

1 COMMONWEALTH OF VIRGINIA
2 VIRGINIA TOBACCO INDEMNIFICATION AND COMMUNITY
3 REVITALIZATION COMMISSION

4 701 East Franklin Street
5 Seventh & Franklin Building
6 10th Floor
7 Richmond, Virginia 23219

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10 Senate Room A
11 General Assembly Building
12 Richmond, Virginia 23219

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15 Thursday, December 20, 2001
16 10:00 a.m.

1 December 20, 2001

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SENATOR HAWKINS: The Commission meeting will come to order today. We have a pretty long agenda and we'll try to get through this as quickly as possible. There are a couple of announcements that need to be made also. When we break for our lunch, which will be next door, during that timeframe the Executive Director wishes us to have a photograph made so those of you that wish to have your photo taken on the Capitol steps we need to be out there before lunch. Probably not a bad idea to do that before we eat. Alright. Why don't we go ahead and call the roll.

Roll Call: **Mr. Anderson**

Delegate Bennett

Mr. Boyd

Mr. Bryant

Delegate Byron

Delegate Clement

Commissioner Courter

Delegate Dudley

Mr. Fields

Secretary Forbes

Mr. Grinstead ABSENT

Mr. Hopkins

1 **Mr. Hurley**
2 **Delegate Johnson**
3 **Delegate Kilgore**
4 **Mr. Lawson**
5 **Secretary Lief**
6 **Mr. Montgomery**
7 **Mr. Osborne**
8 **Senator Puckett**
9 **Senator Ruff**
10 **Mr. Stallard**
11 **Mr. Taylor**
12 **Ms. Thomas**
13 **Mr. Walker**
14 **Senator Wampler**
15 **Mr. Watkins**
16 **Mr. West**
17 **Mr. Williams ABSENT**
18 **Senator Hawkins**

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20 **SENATOR HAWKINS:** Our next order of business is
21 to approve the minutes.

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23 ***NOTE: It is moved and seconded and the minutes are***
24 ***approved from the previous Commission meeting with***
25 ***no opposition.***

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SENATOR HAWKINS: The next item on the agenda is the Southside Economic Development Subcommittee Report.

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Senator Wampler.

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SENATOR WAMPLER: Thank you Mr. Chairman. I don't want to trespass on the time this morning but since this is the holiday season, I want to make a very quick observation. We've been up and running for a fairly long period of time now and we all have other interests. The point I'm trying to make is that the Commission works pretty well in spite of itself but I'd like to say that the staff makes this joint run pretty well. I thought it would be appropriate, under those circumstances at this time if we recognized the work of all of our staff members. You'd have to go a long way to find a staff that works as hard and as competently and is as helpful in putting together every meeting that we've had so far under the direction of our capable Executive Director and it's fairly easy to make some of these decision after the work that they've done. I just thought it was appropriate to recognize the staff for their hard work and not just during the two or three hour meetings but the many, many phone calls that have to be made to various persons by the staff and I just wanted to recognize them.

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SENATOR HAWKINS: I think you're correct, we started with zero as far as concept and we've had to build on that and new ideas of what the Commission was about. The staff has played no small part in that and we have to recognize that we wouldn't be

1 able to achieve what we've done if we didn't have our staff and the
2 capabilities of our staff. They certainly can take credit for that so I
3 think we all join in thanking them.

4 I think we have a fairly long agenda today and in order to
5 try to facilitate this as quickly as possible, I will now turn it over for
6 the Southside Economic Development Subcommittee Report from
7 **Delegate Clement.**

8 **DELEGATE CLEMENT:** Thank you, I'll try to be
9 brief. We have one item on the agenda and we had a presentation this
10 morning from the Patrick County Administrator and the Director of
11 that Foundation, **Mr. Gerry Cooper.** They're here today if anyone
12 wishes to ask them any questions. But the Southside Economic
13 Development Committee recommended that we ask the full
14 Commission this morning to approve an allocation from the Patrick
15 County formula of \$81,800 to be exact for that Foundation. The great
16 plan they have is to improve the educational levels of both the
17 students and the adults in Patrick County. They ask that those funds
18 be released as soon after January 15th, which is the deadline for
19 applications. As soon after January 15th as practicable subject to our
20 receiving applications from Patrick County or interested people within
21 Patrick County that would compete for that money. There is
22 \$443,000 for Patrick County in the allocation this fiscal year. Of that
23 \$443,000, about \$85,000 carried over from last year. So that's what
24 brings our total from the usual this year \$350 thousand or so up to
25 around \$443,000.

1 *So it's our recommendation that we approve their*
2 *application and that the \$81,800 be released as soon*
3 *after January 15th as possible subject to our receiving*
4 *any applications from Patrick County or interested*
5 *parties within Patrick County that would take up part or*
6 *all of that \$81,800.*

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8 ***SENATOR HAWKINS: Any discussion?***

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10 ***MR. SHEPPARD: Subject to not receiving.***

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12 ***DELEGATE. CLEMENT: That's correct.***

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14 ***SENATOR HAWKINS: Any discussion, does everyone***
15 ***understand the motion? Is there a second?***

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17 ***UNIDENTIFIED: Second.***

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19 ***SENATOR HAWKINS: All those in favor say Aye,***
20 ***opposed, likewise.***

21 ***The motion is carried.***

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23 **DELEGATE CLEMENT:** That's the end of my report.

24 **SENATOR HAWKINS:** Thank you sir.

25 **MR. CURRIN:** Mr. Chairman, in the spirit of building a relationship

1 and partners to help the Commission, I have today before us **Mr. Paul**
2 **Darby**, representing Southern States Cooperative Foundation. I've
3 asked him, Mr. Chairman, to give us a brief presentation on their
4 Foundation and how this Commission can work together on
5 agricultural issues and the business of Southside. I'd like to ask **Mr.**
6 **Darby** to come forward and make his presentation to the
7 Commission.

8 **SENATOR HAWKINS:** **Mr. Darby**, welcome sir.

9 **MR. DARBY:** It's a great pleasure to be here members
10 of the Commission. I'm Paul Darby and I'm the Executive Director
11 of a newly formed organization in Virginia called the Southern States
12 Cooperative Foundation. They're going to get the screen and I'll
13 have a few minutes to talk to you about the foundation, who we are,
14 what we do and why we think it's important to work with this body to
15 create a partnership that will actually help us establish value added
16 businesses particularly in the southern part of Virginia. We're about
17 to get the screen up and we can turn the lights down a little bit. I'm
18 going to go ahead and launch in because you're on a very tight
19 schedule while the screen warms up.

20 The Southern States Cooperative Foundation was
21 established by Southern States about two years ago and it was
22 established for three reasons. Southern States has a recognized
23 expertise as a cooperative both regionally and nationally. It's
24 committed to improving the economic well-being and the economic
25 power appointments. It's committed to strengthening and stabilizing

1 our rural communities. Importantly the foundation that I operate
2 operates at arms length from Southern States. I will never know
3 whether a perspective project or an individual associated with the
4 project is a Southern States customer or not, I don't care. All I care
5 about is that the project is something that will help producers in the
6 rural communities that are so important to our country. Our mission
7 is a simple one, we intend to identify technical resources, funding
8 option resources that will help address the economic problems
9 confronting farmers in the rural communities throughout the southeast
10 United States. That's a mouth full but what it means is that for at least
11 the next three years, we're going to work to develop value added
12 agricultural enterprises in five states. Those five states are Virginia,
13 North Carolina, Georgia, Kentucky and Delaware. We're going to
14 build linkages that maximize the dollars that can be used to create
15 value added rural businesses. In this specific instance, working with
16 the Commission there are dollars that you are committing to projects,
17 we think we can help leverage additional federal dollars that will
18 extend those funds two and three fold. Because we're a 501C3, we
19 have public purposes that we must achieve. We want to become
20 recognized as a credible source of information, we want to undertake
21 specific research of new market opportunities wherever possible.
22 There are strategies and we have four of them. We're going to
23 operate as a center for cooperative development and that center is a
24 virtual center. We do not hire full time staff, we have technicians, we
25 have experts all around the country and those experts we call on to

1 actually do technical assistance as we establish new projects. We
2 reach out and tap the best and brightest talent all across the country
3 that can help develop the new generation cooperatives. So we looked
4 to the very best lawyers, the very best business planner, the best
5 marketing experts and the best financial wizards. We maintain a
6 focus on value added agriculture and sometimes that works to our
7 detriment but we feel we have to stay focused. We have an expertise
8 in value added agriculture and we're going to continue to work there.

9 We draw the linkage with Southern States in this way.
10 We will reach out to their senior staff who have expertise and we will
11 use them as experts on projects at no cost to those projects and that
12 has worked very well over the last year and a half. What we bring to
13 the table to work with the Commission very simply is a strong
14 working partnership with USDA, particularly with the USDA
15 program managers who preside over tens of millions of dollars that
16 are available to assist rural America. We have a clear understanding
17 how those programs work and in this day and age, that's absolutely
18 essential. We have the ability to work with your staff to develop
19 proposals and we have a track record that USDA consistently funds
20 what we end up presenting to them.

21 Quickly, about the projects that we have underway. Here
22 in Virginia we're working with Washington County dairy producers
23 who are also tobacco growers, quota holders, and they're working to
24 establish a value added cooperative that will do something beyond the
25 farm gate. They've been working closely with Virginia Tech and

1 we're working with them to help address legal issues and structural
2 issues that will move their enterprise to the next level. We've
3 committed a small amount of money but it's \$8,000 that was not
4 previously available to help them address some legal issues.

5 We're looking at organic vegetable production operations
6 because of Southern States work with Tilapia and we think there's
7 some real opportunities there to grow green house vegetables
8 particularly in the southside.

9 In Kentucky we work with two vegetable processing and
10 market cooperatives both of them are comprised of transitioning
11 tobacco growers and we work closely with the Kentucky Department
12 of Agriculture looking at statewide cooperative marketing
13 opportunities. In Georgia we're working on the vegetable side of
14 agriculture. In Delaware we're working with melon producers as they
15 look to establish and electronic marketing structure for their products.
16 They're doing that in connection with the larger market.

17 The funding that we receive today is very modest. We're
18 proud of what we've done but we recognize that it's a very small
19 amount of money, about \$641,000 over the last year. We've had a
20 cooperative agreement with USDA to work with tobacco growers in
21 Kentucky and we're concluding that project here in another two
22 weeks. We've had a rural business enterprise grant that we've used to
23 assist the west Kentucky cooperative and that was used primarily for
24 purchasing equipment. The central Kentucky cooperative we've also
25 assisted them in getting a rural business enterprise grant for their

1 packing shed. We currently are funded under a rural cooperative
2 development grant that will allow us to assist groups like the
3 Washington County group. That's USDA funds that have been
4 matched by Southern States that will allow us to move forward.

5 I think there are four programs that are particularly
6 important for this Commission and I'll list them very quickly. The
7 value added marketing grants, a \$20 million program this last year,
8 it's due to be quadrupled in the farm bill and that's very important
9 because this is one of the few programs that can be used to assist
10 private business directly and does not have to operate through a third
11 party. It does require dollar per dollar matching and that's where this
12 Commission comes in. Rural business enterprise grants again are
13 important in helping to develop new businesses and that is an
14 excellent source of funds and that must be funneled through a
15 nonprofit entity.

