EXECUTIVE COMMITTEE MEETING
John Marshall Hotel – Marshall Room
Thursday, February 6, 2003
5:00 p.m.

APPEARANCES
Senator Charles R. Hawkins, Chairman
Senator Phillip P. Puckett
Senator Frank M. Ruff
Senator William C. Wampler, Jr.
Clarence D. Bryant, III
Michael J. Schewel, Secretary of Commerce and Trade
Gary D. Walker
Mr. Claude Owen, Jr.
John Bennett ,Secretary of Finance

ATTORNEY GENERAL'S OFFICE
Frank Ferguson
Anne Marie Cushmac
Stephanie Hamlett

SENATOR HAWKINS: Let's call the Executive Committee meeting to order.

MR. CURRIN: I'll call the roll.

SENATOR HAWKINS: I want to thank you all for coming.

MR. CURRIN: I'll just call the roll. Senator Hawkins?

SENATOR HAWKINS: Here.

MR. CURRIN: Delegate Kilgore?

DELEGATE KILGORE: (No response)

MR. CURRIN: Mr. Bryant?
MR. BRYANT: Here.
MR. CURRIN: Delegate Byron?
DELEGATE BYRON: (No response)
MR. CURRIN: Delegate Dudley?
DELEGATE DUDLEY: (No response)
MR. CURRIN: Delegate Johnson?
DELEGATE JOHNSON: (No response)
MR. CURRIN: Senator Puckett?
SENATOR PUCKETT: Here.
MR. CURRIN: Senator Ruff?
SENATOR RUFF: Here.
MR. CURRIN: Secretary Schewel?
SECRETARY SCHEWEL: Here.
MR. CURRIN: Mr. Walker?
MR. WALKER: Here.
MR. CURRIN: Senator Wampler?
SENATOR WAMPLER: Here.

SENATOR HAWKINS: Well, I know some of the house members are still over there. We'll just go ahead. We have a lot of business to do tonight, one of the main topics is securitization and we've got Tom Morris here to discuss the Long Range Planning Taskforce document. We have to put in place some framework that explains how we will manage these monies long term. Give some sort of security not only to the administration but to the General Assembly as well as our communities and to ourselves. We need to have some sort of vision where we plan to be a few years out, five years, ten years or fifteen years out and have some sort of mechanism that puts our goals in place and what we'd like to achieve and somewhat how we plan to get there.

To that end, we've been very fortunate to have Dr. Tom Morris who is with us this evening. He co-chaired the Long Range Planning Taskforce Committee with Charlie Majors and they've come up with a recommendation of a long-term plan.

We need to have a good open discussion on this plan to make sure that we understand that this is an ongoing process and this plan is the one that we all need to have an understanding of and that the long range effect of this will give us roadmap to our future. Without some sort of plan in place, we would really, I think, not be equipped to meet the challenges that we need to react to situations that might come up rather than anticipating them. The charge we have at this stage, this is much to our advantage.

Dr. Morris, do you have anything you want to say before we get

started on the securitization?

DR. MORRIS: I'll just take four or five minutes to summarize. Let me just say that on behalf of Charlie Majors who's attending a meeting in Florida and couldn't be here, we were both pleased to take on the task as co-chairman of the Long Range Planning Committee. We had one two-day session and we had three one-day meetings. We had 14 presenters and every time we had presenters we would reserve a lot of time in the late morning and early afternoon and have extensive discussion of the needs of the tobacco region and priorities and economic challenges. I can assure you that there was extensive discussion that went on. Let me just make three or four points on what we were trying to do. The legislation made it clear that the first goal of the Commission is indemnification of the tobacco farmers and that was the assumptions in the long range plan and there was specific funding set aside in the formula to deal with that preeminent goal and that was there from the outset.

The other discussions that came out of our deliberations were the similarities as opposed to the differences between the two regions, Southside and Southwest. It's clear that both regions made up what we call the tobacco region from Lee to Greensville. The similarities of the economic location, the educational challenges and the new business and job creation challenges were similar for one region to another. So as we talk about priorities, whether it might be an education loan forgiveness program, our thinking was that it would be important to have that program work so people either in the Southwest or Southside would apply. It was a tobacco region that needed or had the need for people who had the educational skills to provide the economic and community leadership for those areas. So we talked in terms of the tobacco region.

