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2
3 FULL COMMISSION MEETING

4 Tuesday, March 4, 2003

5 10:00 a.m.

6 Senate Room 4- State Capitol
7
8
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10 **Commission Members**

11
12 Senator Charles R. Hawkins, Chairman

13 Delegate Jerry G. Kilgore, Vice Chairman

14 Thomas W. Arthur

15 Steven Banner

16 John Bennett, Secretary of Finance

17 Clarence D. Bryant, III

18 Delegate Kathy J. Byron

19 J. Carlton Courter, III, Commissioner, Department of Agriculture

20 Delegate Allen W. Dudley

21 Fred M. Fields

22 Delegate Clarke N. Hogan

23 Isaiah P. Hopkins

24 Jack Hite

25 Buddy Mayhew

26 Claude Owen, Jr.

27 Senator Philip P. Puckett

28 Michael J. Schewel, Secretary of Commerce and Trade

29 John W. Stallard

30 John T. Taylor

31 Mary Sue Terry

32 The Honorable Gary D. Walker

33 Senator William C. Wampler, Jr.

34 Tucker C. Watkins

35 Thomas E. West

36 Joseph H. Williams

37 Delegate Thomas C. Wright, Jr.

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7 Mary Cabell Sherrod, Manager of Communications & Committee Operations
8 Stephanie S. Wass, Director of Finance
9 Tim Pfohl, Grants Program Manager
10 Patty Wyatt, Fiscal Technician
11

12 **Attorney General's Office**
13

14 Frank Ferguson
15 Ann Marie Cushmac
16

17 SENATOR HAWKINS: Good morning everyone. This was sort
18 of tough to try to work this out with everyone's schedule to be able to have this
19 hearing at the Capitol itself and we're going to get to know each other real well
20 this morning, no question about that. Those of you on the back row, if you need
21 anything let someone know. We'll send someone for it. Carlton, call the roll.

22 MR. CURRIN: Mr. Arthur?

23 MR. ARTHUR: Here.

24 MR. CURRIN: Mr. Banner?

25 MR. BANNER: Here.

26 MR. CURRIN: Secretary Bennett?

27 SECRETARY BENNETT: Here.

28 MR. CURRIN: Mr. Bryant?

29 MR. BRYANT: Here.

30 MR. CURRIN: Delegate Byron?

31 DELEGATE BYRON: Here.

32 MR. CURRIN: Commissioner Courter?

33 COMMISSIONER COURTER: Here.

34 MR. CURRIN: Delegate Dudley?

35 DELEGATE DUDLEY: Here.

36 MR. CURRIN: Mr. Fields?

37 MR. FIELDS: Here.

38 MR. CURRIN: Mr. Hite?

39 MR. HITE: Here.

40 MR. CURRIN: Delegate Hogan?

41 DELEGATE HOGAN: Here.

42 MR. CURRIN: Mr. Hopkins?

43 MR. HOPKINS: Here.

44 MR. CURRIN: Delegate Johnson?

1 DELEGATE JOHNSON: No response.
2 MR. CURRIN: Vice Chairman Kilgore?
3 DELEGATE KILGORE: Here.
4 MR. CURRIN: Mr. Leigh?
5 MR. LEIGH: No response.
6 MR. CURRIN: Mr. Mayhew?
7 MR. MAYHEW: Here.
8 MR. CURRIN: Mr. Montgomery?
9 MR. MONTGOMERY: No response.
10 MR. CURRIN: Mr. Owen?
11 MR. OWEN: Here.
12 MR. CURRIN: Senator Puckett?
13 SENATOR PUCKETT: Here.
14 MR. CURRIN: Senator Ruff?
15 SENATOR RUFF: No response.
16 MR. CURRIN: Secretary Schewel?
17 MR. SCHEWEL: Here.
18 MR. CURRIN: Mr. Stallard?
19 MR. STALLARD: Here.
20 MR. CURRIN: Mr. Taylor?
21 MR. TAYLOR: Here.
22 MR. CURRIN: Mrs. Terry?
23 MRS. TERRY: Here.
24 MR. CURRIN: Mr. Johnson?
25 MR. JOHNSON: No response.
26 MR. CURRIN: Mr. Walker?
27 MR. WALKER: Here.
28 MR. CURRIN: Senator Wampler?
29 SENATOR WAMPLER: Here.
30 MR. CURRIN: Mr. Watkins?
31 MR. WATKINS: Here.
32 MR. CURRIN: Mr. West?
33 MR. WEST: Here.
34 MR. CURRIN: Mr. Williams?
35 MR. WILLIAMS: Here.
36 MR. CURRIN: Delegate Wright?
37 DELEGATE WRIGHT: Here.
38 MR. CURRIN: Mr. Chairman.
39 SENATOR HAWKINS: Here. Thank you. Next we need a
40 motion to approve the February 6 minutes.
41
42 NOTE: So moved and seconded.
43
44 SENATOR HAWKINS: It's been moved and seconded that we

1 approve the minutes from the February 6 meeting. All those in favor say aye
2 (aye) opposed (no response). While we're waiting for the Governor what I'd like
3 to do in the meantime, I apologize to the members of the House due to the
4 weather and the budget debate, you all were not able to attend the last meeting
5 which was centered around securitization and how we plan to approach the
6 securitization by the Commission. Does anyone have any questions or need to be
7 updated on any of the discussions that took place when you were all absent? I
8 think Carthan made an effort to try to keep each and every one of you up to date
9 on what's going on. In your packet there's a breakdown of material and
10 information. The Governor should be arriving very soon. Are there any
11 comments from any Commission members while we wait for the Governor?
12 Carthan.

