



EXECUTIVE COMMITTEE
Monday, April 21, 2003 - 3:30 p.m.
Hotel Roanoke
Roanoke, Virginia

APPEARANCES:

Senator Charles R. Hawkins, Chairman
Senator Frank M. Ruff
Delegate Allen W. Dudley
Delegate Kathy J. Byron
The Honorable Gary D. Walker
Senator William C. Wampler, Jr. (via telephone)

COMMISSION STAFF:

Carthan F. Currin, III, Executive Director
Mary Cabell Sherrod, Manager of Communications and
Committee Operations
Stephane Wass, Director of Finance
Tim Pfohl, Grants Program Administration Manager
Britt Nelson, Grants Coordinator - Southside Virginia

ATTORNEY GENERAL'S OFFICE:

Anne Marie Cushmac, Senior Assistant Attorney General

SENATOR HAWKINS: I'll call the meeting to order. Carthan, do you want to call the roll?

MR. CURRIN: Mr. Bryant?

MR. BRYANT: (No response.)

MR. CURRIN: Delegate Byron?

DELEGATE BYRON: Here.

MR. CURRIN: Delegate Dudley?

DELEGATE DUDLEY: Here.

MR. CURRIN: Delegate Johnson?

DELEGATE JOHNSON: (No response.)

MR. CURRIN: Senator Puckett?

SENATOR PUCKETT: (No response.)

MR. CURRIN: Senator Ruff?

SENATOR RUFF: Here.

MR. CURRIN: Secretary Schewel?

SECRETARY SCHEWEL: (No response.)

MR. CURRIN: Mr. Walker?

MR. WALKER: Here.

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1 MR. CURRIN: Senator Wampler?

2 SENATOR WAMPLER: Here. (via telephone)

3 MR. CURRIN: Chairman Hawkins?

4 SENATOR HAWKINS: Here.

5 MR. CURRIN: The Vice Chair is absent.

6 SENATOR HAWKINS: How many do we have?

7 MR. CURRIN: Six, Mr. Chairman, you have a quorum.

8 SENATOR HAWKINS: Does William count?

9 MR. CURRIN: No, he can't vote on the phone.

10 MS. CUSHMAC: No.

11 SENATOR HAWKINS: We're not going to take any votes anyway, and this is informational.
12 Do you want to go ahead and start off so you can go on with your business? You had a couple of points you
13 wanted to make today.

14 SENATOR WAMPLER: I'd kind of like to follow the Agenda.

15 SENATOR HAWKINS: That's fine. What we need to do is to talk about a couple of points
16 and to bring everybody up on securitization. Is everyone reasonably familiar with the history of what's taken place
17 in connection with securitization, do we need to go over that? It's not a pretty story.

18 DELEGATE BYRON: You mean before or after?

19 SENATOR HAWKINS: All right, then we won't have to deal with that, then. The next thing
20 is that I'd like to make a suggestion that we, on the e58 project, I'd make a suggestion that we go ahead and
21 dissolve the special sub-committee that was put in place, because they've finished all the work that they can do and
22 the report has been submitted to us and go ahead and put that into Delegate Hogan's subcommittee so they can go
23 ahead and come up with a recommendation. With that recommendation I think we need to look into a proposal
24 that's been offered by Congressman Goode to find federal funding to build e58 and we pay them back with a fairly
25 small interest rate and therefore we can get the line built and get some obligations that we will be able to pay back
26 with allotted funds, and we'll be able to budget ourselves better. Any comments on that? I have a question, and I
27 guess Kathy, and I can't remember who's all part of that e58 group, but there were some things that the e58 special
28 subcommittee that you created asked Virginia Tech to provide, and I believe Deputy Secretary Huang asked for.
29 So if Virginia Tech is, if they say they're through and they're not going to provide that information, certainly I can
30 appreciate it and understand it. I thought there was a lot of open-ended points that we asked for additional
31 clarification on.

32 SENATOR HAWKINS: Your point is well taken, but I think what we can do is have that
33 report submitted to the sub-committee of the Tobacco Commission itself rather than go through the outside
34 committee that we had in place. We can take that in-house now and finish up the project.

35 SENATOR WAMPLER: It's not an easy task, what we asked them to come up with, and I
36 want to defer to, and I know it's the Commission's decision, but I thought the Deputy Secretary had some pretty
37 detailed questions that he wanted, and he's not part of the full Commission.

38 SENATOR HAWKINS: Let's go ahead and put a proviso in the recommendation that the
39 committee be dissolved after the report has been received from Virginia Tech and reviewed and submitted to the
40 Commission. Will that work?

