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7 **Regional Finance Workgroups**
8 **Southwest/Southside**

9 Thursday, April 14, 2005
10 1:00 p.m.

11
12 Hotel Roanoke and Conference Center
13 Madison Room
14 Roanoke, Virginia
15

16 **APPEARANCES:**

17 **Southwest**

18 The Honorable Terry G. Kilgore, Chairman
19 The Honorable William C. Wampler, Jr.
20 The Honorable Joseph P. Johnson
21 Mr. James C. Thompson
22 Mr. Stephen S. Banner
23

24 **Southside**

25 The Honorable Kathy J. Byron, Chairman
26 The Honorable Thomas C. Wright, Jr.
27 The Honorable Clarke N. Hogan
28 The Honorable Michael J. Schewel
29 Mr. Thomas W. Arthur
30 Mr. Claude B. Owen, Jr.
31 Mr. Edward Owens
32 The Honorable Gary D. Walker
33

34 **COMMISSION STAFF:**

35 Mr. Carthan F. Currin, III, Executive Director
36 Mr. Ned Stephenson, Manager of Strategic Investments
37 Mr. Timothy Pfohl, Grants Program Administration Manager
38 Ms. Stephanie Wass, Director of Finance
39 Ms. Mary Cabell Sulc, Manager of Communications and Committee
40 Operations

41 **APPEARANCES (cont'd):**

42 Ms. Britt Nelson, Grants Coordinator - Southside
43 Ms. Sarah Griffith, Grants Coordinator - Southwest

CRANE-SNEAD & ASSOCIATES, INC.
4914 Fitzhugh Avenue, Suite 203
Richmond, Virginia 23230
Tel. No. (804) 355-4335

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OFFICE OF THE ATTORNEY GENERAL:

Frank N. Ferguson, Senior Assistant Attorney General, Counsel for the
Commission

Anne Marie Cushmac, Senior Assistant Attorney General, Counsel for the
Commission

DELEGATE KILGORE: Let's go ahead and get started.

The Regional Workshops have convened in the Madison Room. I think what we all want to discuss is the spending plan and possible scenario for possible securitization. Who do I turn the program over to at this time?

MR. CURRIN: I'm going to ask the Director of Finance, Ms. Stephanie Wass, to lead us through this conversation.

This is what we've talked about in the Southside delegation, and Southwest has this. We're talking securitization at 50 percent, and then one budget would have no securitization.

MS. WASS: Ned will start off.

MR. STEPHENSON: Ladies and gentlemen of the committees, many of you saw this this morning, so my apologies, but you can catch up to the Southside group. What I would like to do is present to you the spending plan that the Long-Range Planning Committee devised about two weeks ago here in Roanoke. Immediately behind this I will bring to you a change that the Southwest group thinks we can approve the plan and then open the floor for the Southside people to change it further until we reach resolution on the spending plan.

After we reach resolution on the spending plan, I think Stephanie wants to put before you a couple of budgets, one with and one without securitization, and hopefully before we leave here today we can get those two things accomplished, the spending plan and the two budgets.

What you have before you in black ink is a spending plan that the Long-Range Planning Committee devised. We have superimposed on this in red ink that shows you how this plan would govern the dollars going forward.

Carthan, would you please dim the lights a little more? Thank you.

In a securitized world we will have revenue sources from three places. We will have the old MSA payments that you are used to, but it will be only half of what you have been used to, because the other half is sold off.

The second revenue stream, you have a corpus or an endowment that is available to you, which you may use only at a certain burn rate according to the state law, and we'll talk about that.

The third revenue stream is that you will have the earnings on the endowment which accrue to the Commission for use in your work.

So, these are the three funding sources. This plan contemplates that these three funding sources will be used in a certain manner, and we will walk through those

1 very quickly.

2 The MSA payments, which are estimated to be about 32 to 40 million
3 dollars a year, half of what you're used to, or less, reflects the fact that they are at risk and
4 that they can diminish or go away all together, and that is why we securitize. This plan
5 contemplates that those MSA payments will be used for these programs that you have
6 right now, indemnification, education, innovation, administration, TROF and prior
7 commitment. The innovation is one of the four pillars of your long-range plan, and it
8 included your agribusiness efforts, the TROF efforts, and your special project efforts. The
9 MSA payments will be used in the same manner that they have in the past for the same
10 committees, and so forth.

11 I have taken the 32 million-dollar forecasted number and divvied it up,
12 and this is just a suggestion. You can do that however you may choose as time goes
13 forward, and there is nothing magic about that.

14 Please stop me at any point if you have a question.

15 The second revenue stream or source of revenue is the endowment corpus.
16 The numbers here, 323 million to 368. We are advised by the underwriting folks that is
17 the range that we can expect, given the current market conditions. That is a forecast and
18 that number can change, and that is the best and worst case that we are looking at. For
19 purposes of our discussion and budgeting and so forth, we are using a proxy of 350
20 million being somewhere in that range and what we might expect so we can have our
21 discussion. The corpus would be thusly. This plan contemplates that corpus would be
22 split on our books at 73/27 between Southside and Southwest, or rather 236 million
23 against 87 million. That is the mathematical split that would occur in that corpus.