On page three of our report, we talked about the non-profit foundation model for dispensing funds and critical I guess, to our recommendations was that there should be a model. We have two or three program officers with expertise in the four program areas that we identified. They had the role of calling the proposals and receiving and analyzing proposals, presenting recommendations concerning proposal to the Commission and overseeing the funded proposals and finally providing for accountability for the Commission's funded projects. We thought that was a critical element of our recommendation that came out of our discussions.

Finally, we recommended some general funding policies and I'll just go over a few of those. Funds should not be used to supplement other local, state, or federal funds. Funds should be leveraged to the greatest extent feasible, funding from other public and private sources. Funding should not be used to fund annual operating costs beyond start up costs. There was a strong view that that was a policy that should be followed.

Funding would not be used to finance endowments. That's generally what non-profit foundations do, they don't give people money to start another endowment. Finally, before any funding can be approved, an application must be submitted in accordance with guidelines and deadlines established by the Commission and be reviewed by the appropriate program director of the Commission. Those were the major points I wanted to highlight. I believe you've got a copy of the proposed funding allocations. There were four basic areas in which we suggested that the money should be allocated. Building telecommunication infrastructure, building human infrastructure, money going in to support educational efforts, building conditions for innovation and then building regional development capacity. That envisions completing the economic development from Southwest and Southside that had already been put in place. The first three categories would be a substantial amount of money that's available to people throughout the region to make application for and there would be a substantial amount of money in any of those categories.

Mr. Chairman, let me stop with that and I'll be available to answer any further questions.

SENATOR HAWKINS: I think this probably would be a good time to open up the floor for a few minutes of discussion and give everyone an opportunity to review the recommendations and those members of the Executive Committee and other members who wish to make a comment or have questions, this would be a good time to do that. Does anyone have any questions or any additions or subtractions thereof.

MR. WATKINS: My biggest question is sitting on the Southside Economic Development Committee looking at where people put in projects that are questionable because, we had for example, someone who wanted museums and some people wanted money for various things. I look at some of these categories and I'm going to pick on one of them which is approve and develop local leadership where needed. I can drive a Mack truck through that when I ask or request funds. I'm just wondering if we shouldn't or this thing is so wide open that we're going to encourage people to apply for every type of thing that exist. We ran into a problem with the museums. I have serious questions because the Economic Development Committee should focus on jobs. This is going in the opposite direction and we should be more focused and this is extremely less focused.

SENATOR HAWKINS: In order to be responsive to our charge, we need to be focused. The leadership piece you brought out is something that we need to address in some fashion. In my mind what you're referring to as leadership is not the traditional definition of leadership. If you look at our communities historically most of the people that have made real contributions in our area have come out of main street businesses and

those businesses are developed over generations and developed a wealth well structure and the leadership structure that reflected well on the community and became part of things like the Board of Supervisors and Town Councils. In order for us to create the next generation of leaders and wealth structure, we need to kind of concentrate on these micro business enterprise zones and develop the entrepreneurial effort in place and make sure we transition people from hourly jobs and create a leadership base in the community. That's one of the interpretations. I would hate for us to put something in place that would give no flexibility.

MR. TUCKER: I don't argue with flexibility but I'm just wondering why this is being addressed separate.

DR. MORRIS: I believe I can say that every presenter we had without exception talked about the importance of leadership in revitalizing regions like this wherever they came from. We chose not to make it a separate category and not over-emphasize it. The funding policies make it clear that it would not be the intent to go in and replace the funding for leadership programs already in place. Many other counties already have leadership programs. I think our assumption was that this money would not be used to replace that but we felt it was important and we had that one line.

MR. TUCKER: That's just an example.

DR. MORRIS: We felt it was important for the Commission to have the flexibility and program officers to identify some leadership initiatives that we might not now be able to envision ourselves. It's not designed to replace the funding for leadership programs that are now in place.

