



FULL COMMISSION MEETING

Tuesday, January 13, 2004 - 10:00 o'clock a.m.

General Assembly Building - House Room C

Richmond, Virginia

COMMISSIONERS:

The Honorable Charles R. Hawkins

The Honorable Terry G. Kilgore

Mr. Thomas W. Arthur

Mr. Stephen S. Banner

Mr. Clarence D. Bryant, III

The Honorable Kathy J. Byron

The Honorable J. Carlton Courter, III

The Honorable Pam Curry,

Deputy Secretary of Finance

The Honorable Allen W. Dudley

Mr. Fred M. Fields

Mr. L. Jackson Hite

The Honorable Clarke N. Hogan

The Honorable Isiah G. Hopkins

The Honorable Joseph P. Johnson, Jr.

Mr. Buddy Mayhew

Mr. H. Ronnie Montgomery

Mr. Harrison Moody

Mr. Claude B. Owen, Jr.

Mr. Edward Owens

The Honorable Phillip P. Puckett

The Honorable Frank M. Ruff

The Honorable Michael J. Schewel

Mr. John Stallard

Mr. John T. Taylor

The Honorable Mary Sue Terry

The Honorable Gary D. Walker

The Honorable William C. Wampler, Jr.

Mr. Thomas E. West

The Honorable Thomas C. Wright, Jr.

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1 **COMMISSION STAFF:**

2 **Mr. Carthan F. Currin, III**, *Executive Director*

3 **Ms. Mary Cabell Sherrod**, *Mngr of Communications & Committee Operations*

4 **Mr. Tim Pfohl**, *Grants Program Administration Manager*

5 **Ms. Britt Nelson**, *Grants Coordinator - Southside Virginia*

6 **Mr. Jerry Fouse**, *Grants Coordinator - Southwest Virginia*

7 **ATTORNEY GENERAL'S OFFICE:**

8 **Anne Marie Cushmac**, *Senior Assistant Attorney General*

9 **Frank Ferguson**, *Deputy Attorney General*

10
11 SENATOR HAWKINS: It's 10:00 o'clock. I'll call the meeting to order so we can get
12 started because we have a lot to do.

13 Carthan, would you call the roll?

14 MR. CURRIN: Mr. Arthur?

15 MR. ARTHUR: Here.

16 MR. CURRIN: Mr. Banner?

17 MR. BANNER: Here.

18 MR. CURRIN: Secretary Bennett?

19 MS. CURRY: Here.

20 MR. CURRIN: Mr. Bryant?

21 MR. BRYANT: Here.

22 MR. CURRIN: Delegate Byron?

23 DELEGATE BYRON: Here.

24 MR. CURRIN: Commissioner Courter?

25 COMMISSIONER COURTER: Here.

26 MR. CURRIN: Delegate Dudley?

27 DELEGATE DUDLEY: Here.

28 MR. CURRIN: Mr. Fields?

29 MR. FIELDS: Here.

30 MR. CURRIN: Mr. Hite?

31 MR. HITE: Here.

1 MR. CURRIN: Delegate Hogan?
2 DELEGATE HOGAN: Here.
3 MR. CURRIN: Mr. Hopkins?
4 MR. HOPKINS: Here.
5 MR. CURRIN: Mr. Jenkins?
6 MR. JENKINS: (No response)
7 MR. CURRIN: Delegate Johnson?
8 DELEGATE JOHNSON: Here.
9 MR. CURRIN: Mr. Mayhew?
10 MR. MAYHEW: Here.
11 MR. CURRIN: Mr. Montgomery?
12 MR. MONTGOMERY: Here.
13 MR. CURRIN: Mr. Moody?
14 MR. MOODY: Here.
15 MR. CURRIN: Mr. Owen?
16 MR. OWEN: Here.
17 MR. CURRIN: Mr. Owens?
18 MR. OWENS: Here.
19 MR. CURRIN: Senator Puckett?
20 SENATOR PUCKETT: Here.
21 MR. CURRIN: Senator Ruff?
22 SENATOR RUFF: Here.
23 MR. CURRIN: Secretary Schewel?
24 SECRETARY SCHEWEL: Here.
25 MR. CURRIN: Mr. Stallard?
26 MR. STALLARD: Here.
27 MR. CURRIN: Mr. Taylor
28 MR. TAYLOR: Here.
29 MR. CURRIN: Ms. Terry.
30 MS. TERRY: Here.
31 MR. CURRIN: Mr. Thompson?

1 MR. THOMPSON: (No response)

2 MR. CURRIN: Mr. Walker?

3 MR. WALKER: Here.

4 MR. CURRIN: Senator Wampler?

5 SENATOR WAMPLER: Here.

6 MR. CURRIN: Mr. West?

7 MR. WEST: Here.

8 MR. CURRIN: Delegate Wright?

9 DELEGATE WRIGHT: Here.

10 MR. CURRIN: Mr. Vice Chairman?

11 DELEGATE KILGORE: Here.

12 MR. CURRIN: Mr. Chairman?

13 SENATOR HAWKINS: Here.

14 Thank you. First of all, as far as last night's reception, I want to thank everyone involved
15 because it was a wonderful reception. Thank you very much. We thank you for the use of the
16 facility. It was just a wonderful place and a great place to have a meeting. Also, Old Dominion
17 Cooperative for that effort and also Troutman Sanders, Verizon, and all those people that
18 participated. It was nice to have the Governor and the Attorney General and Lieutenant Governor
19 and former Governor Baliles there. That was a nice reception and, Carthan, good job.

20 MR. CURRIN: Thank you, Mr. Chairman.

21 SENATOR HAWKINS: Is there a motion to approve the minutes of the October 22nd
22 meeting? It's been moved and seconded that the minutes be approved. All those in favor say aye
23 (Ayes). Opposed, like sign (No response).

24 Next we have an update on the indemnification.

25 **MR. LEWIS:** Good morning. How is everyone? Thank you again for coming last
26 night, we appreciate it very much, and we appreciate the fact that we're now in our fifth year
27 working with the Commission and we're beginning the effort of the 2004 indemnification season.

28 The biggest thing we have ahead of us right now is that we'll be sending out the 1099
29 forms for the past year. We're working with the Virginia Department of Agriculture and Farm
30 Services Agency to acquire the 1999 Burley Quota Database. As you may recall, for this year, we
31 will remain in the 1998 database for flue-cured producers and quota owners, as well as burley

1 producers. We will be going to the '99 database for burley quota owners only.

2 For those of you in burley country, we look forward to working with you a little more
3 this year because we anticipate having some additional meetings in Southwest Virginia to insure
4 that everybody understands that at least for burley quota owners, there will be a slightly different
5 database this year and as compared to burley producers. There'll be a little more education, but
6 we feel that working with the members of the Commission and us at Troutman Sanders that we
7 will make it as smooth as possible.

8 Mr. Chairman, that's the extent of my report.

9 SENATOR HAWKINS: Once again, I want to thank you all. I can't imagine anyone
10 else doing the job as well as you all have done. I've heard comments that are nothing but
11 complimentary the way you all have handled this, and we certainly appreciate it.

12 MR. LEWIS: Thank you very much.

13 DELEGATE JOHNSON: Mr. Chairman.

14 SENATOR HAWKINS: Delegate Johnson.

15 DELEGATE JOHNSON: Why are the cuts in burley? I'm sure the quota has been cut.
16 Why do we use the cut quota?

17 MR. LEWIS: We're going to the '99 database, as I understand it, and I've been directed
18 because based on the calculations from the Department of Agriculture and Commission staff is
19 that the burley quota owners for '98 have been in essence made whole, so we're going to the next
20 year '99 database. For maybe some of the individuals, there'll be a little change and we'll have
21 the same database. Some people who have visited with me yearly and said when are you going to
22 the '99 database because I'm not on it, and they'll be very happy now that they'll be on the '99
23 database.

24 DELEGATE JOHNSON: Thank you.

25 SENATOR HAWKINS: Thank you. Next up is the Executive Director's report.

26 **MR. CURRIN:** Mr. Chairman, members of the Commission, ladies and gentlemen, for
27 the 21st time, I'm pleased to report to the Virginia Tobacco Commission my report update on a
28 number of initiatives that the staff has been focusing on since we last met in Wise this past
29 October.

30 On a personal note, I'd like to tell the Commission that the Director of Finance,
31 Stephanie Wass, had her child a couple of days ago and there's been a little complication so that

1 the child is undergoing some surgery this morning, and I'd like to ask you all to keep her in your
2 prayers.

3 In our efforts to grow tourism across the region, the Commission staff partnered with the
4 Virginia Tourism Corporation in hosting a tourism planning session in Southside and Southwest
5 Virginia. During the session, we came together with tourism and economic development officials
6 throughout the region to identify strengths, weaknesses, opportunities, and to take into
7 consideration and to development of a comprehensive tourism strategic plan.

8 The meeting held in Southside was a preliminary planning session, and we're preparing
9 to hold a more comprehensive strategic planning session soon, which will be open to all
10 interested local officials as well as in our session in Southwest Virginia a month ago. I'm
11 working with Alisa Bailey, who's President of the Virginia Tourism Corporation, and wanted her
12 to come to our May Commission meeting to speak to you.

13 On a related note, you may remember that the Commission received a proposal from Dr.
14 Mark Fagan for a retiree attraction capability study. As of this moment, Dr. Fagan has completed
15 his work and also will make a report to our May Commission meeting.

16 As you all are aware, there are some definite problems with cell-service areas throughout
17 rural Virginia. At the request of many of our communities, I contacted Mr. Bishop of the Virginia
18 Telecommunications Industry Association about the issue. We coordinated a meeting to bring
19 together local officials and industry representatives to identify problem areas within the region
20 and to explore potential solutions. Within the coming months, I plan to hold similar meetings in
21 Southwest Virginia.

22 The Commission is acting as a facilitator in an effort to get the ball rolling and to address
23 these issues. I have and will continue to keep Delegate Hogan, Chairman of the Technology
24 Committee, and that Committee apprised of those efforts.

25 This is an update on our Southside Capital Access Program approved in October. As you
26 recall, the Commission approved \$1 million from the Southside Economic Development fund for
27 the Capital Access Program. Staff has worked with the Department of Business Assistance, with
28 the Virginia Small Business Financing Authority in preparing a Memorandum of Understanding,
29 which has been signed. The current task at hand is the development of marketing material to
30 promote the programs throughout Southside Virginia.

31 Our Citizens/Outreach Committee yesterday met, and Chairman Montgomery held the

1 first meeting of the Citizens/Outreach Committee created by the Chairman during our October
2 meeting. This Committee will focus on current Committees and funding program structure and
3 address investment strategies, and funding standards. The Committee will meet throughout the
4 coming months and develop a report for presentation at our May Commission meeting.

5 SENATOR HAWKINS: Carthan, if I can interrupt you, I appreciate it, and I know it's
6 something entirely new, but it's always good to have an opportunity to be able to sit back and
7 look at things and make sure we stay on track and give recommendations. It's an opportunity for
8 us to be able to not revisit things we've done necessarily, but kind of have a look forward of
9 where we need to be going as we enter this next stage of the Commission. I know it's very
10 tempting in those type of situations to be an exchange of frustration rather than ideas, and I can
11 appreciate that, but we need to come to some very firm ideas about recommendations, and I look
12 forward to getting the report.

13 MR. CURRIN: Thank you, Mr. Chairman.

14 In preparation for the Agribusiness Committee's second round of funding, we're looking
15 to Commissioner Courter and his staff on the Committee workshop. I believe the
16 Commissioner's Office will provide that Committee with a very helpful perspective on the
17 Agribusiness initiative in both regions. I appreciate the Commissioner's support of his staff in
18 helping us to orchestrate that.