24 This plan further contemplates that the corpus would be available for
25 technology projects in both Southside and Southwest, that the extent that that is available
26 to you is reflected in these numbers, namely, four percent of the corpus per year for
27 Southside projects and ten percent of the corpus available for Southwest.

28 We have done the math here in red, and you can see that the four percent
29 for the Southside corpus would amount to between nine and eleven million dollars per
30 year; likewise for Southwest.

31 DELEGATE KILGORE: Ned, Southwest in our meeting
32 decided that it would not necessarily be used all for technology. It could be used also for
33 economic development as well as needed. We were pretty much all in agreement on that.

34 MR. STEPHENSON: There are some subtleties in here
35 that I wish to bring to your attention. One of them is this word "declining" right here. If
36 you think about the math for a minute, if you have 100 million dollars and you take 10
37 percent of it, that's 10 million dollars, and that leaves you 90. The next year your 10
38 percent is 9 million dollars. The next year it is 8.1. These numbers here of the corpus
39 invasion are declining over time, depending on how rapidly you go into the corpus.

40 The third stream of money is the earnings upon the corpus, or the interest
41 earned, if you will. For discussion purposes we have used a rate of return of three and a
42 quarter percent. It is important to know that it could be much more or much less than
43 that, which would yield you much more or much less money for that purpose. Under this

1 plan the earnings from the Southside's share of the corpus would be eight to nine million
2 dollars a year, and that would be available to the Southside Economic Development
3 Committee. In other words, Southside Econ would live off of the earnings of the corpus
4 to do their work.

5 DELEGATE BYRON: Would Southside have to determine
6 or make a decision like Southwest did if they decided to use some of the funds for
7 Technology as long as they were capital projects, or would there always be a point, is that
8 a decision that would have to be made now or later with a certain amount of votes?

9 DELEGATE KILGORE: I think, Kathy, we discussed
10 Economic Development in our committee with Frank, our able counsel, here, and it was
11 decided you could always transfer money around as long as, if you took it from the
12 corpus it would have to be for a capital project to make sure that we keep it tax free.

13 MR. FERGUSON: Subject to the aggregate of 15 percent
14 maximum.

15 DELEGATE BYRON: Does that mean that if Southside
16 withdrew their four percent and they did it for Technology, Southside could make their
17 own decision to spend that nine million as they chose to?

18 DELEGATE KILGORE: As long as they remained in the
19 exempt status. Am I right, Frank?

20 MR. FERGUSON: I think that's right. Just to back up one
21 step to be perfectly clear, I always give the same speech, and that is spending money is
22 specifically a Full Commission duty as a general matter. To the extent that some of that
23 authority, very limited in divine circumstances and delegated to the Executive Director or
24 committees, is okay. But, to answer the question that Delegate Byron raised, as long as
25 you retain the legal parameters; otherwise, you have the same kind of flexibility you have
26 always had. The burn rate is 10 percent per year or up to 15 with a two-thirds vote of the
27 Full Commission. The aggregate burn rate between Southside and Southwest cannot go
28 over those levels; otherwise, the same rules all apply as you move money around.

29 DELEGATE BYRON: Southside could actually have their
30 own special projects as far as expenditure of monies.

31 DELEGATE KILGORE: Delegate Hogan.

32 DELEGATE HOGAN: Is the earnings off the securitized
33 money subject to the same restrictions as the corpus is?

34 MR. FERGUSON: My understanding is that it is, yes.

35 DELEGATE KILGORE: Ned.

36 MR. STEPHENSON: For the fiscal conservative in the
37 group, if you use a burn rate of four percent per year you will have what is called half-life
38 of seventeen years. In other words, it will take seventeen years before you consume half
39 of the corpus. At a burn rate of ten percent, half is gone in fifteen years, and there are
40 different philosophies about which one is better. I think that is reflected in the choice of
41 the burn rates.

42 DELEGATE KILGORE: Any questions of Ned?

43 MR. STEPHENSON: In the Southwest discussion this

1 morning, some of the commissioners on the committee felt that it would not be best to
2 restrict access to the corpus only to the Technology Committee. Doing this on the fly
3 over lunch, here is the same plan, and everything is the same except that you will notice
4 that the endowment corpus and earnings, which are split 73/27, are available to
5 Southwest Technology or Econ. In other words, you are living together on the corpus
6 and the earnings, and you will have to choose each budget year how you want to whack
7 that up.

