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17 **Executive Committee Meeting**

18 Wednesday, April 27, 2005

19 4:30 p.m.

20
21 Hotel Roanoke and Conference Center
22 Pocahontas Room
23 Roanoke, Virginia
24

25 **APPEARANCES:**

26 The Honorable Charles R. Hawkins, Chairman
27 The Honorable Terry G. Kilgore, Vice Chairman
28 Mr. Thomas W. Arthur
29 The Honorable Allen W. Dudley
30 The Honorable Joseph P. Johnson
31 The Honorable Frank M. Ruff
32 Mr. James C. Thompson
33 The Honorable Gary D. Walker
34 The Honorable William C. Wampler, Jr.
35

36 **COMMISSION STAFF:**

37 Mr. Carthan F. Currin, III, Executive Director
38 Mr. Ned Stephenson, Manager of Strategic Investments
39 Mr. Timothy Pfohl, Grants Program Administration Manager
40 Ms. Britt Nelson, Grants Coordinator - Southside Virginia
41 Ms. Sarah Griffith, Grants Coordinator - Southwest Virginia
42 Ms. Stephanie Wass, Director of Finance
43 Ms. Mary Cabell Sulc, Manager of Communications and Committee
44 Operations
45

46 **OFFICE OF THE ATTORNEY GENERAL:**

47 Mr. Frank N. Ferguson, Deputy Attorney General, Counsel for the
48 Commission
49 Ms. Stephanie Hamlett, Special Counsel to the Attorney General

50 SENATOR HAWKINS: All right, we're ready to begin.

51 Carthan, call the roll.

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1 MR. CURRIN: Mr. Arthur?
2 MR. ARTHUR: Here.
3 MR. CURRIN: Mr. Bryant?
4 MR. BRYANT: (No response.)
5 MR. CURRIN: Delegate Byron?
6 DELEGATE BYRON: (No response.)
7 MR. CURRIN: Delegate Dudley?
8 DELEGATE DUDLEY: Here.
9 MR. CURRIN: Delegate Hogan?
10 DELEGATE HOGAN: (No response.)
11 MR. CURRIN: Delegate Johnson?
12 DELEGATE JOHNSON: Here.
13 MR. CURRIN: Senator Puckett?
14 SENATOR PUCKETT: (No response.)
15 MR. CURRIN: Senator Ruff?
16 SENATOR RUFF: Here.
17 MR. CURRIN: Deputy Secretary Sternlicht?
18 DEPUTY SECRETARY STERNLICHT: (No response.)
19 MR. CURRIN: Mr. Thompson?
20 MR. THOMPSON: (No response.)
21 MR. CURRIN: Mr. Walker?
22 MR. WALKER: Here.
23 MR. CURRIN: Senator Wampler?
24 SENATOR WAMPLER: Here.
25 MR. CURRIN: Mr. Vice Chairman?
26 DELEGATE KILGORE: Here.
27 MR. CURRIN: Mr. Chairman?
28 SENATOR HAWKINS: Here.

29 Next, I'd like to have a motion to approve the Minutes of the last meeting.
30 It's been moved and seconded that the minutes be approved, all those in favor say aye?
31 (Ayes.) Opposed? (No response.)

32 MR. CURRIN: We can start with Stephanie.

33 Mr. Chairman, as you directed there were two workgroups appointed, one
34 for Southwest and one for Southside. The Budget Workgroups have met here in Roanoke
35 about two weeks ago. I would like to go over with you a summation of their work, what
36 they are recommending for the Executive Committee to review and support.

37 First of all, they recommended a spending plan assuming securitization of
38 50 percent of the Commission's MSA revenue.

39 Secondly, they recommended that MSA payments be used only for
40 Indemnification, Education, Innovation, and that is a category that includes Special
41 Projects, TROF, Agribusiness and Administration. Securitized proceeds would be divided
42 by region, seventy-three percent for Southside and twenty-seven percent for Southwest.

43 The securitized proceeds and earnings will be used for Technology and

1 regional Economic Development projects and hard infrastructure. Southside will limit its
2 corpus invasion to four percent annually, Southwest will limit its corpus invasion to ten
3 percent annually. Each region could invade only its share of the corpus upon a majority
4 vote of the Commission.

5 That is a summation of the Spending Plan that was discussed.

6 SENATOR HAWKINS: These are copies in our folder
7 based on your comments that the Southside and Southwest folks recommended.

8 MR. CURRIN: Stephanie is showing you a page that is in
9 your packet. Now, the fiscal year 06 budget. The workgroups considered two budgets --

10 SENATOR WAMPLER: Mr. Chairman, invasion of the
11 corpus, this is the guideline that we think each region is going to do, but should they wish
12 to go higher than that amount, the ceiling on that is 15 percent, which requires a two-
13 thirds majority vote.

14 MR. CURRIN: Yes, sir.

15 SENATOR HAWKINS: I understand that is a provision in
16 the Code.

17 MR. CURRIN: I think Counsel can verify that.

18 Under the Fiscal Year 06 Budget, workgroups, Mr. Chairman, considered
19 two budgets, one without securitization and one that includes 50 percent of our MSA
20 dollars being securitized.

21 SENATOR HAWKINS: That is the two pages we have
22 before us?

23 MR. CURRIN: Yes.

24 SENATOR HAWKINS: Based on the recommendations?

25 MR. CURRIN: That is right.

26 SENATOR HAWKINS: With and without?

27 MR. CURRIN: Yes.

28 SENATOR HAWKINS: So those in the audience can
29 follow, we have two pages, one dealing with 50 percent securitization and one without
30 securitization.

