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**Full Commission Meeting**  
Thursday, November 10, 2005  
10:00 a.m.

Latham Ballroom B/C  
The Inn at Virginia Tech  
Blacksburg, Virginia

**APPEARANCES:**

- The Honorable Charles R. Hawkins, Chairman
- The Honorable Terry G. Kilgore, Vice Chairman
- Mr. Thomas W. Arthur
- Mr. Stephen S. Banner
- Mr. Clarence D. Bryant, III
- The Honorable Kathy J. Byron
- The Honorable Allen W. Dudley
- Mr. Fred M. Fields
- Mr. Scott M. Harwood, Sr.
- Mr. L. Jackson Hite
- The Honorable Clarke N. Hogan
- Mr. Jordon M. Jenkins, Jr.
- The Honorable Joseph P. Johnson, Jr.
- Ms. Minnie B. Lane
- Mr. Buddy Mayhew
- Mr. H. Ronnie Montgomery
- The Honorable Harrison A. Moody
- The Honorable Edward Owens
- The Honorable Frank M. Ruff
- The Honorable Michael J. Schewel - Secretary of the Department of  
Commerce and Trade
- Mr. John M. Stallard
- Mr. James C. Thompson

1 **APPEARANCES: (cont'd)**  
2 Mr. Thomas E. West  
3 The Honorable Thomas C. Wright, Jr.

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6 COMMISSION STAFF:  
7 Mr. Ned Stephenson, Acting Executive Director  
8 Mr. Timothy Pfohl, Grants Program Administration Manager  
9 Ms. Stephanie Wass, Director of Finance  
10 Ms. Britt Nelson - Grants Coordinator, Southside Virginia  
11 Ms. Sara Griffith - Grants Coordinator, Southwest Virginia

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14 OFFICE OF THE ATTORNEY GENERAL:  
15 Mr. Francis N. Ferguson, Deputy Attorney General,  
16 Counsel for the Commission  
17 Ms. Stephanie Hamlett, Senior Assistant Attorney General,  
18 Bond Counsel

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21 SENATOR HAWKINS: It's ten o'clock, let's get started.  
22 Thank you all for coming. The reception last night was fantastic; we want to thank  
23 Virginia Tech and Troutman Sanders, for that wonderful evening. This building is a  
24 wonderful structure, and I'm very, very impressed, and we thank you for hosting the  
25 reception. This building is absolutely a wonderful structure and the first time I've had an  
26 opportunity to be here, and I'm very, very impressed. Dr. Steger, I'm sure, will make  
27 some comments about this.

28 We have a new Acting Executive Director, Mr. Ned Stephenson, and this  
29 is the first meeting where we have had him in that position. We have three new members  
30 to the Commission, Minnie Lane from Altavista, and she's here today. Welcome, I hope  
31 you enjoy working with the Commission.

32 Then we have Scott Harwood from Farmville. Welcome, Scott. Then, we  
33 have another member who is not with us today, and hopefully Mr. Stith will be at the next  
34 meeting. And with that said, Dr. Steger.

35 DR. CHARLES STEGER: Thank you, Mr. Chairman, and  
36 it's a real pleasure to welcome the Tobacco Commission to Virginia Tech once again. I  
37 want to say we're very appreciative of the continuing investments that the Tobacco  
38 Commission is providing to advance economic development in Southside and Southwest  
39 Virginia.

40 We're very proud to partner with you on a number of projects to make our  
41 operations a reality. In the past few years the partnership of the Tobacco Commission  
42 and Virginia Tech, local governments, businesses and other institutions of higher  
43 education have really paid great dividends to the citizens of the tobacco growing regions

1 of Virginia and well beyond that.

2 We remain appreciative for your initial investment in the Virginia  
3 Bioinformatics Institute where we have leveraged those funds many times over. Through  
4 September 15th VBI had a research portfolio of approximately 45.7 million dollars. It  
5 has grown from 30 with faculty and staff in 2001 to 215 today. From a small 8,000  
6 square foot facility, it now has two facilities totaling more than 138,000 square feet and  
7 15 million dollars in scientific equipment. Without your initial investment none of this  
8 would have happened, so this is really quite a remarkable achievement.

9 In addition, the overhead for research brought in by VBI is funding a 22  
10 million-dollar bioinformatics facility so that the Tobacco Commission's investment has  
11 produced an outstanding return for the citizens of the Commonwealth.

12 Beyond the financial data, the important message is about VBI's mission  
13 and accomplishments. VBI and Johns Hopkins University are collaborating to study  
14 malaria, working on cures for aids and tuberculosis, as well as trying to develop and  
15 support new technology and software and other projects to help cure diseases in plants,  
16 animals and humans. It is providing a critical service to the nation's biodefense as a key  
17 bioinformatics provider for the Mid-Atlantic region and excellence in biodefense and  
18 through its partnership with the U. S. Army in developing global pathogen research.

19 VBI is also heavily involved in high value horticulture and forestry  
20 research that is supported by federal funds and by the Tobacco Commission. We're  
21 looking forward to results that will provide a new and sustainable source of income for  
22 tobacco growers.

23 So, truly Virginia Tech and the Commonwealth are in your debt for your  
24 visionary investment in this emerging bioinformatics technology. I don't think I'm  
25 overstating this, but if you look at what has been accomplished, we believe at this point  
26 in time we probably have the leading bioinformatics institute in the United States of  
27 America, and that's no small feat.

28 We also have been partnering with the Tobacco Commission on a number  
29 of other economic development quality of life issues in the region, such as information  
30 technology.

31 Since its inception, the Tobacco Commission and Virginia Tech have  
32 collaborated with communities in many ways to bring leading edge telecommunications  
33 to the region. Early on it was recognized that one of the major deterrents to economic  
34 development was the lack of accessible broadband capacity. In order to survive, much  
35 less thrive, in a global economy, businesses and communities need advanced  
36 telecommunications network capability for delivering voice, data, video at high speeds  
37 and at low costs. The e58 concept helped stimulate a number of projects to bring high-  
38 speed connectivity to Southwest and Southside Virginia. Today fiber optic lines are  
39 being installed in both regions to provide advanced telecommunications backbone to help  
40 make high speed Internet accessible and available to the citizens across the region.

41 Virginia Tech stands ready to assist as needed, including the use of our  
42 connections to help tie the region into major telecommunication networks, and such  
43 arrangements can be mutually beneficial to the region and the university, and we look

1 forward to continuing to work with you in these areas.

2 Now, one new information technology initiative in the region I'd like to  
3 bring to your attention is our joint project with the Washington County Department of  
4 Social Services. Our Blacksburg Electronic Village Staff developed a revolutionary  
5 software called Community Services Management Systems, or COSMOS. This is a web-  
6 based system designed to improve the delivery of services to clients for health  
7 departments, social service agencies and non-profit groups. It's of particular relevance to  
8 citizens and service providers in rural areas. It's received very strong support from  
9 providers across Southwest Virginia, and we would be happy to extend this initiative into  
10 the Southside, as you see fit.

11 The Tobacco Commission's investments in the Institute for Advanced  
12 Learning and Research is also paying great dividends to the region. The IALR represents  
13 a unique model centered on distributed research to bring forth economic transformation,  
14 and by working with local governments, businesses and other universities our faculty are  
15 creating world class centers of research for advanced polymers, motorsports, unmanned  
16 systems, and high value horticulture and forestry.

17 We'd like to thank you for the recent \$890,000 grant to our Institute in  
18 Danville in partnership with the College of Agriculture and Life Sciences, which is going  
19 to create an innovation center for biotechnology-based economic development. Research  
20 conducted at the center will not only provide a foundation for development for new bio-  
21 based products, but will also train workers for the skills needed to attract other bio-tech  
22 industries to the region.

23 The facilities are going to be managed by the College of Agriculture and  
24 Life Sciences, but it will also include an extension of the VBI core lab facilities. We're  
25 taking that 15 million dollars of equipment that we acquired and putting it to work for the  
26 region. The Institute is really a catalyst for economic community transformation bringing  
27 advanced technology and recruiting topnotch talent to Southside. Already in Northern  
28 Virginia high tech companies have created a branch in Danville at the site of the Institute  
29 along with the Danville Community College as one of the reasons for doing so.

30 As many of you know, the Institute was one of three finalists for the U. S.  
31 Economic Development Administration's Excellence in Economic Development Awards  
32 in 2005. These awards honor the best practices nationwide and action-oriented market-  
33 based strategies to ensure success in the 21st century. The IALR is not our only initiative  
34 in Southside. We created a Science Technology and Math Initiative in South Boston and  
35 opened a branch of our corporate research centers, a business technology center in  
36 Martinsville. In addition, the Center for High Performance Materials, we signed an  
37 agreement and a memo of understanding with the Philpot Manufacturing Center.

38 In Southwest we are exploring the possibilities for a collaboration in the  
39 area of composites, as well as other research and development services that could be  
40 offered out of the Southwest Virginia Regional Higher Education Center.