8 DELEGATE KILGORE: I think that was unanimous in our
9 group.

10 MR. STEPHENSON: That is what I heard from the
11 Southwest folks.

12 DELEGATE BYRON: Is that what, Frank, is that the same
13 as we discussed?

14 MR. FERGUSON: Yes, I think the original proposal was
15 to carve out the corpus for Technology and earnings from Economic Development. I
16 think Southwest said we want some more flexibility to move that money back and forth
17 as necessary.

18 MR. OWENS: Where does the four percent burn rate come
19 from for Southside? Where did it come from?

20 MR. STEPHENSON: When the Long-Range Planning
21 Committee met and devised this plan and put it together, the four percent was a
22 consensus number from some of the Southside folks on that Long-Range Planning
23 Committee. Likewise, ten percent from Southwest.

24 MR. OWENS: Do we expect to get a rate of return of 3.25
25 projected? Is there a rule that says if we don't get a certain percent securitization is out
26 the window?

27 DELEGATE KILGORE: Do you mean a certain amount of
28 money, or a certain percentage?

29 MR. OWENS: Do they say that you, or if they come back
30 and say we'll give you a certain amount, or 1.75?

31 DELEGATE KILGORE: I don't think they can do that.

32 MR. OWENS: Who makes the decision?

33 MS. WASS: The three and a quarter percent is the earnings
34 on the endowment; that's after you securitize. If you're talking about the rate of the bonds
35 in securitization, technically that's a decision that the Tobacco Settlement Planning
36 Corporation determined, and they determine at what point it is not a good deal. I don't
37 think they would mind the feedback from the Commission, there's a certain point.

38 SECRETARY SCHEWEL: I don't remember if that group
39 has been appointed yet, but generally they will do what the Commission wants them to
40 do.

41 MR. STEPHENSON: Mr. Chairman, Southwest was given
42 a little discussion of this, this morning. What I learned was that the last time around there
43 was a small subset of the Executive Committee who was charged with the responsibility

1 of determining when to walk away from the table with the financing deal or not, at what
2 point the deal became unattractive to pull back.

3 DELEGATE KILGORE: I think it was if it went below
4 three.

5 MS. WASS: I believe last time eight percent is what the
6 finance corporation had said, and the rates we're looking at right now are around 6.375.

7 MR. FERGUSON: That is what was driving the net.

8 DELEGATE WRIGHT: What is the maximum amount
9 burn rate for Southside, four percent? What if we wanted to change that?

10 DELEGATE KILGORE: Fifteen percent.

11 DELEGATE WRIGHT: Can you go as high as fifteen?

12 DELEGATE KILGORE: With the Commission's approval.

13 MR. STEPHENSON: Actually, the Commission in
14 aggregate can burn fifteen percent. If one region is burning at a lesser rate and the
15 Commission so agrees, it can actually allow the other region to burn faster than fifteen
16 percent, such that the aggregate is no more than fifteen percent.

17 DELEGATE WRIGHT: My question is, Southwest ten,
18 what is the maximum for Southside, does that affect Southside?

19 MR. STEPHENSON: No, it does not limit Southside in
20 any way.

21 DELEGATE HOGAN: Ned, I'm pretty sure I'm right about
22 this, but at the last Executive Committee meeting we were asked to come out here and do
23 this, and I think we voted to say that we were going to set Southside at ten percent, too.
24 We were not going to restrict Southside beyond Southwest.

25 DELEGATE KILGORE: That is up to, just because you
26 have a ceiling at ten percent doesn't mean you have to spend it.

27 DELEGATE HOGAN: That was our point, we wanted a
28 ceiling.

29 MR. STEPHENSON: These are ceilings, these are not
30 mandates.

31 DELEGATE HOGAN: I think at that meeting we set a
32 ceiling for Southside, it was going to be ten percent as well, I'm pretty clear on that and
33 pretty sure that is right.

34 DELEGATE KILGORE: I don't see a problem with that,
35 because it is still going to take a vote to approve any expenditure anyway.

36 DELEGATE HOGAN: The question is do we have to go to
37 the Full Commission to do four or ten?

38 DELEGATE KILGORE: If you want to go to fifteen, I
39 don't think there is any problem.

40 DELEGATE HOGAN: I just wanted to make sure.

41 MR. STEPHENSON: I think this should be the moment
42 that we should clarify that in a motion.

43 DELEGATE HOGAN: I'll make that in the form of a

1 motion.

2 DELEGATE WRIGHT: I'll second it.

3 SECRETARY SCHEWEL: It seems to me there are going
4 to be projects and there is going to be pressure to expend an amount of money, you have
5 the right to expend a certain amount of money. If you're limited to four percent unless
6 you get a special vote, and a lot of times it is easier to say no. A ten percent burn rate, the
7 corpus is going to be used up fast, in maybe six years.

8 DELEGATE KILGORE: I can tell you the reasoning
9 behind Southwest is that we don't think we're going to spend ten percent. But with the
10 lower amount of money that we get we thought it might be something that would come
11 along that we would have to have ten percent quicker, and that was our thinking. Of
12 course, we don't want to spend ten percent, either.

