

5 Some of you might ask me why all this in the State of Virginia? In early
6 2000, Korean government set up a Venture Center located in Tyson's Corner in
7 Northern Virginia and high tech companies entering U.S. market. Bring seven
8 Korean high tech companies conducting marketing in Northern Virginia. Information
9 technology in Northern Virginia and adds backbone structure to biotechnology. This
10 is the reason why there's a strong trend in opportunity of information in Virginia. In
11 Washington D.C., one hundred and seventy four embassies is to enter the market,
12 Southwest and Southside Virginia technology. Officially the Bioinformatics offer the
13 best conditions for Korean high tech companies, providing Korean companies or high
14 tech companies and U.S. at the low costs of Southside an incubator in the market at
15 Virginia Tech and our center is interested. In Korea, as you're aware- Tobacco and
16 Ginseng Corporation. We see a way to change it through the biotechnology sector.
17 Virginia- to assist Korean high tech company setting up this operation to help
18 southwest and make everyone successful. I would like to contribute my effort with
19 Economic Development in Southside and Southwest Virginia along with the mission
20 of the Virginia Tobacco Commission, concentrating on the partnership.

21 SENATOR HAWKINS: Thank you, Mr. Woo.

22 MR. KINCAID: The reason that we first contacted
23 Carthan about this project, first of all it seemed like it was very feasible and
24 something that might be helpful to the State of Virginia, especially to the regions you
25 all serve. When Mr. Woo proposed that the State of Virginia invest a million dollars

1 in this effort, we realize right away that we're not authorized to do that and the State
2 Constitution does not allow us to directly invest in an equity position in companies.

3 SENATOR HAWKINS: We can't either.

4 MR. KINCAID: This has all been discussed with the
5 Attorney General's office at this point to see if there might be some loopholes to
6 accomplish our purpose.

7 SENATOR HAWKINS: So we can go to jail and you don't want
8 to.

9 MR. KINCAID: We'll visit you every Sunday. That's the
10 reason that Carthan was kind enough to receive our inquiry and help us get the ball
11 rolling with the Attorney General's office. At this point in time, there was absolutely
12 no commitment at all, it just was a discussion phase and we had a non-binding letter
13 of interest from the State of Virginia as far as that was concerned. So the reason why
14 you guys are involved, at this point, we think there might be a way to get these
15 million dollars through the Commission, if it can be done legally, of course. That's
16 where we stand with that particular part of it.

17 The fund would be established, as Mr. Woo said, with \$40 million fund. Of
18 which one million dollars would be donated from or contributed by the Commission.
19 The way we view in doing that is that the monies would come from the Commission
20 to the local IDA and EDA's to be controlled by the Commission, you would not lose
21 control of this million dollars at any time, it would be totally under your control at all
22 times. It's not going to the Bahamas or some other off-shore account or anything like
23 that. The money would stay in your control and Mr. Woo said it would be three
24 million, the million from the Commission and two million from the Korean side.
25 Those monies would all be used in areas under the Commission's purview and your

1 control to be used for Economic Development. That's how it works. The monies
2 would go to the local IDA's of Danville, or whatever area and the companies would
3 get the money from the fund, from the Korean side.

4 We're talking right now about Virginia, this is Virginia, and this is the
5 Virginia Tobacco Commission Authority and that's what we're talking about with
6 this particular project. We're a non-profit organization and we can't, obviously, take
7 any monies in and the Commission would presumably would want to enjoy some
8 return on this investment. The idea is (let me have the next slide please), the return
9 on the Korean side would go back to Korea and Asia Venture partners and the return
10 on the Tobacco Commission Investment would go back to the IDA, go back to the
11 local IDA's or EDA's. One of the thoughts we had was to establish a scholarship
12 fund with those returns applied to the training or some kind of university experience
13 for students in the areas under your control. Conceptually, that's how it works, it
14 doesn't take a rocket scientist to understand it if I can understand it.

15 SENATOR HAWKINS: It's an exciting proposal and I think it's
16 something we certainly don't want to take off the table. There are some legal
17 considerations we'd have to deal with. And, having really not an understanding about
18 what we can or cannot do, I'm going to refer this to Special Projects, so they can
19 work out some sort of understanding of what we can deal with, with this.

20 DELEGATE JOHNSON: Mr. Chairman.

21 SENATOR HAWKINS: Delegate Johnson.

22 DELEGATE JOHNSON: I want to ask Mr. Ferguson a question:
23 The recent subcommittees that are studying the non-profit organization exemption,
24 would this be involved in any way in that type of legislation.

25 MR. FERGUSON: My understanding of what's being

1 discussed here, it probably would not. I take it Asia Venture Partners is a for-profit
2 operation and would want to remain such. I think the model, that Tom has suggested,
3 has some potential. It's going to require that funds not be co-mingled, I think it's
4 going to require, as Tom has pointed out control by this Commission on how that
5 money will be expended.

6 Just to take a moment, my initial thought is, if you decide you want to go
7 ahead with something like this, it probably should go to an IDA or EDA. And
8 probably would be postured in the form of the Commission making some sort of
9 good-faith obligation to have in reserve or have available that much money for
10 projects that might be presented to it and then be funded through an IDA or
11 something of that sort, a budget and allocation for it.

12 Obviously, this Commission cannot bind future Commissions, but it would be
13 a way to sort of have that money available, should the proper project come along and
14 one, which otherwise the Commission might be interested in investing in, or funding
15 whether through a loan, grant or whatever.

16 But, it should go through because the ultimate recipient, I take it, will be a for-
17 profit venture as well. It would have to go through, I think, an industrial development
18 authority, something of that sort. That's as far as I've gotten with it so far.

19 SENATOR HAWKINS: These avenues we certainly need to
20 pursue, I certainly hope the Special Projects Commission will do that because I think
21 we need to have as many options out there as possible and working in partnership
22 with the State certainly gives us some options we wouldn't have otherwise.

23 MR. KINCAID: We thank you for your time, and look
24 forward to working with you on the Special Project.

25 SENATOR WAMPLER: So I can understand what the Special

1 Project Committee is going to do, I have to go over a couple of points. Feel free to
 2 tell me if I'm off base on it though. You want us to determine who the partnering
 3 entities might be. It could be multiple partners, I suspect. It may Southside and
 4 Southwest perhaps or one. That we need to perform an element of due diligence with
 5 the proposing entity Asia Venture Partners. We'll have to rely on the partnership to a
 6 large extent to have familiarization with what it is that they propose. I guess the end
 7 result is that you want us to bring back recommendations with a letter of intent, with a
 8 range of something between zero and one million dollars for projects on a case-by-
 9 case basis to examine if that's what we wish to partner.

10 SENATOR HAWKINS: One piece is missing.

11 SENATOR WAMPLER: Use of proceeds, maybe there's another I
 12 missed.

13 SENATOR HAWKINS: Check off with the Attorney General's
 14 office so we can do this. I think that's how we can do it. Is there any discussion on
 15 that, because this is fairly important and we need to have an understanding about
 16 charge, does everyone understand?

17 MR. KINCAID: Thank you very much.

18 SENATOR HAWKINS: Mr. Kincaid, tomorrow, before the full
 19 committee, you might want to give us a brief description of what you want to do
 20 without going into-

21 MR. KINCAID: Whatever suits your purpose and your
 22 time, we'll be glad to do that.

23 SENATOR HAWKINS: Senator Wampler, if you would get from
 24 Carthan-

25 MR. KINCAID: Whatever suits your alls timeframe.

1 SENATOR HAWKINS: Thank you all for coming. Next on the
2 agenda is the Executive Director's report and budget decision and determination. The
3 budget, as you'll see, is one that has been worked on and contains some of the
4 components that are going to be discussed today, the Capital Opportunity Fund is one
5 and there's some other components we need to look at. Carthan, do we have a
6 budget?

7 MS. WASS: It was sent to you; actually, we're
8 working on the draft up on the screen.

9 MR. CARTHAN: Mr. Chairman, based on the Executive
10 Committee's recommendation, made for presentation for Full Commission tomorrow.
11 A few housekeeping issues. I want to take care of some of those items first. We've
12 been working with the Attorney General's Office since the last meeting to prepare
13 draft guidelines for deal closings, we need more time to work with counsel in ironing
14 out some of those details. Therefore, I request we set the current guidelines for the
15 next meeting and guidelines proposed. That's in relationship to the deal closing
16 guidelines we've been working with the Economic Partnership.

17 The last meeting the Commission approved grant distribution guidelines to
18 change-

19 SENATOR HAWKINS: Carthan, do you need a motion on that?

20 MS. WASS: Tomorrow.

21 SENATOR HAWKINS: Tomorrow.

22 MR. CURRIN: I'll sum up those two points, if you'd
23 like. If the Executive Committee would like to make a motion to approve that, that
24 would be helpful. The distribution guidelines we spoke about, those reimbursement
25 issues in the last Commission, those guidelines were approved with the sunset clause

1 of July 1 provide time for the staff to work with the Attorney General's Office in
2 addressing these concerns that they have.

3 The guidelines that were mailed to you reflect some concerns they had.
4 Excuse me, they were mailed to you with the changes from counsel. In addition to
5 distribution guidelines, they have created guidelines for an advance of funds, which
6 addresses cash flow limitations of smaller grant recipients.

7 I request you approve these two guideline requests, one for deal closing, and
8 one for distribution policies that we accepted at the last meeting. The Commission
9 approved several loans last time without approving specific loan terms. Counsel has
10 advised that these loan terms need to be approved by the Commission before funds
11 can be dispersed. In your packets, that you received today, is a summary of the
12 proposed loan terms for these three loans, previously approved by this Commission. I
13 request these general terms be approved and I be given the authority to execute loan
14 agreements with these entities, which of course, working with the Attorney General's
15 Office.

16 SENATOR HAWKINS: In other words, Carlton, you need us to
17 go ahead an okay those things that have already been done in the packet?

18 MR. CURRIN: Yes.

19 SENATOR HAWKINS: In the future, you'd like to have
20 authority, once we have approved the loan, contingent upon certain loan applications,
21 meet certain requirements.

22 MR. CURRIN: To meet the guidelines the Commission
23 has in place, working with counsel.

24 SENATOR HAWKINS: To speed things up, you want the ability
25 to sign off on that.

1 MR. CURRIN: Yes, as you recall, some of those were
2 on a real fast-track kind of emergency situation, and you all approved that pending
3 developing the right framework so we can move forward.

4 SENATOR HAWKINS: The only thing you'd be signing off on is
5 that the guidelines have been met from the paperwork.

6 MR. CURRIN: Yes, sir. I'm not asking that you give
7 me authority to make the loan, or separate loans.

8 SENATOR HAWKINS: Any discussion on that?

9 DELEGATE DUDLEY: Wait a minute; I just wanted people to
10 have an opportunity to speak.

11 SENATOR WAMPLER: Delegate Kilgore picked a great time to
12 leave the meeting because the people sitting here, he would tell you we've received
13 concern over the grant disbursement guidelines as to how they draw the dollars down.
14 Carthan, if you speak to a revised guideline, I'm not sure I find it in this packet here.

15 MS. WASS: The main concern of the Attorney
16 General's Office has, was the fact that someone would be allowed to advance up to
17 twenty five percent of their funds. Steve Sheppard concern was that everyone would
18 ask for the twenty five percent advance. So, it's really more of a matter of defining,
19 more clearly, who is allowed to receive twenty five percent advance.

20 The other disbursement guidelines had to do with dispersing the funds on a
21 reimbursement basis, rather than on an advance basis as we had done last year. When
22 we awarded the grants, the checks went out in full. Some grant recipients are still
23 sitting on that money. The purpose of this was only to distribute the funds when
24 they're needed. They can stay in our bank account until they are.

25 MR. ARTHUR: The deal I saw precipitating this, the

1 reason being was, a local area down here, we gave them a hundred and fifty thousand
2 dollars or so for a project they had to have right now and they couldn't wait. Come to
3 find out almost a year later, they hadn't done it and hadn't used it and they kept the
4 money in the bank drawing all the interest off of it and came back to us and wanted to
5 transfer the funds for another project. Obviously, we could have kept that money and
6 enjoyed the interest rate. There's got to be a way that we can control it so that we can
7 give the money to the people, and it's there for them when they draw it down. They
8 don't get to put it in their bank and keep it and keep interest on that money. We could
9 use it to fund other projects somewhere else. If we get securitization, which we hope
10 to do, that would be a limited set of monies now, not a year-by-year cash flow and we
11 need all the money in the bank we can get. That's the reason I wanted us to keep the
12 interest off the money until they're actually drawn-down by the people that we
13 awarded it to.

14 DELEGATE KILGORE: It says, in looking at these disbursement
15 guidelines, extraordinary circumstances advance funds, reimbursement may be
16 provided what, what do you mean by that?

17 MS. WASS: The advance-

18 DELEGATE KILGORE: In extraordinary circumstances, advance
19 funding rather than reimbursement may be provided. What I'm concerned about is,
20 especially in Southwest are smaller grant recipients and a lot of times they do not
21 have the money to go out and spend and then get reimbursed. They don't have that.

22 MR. ARTHUR: Terry, the way I had talked with them
23 about it, to get a means for these small people that don't have a cash flow up front so
24 they can draw some upfront in order to get the project going. Not to say you've got
25 to have the cash to do business, the way it's intended is that if you don't have that

1 type of approach you can draw down up front. I believe that's the way it was.

2 MS. WASS: There were separate guidelines
3 developed by the AG's office for advancement of funds. Their concern, in our
4 original disbursement guidelines. Just says that any recipient could request an
5 advance and this is setting guidelines on the advances.