MR. WATKINS: What would be an example, I've got a question on this. What would be an example and I respect all the work that everyone did on this, but what would be an example of a program that doesn't exist there now that you would envision taking that kind of money?

SENATOR RUFF: Mr. Chairman. I don't think we have found solutions to all the problems but what we tried to do is identify what the problems were and then leave avenues open to get to the solutions to that. I think the issue of whether a lot of applications come in should not be our concern. Our concern should be whether we have an avenue to enhance this. I think we need to keep as open as possible so that we don't close off an avenue for development of the program.

MR. WATKINS: So you disagree with what you said at the last economic development meeting.

SENATOR RUFF: I don't remember what I said at the last meeting or yesterday.

SENATOR HAWKINS: I think what we need to understand is, this is an example that we can set aside monies for the capital access fund

and it can be used to create some training, training in jobs, venture capital projects. Leadership could be tied into that by using and creating ownership.

MR. WATKINS: Capital access funds is another part?

SENATOR HAWKINS: This is not a cut and dry formula, this was put together to try to bring some stability to the communities. This isn't trying to pull one side against the other. This is not taking a community apart. If you take one piece out you don't lose the puzzle. This is to get all the pieces to fit together and it's all part of an overall plan as far as where we want to go. We can knit pick this to death but we have to put in place something that make sense and gives us a guide or a path.

MR. WATKINS: I just think we need to be a lot more focused.

SENATOR HAWKINS: The beauty of this is that we can all have different views but we can at least go in one direction. I think that we need to be able to have flexibility. We're getting into a running discussion that we didn't necessarily need to do. Yes, sir.

MR. OWEN: It's been my experience that the value of a plan or the planning process is a process more than a plan. The plan itself, at the end of the day, quickly becomes obsolete because a change in circumstances. Did we determine this to be a taskforce rather than a standing committee of the Commission. Now that this Commission plan has been submitted, I presume it will be approved. Does that end the taskforce or is this an ongoing process that will be reviewed and revised on an annual basis?

SENATOR HAWKINS: My interpretation is that the taskforce was charged with making recommendations for a long-term plan. Once we adopt a long-term plan as a Commission, then it will be our charge to make sure that it grows and is adapted to the needs of the Commission and the environment of the Commission. The Commission, I believe, would have completed its task and now they are presenting us with a plan that's up to us to implement it to meet the needs of the areas that we represent as a Commission.

MR. OWEN: I would strongly encourage the Executive Committee and Executive Director that this is not a complete task. We're putting out information that will cover the next half dozen years and I think it has to be reviewed and updated at least on an annual basis.

SENATOR HAWKINS: That's the thing that we have to focus on. We need to put in something that would give us some goals and benchmarks but also something that we can also change, change the dynamics and demographics of the area. We can't predict what's going to happen 20 years out but we have to be able to adjust. Are there any other comments?

DR. MORRIS: I just say that if the Commission draws upon

this general plan and focuses or takes a tobacco region approach and works within the framework of the funding allocations we talked about here and moves forward with program officers and follows the funding policies that we have suggested here, that puts some restrictions with regard to not funding endowments, that provides a pretty healthy direction at least for the next period of time.

SENATOR HAWKINS: This also helps and gives us some guidance and I think that's what we got to keep in mind. Any suggestions or changes before we go to the full Commission on the recommendations?

MR. WATKINS: The biggest question I have and I have to ask the Secretary how his plan would affect the funding for this.

SECRETARY SCHEWEL: This plan really has a long-range plan and really has two functions. One of them is to guide where the Commission will be putting resources or a living plan and adapts and refines and changes and moves on. Another thing is a guide for financing because for example, indemnity payments can be used and made out of a certain portion of securitization but can't be made out of another portion of it. So one of the main goals behind getting the plan down, one of the reasons it's done with those, how much money we are spending in order to be able to create a financing plan that reflects a long range plan. I think it's a question we need to ask an investment banker but my understanding is that all of the financing options that are presented will cover the expenditures that are reflected on the long-range plan.