13 DELEGATE BYRON: Frank, do you recall my question to
14 you in the Executive Committee meeting? Senator Ruff brought this up, being able to go
15 up to the ten percent just with a vote of the Southside Committee, but we were going to
16 leave it at four percent without the majority.

17 MR. FERGUSON: I'm afraid my memory of those
18 particulars is no better than anyone else. I recall the original proposal of four percent was
19 moved up to ten percent in some regard. The long and short of this is that until you get to
20 ten percent the Commission has normal spending authority up to ten percent according to
21 the statute. It is up to you to set whatever guidelines or restrictions you want upon
22 yourselves to that burn rate. From ten to fifteen percent you have to get a two-thirds vote
23 of the Full Commission. You can't go over fifteen percent by law. The non-short and
24 non-clear answer to the question is, you can set whatever restrictions on yourselves now
25 that you wish, but it is clearly an internal restriction, at least up to 10/15 percent level.
26 You can phrase it however you want to, and you can change it easily as a Full
27 Commission vote on it. If you do set a restriction at four percent, then it would be up to
28 the Full Commission to lift that restriction. Secretary Schewel's point of it being
29 somewhat more difficult to spend money if you set a lower level I think is accurate,
30 because it does require procedurally a little more vote taking and having the Full
31 Commission together to do it. Remember ultimately all expenditures are approved by the
32 Full Commission. Despite the fact that Southside and Southwest are delegated authority
33 to divvy up their own piece of the pie as you were, that action is not final until the Full
34 Commission approves it. We are setting this up fairly and discreetly, when in fact at the
35 end of the day it is always the Full Commission vote. I don't think that helps much, by
36 the look I am getting.

37 SECRETARY SCHEWEL: If Southside approves a
38 proposed 3.9 percent corpus expenditure and Southwest was proposing 9.9 percent
39 invasion, they're both in their limits. You're saying that both of those still have to come
40 to the Full Commission?

41 MR. FERGUSON: As far as a project to spend that money
42 on, yes, sir. Having these guidelines set tells them that if they go into allocating funds
43 they know what they have to spend, and it is presumptively valid to do that, but the

1 Commission is still going to look at the project that is being funded with that money and
2 determine whether the Full Commission wants to expend money on that project.
3 DELEGATE KILGORE: And have the authority to do so.
4 MR. FERGUSON: As I have counseled repeatedly, I
5 would not counsel that you try to further delegate that authority, because the spending
6 functions are already delegated authority from the General Assembly.
7 MR. STEPHENSON: Members of the committees, I would
8 invite your attention to the motion on the floor.
9 DELEGATE BYRON: Would you restate the motion?
10 DELEGATE HOGAN: The motion is that Southside have
11 the same latitude as Southwest does at ten percent.
12 DELEGATE KILGORE: There is a motion and it has been
13 seconded, any discussion before we vote?
14 SECRETARY SCHEWEL: I would submit that we are
15 better off with a lower number. You can always increase the numbers very easily and
16 approve amounts over. You have the same approval to spend four percent that you have
17 to get to spend more than four percent. It seems to me that if you are giving the members
18 of the Southside delegation some, a political cover to have that written the way it is.
19 MR. ARTHUR: Call the question.
20 DELEGATE KILGORE: All those in favor of the motion
21 to set a ceiling at ten percent for Southside, say aye? (Ayes.)
22 Opposed? (No's.)
23 Let's have a show of hands. All those in favor of increasing that amount to
24 ten percent raise your hand?
25 MR. CURRIN: Three yea's.
26 DELEGATE KILGORE: All those opposed?
27 MR. CURRIN: Five no's.
28 DELEGATE KILGORE: The motion fails.
29 MR. OWENS: Is the corpus invasion cumulative?
30 MR. STEPHENSON: Per year, not cumulative.
31 Mr. Chairman, I think it is important at this juncture that we read this
32 asterisk right here, and that is the way the plan is written, and we may or may not want it
33 that way, but I'll read it to you.
34 "Each region may invade only its share of the corpus upon
35 recommendation by the Technology or Economic Development Committee and majority
36 vote of the Commission. Any further invasion of the corpus requires a two-thirds vote of
37 the Commission."
38 You may or may not want that on there. That is more restrictive than state
39 law.
40 MR. FERGUSON: Only if you go above the ten percent is
41 two-thirds required by statute. If you want to move the four percent Southside to eight
42 percent, that would normally only require a majority vote.
43 DELEGATE KILGORE: I think we should keep it as a

1 majority vote instead of two-thirds. I don't know how you all feel about that, I think we
2 might be over-burdened now in this process requiring two-thirds required by law simply
3 a majority to ten percent.

4 MR. FERGUSON: Once it goes over ten percent it is two-
5 thirds and has a cap of 15 percent.

6 MR. ARTHUR: Mr. Chairman, let me ask this
7 hypothetical. Let's assume Southwest really gets greedy and they spend all of their
8 percentage and we've still got money sitting in the bank that we have not drawn, what
9 happens then?

