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9 **Full Commission Meeting**

10 Thursday, June 23, 2005

11 1:30 p.m.

12
13 Hotel Roanoke and Conference Center
14 Roanoke, Virginia
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17 **APPEARANCES:**

18 The Honorable Charles R. Hawkins, Chairman

19 The Honorable Terry G. Kilgore, Vice Chairman

20 Mr. Thomas W. Arthur

21 Mr. Clarence D. Bryant

22 The Honorable Kathy J. Byron

23 The Honorable Barnie K. Day

24 The Honorable Allen W. Dudley

25 Mr. Fred M. Fields

26 Mr. L. Jackson Hite

27 The Honorable Clarke N. Hogan

28 The Honorable Isiah G. Hopkins

29 Mr. Jordon M. Jenkins, Jr.

30 The Honorable Joseph P. Johnson

31 Mr. Buddy Mayhew

32 The Honorable Harrison A. Moody

33 Mr. Claude B. Owen, Jr.

34 The Honorable Edward Owens

35 The Honorable Philip P. Puckett

36 The Honorable Frank M. Ruff

37 The Honorable Michael J. Schewel - Secretary of the Department of

38 Commerce and Trade

39 Mr. John M. Stallard
40
41

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

43 The Honorable John Thomas Taylor

CRANE-SNEAD & ASSOCIATES, INC.

4914 Fitzhugh Avenue, Suite 203

Richmond, Virginia 23230

Tel. No. (804) 355-4335

1 Mr. James C. Thompson
2 The Honorable Gary D. Walker
3 The Honorable William C. Wampler, Jr.
4 The Honorable Thomas C. Wright, Jr.
5
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7 COMMISSION STAFF:

8 Mr. Carthan F. Currin, III, Executive Director
9 Mr. Ned Stephenson, Manager of Strategic Investments
10 Mr. Timothy Pfohl, Grants Program Administration Manager
11 Ms. Stephanie Wass, Director of Finance
12 Ms. Mary Cabell Sulc, Manager of Communications and Committee
13 Operations
14 Ms. Britt Nelson - Grants Coordinator, Southside Virginia
15 Ms. Sarah Griffith - Grants Coordinator, Southwest Virginia
16

17 OFFICE OF THE ATTORNEY GENERAL:

18 Mr. Frank N. Ferguson, Deputy Attorney General
19 Counsel for the Commission
20 Ms. Stephanie Hamlett, Special Counsel to the Attorney General
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24 SENATOR HAWKINS: All right, I'll call this meeting to
25 order, it's 1:30. Carthan, call the roll.

26 MR. CURRIN: Mr. Arthur?

27 MR. ARTHUR: Here.

28 MR. CURRIN: Mr. Banner?

29 MR. BANNER: (No response.)

30 MR. CURRIN: Secretary Bennett?

31 SECRETARY BENNETT: (No response.)

32 MR. CURRIN: Mr. Bryant?

33 MR. BRYANT: Here.

34 MR. CURRIN: Delegate Byron?

35 DELEGATE BYRON: Here.

36 MR. CURRIN: Commissioner Courter?

37 COMMISSIONER COURTER: (No response.)

38 MR. CURRIN: Mr. Day?

39 MR. DAY: Here.

40 MR. CURRIN: Delegate Dudley?

41 DELEGATE DUDLEY: Here.

42 MR. CURRIN: Mr. Fields?

43 MR. FIELDS: Here.

44 MR. CURRIN: Mr. Hite?

1 MR. HITE: Here.
2 MR. CURRIN: Delegate Hogan?
3 DELEGATE HOGAN: Here.
4 MR. CURRIN: Mr. Hopkins?
5 MR. HOPKINS: Here.
6 MR. CURRIN: Mr. Jenkins?
7 MR. JENKINS: Here.
8 MR. CURRIN: Delegate Johnson?
9 DELEGATE JOHNSON: Here.
10 MR. CURRIN: Mr. Mayhew?
11 MR. MAYHEW: Here.
12 MR. CURRIN: Mr. Montgomery?
13 MR. MONTGOMERY: (No response.)
14 MR. CURRIN: Mr. Moody?
15 MR. MOODY: Here.
16 MR. CURRIN: Mr. Owen?
17 MR. OWEN: Here.
18 MR. CURRIN: Mr. Owens?
19 MR. OWENS: Here.
20 MR. CURRIN: Senator Puckett?
21 SENATOR PUCKETT: Here.
22 MR. CURRIN: Senator Ruff?
23 SENATOR RUFF: Here.
24 MR. CURRIN: Secretary Schewel?
25 SECRETARY SCHEWEL: Here.
26 MR. CURRIN: Mr. Stallard?
27 MR. STALLARD: Here.
28 MR. CURRIN: Mr. Taylor?
29 MR. TAYLOR: Here.
30 MR. CURRIN: Mr. Thompson?
31 MR. THOMPSON: Here.
32 MR. CURRIN: Mr. Walker?
33 MR. WALKER: Here.
34 MR. CURRIN: Senator Wampler?
35 SENATOR WAMPLER: Here.
36 MR. CURRIN: Mr. West?
37 MR. WEST: (No response.)
38 MR. CURRIN: Delegate Wright?
39 DELEGATE WRIGHT: Here.
40 MR. CURRIN: Vice Chairman Kilgore?
41 DELEGATE KILGORE: Here.
42 MR. CURRIN: Mr. Chairman?
43 SENATOR HAWKINS: Here. Do we have a motion to
44 approve the Minutes of the April meeting?

1 It's been moved and seconded that the Minutes be approved. All in favor
2 say aye? (Ayes.) Opposed? (No response.)

3 MR. DAY: Mr. Chairman, I guess I missed a copy of the
4 Minutes from the Executive Committee meeting, the last one.

5 SENATOR HAWKINS: Carthan, can we get a copy of the
6 Executive Committee meeting?

7 MR. CURRIN: Yes. I've got part of it right here.

8 SENATOR HAWKINS: We'll get you a copy, Bernie.

9 MR. OWENS: Was that sent out with the packet?

10 MR. CURRIN: I don't know if it was sent out with the
11 packet, but we'll get you a copy if you need it.

12 SENATOR HAWKINS: We'll get those run off; if not, I
13 apologize if you didn't get a copy.

14 There are a couple of things we need to get into. All right, we've approved
15 the Minutes and had the roll call. Steve, you're next.