MR. WATKINS: One of the questions I have is that once we adopt securitization, do those monies have to be in separate funds so these are fixed amounts?

SECRETARY SCHEWEL: Those monies will be, basically no. That's my understanding. Maybe someone can comment who has more expertise.

SECRETARY BENNETT: That is correct.

SENATOR HAWKINS: I think the benchmark is that we feel that a certain portion of these monies will go into programs.

MR. WATKINS: But the securitization does not affect, one of these has, one of these has X percent this.

SECRETARY SCHEWEL: No, securitization does mean, depending on how you do it, it then creates some limits.

SENATOR HAWKINS: Also securitization gives us a different challenge. In the past we have obligated ourselves on a yearly basis based on the allocations. If we have securitization, you're talking about, we can't depend on that particular cash flow, you have to deal with the money or have to have or set up a structure to reflect that. Any more comments on the long term plan. Is there a recommendation for us to take it

to the full Commission?

MR. WALKER: Mr. Chairman, I've spoken to a lot of people in my region and my region encompasses Charlotte, Prince Edward, Cumberland, Appomattox, Buckingham, Amelia, Cumberland, all those places that have no representation. They don't have representation on this Commission and I feel like, I've spoke to a lot of those people and they are so focused and so concerned about jobs number one. They'd rather we stay more focused on that, particular aspect. They'd rather take the rifle shot and shoot for jobs rather than take the shotgun approach. That's the big concern, jobs.

SENATOR HAWKINS: I think we can do both. I think we can concentrate on creating new jobs now and also can have a long-range plan also by working with the local communities. Another thing we've talked about, we're really putting in place and having an economic development person in both regions in the Southside and Southwest who can work with these small counties and help come up with a resource of ideas and help generate these kinds of new ideas and innovative ideas. That's one of the things that we can do. We can use the current system we have in place through special projects funding and deal closing and the things we've been doing to attract the jobs we need and we cannot lose our focus and our charge.

MR. WATKINS: Those same counties and I've traveled in more of those counties than even Carthan who goes to Southwest. I've talked with more people who are involved in the economic development and county administrators and we've asked them over the last several years to put together a long term plan how to spend their money in the Southside. They're in the middle of doing that. We're probably ready after about this year to do away with the funds that go to indemnification when it's paid up. So we're going to have an economic impact in the counties that we haven't had before. Those folks in the affected counties are going to undergo a bigger shock than they've ever had because those indemnification payments now going to the communities are going to be gone and they have been putting long range plans in place. If we're going to cut back monies that were assigned to them based on this formulary, from about 20 or 25 million to about 25 or 30 percent in some cases that we have, just at the time it's going to have the biggest impacts. Then as far as the money is concerned, they're going to be dependent on whether they have someone on this Commission to represent them. You can look at the figures that are going to come out later and look at those counties that do not have any money or special -.

SENATOR HAWKINS: I disagree with you frankly.

MR. WATKINS: If we do that, we're going to a situation

where the money is flowing through the communities based on economic impact that's happened over the past two years with that formula and we're going into a situation that's not going to be based on economic impact. If you look at those counties and it's some of the most heavily affected and not necessarily dipped into those pools and I would take out money that goes into the things that go to the community colleges because you can use Brunswick County for example and that's one of the largest communities that's impacted. All the money that showed up in Brunswick is from the money that –

SENATOR HAWKINS: What you're saying in your view is that all those communities, you're saying look out for your neighbor and that's not the case. Every project that we looked we considered on the merits. Special projects were put in place to help counties do things when they didn't have the money to do those things be it all the small counties. The problem we face is getting the small counties who do not have an economic development tool or have access to it and put in place people that can help to do these things. That's what we're trying to do. We need this long-range plan to set back and say this will come at some point, if we do it this way it will not happen. I really think from my view, I think that this Commission should take a regional approach to this process. The original formula was based on the impact of the tobacco situation on these communities. When the legislation was put in place it was to make sure that we tried to recognize these impacts. Now, we've done that to a large degree because the indemnification piece recognizes the impact as well. These counties that have received money for indemnification but also economic development to reflect the impact of the tobacco legislation. I am convinced that if we plan to build a Commission that will withstand the timeframe we've got to have a Tobacco Commission in place that understands both. The formula that we had also had a pot of money that could be used for special projects to deal with Charlotte County or one of the smaller counties to get access. No one has been denied the ability to do something for a lack of funds. We've got the money and do not have the projects.