13 MR. CURRIN: Mr. Chairman and members of the Committee,
14 April 24th will be our next full Commission meeting and that will be the
15 Commission meeting which we're scheduled to be voting on two major issues.
16 One of those is the budget for the upcoming fiscal year which begins July 1 and
17 on the economic development grants from Southwest and Southside Virginia.
18 Those grants have been received in my office and they were due February 18th.
19 The staff is in the process of reviewing those grants and getting the two
20 committees together. In the latter part of March you will be receiving those
21 packets from the two respective regions. The full Commission will receive those
22 packets approximately two weeks before the April 24th meeting. There will be
23 ample time to review this information. There's some nearly 100 requests from
24 Southwest and Southside, Virginia. These are the economic committees. There
25 will have to be a Special Projects Committee that Senator Wampler chairs,
26 between the full Commission meeting and there's approximately four requests for
27 funding. I think those are the three major committees that will be needing to meet
28 prior to the full Commission meeting on April 24th. We will be meeting at Berry
29 Hill and that's in Halifax County.

30 SENATOR HAWKINS: That piece of property is unbelievable
31 and they've invested \$60 million. That's probably one of the nicest things that
32 has been done for us in awhile.

33 MR. CURRIN: On a more cohesive note, Mr. Ward from Halifax
34 County is here with us and he's in charge of the Economic Development office
35 and is putting on a nice reception for us and we hope you all will attend.

36
37 NOTE: Governor Mark R. Warner is now present before
38 the full Commission (*applause*)
39

40 SENATOR HAWKINS: Ladies and gentlemen, it gives me great
41 pleasure to present to you his Excellency, the Governor of the Commonwealth of
42 Virginia, Mark R. Warner. Governor Warner, welcome.

43 GOVERNOR WARNER: Thank you.

44 SENATOR HAWKINS: Governor Warner has asked us to meet

1 today in order to go over some questions about securitization to get on with this
2 process. Governor, thank you for your efforts. It's made a great deal of
3 difference in the whole thrust of what we're trying to do and you'll be able to
4 bring some sort of understanding in the long term planning process.

5 Also Governor Warner, I'd like to underscore that there's been
6 some comments about the time lag in this securitization and there may be some
7 loss of revenue based on the market itself. I think if you look at the market and
8 how we have structured our offering of the 80-20 split plus the size offering we
9 will have and how the market is itself, we probably will be the same regardless
10 because our issue is so different from the other states that we're talking about. I
11 don't believe that the month or two that we have been in discussion on this has
12 hurt us in anyway when it comes to the overall marketing of our securities.
13 People who say it's probably something that should have been done early on, we
14 were just not ready to do it early on and we had to put some sort of fundamentals
15 in place and that's why we're here today to continue the conversation. Having
16 said that Governor.

17 GOVERNOR WARNER: Thank you Senator Hawkins. I
18 appreciate your leadership and Vice Chairman Kilgore and all the members of the
19 Commission. A number of us have been talking through and I know we've had a
20 series of sessions and smaller group meetings upstairs. How are you Senator
21 Wampler? Now the real meeting can start. Even in advance of a General
22 Assembly Session, we moved through this process finishing the legal work and
23 making a determination in terms of the splits, whether tax free or taxable in terms
24 of securitization efforts. My concern frankly is that I just want to lay out some
25 thought and then hopefully we'll have some discussion of where the Commission
26 is going.

27 I start with the premise that, if I can say so as someone not from
28 the region, feels very, very committed to Southside and Southwest Virginia. Over
29 the last few years starting with a venture capital funds in the region, spent time in
30 the region and that's a commitment I hope you feel is evidenced. Let me assure
31 you that if there was not that commitment and not members of the legislature that
32 are here who are advocates for the region considering the budget shortfalls that
33 we faced the last two sessions, there would have been some in the legislature that
34 would like to have seen this big pot of money and take it to shore up this shortfall.
35 Many, many other states around the country have chosen to do so for some short
36 term relief but over a long term I don't believe it's going to be good for those
37 states, and tobacco growing regions. So we held off those efforts in Virginia and
38 we're now poised and Secretary Bennett at some point is going to give a report on
39 exact timing and when we go to the market. I believe we will be going to market
40 later this month.

41 SECRETARY BENNETT: Yes.

42 GOVERNOR WARNER: We are poised to have this
43 securitization which I think everyone at this table is excited about and anxious to
44 have that come to pass. I feel that this is the region's single best shot to rebuild its

1 economic future. I feel that this is the most significant event perhaps in the last
2 decade, if not the last half-century for Southside and Southwest Virginia, the
3 creation of close to a \$600 million economic development boom. I acknowledge
4 and very much I understand the nature of this Commission; it's not a political
5 commission or a legislative commission, it is a commission that has some
6 gubernatorial appointees, legislative appointees and citizen members. I have no
7 formal role in the Commission but as someone who I feel has earned my stripes in
8 terms of my commitment, I would like to share with you some of my hopes and
9 some of my concerns as you go forward in your deliberations on how these
10 dollars are allocated.

11 I start on the basis of someone who has spent their career involved
12 a lot more in business, than in politics, and a career over the last 20 years has been
13 about investing, new ideas, new management teams, businesses and at least until
14 the last few years or so in the stock market had a very good record. So I feel I
15 know a little something about investment banking, and a little something about
16 processes and procedure that need to be in place to protect investors who play the
17 appropriate fiduciary role.

18 One of my concerns consistently has been particularly with
19 Senator Wampler and Delegate Kilgore and Senator Puckett, I think we are in
20 some level of agreement that as you move forward in this task, that one of the
21 things you're going to have to put in place is appropriate firewalls so that the
22 normal pressures to spend down these dollars on what may seem it's the greatest
23 local project since sliced bread that those pressures don't become so inordinate
24 that you end up spending dollars that may not be the long term goals of the
25 Commission.

26 I have had a number of conversations with Carthan and let me say,
27 I think Carthan has done a good job for the Commission and I wouldn't have
28 reappointed him had I felt otherwise. The challenge that he has of dealing with 31
29 very distinct personalities from two different regions of the state and trying to
30 keep peace in the valley so to speak, is a yeoman's task and one that I think he has
31 done well. That set of skills I would argue, that set of skills that he's done so well
32 in terms of working with all of you is a different set of skills than what would be
33 required with a \$600 million investment bank. It's my hope that Carthan needs to
34 stay as the Executive Director and maintain the operating role dealing with the
35 Commission members.

