

1 **VIRGINIA TOBACCO INDEMNIFICATION**
2 **AND COMMUNITY REVITALIZATION COMMISSION**

3 701 E. Franklin Street, Suite 501
4 Richmond, VA 23219

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9 **Executive Committee Meeting**

10 Monday, January 12, 2009

11 5:00 PM

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14 Richmond Marriott Hotel (Downtown)
15 Richmond, Virginia

1 **APPEARANCES:**

2 The Honorable Charles R. Hawkins, Chairman

3 The Honorable Terry G. Kilgore, Vice Chairman

4 Mr. Clarence D. Bryant, III

5 The Honorable Kathy J. Byron

6 The Honorable Patrick O. Gottschalk, Secretary of Commerce and Trade

7 The Honorable Clarke N. Hogan

8 The Honorable Joseph P. Johnson

9 The Honorable Edward Owens

10 The Honorable W. Roscoe Reynolds

11 The Honorable Frank M. Ruff

12 The Honorable William C. Wampler, Jr.

13 Mr. James C. Thompson

14

15 COMMISSION STAFF:

16 Mr. Neal Noyes, Executive Director

17 Mr. Ned Stephenson, Deputy Director

18 Mr. Timothy J. Pfohl, Grants Program Administration Manager

19 Ms. Britt Nelson, Manager of Program Assessments

20 Ms. Sara Williams, Grants Coordinator, Southwest Virginia

21 Ms. Sarah Capps, Grants Coordinator, Southside Virginia

22

23 OFFICE OF THE ATTORNEY GENERAL:

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

25 Commission

1 SENATOR HAWKINS: Let's get started.
2 Would you call roll, Neal?
3 MR. NOYES: Mr. Bryant?
4 MR. BRYANT: Here.
5 MR. NOYES: Delegate Byron?
6 DELEGATE BYRON: Here.
7 MR. NOYES: Mr. Day?
8 MR. DAY: (No response.)
9 MR. NOYES: Secretary Gottschalk?
10 SECRETARY GOTTSCHALK: Here.
11 MR. NOYES: Senator Hawkins?
12 SENATOR HAWKINS: Here.
13 MR. NOYES: Delegate Hogan?
14 DELEGATE HOGAN: Here.
15 MR. NOYES: Delegate Johnson?
16 DELEGATE JOHNSON: Here.
17 MR. NOYES: Delegate Kilgore?
18 DELEGATE KILGORE: Here.
19 MR. NOYES: Senator Puckett?
20 SENATOR PUCKETT: Here.
21 MR. NOYES: Mr. Owens?
22 MR. OWENS: Here.
23 MR. NOYES: Senator Reynolds?
24 SENATOR REYNOLDS: Here.
25 MR. NOYES: Senator Ruff?

1 SENATOR RUFF: Here.

2 MR. NOYES: Senator Wampler?

3 SENATOR WAMPLER: Here.

4 MR. NOYES: Mr. Thompson?

5 MR. THOMPSON: Here.

6 MR. NOYES: You have a quorum, Mr.

7 Chairman.

8 SENATOR HAWKINS: Looking at the
9 agenda, and there are several things that we have to have a discussion
10 for. Let's approve the minutes of October 29th. Do I have a motion?
11 We have a motion and a second. All in favor say, "Aye?" (Ayes.)
12 Opposed? (No response.) The motion carried. This is not on the
13 agenda but Buddy Mayhew is here and would like to address this.
14 Buddy wants to talk about some energy matters.

15 MR. MAYHEW: I just want to take a couple
16 minutes and I appreciate your attention. That last week, we've got
17 something to celebrate because this is the first bio oil that's been
18 produced down in Gretna at Ken Moss' place. We were down there last
19 Thursday, and I was on hand to see it. Although it's a meager
20 beginning, it's a beginning. We've got a lot of problems to iron out yet,
21 and I say we because I'm really close to this project as is C. D. Bryant. I
22 spent quite a bit of time with Ken Moss and Joe, who is the full-time
23 person he has helping him with this project. I feel right now that ROI is
24 out of the picture as of about two months ago. A lot of the problems that
25 were poorly engineered, I'll put it that way, in the equipment that we had

1 delivered to us, I guess that's going on 2 years now, I feel those have
2 been corrected and are being corrected. Those were little things that just
3 were not working right. I believe they have been discovered and they
4 are fixing them. I fell like, certainly, within the next few weeks we are
5 going to be producing some fairly good quantities of oil. The idea is that
6 in the near term we can use this oil as a heating source to take place of
7 currently used propane. We think that with little modifications, this can
8 be used in place of #4, a heating oil, and go forward from there. Now, a
9 lot of other prospects that we hope will come as we go down this road to
10 refining what really works and how to scale this up into at least a small
11 size refinery that we can locate across Southside and Southwest Virginia.
12 With the help that the Commission has given to this project and the
13 funding, I feel like we have a clear road ahead of us right now and I'm
14 really excited about what is going on. If there are any questions, I can
15 talk about them moderately, but I don't have the time right now.

16 SENATOR HAWKINS: Does anyone have
17 any questions or want to look at the product?

18 MR. MAYHEW: If anybody wants to see it,
19 I've got it available.

20 SENATOR HAWKINS: Thank you, Buddy.
21 All right, several weeks ago, I had an opportunity to meet with Senator
22 Warner in Washington and talk about some of the problems we were
23 looking at in Southside Virginia, particularly around the Danville area.
24 During the conversations, we started talking about opportunities that we
25 could do to leverage ourselves with some possible federal money that