31 MR. CURRIN: Yes, sir. In addition, the budget without
32 securitization includes a half million dollars in contingent securitization costs, which
33 assumes that the deal is not completed and some costs have been incurred to date.

34 The budget with securitization reflects the spending plan where it shows
35 each region's endowment earnings and the corpus invasion that can be used for
36 Technology and hard infrastructure regarding some economic development.

37 Mr. Chairman, I would now like to bring to your attention and the
38 Executive Committee's attention some of the Southside Workgroup's budget amendments.
39 The Southside Budget Workgroup convened after the joint budget workgroup adjourned
40 and recommended an amendment of the '05 Budget, the result of which, if approved,
41 would impact the '06 Budget recommended by the joint workgroup. The Southside
42 recommendation for fiscal year '05 is to transfer 2.5 million dollars from surplus revenue
43 to Technology, with a corresponding reduction in the FY06 Budget for Technology. This

1 transfer will partially relieve the time and pressure for the disbursement of Technology
2 grants for fiber projects, particularly the ones in Southside.

3 The Staff recommends to you today that 2.5 million be awarded to the
4 Mid-Atlantic Broadband Co-op today, because if we wait until the July period, that is
5 going to create some pressure points for their funds. So the Staff is recommending that
6 this transfer take place in the Executive Committee if it takes that recommendation to the
7 Full Commission tomorrow.

8 SENATOR HAWKINS: 2.5 off of the surplus, that will
9 affect the '05 and '06 budgets?

10 MR. CURRIN: Yes. I'll be happy to have Mr. Stephenson
11 or Ms. Wass or both, who have been working on this for a period of time as well, explain
12 it to you.

13 SENATOR HAWKINS: It is my understanding we're
14 dedicating that money to the telecommunication piece the Co-op is working with to
15 facilitate work that is going on in laying the fiber?

16 MR. CURRIN: Yes, Southside.

17 SENATOR HAWKINS: Any discussion on the
18 recommendation? Any questions?

19 DELEGATE DUDLEY: Where do we see that money on
20 the 2005 Budget?

21 MS. WASS: If you look on the page with the yellow
22 highlight, this was the Southside Budget Workgroup's recommendation, two and a half
23 million taken out of the FY06 Budget revenue and added to FY05 Technology and
24 subtracted out of FY06 Technology.

25 SENATOR HAWKINS: Does that answer your question?

26 DELEGATE DUDLEY: Yes.

27 SENATOR HAWKINS: This is our signature project for
28 this Commission, and we're beginning to catch up with some things we're trying to do.
29 Any questions?

30 SENATOR WAMPLER: Perhaps Ned can answer this. On
31 the '06 Proposed Budget, the 50 percent of revenue securitized under
32 Technology/Telecommunications, what are the requests from the two regions for FY06?
33 I thought it was more than what we have on this sheet of paper.

34 MR. STEPHENSON: Officially we do not have a written
35 request in hand, and obviously we had conversations with those players, and we have
36 some oral advice as to what is in the pipeline. To my knowledge, we really haven't set a
37 deadline yet for them to file an application and put it in ink so we'll actually have a hard
38 code to give you.

39 Having said that, it's my understanding that from the Southwest region
40 there is about 14 million dollars odd worth of projects in the queue that are likely to be
41 requested of the Commission in fiscal year '06. With request to Southside they have their
42 old 15 million-dollar grant that was heard last July but only funded to the extent of 9
43 million dollars. They are seeking to catch that piece up in Southside to finish that grant.

1 SENATOR HAWKINS: In conversations that I have had,
2 one of the problems they have in selling some of the economic opportunities in our area
3 has been the availability of broadband. I think we need to facilitate this as quickly as
4 possible, get this network up and running and make it available to the communities so we
5 can start some sort of understanding of what these economies will look like.

6 Fifteen million dollars in Southwest Virginia, I certainly hope we will be
7 able to find that money in the next budget process even dealing with the securitization
8 piece and Southside can get these monies into the stream flow and get this project
9 finished. The sooner we can get it done, I think it will be a benefit to all our counties
10 and gives everybody an opportunity for availability of this technology when it comes to
11 attracting jobs that we definitely need. This is something we have got to work on.

12 MS. WASS: To address Senator Wampler's question about
13 the availability of funds under the securitized budget, the question is whether all of that
14 14 million will be needed in one year versus maybe over two years. Under the
15 securitized budget that endowment would be there and you would know funds would be
16 available in future years. So in theory the request for 14 million and not all of it is
17 needed in the first year, you could spread it out over a couple of years.

18 SENATOR WAMPLER: I agree, Stephanie, but the point
19 is I thought that Southside had, would have a hard time still spending the dollars that
20 were previously awarded. I guess the question is not so much which region gets how
21 much money, but if you capitalize Southside with the 10.2 million dollars, will they be
22 able to draw it down. That was the question I was really trying to get to, more of a
23 cashflow. I know the dollars will be there eventually, but I wonder why we would
24 obligate 10.2 million to Southside when, have they drawn down all the dollars that have
25 been allocated?

26 SENATOR HAWKINS: Does anyone know the answer to
27 that?

28 MR. STEPHENSON: The actual disbursement under the
29 Southside MBC grant of 15 million, which you funded at the 9 million dollar level, about
30 two and a half million dollars has actually gone out the door. But, I caution you about
31 using that as a benchmark for the burn rate, because they are in a very rapid disbursement
32 period, and there have been several weeks that they bought significant equipment that
33 spike rapidly.

34 SENATOR HAWKINS: That two and a half million will
35 be added to the availability of those monies to be able to maintain that burn rate?