36 I think there needs to be a creation of an additional set of staffing
37 within the Commission, managing director of strategic investments. I believe that
38 your working group put together Charlie Majors and Tom Morris and they did a
39 great job and reflected that and we talked with them in the last couple of days. I
40 think they are available by phone. I talked with them the last couple of days and I
41 talked about a variety of structural models that we could put in place. My single
42 top priority from a fiduciary standpoint as I sign the final documents, when this
43 horse gets out of the barn in terms of securitization is to make sure we have a
44 management structure for this Commission in place that looks like what it would

1 look like in the private market to protect the \$600 million. I believe that would
2 require a senior person inside the Commission with a great deal of investment
3 expertise that would have or I would envision or my suggestion for your
4 consideration would be a managing director that would work through Carthan and
5 would have responsibility to the Board, to the Commission. The managing
6 director for your consideration would be someone the Commission would hire
7 and fire. This managing director or chief investment officer or whatever title you
8 all determine, he or she would have certain individuals that have the technology
9 competency in terms of the evaluation of deals, program administration, grant
10 administration. Carthan would maintain overall authority for the normal
11 operations of the Commission and would finance deal requests and intersect with
12 the Commission members. This would in effect protect Carthan and yourselves
13 by having this managing director and/or investment officer over here. Now, I
14 would say again and maybe you got some possible charts and graphs like this. I
15 would not anticipate that if we created or if you chose to create this approach that
16 he would be in fact having defacto control over the investment and do away with
17 the need of this Commission.

18 The Commission is the ultimate authority and the Commission can
19 chose to accept or not accept advice of your investment officer. I would argue
20 that the vast majority of the funds as they are expended should have some type of
21 appropriate due diligence. I think that's the way I would run my business and
22 that's the way I ran my venture capital fund and that's the way any large
23 distribution of any large sum of money with as many different goals as the
24 Commission has would do. I think you end up protecting you all and make sure
25 that over the long haul, that you all would be able to look back with pride in
26 having this tobacco commission being the transforming agent of the communities
27 in Southside and Southwest Virginia. That would be my first point and I hope we
28 have a chance to talk about the management structure.

29 The second point is that I know in the next few years you all will
30 be dealing with all of your existing commitments to the farmers and to the
31 communities involved and how the Commission will grapple with that in future
32 years. And there will be some colorful conversations over the next few years. I
33 don't need to comment on those and I think the Commission members can wrestle
34 with those issues as it sees fit.

35 The third area though is one that I would like to at least bring up
36 for your consideration. One that I think Charlie Majors and Tom Morris had
37 talked about and they did a significant amount of work. I think the work that they
38 did in terms of the strategic plan was a good first step in terms of putting in place
39 framework for allocating these dollars and in effect kind of a prioritization. I
40 would suggest though that whether there's a possibility that you all would
41 consider being a bit bolder in that framework that you set up. Whether you chose
42 to use these dollars to even further leverage your affected communities. What I
43 mean by that is would it be worthy of the Commission to consider before any
44 dollars are spent or a pot of dollars or any commission dollars go into a locality

1 whether there should be some basic prerequisites put in place for that locality in
2 terms of having a place whether it's for long term education or long term
3 economic development plan or a commitment to work on a regional basis.
4 There's a host of criteria that you all are better equipped than I to determine. I put
5 out again the fact that this may be the single best opportunity for all of your
6 homes that we'll ever see in any of our lifetimes and not use these dollars as a
7 way to leverage your existing communities and perhaps leverage to change some
8 mindsets in the community may be a missed opportunity. I'd be more than
9 willing to, if you see fit, not only for my administration appointees and other
10 appointees to this Commission to urge people to have that kind of mindset to
11 leverage these dollars. If we can do that and if we place a requirement that when
12 Washington County needs dollars, they need to have a ten year educational goal
13 with certain specific measurable goals. Then I think you could end up doubling
14 the value of the Commission dollars and not only dollars spent but what it could
15 do in terms of changing much greater mindset in the Community.

16 I want to be a partner in this and I want to work with you in
17 whatever way I can, obviously directly through my administration officials that
18 serve on the Commission but also as somebody that has spent an enormous
19 amount of time trying in my first 14 months of my administration doing economic
20 development for Southside and Southwest. I know this has been a tough year for
21 economic development.

22 One of the things I'm proudest of in this first 14 months we have
23 either brought or saved close to 8,000 jobs in Southwest and Southside and I'm
24 extraordinarily proud of that record. I'll do anything, make any call or go any
25 place to help deliver more jobs to the region.

26 So my hope is that you will view this offer and these suggestions
27 in the fashion that they're made from somebody that wants to be a partner, not as
28 an attempt to try to impose some gubernatorial direction to the Tobacco
29 Commission but as someone for the balance of my years in this job that wants to
30 be a partner. It's my hope that this Commission and its actions over the next three
31 years will be a legacy that we can all claim credit to and be proud of. I can think
32 of nothing better than at the end of my term look back and say we put in place the
33 appropriate firewalls, you've got great management teams in place and you're
34 directing these dollars with a long term vision on how you can move your regions
35 forward.

36 Those are my specific comments, I would love Mr. Chairman if we
37 can have some discussion, perhaps on the first issue on the management structure
38 of the Commission. I know this is a big group but I'd like to get some feedback.