1 may be available for various projects. It came to my mind that the way
2 the Feds are looking at things, we should be able to put together
3 something that is a novel approach to several of our major problems, and
4 a lot of money may gravitate toward our urban centers in Northern
5 Virginia and we might be left out of a lot of the funding. What I came
6 away from the meeting with was an understanding that in order for us to
7 be participants in leveraging the monies for the Tobacco Commission,
8 we need to come up with two major projects and we already have those
9 two projects and put a white paper in place and submit it to the good
10 Senator's office so we can use that in leveraging discussions and figure
11 out how we can work our way into the overall structure of this
12 discussion. The two things that I think are very interesting to the current
13 congress are the telecommunications' backbone initiative that we started
14 and alternative fuel sources. The alternative fuel sources is a subject that
15 each one of you know about. We have a unique opportunity now to be
16 able to build on what we've put in place. We've already got a research
17 component that we have funded throughout Virginia dealing with
18 aspects of energy and we need to build on those. What I'm going to
19 suggest, and certainly, it's open for discussion, is that we start looking at
20 taking the Technology subcommittee and trying to research a
21 development component of this discussion under the umbrella of this
22 subcommittee and making a person or two that has some background in
23 what we've done looking at alternative fuel sources and figure out what
24 is going on in our footprint. There is not an understanding of everything
25 that is taking place dealing with alternative energy sources. Everyone

1 seems to be working on something somewhere. If we can have this
2 committee look at a clearinghouse of an oversight committee to start
3 discussions with the various investments that are being made throughout
4 our entire footprint in Southwest and Southside Virginia on alternative
5 fuel sources and creating this throughout Southside and Southwest
6 Virginia in the investments, that is something that is unique. We could
7 have a committee in place that could look at funding mechanisms for
8 novel ideas that have some stability to them and be able to put something
9 in place to expedite that that is already going on in the private sector that
10 we may not be privy to today. I'm concerned that without some sort of
11 ability to have a discussion among all of the players on alternative
12 energy sources, people may start trying to reinvent the wheel, and
13 somebody has tried to start something that has failed miserably and that
14 should be part of the discussion so we wouldn't try it again. As for the
15 nuclear piece, if you look at the structure of today's economy, there are
16 companies out there that need to generate a great deal of BTUs to create
17 a project. The source that we are now using is natural gas and other
18 types may not be cost effective enough to be able to produce the type of
19 BTUs they need. Nuclear may be part of the answer by looking at this
20 as a manufacturing piece as well as an energy piece for electricity and
21 other sources of energy. We can do that by working with our research
22 universities at Tech and UVA, as well around Lynchburg. All these
23 things going on gives us an opportunity to do something that no one else
24 will be able to do to fill a void because we already have things in place
25 that compliment what is going on. If we can start a discussion and show

1 Washington what we're doing with the monies we have in the
2 telecommunication piece and allow other sorts of applications to go into
3 the Fed for opportunities, then we can try to leverage our money with
4 them to meet the maximum penetration that we can with the
5 telecommunication piece, have the broadband everywhere for the last
6 mile. Alternative energy sources, if we can work with the agricultural
7 communities and our research universities and come up with a
8 mechanism that can produce fairly small quantities, located 100 to 200
9 miles apart from each other, and build these things throughout our
10 footprint so farmers would have access to a processing plant so that they
11 can process switch grass and poplar, or whatever they use, and then have
12 a distribution point that a manufacturing site can take it to a distribution
13 point. Then geographically, it would be much better than a large
14 refinery. Then it gives them the ability to stabilize the farmer and let the
15 farmer get another cash crop that they can be able to produce in a fairly
16 close-by facility. All of these things we need to start thinking about; it's
17 different than what we've done before. I'm hoping that we do not allow
18 ourselves to lull back into the tranquility of the 70's when oil prices
19 peaked. When they did that, we became complacent and when they
20 went back down, we didn't do anything. Brazil, on the other hand,
21 decided they were going to be independent, and today, they produce
22 97% of all the energy and they produce it at home. We need to do the
23 same thing, and we can't be complacent in sitting by. By using
24 renewable energy sources and looking at all the research components out
25 there and partnering with our universities, the Tobacco Commission is in

1 a unique position to put something in place that has statewide
2 implications. I'm hoping by the time we leave here, everyone will have
3 an opportunity to enter into a discussion and figure out how we can
4 maximize these monies that we have in place. Yes sir?

5 MR. NOYES: There is one more theme that
6 I'm sure you have all heard about on this stimulus is the issue of medical
7 records management in Southwestern Virginia at Duffield, and the
8 Commission has supported facility construction and some other
9 activities with the Holston Medical Group, which is an East Coast
10 innovator in medical records management, and there very well may be
11 an opportunity for us in this area in addition to those that you mentioned,
12 sir.

13 SENATOR HAWKINS: I think what
14 everyone else is trying to say, this is an opportunity for us to redefine
15 and rebuild the entire infrastructure and to put in place something that
16 will last long term and a longstanding ability to compete in a worldwide
17 marketplace, also, to allow us to maintain some sort of rural identity that
18 we've all grown to love. This is a unique opportunity for us to do
19 something, and we will not miss this chance to do something long term.
20 Any comments before we go into the agenda? All right, on the agenda,
21 Britt Nelson.

22 MS. NELSON: Good afternoon, everyone. I
23 have two items to go over and I'll be brief. I first would like to bring
24 your attention to Tab 3 behind today's meeting agenda. You'll find a
25 series of historical snapshots and reports broken down by committee and

1 then by grantees with specific focus on fiscal years from 2002 through
2 2006. These reports indicate to us that we have currently 80 grants that
3 are dated over or near 2-3 years of inactivity and they are carrying a
4 balance of over 9.3 million. We do bring that to your attention because
5 we have a housekeeping issue as it relates to the expiration language in
6 the Commission's letter of agreement. In October, the Southside
7 Economic Development Committee and the Education Committee
8 approved an extension policy which allowed the grantees up to 3 years
9 to complete project activity, and if additional time was needed, they
10 would have to make a written extension request. Projects that have
11 already exceeded that 3-year mark have been getting a grace period to
12 wrap projects up by April 30th, 2009. At this time, Staff seeks your
13 approval in applying this extension policy across the board, and this will
14 allow us to have one standard letter of agreement versus multiple
15 versions for different committees. The proposed language for the grant
16 expiration can be found in your Board packet behind Tab 3.