36 MR. STEPHENSON: Having approved nine, and the two
37 and a half raises that to eleven and a half, at some point in time one would think that the
38 Commission would try to find a way to finish out fifteen before they reach a pinch point
39 under their contract obligation and have to stop.

40 SENATOR HAWKINS: The ceiling is about fifteen.

41 MR. FERGUSON: I was going to add that as you recall,
42 I'm a member of the MBC Board as a result of the Commission's request to have me on it.
43 We had a meeting this morning, as a matter of fact. As Ned said, despite the fact there is

1 only two point some million that has gone out the door, they anticipate pulling down all
2 of that nine million that has already been allocated, plus the two point five million by
3 August, as I understand it. They have allocated contracts.

4 DELEGATE KILGORE: Southwest is going to need 14,
5 how do we get there, Stephanie, if we need 14?

6 MS. WASS: A couple of ways, one is to spread it out over
7 a couple of years, spread out the award, or to take the Regional Economic Development
8 Funds and transfer them into Technology and invade more of the corpus under the
9 securitized budget.

10 SENATOR HAWKINS: The main thing to understand is
11 when the need arises will the monies be available? We don't want to get sidetracked here
12 for the lack of money. We need to have them available to us. I think Southwest Virginia,
13 if they make a request, we'll have to find the money to do that.

14 DELEGATE KILGORE: That's all I was asking.

15 SENATOR HAWKINS: We're just going to have to find it
16 to do these projects. It is too important to not do it, and we've got to move along quickly.
17 We've just go to do it.

18 SENATOR WAMPLER: The last point I would ask, Mr.
19 Chairman. If I understand the math that has been presented, it is nine plus two and a half
20 pulls eleven and a half, and we need fifteen, leaving three and a half million left
21 unfunded balance for Southside, if we have allocated ten point two million. It seems to
22 me it is an over-allocation. I realize it takes the Full Commission to vote to approve
23 anything, but I thought the understanding was that Southwest came first and then
24 Southside got all the money and we yielded in the second year, with the understanding
25 that we would find, if I understand what the Chairman just said, the necessary dollars to
26 do this round of funding for Southwest. As I understand it, it is in the range of 14
27 million. I see us being allocated 9.4 million, and that is not 15.

28 MR. CURRIN: Mr. Chairman, in addition to our support
29 for both projects, it is my understanding that MBC, that Congressman Hughes is
30 attempting through the Federal Corporation process to attract some monies to help meet
31 that shortfall, but that hasn't been done yet. What I'm saying is that an effort is underway
32 besides us to be a funding source for the MBC project.

33 SENATOR HAWKINS: Let's start talking about some sort
34 of business plan based on the construction of these two systems, and they'll be connected
35 somewhere around Galax. What is it for Southwest Virginia?

36 SENATOR WAMPLER: The preliminary engineering has
37 been completed on half, the other doesn't have the exact preliminary engineering.

38 SENATOR HAWKINS: Can it be handled in two budget
39 cycles, or does it have to be just one?

40 SENATOR WAMPLER: With the EDA grant they need a
41 commitment this given year to be able to draw down a match, which I believe is three
42 million, which covers the northwestern or the northern part of the loop.

43 SENATOR HAWKINS: You've got 14.5 and the request

1 from Southside of 2.5, then we need 17 million within this budget cycle.

2 MR. STEPHENSON: I think the 14 includes the 3 needed
3 to match up with EDA.

4 SENATOR WAMPLER: I can't tell you a hundred percent,
5 I'm not sure.

6 SENATOR HAWKINS: I'm very concerned that anything
7 we do to slow up any of these projects is going to put us further off on our time frame
8 trying to get this system in place as quickly as possible. The budget we're looking at is
9 what type of flexibility do we have in finding the money that we're talking about, or is
10 there any?

11 MS. WASS: The Commission can always choose to amend
12 its budget at any point.

13 MR. CURRIN: This is just a working document.

14 MS. WASS: The Commission in the past has made mid-
15 year transfers to transfer funds from one to the other.

16 SENATOR HAWKINS: What are we looking at now as far
17 as money in the '06 Budget?

18 MR. CURRIN: In '05 there is going to be unencumbered
19 amounts of money.

20 MS. WASS: The 3.2 million that is shown under, the 3.2
21 million that is shown in Surplus Revenue Carryforward.

22 SENATOR HAWKINS: That is the money that is being
23 discussed, 2.5 Southside?

24 MS. WASS: That is right.

25 SENATOR WAMPLER: Without trying to project the
26 discussion, perhaps we could set a budget, understanding that we have to go through the
27 financial transaction and complete it and see what the net proceeds are. I suspect that, or
28 I should say I hope that we would have more than we had projected. Perhaps that is how
29 we close the financing gap on Southside and Southwest with the Technology project and
30 not try to divide the marbles today. I think hopefully we will be properly capitalized to
31 address those two regions' needs and do it, for lack of a better word, off the top.

32 SENATOR HAWKINS: This is probably one of the most
33 important endeavors that we are undertaking, and we've got to make sure that it is
34 financed properly from one tip to the other, and that requires people to work together to
35 get it done.

36 MR. FERGUSON: The FY05 Budget is based on 63.094
37 million dollars MSA payments. We now have the MSA payments disbursed. What has
38 already been disbursed, it will probably be about, what has already been disbursed is
39 about a million more than that.

40 MS. WASS: That is right.

41 MR. FERGUSON: There will be some more coming,
42 hopefully, for the '05 payments. We already have in hand what amounts to about a
43 million more than the 63.094.