39 SENATOR HAWKINS: Thank you Governor. Let me emphasize
40 that we have always looked at this Commission as being a partnership with the
41 Executive Branch. We could not function and carry out our charge without a
42 working relationship with your office and that's a given. We need to also have a
43 full understanding that these things we're doing now and putting in place are
44 going to be the basic fundamentals that carry this Commission throughout our

1 tenure and someone else's tenure. We've got to make sure we follow the
2 recommendations. I think the points you make are legitimate points you address
3 as far as management teams is that we're always improving ourselves as we grow
4 and redefine the mission itself Governor. I think your suggestions like putting in
5 place that type of management team gives stability to the overall structure for the
6 Commission. I would certainly applaud your efforts and suggestions and I can
7 see nothing but a benefit coming from that. Aside from that and I think you'll
8 find that the Commission transitions itself over a period of time and it will do that
9 due to the nature of it. We need to keep the basic principles in place that are
10 driven by number one, overall improvement of people's lives that we represent
11 long term, that every child that grows up in Southside and Southwest Virginia
12 should be entitled to the same opportunities as any other child living in any other
13 part of the state. To do that we have to offer the educational components and
14 have some infrastructure improvements that applies in Southside and Southwest.
15 When you talk about the overall infrastructure and availability of high-speed
16 connector that we need to put in place. The day is done and we have finished our
17 part and all the players are in. Hopefully we can look back and see some real
18 dynamic changes to the overall structure of how we do business in Southside and
19 Southwest. The things that we always depended upon and gave us stability like
20 textiles and furniture and tobacco are not there. We all realize that and that's the
21 reason we're doing this. I thank you for your understanding and overall support.

22 DELEGATE KILGORE: Governor, thank you. I guess as far as
23 the first point about the managerial type situations or like the financial structure of
24 someone running an investment bank, what do you think it would take or how
25 many individuals do you think that would be or suppose we hired the individual,
26 what do you think, what do you envision with this individual and who would be
27 working under this individual?

28 SENATOR HAWKINS: As long as we have the staff we need and
29 don't create the bureaucracy.

30 MR. SCHEWEL: There's no magic to this, two things. One of
31 them is the structure the way the Governor has been discussing. Another one is to
32 structure it this way and I'll pass this out. If I'm missing a few I apologize. The
33 one with the sort of fuzzy lines, my technical expertise, if you've got anymore just
34 send those back this way. It says February, 2003 on it. The way we had
35 discussed it and there's no magic to it. You have a new position we call it
36 managing director chief of investment for a couple of reasons. First of all to make
37 it clear that focusing on strategy and that person would report to Carthan, report to
38 the Executive Director but they would be hired and fired by the Commission
39 which in a sense elevates their stature or it elevates the stature of the position.
40 That the grants people and to the extent that there were other technical or
41 technology person or other kinds of support would be under that person. So
42 whether it's the same number or ultimately one less or two more does not mean, it
43 may just be one and maybe once you start looking at what you're doing, it may
44 make sense that in order to make decisions, you need a technologist or something

1 like that. Maybe their contracted for and not hired but I think that's the way we
2 were discussing that with the Governor.

3 GOVERNOR WARNER: The fact is you've got a \$600 million
4 dollar investment and your existing structure from a business standpoint is not
5 prepared to deal with that. An investor wouldn't turn over money to your current
6 structure and that's just a fact of life. You need to put in place, I believe,
7 someone I would argue, someone that has investing expertise, senior banking
8 expertise, venture capital expertise, a finance background. When you find that
9 individual, I would make a suggestion that you put together a search committee of
10 three or four members of the Commission and try to find this individual.
11 Underneath that individual you would have probably two or three folks. Probably
12 one that would deal with traditional grants. There would be another that would
13 deal on some newer projects and a third and this perhaps could be on a contractual
14 basis, but some ability that has technology due diligence. I've said to many of
15 you publicly and privately and I know George is here in the room. This is either
16 the best time or the worse time to do the E58 project. Someone that has lost
17 millions of dollars in the broadband industry in the last two years were either right
18 at the valley where it will come back up or it's still a period of time where the
19 market's in a great deal of flux and the only thing worse than having a group of
20 political people in the room is having a bunch of university people in the room
21 making that decision. You need in place somebody that knows how to do that
22 kind of due diligence. I believe that this type of structure would provide you, the
23 Commission members, some protection that you need. I'm sure many of you are
24 receiving lots and lots of calls and requests that may or may not be appropriate for
25 a Commission member to act on. When it comes to your local community they're
26 hard to resist. If you have this firewall in place that would allow a professional
27 review to take place, I believe that ends up protecting the Commission. That
28 doesn't mean and again hear me out on this, that doesn't mean that the
29 Commission cannot reject any proposals that a manager would recommend and
30 that'll be the end all. The Commission can still act, however it chooses but I think
31 by putting the protection in place for either some or all of the requests for funding
32 would have to at least go through a due diligence process and review process and
33 get a recommendation back on your investments pro or con and then you act as
34 you see fit after that and that gives you a great deal of protection.

35 How do you find this person? Respectfully I would suggest that
36 you, two, three or five members to serve on a, search committee trying to find,
37 there's lots of executive search firms around these days and many of them aren't
38 doing as well as they did a year or so ago and probably you can convince them to
39 do it on a pro bono basis to help us find or get a suitable candidate. Do the same
40 kind of review as the bank would do in terms of a chief investment officer, a
41 venture capital fund would do in terms of a partner or any other. You're talking
42 about \$600 million. That's an enormous responsibility and I believe putting this
43 structure in place would be a great help to you.

44 SENATOR HAWKINS: Governor you've expressed yourself and

1 I think that's a point well taken. Mike, you mentioned about the hiring of an
2 individual, or maybe more, are you telling me more than one?

3 MR. SCHEWEL: No, sir. I guess what I'm saying, I don't think
4 I'd feel comfortable saying now exactly how it would be ultimately play out. To
5 me the important dimension is who you get and the competency of that individual
6 whether they come from an investment background, say non-technology
7 investment. At some level you're going to need to have access, whether it's the
8 staff or through bringing in outside experts to evaluate. On the other hand, if
9 you've got somebody that comes out of an investment background, the
10 technology side, then maybe you don't need to add a lot of technology support in
11 house. In this scenario you now have basically three people on the grants side
12 who are ultimately responsible for evaluating proposals and administering them.
13 This would add a Management Director position and whether it required another
14 position in addition to the three you already have, I don't think it would be
15 shocking to discover that, you felt like you needed another one but that in the end
16 I don't think you're talking about a whole lot of bureaucracy.