16 Housing and Urban Development has a fascinating
17 program that they use not only to stimulate rural housing, to improve
18 rural housing but using it for rural economic development. That's a
19 multi-year program for nonprofits that will work. The Economic
20 Development Administration and Commerce is another good program
21 that provides funds targeted for areas of economic stress. For the next
22 two years we're going to continue to develop cooperatives in the five
23 states in which we work. We're going to attempt to build our
24 reputation as a dependable source of information, we're going to
25 speak the truth. We're going to work to develop the partnerships with

1 key organizations like this Commission. We'll work with county
2 governments, colleges, universities, federal government, anyone that
3 shares our commitment to developing sound rural businesses, we want
4 to know them and work with them and we want to partner with them.

5 We want to be a good listener and we want to share ideas
6 and information so we don't repeat a lot of the problems of the past.

7 In conclusion, we want to look creatively at ways in
8 which we can partner with this Commission on projects that will help
9 Virginia producers. My e-mail, phone number and our website are on
10 the screen. We appreciate the opportunity to appear here today, I
11 brought some brochures on the foundation which are very brief and
12 outline what we do Mr. Chairman and I'd be happy to respond to any
13 questions.

14 **SENATOR HAWKINS:** Thank you for your
15 presentation. I can assure you that we're looking for ways to leverage
16 our money. As we get into the economic aspects of long term
17 development, you'll probably see us try to engage in more public
18 private partnerships to assure access to new capital in areas that we
19 represent and this is certainly something that we'd be interested in
20 looking at. Any questions?

21 **DELEGATE JOHNSON:** Sir, why is Delaware in this
22 makeup?

23 **MR. DARBY:** Quite honestly we were asked by USDA
24 to look at Delaware because that state had not had any focus on
25 cooperative development so it was a request from the Department of

1 Agriculture and when they asked we took a look at it and said yes, we
2 can do that. So it was simply their request.

3 **DELEGATE BENNETT:** I very much appreciate your
4 willingness and Southern States willingness to help. Specifically, are
5 you able to or have you in the past provided something like help in
6 providing grant writers some of whom are more proficient in writing
7 out grants and seeking those funds from someone like USDA?

8 **MR. DARBY:** Yes, sir, we have and we do and there are
9 at least two other people besides myself that do write proposals and
10 our success rate both in a former life of mine as well as the current
11 position is about four out of five. We don't lose too many. Over the
12 last 18 months about \$2.8 million is what USDA has funded through
13 various organizations that I work with.

14 **SENATOR HAWKINS:** Any other comments? If
15 you'll look to your right Ms. Bruce will hand out those brochures and
16 get those to us. We appreciate that sir.

17 **MR. DARBY:** Thank you very much. We appreciate
18 the time.

19 **SENATOR HAWKINS:** Next it is my great privilege
20 and high honor to introduce to the body, the Attorney General Elect of
21 the Commonwealth of Virginia, the **Honorable Jerry Kilgore.**

22 Mr. Attorney General, I apologize. I'm going to have
23 problems probably the rest of this year and next year, the next three
24 years -

1 **ATTORNEY GENERAL KILGORE:** Trying to make
2 it easy on you, I have changed my appearance —

3 **SENATOR HAWKINS:** Thank you for coming and the
4 importance of your office to us we cannot stretch too hard, you all
5 have been a Godsend. If it hadn't been for the Attorney General's
6 Office to keep us out of some problems that we would be in I don't
7 know where we'd be. I thank you for your efforts and for being here
8 and look forward to a long, long, long relationship.

9 **ATTORNEY GENERAL KILGORE:** We do too.
10 Thank you for giving me this opportunity to speak with you today. I
11 look forward to continuing to provide that great level of representation
12 that you've already had from the Attorney General's Office. First I
13 want to commend the Commission for all of the wonderful work
14 you've already done on behalf of all the tobacco growers and tobacco
15 growing communities throughout the entire Commonwealth. As a
16 native of Southwest Virginia and someone who grew up on a tobacco
17 farm, I know first hand the hardships that tobacco growers or tobacco
18 growing communities are facing as they go through this entire ordeal.
19 I'm personally gratified to you all for all the positive things you are all
20 doing to make this turn in their life much easier and making sure the
21 funds are getting to these communities. I want to make sure that you
22 all know that when I assume the Office of Attorney General in
23 January I'm going to be committed to the same high level of services
24 that my predecessors have already provided to this Commission. It is
25 of vital importance that this Commission is focused on the economic

1 well being of Virginia. The work you do almost on a daily basis calls
2 for legal services and calls for legal advice and we're going to stand
3 by you each and everyday to provide that same high quality of legal
4 service that you've grown accustomed to. **Frank Ferguson** is here
5 and he'll still remain in the office when I take over in January so we
6 hope to continue to provide that service to this Commission.

7 There was not a lot of good news in the budget yesterday
8 but I'm very pleased to see and I hope you all will join me in
9 supporting and fully supporting the proposal contained by Governor
10 Gilmore in his budget that would increase funding for the Attorney
11 General's Office and the Department of Taxation to expand and
12 strengthen our existing efforts to maintain the effectiveness and
13 integrity of the Master Settlement Agreement. We need to be able to
14 enforce the requirements of the Master Settlement Agreement, the
15 related statutes and we need to make sure we have a continued flow of
16 payments coming out of that Master Settlement Agreement. The only
17 way we can do that is to have those added dollars to make the
18 enforcement a possibility, not only in the Attorney General's Office
19 but through the Department of Taxation. It's a priority of my
20 administration to make sure those dollars keep flowing for the benefit
21 of Virginia, for the benefit of the tobacco farmers and tobacco
22 growing communities.

23 Everyone knows that it's a difficult time for working
24 families in the Commonwealth and the mission of this Commission is
25 going to be ever more important as next year comes and goes. I thank

1 you **Mr. Chairman and Delegate Clement** I see back here for
2 presenting the legislation that first established not only this
3 Commission but the Tobacco Settlement Foundation and put into law
4 the procedures for this Commission. The commitment of that
5 legislation and the vision of that legislation is now more critical than
6 ever. Within the next few years I know that you're going to realize
7 one of your primary goals which was to indemnify the growers and
8 quota holders and that's going to be near completion we all know very
9 quickly. That innovative indemnification program is the envy of the
10 tobacco growing states nationwide. I applaud you for taking those
11 steps. For the long term it's very important as you all see it to help
12 those tobacco growing communities to find a way to go to new
13 economies and better economies and I applaud the efforts that this
14 Commission is taking each and every day to make sure that happens.
15 I know you have a lot on your agenda today to talk about that agenda
16 and moving those initiatives forward. I know we're going to be
17 presented new challenges in the future as challenges may or may not
18 come to the Master Settlement Agreement and we may have
19 disagreements from time to time with various tobacco companies
20 throughout the nation. I am committed to making sure that we are
21 here so that the tobacco money keeps flowing as anticipated with the
22 Tobacco Settlement Agreement. I look forward to working in a great
23 partnership with you and feel free to call on our office at any time
24 once I get there January 12th. Until then you can call **Frank**

1 **Ferguson** and he'll be responsive I'm sure. Thank you all for giving
2 me this great opportunity to meet with you today.

3 **SENATOR HAWKINS:** Thank you, sir. Next speaking
4 about long term progress is **Mr. Ralph Byers** from Virginia Tech will
5 bring us up to date on Virginia Tech's report and Virginia Tech has
6 certainly been a working partner in this whole relationship.

7 **MR. RALPH BYERS:** Thank you Mr. Chairman. I
8 really appreciate it and it's good to be with you all this morning. I'd
9 like to say on behalf of **Dr. Steger** and the rest of us at Virginia Tech
10 we really enjoyed having the Commission on campus at the end of
11 October. It was great to have you in Blacksburg and we wished the
12 football game would have come out a little better but that was, overall
13 it was good having you there and we hope maybe this can be an
14 annual event.

15 I'd like to give you a brief update on the bio and genetics
16 program. You've heard **Dr. Sobral** and so I don't need to say a whole
17 lot more but there is some good news. The federal budget is in
18 conference right now for the Defense Department and the House had
19 \$2.5 million and the Senate had \$5 million in the budget for the bio
20 and genetics program in terms of biological security and being able to
21 use DNA analysis for rapid detection of pathogens which you know
22 the threat of bio-terrorism is fairly critical. The bio and genetics
23 program is something that there's a great deal of interest in it in
24 Washington. So we're pleased about that. We hope of course, it
25 comes out with the \$5 million instead of the \$2.5 million but that sort

1 of thing usually works.

2 I'd also like to update you that the Board of Visitors at
3 Tech approved recently the appointment of **Mr. C. D. Bryant** to the
4 Bio and Genetics Institute Policy Board. We have established a board
5 to help make sure that this program stays on the kind of track that we
6 promised you all when you funded this a few years ago. **Mr. Bryant**
7 will be a good representative with people like **John Rocovich** and
8 **John Alderson** that many of you know and **Tom Rust** who was just
9 selected to the House of Delegates was on that Board. He'll have to
10 go off now but those are the kind of people we have involved in the
11 oversight of this program. **Dr. Sobral** paid a visit to Pittsylvania
12 County recently to start talking about some outreach programs and bio
13 and genetics and we hope that some of the e58 projects are up and
14 running that there will be a lot of things the program can do in terms
15 of outreach to Southwest Virginia and Southside. Things are going
16 well in that regard but I think I would be remiss if I didn't take a
17 moment to say something about the proposed budget and it's potential
18 effects. I know there will be a lot of discussion about this over the
19 next couple of months and we think adjustments will be made. I want
20 you to know that the kind of budget reductions that are contemplated
21 for higher education. I know we're in hard times and everybody's got
22 to do their part and participate in addressing the revenue problems of
23 the Commonwealth. I do want you to know that the institution such
24 as Virginia Tech, Longwood, the College at Wise and the Higher Ed
25 Center in Abingdon Cooperative Extension that many of these

1 programs are going to be severely affected. So we're going to be
2 working with members of the General Assembly in the coming
3 months and we're not going to whine but we do feel that it's our
4 responsibility to let you know what the effects of these kind of
5 reductions will be on not only our ability to serve our students but our
6 outreach programs such as the local chemistry lab, the cooperative
7 extension and many other kind of efforts. The electronic villages
8 program and all these kinds of things. The magnitude of the
9 reductions that are contemplated and a lot of these efforts could
10 potentially be affected and I thought it was my responsibility to stand
11 here and say that. Thank you sir.

12 **SENATOR HAWKINS:** Thank you, we look forward
13 to a long working relationship with you but thank you, you've been
14 there working all the way through. Next we move on down to **Clark**
15 **Lewis** to give us an update from **Troutman Sanders Mays &**
16 **Valentine.**

17 **MR. CLARK LEWIS:** Thank you Mr. Chairman. I'll
18 be brief. As I discussed a few months ago in Blacksburg, we're
19 winding down the 2001 indemnification payment process this year.
20 We will shortly be sending out the 1099 earning statements and
21 they'll probably go out the latter part of this month or early part of
22 January. We're now preparing for the 2002 payment cycle. I hope in
23 the next month or two months I'll be able to provide each of you a
24 projected payment date that we will have for 2002 along with the
25 price that will be allotted per payment pound or a basic quota so that

1 you will have the information as to how much the payments will be
2 with the pounds of tobacco next year. Mr. Chairman, I've also met
3 with the Commission staff to discuss with them about the reserve for
4 2002. I concur with the recommendation that will be made by the
5 Executive Director. That's the update I have for you at this time Mr.
6 Chairman.

7 **SENATOR HAWKINS:** So far then everyone, do we
8 still have any checks outstanding?

9 **MR. LEWIS:** I have not been involved in that. As far
10 as I'm concerned we had 75 late claims which are not going to be
11 paid. We had one outstanding claim that we were working on as far
12 as an estate issue and at the end of this year and the beginning of next
13 year we'll start the process of rounding up those people who have not
14 cashed their checks and the Commission staff will let them know they
15 need to cash those checks. We used the process last year and it was
16 very effective when people learned that they had money and they
17 hadn't cashed their checks yet.

