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**VIRGINIA TOBACCO INDEMNIFICATION  
AND COMMUNITY REVITALIZATION COMMISSION**

701 East Franklin Street, Suite 501  
Richmond, Virginia 23219

**Executive Committee Meeting**

Thursday, April 20, 2006  
9:00 a.m.

House Room C  
General Assembly Building  
Richmond, Virginia

1    **APPEARANCES:**

2    The Honorable Charles R. Hawkins, Chairman

3    The Honorable Terry G. Kilgore, Vice Chairman

4    Mr. Thomas W. Arthur

5    The Honorable Kathy J. Byron

6    The Honorable Allen W. Dudley

7    The Honorable Patrick Gottschalk, Secretary of Commerce and Trade

8    The Honorable Clarke N. Hogan

9    The Honorable Joseph P. Johnson, Jr.

10   The Honorable Philip P. Puckett

11   The Honorable William C. Wampler, Jr. (by telephone)

12

13   COMMISSION STAFF:

14   Mr. Ned Stephenson, Acting Executive Director

15   Mr. Timothy Pfohl, Grants Program Administration Manager

16   Ms. Britt Nelson, Grants Coordinator Southside Virginia

17   Ms. Stephanie Wass, Director of Finance

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19   OFFICE OF THE ATTORNEY GENERAL:

20   Mr. Francis N. Ferguson, Deputy Attorney General, Counsel for the

21                                   Commission

22   Ms. Stephanie Hamlett, Senior Assistant Attorney General, Bond Counsel

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1 SENATOR HAWKINS: All right, we're ready to  
2 go. Ned, would you call the roll?  
3 MR. STEPHENSON: Mr. Arthur?  
4 MR. ARTHUR: Here.  
5 MR. STEPHENSON: Mr. Bryant?  
6 MR. BRYANT: (No response.)  
7 MR. STEPHENSON: Delegate Byron?  
8 DELEGATE BYRON: Here.  
9 MR. STEPHENSON: Delegate Dudley?  
10 DELEGATE DUDLEY: Here.  
11 MR. STEPHENSON: Secretary Gottschalk?  
12 SECRETARY GOTTSCHALK: Here.  
13 MR. STEPHENSON: Chairman Hawkins?  
14 SENATOR HAWKINS: Here.  
15 MR. STEPHENSON: Delegate Hogan?  
16 DELEGATE HOGAN: Here.  
17 MR. STEPHENSON: Delegate Johnson?  
18 DELEGATE JOHNSON: Here.  
19 MR. STEPHENSON: Vice Chairman Kilgore?  
20 DELEGATE KILGORE: Here  
21 MR. STEPHENSON: Senator Puckett?  
22 SENATOR PUCKETT: (No response.)  
23 MR. STEPHENSON: Senator Ruff?  
24 SENATOR RUFF: (No response.)  
25 MR. STEPHENSON: Mr. Thompson?

1 MR. THOMPSON: (No response.)

2 MR. STEPHENSON: Senator Wampler?

3 SENATOR WAMPLER: Here, by phone.

4 MR. STEPHENSON: Mr. Chairman, we have a  
5 quorum, but barely.

6 SENATOR HAWKINS: Do we have a motion to  
7 approve the Minutes of January 9th?

8 DELEGATE JOHNSON: So move.

9 SENATOR HAWKINS: It's been moved and  
10 seconded we approve the Minutes. All in favor say aye? (Ayes.) Opposed,  
11 like sign? (No response.)

12 Mr. Secretary, would you like to make some comments before  
13 we get started? This is the first meeting you'll be attending.

14 SECRETARY GOTTSCHALK: Mr. Chairman, all  
15 I'd like to say is that it's a pleasure to be on the Commission. This is my first  
16 meeting, and I look forward to active debate and dialog. You can have my  
17 assurance that the needs and special circumstances of Southwest and  
18 Southside are very dear to mine and the Governor's hearts. I hope we have  
19 demonstrated that so far in the last three months. We've got four more years  
20 to do it, and hope to see that's done.

21 SENATOR HAWKINS: We just want more.  
22 Thank you, sir, and appreciate you coming, and look forward to working  
23 with you.

24 Getting right to the Agenda, there's a request to transfer Special  
25 Projects' money to Southside Economic. Let's get into that discussion we

1 started some time back. What we needed to do, and I think it's something  
2 that we have to make some decision on, is how we're able to address a large  
3 request from counties, and there's one before us now, Halifax County, in the  
4 amount of eight million dollars. We really don't have a mechanism in place  
5 to be able to deal with these requests when they come through. In an effort  
6 to do that, I asked Mr. Arthur to look at some recommendations, specifically  
7 the Southside piece.

8 Mr. Arthur.

9 MR. ARTHUR: Thank you, Mr. Chairman. Prior  
10 to getting directly into that part of it, we've got some housecleaning business  
11 that we need to take care of. You'll find in your packet the FY06 proposed  
12 budget amendment. Under Item A, budget amendments, move to transfer  
13 three million from Special Projects to Southside Economic Development and  
14 award the same to Halifax, Danville and Pittsylvania, one and two million,  
15 respectively, for prior commitments made by the Commission for Riverstone  
16 and the Institute. You all should have a copy of that. This is Special  
17 Projects' money put back in Southside after it was taken out earlier in the  
18 year.

19 SENATOR HAWKINS: The way I understand it,  
20 this is basic bookkeeping?

21 MR. ARTHUR: Yes.

22 SENATOR HAWKINS: Get the money back, due  
23 to some obligations that we face.

24 MR. ARTHUR: I move we do that.

25 DELEGATE JOHNSON: Second.

1                   SENATOR HAWKINS: It's been moved and  
2 seconded that the transfer will take place in order to get our books back in  
3 order. Any more discussion of that piece? Does everyone understand that?  
4 It's been moved and seconded, all in favor signify by saying aye? (Ayes.)  
5 Opposed? (No response.) That is passed.

6                   MR. ARTHUR: The second item is another budget  
7 amendment for '06. Move to reduce the unrestricted Technology Committee  
8 line item by \$2,547,891 and the unrestricted Special Projects Committee line  
9 item by 1,000,021; that's a change that didn't get on the print here because of  
10 MSA payments, I am told. This is another bookkeeping deal.

11                   SENATOR HAWKINS: Any discussion of this  
12 particular transfer?

13                   MR. STEPHENSON: Mr. Chairman, this is to  
14 adjust the budget, due to the MSA shortfall that has occurred. This might get  
15 cured in time, but as of this moment this is where we are.

16                   SENATOR HAWKINS: I think it's going to get  
17 worse as time goes by, unfortunately, we're talking about --

18                   DELEGATE KILGORE: -- Where did we come  
19 up with these figures, the 2 million 547?

20                   SENATOR HAWKINS: Stephanie, would you  
21 clarify that for us?

22                   MS. WASS: We just received the MSA payment,  
23 or the bulk of the MSA payment on Monday, and an additional payment  
24 yesterday.

25                   SENATOR WAMPLER: Mr. Chairman, excuse

1 me, I can't hear Stephanie.

2 SENATOR HAWKINS: Would you repeat that,  
3 Stephanie, please?

4 MS. WASS: We received the bulk of the MSA  
5 payment on Monday and a smaller payment yesterday, and the total amount  
6 this is applied to the Tobacco Commission was 29½ million. Our budget for  
7 FY06 has 33.1 million for the MSA revenue, and that's a shortfall of about  
8 3½ million.

9 SENATOR HAWKINS: The reason for that is the  
10 sale of domestic cigarettes and other components of the Master Settlement  
11 Agreement just not being there.

12 DELEGATE KILGORE: Mr. Chairman, you say  
13 the shortfall is 3.5 million. That's this year?

14 MS. WASS: Yes.

15 DELEGATE KILGORE: The total reduction here  
16 is 5 million dollars?

17 MS. WASS: The second line item, Special  
18 Projects' budget line item is reduced by only 1,021,000. This is information  
19 we received yesterday, so it has been amended.

20 MR. STEPHENSON: It was printed as 5 million,  
21 but last night it dropped to 3½. You're looking at 5.

22 DELEGATE KILGORE: Yes.

23 MR. FERGUSON: Mr. Chairman?

24 SENATOR HAWKINS: Yes, sir.

25 MR. FERGUSON: Just a clarification on the

1 shortfall. This is actually not the result of reduced sales or sales volume.  
2 The projections and the amount that we still will claim we are owed is the  
3 amount that was originally budgeted, within a few thousand dollars one way  
4 or the other. The total figure that Virginia was to receive this year was  
5 134,309,000 and change. What we have received from the tobacco  
6 companies so far is something over 118,000,000. The reason for the  
7 difference is the withholding for placement in disputed accounts of a portion  
8 of the money owed some of the tobacco companies, based upon their  
9 contention that they are owed an offset for what they allege was  
10 overpayment for 2003. That overpayment is based upon their claim that  
11 they are due what's called the NPM adjustment. Without going into a lot of  
12 detail, and we talked about this before some, ultimately, we believe we will  
13 get that money back, because we believe that Virginia has diligently  
14 enforced its escrow statute, and if we have diligently enforced, which we  
15 believe we have, they're not entitled to that NPM adjustment. That'll  
16 probably require litigation, and whether we get it in three months or three  
17 years remains to be seen, but we'll probably be filing suit within the next  
18 week. Maybe the next 24 hours.