17 GOVERNOR WARNER: I don't mean to make an analogy but
18 this is not venture capital but it is in the process of reviewing certain grants and
19 the distribution of funds of some projects that are more speculative than others.
20 Venture capital funds \$600 million a year, the normal rule of thumb is that there's
21 a management fee of two percent a year which of \$12 million for an administrator
22 and that idea is just too high. When you talk about an investment bank, you're
23 still looking at a point to a point and a half. I know that we as a public entity want
24 to keep our costs as low as possible and I think everybody here agrees to that and
25 you don't want to be penny wise and pound foolish in terms of putting, not having
26 to pay somebody that's completely on your team that you can count on to have
27 done the appropriate due diligence. There's nothing that would be worse than
28 going down the path and making the wrong choice on a deal and putting \$10 or
29 \$20 million out and then find out a year or two later you didn't do the appropriate
30 due diligence. Having done that and having made that mistake in my private
31 sector life a couple of times is a very important point to consider.

32 SENATOR HAWKINS: Your point is well taken Governor. Does
33 anyone on the Commission feel this is not a good approach? Does everyone
34 understand the structure we're looking at. Is there any discussion about what we
35 need to do to proceed at this point, in fact, this is what we need to do. Do we
36 have a consensus that this is what we need to do? Yes, sir.

37 MR. HITE: I'm not qualified to manage \$600 million but I'm
38 qualified to work with someone that knows how to do that. In my lifetime my
39 portfolio has gone down 30 to 40 percent but I need expert advice if I'm going to
40 be part of this Commission.

41 SENATOR HAWKINS: I think you're absolutely correct. We're
42 moving into a different stage where we're managing monies that are already there
43 and a known factor. In the past we have spent a lot of time and planning based on
44 the allocation that we're dealing with and with that kind of thing. So this is a

1 different scenario.

2 DELEGATE BYRON: I'm sitting here agreeing with everything
3 that's being said and I believe the search committee is a good way to begin this
4 process. We really need to find somebody that's fully rounded in this and find
5 someone who has the correct expertise in handling the duties you're referring to
6 here and so we're not micromanaging. We all have localities that we now have a
7 one time opportunity to look at what the future is going to be and we don't have a
8 crystal ball to look into and the localities don't have that crystal ball. If someone
9 were to drop a pot of gold in a locality a year from now then they can't really
10 expect this Commission to have all the advantages either. By having somebody in
11 place that could give us some guidance that we're trying to do the right long term
12 thing, then I have no disagreement with that. The question that I always worry
13 about as a legislator is the authority that the individual would have. I think we
14 really need to look into the expertise and come up with what the qualifications are
15 and what the duties of that individual are going to be.

16 SENATOR HAWKINS: I think you hit on something that we
17 need to build on. By the next meeting I think it will be very important to us to
18 invite all the communities involved, the local governing bodies to come down and
19 give an update on what's expected and what we're looking for in the way of
20 framework to be put in place so we can continue this process in an orderly
21 manner. We've had some localities that have been able to do that and we have
22 others that may not have the expertise to put in place what their long range
23 planning would be and we need to work with those localities and provide them
24 that expertise. So I think at our next meeting which will be in April, would be
25 one that we're able to bring all the localities into the meeting and set down some
26 priorities that we have as a Commission, the parameters that we have to work on
27 and what we expect in the way of applications for monies we will accept or not
28 accept so that they will know the game plan. I think if we can get back on that
29 type of situation we'll all be better off.

30 DELEGATE KILGORE: I think we agree that we don't need to
31 waste other monies. I think by the next meeting on April 24th we need to get a
32 search team together. I don't know what type of qualifications this type of person
33 needs to have but we need to get some folks together who do know and get
34 something going.

35 SENATOR HAWKINS: Governor, with your permission, I'd like
36 to have someone begin interviewing fairly rapidly by our next meeting in April so
37 we can have some understanding what we're doing and to do that we need to put
38 in place as quickly as possible people made up from different components on this
39 Commission. With your permission, I'll be working on that very soon and that
40 will be the direction we need to go. I think we need a fairly small group from the
41 Commission, maybe four or five people and have Secretary Bennett Chair that.

42 DELEGATE WRIGHT: Mr. Chairman, I think this is a natural
43 progression and we're on the verge of having securitization in changing the entire
44 operation but it's important to do this. I would agree that it's time to form a

1 search committee and try to find someone that can be put in place. I want to be
2 sure from my point of view and this is the most important Commission I've ever
3 served on representing my area. I want to be sure that the tobacco Commission
4 does maintain control of where the monies are going. I think it's very important
5 these appropriations to these localities to remain in tact. It's time to put out rules,
6 regulations and guidelines. I think the bottom line is that we should encourage
7 and help our localities and be sure when we set it up or set the rules and
8 regulations that we can work within them and that these monies are spent
9 properly.

10 SENATOR HAWKINS: Delegate Wright, we want to set up
11 something rather quickly to meet the needs of the communities and we need to
12 make sure that there are some guidelines that everyone knows what the rules are.
13 We've received some applications in the past that are probably marginal and
14 maybe we shouldn't have dealt with those and we have dealt with them but we
15 need to make sure we don't do that in the future. When you start talking about an
16 investment of this amount of money, we need to make sure that it's done in a
17 manner that brings everyone along on a regional thrust. We've gone back and put
18 special projects in place and we've done other things that have a regional thrust to
19 encourage our localities to work along those lines and in cooperation. To do that
20 though I think we need to set up some guidelines and some rules and to do that. I
21 think we need to set some ground rules in place and building on some or the
22 things that we've already put in place. Above all make sure that our localities
23 understand what these rules and regulations are.

24 MR. SCHEWEL: I think Claude Owen made a point in the
25 discussion he and I were having dealing with the question you were raising. One
26 of the things that maybe someone in this position may be able to do something
27 and perhaps we're not doing enough of would be proactive in terms of projects
28 rather than reactive. If we have communities that have much smaller and have
29 much less staff support of their own, should we be going to them and saying these
30 are our priorities and let's work together and come up with something that will
31 work for you, your county and the local county rather than simply waiting for
32 them to come up with questions that they may never come up with. I think one of
33 the opportunities of having a focused strategy and someone to implement it is the
34 opportunity to be proactive instead of being reactive.