41 We've been active in agriculture throughout the Tobacco Commission  
42 region in lots of different ways, from freshwater aquaculture in Saltville to improving  
43 beef cattle production in Southside. We hope the work that Virginia Tech has been

1 engaged in from Lee County to Blackstone will play a significant role in helping the  
2 people of this region to improve their economic opportunities and quality of life.

3 To conclude, I can assure you that this work has represented a meaningful  
4 opportunity for our faculty and administrators to develop these new approaches in  
5 fulfilling our mission as a land grant university realizing the complexity of the 21st  
6 century.

7 Again, I want to applaud the important work you're doing, and we stand  
8 ready to partner with you for new initiatives in the future. Again, welcome to the  
9 university, and look forward to a productive and delightful experience when you're here  
10 and when we're visiting you in the region.

11 Thank you.

12 SENATOR HAWKINS: Thank you, very much. I'd like to  
13 underscore what I said last night, without a partnership with Virginia Tech I'm not sure  
14 we'd be able to accomplish what we have. If you look at the things that were mentioned  
15 by Dr. Steger there are some marquis pieces that we can take credit for. The  
16 telecommunication piece is a child of the Commission, the Institute is a child of the  
17 Commission, Bioinformatics, of course, is Virginia Tech's child, but we helped raise it.  
18 We've accomplished a lot, and we have a lot to do.

19 The thing I want to emphasize to our new members is that it's easy to go  
20 out and fund something that you've been asked to fund, an industrial park or whatever,  
21 but that's not necessarily what we need to be about. We need to come up with ideas that  
22 are innovative and that create a new dynamic for these economies and change the way we  
23 do things. In order to do that it requires us to think about things a little bit differently,  
24 like the fiber backbone, which is a novel approach. That sort of initiative ties our  
25 localities together and gives every county and city the same opportunity to be able to  
26 develop their resources and be able to maximize their resources that we have by working  
27 in tandem with each other. That's what I think we should be about. Building little islands  
28 of prosperity in a stagnant pond is not going to help any of us. We need to reach out and  
29 make sure that all of our areas go forward with economic development. The fiber  
30 backbone is one of the major initiatives for that, and the Institute is another. By changing  
31 the way people view Southside and Southwest Virginia we can make a difference. We've  
32 had people come to the area, and they like what they see. The reason they're coming  
33 down is because they're curious about the way we're approaching things. This  
34 Commission has played a vital role in that, and I think the Commission should be very  
35 proud of what we've been able to accomplish, and there's yet a lot to be done.

36 So, thank you all for coming.

37 Having said that, Ned, call the roll, please.

38 MR. STEPHENSON: Mr. Arthur?

39 MR. ARTHUR: Here.

40 MR. STEPHENSON: Mr. Banner?

41 MR. BANNER: Here.

42 MR. STEPHENSON: Secretary Bennett?

43 SECRETARY BENNETT: (No response.)

1 MR. STEPHENSON: Mr. Bryant?  
2 MR. BRYANT: Here.  
3 MR. STEPHENSON: Delegate Byron?  
4 DELEGATE BYRON: Here.  
5 MR. STEPHENSON: Commissioner Courter?  
6 COMMISSIONER COURTER: (No response.)  
7 MR. STEPHENSON: Mr. Day?  
8 MR. DAY: (No response.)  
9 MR. STEPHENSON: Delegate Dudley?  
10 DELEGATE DUDLEY: Here.  
11 MR. STEPHENSON: Mr. Fields?  
12 MR. FIELDS: Here.  
13 MR. STEPHENSON: Mr. Harwood?  
14 MR. HARWOOD: Here.  
15 MR. STEPHENSON: Mr. Hite?  
16 MR. HITE: Here.  
17 MR. STEPHENSON: Delegate Hogan?  
18 DELEGATE HOGAN: Here.  
19 MR. STEPHENSON: Mr. Jenkins?  
20 MR. JENKINS: Here.  
21 MR. STEPHENSON: Delegate Johnson?  
22 DELEGATE JOHNSON: Here.  
23 MR. STEPHENSON: Ms. Lane?  
24 MS. LANE: Here.  
25 MR. STEPHENSON: Mr. Mayhew?  
26 MR. MAYHEW: Here.  
27 MR. STEPHENSON: Mr. Montgomery?  
28 MR. MONTGOMERY: Here.  
29 MR. STEPHENSON: Mr. Moody?  
30 MR. MOODY: Here.  
31 MR. STEPHENSON: Mr. Owen?  
32 MR. OWEN: (No response.)  
33 MR. STEPHENSON: Mr. Owens?  
34 MR. OWENS: Here.  
35 MR. STEPHENSON: Senator Puckett?  
36 SENATOR PUCKETT: (No response.)  
37 MR. STEPHENSON: Senator Ruff?  
38 SENATOR RUFF: Here.  
39 MR. STEPHENSON: Secretary Schewel?  
40 SECRETARY SCHEWEL: Here.  
41 MR. STEPHENSON: Mr. Stallard?  
42 MR. STALLARD: Here.  
43 MR. STEPHENSON: Mr. Stith?

1 MR. STITH: (No response.)  
2 MR. STEPHENSON: Mr. Thompson?  
3 MR. THOMPSON: Here.  
4 MR. STEPHENSON: Senator Wampler?  
5 SENATOR WAMPLER: (No response.)  
6 MR. STEPHENSON: Mr. West?  
7 MR. WEST: Here.  
8 MR. STEPHENSON: Delegate Wright?  
9 DELEGATE WRIGHT: Here.  
10 MR. STEPHENSON: Vice Chairman Kilgore?  
11 DELEGATE KILGORE: Here.  
12 MR. STEPHENSON: Mr. Chairman?  
13 SENATOR HAWKINS: Here.  
14 MR. STEPHENSON: You have a quorum, Mr. Chairman.  
15 SENATOR HAWKINS: We need a motion to approve the  
16 Minutes of our last meeting. It's been moved and seconded, all those in favor say aye?  
17 (Ayes.) Opposed? (No response.) Thank you.  
18 Ned.  
19 MR. STEPHENSON: Thank you Mr. Chairman and members of the  
20 commission. It's always especially nice to have new talent on the Commission in the  
21 persons of Minnie Lane and Scott Harwood, and we're glad to have you. Three weeks  
22 ago, the staff conducted an orientation session for three new Commission members and  
23 one of them Bryant Stith is not with us today. Bryant called me last week and apologized  
24 that he had been subpoenaed by the court today and he was very disappointed and he  
25 wanted to convey his regrets to you. I welcome Minnie and Scott to the Commission and  
26 please know that we appreciate your service to this Commission.  
27 For a moment, I'd like to recognize the re-appointment of C.D. Bryant, Fred  
28 Fields and Ed Owens who have been reappointed for another term to the Commission  
29 and which to me is tangible evidence of their value to this Commission and we appreciate  
30 their service as well. I'd also note that Commissioner John Bennett, Secretary of  
31 Finance, as you may know has accepted employment elsewhere and his seat will soon be  
32 open to be filled at a later time.  
33 I'd like to take a few minutes to report some of the activity of the Commission  
34 since you last met in Farmville in August. Perhaps you may remember that on that day  
35 you awarded the very first dollar from the endowment, which also happened to be the  
36 largest single award this Commission has ever made. Since that award was made, your  
37 staff and the grantees alike have been awash in bond opinions and tax certificates that go  
38 along with securitized grant funding. After considerable effort, I will report to you that  
39 the very first disbursements from your endowment are actually happening this week as  
40 we speak, almost 90 days after you approved them. We hope to shorten this process a  
41 little bit but I do want for the Commission, and grantees and staff together to know that  
42 we did give a little flexibility when we securitized our resources and some things that are  
43 required that didn't used to be.

1 I invite your attention for just a moment to tab number seven in your book.  
2 You will find there's some newly formatted financial statements dated September 30.  
3 Your director of finance has made some improvements in the presentation of your  
4 finances and I think that improvement really helps us understand cash balance, budget  
5 balance, unobligated balance, restricted balance. Helps us tell one from the other. I think  
6 to cut right to the heart of things, the very first page of that report answers your most  
7 frequent questions, that is how much can I spend. That appears on the front page and  
8 probably will be a guide. I want to thank staff for helping us clarify these financials.

9 SENATOR HAWKINS: It's not how much can we spend, it's how  
10 much can we invest.

11 MR. STEPHENSON: Today you will hear reports from four  
12 subcommittees and they're some of the most diverse projects ever. Delegate Hogan has  
13 done a very good job in steering the Technology Committee through some very complex  
14 issues. They met as early as this morning again to work on some of the matters, which  
15 you'll hear about later. Tom Arthur chaired an excellent meeting last week or two weeks  
16 ago, where his Committee heard thirty-three diverse requests. The next day, Frank Ruff's  
17 Education Committee convened and they heard still more requests from our community  
18 college partners. And all of this work will come before you here this morning. It  
19 represents almost \$20 million worth of investments and improvements to the economy  
20 and you will see those in a few minutes.