17 SENATOR HAWKINS: Any discussion? Is
18 there a motion?

19 MR. OWENS: I move we approve it.

20 SENATOR HAWKINS: We've got a motion
21 and a second.

22 SENATOR WAMPLER: What would happen
23 to the dollars once they are rescinded? Do they go back to the
24 Committee from which they originated?

25 SENATOR HAWKINS: I would assume that

1 would be correct.

2 MR. NOYES: That's the policy.

3 SENATOR WAMPLER: I thought that might
4 be the case.

5 SENATOR HAWKINS: I thought that is what
6 it was. Anything else?

7 MS. NELSON: I just want to bring you an
8 update on the Commission's efforts evaluating our projects and their
9 outcomes. The Commonwealth of Virginia does have a state website
10 called Virginia Performs, all state agencies' strategic plan performance
11 data. The Commission is exempt from this and does not require us to
12 participate; however, we believe the site has merit and the Staff is
13 currently working on developing a matrix system for developing
14 outcomes and tracking those outcomes. We hope to have the site up and
15 ready to go this summer. From that point forward, we will have clearly
16 updates that will be on the site as well as the Commission's website and
17 then put it in your quarterly Board packet.

18 SENATOR HAWKINS: I've had a request
19 from other Commission members for an update on how we had
20 implemented the recommendations we get, and we can probably have an
21 update or something by the next meeting. Also, probably for
22 clarification, anything we do here as a recommendation and it's not an
23 actual vote, actually is not a vote of what we're doing in the Full
24 Commission.

25 DELEGATE JOHNSON: Would the three

1 years begin as of now or from the time the grant was made?

2 MR. NOYES: The day of approval.

3 SENATOR HAWKINS: The day of the
4 approval, so a three-year period. Some of those are well into the
5 approval.

6 MR. STEPHENSON: Existing grants would
7 be grandfathered until April 30th to give them a chance to catch up.

8 SENATOR HAWKINS: All right, anything
9 else? We have a motion and a second. All those in favor say, "Aye?"
10 (Ayes.) Opposed? (No response.) Motion carries unanimous. Thank
11 you.

12 MR. STEPHENSON: Mr. Chairman, I wanted
13 to address the committee briefly about the TROF Program, and at the
14 end, I need to ask you to make some decision on one particular TROF
15 deal and a policy directive for Staff. Quickly, I want to show you a view
16 of statistics of where you are in this program. Franklin County has a
17 particular transaction which they have appealed to you in writing for
18 your decision today. After that, we're going to look at the policy
19 directive for unfulfilled programs. To date, we have made 171 TROF
20 deals and of 78 of them, the clock is still running, so it's not time yet for
21 them to mature to find out where they are. We have 93 of those
22 transactions for whom the clock is up. Among those 93, fifty-seven of
23 them have performed under the contract, meaning that they have either
24 created the jobs that they promised or that they paid the money back or
25 some combination thereof. They have performed on their promise. We

1 have 23 TROF grants that have not performed as promised, meaning that
2 either the jobs were not created or the money has not been paid back.
3 We have 13 of them, which we call unresolved. That means we cannot
4 get enough data from the company and counties to make the
5 determination. We are pressing on this from your last directive in which
6 you instructed us to withhold all disbursements to counties who had
7 unresolved TROF transactions. I'll tell you that there has been a huge
8 difference, and we've cut the numbers in half. Most counties have
9 jumped and provided what we needed, and I think these 13 unresolved
10 will go away quickly. That gives you a snapshot of what has happened.
11 In particular, Franklin County has appealed to you on a TROF
12 transaction and I'll give you the highlights of the deal. Franklin County
13 had a particular company sign a contract with us to invest a million
14 dollars and to create and maintain 50 jobs. That company has invested
15 the million dollars as promised, and they have produced 50 jobs for one
16 calendar quarter but they have not been maintained. In other words, the
17 job numbers increase and increase and get up to the required threshold
18 for 3 months and then fall below the numbers that they started with.
19 Franklin County comes before the Commission today asking that you
20 grant relief under the circumstances, and there is long letter. Basically, it
21 says that the company made a good faith effort, and for economic
22 reasons beyond its control, they are unable to sustain the employment
23 level as required in the contract.

24 SENATOR HAWKINS: We're talking about
25 a business that collapsed through no fault of their own. My personal

1 concern is that if, in fact, we stick to the letter of this agreement, we may
2 find ourselves losing a major component of the economic stability of
3 Franklin County that will come back fairly soon. I think that for the
4 benefit of that area and for the whole manufacturing sector, and when we
5 hit situations such as the entire collapse of an industry knowing full well
6 that it will eventually come back, that we need to have some flexibility
7 involved with it. I'm hoping the Commission will look at this as one of
8 these matters we just have to deal with this way and understand that
9 these jobs are fairly substantial for their communities as well as that they
10 will fully meet their requirements as soon as the market turns around.

11 MR. STEPHENSON: Mr. Chairman, before
12 the Committee acts on this, I need to tell you that I get letters like this
13 frequently from companies who are having economic stress and can't
14 meet their burdens. Up until this point, your Staff has not been
15 empowered to waive any of the requirements in these contracts; they are
16 to enforce them. Not only for Franklin County, but I am before you
17 asking for some direction as to what you want Staff to do with the many
18 companies who are crying about economic times. A couple of things for
19 you to consider today would be to know you want strict enforcement of
20 the contract, or another would be that you want to see them one by one
21 as you will see Franklin County today, or a third would be that you give
22 Staff some guidelines such as to waive 60 cents on the dollar for the
23 refund that is required. Staff needs some kind of guidelines to follow.

24 SENATOR HAWKINS: I think we do need a
25 policy and we need an understanding that we've invested these monies

1 in trying to create an economy, and by strictly enforcing a lot of these
2 things and the situation we're facing in this recession period, we may
3 find ourselves destroying that which we're trying to invest.