35 DELEGATE WRIGHT: Mr. Chairman, I understand and agree
36 with what Secretary Schewel says 100 percent and that's one reason I invited
37 Carthan to come to Lunenburg County and explain to us how things worked a
38 couple of years ago. It's been very helpful. Hiring Tim Pfohl has been very
39 helpful and we're on the right track making sure that the Tobacco Commission
40 retains control and we need this person and I don't question that one bit. As far as
41 the counties being proactive, I would agree with that.

42 DELEGATE BYRON: Mr. Chairman, would it be possible to
43 have a presentation by some of these people. We're talking about a big region
44 and looking at changing the whole economy and the atmosphere. If we have

1 people that have been working in these areas and are familiar with landscape and
2 the criteria that you look at and see what comes to us as a first stop or whatever
3 that might be. I know in working with them if we have the localities here,
4 perhaps they would be helpful to tie things together because I think we're all
5 working for the same goal. We've spent a lot of money in deal closings and
6 looking at various things and it's the heart of what they're working on so I think
7 anything like that would be helpful.

8 SENATOR HAWKINS: We have accomplished a great deal with
9 the deal closing funds and I think that's made a real difference in some areas. We
10 need to make sure that can accomplish what opportunities have been presented
11 and what we've undertaken. We got a lot of things that we need to discuss that
12 really has long-term ramifications. I for one would like to make haste with great
13 caution when it comes to this. Anyone else?

14 MR. WATKINS: Mr. Chairman, I'd hope you'd move as quick as
15 possible to hire this person but I think we need to look at people that have
16 expertise in hiring people of that caliber on that search committee. So I would
17 suggest that the gentleman on my left, Mr. Owens who has expertise and hires
18 people of that caliber and other people who have that experience be included on
19 that committee when you put it together.

20 GOVERNOR WARNER: I'd be happy, if you would like, Mr.
21 Chairman, I've spent a lot of time in my prior life hiring search firms and I might
22 be able to convince one or two to help.

23 SENATOR HAWKINS: Governor, I can assure you we're not
24 shy.

25 GOVERNOR WARNER: I've heard that about some of you.

26 SENATOR HAWKINS: Let me bounce off some names and this
27 would be a search committee we'd put in place very quickly. Claude Owen will
28 be the Chair, Mike Schewel, Ronnie Montgomery, Delegate Dudley, Mary Sue
29 Terry, Phillip Puckett and Buddy Mayhew. Anyone that feels like they don't
30 want to serve? What I'm trying to do is find some people that have a business
31 background and an understanding. Ronnie brings that as well as Claude Owen
32 and someone that understands the process itself from different regions. Mary Sue,
33 Phillip, Allen, Mike bring a balance and Buddy has experience in the farming
34 perspective that we need as well. Let's do that then. If you all will coordinate
35 some efforts and Claude can start this process and work with the Governor's
36 office to get some firm names and we can start this process. What I'm thinking is
37 that if we have an application in hand for someone that we could possibly
38 interview by the full Commission at some juncture prior to the full Commission's
39 meeting in April and then go into the full meeting. I don't think we need a motion
40 unless you just want to make one.

41 DELEGATE HOGAN: I don't feel inclined.

42 SENATOR HAWKINS: We'll go ahead and move on with that
43 and set up this search committee and work with the Governor's office on some
44 names of firms that might be able to work with and that will be chaired by Claude

1 Owen.

2 DELEGATE KILGORE: Mr. Chairman, as far as going forward
3 on that and also working with the Governor's office on this prioritization of
4 funding, I guess that would be through this managing director or is that how you
5 are going to do this?

6 GOVERNOR WARNER: I think the prioritization of funding is
7 something that this Commission sets until this managing director but I think
8 there's another threshold question and this one is much more complicated and one
9 from an outsider's perspective and someone who makes sure that you all are as
10 successful as you can be. I would at least hope that the Commission would
11 consider or at least what I've seen so far is a formula allocation inside that
12 allocation is four or five different categories all very worthwhile but I do think
13 there is a question and one thing I've seen maybe is you've got too much, can you
14 do all these things? I think it's a question worthy of this Commission's honest
15 discussion. There's another or let's just assume you have four or five different
16 criteria and it's laid out and you work on that over the next maybe eight to ten
17 years. I think if that all happens you may see change and very positive change
18 resulting from that. But I'd like to challenge the Commission to think broader in
19 scope and this Commission can be actively involved in a transformation. If you
20 take the region as a whole whether it's Scott or Lunenburg County, there's going
21 to be some common thread that runs between every jurisdiction no matter what
22 part of that particular region we're talking about. That's going to be hard to do
23 but it would have to be a decision by this Commission. Any or all of these, which
24 category of funding, maybe it's all but before you put any of these dollars to work
25 going forward, the local jurisdictions has to come forward and meet some criteria
26 and it will be up to you to determine that criteria. Maybe it's a measurable ten
27 year education plan that's going to improve the educational qualifications of the
28 workforce, maybe it's a commitment you're going to have to make and use some
29 of your resources for economic or regional economic development, maybe it's a
30 commitment to work on an infrastructure. I don't think it can be all three and that
31 might be asking too much but it may be something that this Commission would
32 chose so at the end of a day, a decade from now, you could measure and show
33 year by year how each community not only got these funds but have made
34 progress on some mutually agreed upon goals and that I think would be hard to
35 do. At the end of the day, you might give that common thread to this effort that
36 you may or may not be able to do.