19 This slide is a representation of recent tobacco opportunity fund requests that have been
20 granted in the past several months. These announcements have been made publicly. As you can
21 see, there's a great deal of positive TROF activity lately. Our present TROF balance is \$1.088
22 million. We currently have \$2.5 million in requests on the table.

23 I'd like to ask the Commission to consider a transfer of \$2 million from the
24 Indemnification Reserve Fund. This will help avoid having to turn down worthwhile projects due
25 to a lack of available funding.

26 SENATOR HAWKINS: Should we take a motion on that now, Carthan?

27 MR. CURRIN: That'll be fine.

28 SENATOR HAWKINS: Do the Committee members understand these are monies that
29 we are holding in reserve that are no longer needed for purposes of being held in reserve?

30 MR. CURRIN: That's correct.

31 SENATOR HAWKINS: We still have these contingencies, we're okay.

1 MR. CURRIN: Yes, sir. As a matter of reference, Mr. Chairman, in the past and for
2 newer members of the Commission, this has been somewhat of a standard procedure after these
3 funds --

4 SENATOR HAWKINS: The Chair will entertain a motion. It's been moved and
5 seconded that these monies be transferred. Any discussion?

6 MR. ARTHUR: So moved.

7 SENATOR HAWKINS: All those in favor, say aye (Ayes). Opposed (No response).

8 MR. CURRIN: Thank you, Mr. Chairman. At the appropriate time, I'd ask the
9 Commission to move and go into closed session to discuss a TROF proposal currently on the
10 table.

11 This year, the Commission received 45 applications for Education Funding totaling \$23.7
12 million for a fund balance, available for \$2.23 million. Our staff and panel went through a
13 rigorous approach to review and approve these proposals and took great care to evaluate each
14 proposal in reference to our long-range plan.

15 As you will hear in the Education Committee report by Senator Ruff, 18 proposals were
16 recommended for funding. Our staff will work with a number of applicants in developing a
17 regional approach to their projects and resubmitting of their proposals. The Committee plans to
18 reconvene again in March to review resubmissions and develop recommendations for
19 presentation at our Commission meeting in May.

20 In the packet each of you received by mail last week was an updated Economic
21 Development Application and Guidelines. The staff made a number of revisions to improve the
22 application's effectiveness and clarity.

23 This form clarifies that matching funds must be spent in the same year as Commission
24 funds, has an updated budget page which clarifies what line items are operating funds and only
25 eligible for startups. We've added a budget narrative page providing an opportunity to describe
26 the management and use of Commission funds versus other sources, as well as to describe the
27 budget for distinct elements of the requests.

28 We also clarified technology projects and solutions will still be eligible for Economic
29 Development funding, while the regional approach is addressed by the Technology Committee.

30 As we have in the past, the Commission staff will be working and having two grant
31 workshops, one in Southwest January 30th at the Southwest Higher Education Center at 10:00

1 a.m. in Abingdon, and one in Southside Virginia the first week in February, which will be held in
2 South Boston.

3 I'm currently working on the coordination of two meetings. First, a potential Federal and
4 State funding partnership hosted by Virginia to provide a forum for the exploration of leveraging
5 opportunities to get the most bang out of our tobacco funds.

6 Secondly, I'm suggesting to the Commission to consider the "Best Practices - Use of
7 Tobacco Funds" meeting. I've had discussions with the Southern Growth Policies Board about
8 such a meeting this spring or this summer, including North Carolina, Kentucky, and the
9 Commonwealth. This would provide a keen opportunity for leveraging as well as to learn from
10 our neighbors about what they're doing with their tobacco funds.

11 DELEGATE KILGORE: Do you have any idea when you plan on having those
12 meetings?

13 MR. CURRIN: No, not at this juncture.

14 DELEGATE KILGORE: Will you keep us informed?

15 MR. CURRIN: Absolutely. I've got you on the agenda, Mr. Vice Chairman, as a key
16 note speaker.

17 Members of the Commission, I'm pleased to report that the Commission was featured in
18 a technology trade magazine. The article highlighted the Southside Virginia Fiber Initiative and
19 Mid-Atlantic Broadband plan for the region. A copy of this article is in your packet today.

20 I'm also pleased to report, Mr. Chairman, that the Tobacco Commission will be the
21 feature on *Virginia Business*' next month's publication. That'll be the feature subject matter for
22 that issue.

23 Our next meeting will be May 13th, and it'll be in the City of Danville at the Institute for
24 Advanced Learning and Research. The May agenda will primarily include adopting our Fiscal
25 Year 2005 Budget and the Economic Development applications.

26 Mr. Chairman, this concludes my formal report to you.

27 SENATOR HAWKINS: Thank you, sir, any questions of our director?

28 MR. CURRIN: Mr. Chairman, in the light and spirit of communications to the
29 Commission on a very important subject that's been before the United States Congress recently,
30 the Federal buyout of quota. I thought it would be informative, and I've asked Mr. Max Hamel,
31 with the DUTKO Group out of Washington, to give us a sense and presentation on this very

1 important subject which could if the Federal buyout took place could impact some of our
2 indemnification issues. Mr. Hamel.

3 SENATOR HAWKINS: Welcome.

4 MR. HAMEL: Thank you, Mr. Chairman. It's a little bit of an understatement, and I
5 don't have a presentation. When Carthan and I originally started talking on the eve of Congress'
6 20th, there'd probably be a bill ready to talk about. Unfortunately, there is not.

7 I thought what I'd do is tell you a little bit about working with the last Congress and what
8 the prospects are when Congress may resume later this month.

9 As Carthan mentioned, my firm represents 600,000 tobacco growers and quota holders in
10 16 tobacco-growing states. So we are pushing in Washington to get a buyout this year. Last year,
11 Congressman Ernie Fletcher, now Governor of Kentucky, and Senator Mitch McConnell were the
12 focal points of this legislature in the House and Senate, both of which were funded by an
13 assessment on the tobacco company, Senator McConnell's version and FDA provisions.

14 Negotiation on both of those bills ended up falling apart and the effort was then made to
15 put some language in the final budget of the year of which we ran out of time. The resolution was
16 to come back to it, which is most likely a different bill than we left with.

17 I think 2004 presents some very difficult obstacles for the buyout on the political front,
18 and it's an election year, and there's a lot of pressure to not raise taxes in the Congress. There's a
19 lot of pressure on the budget bill coming up. Right now, the staffs of various members, I know
20 Congressman Goode has been involved working with this and working with the leadership.
21 That's the one benefit we didn't have last time.

22 Leadership is actually out in front and recognizes this is an issue that needed to be taken
23 care of fairly quickly. They made commitments, Congressman Goode and others to get a markup
24 in the House agriculture. I know a lot of you have been involved in this for a number of years, so
25 I don't want to waste too much time going through the basics of what you already know. For this
26 year, we don't know what the bill is going to look like, and we're looking at several different
27 funding streams, partially funded by assessment or people that are looking at taking part of the
28 Federal excise tax, looking at the rollover, but I think ultimately, there will be a bill within two
29 weeks, and there's a big effort to push early on at Congress and make sure we get one before
30 February or March before we get too far in the session.

31 With that, if you all have any specific questions on the process or this specific bill, I'll be

1 glad to answer any questions I can.

2 MR. BRYANT: I have a question. The FDA piece, is it moving in Committee right
3 now? I know that Senator Kennedy, basically, it was because of his position it stopped.

4 MR. HAMEL: What we're getting from the FDA part in the Senate is if you recall last
5 year, Senator Greg, who chairs the Health Committee, that has jurisdiction over that bill, left the
6 session with some bad feelings the way the bill was, others were trying to push the bill through
7 his Committee.

8 My understanding is that everyone other than Senator Greg still engaged in negotiating
9 that bill. I think his involvement is going to be key there. We haven't heard from his staff yet to
10 say whether or not he's okay with it. A lot of that is going to depend on the health groups, and
11 they have some very specific ideas on what they need in the FDA bill, along with Senator
12 Kennedy. It's really between Senator Kennedy and Senator Greg to work the details out. That
13 poses an interesting question for the buyout generally.

14 I think the House will take a buyout, there's not an appetite for the FDA in the House,
15 and the Senate will take up both. If everyone can get along and meet in conference, then we'll
16 see. Right now, Senator Greg has not been involved in the FDA talks yet.

17 MR. OWEN: I think the question for the Commission was our finances and our
18 indemnification responsibilities. What is the base here that'll be in the bill, and what about the
19 Phase 2 payments? Will the manufacturing companies, will they be under the proposed bill?

20 MR. HAMEL: The two bills that were introduced last year were based on 2002. In the
21 omnibus, the budget bill end of year, I believe they ended up talking about seven and three.
22 We're going to be very careful with that split because with eight and four, you've got a two-to-
23 one ratio. Once you get to seven and three, it starts to get a little bit disproportionate. I believe
24 we'll start where they left off. Before the omnibus bill, which will be eight and four, 2002.
25 That's probably about a \$12 billion bill, that's where we're starting out from.

26 As far as Phase 2, a lot of that depends on the kind of funding is done, if it's a pure
27 manufacture assessment, most likely the 2.1 or however many is left and the Phase 2 payments
28 will be given credit. If they go for an excise tax, I think the language in the Phase 2 agreement is
29 a dollar-for-dollar reduction, either way the Phase 2 will probably go away.

30 MR. BRYANT: My understanding in trying to insert it into the omnibus budget, you're
31 talking about seven and three Phase 2. The Phase 2 would continue with the seven and three,

1 that's my understanding coming from Senator Warner's office.

2 MR. HAMEL: In the omnibus bill?

3 MR. BRYANT: Yes. At the end when it drops to seven and three, then eight and four.
4 It's my understanding the Phase 2 would continue if it drops to seven and three.

5 MR. HAMEL: It may in the omnibus, and I know that the idea for the omnibus
6 negotiation was when the two bills started out and you had the House bill, 18 billion, and the
7 Senate bill, which was roughly 13 billion, and I think the biggest hurdle has been that people view
8 the Tobacco bill through the same process that they view a whole lot of the subsidy programs.
9 They don't realize that it's a known cost program.

10 I think the analogy that has been made is that people were trying to sell the truck, still
11 would be able to drive it around. That was the biggest hurdle making people understand that this
12 is a known cost program that's purchasing assets created by the government and for all intents
13 and purposes, the program will end. A lot of the provisions in the omnibus were focused on
14 getting the number down and not focused on what that ratio was.

15 I don't think a lot of those elements are going to be in the bill. Depending on where the
16 money comes from, you may do, if you try to get treasury revenue and have them front-load that
17 versus the manufacturer's payments, that will balloon in the end. I don't know if that makes
18 sense, but it probably depends on five to seven years of payments.

19 MR. BRYANT: Is Senator McConnell driving this?

20 MR. HAMEL: In the Senate, he's driving buyout along with Senator Dole. In the
21 House, your guess is probably as good as mine. I think the problem we had last year was Ernie
22 Fletcher, who was very committed to it but was running for Governor, so after November, the
23 impetus for a buyout as far as the leadership in the House went with it. I think the effort will be
24 to try to get some folks behind it that will continue to stay in the house. You have Congressman
25 Byrd, who was running for a Senate seat in North Carolina, he'd be involved. Virgil Goode has
26 been leading on this, and we're looking for some other people.

27 SENATOR HAWKINS: You mentioned \$12 billion?

28 MR. HAMEL: That's the original Ernie Fletcher bill in the house.

29 SENATOR HAWKINS: That's all of the existing tobacco quota that's left?

30 MR. HAMEL: Correct.

31 SENATOR HAWKINS: I know our farming community is anxious because anticipation,

1 I get a phone call every other day asking about the buyout and hoping something will happen
2 soon so we can move on with our lives.