18 **SENATOR HAWKINS:** Clark, we appreciate what
19 you've done and I think you've done an outstanding job and we're
20 trying to do something that's never been done before and it just takes
21 time and you've done a magnificent job with it.

22 **MR. LEWIS:** Thank you Mr. Chairman, I appreciate it
23 very much.

24 **DELEGATE JOHNSON:** I was reading the farm
25 magazine the other day and some people that had not received checks

1 and some were in Washington County. My question is, I thought he
2 could answer it but undoubtedly he can't. It would appear to me that
3 if the address on the application that the check should be delivered.
4 My question is and I know some of these people, why would the
5 check be returned?

6 **MR. LEWIS:** When we get questions, we have to
7 determine if we're talking about Phase II or Phase I. In my
8 experience with Phase I, we send out a form and a lot of times when
9 we started out people would put the wrong social security number
10 down. They would put remarkably their brother's or somebody else's
11 and that would cause a problem but typically we're in the second year
12 of the process now and we sent out 1099 forms so our database is
13 getting fairly tight. There might be an occasional isolated incident
14 where the address would be wrong but the verification process we've
15 gone through with Phase II, TLAP and two rounds of Phase I, they've
16 had several opportunities to correct their address. In some instances,
17 people are just not looking at their form in a careful manner or they've
18 moved or they've passed away and we're dealing with an estate issue.
19 I'd say that probably nine out of ten calls that we get are estate issues
20 where someone has passed away and we're trying to track down
21 relatives to try to get them their check. If you'll have them call us, I'll
22 be glad to help them out and do everything I can.

23 **DELEGATE JOHNSON:** Mr. Chairman, I'll say he's
24 been most helpful and five or six people and you've done a great job
25 and I appreciate it.

1 **MR. LEWIS:** Thank you. If you have them call our toll
2 free number, I'll make sure they get their check.

3 **SENATOR HAWKINS:** One of the problems we faced
4 at home is change of addresses from a like Route 3 to 103 Tobacco
5 Road and a lot of people trying to use route numbers and that was a
6 problem for awhile and I'm sure in Washington County too. Next our
7 Executive Director will bring us up to date on financial matters.

8 **MR. CURRIN:** *Last year a million dollars was set aside
9 as indemnification reserve. Mr. Lewis recommended this year to set
10 aside a million dollars existing indemnification reserve balance for
11 2002. Setting aside a million for 2002 reserve leaves a balance of
12 \$1.9 million for the 2000 reserve and \$1.5 for the 2001 reserve.
13 Now, the \$1.9 million remains indemnification reserve balance for
14 2000 and can now be released as of December 1st which we
15 obviously passed 2001. The staff is going to recommend to this
16 Commission today that, as in the past, we deposit those funds in a
17 special fund committee pot and that officially closes out 2000's
18 indemnification reserve fund and close that out completely and
19 transfer this money to the special fund.*

20 The second thing I wanted to share with you is that some
21 Commission members Mr. Arthur being one, came to me and
22 suggested that we review some of our grant awards after one year.
23 The entire grant amount goes to the grant recipient and in some cases
24 those monies haven't been spent in the period of time that it was
25 actually approved for. We should look at the policies and review

1 what our intentions were. In cases where they have not spent their
2 money yet, we need to look at not forwarding the money until the
3 exact time that they need it. This way we could draw down the
4 monies when they needed them, thus allowing us, the Commission, to
5 utilize those monies for our benefit for interest purposes. So we're
6 reviewing those policies and I will be having a draft to the Finance
7 Committee before the next Commission meeting so that that
8 committee working with staff can have a recommendation to the full
9 Commission in that area Mr. Chairman.

10 The last thing I'd like to mention is that our annual report
11 for the Commission has been completed and is being distributed to the
12 General Assembly when they convene. I think each of you had a copy
13 presented to you today.

14
15 *We need to take a vote on the indemnification as a matter of policy.*

16 **SENATOR HAWKINS:** Part of the discussion or part
17 of the problem also at this juncture is that we may need to start talking
18 about some sort of audit on the monies we've already spent in the
19 localities to make sure the money is going where we want them to go.

20 **DELEGATE BYRON:** Along these same lines and
21 what's already been spent and as we look at the next fiscal year and
22 we have an interest awareness from our localities and for those
23 organizations that are searching for other avenues of funding for the
24 special projects. I think it's important that we look at streamlining our
25 criteria that we used for that process along with our mission statement

1 so that when we have things to go to a special project committee that
2 they are indeed a special project and that's where they should be
3 located. Also make it more efficient for all of us as some projects and
4 ideas that come forth to us that don't even go along with the criteria
5 we set that we have some kind of better definition of what a regional
6 project is and what the guidelines are for those monies. As we look at
7 a budget, that doesn't offer too much in the way of extra funding
8 unless you found some here recently, then I think we're going to have
9 a lot more knockers at the door looking for tobacco funds. We're
10 going to have to make sure that we have a better process that makes it
11 easier for those that come to us as well.

12 **SENATOR HAWKINS:** Thank you, I think you just
13 suggested a new project for this year. I look forward to that. We also
14 probably need to set forth or look at things a little different now
15 because we're dealing more and more on the economic side,
16 particularly with new businesses rather than existing businesses, to
17 have some way of having an understanding of what we're doing is in
18 the long term viability of these investments. By the first of the year I
19 hope we'll have a little structure in place that will do some of that.

20

21 *Is there any discussion from the Executive Director's*
22 *recommendation?*

23 *Does everyone understand the recommendation?*

24 *Is there a motion?*

25 *Is there a second?*

1 *Alright, it's before the body, any discussion on the motion?*

2 *All in favor say Aye.*

3 *All opposed no.*

4 *Alright, that passes.*

5

6 Next is an update on probably our most extensive project
7 to date and that's the e58 project. **Mr. Davenport** has been working
8 on a special subcommittee to put in place recommendations on how
9 we form these public private partnerships for access to high speed
10 connectors in this generation of communications.

11 **MR. DAVENPORT:** Mr. Chairman and members of the
12 Commission, it's been a pleasure to work on this project and I feel it's
13 beginning to take a life that all of you will be proud of as we go
14 forward. The development of the vision of the e58 project that is now
15 on the Tobacco Commission's website is available for anyone and
16 everyone to take a look at. We have had, of course, during the time
17 that the e58 Committee has worked, there's been a number of people
18 that have come and have been representing both individuals and also
19 companies that I think are willing and want to be a part of what we're
20 trying to implement here on advancing technology on the e58
21 corridor. In addition, I think it's important that over the next month
22 **Carthan and Chris McCullum** who is the Virginia Tech person and
23 who has really helped to implement these things, that they do a road
24 show that we have something in Southwest and Southside to again
25 talk about vision of the e58 project. I think it's really important for all

1 of you to remind your own communities that we can't help a
2 community that doesn't want to help themselves and it's really
3 important for this thing to go forward that we have the full backing of
4 each community because we won't complete the vision if we don't.

5 The first round of proposals as indicated on the website
6 will be due in by February 28th. After receipt of those proposals an
7 independent review panel will analyze the business plan and then
8 make recommendations to the e58 Task Force who will then, after
9 their further review, report to the full Commission about what we
10 recommend as action on this first round. Of course the plan is, right
11 now at least, while we're getting started on this is to have a series of
12 proposals that would come in every six months that would be
13 reviewed. If someone is not in on this first round then there is time to
14 come in later, frankly we're talking about the overall project involving
15 a tremendous amount of money. It's not going to be done overnight
16 but we're going to have to have a little bit of patience. I think we'll
17 begin to see the fruits of this as we go forward and things will start
18 happening pretty quick.

19 I'd ask today that you grant the e58 Task Force
20 permission to make the final panel selection that would be the review
21 panel. Yesterday we had a preliminary discussion about who the
22 members of the review panel would be. I think the Attorney
23 General's Office made a good point that we need to make sure that
24 there was no conflict of interest with any of the panel members and
25 that members of the e58 task force wanted more information about the

1 background of people. Rather than have to come back to you for this,
2 I would ask that you grant the Task Force permission to go ahead and
3 go forward with their first panel. I think I've said before that the
4 panel would be basically, or the panel would almost act more on a
5 small stipend that would be within the authority of **Carthan** to award.
6 Basically we're talking about people that really are renowned people
7 that are just interested in what we're doing and would be doing this in
8 the interest of the furtherance of rural technology. We're in the
9 process of finalizing that but I would ask that we be granted the
10 authority to go ahead and make those final arrangements. That you
11 would also agree that the first round being finished on February 28th.
12 Hopefully the first review can be done by the end of March and an
13 award made for the first round projects by sometime around the first
14 of April. That is my report.

15 **DELEGATE KILGORE:** Are there any questions of
16 Mr. Davenport. Thank you for all the hard work that you have done
17 on this e58 project. It's very important to us in Southwest and
18 Southside and I want to thank you personally for all your hard work.
19 Do we have any questions concerning the e58 project? What votes do
20 we need to take here today to authorize the selection panel?

21
22 *Do I hear a motion to entrust the selection of the panel*
23 *with the E-58 task force?*

24
25 **NOTE:** *It's so moved and seconded.*

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MR. KILGORE: *All those in favor, Aye. (Aye)
Opposed? (No response).*

Motion passed

MR. DAVENPORT: It's important that you agree with the timeline and I don't think you necessarily have to vote on that.

DELEGATE KILGORE: We appreciate everyone's hard work and the work you put in because this means a lot to those communities down there.

SENATOR HAWKINS: I think you're right on point working with **Mr. Davenport** and the other members of this Task Force. I hope any sort of economic stability is put in place infrastructure that gives us some advantage in attracting these sort of high speed businesses that the economy is driven by. Without the efforts of this Commission, there will be many localities that will be left wanting in this new era and we cannot afford that. None of the people can be left behind because of the lack of services. There's one thing we can do as a Commission and that is provide the basic services to our communities. I applaud you for your efforts.

MR. DAVENPORT: I'd just like to say it's an exciting project and there's not anything else going on like this. When we tried to get information about how to do this, we find we're cutting a new road. I think in the end this Commission is going to be applauded for doing something that's entirely unique for a rural part

1 of the country. The main thing is to get it done and we're going to do
2 it.

3 **SENATOR HAWKINS:** Thank you. To depart from
4 the agenda somewhat, **Mr. Ferguson**, do you have any comments?

5 **MR. FERGUSON:** No, sir. I don't know if **Steve** does
6 or not. I would say if I could have a moment of personal privilege.

7 **SENATOR HAWKINS:** You may.

8 **MR. FERGUSON:** **Attorney General Beales** had
9 hoped to get over here the first thing this morning to say thanks for all
10 your good work and he enjoyed working with you and how much he
11 knows you're going to enjoy working with the new **Attorney**
12 **General, Jerry Kilgore**. He wasn't able to make it this morning but I
13 just wanted to pass that on on his behalf and add my amen to that also.

14 **SENATOR HAWKINS:** Would you mind thanking the
15 Attorney General for us because he brought some continuity flow to
16 the place and we really needed that because we were in a very critical
17 time and he was exactly the right person for it and I applaud him for
18 being there for it. Thank you **Frank**.

19 **SENATOR HAWKINS:** Next is another departure from
20 the agenda but I'll do that last and let's go to the securitization
21 comments from **Senator Wampler**.