MR. WATKINS: I don't argue with you at all that they've been denied. I just argue that in many counties that they're just not in our area. Those counties with or have gotten the funds and those counties with less have not.

SENATOR HAWKINS: That's not something we could have dealt with at that time. We're dealing with it now and it's on the table and the long-range plan gives us the ability to deal with that. If we stick with a pure interpretation of the original, if we go strictly then with everything based on allocation formula and no special project, no education, there's some counties that would make out like bandits and everybody else would

go by the wayside. We just can't do that.

MR. WATKINS: I don't argue with you at all about that but I'm just saying we're putting too much in those other pools.

SENATOR HAWKINS: How can you not do that Tucker? When you look at trying to bring a Patrick County or a Charlotte County or a Brunswick County or a Lee County, bringing those counties up with the competitive edge they need without having a pool of money to work with?

MR. WATKINS: I agree with you totally there needs to be that pool. I'm just saying we're putting too much emphasis on that pool.

SENATOR HAWKINS: That pool is the only thing we have to draw from to get all these communities access to a viable plan that we're trying to put in place. Excuse me, I'm wound up, I've been at this all day and it's going to take me awhile to run down. Tucker, I value a great deal your opinions but I don't think someone can interpret this Commission as being political or anything else has totally misread what we're trying to do.

SECRETARY SCHEWEL: The pool you're referring to is which one?

MR. WATKINS: The bottom pool.

SECRETARY SCHEWEL: I think one of the things you've said and Gary said the same thing concerned about jobs and they should have more access to jobs. One of the things that it seems to me that, I don't think we can bring the kind of jobs that will last to this area if all we're doing is going out and buying jobs because even if we're buying the jobs, we're still buying jobs for people that, are generally speaking, have relatively low education level and relatively low training skills or have a low training level so we're relatively limited. My question is all you do is buy jobs. Have you really bought the future or have you just bought another five years because the jobs you buy may be gone in five years from now. So I think one of the issues for me that I think is a very serious question, one of the things you're talking about is if you're spending $60 million a year and every ten, that's not. Say you spend $60 million to attract industry in South Hill and those jobs don't last. But I think in the end, you can buy yourself a little extra time and you want to buy something that's going to last. I think part of that process and I may be wrong, but this is subject to change as we go along. I think we need to focus more than just on jobs because otherwise, the jobs you get are the ones that won't move the economy in the future.

SENATOR HAWKINS: One of the things that concerns me is that when you start a bidding war for jobs or plants, from the loyalty of that particular plant or business in the area may be based solely on the benefits they receive. Then when someone a few years out offers them a better deal, they're going to go. We've got to do something that builds stability. We've got to think of jobs that can be created for the future and can offer the

stability to these communities. If we're not doing that, then we might as well throw our hands up in the air and walk away because we're just wasting a lot of money and time and I don't think that's what we really want to do.

MR. WALKER: My concern is that the job training and education can be so overwhelmed and so limited and it seems like a lot of money but it's not. The Commonwealth of Virginia deals with education and we have workforce development training and we have those pools of money. I just hate to see you take the tobacco money and do things or spend money on things which really we shouldn't be obligated to do. I think it can be overwhelmed. Education and all this money, but what are we doing for jobs?

MR. WATKINS: There was a recent JLARC report that said we should spend this money on jobs retraining, workforce development. It left out the rest of the portions of the state and one of the people called me up and said can you help us get this money and I said well, is that going to be in addition to or a substitute? If we allow this to be a substitute for these other funds where are we –

SENATOR HAWKINS: We're not going to do that.

MR. WATKINS: That was in a JLARC report.