3 MR. HAMEL: It's difficult to handicap. I'm worried about the chances because I know
4 the last six years people have heard this, heard people say this is the year, but each year goes on
5 for the farmers, and particularly the last.

6 SENATOR HAWKINS: Thank you, sir. Any questions? Thank you.

7 MR. CURRIN: Thank you, Mr. Hamel.

8 Mr. Chairman, our next presenter, you may recall that the Chairman directed staff to, at
9 two of our meetings, one in the summer and one in the fall, have an economic summit around
10 those Commission meetings, which we did. We had one at Longwood University in July and one
11 at the University of Virginia College at Wise on July 10th. To that end, this presenter was the
12 keynote speaker this summer in Southwest Virginia. Some of the Commission members in
13 attendance were so impressed by Mr. Holladay's presentation, they requested that I ask him to
14 come and speak to the full Commission. I'm very delighted that he's here.

15 Mr. Mac Holladay is the founder and CEO of Market Street Services, a leading economic
16 development and consulting firm headquartered in Atlanta, Georgia. The firm was started in
17 1997 and helped cities, counties, and states, regions, chambers of commerce, and corporations
18 and other clients to actively help to shape their future.

19 Previously Mr. Holladay served as Chief Operating Officer for the Governor's
20 Development Council of Georgia from June, 1993 to 1997. Prior to 1993, Mr. Holladay served as
21 the State Director for both Mississippi's Department of Economic Development and Community
22 Development and South Carolina's Development Board. Since 1972, he has been involved in
23 community and economic development in five states and has served local chambers of commerce
24 in Columbus, Indiana; Memphis, Tennessee; Charleston, South Carolina.

25 Mr. Holladay speaks across the country on topics of community economic development
26 and has been quoted in a wide array of publications like *Business Week*, *Fortune*, *The New York*
27 *Times*, just to mention a few. He's a graduate of Washington and Lee University and a former
28 Naval aviator. Hold on to your seats, ladies and gentlemen, because he's going to give you a very
29 decisive presentation. Mr. Holladay.

30 SENATOR HAWKINS: Welcome, sir, looking forward to it in regard to your
31 presentation.

1 **MR. HOLLADAY:** Thank you, Mr. Chairman. Sometimes when I have a chance to
2 listen to introductions like that, it reminds me that when my mama was still alive, she said, you
3 know, I'm not sure what the boy does, but I think he's a migrant worker.

4 Sometimes I felt like that, but I've dedicated my adult life since my Navy time to try to
5 help and change the economy itself. It's always a pleasure for me to be here in the
6 Commonwealth, and it is a special place for me. Let me also say that I take great pride having
7 spent most of my life working on the economy. The fact that I'm not an economist and I happen
8 to agree with John Kenneth Galbright who says that economists who make forecasts can be
9 divided into two groups, those that do not know and those that know they do not know.

10 I will tell you that the last three years if it's proved anything, it's proved that they don't
11 know and they haven't known. Reality is too. My favorite definition of an economist came from
12 an economist who is retired from the New York Stock Exchange, Dr. Freed said that an
13 economist is someone who sees something working in practice and wants to know if it might
14 work in theory. I don't know a damn thing about theory, but I've spent 30 years on the back
15 roads of Mississippi and the hills of Georgia and in the dirt roads of South Carolina and
16 Tennessee trying to figure out what does work.

17 What I've been asked to do is talk to you about where we are and what is really
18 happening to this country and to this region and to Virginia. Over these past few years to try to
19 help you focus and refocus on your most important work.

20 Let me suggest that what I'd like to do is to share a number of things that really have
21 been accumulated over some period of time and leave you with some ideas about where we are
22 and what we do. I'm not a pessimist, but I'm an eternal optimist and at the same time, I must tell
23 you that I have never seen a situation and the realities quite where they are today.

24 One of the things that's difficult for some people to talk about, and this is not a trend, and
25 this is not a measure of change, but what we are seeing and what we have lived through is a
26 fundamental change in our economy. We saw ten years of unprecedented growth in the '90s and
27 then something happened that was almost beyond belief. We've seen too that while the Fortune
28 500 companies are important, the work force has continued to drop and lost millions and millions
29 of jobs, particularly over these last years.

30 We've also seen that the net job growth in the economy have come from small firms in
31 forms which in many ways by many states and many communities frankly gone north in terms of

1 the efforts that we have made. One of the things that probably explains this best is a little history
2 lesson. This is the Fortune 500 in 1979, and you'll see some familiar names with companies that
3 many of us grew up with. Take a look at what it is in 2003. The list that was just reported a few
4 months ago by Fortune, and you can see that the number one company in the United States is
5 Wal-Mart. What you can also see is the mergers, buyouts, and changes. If we would have done
6 this in 2002, what you would have seen was a Number 5 on that list, a company called Enron.

7 For the first time in our lifetime, we have basically seen a Fortune 500 firm disappear
8 from the face of the earth virtually in terms of its importance. What may be important is to
9 analyze what is the structure or makeup today of those firms in terms of the top 25 in this country.
10 They reflect what has happened to this economy and they reflect what is going to continue to
11 happen to the economy in terms of where the jobs are going to be and what the jobs are. You can
12 see that manufacturing from 12 to 5, and you can see that energy is Number 6, and
13 communications remains where it is. And that the new players are financial, retail, health, and
14 insurance, and that they are important and continuing to grow.

15 When I'm asked across the country to talk about things that determine what we do at the
16 local and state level economic development, I talk about five things.

17 The first is globalization. The fact that realities of our separation not only between state
18 lines but certainly across the globe has changed dramatically. I'm going to give you a couple of
19 examples of those in just a minute about things that have happened.

20 Secondly, the playing field in terms of infrastructure has changed. I'm delighted to see
21 the initiatives you're making because I can tell you that without telecommunications and
22 technology access, our companies, large and small, cannot compete.

23 The third is that we're dealing with a system, and I live in a state with 159 counties, if
24 you can imagine that. We need about 30 or 40 perhaps. The realities are that we're living with a
25 system of government, yours being the most unusual in the United States in terms of the cities not
26 being in counties. We all know that the economy, that is business doesn't know about the city
27 limits or the county line or state line. They know about markets, and that's why we're seeing
28 regional projects of all kinds at the state level. We've seen states from Pennsylvania to Indiana to
29 Georgia brought into the regional operation from the state level to try to be more effective and do
30 things in a different way. We've seen regions become more effective and do things in a different
31 way.

1 We've seen regional partnerships and partnerships along interstate and every other kind
2 of partnership as we've seen things change in terms of our capacity and what we're able to do
3 alone. The realization that the market is going to drive what's happened. A term that we did not
4 have in this business ten years ago, and that is sustainable development. Not just for those places
5 that are going very fast, but having trouble assimilating all that's happened to them, but also those
6 places that have no growth at all. To make decisions about what they want, what the long term is,
7 what kind of companies do they really want to invest in, what kind of jobs are they really trying to
8 get, to rebuild, and to make their place in the kind of community that they want.

9 Let me also say this, and this is no secret. The number one issue in this work is work
10 force. It has been, it is now, and it will be. The rule in the rural south has been that we have not
11 done a very good job in this and that we still have many places with 30 or 40 percent of our adults
12 over 25 years of age have not finished high school, and I'm going to talk about that a bit more in a
13 minute, but let me say without question that I am delighted to see you continue to question and
14 work hard on solutions related to work force and related to education.

15 Let me talk for a minute about globalization and give you a few examples of. Here's
16 some recent investments in China. Sometimes we only think about export sides of the equation,
17 but in reality, many companies across this country are making huge investments for many
18 different reasons, from telephones to digital kinds of things to consumer products. Remember
19 that the combined population, China, Indonesia, and India makes up 41 percent of the world's
20 population. It is so large and so big that it is hard for us to even thing about the numbers that are
21 there.

22 I remember in a meeting with the late chairman of Coca-Cola in Atlanta, he was making
23 a speech and including his hopes for the future. I remember he had a question from the floor
24 about the investment that Coca-Cola had made, which at that time were tremendous losers and as
25 always, he had a Coke can underneath the lectern. He put the Coke can on top of the lectern and
26 said, I want them to just buy one every day. The fact of the matter is the markets are such size
27 that we see tremendous continuing investment by U.S. companies.

28 On the other side of the ledger, what is coming from China is enormous income plus.
29 Computers, aerospace, appliances, and we know about furniture, textiles, and other things. The
30 estimates from Boston Research in *Business Week* magazine a few weeks ago talked about the
31 fact that there'd be some 900,000 jobs lost in the next ten years relating to the change in what's

1 happening. We see in the furniture industry, 31 percent being imported up to 60 percent by 2005
2 or 2006.

3 The world is changing and what we have to do is acknowledge that. Many people talk
4 about this as a new economy. The progressive policy institute a few years ago came up with this
5 definition, which I think is quite good because it's not just about technology, it's about
6 understanding that it's affecting the way that we do business that you cannot price an order with
7 Wal-Mart or General Motors if it's not on line in terms of their suppliers. It's embedded across
8 all sectors of the economy from the way our hospitals are run to the way our factories are run, and
9 it did not happen overnight.

10 I am surprised as I visit communities across the region that say, oh, my God, how did we
11 get here, but when you look at the numbers and analyze what's happened, this has been coming
12 for many years. We've seen the slippage and the change, and yet we have not responded in a way
13 that has led up to and helped us deal with changing industrial and occupational order. Very high
14 levels of entrepreneurship. We know the trend is globalization, and we know the changes in
15 technology. What I'm reporting to you all now is things that have already taken place, not things
16 I'm projecting but things we know has already happened to us.

17 One of the things this has led to is something called job turning. The fact that we see so
18 many of these jobs being created by small companies like David Burch is called gazelles, fast-
19 growing companies. It is not unusual to think about the fact that the average American will
20 change jobs every three-and-a-half years, they'll have seven jobs and three careers in a lifetime,
21 and I'm glad to report I have made my quota, and I do not have to change again.

22 What is somewhat frightening is that our young people in their twenties, and I have a few
23 of these on my staff, are changing jobs every 1.1 years and something that has never happened.
24 One of those things that we have to take into consideration as we look at where these young
25 people are going and what they're doing. It's being driven by the same thing we've talked about,
26 competition, technology, and globalization.

27 We know too there's a drastic change in what our education system really is all about in
28 terms of what's required. This slide probably shows it the best. In 1950, 60 percent of the jobs in
29 this economy were unskilled, and today it's down to 15 percent as of the last census and dropping
30 like a rock. It has tremendous overtones and importance in terms of where we're going. We
31 know that this is only going to increase. The Department of Labor tell us by 2010, 42 percent of

1 the jobs in the economy will require a two-year or four-year degree, up from 29 percent in this
2 sense. That we know growth in terms of pressure is in services at the high end, remembering
3 that's a very broad category.

4 There is still tremendous growth in computers, but not so much in programmers as it was
5 when engineers, specialists, network administrators, and people to make it work. As hard as it is
6 for us to believe now with the dropping labor force and the high unemployment rate, we are
7 headed for a tremendous labor deficit because whether we like it or not, we're all getting older.

8 Today, 75,000 people in America will turn 50 years old. I don't really care about that,
9 but anyway, some people do. You have to realize that these folks are going to retire and we're
10 going to have a tough time replacing those skills as they are.