22 **SENATOR WAMPLER:** Thank you Mr. Chairman,
23 members of the Commission. I tried to decide what is the clearest,
24 most concise and perhaps the best way to describe what the
25 subcommittee recommended to the full Commission today and upon

1 reflection I thought that the action of the full Commission last year
2 was to move forward with securitizing the Tobacco Commission's
3 portion and maybe that's all I ought to say and not cloudy the water
4 up very much. **Mr. Chairman**, the subcommittee has met a couple of
5 times and has had rather detailed discussions about any number of
6 items to include the use of the proceeds, the actual structure of the
7 transaction and some unknown items on a timeline in the future. Mr.
8 Chairman and members of the Commission I would hope today that
9 we could take an action that would move this activity forward as we
10 enter into the legislative process. I would also caution the
11 Commission members that we are really speaking in concept more
12 than we are in any degree of specificity with regard to how we spend
13 the money. In other words, there is no resolution that will be brought
14 before the Commission today asking you this is what we'll spend the
15 money on but rather in general, how we will have some guiding
16 principals. Mr. Chairman, in your package would be the report of the
17 subcommittee which should be a one page handout that talks about
18 securitization and it would help if you could follow along as we go
19 through. I'm not the resident expert on the financial transactions. We
20 have others today who will speak about that and a representative from
21 Morgan Stanley and maybe **Secretary Forbes** will add his comments.
22 There are a couple of guiding principals and the rationale for
23 financing. You can see in your handout would be to avoid the
24 litigation risk and the decline in consumption. Those are two rather
25 large variables in the equation as it relates to payments through the

1 Master Settlement Agreement. The subcommittee worked through
2 that one and we believe those are two elements that were compelling
3 reasons as to why we wanted to move forward in recommendation.

4 I think everyone on this Commission understands that not
5 only has the legislation directed us to do this but we have the moral
6 obligation to continue the indemnification payments. That is our
7 combat mission and when all other missions fail, that's the one area
8 we have the moral responsibility to make sure that our growers
9 received those indemnification payments. The subcommittee felt like
10 the securitization was the best way of coming as close to a guarantee
11 as we can and making sure those dollars will be there in the out years.

12 The other two points have to do with stimulating
13 economic development and what we batted around in the phrase of
14 institutionalizing the Commission's goals. The point is we can gather
15 every December and talk about what it is we want to do within the
16 two regions of promoting economic development but if we have to
17 worry every year about whether payments will be made or not or in
18 what amounts, it's kind of hard to budget or go for a long term
19 approach in the strategic planning whether it's with **Mr. Davenport's**
20 e58 initiative he's working on or any number of other projects. To be
21 able to institutionalize we think is very important beyond one year.
22 Let me go to the use of the proceeds for just one moment. I bounced
23 this one off the **Chairman** and he said it was a good idea so I think
24 maybe I was on sound ground and **Carthan** thought it was bad and
25 that's a joke **Carthan**. In all seriousness, what we tried to do was say

1 that after the transaction and after we had guaranteed the
2 indemnification payments. I wanted to make the point to the
3 Commission that we would still have enough dollars left over from
4 that transaction to continue the economic development initiatives as
5 we have in the past two or three years toward the two regions. I guess
6 the annual budget would show that we've spent anywhere from \$15 to
7 \$18 million in the two regions for special projects or economic
8 development. The way we structured this settlement is that we'd still
9 have enough dollars to continue that for a 10 or 15 year period
10 depending on how heavy or how fast our burn rate was and using our
11 principal. The point is that we can indemnify and we'll still have
12 dollars left over to do projects and **Senator Hawkin's** formularies and
13 all the other matters and how Southwest decides to use it's money.
14 Then **Mr. Chairman** we would set aside or propose, and no action is
15 required today, but the subcommittee wanted to bring to you the
16 concept of endowing what we would call special projects, something
17 in the amount of \$250 million. That goes down to the third point and
18 this again was just illustrations that the subcommittee went through
19 and this is only a working document and it would require the entire
20 Commission to make recommendation and ultimately vote as to how
21 to allocate those dollars. We thought telecommunications for the e58
22 project was a pretty important investment. When we tried to identify
23 hard infrastructure, you know what it is when you see it. What I'm
24 talking about there would be, in my neck of the woods, perhaps a
25 water project something that would spur economic development and

1 in Southside perhaps the need is different. It would be a hard piece of
2 infrastructure to promote economic development. Too many times we
3 feel like we're left out of significant deal closings and this would not
4 be a replacement of state or other incentive packages but we felt like it
5 was important to identify a deal closing opportunity greater than what
6 we have today and just an idea of how we would spend those dollars.

7 We also had considerable discussion on revolving loans.
8 I don't know and nobody really knows today what the appropriate
9 amount is to capitalize this particular fund but what we have heard
10 time and time again is that there is a lack of capital for small
11 businesses. I'd say it's not just for the business on Main Street but it
12 can be for farmers who perhaps have to buy new machinery and
13 things of that nature. We thought that, and this is probably more
14 information than we need today, but perhaps Housing and Community
15 Development or other entities would help us in developing these
16 guidelines once we decided that this is the course we want to go. The
17 subcommittee didn't focus on those areas but that was one of the
18 considerations of how we develop the guidelines in the future.

19 The last item we talked about and why we came up with
20 the \$250 million figure was scholarships. If you don't remember
21 anything else that I say today, the success that Southwest had in
22 offering scholarships to the tobacco growing families was
23 tremendous. We had 600 people that threw down about \$500 a piece
24 to help them continue with their education. Mr. Chairman you may
25 rule me out of order on this one and I'm very serious when I say this.

1 You should never underestimate that financial aid package and what it
2 does to allow that person to go back and receive an education. We
3 had an Attorney General Elect today to talk to us and guess what, his
4 parents believed in the value of an education. They educated their
5 sons and guess what happened, one of them is now the **Attorney**
6 **General Elect** of the Commonwealth. I happen to think that's a
7 pretty strong testimony what the value of an education was and what
8 that tobacco income on that farm was used for was to help educate
9 him. **Mr. Chairman**, go ahead and give me the yellow flag, 15 yards
10 for piling on but I happen to believe it's a very good illustration of
11 why scholarships are there and I tried to draw a matrix of how many
12 years this would perhaps play out. I can think of no greater legacy for
13 this Commission if we would have a self perpetuating fund to allow
14 for scholarships within those tobacco growing regions. That's in
15 concept how you would use the dollars. **Mr. Chairman**, I'm at the
16 point where we need to get in and talk about the financial transaction.
17 I've listened to it for four times and I have a lot of questions but I
18 think as we move forward and listen to the presentations, we need to
19 keep this in mind. Very few of us, if anybody, understands the
20 complexity of going to the market to sell this instrument. The bottom
21 line up front is that we believe it could yield something around \$645
22 million net proceeds to the Commission. Remembering the first goal
23 is to indemnify the grower. Secondly, try to endow those special
24 projects within the two regions that we believe will make a difference
25 over a five or ten year period. Thirdly, continue the work that this

1 Commission has done with its annual allocation to the two regions. I
2 don't know what the legislation is going to look like and I don't know
3 that anyone has drafted it at this point, but I think last year the widest
4 range, I think, **Delegate Byron** had one for invading no more than ten
5 percent of the principal. I think the **Chairman's** bill had five percent
6 in it but that's one of the only other variables that we generally need
7 to speak to in terms of how much money we would be able to draw
8 down by the given time.

9 Those are some of the guidelines that your subcommittee
10 recommended to you. Before I turn it over to the folks who really
11 understand the transaction, I'll be glad to answer any questions or if
12 any of the subcommittee members wish to add anything **Mr.**
13 **Chairman.**

14 **SENATOR HAWKINS:** Any questions of **Senator**
15 **Wampler?**

16 **DELEGATE JOHNSON:** **Senator Wampler**, over at
17 Hattaras Gap we call this buying a pig and a poke. What do you have
18 to say that I could tell those people that it's not buying a pig and a
19 poke?

20 **SENATOR WAMPLER:** I would say first off that if
21 you believe the grower ought to be indemnified, which I think is the
22 top priority of this Commission, the threat of litigation and the threat
23 of declining domestic consumption are the two elements that would
24 cause these dollars to dry up or decline to a point where we don't have
25 them and you eliminate that risk. If this Commission makes it a

1 priority to indemnify the grower, we have answered that number one
2 concern and you're not buying a pig and a polk. Beyond that, it
3 allows us to look forward and do some strategic planning. I guess we
4 were in Hattaras Gap the other day when we did a water project. That
5 would allow us to leap frog beyond that and put hard infrastructure in
6 the ground, not just for quality of life but for economic development.
7 You institutionalize the ability to look beyond the horizon and plan
8 accordingly. That's the short answer.

9 **SENATOR HAWKINS:** In response to the pig and polk
10 concept, I think what we're dealing with is just the opposite. We're
11 now working with a pig and a polk because we're dealing with the
12 unknown. Every year we don't know what's there. Every time we
13 open up our bag we're just waiting to see what's there. The concept
14 of securitization gives you access to a known. It's an actual figure
15 you can look at that's hard cash that can carry us forward. The pig
16 and the polk is the out years of the current situation and the
17 uncertainty involved with it. Our bag of hopes and dreams is the only
18 bag we've got. If we open it up one day and there's nothing in it but
19 that lump of coal that we hear about, there would be a lot of
20 disappointed people. These monies can be taken and invested and in
21 my humble opinion be able to do more for the long term infrastructure
22 changes and the farming economy than any single move that we can
23 make.

24 **DELEGATE BENNETT:** Mr. Chairman, I agree. I
25 introduced a bill last year that would have securitized about 50

1 percent and it passed the House and met its death in the Finance
2 Committee. I felt then and do now that we need a marshal plan with
3 money up front now and not the installment plan. Those installment
4 plans in the odd years are still so iffy. Another point in terms of
5 uncertainty is that and this actually creates uncertainty for us. It only
6 takes one line item in the budget to change the formula and the money
7 is coming to this Commission out of that Master Settlement
8 Agreement and doesn't require statutory change. I understand there is
9 some rumors that there may be some legislation floating around in this
10 session to change the formula to a percentage coming to this
11 Commission. In addition to those uncertainties, I look on it because
12 of those uncertainties, I look on this effort as not a pig and a polk but
13 a bird in hand and one in which we can plan over the next five or ten
14 years which we cannot do now because we don't know what those
15 revenues are coming in.

16 I would add one other thought **Mr. Chairman** and ask
17 **Senator Wampler** if his committee would look at. That is further
18 either endowing legislatively this Commission with more powers akin
19 to industrial development or to us considering setting up one. There
20 are some powers that those authorities have that we don't have. It
21 would be interesting to get the benefit of some thinking of legal
22 counsel who are experts in that endeavor or subject area to see
23 whether or not that would handle and facilitate not only our mission
24 but our ability to handle those funds.

25 **SENATOR WAMPLER: Mr. Chairman,** I think that's

1 probably the subject of a separate bill and I think this would just
2 create the entity.

3 **DELEGATE BENNETT:** It does and would but I think
4 that needs really some brainstorming first.

5 **SENATOR HAWKINS: Secretary Forbes.**

6 **SECRETARY FORBES:** Let me underscore some of
7 your comments first. There are a lot of risks to the funds and to the
8 Master Settlement Agreement generally and also to our continuing to
9 receive these funds. What we have right now is an unsecured note
10 that someone might call from a very risky industry. That unsecured
11 note makes us entirely reliant upon continued payments from that one
12 singular industry. Holding everything else constant, certainly that
13 alone is enough argument for us to take those funds we would
14 normally receive over a long period of time and take the cash
15 equivalent today and invest it into a balance portfolio. That would at
16 least allow us to spread our risk out and be assured we're going to
17 have those funds in the future. In addition to just the risk of a singular
18 industry, we also have legislative risks. Certainly not everyone shares
19 our vision on how these funds should be split up when it comes to the
20 Commonwealth. We're just a line item or pen stroke away from
21 changing that and there are a lot of people who have different views
22 on that matter. I think what we're talking about more than anything is
23 providing this Commission a stable source of funding that you can
24 count on going into the future and one that's not going to be subject to
25 either political or economic pressures but one you can count on that

1 would be invested in a diversified portfolio that would give you a
2 steady cash flow that you can expect for a long time coming.