6 MR. ARTHUR: Basically, we left ourselves with
7 flexibility to go either way, actually.

8 DELEGATE JOHNSON: If the disbursement is made, no
9 disbursement after one year, subcommittee would review the new application.
10 Suppose the rules of the game changed that year, would they be bound by the new
11 rules or the old rules or should we put some grandfather clause in and say that those
12 that, those where there was no reason at all, say the project has been delayed.

13 SENATOR HAWKINS: Do we have any that fall in this category,
14 Carthan?

15 MS. WASS: There were about two or three grantees
16 that, after one year of the award, either had not met the contingency or had not used
17 the funds yet. All this was adding some type of language to say that, Southside
18 Economic Development Committee that shows that after one year, those applications
19 would be reviewed again and decided whether to be extended or whether to be
20 withdrawn or what the status was after one year.

21 MR. ARTHUR: Twelve months without any action
22 whatsoever, required us to look at the application again and see if it still meets the
23 same criteria, originally, not new. Just make sure the application, still, after twelve
24 months, and no action.

25 MR. FERGUSON: Mr. Chairman, if I might clarify a little

1 bit, these guidelines, and Stephanie has actually worked on them more than I have,
2 but these are intended to help put into language what we understood the direction of
3 the Commission to be. These are not necessarily legal requirements, they aren't in
4 because the law requires you to have these guidelines, or these kinds of guidelines,
5 and these specific guidelines. It's only our effort, along with Stephanie, to do what
6 we understood-

7 So, if you have a different view how you want it, that's fine, we can work on
8 that. Two or three major points that Carlton or Stephanie pointed out. One, they
9 don't just sit there forever with no action being taken, as Mr. Arthur point out.
10 Second, if they wanted to essentially go to a reimbursement basis for the grant awards
11 as opposed to an up-front payment of the awards. Secondly, and lastly, I guess to
12 provide for a situation where an advance award might still be needed or appropriate.

13 It does, as Mr. Arthur said, intends to do all of those things and, at the same
14 time, maintain maximum control within the Commission how those monies are
15 dispersed.

16 SENATOR HAWKINS: Any other questions? My understanding
17 then, Carlton, what we're planning to do with this recommendation is to put in place
18 those guidelines that we have already basically been working from except adding
19 some finality to the project. If something lays dormant for twelve months, that we
20 would go back and look at it and make sure that it's still viable. Having an end
21 course available to us.

22 MR. CURRIN: We are trying to incorporate those
23 changes that the Attorney General's office recommended.

24 DELEGATE DUDLEY: I think we're doing a whole lot more
25 now, and I'm not opposed, but I think when you go with the reimbursement system,

1 you're making a dramatic change. One question, I guess, when will these go into
2 effect, immediately upon approval?

3 MS. WASS: We currently have guidelines that were
4 approved at the last meeting, the sunset clause is July 1.

5 MR. CURRIN: For the monies you just voted on in
6 April, to grant.

7 MR. FERGUSON: And those were under reimbursement,
8 were they not?

9 MR. CURRIN: That's correct.

10 SENATOR HAWKINS: Stephanie, what we're doing, other than
11 removing the sunset provision in the guidelines, and what else are we adding to what
12 our policy is now?

13 MS. WASS: The only thing, we're cleaning up the
14 language based on the Attorney General's advice and add the phrase that was
15 discussed at the Southside Economic Development Committee to say after one year
16 no activity that Frank just gave.

17 SENATOR HAWKINS: That's the only new policy decision that
18 was discussed today?

19 MS. WASS: Yes.

20 MR. ARTHUR: There's one other thing we're finding
21 out and trying to do on what good fiscal policy is. In the final analysis, a lot of these
22 projects don't use all the money. If we go out and give cart blanch and give you a
23 check up front, we have not really controlled those funds until they're used. We get
24 some requests coming back from Southside that wants to divert monies to be left over
25 because it didn't cost as much as they thought.

1 All I want to do is to make sure that our monies are all being used and the
2 projects that we designated that to go for. And not leftover somewhere sitting in the
3 bank drawing interest for other people.

4 SENATOR HAWKINS: Delegate Kilgore.

5 DELEGATE KILGORE: I agree with that one, but we're going
6 from here to here really quickly. Have we thought about going to maybe like a 40,30,
7 30 disbursement? Forty percent up front and then 30 percent next stage and then 30
8 percent, to 40-30-30 type of reimbursement.

9 MR. CURRIN: Whatever you all direct us to do. We
10 were following your direction at the last meeting, up to 25 percent; they can apply for
11 that much money in total grant. We felt that was enough cushion to get them started.
12 I recognize what you said that some of the smaller grants in these jurisdictions don't
13 have the ability necessarily to put everything in place.

14 MS. WASS: The other thing is that when we say it's
15 being done in a reimbursement basis, a lot of these construction projects, they will
16 have invoices that they don't physically have to pay for some time. They can submit
17 those invoices and we will pay off of those invoices. They actually may receive
18 money before they actually are paying anything out.

19 DELEGATE KILGORE: I guess that's what I'm worried about,
20 the word "may." "May receive the money before they have to pay out." I don't
21 know, maybe not to you all, but I'm just concerned that some of the people that we're
22 trying to assist, the smaller, some of the smaller counties and smaller IDA's may not
23 have these monies to. They may get to a building situation and may be five hundred
24 thousand on an IDA part to build some building and they're trying to hustle along and
25 do these things and only get twenty five percent of it. I just see some problems.

1 MS. WASS: If it's construction projects, they're
2 probably asking, it's an easy one to do. Contractors are used to not being paid
3 immediately and they usually give an invoice well enough ahead of time to make sure
4 payments are made.

5 MS. HAMLETT: Delegate Kilgore, I'm the one that
6 actually worked on the revisions to the guidelines to try to implement what was
7 discussed at the last meeting by looking at the minutes. I guess it won't come to
8 anybody's surprise that I have been in the shoes of the grant recipient/applicant as
9 well. So, one of the things I tried to do, wearing the AG's hat, was that I put, "at the
10 Commission's sole discretion," over and over again. So that you would have the
11 ability to look at something and decide if this does have the merit to get it ahead of
12 time. It wouldn't hamstring you into having to do something one way or the other by
13 somebody saying, "here are the exact guidelines and you don't have any discretion."
14 So, that's why it says, "the sole discretion." The twenty five percent was discussed,
15 but there's language in there about extraordinary circumstances and that's really
16 beyond the 25 percent.

17 Exactly what I was thinking of was, Virginia Heartland, could not have
18 purchased the land upon which the facility is to be built if the Commission had not
19 been willing to give them all the money up front, because it requires that to purchase
20 the land. So, when it says extraordinary circumstances, it might not have been
21 drafted that way but that was meant to be a hundred percent.

22 In other circumstances, twenty-five percent might be right, or fifty percent. I
23 just wanted you to know. And, as Frank pointed out, we're just trying to draft
24 parameters.

25 DELEGATE KILGORE: I understand.

1 MS. HAMLETT: I want to say, I know where you're
2 coming from, we don't have any capital and we need all the money and it tried to pick
3 that up in there.

4 DELEGATE JOHNSON: Mr. Chairman.

5 SENATOR HAWKINS: Yes, sir.

6 DELEGATE JOHNSON: On page one, the first page, paragraph
7 two at the bottom. One year, to the date, of the original grant award. What date are
8 we talking about, the date that it was approved by the Commission or the date that it
9 was-

10 SENATOR HAWKINS: Approved by the Commission, because
11 that's when time, or the clock, starts.

12 DELEGATE JOHNSON: And, it's not been used and no
13 disbursement, the award shall be subject to review. What does review mean? Is there
14 a difference between review and approval?

15 MR. CURRIN: The two subcommittees, my-

16 SENATOR HAWKINS: My understanding, Delegate Johnson, is
17 that it's been approved. The review is to make sure the application is still viable and
18 taking into consideration twelve months had transpired since any action had been
19 taken on this, that the situation that was there still is a viable option and meets the
20 criteria.

21 DELEGATE JOHNSON: What happens if it's determined that it's
22 not, what happens? That's more than a review.

23 MR. CURRIN: When we said review, we meant the two
24 subcommittees for Economic Development. We take it back to those committees
25 where the grant originated.

1 SENATOR HAWKINS: Let me make an announcement. The
2 2:30 meeting of the transportation will be held in the south side meeting room right
3 next door, down the hall and to the left, for those that are here for the subcommittee
4 meeting on Senate Transportation. Okay, Allen.

5 DELEGATE DUDLEY: Mr. Chairman, I side with Delegate
6 Johnson. This is exactly the same thing that the state does with every appropriation
7 that is approved. Non-state has to meet certain guidelines-

8 SENATOR HAWKINS: There has to be some finalities or
9 something. We don't have any way of closing, any other discussion?

10 SENATOR WAMPLER: Very quickly, Mr. Chairman, if I've
11 heard the discussion correctly. If there are circumstances where an applicant needs
12 more than 25 percent draw, an initial draw, the Commission would look favorable
13 upon it if it was justified to include meeting- I think that's what I heard around the
14 table. Who approves that? Who has the discretion to consider that other than our
15 Director? Is it his job?

16 SENATOR HAWKINS: His job, I think it comes under. The
17 thing we're trying to do, I think, is put in place, as fluid a situation as possible without
18 creating problems.

19 DELEGATE KILGORE: Mr. Chairman, I'm more comfortable
20 with Carthan, somebody making that decision, rather than waiting on the full
21 Commission or the Executive Commission. I want to make sure somebody has the
22 authority to make that.

23 SENATOR HAWKINS: Is that understood, Frank?

24 MR. FERGUSON: It's actually the last paragraph in there.
25 I'm sorry, I think Stephanie was going to say the same thing, in the grant guidelines,

1 the advance of funds. It's the Commission's decision to delegate the authority to
2 make the decision.

3 SENATOR HAWKINS: It's the Executive Director. Carthan, are
4 you comfortable with that?

5 MR. CURRIN: Yes, I would certainly concur with-

6 SENATOR HAWKINS: There's a motion.

7 SENATOR RUFF: Second.

8 SENATOR HAWKINS: All in favor say, "Aye." (Aye's)
9 "Opposed?" (No response.) So we have adopted the guideline for recommendation of
10 the full Commission.

11 DELEGATE JOHNSON: So we have preserved that if there is any
12 question, we can look back at what we discussed.

13 SENATOR HAWKINS: Once an attorney, always an attorney,
14 right?

15 DELEGATE DUDLEY: The announcement that the
16 Transportation meeting will be held somewhere else, or do we continue on?

17 SENATOR HAWKINS: Probably, it would be to our best
18 advantage to continue on and I may have to relinquish the gavel for a timeframe, but,
19 yes. Next.

20 MR. CURRIN: The next slide-

21 SENATOR WAMPLER: I'm sorry, Mr. Chairman, I didn't hear
22 consideration on the loan terms. You just did the grant guidelines?

23 SENATOR HAWKINS: We did the guidelines.

24 SENATOR WAMPLER: Did we take a, do we need to take that
25 in-

1 MS. WASS: I think the full Commission needs to
2 take that action.

3 SENATOR HAWKINS: You want to make a recommendation?

4 MS. WASS: They're in the packet and they were
5 mailed to you and in the packet. There are three loans and some of the specific terms
6 were not laid out when the loans were approved. In working with some of those
7 recipients, we drafted general loan terms and the AG's office advised us that, because
8 there were no terms specified when the loans were approved, it needs to go back to
9 the full Commission for approval.

10 SENATOR HAWKINS: We approved that which we said we
11 would approve.

12 DELEGATE DUDLEY: Our customers would love to work out
13 loan terms-

14 SENATOR HAWKINS: Well, your customers, obviously, don't
15 have the need that my customers do. These loans were contingent upon certain
16 criteria being met.

17 SENATOR WAMPLER: One quick question, Mr. Chairman.
18 With Lenowisco, I'm assuming that, if there are no gross revenues, that it's a zero
19 percent loan with no payment due until such time as revenues are generated. If you
20 don't have revenue you can't pay, maybe I didn't understand that.

21 MS. WASS: Repayment is from gross revenues. The
22 main thing we added was some type of repayment begins within five years.

23 SENATOR HAWKINS: We're trying to be reasonable. The
24 business of this Commission is to put in place opportunities for areas we represent.
25 And, to do that, we've got to do things a little differently than some other people do,

1 any problem, any discussion?

2 Recommendation of the full Commission will be positive, do you want a
3 motion to that? It's been moved and seconded that we recommend to the full
4 Commission that we adopt the authorization to the three applications that are before
5 us: Halifax, Pittsylvania and Lenowisco. All those in favor say "Aye" (Aye's)
6 "Opposed?" (No response.) Thank you. Carlton.

7 MR. CURRIN: Member of the committees, to bring you
8 up to date on the national MSA prepares a forecast analysis. Annual totals-

9 SENATOR HAWKINS: Carlton, I hate to interrupt you, but
10 we've got people here from Southside and Halifax and we've got another meeting
11 starting in about thirty-five minutes. Let's get to that part of it, if you don't mind, so
12 that they will not have to spend their life here listening to this.

13 Skipping over then to the Southside and Halifax and the Prizery Renovation
14 Project. They were looked at, I believe, Senator Wampler.

15 SENATOR WAMPLER: No, sir, I don't think.

16 SENATOR HAWKINS: Okay, I understand at one time, we made
17 a loan for a renovation project. Regardless of what we do with these projects, I think,
18 in my own mind, we need to have a better understanding of economic impact of these
19 types of investments, particularly when it comes to museums and other projects along
20 those lines. Our primary charge, is jobs, and trying to develop some economic
21 opportunities. Having said that, and I understand full well, there's been discussion
22 going on dealing with museum projects and particularly in South Boston. I'll turn it
23 over to Senator Ruff for an explanation of that.