16 MR. ROSENTHAL: Mr. Chairman and members of the
17 Commission, to date we've approved a little over thirty-four thousand out of fifty-one
18 thousand claims in the database, totaling somewhat over fifteen million dollars. The
19 majority of the thirty-four thousand approved claims are those claims not requiring quota
20 allocation between multiple owners or ownership or claim changes. We provided
21 payment data to the Virginia Department of Agriculture last Thursday and expect to be
22 transferred to the Treasury today or tomorrow. The checks are being mailed out the early
23 part of next week.

24 We're currently processing the remaining claims that will be included in a
25 subsequent round of payments as soon as possible. The second payment round will
26 include claims requiring changes of ownership or quota allocation between owners. A
27 number of these claims are greater than usual because of the change in the base crop year
28 for flue-cured quota owners from 1998 to 1999.

29 In light of the crop year change and the development of a new database we
30 respectfully request that the Commission consider providing claimants with a deadline
31 extension to July 11th of this year. The initial deadline the Commission approved was
32 June 6th. The July 11th extended deadline will give the claimants approximately two
33 months from mailing of the verification payment forms to return them for processing.
34 This extension is consistent with what we did last year.

35 DELEGATE KILGORE: How are you going to get the
36 word out for the extended deadline for those that need to know?

37 MR. ROSENTHAL: The same way we did last year in the
38 deep Southwest Virginia, through FHA and public ads, notices and all that. So we would
39 ask the Commission to consider that extension request, and that will be very helpful to
40 everybody involved.

41 DELEGATE JOHNSON: Mr. Chairman, Steve, is there
42 any litigation pending or threatened on the quota?

1 MR. ROSENTHAL: Not that I am aware of. There may
2 be individual suits floating around out there somewhere, but not that I am aware of. Is
3 there a concern that you've heard that there are some?
4 DELEGATE JOHNSON: It's very unusual with that many
5 that there is not.
6 MR. ROSENTHAL: So far everybody seems to be pretty
7 calm. This has been a hard year, and we're trying.
8 DELEGATE JOHNSON: You've done a good job.
9 MR. BRYANT: Mr. Chairman, I'd like to make a motion to
10 give the extension for July 11th.
11 SENATOR HAWKINS: It's been moved, and now it's been
12 seconded, to grant the extension to the July 11th date. Is there any discussion? All in
13 favor say aye? (Ayes.) Opposed? (No response.)
14 MR. ROSENTHAL: Mr. Chairman, our office is
15 physically moving, starting next Friday at 3:00, and hopefully the move will be
16 completed by July the 4th, and we'll be in full working order by July 5. You may be
17 getting some calls they can't reach us, and there may be a little confusion during that
18 period of the move, but July 5th we'll be back up and running.
19 MR. BRYANT: How do we reach you?
20 MR. ROSENTHAL: You can reach me at the same
21 number. Assuming the phones are working, the numbers will all remain the same.
22 SENATOR HAWKINS: Any other questions? All right,
23 thank you, Steve, you have all done an outstanding job.
24 MR. ROSENTHAL: Thank you, very much, we appreciate
25 the opportunity.
26 SENATOR HAWKINS: Before we get into the other part
27 of our agenda, I just want to say that we're going to do something a little bit different
28 today than what we normally do. There has been much discussion about securitization,
29 and we have completed that during this period, and I think we can say that we have hit a
30 home run. I think you are all well aware that we got close to forty million dollars more
31 than we anticipated in our original scenario. I think the State Treasurer's Office deserves
32 a lot of credit for that, being able to hit the market at the right time. Also, how we handle
33 the monies that we're going to be discussing and having on-going discussion about. So
34 we need to make sure that we understand fully our obligation when it comes to these
35 monies and what our obligations are, the things that we can and cannot do with money
36 that is securitized.
37 What I'd like to do is probably have the Executive Committee report from
38 Carthan and then have Carthan talk about the telecommunication piece, and that
39 discussion has been ongoing. Then I'd like to make some comments on the Executive
40 Committee report and then make some comments or personal observations as well as
41 rationale why we're recommending various things and why the Executive Committee has
42 looked at things a certain way. Then we'll take a ten-minute break and everybody sit
43 around and talk and get a feeling about what is going on so there'll be no questions about
44 anything that is taking place in the meeting. I want everyone fully informed and have a

1 full understanding of all the ramifications and things we're dealing with, because we're
2 dealing with a tremendous amount of money, and we have an opportunity to have a lot of
3 positive impact on communities. We need to make sure that everyone understands fully
4 what our discussions are. After that we'll come back in to the meeting and open the floor
5 for questions and discussions and try to continue our conversations with the idea of some
6 sort of positive action toward the recommendations that we're making.

7 Having said that, Carthan?

8 MR. CURRIN: Mr. Chairman and members of the
9 Commission, on May 31st the Executive Committee met here in Roanoke. A motion was
10 made by Delegate Hogan to transfer ten percent of our securitized dollars to be put into
11 the Technology category. A motion was made and seconded and approved, and I might
12 say unanimously approved. It was further stated that the Technology Committee, which
13 Delegate Hogan chairs, would review all applications that are currently pending in my
14 office. The Technology Committee will meet, and the Technology Committee will receive
15 Staff recommendations on these numerous applications from Southwest and Southside at
16 a significant time before the Commission meeting.