41 MR. CURRIN: Senator Wampler, I think you'll recall that the eCorridors Task Force is a task
42 force, and we have several members, as a matter of clarification you may recall that the eCorridors Task Force had
43 some representation that you stated and were not on the Commission. We felt that after the Tech report was in and
44 some other reports that the chairman appointed a Standing Technology Committee that Delegate Hogan chairs and

1 Delegate Byron is the Vice Chair and Jim Thompson is a Vice Chair and you're on this Committee as well, a
2 Standing Technology Committee. It was felt that by the Chairman that beyond eCorridors there may be some other
3 technologies that were going to have to be addressed, and it would be better to have a standing committee of just
4 Commission members serving on that committee.

5 SENATOR WAMPLER: I can appreciate that; however, I don't know anyone who is much
6 smarter than Eugene is on this matter. I think we'd certainly benefit from his advice on it. It bothers me that
7 before we even have an idea of whether it's a good idea or not we're boxing him out of it.

8 SENATOR HAWKINS: Your point is well taken. That was a suggestion that came up this
9 morning in discussions, but it's something that we certainly can carry over to the full Commission meeting and
10 make sure everybody is on board with this.

11 MR. CURRIN: Senator Wampler, I think the Attorney General's Office would be comfortable
12 with the Deputy Secretary of Technology to be serving as an advisor to the Committee.

13 MS. CUSHMAC: I don't see any problem with that.

14 SENATOR HAWKINS: We can flesh this out before the full Commission.

15 SENATOR WAMPLER: That seems reasonable, and the other point I would have is that you
16 talk about federal money and loans, and that's the first time I've heard you try to describe it. I'm just one person,
17 and I don't know what Southwest would think about that, that's something we need to give more thought to. It
18 wasn't crunched into the model that Virginia Tech presented, either.

19 SENATOR HAWKINS: It's an entirely new scenario we put in place. The arguments for
20 going ahead and borrowing the money from the Feds is that we could go ahead and put everything in place,
21 including the backbone and the infrastructure we talked about, and then have a known amount of monies that
22 would be obligated each year to pay back and give us a stronger argument when it comes to the defense of some of
23 our monies, since we have not securitized. I'm looking at obligations that we have out there that make sense long-
24 term before the Commission.

25 SENATOR WAMPLER: That may be the best idea that's come down the pike; however, I
26 haven't seen any details on it. Before I'd vote to recommend that to the full Commission I think I'd want a little
27 more information about what it is we're doing. I don't know what the rest of the Executive Committee thinks about
28 it, but that would be my thought.

29 SENATOR HAWKINS: Point well taken.

30 DELEGATE BYRON: I would agree with William. This is the first I've heard of it, and I'd
31 be anxious to hear the details and know where we're going with this. Is this just verbal?

32 SENATOR HAWKINS: Just verbal at this point. His office called me and suggested that that
33 may be something that we might look to, and I think it was on Friday I got the call. This is fairly new and
34 something I thought we could discuss today.

35 DELEGATE BYRON: All the work from the Task Force, then, would be transferred to the
36 Technology Sub-Committee.

37 SENATOR HAWKINS: Yes.

38 DELEGATE BYRON: When I left the last meeting there were some very good questions
39 brought forward by several people, and I'd be anxious to hear the results from that as well. We also talked about a
40 presentation, possibly some people from the, or a mixture of the private sector and others involved in that, too.

41 SENATOR WAMPLER: That's right, the one larger open-ended point that Kathy addresses,
42 to what extent if any, any of the incumbents or other telecommunications providers might, and emphasis on might,
43 might be willing to add. But I think, Kathy, you're right, we need to receive all of those, and I guess this sub-
44 committee, and if Deputy Secretary Huang can serve on it as an advisor, would probably be the forum that we

1 could pick up.

2 SENATOR HAWKINS: Is it your opinion that we should go ahead and pursue the offer from
3 Congressman Goode for discussion purposes?

4 SENATOR WAMPLER: I think it's very interesting and probably has a lot of potential, but
5 I've never known the Federales to give us anything without asking for a lot in return.

6 SENATOR HAWKINS: I can appreciate that statement. Thank you, very much. What we
7 actually need to talk about as much as anything today is the budget that was sent to us in a draft proposal. There's
8 two proposals in the way of the budget presentation, Carthan. One is the more aggressive proposal, and one is the
9 more conservative approach.