21 I think it's really important to you that yesterday morning as I left the office I  
22 checked and your staff of nine people yesterday morning logged in grant request number  
23 957. And that's almost 200 requests per year that come before your staff and  
24 Commission. And over 500 of these are active today and the number is growing. We  
25 made over a thousand disbursements to over 200 grantees and it continues. That's a lot  
26 of volume and if I may, Mr. Chairman, I want to take a very brief moment to recognize  
27 the contributions of Tim Pfohl in keeping that moving. Tim, I would ask that you rise  
28 and be recognized for your efforts this morning. (applause)

29 Your 2006 indemnification efforts continue to be well managed by the folks at  
30 Troutman who you'll hear from in a few minutes. We're in the process of renewing that  
31 contract for the new year and they are well underway with that work already. Troutman  
32 will meet in about 30 days with your Agribusiness Committee on December 8<sup>th</sup>. And for  
33 those of you that are members take note to consider questions such as changes to the base  
34 year pay rates, indemnification schedules, et cetera. And we'll bring those  
35 recommendations to you in January. I mention this simply to say that if you have some  
36 convictions about these matters, please speak to Chairman Joe Johnson, or Vice  
37 Chairman C.D. Bryant and let them know your thought because they will be convening in  
38 a few weeks to sort these out.

39 I'd like to make you aware of a little administrative matter that you probably  
40 will hear more about next year but you need to be aware of this. As you know, we rely  
41 upon the Attorney General's office to enforce the terms of the Master Settlement  
42 Agreement throughout the entire Commonwealth. We're advised that the Attorney  
43 General may want to use a portion of the MSA revenue to cover litigation expenses

1 against those that might challenge the enforcement efforts of that statute. In other words,  
2 you may be asked to give up a little bit of your revenue stream to protect the rest of your  
3 revenue stream. There's no action needed from you today but this is on the horizon and I  
4 wanted you to know about it. If you have some questions about it, I'm sure that Frank  
5 Ferguson after the meeting today will be happy to try to answer your questions.

6 I also want to mention the TROF activity. Many of you don't see these deals  
7 until after they're already done, that's the nature of how they work. But we have funded  
8 about 20 transactions since the first of July for some two and a half million dollars. The  
9 piece I want you to know about is that we really only have one million dollars left with  
10 eight months to go. I'll keep an eye on that and maybe if we need to adjust that before  
11 we run out of money, I'll try to advise you in advance if that's possible so you'll have a  
12 chance to visit that.

13 Please notice tab eight in your book. And there you'll see some dates and  
14 places for the next several Commission meetings that we've set for the New Year and I  
15 ask you make your plans accordingly. There's also some Committee meetings and grant  
16 cycle date deadlines that are being established for the new year and they're noted on the  
17 next page behind tab number eight. Any of you Committee Chairs if you'd like to get on  
18 this calendar and establish a meeting date ahead of time please see me to do that and  
19 we'll try to get that done.

20 Thank you Mr. Chairman and I welcome any comments that the  
21 Commissioners may have either publicly or privately, I appreciate the opportunity.

22 SENATOR HAWKINS: Thank you for an excellent report, Ned.  
23 Any questions? All right, next we have Clark Lewis. And Clark, we thank you for the  
24 reception last night.

25 MR. LEWIS: Mr. Chairman and members of the Commission, as  
26 you know last year we switched the Burley quota owner database from 1998 to 1999 and  
27 that completed for the quota owner segment of the indemnification process, the transfer  
28 from '98 to '99. I'm pleased to report that the total claims as of today we paid out 40,886  
29 claims for a total of 17.9 million. We have 2500 claims that will be paid out next week in  
30 the amount of \$645,142. For those of you in Southside Virginia, the great majority of  
31 those are flue-cured quota owner claims. We believe we have about 200 of those left that  
32 were working through the paperwork to ensure the proper verification.

33 As of next week when we pay off the additional 2500 claims, we will be  
34 substantially completed the conversion of the flue-cured database from '98 to '99. And  
35 that has required a lot of help and assistance from many in this room. The Farm Service  
36 Agency, Department of Agriculture and a very good team building process in the midst of  
37 a tobacco buyout. I think it was a great effort and we're substantially completed with  
38 that. With that said, we'll send out the 1099s shortly and beginning an effort after the  
39 meeting with the Agricultural Committee for the 2006 payment cycle and we're going to  
40 discuss issues of whether or not we will continue to convert the database on the  
41 producer's side. I look forward to receiving your comments and questions about that.  
42 With that, Mr. Chairman, we thank you for the opportunity to be of service to the  
43 Commission and the Virginia tobacco community.

1 SENATOR HAWKINS: Once again, you all have done an  
2 outstanding job. When you look at the volume of work that you've been required to do  
3 from all of the various aspects to get all this background information, you just are all  
4 doing a magnificent job. One thing I have to pass on is how few complaints that I hear  
5 about. The people I represent are not very shy, I'm sure they'd let me know if there is a  
6 complaint but thank you all very much for the work that you've done.

7 DELEGATE JOHNSON: Mr. Chairman, I'd like to express my  
8 sincere thanks and gratitude to Mr. Lewis. I've had many requests and I've sent them to  
9 him and he's been very prompt in making sure that things are done and people have been  
10 well-pleased with the response from him. He's been very prompt and I certainly  
11 appreciate it. I want to thank you also for the work that you and your staff has been  
12 doing.

13 SENATOR HAWKINS: We've had a good relationship, thank you.  
14 All right, Executive Committee report, Delegate Kilgore.

15 DELEGATE KILGORE: Thank you. The Executive Committee  
16 met on September 6, 2005 at Ferrum College. We approved at that time for the transfer  
17 of a million dollars from the unrestricted special projects to the education budget and that  
18 was for the Southwest Virginia Burley Tobacco Scholarship Program. I think I speak for  
19 the rest of the Southwest delegation and that's been one of our biggest hits down in  
20 Southwest Virginia. Using these dollars to send some family to college. Therefore, I'd  
21 make a motion to approve the transfer of the one million dollars from the unrestricted  
22 special projects budget to the education budget for that purpose.

23 SENATOR HAWKINS: It's been moved and seconded to transfer  
24 one million dollars to take place to the Education Committee. Does everyone understand  
25 the request? Any discussion? All in favor say aye. (Ayes.) Opposed? (No response.)  
26 All right. Next we have the proposed budgeted amendment, Allen Dudley.

27 DELEGATE DUDLEY: Thank you, Mr. Chairman. I'd like to  
28 make a motion to approve the transfer of \$3,700,500 from the restricted special projects  
29 budget to the restricted technology budget. A summary of funds available from special  
30 projects is listed in tab number three.

31 MR. JOHNSON: Seconded.

32 SENATOR HAWKINS: It's been moved and seconded to transfer  
33 money to the Technology Committee. Any discussion or questions? Does everyone  
34 understand the motion? All in favor say aye. (Ayes.) Opposed? (No response.) Motion  
35 carries. Mr. Arthur, you're up, Southside Economic Development.

36 MR. ARTHUR: Thank you Mr. Chairman and members of the  
37 Commission. On October 26<sup>th</sup>, the Southside Economic Development Committee met in  
38 Riverstone Industrial Park in Halifax County. We were presented with 33 applications.  
39 We had a total allocation of \$12.2 million. After reviewing the applications, we approved  
40 25 of them for a total of \$9,742,000 leaving a balance of \$4,293,510. Each of you have  
41 in your packet this sheet, which is basically how we approved these funds. I'd like to  
42 present them as a block with the exception of the Prince Edward request, which is the last  
43 one and we'll have further discussion on that. The Committee approved all the ones

1 above. Most of those were unanimously. I'd like to move that we submit those as a  
2 block as recommended by the subcommittee.

3 SENATOR HAWKINS: My understanding of the motion that  
4 you're presenting that they all be voted on as a block with the exception of Prince  
5 Edward and that would be voted on separately?

6 MR. ARTHUR: Correct.

7 SENATOR HAWKINS: Is there a second for that motion? It's  
8 seconded. It's been moved and seconded that we consider these as a block, all these  
9 amendments to be adopted with the exception of Prince Edward. Is there any question?  
10 All in favor say aye. (Ayes.) Opposed? (No response.) Thank you.

11 MR. ARTHUR: In your packet you have the sheet and also the  
12 staff's recommendations and a brief synopsis of the Prince Edward County request for  
13 \$600,000. I'd like to briefly go over that. I think Secretary Schewel wants to have a few  
14 words regarding it also. Funds requested for the interior buildout of a 53,100 square foot  
15 shell building constructed in the county industrial park in 1998. TROF funds, which  
16 represent previously committed money of 300,000 was also approved, which would assist  
17 in the buildout of Paris Ceramics, a U.K.-based company that will establish U.S.  
18 operations in the building. The project will create 30 jobs at nine dollars per hour plus  
19 benefits, with the possibility of additional jobs in a related cabinet making operation.  
20 The county is requesting current available allocation of \$367,206 plus \$232,794 of future  
21 allocations. The company will commit to a ten-year lease purchase of the building and  
22 7.5 acres of land to reimburse the county for \$600,000 of the buildout costs. The total  
23 project cost is \$900,000. Other sources of funds are \$300,000 of TROF money approved  
24 and the county's cost of financing the \$600,000 lease purchase.