11 When we look at where the wage and the salary growth is, you can see that it's
12 interesting and it's across a number of sectors. A lot of business services, a lot of suppliers,
13 computer folks as well up and down the scale. These are the pressures of the annual increases
14 that are predicted by the Bureau of Labor Statistics. When you look at fast growth in terms of
15 percentages, we know it's those computer folks I was just talking about, and yet there's also for
16 the very real needs in terms of medical assistance, all kinds of things related to publishing,
17 personal home care aid, all those pieces of the puzzle that are changing this economy. Note the
18 kind of jobs, this is the ones we had in the '50s, '60s, and '70s.

19 I hesitate here for a moment to talk about 9-11, not just because of the realities of what it
20 cost us as a country and the horrible day it was, but the loss of 30 million square feet of office
21 space one afternoon and thousands of lives. I want to tell you about several things that have
22 happened as a result of 9-11. Since I've been in this work, it was the first time that a project
23 activity completely stopped. There were no phone calls returned well into 2002, there was no
24 activity.

25 What we saw is if you look at the statistics from the third and first quarter of 2001 and
26 2002, you will see that every company that was considering and thinking about hiring laid off
27 employees, massive layoffs that we have not had since the Great Depression. The statistics are
28 overwhelming.

29 The third thing that happened is that we saw our state budgets begin to go into free fall
30 because the dot com failure of March and April was already on. The government told us later it
31 was a recession and 9-11 simply exacerbated that.

1 A few months later after that, I was making a talk, and a young lady held up her hand and
2 said, when is this going to be over and when are going back to normal? And I said, I'm sorry,
3 we're never going back. The reality is that this is the new world and this is what we have to live
4 with. The reality is that one of the difficulties that the economists are having that there is nothing
5 in their models about fear, there is nothing in their models about uncertainty. I tell you that only
6 to prepare for the fact that things are different and they're going to be that way for a very long
7 time.

8 When we look at rural America today, we know it's been tough, and the numbers are
9 very difficult. Yes, we're still on a jobless recovery path. I have a little trouble with that term,
10 but stay the course and keep talking about it. We see some growth in a few sectors, and we see
11 tremendous losses in local government, manufacturing, transportation, and some pieces of the
12 puzzle. We see that continuing population shifts, and it's most affected in those counties that are
13 way away from metro areas that have low density and have low level of something to draw
14 people. Not as bad, a net out-migration of about a million people. That's leading us to the
15 greatest concerns that most communities have, which is the keeping and attracting of workers if
16 they want, keeping young people at home and giving them a chance to make a choice of living
17 there after they come back from school.

18 The difficulty is less seen in the suburban areas than it is in those that are far away.
19 We've seen a tremendous increase in inequality related to rural income. We see in household
20 income, and increased from only \$11 twenty years ago to a little over 3,000. The differentials are
21 amazing and difficult, and one of the reasons obviously is because of the mix.

22 We also see, as I mentioned earlier, a lot of people working on regionalism and
23 understanding that there's more to be gained by working together than separately. We see all
24 kinds of these things, some from the federal levels, some on down. The fact also is that we have a
25 lot of people who just don't know what to do.

26 I'm reminded that one day Casey Single went into the dugout after a wonderful Mets
27 game when they made ten errors, and he said, does anybody know how to play this game? The
28 fact of the matter is my suggestion is, ladies and gentlemen, is that the game has changed, and we
29 have a new game, and it's time we started acting like it. It's time we started doing things in a
30 very different way.

31 Let me tell you a story, some of you are old enough to remember when John Foster

1 Dulles was the Secretary of State of this country and a pretty tough operator. There's a story that
2 one day he went out to the airplane, and the pilot came down to the tarmac and said, where to, Mr.
3 Secretary, and he said, it don't matter, we got trouble all over. Ladies and gentlemen, we've got
4 trouble all over, and here's the story of what's happened to the south in the last three years.

5 It's interesting having so much affection for so many of these states. Take a look at the
6 manufacturing job losses between the beginning of 2001 and the end of 2002. In your case, you
7 didn't win the prize and North Carolina did, but the fact is it's been tough for just about
8 everybody, and the numbers continue even as we look to what has happened in the past year with
9 November being the latest numbers. You can see losses are less, but they are still substantial with
10 North Carolina, South Carolina, and Georgia still losing tremendous amount of jobs.

11 Talking about the net change in terms of what's happened to jobs. The fact is that every
12 state has had a difficult time. Only Florida made some recovery toward the end of 2002. We see
13 again states that have led south in job creation. Virginia, Georgia, North Carolina suffering badly
14 in terms of the changes that are there. We see the number of prospects in people very, very small
15 compared to years past.

16 When we look at this year, we do see some improvement, we see some numbers that are
17 coming to the positive side, and the difficulties that exist. The jobs we're creating now are not
18 paying the same wages the jobs that we lost. That's true both in urban and rural areas as we look
19 at what is beginning to happen.

20 Here's what happened to Virginia over the last two years in terms of looking at pluses
21 and minuses. You can see the small increases on the top and the tremendous increases on the
22 bottom.

23 The Feds have come out with a new sector called Information in an effort to try to
24 update, and these are called the new way the classifications are done versus the old industrial
25 classifications. Remembering that many parts of Northern Virginia have a very high
26 concentration, and they have tremendous job losses as well. This is what it looked like over the
27 last 10 or 12 years in terms of the net losses and the realities of what's happened. You can see
28 we've had a very difficult time and a worst time than we had in the early 1990s.

29 One of the things that we've tracked in terms of how is the state doing? This is in terms
30 of momentum and it includes population, personal income growth, and employment growth.
31 Virginia has picked up and moved to 13th. You can see that many of the Southern states are still

1 lagging and not in the top 15 or the top 20. The small business folks did a survival index in 2003,
2 the first state being ranked the friendliest in terms of what's there. You can see the southern
3 states have done pretty well, and Virginia ranked 14th in that particular issue.

4 One of the things that's important is the new economy index which the present policy
5 instituted. Talking about knowledge, jobs, and globalization, and other pieces of the puzzle.
6 Virginia has done well here, yet I must point out that in the last two years, the average increase in
7 tuition in the flagship universities across the country is 12.8 percent. Virginia led the nation with
8 29.8 percent increase in tuition costs, not something that you're not aware of.

9 Where does that put us and where are we now? What is this new reality? I'd suggest it
10 takes us examining things in a very different way. Here's a few headlines from the last several
11 days just to give you a feeling of the uncertainty and the differences that we see.

12 As you recall, December was almost a zero. The unemployment rate went down in the
13 United States because 300,000 people left the work force, not because of anything else. What
14 we've seen is a very real change in terms of the ups and downs of what's going on. Factory
15 orders after going up went down in December, something that surprised everyone in terms of the
16 numbers there. The retailers got about a four percent increase over Christmas a year ago and
17 remembering that two years ago, we had the worst Christmas in 20 years. The retailers did a bit
18 better over Christmas.

19 The Atlanta Constitution this last week talked about the Georgia budget, and the reality is
20 that we have lost across the states in the last three years \$190 million from the state budget, and
21 the forecast is that for 2005, we'll lose another \$40 billion in budgets from the state governments
22 of this country.

23 We've got to talk about some different things, about institutions and organizations,
24 economic development strategy, competitive positions, and what do we do. I've been reading
25 Peter Drucker for 25 years, and he wrote a series of articles after 9-11. He talked about the fact
26 that it's now time for us to see ourselves as change agents, to see our organizations and
27 communities abandoning those things that do not work, in trying new things and continually
28 looking for improvement. Albert Einstein said that the definition of insanity is doing the same
29 thing over and over again and expecting different results. And it ain't going to happen. In fact, I
30 suggest the whole piece of the puzzle has changed.

31 About two years ago, the Progressive Policy Institute talked about guidelines for local

1 development and what they thought people should do. I think they got most of it right. It's about
2 understanding how you fit and not just where you've been but what's going on in terms of the
3 communities. It's about the work force, it's about infrastructure, it's about quality of life.

4 Here's one that I think has the most interest to everyone. I have a 25-year-old daughter,
5 and most days, her definition of quality of life and my definition of quality of life are not on the
6 same planet. The reality is that we have to care about what she thinks since she's a well educated
7 young woman and she's going to make a difference somewhere wherever she decides to go.

8 The question about talking about quality of life is a key economic development issue.
9 Knowing that there's individual choice and different people making different choices is
10 something we have fallen very short on in talking about real terms. You have to be aggressive in
11 terms of having innovative business clients. Business costs, quality of life, infrastructure, work
12 force are the four elements. That's not a multiple choice test.

13 The companies, the individuals, and the entrepreneurs have to find a place they want.
14 We can't say we're going to do this and forget about the others. There's great pressure on local
15 governments to reinvent and digitize and to be there. We have places now across the country
16 where you don't have to go down to city hall to get a permit, you can do it on line.

17 We have places where you can go across multiple counties to get the same permit and the
18 same possibilities in terms of doing business together and not ever leave your office. When I
19 talked to my colleagues at the state level about Economic Development, all of these things must
20 be considered, all of them must be in the portfolio in terms of what you're doing and in terms of
21 what's there. I have a lot of small communities that say we can't do all those things and we only
22 have four people here.

23 The reality is that it's the examination of these or understanding of how they fit and
24 where you put your resources. I remember one time I went to a place and said to the man, I said,
25 what's the strategy here, and he said, I'm not sure, but I think it's turn north and chant three
26 times, but that strategy failed and that strategy is over. If you only have one strategy, one
27 program, you will surely fail. The fact of the matter is this is a tough business and you've got to
28 fight as hard as you can to really understand you've got to put the pieces together and you've got
29 to do it in a different way.

30 Here's what I see. In January, 2004, and this is not the 1990s, and they will never be
31 back, but the best thing we can do about them is forget about them.

1 Secondly, the regional economy is still struggling, and we still, the bleeding is slowing,
2 but we still have major difficulties across many sectors. Our company late this summer finished a
3 strategy for Austin, Texas, and they thought they were bulletproof. They lost 25,000 jobs, paying
4 80,000 a job in the last two-and-a-half years in computer manufacturing and chip manufacturing,
5 and the jobs are never coming back.

6 With all those advantages they have, they had to rethink what they're doing and how
7 they're doing it. The number and size of projects out there continues to be small. There's some
8 improvement in logistics, transportation, automotive, financial services. They're not the numbers
9 and sizes that they were, and there's no indication that they're going to be. We see for the first
10 time some real signs of new business and investments.

11 I'm hopeful that the GDP numbers for the fourth quarter are going to be whole and not
12 up there where they were, and I don't think that's possible, but most of our economists are
13 predicting that the GDP growth this year is about four percent, and I sincerely hope they're right.

14 Consumer confidence, which controls a great deal of the economy, went up for a couple
15 of months and then went down to 91.3 in December, and it was up over 93 in November. We're
16 seeing that bankruptcies are up and small business starts are down. We had something happen
17 with the Federal SBA 7 Program being closed down with so many things in the pipeline. I hope
18 Congress can fix that very quickly.

19 Reality of this is that small business has driven this, and we have a great number of
20 people who lost their jobs trying to find a way to keep their family going. The bankruptcies are
21 about home mortgages and so many people are losing their homes. In the City of Kannapolis,
22 North Carolina, the home of Pillowtex with 30,000 people, and 5,000 of them worked at
23 Pillowtex, and all of them lost their jobs in one day. Martinsville was affected by thousands of
24 jobs the very same day. It's difficult to talk about how do you do that.

25 The stock market has moved forward, and we now only have lost about \$5 trillion, and
26 I'm not sure how much that is, but I think it's a lot. I think the housing markets have held us up
27 though. What we see in many parts of the region is that job creation leader has been the federal
28 government as we've gone to homeland security and so forth. We see some growth in health care
29 and a few other areas, but nothing substantial. I mentioned earlier the state budgets are still in
30 trouble, and what we're seeing this year, the State of California will take most of that loss.