24 SENATOR RUFF: Mr. Chairman, in the application of \$50
25 dollars from Halifax, in the Southside meeting, the decision was made because there's

1 no state funds to fund a hundred thousand. When we met, prior to the committee
2 meeting in Roanoke, there was some question as to whether we should have increased
3 the amount of the original proposal.

4 At that time, we sent it to the Executive Committee to make a decision on
5 whether it should have been fifty thousand or a hundred thousand. I was very much –
6 we have not, in the past, been in the habit of doing museums. We made an exception
7 with Burkeville Museum but I do not see how we can divide a line between Burke
8 and South Boston to fund one and not the other.

9 SENATOR HAWKINS: I think the line has to be drawn today. I
10 certainly will support your recommendation based on track record and history of what
11 we've done in the past. But until we have a better understanding of the investments
12 we're making in these museums, long-term, I think we need to understand that
13 museums unto themselves are not bad investments but I'm not real sure the financial
14 restraints we're working under that we can underwrite museums throughout the
15 Commonwealth with these tobacco monies. It does not put in place the jobs that we
16 have to have in place to create these economies that we have to. So, I would strongly
17 recommend to the full Commission tomorrow, that we put in place with looking at
18 how we're funding studies, museums, and all the things that are around the peripheral
19 of our decisions, what our policy is.

20 I will also recommend, number one, that studies would be one of the things
21 that has to have some sort of base rule before we fund a study. Museums, by just the
22 nature of the museum, we need to put all that on a side track until we finish up our
23 first charge, which is economic development.

24 Having said that, I think there is precedent, and there has been a move in the
25 past. I would second the motion, Senator Ruff, on fifty thousand dollars, with an

1 understanding that I will not support any more museum monies until we have a better
2 understanding of the economic impact. Any other comments? Anyone from Halifax
3 like to make a comment?

4 MS. BASS: I'm Barbara Bass, and I would like to
5 make a comment. I'm a full-time volunteer at the museum that you're talking about.
6 I would like to, and I understand all these critical things, and I also firmly believe
7 that, whether industry or business looks at Halifax County and wants to come in. The
8 families of those businessmen are also looking at cultural activities and education in
9 that community. We do think we are quite an asset to the community. There's not a
10 bookstore in the county and we need to have a bookstore. We have a bookstore at the
11 museum which is historical. So I think we have a lot to offer, and I hope you will
12 consider that.

13 SENATOR HAWKINS: Ms. Bass, the quality of life issue, and
14 museums add to the quality of life which makes it attractive as a community. The
15 problem we're running into is that when we start funding museums, we open an
16 entirely different investment that we have not done before and there's no end to it.
17 Because every community that has a museum would have a claim to these monies
18 then. Without some understanding, we cannot go down that road without some end to
19 it. This is a project that has great merit to Halifax.

20 Let me tell you, Senator Ruff has sold you case very strongly.

21 MS. BASS: We appreciate anything.

22 SENATOR HAWKINS: Delegate Hogan has been there in the
23 forefront talking about it and we all understand the importance of this project. I want
24 to say, from my own viewpoint, I don't want to see the Commission underwriting
25 museums throughout the State of Virginia.

1 MS. BASS: Thank you for your time.

2 DELEGATE DUDLEY: These came through Economic
3 Development in Richmond.

4 MS. WHITE: Senator, I'm Kimberly Slayton White,
5 and I live in South Boston and I work here in Danville. I would like, if the
6 Committee wouldn't mind, for the next three or four minutes to listen to Christopher
7 Jones, the Executive Director of the Prizery, in South Boston. I think you will hear
8 that the Prizery is not just a museum. I certainly support what's being done for
9 Halifax Museum of Art and History but I'd like you to hear what the Prizery project
10 actually is, if you don't mind.

11 SENATOR HAWKINS: No, it's an opportunity. And, as a matter
12 of fact, Senator Ruff took me on tour of the Prizery, so I'm aware of it. I don't want
13 to deprive anyone of an opportunity to make their case before the Commission, the
14 problem is, I'll not be here to hear it, I have another meeting. We want to wrap up one
15 before we get to another.

16 DELEGATE KILGORE: I thought we made a motion, Halifax
17 fifty thousand for the museum.

18 SENATOR HAWKINS: Motions been made an seconded. All in
19 favor say, "Aye." (Aye's) "Opposed?" (One in opposition, Delegate Dudley.)

20 SENATOR HAWKINS: We'll have to hear from-

21 MR. ARTHUR: These projects we know and see can be
22 great projects for the community and we want to fund economic development projects
23 and efforts. That's why I wanted you all to, if you just wanted to kill, I wanted you to
24 look at it because, and decide at this level, what to do with it. Feeling that we're
25 aware of the project but not economic development.

1 DELEGATE KILGORE: I understand, thank you, Tom.

2 MR. JONES: The Prizery is next door to the Higher
3 Education Center, an area in beautiful South Boston. We're basically partners with
4 the college. And, in talking with Longwood, and in some degree, the President of this
5 facility, we're able to seat about 350 for banquets and church groups and business
6 groups. This space divides into three compartments, three different meetings. It will
7 be used by the college for large groups. They don't have the space next door in the
8 college for groups over fifty people and this building with supply that.

9 The first phase of our construction, we go out for advertising for contractors
10 on Sunday. The first phase will hopefully begin by summer. The first phase is the
11 Welcome Center. The Town of South Boston and the County of Halifax are getting
12 ready July 1st, I believe, to hire a Tourism Director. And that person will be housed
13 in this facility. Tourism is very important to Southside and it's getting ready to
14 explode with VIR and the Berry Hill Conference Center. And, we'll be able to let the
15 public know about those facilities.

16 There's a three hundred-seat theatre in this building and that doubles as a
17 Lecture Hall for the college next door. This will have long distance learning
18 capabilities that will be out of the facility. We'll be able to beam into the facility and
19 the college is going to use this space. It will also be used by local arts groups, music,
20 theatre. Most important is the Lecture Hall, education aspect of this space.

21 There's also a high security art gallery, a small gallery that will be part of the
22 museum to bring art to Halifax County and South Boston. We have classroom space
23 for art, for dance, and for music.

24 We believe this project, and if you look at where we're located, it's pivotal to
25 the continued revitalization of downtown South Boston and the college is the

1 mainstay there. We're the sister building and we're the sister project that's going to
2 keep South Boston going forward rather than stagnating, any questions?

3 DELEGATE KILGORE: What's the proposal, what's the request?

4 MR. JONES: The request was for \$800,000 to begin
5 design for Phase II and III. Phase II and III allow us to put in steel. Let me explain
6 Phase I. Phase I is the Welcome Center, reforming the brick, replacing the windows,
7 shoring up foundation. That's Phase I. That's a million eight eighty. Phase II and
8 III, we want to couple together and that will be the steel for this space and to finish
9 off the community space so that we can use it as rental to generate income to keep the
10 place going and that's what we need the money for.

11 The \$800,000 would help us to finish Phase I. We have a million five right
12 now. It would allow us to go back to the architect and design II and III.

13 MS. THOMAS: You have a million five now?

14 MR. JONES: Yes.

15 MS. THOMAS: Where did those funds come from?

16 MR. JONES: Transportation Fund, Federal Funds.

17 MS. THOMAS: When you got those funds, was Phase II
18 already planned and in process?

19 MR. JONES: We had a general, overall design from
20 the architects. Yes, we knew what we were going to do with the entire building.

21 MS. THOMAS: What was your contingency plan for
22 getting those funds at that time?

23 MR. JONES: We were going to start a capital
24 campaign at the end of this summer to get the rest of those funds.

25 MS. THOMAS: Is that still in the plans?

1 MR. JONES: Yes, we're in the process of hiring an
2 Executive Director by the end of the summer. This has been all done, six years of
3 work, all by volunteers. All by volunteers in South Boston and Halifax community.
4 We think it's very important to the quality of life and bringing in industry in the area.
5 There is no community space in South Boston, this is it. We've turned down eighteen
6 applicants this spring and summer because of the impending construction. Eighteen
7 folks at \$350 a pop for this community space. We're going to keep it at \$350 or
8 \$400, or somewhere in there so that's it's available to the community, and that's what
9 this is for.

10 Berry Hill, of course, has a wonderful conference center, but that's not for our
11 community. That's for a larger piece. Our community folks will be able to use this
12 constantly. It's also an art center and there are art things attached to this, but the
13 community aspect is the big piece for us.

14 DELEGATE KILGORE: What was the discussion at the
15 committee, the subcommittee level?

16 MR. ARTHUR: At the subcommittee level, we basically,
17 Senator Ruff put in a real hard push for it, and I'll give him credit for that. But,
18 basically, we looked at it as an Economic Development project and we couldn't
19 recommend and it was simply voted to pass it up above because of the quality of life
20 deal and also because the quantity of the money, to let us make a further decision.

21 DELEGATE KILGORE: Frank, tell me why?

22 SENATOR RUFF: Mr. Chairman, you know, Chris has
23 done a good job of telling you why. The reality is that, Mecklenburg County is the
24 only county that's exceeding Halifax County right now in unemployment. By the end
25 of June, both of them will be over fifteen percent unemployment. There has to be a

1 lot of things going on to change the environment that we have. I wish I could sit here
2 and say this is a thing that we've got to do and get on my knees and beg. But, at this
3 point, I don't know how we can go back to the South Boston community and say we
4 can't approve jobs because we put the money in the project. That's the dilemma I
5 have. When you can answer that question to these folks, I would appreciate it.

6 MR. JONES: I think there's a critical mass starting to
7 happen in Southside and I think South Boston plays a big part of that, and a big center
8 of that. The Higher Education Center on the river, on the Dan River, is the most
9 amazing thing that's happening down there. The parking lot is full every single day.
10 They're actually going to go ahead and build a parking lot in front of us because they
11 need the space. This is a companion piece to that.

12 This has education, this has community development, this to me, is the heart
13 of the community. This will enhance what people look at when they decide to stay in
14 South Boston.

15 If people keep leaving and don't do things, and if we don't do things to bring
16 people in, what's the point? A small town, sir. This could be a bedroom community
17 of Raleigh in ten years, if the road ever gets four lanes all the way into Durham.

18 I can't say to you that we're going to create twenty, thirty, forty jobs, we're
19 not. But we are going to provide a wonderful space for the community to come
20 together and have some education possibilities. Tourism, the Tourism Director,
21 hopefully, in this space, can start working with VIR. A lot of things can happen
22 because of this. Whether or not they're going to happen, I can't predict that. But, to
23 me, it has great potential to enhance South Boston, to enhance this area coming into
24 the city.

25 SENATOR RUFF: You make a great case for that. But the

1 doctor over here a few minutes ago, made a great case for Virginia Tech. But we
2 have an immediate problem right now in that community that we have to address the
3 best way that we can. There are several ways we can, but the best one is to create jobs
4 quickly. That is the meat and the other things are around it. You did a good job.

5 MR. JONES: I believe in your partnership with us that
6 an industry that's going to come into that Burlington plant in Halifax, and that
7 Burlington plant in Clarksville, or the JPS plant in South Boston, is going to say this
8 is a vital community. They care about things of the heart, they care about their
9 community. I think that is vital to bringing in industry. I know other things have to
10 be looked at, but I do believe it's vital.

11 SENATOR RUFF: I agree with you, but the question is, and
12 that's the job of this committee, I guess, Commission is to decide, which is a higher
13 priority. Does the industrial development, would they be better off with cash to be
14 able to do something with the Burlington plant to make it right for the next, with the
15 proposed industry, or this. And that's the question before this committee, Mr.
16 Chairman.

17 DELEGATE KILGORE: Thank you. Would you give us your
18 name?

19 MS. BASS: I'm Tamera Bass, Town of South
20 Boston. With this project, there's a lot on the application to put for regional tourism.
21 That's one of the things we felt the Prizary fit. The Prizary fit very well with the
22 Tobacco Commission. You can't get any more regional tourism than the Prizary. I
23 think for future applications, you need when you make decisions, to make sure that if
24 you decide not to fund regional tourism, take that block off. But, for the applications
25 that have been put in, it's regional tourism. I want to make a point that was on the

1 application as far as a category. And, it doesn't look like you're funding any regional
2 tourism projects, but that was a category to ask for money.

3 SENATOR RUFF: I don't disagree with that, and I think
4 that is a valid reason. The question is setting priorities at this point. Just so there's no
5 misunderstanding that I support the project, before I represent Halifax County. And
6 when I was still in the House of Delegates, I did push with the Commonwealth
7 Transportation Board, so that's not the issue. It's not the issue whether or not it's a
8 good program. It's a question of best use of the money at this particular time.

9 MR. JONES: I appreciate the opportunity to educate
10 this committee on this project. Whether you can help us, or help get somebody down
11 the road to help us, we do appreciate the time.

12 MR. ARTHUR: Mr. Chairman, I don't have a vote here,
13 but I did have a vote in the other projects in bringing it up to you all because I did feel
14 that it was a quality of life issue that really needed to be considered. But I don't
15 believe, and I still don't believe, and you did a fine job, but that's what we're charged
16 with right now. We need jobs. I think \$800,000 can be spent better in deal closings,
17 or whatever, but jobs in Halifax and South Boston. And these funds should be
18 coming from some place else.