10 MR. CURRIN: Yes, sir, if you want I can begin. Members of the Committee, if you recall
11 last spring the Commission approved a change in the distribution policy on a reimbursement basis rather than
12 stroking a check for the full amount of the grant. As you can see from this chart, our cash balances have gone up
13 significantly in fiscal year '03 due to this change in policy. That means we'll be able to earn more interest and
14 better monitor the funds of each grant award. With our recent hiring of two field staff, one in Southwest and one in
15 Southside, we anticipate we will have a better handle on each project, and how they're doing providing typical
16 assistance needed by the grant recipient.

17 Now, to bring you up to date on how the actual Master Settlement Agreement revenues compare to the
18 forecasted amounts, this graph shows the annual totals for our first five years of existence.

19 SENATOR HAWKINS: William, do you have the graph?

20 MR. CURRIN: He doesn't have that. All this and other details will be brought to the
21 Executive Committee's attention Wednesday night. The first bar reflects the unadjusted amounts established in the
22 original MSA. The blue bar shows the adjusted revenue forecast from the Virginia Department of Treasury
23 through global insight, and that's the entity that does the analysis on these tobacco proceeds. This will illustrate
24 the adjustment this takes into account for inflation, divested consumption and other factors affecting the MSA
25 revenue. The green bar shows actually what we received in fiscal years from 2000 through 2003. As you know by
26 now, we received 50.4 million dollars on April 15th, and an additional 1.9 million was received last Friday, and
27 maybe the Treasury Department or Attorney General's Office can explain the delay of that payment. Even though
28 the actual amount received in fiscal year 2003 was slightly under the latest forecast, our fiscal '03 budget was
29 based on last year's forecast, which was 73.8 million dollars, instead of the latest forecast of 75.7. As you saw in
30 the last slide, our total fiscal '03 budget Master Settlement Agreement revenues was 74.2 million dollars, which
31 was just over our budgeted amount by about three hundred thousand dollars, thanks to the Friday additional
32 payment.

33 Interest earned for the second quarter is seven hundred and seventy-four thousand four hundred and
34 twelve dollars. Our third quarter interest should be posted some time this week. As happened last year, fourth
35 quarter interest this year and next year is going to go to the general fund, due to the language of the Appropriation
36 Act. Last year we lost six hundred and sixty-nine thousand in the fourth quarter interest. This year we'll probably
37 lose more, since we are better managing our cash flows.

38 SENATOR WAMPLER: Mr. Chairman, Carthan, let's look for another word other than lose.

39 MR. CURRIN: Yes, sir.

40 SENATOR WAMPLER: Pardon my interruption.

41 MR. CURRIN: That's a very good point.

42 SENATOR HAWKINS: Say our contribution to the budget.

43 MR. CURRIN: I'll make the appropriate notation.

44 SENATOR WAMPLER: Pursuant to the Appropriations Act.

1 MR. CURRIN: Yes, sir. Securitization update. This group is well aware of what happened
2 with the securitization and we'll continue to monitor the market and explore our options. The State Treasurer will
3 be at Thursday's full Commission meeting to brief you and to answer any questions you may have. Outside legal
4 counsel that you all directed me to engage will also be at Thursday's meeting.

5 In your packet is some recent articles on other pending securitizations and how the market is reacting to
6 the tobacco industry and tobacco bonds.

7 The next slide is on the administration in the upcoming fiscal year '04. The draft budget was e-mailed to
8 you on Wednesday will be the starting point for discussion this afternoon to come up with a budget
9 recommendation to the full Commission. Included in the six hundred and fifty thousand is a contingent cost that
10 the Commission may have to pay if it ultimately decides not to securitize. If you recall, at the February meeting
11 treasury and bond counsel presented a list of estimated costs that the Commission would be liable for if the
12 transaction did not close. At this point it has not decided to completely cancel the deal, but it appears unlikely to
13 happen, in the future we will need to pay some costs. If we do securitize in the future some of the costs incurred
14 may not have to be paid again but would apply to the next transaction.

15 The amount for salaries and fringe benefits include the costs of a new position, a Managing Director for
16 Strategic Investments. The contractual services line item includes expenses, which has indemnification processing
17 and legal fees. The transfer payment is the amount indicated in the Appropriation Act that is transferred to the
18 Department of Taxation and the Attorney General's Office for Master Settlement Agreement enforcement.

19 The next chart is a pie chart and contains the administration costs and that are budgeted for your
20 approval for this upcoming fiscal year.