19 SENATOR HAWKINS: The sale of domestic  
20 cigarettes is at its lowest point in 50 years, I understand. What effect is that  
21 going to have on us long-term?

22 MR. FERGUSON: I would assume that trend will  
23 continue downward, and certainly that will continue to trigger the so-called  
24 volume adjustment, and that is the major historical offset to the amount that  
25 we would otherwise anticipate. That figure was already accounted for in the

1 134 million we anticipated. The nationwide figure was something like 6½  
2 billion dollars, and normally it would be a billion for this year if we'd gone  
3 for a baseline figure from the MSA. The vast majority of that reduction is  
4 volume adjustment for reduced volume of domestic sales.

5 SENATOR HAWKINS: The motion has been  
6 made, and does everyone understand the reason for the reduction?

7 MR. STEPHENSON: Mr. Chairman, for the  
8 benefit of the record, the motion is precisely a reduction of 2,547,891 to  
9 Technology and 1,021,676 in Special Projects.

10 SENATOR HAWKINS: Does everyone  
11 understand the motion and the amended motion? All those in favor say aye?  
12 (Ayes.) Opposed? (No response.) That's done.

13 Mr. Arthur.

14 MR. ARTHUR: Item 3 is an item which I'm  
15 obliged to bring up to the Executive Committee. This motion was made and  
16 approved by the Southside Economic Development Committee, primarily  
17 sponsored by Senator Ruff. "Be it resolved that the Southside Economic  
18 Development Committee asks the Executive Committee to transfer all  
19 unobligated balances from Special Projects to Economic Development, and  
20 divide the same between Southwest and Southside."

21 As background, it was suggested by some commissioners that  
22 the smaller counties were to have access to funding from Special Projects,  
23 and that such has not been the case. In remedy there, Southside Economic  
24 Development wishes to divide the remaining Special Projects monies into  
25 the two regions, transferring the same to the Economic Development

1 Committees basically by the allocation. That is where we stand on that.

2 SENATOR HAWKINS: What you'd be doing is  
3 doing away with Special Projects, the existing entity.

4 MR. ARTHUR: That's true.

5 SENATOR HAWKINS: I'm sure that's not in the  
6 best interest of the long-term stability of the Commission. The idea was to  
7 have flexibility when it comes to being able to deal with some projects that  
8 came under that category. But, we'll open it up for discussion before we get  
9 into it.

10 DELEGATE KILGORE: How much money are  
11 we talking about here, Stephanie?

12 MS. WASS: After the Special Projects that are  
13 being recommended for funding, I think they're meeting Monday, it'll be  
14 about 4.1 million restricted, and about 2 million in unrestricted.

15 SENATOR HAWKINS: Six million.

16 MR. ARTHUR: The budget line item is how  
17 much, this will go on into the future. How much is the budget line item for  
18 '06, Special Projects?

19 MR. STEPHENSON: Fourteen and a half as of  
20 today.

21 MR. ARTHUR: You're talking about a large sum  
22 of money.

23 SENATOR HAWKINS: You're talking about  
24 doing away with Special Projects.

25 MR. ARTHUR: Yes.

1 SENATOR HAWKINS: The idea of Special  
2 Projects is being able to react in situations across regional lines and being  
3 able to deal with projects that are coming into focus. You would eliminate  
4 that option completely, and I'm not so sure, long-term, that's good.

5 SENATOR WAMPLER: Mr. Chairman?

6 SENATOR HAWKINS: Senator Wampler.

7 SENATOR WAMPLER: Trying to understand  
8 what the emphasis is behind this discussion. I think there is a challenge to  
9 the Commission with regards to trying to fund a project the magnitude of  
10 one or two counties. Let's just take one county individually that does not  
11 have any kind of dollar flows from formularies. If you would challenge the  
12 Special Projects Committee to try to re-sharpen the guidelines as to  
13 thresholds, perhaps, that could be achieved to where it would not have to be  
14 multiple localities, maybe our Secretary could have some innovative ideas  
15 on how we can achieve those working in cooperation with his office. I  
16 would hate to lose an opportunity to impact two or three localities or local  
17 governments when they want to work together. Maybe we can find a way to  
18 ease that burden on some of the smaller counties by trying to work with the  
19 Secretary's office in finding guidelines that work beyond what we have  
20 today.

21 SENATOR HAWKINS: Thank you. Delegate  
22 Hogan.

23 DELEGATE HOGAN: Mr. Chairman, I think  
24 Senator Wampler has touched on exactly what we're trying to get to, which  
25 is the multi-jurisdictional requirements of Special Projects has kept us from

1 doing what we need to do, and sometimes wiggling out of it, and sometimes  
2 we can't. Sometimes we'd be better off to remove that restriction from  
3 Special Projects and let the Special Projects Committee do their job, versus  
4 trying to figure out a way to get around, sticking in a square hole.

5 SENATOR HAWKINS: I'm glad you suggested it,  
6 because Mr. Arthur has a solution.

7 MR. ARTHUR: This is further discussion, I'm  
8 prepared to go forward.

9 SENATOR HAWKINS: Delegate Byron.

10 DELEGATE BYRON: I'll wait until you're done.

11 MR. ARTHUR: At the moment, our guidelines for  
12 Special Projects, one paragraph, and I'll read the pertinent part. I'll read it,  
13 and it says, "unless the proposal involves active participation of three or  
14 more tobacco region localities that are ineligible unless that condition is  
15 met." At the last general meeting, I was asked to try to come up with  
16 possible solutions to this problem. The Southside Economic Development  
17 Committee met, and a great length of discussion went on about the  
18 formulary and what have you, and possibly adjusting the formulary. After a  
19 lot of discussion, the Committee felt that the counties were well served at  
20 present by the formulary, so they really wanted to keep that. They didn't  
21 want to change it. At that point we were looking at nothing changing.

22 We have two projects right now that fall into this category. One  
23 of them is for Halifax County, which is an eight million-dollar deal, and the  
24 City of Danville, which has a project on the riverwalk and the revitalization  
25 of the tobacco region. Their allocation now is practically nothing, because

1 we took it away from them to build the Institute. We need to look at possible  
2 ways to fund projects like this, because neither of them fit the guidelines for  
3 Special Projects, because it's not multi-regional.

4 DELEGATE DUDLEY: Mr. Chairman.

5 SENATOR HAWKINS: Delegate Dudley.

6 DELEGATE DUDLEY: When you say we took it  
7 away from them, I thought we were paying it out of a different fund, not  
8 coming out of their money at all. Help me with that a little bit.

9 MR. ARTHUR: The County of Pittsylvania and  
10 City of Danville lose one million dollars each year from their allocation, and  
11 it actually comes from their allocation. It's not paid for by the Commission,  
12 because that's something we want. We had to do this in order for them to get  
13 the funding, and we had to guarantee the payment to the county and to the  
14 city in order for them to get funding to build the Institute.

15 SENATOR HAWKINS: It comes off the top of the  
16 allocation?

17 MR. ARTHUR: Yes.

18 SENATOR HAWKINS: Delegate Kilgore.

19 DELEGATE KILGORE: I agree we need to do  
20 something here to help those situations where there's not maybe three  
21 counties, even two counties, in things that are a great economic development  
22 that would change the community. I don't have a dog in you all's race, but  
23 the formulary is a problem you all are wrestling with. It's something you're  
24 going to have to address sooner or later, because these counties have gotten  
25 used to getting this money, and good projects or bad projects, they get

1 funded. It's something that needs to be addressed. We address it a little  
2 differently in Southwest, where we don't have the formulary, and that's  
3 something you all need to look at.

4 SENATOR HAWKINS: Thank you, sir, we'll take  
5 that under advisement.

6 SENATOR WAMPLER: One thought I had this  
7 morning, is maybe I would hope the Secretary would offer his thoughts later  
8 and might address it working other than with Tobacco Commission dollars.  
9 Maybe what we need to do is have a provision wherein the regions who have  
10 a project that doesn't meet the specific guidelines, bring it to the Executive  
11 Committee, and the Executive Committee could decide if we were able to do  
12 the deal or deal with some of those requirements. If the project makes sense  
13 and has a lot of merit, and we want to do it, we'll do it through Special  
14 Projects or transfer funds to the Southside Committee for special allocation.  
15 I don't know. It seems to me there's plenty of ways to solve it. I'm not sure  
16 if it's ready or the right time.