10 DELEGATE KILGORE: I guess we'd have to do without.

11 MR. ARTHUR: Could the Governor say this is all one
12 Commission, you know, I know it's hypothetical.

13 MR. FERGUSON: I think the answer is as long as you all
14 allocated percentages in each region out of the corpus, they can spend 15 percent of their
15 allocation, and it doesn't affect Southside's ability to spend up to 15 percent of theirs,
16 with the Full Commission, two-thirds.

17 Similarly, though, if they spent all of theirs and come to you and you've
18 got some extra money you can all transfer, the Commission could vote to do that, but you
19 would not be obligated.

20 MR. ARTHUR: Let's revote on that other motion.

21 DELEGATE KILGORE: Mr. Arthur requests we
22 reconsider the motion which you failed to increase your amount.

23 MR. ARTHUR: That's a good motion.

24 DELEGATE BYRON: I'm just concerned that, let's say
25 we're jumping into being, we don't know what is going to happen in the next eight years.
26 By the same token are we laying ourselves open to pulling a lot of money down out of
27 the corpus for the sake of what, not leaving it there for Southwest to invade or where to
28 hide it?

29 DELEGATE HOGAN: If you don't want to give people
30 money, vote no. If we don't have the discipline to make decisions without thought, we
31 have no business being on this committee. So we can create all kinds of guidelines and
32 restrictions and we're not going to be disciplined if it's all gone, it's really that simple.
33 Why would we want to tie ourselves up in a way to keep us from doing what we're
34 supposed to be doing?

35 MR. ARTHUR: I think the Secretary is right that it does
36 make it easier to say no.

37 SECRETARY SCHEWEL: Particularly you guys in
38 politics.

39 DELEGATE HOGAN: Mr. Chairman, the easiest way to
40 say no is not to be here. We can't make these hard decisions without, particularly people
41 in politics. There is no way around the responsibility that we have here, and you really
42 can't hide.

43 MR. OWEN: One reason for protecting with securitization

1 is to protect us if the MSA payments will not be here in the future. It seems illogical to
2 accept a lower cash flow from securitization if at the same time you're going to rapidly
3 spend down your dollars and not have it there in the later years with the risk of the MSA
4 payments not being around. That is my reason for saying let's limit the corpus.
5 Southwest has overwhelming reasons for Technology and other things, and so be it, but I
6 think that we should discipline ourselves on our rules that are changeable to try to protect
7 the future and have an endowment in case the MSA payments go away.

8 DELEGATE WRIGHT: Ned, earlier you were talking
9 about the half-life. If the percentage is 73/27, and that remains the same, and the
10 Southwest spends it at ten percent and we spend it at four --

11 DELEGATE KILGORE: -- Your half-life would be
12 seventeen years.

13 DELEGATE WRIGHT: Will Southwest run out of
14 appropriations before Southside does?

15 MR. STEPHENSON: Yes, if they are burning it faster.

16 DELEGATE KILGORE: If we do.

17 DELEGATE WRIGHT: I thought it was in the
18 Commission rules that in order to spend money both Southwest and Southside have to
19 vote to do it.

20 MR. STEPHENSON: Counsel advises that.

21 DELEGATE WRIGHT: If that is the case, Southwest
22 doesn't have the money, and they are going to be voting on how to spend the Southside
23 money, is that correct? If that is the case, I don't see any reason at all for Southside not to
24 protect itself by having a ceiling of ten percent, and that doesn't mean you have to spend
25 that. If you look down the road, and if Southwest is out of money and Southside has
26 money left. If I stated that incorrectly, then I think it would be foolish for Southside not
27 to have a right to go higher than four percent.

28 MR. ARTHUR: I'm not going to change my vote.

29 SECRETARY SCHEWEL: The concern about the mean
30 guys from Southwest running out of money is a much lower likelihood of issue than the
31 day-to-day pressures that the committees are going to feel to spend up to the amount of
32 money that they have the authority to spend.

33 SENATOR WAMPLER: Mr. Chairman, I'll be as brief as I
34 can. Friends from Southside, the only reason Southwest wishes to have a higher
35 percentage is that our little sum is only eighty million dollars, and if we limit ourselves to
36 four million dollars it is hard for us to obtain critical mass and make a difference on
37 regional projects. The fact of the matter is while we have a clear plan we do not have a
38 degree of specificity to bring to the Commission, then that doesn't mean we'll draw down
39 ten percent or even four percent. Maybe the four is all we'll draw, as compared to
40 Southside is sitting on 200 million plus if we securitize. That's the only reason we asked
41 for the flexibility. The way I counted the votes on the Commission, Southside usually
42 has the majority vote and even the super majority vote. We feel a sense of urgency in our
43 neck of the woods to get as many jobs as we can. I would say that the testimony to this

1 Commission that if we're able to use those dollars wisely and create the ten thousand jobs
2 that we hope we can do with the funds that we have, that would be good. What is all that
3 worth?