4 DELEGATE HOGAN: Mr. Chairman, I move
5 we waive these requirements under the Staff's discretion for the next 6
6 months and we review it at that point. I haven't seen these letters,
7 review it as an Executive Committee. We waive these requirements and
8 leave this to the Staff's discretion. In other words, they have some
9 where people could pay us, and if their letters are not legitimate, they
10 can deal with those, but I'd say as a general rule, we hold the
11 requirements for 6 months and review them, and that's the motion.
12 There is a motion and a second, any discussion? All those in favor of
13 the motion say, "Aye?" (Ayes.) Oppose? (No response.) The motion is
14 unanimous. Thank you.

15 MR. STEPHENSON: I think it would help,
16 Mr. Chairman, if we could do the '09 first, out of order on your agenda,
17 and it would make more sense. Mr. Chairman, we have several
18 committees who have met either this afternoon or tomorrow morning.
19 We have a request before them for which they do not have adequate
20 funds to meet. In many of the cases, the Committees want to meet on
21 some or all of these requests but they don't have the funds. I have a
22 summary before you of each of those committees and the requests before
23 them. The Technology Committee has 12 million 9 available, and they
24 have 16.3 of requests that they recommended this afternoon, and if you
25 do the math, that will leave them short 3 million 4. You can see

1 Southwest that meets tomorrow morning has a million 5, and they have
2 four items on the table tomorrow, and they may or may not recommend
3 them to you and we don't know, but if they do recommend all of them to
4 you, we will be short by 7 million dollars; Education, the same thing. In
5 the case of Special Projects, they have a positive balance of 3 million 7
6 and they have no requests before them between now and tomorrow. The
7 Reserve has a small amount of money in it that could be used if you so
8 desire. I put this before you, gentlemen, and ask you to consider some
9 budget transfers to be made at the meeting tomorrow with your
10 recommendation in anticipation of the approval of some of these grants.
11 Now, we can put the money in place and get the table set for approval,
12 and the approvals may not happen. The money won't go anywhere, but
13 it will be there. The second thing I need to suggest to you is, if you look
14 at the last number on the page. If all of these committees want to
15 approve everything that is before them and they use the available funds
16 in Special Projects and the Reserve, you'll still be short 8 million 1. I
17 need to explain that to you a little bit. In a few moments, Stephanie
18 Wass will present next year's budget to you which calls for an
19 Endowment invasion adequate to fund that budget. It is contemplated
20 that if you want to fund that budget and also these requests, possibly 8
21 million 1, that your Endowment invasion will need to be sufficiently
22 large to do both, next year's budget and the shortfall. I have this before
23 you asking that if you would consider making budget transfers for the
24 current year to accommodate some of these committees tonight and
25 tomorrow, that would be contingent upon an Endowment invasion which

1 we will talk about later as to the amount. Mr. Chairman, I believe at the
2 Technology Committee meeting today, it was suggested by Chairman
3 Hogan that there may be a transfer opportunity to cover the Technology
4 items and maybe Senator Wampler can speak to that.

5 DELEGATE BYRON: Mr. Chairman, don't
6 we historically come back to the overall budget, or is this a new trend or
7 something?

8 SENATOR HAWKINS: Being over budget, I
9 don't think it's a new trend.

10 SENATOR WAMPLER: With Ned's
11 backstop, I would say that it's not unusual but it's customary as we
12 transfer balances from one committee to the other. I'm not sure what
13 Special Projects has, but I think its 3+ million dollars as a balance, and
14 that's one way to solve part of the gap.

15 MR. NOYES: 3.7 million dollars, Senator.

16 SENATOR WAMPLER: The Committee has
17 3.7 million.

18 SENATOR HAWKINS: What we're talking
19 about is how we can put as much on the street as possible to get jobs
20 created and have some flexibility and help the economy. But I think
21 Delegate Byron in the past, as requests have come in to us, we have been
22 able to manage within the budget because we've set aside some. We
23 have a request today that might go beyond the budget that we have
24 allocated and it behooves us to look at them and see if they do produce
25 and deliver what we want on the street. If it does, it's to our advantage

1 to fund it. We have done that before. If a project comes up that we
2 think justifies invasion, we can certainly do that and get it funded and
3 create the jobs that we are trying to do.

4 DELEGATE HOGAN: Mr. Chairman,
5 referring to a motion, the 3.7 with Special Projects, I'm going to transfer
6 that from Special Projects to Technology.

7 SENATOR WAMPLER: I would consider
8 granting the motion, Mr. Chairman.

9 SENATOR HAWKINS: We need to cover the
10 shortfall is my understanding.

11 SENATOR WAMPLER: I think the motion is
12 in order, but I'll take my key from our Director, Mr. Chairman.

13 MR. NOYES: Senator, you and I have spoken
14 about this matter, and there is a current shortfall for projects
15 recommended this afternoon of a shortfall of 3,452,717, and you have
16 more than that in the Special Projects Committee. If you wish to make
17 the motion relative to Technology, this would be the time.

18 SENATOR WAMPLER: Mr. Chairman, I
19 couldn't say it any better and that would be my motion.

20 SENATOR HAWKINS: The motion has been
21 made and seconded. Does everyone understand the motion? Any
22 discussion on the motion? All in favor say, "Aye?" (Ayes.) Opposed?
23 (No response.) The motion is carried.

24 MR. STEPHENSON: The amount to be
25 transferred is the total amount in Special Projects?

1 SENATOR HAWKINS: Zero it out. Restate
2 the motion.

3 MR. NOYES: The amount to cover the current
4 shortfall based on recommendations decided today.

5 SENATOR HAWKINS: It's my
6 understanding the balance left in Special Projects is 261,000, is that
7 correct? Let the record reflect the motion says to zero out the
8 obligations. Any discussion on that one? All those in favor say, "Aye?"
9 (Ayes.) Opposed? (No response.) That's carried for the second time.

10 MR. STEPHENSON: Mr. Chairman, the
11 Southwest Committee contemplates meeting tomorrow morning, and it
12 will have several items on the table before it and we don't know what
13 their conclusions will be, but if they want to approve all of it, they will
14 be short 6 million 9. There is one large project in there that is asking for
15 6 million 3, and the Staff recommendation is something a little less than
16 that, but Southwest will not be in a position to move forward absent a
17 budget transfer. Obviously, Special Projects and Reserve is not adequate
18 to cover that so it would have go be part of the Endowment invasion to
19 supply that money to Southwest.