19 DELEGATE KILGORE: Any member of the committee or any
20 others have any questions? If not, I guess we can discuss it tomorrow at the full
21 Commission meeting with no recommendation. Is that where we're going, Senator
22 Ruff?

23 SENATOR RUFF: No recommendation.

24 DELEGATE KILGORE: All right. Next on the agenda-

25 MR. MORGAN: I'm Joe Morgan, Halifax County

1 Administrator and the fella' that knows about the Barn Conversions is our extension
2 agent, is Larry McPeters, he's up here in the green coat and he can probably tell you a
3 whole lot more about it than I can.

4 DELEGATE KILGORE: All right, that's where I was going next.

5 MR. LARRY MCPETERS: Gentlemen, it's nice to meet you, and
6 I've heard a lot about you. I'm Larry McPeters, County Extension Agent of Virginia
7 Cooperative Extension in Halifax County. I don't know where to begin, but the Barn
8 Conversion Program, we're talking about jobs. We will lose jobs, and the jobs that
9 we may lose may be some of our tobacco farmers.

10 Barn Conversion would be more of a retention type of grant. I know there's
11 been some criticism from the farmer as to why they did not participate in the grant
12 program from the Stabilization Corporation before. I'd like to talk to a lot, and what
13 we're talking about here is limited resources and farmers. A lot of those farmers are
14 black. We're talking, essentially about a hundred and thirty people here that need to
15 convert the barns in Halifax County. Without the converting of barns, they will only
16 be able to get fifty percent price support on the tobacco they sell in public warehouse
17 markets which would be Danville and South Hill, stabilization operated warehouses.
18 They cannot get a contract without converting the barn. Now, I've asked a lot of
19 them, a I mentioned before, why didn't you participate in the grant program? And
20 many of them only have three and a half to four acres and one barn. The income or
21 the grant proportion it costs to convert a barn of three thousand or four thousand was
22 not really a big issue at that time. The buyout was on the table, and we read about it,
23 and they heard about it.

24 DELEGATE DUDLEY: Would you explain a little bit about the
25 other grant program percentages and how does that work?

1 MR. MCPETERS: There was a Barn Conversion program,
2 funded by the Stabilization Corporation and some tobacco customers, that ended June
3 30, 2001. The purpose of that program was to lower the nitrosomene level in the
4 tobacco that can cause cancer.

5 DELEGATE DUDLEY: What about dollars?

6 MR. MCPETERS: The first year, it was only six months the
7 program came into effect, but it was fifteen cent a pound for your quota. You would
8 get as a grant against the cost of conversion of the barn. Most people have gas barns,
9 and gas barns at that time, cost \$3800 to \$4500 a barn to convert. After July 1, 2000,
10 the percentage dropped to thirteen cents a pound assistance, as far as grant money, to
11 help you convert your barn.

12 For instance, a limited resource farmer with six thousand pounds and multiply
13 that by about thirteen cents, he would have that money going against a \$4000 bill to
14 convert, does that explain it?

15 DELEGATE DUDLEY: One time?

16 MR. MCPETERS: Yes. That program ended July 1, 2001,
17 June 30th, actually. What's happened since then, in Halifax, is that we have a lot of
18 farmers, of the hundred and thirty that indicated they had an interest in actually the
19 grant program. They lost their jobs with JPS converter or Sales Knitting or
20 Burlington and three hundred more people are going to hit the street around July 1 at
21 Burlington. Either, they lost their job as part-time farmers, or their spouses lost their
22 jobs, tobacco's going to be their source of income. And, in a lot of cases, that's all
23 they've got because they don't have anywhere else to work. So, it's very critical now
24 that they turn back to tobacco.

25 Halifax County's largest employer, right now, is agriculture, believe it or not,

1 over twenty percent of the total employment. So, these are some reasons that this
2 grant program is important to keep people farming. It's a hardship for them to pay
3 thirty-five hundred dollars to convert a barn on their own when they don't have a job
4 that they had and they don't have six thousand pounds of tobacco, it's real tough to
5 do that.

6 DELEGATE DUDLEY: Is it your proposal, then, to give some
7 money to do that?

8 MR. MCPETERS: Under the current proposal, and again,
9 I've been brought in on the tail-end of things, but I believe this group may have
10 talked about a loan, even a low interest loan. I think it was 50/50 to grant a, under the
11 original grant, it was 50/50 cost.

12 DELEGATE JOHNSON: More than the staff recommended, not
13 being a grant program, be a loan program, no interest, or very low interest, perhaps
14 Economic Development program to the farmer. I think part of the reason the
15 Executive Committee-

16 DELEGATE KILGORE: Tom.

17 MR. ARTHUR: When this came before the Southside
18 Economic Development Committee, we rejected it as a basic grant because the
19 farmers basically had the opportunity to get involved in a program to convert their
20 barns and chose not to. Therefore, we recommended, at this point, perhaps we
21 develop some type of loan program rather than just make it an out and out grant.
22 That's why you all are seeing this thing. Because a loan situation would have to be
23 worked out that we haven't done before. We chose to reject it as an out and out grant.
24 I guess some people wish I wasn't here today, but this is the way we chose to do it
25 rather than a grant because people chose not to participate in the original grant

1 program by poundage and what have you.

2 I understand the small farmer, with two or three barns and only eight acres of
3 tobacco might not do it and afford to do it now and don't. And we certainly want to
4 keep them farming. But we still need to look at this some other way other than just
5 an out and out grant.

6 DELEGATE KILGORE: How is this related to that? We gave
7 them some money a year or two ago, two million dollars. How does this relate to, do
8 we know?

9 MR. MCPETERS: I can answer that. That installation cost
10 doesn't pay for the pad the barn sits on. Economic Development helped to get the
11 barn set, helped get the converted barns on the farms, and yaw'll paid for the pad.

12 MR. ARTHUR: Mr. Chairman, I was approached by
13 several other counties that were licking their chops, if you make this a grant, they're
14 coming after you too for farmers that didn't convert their barns. I know Pittsylvania's
15 sitting back just waiting to see what's going to happen. You need to think about it.

16 DELEGATE JOHNSON: How much money are we talking about?

17 MR. ARTHUR: \$312,000 just for Halifax.

18 DELEGATE JOHNSON: How much do we have to spend?

19 MR. ARTHUR: I think we're down to 212 now.

20 DELEGATE JOHNSON: A million dollar loan without interest.

21 MS. THOMAS: The concern I have, when we address
22 these barns, with only limited acreage that the farmers are farming. And, it appears
23 where there's crunching of the contract type of agreement with the tobacco
24 companies, do these farmers have sufficient contract agreements where they will
25 continue to farm. If not, are we putting money into a barn that they're not even going

1 to use?

2 MR. MCPETERS: A couple of more comments, if I might.
3 The fact that every other county is licking their chops. Halifax County, according to
4 the U.S. Census for Agriculture in 1997 and that's the last one that we have, we have
5 more small farmers, tobacco farmers, than any county in the state. If you look at the
6 area of Pittsylvania County, you might think that they would, but actually looking at
7 the small farmers, small with limited resources, tobacco farmer. There's a hundred
8 and sixty in Halifax and there's only sixty in Pittsylvania. The point there is that we
9 have a lot more smaller farmers than most counties. Even Mecklenberg, we've got
10 more small farmers, their operating units are smaller, which creates a situation where
11 there's limited resources as far as income and ability to pay for these things
12 themselves. Yet, that farmer's employing that person that's supporting that family.
13 There's been a lot of people in Southside and Southwest Virginia, got college
14 education's off of tobacco and you all know that.

15 One point I'd like to make about contracts. Philip Morris has contracted
16 Burley Tobacco. They told me they've contracted with as little as one fourth of an
17 acre. So, if we can get these people converted, where they have a barn, they can get a
18 contract. You have to have a converted barn to get a contract, and that will hold an
19 opportunity for them to actually stay in businesses longer and be productive farmers.

20 MR. ARTHUR: Where's your cut-off going to be, are you
21 going to say you have to have two thousand pounds or less or five thousand or less or,
22 how are you going to tell a big land farmer we're not going to convert your barn
23 because your too big. Your talking, and my heart goes out to these farmers, we want
24 to keep them, but you got to cut it off somewhere or you're going to discriminate.

25 MR. MCPETERS: What we've done in Halifax is we've

1 mailed every tobacco grower the opportunity to participate in the grant and there's a
2 hundred and thirty, what we got back. They have top priority as far as the grant of
3 money.

4 DELEGATE JOHNSON: What about the big growers that have
5 already converted?

6 DELEGATE KILGORE: We've got to bring this to close here.

7 MS. THOMAS: I know it's a concern. A lot of them
8 have already converted, would you reimburse me for my cost that I've already
9 dispersed?:

10 DELEGATE KILGORE: That's a good point and I'm a little bit
11 worried about that myself. If I follow the rules, however it came out and I said I'll
12 stay in tobacco and go through the program and then now, we come back out and
13 have a loan or whatever, you're going to have some comment. I'm sure you're going
14 to have some comment some about that.

15 SENATOR RUFF: Mr. Chairman, let me clarify one other
16 point here.

17 DELEGATE KILGORE: Senator Ruff.

18 SENATOR RUFF: If these grants were put out, would there
19 be any obligation to continue growing tobacco?

20 MR. MCPETERS: Joe Morgan and I were discussing that
21 on the way up. In fairness of you spending your money and being money for
22 Southside, it should be in the contract, when you sign that grant that, if in fact, that
23 barn was ever sold, that it must be sold to a tobacco producer in Virginia. So that that
24 barn, that conversion barn will stay productive and keep producing tobacco that could
25 be sold for a support price. That's the only way I would think that you could commit

1 them legal.

2 DELEGATE KILGORE: I know, my problem is I know our duty
3 and we have two duties here as the Tobacco Commission. Our counsel reminds me.
4 One is to compensate tobacco farmers for their lost quota and the second is economic
5 development and growth, etc. etc. etc. to assist communities in reducing their
6 dependency on, or finding alternate uses for tobacco and tobacco related businesses.
7 I'm all for this, and I'm fine, but we're going to have some of our colleagues, later on
8 questioning what we're doing with the money and I sort of start getting worried about
9 it.

10 If you start reading, when you start going back and reading the statutes, you
11 get a little bit worried about what's going on. We're supposed to be in an economic
12 development area and supposed to be looking at ways to reduce dependency or
13 broaden our horizon or things like that. This is up to you all-

14 DELEGATE JOHNSON: What you're saying is that we'd be
15 putting the fox in to guard the chickens.

16 DELEGATE KILGORE: I don't know how we're going to enforce
17 the contract to keep somebody's tobacco or let them sell it to a tobacco farmer, or rent
18 it to a tobacco farmer. I just don't know how we could do that. Must be- I don't
19 know what my lawyers are saying.

20 MR. FERGUSON: Whatever the contingency was, once the
21 barn is built it's a fixture and you don't sell the barn separately, so it goes with the
22 land. Maybe violate the rules of petuities, give some-

23 DELEGATE KILGORE: We could waive that.

24 MR. FERGUSON: Practically and frankly, I don't know
25 how you'd enforce a contract clause like that.

1 DELEGATE DUDLEY: I think you're wrong, Frank. I think it's
2 personal property and remains personal property. But, I think even with the grant, if
3 the county funded half the money, and they're going to the lender for the other half,
4 the lender's going to have a lien on that property. I still don't know how you tell
5 them what they can do with it, disposed of it.

6 DELEGATE KILGORE: Okay, we spent more than four minutes
7 on this one, what's the pleasure of the committee? Are we again going to the full
8 Committee with no recommendation or a recommendation or what are we doing?

9 SENATOR RUFF: Mr. Chairman, I thought it came out of
10 the subcommittee with a suggestion for the loan, possibly a no-interest loan. The
11 problem I have with the grant is that, if I have no responsibility whatsoever, then I
12 can say, "sure, put me a barn down." And, then I can walk away from it and never
13 worry about anybody's cost at all.

14 I think if there's a loan basis, there is responsibility and they'll be far more
15 likely to take care of that and enhance it over the years than the grant.

16 DELEGATE KILGORE: Then it's, we have some problems with
17 the loan side. Whether we'd be secondary to a bank, we'd have the problem
18 enforcing any conditions we may want to set.

19 SENATOR RUFF: Would the IDA have that same problem
20 if we sent it to the IDA and let them deal with that issue?

21 DELEGATE KILGORE: Really, this is all up to you in Southside.
22 If this is something that you want to do, you're going to have to watch out for a
23 situation where the Pittsylvania folks come back in and your other Mecklenberg folks
24 come back in and take a piece of that pie that's your allocation. It's entirely all up to
25 you all. I really don't-

1 MR. ARTHUR: Mr. Chairman, we actually voted it down
2 as a grant, as a committee as a grant.

3 DELEGATE KILGORE: Did you discuss it as a loan?

4 MR. ARTHUR: We didn't know the legalities of that and
5 didn't get involved in it. And, therefore, that's why we've given you an opportunity.

6 DELEGATE KILGORE: Thanks a lot.

7 MR. ARTHUR: I'd say your choice is to vote it up, down
8 or take it to the Committee. Personally, it sounds, I don't have a vote, it's a down
9 vote to me.

10 MR. JOHNSON: Mr. Chairman, could it be sent back to
11 the committee to consider it as a loan?

12 DELEGATE KILGORE: It's not going to do you any good this
13 year. And if I'm right on the season, it's not going to do you any good this year. So,
14 you've got a little time to do that. I think that might be a good recommendation, it
15 may be that you all get with the Attorney General's office and see if there is a way
16 that it could be worked out through the IDA. Then later, see if the IDA is interested
17 in, make sure the IDA is interested in overseeing such a large project as that. Because
18 with a hundred and thirty, if there is a hundred and thirty applications, then it's going
19 to be a large undertaking.