25 The staff recommendations were as follows. The staff found this project is  
26 economically available to the county, represents good use of an empty shell building and  
27 has apparent upside job potential beyond that which is evident in the initial project. The  
28 request calls for the Commission to commit future allocations, which staff is reluctant to  
29 advise but is quick to acknowledge that it's been done in the past. We have precedence  
30 and can be done now. Future allocations will come from securitized proceeds unlike  
31 those in the past and such would require bond counsel's opinion, which we have, and  
32 bond counsel has approved it, it can be done. The request would raise the Commission's  
33 investment in this project to \$900,000. Therefore, we're open for the Committee as a  
34 whole to perhaps discuss this project, Mr. Chairman, and vote on it.

35 DELEGATE HOGAN: Point of order. This project has been  
36 discussed in detail in the Economic Development Committee and approved by a  
37 substantial margin. I just wanted to point that out for the Committee. Tom remembers  
38 the vote.

39 MR. ARTHUR: Delegate Hogan, as I recall the vote it only passed  
40 by one vote, that's my recollection.

41  
42 DELEGATE HOGAN: We can look at the minutes, but I thought it  
43 was seven to two.

1                   SECRETARY SCHEWEL: Mr. Chairman, I have a number of  
2 questions about this project. Some of them are admittedly I would say related to the  
3 TROF as well as to the Southside Economic Development Committee grant proposal for  
4 600,000. Overall my concern is really two points. First of all, it is the overall size of the  
5 grant for this project. The TROF grant is 300,000 for 30 jobs at \$18,000 a year. That's  
6 \$10,000 per job for a job that pays less than the average wages for Prince Edward  
7 County. That makes it the most expensive TROF project we have funded at the  
8 Commission by a significant factor. The second highest TROF project we funded was  
9 \$7,400 per job and that was the project in Danville, which involved very unique  
10 technology and the possibility of creating a new kind of knowledge based manufacturing  
11 in Southside. So it had a lot of technology issues that made it attractive to fund, but those  
12 jobs paid more than twice what these jobs pay. If you adjust for wages, this TROF was  
13 three times higher than the second highest TROF that we've ever provided. The lunar  
14 project was pretty much higher than anything else we have done by itself. We've got a  
15 TROF that compared to our normal TROF is probably four times as large as we would  
16 normally do. And three times as high we have ever done. In a sense, that's water over  
17 the dam because I think that TROF was approved and etcetera. It also relates to the  
18 overall thing, which is how much money are we going to put in this project.

19                   The proposal is for \$600,000 and that includes making an advance of funds for  
20 next year and I'm not saying that Prince Edward County, you'll get your allocation next  
21 year and you can use it for that purpose. But we are essentially prepaying that allocation  
22 now. Mr. Chairman, I believe there's precedent for having done that and I think we did  
23 that with the Institute and Riverstone, I believe. I think that's what we did with the  
24 Crossroads Institute in Carroll County, but we have never so far as I know, prepaid an  
25 allocation in advance of the year in which they were supposed to be paid. All we've ever  
26 done at most was committed it in the future. I think there's a number of us or most of us  
27 that worry about committing funds in the future because what it does is lock us into a  
28 whole sequence of how we're going to pay for things without the ability to change it.  
29 When we prepay the allocation, then we've done something else. This applicant is not  
30 the only Prince Edward applicant that's entitled to apply for money for Prince Edward's  
31 portion of the allocation. If we prepay this one, we essentially foreclose all other  
32 possible applicants from seeking this money. We have established in my view a  
33 precedent for localities and counties and other organizations and other applicants of  
34 getting a prepayment of their allocation before we have received the money. A lot of  
35 things could happen like we could not receive an MSA payment, there could be a  
36 reduction in the MSA payments, there could be a whole range of things that affect our  
37 ability to make the payment in a subsequent year when we already have prepaid this  
38 amount. It seems to me we have paid a very large TROF and one that is really out of line  
39 with anything we have done by a long shot.

40                   And secondly, we're being asked to establish a precedent for prepaying of the  
41 Southside Economic Development funds for a locality which is the second bad precedent  
42 to set. Having said that, I would say that I have had several discussions with Sarah  
43 Puckett from the county, she has defended the county's position ably and we have at the

1 end of our various discussions agreed to disagree. I know that Ms. Puckett is here and  
2 she may want to express her views if that's appropriate. But on the other hand, I just  
3 want to say that the county and I have discussed this on a couple of occasions and they  
4 think I am wrong. My wife often says the same thing.

5 SENATOR HAWKINS: We're all in the same boat.

6 DELEGATE HOGAN: Mr. Chairman, we discussed this case and  
7 all the issues that you've heard about and I just want to say something and then I'll give  
8 the other side a chance in just a second. We did vote to approve this issue in the  
9 Committee and I will say that all the things that the Secretary said about committing  
10 future funds is true before we securitize. Now we have the money so we're not  
11 committing money we don't have, we do have it. The discussion about that is perhaps  
12 relevant of where we were a year ago but it's not relevant to where we are at the moment.  
13 Prince Edward County has a small allotment and this allows the county to take a shell  
14 building that's sitting idle for five or six years and put some jobs in it.

15 If we look at every project that we fund compared to the jobs that it creates  
16 directly then I would say that when we built the Institute or Riverside and if we didn't  
17 spend any money on technology, we never would have funded any industrial parks that  
18 we built that don't have a present business in them. I would say we wouldn't have done  
19 what we were sent here to do. So here's the issue before the Commission. The  
20 Committee has approved it and the county has a small allotment we could use the  
21 advance and securitization to land this business and I hope you approve it.

22 MR. HARWOOD: Mr. Chairman, I would agree with what  
23 Delegate Hogan said. I'd also like to point out that that as was brought up in the  
24 Committee, this is a lease purchase. This money we figured in the Committee would be  
25 paid back in around three years, I believe. I'll point out that there's 248 vacant shell  
26 buildings around Virginia right now. And we can take one of them now and do  
27 something good. It was also pointed out, although not directly related to the grant, that  
28 this particular industry is bringing in a sister company possibly to create more jobs once  
29 they get established. I'd like to make a motion to approve it, and I'd also like for Sarah  
30 Puckett to come to the stand and answer any questions.

31 SENATOR HAWKINS: Ms. Puckett, would you like to say  
32 something?

33 DELEGATE HOGAN: I'd second that motion.

34 SENATOR HAWKINS: We have a motion and a second on the  
35 floor, and that probably needs to be answered. Let's speak to the motion before we do  
36 that.

37 DELEGATE DUDLEY: Mr. Chairman, Mr. Arthur mentioned there  
38 was precedent for this, would you tell us what that was?

39 SENATOR HAWKINS: Mr. Arthur, do you care to answer the  
40 question, the precedent we have in place for this?

41 MR. ARTHUR: The precedent is the Institute and Riverstone where  
42 we committed funds into the future. Where Pittsylvania County and the city of Danville  
43 automatically lose up front in arrears but not like this project where we're giving it all to

1 them up front. We have advanced funds and guaranteed that we would take this money  
2 into the future when it comes as opposed to giving it to them now up front. That's the  
3 precedence that I was referring to including Riverstone, which is the same thing for  
4 Halifax where the money was guaranteed on into the future as long as the money came.

5 DELEGATE HOGAN: Mr. Chairman, I'd also point out that we did  
6 accept an almost identical bill for Charlotte last year, almost identical in every way. We  
7 went into a future allotment and they leased the building. It's about as close as you can  
8 get to what we're doing now.

9 SENATOR HAWKINS: Would you like to make some comments?

10 MS. PUCKETT: Thank you Mr. Chairman, I'm not sure that I can  
11 add anything to the discussion. Secretary Schewel and I have had several opportunities  
12 to discuss our differences of opinion in terms of the interpretation of the facts. What I'd  
13 like to do is answer any questions that the Commission members may have concerning  
14 the project or how the county will use the funds. One thing I would like to make sure  
15 that everyone is clear on. The \$300,000 TROF award is a grant to the company.  
16 \$600,000 economic development allocation grant will be a grant to the county, which the  
17 county will use to improve our asset, the shell building, which we will then lease  
18 purchase to the company. The company will be repaying in full and the county will  
19 retain title to this building until the last payment is made. The benefit of those funds are  
20 flowing to the company and it's not a grant to the company. That repayment will take  
21 place over ten years through the lease purchase agreement as Mr. Harwood has spoken  
22 of.

23 SENATOR HAWKINS: Can you tell us something about the jobs?

24 MS. PUCKETT: I know the Commission is hesitant to make  
25 commitments based on promises of the future. It's our understanding that the parent  
26 company has a project that is related to the wood industry and I think that perhaps  
27 Delegate Hogan is familiar with this project or is as familiar with it as I am. I know he's  
28 had a number of discussions with the president in England, but we understand there could  
29 be as many as 200 jobs with that second project. So the county did put together perhaps  
30 a more aggressive package on this project. We're very hopeful that this company,  
31 planning to move in in January has a very good experience and we're trying to position  
32 Prince Edward County and Southside Virginia to be the top contender for that future  
33 project.