20 MR. NOYES: Mr. Chairman, it is not without
21 precedence that the Commission has conducted an invasion of and used
22 money more than once in a fiscal year from that invasion.

23 SENATOR HAWKINS: We have done this
24 more than once. In looking at the current economics, those things that
25 we can fund with assets that we have help stabilize these communities

1 and we're prepared to do it, and I think this sort of thing is the kind of
2 thing we need to look at periodically. If we need to invade the corpus to
3 do it, we do it. Any discussion?

4 DELEGATE BYRON: Is the Southside
5 meeting or what?

6 MR. STEPHENSON: Southside has no
7 meeting scheduled nor grants before it today or tomorrow.

8 DELEGATE BYRON: Could we come up
9 with some?

10 MR. NOYES: I believe Mr. Owens is
11 planning to have a Committee meeting, and he can tell us about that.

12 MR. STEPHENSON: Mr. Chairman, if the
13 Committee wishes, it could ask or make a motion that the Endowment be
14 invaded to the extent of 8,015,417 and that that sum be placed in
15 Reserve and available for those committees at the Commission meeting
16 tomorrow once we know what they are going to do.

17 SENATOR HAWKINS: What percentage of
18 that would be invaded?

19 MR. STEPHENSON: That's roughly one
20 percent or a little less than one percent.

21 SENATOR HAWKINS: We might want to
22 look at something a little more ambitious, and the reason I say that is, let
23 me open this up for discussion. If, in fact, we come up with a
24 recommendation that makes sense to leverage money with the federal
25 government to put into the economy and we have white papers out

1 defending or offering suggestions when it comes time to select
2 communications and alternative fuel sources and the Fed's come up with
3 monies to use for these projects if there are matching funds available, if
4 we have funds set aside in Reserve, we could do that rather than have to
5 go back and talk about the invasion again. Does that make sense?

6 MR. STEPHENSON: It does, Mr. Chairman,
7 the 2010 budget provides exactly what you said; however, these monies
8 will be positioned to make awards tomorrow morning at 10 o'clock.
9 That money is committed.

10 SENATOR HAWKINS: You're talking about
11 one invasion?

12 MR. STEPHENSON: One invasion to serve
13 both purposes. This portion of the invasion would be 8 million, and
14 Stephanie is going to need close to 100 million.

15 SENATOR HAWKINS: This is all part of one
16 discussion.

17 MR. STEPHENSON: It will be a single
18 invasion.

19 MS. WASS: Behind Tab 3, we have the
20 FY2010 proposed budget, and it is about 4 pages from the back of Tab 3
21 in your book. The first source of funds is that we are assuming a corpus
22 invasion of 15%, which would be 111,253,548. With the agreement
23 with the treasury that we take interest earnings as of February 28th, and
24 since we don't have that number yet, we're estimating 36 million. Based
25 on this analysis, including indemnification at the rate of 20.6 million,

1 which would leave one more year of 20.6 million after the 2010
2 distribution. The other line item would end up approximately the same
3 as in prior years. We do have a line item for Research & Development.
4 The Reserve account that is currently listed there at 25.5 million would
5 have to be reduced by 6 million and used for the FY09 budget, and that
6 would be 17.5 million in the Reserve account for the 2010 budget.

7 SENATOR HAWKINS: Does everyone
8 understand that? There was a discussion about the lack of some identify
9 for Technology and other things in the proposed budget. An ongoing
10 discussion, I think, is a good place to start. If, in fact, we're planning to
11 try to leverage our money from Technology and Research &
12 Development and alternative fuel sources, and it may be to our
13 advantage just to have an item with a line to see what we need to deal
14 with for federal matching money and allow our localities abilities to
15 start, also putting a request for funding that we can use monies in to
16 compliment those reinvestments that they are requesting. If we put
17 down a known amount of money, we will be expected to match 100%
18 there and then go back to do something with the Feds. I'd like to see
19 how much we can maximize our investment. Is there any discussion on
20 this piece?

21 DELEGATE HOGAN: Mr. Chairman, you're
22 saying in terms of providing this Reserve account?

23 SENATOR HAWKINS: Yes, the Reserve
24 account.

25 MR. NOYES: It would be good for the

1 Research & Development account and also leverage some of these
2 others.

3 DELEGATE HOGAN: That's a separate item.

4 SENATOR HAWKINS: We just don't know
5 what is going to take place in this Congress or this White House when it
6 comes to the stimulus package. I want to make sure that we're available
7 to leverage as much as we can when it comes to these. The funding will
8 come based on the discussions that we had with our brother on the
9 Northern Potomac to see what we can do.

10 DELEGATE BYRON: On Research &
11 Development, there are certain ways we can spend our money. How do
12 you expect those to as far as--

13 MR. STEPHENSON: --You're speaking of a
14 restricted budget?

15 DELEGATE BYRON: The affect on Research
16 & Development.

17 MR. STEPHENSON: You're right, Delegate
18 Byron, we have two kinds of money. About a year ago, the Commission
19 authorized Staff to manage what kind of money was spent on which
20 grant, depending on the characteristics, and we are doing that. You have
21 an abundance of both kinds of money, and we're going to show you in a
22 few minutes where you are, but I don't think that's going to restrict you
23 from anything you want to do at this point. You have liberty in both
24 areas.

25 MS. WASS: As much as possible, we use

1 restricted money.

2 SENATOR HAWKINS: We have more
3 flexibility. Also, in this discussion, the Research & Development
4 investments we've made, I'd like for the people that are involved in
5 those to come up with recommendations and put in the overall request
6 for the Feds on how they plan to make maximum investments when it
7 comes to long-term ability of this research.