3 The other thing I'd point out is that the longer you wait
4 on this, the harder it gets and the market changes and the market is not
5 the same. A number of municipalities and a number of states have
6 already done this and are considering to do this. There's a point in
7 which there's a saturation in the market. These instruments are
8 specialized in nature and they're not necessarily ones that are going to
9 have a real large retail market. There's starting to be some now but
10 the secondary market is still small. The institutional investors will be
11 your larger purchasers of these instruments and there's a point at
12 which they become saturated and yields will come down from last
13 year to this year. If the Commission is seriously considering doing it
14 this year, I suggest you do it now and not wait until several other
15 people start issuing similar instruments in the market and possibly
16 suffer lower yields.

17 **SENATOR HAWKINS:** Point well taken. **Delegate**
18 **Johnson.**

19 **DELEGATE JOHNSON:** Am I to understand that if
20 we do this then future legislators cannot change or undo what we do?

21 **SENATOR WAMPLER:** I would say how we structure
22 and create the entity that receives the dollars that it would be off the
23 budget. I'm not a constitutional scholar and I suspect that someone
24 might want to think that we'll have them obligated but I don't think
25 they could draw them down Joe.

1 **SENATOR HAWKINS:** No one can absolutely
2 guarantee that these monies could not be touched under any condition
3 but this takes us more out of harms way than anything else we can do.
4 There's more structure involved in this and more defense for these
5 monies than the way it's doing today because today it just floats from
6 budget to budget. This is a better way to handle that in the legislative
7 process.

8 **DELEGATE JOHNSON:** **Mr. Chairman,** I'm not
9 saying whether I'm for it or against it, but suppose we do this and then
10 two years from now or another four years or six years another
11 Governor and another legislature undo or undoes what we have done
12 and spends the money for something else. If we look at the map,
13 we're suppose to get 645, people say okay, if you let it in there, we'd
14 still be getting our money, the economy is going great, Philip Morris
15 stock has gone to \$100 a share, you know.

16 **DELEGATE BYRON:** If I remember correctly, a
17 special fund was created and the money would go from appropriations
18 into the special fund so monies are protected and we're double
19 checking on that but I believe that's what happened.

20 **SENATOR HAWKINS:** If you look at the realities of
21 what we're dealing with, if the Commission takes its money and
22 makes obligation to individual and projects based on the cash flow
23 from these monies and there's no other cash flow to offset the
24 commitment made by this body of those monies, there's going to be
25 great reluctance on anyone in the General Assembly to cut off that

1 flow and put in jeopardy commitments that are made from actual cash
2 flow into any project. I don't think it would happen. You wouldn't
3 cut off monies that flow into hospitals that are obligated from various
4 localities or take people out of their homes because they couldn't pay
5 the rent due to a lack of funds. It just does not work. This is a process
6 and we have to have some faith in it and I think the system basically
7 will work. We have these monies obligated to certain projects to
8 improve infrastructure in places and these areas or whoever you
9 represent and securitize the farmers and indemnify them for their
10 losses, it gives a much stronger argument than anything I can see
11 before us. I believe last year's securitization was a good policy and I
12 believe so today. The difference in the year I think has been good for
13 us. Last year we may have been premature because there was not a
14 long term thinking of how we handle these monies. We're much
15 more comfortable today in my own mind of what we do long term
16 than last year but I think this is the time to strike. Another thing
17 **Delegate Johnson**, and I want to remind everyone on these
18 discussions about securitization. We're only talking about our part
19 and our bill to deal with our money. The other bill talking about
20 securitization is someone else's argument for another state and
21 another region. We're not going to get involved in that because our
22 arguments are different. Our cause is different and our commitment is
23 much deeper and a lot of these areas is long term. Budgets come and
24 go but the wants and needs of our people are the same. **Senator**
25 **Wampler.**

1 **SENATOR WAMPLER: Mr. Chairman,** I don't know
2 if there's other questions or comments from the Commission members
3 but I would say as I introduce our next speaker from Morgan Stanley I
4 would say the following. This gets a little complicated because we
5 don't know how much has to go to indemnification in true dollars but
6 there's two issuances. One in the taxable market and one in the tax
7 exempt market. The taxable issuance would be directed toward
8 indemnification payments. There's federal law as to why you have to
9 split it between the tax exempt and taxable. The tax exempt portion of
10 the transaction would be for the hard infrastructure and something that
11 has a life span that is recognizable. I wanted to make that point before
12 we moved into this. **Secretary Forbes,** anything else on the actual
13 transaction that you wanted to talk about?

14 **SECRETARY FORBES:** I think the key line here is
15 that the financial transaction certainly to be proposed would be
16 structured in a way much like your option. When you buy a lottery
17 ticket and when you're the winner you can receive a lump sum today
18 or take it in payments or a 20 year payout. The whole thing is
19 structured so that they're equivalent. Having the money today would
20 grow to the same amount if you invested it in the future. I think that's
21 one of the key questions, does it make sense?

22 **DELEGATE BENNETT:** I know we're not voting
23 today but I've done some bond work in the past and as a matter of
24 fact, a national bond counsel about ten years. Because of that I
25 recognize the need for that type of expertise when you're an issuer

1 like we might ostensibly be or the Commonwealth. You need
2 somebody on the legal side and investment side standing wholly
3 within the shoes and being an advocate for, in this case the
4 Commission. I wonder how much thought has been given to those
5 prospect and that cost so that when this Commission is asked to vote,
6 we'll know we have had the most sophisticated advice for us that we
7 could possibly get between us and those big bad wolves, investment
8 bankers across the landscape who want to make a good deal and our
9 need to maximize our return.

10 **SENATOR WAMPLER:** The short answer is the
11 subcommittee did not spend a lot of time on that particular question. I
12 think it was the feeling of the subcommittee we really put a great deal
13 of trust in the state treasurer and leave it to her discretion at the time
14 of issuance as to number one, what the proper mix is between taxable
15 and tax exempt ought to be and also to reflect what you may do at a
16 given time depending on what the market would be. In terms of legal
17 counsel, the Office of the **Attorney General** is what we had
18 contemplated other outside financial advisors for legal analysis. I
19 think it is fair to say that we did not take that into consideration and
20 felt comfortable with the entities I just spoke about. I understand your
21 point.

22 **DELEGATE KILGORE:** Any other questions of Senator
23 Wampler?

24 **SENATOR WAMPLER:** That is a complicated
25 question on its face. Let me go over this and the members of the
26 subcommittee can correct me if I state it wrongly and they can help

1 me if I misstate. The goal is \$511 million indemnification. We tried
2 to illustrate what we believe the payments today to be. We believe
3 that the Tobacco Commission has in clearly identifiable liability, \$107
4 million. Phase II was \$223 million. We have other representatives on
5 the Phase II Committee here. I think those payments are going to
6 continue also. I believe it's a moral obligation on the part of the
7 Commission that if something should happen to those Phase II
8 payments that that would take a claim on dollars that had already been
9 securitized. There was discussion in the subcommittee about impact
10 of quota change and we said our goal today was \$511 million. I can't
11 tell you what increase or decrease in quota may or may not be but life
12 as we know it today, constant in the equation is \$511 million and
13 that's what we made our assumptions on. I'll ask the subcommittee if
14 they have another view. I think that was the general conclusion. I
15 hope that answers your question. Payments to the growers would
16 have to be for the proceeds of the taxable portion. I don't think the
17 grower cares how much is taxable as long as we meet the goal of \$511
18 million.

19 **DELEGATE JOHNSON:** Will the \$511 ??????

20 **SENATOR WAMPLER:** That goes back, yes, we set a
21 goal two years ago that was the \$12 per pound what had already been
22 lost. That's a policy decision we have to get into later. We have to
23 look at what the legislation says we're directed to do. I guess we
24 could have flexibility to address that in the future but all we were
25 trying to talk about was if there's another Master Settlement

1 Agreement that's entered into then we'll take it up at that time is one
2 way of answering it. Right now, every decision was made on \$511
3 million.

4 **DELEGATE JOHNSON:** The regulation was based on
5 \$1.2 million.

6 **SENATOR WAMPLER:** All I can say is I know what
7 the Commission's policy was.

8 **DELEGATE CLEMENT:** This has been a concern to
9 me and I know that C.D. and I worked right much on that baseline
10 figure. At the time it looked like everything was going down very
11 quickly on the quota. If I recall correctly this recent announcement is
12 now the second year in a row it hasn't gone down. This year it's gone
13 up. It seems to me that somebody has got to try to get their arms
14 around this thing. To my knowledge we don't really have anybody
15 who has the expertise. I don't recall being told of our having anybody
16 that has the expertise to analyze this thing and try to at least take a
17 snapshot after each quota adjustment has been announced. I know
18 **Stan Duffer** took a stab at it last year and it seemed like he had some
19 pretty good data to make some intelligent decisions on that. I think
20 this Commission ought to have somebody or pay somebody to do it to
21 figure out what is this indemnification piece where we stand now
22 based on the legislation that was passed and the changes that have
23 happened since that time.

24 **SENATOR HAWKINS:** Good comment and I think it's
25 something we need to look at. Today's discussion is on securitization

1 and the concept itself and details we'll have to deal with later on. I
2 think we can get into a discussion that has no end to it if we're not
3 careful.

4 **SENATOR WAMPLER:** Mr. Chairman, I want to put
5 it back in the proper context at least in my view and I think I represent
6 the subcommittee's feelings on this. Indemnification is the first
7 priority and we can only spend what we receive. I would say Virginia
8 is a model in terms of many surrounding states and how we're using
9 the Master Settlement Agreement to indemnify the grower. I know a
10 lot of other states and you'll see it later in your financial presentation,
11 that are using matters other than indemnifying the grower. The
12 question and the issue is one that we will be batting around in this
13 Commission until we start or until we run out of money til the
14 settlement stops. I would say we are at the pinnacle of making
15 payments to our growers and that should have the first claim on the
16 dollars.

17 **SENATOR HAWKINS:** Senator Wampler, you're
18 correct and that has been the thrust of the Commission from the start
19 is how to take care of the farmers and their loss and bolster our
20 economy with the rest. That's an ongoing obligation and no one
21 knows what's going on in the market. There's discussions in
22 Washington today on a buyout through the whole process. There's all
23 kinds of uncertainties that we can't answer. Only when you deal with
24 realities of where we are today and what we're dealing with. The
25 question of securitization is not an unknown quantity. The

1 recommendations pretty much sums up where we are in the market
2 today.

3 **SENATOR WAMPLER:** I think the commission needs
4 to listen to **Morgan Stanley's** presentations and it's a fiduciary
5 responsibility that we have. I'm not sure we'll be experts at the end of
6 the lecture today but I'd ask **James Query** to come forward at this
7 point.