17 SENATOR HAWKINS: I think you're absolutely  
18 correct, and probably the best way to do it is as he suggested, what Mr.  
19 Arthur gave in his presentation. The main thing is that we need to give your  
20 committee flexibility, and you're being restrained today, due to the initial  
21 guidelines that were put in place that may not be realistic in today's market.

22 SENATOR WAMPLER: I'd like to ask Tom a  
23 question. With regard to the Executive Committee, try to get some  
24 resolution on the smaller localities for projects that make all kinds of sense?

25 MR. ARTHUR: Of course, Senator Wampler. We

1 can basically do whatever we want to, within certain guidelines, and it's true  
2 that would possibly work, but would the Executive Committee want to be  
3 looking at each one of these as they come forward? I've handed out a  
4 handout to the rest of the people here. There's five possible solutions,  
5 Senator Wampler. There's five that we come up with, and there may be  
6 others. I'll read them so that you can hear them. I'll go through all five of  
7 them, and then we'll just discuss them after that, if that's okay with the  
8 Committee.

9           Option A is to award and disburse eight million dollars from  
10 Halifax's allocation and carry Halifax in an overdrawn status, allowing  
11 future allocations, if any, to accrue until the overdraft is covered.

12           We've basically done that before, and we are trying to hopefully  
13 find other ways, but if that's the only way, it will work. If Southside  
14 Economic Development receives a budget of 10 million dollars each year  
15 which is not guaranteed, Halifax would recover in July of 2012. We have  
16 one county in this posture right now, that's Prince Edward, and Halifax will  
17 be the second. This may bind future Commissions and future Halifax boards  
18 until the year 2012, and that was one of the reasons that we really didn't  
19 want to spend forward, but it may be necessary.

20           Option B, award and disburse 1.8 million dollars from Halifax's  
21 allocation and promise to award the balance each year to the extent that  
22 future budgets allow.

23           Pittsylvania County and the City of Danville are in this  
24 situation right now, where we took the money for the Institute, in order to  
25 allow them to finance the Institute.

1           Option C, to the '06 budget add eight million dollars to the  
2 TROF, and award the same to Halifax of the TROF initiative. As we all  
3 know, TROF is a deal closing fund and has been very successful, and that is  
4 one other alternative.

5           Option D, apply the allocation formula to Southside's share of  
6 the Endowment, resulting in 44 million dollars to Halifax, of which 8  
7 million dollars would be awarded now. An eight million dollar award to  
8 Halifax in one year would consume about one-third of the Commission's  
9 statutory limit on ten percent per year on Southside's share only.

10           Option E would be to waive the policy guidelines in Special  
11 Projects to allow single region projects to be funded from that source. That  
12 would be a change, as I read earlier, in the guidelines for Special Projects.  
13 Special Projects is forecasted to have only about 6.1 million available on  
14 July 1, and more if the budget is amended to increase it. This presents  
15 equity issues between Southside and Southwest and between Southside  
16 counties, others may follow suit.

17           Those were the five options that we came up with, and there  
18 may be others. The Staff did an excellent job in putting this together, and  
19 the Staff recommended to us to look strongly at Option A, even though it  
20 commits Halifax well into the future, to keep from invading the corpus.

21           SENATOR HAWKINS: Before we get into a  
22 discussion, I think the easiest and cleanest way is Option E, to give Special  
23 Projects some flexibility. It may require more funding to do a project. The  
24 complications involved with some of these others, if we went to any of these  
25 other options, like Option A, we would almost have to have a signed

1 agreement with the counties saying that they would not request any money  
2 under any conditions in 2012, and I'm not sure that's realistic.

3 Delegate Hogan.

4 DELEGATE HOGAN: Mr. Chairman, certainly  
5 Option A would have some problems, but in terms of fairness to other  
6 communities and that sort of thing going on, I'm not opposed to going back  
7 to the counties and saying this is a bird in the hand. If you really want this,  
8 and it's really important to you, then you do it. It seems to me some  
9 combination of Option A or either D or E may be less painful, and in the  
10 long run it may be more applicable to other people that want to do similar  
11 things.

12 What I think I would try to do is maybe try to split it and do  
13 half Option A and look at D and E for the other half. I was talking to the  
14 Secretary here for a minute saying that we probably need to sit down with  
15 the IDA in Halifax, we'll help you, but there are some consequences for  
16 doing it. If you really want to do it, we're willing to do it, but you must  
17 realize what you're doing to yourself. If they go into this with their eyes  
18 open, this is about a bird in the hand versus some future project, and it's a  
19 pretty hard commitment. As long as they realize what they're doing and the  
20 commitment, I don't see the problem. I really don't see a down side, but I'd  
21 try to split the bacon some sort of way.

22 SENATOR HAWKINS: Point well taken. Any  
23 other discussion?

24 Delegate Byron.

25 DELEGATE BYRON: Thank you, Mr. Chairman.

1 A couple of thoughts I'd like to bring to the table on this. First of all, we all  
2 know eight million dollars is a lot of money, and I like the combination of  
3 the effect of looking at several options. I think Options D and E are worthy  
4 of some consideration. I think Clarke was talking about that. I don't know,  
5 and I'd be curious to know what type of funding match we have seen on  
6 Special Projects in past for projects. Eight million dollars is a lot of money,  
7 and you can have a lot of business with that eight million dollars to put  
8 together something that could create quite a few jobs. I think we need a  
9 brief update on how we're spending eight million dollars, and that would be  
10 great. Somewhere along the line we could change our policy guidelines,  
11 because that's a big chunk of money. I think that's going to cause problems  
12 in the future for us.

13 SENATOR HAWKINS: The idea of being able to  
14 have a sub-committee like Special Projects getting into the pros and cons of  
15 requests, I think, is to our advantage. Everyone has to understand it before it  
16 goes to the full Commission and has to know all the ins and outs. This may  
17 be a little much.

18 Delegate Johnson.

19 DELEGATE JOHNSON: My question is the  
20 quote, overdrawn. What kind of negative effect would that have on, or will  
21 it have, if you look five years down the road, does it have a negative effect?

22 MR. ARTHUR: Any time you owe money you're  
23 in a negative situation. If we're going to advance forward eight million  
24 dollars and they've got to pay it back basically out of the allocation that's  
25 coming to them, that's basically an overdrawn, and we'll have to have an

1 official agreement with them that their money goes to pay this obligation  
2 until such time as the eight million dollars is paid back.

3 This is not only applicable to Halifax County, Danville's got  
4 one, too. They only have a hundred thousand dollar access allocation over  
5 and above the million dollars that we're already taking. They've got a  
6 \$600,000 request for revitalization of the tobacco region district in town, and  
7 they don't have the money to be able to do it either, unless we spend  
8 forward.

9 SENATOR HAWKINS: Delegate Kilgore.

10 DELEGATE KILGORE: In order to try to move  
11 this along, I'll make a motion that we have the Staff look at this very  
12 thoroughly, look at a combination of Option A, which is Halifax awarding  
13 some of their future allocation, and looking at D and E and focusing on E  
14 and coming up with some changes to the guidelines that would allow Special  
15 Projects to award in situations where there's only one county and get to us by  
16 the up-coming meeting, the next meeting.

17 SENATOR HAWKINS: By the next meeting.

18 MR. ARTHUR: Let me emphasize we've put off  
19 Halifax County for almost a year, and this is reaching critical mass.

20 DELEGATE KILGORE: If we can get the  
21 guidelines or something like that or get it to us, to Special Projects.

22 SENATOR HAWKINS: Also, if I remember, even  
23 if the recommendation came out of this sub-committee it would have to go  
24 to the full Commission anyway, and we have to have some recommendation.

25 MR. ARTHUR: I understand that, but we've got to

1 be prepared by the full Commission, a recommendation has got to be made  
2 to the full Commission about Halifax.

3 SENATOR HAWKINS: Yes. Delegate Hogan.

4 DELEGATE HOGAN: I was going to maybe offer  
5 a second to Delegate Kilgore's motion, or maybe I can ask a question. It's a  
6 follow-up to what Mr. Arthur was talking about. If we said half Option A  
7 and half Option E, that would require, or maybe take it up in a separate  
8 motion, the notion of Special Projects waiving its multiple locality  
9 requirement. I think it's something we need to do in the future. Maybe that's  
10 two different motions.

11 SENATOR HAWKINS: Delegate Kilgore.

12 DELEGATE KILGORE: The only thing I would  
13 say, Clarke, as I was thinking, I was throwing D in there as possibly a way  
14 that you'd be able to get that extra, Special Projects didn't have it all, and  
15 Halifax didn't want to bear all that pain, then you may have that Option D,  
16 and you might want to keep that on the table, as a loan top situation.

17 DELEGATE HOGAN: Mr. Chairman, the  
18 question that Mr. Arthur brought up, and we need to solve this problem  
19 between now and the full Commission meeting in a concrete way. I'm not  
20 opposed to what Delegate Kilgore is saying, but we need to finish this today  
21 and take a recommendation to the full board.