21 The next slide is a long-range spending plan and part of the strategic plan that was received by the
22 Commission in January, February of this year when we met at the Hotel John Marshall. The estimated annual cash
23 flows showed a range, since some funds were to be used only interest earnings, while others were to invade some
24 portion of the principal. Since this is a plan that will continue to evolve over time, the charge of the long-range
25 plan was used as a basis for Staff putting together the draft budget scenarios. The draft budget received presented
26 two scenarios that Senator Hawkins just spoke to. One is a more conservative budget, and the other is assuming
27 that we received the April, 2004 Master Settlement payment as forecasted and spend it all. The more conservative
28 approach will give the Commission flexibility by keeping securitization as an option in the coming year. The
29 conservative budget follows more closely to what our annual cash flows would have been if we would have
30 securitized. If we don't securitize, the Commission could deposit any excess revenues into the endowment created
31 for securitization proceeds and begin establishing its own endowment without securitizing. The Commission
32 could also choose to amend the budget later in the year, or once the April MSA payments are received, and
33 budgeting more conservatively would give us an extra cushion in case the Master Settlement Agreement revenues
34 are less than forecasted. Under this conservative approach, this conservative budget approach, and here's a flow
35 chart of what that distribution might look like, which was also given to you last week. This is merely a starting
36 point for discussion that the Staff put together to date, only a starting point. We're meeting today to discuss what
37 particular percentages and distributions you'd like to recommend to the full Commission.

38 SENATOR HAWKINS: The 51.9 million dollars in net revenue on the conservative
39 projection is twenty million dollars less than the actual funds we are receiving?

40 MR. CURRIN: That's ten - that's '03, and this one is '04. Now, the next chart is a pie chart
41 which explains that conservative approach where twenty-four percent goes to Regional Economic Development,
42 both regions eighteen percent education, nineteen percent to job creation, telecom ten percent and indemnification
43 twenty-four percent, and under this approach administration would be five percent.

44 SENATOR HAWKINS: The twenty-four percent indemnification payment, what's the cut to

1 the farmer?

2 MR. CURRIN: That's twelve million dollars to the farmers.

3 MS. WASS: Under the conservative approach it would be about thirteen million.

4 MR. CURRIN: You've got thirteen million for indemnification under this particular scenario.

5 The next slide, please.

6 The maximum spending budget scenario assumes that we don't securitize 2004 MSA revenues and
7 budget the entire amount expected in April. January 2003 was the last, was the last January payment we will
8 receive. From now on we'll only receive a payment in April. In your packet today is a revised maximum spending
9 budget based on a more recent forecast that shows lower numbers that was
10 e-mailed to you last week. The previous version was using last fall's forecast.

11 MR. WALKER: On that last slide, what's the amount in the regional economic development
12 this year?

13 MS. WASS: 28.4 million.

14 SENATOR HAWKINS: Does anyone have any questions?

15 MR. CURRIN: Senator Wampler?

16 SENATOR WAMPLER: The last I heard you were talking about fifty million dollars.

17 MR. CURRIN: The maximum spending budget scenario assumes that we don't securitize the
18 2004 MSA revenue and that we budget the entire amount expected in April. January 2003 was the last January
19 payment that we will receive from now on. From now on we'll receive only one payment, and that will be in April.
20 In your packet today's revised maximum spending budget based on a more recent forecast is lower numbers, and it
21 was e-mailed to you last week. The bottom line, William, under the maximum scenario, the '04 maximum
22 proceeds would be 62.3 million dollars.

23 SENATOR WAMPLER: Let me ask you a question on procedure, what concerns me as a
24 member of the Executive Committee, let's say by Wednesday evening we're able to come up with a
25 recommendation on percentage allocation or whether we're going to securitize zero or twenty-five or fifty percent
26 of our proceeds. How could we then reasonably expect the balance of the Commission to vote on something on
27 Thursday? Somebody help me with that thought process.

28 SENATOR HAWKINS: What are you talking about, William? You lost me.

29 SENATOR WAMPLER: We will have had the opportunity to review these numbers a couple
30 of times, and we're going to present a budget to the full Commission, and I'm just wondering what the Commission
31 will think as far as getting ready to make a decision.

32 SENATOR HAWKINS: In my own mind, dealing with the '04 budget the only scenario we
33 can deal with is not using the securitization as an option, and I don't think we'll be back in the market in time to do
34 that.

35 SENATOR WAMPLER: If they don't have the proposed budget in advance I don't think we
36 should ask them to vote on it.

37 SENATOR HAWKINS: Your point is well taken. I think the only recommendation we can
38 make to them is present the budget to the full Commission and have them review it, and we'll be able to vote on the
39 budget itself at the next Commission meeting.

40 SENATOR WAMPLER: I don't know if that is inconsistent with what you're trying to
41 achieve. In listening to Carthan go through the numbers, I don't know how we're going to do that.