4 DELEGATE WRIGHT: I'm not any way opposed to
5 Southwest having ten percent. That's fine. My only point is what I'm trying to say I
6 think it is obvious for Southside, I think Southwest has a good idea, and I'm not opposed
7 to it at all.

8 DELEGATE KILGORE: Are you ready to vote? All those
9 in favor of allowing Southside a corpus invasion of up to ten percent, raise their hand?
10 All opposed?

11 MR. CURRIN: Three to five.

12 DELEGATE KILGORE: Three to five, it fails.

13 MR. STEPHENSON: Mr. Chairman, may I reach the
14 conclusion that this working group recommends this spending plan to the Executive
15 Committee as it appears before you now, with the exception of the last sentence, which is
16 stricken?

17 DELEGATE KILGORE: Right.

18 MR. STEPHENSON: Is that what we have this morning?

19 DELEGATE KILGORE: Do I have a motion on that?

20 There is a motion, and it is seconded. All in favor say aye? (Ayes.) Opposed, no?
21 (No's.)

22 Let's do this, I have a motion, and it is seconded. All those in favor raise
23 their hands? All right.

24 Opposed? All right. We have two no's. It passes.

25 MR. STEPHENSON: Mr. Chairman, prior to this meeting
26 today the Staff prepared for you two budget scenarios, one without securitization and one
27 with securitization, per this plan. I think Stephanie is going to walk you through the
28 budgets.

29 DELEGATE KILGORE: Why do we need to address this
30 now?

31 MR. STEPHENSON: I think at this point we are on the
32 eve of a new fiscal year, and the Executive Committee needs a budget, and it has really
33 referred this budget process to this finance workgroup. If we can end the day today with
34 two budgets, with or without, they will go to the Executive Committee for approval and
35 on to the Commission on April 28 so that we may begin the fiscal year with a budget,
36 regardless of securitization occurring or not.

37 DELEGATE KILGORE: Which budget are we looking at
38 here, with or without securitization?

39 MS. WASS: Let's start with the budget with no
40 securitization.

41 DELEGATE KILGORE: That has a number eleven at the
42 bottom of mine.

43 MS. WASS: That is assuming all of this comes in with the

1 MSA payment, the estimated would be one and one half million interest earnings of the
2 funds and carried forward down to the 3.2 million. Then there are things from down here
3 and the unspent administration.

4 DELEGATE KILGORE: Am I looking at the far right-
5 hand column, are those percentage of changes in the budget?

6 MS. WASS: In the right-hand column, for each of the line
7 items a percentage or a total revenue that that line item represents. So administration in
8 this plan 3.9 percent of total budget. Under this scenario, the main, one difference is the
9 contingency for the securitization costs listed as 500 thousand. With no securitization,
10 the budget, assuming some things that went wrong or something didn't happen and the
11 deal didn't go through, and these would be expenses related to that. So I put that in as
12 part of the administration budget if there is no securitization. It may not be that much,
13 but that is what the Treasurer said it was.

14 With the indemnification piece, the remaining liability for flue-cured and
15 burley 2002 losses divided by 10, and I believe it is the will of the Commission to remain
16 obligated for the next 10 years, that amount assumes the final Phase II payment is not
17 made. If it is made, then our obligation will decrease slightly. If the final Phase 2
18 payment is not made, that would be one-tenth of the remaining obligation.

19 Under Technology we were budgeting 17 and a half million.

20 DELEGATE KILGORE: That's the FY05 budget.

21 MS. WASS: That's large projects and expenses coming up.
22 For Innovation we have Deal Closing and Special Projects and Agribusiness and
23 Education.

24 The Education budget will increase, because we are trying to get them on
25 the right cycle. If you recall, they have been spending money in the early part of the
26 fiscal year, and the money doesn't come in until April. If we try to help remedy that
27 situation, we're trying to increase that budget enough where they can award scholarships
28 after the monies are here, rather than before.

29 SECRETARY SCHEWEL: Will it drop down the
30 following year?

31 MS. WASS: Yes. Then under Regional Economic
32 Development it's split 73/27 per region economic development fund.

33 DELEGATE KILGORE: That's a decrease, move that
34 money to Education?

35 MS. WASS: Right, that's through the Technology and
36 Education.

37 DELEGATE KILGORE: Are there any questions on this
38 budget without securitization?

39 MR. OWEN: The numbers are in the far right-hand
40 column?

41 MS. WASS: The far right-hand column is the unobligated
42 balance, balance as of February 28, unobligated. For example, Special Projects currently
43 has about two and a half million that is not obligated, all available cash. So if that went

1 into your decision, I think in the prior years Delegate Byron had asked for what the
2 remaining unobligated funds are.