17 The second one, Mr. Chairman, is the TROF request from Tazewell
18 County that did not quite meet, and the Staff recommended that we take action on this
19 particular matter. Mr. Stephenson will go over that in greater detail, but this project
20 would create jobs. With the type of jobs it would create and the salaries and wages, we
21 felt that we could make an exception in this particular case. The Executive Committee
22 also voted unanimously to support that TROF request.

23 SENATOR HAWKINS: Let's deal with that now. Ned,
24 would you give us an update on that?

25 MR. STEPHENSON: In your packet you have a brief
26 analysis of the TROF request. The essence of it is that it is below your guidelines for a
27 fifty thousand dollar minimum. In all other respects it is a worthy project. It is to run
28 some three-phase power to a location to enable an existing company to expand to keep
29 jobs. We bring that recommendation to the Full Commission.

30 SENATOR HAWKINS: Any discussion or question from
31 anyone?

32 MR. ARTHUR: I move that it be approved as submitted.

33 SENATOR HAWKINS: It's been moved, is there a
34 second? It's been moved and seconded, any discussion? Any questions about the
35 recommendation? All in favor say aye? (Ayes.) Opposed? (No response.) That passes
36 unanimously.

37 MR. CURRIN: Mr. Chairman, the Southside Economic
38 Development Committee met today, with Mr. Arthur as Chair, and he will have a report
39 on their deliberations from that Committee meeting to give the Full Commission a little
40 later on.

41 That's my report, Mr. Stephenson has a further presentation, either during
42 or after the recess.

1 SENATOR HAWKINS: I think we'll probably talk about
2 the telecommunication piece, that's one that most of us are going to have a conversation
3 about and how we're going to deal with that.

4 DELEGATE HOGAN: Briefly, Mr. Chairman, and I think
5 Carthan covered some of the details, but we're going to meet roughly a week before the
6 Full Commission meeting and take up the requests that are before us now, or will be
7 shortly, and there will be more of them. We plan to bring forth recommendations to you
8 at that point.

9 Mr. Owen made some suggestions, and everyone is concerned that we
10 have an outside consultant review where we are and also be involved in making that
11 report. I hope we will have that at the late July meeting. We will have all the facts
12 dealing with Technology and the issues before us for the next twelve to eighteen months.

13 MR. CURRIN: Mr. Chairman, to echo what Delegate
14 Hogan is saying. Principally these requests that are before us, or have come before us,
15 are extensions or continuation of the two projects that we have been doing for the last
16 four years or so.

17 DELEGATE HOGAN: They all are, they are a
18 continuation.

19 MR. CURRIN: They are a continuation, I don't think they
20 are new, they are not new entities popping up in this process.

21 SENATOR HAWKINS: Ned.

22 MR. STEPHENSON: Mr. Chairman and members of the
23 Commission, in your packet you have two printed resolutions, Resolution Number One
24 as amended, and then Resolution Number Two. These resolutions express the vision of
25 the Executive Committee, who met two weeks ago, as Carthan indicated. We believe the
26 language in these resolutions expresses with some precision the spirit of what the
27 Executive Committee elected to bring to you unanimously.

28 What I'd like to do for a few minutes is to first express to you the essence
29 of each of these resolutions. Secondly, I'd like to give you a brief explanation of these
30 resolutions. Lastly, to try to answer questions as little or as much as you may desire
31 about the mechanics of how these work.

32 With that, Mr. Chairman, I'll begin. I wanted to start with Resolution
33 Number One, amended. Amended simply means that what you are looking at is a little
34 bit different from what was mailed to you several days ago. I'll point that out in a minute.
35 The essence of this resolution is to transfer thirty-nine million dollars from the
36 Endowment to the Fund. There is a lot of whereases in here, and there's some precise
37 language required from the Treasury and so forth, to make this work. The essence of it is
38 to transfer thirty-nine million dollars, and I'll explain a little more about that in a moment.

39 Resolution Number Two, the essence of this resolution is to take the thirty-
40 nine million dollars off the top of the Endowment, and that's it. With those two things
41 expressed I'm going to ply a little bit deeper and offer a little explanation, and then we
42 can go into questions and answers as much as you would like.

43 I have placed on the wall before you a very simple chart. I do this to try to
44 explain a little bit about this first resolution. There is kept within the Treasury an account

1 that we call the Fund. It is placed there by the Code, that's the box in the middle.
2 Currently, within the Fund resides the MSA payment, that's where that money is held
3 within the Treasury. You will notice up above it there is the Endowment, also created by
4 the Code. The essence of this motion is to ask the Treasurer to transfer thirty-nine
5 million, actually it is thirty-nine seventy-seven, to transfer that from the Endowment box
6 at the top into the Fund.

7 I think it is important to note what this does not do. This does not approve
8 a grant, this does not disburse any money. It simply is moving it from the Endowment to
9 the Fund, and I might view it like this. It is to position that money so that the
10 Commission may as soon award a grant and fund that as it may desire, but it does not
11 make an award.

12 I'm going to hit the second resolution, and then we can take some
13 questions. The second resolution deals with how that money is removed from the
14 Endowment. It is simply to say that it is to be off the top. In other words, to reduce the
15 three hundred eighty-nine million dollar Endowment down to three hundred fifty million
16 dollars before it is then divided or split among the two regions. That is the essence of
17 these two motions.

18 Mr. Chairman, I can go on longer, or I can take questions.

19 SENATOR HAWKINS: Before we get into questions, let
20 me make a comment. A lot of this is very complicated, and it takes me a while myself to
21 get my hands around it. We can go back to questions, and that may answer some or
22 create more questions. Thank you.

23 Let's remember that when we agreed to securitize we found ourselves with
24 two pots of money to deal with. One of them is strictly geared toward tax-exempt
25 projects. That pool of money cannot be used for anything but that purpose. The monies
26 up to this point have been unencumbered by the actions that we have taken. As we start
27 today's discussions we have to remember we now have two obligations that we have to
28 deal with, those things we do by taxable grants, and then the things that we do that are
29 non-taxable grants.