22 SENATOR HAWKINS: What I understand your  
23 recommendation is that we instruct Special Projects and Staff to come up  
24 with guidelines that include A and E for future recommendations, that any  
25 large allocation going to a single county, although it has impact that is

1 beyond that which we normally consider, would not be a regional concept.  
2 Therefore, half the burden would be the county's responsibility for future  
3 allocations, and the other half would be Special Projects' responsibility.

4 DELEGATE HOGAN: Mr. Chairman, I'm not sure  
5 I would define it that carefully. In this case, Halifax has a lot of allotment to  
6 do it. Let's say this project was in Buckingham County, you couldn't do it  
7 half-and-half.

8 SENATOR HAWKINS: But your motion was to  
9 make it half-and-half, by amending his motion, because his motion was  
10 generic in nature.

11 DELEGATE KILGORE: Yes.

12 SENATOR HAWKINS: Senator Wampler.

13 SENATOR WAMPLER: I would just say give us  
14 the flexibility between now and next Thursday on Alpha, Delta, and Echo,  
15 and between Special Projects and Staff come up with the funding option that  
16 will give you two choices, I suspect, I think Tom or Clarke or anyone else  
17 can accept, or we'll make it acceptable.

18 MR. ARTHUR: Mr. Chairman.

19 SENATOR HAWKINS: Mr. Arthur.

20 MR. ARTHUR: Let me say, as a commissioner,  
21 and not as Chairman of Southside Economic Committee, I am opposed to D.  
22 I'm opposed to going further into separation between the two districts. I  
23 think it drives a wedge when you do that, and I don't want to be part of that.  
24 I'm just officially, as a commissioner, opposed to D. I like the Option A and  
25 E, and that'll work.

1                   SENATOR WAMPLER: If it's an eight million  
2 dollar figure that we're trying to solve, and we only have a projection of six  
3 million dollars in Special Projects, it doesn't give us a lot of balance. That  
4 was the only point I'm trying to make, Tom.

5                   MR. ARTHUR: I understand.

6                   DELEGATE HOGAN: Mr. Chairman, I thought  
7 we had something like 17 million total in Special Projects.

8                   MR. ARTHUR: That's the way it started out.

9                   MR. STEPHENSON: Fourteen and a half on the  
10 books now. Special Projects meets on Monday, at which time it's likely to  
11 approve some six or seven million, leaving about five or six, plus new  
12 budget money. It's a bit of a moving target.

13                  DELEGATE BYRON: Mr. Chairman.

14                  SENATOR HAWKINS: Delegate Byron.

15                  DELEGATE BYRON: Tom, could you tell us why  
16 you have a problem with Option D? I'd like to know what you're concerned  
17 about.

18                  MR. ARTHUR: I'd like to see this Commission  
19 work as a unit. I don't want to do anything or be a participant in anything  
20 that splits Southside and Southwest. As an example, or as a TROF sign-off  
21 person, I try to work as equally hard for Southwest as Southside, and I just  
22 don't want to divide the units up.

23                  DELEGATE BYRON: How do you do that? I'm  
24 not sure I follow you.

25                  SENATOR HAWKINS: Stephanie.

1 MS. WASS: I think in Option D you're taking the  
2 entire remainder of the Endowment and allocating it, where the Commission  
3 might decide a portion of the Endowment may not go to Economic  
4 Development, or it might go to some other fund or Technology or some  
5 other piece. What you're doing is taking the entire balance of the  
6 Endowment and allocating it for regional economic development.

7 DELEGATE BYRON: I'd like to follow up with  
8 that.

9 SENATOR HAWKINS: Delegate Byron.

10 DELEGATE BYRON: I thought you were looking  
11 and taking Halifax's share, they were taking an advance payment, which is  
12 basically what you're talking about doing. So you're talking about doing A,  
13 is that not correct?

14 MR. ARTHUR: Yes.

15 DELEGATE BYRON: I thought you were looking  
16 or taking it as a whole for Southside.

17 SENATOR HAWKINS: In getting into the  
18 discussion about the Endowment, we need to be very careful, because we're  
19 finding ourselves in a difficult situation.

20 SENATOR WAMPLER: Perhaps Staff could help  
21 me with this. I know on post-budget there was eight million two from the  
22 Endowment, but I think we'd probably have some more flexibility should it  
23 be one of those projects that makes all kinds of sense, so we'd probably have  
24 another range of 12 to 16 million.

25 SENATOR HAWKINS: William, that's a

1 recommendation that should come out of your committee, and if you all feel  
2 it's worth the effort we need to do it, but I think it needs to have a  
3 recommendation after the committee looks at it and understands the merits  
4 of it.

5 SENATOR WAMPLER: Well, I hope we can work  
6 with the Secretary and work diligently on this within the next four or five  
7 days and say are the merits there and is this workable, and then coming back  
8 to the full Commission and say we'll take a bite at this one and try to get  
9 critical mass to do the deal.

10 SECRETARY GOTTSCHALK: Mr. Chairman.

11 SENATOR HAWKINS: Secretary Gottschalk.

12 SECRETARY GOTTSCHALK: In response to  
13 Senator Wampler, I would have to admit that I would have to refresh on the  
14 nitty-gritty details of this project, but I can give the Committee an assurance  
15 that what I remember of the project and hearing it at quite some length  
16 actually, and that was at a VSBA, Virginia Small Business Advisory  
17 Authority meeting when they were looking for a two-million piece for this  
18 project. It's a bird in the hand. It's a current company that's already in  
19 Halifax looking to expand and possibly could go somewhere else. This  
20 would make a difference in making sure that it stays there. It's a major  
21 employer in Halifax. I'd just say that the project has merit.

22 SENATOR HAWKINS: Let's do this. William,  
23 get your sub-committee together and touch base with Mr. Arthur and the  
24 Secretary and get this thing fixed between now and the meeting. Thank you.

25 MR. ARTHUR: That's the report, Mr. Chairman.

1 SENATOR HAWKINS: We will have a  
2 recommendation to fund Halifax by next meeting of the full Commission.

3 All right, moving on.

4 MR. STEPHENSON: I think we have a motion.

5 DELEGATE KILGORE: Mr. Chairman, I'll  
6 withdraw it.

7 DELEGATE HOGAN: Mr. Chairman, I would  
8 move that we strike from the Special Projects' guidelines, "projects must be  
9 multi-regional," and replace that language with, say, "we will give  
10 preference to multi-jurisdictional projects." What we're trying to say is that  
11 we tend to like them, but by no means a requirement.

12 DELEGATE KILGORE: I'll second it.

13 SENATOR HAWKINS: I think there's a need for  
14 that, because we run into situations which merit some consideration.

15 DELEGATE KILGORE: I'll second it.

16 SENATOR HAWKINS: It's been moved and  
17 seconded that we expand the thrust of the charge to Special Projects to  
18 include, but not eliminate, Special Projects one county that has some merit.  
19 Does everyone understand the motion? It's been moved and seconded, all in  
20 favor say aye? (Ayes.) Opposed? (No response.)

21 William, did you get that?

22 SENATOR WAMPLER: Yes.

23 SENATOR HAWKINS: Moving on, do we now  
24 have the budget presentation?

25 MR. STEPHENSON: Members of the Committee,

1 in a moment Stephanie Wass is going to present you with a draft budget to  
2 look at for the new year, but before she does, there are three concepts that I  
3 want to ask you to fix in your mind as you look at this budget, because I  
4 think it will be helpful for you in making changes that you might want to  
5 make.

6           The first context is that we now have two kinds of monies. We  
7 have restricted and unrestricted money. As we make changes to the budget,  
8 you can't mix one with the other. Stephanie has taken care to place yellow  
9 paint on the restricted items on the budget that is before you, and the  
10 unrestricted ones are black. If you endeavor to make changes, just make  
11 sure that you keep the yellow changes within the yellow and the black within  
12 the black, so as to not mix the restricted and unrestricted monies.

13           The second point I'd like you to remember is that one year ago,  
14 if you remember, the Commission actually voted to set up two endowments,  
15 one for Southwest and one for Southside, and we have that on our books at  
16 the Tobacco Commission. I tell you that for this reason, that if one of the  
17 regions wants to raise the economic development line item in that budget  
18 you can certainly do so without impacting the balance between the two  
19 regions, because that would effectively come out of your region's  
20 Endowment and not disturb the other region. Some of the concerns about  
21 73/27 have really, in effect, gone away, insofar as Economic Development  
22 monies are concerned.

23           The last point to keep in mind is the relationship that exists  
24 between this budget and our corpus invasion. If you choose to raise one of  
25 the yellow items on the budget, which you may certainly do, that effectively

1 raises the corpus invasion by a similar amount, because that's where that  
2 money comes from. If you will keep that in mind as you work on this  
3 budget, you are, in effect, changing the amount by which the corpus needs to  
4 be invaded to fund that budget.