31 A short-term question mark that affects where we're going to go. The continuing costs of

1 defense dollars, the Middle East, and Korea, the dollar itself as it swings up and down, now is at
2 an all-time low. That's good news and bad news. The trade deficit is up in terms of what's there,
3 the possibility of another 9-11, and there are things that you can do, and here's what I would do,
4 and I hope this Commission will continue to concentrate on this.

5 The number one issue is the quality of the work force, and you have to do everything you
6 can do to continue to work on it, improve it, and get those people who never succeeded in school
7 or never needed to go to school to find a way to do things to get them to a place where they're
8 comfortable with. You need them trained and retrained in terms of the new jobs that are coming.

9 Nurture the people you already have, create special programs, and I see more of this
10 going on in the country than just about anything else. Existing business and industry programs
11 sophisticated with very real databases about what they want, what's going on in trying to help
12 those who really need some serious help, support entrepreneurship in a different way. This is a
13 culture issue for the South, and it's difficult for us because we've had a bad mentality for a very
14 long time in many parts of the country.

15 When we recruit, we need to do it smart and carefully, we need to do it based on assets in
16 connection knowing that as we look at an area, we've got to know what the advantage is and what
17 we're going to be looking at. Take a look again at what you have and things that people may not
18 see when they look quickly. Multiple strategies are the key, and they're real, and they're what's
19 necessary.

20 In terms of marketing realities, there are two things that we know for a fact. The first is
21 personal contact from the Governor on up, and the second is website. One thing several states
22 have done very successfully is creating regional websites so a company can go and get whatever
23 they need from that. I talked to a man a few months ago that made a \$200 million investment.
24 He got it down to three sites before he picked up the phone. His staff did their own research
25 before they called anyone or talked to anyone. The new front door is much more important than
26 the old trade shows and the other things we used to do.

27 As I indicated a few minutes ago, remember quality of life is a personal choice, the kind
28 of place we have, and the kind of offerings that we have, and looking at them regionally, looking
29 at the choices regionally is an important thing to do.

30 I happen to believe that Allen Greenspan has served this country well and has done some
31 very important things. Just before Christmas, he was making a talk and he said something that I

1 think is the backbone of what I'm trying to say this morning. While change itself is one thing,
2 certainly what form it'll take is always uncertain. Here's a man who has guided us through this
3 difficult time, lowered the interest rates 13 times trying to protect the growth and the economy,
4 and yet he says, I don't know what's coming, I'm not sure what's around that next corner.

5 This is a team sport, and this is something we have to do together. We have to determine
6 what kind of place do we want, what kind of community are we really all about, what do we want
7 to bequeath to our children, and what kind of things are important to us. It'll take all of our
8 energies and all of our efforts. Creating this kind of place is not a game of solitaire, it's a team
9 sport.

10 It's been my pleasure to be here, and I thank you for your attention.

11 SENATOR HAWKINS: Thank you very much. It's interesting to see what's happened
12 all over the country and especially the South as far as the factories and the entrepreneurship all
13 the way from North Carolina, South Carolina, Atlanta, Georgia. I think the economies would
14 show even more of a direct impact and downturn.

15 MR. HOLLADAY: One thing that did happen for the first time all over the country is
16 that the difference in this recession is that each one of those places suffered serious losses.
17 Atlanta lost 75,000 jobs. Some jobs came back but not the same jobs.

18 SENATOR HAWKINS: I want to thank you because of those of us that grew up in the
19 rural South understand what happened and we're trying to transition a mentality of basically rural
20 communities and small towns and small businesses that were all tied together. That's different
21 from urban society that depend more on government being able to do things. Thank you very
22 much.

23 MR. CURRIN: Mr. Chairman, Mr. Holladay's presentation will be on our website. If
24 any member of the Commission would like to contact him personally, I have that information.

25 Mr. Chairman, our last presentation this morning, and one of our major initiatives centers
26 around the Education Committee and the grants that will be presented later by Senator Ruff. I
27 thought it would be appropriate to have the speaker to come to us this morning, and the topic is
28 Overcoming Barriers to Education. The gentleman that will present Barbara Cohen to us is a
29 friend and leader, Walter Rugaber. He's been very active on a lot of issues in the business world
30 and with professional people. He's been very active on issues dealing with education. It's my
31 pleasure to ask Mr. Rugaber to make this introduction.

1 SENATOR HAWKINS: Mr. Rugaber, welcome, and nice to meet you last night.

2 MR. RUGABER: Mr. Chairman and members of the Commission, we appreciate being
3 included in what I realize is a pretty heavy agenda. I'm here on behalf of the Center for
4 Innovative Leadership, which is a volunteer group mainly of business and professional people and
5 representatives from five of the colleges and universities in the Southwest. We try to encourage
6 regional thinking and regional solutions to problems.

7 We sounded an early alarm about the economics that hit the Southwest and Southside and
8 recently have done a lot of thinking about what might make a major difference in the education
9 level. As we talked among ourselves about why we lag so badly, I'm leaving out a lot of ideas
10 here, it dawned on us that what we face is a classic marketing problem. We're trying to sell
11 education, if you will, but we don't have a thorough understanding of consumer attitude.

12 We tend to have our favorite explanation for why more folks ought to go to college, but
13 there's a lot of reasons, but one of them, if we shoot at just one of them, we're going to miss way
14 more often than not and waste a lot of resources to boot. If we don't precisely understand what
15 drives people, we can't help them. With that understanding, we can make a difference. When we
16 began talking about this among ourselves, several of us thought about Kannon Consulting and its
17 founder and president, Barbara Cohen, and we asked her to help us with this project primarily for
18 two reasons.

19 One, she is accustomed and has a long track record of delivering actionable results.

20 Two, she's an exceptionally strong analyzer and thinker who can take a lot of detail and
21 deliver a tool kit that any teacher, principal, school superintendent could put to immediate use. I
22 believe you'll find her proposal imaginative and energizing.

23 Barbara.

24 SENATOR HAWKINS: It was a pleasure to meet you last night, and I'm looking
25 forward to listening to your presentation.

26 MS. COHEN: Thank you, and it's really a pleasure to be here. Don't be frightened, I'm
27 not going to bury you with data that Walter was telling you about. Today, I'm going to talk a
28 little bit about an idea. I'll tell you that at first it's going to seem a little odd, as Walter said, to
29 think about education as a market challenge.

30 We clearly know, as Mr. Holladay said, work force is a critical part of the new century.
31 In terms of bricks and mortar, part of the work force and trained work force is a critical element to

1 that success and, therefore, why not think of it as a marketing challenge. That's what I'm going
2 to talk about, and I hope you'll bear with me.

3 The first of these marketing ideas, and we can become used to a term called market
4 segmentation. Very few marketing companies look at the market place as one block. If you think
5 about products and services, there are cars that they talk about being very safe, there are cars that
6 are fun to drive, there are cars that have sex appeal and make you young and attractive to people
7 of the opposite sex. They all have four wheels, and they all go a mile or two, but that's all geared
8 to the different segments in the marketplace.

9 A clear take, we believe, looking and encouraging people and particularly students onto
10 higher education is really about segmenting them into groups. When you say we're going to
11 segment folks into groups on what basis? Certainly you could take the Commissioners and those
12 with blue shirts on one side and those folks wearing skirts could go on the other side, and you
13 could segment based on that. But that probably would not be meaningful.

14 Often we segment on demographics, young, old, age, income. Just as Mr. Holladay
15 talked about the need for new paragon, the days of demographics on the basis for marketing
16 segmentation are pretty much over. We just can't say that because your household income is
17 under 10,000 or over 50,000, you hold certain beliefs about soap.

18 We're going to talk about these ideas for a minute actually segmenting based on attitude,
19 their attitude towards their home, what they expect to get out of life, and the quality of life, their
20 attitude toward education, attitude towards money. As a marketer, it just doesn't have one
21 message for everyone, nor should we as we think about encouraging students in the tobacco-
22 growing region to seek higher education, whether at a community college or a four-year college
23 or vocational training.

24 We need to know that attitudes and segmenting them have different messages.

25 On a four or five stage approach, the first one is really starting to figure out what those
26 attitudes are. If you're wondering what I mean by attitudes, let me give you an example outside
27 of education, and then I'll try to share something from inside education.

28 We have done this kind of attitudinal segmentation in a variety of industries, some of
29 which are pretty basic, like flooring, cheese, soap, and others are very complicated and
30 sophisticated, like health care and media, home education. We've actually done attitudinal
31 segmentation of how you buy your curriculum when you home school. We know this can have

1 broad applications.

2 An example would be the newspaper business, if I might use that. We tend to think of
3 who reads newspapers. Most of the information you see are demographics, higher educated,
4 higher income people buy newspapers, and that's partially true. They represent a segment of 10
5 to 15 percent of hard core newspaper readers. We call them a hard news habit, and they can't
6 imagine a day without reading the local paper.

7 Then there's the segment about the same size that buys the paper for advertising. These
8 are people that want to stretch their dollars and they want the coupons, want the advertising ads
9 and the inserts, or they want to read the classifieds to see what that motorcycle really sells for
10 they've got in the backyard and they want to find out what it's worth.

11 Fifteen percent of the people are looking at newspapers and they have nothing to do with
12 the news, but it's really about advertising, and I buy the paper to help me save money.

13 There's a group that is quite a bit of disappointment to our media, and we'll call them the
14 daily newspaper negative. This group, and I guess there's probably a couple that are lurking in
15 this room, who don't actually like the daily newspaper, and one reason we don't like it is maybe
16 we're new to the community and we don't need much news and we move around a lot.

17 We think reading the *Wall Street Journal* or the *New York Times* or *The Washington*
18 *Post*, if we read those newspapers, we'll get the news that we need or we don't need to know
19 about a local school. That group is about 10 percent, and they are in fact the most highly
20 educated and higher income community. Much to the disappointment of many of our publishers,
21 when they learn that the group they bragged that they had are really among the lower readers, so
22 it's not about demographics, but it's about attitude.

23 In education, what attitudes do children have that might be optical or, in fact, enhancing
24 to them to go on to higher education? You might say something like going to college won't make
25 a big difference whether I succeed or not. If you find that fundamentally you don't believe that
26 getting a higher degree or a higher amount of education makes any difference in life, then you can
27 give that person a scholarship, and they're not going to take it because it doesn't have value to
28 them. Taking out loans for college or vocational schools isn't worth it in the end. One that we
29 think is very relevant is living away from my home town or college is for snobby people, not
30 people like me. When we talk about attitudes, it's understanding those attitudes. In this kind of
31 initiative, how do we find out about that?

1 The proposal before you is really for some research monies. This is a very, very difficult
2 thing to ask for. It's like asking people something about whether they're racist or biased, and, of
3 course, none of us are. The question is how do you get at people's attitudes about education?
4 We'll need to do some fairly sophisticated research. We can't do it on the internet, we can't do it
5 on the telephone, but you have to sit across from people and ask them questions and help them fill
6 out a questionnaire. The people that have to do this research are people that live today in the
7 tobacco-growing counties and the adjacent counties.

8 We need to talk to each other to do the research among each other. What's very
9 important about this initiative is that, yes, this research is an important part, and we will build
10 attitudinal segments just like newspaper negatives and the avid shoppers and some of the other
11 attitudinal people who have done media.

12 What's more important is that we need to involve community leaders, whether it be
13 school teachers, guidance counselors, educators, policymakers, and their willingness to really be a
14 part of it and what kind of programs they would like to see.