34 The parent company is already in the process of outfitting the shell building  
35 and asked that 14,000 square feet of the shell building be partitioned off so they can  
36 establish a current presence. So come January, the parent company will have a presence  
37 in Prince Edward County. At this point, we don't know what the job investment that will  
38 take place within that 14,000 square feet building will be, but it will be in addition to the  
39 jobs and investment that Paris Ceramics has committed to.

40 Even though there's a future promise out there, we're not asking you to make a  
41 decision based on that. We feel a little bit stronger that that future promise could be  
42 fulfilled because of the parent company is in the process of establishing a presence in  
43 Prince Edward County. I guess if their startup goes well, they will have a good

1 experience in Prince Edward County in Virginia then that certainly makes us the top  
2 contender for that second project. I might also add as all of you are aware, we have  
3 experienced some of the job losses that other communities of Southside Virginia have.  
4 We lost one of our very best industries in Prince Edward County last year and that was a  
5 company by the name of WEVACS. They paid probably some of the best manufacturing  
6 wages. I know in our community and certainly in the region, that was over 100 jobs and  
7 that was a very big loss for us. While Paris Ceramics is only bringing 30 jobs, but 30  
8 jobs is 30 jobs for us right now. Manufacturing jobs are very scarce in our community  
9 and we have a number of individuals that have been impacted not only by WEVACS  
10 closure but closings in surrounding communities that need manufacturing jobs. We feel  
11 this project is very important to us for a number of reasons.

12 SENATOR RUFF: Mr. Chairman, with all due respect to the  
13 Secretary, this may not be as clean and neat as we'd like for it to be, but the reality is that  
14 the economy of Prince Edward County is important. They already have the support of  
15 the IDA and the Board of Supervisors. Any requests that will come to us probably will  
16 come from one of those two in the future. As far as the TROF issue is concerned, that's  
17 sort of a red herring and that decision's already been made and really irrelevant to this  
18 discussion. I would ask that this Commission support this project.

19 SECRETARY SCHEWEL: The point that Ms. Puckett makes about  
20 the loss of WEVACS and the general economic situation in Prince Edward, I realize some  
21 of the areas may have a rough time, but all I'm saying is that that's not different than any  
22 other community in the tobacco region. That's why the Commission exists because of  
23 this problem. If we start deciding to make bad decisions based on the fact that we're  
24 dealing with communities with economic problems then we're going to make nothing but  
25 bad decisions in virtually everything that we do involving economic development  
26 problems. In fact, Prince Edward County is probably slightly better off than many of the  
27 counties in this area in terms of unemployment and other things. It's not to say that  
28 Prince Edward County is in the midst of an economic boom, but I'm simply saying  
29 compared to Halifax or Henry or Dickenson, Buchanan, I could list a lot, that are  
30 suffering even more than Prince Edward County, although I don't want to minimize the  
31 situation. I don't think that's a rationale but I think that's an underlying reality of every  
32 jurisdiction in the Tobacco Commission. That can't be the basis for making a decision  
33 because then we'd keep making nothing but bad decisions.

34 The second thing is, I believe we have a project approved this round, Mr.  
35 Arthur, I believe it's Kenbridge. I believe what Kenbridge did was borrow money from  
36 the bank or similar institution based on the expected receipt of next year's allocation.  
37 They essentially said the reality of the funding mechanism is that you get allocations each  
38 year. We're going to go to the bank and say we receive this amount of money this year,  
39 we expect to receive that next year, there's no certainty that we will but we expect to and  
40 please lend us the amount of money we need to do this based on the expected receipt of  
41 next year's allocation. The other question is why is that a justifiable alternative in this  
42 case than it was in the Kenbridge or other communities.

43 DELEGATE HOGAN: You can't do that with securitized money.

1 You cannot repay securitized money. And that's one of the compromises we made when  
2 we securitized. So the suggestion that you're offering, remember we had to take both the  
3 Institute and Riverstone, block them off and pay them and we can't use securitized funds  
4 to do this. If we hadn't done that, we could do what you're talking about. I'd be  
5 suggesting we do it, but it's not available to us. I think that's pretty much black letter  
6 law, if there's any question about it we can hear from counsel.

7 SENATOR HAWKINS: This is a discussion we'll have probably  
8 from now on based on economic development situations. As I've heard the discussion  
9 and discussions with individuals involved with the project, shell buildings are shell  
10 buildings and when you consider it on the tax rolls which is money that should be going  
11 to localities is not being utilized. It's an asset just sitting there. The ability to get that on  
12 the tax rolls and create some income and some momentum has its merits. Our charge is  
13 one of trying to create an economy and not balance books although it has its advantages  
14 both ways.

15 The problem we're running into and this is just one small example, we do not  
16 have the flexibility to deal with this type of investment that we need. There'll be several  
17 things brought to us over the next couple of years that probably will require some sort of  
18 creative thinking to be able to come up with the money that we need based on our rules  
19 that we're dealing with. We need to have some sort of method in place that we can deal  
20 with these projects, whether it is out year funding. We buy a house and based on the  
21 income from that house and it's an asset that you live in and something you can sell and  
22 we all understand how we do that. Dealing with the economies of these areas and dealing  
23 with the investments that we make, we need to have some flexibility. We have assets and  
24 we have money that we are charged with investing in our communities for the industrial  
25 development and stability. We need to understand that what we are buying is trying to  
26 create an economy. In my mind, it's creating ownership.

27 We've got to bring boardrooms back to the area. We have lost all the people  
28 that owned businesses. We can't afford to lose any more. The best example is Ms. Lane.  
29 When Lane Company was in Altavista, they invested their profits back in Altavista in the  
30 community because that's where the heart and soul was. We've lost that but we need to  
31 bring back these boardrooms. By encouraging the investments in these areas we may  
32 start a little entrepreneurial spirit that creates jobs. We need auxiliary industries and  
33 creating companies that have local ownership and local bank accounts. The Secretary is  
34 absolutely right, this is beyond what we normally have done. Everything we've done is  
35 beyond what we normally have done. Every time we come to a meeting we redefine a lot  
36 of things.

37 SECRETARY SCHEWEL: If I may, Mr. Chairman, let me just give  
38 you a comparison. This Commission provided a TROF grant for a project in Martinsville  
39 about 500 jobs. At this level TROF, the TROF would have been about \$20 million but  
40 it's not. My point simply is, if I'm the city of Martinsville or if I'm Halifax or if I'm  
41 Washington County and I've got a project coming in, I'm going to ask for \$10,000 job  
42 TROF. I'm going to see you all approved it on November 10<sup>th</sup> and you approved the  
43 equivalent. As Senator Ruff pointed out, that's already been approved. But my point is,

1 what is the total amount of money that we are putting into the project. I'm not even sure  
2 Clark that you're right and I think it's a relevant point but if we make an allocation to a  
3 community and they issue unsecured or they issue debt, and it's not secured by the  
4 facility and in this case I doubt that that triggers the tax issue.

5 DELEGATE KILGORE: Mr. Chairman, we have a motion pending  
6 and I call for the question.

7 SENATOR HAWKINS: The question's been called. All in favor of  
8 voting on the pending question, this is a vote on the proposal that was taken out of the  
9 block from Southside Economic Development for Prince Edward County. Does everyone  
10 understand the motion? All in favor say aye. (Ayes.) Opposed? (Nos.) There's two  
11 nays. The question has been called for.

12 MR. ARTHUR: Mr. Chairman, I'd like to point out that the  
13 Committee did approve this. It was not a unanimous vote, but we did approve it. Since  
14 that time, and I apologize for this being brought up before the whole Commission, is that  
15 there were some questions people felt needed to be aired such as you heard here today. I  
16 would tell you that the subcommittee voted approval on it.

17 SENATOR HAWKINS: I appreciate that but the point now before  
18 us to vote on the question is not debatable at this point. It's been discussed, it's been  
19 moved and it's been seconded. Everyone understand? All in favor say aye. (Ayes.)  
20 Opposed? (Nos.) Call the roll.