SENATOR HAWKINS: The problem we have to address is workforce training and that's the key issue. Secretary Schewel knows that very well. We're working on, when we're talking about tobacco money, it's not that type of program, we want to put in place something different and there's some difference there to compliment what's going on. The micro business and dealing with new businesses and creating things that are not there. We need to be able to understand that the scholarship money, we can't afford not to do that. We've got to move on and to do that, we got to make sure that the availability of education is there. Any other discussion on this matter?

SENATOR RUFF: Does this full Commission have the ability to change from one category to another category on an annual basis? If we feel like we've got too much in this category or not enough in another, do we have that flexibility?

SENATOR HAWKINS: I would think anything we do we can change by vote of the full Commission. The Commission has not denied, this is a document that gives us some direction, the flexibility is up to our own determination.

SECRETARY SCHEWEL: You can't change things that would impact the financing category but other than that, you can.

SENATOR RUFF: Thank you.

SENATOR HAWKINS: Any other questions? Is there a recommendation to go to the full Commission on this subject?

SECRETARY SCHEWEL: So moved.

SENATOR HAWKINS: All right. It's been moved and seconded that we recommend reporting the long-term plan to the full Commission. All in favor say aye (ayes) opposed (no response). Thank you. We'll have more discussion about this tonight. Now, we need to get into the securitization which is a very complicated section of the total discussion tonight. Securitization is a subject we've been discussing for the last couple of years and last year we decided to do it and we tried to figure out how best to structure the overall make up of the securitization on the taxable and non-taxable aspects. The Treasurer of Virginia, Jody Wagner is here.

MS. WAGNER: Thank you Mr. Chairman, we're prepared to make a presentation to the full Commission and the Committee.

SENATOR HAWKINS: We'll go ahead and hear just a modified version and then we'll take a break and come back with the full Commission. You don't have to do a full presentation at this time because I know it's fairly complicated.

MS. WAGNER: There's really three issues that we need to discuss. We've been working steadily on the documents and we have two big books that we prepared and we're ready to go except making the decision on how we securitize. The issues are whether it's taxable or tax-exempt and the reason that is critical is how we spend money. If we get a hundred percent tax-exempt it would permit you to do a long-range plan but would give you very limited flexibility. If we go taxable, it buys you more flexibility and it will reduce your proceeds slightly but on the other hand the investment's a little higher. The second question is what percentage of the proceeds do you want to securitize? Do you want to securitize a hundred percent of it or we can do anything from there to zero, it's up to you all. The more you securitize, the more you have in your endowment, the less cash flow you have. Right now there's no securitization and you get a higher payment. Then the third choice is over what period of time is this going to run. You have a choice where it comes down to whether you want to do it for 25 years or 30 years. We can do the turbo. You have your experts here from Morgan Stanley and McGuire Woods and Public Resources Advisory Group to talk to you. Mr. Chairman, with your permission, I'll turn it over to Billy Cobbs. The Commonwealth has retained financial advisors for the past 15 years called the Public Resources Advisors Group. They are the advisors who have handled these types of transactions including the State of California, South Carolina and many other states. Billy Cobbs has been involved in a lot of the securitization that will take place and it may be useful for him to give you a two minute history of where the market is and also the risk side. Billy Cobbs is President of Public Resources Advisory

Group.

SENATOR HAWKINS: Welcome.

MR. BENNETT: I might add that Billy works for a firm that advises us for a set fee basis. He has no stake after giving us advice and that's a decision we'll make but we found his advice to be very useful.

SENATOR HAWKINS: All right, thank you. Welcome.

MR. COBBS: We've worked with the State for many years and it's very, very important and I'm happy to be here tonight. By way of background, I might add that Maryland and North Carolina in addition to California and New York, we did the first securitization in New York City and we just finished doing California and they had one of the biggest programs. There's several points to be made. I think the most important thing is that it should be done right and Virginia always does things right and dot every I and cross every T two or three times. The Treasurer's office has certainly seen that that's the case and we're moving ahead. I guess that's the next point we want to get to and then one other point I want to make. I think it's very important that you do move with some speed.