8 **MR. QUERY:** Members of the Commission, my name
9 is **James Query**. I'm from **Morgan Stanley** and I'm Executive
10 Director of our public finance department and we work with states
11 and localities around the country on securitization efforts much like
12 this. No two are alike and many of the goals in terms of diversifying
13 risk and trying to guarantee a certain amount of money is in hand to
14 work with is a common goal for those that look at securitization
15 techniques. **Morgan Stanley** was selected through a competitive
16 process run by the Treasurer's office about three years ago to work
17 with the Treasurer's office and to advise them on the structures
18 available in the market place should the Commonwealth decide to
19 pursue securitization strategy for various physical objectives. In this
20 particular deliberation by the Commission we had an occasion, on a
21 couple of different sessions with the subcommittee to share
22 information both on the experience of other states and localities in this
23 area as well as provide some broad outlines on conditions in the
24 marketplace and how that would affect the resources available to the
25 Commission should you decide to move forward in this fashion.

1 What I can say generally about the market place today is that this has
2 been something of a watershed year 2001 for securitization efforts
3 generally. I think this technique has moved out of the experimental
4 stage into part of the process where, for those that, for those parties
5 who are genuinely interested in protecting themselves from the type of
6 risk that Senator Wampler already described. This has moved to a
7 point where I would describe it as a tried and true technique which is
8 not to say everything that **Secretary Forbes** described about the
9 nature of the marketplace is absolutely correct. It's still a niche part
10 of the marketplace and these are still particular investors who invest in
11 these particular securities. We've seen some very major transactions
12 completed this year by states such as South Carolina, Iowa, Alabama
13 and others will soon follow including the State of Wisconsin. The
14 goals of each of these entities was to provide themselves greater
15 certainty over the cash flow that would be available over an extended
16 period by either creating a trust fund or committing monies today for
17 long term capital projects. The success of those sales has been in the
18 no small part, on convincing a larger part of the investor base that the
19 risk entailed in evaluating the Master Settlement Agreement revenues
20 are risks that are acceptable to the marketplace and the types of risks
21 that institutional investors are best suited to analyze. These are the
22 same investors whose job it is to also evaluate the equity securities of
23 the major tobacco companies. They are essentially paid to maintain
24 the infrastructure or credit analysis and the alike to evaluate the
25 changing risk as the litigation environment changes over time.

1 This year in particular the institutional marketplace has
2 become increasingly comfortable with the nature of the bonds that
3 have been sold to back up these securitization efforts and as a result
4 looking ahead to 2002, you're able to find a marketplace that at this
5 point in time is a stable and ready marketplace with more cost
6 effective financing available in it than has been the case over the past
7 several years. How long that marketplace will prevail is always the
8 question. As we look into next year, I don't think we can expect the
9 same part of the cycle in the Federal Reserve policy process that
10 certainly we've enjoyed throughout this year. Our expectation in the
11 firm is certainly for interest rates to go up. Whether they go up or stay
12 at current levels it's hard to imagine how they go down at least in the
13 short term much further. Regardless of the direction interest rates
14 take, I think at least in the immediate future, the investor reception for
15 this type of security is solid. The things that could change that
16 environment is that additional issuance could certainly change that
17 environment should there be more issuance than is anticipate by
18 parties such as ourselves. Another thing that could change it is the
19 change in the litigation environment. This year, in particular, the
20 litigation environment has been much more constructive for securities
21 like these. We've seen in the past particular headlines and cases in
22 Florida and elsewhere has the ability to disrupt the marketplace and
23 make it more difficult to complete transactions such as this. We've
24 had a much more favorable environment in terms of public
25 information which makes it much more readily done to accomplish

1 the type of objectives you're describing here today.

2 **DELEGATE BENNETT:** Mr. Chairman, the climate is
3 better for these types of issues I gather you're saying because of
4 people's increased familiarity with them. Secondly, as a consequence,
5 the efficiencies within the investment and legal community are
6 greater. Are the rates better?

7 **MR. QUERY:** Yes, the rates are better. In general
8 terms I'd say the types of interest rates that we're looking at today,
9 you're looking at tax exempt rates in the range of 650 as a
10 conservative estimate. Actual rates, if you did that transaction today,
11 it would be less than that but as you look ahead, the uncertainties of
12 the first half, I think the interest rates are much better. What we've
13 seen and this year was the critical year for that, there was a big risk
14 premium if you will, built into the market for these transactions. Even
15 in the first part of this year as institutions like the District of Columbia
16 came to market. Just to handle the amount of transactions done this
17 year, there was an institutional investor education effort done by most
18 of the major houses which has resulted in most of the major
19 institutional investors providing credit approval for these transactions.
20 That doesn't mean that they participate in any specific transaction but
21 it means they've done the homework necessary to understand the
22 transaction and as a result of that additional liquidity, I believe that's
23 been the single most important factor in shrinking that risk premium if
24 you will for these securities and providing you all lower cost
25 financing.

1 **MR. WATKINS:** In the last year as we worked on the
2 economy in Southside and Southwest we know there's been transition
3 along this course. When you look at issues and particularly some of
4 these counties that don't have a large quota or don't have large
5 formulary or a large allocation, maybe get \$80 or \$50 thousand per
6 year. The kind of transition that's going to be required to bring these
7 economies forward to really make a dramatic change and not just
8 nurture the existing economies which are already trying to keep those
9 there which we need to do. To really or dramatically reform these
10 economies is going to take a lot of cash up front. But from a purely
11 economic standpoint, it makes a lot of sense to get some money up
12 front. I think it will also help those localities and projects in those
13 localities with access to capital. If you have the money up front, you
14 can do the public private partnership more so if you have the funds
15 there. I think from an economic and long term standpoint, I think
16 getting the money up front and getting the money on development is a
17 very good idea.

18 **SENATOR HAWKINS:** Thank you.

19 **MR. WATKINS:** What is the reason on one side you
20 have tax exempt and low interest rates versus taxable to bring on the
21 higher interest rates.

22 **MR. QUERY:** That's a very good question and I'm
23 going to work hard to try to find the simple answer to it. The long and
24 short of it is that whenever you're issuing tax exempt debt, you're
25 doing it under the IRS regulations and those are very restrictive with

1 regard to the purposes for which you can borrow. In general terms,
2 there's only two real approaches available for borrowing on a tax
3 exempt basis. One is to borrow for projects that are clearly tax
4 exempt, that are capital in nature of the sort that typically the
5 Commonwealth would borrow on a tax exempt basis.

6 The second approach which has been developed in the
7 market is more complex but provides you with lower cost of financing
8 and is the so called endowment approach. It uses special rules
9 available under IRS regulations that allows you to invest in restricted
10 securities with limited yield and use tax exempt proceeds in order to
11 do that. Then as the debt is paid off over time, it then allows you to
12 achieve more market level type yields on your reinvestment
13 opportunities stretching into the future.

14 **MR. WATKINS:** What's the reason for us to take a
15 lower interest rate when you use tax exempt bonds?

16 **MR. QUERY:** If you look at the actual analysis and this
17 is why it depends on the market at the time that you were to actually
18 engaged in the transaction and that particular mix would change. It
19 depends on what the mix of your projects are. Obviously for capital
20 projects that you may want to be committing those resources to that
21 obviously the lower cost of financing associated with tax exempt
22 financing would be a benefit for you. Then secondly it becomes for
23 the remainder of those that can only be met through either a tax
24 exempt endowment approach or a taxable endowment approach it
25 simply becomes a question of analysis at that time whether or not your

1 lower cost of financing is provided through a taxable approach or
2 whether you can achieve the same objectives through a tax exempt
3 approach which would give you perhaps two hundred basis points
4 lower cost of borrowing and more proceeds as a result but also restrict
5 your earnings in the short term in a similar fashion and that simply
6 becomes the analysis based on the reinvestment opportunities
7 available at the time versus the borrowing cost at that time.

8 **SECRETARY FORBES:** Mr. Chairman, if I could just
9 add. It all depends what you want to use the money for, that's the
10 answer. How you want to use the proceeds. If you want to use the
11 proceeds for indemnification that may not be an allowable use of
12 those funds to get the tax exempt status. The driving factor should be
13 how you want to use these funds. That's the driving force between
14 whether it's taxable or non-taxable.

15 **MR. WATKINS:** Why would we want to issue
16 something that we get less interest on?

17 **SENATOR WAMPLER:** Let me try to answer that
18 question. The model that we presented with the net proceeds being
19 \$645 million were the interest assumptions that **Morgan Stanley** has
20 presented. It could very well be 75/25 but the indemnification piece I
21 would represent to every Commission member if we're going to
22 indemnify, we better do it on a taxable basis or we will potentially run
23 afoul of federal regulations and the payment to the growers at that
24 point becomes very questionable and we may have to recover those. I
25 recommend very strongly that we use the taxable proceeds for those

1 indemnification payments. There may be something in the
2 infrastructure that we don't know of right now that may not have a 20
3 year life to it and may not be an acceptable use of those proceeds. It
4 was the feeling of the subcommittee we better give ourselves a little
5 buffer on that. That's probably the best answer I can give **Mr.**
6 **Chairman.**

7 **SENATOR HAWKINS:** Any other questions?

8 **MR. WATKINS:** If we do it at a current rate paying
9 indemnification, then the indemnification for the growers will be
10 finished in six or eight years?

11 **DELEGATE CLEMENT:** Through 2010 is what the
12 Phase II payments are to run through. Phase I could be paid out much
13 quicker. That's the point, we don't really know. That's why I think
14 this Commission needs to try to identify that moving target every now
15 and then and we haven't done it at all. There is a benchmark so you
16 can take into account Phase II, you can take into account federal funds
17 or federal programs but we're not doing that right now. Phase II may
18 end 2010 and we don't know whether our responsibility ends in 2007
19 or 2017.

20 **SENATOR WAMPLER:** I know we're going to pay
21 \$511 million in indemnification payments. How much of that,
22 whether it's \$107 million from the Tobacco Commission or \$330
23 million, I don't know but if we do all tax exempt, we've tied our
24 hands and effectively said no, we can't make indemnification
25 payments or we're in violation of a lot of the federal regulations.

1 **SENATOR HAWKINS:** I think what I heard from the
2 discussion is that in order to give us as much flexibility and options as
3 possible, that we like the Chinese restaurant take one from column A
4 and one from column B if that happens to suit our appetite at the time.
5 That's one of the things you just have to do. Before we get into any
6 further discussion, I think some comments were made earlier and need
7 some clarification and remembering the history of this legislation.
8 Let's remember Virginia, in order to try to improve the economic
9 stability of not only our farm families but the communities themselves
10 worked on a piece of legislation that was built on the process that
11 these monies were to be invested for the benefit of the communities at
12 large. Farmers were given a preference because we knew the
13 problems and we knew the problems we were facing and we tried to
14 make sure that we had the money set aside for the preferences for the
15 \$12 a pound that we all agreed on and that track is moving. In order
16 for us to commit to the rest of our obligations, which carries as much
17 weight and probably long term more stability as an economic base.
18 One necessarily does not trump the other but the problem
19 communities do have preference because of the immediate situation
20 we're dealing with and the possibility of bankruptcy and possibility of
21 all kind of evils that we tried to divert. We're in the process of trying
22 to finish out that obligation in some form or fashion. No one wants to
23 retreat from that. Please remember we're charged with changing the
24 economy of an entire region of the state and not sitting here talking
25 about an abstract but putting things in place that change the

1 opportunity for people who live in a region. Part of it is farm base and
2 part of it is economy base and based on other things. e58 is an
3 example and the things we've talked about make a difference. We
4 cannot in good faith go to the General Assembly or anyone else to
5 securitize or anything else with an unclear picture and our vision has
6 to be clear. Our vision is to build a future with the only monies that
7 we have access to and this is all the new capital that we have. I want
8 to make sure the farmers are taken care of but we also have to make
9 sure that the farmer's children are taken care so they have a future in
10 the home areas if they don't want to farm. Everyone should have
11 options in life and make choices and have those choices be able to be
12 fulfilled in places where they grew up. Our charge is much greater to
13 do that than just the agriculture piece which is very important, I want
14 you to understand that that's very important. The bigger vision is one
15 we have to understand is in place and if we do not grasp that, we've
16 lost the vision of this Commission and we have a real problem.