30 It is my understanding, and the way that I look at this, is that the
31 telecommunication piece is one of the things that we've all identified as being needed for
32 all of our localities. That 58 backbone that runs the full length of our two regions is the
33 one thing that gives all of our counties access to economic opportunity that they have not
34 had in the past. As quickly as we can complete that backbone the better off we will be. If
35 we in fact take a ten percent, which, by the way, the law says we can only access the
36 corpus of these monies one time a year and ten percent max. The reason for doing it this
37 year rather than in '06, which starts soon, is that, in my mind, since we have identified an
38 investment that we all are aware of, we can take the ten percent off the top of this and put
39 it in a special account for telecommunication and do away with that piece. That is the
40 focus of our discussion. Then it is funded, and it is done. If something comes up in '05
41 that has a major impact on some of our larger localities or some of our localities that we
42 need access to money that is up and beyond that which we anticipate today, we will be
43 closed out to any other access to the corpus of money. I do not want us to use this as a
44 savings account that we can draw money out of every other day.

1 One of the things we need to do today in our discussion is if we decide to
2 do that, and that is to figure out what kind of safeguards we can put in place and what
3 type of criteria we must have in place to access the corpus up and beyond the
4 telecommunication piece which we all agree to. I personally think we need to make sure
5 that there is a super majority that agrees to invade the corpus, that is important, and I
6 think it would have to be something that is extraordinarily important to the area, that it
7 has multi-regional impact, and something that goes beyond the discussion of a water or
8 sewer line for a locality or a shell building or whatever. It has got to have a major impact
9 in order to justify invading the corpus. If we today postpone the action on the ten percent
10 of the corpus, that will leave us one full year with no option. I'm not sure that is good,
11 either. I would like this Committee to have as many options as possible dealing with
12 things that are unknown in the future, and to do that we have to have flexibility, and this
13 would give us some flexibility. That's for the discussion of the group.

14 If you look at what we're trying to accomplish, and if you look at this
15 money as an investment off the top, we can set aside that, which frees up all the other
16 money that we talked about obligating to telecommunications that we can use for other
17 purposes, that's unencumbered. It gives us some flexibility that we have never had before
18 when it comes to obligating this telecommunication piece, that's something we have to
19 discuss and deal with as well. I firmly believe that this single project that we're dealing
20 with will affect the small counties and large counties alike, and the availability to get
21 high-speed fiber, and that will give them the flexibility they need to be able to compete.
22 Our obligation is to create an economy, period. I think this is something that we need to
23 deal with.

24 If you look at the overall structure of what we're talking about now, we've
25 already tied together Southwest and Southside with cable. I'd like to make a
26 recommendation to Carthan that he go ahead and engage an engineering firm to look at
27 what we're dealing with and make sure that what is in place meets our criteria, that there
28 is not any overlap, and that there is something in place that makes sense in today's
29 market, and that what we're doing is really living up to the obligations that we talked
30 about. In order to do that, we need someone that can look at this program and stand back
31 and take a cold hard look at it and make sure we're doing the things we need to do, and
32 look at it objectively. I think we need to do that at this time.

33 We also need to understand starting today our funding system changes,
34 and we have to make sure that we fully understand about the taxable and non-taxable
35 parts of these monies. This is a trust that has been given to us, and we have a fiduciary
36 responsibility to make sure that we live up to that trust.

37 Today's action will be two. Number one deals with just taking money off
38 the top for the telecommunication, putting it in a fund solely for that purpose that will go
39 through all the mechanisms we have in place and will be funding those things that are
40 ongoing.

41 Number two is to go ahead and talk about funding the projects as they
42 come online, regardless, to get this thing done. If you look at our history on this, we have
43 been dealing with this for two or three or more years, and we keep saying we ought to
44 finish this up, and now we have an opportunity to do that. When you look at the impact,

1 particularly in Southwest Virginia, the burley market is leaving there, and it is moving to
2 flue-cured because of the availability and whatever, the size of farms we're dealing with.
3 If we don't do something fairly soon to bring into place all the communities so they will
4 have equal access to be competitive that we can give them, then what we're going to do is
5 create even more imbalance, and we can't afford to do that.

6 So I would like for us to look at a broader approach and one that has
7 regional appeal and can take this one project and move it further down the chess board so
8 we can finish it up and put our people in a position so they do not have to depend on
9 someone else coming in and doing what we can do.

10 Having said that, what I would like to do now is recess for ten minutes,
11 discuss these proposals among yourselves, and think about questions that you want to
12 ask.

13 SECRETARY SCHEWEL: Mr. Chairman, I wonder
14 whether it would be productive, and maybe not, to see if there are any questions from
15 people now. I'm not sure that everybody has the information they need to ask these
16 questions.

17 SENATOR HAWKINS: Does anyone have any questions
18 now that we need to find out the answers now that they may not know about?

19 DELEGATE DUDLEY: Mr. Chairman, I would like Ned
20 to tell us what is different from the resolution that was sent to us than the one that we're
21 looking at today.

22 SENATOR HAWKINS: Okay, maybe you can put that up.
23 Let me emphasize this, we all were appointed to this Commission for one
24 purpose and one purpose only. We're putting in place the best structure for economic
25 development and putting that in place for the citizens that we represent, and we represent
26 everyone, not just our home areas, but we represent everyone. Also, to help stabilize the
27 family farms by indemnification, which we've done. That is the piece that is set aside for
28 a ten-year payout. That is not really up for discussion, and we know what we're doing
29 there, though. We need to make sure when we start talking about these monies long-
30 term, particularly Southside and Southwest Economic Development, that we start talking
31 about criteria and a benchmark that we have to meet. This idea of being able to do things
32 because it happens to feel good at the moment, we just need to get beyond that and start
33 talking about taking it to the next level for these economies. Our economies, especially
34 in Northern Virginia, they're exploding, and Hampton is exploding, and everything is
35 taking place except guess where, where we live. I'm not saying anything about Northern
36 Virginia, but our people have a right to find economic security at home as well as anyone
37 else, and that's our obligation, and that's our charge.