1 MR. CURRIN: We actually received more money than
2 anticipated.

3 MS. WASS: Not included in the budget, we didn't know
4 that at the time the budget was prepared.

5 MR. FERGUSON: In the last day or so.

6 SENATOR HAWKINS: So we can look around five, give
7 or take?

8 MR. FERGUSON: I think you can certainly look at 64-
9 plus if all the money has gone into the accounts and is ultimately released to the state it
10 should be, but the time frame on that is a little iffy. The total amount we were due would
11 have been over 130 million, so it would be over 65. Some of the payments went into
12 what is called Disputed Accounts, because some of the companies dispute some portion
13 that they were obligated to pay, and that is in an account that can't be released yet.
14 Virginia's part of that is somewhere over a million dollars. I stand to be corrected on that,
15 though.

16 SENATOR HAWKINS: I was also under the impression
17 that some of the companies you're talking about withheld some of the MSA payments to
18 some of the states because they are not living up to their obligation.

19 MR. FERGUSON: That is what I am talking about, the
20 disputed accounts. The money is there, and it is paid into those disputed accounts. I am
21 confident at least that the disputes are not well-founded; however, the systems being what
22 they are, I can tell you that the dispute could be resolved tomorrow or either next month
23 is overly optimistic.

24 SENATOR HAWKINS: Is Virginia part of the mix?

25 MR. FERGUSON: Yes, they didn't withhold Virginia
26 specifically, they just withheld. The MSA payments are made, the companies are
27 obligated to pay, and they pay into a big pot, based on a national figure. There are seven
28 different kinds of disputes that are involved. Some of them are for an NPM adjustment.
29 I don't think those will hold up, because there was not a lack of diligent enforcement, in
30 my view, but there are also disputes that had to do with what is called the most favored
31 nation clause. The total that is in the disputed accounts, I think is, or Virginia would get
32 about a million dollars if they are all released.

33 SENATOR HAWKINS: In a perfect world, if we planned
34 to put all the projects we're talking about right now in a ball of wax and finance them
35 completely, what would the total cost be, Southside and Southwest Virginia projects we're
36 talking about, the entire cost?

37 MR. STEPHENSON: Twenty million, with what we know
38 about, what we've been talking to people about today. Roughly 14 for Southwest and 6
39 for Southside to complete the known projects. Knowing that a year from now there will
40 be others lined up at the door that we don't know about, but that's what we know about
41 right now.

42 SENATOR HAWKINS: Twenty million?

43 MR. STEPHENSON: Yes.

1 SENATOR HAWKINS: Securitization is part of the
2 discussion when we talk about money. When you talk about moving money to various
3 projects, securitization is a feasible approach for us to start discussing, if in fact if we do
4 securitize, do you take the 20 million off the top of that and finish the projects out and
5 then go from there?

6 MR. STEPHENSON: Within the limits of the State Code.
7 MR. FERGUSON: If the net proceeds is 300-plus million,
8 which we anticipate, and hopefully substantially more than 300 million, then 10 percent
9 is 30 million, it would fall under that cap.

10 SENATOR HAWKINS: What we can do now is create an
11 economic engine for these communities to be able to put this broadband in place, space
12 and time to be able to create the energy that we need. I don't want us to create something
13 that we cannot manage, nor do I want us to spend money until we have a plan in place to
14 be able to do that.

15 I'm also very concerned that we need to have the revenues set aside to start
16 completing these projects as they come online. I'm almost of a mind to make a
17 recommendation that if in fact we securitize to pull that off the top for the
18 telecommunication piece and put it into funds that would be allocated to the projects
19 when they need to be paid off so we can get things done. What do you all think?

20 MR. ARTHUR: I think it is a good approach.

21 SENATOR WAMPLER: Mr. Chairman, first the project
22 has to make sense, and does it meet our goal. Then, is it technically feasible and does it
23 communicate with the balance of the system. I would agree with you. However, we
24 need to watch that burn rate. If we say we're going to allocate 30 million, we may not be
25 able to spend 30 million dollars. I think the budget we have is pretty close to what we
26 probably would spend in this given year. I don't want it to sound self-serving, but I'm just
27 not sure that the allocation between the two regions for this year is the best way to
28 describe it here. That is the only point I am trying to make. I would be deficient to the
29 Executive Committee, I think our cash needs in Southwest are closer to 14 or 15 million
30 for the telecommunications this year.

31 SENATOR HAWKINS: I just want to get this piece
32 finished.

33 MR. WALKER: I don't know if it is proper, but if you did
34 split the money and this Commission all works together, put the money in the pot, and
35 then Technology burns it as they see fit. We were told in our meeting that there was a
36 limit that they can accomplish this.

37 SENATOR HAWKINS: I don't think anyone would
38 suggest that we put the money aside and start writing checks. I think we need to have the
39 money so people will know it is in an account for telecommunications and can be drawn
40 down as the projects come online.

41 SENATOR WAMPLER: I like what Mr. Walker suggests,
42 that is that we allocate 19.67 million and then come back and take recommendations from
43 the Technology Committee. If we need more money, then at the fall meeting we'll adjust

1 accordingly.

2 SENATOR HAWKINS: Does anyone have any other
3 opinions other than we need to get these jobs finished as quickly as possible? There
4 seems to be universal acceptance for that.

5 MS. WASS: There is an alternative that has not been
6 considered by any of the committees yet. Without the securitization scenario, we're
7 looking at the 17.5 million for Technology. If Southside contributes two and a half
8 million in the FY05 Budget, that gets that up to the 20 million necessary for both regions.
9 Without the securitization budget, where you have 17 and a half million allocated for
10 FY06 Technology --

11 SENATOR HAWKINS: -- In principle we could debate
12 this all day long. I believe that we're all of a mind that we make a recommendation that
13 the monies be made available to the Technology Committee. Is there anyone that has an
14 objection to that?