42 MS. WASS: I think it's fair to say they should have more time, and we were hoping to have
43 this meeting in advance enough to do that, but because of that we need at least some portion of the administration
44 budget in place by July 1.

1 MR. CURRIN: Well, the Commission could meet before July 1.

2 SENATOR HAWKINS: We could do that or go ahead and adopt the administrative part of the
3 budget and deal with the rest of it later. The '03 budget cycle ends July 1 or June 30th. We need to have the '04
4 budget in place by July 1 to move forward.

5 SENATOR WAMPLER: So we would just present this budget and then have an additional
6 meeting for the proposed '04 budget. I was thinking, why don't we make a firm recommendation and ask for or do
7 it by sub-committee, how we spend down the balance of the '03 and/or recommending carrying those dollars for
8 the '04 budget.

9 SENATOR HAWKINS: That makes sense, let's do the administrative budget and work on the
10 rest later. It's been suggested we do an administrative budget and deal with the other part some time later in the
11 summer.

12 SENATOR WAMPLER: I don't know what the rest of the gang would say, but I think I know
13 a couple of the other Commission members who would be very uneasy voting on something that they just took a
14 quick view of.

15 SENATOR HAWKINS: This is entirely too important to just drop on the table and say vote
16 for it, and I can understand all of that, but we do need to deal with the administrative part. Does everyone agree to
17 try to deal with the administrative part?

18 DELEGATE BYRON: The administrative part, does that have the funds that you were
19 talking about?

20 SENATOR HAWKINS: Yes, we're going to discuss that topic and that part.

21 DELEGATE BYRON: How much was allocated for that?

22 MS. WASS: One-third of the salaries and fringe benefits.

23 MR. CURRIN: I'd say maybe two hundred thousand.

24 SENATOR HAWKINS: That's part of the administrative budget, and we'll have to discuss
25 that in some depth, too. This is a fairly new subject matter that not many people are aware of.

26 DELEGATE BYRON: Perhaps we do the budget first and give some time to talk about it and
27 then come back.

28 SENATOR HAWKINS: I think the new position, we can postpone that for a later discussion
29 as well, because we're talking about something that's in the process of being discussed and nothing is firm. So then
30 we can develop a budget without that in it and come back later on and deal with it. Does that make sense,
31 William?

32 SENATOR WAMPLER: Yes, sure.

33 SENATOR HAWKINS: I don't think we can assume anything with this budget, especially
34 with that kind of money, and expect people to, I think there needs to be an overall discussion and recommendations
35 from the Commission on the structure of this new position. Any comments?

36 MR. WALKER: I would agree, I think we could discuss the administrative budget without
37 the position.

38 SENATOR HAWKINS: Does that make sense to everyone? We're having an ongoing
39 discussion, and there's nothing firm about this new position, including a recommendation from the sub-committee
40 studying that.

41 DELEGATE DUDLEY: We're going to meet after the Commission meets.

42 SENATOR HAWKINS: We need to make a decision after your recommendations. Let's go
43 ahead then, William, if it suits you and the other Commission members, and make a recommendation on the
44 administrative budget and eliminating the new position until we have a recommendation on that.

1 DELEGATE BYRON: How can you interview people for a position that you don't have
2 allocated for, or you're going to allocate for later?

3 SENATOR RUFF: That takes care of the problem right there.

4 MR. WALKER: If you take care of the budget there won't be any need to.

5 SENATOR WAMPLER: Mr. Chairman, I would suggest that if we were going to go down
6 that path, that we answer to the Governor, should we securitize we would take another pass at this person and we'd
7 use proceeds from the securitization to pay for it.

8 SENATOR HAWKINS: If my memory serves me correctly, the discussion about this position
9 was someone to manage that sort of trust, about six hundred and some million dollars, which we have not
10 securitized, so the pressure is not there.

11 DELEGATE BYRON: Perhaps we have a contractual arrangement.

12 MR. CURRIN: The indemnification of fees and part of the payment to the Attorney General's
13 Office for transfer payments and endorsement of those companies that pay into the Master Settlement Agreement
14 and cigarette manufacturers.

15 DELEGATE DUDLEY: That's a separate line item.

16 MR. WATKINS: I think the question is why are you going from six fifty-two to seven
17 nineteen?

18 MS. WASS: There's a couple of things, one is that we have to go out and bid for our
19 indemnification processing. Part of what was not included in the last RFP was for auditing services, and that's
20 required by the APA. We're having to pay for that this year that was not previously budgeted.