5 The last thing I want to mention to you is that this is a draft  
6 budget, and the Staff put this together in conversation with a number of you,  
7 and we stand prepared today to make any adjustments you wish to make  
8 before this budget goes to the full Commission.

9 Stephanie, would you take us through your budget work,  
10 please?

11 MS. WASS: To bring you up-to-date on the  
12 current balance of the Endowment, 350.8 million, of which 256 is the  
13 Southside Endowment and 95 million is the Southwest Endowment. We  
14 only had one corpus invasion, and that was in FY05. In our discussions with  
15 Treasury we had decided that the annual transfer of earnings and corpus  
16 invasion will occur in May of each year. For budget planning purposes, the  
17 earnings through the end of February will be transferred. For this transition  
18 year the earnings will only be from last May, when we securitized, through  
19 February, which totals 5½ million dollars.

20 Now, looking at the FY07 budget. A proposed budget was sent  
21 to you last week, and that's the starting point for the discussion today, to  
22 come up with a budget recommendation for the full Commission. The total  
23 proposed FY07 budget is 54.6 million; 38.4 million would be the  
24 unrestricted MSA revenue and interest earned, and 16.2 million would be  
25 restricted from the Endowment earnings and the corpus invasion.

1           As a recommendation from the Agribusiness Committee, fully  
2 indemnified farmers in the next four years, 24.1 million has been included in  
3 the indemnification budget line item. In making this recommendation, the  
4 Agribusiness Committee considered the costs of administering the program,  
5 which averages over 420 thousand per year.

6                         SENATOR HAWKINS: Let's have a discussion  
7 about that piece. There seems to be some misunderstanding or opinions  
8 about the accelerated payments.

9                         Delegate Kilgore.

10                        DELEGATE KILGORE: I was going to ask  
11 Stephanie, and I think I spoke to Senator Wampler about the possibility of  
12 stretching. I know Agribusiness may discuss this, but the possibility of  
13 stretching those payments out from four to six years.

14                        SENATOR HAWKINS: Delegate Johnson, it was  
15 your sub-committee, so what was your recommendation on that piece?

16                        MR. STEPHENSON: I think I can help Delegate  
17 Johnson a little bit on this. The primary driver was saving of the  
18 administrative costs in the out years, that was the primary savings. There  
19 were a couple of other things that were driving it. One is to discharge the  
20 liability that the Commission has to growers in a shorter period of time. The  
21 other one, and Stephanie has laid before you on the table this morning, a  
22 schedule of the indemnification payments since the inception of the  
23 Commission. You can note in the year 2006, in particular, the total  
24 indemnification payment has dropped to 13 million dollars, and this puts it  
25 back a year, or above the level that historically has been paid. It's certainly a

1 judgment call on the part of the Commission.

2 DELEGATE HOGAN: Mr. Chairman.

3 SENATOR HAWKINS: Delegate Hogan.

4 DELEGATE HOGAN: Mr. Chairman, I don't  
5 remember if it was last year or the year before we had a discussion about  
6 these payments in the context of possible securitization. We voted at that  
7 point to take ten equal payments over ten years. I believe there were a  
8 couple of reasons for doing that, and it was in the context of looking at the  
9 Phase 2, how that might affect the buyout.

10 SENATOR HAWKINS: Federal has a ten-year  
11 payout.

12 DELEGATE HOGAN: Yes, at that point the  
13 agricultural community was worried about the federal buyout and felt like  
14 there was stability for the long term, and this would create the sureness of it,  
15 if you will, that that was a real advantage. If we feel like we're spending too  
16 much money on administering this program, maybe we ought to look at the  
17 contract, but the effect of doing this is severely going to hamper our other  
18 activities for the next four years. I'm not so sure that's in the best interest of  
19 the Commission.

20 SENATOR HAWKINS: Point well taken, and I  
21 think that's a discussion we need to have, probably in greater detail. Would  
22 anyone else like to add anything to the discussion?

23 MS. WASS: The cost to administer the program,  
24 whether you pay out 10 million or whether you pay out 30 million, the  
25 administration costs are about the same. It's no additional work, it is a

1 formula calculation. The sending and receiving of verification forms are the  
2 same.

3 SENATOR HAWKINS: What I'm understanding  
4 from Delegate Hogan, that accelerating it to four years restricts us in other  
5 investments that we would be making with the money.

6 MS. WASS: I think when you look at the budget,  
7 you'll have to determine if it's restricting too much for the unrestricted  
8 money portion. If paying the indemnification payments prevents you from  
9 doing anything else.

10 The other thing the Agribusiness Committee considered was,  
11 with input from the farmers on the Tobacco Commission, they much  
12 preferred to have their money sooner than later.

13 SENATOR HAWKINS: Let me add a couple of  
14 things to this. We're looking at some other fairly expensive programs that  
15 we need to look at, and bio-diesel is one. It's a two to three million-dollar  
16 investment. We've got the VIPER program, the Institute, that's another  
17 major investment on our part. If we play into investing into these projects  
18 that are long-term stability and long-term effect on our economies, we're  
19 probably going to have to have access to monies that were not necessarily  
20 needed in the past. Right now we have two marquis projects that we can  
21 identify with, the backbone piece on 58 and the Institute itself are things we  
22 are recognized for. We need to start looking at other marquis pieces that  
23 have some stability, and I think bio-diesel is one, Viper is probably the other.  
24 Restricting the ability to be able to use these monies may not be to our long-  
25 term advantage.

1 Delegate Kilgore.

2 DELEGATE KILGORE: Mr. Chairman, are you  
3 suggesting, basically, that we spread this out longer? That's what I think we  
4 ought to do.

5 SENATOR HAWKINS: Special Projects right  
6 now has several requests, and they do not have the monies in hand to be able  
7 to fund those. Bio-diesel is one that probably has the greatest potential to  
8 give our farmers access to new crops and new mechanisms in order to create  
9 wealth.

10 MS. WASS: Mr. Chairman, a lot of these long-  
11 term projects can be funded with restricted funds, which is separate from  
12 unrestricted funds, that can be used for indemnification.

13 SENATOR HAWKINS: What we need to have  
14 spelled out is what abilities we have with these restricted funds when it  
15 comes to an investment. I don't think anyone fully understands what the  
16 limitations are.

17 DELEGATE KILGORE: I have a motion, Mr.  
18 Chairman.

19 SENATOR HAWKINS: Delegate Kilgore.

20 DELEGATE KILGORE: I'd like to make a motion  
21 that we leave the ten-year payment plan the way it is.

22 DELEGATE HOGAN: Second.

23 MS. WASS: Just for the remaining nine years,  
24 FY06 is the first of ten.

25 SENATOR HAWKINS: Does everyone

1 understand this recommendation? It probably can be modified when  
2 Delegate Johnson's subcommittee has an opportunity to discuss our  
3 recommendation.

4 MS. WASS: The payments would then go down to  
5 7½ million a year for flue-cured and 3.2 million for burley.

6 SENATOR HAWKINS: The reason we put the ten  
7 years in place is not only we were mirroring the feds on a ten-year payout,  
8 but it was, we were able then to start managing our monies better, and I think  
9 it's something we need to be careful on, because we have some opportunities  
10 now.

11 DELEGATE HOGAN: Mr. Chairman, by leaving  
12 it at nine years, leaving it at the status quo, we leave ourselves, or we have  
13 the ability to do exactly what you've just said.

14 SENATOR HAWKINS: We just need to make  
15 sure we know what we're getting into.

16 DELEGATE DUDLEY: Mr. Chairman.

17 SENATOR HAWKINS: Delegate Dudley.

18 DELEGATE DUDLEY: Speaking in favor of the  
19 motion, going back to the origination of the Tobacco Commission, everyone  
20 was in favor of receiving the payments over a 25-year period of time, so  
21 we're ahead of that.

22 SENATOR HAWKINS: A motion has been made  
23 and a recommendation that we maintain the status quo for the payout on the  
24 indemnification piece. Does everyone understand what we're  
25 recommending? Any more discussion? The motion has been made and

1 seconded, all in favor say aye? (Ayes.) Opposed? (No response.) That will  
2 be our recommendation.

3 MS. WASS: The annual payments, 7½ million for  
4 flue-cured and 3.2 million for burley.

5 MR. STEPHENSON: In anticipation of these  
6 events, I think Stephanie has prepared a second budget recast showing this  
7 payout period, and I think she has that available, so I think you really need to  
8 turn this budget over and stop looking at it and look at the version she's  
9 about to put up on the wall for you.

10 SENATOR HAWKINS: Stephanie, how much  
11 money would that free up this year?

12 MS. WASS: About 14 million would be freed up,  
13 unrestricted funds.

14 SENATOR HAWKINS: If we put some of that  
15 money back in Special Projects for a couple of these major investments, that  
16 will still give us some flexibility on the other part, right?

17 MS. WASS: Yes, unrestricted money.

18 SENATOR HAWKINS: William, Special Projects,  
19 if we're able to put a few more dollars in Special Projects for a couple of  
20 these things we're discussing, would that be to your benefit?