21 MR. STEPHENSON: Mr. Arthur?

22 MR. ARTHUR: Aye.

23 MR. STEPHENSON: Mr. Banner?

24 MR. BANNER: No.

25 MR. STEPHENSON: Mr. Bryant?

26 MR. BRYANT: Yes.

27 MR. STEPHENSON: Delegate Byron?

28 DELEGATE BYRON: Yes.

29 MR. STEPHENSON: Delegate Dudley?

30 DELEGATE DUDLEY: No.

31 MR. STEPHENSON: Mr. Fields?

32 MR. FIELDS: Yes.

33 MR. STEPHENSON: Mr. Harwood?

34 MR. HARWOOD: Yes.

35 MR. STEPHENSON: Mr. Hite?

36 MR. HITE: No.

37 MR. STEPHENSON: Delegate Hogan?

38 DELEGATE HOGAN: Aye.

39 MR. STEPHENSON: Mr. Jenkins?

40 MR. JENKINS: Aye.

41 MR. STEPHENSON: Delegate Johnson?

42 DELEGATE JOHNSON: Aye.

43 MR. STEPHENSON: Ms. Lane?

1 MS. LANE: Aye.  
2 MR. STEPHENSON: Mr. Mayhew?  
3 MR. MAYHEW: Aye.  
4 MR. STEPHENSON: Mr. Montgomery?  
5 MR. MONTGOMERY: Aye.  
6 MR. STEPHENSON: Mr. Moody?  
7 MR. MOODY: Aye.  
8 MR. STEPHENSON: Mr. Owen?  
9 MR. OWEN: (no response)  
10 MR. STEPHENSON: Mr. Owens?  
11 MR. OWENS: Aye.  
12 MR. STEPHENSON: Senator Ruff?  
13 SENATOR RUFF: Aye.  
14 MR. STEPHENSON: Secretary Schewel?  
15 SECRETARY SCHEWEL: No.  
16 MR. STEPHENSON: Mr. Stallard?  
17 MR. STALLARD: Yes.  
18 MR. STEPHENSON: Mr. Thompson?  
19 MR. THOMPSON: Aye.  
20 MR. STEPHENSON: Mr. West?  
21 MR. WEST: Yes.  
22 MR. STEPHENSON: Delegate Wright?  
23 DELEGATE WRIGHT: Yes.  
24 MR. STEPHENSON: Delegate Kilgore?  
25 DELEGATE KILGORE: Yes.  
26 MR. STEPHENSON: Senator Hawkins?  
27 SENATOR HAWKINS: Yes.  
28 MR. STEPHENSON: The ayes have it.  
29 SENATOR HAWKINS: That motion is approved. Now, let's go  
30 back and I want to give you some room for thought and you can think about it before the  
31 next meeting. We need an alternative source of revenue. Let's talk about promising out  
32 your revenue. We have the ability to invest in certain things and we need to make sure  
33 that the discussion includes how we're going to help these counties have these projects in  
34 place. We may have an automobile project that comes up and we need millions of dollars  
35 in some locality. And we need discussion about that. Right now we do not have the  
36 flexibility to deal with that sort of investment but we're going to have to deal with that at  
37 some point in time. You all think about some things and look at the rules and come up  
38 with some suggestions so we can try to adjust this situation that we won't have to deal  
39 with again. All right, next we have Delegate Hogan, Technology Committee.  
40 DELEGATE HOGAN: We've had a lot of discussions over the last  
41 two or three meetings. I'll try to give you a bird's eye version. Two things first, a matter  
42 of technical record keeping. Because we have these unrestricted funds, excuse me, we  
43 have restricted funds in the technology budget and we've given grants of unrestricted

1 monies that the Technology Committee thought it would be nice to swap as much  
2 restricted money as we could or use the restricted money for capital projects and keep as  
3 much unrestricted money as we can. We have a motion to take four and a half million  
4 dollars from Mid-Atlantic Broadband Cooperative from restricted funds and  
5 simultaneously cancel a like amount of unrestricted grants previously awarded MBC.  
6 That motion is approved in the Committee and I so move.

7 DELEGATE KILGORE: Is there a second?

8 MR. OWENS: I'll second it.

9 DELEGATE KILGORE: Any discussion? All in favor say aye.  
10 (Ayes.) Opposed? (No response.)

11 DELEGATE HOGAN: The second motion is to forgive a loan of  
12 \$444,000 for Lenwisco. We voted on this in October and I would so move.

13 SENATOR HAWKINS: It's been moved and seconded that this  
14 motion be adopted. Any discussion? All in favor say aye. (Ayes.) Opposed? (No  
15 response.)

16 DELEGATE HOGAN: The third motion is to award 3.75 to be  
17 awarded to Citizens Telephone Cooperative, restricted funds. If you'll remember the  
18 motion Delegate Dudley made for special projects funding, I would so move.

19 SENATOR HAWKINS: The motion is 3.7 --

20 MR. STEPHENSON: Mr. Chairman, it's \$3,700,500.

21 SENATOR HAWKINS: Thank you. It's been moved and seconded  
22 those monies be transferred to Citizens Telephone, does everyone understand the motion?  
23 Any discussion on the motion? Delegate Wright.

24 DELEGATE WRIGHT: Part of that motion was there was to be an  
25 execution of an agreement. We got the agreement this morning. I'd like to have at least  
26 the staff to let us know that this was a legal and binding agreement. As I look at it, I'm  
27 not perfectly clear on what the agreement does. Do all parties agree with the agreement?  
28 I'm wondering exactly how it protects people, telephone companies and Internet  
29 providers and so forth.

30 SENATOR HAWKINS: My understanding is that your question is  
31 to explain the agreement that's been signed as to the legal application?

32 DELEGATE WRIGHT: That's right.

33 SENATOR HAWKINS: Delegate Hogan.

34 DELEGATE HOGAN: I'll refer to Stephanie Hamlett, I'm not  
35 qualified to give legal opinion on this agreement.

36 SENATOR HAWKINS: We have a question that we need your legal  
37 expertise on ma'am. Delegate Wright has asked a question on the contract or  
38 memorandum of understanding that's been signed by the Citizen's Telephone Company  
39 in Floyd County on the connection between the two regions that ties our two broadband  
40 systems together in a seamless network. He'd like to know what application that has and  
41 a further understanding of a commitment and what impact it has on the region. What was  
42 the other question?

43 DELEGATE WRIGHT: The legal or binding effect it has on the

1 Commission.

2 SENATOR HAWKINS: How binding the agreement is and legally  
3 and, any agreement that we sign we have a moral obligation to deal with, legal or not, in  
4 my mind.

5 MS. HAMLETT: You're talking about the parties that are the  
6 providers. It would appear to me that once signed, which is not yet signed, after it's  
7 signed it would appear that it would be a valid binding agreement. The only caveat, other  
8 than that, would be obviously whoever the governing body is would have to approve it as  
9 being valid but as represented this morning it was a matter of getting it signed with the  
10 appropriate signatures.

11 DELEGATE WRIGHT: I thought it was appropriate before we  
12 passed this resolution, before it's signed that we know all the aspects of it.

13 SENATOR HAWKINS: It's always good to know what the  
14 ramifications are and you're right but it's been moved and seconded, any other  
15 discussion? All those in favor of transfer to Citizen's Telephone the connector say aye.  
16 (Ayes.) Opposed? (No response.) That motion passes.  
17 Delegate Hogan.

18 DELEGATE HOGAN: Then we move the \$9.7 million be awarded  
19 MBC for their next phase of the project. It covers everything from fibers to closures, the  
20 backhaul piece.

21 SENATOR HAWKINS: When will it be finished?

22 DELEGATE HOGAN: They're working on it now.

23 SENATOR HAWKINS: It's been promised –

24 DELEGATE HOGAN: - to the extent that there's any questions, I'll  
25 be happy to entertain those if we have time.

26 SENATOR HAWKINS: This is one of those commitments that we  
27 have started trying to put in place the broadband. I noticed lines are being laid in various  
28 areas, I'm just hoping we can be open for business at some point. Does everyone  
29 understand the motion? Any questions, transfers? All in favor say aye. (Ayes.)  
30 Opposed? (No response.)

31 DELEGATE HOGAN: The last one you remember when we  
32 awarded a grant to Vectech to help develop the Internet business and the original  
33 application read Chase City. Vectech has gone back and looked at this project and  
34 wished to move to South Boston and the Committee approved that and I so move.

35 SENATOR HAWKINS: Recommendation to change the locality  
36 from the Committee.

37 SENATOR RUFF: Mr. Chairman, Southside and Southwest are  
38 made up of a number of small towns, each have been struggling. Our role is not to serve  
39 just the larger communities but all of the communities throughout both regions. Mr.  
40 Miller made his presentation this morning and he left out one part of a letter that he sent  
41 me. That was that Christopher Newport would be willing to support and work in either  
42 community that was chosen. He mentioned after some questioning from Mr. Hite that  
43 they had not even gone to the trouble of talking to Chase City to find out whether there

1 was capability there or not. Ladies and gentlemen, I hope you all will not take an action  
2 today that reverses something that was done just three months ago. We do not need each  
3 community being predators of other communities. We do not need outside organizations  
4 such as the Main Street Program, which has done work in both Chase City and South  
5 Boston. We do not need them interfering in the decisions we make. Therefore, I'm  
6 asking you to vote against this motion.

7 SENATOR HAWKINS: Any other discussion? We are being  
8 brought into a local dispute between neighboring jurisdictions that I find very distasteful.  
9 There's got to be a better way to handle this.

10 DELEGATE WRIGHT: Mr. Chairman, this is really not a dispute  
11 between two localities or locations. Chase City was chosen as I recall before the  
12 proposal was filed and I called Carlton and he informed me that they were going to Chase  
13 City and of course, I was very happy about that. When it came before the Technology  
14 Committee it was approved and then the full Commission passed and approved it. The  
15 town of Chase City was prepared for the project and excited about it and I concur with  
16 Senator Ruff, I don't want to pit one town against another and I would like it to remain  
17 the way it is.