21 MR. CURRIN: The auditor of public accounts is requiring that we do due diligence on the
22 indemnification payments by Troutman Sanders or whoever does it.

23 MS. WASS: Our fees from the Attorney General's Office are based on a three-year rolling
24 average of actual time, and I'm assuming as we have more meetings that our cost for that will continue to go up.
25 Then the grants, that's an office for the additional person.

26 SENATOR HAWKINS: Then the assumption of the new position. Based on the budget being
27 presented, the shortfall we have in this year's budget upon receiving the million and a half, how much short are we
28 on this budget?

29 MR. CURRIN: We're okay, we're okay.

30 SENATOR HAWKINS: What I'm hearing, then, the only thing that we need to deal with in
31 the way of the budget time frame is the July 1 date given for the administrative part and indemnification, and the
32 other pieces of the budget we can work on during the summer months and meet then in mid to late summer and
33 make a decision on that.

34 SENATOR WAMPLER: I think so. I don't want to prolong the conservation on
35 securitization, but I still think that we have to find out what our options are and do we even want to go in and
36 securitize a portion of it. I don't know that we can really set too much of a budget until we make those kind of
37 decisions.

38 SENATOR HAWKINS: That's a point we'll have to discuss about securitization, and I think
39 we all agree it should take place, but we have to make sure the market is right for us to do it. Right now doesn't
40 seem to be the time to get back into the market, and I have no crystal ball to tell you when the market is going to
41 firm up.

42 DELEGATE DUDLEY: The six hundred and fifty thousand, I seem to recall the number of
43 three hundred thousand as a possible contingency cost. Did we actually have six hundred and fifty thousand?

44 MR. CURRIN: It was under a million, I know that.

1 MS. WASS: It may or may not.

2 SENATOR WAMPLER: I don't know the answer to that until the Treasurer tells us what
3 we're on the hook for, and even then it gets a little more complicated if we ever decide to go back in the market and
4 utilize Morgan Stanley. If we pull the plug and say we're not going to do it, it may be six fifty, or if we go back in
5 and use the same underwriting it may be that it's less than that. So I don't know what the short answer is. I would
6 suggest we get the Treasurer to tell us what that is, because I'm just guessing right now.

7 MR. CURRIN: Yes, sir. I think it's fair to say, though, that that is the maximum.

8 MS. WASS: The financial advisors and transaction counsel, we were going to be billed
9 hourly, so it depends on how long and how far they went.

10 DELEGATE DUDLEY: It seems this amount is very close to what the Governor withheld in
11 interest income from the Commission. It also appears fairly plain to me, although I know there's a difference of
12 opinion, the only reason we didn't get the securitization done was delays from the Governor's Office. Maybe he'd
13 like to give up that interest income and reimburse the Commission for the expenses we have incurred.

14 SENATOR HAWKINS: I don't know, I don't think any one particular thing happened that put
15 us in a position, other than the world we live in.

16 DELEGATE DUDLEY: Mr. Chairman, I've accumulated massive files on the Tobacco
17 Commission, which I've tried to go through and weed out duplications and other things that are no longer
18 necessary. I ran across all kinds of meetings we were having back in early 2001, some even before that. The
19 securitization, some benefits we thought we needed from that and a general concurrence among the membership
20 that that was something we needed to do. Then we passed the legislation over a year ago to make that happen. So
21 I don't know how much I can be off the mark with that statement.

22 SENATOR HAWKINS: There were several things involved in conversations about
23 securitization when we authorized the Governor's Office to securitize. The Governor was looking for some sort of
24 understanding how we managed these moneys with a mechanism in place and language in the budget reflected
25 that, and I think he was waiting for the budget language to take place. Other than that, Delegate Dudley, I suggest
26 you have a conversation with His Excellency and he can inform you of his reasons, but I don't know, but I
27 appreciate you bringing up the point. I don't have any idea what I can tell you about securitization other than right
28 now there's been an ongoing effort to securitize for many years and we haven't gotten to that point. If you look at
29 what California and some other states as far as securitization with seven billion dollars possibly pending, I'm not
30 sure what type of market there will be, but we'll have to discuss it when we get to it.

31 SENATOR WAMPLER: Do you have any other items on your agenda?

32 SENATOR HAWKINS: The budget was the basic thing where we needed to get some sort of
33 understanding so we can make some recommendations. The other item was e58, but that was not on the agenda.
34 That was based on a phone call with Congressman Goode's staff.