15 This is something that we just made up, so there's no data on this, and this is a
16 hypothesis. Let me describe to you three possible segments and then the kind of action you might
17 take when you use it as a marketing or selling a proposition.

18 The segment we made up we call unused potential. Each group of children is highly
19 motivated and may be limited by parents who are not well educated themselves but are
20 supportive. These are teens that are willing to make sacrifices who might view that they can't
21 afford more education, but they think it would be worthwhile if they could really do it. They're
22 open to leaving home to get a little more education but don't want to go too far. That's a group
23 that has a lot of potential and really needs to be unleashed.

24 Perhaps at the other end of the spectrum is a group which we might call the good-
25 enough-for-me group. The current way of life is hard, and their parents worked hard to make
26 ends meet, and they've got cable and a roof on their head, but they think it's kind of good enough
27 is the life they expect to lead. They don't challenge their life. College or vocational school is
28 something else. Their life is pretty set and they're going to take over that family business, and
29 college is not only not affordable but not even worthwhile.

30 There may be a segment in between those two I'll call could be better. They know how
31 hard their family worked, they know life could be better, they see it on television or read it about

1 it in the paper or a magazine, but they're not really sure of how to get there. It's a little scary
2 doing something that your parents and neighbors are not doing. Like the other two segments,
3 they can't really afford an education, but they think maybe if the money ever came to me, I might
4 give it a try. They know life could be better.

5 If those three attitudinal segments really existed, they all could look the same
6 demographically and live in that same community and that same county. What would you do?

7 Well, we took a marketing survey, and you take programs that existed today, position
8 them differently. For example, the unleashed potential group, they need information and help to
9 understand what college is really about, how to fill out a financial aid form, and a scholarship
10 would be very valuable to those people because they recognize the need for hard work. They
11 want students loans and part-time jobs to help them. A website they could do on their own.

12 The guidance counselors are too busy helping students with problems and spend a lot of
13 time with them at college. So perhaps a self-directed website or pamphlet or a booklet. These
14 folks are looking to unleash potential. Many of the programs exist, but the question of tailoring
15 them and a message to this group. The could-be-better group, they're willing to take a little
16 chance or a little leap, but they're going to need a little push.

17 Here's where we need to try to reach out to them. Maybe spend a weekend on a college
18 campus. See that it can be a friendly place. They have mentor programs that can help them
19 through applying to school, and they may have distance learning to help them get more education
20 maybe at home without going to the campus.

21 Those are the kind of programs that would help bring along a stronger work force among
22 those that latitudinally think there is a better life.

23 To the third group, which is the good-enough-for-me, we're not writing that group off
24 either, because we want them and they have contributed in our community and it would be a
25 better and more educated work force as well. If they're going to take over their parent's business,
26 can we do it better, do they understand new tax laws and how they apply to small businesses, how
27 to get loans, a mentoring program, and only now they're looking to local business leaders. Many
28 of those programs exist today, but the question is positioning them to these different attitudinal
29 groups and communicating to them.

30 One of the great benefits that we have is that these students take tests all the time, they
31 take tests in school that tells them what level they're at in reading and writing. With the

1 additional of perhaps 20 questions, we would know what attitudinal group they are in and,
2 therefore, how we can talk to them and how we have them in the right program. How do we
3 make a marketing and selling idea like this real? We propose having pilot schools in the tobacco-
4 raising area to actually be a part of this to help us develop these programs beyond just a research
5 study.

6 You probably want to say how do you know this is going to work and can we guarantee
7 that it's going to work. We know that improving and having a more trained work force is
8 critically important. We don't know a hundred percent that this will work, but we do know that
9 we need new and innovative ways to go about getting more trained work force. We know these
10 tools like segmentation and targeting programs have worked and they've worked and the strategy
11 worked that we've done and that was a pleasure to be part of Ferrum College and Hollins
12 University. We know it's worked in the newspaper business. We know that there are examples
13 that you know from your lives. Remember when trucks or light trucks were just for commercial
14 use, and now over 8 million are sold.

15 This is one I'm sure you'll all remember. Do you remember when babies wore cloth
16 diapers? And you're probably saying, why am I talking about this today in front of this group,
17 and I promise you it'll be a brief one. When paper diapers were first introduced, they were
18 introduced to the mass market as something convenient. Disposable diapers did not take off until
19 we understood that it was better for babies. You'd never want someone to see your child in a
20 paper diaper. You wanted to be a parent that wanted to keep your baby healthy and draw that
21 moisture away, but people don't use cloth diapers anymore. The fact is people don't use cloth
22 diapers anymore, and its market segmentation and attitudinal change. That business was created
23 from nothing into billions.

24 The light truck market was very small, 4.6 million to over 8 million. These are
25 revolutionary ideas. No, we can't tell you one hundred percent taking the attitudinal approach to
26 higher education will guarantee you a more educated work force, but we can hope that as you
27 look and work toward the Commission's goals in granting these monies to various projects that
28 you'll have some R and D, but it will take new and innovative approaches to make a big
29 difference.

30 We need to change some of these attitudes of some of the young people in the tobacco-
31 growing regions that will strive to be a more skilled work force. Thank you very much.

1 SENATOR HAWKINS: First of all, I want to thank you because you're absolutely right,
2 there's opportunities and you always have to get the message out. I'd rather make ten mistakes
3 but be moving forward than stay stagnant in the ground. Thank you very much.

4 MR. CURRIN: Mr. Chairman, it's been suggested that the Commission go into
5 executive session to discuss the Tobacco Regional Opportunity request from a locality in our
6 tobacco region. According to our guidelines, if one community has more than two requests a
7 fiscal year, the full Commission has to review and support or not support that request. We're at a
8 stage where this is happening and because of some proprietary information, I would request Mr.
9 Chairman and the Commission go into executive session.

10 MR. ARTHUR: Mr. Chairman, I move we go into executive session in accordance with
11 the provisions of the Virginia Freedom of Information Act, Section 2.2-3711(A)(5) of the Code of
12 Virginia. I move that the Commission go into executive session for the purpose of discussion
13 concerning a prospective business or industry or the expansion of an existing business or industry
14 where no previous announcement has been made of the business' or industry's interest in locating
15 or expanding its facilities in the community.

16 SENATOR HAWKINS: It's been moved. Is there a second?

17 MR. OWEN: I second.

18 SENATOR HAWKINS: It's been moved and seconded that we go into executive session
19 for the purpose of what's just been stated. All in favor, say aye (Ayes). Opposed (No response).

20
21 NOTE: Whereupon, the Commission goes into executive session.

22 Thereupon, the Commission reconvenes in open session.

23
24 SPEAKER: Whereas, the Tobacco Indemnification and Community Revitalization
25 Commission has convened a closed meeting on this date pursuant to an affirmative recorded vote
26 and in accordance with the provisions of the Virginia Freedom of Information Act; and whereas,
27 Section 2.2-3712 of the Code of Virginia requires a certification by this Commission that such
28 meeting was conducted in conformity with Virginia law;

29 Now, therefore, be it resolved that the Commission hereby certifies that, to the best of
30 each member's knowledge, one, only public business matters lawfully exempted from open
31 meeting requirements under the Act, and, two, only such public business matters as were

1 identified in the motion by which the closed meeting was convened were heard, discussed, or
2 considered by the Commission in that meeting.

3 SENATOR HAWKINS: Call the roll.

4 MR. CURRIN: Mr. Arthur?

5 MR. ARTHUR: Aye.

6 MR. CURRIN: Mr. Banner?

7 MR. BANNER: Aye.

8 MR. CURRIN: Secretary Curry.

9 SECRETARY CURRY: Aye.

10 MR. CURRIN: Mr. Bryant?

11 MR. BRYANT: Aye.

12 MR. CURRIN: Delegate Byron?

13 DELEGATE BYRON: Aye.

14 MR. CURRIN: Commissioner Courter?

15 COMMISSIONER COURTER: Aye.

16 MR. CURRIN: Delegate Dudley?

17 DELEGATE DUDLEY: Aye.

18 MR. CURRIN: Mr. Fields?

19 MR. FIELDS: Aye.

20 MR. CURRIN: Mr. Hite?

21 MR. HITE: Aye.

22 MR. CURRIN: Delegate Hogan?

23 DELEGATE HOGAN: Aye.

24 MR. CURRIN: Mr. Hopkins?

25 MR. HOPKINS: Aye.

26 MR. CURRIN: Mr. Jenkins?

27 MR. JENKINS: (No response)

28 MR. CURRIN: Delegate Johnson?

29 DELEGATE JOHNSON: Aye.

30 MR. CURRIN: Mr. Mayhew?

31 MR. MAYHEW: Aye.

1 MR. CURRIN: Mr. Montgomery?
2 MR. MONTGOMERY: Aye.
3 MR. CURRIN: Mr. Moody?
4 MR. MOODY: Aye.
5 MR. CURRIN: Mr. Owen?
6 MR. OWEN: Aye.
7 MR. CURRIN: Mr. Owens?
8 MR. OWENS: Aye.
9 MR. CURRIN: Senator Puckett?
10 SENATOR PUCKETT: Aye.
11 MR. CURRIN: Senator Ruff?
12 SENATOR RUFF: Aye.
13 MR. CURRIN: Secretary Schewel?
14 SECRETARY SCHEWEL: Aye.
15 MR. CURRIN: Mr. Stallard?
16 MR. STALLARD: Aye.
17 MR. CURRIN: Mr. Taylor?
18 MR. TAYLOR: Aye.
19 MR. CURRIN: Ms. Terry?
20 MS. TERRY: Aye.
21 MR. CURRIN: Mr. Thompson?
22 MR. THOMPSON: (No response)
23 MR. CURRIN: Mr. Walker?
24 MR. WALKER: Aye.
25 MR. CURRIN: Senator Wampler?
26 SENATOR WAMPLER: (No response)
27 MR. CURRIN: Mr. West?
28 MR. WEST: Aye.
29 MR. CURRIN: Delegate Wright?
30 DELEGATE WRIGHT: Aye.
31 MR. CURRIN: Mr. Vice Chairman?

1 DELEGATE KILGORE: Aye.

2 MR. CURRIN: Mr. Chairman?

3 SENATOR HAWKINS: Aye.

4 A motion will have to be presented that would vary from the rules of the Commission
5 allowing one more TROF grant to the City of Danville in the amount of \$400,000 for an ongoing
6 investment.

7 MR. ARTHUR: Mr. Chairman, I'd like a motion that the Commission approve the
8 exception to the rule for the TROF that we just heard about and allow it to go forward.

9 MR. OWEN: Second.

10 SENATOR HAWKINS: It's been moved and seconded that a grant of \$400,000, which
11 is a variance from normal operating procedures made to the City of Danville for an ongoing
12 venture, which is the third grant this year. All those in favor, say aye (Ayes). Opposed, like sign
13 (No response). Thank you.

14 Next on the agenda is the Education Committee report, Frank.

15 **SENATOR RUFF:** Mr. Chairman and Committee members. The Education Committee
16 met last Thursday in Roanoke. We had a number of requests, 45 in number, there was a total
17 package of 45 proposals of almost \$24 million. Regrettably, we didn't have quite that amount of
18 money and actually about 10 percent of that amount of money, but we had a lot of whittling that
19 we had to do.

20 Before you are those that we found most worthy of support. The second group will be
21 considered at our spring meeting.