I have several handouts for you. In the last year or 18 months the interest rates on the tobacco securitization has been going up and it's pretty simple. Unlike most bonds that were sold whether it's highways or general government bonds, this is only one asset and that is the MSA. Consequently all the bond funds have, when you take California, Illinois, Virginia and interest rates on these have been going up. There are a number of other states and other issues that are going to do this. We just finished work on California. The first California issue was, which was three billion dollars about a month ago. They had the single highest rates of any state. New Jersey will probably sell their second issue in the next couple of weeks. New York state will probably be a two billion dollar issue, Missouri is looking at an issue. California is looking at their second.

The higher the interest rates the less proceeds to you. Everybody has to realize that if you do a net present value analysis, you take all of the stream of revenue over the next 40 or 30 years or whatever you securitize or 25 years and compare that with the bond proceeds up front. You're going to take a so-called hair cut. There is a cost and that's a policy decision for you to make, we don't make policy and all we do is give you information. We give you that information and I'll be happy to answer any questions during your session. I'm handing you out some information and we can go through it more thoroughly when we make our presentation later. Is there anything I can answer now?

SENATOR HAWKINS: That's fine, thank you. It's the second matter that we need to have an understanding of and particularly the market. I don't think many of us truly understand how volatile the market

is.

MR. COBBS: We don't either. I think it will be easier for you than California because, it depends on once you decide to securitize and how you decide to do it. You'll have a much smaller issue and we're talking about a lesser timeframe probably, 25 or at most 30 years. That means not only the final maturity but the expected maturity with this full turbo will be shorter and investments like that, because it's really a question of how much further you go out. The greater risk is the further you go out. The 40-year bonds are very difficult to sell.

SENATOR HAWKINS: The states that you've looked at on the taxable and non-taxable portion, how are they broken down, was it a combination of different things?

MR. COBBS: South Carolina they did the first securitization and they did sell some taxable and that's very expensive money. We think that if you sell 20 percent of the issue on a taxable basis, you're probably looking at 300 basic points over the treasury, is that right?

MS. WAGNER: Yes.

MR. COBBS: If you go above that, you're looking at 350. It's one point, the tobacco lawyers, when you securitize their debt when they first came out and I think they sold a ten-year maturity in something like 500 points, basis points or something like that. If you try to securitize 50 percent, it's going to be a very difficult sell and I'm not sure there's a market out there. They say there's always a market for everything, maybe you can go to 500.

SENATOR HAWKINS: We'll have our discussion of that tonight but we need to remember the non-taxable and taxable differences.

MR. COBBS: You've got more flexibility with the taxable.

MR. WATKINS: What would be the cost of going to 500 basis points and what would be the net effect of the loss of the funds?

MR. COBBS: I've got 300 and I can give you the order of magnitude. The higher you go out and I'm talking about taxable, the more flexibility. In fact, if you go out and have an expected average life of more than five years and you got to remember that the taxable market is not the same as the tax exempt market, buyers are much more risk adverse than the tax-exempt.

SECRETARY SCHEWEL: Are there other states that have done this?

MR. COBB: Louisiana, North Dakota.

SECRETARY SCHEWEL: Have they done it for programmatic reasons?

MR. COBBS: They've done it for this very same reason you're thinking about doing it. They wanted more flexibility and they were also

doing it for economic development.

SECRETARY BENNETT: Most of the recent issues have been oriented toward plugging budgets. California, New Jersey, Wisconsin all those great big amounts were used to support the budget or plug debt structure.

MR. COBBS: That's what California is doing and New York is doing and New Jersey is doing.

SENATOR HAWKINS: We'll continue this conversation later on before the full Commission. Let's go ahead and break and we'll start back in 30 minutes with the full Commission at 6:30.

PROCEEDINGS CONCLUDED

CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the Executive Committee meeting when held on Thursday, February 6, 2003 at 5:00 o'clock p.m. in the John Marshall Hotel, Marshall Room in Richmond, Virginia 23219.

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

Given under my hand this 12th day of February, 2003.

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