21 SENATOR WAMPLER: I would say, whether  
22 there's money remaining in Special Projects or elsewhere, it'll give us an  
23 opportunity to fund bigger projects.

24 MS. WASS: Moving on to the budget. The budget  
25 in general is that no additional funds were added to the Technology budget,

1 since there's currently a 6½ million dollar unobligated balance in the FY06  
2 budget for Technology.

3 The administration budget totaling nearly 2.1 million, for a  
4 6½ percent decrease from FY06. Contractual services, including  
5 indemnification, processing costs and legal fees, and the transfer payments  
6 are those in the Appropriation Act for MSA enforcement and Central Agency  
7 Service charges.

8 The next item is probably outdated now. I think this item is  
9 probably outdated now, as far as the priority areas for funding. Laura is  
10 handing out a new budget that will show the reduced indemnification  
11 payments. Particular line items will change and can be moved around as you  
12 see fit for indemnification, innovation, which will include TROF funds and  
13 Special Projects and Education and regional economic development.

14 For Economic Development we were proposing 13.7 million,  
15 11 million on Southside and 2.8, Southwest. These funds would be  
16 restricted funds coming from individual region's Endowment, so they can be  
17 adjusted.

18 SENATOR WAMPLER: Mr. Chairman, I had a  
19 hard time following that, regional economic development?

20 SENATOR HAWKINS: You're not privy to what  
21 we have before us, unfortunately.

22 SENATOR WAMPLER: Dollar amounts would  
23 help.

24 MS. WASS: For regional economic development,  
25 there's a total of 11 million for Southside and 2,754,000 for Southwest.

1 Total regional economic development, 13.7 million.

2 SENATOR HAWKINS: Let me get into a  
3 discussion. If, in fact, we consider the bio-diesel project worth our  
4 consideration, we're looking at a 2½ million dollar request, is that right?

5 SENATOR WAMPLER: Something of that  
6 magnitude.

7 SENATOR HAWKINS: If we took the 2½ million  
8 dollars off the top of that for bio-diesel, which is a multi-regional and multi-  
9 jurisdictional effort that affects all of our farmers, what does that do to us?

10 MS. WASS: Is that restricted or unrestricted?

11 MR. STEPHENSON: As far as I know, it's  
12 restricted, and the funds are currently available in Special Projects to do that.

13 SENATOR HAWKINS: You currently have  
14 money in Special Projects to do that?

15 MR. STEPHENSON: Yes, sir. That's under the  
16 current budget, but Special Projects meets on Monday to make their  
17 approval, and they can do that if they want to.

18 DELEGATE KILGORE: Mr. Chairman, looking  
19 at the new budget, Education jumps to 14.7 million dollars.

20 MS. WASS: Looking at this, we have a whole lot  
21 of unrestricted money; if you don't use it for indemnification payments you  
22 need to allocate somewhere.

23 SENATOR HAWKINS: Need to be a little more  
24 creative if you're speaking about Education.

25 DELEGATE KILGORE: I'm for giving them

1 some more money, but I'd like to see maybe some more of that money going  
2 to unrestricted Economic Development or Agribusiness. Agribusiness would  
3 be fine. That's just my thought.

4 DELEGATE HOGAN: I don't mean this the way  
5 it sounds, but the last place I would put it is in Education. Mr. Chairman, I'd  
6 like to add to Delegate Kilgore's comments. I think we ought to take a look  
7 at our Education budget, the underlying budget as well, and I guess I'm  
8 trying to understand this. Did you just put it there because you didn't know  
9 where else to put it?

10 MS. WASS: That's the point of the discussion  
11 today.

12 SENATOR HAWKINS: Let's go back to the  
13 original budget.

14 DELEGATE BYRON: Mr. Chairman. Could  
15 Stephanie explained why the revenues dropped? Maybe that's where we're  
16 losing a lot of this money. The Endowment is a carryforward, and we lost  
17 six million dollars?

18 MS. WASS: Some of the reserves in carryforward,  
19 and we're not trying to, for example, the indemnification currently that  
20 would be applied toward paying down the indemnification payments earlier.  
21 That does not necessarily have to carryforward to the other budget. We can  
22 leave that in reserve and determine that at some future date.

23 MR. STEPHENSON: Mr. Chairman, just a note as  
24 to the reasons that Staff placed the money in Education. We had many  
25 informal conversations with commissioners trying to put this budget



1 there's a big drop there.

2 MS. WASS: One thing, if you'll notice the TROF  
3 line item, in the original budget it's 4½ million restricted funds, and in the  
4 revised budget it's moved back to unrestricted. We were under the first  
5 scenario getting much, where we were needing as much as possible for  
6 indemnification. We were going to convert TROF funds to restricted. Most  
7 of those funds are used for capital, like building a building or repairing a  
8 site, and it could be done, but we're not sure how that would work. To allow  
9 some flexibility, we converted TROF. If we have excess unrestricted funds  
10 and converted TROF back to unrestricted, as it is this year.

11 MR. STEPHENSON: Thereby, no Endowment  
12 base for that piece. That's why it's dropped.

13 MS. WASS: Yes.

14 SENATOR HAWKINS: Frank, what are the things  
15 we really need to be careful about on the restricted funds? What are the  
16 limitations?

17 MR. FERGUSON: The restrictions are those that  
18 are built into the statute and legislation that created the fund and the  
19 revisions that result from the non-taxable nature of the bond issue. I guess  
20 the short answer is expenditures generally from those restricted funds  
21 generally have to be for capital projects and cannot be for operational costs  
22 or salaries or anything other than capital costs. The restrictions beyond that  
23 are those that are in the legislation.

24 Stephanie, help me if I say these numbers wrong. Generally,  
25 the invasion can be up to 10 percent per year, or up to 15 percent with a

1 super majority vote of the Commission.

2 SENATOR HAWKINS: If, in fact, we deal with  
3 the budget that was presented to us, except for the indemnification piece, can  
4 those extra monies be placed in Special Projects temporarily until we're able  
5 to make decisions on the best investment for those monies? Does that get us  
6 pretty much where we need to be?

7 MS. WASS: We can do that, and in Education we  
8 would put 8,238,729 unrestricted Education fund, the remaining balance,  
9 6.5 million, into unrestricted Special Projects.

10 SENATOR HAWKINS: I'm convinced that if we  
11 plan to start looking at, particularly, alternative fuel sources, new markets for  
12 agricultural products, more energy independence and different options for  
13 this century's needs, bio-diesel has got to be something that we look at, and  
14 it's going to require us to have more of a long-term view than just six months  
15 out. Putting these monies in any sort of formulary that obligates us to put  
16 these monies in any lines other than our need, I don't think that's to the best  
17 interest of the Commonwealth or the Commission. Do you agree or not?

18 Joe, if, in fact, you could meet with Special Projects and look at  
19 the needs of the Agricultural Committee when it comes to how we invest in  
20 bio-diesel, that'll give the farmers a lot more flexibility.

21 In dealing with that, William, how many people are on the  
22 Special Projects Sub-committee?

23 SENATOR WAMPLER: I'd have to defer to Staff.

24 MR. STEPHENSON: Nine.

25 SENATOR HAWKINS: Who are the members?

1 MR. STEPHENSON: I'll check that. Wampler,  
2 Dudley, Kilgore, Jenkins, Lane, Montgomery, Wagner and West.

3 SENATOR HAWKINS: We have Southwest on  
4 the economic piece. I'm going to add Mr. Arthur to that list for Special  
5 Projects members, because Southside will have more of a place at the table  
6 when it comes to an allocation, and particularly dealing with Halifax and  
7 other discussions. I think that will give us some balance that we need, since  
8 we're talking about a different sort of structure, to some degree.

9 Is that all right, William?

10 SENATOR WAMPLER: That's fine.

11 MR. STEPHENSON: Mr. Chairman, I wanted to  
12 ask Stephanie if she's clear on what she needs to prepare this budget to lay  
13 on the table next week. Numerically, do you have what you need?

14 MS. WASS: Yes, the revised budget that is handed  
15 to you, and the only change being that 8.2 million would be budgeted for  
16 unrestricted Education, and the remaining 6½ million would be moved to  
17 unrestricted Special Projects.

18 SENATOR HAWKINS: Yes.

19 MR. STEPHENSON: What about the TROF  
20 piece, converting, we need to make sure that's converted.

21 MS. WASS: Right. the TROF will be moved back  
22 to unrestricted funds, as it is this year.

23 SENATOR HAWKINS: Does everyone  
24 understand what our recommendations are to the full Commission? Is  
25 everybody comfortable with that recommendation? Is there a motion?

1 DELEGATE HOGAN: So moved.

2 DELEGATE BYRON: Second.

3 SENATOR HAWKINS: All in favor say aye?

4 (Ayes.) Opposed? (No response.)