20 MR. ARTHUR: Mr. Chairman, I accept the responsibility
21 to do that. Recognizing that it is voted down as a grant.

22 DELEGATE KILGORE: As a grant.

23 MR. ARTHUR: Right.

24 DELEGATE KILGORE: But it's going back to you all.

25 MR. ARTHUR: Take a look at it and send it back to the

1 Committee as a loan. If you want to take a look at that we'll look.

2 DELEGATE DUDLEY: A loan from who?

3 DELEGATE KILGORE: A loan from the IDA.

4 DELEGATE DUDLEY: A grant to the IDA?

5 DELEGATE KILGORE: A grant to the IDA and then loan it out.

6 SENATOR RUFF: Then they can come back.

7 MS. THOMAS: Can we do that, because the application
8 was as a grant, and we've had this come up before. It came before the Committee
9 that we can only look at it as it was applied for. It has to be applied for again under
10 different circumstances.

11 SENATOR RUFF: That's a good point.

12 MS. THOMAS: I don't think we can take it back to the
13 committee and look at it as a loan. I think if the IDA wants to apply for it as a loan,
14 they can apply for it next year as a loan.

15 DELEGATE KILGORE: That's why we have lawyers here.

16 MR. FERGUSON: Mr. Chairman, I don't have all of the
17 grant/loan guidelines in front of me. The application rules. But, to the extent the
18 format of the disbursement, would be a material change in the application, I would
19 suggest that it probably should be reapplied for. I know that there have been some
20 adjustments made to the applications by the reviewing committee and by the
21 Commission. But, I think they tried to do it when they were non-material and not
22 fundamental to the process that was contemplated. I agree following the
23 Commission. But going from a grant to a loan is a fairly significant change.

24 DELEGATE KILGORE: I think I would have the authority to say
25 that, as Chairman, or acting Chairman now, in the Executive Committee, I believe it

1 would be in the best interest to reapply as a grant, I mean as a loan.

2 DELEGATE JOHNSON: Mr. Chairman, before we build our
3 hopes up, I wonder if Mr. Ferguson has any thoughts about whether or not we may
4 find ourselves in a suit. If we do this for Halifax and then the other people, who have
5 already paid their money come back and said we want our share.

6 MR.FERGUSON: Delegate Johnson, you know better than
7 I do, that anybody can sue for anything. But yes, I think that's a possibility and I
8 think a component of that suit is likely to be what the Chairman pointed out to you.
9 That one can argue with some basis that this goes outside the statutory authorization
10 for expenditure of Economic Development funds. One could read 3.1-112(2) to say
11 that Economic Development funds are intended to move communities away from
12 tobacco dependence rather than to entrench them. One could argue that this acts to
13 entrench that. That's my concern.

14 DELEGATE JOHNSON: I share the same thing. And I'm a little
15 country boy myself, but I just feel like that maybe by referring it back or having
16 another application then you give false hope and we shouldn't do that. I think maybe
17 we should vote it up or vote it down and let the chips fall.

18 DELEGATE KILGORE: Do you have a motion?

19 DELEGATE JOHNSON: If it was my, I've been involved in-

20 MR. ARTHUR: I don't have a voice or a vote, I can't
21 bring it up and down any further.

22 MR. CURRIN: Indemnification payments that the
23 growers have gotten in Halifax. Are farmers using their own resources and they've
24 already gotten from this Commission for two years, indemnification payments to put
25 toward, we're looking from the outside world and not just two regions. My job is to

1 try to protect them and not to be accused of getting money here and then getting
2 money here too. That's just a thought that I have for the Executive Committee.

3 DELEGATE KILGORE: Do you want to respond?

4 MR. MCPETERS: If you've got 200,000 pounds of tobacco
5 quota, you've got a pretty good chance, if you've got five thousand pounds and your
6 allotment has been reduced 47.1 percent in Halifax County over the last three years,
7 that money is small and it's got to go somewhere else and not the barn.

8 DELEGATE KILGORE: I understand, thank you. Are we going
9 to vote it up or down?

10 SENATOR RUFF: Mr. Chairman, to get a motion, I'll make
11 a motion that we instruct Halifax County to come back with a proposal next year for a
12 no-interest loan for tobacco warehouse, tobacco barns.

13 DELEGATE DUDLEY: I have a substitute motion. I move that
14 we reaffirm the decision of the Southside Economic Development Committee.

15 MS. THOMAS: Second.

16 DELEGATE KILGORE: We have a motion and a substitute
17 motion, any discussion? All those in favor say "Aye" (Aye's) "Opposed?" (Senator
18 Ruff: No.)

19 MR. MORGAN: Mr. Chairman, can I have one more
20 second for Halifax County. We try to be creative and exclusive in bringing these
21 projects and putting them together and we may have complicated things. This is a
22 resolution adopted by the Board of Supervisors and shared by the Halifax and South
23 Boston town council. Essentially, what it says is, if you have money left over this
24 year from our allocations, please let it go to a project that you have funded and
25 approved, River Stone Industrial or Business and Technology Park. You funded it

1 last year and you funded it this year and I think it generally is, without question. And
2 we realize the Commission is going to deliberate with whether they're going to take
3 some action or push this thing back to next year. But we have hundreds of people
4 who are out of jobs, we have a seven million-dollar park and you largely funded it.
5 We've got five million dollars ready to go and we need two more million to take it to
6 completion. I would point out that in the application submitted, we anticipated this
7 contingency, and we said, "should you not fund all the projects in the county
8 allocation for 2002," give it to three other projects and the lead one was Riverstone. I
9 hope it's in order, and I think its part of our application. We say, don't leave that
10 money sitting on the table for another year. We're hurting too bad to let the money
11 sit, thanks.

12 MR. CURRIN: Mr. Chairman, I'd like to ask, what are
13 you putting this money to this year?

14 MR. MORGAN: It will finish the back side of Riverstone,
15 the money that's allocated. Frankly, what happened was, in trying to bring you as
16 many projects as possible and meeting as many needs in our community, we reduce
17 the funding for the Riverside project and reduced funding on the Ag-Development
18 Center, an airport project. So that we can get as many of these organizations that
19 you've heard from involved. To the best of my knowledge we did that and we didn't
20 know about the museum or we wouldn't have included it in. If it's seen fit to fund it,
21 that's fine too. Let's not leave money on the table. We can come back next year, the
22 Prizery can come back next year if the full Commission chooses not to fund the
23 project. The conversion project that makes sense and we can bring it back next year.
24 We know that Riverstone makes sense and it's got a lot of money in it and it needs a
25 little more. We'll be able to put people to work then, thank you.

1 SENATOR RUFF: Mr. Chairman, does this require a
2 motion or was the original proposal inclusive of that?

3 MR. MORGAN: I think it's the original proposal.

4 DELEGATE KILGORE: That's what I was getting ready to ask
5 Senator Ruff.

6 MR. MORGAN: The Commission, in its wisdom,
7 approved the money that we asked for when we were splitting up the pot. A little
8 larger slice is going to leave the pie in the dish.

9 DELEGATE KILGORE: Carthan, give me some guidance here.

10 DELEGATE DUDLEY: Mr. Chairman, the original request of
11 Riverstone went through Southside, approved that.

12 DELEGATE KILGORE: Yes.

13 DELEGATE DUDLEY: I guess the next question was, the
14 approval that you did on that wasn't contingent upon this money coming from
15 another source.

16 MR. ARTHUR: There were five individual projects with
17 set funds for each one.

18 DELEGATE DUDLEY: Can we go back and modify that
19 approval that's about the only way I see you can do it. I don't think we can take this
20 Barn conversion application and-

21 SENATOR RUFF: Mr. Chairman, I think we probably
22 ought to. I think it was artfully written, so it does include-

23 DELEGATE KILGORE: I think it would be in your all's best
24 interest in the morning, some times.

25 MR. ARTHUR: I've got a quick committee meeting set

1 for tomorrow morning at 8:30.

2 DELEGATE KILGORE: I think that would be something that you
3 all need to consider in there and then bring it back to the full Commission.

4 MR. ARTHUR: Yes, I've got several things.

5 DELEGATE KILGORE: I don't believe we, that's not before us
6 properly right now.

7 MR. ARTHUR: I understand, I know where you're
8 coming from so we'll examine the language tomorrow morning, and the other
9 meeting's going to be at 8:30 and you need to be there.

10 MR. CURRIN: Mr. Chairman, I just learned yesterday
11 afternoon.

12 DELEGATE KILGORE: That's okay. Next, moving right along
13 down to Pittsylvania County Regional Industrial Park request.

14 MR. TODD YEATTS: Members of the Executive Committie,
15 I'm Todd Yeatts. I'm here today asking for \$674,199 for a joint regional industrial
16 park. The amount of \$674,199 is the remaining portion of the funds eligible for, that
17 Danville could have applied for back in January. At the time the application went in,
18 the options were not available, the land for the Regional Industrial Park. Since that
19 time, the options are available and they have to be moved on very quickly. We have
20 applied jointly with Pittsylvania County for \$1.375 million from the Industrial Site
21 Development Fund Construction. This joint industrial park is an 800-acre mega-site
22 park. It's located directly across 58 from the airport here.

23 The park originally came to concept last November and moved along rather
24 rapidly since then. The reason for the park, Virginia Economic Development
25 Partnership, we asked them to take a look at what we could do to better attract

1 industry to the area. They said the one shortfall we had was that the region did not
2 have any 200+ acre industrial sites and it needed a huge mega-site that could compete
3 for larger industries such as the automobile industry and those type of things.

4 Danville/Pittsylvania County, jointly, studied the area around here and found
5 suitable land across 58 West. It's located entirely in Pittsylvania County, but the
6 revenues from this industrial park will be split evenly between two communities.
7 Again, what we're asking for is the remained in the allocation of this area that we're
8 eligible to apply for.

9 DELEGATE KILGORE: Did this go in front of your committee?

10 MR. ARTHUR: No, this is brand new.

11 MR. YEATTS: This is brand new. The reason that we
12 would like to apply now, is the state's matching grant of 1.375 million is out there but
13 the land has to be purchased before that.

14 SENATOR RUFF: I would suggest that we defer to the
15 Southside meeting that's being held at 8:30 tomorrow morning.

16 DELEGATE KILGORE: That's what I was getting ready to
17 suggest to do that.

18 MR. YEATTS: That's fine.

19 DELEGATE KILGORE: Do I have a motion to do that? The
20 motion has been moved and seconded. All those in favor say "Aye" (Aye's)
21 "Opposed?" (No response.) What time is that, Mr. Arthur?

22 MR. ARTHUR: 8:30.

23 Now, Virginia International Raceway: Loan Terms. All right, Virginia Tech,
24 Dr. Steger. I know everybody is tired of sitting and I'd like to tell you I'm not here
25 asking for money, but that wouldn't be true. I, literally, won't take but about five

1 minutes.

2 Let me say, first of all, we appreciate your taking the time to hear from us.
3 I'm talking about the Virginia Bioinformatics Institute. This is something, as you
4 know, would not exist without the Tobacco Commission. Governor Gilmore asked
5 the Commission to consider regional funding and we believe it's been a very, very
6 successful enterprise. What we're trying to do is to throw it into a critical mass where
7 we can cover the debt service on equipment and building and reinvest. Also, get it to
8 the size where we can start generating jobs. We realize that the Commission is faced
9 with a very serious challenge of immediate economic crisis. We understand it's a
10 crisis in the state, and at the same time trying to build some sort of long-term capacity
11 to create the next generation of opportunities for young people in the region.

12 Now, it's always been our plan to get general fund support for the
13 Bioinformatics Institute in the '02/'04 biennium. Other than that Mrs. Lincoln, how
14 was the play? That's the problem to say the least. We had every reason, though, to
15 believe that it would be in the budget. And we know that it was in the budget,
16 literally, up until the last hour when the short falls continued and the Governor had to
17 take it out. In light of Governor Warner's economic goals for expanding university
18 based research, and helping this region of the state, we had a meeting last week with
19 two Cabinet Secretaries working with Governor Warner's administration trying to see
20 if we could get support for this in the next biennium.

21 We face, basically, a short-term funding problem. And let me just mention
22 what we're trying to do. First of all, this is not the only source of money, we're
23 raising private money and we're attempting and got four and a half million dollars of
24 federal money last year. And, I won't go into all the details. When you hire a
25 researcher, and first of all, these people are very expensive, and the competition is

1 fierce all over America in this area. It takes about a year or a year and a half for them
2 to get enough grants in the pipeline to generate income into the Center.

3 The second thing is, that the equipment dollars that they need is quite
4 significant. The start-up packages go in the neighborhood of \$300 thousand on up to
5 a million dollars per person. That's the nature of the beast. It's like hiring a
6 carpenter and not giving him the hammer. If they don't have the tools, they can't
7 bring in the money.

8 We've established a very, very successful track record and I'll mention that in
9 just a minute. I also want to point out that while a lot of the core activity is occurring
10 on campus, there are other things that are already beginning to happen around the
11 state. And, particularly, in Southwest and Southside. For example, at this moment
12 Congressman Goode has a two million dollar federal request pending for a program
13 to develop High Value Horticultural Crops using some of the bioinformatics tools that
14 we're developing. Much of this work will be carried out at the institute in Danville.
15 As the institute grows, it's our intent to establish a facility in Southwest Virginia at
16 the Higher Education Center in Abingdon and in tandem with the Agricultural
17 Experiment Station at Glade Spring.