35 SENATOR WAMPLER: Are you ready for another subject?

36 SENATOR HAWKINS: Yes.

37 SENATOR WAMPLER: Is there just Commission members in the room now?

38 SENATOR HAWKINS: We have the public and reporters and staff people.

39 SENATOR WAMPLER: I'll wait until Wednesday evening to bring up another subject. It
40 wouldn't require full Commission action, and it's a matter we probably ought to go into Executive Session on and
41 discuss that, but no big deal on that. The one question I have remaining is balances left in '03 and what we have to
42 work with tomorrow for Special Projects. When did Southside meet?

43 SENATOR HAWKINS: They met this afternoon. I think they made an attempt to spend most
44 of it.

1 SENATOR WAMPLER: We have a million dollars and three million in requests for funding,
2 I guess. I need a little better feel on what the Executive Committee would say, Allen, as we go into Special
3 Projects tomorrow. I guess as Frank tries to finish up Education, what we want to tell the full Commission our
4 theory is and where we would go as we try to clean up FY '03 and move forward.

5 SENATOR HAWKINS: That's a discussion for the Special Projects Committee tomorrow. I
6 think the main thing we need to look at is the amount of job improvements that we have in place and what we can
7 do to help change these economies as quickly as possible, which is our charge. I'm not sure exactly of the moneys
8 you're talking about tomorrow, but I'm sure there'll be a lot of discussion on how they can be used.

9 MS. WASS: We have the unobligated balances for each fund, and it does not include the
10 recommendations this afternoon. In the packet we have the third quarter financial statement, which will show the
11 unobligated balances in each fund. It does not include any recommendations for awards that will be made today
12 and tomorrow. For example, the Southside is twenty-six and a half million, and they have made recommendations
13 for some awards today that would be subtracted out of that. Special Projects is 10.3 million.

14 SENATOR WAMPLER: I'm trying to get a feel for the Executive Committee. I would hope
15 that we would not, or we'd have another Special Projects meeting between now and the end of the fiscal year. I
16 don't want to feel like this would be our only chance of spending the balances on the projects that we have
17 available for tomorrow.

18 SENATOR HAWKINS: You all can carry forth and have meetings when you need to have
19 them and make sure that the decisions you make represent the best interests of the people that you do represent,
20 there's no time frame involved.

21 SENATOR WAMPLER: I agree, I was trying to get a sense of the balance of the Executive
22 Committee and see if that's what they, or if they have the same feelings.

23 SENATOR HAWKINS: Special Projects Committee can meet when you feel it would benefit
24 you.

25 SENATOR WAMPLER: Are you still carrying the two million dollar balance for the loan,
26 whether it's small business, a financing authority or other entities?

27 MS. WASS: Yes.

28 SENATOR HAWKINS: When you talk about Special Projects we need to make sure that the
29 discussions are ongoing, if you need several more months to make final decisions that's up to you all.

30 DELEGATE BYRON: Some of these figures here, and I'm thinking very quickly, has
31 anything changed as far as the percentages? Were any of these percentages based on securitization?

32 SENATOR HAWKINS: These were the basic figures, the securitization, we don't have a
33 budget that reflects securitization.

34 DELEGATE BYRON: Our thought pattern was that securitization, we had that in mind, so I
35 was wondering if we have refocused ourselves to the --

36 SENATOR HAWKINS: -- I think if you look at the more conservative budget, that one was
37 based on securitization because that's the amount of moneys that we would be receiving from the securitization
38 process, fifty some million. The more aggressive budget is the one, what we would normally get from the Master
39 Settlement Agreement, am I correct?

40 MS. WASS: Yes.

41 SENATOR HAWKINS: The more conservative budget is the one that reflects the
42 securitization process if it would have been completed.

43 MS. WASS: The general percentage allocations started out with, it was based on the long-
44 range plan.

1 DELEGATE BYRON: That's what I thought, the money will change.

2 SENATOR WAMPLER: Mr. Chairman, I'll have to sign off now, and we'll be in tomorrow
3 morning around 9:30 or 9:45.

4 SENATOR HAWKINS: All right.

5 SENATOR RUFF: Mr. Chairman, I think the Education Committee will ask you all to
6 approve at least the same amount for scholarships next year. We need to go ahead and get the money allocated so
7 that we can tell parents what's happening.

8 SENATOR HAWKINS: If we deal with the administrative budget, then, what do you need to
9 look at Thursday in Halifax?

10 MS. WASS: I can review the administrative budget and exclude the cost of the one position,
11 basically go over everything else.