22 Mr. Chairman, if there are no objections, I move the following funding by the
23 Commission in a block. Crater Regional Partnership, \$90,000 for Skill Streams for Success, a
24 Work Force Development Program, Crossroads Rural Entrepreneurial Institute, \$90,000, for
25 educational and technology equipment only, conditioned that they complete a restructuring to a
26 nonprofit status. Central Virginia Community College Educational Foundation, \$50,000 for work
27 force training conditioned that they match dollar to dollar of noncommission funds. Danville
28 Community College, \$268,000 for Allied Health and Industrial Technology Work Force training,
29 Mecklenburg County Business Education Partnership, \$99,000 for an adult education project.

30 Smyth Washington Regional Industrial Facilities Authority, \$22,500, for a study to
31 identify the region's needs or adult work force training, Southside Virginia Community College,

1 \$261,000 for a seven-county program for engineering, science, math. Southwest Virginia
2 Community College, \$50,000 for the Aims Higher Scholarship Program conditional for a
3 noncommission funding match.

4 Likewise for Mountain Empire Community College, \$50,000 under the same terms.
5 Then Virginia Highlands Community College, \$50,000 under the same terms. Southwest
6 Virginia Community College combined with Virginia Highland Community College and
7 Mountain Empire Community College, \$150,000 to establish a joint nursing program. Tek.XAm
8 training and assessment for work force skills development, \$195,000 for work force training and
9 assessment in the coalfields EDA area and for Heartland Region Partnership. The Town of
10 Farmville, \$15,000, planning for a one-stop educational work force training center. Mount
11 Rogers Regional Adult Education Program, \$125,000, a GED initiative for Planning Districts 1,
12 2, and 3. Virginia Commonwealth University, 128,000, for a rural nurse anesthesia education
13 project, and that would include 78,000 for equipment, and up to 50,000 for scholarships for
14 Southwest Virginia.

15 That's it, Mr. Chairman.

16 SENATOR HAWKINS: It's been moved and seconded we accept these as a block? Any
17 discussion? All in favor, say aye (Ayes). Opposed (No response).

18 SENATOR RUFF: Mr. Chairman, the Committee is not ready to take action on about
19 another dozen proposals that are on the table. Those proposals cut across many lines, and we're
20 hoping to see some cooperation and coordination among these organizations. That may include
21 programs that cover both Southside and Southwest such as the certification program or
22 recertification program for reading specialists and for science teacher recertification programs.
23 We expect to make recommendation to those proposals at our May meeting.

24 SENATOR HAWKINS: Thank you. I want to thank you because one of the major
25 concerns has to do with the education programs.

26 Next up is the Southside Economic Development Committee report.

27 MR. ARTHUR: Mr. Chairman and members of the Committee, the Southside
28 Economic Development Committee met yesterday in order to address essentially three items, two
29 of which I'd like to vote on in a block. That was a change to previously approved economic
30 development grants. They wanted to change them slightly. The Committee recommends
31 approval. The staff has reviewed these and they have recommended approval, and it's in line

1 with our long-range plan.

2 I'd ask the Commission to approve both changes in a block and move that you accept the
3 recommendations of the Committee.

4 DELEGATE WRIGHT: I'll second it.

5 SENATOR HAWKINS: It's been moved and seconded that the changes to the Southside
6 Economic Development be recorded in a block. Any questions? All in favor, signify by saying
7 aye (Ayes). Opposed (No response).

8 MR. ARTHUR: The third item, the Southside Economic Development Committee,
9 believing that the technology broadband infrastructure is a huge economic development asset, has
10 voted to allocate \$2 million of Southside Development funds that were set aside for
11 contingencies, that it be moved into the Technology Committee's jurisdiction with one caveat,
12 that it be conditioned upon the Commission's approval of a funding plan to obligate funds
13 sufficient to construct the entire Southside broadband infrastructure network. I recommend the
14 Commission make approval of that transfer of funds.

15 SENATOR HAWKINS: So noted that the caveat and plan be put in place for full
16 implementation. Is there a second?

17 DELEGATE WRIGHT: Second.

18 SENATOR HAWKINS: Any discussion of this transfer? All in favor, say aye (Ayes).
19 Opposed, like sign (No response).

20 MR. ARTHUR: Thank you, Mr. Chairman.

21 SENATOR HAWKINS: Delegate Hogan, you're up.

22 DELEGATE HOGAN: Mr. Chairman, two things really quickly. We've talked about
23 how we're going to respond to the resolution that Mr. Arthur mentioned. We ask the Commission
24 for approval of \$3 million to go ahead and match the EDA funding we had at that point to go
25 from South Boston to Stuart. Because of some changes the EDA has made in their policy, they're
26 now willing to pay half of the run from Emporia to Stuart and go ahead and do basically a piece
27 of the backbone that goes along 58 right now. At this point, we would need approval to match
28 those funds.

29 SENATOR HAWKINS: The matching funds complete the basic backbone that
30 everything is built off of?

31 DELEGATE HOGAN: Yes, sir.

1 SENATOR HAWKINS: Is there a second?

2 MR. OWENS: Second.

3 SENATOR HAWKINS: Any discussion? Does everyone fully understand that after
4 three-and-a-half to four years, we may be on a move with this plan? All those in favor say aye
5 (Ayes). Opposed (No response).

6 DELEGATE HOGAN: One other thing to respond to the motion that Mr. Arthur just
7 referred to dealing with that, also to assure that the rest of Southside that we're going to deal with
8 their issues in one comprehensive plan, we've got to start somewhere, and we're ready to deal
9 with it. I'd ask the Commission to adopt this resolution. That the comprehensive regional
10 backbone plan, which reaches each county of Southside Virginia shall be implemented no later
11 than December, 2007, subject to annual appropriations and performance agreements for Tobacco
12 Commission resources allocated to the regional backbone initiative by the Board of the Virginia
13 Tobacco Commission.

14 SENATOR HAWKINS: The only question I have, Clarke, to make sure we fully
15 understand that, Southside includes the peripheral counties of Floyd, Franklin, and Patrick is in
16 Southside.

17 DELEGATE HOGAN: Twenty-two counties.

18 SENATOR HAWKINS: Sometimes Southside is defined differently, but for purposes of
19 this, it is defined as the number of counties that we have identified, right?

20 DELEGATE HOGAN: Yes, sir. That's the motion.

21 SENATOR HAWKINS: Is there a second? There's a second. Is there any discussion?
22 All those in favor, say aye (Ayes). Opposed (No response). Clarke, thank you.

23 Next is Claude.

24 MR. OWEN: Thank you, Mr. Chairman.

25 SENATOR HAWKINS: I want to thank you because after much work, you all have put
26 in the hours on this.

27 **MR. OWEN:** Mr. Chairman, thank you, and I'm pleased to report that the Search
28 Committee has completed its assigned tasks. If you look in your packet this afternoon, there's a
29 copy of the resume that we wish to present to the Commission.

30 You'll recall a year ago that we met at the Capitol with the Governor, and the Chairman
31 appointed a Search Committee to seek a Managing Director of Strategic Investments. At our

1 meeting in Longwood this summer, the parameters and terms of employment of that position were
2 defined. Then I think Secretary Schewel laid out for you in a meeting down at Wise the job
3 description that had been developed for that position.

4 Since the Wise meeting, the Committee has been very active in recruiting candidates to
5 this position, to come forward and be interviewed, and then a significant number of interviews
6 were held among perspective candidates. We have reached the conclusion that Ned Stephenson,
7 whom many of you met last night and this morning. Ned has a background in both agriculture,
8 having worked for the ASCS about a decade, and a background in finance. Not only being a
9 banker and in financially related fields, but within the banking industry serving as the chief
10 financial officer and the chief financial analyst of the institutions for which he worked.

11 I bring you today the unanimous recommendation of our six-person Search Committee.
12 Mr. Stephenson is to be hired as the Managing Director of Strategic Investments. Mr. Chairman,
13 I put that in the form of a motion.

14 MR. MAYHEW: I'll second it.

15 SENATOR HAWKINS: It's been moved and seconded.

16 DELEGATE BYRON: Mr. Chairman, are we open for discussion?

17 SENATOR HAWKINS: Always.

18 DELEGATE BYRON: I would like to have something reflected in my vote if this is the
19 time to mention that. I want to thank you for all your hard work on this Search Committee. I just
20 want my vote to reflect that while I'm sure that Mr. Stephenson is very qualified for the position,
21 he spent a lot of time in that, that I'm going to vote no because of the fact that I was opposed right
22 from the beginning to the actual position. I feel like that is not something we should be spending
23 our limited funds on. I'd like my vote to reflect that.

24 SENATOR HAWKINS: The minutes will reflect that. To build on that and having the
25 opportunity to go through the discussions we've had and understanding the type of investments
26 that we're making, I honestly believe that this is the right decision to be made by this
27 Commission. Mr. Stephenson is the type of individual that will bring to us an oversight and
28 expertise that will probably compliment everything that we're doing. This type of guidance is
29 something that we should understand is helpful. Working with Carthan and his staff, we have
30 probably one of the best staff that I've ever worked with. This does not in any way reflect on
31 their ability.

1 But the complicated issues that we're dealing with on a day-to-day basis, this type of help
2 is something that I think we all need.

3 Claude, I thank you for your recommendations. The motion has been made and
4 seconded, any more comments or discussion? All in favor of this position being filled by Mr.
5 Ned Stephenson, say aye (Ayes). Opposed, like sign (No - no - no) Three no's (Senator Ruff,
6 Delegate Byron, and Delegate Wright vote no).

7 All right, that brings us down to public comment.

8 SENATOR PUCKETT: Before we go to public comment, can I return to the Education
9 Committee report for a moment?

10 SENATOR HAWKINS: Certainly.

11 SENATOR PUCKETT: Maybe someone from staff would like to address this, but under
12 the projects to be resubmitted, there was an issue brought to me earlier today concerning the
13 pharmacy school at the University of Appalachian and that we may be possible prepared to give
14 them some kind of funding. Would someone from the staff please address that?

15 MR. PFOHL: Senator, what the staff is anticipating was in cases where the Committee
16 had expressed interest in seeing revised proposals or maybe focusing on specific elements of the
17 original requests or in cases where there were similar requests for two separate organizations that
18 we give those applicants another month or so to revise their proposal. The staff will be having
19 dialogue with those applicants to convey the discussion from the Committee last week. They will
20 be invited perhaps in mid February to resubmit their proposals and be presented to the Education
21 Committee again in March, and then ultimately to the Commission in the May 13th meeting.

22 There's just under \$600,000 still available that is unobligated from the Education budget,
23 so that's what we will be working towards.

24 SENATOR PUCKETT: At this point, you're not prepared to make any kind of
25 recommendation on that?

26 MR. PFOHL: On the pharmacy proposal?

27 SENATOR PUCKETT: Right.

28 MR. PFOHL: We did receive a fax yesterday from the applicant, University of
29 Appalachia School of Pharmacy requesting a revised figure of \$87,500 be considered. There
30 wasn't much detail attached to that as far as why that figure was presented to us and how it was
31 arrived at. We're planning to have a conversation with that applicant as to why the proposed

1 figure was presented and how they propose to use the Commission funds. We're anticipating that
2 would be one of the applications that would be invited for resubmittal.

3 SENATOR PUCKETT: You have not had the conversation today with the applicant and
4 you're not prepared to make that?

5 MR. PFOHL: No, we're not prepared, but I believe they may have a representative
6 today, but we have not had that conversation yet.

7 SENATOR HAWKINS: Senator Puckett, does that answer your question?

8 SENATOR PUCKETT: Yes, thank you.

9 SENATOR RUFF: Mr. Chairman, Senator Wampler had to go to another meeting. He
10 was interested in trying to move forward with some kind of amount of money. I explained to him
11 the balancing act that we tried to do with the Education Committee of making sure that nobody
12 gets left out, that there would be about \$40,000 left in the Southwest part. He talked to me for a
13 minute, and I was hoping he was going to get back. I think he wanted to make a motion to take
14 20,000 of those dollars, and he would try to figure out how to get a match, or a figure of
15 somewhere around \$50,000 or \$60,000 from the Southwest Development fund.