38 Any other questions?

39 DELEGATE HOGAN: Mr. Chairman, part of the
40 discussion, and I'm assuming when the first motion passes, I'd make a motion to take the
41 2006 Technology budget, a seventeen million dollar budget, and move that to Special
42 Projects, for two reasons. With this forty million dollars we've got about all the
43 Technology money we need anytime for the next twelve to eighteen months. We can't
44 spend it faster than that. Number two, if we move it to Special Projects, then in my

1 opinion, that would be the best place to deal with some of the other needs. I know there
2 are other issues, but to deal with the other needs, some of which I'm aware of and some
3 of which I'm unaware, but in any case the Special Projects Committee can work through
4 whether the project needs funding, how to get the maximum amount of pop, if you will,
5 out of that.

6 SENATOR HAWKINS: The seventeen million dollars is
7 allocated in next year's budget '06. That's money that is unencumbered, and we can use
8 that any way we want to, taxable or non-taxable.

9 DELEGATE HOGAN: It has the same strings attached to
10 it if we let it go in the Technology budget. We still have to jump through all of these
11 hoops regardless.

12 SECRETARY SCHEWEL: Mr. Chairman, let me make
13 sure I understand what you said. You say the forty million is the most, and you can't
14 spend it any faster than in twelve to eighteen months. Assuming in the ordinary course of
15 things, things go the way they are planned and not faster, and they're not faster or slower
16 than the way they are planned, projects are not quite yet drawn up, so you can't start any
17 other projects that are being put in the ground right now. Over what period of time do
18 you think that forty million dollars for Technology is going to be spent, two years, three
19 years, eighteen months?

20 DELEGATE HOGAN: Probably twelve to eighteen
21 months, probably a good number to use. When you sit here and look at the '07 budget, it
22 may have some holes. I'm aware of the Southwest proposal, and I think the engineers, we
23 need to discuss that. Southside, in this case we're a little bit behind, but there is easily
24 twenty million to make this network really serve every community. I think it will be
25 pretty close to it to get both networks up and running. I think we can do it without, we've
26 just got to get this network up and running.

27 SENATOR HAWKINS: The budget we're dealing with in
28 '06 with the regular MSA payment, that was not dealing with the securitization piece that
29 you were talking about. So in fact the MSA payments we're dealing with the budget, that
30 sixty million can be used for non-taxable or taxable, it is not encumbered for use, which
31 gives us the flexibility we need, and by taking monies out or that are allocated for one
32 purpose only, a non-taxable piece, and using our money for both, gives us some
33 flexibility that we need.

34 Having said that, any other questions? Bernie.

35 MR. DAY: Has there been any discussion about paying the
36 Endowment back over time? So many million a year to put it back. I'm generally in
37 support of this.

38 SENATOR HAWKINS: Your point is well taken.
39 Remember, we're not here to create a savings account for this Commission. We're
40 charged with creating an economy, and to create an economy we have to invest money,
41 and these monies are to be used to invest in our localities and create a return, then we're
42 much better off than putting it back in an escrow account, it creates money that's used in
43 the future. We've got to deal with the problems we have today, but that's something we
44 can talk about.

1 MR. OWENS: You're saying, or in referring to this forty
2 million dollars, if we don't use it all will we go back and adjust our budget based on that?
3 SENATOR HAWKINS: This is the first time, in my mind,
4 that we have had forty million. All of a sudden we find ourselves here with a blank check
5 for the telecommunication piece for getting it off the table and investing it so we can
6 finish up this project.

7 Having said that, let's take about a ten-minute break, and we'll just talk
8 about it. Remember, this is important, and understand what we are starting today will set
9 in place what we will do in the future, and I want everybody to be very clear and fully
10 understand what we're talking about and what we're doing.

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NOTE: A recess is had. Thereupon, the
meeting reconvenes.

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SENATOR HAWKINS: We're back in session. Thank you
all, I think it was important that we took the time to do this. During the course of our
discussions what I would like to do is just open up the discussion, and particularly talking
about the securitization piece. We also talked about a trust fund.

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I'd like to request Mr. Owen, Secretary Schewel, Mr. Day, a group of
people to put in place some safeguards so we will not find ourselves invading the corpus
for these monies if the winds change. I think we have to have some safeguards in place
that guarantees the stability of this fund in the out years. It concerns me that with this
much money and without some sort of safeguards in place, and we'll deal with that with
the Committee, probably Southwest can do the same thing.

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Now, the Chair will entertain questions.

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SECRETARY SCHEWEL: Ned has said that this
resolution does not approve any disbursement, all it does is approve, and as Ed was
saying to me, loading the shotgun, but you're not firing it. When disbursements are in
fact made or plan a disbursement, projects come before us, the relevant committee, how
does that approval occur? Does it come back before the Commission? Is there a group
of disbursements that come before the Commission, is there a plan? When will the group
see or have a chance to approve or disapprove these disbursements or a plan?

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SENATOR HAWKINS: As I understand it, anything that
we propose goes through the normal channels it always has. Everything comes back to
this Commission and it is voted on, nothing is done in isolation. No one is given
authority to spend money outside of this Commission itself. Any expenditures of money
for any projects have to be approved by a majority vote of this Commission, and that
includes Southside or Southwest. That is a safeguard we have always had in place.

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MR. OWENS: You put the money there so the Technology
Committee can review the projects and make recommendations back to the Full
Commission, and then the Full Commission votes?

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SENATOR HAWKINS: My understanding is that we're
talking about taking ten percent and putting it into a special fund that would draw interest
and all the things that take place with the money, and then the Technology Committee has
that money in place, and they can start dealing with the various aspects of the contracts

1 outstanding, and then they have to get approval for all the normal processes that we go
2 through. They cannot bypass or short-circuit any checks and balances that we have in
3 place.