18 SENATOR HAWKINS: This is what I'm going to do, I'm going to  
19 bring it up in the Executive Committee and we'll have a meeting to work on some other  
20 projects that have a lot of problems. This will be one of the mountains we will climb.  
21 We'll put it into the agenda for the next meeting, which will be very soon. Anything  
22 further? All right, next we will have the Education Subcommittee report.

23 SECRETARY SCHEWEL: Mr. Chairman, about two weeks ago we  
24 had an announcement in Russell County for a project, high wages that unquestionably  
25 would never have been there but for the broadband and not even possible. Sometimes  
26 when you think about these things in general terms or vague terms how we're going to  
27 help the tobacco region. In this case, approximately 300 jobs, average wage \$55,000.  
28 And that could not have possibly been if the Tobacco Commission hadn't gone ahead and  
29 put in the broadband.

30 SENATOR HAWKINS: It's the first step in a very long step. This  
31 is strictly long-term. So Clark, I want to thank you for the work you've done and your  
32 Committee has done because this is a long-term project. Thank you very much. Senator  
33 Ruff.

34 SENATOR RUFF: Thank you Mr. Chairman. You have two  
35 handouts and one of those shows the scholarships that have been awarded by county in  
36 Southside and Southwest Virginia. And it also shows where those dollars, where the  
37 young people are in college. I hope you take it back and look and make sure that your  
38 folks are paying attention and doing their fair share in this process. The other blue  
39 booklet is hot off the press from yesterday and it is here from the community college  
40 system. They've been very appreciative of what we've done with them over the last few  
41 years and they wanted to make that public. So I hope you all take a look at both of those  
42 handouts.

43 At the last Education meeting, which was held in Rocky Mount on October

1 27<sup>th</sup>, from that there are three motions that I'll make. The first I'll refer back to the  
2 Executive Committee report that moved \$1 million from special projects to the Education  
3 Committee and this motion would put that \$1 million into the Burley Tobacco  
4 Scholarship Program for the '06 and '07 year. I'd move that.

5 SENATOR HAWKINS: It's been moved and seconded. Does  
6 everyone understand the request? Any questions, any discussion? All those in favor say  
7 aye. (Ayes.) Opposed? (No response.)

8 SENATOR RUFF: Mr. Chairman, next issue is the college  
9 applications. We received those at the October 27<sup>th</sup> meeting and discussed them and  
10 approved those. I'd ask you also to approve that.

11 SECRETARY SCHEWEL: Mr. Chairman, I've got a question about  
12 that. Senator Ruff, I was looking at that and trying to understand, we had some  
13 discussion about that I believe at Ferrum about urging the community colleges to use our  
14 money strategically. When I look at this list of what they're using it for, it seems to me in  
15 some cases you have some very strategic things such as the CVCC regional outreach  
16 program and the program at Patrick Henry County for the development of technology and  
17 training and then you've got your scholarship and that's fine. We have our own  
18 scholarship, a separate scholarship program. I'm trying to understand it wouldn't make  
19 sense for us to fund all these scholarship programs at the community colleges. If we're  
20 seeking focused strategic investments with our money that in a sense it increases the total  
21 pot that the community colleges have to make any kind of investments. But looking at  
22 this list, it doesn't look like we're using it that way.

23 SENATOR RUFF: The issue of scholarships and the amount may  
24 be debatable. I think the issue is that we do have young people that want to go to a four-  
25 year school and people that want to go to a two-year school and we don't want to get in  
26 the business of pitting one of these groups against the other. I think it's reasonably fair  
27 we have two different pots because we have two different types of students that are using  
28 this. As to the issue of how much each community college chooses to put into it, each  
29 region is somewhat different so I think that explains part of it.

30 I've asked the state community college system to evaluate what each is doing  
31 in comparison to the other and see if we can get a more three-dimensional picture of how  
32 much that dollar amount should be. As for whether there's available money here, the  
33 reality is that the community colleges knew they were working against the \$400,000  
34 figure and they were trying to match that figure as best they could with various projects.  
35 My belief is that we've accomplished a lot more a long-term goal by establishing some of  
36 these programs. The nursing program, the heavy equipment, the diesel technology  
37 program, the polymer program, the one that deals with motorsports at Patrick Henry,  
38 we've accomplished more by doing it this way, I think. Remembering that each  
39 community college is a little different, we believe they should have some flexibility. I  
40 hope that that three-dimensional look from the state community college system will help  
41 understand that better.

42 MR. MAYHEW: Mr. Chairman, I'd like to speak up and say that  
43 over the several years that I've been on the Education Committee that the idea of

1 scholarships has been one that our group, I believe as a whole, has really encouraged.  
2 We felt like many hundreds of students have been able to go to at least a junior college  
3 level who probably would not have been able to had there not been the scholarships  
4 available. I think it's served a huge number of people in a very positive way that would  
5 not have occurred without this. I think the scholarship program, in my opinion, has  
6 accomplished a great deal and hope that we'll continue it.

7 SENATOR HAWKINS: Any other discussion?

8 SENATOR RUFF: Mr. Chairman, there was an error in the printing  
9 and under the second group CVCC should be sixty thousand and not fifty.

10 SENATOR HAWKINS: You make that motion to amend that?

11 SENATOR RUFF: Yes.

12 SENATOR HAWKINS: From fifty to sixty thousand, that has been  
13 approved so we have before us a recommendation that it be amended. Any other  
14 discussion on the recommendation on the scholarships? All those in favor of adopting  
15 the recommendation of the amendment say aye. (Ayes.) Opposed? (No response.)

16 SENATOR RUFF: Mr. Chairman, the last item is the Southwest  
17 Higher Ed Center has been very, very helpful and have worked through the four-year  
18 scholarship, forgivable loan program for Southside and Southwest Virginia. This is a  
19 motion to give them \$10,000 to purchase the software necessary to do the follow-up on  
20 the forgivable loan program, to better monitor that.

21 SENATOR HAWKINS: Does everyone understand the request?  
22 Updating technology so that they can follow the forgivable loan program. Any  
23 discussion? It's been moved and there's a second. All in favor say aye. (Ayes.)  
24 Opposed? (No response.) Motion carried. That completes our agenda. Is there anyone  
25 that would like to make any public comments?

26 DELEGATE WRIGHT: Mr. Chairman, I've got one brief statement  
27 I'd like to make. I've been concerned about the distribution of funds.

28 SENATOR HAWKINS: I understand that.

29 DELEGATE WRIGHT: Global Insight was hired by the Tobacco  
30 Commission to estimate the MSA revenue that would be available to the Tobacco  
31 Commission over the next 25 years through the securitized and non-securitized money.  
32 This Tobacco Commission's going to get approximately \$1.4 billion and a significant  
33 amount of money, enough money to do the projects necessary for both regions. My  
34 concern is that at the end of the day money is divided fairly for both regions. The loss of  
35 tobacco quoted for Southside flue-cured and Southwest Burley. Currently we're doing  
36 that as far as indemnification on a 73/27 basis, which is based upon the tobacco quota  
37 loss. The point is that in no other areas except economic development are we doing it.  
38 Special projects, TROF, education and so forth. Since we securitized half of our  
39 proceeds, we can expect the economic development portion of each county in these areas  
40 to drop by approximately fifty percent and that would be the normal amount. We've  
41 already started discussing that in the Economic Development Committee. I would bring  
42 that to your attention and to the Tobacco Commission's attention. We have no rational or  
43 logical way of distributing this 1.4 billion other than indemnification to the tobacco

1 farmers, which I think it's fair to do it that way and economic development. We need  
2 some logical and rational way to doing it. I would ask the Chairman that you investigate  
3 that or have the staff do it. I just want to say that if we continue on the path that we're  
4 going on, it's going to cause Southside Virginia over 25 years over a \$100 million. I've  
5 got the breakdown of each county the loss would be based on that percentage that they  
6 get through economic development now. I just mentioned that Mecklenburg will be  
7 \$188,984. Pittsylvania County is \$351,000. That's all I've got to say.

8 SENATOR HAWKINS: Your point is well taken and I understand  
9 your concern but let me build on that for a second, particularly for the benefit of the new  
10 members. When we first got into a discussion about legislation dealing with the Tobacco  
11 Commission, we were given broad authority to be able to come up with a mechanism to  
12 try to address these problems. We came up with a formulary as an initial way to try to  
13 put money into localities based on the impact of the loss of tobacco. Early on we made a  
14 discover that without some flexibility, small counties would be left out and would not be  
15 able to be a part of the discussion because of the lack of ability to invest and participate.  
16 So we put in place a group of protocols that based on an understanding that the  
17 formularies would stay in place without a two-thirds vote of this Commission.  
18 Everything that we do based on the formulary requires a two-thirds vote of this  
19 Commission.