12 SENATOR HAWKINS: Kathy, your question about funding for the new position, I think we
13 can not set aside any moneys until the process is completed and the recommendation is made and find out how
14 much money is required to fill that position. No one knows that right now. The process of interviewing is
15 ongoing, we have a sub-committee in place that is interviewing for this position. The criteria that we have in place
16 is ongoing and there's no discussion on stopping that at this point. The only thing we're trying to do is based upon
17 the administrative costs of operating for the period of time that starts July 1st. Then the position would not be
18 filled until probably several months after that, if, in fact, then. Then we'll deal with that financing when we start
19 discussing the overall budget, when we start dealing with the overall budget function. That goes beyond the
20 normal administration, but we have to have something in place so we can pay the rent and do those things that
21 need to be done. I don't think this reflects either positively or negatively on the new position.

22 DELEGATE BYRON: The whole world has changed since a month ago.

23 SENATOR HAWKINS: This is all part of the discussion. I think we can contact the
24 Governor and tell him what we've been proposing, and we've got to deal with what we have to do.

25 MR. WALKER: I assume we're going to try to get to a recommendation from the Executive
26 Committee today to give to the full Commission.

27 SENATOR HAWKINS: That's where we're heading, but a whole lot's been removed from the
28 table. The only thing it looks like we're talking about is possibly the administrative budget and postpone action on
29 anything else.

30 MR. WALKER: I wouldn't want the full Commission to think that we're recommending to
31 them this position being included in the budget. I'd like for us to take it out; if the full Commission wants to put it
32 back in, they can put it back in.

33 SENATOR HAWKINS: Gary makes a good point. This position has not been discussed with
34 the full Commission. The assumptions are in place that we need to make some recommendations, but we need to
35 discuss this with the full Commission to give people or get their feelings about where we're going. Absent
36 securitization there's a whole new dynamics here that we need to deal with. Claude Owen is chairing that search
37 committee, and they're in the process of making a recommendation. They've not made a report to us as of yet. I
38 don't think we should do anything to interfere with their activities as a sub-committee. The moneys that will
39 initially be owed by us for Moody's, the two hundred and fifty thousand, when is that money due?

40 MS. WASS: At some point Treasury, and I'm not sure who's going to make that call, I guess
41 the State Treasurer, at some point it'll be decided whether this deal is going forward. Then at some point, if it's
42 determined that it is not, and then if these people need to be paid --

43 MR. CURRIN: -- If I may, the Director of Finance is correct. I'll just state that this was in
44 concert with the Commission, and ultimately we are the client, and if we decide that we're not going to do it, then I

1 think the Treasurer will be consulting with us.

2 SENATOR HAWKINS: We have an obligation based on the assumption that the
3 securitization process was stopped, so do these amounts still, are they ongoing, or what is that status?

4 MS. WASS: If for whatever reason the securitization does not go through it's estimated here
5 that the out-of-pocket costs have to be reimbursed to the Treasury and this will have to be paid for them by the
6 Commission.

7 DELEGATE BYRON: Have we hired the search firm yet?

8 MR. CURRIN: No. The Search Committee will make a recommendation to the Commission
9 on Thursday, but nothing has happened yet until you all agree.

10 SENATOR HAWKINS: The recommendation will be coming out, and we'll have to deal with
11 that to make sure that the sub-committee's report is received.

12 MR. CURRIN: We have a firm that's going to be recommended to you all for consideration.

13 SENATOR HAWKINS: That process will be ongoing as well to have a recommendation as to
14 what we need. The position we're talking about is one that needs to be explained in detail to make sure that we're
15 up to speed, this is a new concept for us. We're not voting on anything, and what we'll recommend then possibly is
16 an administrative budget based on the known expenses that we face as a Commission. We'll also recommend that
17 the sub-committees dealing with Education and Special Projects be allowed the flexibility to deal with those
18 subject matters basically the same as last year on the scholarships. On the e58 piece we will have a discussion as
19 to the feasibility of dissolving the special sub-committee and bringing it back into the Commission under the
20 Telecommunications Sub-Committee and investigate money from the Feds to see if that's the way we want to go.
21 Anything else? Awfully quiet, going once, going twice. We're adjourned.

22
23 PROCEEDINGS CONCLUDED.
24

25
26 CERTIFICATE OF THE COURT REPORTER
27

28
29 I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of
30 Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of
31 the **Executive Committee Meeting when held on Monday, April 21, 2003 at 3:30 p.m. at the Hotel Roanoke**
32 **Conference Center, Pocahontas Room, Roanoke, Virginia.**

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

35 Given under my hand this 28th day of April, 2003.
36

37
38
39 _____
40 Medford W. Howard
41 Registered Professional Reporter
42 Notary Public for the State of Virginia at Large
43
44

1 My Commission Expires: October 31, 2006.