37 MS. TERRY: - - There was an expectation on the part of the
38 school board and when you take certain counties but beyond that - when I was in
39 the legislature, we had a series of legislative tools and the first one was about
40 twenty years ago and Senator Philpot couldn't figure out the western part of the
41 state. Back then we raised \$25,000 and legislators came from around Virginia.
42 We started out in Danville on Thursday morning and saw a furniture factory and
43 then went to the mountains and the northern group saw some coal minds and we
44 ended up at Virginia Tech at a football game. As a result of that and this goes to

1 this leveraging business, folks had never seen Southwest and Southside, Virginia,
2 got a picture of our region and things began to change. So now we've got this
3 E58 project now that is an open bridge between Southside and Southwest. So I
4 would like us as a Commission to think about how we can work with certain local
5 governments, think about bringing people back out to our area and taking some
6 legislative initiatives that might impact in ways that would reflect fairness. What
7 I know and you know and you've heard it before, there are folks in Northern
8 Virginia and Hampton Roads and I probably made a mistake – people in my area
9 would love to pay your taxes if they had your income. The state is different in
10 different areas of course. There is a lot of money but at the same time it's not a
11 substitute for having a highway system that bridges these gaps. So I think the first
12 thing this director can teach us is how we can leverage the localities and how we
13 can try to bring more understanding and more resources. If we expect that to
14 happen then we have to do our part.

15 SENATOR HAWKINS: You're point is well taken and I think we
16 need to position ourselves to see the potential we have rather than the history of
17 these things. Governor, the only thing I would add to the conversation about the
18 formula is that we have made an effort in the last several years to put a pot of
19 money aside to be used for special projects not identified by the formula but by
20 the need or the quality of the projects. Those monies would be allocated across
21 regional lines to areas that need them, that need the investment and I think we've
22 done well with that. What I would like to find out is this idea of bringing all the
23 local government bodies together and try to get a discussion on how well they
24 understand the mechanism that we're using that would help them in the overall
25 process to put plans into place as a regional concept and that may result in
26 something we need to discuss.

27 GOVERNOR WARNER: I'll just make a couple of more
28 comments and then I'll have to leave. I think you're on the verge of a whole new
29 world when it comes to these dollars. I think the demands on each of you, even
30 though people know about this, this money can't all be spent right away. I think
31 the idea of bringing together all of your affected localities is a great idea. My
32 only caution to you would be that you might want to have more answers before
33 you bring them to the table because they all may come still in that flex mode and
34 they're going to come with lots and lots of interests and lots and lots of requests
35 and the discipline that you may want to try to put in place may be harder to hold
36 with respect to them.

37 Let me just respond to something and that would be that I think
38 you've got great categories and I would think it would be worthy of discussion to
39 say can you, a threshold question is are you going to try to do a little bit in every
40 area or are you really going to try to make a major significant difference in one or
41 two areas and I would think that's kind of a threshold decision that you have to
42 make. When you take it down like education and even in that category it can
43 become problematic. If you have a limited number of dollars for education,
44 should we be more concerned about making a 50 year old person getting a GED

1 or should we put more funding on the 25 year old who can get a college degree
2 and come back to the home area and work or maybe somebody not from the
3 region. Those are the kind of discussions that I would challenge you that
4 whatever kind of format you need to have, and you may never reach a consensus,
5 but at least some sense of direction and some additional focus on your efforts,
6 because again, my fear is that otherwise the \$600 million is a lot of money and it
7 could end up getting filtered away on a lot of projects.

8 SENATOR WAMPLER: Mr. Chairman, I feel compelled to speak
9 only on my own part and maybe some of the Commission members think the
10 same way I do on this one. It seems to me we're deficient in our conversations if
11 we are here this morning and talking about changing and how we prioritize the
12 use of these proceeds. Remember indemnification is the top priority of this
13 Commission and taking care of our growers who have lost their quotas. I know
14 we have representatives from the Office of the Attorney General and they will
15 remind us properly so, what the statute says that we should do. I know the
16 Attorney General sitting right here and I'll probably get a call at 2:00 o'clock on
17 my way home telling me that himself. We should never lose sight of the fact that
18 our main goal is to indemnify our growers. Once we've done that, then we move
19 to revitalizing the economy as best we can. They're parallel tracks but I think it's
20 important during this meeting before we all stand up and go back to our homes
21 that we have to re-emphasize that the indemnification payments are a priority.

22 SENATOR HAWKINS: Point well taken and that's the reason we
23 have allocated large sums of money. Governor, your suggestion about having
24 sound plans in place, my suggestion is that maybe mid summer we have a tobacco
25 retreat and invite all our localities and have certain keynote speakers available.

26 GOVERNOR WARNER: I'm willing to do that.

27 DELEGATE WRIGHT: Mr. Chairman, I would agree 100 percent
28 about this utilization you are talking about creating. I am very reluctant when you
29 talk about the formulary aspect of it. I had received a phone call last night from a
30 tobacco grower in my area who is very concerned about reports and sometimes
31 misinterpreted or rumors get started. I know localities need the ability to plan for
32 the long range, to know that they are going to be getting funds and their
33 appropriated amount although it might vary some, wouldn't vary greatly.
34 Lunenburg County in the last two years has done a tremendous amount of work
35 on infrastructure. With the appropriation we had of \$800 thousand we were able
36 to improve the wastewater treatment plants in both of our towns. I've heard this
37 discussion about changing the formulary and you know my position on it. I'm
38 very reluctant to do that.

39 SENATOR HAWKINS: We're getting into a discussion that we
40 probably should save for another day because of a few more things. I don't think
41 anyone wants to change the formula as such, putting more money in special
42 projects to have access to monies for things that may come around and that has an
43 overall regional approach to it. The formulary is something that we actually put
44 in place.

1 GOVERNOR WARNER: Mr. Chairman, does anyone else have
2 any questions of me. If not, I appreciate the courtesy and I look forward to
3 working with you all.
4

5 NOTE: At this point the Governor departs the full
6 Commission meeting.
7

8 SENATOR HAWKINS: There's a group from Kenbridge and
9 Lunenburg and this is a proposal and I told Mr. Stafford out of courtesy that
10 during the public comment period we would listen to his proposal.