20 The reason we did that is to try to deal with things like the telecommunication  
21 piece that goes through counties that the allocation in the formulary would not allow  
22 them to be able to come up to the level that we want them to come up to have a seamless  
23 network. There were other problems from Nottoway County and Charlotte County and  
24 Cumberland County that could not do things without some flexibility. We're talking  
25 about a billion dollars of monies that we have control over and without some flexibility  
26 to address these problems that some of the smaller counties are facing when it comes to  
27 economic development they would be left to wither on the vine while their neighbors  
28 become stronger.

29 In trying to address Delegate Wright's concern, I would as an elected member  
30 of the state senate, my concern is my constituents. But as a member of this Commission,  
31 my concern is Southside and Southwest Virginia. I'm appointed to this Commission to  
32 fill the obligation for every county that's represented in our Charter. We do not have  
33 parochial concern in my mind when it comes to the Commission. We've got to be fair  
34 and try to deal with matters that come at hand. One of the things I've noticed over the  
35 last year or so that based on a strict allocation of the formula, some of our localities have  
36 already run out of ideas and they come up with some that don't necessarily meet the high  
37 standard that we should have in my mind.

38 Remember that our rules that are in place give us some flexibility and require a  
39 two-thirds vote by our charter and that we agreed to when we originally put the  
40 Commission in place to change our formula. It's a pretty high standard. Having said  
41 that, if we do not have some sort of flexibility to deal with innovations and technology  
42 investments and approaches when it comes to jobs and educational opportunities, we're  
43 going to miss the mark and we'll be held accountable by the General Assembly. There

1 are already those who are looking at what we're doing on a daily basis. If we start doing  
2 things where somebody says I've got mine and that's all that matters it won't work.

3 We've got to have a broad approach and a broad brush because the future of  
4 these areas are too important to all of us to allow a certain parochial attitude to take  
5 place. We have a charge and I take it very seriously and what happens in Southwest  
6 Virginia is just as important as what happens in Southside Virginia. My county is the  
7 largest county and the largest amount of money when it comes to changing the formulary.  
8 I understand fully what you're talking about. When you look at telecommunications and  
9 education and the TROF monies that we have in place and look at the special project  
10 money to attract jobs and give an opportunity to people that can't do it otherwise, I think  
11 the monies have been spent fine. Having said that, are there any other comments?

12 MR. FIELDS: Mr. Chairman, I've heard this for six years and I  
13 think probably Senator Ruff has as I look around the table and probably the only one  
14 sitting there at that meeting and the Chairman in Roanoke when we discussed a lot of this  
15 very thing. 73/27 came about because of indemnification of the farmers. Southside has  
16 73 percent of the quota, I think that's where that came from. I think it's been strictly  
17 adhered to. We are indemnifying the farmers in Southside and Southwest. The other part  
18 of it is revitalization of communities and I just don't understand what 73/27 has to do  
19 with that. I didn't understand it that day and nobody made me understand it that day and  
20 have not since. What does that have to do with revitalization of communities?

21 Many of the folks I've talked to have traveled I-81 to Abingdon. There's  
22 another 100 miles and another 250 miles that you have not seen. I say to this we're  
23 willing to revitalize any communities you have in the Southside that we can do that for,  
24 we ask you to do that for the Southwest. It was the same plea that day in Roanoke. If  
25 somebody here can give me a logical explanation of what 73/27 has to do with  
26 revitalization of communities, I'd be glad to listen to that.

27 SENATOR HAWKINS: I think it's one of the things we felt  
28 important to have some sort of guidelines put in place and also we'd have some  
29 flexibility to do various things. Things like special projects and education and making  
30 sure that we were able to address things as they came along. At day's end, after we  
31 respond to all the projects involved, I feel confident that based on the population that the  
32 counties involved and the split will be pretty much what we talked about in the beginning  
33 because you're talking about more counties, more population, less counties, less  
34 population and the investments will equalize the way we talked about things. The blimp  
35 that we're seeing in some of the figures today is the investment in the  
36 telecommunications piece because Southwest is ahead of Southside. These monies have  
37 been given to us in trust to invest in the economies and in the farming communities of  
38 Southwest and Southside Virginia and everything else we have to come up with as a  
39 Commission and to make it work. Our guidelines are our guidelines and not the General  
40 Assembly's guidelines. So we have to make things work as we see fit to make them  
41 work. What we have today gives our counties an understanding a certain amount of  
42 money that they can invest themselves. It also gives us the flexibility when it comes to  
43 investing in what we feel are regional projects that have economic impact across county

1 lines and city lines and is for the overall benefit of all our citizens. We have a charge for  
2 everything. Having said that, is there any other discussion?

3 DELEGATE WRIGHT: Mr. Chairman, the figure I mentioned \$100  
4 billion is before the technology part. If you consider that it's closer to \$200 billion. I'm  
5 not counting that part. My comment is this, this money does not belong to me, it doesn't  
6 belong to anybody else in this room, but it belongs to the people in Southside and  
7 Southwest Virginia. The only thing I want to say is that there ought to be some logical  
8 way to split the money. We did it for indemnification and we did it based on quota loss.

9 SENATOR HAWKINS: I'll make this comment and we probably  
10 could go on forever on this. I do not want to put myself or the Commission in such a box  
11 that if an opportunity comes about to make an investment we couldn't do it. I don't want  
12 us to be in a position where we could not rise to that occasion. By having a strict line of  
13 division, it takes away any flexibility to do something. If something takes place in a rural  
14 county like Cumberland or Appomattox or Charlotte or Lee or Scott, it could have a  
15 change in the economy with a major investment from this Commission, we'd want to be  
16 able to do it. Without that flexibility, we could miss an opportunity to do that and one  
17 that we might regret.

18 DELEGATE WRIGHT: That could be accomplished by putting  
19 some rules in place to take care of that. That's the only comment I'll make sir.

20 SENATOR HAWKINS: Thank you. Counsel wants to talk to us for  
21 a brief second for an update on various things we're looking at.

22 MR. FERGUSON: Mr. Chairman, two quick things. In case anyone  
23 in the room doesn't know on Phase II, you will recall that there was concern about our  
24 indemnification obligations should the '04 trust payment not come under Phase II. You'll  
25 recall that the '04 litigation in North Carolina that the tobacco companies had refused to  
26 make the '04 payments. That litigation is pretty much come to an end now and  
27 fortunately successfully for the state and the farmers and quota holders that benefit from  
28 the trust. We anticipate this Commission will have no liability for indemnification  
29 payments that otherwise will come out from the '04 Phase II payments. We do anticipate  
30 that there will be no further Phase II payments after the '04 payments. Under the terms  
31 of the trust it will essentially disappear, you'll recall as a result of the buyout.

32 SENATOR HAWKINS: Any questions from counsel?

33 MR. FERGUSON: I believe it's 25 million for indemnification  
34 money.

35 SENATOR HAWKINS: I understand you're going to meet with the  
36 new Commission members and update them on FOIA.

37 MR. FERGUSON: That will be Ms. Lane and Mr. Harwood, you  
38 might have to tolerate me for about 30 minutes after the Commission hearing.

39 MR. STEPHENSON: Mr. Chairman, a housekeeping matter. We  
40 have a behind the scenes person in the person of Michal Burton. Would you raise your  
41 hand Michal and be recognized? Michal has been coordinating all of these meetings and  
42 is a good person to know in answering some of your questions. The second thing is  
43 lunch will be available at the conclusion of our meeting and is in the adjacent room.

1                   SENATOR HAWKINS: Two things before we adjourn. We have a  
2 great staff and I think we all recognize that and we appreciate their work. We couldn't  
3 accomplish our task without them. Now, the second thing we need to do is need to come  
4 up with a discussion and I'm sorry it's not on the agenda today. We need to elect officers  
5 for the next two years. We can do it at the next meeting, is there notice with that Frank or  
6 not?

7                   MR. FERGUSON: I don't recall if there is.

8                   SENATOR HAWKINS: If you would like I would offer myself two  
9 more years in this post and Terry will offer himself for two more years in his post as  
10 Chairman and Vice Chairman of the Commission. It's something that I take seriously, I  
11 didn't know it would be a lifetime job when I took it, but with the transition we're going  
12 through right now, we need to have some stability for the next year or so I offer myself  
13 for that. Having said that, I will leave the room and let you all discuss it, if you want to.

14                   SENATOR RUFF: I'd like to make a motion, Mr. Chairman, that  
15 we place in nomination Senator Hawkins as Chairman and Delegate Kilgore as Vice  
16 Chairman.

17                   SENATOR RUFF: The motion's made and seconded, all those in  
18 favor say aye. (Ayes.) Opposed? (No response.)

19                   SENATOR HAWKINS: All right, thank you all. Is there any public  
20 comment? Anyone from the public have any remarks? All right, do I hear a motion that  
21 we're adjourned? So moved. We are adjourned.

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PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **Full Commission Meeting when held on Thursday, November 10, 2005 at 10:00 a.m. at The Inn at Virginia Tech – Latham Ballroom B/C, Blacksburg, Virginia.**

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

Given under my hand this 28th day of November, 2005.

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

My Commission Expires: October 31, 2006.