4 MR. DAY: Mr. Chairman, in the spirit of your warning
5 everybody to know exactly what we're fixing to do, it seems to me that the point that
6 needs to be made is that in essence we are doing a de facto change in the distribution
7 formula. If we took the forty million and allocated it under the existing formula, the split
8 would be roughly twenty-nine million versus eleven million. By doing this, and I'm in
9 favor of this, and I'm going to vote for it, we're in essence going twenty/twenty. It
10 becomes a nine million dollar shift from Southside to Southwest.

11 SENATOR HAWKINS: The first vote does not do that.
12 The first vote is an allocation of monies off the top, and the formula is there. The second
13 vote that we deal with is in fact that we do split it and shift about nine million, but if you
14 look at the amount of money that we are dealing with, and if we can put in place a system
15 that is connected and, it's money well spent.

16 MR. DAY: I fully agree.

17 DELEGATE HOGAN: While that may be true, and if you
18 look at it historically, where we're sitting right now we're seventeen or eighteen in
19 Southside and about five for Southwest. I think if you added those numbers into this
20 equation, without doing the quick math I can't tell you the percentage, but it's a whole lot
21 closer. I think you have to look at it in that context. If there is a problem it is a real small
22 one.

23 SENATOR HAWKINS: Please remember that when we
24 started talking about the telecommunication piece, which is a child of this Commission,
25 regardless of what you hear, it came out of this Commission, with the 58 backbone. I've
26 always viewed it as the 58 backbone, regardless.

27 DELEGATE WRIGHT: I was under the impression that
28 the forty million going to Technology, where does it say it is split fifty/fifty?

29 DELEGATE HOGAN: It does not.

30 SENATOR HAWKINS: It does not.

31 DELEGATE WRIGHT: I thought the answer to Bernie's
32 question was that --

33 SENATOR HAWKINS: -- The second part --

34 MR. DAY: -- Mr. Chairman, I beg your pardon. If you
35 look at Resolution Number Two, the third paragraph, it says, shall be charged equally. It
36 is a fifty/fifty charge.

37 DELEGATE WRIGHT: It says fifty/fifty charge, it doesn't
38 say fifty/fifty split.

39 SENATOR HAWKINS: Let me try to put it into a
40 framework. No one knows at this point. If you look at the land map we're dealing with
41 and the lines that need to be laid, Southside Virginia is going to be in line to receive more
42 money, because the area that we're dealing with is bigger. Southwest Virginia has unique
43 challenges that they are faced with, and certain things have to be put in place as an
44 overall part of the structure. Seven or eight million or five million or two million or

1 whatever, shifting from one area to the other out of the normal formulary, I don't think it
2 disservices anyone, because it puts the system in place that we're trying to put in place.
3 This particular piece dealing with telecommunications is up and beyond the normal
4 discussion of the formulary that we put in place when the Commission was first founded.
5 At that time the only thing we were dealing with was local requests for investment in
6 projects that had water, sewer, shell buildings, all local. Then we started expanding to
7 scholarships, Special Projects started looking at things different. Then the
8 telecommunication piece came in play, which is a much more intensive investment on our
9 part, but it meets that criteria of being able to meet the needs of our counties, so it is an
10 ongoing discussion. What we initially put in place in this Commission, and I carried the
11 legislation to pass, and I'm very familiar with the history. That was put in place to try to
12 stabilize our economies early on when we found out we needed a much more universal
13 approach to that planning to put in place the infrastructure that our smaller counties and
14 our tobacco producing counties needed for the future. The telecommunication piece has
15 been our marquis piece that we have had.

16 DELEGATE WRIGHT: I think the Commission has shown
17 that it is willing to be flexible and fair as far as Southside and Southwest goes. I still
18 would like to have a legal opinion from Frank. If this second resolution passes, I'm not
19 so much concerned about how it is being charged, dictating how it is to be spent on
20 technology and the control over how the money is spent.

21 MR. FERGUSON: Delegate Wright, following up on what
22 the Chairman has said in response to what he said earlier to a question from Secretary
23 Schewel. It will be within the Technology budget, assigned to that Committee, just like
24 other funds are assigned to the Education Committee, the Agribusiness Committee, or
25 whichever committee it might be. All they do is make recommendations for the
26 expenditure of funds, but the actual authorization to make the expenditure has to come
27 back to the Full Commission for approval, just like any other expenditure throughout the
28 history of the Commission.

29 DELEGATE WRIGHT: The statement that it will be spent
30 fifty/fifty is not necessarily correct?

31 MR. FERGUSON: The charge against or off the top of the
32 allocation between Southside and Southwest, as far as what money they are going to take
33 out of the budgeted amount and place in the Technology fund. This resolution, as I read
34 it, does not say anything about the actual expenditure of dollars one place or the other.

35 SENATOR HAWKINS: It was not intended, at least it is
36 my understanding, what we're trying to do is put in place a regulation giving flexibility to
37 the Commission and to the Technology Committee to be able to do the things that needed
38 to be done without being so tied into a situation that they don't have any flexibility. I
39 think this will hopefully give that flexibility when we need it. Ultimately we have to
40 make a choice, and this can give us some flexibility, and we have an opportunity to do it.

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42 MR. FIELDS: Mr. Chairman, has anybody considered
43 taking fifty percent from us and fifty percent from Southside each? If you expect to
44 spend seventy-two and twenty-eight of that, don't you?

1 DELEGATE WRIGHT: If you're asking me that question,
2 in the past we have spent more than Southwest in the allocation amounts. That was the
3 very first consideration we made, as far as I remember. That's when Southwest was ready
4 to go and Southside was not. Wasn't that the case?

5 SENATOR HAWKINS: The monies we have spent on
6 telecommunications in Southside does not outweigh the amount that has been spent in
7 Southwest.

8 DELEGATE HOGAN: It's eighteen to five.

9 SENATOR HAWKINS: It was our understanding, if I'm
10 not mistaken, that when we got into this Southwest said they would work with us on the
11 monies that we needed and we'd work with them on the monies that they needed. This is
12 a continuation of that gentleman's agreement that we had.