8 MR. NOYES: Mr. Chairman, a lot of that is
9 going to be dependent on how stimulus programs are structured over
10 what period of time. They may change over some period of time. If I
11 may, I would like to digress just briefly. If you look in the Commission
12 packet you have, you have what is called a sample budget. If you look at
13 the R&D column, not the line item, look at the column and that adds up
14 million of dollars. What we're seeking here today is a consensus or a
15 commitment on the part of this Committee to make recommendations to
16 establish over this period of time, three years, a 100 million dollar
17 thinking fund for Research & Development initiatives. Those things are
18 designed to support your investment in R&D centers in Southwest and
19 Southside Virginia. We're really talking about this in terms of one year
20 at 53.4 million, but over the 3-year period, a 100 million dollar sinking
21 fund that applicants for federal research dollars might rely on as they
22 seek funding. Am I clear on that? We have one budget, and we're at
23 15% and next year you'll see it would be 15% and then it would drop
24 down at your discretion, 10% in 2011, the 2012 fiscal year.

25 SENATOR HAWKINS: I don't think we can

1 emphasize this too strongly. Dealing with an absolute unknown comes
2 to the federal budget and how they plan to handle these investments in
3 the economy we're talking about. I honestly believe that if we have
4 something in place that shows some sort of proven track record and we
5 have some vision of where we plan to be 4 or 5 years out, we'll be ahead
6 of the game when the argument comes down from the feds where they
7 plan to put their money. I want us to be part of the discussion rather than
8 being left out of the mix. Right now, I think we're 75% ahead of
9 everyone else, but we have a lot of this stuff in place. We need to start
10 building on that and show the Feds that we can fund various things based
11 on the recommendations from the Research & Development component.

12 SECRETARY GOTTSCHALK: To me, as an
13 economic developer, what is a typical example of the 25 million 553
14 Reserve? What kind of projects would be included in that Reserve
15 account, I mean, what kind of projects?

16 MR. NOYES: The Water & Sewer projects
17 under the infrastructure component and what we anticipate coming out
18 of Washington. Typically, there is a requirement for a non-federal share.
19 I can't tell you what that percentage is going to be because I don't know,
20 but 20% is not unusual. An applicant who is successful securing that the
21 Water & Sewer project would be able to rely on the Reserve line item or
22 presumably the Economic Development Committee line item or a
23 Special Project line item that you see there. It depends on how many
24 people are successful.

25 SECRETARY GOTTSCHALK: But generally

1 speaking, what we know as far as infrastructure, roads and bridges and
2 that type of water and sewer.

3 MR. NOYES: Whatever is under the stimulus
4 program for infrastructure.

5 SECRETAY GOTTSCHALK: There is
6 Research & Development, can you give me an example of a concrete
7 situation that fits into that category?

8 MR. NOYES: The one I mentioned earlier, the
9 possibility of a bio refinery located somewhere in the Commonwealth in
10 the Commission's footprint. That is something that the Chairman has
11 talked about with Senator Warner; it's a possibility to the extent that it is
12 a research project reactor rather than a commercial reactor and that sort
13 of thing.

14 SENATOR HAWKINS: I was suggesting
15 possibly looking at the manufacturing component and companies that
16 need to produce high levels of BTUs. The current sources of fuel such
17 as natural gas or coal or oil can only do so much. If, in fact, we can use
18 the best research facility available and, hopefully, the components that
19 are used on a small nuclear component to produce BTUs necessary to
20 produce a product that can go to market and save the use of that material,
21 it would only burn such as natural gas, then we really accomplish two
22 goals. One is the Research project. I think we need to start looking at
23 everything that we're doing as a way to compliment each action rather
24 than working independently. We've got an opportunity to develop that
25 type of thing. It includes everything out there.

1 SECRETARY GOTTSCHALK: This would
2 be focused entirely on the energy sector?

3 SENATOR HAWKINS: I would think the
4 Research & Development, what I'd like to envision and this is strictly
5 from my point of view, when you're looking at the research component
6 for the Tobacco Commission, we need to be as fluid as possible, be able
7 to work on those things that gives us an opportunity to maximize the
8 resources we have, maximize our investment. To draw a hard line and
9 say we are not going to do this, we limit what we can do. There may be
10 an opportunity in wind power development that we're not considering
11 today and there may be something else that pops up that we're not aware
12 of. If there is an alternative use for tobacco, it could be that would
13 involve pharmaceuticals. We just need to be ready to go. We need to be
14 ready and flexible to do these things.

15 DELEGATE HOGAN: I'll try to answer that
16 question. You said something about energy costs for energy
17 development but not to be exclusive bio mass when you talk about solar
18 energy and conservation and coal technology, any alternative renewable
19 fuel and/or conservation.

20 SENATOR HAWKINS: To support the
21 Research & Development component, maybe I misspoke. Energy is
22 involved in all that we've been talking about.

23 SECRETARY GOTTSCHALK: The reason
24 for my questions, I'm not positive they are wrong or right. We have a
25 25 million dollar number for hard and fast projects for infrastructure, and

1 we have money for R&D and job creation, and where are we going to
2 get the most bang for our buck? R&D is long-term. Is that viable? Are
3 we going to spend 50 million in that area? I guess my question is, how
4 do we come up with the portion of 1 million 25 and another is 50, and
5 we could argue half and half, and that would be perfectly okay, but I
6 don't know.

7 MR. NOYES: I can answer how we came up
8 with it. We started with the percentage or the estimate of what the
9 interest revenue that we anticipate receiving for 3 years and came up
10 with 82.6 million. We wanted to move that to a 100 million dollar
11 sinking fund. That doesn't mean we are going to use 50 million dollars,
12 but we will enable applicants to approach funding sources, third-party
13 funding sources, saying that there is a sinking fund of 100 million dollars
14 that we have for energy-related R&D activity. So we backed out from
15 the Reserve line item an amount sufficient to get us in 3 years, the
16 mechanical thing rather than principal component.

17 SECRETARY GOTTSCHALK: I guess what
18 I'm really asking in terms of economic value, where is the value and
19 where is the most bang for the buck? Is it in the infrastructure job or is it
20 in the R&D? Are those applicants going to be universities, or who are
21 they going to be?