3 MR. OWEN: What you have carried forward is not part of
4 the surplus revenue?

5 MS. WASS: Right.

6 MR. OWEN: At this point you are assuming all of these
7 will be spent within this current year?

8 MS. WASS: Right. We have pending obligations, we have
9 some pending applications for those, for Special Projects, and that actually might be a
10 moot point. This is not counting the funds that are coming in April 15th, because at
11 February 28th they weren't here, so we could not count them.

12 In other words, for Southside Economic Development I'm showing 1.1
13 million, and they have another 14 million coming next week, assuming they get here.

14 DELEGATE HOGAN: That is for the next budget cycle.

15 MS. WASS: For FY05.

16 DELEGATE HOGAN: That is already next year's money.

17 DELEGATE KILGORE: Can we now go to the budget
18 with securitization?

19 MS. WASS: This represents securitization, you see
20 revenues and carry forward funds. The main difference here is that we have reduced the
21 MSA payment in half. So the interest on that remaining, half that is unsecured is about
22 half, and we show the endowment invasion and the endowment earnings, and then this is
23 carried forward.

24 Now, under the spending plan that you approved, those two items may not
25 be contributed to Technology or Economic Development shown in this budget. We can
26 move the funds around as long as they are for capital expenditures.

27 DELEGATE KILGORE: This budget assumes that
28 Southwest would spend the whole 10 percent?

29 MS. WASS: Right. The main difference in this
30 administration budget, securitization costs are not listed here, and if we go with that they
31 will be taken out of the proceeds, and if the deal does go through those will be taken out
32 of the proceeds, not taken out of the administration.

33 Indemnification is the same.

34 The Technology amount shown here, 10 percent for Southwest and 4
35 percent for Southside of the corpus invasion, and those can be moved between the
36 Economic Development piece, and that is just bringing it down from the endowment
37 invasion.

38 Innovation and job creation and Education are all from the MSA revenue.
39 Then Economic Development, starting with the endowment earnings from the top
40 allocated to the two regions as they earn, based on the balance.

41 DELEGATE KILGORE: Under "E" down here, it says,
42 includes three million from MSA revenues for prior Southside commitments.

43 MS. WASS: Prior commitments were made for debt

1 service by Southside, and that needs to be handled from the MSA. That is the Institute
2 and Riverstone, Halifax.

3 DELEGATE KILGORE: Does that include the million that
4 Ned put in for Southwest?

5 MS. WASS: That would all be included in the Special
6 Projects, 1.1 million for --

7 DELEGATE KILGORE: That was in the footnote, I just
8 wanted to make sure it was in there.

9 MS. WASS: Yes.

10 DELEGATE KILGORE: Any questions on the budget with
11 securitization?

12 DELEGATE HOGAN: Is this FY06?
13 MR. CURRIN: Starting July 1 of this year, we call it '06.
14 DELEGATE KILGORE: '06 beginning July 1 this year.
15 We call it the '06 budget.

16 MR. CURRIN: Normally we would present you the '06
17 budget beginning July 1. The Commission meeting was designed before the
18 securitization. This meeting this month is going to be the meeting that is devoted to the
19 budget.

20 DELEGATE HOGAN: So this meeting will be spending
21 this money based on the budget we decide.

22 DELEGATE KILGORE: The '05 money.

23 DELEGATE HOGAN: My understanding is that when we
24 meet in April we will be spending money this year, some of which will not be received
25 until April 15th next year, happens to be the same fiscal year.

26 MS. WASS: Southside Economic Development is on
27 cycle, spending money after they receive it, and Technology, Education and TROF.

28 MR. OWEN: Stephanie, looking through this, you have
29 doubled some money between Technology, and Economic Development and Innovation
30 to match the funding source. It is roughly a two million-dollar reduction in spending that
31 is basically more in the TROF reduction. On one budget you have a certain amount for
32 TROF, and the next one there is a lesser amount, and there is no balancing amount
33 anywhere else.

34 MS. WASS: Special Projects is, 4.1 is prior commitments,
35 and Southside has prior commitments, so if you look at Special Projects under the
36 securitized version, really, only 2 million is free and clear, so compared to the 2.45 under
37 the securitization.

38 DELEGATE KILGORE: Does that answer your question?
39 MR. OWEN: Yes, I think so.

40 SENATOR WAMPLER: Without bringing up a new
41 subject, and while everyone is focused on Special Projects, I don't see how we can make
42 an award to Special Projects until we make a determination as to whether we're going to
43 securitize or not. The meeting was supposed to have taken place today. I think it is

1 appropriate from a fiduciary standpoint to defer action on Special Projects until we
2 decide how to capitalize the budgets.

3 For anyone that has a project pending it is not doing an end run, but we
4 just don't, or I don't think we should spend money that we don't have or know how much
5 we're going to have in the budget. As soon as we decide if we're going to securitize or
6 not, we can do that. I don't like to spend money we don't have.