15 DELEGATE DUDLEY: Mr. Chairman, I don't have any
16 objection, certainly, to trying to move these Technology projects ahead, but what we're
17 doing sounds like it is doing away with what we just discussed, and the money is going to
18 be divided if we securitize. We're scrapping it before we even vote on it.

19 SENATOR HAWKINS: Would you restate that?

20 DELEGATE DUDLEY: If we're looking at using the
21 endowment corpus earnings for Technology, we've got a percentage split on that, if that's
22 part of the, tied in with the securitization in the first place, now we're splitting them, that's
23 what it looks like to me we're doing.

24 SENATOR HAWKINS: I don't read it that way.

25 MR. STEPHENSON: I think he is right.

26 MS. WASS: In dividing the endowment into two separate
27 endowments, one for Southside and one for Southwest, and each region will decide how
28 much of the corpus to invade in any given year. This number in the budget is based on
29 Southside invading the corpus four percent and Southwest, if either of the regions wants
30 to invade the corpus more, they can, by a vote of the Commission, but these amounts in
31 the FY06 Budget correspond to each region's separate endowment and how much each
32 region wants to invade the corpus.

33 DELEGATE DUDLEY: Mr. Chairman, if we just put it in
34 a pot, then haven't we done away with the distribution part?

35 SENATOR WAMPLER: I'd like to go back and make sure
36 the record is clear on this point. That the goal of the previous actions were to Southside
37 one year and then to Southwest, the majority now goes to Southwest, and if the
38 Commission wishes to do otherwise, that's the will of the Commission. Whatever the
39 Commission wants to do, Mr. Chairman, whatever the Commission wishes to do.

40 MR. WALKER: I was comparing both of them, but if you
41 go with the one without securitization, the two and a half million dollars, it does the same
42 thing without securitization. You've got the money, and the Technology Committee will
43 divide it up and determine the burn rate to keep the project costs in mind. Twenty million

1 without securitization, you've got 19.6 with securitization.

2 DELEGATE KILGORE: Mr. Chairman, I make a motion
3 we do 19.6 and go on.

4 SENATOR RUFF: Terry, does that motion say not to pull
5 any of that money this year or the end of this year? Because the proposal in yellow, the
6 two and a half is taken from '06 and put in '05. If you pass the motion you just made
7 you're not going to get pulled out of '05. It's handled in '06.

8 DELEGATE KILGORE: You want to pull it out of '05, is
9 that what you're saying?

10 SENATOR RUFF: I assume it is there for a reason.

11 SENATOR HAWKINS: Ned, would you like to clarify
12 this?

13 DELEGATE KILGORE: I'll withdraw the motion for a
14 minute.

15 MR. STEPHENSON: If I may state this rather bluntly, the
16 whole point of this budget shaded with the highlights on it was to squeeze out enough
17 money, two and a half million dollars, to buy some time to get us to July to keep the
18 MBC project alive. When we get to July we're going to have to talk about it again,
19 because we need six. But, if we leave here tomorrow without that transfer, I am advised
20 by MBC that they are going to be having problems with their contractors Adesta, because
21 they are going to have to start winding things down because they don't have the money to
22 fulfill their obligation. That's my understanding.

23 SENATOR HAWKINS: This is the '05 Budget, they need a
24 short-term gap, 2.5 million, and in the '06 Budget we need to find 14.5 for Southwest to
25 complete the project. Is that what I understand?

26 MR. STEPHENSON: Yes. If I might add further, the two
27 workgroups worked on the Spending Plan and came to a consensus on the Spending Plan.
28 The budgets before you are built on that Spending Plan numerically. You're free to
29 change it at any point in the future that you need to. For instance, to squeeze out more
30 funds for Southwest if it needs to invade the corpus. It has that latitude to do so. What I
31 am saying is that in these budgets before you, as I see it, do not restrict Southside only to
32 the number appearing on that page.

33 SENATOR HAWKINS: We certainly don't need to wind
34 down for the sake of 2.5 million in the '05 Budget. Any more discussion? What is the
35 recommendation?

36 SENATOR WAMPLER: Mr. Chairman, speaking to what I
37 think is going to be Delegate Kilgore's motion, we must transfer two and a half million to
38 Southside out of that '05 Budget and make sure it is understood, I don't want anyone
39 thinking we're not going to do that. Probably ought to make that motion first.

40 DELEGATE KILGORE: Let me make that motion. I
41 make a motion that we transfer 2.5 million from the surplus revenues to Technology to
42 relieve the time and pressure for disbursement of Technology grants for fiber projects to
43 Southside.