18 And, also to spread Bioinformatics work in the Southern Piedmont
19 Experimental Station in Blackstone. We believe each one of these areas can play a
20 very important function. So, that's part of it.

21 The other part of it is that you're aware of the activity we had underway to put
22 in the high fiber optic capabilities in the region. Bioinformatics activities generates
23 enormous amounts of data and you have to have a network to transport that data or
24 you won't be able to carry out the job. We've done two things in that regard.

25 I realize you need the jobs now, and you don't need them five years from

1 now. We have identified a software development project emerging from those
2 research grants at our institute and we plan to have that work carried out at the
3 Danville Institute. One of your fundamental problems is workforce development.
4 The second fundamental problem is there's no track record in doing this kind of
5 work. What Virginia Tech is doing with our institute and with some of the firms in
6 Northern Virginia, and we've actually retained a consultant to help us find the right
7 firm. We're going to, or they'll put a project down here if we will guarantee the
8 product. So the firm takes zero risks. And this way we can demonstrate that the
9 workforce down here can do the work. I think it will be not only as good, I think it
10 will be better.

11 DELEGATE KILGORE: I don't mean to interrupt you, but let me
12 ask you a question. You said you met with the Secretary of Technology-

13 DR. STEGER: We met with Bennett and Schewel and I
14 talked to Secretary Newstrum separately.

15 DELEGATE KILGORE: What's the gap we're looking at here?
16 What's the request for?

17 DR. STEGER: We're requesting three million dollars.
18 And, we realize that's a lot of money in this context but one of the problems or one of
19 the issues is, if we could get some sort of commitment prior to June 30, 2003, we can
20 internally finance it for a short period of time. So, it doesn't have to be delivered all
21 at once.

22 DELEGATE KILGORE: You requested the monies from them or
23 from us?

24 DR. STEGER: We're asking them to put, the budget is
25 six and a half million from the Governor's budget. We're trying to keep the wheels

1 on the wagon for the next year. That's the bottom line and continue the momentum.
2 We've got to grow this thing and we're doing about twenty-three million on research
3 right now and it's only two years old.

4 DELEGATE KILGORE: Did they seem supportive?

5 DR. STEGER: They do, the question is are the state
6 revenues going to be there to do it? Our indication and Minnis was there and we
7 believe they will be supported. And, if they have any way to do it, they'll try to help
8 us.

9 So, what we've got to do is we've got the thing up to about twenty-five
10 million dollars of volume and we need to get it to about fifty million in the next two
11 or three years to be mature and stable. So that we can start spinning off the
12 companies and do things like the Korean investment partnership.

13 So, that's really about the kind of threshold of the business. So, to do the
14 work promised for the grants that have been awarded and support new researchers.
15 We've made some good faith offers for employment and we need to get basic
16 operating support and get us through what we believe to be, or hope, a short-term
17 problem.

18 Now, we would, of course, work to help advance the economic goals of this
19 region, regardless of what decision you make. But this will make it a lot easier for us
20 in this whole process.

21 Let me also mention too, that, and some of you were in the meeting the other
22 day, I was in Korea two weeks ago and I met with the CEO of the larger company
23 associated with Asia Venture partners. They've already put fourteen companies on
24 the NASDAC. They've asked Virginia Tech if we'd also be an investor or at least
25 cause to happen some investments in this fund. We're doing some due diligence on

1 these people. My first impression was that they are serious and very capable
2 businessmen. I think we will work and try to make some investments happen if we
3 can be assured they will make something happen in this region. This is all up for
4 discussion, we don't know yet. I don't want to commit something until we've really
5 done our homework.

6 We think if we can get this critical mass up and going VBI has already
7 established a national and international reputation that will attract start-up companies
8 and people that we can get the rocket off the pad.

9 The other advantage is that, and I didn't know this until a little while ago, the
10 Minister of Communications for Korea, and they own twenty-eight percent of this
11 fund and their relationship with the government is one of our alums. I had lunch with
12 him in Korea two weeks ago and also the head of Korea Telephone is a Virginia Tech
13 alumnist. We think that's good and they think highly of the research that's going on.
14 If we can see a way that there's a real, and you have to look at this deal very
15 carefully, that there's a real deal for people to invest and start one or two small
16 companies here, we'll do everything we can to make it successful. That's the bottom
17 line.

18 DELEGATE KILGORE: I agree it's very important and this is one
19 of our Tobacco Commission, this is one of our signature projects that we started with
20 Virginia Tech about two years ago. I hate that the budget process is not kind to you
21 and not kind to me either but I think this is something that we ought to invest in. I
22 don't know that we can invest three million in it, and I'm speaking for me personally.
23 And, it would have to come from, I assume, Special Education or Special Projects-

24 DELEGATE DUDLEY: I think we discussed it with Special
25 Projects and a couple of things that came out of that. One, Dr. Steger, he didn't

1 mention it today, but I think Minnis and several others, had promised to take the
2 blood out and talk about this project.

3 DELEGATE KILGORE: I'm not authorized to give those, you
4 have to be a notary public.

5 DELEGATE DUDLEY: I believe the second one was, Senator
6 Wampler asked for them to be thinking about some of their thoughts or what they
7 might be.

8 DR. STEGER: We'll certainly work with you and I
9 realize this is a tough one but that's the number we need to make it go and we're
10 trying to secure and, I think, will secure support from other places. But, the key point
11 is, when the smoke clears at the OK Corral, there's not going to be hundreds of these
12 institutes around the country. There's going to be a small number, we're in the
13 running and have a major, what we hope down the road, will be a hundred million
14 dollar facility in ten years, generating companies and employing hundreds of people.
15 And, if we trip up, the competition's going to have their footprints on our head. And
16 we're trying to keep this thing going. That's where we stand.

17 MR. ARTHUR: If I recall correctly, we also had you do
18 some creative type of thinking in the timeframe of the money and you didn't have to
19 have it all at one time.

20 DR. STEGER: That's right.

21 MR. ARTHUR: And that is the way we might be able to
22 support more.

23 DR. STEGER: Yes, sir. I think if we can have a
24 commitment, that we would get it prior to June 30, 2003, we can manage and we can
25 finance it internally. If we can't, Minnis, is the expert on this. We can do this

1 without violating the laws of the funds that we manage, but at the end of the day we
2 still have to have the money.

3 SENATOR RUFF: Folks in Halifax County, some of the left
4 here not very happy because of the position I took. You talked about various things in
5 Southwest, this part of Southside and I never heard anything about Halifax or
6 Mecklenberg County and those two have the highest unemployment over fifteen
7 percent. As much as I support the project, I cannot go to implement it.

8 DR. STEGER: I realize there's a tremendous short-term
9 problem here. But I also don't want to promise something that we cannot deliver. As
10 I stand here, I don't know what specific projects we have that can be put on the
11 ground there in a short period of time but I'd rather be-

12 DELEGATE KILGORE: And you will work with Senator Ruff?

13 DR. STEGER: We'll work with anybody. We want this
14 thing to go.

15 DELEGATE KILGORE: Even Senator Ruff?

16 DR. STEGER: If we're going to sit around and hope a
17 firm from Northern Virginia picks up and flies down here and whatever, it's unlikely
18 that's going to happen. We've got to change the equation and that's what we're trying
19 to say.

20 DELEGATE KILGORE: Here's what I'm thinking about and I
21 may be totally off base, but I'm more than willing to do a million, I'm more than
22 willing to say a million out of Education and see how it goes. I think three million is
23 a lot and I have some heartburn with that. I think you are going to do it and I think
24 it's something that, I'm convinced it is going to help us in the long run. But,-

25 DR. STEGER: As I say, we're not talking about a pipe

1 dream, we've got a track record and we've gotten \$23 million worth of research in
2 two years and I hope more things like the Korean thing works out and more things
3 like that will start to happen. We can play a role, we can't guarantee it, but we can
4 play a role.

5 SENATOR RUFF: You have no control where the industries
6 end up going like South Carolina.

7 DR. STEGER: No, we really don't. We'll see how that
8 one works out. I do think we can have some influence over where some of these
9 firms locate.

10 The reason being, and I'm not saying we're going to do this, if we were to
11 decide to also invest in one of these Venture funds, and we can do it as part of our
12 endowment, we have to get returns, because we have an obligation for that money.
13 We can, and we do get the venture funds to look at local businesses as part of a
14 condition of us having the money. You don't want a bad idea funded, but we can
15 certainly get people access to the venture investors that many people don't have
16 access to today. That's been successful in the research park.

17 We recruited a firm from Canada that located in Williamsburg, but it's located
18 in Virginia, but we think that's a good thing. Even though we'd rather have them in
19 Western Virginia, we can't control that. I took more than my five minutes.

20 DELEGATE JOHNSON: May I ask a question?

21 DELEGATE KILGORE: Yes.

22 DELEGATE JOHNSON: What about half this year and a promise
23 for half next year?

24 DELEGATE KILGORE: Half, would that-

25 DELEGATE DUDLEY: A half million this year?

1 DELEGATE KILGORE: No.

2 DELEGATE JOHNSON: I'm the conservative.

3 DELEGATE KILGORE: I thought I was the big spender here.

4 DELEGATE JOHNSON: The way I look at it, what is good for

5 Northern Virginia is good for Virginia and what's good for Southwest Virginia is

6 good for Virginia. If the monies are coming in to Richmond and industries, I mean,

7 it's helping all of us. Then, if it's something worthwhile, and we can split it up and

8 fund it.

9 SENATOR RUFF: Mr. Chairman, under that theory, we
10 ought to send all the money up to Northern Virginia and let them invest in the high
11 tech stuff and let's not worry about it.

12 DELEGATE JOHNSON: No, the same thinking, you know, maybe
13 on the car tax Northern Virginia has come out ahead. But on Education and Road
14 funding, I think Northern Virginia has been very generous to us.

15 MR. ARTHUR: May I say something? I think what
16 we're talking about, even with your proposal, is we're talking about one and a half or
17 one, this year's money and we'll be committing some of next year's money, which
18 we're not able to until July 1. He needs it by June 30th and I don't think a few days
19 would matter. So, we're actually here talking about investing part of the money on
20 the come.

21 DELEGATE JOHNSON: Well, if we feel it's a good idea.

22 DR. STEGER: We're happy to make regular reports to
23 the Commission. Believe you me, we watched the progress too and we've got about
24 twenty-five million dollars at risk and we want to make this thing successful. We will
25 suffer greatly if it doesn't produce results.

1 SENATOR RUFF: But, you would agree is you all are very
2 successful, you may not create a single job?

3 DR. STEGER: May not, but that's not our desire.

4 SENATOR RUFF: I understand that's not your desire, but
5 that is the issue. Is this money for enhancement of Tech or enhancement of Southern
6 Virginia?

7 DELEGATE JOHNSON: The three million plus all the-

8 DR. STEGER: You've got two basic things. As you
9 grow and try to get to this critical mass for stable operation, you have to hire
10 researchers to come in and they come into the institute on our campus.

11 DELEGATE JOHNSON: So, they're paying taxes.

12 DR. STEGER: They're paying taxes, yes sir.

13 DELEGATE JOHNSON: You've got a building.

14 DR. STEGER: We've got a building, and we're
15 financing the building through the research overhead.

16 DELEGATE JOHNSON: So, that is some enhancement-

17 DR. STEGER: It is, we are hoping, not only hoping, but
18 we will have people employed at the Danville Institute doing some of the software
19 work that's coming out of the Research grants. We've got to get enough of them
20 where we can really spin it off, so it's meaningful. So, we've got, we don't need five
21 thousand, but we need five hundred thousand to really have an impact. The same
22 would be true of the institute at Abingdon.

23 What we're working for is to link these up with the fiber optics, with the e58
24 business and all that, so they can shift the program and the data from the institute
25 back to our super computer because they cost millions and millions of dollars. We've

1 gotten two million donated from IBM and we're working on more. We have more
2 computing power than any other.

3 We joined up with John Hopkins and they joined us because of our super
4 computer capability. And, it's formidable stuff, that costs millions of millions of
5 dollars. I don't think they could replicate it, but you can sure connect it to the
6 communities around Virginia.

7 DELEGATE KILGORE: Getting better all the time.

8 DR. STEGER: I sound like a minister, I know.

9 DELEGATE KILGORE: Delegate Dudley, do you have a motion?

10 DELEGATE DUDLEY: Yes, sir. Mr. Chairman, I would make a
11 motion that we recommend funding of one million dollars towards operating costs of
12 bioinformatics.

13 DELEGATE KILGORE: You mean for this calendar year?

14 DELEGATE DUDLEY: For this coming year.

15 DELEGATE KILGORE: Oh, okay, that coming from where?

16 DELEGATE DUDLEY: We thought out of the Southwest
17 allocation.

18 DR. STEGER: Delegate Dudley asked me the
19 geographic position.

20 SENATOR RUFF: Is that part of the motion, I'll second it.

21 DELEGATE DUDLEY: I can't be more specific at this point. I
22 would think Education would be the proper place, but we haven't put much money in
23 it.

24 DELEGATE KILGORE: So, subject to tomorrow's meeting-

25 DELEGATE DUDLEY: Subject to the distribution of funding.

1 DELEGATE JOHNSON: Mr. Chairman, I have a substitute
2 motion. I move that we allocate one and a half million this year and one and a half
3 million next year, Education.