7 MR. WALKER: But we do have unobligated funds, you
8 don't want to spend that either.

9 SENATOR WAMPLER: The Executive Committee said
10 we needed to defer on that, because I think as Stephanie rolled those balances forward in
11 other areas it has impacts on next year's operating budget.

12 MS. WASS: If you carry money forward to the next budget
13 it is something to consider, unobligated.

14 DELEGATE KILGORE: Is that a motion?

15 SENATOR WAMPLER: No, just an observation.

16 DELEGATE KILGORE: If there is no motion on the floor,
17 we'll go forward. Is there any question on the securitized budget?

18 MR. WALKER: Mr. Chairman, are we getting ready to
19 vote or recommend a budget to the Full Commission, is that where we are headed?

20 DELEGATE KILGORE: Yes.

21 MR. WALKER: Assuming that just because we
22 recommend a budget that we are for or against securitization?

23 DELEGATE KILGORE: No, we're going to go to the next
24 item on the agenda, to affirm or delay securitization of 50 percent of the MSA payment.
25 My suggestion to you is that if you are against securitization, then you vote for the
26 budget without securitization. That is what I would do. I plan to vote, I think we have to
27 have a fall-back position in case something goes wrong with the securitization process.
28 That is why I would vote for both of them.

29 All right. Any other discussion on the securitization with or without?
30 We're voting for the securitized budget or without securitization, either one, any
31 questions?

32 All right.

33 MR. BANNER: Would a motion be in order to adopt both
34 of these budgets from this committee to pass it on to the Full Commission?

35 DELEGATE KILGORE: I would say we need separate
36 votes on each one, the one without securitization and the one with securitization.

37 MR. FERGUSON: Mr. Chairman, is the recommendation
38 from this committee to the Full Commission or to the Executive Committee?

39 DELEGATE KILGORE: To the Executive Committee.

40 MR. CURRIN: At the Executive Committee's direction
41 these workgroups were formed and are reporting back to the Executive Committee.

42 MR. BANNER: I'd make a motion that we adopt the 50
43 percent of revenues securitized for the '06 budget and make that recommendation to the

1 Executive Committee.

2 DELEGATE KILGORE: Is there a second to make a
3 recommendation that we adopt the 50 percent securitized budget? All right, there is a
4 second.

5 All those in favor of that motion, raise your right hand?

6 All right, those opposed? All right.

7 MR. CURRIN: Nine yea's, four no's.

8 DELEGATE KILGORE: Do I have a motion without the
9 securitization budget?

10 SECRETARY SCHEWEL: I move adoption.

11 MR. OWENS: Second.

12 DELEGATE KILGORE: All those in favor without
13 securitization of the budget raise their right hand? All right.

14 Opposed? All right.

15 MR. CURRIN: Eleven yes, two no.

16 DELEGATE KILGORE: All right, now we've got one
17 other piece of interest, and that is affirm or delay securitization of 50 percent of the MSA
18 payments. I think from the vote we see how this one is headed down the track. Do I
19 have a motion on that, whether we affirm or delay securitization of 50 percent of the
20 MSA payment, a motion to securitize?

21 MR. OWENS: So move.

22 MR. ARTHUR: Second.

23 DELEGATE KILGORE: Any discussion?

24 MR. WALKER: This 500 thousand being budgeted, I
25 assume there will be a cost, whether we go through it or not?

26 DELEGATE KILGORE: The 500 thousand would be an
27 assumed cost, if we don't go through the 500 thousand would be taken out of the
28 proceeds. You're still spending it either way.

29 MR. OWEN: Mr. Chairman, if we proceed with the
30 securitization and it fails, the 500 thousand, if we voted not to proceed we wouldn't have
31 any risk of spending the 500 thousand.

32 MS. WASS: The 500 thousand probably will happen. That
33 was known two days before closing.

34 DELEGATE KILGORE: There is a motion and a second,
35 any more discussion on securitization?

36 All those in favor of securitization?

37 MR. ARTHUR: Please restate the motion?

38 DELEGATE KILGORE: The motion was to securitize 50
39 percent of the MSA payment and that we request the Executive Committee to pass that on
40 to the Full Commission.

41 All in favor of that, please signify by saying aye? (Ayes.) Please raise
42 your right hand.

43 Those against?

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MR. CURRIN: You have ten yea's, Mr. Chairman, and two no's.

DELEGATE KILGORE: Any abstentions? None. Is there

DELEGATE BYRON: Southside will still have to meet back in the other room that we were in this morning.

DELEGATE KILGORE: We're adjourned.

PROCEEDINGS CONCLUDED.

CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **Regional Finance Workgroups when held on Thursday, April 14, 2005 at 1:00 p.m. in the Madison Room at the Hotel Roanoke and Conference Center, Roanoke, Virginia.**

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

Given under my hand this 22nd day of April, 2005.

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

My Commission Expires: October 31, 2006.