1 SENATOR HAWKINS: Is there a second?
2 SENATOR RUFF: Second.
3 SENATOR HAWKINS: It's been moved and seconded and
4 discussed thoroughly, all in favor say aye? (Ayes.) Opposed? (No response.) Motion
5 carries.
6 DELEGATE KILGORE: My next motion is that the
7 \$19,670.00 be allocated to Technology/Telecommunications out of the '06 Budget.
8 MR. STEPHENSON: Mr. Chairman, I might make the
9 point that having just transferred two and a half in the '05 Budget, then your
10 carryforwards to '06 are now two and a half less. So, the thought was that the
11 corresponding entry would come out of that Technology
12 sector --
13 DELEGATE KILGORE: -- 17.170.
14 MR. STEPHENSON: Yes, sir.
15 DELEGATE KILGORE: I'll make that amendment in my
16 motion. I am amending my motion to 17.170 to Technology.
17 SENATOR HAWKINS: Allocating 17.170 to Technology
18 to complete the project. Any discussion? It's been moved and seconded, all those in
19 favor say aye? (Ayes.) Opposed? (No response.) Motion passes.
20 MR. STEPHENSON: Mr. Chairman, if I may, I'm sorry, it
21 is important, I think today and at the meeting tomorrow, that this budget transfer of 2.5
22 also be awarded to MBC by the Commission tomorrow.
23 DELEGATE KILGORE: I'll make that recommendation.
24 I'll make a recommendation tomorrow to the Full Commission that we do that.
25 SENATOR HAWKINS: Any other discussion about the
26 budget?
27 MR. WALKER: On the Innovation and Job Creation, that
28 includes three million for the MSA revenue prior commitments. Where are the prior
29 commitments coming out of, are they coming out of the allocated money and not out of
30 Special Project's money?
31 MR. CURRIN: Yes.
32 MR. WALKER: Are we going to designate that as Special
33 Projects?
34 MR. CURRIN: The Institute, that does come out of the
35 allocation, the Riverstone comes out. Mr. Walker has asked the question, Stephanie,
36 about the three million Southside, why is that listed here?
37 MS. WASS: Under the securitized budget, that cannot be
38 paid from the securitized proceeds. We had to move those under Special Projects, which
39 will come from MSA revenue, to pay those.
40 MR. CURRIN: The tax-exempt bonds do not allow us to
41 use those proceeds for the debt service.
42 SENATOR HAWKINS: The allocation for payments of
43 these monies for the Institute and Riverstone come out of the allocations, Halifax and

1 Pittsylvania, to pay that debt service.
2 MR. WALKER: So that allocation money would be
3 reduced?
4 MS. WASS: Right, when you're calculating the formula for
5 distribution you would add that three million into the seven or eight million budgeted for
6 Southside, distribute it in the formula, and then take it out.
7 SENATOR HAWKINS: The taxable and non-taxable piece
8 is a bookkeeping problem.
9 DELEGATE KILGORE: Stephanie, we also included that
10 one million somewhere for Southwest?
11 MS. WASS: Right, that is included in that 6.1 million for
12 Special Projects, 3 million and the 1.1 million.
13 MR. WALKER: Can we include one more project in that?
14 SENATOR HAWKINS: What is that?
15 MR. WALKER: It is a request for Special Projects, a
16 couple of months we haven't had a meeting, to help with the unemployment issue with
17 the J. P. Stevens closing.
18 SENATOR HAWKINS: What is your recommendation?
19 We would have to have a meeting and make a recommendation.
20 MR. WALKER: Maybe we can designate that one, too.
21 SENATOR WAMPLER: Stephanie, let me see if I
22 understand what you told me. Under Special Projects 6.1 million dollars of which 4.1
23 goes to the two regions, leaving 2 million dollars?
24 MS. WASS: Yes.
25 SENATOR WAMPLER: For what?
26 MS. WASS: For other Special Projects.
27 SENATOR WAMPLER: With a date of post-
28 securitization?
29 MS. WASS: Right.
30 SENATOR WAMPLER: Or a given year?
31 MS. WASS: Beginning July 1 for this budget.
32 SENATOR WAMPLER: The Heartland Project is a
33 magnitude of 2 million dollars, or 1.2 million dollars, as I understand it. It is very
34 worthy, but this eats into the seed corn.
35 MS. WASS: That doesn't come from, the Special Projects
36 pending are coming from FY05 funds.
37 SENATOR WAMPLER: But those carryforward funds
38 you're telling me you only have a balance of two million to operate from within the
39 project.
40 MR. STEPHENSON: The budget number for that two
41 million dollars will be coming from MSA payments to be received a year from now. You
42 have in hand the MSA payments received a few days ago that are in the account now.
43 SENATOR WAMPLER: Where do I see that in the '06

1 Budget?

2 MS. WASS: You don't see carryforward in the FY06

3 Budget.

4 SENATOR WAMPLER: Where do I have the ability to
5 spend it then? I'm not arguing, I'm only allocated 6.1 million trying to take care of the
6 two regions for Special Projects needs, which 4.1 is already allocated.

7 MS. WASS: Five and a half million is available currently.

8 SENATOR WAMPLER: Where do I find that in the '06

9 Budget?

10 MR. STEPHENSON: You don't. That is the '06 Budget for
11 '06 MSA receipts. In addition to that, you have five million dollars on hand now from '05
12 MSA receipts.

13 SENATOR WAMPLER: I understand that, but in the '06
14 Budget where do the dollars accrue to, or show me a line item on the budget where that is
15 accruing.

16 MS. WASS: It is not on the budget, it will be on a financial
17 statement. If you look at the most recent financial statement it will show budget
18 balances.

19 SENATOR WAMPLER: It's a serious point, Mr. Chairman.
20 The Executive Committee is going to make a recommendation to the Full Commission
21 that we can't account for it here.

22 MR. FERGUSON: I think the issue is this, because the
23 five million is currently available, the budget writers don't know if that is going to be
24 available or not in '06. It could be spent before July 1 of '05. If it does not, you will see
25 the same budget on July 1 of '05 and hasn't been spent, then it will show up as carried
26 forward monies available to be allocated. Am I right about that?

27 MS. WASS: It will not show up in the budget, but it will
28 show up on a financial statement on the balance sheet.

29 MR. FERGUSON: But it could be budgeted once it was
30 carried forward?

31 MS. WASS: Right, everything is carried forward within its
32 line item, so the two million would be added to anything carried forward.

33 SENATOR HAWKINS: What I am understanding of what
34 you are saying is that since the money has a possibility of being allocated during this
35 year, and if it is not it would show up next year on the budget as unexpended funds and
36 roll this into the next year's budget?