4 MR. ARTHUR: I second that motion.

5 DELEGATE KILGORE: Don't get carried away there.

6 DELEGATE DUDLEY: You may end up with nothing. The
7 motion will have to be made tomorrow.

8 DELEGATE KILGORE: We're only recommending.

9 DELEGATE DUDLEY: If my motion carries.

10 DELEGATE KILGORE: You have the substitute motion, his
11 substitute motion is seconded. Back to the main motion, do we have a second on the
12 main motion? All right, we've got a second on the main motion, any discussion? All
13 those in favor of one million dollars recommendation, say "Aye." All those in favor
14 of Delegate Dudley's motion of the million dollars.

15 DELEGATE DUDLEY: I don't know if I'm going to vote for it
16 now, but I will.

17 DELEGATE KILGORE: All those in favor, say "Aye." (Aye's)
18 "Opposed?" (No, No, No) 3 to 2. That gets it to the committee tomorrow.

19 DELEGATE JOHNSON: I voted against it because I support-

20 DELEGATE KILGORE: Let the record reflect that Delegate
21 Johnson voted against it because he wanted to see that they got the full funding.

22 All right, now, going backward, Carthan, would you go back and give us this
23 budget. Now that we have spent this money trying to figure out what we spent it on.
24 You all will probably need somebody there tomorrow.

25 DR. STEGER: We'll be there.

1 MR. CURRIN: Mr. Chairman, and members of the
2 Executive Committee, the chart before you is a representation of the forecast, the
3 annual totals for the first five years of our existence. The first reflects the unadjusted
4 estimated from the original MSA. The light blue bar shows the adjusted revenue
5 from the Virginia Department of Treasury and this takes into account adjustments for
6 inflation and concern and other values. The third bar shows what was actually
7 received, fiscal year 2000-2002. You can see the actual amount received has been
8 slightly higher than the Department of Treasury forecasted amount.

9 Now, as I mentioned to you in our last full Commission meeting, next step is
10 securitization including the Governor appointing members of the Tobacco Settlement
11 by Nanced Corporation. And a technical working group to begin meeting on the
12 details and logistics of the sale.

13 The Commission would like to see the ones that happened sooner or later, but
14 we're not sure of the timing at this particular juncture.

15 DELEGATE KILGORE: When does the Governor make his
16 appointments?

17 MR. CURRIN: I don't know, Mr. Chairman, at this
18 particular point. I haven't received any real direction from his office to date as to
19 when his time schedule is on that.

20 DELEGATE KILGORE: Carthan, would those be, I don't
21 remember how that was set up. I guess that was. Are those members of the
22 Commission, or-

23 MR. CURRIN: Arms length, they're appointees of the
24 Governor, and I think they have a set term.

25 MS. WASS: Yes, that takes affect July 1st.

1 MR. CURRIN: He hasn't given any indication yet when
2 we will proceed with the sale. Some of the other mechanics related to the process.
3 Therefore, I have recommended for this fiscal year and that will begin July 1, fiscal
4 year '03. We operate FY'03 MSA revenue. Hopefully, securitization will take place
5 some time during that fiscal year. The proceeds will be deposited into the
6 endowment established and legislated and be invested by the Treasury Board. This
7 will provide time for the endowments to earn interest for the FY'04 Fiscal Year
8 budget. Then, in future years, unlike the past, our funds would be available at the
9 beginning of our fiscal year, rather than in the latter half of the fiscal year. As you all
10 know, we received monies in January and in April during a given fiscal year,
11 currently, even though the fiscal year begins July 1.

12 Available funds for the '03 budget, were mailed to you with a total of 2.3
13 million dollars carried forth funds from the MSA and interest revenue and surpluses
14 from the '02 Fiscal Year. Estimated '03 MSA revenues is 73.8 million dollars. And
15 estimated interest revenue of 500,000 for a total '03 budget, will be 76.6 million
16 dollars.

17 DELEGATE KILGORE: Would that include the FY carry-over,
18 the '02 carry-over?

19 MR. CURRIN: Yes, sir. Depending on the funding
20 needs of the Commission the remainder of '02, you may wish to distribute this
21 revenue surplus in the current year. Otherwise, it will be included in the '03 budget
22 and distributed accordingly. That's according to your direction.

23 The next is the Administration breakdown. A million seven in the
24 Administrative budget and how it's distributed. In two years of historical experience
25 some of these amounts have been adjusted for accurately reflect actual expenditures

1 including transfers, which I'll discuss in the next slide. This budget is slightly under
2 the '02 Administrative budget. The largest portion of our Administrative budget is
3 Contractual Services which includes such things as- indemnification, processing
4 costs, legal and consulting fees. This transfer payment is \$250,401, the Commission
5 is required to pay to the Office of the Attorney General and to the Virginia
6 Department of Taxation for the Master Settlement Agreement Enforcement costs as
7 required by the 2002 appropriation act. \$138,771 were transferred this year for the
8 same purpose. We tried to keep the administrative costs to a minimum as various line
9 items reflect the scope of spending as well to keep the budget in line with last year.

10 Now, this chart, basically, is the '03 budget distribution or proposal, I should
11 say. This is the initial proposal for budget distribution. Net revenues of 74.9 million
12 dollars, which is the net of administrative costs. Last year the Commission voted to
13 take 25 percent off the top and splitting that amount, 25 percent off the top for Special
14 Projects and Deal Closings and that was one fund. We funded such things as Special
15 Projects this past year, like e58, \$5 million. Of course, we had funded our deal
16 closing projects for various communities and both regions have benefited from that.

17 This year I'm proposing you take 35 percent off the top and split that into four
18 different funds. On your handout, you'll see the distribution that I have proposed for
19 those four funds. Special Projects would receive 9.7 million dollars and would be
20 used to fund major projects and both regions benefit, such as e58. Or maybe some of
21 the Venture Capital funding we talked about today. I recommend separating deal
22 closing funds as separate funds, because a number of requests we receive could
23 possibly eat up those Special Project monies. Deal closings, under my proposal,
24 would receive around \$5 million. It's also been proposed that the education
25 committee, first time, actually receive funding under this distribution,

1 recommendation to the full Commission.

2 The Commission has been establishing a revolving loan fund or discussing
3 establishing a revolving loan fund for some time and that is the reason today, I bring
4 it before you as a possibility of establishing \$2 million in initial capitalization for the
5 revolving loan fund. Whether administered by Virginia Small Business Financial
6 Funding Agency, or other potential entity that may be appropriate by this
7 Commission. So, I'm recommending \$2 million be taken as part of the 35 percent off
8 the top.

9 Ladies and gentlemen, and Mr. Chairman, that would leave 48.7 million
10 available for the two regions. As in the past, this would be split 73 percent to
11 Southside and 27 percent to Southwest. Each region needs to choose, and I bring it
12 before you today for consideration. You need to recommend to the full Commission
13 how those two respective splits should take place. Just for a little historical memory,
14 last year Southside voted sixty percent of its money to go to indemnification and forty
15 percent for economic development. Southwest chose eighty percent of its money
16 goes to indemnification and twenty percent to economic development.

17 So, the decision that needs to be made today in preparation for tomorrow's
18 full Commission meeting, are these distribution decision. Based upon your
19 recommendation today the budget will be prepared for the Commission's approval
20 tomorrow. Thank you for your attention.

21 DELEGATE DUDLEY: Carthan, this does not appear to have any
22 cushion in it like we had in the past budgets. We're literally spending everything
23 based upon this?

24 MS. WASS: In the past, we always budgeted
25 everything. But all of the- conservative as far as drafting it.

1 DELEGATE DUDLEY: I thought I understood Carthan to say, he
2 actually dropped down some of the estimates of expenditures from, it's cushioned
3 out, the revenue estimates are conservative.

4 MR. CURRIN: Historically, for the past two years.

5 DELEGATE DUDLEY: Carthan, go down, you'll have to help
6 me a little bit on Special Projects and Deal Closings indication, I see a lump sum for
7 Special Projects. Can you give us any idea what we did currently between the
8 amount we spent on Special Projects and the amount spent on Deal Closings and the
9 amount spent on Education.

10 MR. CURRIN: Stephanie has that.

11 MS. WASS: About four and half million for FY'02 is
12 dedicated to Deal Closings. Special Projects included \$5 million set aside for e58, \$6
13 million to Community Colleges, Literary Foundation and Special Projects. There was
14 no Education Fund for the current year.

15 DELEGATE DUDLEY: Community Colleges?

16 MS. THOMAS: That's where the money came from to
17 fund that, the Literary Foundation.

18 DELEGATE JOHNSON: Mr. Chairman, I'd like to ask about
19 salaries and fringe benefits and per diems. You've only increased a little less than
20 100,000. We're growing bigger and more complicated and more complex. Do you
21 feel like that's enough to cover your added costs for personnel?

22 MR. CURRIN: We may need to discuss that in a little
23 bit greater detail, Delegate Johnson and that's a fair question. I think possibly, we'd
24 have some ability to re-look at the Administrative Budget to see if I can't make some
25 adjustments, but that's a fair question and something I'd like to discuss in greater

1 detail.

2 I do think that as we have grown, and the complexities of this Commission are
3 such that at some particular point there may be a need for some additional folks.

4 DELEGATE JOHNSON: Travel, lodging, meals has gone down. I
5 think we've place additional duties on you today, we recommend that you get out-

6 MR. CURRIN: Yes, sir.

7 DELEGATE JOHNSON: To do some of these things. So how can
8 you do it with less money, are we paying you too much?

9 DELEGATE KILGORE: We're paying him too much.

10 MR. CURRIN: Part of that two is the cost of travel for
11 this Commission, each of you, when we have rooms or when we have to use a plane.
12 Those kinds of costs, maybe initially, when we started this journey together, we had
13 nothing to base it on, so maybe some of our costs initially were off and we're trying
14 to make adjustments to that.

15 DELEGATE JOHNSON: Supplies and materials, that has been
16 reduced. How can you reduce those costs if you're going to do more?

17 MS. WASS: It's all based on historical costs. We
18 have put in figures based on actual expenditures. So, realistically, what happened last
19 year, our budget was probably a little high for the items and that we didn't have a
20 whole lot of history to base it on. Now that we have two years of historical
21 expenditures and planning for potential increases in travel and supplies, it is still less
22 than the budgeted amount last year

23 DELEGATE JOHNSON: Suppose it's more than you've got?

24 MS. WASS: If one line item is more than we
25 budgeted for, we'd probably take it from another line item, such as, contractual

1 services. If something major came up, I believe we'd come back before the
2 Commission.

3 DELEGATE KILGORE: Also, I think we do have a fall back that
4 we are being very conservative in estimating the revenues that are coming in. And,
5 I'd rather err on that side than be over budget.

6 MS. THOMAS: As far as supplies, once you bought a
7 laptop, you'd have it.

8 MS. WASS: That would actually be under furniture.

9 MS. THOMAS: Well, some things were immediate start-
10 up costs and those kinds of things.

11 MR. CURRIN: Mr. Chairman, unless there's some other
12 questions, I'll be happy to take those and make some suggestions dealing with the
13 budget.

14 SENATOR RUFF: Mr. Chairman, I would ask, where are
15 we in total pay-out to the growers and quota holders, are we getting ourselves into a
16 situation where they're going to become a hit then-

17 MR. CURRIN: Yes, sir, I can give you some. This chart
18 illustrates members of the committee, where we stand today on indemnification.

19 MS. WASS: On a cumulative basis, if you just take
20 total numbers, it's not between quota holder and farmers, but on the total basis for
21 flue-cured. After the 2002 payment, the fully indemnified farmers for flue-cured,
22 through 2002, 9.8 million; for burley, it's 28.3. If we count all the remaining Phase II
23 payments through 2010, because those payments will continue beyond what we may
24 pay.

25 SENATOR RUFF: We need 9 million through this year

1 that's coming up.

2 MS. WASS: To compensate them through their 2002
3 loss, when they announce this quota next year, it may go up.

4 SENATOR RUFF: In the breakdown between quota holder
5 and grower, what does that do?

6 MS. WASS: That's another meeting that will take
7 place with the Tobacco Committee to determine what the long-term goal is. The
8 long-term goal, what it would take to fully indemnify has not been voted on yet.

9 SENATOR RUFF: I believe you said if we went from 60/40
10 to 50/50, is that what your proposal is?

11 DELEGATE KILGORE: What's your proposal?

12 MS. WASS: Based on this data, Southside probably
13 should not recommend more than 9.8 million for indemnification.

14 SENATOR RUFF: I didn't think that fit with the 50/50
15 percent.

16 MS. WASS: Last year was 60/40 and the year before
17 that it was 50/50. So, the decision, the Executive Committee to recommend-

18 DELEGATE KILGORE: 9 million, though, would be about 20
19 percent for Southside.

20 MS. WASS: Yes, 28 percent.

21 MS. THOMAS: Southwest 80 percent to farmers.

22 MR. CURRIN: That's how split.

23 MS. THOMAS: Southside 60 percent.

24 MR. CURRIN: This past year.

25 MS. THOMAS: The first year it was 80 percent, second

1 year was 60/40. How is it that Southside's money is 9.8 million less and Southwest is
2 28?

3 DELEGATE KILGORE: You got more money, you got a lot more
4 and less farmers.

5 SENATOR RUFF: We're much nicer to our growers.

6 MS. WASS: Southside is less.

7 MS. THOMAS: I understand that but they've been given
8 more of a percentage to their farmers.

9 DELEGATE KILGORE: We don't have but 13 million dollars and
10 they're small farms and it takes a long time.

11 MR. CURRIN: 67 goes to the quota holder, 30 percent
12 or so-

13 MS. THOMAS: I understand all that, but it just doesn't,
14 they've been given a larger amount of their portion but they have smaller amounts
15 and it all should be relevant, shouldn't it?