13 DELEGATE WRIGHT: There has been a lot of discussion
14 that really all focused on Southside, a statement made by Bernie, the money be spent
15 fifty/fifty. To me that is not the way I read the motion.

16 DELEGATE HOGAN: Mr. Chairman, I think it is quite
17 clear that, there's nothing in the motion that says how the money is going to be spent.

18 SENATOR HAWKINS: Bernie, see what you started?

19 MR. DAY: Mr. Chairman, I've got a trick question for you.
20 If we're not changing the allocation, why do we need the resolution?

21 SENATOR HAWKINS: We're changing the allocation by
22 giving the flexibility that is needed to finish out the project that we obligated ourselves to.
23 It may require thirty-three percent or forty percent split rather than a seventy/twenty-
24 something. It gives flexibility, we still have to approve it. We are changing the
25 traditional way that we do the allocation, but it is not fifty/fifty, and it is not being
26 allocated by spending a certain amount of money.

27 Senator Wampler.

28 SENATOR WAMPLER: Mr. Chairman, I have tried not to
29 engage in this debate. I think what we have to keep in mind is that this is to try to put
30 both networks together and get the maximum benefit out of both Southside and
31 Southwest. I would say the argument is more about cashflow and the immediate need for
32 cashflow than it is for what a terminating point would be. Southwest has an immediate
33 need for at least twenty million dollars further deployment. Mr. Secretary as part of an
34 announcement thirty days ago in the County of Lee where a new business came to that
35 county because of the employment of broadband. Senator Puckett and I met with another
36 prospective business waiting for this deployment to be completed in another county. So,
37 that's the sense of urgency.

38 I think the previous discussions for cashflow needs for this last year or for
39 the upcoming fiscal year '06, I don't think we can spend more than twenty million dollars,
40 but what the needs of Southside may be in FY07 or 08 can be much greater. Then we'll
41 have a discussion, and I would suggest that if we create business as a result of it, that is
42 investment that we all should be making. At this point it is more of an accounting deal of
43 how we're going to take the forty million dollars off the top that is more than what we
44 anticipated in the securitization exercise, and we should spend it for the benefit of both

1 regions. I don't see it as an ending point for who is going to get how much money on this
2 given date. It is how we can account for those extra dollars for purposes of cashflow, I
3 think that is kind of what it is.

4 SENATOR HAWKINS: That is the purpose of the
5 Commission, we've just got to work together. The bottom line is that we've got to work
6 together, and it is up to us to make these choices, and it is not going to be very easy, but
7 ultimately we've just got to work together. We've got the same sort of infrastructure
8 problems. Our people face the same job losses. You can take a map of Virginia and look
9 at the tier counties, and they have twice or three or four times employment than the rest
10 of the state. These are the counties we are talking about, and we've got counties that are
11 caught in the middle. Like the Floyd County area, Floyd has Henry, the bottom line is
12 this area is bigger and more complex, and we need the flexibility and again, we need to
13 work together, and there's no question about it.

14 MR. HITE: What is the bottom line, and I think we need
15 an accounting of these monies.

16 SENATOR HAWKINS: If we can deal with this today, we
17 can set aside these monies off the top and we can use that money for the
18 telecommunication piece, then as July comes up, if something happens in Mecklenburg
19 or Lunenburg or Scott County, we need to be able to have the flexibility to put something
20 in place that we can have a real impact on the economies, to have some ability to invade
21 the corpus if we need it.

22 MR. HITE: And if you did it next year and we might have
23 a better understanding of what's happening.

24 SENATOR HAWKINS: What we're looking for, Jackson,
25 we want as much flexibility as we possibly can have for this Commission. If we have the
26 ability to be able to make decisions based on the needs that are before us, then that gives
27 us flexibility to deal with the economies. I'm not by any means or any way encouraging
28 any sort of invasion of the corpus, other than what we talked about today. I want to make
29 sure that is safeguarded so we don't do it, but there may be a time that something comes
30 up that we need flexibility.

31 MR. HITE: I guess there is a lack of information here, I'd
32 be more comfortable waiting until next year.

33 SENATOR HAWKINS: That is certainly an opinion, and I
34 appreciate that. I don't know exactly how to answer that. We need to try to do what we
35 think needs to be done.

36 DELEGATE HOGAN: Are you ready for a motion?

37 SENATOR HAWKINS: I'll take a motion, but before I do I
38 want to make sure if there are any questions that anyone has, regardless of the
39 significance of it, or if it has to do with the overall discussion. We can be here as long as
40 it takes so people are comfortable with what we're doing.

41 DELEGATE DUDLEY: I'm waiting on the answer to my
42 question.

43 MR. STEPHENSON: Delegate Dudley, the amended
44 portion of this motion, and particularly the last paragraph, which makes it clear that the

1 transfer of the forty million into the Fund, does not in any way diminish the restricted
2 nature of those funds and the obligation of the Commission to guard the tax status of
3 those dollars as it goes through this process and on advice of Counsel to make it very
4 clear.

5 SENATOR HAWKINS: Does that answer your question,
6 Delegate Dudley?

7 DELEGATE DUDLEY: Yes.

8 MR. ARTHUR: As I understand it we're trying here today
9 to fund a project that is the marquise project of this Commission, we're not trying to fund
10 Southside or fund Southwest, we're trying to fund a project. I don't think we can think in
11 terms of regionalism, we need to think in terms of the project of this Commission. So I
12 recommend we go ahead with it, and I'm going to vote for it. I'm a little bit more
13 concerned about the seventeen million, that we don't go back.

14 SENATOR HAWKINS: That's a discussion for another
15 time.

16 MR. ARTHUR: That's another time, but we're trying to
17 fund a project, like we wanted to fund the Institute, and that was a marquise project. This
18 is certainly a marquise project of the Commission. I think we need to consider it in terms
19 of a project.