17 **DELEGATE CLEMENT:** I certainly couldn't say it
18 any better. Our staff has actually been doing some of what I among
19 others have been saying we need to figure out where we stand. Based
20 on what **Stephanie's** work is, we can have the farmers fully
21 indemnified by 2004 and that does not take into account the slight
22 increase this year. To me that's very reassuring we're doing our job
23 and looking after our growers and their families that have lost income
24 but also being able to do them justice and fairness and then get on
25 with some of these life changing experiences in these communities

1 that we have the ability to implement.

2 **SENATOR WAMPLER:** Mr. Chairman, I think
3 **Delegate Clement** is right on point. What I tried to communicate
4 earlier is that the \$107 million is what the Tobacco Commission has
5 left assuming all the Phase II payments go forward and I think we can
6 feel good about what we've done. All I'm saying is that I want to
7 look everybody in the eye in the year 2010 and say we followed
8 through with our commitment to get the \$511 million and that's why
9 we have to hold back some of those monies assuming, as soon as the
10 Phase II is made we can roll it off the books and further endow some
11 of these projects.

12 **SENATOR HAWKINS:** I think **Senator Wampler** has
13 made the point we need to understand it. He understands the market
14 what we're trying to do by fast tracking the payments which we've
15 done but also understands the volatility of Phase II and he wants to
16 make sure we have monies back to meet some obligations that might
17 come about. I think we're making the right approach in this.
18 Hopefully no one feels they're being left out of this conversation
19 because this is very important to get into. Anyone that has an opinion,
20 please feel free to express it.

21 **SENATOR WAMPLER:** Mr. Chairman, there's one
22 other point and I know that's what everybody came to Richmond for,
23 to hear this last point on the transaction. \$645 million was based on
24 the following that we would go to the market with half of it going in
25 taxable and half of it in tax exempt. We also, with this assumption

1 said it would be a 25 year issuance. Many of you might recall the
2 debate last year about what you do with the residual payment. The
3 bond probably would be paid off in 17 years roughly. The
4 underwriters will not let us sell all of our revenue stream and there has
5 to be a cushion. Those dollars that were not sold in the revenue
6 stream continue to be paid to the Commission. The market almost
7 demands that those go to buy down the cost of it or accelerate
8 payments rather. It's really not a 25 year issuance but that it would be
9 fully redeemed in 17 years. Is that close to being accurate Mr. Query?

10 **MR. QUERY:** Yes, I would say that in addition it is
11 important to keep in mind that residual which is sometimes a subject
12 of quite a bit of misunderstanding, very much belongs to you as an
13 alternative. When you use it to pay off debt early, you get the
14 advantage of a lower interest cost as a result of retiring debt early but
15 there are a lot of options available in the market and that's a decision
16 for you to make in the future.

17 **SENATOR WAMPLER:** That kind of ends that
18 reading but I felt it a very important part of the overall assumption and
19 I wanted the Commission to understand that.

20 **SENATOR HAWKINS:** There's an important issue we
21 need to get into and although it's taken a great deal of time, it's been
22 important enough to spend the time on it. **Tucker**, I didn't mean to
23 cut you off but do you feel satisfied?

24 **MR. WATKINS:** Yes.

25 **SENATOR HAWKINS:** What we're talking about now

1 is the concept of asking the General Assembly to give us permission
2 to go to the market to securitize our part of the tobacco money only
3 and that's our discussion.

4 **MR. ANDERSON:** Mr. Chairman, I came here with
5 several concerns and I think you've answered most of them but first
6 and foremost is one that if we move on the securitization, would that
7 essentially take these funds out of the legislative process and
8 potentially would we lose those funds? I think you've answered that.
9 In response to **Joe's** concern earlier relative to future quota cuts and
10 my question is, is there a greater risk for the loss of quota or is there
11 greater risk, loss of funds through whether it's legislative or possible
12 instability by the tobacco company? I think that's something we need
13 to think about. I think the risk is probably a little bit greater
14 personally as I look at it, greater on the latter and that would be the
15 outside forces as opposed to their loss of quota. I just wanted to put
16 that on the record please.

17 **SENATOR HAWKINS:** I think you hit the ball out of
18 the park and that's exactly what we're talking about.

19 **DELEGATE BENNETT:** If you look at the legislation
20 that was introduced last year on the securitization piece and in an
21 attempt to remove those funds through securitization, the absolute
22 coldest you could so the legislator could not later reach it was in my
23 bill in 1726 and that was the bill and actually passed the house that
24 would allow, under that framework and structure for the Commission
25 to draw down all of the principal out of the fund that could still be

1 reached by the General Assembly. I just remembered that little ditty.

2 **SENATOR HAWKINS:** I can assure you that if we go
3 ahead with this bill, we'll spend a great deal of time trying to put in
4 place as many safety nets as possible. We have people who are able
5 to do that. Any other discussion? There's a motion before us.

6
7
8 ***SENATOR WAMPLER:*** *Let me try to clarify the motion if I*
9 *can. The motion of the subcommittee would be as follows:*

10
11 *That we would move forward with the concept of going to the*
12 *market to securitize 100 percent of the Tobacco Commission's*
13 *portion of the Master Settlement Agreement. That we would*
14 *have as our top priority indemnification to the growers for the*
15 *use of those proceeds. Beyond that, we would envision*
16 *allowing or establishing an endowment for special projects for*
17 *both of the tobacco growing regions with the overall goal*
18 *being to institutionalize many of the projects and properly*
19 *capitalizing them in the early years. Mr. Chairman, I think*
20 *that was the sense of your subcommittee and that is the*
21 *motion I would make.*

22
23 ***SENATOR HAWKINS:*** *There's a motion before us, is*
24 *there a second?*

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NOTE: A second is made.

SENATOR HAWKINS: Discussion? Let's try this first and see what happens.

***All those in favor say Aye
Opposed, no***

DELEGATE JOHNSON: I vote Aye with the understanding that when the legislation is introduced that if I have objections to it, that I would have the right to change my vote to vote no.

SENATOR HAWKINS: There's never been a time in my life that one could not change their vote based on information provided. So the resolution passes and hopefully the bill passes.

Motion passes

SENATOR WAMPLER: Mr. Chairman, I know it took us awhile to get through this but this is probably one of the more historic measures that this Commission will take and it's not going to be easy

1 and we still have a big fiduciary responsibility once the transaction is
2 accomplished and I thank you for your time.

3 **DELEGATE BENNETT:** Speaking of that fiduciary
4 obligation that we have Senator, I appreciate the gentleman from
5 **Morgan Stanley** and their help. My inquiry is, are we getting an RFP
6 from any other such companies?

7 **SENATOR WAMPLER:** I'll say there would be
8 multiple underwriters in the process and that's really left to the
9 discretion of the treasurer at this point.

10 **DELEGATE BENNETT:** I wanted to make sure we
11 had competition on the front-end before we commit to anybody
12 helping us bidding on it.

13 **SENATOR HAWKINS:** I appreciate you pointing that
14 out.

15

16 *The measure has been voted on and passed without*
17 *dissent, with the reservation.*

18

19 Delegate Bennett, you're up next.

20 **DELEGATE BENNETT:** Thank you Mr. Chairman.
21 Ladies and gentlemen of the Commission, yesterday we received and
22 heard orally from Mecklenburg County and its partners on a grant
23 application request that would be based in Mecklenburg County in the
24 Town of Clarksville. **Joyce French** of the Southside Planning
25 District Commission Executive Director brought before the Special

1 Projects Committee, a project for Buggs Island Lake in the Town of
2 Clarksville. The essence of which is asking the Commission for
3 \$900,000 out of the special project fund for the development of a
4 Buggs Island Lake cove and harbor project. It's a tourism recreational
5 project fundamentally that's designed to connect up the Town of
6 Clarksville with the lake proper though they are contiguous to each
7 other. That is the lake and the town. There is no direct public access
8 for boat users on the lake unlike the harbors within the adjacent or
9 within towns on the Chesapeake Bay where boaters can come directly
10 into the town and park their boats free and then add to the commerce
11 of the locality for using restaurants, theaters, retail and that sort of
12 thing. They have added a component to it which would serve like a
13 visitors center which would promote day trips, scenic tours around
14 Southside and add a regional component to it. They are expecting
15 other funding from EDA, private funding or municipal funding from
16 the Town of Clarksville. The total project, the one they're asking us
17 to help with, which is the harbor piece is \$2,150,000, \$900,000 of
18 which they are asking for from this Commission. In an excellent
19 presentation and I think it's fair to say that the members of the
20 committee themselves believe this is a viable and attractive project
21 and one that the Commission ought to look at. There were some
22 questions from the Committee.

23
24 *Out of resolution of those issues, was that we are*
25 *recommending to the Commission that Senator Hawkins of*

1 *the Commission address a letter to the Corps of Engineers*
2 *with these particulars for these reasons.*

3
4 The project itself is located within the Corps of Engineers United
5 States Government property. They are very particular if not
6 bureaucratic if not very difficult to get along with. For that reason the
7 folks that made the presentation and the people behind the project
8 which is the town and the adjoining commercial people and EDA very
9 much need an indication from this Commission in order to facilitate
10 their dealing with the Corps of Engineers a general letter of
11 commitment and intent from this Commission.

12
13 *We have agreed to recommend to you that you*
14 *authorize the Chairman to write a letter to them or*
15 *directly to the Corps itself and indicate our general*
16 *approval of the project subject to the Corps of*
17 *Engineering approval. That's what we specifically*
18 *recommend to you. That's an issue between them and*
19 *the Corps and between us and the Corps in trying to get*
20 *the Corps of Engineers to facilitate rather than*
21 *dragging out. While that's going on, we're also going*
22 *to be making our approval conditioned upon a couple of*
23 *other things.*

24
25 Number one is that we're not convinced that it's truly a

1 regional type project in the sense that the \$900,000 they're asking for
2 should all come out of the special projects fund. We're not convinced
3 entirely it's a truly reasonable project in the sense that we normally
4 think about if for no other reason that there is no other county that is a
5 partner to Clarksville or Mecklenburg. As a matter of fact, the
6 participants in terms with other funding in the project are from EDA,
7 private funding and town funding. We don't see there's any promise
8 of funds from the County of Mecklenburg. If it's going to be, it's
9 going to be in the economic spin off from increased tourism, there
10 certainly ought to be an increase in sales taxes generally from the
11 County. There is some feeling, although we haven't voted on it,
12 there's some feeling among the members of the Committee that
13 perhaps some portion of any monies that we commit to the project
14 should come out of Mecklenburg County's allocation. We haven't
15 voted on that but that's the clear consensus.

16 Also, the presentation to us did not specifically include
17 any quantification of the positive economic consequences by virtue of
18 us investing in this project such as what are the expectations for
19 increased sales taxes, what other jobs in the service sector could they
20 expect to be added to that community or otherwise through this
21 project. So we're asking them while the letter is going into the Corps
22 of Engineers to provide us with figures, then the Committee later can
23 make a more detailed recommendation to the full Commission.