22 DELEGATE HOGAN: To answer the first
23 question asked, as far as tying ourselves to go after federal dollars, I'm
24 not positive but I'm reasonably sure they are going to be out there. It
25 seems important to make a serious commitment. When we say during

1 the next 3 years spend up to or as much as 100 million dollars on R&D,
2 including energy, to get people's attention and put ourselves in a good
3 posture with these federal dollars, and that would be my answer to the
4 first question.

5 SECRETARY GOTTSCHALK: You've got
6 to understand in asking these questions, we don't know the relative value
7 and the economic impact and what it would cost in infrastructure
8 projects that we would get involved in this R&D and helping universities
9 that are already existing here.

10 SENATOR HAWKINS: If you look at what
11 we're dealing with, it's pretty much an economy that used to deal with
12 textiles and furniture. If you invest in basic infrastructure and factory
13 jobs, which we certainly need, and of course, IT is the next generation,
14 but what you're doing is providing basic employment that is available
15 that is not there now. If you plan to stabilize the population and put in
16 place for the next generation as well, you need to come up with ideas
17 that will create a new dynamic for the next generation. To do that, you
18 need a research component to be able to leverage those monies that we
19 have. I know full well 50 million dollars is a lot of money, but when it
20 comes to Research & Development, it's a drop in the bucket. If we can
21 put in place an understanding with our partners, be they private or
22 government, that we are willing to work with these folks and try to
23 maximize the efforts of our research universities as well as from the
24 private community and bring to us the next wave of opportunity for
25 entrepreneurs to develop the next generation of wealth as well as Board

1 rooms and ownership. Right now, we are just providing employment for
2 people working for companies and that's it. But this Research &
3 Development is a new dynamic to help bring back that ownership that I
4 think we need.

5 DELEGATE KILGORE: First is to invest in
6 our footprint, and second is, we're going to have to improve them
7 anyway.

8 SENATOR WAMPLER: I think the point that
9 the Secretary is trying to make and I think I agree with is, and I'm not
10 sure of the allocation, but it may be, but we won't know these things
11 until we see it would be my first point. I'm not sure that we have the
12 wisdom today to understand 24 months from now what the R&D
13 applications might be. I think we have a concentration of energy, which
14 is a good thing, consistent with our long-range plan, but in the Duffield
15 electronic health records, and that takes off and we need systems
16 engineers that the University of Virginia could provide, that's something
17 that we might want to put significant capital there to make it work. Mr.
18 Chairman, Delegate Kilgore brought it up, and that is that the research, I
19 think, has to be done in the tobacco growing regions, and that's a real
20 sticking point for some of our research institutions.

21 SENATOR HAWKINS: I think you are right and
22 hopefully, by the efforts that we make in these research facilities and our
23 footprint, then our research universities will take advantage of that.

24 SENATOR WAMPLER: If I may say one
25 more time, we need to move very cautiously and send the message that

1 we're going to put this amount of money out of our corpus, and we
2 expect the research to be conducted in our footprint.

3 SECRETARY GOTTSCHALK: The reason
4 for these questions is that as soon as we act on this, and I'm very
5 supportive of this, then we'll charge the partnership to go out and market
6 this through the networks to attract energy projects and research. I
7 imagine the universities will do the same thing, start these projects. I
8 just want to know what it is that we're going out and trying to sell.

9 MR. NOYES: Mr. Secretary, it was not
10 envisioned in my discussions with the members of the Executive
11 Committee that the Tobacco Commission would be the exclusive funder
12 for a research project. As we get the assistance in marketing, it would be
13 perhaps a mistake to market it as this is available company "A" or
14 company "B" as 100% financing from the Tobacco Commission. One
15 other observation I'd like to make in relation to the 25 million dollar line
16 item. If we assume, and it is an assumption at this time, that 20% is the
17 right number for infrastructure projects, whether it's a broadband project
18 or water or sewer or roads or whatever that is. Twenty million dollars
19 would buy 100 million dollars worth of capital investment in the
20 Tobacco Commission footprint. I know the stimulus package is going to
21 be millions of dollars, but with 41 counties, I would venture a guess that
22 20 million dollars is not going to miss the mark on the high side by very
23 much. If we used 20 million dollars of capital from the Commission to
24 leverage 80 million dollars and we have 100 million dollars that is
25 deployed in Southwestern and Southern Virginia, we will have

1 accomplished a great deal.

2 SENATOR HAWKINS: We also need to
3 understand our limitations, and I'm hoping as we go along with this
4 discussion, that we'll have money set aside that when we need an extra
5 piece and we hire consultants looking to make sure that our investments
6 are sound because we don't have that type of knowledge. We'll need
7 that flexibility.

8 DELEGATE HOGAN: If you're suggesting
9 Technology pick up this thought, but I think what I sort of recommend
10 for the Committee to do is take this and talk to a lot of people and create
11 a structure to evaluate these projects. I'm very leery about investing in
12 Technologies with nobody here understanding. We just can't do that or
13 afford to do it, and what Secretary Gottschalk said, and say we've got
14 100 million bucks and you can get some of it, I would not want EDP to
15 do that, and I think we need some evaluations before we just start going
16 through the money.

17 SENATOR HAWKINS: We need to make
18 sure that before we get into any of this, the committee that is charged
19 with this oversight has the ability to bring into place experts that can
20 give advice when we need to make a decision. We're not going to do
21 this stuff in blind because we've got a responsibility. I think we can
22 invest in things that make sense to us but walk away from things we
23 don't understand.

24 DELEGATE HOGAN: I think the evaluation
25 of these applications, because the technologies are, it's pretty easy to

1 figure out money for a business that employs 300 people as opposed to
2 this. Technologies are winners and losers and that's something else
3 altogether. I wouldn't be in any hurry to say we have to be cautious.

4 SENATOR HAWKINS: I think we have to be
5 very cautious. We also have to understand, even if we invest in
6 something that proves not to be what we think it is, we walk away from
7 it. We're not married to anything.