16 DELEGATE KILGORE: No, I don't think so, because-

17 MR. CURRIN: Stephanie has worked extensively with
18 Stan Duffer, as most of you know, on arrival at these figures with the Department of
19 Agriculture, where we stand, on the indemnification process.

20 MS. THOMAS: It looks like it moves-

21 MR. CURRIN: It's a moving target.

22 MS. WASS: The annual payments that have been
23 made are flue-cured and burley; 339 million of flue-cured and 140 million for burley.
24 It's a smaller amount and annual payments are smaller too.

25 DELEGATE KILGORE: I take it, Carthan, from looking at all

1 this, there's three decisions that the Executive Committee, this committee has to make
2 and present tomorrow to the full Commission as it relates to the budget.

3 First, do we agree with the proposal of 35 percent broke down for Special
4 Projects and Educational Revolving Loan? Second, what is the Southside's
5 breakdown. And, I don't know who speaks or what their meeting has come forward
6 with.

7 MR. CURRIN: They met on that issue

8 DELEGATE KILGORE: And third, what Southwest, I think we'll
9 leave ours the same, 80/20, so I think that's the consensus of every one that we talked
10 to. So, we still have two decisions to make.

11 SENATOR RUFF: Mr. Chairman, I'll make the motion that
12 we split the 35 percent off into four categories.

13 UNIDENTIFIED: Second.

14 DELEGATE KILGORE: All those in favor say, "Aye." (Aye's)
15 "Opposed?" (No response.)

16 DELEGATE KILGORE: Now, as far as Southside, you all in a
17 position, the three of you all, to make a recommendation as to the split, or would you
18 rather wait.

19 SENATOR RUFF: I don't now how we can make a
20 recommendation that exceeds 9.8, a hundred percent. I don't really see where we
21 have a choice.

22 DELEGATE KILGORE: That's what I'm trying to figure out too,
23 I don't guess you can overpay, because the law is the law and says that, including all-

24 MR. FERGUSON: I mean if there's a quota buyout, we may
25 change this, if it happens to be another TLAP that could change it. We TLAP

1 don't know what the certification dollars are going to be precisely.

2 SENATOR RUFF: Mr. Chairman, Frank, if there is a
3 Federal Buyout, what does this do to what we've already done?

4 MR. FERGUSON: I think we'll send it back to the drawing
5 board.

6 SENATOR RUFF: We haven't yet collected this money
7 from them.

8 MR. FERGUSON: You're not going to be able to go back
9 and get money that's already paid but it may stop them from paying anything else.

10 SENATOR RUFF: Right.

11 DELEGATE KILGORE: And the buyout may also, we're dealing
12 with lost quota and we're not dealing so much with what quota is on the ground right
13 now. The buyout could be for the quota that's there now. I suppose that's what's
14 going to happen.

15 MR. FERGUSON: Well, that's right. I mean the figure your
16 talking about to fully indemnify is based only on loss, not on the total quota that they
17 own.

18 DELEGATE KILGORE: If there's a buyout it will be what they
19 own now.

20 MS. WASS: If the Federal buyout causes the Phase II
21 payments to go away because this is assuming that Phase II continues.

22 DELEGATE KILGORE: It will increase our liability.

23 MS. WASS: It will increase the liability in Phase II.

24 DELEGATE KILGORE: Not our liability but our pay out.

25 MR. FERGUSON: Senator Ruff, just to further confuse

1 matters, the statute does not specifically contemplate buyout. It contemplates the
2 TLAP program and contemplates the certification portion of the trust fund payments.
3 One could argue that because it specifically enumerates those as contributing to the
4 indemnification payments, it excludes the quota buyout. Nonetheless, I would submit
5 that's a reasonable interpretation if quota is bought out, no quota to be lost so that
6 there's no more indemnification to be made.

7 MS. THOMAS: What we're indemnifying is what is lost.

8 MR. FERGUSON: That's already happened, you're not
9 going to get paid for that.

10 MS. THOMAS: Exactly, is there anything else included
11 in this except the assumed Phase II payment until 2010, is there anything else
12 included?

13 MS. WASS: TLAP1 was included in this and TLAP2
14 was not because it's calculated on a different basis. We are considering Phase II and
15 Phase I and TLAP.

16 MR. CURRIN: TLAP2 is based on the 2000 quota.

17 MS. THOMAS: Nothing else applies, Phase I and Phase
18 II.

19 MR. FERGSON: No going forward. They've already
20 counted in TLAP I in the past and they are not assuming any more TLAP payments.

21 MS. THOMAS: But we are assuming Phase II payments
22 whether they happen or not, how many dollars is Phase II payments, that our farmers
23 have not received?

24 MS. WASS: I have counted 2002, if you count Phase
25 I, \$9.8 million and that's potential-

1 MR. FERGUSON: Stephanie, just to round it out, the trust
2 payments are not contingent upon full indemnification, they pay out over the twelve-
3 year period, regardless. So, the assumption, I think, Mr. Thomas, is that those will
4 continue for the remaining nine years of the trust program or whatever it is.

5 The full indemnification is prefaced upon those continuing to be made. I also
6 think they would end on the quota buyout. Unless the quota buyout is funded by a tax
7 against the Tobacco Companies-

8 MS. THOMAS: That's a lot of assuming and a lot of
9 dollars worth of assuming on our part when we talk about discontinuing payments.

10 MS. WASS: But you're only setting this budget for
11 one year. Next year's budget you can decide to spend 100 percent.

12 MS. THOMAS: But Senator Ruff said, "why are we
13 going to allocate more than what's promised to these families, when you're only
14 talking about nine million."

15 MS. WASS: We're talking about just FY'03.

16 DELEGATE KILGORE: These numbers may change next year.

17 MS. WASS: Then we'll revise that next year.

18 DELEGATE KILGORE: It's a moving target.

19 MS. THOMAS: I just want us to figure out or stop
20 indemnifying the farmer's based on what we don't have.

21 SENATOR RUFF: I don't disagree with you, legally what
22 happens if we overpay them?

23 MR. FERGUSON: I don't know what you could do about it.
24 The statute doesn't contemplate that happening, so it doesn't really tell us what to do.

25 SENATOR RUFF: If you spend 35 percent, we would be-

1 MR. FERGUSON: I also think you have a fiduciary
2 obligation not to-

3 SENATOR RUFF: I think that's the point-

4 MR. FERGUSON: But to address Ms. Thomas' concern,
5 obviously, if there's further losses that is not now contemplated between now and
6 next year, we can resume indemnification payments in the next budget.

7 MS. THOMAS: Was it within our fiduciary
8 responsibility to include all funds that they might get or potentially?

9 MR. FERGUSON: The statute requires the ones that we've
10 included so far.

11 MS. THOMAS: The TLAP-

12 DELEGATE KILGORE: Yes.

13 MS. THOMAS: Okay, fine.

14 DELEGATE KILGORE: So, what is, I guess you all's position
15 would be 28 percent, 28/72, is that your conclusion based on the figures we have
16 today?

17 SENATOR RUFF: Based on these figures, I don't see where
18 we have changed at all.

19 DELEGATE KILGORE: I don't see-

20 DELEGATE DUDLEY: We can do less, can't do more.

21 DELEGATE KILGORE: I don't believe-

22 MS. WASS: The last- the thirty five percent-

23 DELEGATE KILGORE: We already made that motion and
24 passed. He made the motion for the individual breakdown. Now, is there anything
25 else, Carthan, on the budget?

1 MR. CURRIN: No, sir.

2 DELEGATE KILGORE: Okay, thank you, Carthan.

3 DELEGATE DUDLEY: Before we take a vote on the budget,
4 Delegate Johnson brought up a good point and I'd like to make a motion. I would
5 move that we now go into a closed meeting pursuant to Sections 2.2-3711(A)(1) and
6 2.2-3711(A)(7) of the Code of Virginia. The purpose and subject matter of the closed
7 meeting will be, one, to discuss or consider the structure of the Commission and the
8 assignment of appointees or employees of the Commission; and two, to consult with
9 legal counsel on legal matters relating thereto.

10 DELEGATE KILGORE: I have a motion to go into closed
11 session. I would ask that everyone exit the room.

12

13 *Note: It is moved and seconded.

14

15 The subcommittee goes into Executive Session; thereupon, the Executive
16 reconvenes:

17

18 SENATOR WAMPLER: Mr. Chairman, I'd move to certify that
19 only public business, lawfully exempted from open meeting requirements. Number
20 two, only such public business matters as were identified in a motion to go into a
21 closed meeting were heard, discussed, or considered in the closed meeting. So
22 moved, Mr. Chairman.

23 SENATOR HAWKINS: Call the roll.

24 MR. CURRIN: Mr. Bryant?

25 (No response.)

1 MR. CURRIN: Delegate Byron?
2 (No response.)
3 MR. CURRIN: Delegate Dudley?
4 DELEGATE DUDLEY: Aye.
5 MR. CURRIN: Mr. Hopkins?
6 (No response.)
7 MR. CURRIN: Delegate Johnson?
8 DELEGATE JOHNSON: Aye.
9 MR. CURRIN: Delegate Kilgore?
10 DELEGATE KILGORE: Aye.
11 MR. CURRIN: Senator Ruff?
12 SENATOR RUFF: Here.
13 MR. CURRIN: Mrs. Thomas.
14 MRS. THOMAS: Aye.
15 MR. CURRIN: Mr. Walker?
16 (No response.)
17 MR. CURRIN: Senator Wampler?
18 SENATOR WAMPLER: Aye.
19 MR. CURRIN: Mr. Chairman?
20 SENATOR HAWKINS: Aye. Motion carries and we have a
21 quorum. As far as I know, that pretty much takes care of the agenda, except for
22 public comment.
23 DELEGATE KILGORE: We never got to the Tobio and Crop
24 Tech.
25 SENATOR HAWKINS: I think that's on the agenda tomorrow.

1 DELEGATE DUDLEY: We deferred any recommendation on the
2 budget, pending a special meeting and I'd like to go back to that at this point in time.

3 SENATOR HAWKINS: We have a motion on the budget.

4 DELEGATE DUDLEY: Would you put that slide back up? Mr.
5 Chairman, having voted on- specific amounts of money to be broken out between
6 Special Projects and Deal Closings and the Revolving Loan, I'd like to reconsider
7 that.

8 SENATOR HAWKINS: Is there a second? It's been moved and
9 seconded that voting- votes were taken that the budget be reconsidered. All those in
10 favor say, "Aye." (Aye's) "Opposed?" (No response.)

11 SENATOR WAMPLER: Mr. Chairman, if I could draw the
12 Commission attention to block, Stephanie are you about ready to put on the screen. It
13 basically does this, it would, or the Director has proposed to us, on amount and Deal
14 Closings of 5.1 million and 9.7 Special Projects. I would recommend that we take
15 Deal Closing down to \$2 million and apply the balance of that 3.1 Special Projects.
16 So, it should read, Special Projects, 12.8 million and Deal Closing, 2 million.

17 SENATOR HAWKINS: Does everyone understand the motion?

18 SENATOR WAMPLER: The intent for the minutes would be, that
19 should additional dollars be needed for Deal Closings, we would adjust accordingly
20 throughout the balance of the year.

21 SENATOR HAWKINS: It's been moved and seconded that
22 monies be moved, Deal Closings and Special Projects, does everyone understand the
23 motion, any discussion? All those in favor say, "Aye." (Aye's) "All those opposed?"
24 (No response.)

25 So, Special Projects is going to increase to 12.8 and Deal Closing has been

1 reduced to 2 million with the caveat more monies can be transferred back to Deal
2 Closings if needed.

3 SENATOR WAMPLER: Mr. Chairman, just an inquiry. In our
4 absence, we had this transportation subcommittee meeting. On the Crossroads, was
5 action taken on that? Where did our Director go?

6 MS. WASS: No, that didn't come up. It's on the
7 agenda for tomorrow, though.

8 SENATOR WAMPLER: Which one? The only thing I would
9 point out is that, in the memorandum of understanding of the Crossroads Institute, it
10 included both Community Development Block Grant and ARC, Appalachian
11 Regional Commission Grants, to offset the liability. There's a document that's not
12 from the Crossroads Institute that does not say Appalachian Regional Commission
13 dollars, that needs to be reflected tomorrow and I'd just as soon bring is up now, if
14 anybody would be-

15 SENATOR HAWKINS: Should we adopt the budget first?

16 DELEGATE KILGORE: We've already adopted the budget.

17 DELEGATE DUDLEY: We never adopted the budget.

18 SENATOR HAWKINS: The Chair will entertain a motion to
19 adopt the budget as amended. It's been moved and seconded that the budget, as
20 amended be adopted, any discussion? All those in favor say, "Aye." (Aye's)
21 "Opposed." (No response.) The budget is adopted, Senator Wampler.

22 SENATOR WAMPLER: Just a housekeeping detail again,
23 tomorrow in Special Projects, when we get to Crossroads Institute, we need to reduce
24 the amount that the Special Projects Committee would fund, two items: Community
25 Development Block Grant and the Appalachian Regional Commission Grants. That's

1 all Mr. Chairman.

2 DELEGATE KILGORE: What is that?

3 SENATOR HAWKINS: So, you've got that worked out, do you
4 need a motion?

5 SENATOR WAMPLER: No, Mr. Chairman, I didn't want any
6 surprises in the full meeting tomorrow.

7 SENATOR HAWKINS: All right, we've completed the agenda
8 down to public comments. Does any of the public want to make a comment? If not,
9 I'll entertain a motion to adjourn.

10

11

PROCEEDINGS CONCLUDED

12

13