24
25 ***Our recommendation is that the Commission authorize***

1 *the Chair to write a letter to the Corps of Engineers and*
2 *to this group, generally approving it in concept*
3 *conditioned upon the full clearance of the project by the*
4 *Corps of Engineers.*

5
6 **SENATOR RUFF:** Mr. Chairman, I think **Delegate**
7 **Bennett** covered it pretty well. I hope the full Commission will go
8 along with this. The letter is necessary so we can get the Corps of
9 Engineers to proceed with us. We would like every dollar to produce
10 a job and be able to guarantee it but as **Secretary Lief** will tell you,
11 we frequently with a partnership or any other endeavor hope that we
12 will create jobs. In Pittsylvania County the partnership put money,
13 opportunity funds and money into E-toys in a nice operation and it
14 was a gamble and a good gamble and a positive gamble. They put
15 more money and tobacco money in it or that KB Toys to take over
16 that site. We have no guarantee what any industry will do anytime in
17 the future but if we're talking about jobs that have a tie to the locality
18 that can't walk out the door then I think we need to give them more
19 consideration and tourism dollars are those kind of dollars. We don't
20 know where we're going with any of this but we'd like to be able to
21 educate all the people with the money but we have no guarantee those
22 folks will stay there. The tourism gives us an opportunity to try to
23 diversify our economy and I hope you'll go along with that.

24 **MR. WATKINS:** What exactly would the commitment
25 letter contain, how many dollars?

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DELEGATE BENNETT: *We have not decided that yet. Our recommendation will be that we approve the concept but to encourage the Corps of Engineers to move forward. We're telling them that we recognize that they can either shut down the project or facilitate it's moving towards fruition. They've been very good at shutting down projects or delaying them. So this is designed to encourage them to move. Once we know they are going to approve it, then we can become clear about how much we would consider to contribute if any .*

SENATOR HAWKINS: I think if you would look at what we're trying to do, is to make opportunities available for communities, you have to build on the assets you have. That lake is a wonderful asset.

MR. TAYLOR: Being from Mecklenburg County, I support it.

SENATOR HAWKINS: If you look at the basic infrastructure and improvements they're talking about, you're developing tourism industry which is very important and I think a lot of the future there could be built on that. You're also close to the Research Triangle in North Carolina and no reason we should draw some of the benefit back to us for that, with that asset you all have. That's one of the really fine assets we can build on and I think this

1 sort of thing certainly does give us an opportunity.

2

3 **DELEGATE BENNETT:** *That's the motion from the*
4 *Committee Mr. Chairman.*

5 **SENATOR HAWKINS:** *It's been moved and seconded.*

6

7 **MR. WATKINS:** Delegate Bennett, whose going to
8 compile the data that will give the figures on what the project will
9 bring to move forward?

10 **DELEGATE BENNETT:** The request from the
11 Committee yesterday was that we really didn't specify anybody, we
12 just requested there be an independent analysis so maybe it could be
13 done by somebody like **Dick** but independent and not generated by
14 the town itself or Mecklenburg County.

15 **MS. FRENCH:** Last night we mentioned about the
16 possibility of –

17 **SENATOR HAWKINS:** Would you identify yourself?

18 **MS. FRENCH:** I'm **Joyce French**, Southside Planning
19 District. I just wanted you to know that we had already started to
20 address that issue last night and to do a return on the investment.

21 **DELEGATE BENNETT:** **Mr. Chairman**, I'd like
22 folks to appreciate the fact that we don't have any reluctance about the
23 attractiveness of the project. I think all of us understand that even if
24 you want to attract an industrial or professional or service type jobs in
25 your community or any business entity. One of the things they look at

1 is the general quality of life and what sort of choices their employees
2 or management have or options and opportunities for a decent lifestyle
3 within the community that the industries will be asking them to move
4 into. Are there museums or decent recreational facilities and things
5 like that that compare with other parts of the country. Right now,
6 even though the lake is there, the answer to that for those corporations
7 would be no, they really can't enjoy it and benefit as you would be
8 able to and even the smallest towns around the Chesapeake Bay.
9 Much less downtown Baltimore or Norfolk's waterfront. That's the
10 kind of competition in terms of quality of life that our region has to
11 deal with.

12
13 ***SENATOR HAWKINS: There is a motion and it's been***
14 ***seconded and we've had some discussion.***

15 ***Anymore discussion?***

16 ***All those in favor say Aye (ayes).***

17 ***All those opposed say No. (Mr. Dudley)***

18
19 ***SECRETARY LIEF: This again I think is a formality***
20 ***and we need to extend the tobacco region opportunities.***
21 ***I make a motion that we extend the current guidelines***
22 ***for the tobacco regions affected.***

23 ***SENATOR HAWKINS: Is there a second? Is there***
24 ***any discussion?***

25 ***SENATOR WAMPLER: I would say that in discussing***

1 *that there may be some modifications that we would*
2 *want to make. I'm saying I would not want to*
3 *participate in it but you might want to get a working*
4 *group together to review those guidelines and perhaps*
5 *some other matters.*

6 **SENATOR HAWKINS:** *We plan to do that.*

7 **SENATOR WAMPLER:** I hope by the next meeting we have
8 some recommendations on any changes that the Commission
9 may want to entertain. We do need them **in the interim.**

10

11

12 **SENATOR HAWKINS:** *It's been moved and seconded,*
13 *any discussion?*

14

15 **SECRETARY LIEF:** Mr. Chairman, I would point out that for the
16 benefit of the Commission to date, I really appreciate the
17 Commission's support and we've closed almost a thousand jobs in the
18 tobacco region. This is all a start.

19

20 **SENATOR HAWKINS:** *A thousand jobs does matter.*
21 *All those in favor say Aye?*

22

Opposed, No.

23

Motion passed

24

25 **SENATOR WAMPLER:** *Would you entertain, under*

1 *the category of other items right now? I'll try to do this*
2 *in two minutes or less. I forwarded to the Chairman*
3 *under the deal closing an opportunity fund provisions*
4 *for a small opportunity to create 35 jobs initially*
5 *growing to perhaps 70 in Southwest Virginia. The deal*
6 *is done and the items are not negotiable at this point*
7 *and the amount to be covered was something between*
8 *\$25 to \$35 thousand. It is a service oriented business*
9 *which means that the capital investment threshold is*
10 *not met under the guidelines that Deputy Secretary Lief*
11 *just – we continue to move forward. The point is I*
12 *would hope that the Commission would entertain a*
13 *motion that the Southwest Economic Development*
14 *Committee would review and make recommendations to*
15 *the Executive Committee and that in the interim the*
16 *Executive Committee would be authorized to make the*
17 *expenditure up to \$35,000 to close this particular deal.*

18
19 **SENATOR HAWKINS:** Is it my understanding
20 **Senator Wampler** that this is a normal process of your region for
21 economic development requests based on the allocations formula we
22 have in place and those monies would be so distributed based on the
23 recommendations from the Southwest Virginia Economic
24 Development, is that correct?

25 **SENATOR WAMPLER:** Yes.

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SENATOR HAWKINS: *Is there a second? Alright.
Any discussion?
All those in favor say Aye (Aye). Opposed?
Motion passed*

SENATOR WAMPLER: Thank you.

SENATOR HAWKINS: We'll probably be out of here sooner than we thought. A couple of things, statement of economic interest, January 15th.

UNIDENTIFIED: Senator Hawkins, the legislatures would not have –

SENATOR HAWKINS: We've already filed those separately. Ours should already be in.

MS. SHELHORSE: I need a copy in our office. You all voted last year to keep a copy in our office.

SENATOR HAWKINS: Thank you all. Today has been a very productive day and it takes us to another phase. January will be our next meeting and by then we'll lose some members that we mentioned earlier. I'm not sure what the structure of the new Commission will look like and appointments are being made by the new administration and will change some I'm sure. Also, January takes us into the phase of trying to determine if indeed the work of securitization and how we get our hands on the obligations we're talking about with these monies. I would like to emphasize again as

1 strongly as I possibly can our area of the state and this down turn of
2 the economy that we're looking at cannot look for much help from the
3 State government in the way of contributions from the state budget.
4 The only access our communities will have for development of job
5 opportunities will be from the Tobacco Commission. It is
6 unbelievably coincidental that the greatest need that our area of the
7 state faces comes at probably the greatest down turn of the economy
8 we've see in decades. We're also fortunate to have in place a
9 mechanism to bring some new capital into some investments. We will
10 have to do some hard thinking about how we commit these monies for
11 long term use. We're going to have to start looking not only with our
12 local projects that we go through today but the regional approaches
13 we have talked about. We probably also need a discussion that is
14 started with some about how we can expand economic development
15 aspects of what we're dealing with. It may require us to expand that
16 to have someone on board who understand economic development in
17 Southwest Virginia as well as Southside Virginia to bring all of our
18 counties into play. As we deal with this part of it, there are peripheral
19 counties involved that are in our region but are not necessarily
20 involved to the extent that tobacco is. Carroll County is a good
21 example. This infrastructure and improvements will have to help
22 those counties as well and we all have to go along together.
23 Understanding these monies are to be invested by us for our people's
24 use. As we start looking at restructuring, I would like for each of you
25 that has an interest in a particular subject matter that would like to

1 change the Committee you're on or either chair a committee or do
2 something different, drop me a note so I can have some understanding
3 of the feeling of the individual members when we start restructuring.
4 We probably will do some major changing because we have some
5 committee chairmen that are leaving. We have a different thrust today
6 than we had two years ago on some economic development pieces.
7 We have to make sure there are people that want to assume some
8 major responsibility in these areas, are willing to devote the time to it
9 and the reward is in the job itself. That's the best we can offer but
10 that indeed is reward enough if we do it properly. It's our charge and
11 our destiny to try to make life a little better for the people we are
12 representing and that is a noble undertaking and should not be taken
13 lightly.

14 As we leave here today, we have to understand that we
15 are the only body that exists in the Commonwealth of Virginia today
16 with the means and ability and the desire to change the entire
17 economies of the counties we represent and nobody else is out there.
18 If it were not for the generosity of the General Assembly and the
19 guidance that we have received from the Legislative process we
20 would not be here. We need to be very cognizant of the fact that we
21 are given charge of these monies to an understanding that we must
22 become part of this new economy and we must be a participant in the
23 future. We've always been a community that's created great wealth in
24 this Commonwealth from tobacco and textiles to furniture and coal.
25 We need to regain our place at the table rather than being that which

1 receives outside help and these monies will be spent that way and that
2 way only. As we leave to have our picture taken and eat lunch, I'll
3 turn the mike over to my dear friend and co-chairman, **Terry Kilgore.**

4 **DELEGATE KILGORE:** I think we owe our chairman
5 a debt of gratitude for all the hard work he's done this year. If you all
6 will join me in giving him a hand. In the spirit of the holiday, I know
7 at the start of the meeting we recognized the staff for the hard work
8 they've done and next week will be a pretty slow week and the
9 Governor has given a couple of days off and

10
11 *I wanted to make a motion that we give our staff the*
12 *rest of next week off so they can enjoy the holidays.*
13 *Carthan, you've got to keep your beeper on though and*
14 *I would make that as a motion.*

15
16 **SENATOR HAWKINS:** *Everyone seconds the motion?*
17 *Is there any discussion of the motion?*

18 *All those in favor say Aye, (Aye).*

19 *Merry Christmas.*

20 *Motion passed.*

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22 PROCEEDINGS CONCLUDED.
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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 Virginia Tobacco Indemnification and Community Revitalization Commission when held on December 20, 2001 at 10:00 o'clock a.m. in the General Assembly Building, Richmond, 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 ___ day of _____, 2001.

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Medford W. Howard

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Registered Professional Reporter

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Notary Public for the State of Virginia at Large

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MY COMMISSION EXPIRES: October 31, 2002

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Staff has edited these minutes and corrected certain statements and discussions for the purpose of easier reading. We in no way altered the meaning of any discussions or votes.

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Submitted by _____

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Carthan F. Currin, III