5 What I'd like to do at this point, since we're dealing with a fluid  
6 situation in the MSA payments, and we have not looked at long-term  
7 planning to determine how we will manage our Endowments, I'm going to  
8 ask Delegate Byron to have her long-term Planning Committee meet and  
9 come up with some recommendations and how we would put in place the  
10 plan that would fully utilize our Endowment and anticipate any downturn in  
11 the MSA payment in the future, so we can start doing a structure that would  
12 be better for us to work.

13 Delegate Hogan.

14 DELEGATE HOGAN: This may not be the  
15 appropriate place to bring this up, but I'm just offering my opinion. I'm  
16 bringing this up so people can start thinking about it, and I'm not trying to do  
17 anything necessarily at this point. When Technology was created it was set  
18 up to handle largely the backbone projects in Southside and Southwest. We,  
19 at this point, have largely completed those tasks. What we're left with is a  
20 mixture of last mile solutions, plus any of a number of projects that are  
21 called Technology projects, that may or may not be, depending on how you  
22 look at them. I'm wondering at this point if we ought to look at rolling  
23 Technology into a combination of Southside Economic Development and  
24 Southwest Economic Development, or perhaps Special Projects. I think we  
25 want to have committees for a reason, and with that committee I'm not

1 entirely sure, we've got about six million dollars and have a pretty good idea  
2 what we can spend that on, but once we're done with that, I don't know at  
3 that point if the committee is looking for a mission at that point.

4 SENATOR HAWKINS: You've had all the fun  
5 you can stand.

6 DELEGATE HOGAN: You could say it that way,  
7 but I wonder whether or not we ought to have a committee that has  
8 accomplished the task it was set up for, after that task is accomplished.

9 SENATOR HAWKINS: Probably you can leave it  
10 in place, it's place where no one knows exactly what we'll be facing next  
11 year or the year after when it comes to requests, and I'd like to have a  
12 structure in place with some membership that stays up-to-speed on  
13 Technology.

14 DELEGATE KILGORE: Mr. Chairman, that's one  
15 of our marquis projects.

16 SENATOR HAWKINS: You've done an  
17 outstanding job with that, and it has some stability to it. We're also going to  
18 be looking at the last-mile piece for Southside.

19 DELEGATE DUDLEY: Mr. Chairman.

20 SENATOR HAWKINS: Delegate Dudley.

21 DELEGATE DUDLEY: I'd like to add to that  
22 that Clarke gets bored easily, but I think they've done an outstanding job, and  
23 there's a lot of expertise on that committee that if we start scattering or  
24 dispersing, and I don't think that's good, so I think we need to keep that  
25 committee in place.

1 SENATOR HAWKINS: As tempting as it is to  
2 consolidate, I think that's something we need to keep in place.

3 Who's on your sub-committee, Delegate Byron?

4 DELEGATE BYRON: Which sub-committee?

5 SENATOR HAWKINS: Long-term Planning.

6 DELEGATE BYRON: Long-term, we don't meet  
7 often enough that I don't believe I remember all the people.

8 MR. STEPHENSON: They have not met for a  
9 very long time.

10 SENATOR HAWKINS: Let's restructure it right  
11 now, then.

12 MR. PFOHL: You've got the Chairman, Delegate  
13 Byron; Mr. Arthur; Delegate Dudley; Mr. Montgomery; Senator Puckett;  
14 Senator Ruff; and Senator Wampler.

15 SENATOR HAWKINS: Let's leave it like it is.  
16 What you're charged with, Kathy, is primarily to look at our Endowments  
17 and what recommendations we can do to make sure that we're meeting the  
18 charge that we were given in terms of this Commission.

19 DELEGATE BYRON: Yes, we'll get our budget  
20 first.

21 DELEGATE KILGORE: In listening to what Tim  
22 has said, you might want to add another non-legislative member to that  
23 group. I noticed it was legislatively heavy.

24 SENATOR HAWKINS: Pat, congratulations,  
25 you're on the committee, please.

1 SECRETARY GOTTSCHALK: Yes.

2 SENATOR HAWKINS: Let's go to corpus  
3 invasion.

4 MS. WASS: You have in your packet the revision  
5 going to the new budget. The corpus invasion that we need to recommend to  
6 the full Commission and direct Treasury from the Endowment to the fund.  
7 This is a transition year for us, because this will be the year we are invading  
8 the corpus for the FY06 budget, as well as the FY07 budget. So we already  
9 have invaded the corpus for two fiscal years, so we'll have our money when  
10 the year begins, rather than at the end of the fiscal year, and Treasury will be  
11 transferring funds each May. In order to get on the front end and have cash  
12 on hand, we're recommending a transfer of \$26,120,841.70 from the  
13 Endowment to the funds so that we can appropriately fund the FY06 budget,  
14 as well as the FY07 budget. That is 7.4 percent.

15 DELEGATE KILGORE: Do I have a motion on  
16 that? Any discussion? We've got a second. Any more discussion? All those  
17 in favor say aye? (Ayes.) Opposed? (No response.)

18 MR. STEPHENSON: Mr. Vice Chairman, to  
19 formalize this, if I may, there is a certain legal resolution that is necessary to  
20 induce Treasury to make a transfer for us. I have this resolution, which is  
21 printed in your package, and it bears an amount that's different from what  
22 you just approved. I don't know whether we can read it into the record, or  
23 Medford can be handed this and incorporate it. All right.

24 Stephanie, would you quote me that number one more time?

25 MS. WASS: \$26,120,841.70.

1 DELEGATE KILGORE: As part of that motion, I  
2 would say to adopt the resolution.

3 MR. STEPHENSON: Yes, sir.

4 DELEGATE KILGORE: That's your presentation?

5 MS. WASS: Yes.

6 DELEGATE KILGORE: Senator Puckett is here.

7 SENATOR WAMPLER: Mr. Chairman?

8 SENATOR HAWKINS: Yes.

9 SENATOR WAMPLER: With regard to the  
10 resolution that was read, I think it's proper to note that I did not participate in  
11 any of those discussions, nor did I vote on the resolution.

12 MR. STEPHENSON: That's noted for the entire  
13 meeting, Senator Wampler. If you would go into your package, I have a  
14 brief TROF activity report entitled Cross Status Report. It gives you a quick  
15 synopsis of the work we've done for the year. Most notably, I invite your  
16 attention to the middle of the page, where the balance in the TROF fund  
17 stands at \$57,000, and there's a deal on the table right now for a hundred  
18 thousand, and we're trying to work through that.

19 DELEGATE KILGORE: That's not the balance?

20 MR. STEPHENSON: It is not. The Staff has  
21 recommended to you the motion at the bottom of the page, which is  
22 essentially to claim the third quarter interest upon its arrival in April for use  
23 in the TROF fund, and we'll try to bridge the gap between now and the  
24 beginning of the fiscal year, when you will have new funds.

25 SENATOR HAWKINS: Is there a motion for that?

1 DELEGATE KILGORE: Second.

2 SENATOR HAWKINS: It's been moved and  
3 seconded the funds be transferred. All in favor say aye? (Ayes.) Opposed?  
4 (No response.)

5 MR. STEPHENSON: Mr. Chairman, for a  
6 moment I'd like to thank Delegate Kilgore for his sponsorship for a bill in  
7 the legislature which now protects our profiles from Freedom of Information  
8 requests where confidentiality is required. We didn't have it before, but  
9 we've got it now, and I think it will help pave the road for some of these  
10 transactions before the Commission.

11 SENATOR HAWKINS: The record will so  
12 indicate the work done by Delegate Kilgore on behalf of the Commission.

13 MR. STEPHENSON: Mr. Chairman, if I may  
14 move for a waiver of the clawback language. In your packet you have a  
15 sheet entitled, Request for Waiver. If you remember at a previous Executive  
16 Committee meeting, Commission meeting, you approved the use of what we  
17 call clawback language, which in all of your securitized grants that language  
18 appears in a report before you. It essentially says that assets purchased with  
19 securitized funds are held in trust by the grantee, and if they are disposed of  
20 the Commission has to be notified, et cetera, so we may assert an interest.

21 We have a particular grantee that in Southwest Virginia  
22 Education and Technology network to whom you made a 1.5 million-dollar  
23 grant. That grantee has requested a waiver of that language, and the  
24 replacement language appears on the same page. That basically vests the  
25 title of the asset in the name of the grantee.

1 I'm seeking your approval of that waiver of that language.

2 SENATOR HAWKINS: Any discussion? Is there  
3 a motion?

4 DELEGATE KILGORE: I'll make the motion.

5 DELEGATE BYRON: Second.

6 SENATOR HAWKINS: Any discussion?

7 MR. ARTHUR: What is the overall effect of this,  
8 and what does the change actually do?

9 MR. STEPHENSON: With the original clawback  
10 language, the actual title to the asset was held in trust for the Commission,  
11 and therefore would not be negotiated away or otherwise. The subtlety in  
12 the replacement language is that they may, in fact, sell or mortgage those  
13 assets and simply notify the Commission. The driver behind the change, the  
14 way I understand, that the grantee had other grants that required a senior  
15 position on these assets, and they could not in good faith sign this  
16 agreement.