11 MR. RICKERS: My name is Charles Rickers, Kenbridge
12 Chamber of Commerce and I have a handout here for you. Chairman Hawkins
13 and Vice-Chairman Kilgore and ladies and gentlemen of the board, the Tobacco
14 Board. The reason I'm here is that I have a resolution I want to read to you and
15 then make a couple of comments on it from the Chamber of Commerce in
16 Kenbridge, Virginia and Lunenburg County. It's addressed to the Honorable
17 Charles Hawkins, Chairman of the Tobacco Indemnification and Community
18 Revitalization Board. Dear Senator Hawkins, in our recent Kenbridge Chamber
19 meeting that was held on February 27, 2003, Chamber member and past
20 president, Charles Rickers, made a motion to send a resolution to the Honorable
21 Charles Hawkins of the Tobacco Board in favor of allocating \$1.5 million of
22 tobacco money to help keep the state funded Camp Kenbridge open from 5/1/03
23 to 1/1/04. This would keep available 50 beds for use by this facility. This money
24 would be directed to the Department of Juvenile Justice and they would in turn
25 fund Camp Kenbridge. The motion was unanimously approved and carried.

26 I urge you to support our efforts in maintaining Camp Kenbridge, a
27 Juvenile Corrections facility that gives 11-17 year olds a second chance. Less
28 than 28 percent of the juveniles who end up here become repeat offenders. We
29 have to give these kids a chance of redeeming themselves and this is the best way
30 to do it. With your help, 43 jobs in Southside Virginia would be saved and the
31 most successful Juvenile Justice Rehabilitation Program in Virginia would be
32 back in business. This effort could buy time for the state to make other
33 arrangements by 2004.

34 On a separate note, recent studies conducted by Virginia Tech
35 noted that Lunenburg County was the most tobacco dependent county in the state.
36 Also, Lunenburg County ranks 106 out of 125 counties in unemployment.

37 Thank you for all the good work that you do for Virginia. Please
38 contact me or Charles Rickers at and then our phone number, or Jay Stafford,
39 Vice President of our Bank in Kenbridge.

40 I'd like to make a few comments on this. I have with me Colonel
41 Thomas Harper that ran Camp Kenbridge. It was opened in 1997 with 100
42 juveniles. It closed December 31, 2002. As a result, money was so tight they
43 couldn't fund it. These are 11 to 17 year olds and I didn't have enough time to
44 get some of my things together and I heard on the radio you were having this

1 meeting so I came down here. I didn't have time to go to the Board of
2 Supervisors and organizations but everybody has been in favor of it. You all
3 know what happens if you don't have places like this. You get a whole lot better
4 results than the state operated facilities. This is owned by Cornerstone out of
5 Colorado and built and paid for by them. It wouldn't be a private enterprise as I
6 see it because money would go back into, if we could talk you all into this, it
7 would go back into the juvenile justice system and they in turn would fund it like
8 they did to start with. You could picture one of them being your child and if they
9 do something wrong they go before the judge and they're put on probation and
10 they keep getting put on probation unless they're 12 and then they go to prison.
11 With this deal, they go here for four months. Each session is four months. They
12 come out a much better person and much better educated and it makes it a whole
13 lot easier for the judge to handle these people because otherwise you're either
14 back in the street or back in prison. Camp Kenbridge is a tremendous asset to
15 Lunenburg County. Bottom line, I just wish you would think about it and if one
16 of these kids was yours, what would you want? Would you want him to go to
17 Camp Kenbridge treated like an individual and graduate in four months or repeat
18 where one out of five have to go back. One reason the numbers are high is
19 because on December 31, they had to do away with certain programs and when
20 they cut it off there were no more funds and they didn't have the six weeks follow
21 up. The rates been much lower than it is now. Just remember if one of these kids
22 were yours what would you do, would you want them to, or if they were 12 would
23 you want them to go to prison or would you want them to come to a facility like
24 this? I've been to every graduation they've had and it seems to work. Thank you
25 very much.

26 SENATOR HAWKINS: Mr. Rickers, I appreciate you coming
27 and we always try to make time for our counties and our communities to speak to
28 us. The problem I personally have with this is that it supplementing that
29 obligation that should be the Commonwealth of Virginias and it does not follow
30 any of the definitions of and commitments that we have and we've talked about.
31 We know these jobs are very important and I know you all have done an
32 outstanding job and I'm not sure how we could mix this into a formula we're
33 dealing with. This would be a major departure from anything we've done in the
34 past because it's a state obligation and these should be funded by state monies.
35 The state doesn't feel it's necessary to fund it and I don't know how the Tobacco
36 Commission could really take up the slack. We've got a process in place where
37 you can submit the application to the Economic Development Subcommittee and
38 they can look at this. Hopefully when Mr. Arthur looks at it and his committee.

39 MR. RICKERS: We're trying to buy some time until the state
40 funds it again.

41 SENATOR HAWKINS: The accountability part of this
42 Commission is something we have to be very careful with and this might be a real
43 problem for us and I'm sure this is a good project. We'll work with you the best
44 we can on this. Maybe someone will come up with a different approach but thank

1 you for coming.

2 MR. CURRIN: Mr. Chairman, I think that's all the business we
3 have scheduled at this time. Mr. Arthur's Southside Economic Development
4 Committee meeting will be immediately after this.

5 SENATOR HAWKINS: Do I have a motion to adjourn? So
6 moved, we're adjourned.

7
8 PROCEEDINGS CONCLUDED

9
10 CERTIFICATE OF THE COURT REPORTER

11
12
13 I, Medford W. Howard, Registered Professional Reporter and
14 Notary Public for the State of Virginia at large, do hereby certify that I was the
15 court reporter who took down and transcribed the proceedings of the full
16 Commission meeting when held on Tuesday, March 4, 2003 at 10:00 a.m. in
17 Senate Room 4, State Capitol, Richmond, Virginia 23219.

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

20 Given under my hand this 10th day of March, 2003.

21
22
23
24 _____
25 Medford W. Howard
26 Registered Professional Reporter
27 Notary Public for the State of Virginia at Large
28 MY COMMISSION EXPIRES: October 31, 2006
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