37 MS. WASS: Only unobligated.

38 SENATOR WAMPLER: I will pledge to the Executive
39 Committee that we will meet prior to 1 July and we will have a recommendation to draw
40 down the balance on projects that have merit in the amount of whatever dollars we have
41 left. That should clean up any questions we have.

42 SENATOR HAWKINS: We're at a point where we have
43 accepted two recommendations to go before the Full Commission for the allocation of

1 monies.

2 MR. CURRIN: Mr. Chairman, Stephanie Hamlett would
3 like to discuss the resolution that needs to be voted on.

4 MS. HAMLETT: In your package are two resolutions.
5 One is a resolution of the Financing Corporation that met yesterday. That one is
6 important because you acknowledge it in your own resolution. What I am suggesting is
7 that someone tomorrow make a recommendation, if you choose to do so, of your
8 resolution, to the Full Commission. This is very similar to what you saw in 2003 when
9 that transaction was attempting to go forward. You approved a spending plan, which you
10 just discussed. The most critical part that you are approving is what to do with the
11 endowment, and that will speak for those tax-exempt purposes and those expenditures,
12 like Technology and Economic Development.

13 There is an authorization to make transfers, and that is a transfer to the
14 endowment, and the Executive Director can make that transfer when and if those funds
15 are available, a memorandum. You touched on this in a prior Executive Committee
16 meeting, letting the Commission go forward with the treasury and others in order to incur
17 costs to go forward with the securitization. You would request the Governor to approve
18 the securitization, authorization of costs, authorization to execute the necessary
19 documents. Primarily, from your point, that is talking about the tax documents and talks
20 about how you can spend the proceeds. Then I'm going to go back to your approval of
21 the resolution of the Board of the Financing Corporation.

22 DELEGATE JOHNSON: Mr. Chairman, before we go on,
23 I have a question. Number two, the Executive Director is hereby authorized to transfer
24 endowments to all or part of the amounts that may be on deposit. What does that mean?

25 MS. HAMLETT: That is just establishing flexibility,
26 because as the bonds are sold it will go into a few different places. One will be the debt
27 service reserve fund to pay costs. Technically, you may not have all of the proceeds
28 going into the endowment. You will have the cost of issuance, unless you use the reserve
29 fund, everything else would go into the endowment. It is just like a technicality and not
30 like any actual movement that will take place. It will be paper. Everything but the
31 reserve fund and the cost of issuance will go into the endowment.

32 DELEGATE JOHNSON: Any portion that is not
33 transferred in the endowment would be used to operate?

34 MS. HAMLETT: No, there are some things you can pay
35 for, certain of the lawyers' costs can be paid for with the proceeds of the bonds. For
36 example, bond counsel's fee of 50 thousand, that can come out of the bond proceeds and
37 pay the bond lawyers. That is what we're talking about, and it is not administrative. It is
38 cost of actually getting the deal done, closing costs. The only portion is funding the
39 reserve account.

40 SENATOR HAWKINS: Does that answer your question?

41 DELEGATE JOHNSON: Yes.

42 SENATOR HAWKINS: So this is the recommendation we
43 make, or motion to adopt this resolution before the Full Commission?

1 MS. HAMLETT: Yes.
2 SENATOR HAWKINS: Basically what this does is put in
3 place some understanding of how the monies will be distributed?
4 MS. HAMLETT: Yes, and it expresses your desire to go
5 forward with the securitization. Technically, because of the way the law is and the
6 requirements, it is really the Financing Settlement Corporation's decision, but this
7 expresses your desires to go forward. That is why we acknowledge your approval, if you
8 will, of their resolution. The most critical part of their resolution, and they go through all
9 the ABC's, which sort of tells us the story of what is happening, but then you get to
10 paragraph one, and it talks about the sizing of the bonds and the maximum interest rate.
11 If the market were to shift such that the interest rate would be larger than 7.375 percent,
12 the deal would not go forward, by the terms already set by the Corporation.
13 SENATOR HAWKINS: Does everyone understand what
14 we would be recommending for the Full Commission tomorrow? Any question about
15 what recommendation to be made?
16 DELEGATE KILGORE: Is there still a way for the
17 Financing Corporation to pull back if something goes south?
18 MS. HAMLETT: Yes, they don't think they will even go
19 forward if the interest rate gets up to 7.375. The current market is 6.4, under that. If
20 something doesn't look like it is going to go right, they could back out.
21 SENATOR HAWKINS: Does everyone understand, then,
22 the recommendation tomorrow to the Full Commission? We don't need other action?
23 MS. HAMLETT: It is for your education today if you want
24 to recommend it tomorrow.
25 SENATOR HAWKINS: If we have a recommendation
26 from the Executive Committee that that be adopted. I do have a question, on the budget
27 we have for 50 percent of the MSA revenue securitized, '05 and '06 Budgets, the 50
28 percent securitization, an increase of a little over 2 million in the two budgets, is the
29 securitized going to be more money?
30 MS. WASS: Only because we have carryforward monies,
31 and depending on how much corpus you invade, you could potentially have more money,
32 in the printed version 3.2 million in carryforward.
33 SENATOR HAWKINS: But you have invasion of the
34 corpus that percentage, how about monies generated out of the interest, does that figure
35 into the budget as well?
36 MS. WASS: Look at the top of the FY06 Budget, you will
37 see all the different sources of income from the MSA revenue. The interest earnings on
38 the MSA money, the endowment invasion, the earnings on the endowment, and the
39 carryforward fund.
40 SENATOR HAWKINS: Seven hundred fifty thousand is
41 the interest projected monies returned on 300 and some million?
42 MS. WASS: No, on the amount we receive from the MSA
43 payments the balance in the funds that earn interest. You have interest earnings on the

1 endowment, and you have interest earnings from the fund, which is where the MSA
2 revenue is deposited. The interest earnings from the endowment are restricted as to their
3 use, they can only be used for capital projects, versus the interest earnings on the fund are
4 unrestricted. That is why we separate them out.