16 SENATOR PUCKETT: Mr. Chairman, I talked to Senator Wampler, that's why I was
17 hoping someone would have a little bit more information. Senator Ruff is correct, we also had
18 some funding in Southwest and ourselves, if we could get a commitment today from the
19 Commission for 15,000 or 20,000, then we're going to try to do something on our own in the
20 Southwest end trying to help that situation, and I'm prepared to make that motion if it's in order.

21 SENATOR HAWKINS: We've got two approaches we can take. One is that we can
22 address it now by motion from Senator Puckett, or we can wait until Senator Wampler arrives and
23 have a full discussion. If we feel comfortable with that motion, I think we can move ahead right
24 now. That's up to, Senator Ruff, what do you think?

25 SENATOR RUFF: Mr. Chairman, I don't know how tied up he is. We had hoped to
26 hold back some money for some programs and proposals that would cover Southwest and
27 Southside such as the recertification programs for science teachers. Old Dominion was trying to
28 develop a plan to be used for the distance learning program. I hate to cut into those funds, but at
29 the same time, I think the people in Southwest Virginia have a better knowledge of what's needed
30 down there than I do.

31 SENATOR HAWKINS: Forty thousand dollars is being asked for, would that do any

1 undue harm to the reserve that you have?

2 SENATOR RUFF: Mr. Chairman, if you've got 40,000 and then you reduce it to 20,000,
3 that leaves 20.

4 SENATOR HAWKINS: We need to go back and revisit some allocations.

5 SENATOR RUFF: If we could hold until maybe after the public comment session and
6 maybe he will be here. If not, we can take some action at that time.

7 SENATOR HAWKINS: Before we get into the public comment part, I'd like introduce
8 you all to the new member of the staff, Ned Stephenson. Mr. Stephenson, welcome.

9 MR. CURRIN: Ned, the first thing you have to learn is always follow what the
10 Chairman says.

11 SENATOR HAWKINS: When are you going to start?

12 MR. CURRIN: I would like to say on behalf of the staff, I'd like to extend a very warm
13 welcome to Ned Stephenson, a native Virginian from South Hampton County, Virginia. He
14 understands a lot of the issues that we're dealing with, for you Spider fans, he's a graduate of the
15 University of Richmond, and I want to warmly greet you and express my appreciation to
16 Chairman Owen who served as Committee chair and participation in it. Thank you, thank you,
17 Mr. Chairman. Ned.

18 **MR. STEPHENSON:** Thank you, Carthan, I'm delighted to be associated with each
19 one of you. I met most of you last night. I felt some energy and devotion in that room last night
20 and again here today. I told Carthan last night I was ready to be thrown into the deep end.

21 From sitting through this meeting this morning, I see that the deep end may have no
22 bottom. I'm ready for that and I'm energized by this and I look forward to doing this work. It
23 may be the most important work of my life, and I look forward to it being that way. Thank you,
24 Carthan, and the Commission.

25 SENATOR PUCKETT: Mr. Chairman, let me say as a member of the Committee how
26 impressed I was with Ned. One of the things I had sort of gut feeling that we might end up with
27 him, and I think we got there in due time. One of the things he said to our Committee meetings
28 that stuck with me and won't leave me is that he said, I'm a short-sleeved guy, and he went ahead
29 to explain what that was. Here's a guy that's retired, and he didn't have this job, and I'm
30 reasonably sure he didn't take it because of the money. Here's a person that's interested in
31 helping Southside and Southwest be what this Committee is charged to help them be.

1 I want to thank you for giving us your expertise and being willing to come out of
2 retirement, so to speak, and help us do the right thing. I appreciate that very much.

3 MR. STEPHENSON: Thank you, Senator Puckett.

4 MR. OWEN: Mr. Chairman, I would be remiss in completing my report if I didn't thank
5 Secretary Schewel and his office and particularly Deputy Secretary Matt Erkestine. As you recall
6 when we were discussing a search firm, we were talking about a cost in excess of \$100,000 for
7 their effort. With the Secretary's help and the Deputy Secretary and Sarah's help, I think we got
8 as fine a job done as we could and saved the Commission a lot of money and their gratitude for
9 the work that they did.

10 SENATOR HAWKINS: Well taken. Ms. Terry.

11 MS. TERRY: I'd like to say that another aspect hasn't been fully developed relating to
12 Mr. Stephenson. Apart from his ten years in agricultural services working with the State, he was
13 Chief Financial Officer for a \$500 million bank, and not just that, but this bank kept merging and
14 merging, and by the time you finished, there were 30 board members that he helped work together
15 and put together as a team for a large bank.

16 When he signed off, he made the choice that he didn't want to move on in that
17 organization. It's his ability, and you can imagine bringing bank boards together until he got a
18 30-member bank board, but his interpersonal skills and building bridges across various groups of
19 people and at the same time making well defined and key financial decisions, bring a lot to the
20 Commission.

21 SENATOR HAWKINS: Thank you, ma'am, rest assured that his talents will be tested.

22 MR. CURRIN: I guess what we're doing now is just waiting for Senator Wampler.
23 We'll have lunch provided for the Commission and staff. I'd like to request that at some point we
24 go to the south portico of the Capitol for the Commission's picture.

25 SENATOR HAWKINS: We're waiting for Senator Wampler, or we can break after the
26 public comments and have lunch, then go outside, or we can go outside and come back and eat. It
27 depends on whether you want to take the picture first and then come back. What's the feeling on
28 the Commission? Do you want to go out first and then eat? All right, we'll go out, and then we'll
29 come back and eat.

30 This idea of the 20,000, we pretty much have understood the discussion ongoing. A
31 motion has been made by --

1 MS. TERRY: Mr. Chairman, I'd like to make a comment. We have a Committee
2 process, and we have a staff, and we're dealing here with a very large process. When our
3 Committees meet and make decisions and the staff doesn't yet have all its information on a
4 particular subject, it seems to me we ought to respect the Committee process and respect the
5 staff's determination and give the matter time to run its due course with the Education Committee
6 and let the staff get the information that it needs. If we continue with the process of overruling
7 Committee determinations and making decisions in the absence of staff information, it seems to
8 me we're going down a road that in a long term might not serve the people of our regions well.

9 SENATOR HAWKINS: The Committee system was put in place to make sure that we
10 had these Committees working and giving us all their best information along with the staff. From
11 the Committee system, its time based and recommendations are based on the things we have
12 before us. I have always believed that we should have some flexibility with groups as much as
13 possible. We need to be able to make decisions as they present themselves. This is not my
14 motion nor do I have any understanding of the impact it has on the Education Subcommittee.

15 Senator Puckett is kind enough to present Senator Wampler's position on that.

16 SENATOR PUCKETT: Mr. Chairman, let me say it's my position also. This school of
17 pharmacy happens to be in Grundy, Virginia, which has been the heart of the coalfields and in my
18 district. Just two weeks ago, and we didn't have all this together, but we received a \$3 million
19 commitment from the Coalfield Economic Development Authority. We're trying to provide a
20 little bit of matching funds here so that we can address that and get this school off of the ground.
21 It's very critical that we do this if the Commission would see fit to do it.

22 Let me give you a corresponding example of what we think may be here. Craig Horn,
23 Craig is in the audience from Grundy. Maybe he wants to speak but he doesn't have to. We think
24 the School of Pharmacy can be for Grundy very much what the Appalachian School of Law has
25 been for Grundy. It has single-handedly been the most successful economic development tool
26 that we had in Grundy and Buchanan County in the last five years.

27 We're in the process of moving the Town of Grundy and a lot of good things are
28 happening there. We have a commitment and we have other monies that if we can kind of get this
29 thing off the ground, then I think we have a chance to do the same thing with the School of
30 Pharmacy that we have done with the School of Law.

31 I'll remind you that the Tobacco Commission didn't put one penny into the School of

1 Law. We have an opportunity here to put money in, and we very much like you to do that, and
2 hopefully you'll see fit to do it. I'm prepared to make that motion.

3 SENATOR HAWKINS: A motion has been made for \$20,000 to be granted for the
4 School of Pharmacy in Southwest Virginia. Is there a second?

5 DELEGATE JOHNSON: Second.

6 SENATOR HAWKINS: Discussion, anyone like to enter into discussion?

7 SENATOR RUFF: Mr. Chairman, when Senator Wampler and I talked earlier, the figure
8 they needed was more than 20,000, and there was an interest in considering money coming from
9 the Southwest Economic Development Committee. I think that should be at least addressed
10 before we take this vote.

11 SENATOR HAWKINS: Senator Wampler is here.

12 SENATOR WAMPLER: Mr. Chairman, I listened to Senator Ruff's comments, and
13 what we're trying to do to jumpstart the school and I think that Southwest would feel
14 comfortable, although I can only speak for myself, in helping to spend some of its own seed
15 capital to jump-start the program. I'm not sure what the staff recommended as the final amount
16 or reduced amount, but whatever, should the motion pass the 20,000, plus the balance of whatever
17 is needed from the Southwest balance.

18 I've been advised that we have sufficient cash to do that.

19 Mr. Chairman, if I could ask Senator Ruff if that addresses the point that he wished to be
20 addressed.

21 SENATOR RUFF: I think we'll need a motion about the Southwest money following up
22 on that.

23 SENATOR HAWKINS: You're making an amendment to the motion, it will be reflected
24 in the motion that there would be matching funds made available from the Southwest Economic
25 Development fund?

26 SENATOR WAMPLER: Mr. Chairman, I thought the amount was 50,000, and the staff
27 was going to provide, assuming there was 20 from Education.

28 MR. FOUSE: You need sixty-seven five to make the eighty-seven five total that the
29 letter requested.

30 SENATOR HAWKINS: Let me review the motion that's before us. We're setting aside
31 \$20,000 from the Education fund to be matched by the \$67,500 from the Southwest Economic

1 Development fund to go to the school, is that correct?

2 SENATOR WAMPLER: That would be the motion.

3 SENATOR HAWKINS: Does everyone understand the motion? Any other questions?

4 All in favor, signify by saying aye (Ayes). Opposed (No response). Motion carried.

5 Public comment, is there anyone that would like to address the Commission, please do
6 so.

7 MR. FLANNERY: Thank you, Mr. Chairman, I'm Ron Flannery. I was going to rise to
8 support what Senator Puckett is offering. I'm a member of the Virginia Coalfield Authority. We
9 did indeed allocate \$3 million to the Pharmacy School. And we do think it's a great project. Part
10 of the problem is that it's a semantical type issue. The education project is an economic
11 development project, and we see it as an economic development project, so I wanted to applaud
12 the Commission. I think proper due diligence has been done on the project, and we think it's a
13 good one.

14 I know Ms. Terry has shown a lot of interest in the broadband project, and I can recall
15 that she specifically showed concern that we would address our educational institutions with that
16 project. I just want to report that Mountain Empire Community College and the High school have
17 been hooked up. We made that a priority, and I just wanted to let you know we're moving
18 forward.

19 Thank you.

20 SENATOR HAWKINS: Any other comments? All right. We'll meet on the south
21 portico of the Capitol, and that's the portico facing the James River. Is there a motion to adjourn?
22 It's been so moved, we're adjourned.

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PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, a 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 Full Commission Meeting, when held on Tuesday, January 13th, 2004, at 10:00 o'clock a.m., in the General Assembly Building, House Room C.

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 26th day of January, 2004.

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

My Commission Expires: October 31, 2006