8 DELEGATE BYRON: Are we voting on the
9 2010 budget, or are we voting on this sample for the next 5 years?

10 MR. STEPHENSON: There are several events
11 before you and one is to vote a 2010 budget up or down. The other is to
12 vote one or more amendments, the '09 budget up or down. Both of
13 those will be contingent on your vote as to the Endowment, the invasion.
14 You have three events. The '09 and 2010 and the invasion, we've got to
15 work through those.

16 SENATOR HAWKINS: The 2010 will
17 encompass the '09 request.

18 MS. WASS: You still need to amend the '09
19 budget.

20 SENATOR HAWKINS: The '09 amendment
21 is the one where we transferred the monies to Special Projects, plus the
22 invasion.

23 DELEGATE KILGORE: Mr. Chairman, I
24 have a motion. I move we adopt the 2010 proposed budget and
25 recommend it to the Full Commission tomorrow.

1 MS. WASS: The amendment that the Reserve
2 account line item will be 17,276,781.

3 SENATOR HAWKINS: This is a
4 recommendation to the Full Commission, and we'll have many
5 opportunities to discuss this in more detail. Any discussion?

6 SENATOR RUFF: I'll second it.

7 SENATOR WAMPLER: The only question I
8 would have is, in the Reserve Account as I understand it, if a stimulus
9 package were to work its way to the Commonwealth of Virginia, that is
10 essentially where we would fund the broadband application for this
11 budget year?

12 MR. NOYES: That is correct.

13 SENATOR HAWKINS: Research &
14 Development and I'd like to add Technology to that line item.

15 SENATOR WAMPLER: So I would
16 understand in a proposed 2010 budget that there is no line item for
17 further deployment of broadband?

18 MR. NOYES: Yes, until and unless the
19 Executive Committee recommends a transfer from the Reserve line
20 items. That can happen in April or it can happen in July.

21 SENATOR WAMPLER: That would be our
22 contingency should the stimulus not be of substance. It doesn't fit the
23 square peg, round hole that we would take another action to amend the
24 budget to address our technology.

25 MR. NOYES: That's correct, Senator. We

1 typically amend the existing fiscal year budget at every single
2 Commission meeting.

3 DELEGATE BYRON: If we anticipate that
4 we're not going to Technology and we're going to doing more
5 broadband deployment, but if we put some of the Reserve amount in
6 there, anyway, is that the plan?

7 SENATOR HAWKINS: I think until we're
8 able to get some feedback from our friends that are working on the
9 budget right now and find out what type of leverage we would have, just
10 having line items without an amount will still give us some ability to
11 fund what we want to fund. We're not cutting off anything. We can still
12 put money where we want to. I'd like to see what we are talking about
13 in DC before we put our money out. I think the investments we've made
14 are sending a good message as far as what we are doing. There is a
15 motion and a second.

16 DELEGATE KILGORE: The 2010 budget.

17 MR. NOYES: I want to ask Stephanie a
18 question. Is it necessary to specify the amount that is going to be in the
19 Reserve line item? We don't know what Southwest is going to approve;
20 we don't know what Education is going to recommend, and it may not
21 be 17.

22 MS. WASS: I think we're reducing it by the
23 shortfall.

24 MR. NOYES: You are reducing it by the
25 anticipated shortfall for every single project we're recommending to be

1 approved?

2 MS. WASS: If it's not approved, it will
3 remain in the '09 Reserve account and carried forward.

4 MR. NOYES: Thank you, that's what I
5 wanted to be clear for all members of the Committee.

6 SENATOR HAWKINS: The motion has been
7 made and seconded. Any more discussion? All in favor say, "Aye?"
8 (Ayes.) Opposed? (No response.)

9 MR. STEPHENSON: You passed a 2010
10 budget, and you've already voted to transfer this piece from Special
11 Projects.

12 MS. WASS: We voted on that piece.

13 MR. STEPHENSON: You have not yet voted
14 on transfer from the Endowment to the Reserve of 8 million 276.

15 DELEGATE KILGORE: I so move.

16 SENATOR HAWKINS: It has been moved
17 and seconded that the transfer take place. Any discussion? All those in
18 favor say, "Aye?" (Ayes.) Opposed? (No response.) That motion is
19 carried.

20 MR. STEPHENSON: The money to fund all
21 of this comes from the Endowment, and in order to accomplish that, you
22 will have to make an Endowment invasion according to the last line on
23 the page which is 111 million dollars which will fund the 2010 budget.

24 SENATOR HAWKINS: It's been moved and
25 seconded. Any discussion? All in favor say, "Aye?" (Ayes.) Opposed?

1 (No response.)

2 MR. STEPHENSON: To respond more fully
3 to Delegate Byron's question, it is important for the Staff to tell the
4 committees that you have instructed us to make decisions as to how we
5 use restricted money or unrestricted money, and here is how we have
6 done that so far. It is not a problem and we have it under management,
7 but you will note that we have used 37% of the restricted portion, and
8 we've used 19% of the unrestricted and we are following your directive
9 to burn the restricted first, but we are burning that faster than the
10 unrestricted. I wanted you to know that in case you wanted to change
11 your mind. That concludes my presentation.

12 SENATOR HAWKINS: I want to thank the
13 Staff for the work that has been done up to this time. We'll see you all
14 tomorrow. Any further to come before the Executive Committee?

15 MR. NOYES: We don't have a specific date
16 for the next meeting, but we're working toward the end of April in
17 Roanoke.

18 SENATOR HAWKINS: Any public
19 comments, anyone want to speak? Going once, going twice. Is there a
20 motion to adjourn? There is a motion and we are adjourned.

21

22 PROCEEDINGS CONCLUDED.

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1 CERTIFICATE OF THE COURT REPORTER

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5 I, Medford W. Howard, Registered
6 Professional Reporter and Notary Public for the State of Virginia at
7 Large, do hereby certify that I was the court reporter who took down and
8 transcribed the proceedings of the Executive Committee Meeting when
9 held on Monday, January 12, 2009, at 5:00 PM at the Richmond Marriott
10 Hotel (Downtown), Richmond, Virginia.

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

14 Given under my hand this _____ day of
15 February, 2009.

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

My Commission Expires: October 31, 2010.

Court Reporter #224566