5 SENATOR HAWKINS: If you got monies out of
6 securitization that are generated revenue based on the interest, you could project a
7 definite figure?

8 MS. WASS: The interest earnings on the endowment, 10.7
9 million.

10 MR. CURRIN: Mr. Chairman, the Staff is working if the
11 securitization process continues and we actually securitize 50 percent. That is estimated
12 to happen on May 19th, that is the time frame for the bonds to be sold. If that is
13 acceptable to the Executive Committee, that would allow Senator Wampler's Special
14 Projects and Delegate Kilgore's Southwest Economic Development Committee to assign
15 some new time frames for them to meet and to deliberate on applications that are before
16 them. Currently, the Southside Econ Committee, I think the grant application process is
17 June 1 for those grants and applications are due in the office and we can get Chairman
18 Arthur to meet with his committee probably some time in July. I would like Senator
19 Wampler's and Delegate Kilgore's committees possibly to meet in the June time frame.

20 MR. PFOHL: We need the Southside, that date of June 1
21 will be pushed back in light of securitization, and we'll look to reschedule the Southside
22 application date as well.

23 SENATOR HAWKINS: We have a formula in place for
24 Southside for the applicant money. When you're talking about securitization you're
25 talking about a transition of funds from a source of revenue that, we'll have less revenue
26 that will be secure, though, in the long run. What troubles me, without some sort of
27 understanding of the impact this might have on the allocation formula for the smaller
28 counties, we may have counties that right now receive a fairly small amount of money,
29 like Appomattox, Cumberland, Charlotte, that would find their allocation would be such
30 an amount of money that they really couldn't do anything with it except try to figure out
31 some way to spend it that would have no real economic impact, and that troubles me. I
32 hope we can come up with some sort of discussion on what we're going to do, if in fact
33 we go down this track, to make sure that we don't create a mechanism where counties
34 have such a small amount of money that they are constantly trying to figure out some
35 way just to spend it without having a long-term economic impact. We need to have that
36 discussion, because I can see that coming up and being a real problem. A couple of years
37 ago we had one county that the monies that they had all they did was have a sign made
38 that said, welcome to, and we're not in that business. We have got to do better than that,
39 and we have talked about securitization. Particularly in Southside we need to have a
40 discussion about how we plan to do this.

41 MR. CURRIN: Mr. Chairman, if we could invite some of
42 our Southwest members to be part of that, maybe they could help with that.

43 DELEGATE KILGORE: You want me to chair it?

1 MR. ARTHUR: We had that discussion a couple of weeks
2 ago when we were here in Roanoke. We must have debated that same thing for an hour
3 and a half or two hours. When it came to a vote, we split four to four to keep it like it is.

4 SENATOR HAWKINS: It takes a two-thirds vote of the
5 Full Commission to change the formula. If in fact we don't change the formula I want us
6 all to understand fully the impact we will have that the larger counties will receive the
7 lion's share of the money, and counties that need economic underpinnings for particular
8 projects that do not come under Special Projects will find themselves looking for monies
9 that are not available to them. We need that flexibility. We've got problems that pop up
10 in counties, like the closing in Charlotte. We've got to deal with these things. We've got
11 to be able to have some sort of mechanism, or we're not going to be able to handle the
12 problems. That's my sermon for today, and I apologize for that, but that does trouble me.

13 MR. CURRIN: Mr. Chairman, there is no other business
14 other than public comment.

15 The Education Committee will meet at 9:15 and the Full Commission will
16 meet at 10:00 a.m. in the Crystal Ballroom. The Reception hosted by Troutman Sanders
17 and Wise County begins at 6:30 p.m. right across the street from the hotel.

18 SENATOR HAWKINS: Before we adjourn and get ready
19 for the reception, let me just emphasize something we have talked about time and time
20 again. In order to try to bring economic recovery for our areas we need projects that give
21 everyone an opportunity to have a bite at the apple. Telecommunications is one of those
22 projects. We have also got to come up with other programs and projects that have a
23 broad aspect being able to sell the region, rather than try to have a parochial approach to
24 sell my hometown. We've got problems, and we have to face them, and we've got to deal
25 with it on a more regional approach some way. I think we have done a great job with the
26 telecommunication piece in Southside and also dealing with the Institute, which is our
27 focal point for drawing more interest in our area. The Institute has just been a great piece
28 for us. We've got to come up with some innovative thinking, ladies and gentlemen, and it
29 has got to come out of this Commission. In part of the discussion at tomorrow's Full
30 Commission meeting, we need a discussion on what we plan to do ten years out, and we
31 need to start making plans for that, and we need some thinking that is out of the norm.
32 Having said that, we're adjourned.

33
34 PROCEEDINGS CONCLUDED.
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38 CERTIFICATE OF THE COURT REPORTER
39

40 I, Medford W. Howard, Registered Professional Reporter
41 and Notary Public for the State of Virginia at large, do hereby certify that I was the court
42 reporter who took down and transcribed the proceedings of the **Virginia Tobacco**
43 **Indemnification and Community Revitalization Commission Executive Committee**

1 **Meeting when held on Wednesday, April 27, 2005 at 4:30 p.m. at the Hotel Roanoke**
2 **and Conference Center, Pocahontas Room, Roanoke, Virginia.**

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

5 Given under my hand this 5th day of May, 2005.

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

My Commission Expires: October 31, 2006.