17 MR. ARTHUR: This essentially makes our  
18 grantor, the IDA, they get the funds.

19 MR. STEPHENSON: If things go badly and the  
20 assets have to be sold, we will not be in first place to make a claim; that'll go  
21 to the other grantor.

22 MR. ARTHUR: I don't like that.

23 MR. STEPHENSON: That's why it's here.

24 DELEGATE KILGORE: Mr. Chairman, I recall  
25 this Southwest Virginia Education Technology group, and they're the ones

1 that provide the interactive TV's and things like that to all the high schools  
2 out there. I don't think things are going to go bad, or anything like that, but  
3 there's a provision, and I forget who else is in that, we're just one of the  
4 funding partners out there.

5 MR. ARTHUR: Delegate Kilgore, doesn't this  
6 spread over into deals like Halifax, where if they sell the building the IDA  
7 gets the money? This can affect a lot of other deals.

8 MR. STEPHENSON: This waiver is exclusively  
9 for this grant only, only for this transaction.

10 MR. ARTHUR: All right.

11 SENATOR HAWKINS: It's been moved and  
12 seconded. Any discussion?

13 MR. ARTHUR: Mr. Chairman, shouldn't some  
14 words to that effect be in there?

15 DELEGATE KILGORE: It just says custom  
16 language, under this grant it only goes to SVETEN, is that correct?

17 MR. PFOHL: I believe it refers to a specific grant  
18 number.

19 SENATOR HAWKINS: It's been moved and  
20 seconded, all in favor say aye? (Ayes.) Opposed? (No response.) The  
21 motion carries.

22 MR. STEPHENSON: Mr. Chairman, you also  
23 have in your packet a piece of unfinished business with respect to the  
24 VECTEC grant. VECTEC has been back and forth between a couple of  
25 committees. Staff is bringing a proposed motion, which is printed before

1 you. There was some question about whether VECTEC should be located in  
2 Chase City, Virginia or South Boston. If you remember, at a previous  
3 Executive Committee meeting you asked Delegate Hogan and Senator Ruff  
4 to work out arrangements, which they did. Essentially, VECTEC would  
5 move to South Boston, provided that the Estes Center grant, which is  
6 coming before Special Projects, be approved in the amount of \$300,000.

7 DELEGATE KILGORE: Wait a minute, wait a  
8 minute. William, what do you think about that?

9 SENATOR WAMPLER: That's creative.

10 DELEGATE HOGAN: Mr. Chairman, I want to  
11 give Senator Ruff credit for coming up with that one, but it seems to be  
12 reasonable. I want to compliment him on resolving a rather difficult issue.

13 DELEGATE KILGORE: I would like for Special  
14 Projects to hear this. I don't think we can bind them to it.

15 MR. STEPHENSON: Delegate Kilgore, the  
16 motion said that it will go to South Boston, contingent on that decision. If  
17 they decide not to make an award it'll go to Chase City, as originally  
18 planned.

19 DELEGATE HOGAN: Mr. Chairman, that was  
20 not part of the discussion that Senator Ruff and I had.

21 SENATOR WAMPLER: Mr. Chairman.

22 SENATOR HAWKINS: Senator Wampler.

23 SENATOR WAMPLER: I feel, or I think we'll  
24 have a reasonable outcome on that.

25 SENATOR HAWKINS: We're looking for a

1 reasonable outcome. The motion is a reasonable outcome. Is there a  
2 second?

3 DELEGATE KILGORE: Second.

4 SENATOR HAWKINS: Clarke, are you okay with  
5 that?

6 DELEGATE HOGAN: Yes.

7 DELEGATE DUDLEY: What's the  
8 recommendation?

9 SENATOR HAWKINS: Clarke, what was your  
10 recommendation?

11 DELEGATE HOGAN: Recommendation about  
12 what, Mr. Chairman?

13 SENATOR HAWKINS: Contingent upon, and  
14 you've got all those things --

15 DELEGATE HOGAN: -- They strike out above  
16 period and strike the rest. That was a conversation that Senator Ruff and I  
17 had. There's nothing after above.

18 DELEGATE KILGORE: You strike further if.

19 DELEGATE HOGAN: And following.

20 DELEGATE KILGORE: Okay.

21 SENATOR HAWKINS: Is that in the way of a  
22 motion?

23 DELEGATE HOGAN: Yes.

24 SENATOR HAWKINS: Any discussion?

25 DELEGATE DUDLEY: Mr. Chairman, I think

1 that's an improper motion like that before the Executive Committee, relying  
2 back on another committee that has not had a meeting.

3 SENATOR HAWKINS: All right, Senator  
4 Wampler, this is under your charge and care. We'll have a recommendation  
5 before the full Commission meeting.

6 SENATOR WAMPLER: We can do so.

7 SENATOR HAWKINS: Next item.

8 MR. STEPHENSON: Mr. Chairman, I think next  
9 on my mind is looking to the Chair for some guidance in the schedule of  
10 Commission meetings one week from today.

11 SENATOR HAWKINS: The Senate goes back  
12 into session, it's my understanding, Wednesday. Thursday is the day that the  
13 House meets, and I think they go in at 2:00 p.m. Finance meets at 9:00.

14 DELEGATE KILGORE: On Wednesday and  
15 Thursday at 2:00.

16 SENATOR HAWKINS: Wednesday is pro forma.  
17 How about Thursday morning? It will have to be in Richmond if we're  
18 going to do this.

19 MR. STEPHENSON: We are currently scheduled  
20 for Technology 5:00 p.m. Wednesday evening, and Southside at 8:30 on the  
21 morning of the 27th, and full Commission at 10:00 a.m. Thursday morning  
22 in Roanoke. We can take the whole batch and move it to Richmond and  
23 keep the times the same; those times will take care of everything else.

24 SENATOR HAWKINS: We'll have to do it as best  
25 we can, we have no options but to do that.

1 DELEGATE KILGORE: Special Projects and  
2 Southwest Economic is still Monday morning on the 24th, then Special  
3 Projects in the afternoon in Abingdon.

4 MR. STEPHENSON: Monday morning the 24th  
5 is Special Projects, and then Southwest Economic Development Committee,  
6 and those meetings are at 10:00 for the Special Projects and 2:00 for  
7 Southwest Economic Development Committee. Later that same week,  
8 Wednesday evening at 5:00 Technology meets, Thursday morning at 8:30  
9 Southside Economic Development Committee, and 10:00 full Commission  
10 meeting, all in Roanoke. The suggestion is that we move the Wednesday  
11 and Thursday meetings as a group to Richmond, Virginia, and maintain the  
12 same time frame.

13 DELEGATE KILGORE: I'll make that motion.

14 SENATOR HAWKINS: Is the Staff flying out for  
15 the Special Projects meeting in Abingdon?

16 MR. STEPHENSON: Yes.

17 SENATOR HAWKINS: You need to go by  
18 Danville and pick up Mr. Arthur.

19 MR. STEPHENSON: We've made those  
20 arrangements.

21 SENATOR HAWKINS: That takes care of moving  
22 to Richmond for the Wednesday and Thursday schedule.

23 MR. STEPHENSON: I'd like to take a moment  
24 and ask Laura Moffitt to please rise. I want you all to know that Laura is the  
25 person behind the scenes that will make all of these meetings go down

1 smoothly. We're lucky to have her, and glad she's here.

2 I'd also like to recognize for the Commission a new employee,  
3 Keandra Richardson. Keandra is Tim's right arm, as far as the grant  
4 applications are concerned, and keeping the paperwork flowing.

5 SENATOR HAWKINS: Thank you all, looking  
6 forward to working with you as well.

7 Any public comment can be made at this time? Would anyone  
8 on the Commission like to make any statement before we adjourn?

9 Before we adjourn, Kathy, we probably need two options. The  
10 Staff mentioned the MSA payments will have a downturn, and what are our  
11 options, if, in fact, we run into a problem with MSA? How do we manage  
12 our Endowment at that point? Because, I think we need to have some plan  
13 in place in case we get into a real problem with the MSA payments, which  
14 may or may not take place.

15 DELEGATE BYRON: What time frame are you  
16 looking for? Do you want us to meet before the meeting?

17 SENATOR HAWKINS: Oh, no, in the future.  
18 We're flexible, you do it at your convenience, and call the committee. Do it  
19 within your time frame.

20 Anything else? All right, we are adjourned.

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22 PROCEEDINGS CONCLUDED.

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**CERTIFICATE OF THE COURT REPORTER**

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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

1 proceedings of the **Executive Committee when held on Thursday, April**  
2 **20, 2006 at 9:00 a.m. in House Room C, General Assembly Building,**  
3 **Richmond, Virginia.**

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

6 Given under my hand this \_\_\_\_\_ day of  
7 \_\_\_\_\_, 2006.

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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.