20 SECRETARY SCHEWEL: It seems to me that, and I'm in
21 favor of this, like Tom, I'm in favor of this, but it does seem to me that when people think
22 about it and how to vote that the allocation split, ultimately expenditures, inevitably they
23 will not be fifty/fifty, because the projects will be spent based on when they come up,
24 how much they are, and there will always be some variation, basically, in actual dollars.
25 On the other hand, voting people ought to be thinking generally, I think it is generally fair
26 to say that expenditures will probably be or generally fifty/fifty, but not exactly, because
27 that never works out quite that way. So when people vote on it, I think that's probably in
28 general the kind of thing that they are voting on, at least with respect to expenditures over
29 the next eighteen months. Senator Wampler will probably spend twenty million dollars
30 in Southwest, that leaves about twenty million dollars left, and that money is spent
31 generally in Southside, and probably over the next eighteen months about a fifty/fifty
32 split of this money.

33 SENATOR HAWKINS: I think over the next eighteen
34 months that's probably safe to say, but over the next thirty-six months we may find that it
35 is not the case, because in Southside you have a larger population and more counties to
36 serve and a more intensive need for the infrastructure. So at the end of the day when we
37 finish the project I think you'll find it will be closer to this allocation, and it will probably
38 be about a seventy-five/twenty-five basis. It may well be that way, but that is going to be
39 up to the Committee. We've got to be flexible.

40 DELEGATE HOGAN: Mr. Chairman, I don't want to
41 belabor this, but we can talk about this back and forth forever, but if we were to split it
42 fifty/fifty, since that is the number Secretary Schewel talked about, that would be
43 basically thirty-eight million and twenty-five million, by my standard, if you want to take

1 a snapshot in time, and who knows what is going to happen a year after that. We're pretty
2 close to the formula that we worked out.

3 MR. OWEN: Mr. Chairman, I'm like some others here, I've
4 been on the Technology Committee since its inception, and we've heard these numbers
5 battered around as to how much is needed and how much we need to spend on different
6 things. The Technology Committee has not met, and the Technology Committee hasn't
7 seen any of these projects, and we need to see some information on these. We have to
8 have the discipline to look at these projects through a business person's view, an
9 economic development view, if they're worth doing at all. I certainly, individually and
10 personally, reject the motion; I don't know how we're planning on spending this money
11 between any counties or any regions, until we see what these projects are, and are any of
12 them worth a darn.

13 MR. DAY: Mr. Chairman, in spite of understanding exactly
14 what we're doing, I support this endeavor. I think across Southside Virginia and
15 Southwest Virginia we're all in exactly the same boat, and because we take this action
16 doesn't mean that we're spending a nickel, good or bad. I'd make a motion that we go
17 along with this.

18 SENATOR HAWKINS: We have two resolutions. We have
19 before us Resolution Number One, amended. Is there a second?

20 MR. DAY: Second.

21 SENATOR HAWKINS: There's a second. Any
22 discussion? I want everyone to understand what this does, it takes it off the top, and that
23 is it.

24 MR. DAY: It doesn't spend a nickel.

25 SENATOR HAWKINS: It doesn't spend a penny. All
26 those in favor say aye? (Ayes.) All those opposed? (No response.)

27 Then we've got Resolution Number Two, which deals with the
28 telecommunications sub-committee and gives them the flexibility to look at projects that
29 come before them and use their own best judgment and business sense as far as what we
30 can fund and not fund.

31 DELEGATE HOGAN: So move.

32 SENATOR HAWKINS: It's been moved and seconded
33 Resolution Number Two be adopted. Any discussion?

34 DELEGATE WRIGHT: Being consistent with my previous
35 votes, when this issue came up several years ago I voted no. This time the change in the
36 allocation, if you want to call it that, eight million dollars instead of -- we get less than
37 that, I'm going to have to vote no.

38 SENATOR HAWKINS: I respectfully disagree with you at
39 this point. You certainly can share your opinion, probably not unique in that regard.

40 DELEGATE WRIGHT: Mr. Chairman, you take sixty-two
41 million and divide it by seventy-three and get forty-five million, thirty-seven million
42 you're talking about, and you're talking about --

43 SENATOR HAWKINS: -- You're talking about projects
44 that will probably go beyond that and at the end of the day we will be looking at, but

1 there again I'm looking at this as a project for the entire region and not for Southside or
2 Southwest. One thing I can say with certainty is that since I have been a member of this
3 Commission I know of no project that has been turned down for the lack of money. Since
4 we have the availability of resources we've been able to fund projects if it's worthwhile.
5 This goes to the point, I think, of being worthwhile for us to look at. There again, the
6 way the monies are spent will be left to the Technology Committee to make
7 recommendations to us, and you certainly are entitled, and I understand your viewpoint.

8 All in favor say aye? (Ayes.) Opposed, no? (No's.)

9 SENATOR HAWKINS: Call the roll.

10 MR. CURRIN: Mr. Arthur?

11 MR. ARTHUR: Aye.

12 MR. CURRIN: Mr. Banner?

13 MR. BANNER: (No response.)

14 MR. CURRIN: Secretary Bennett?

15 SECRETARY BENNETT: (No response.)

16 MR. CURRIN: Mr. Bryant?

17 MR. BRYANT: Aye.

18 MR. CURRIN: Delegate Byron?

19 DELEGATE BYRON: Aye.

20 MR. CURRIN: Commissioner Courter?

21 COMMISSIONER COURTER: (No response.)

22 MR. CURRIN: Mr. Day?

23 MR. DAY: Aye.

24 MR. CURRIN: Delegate Dudley?

25 DELEGATE DUDLEY: No.

26 MR. CURRIN: Mr. Fields?

27 MR. FIELDS: Aye.

28 MR. CURRIN: Mr. Hite?

29 MR. HITE: No.

30 MR. CURRIN: Delegate Hogan?

31 DELEGATE HOGAN: Aye.

32 MR. CURRIN: Mr. Hopkins?

33 MR. HOPKINS: No.

34 MR. CURRIN: Mr. Jenkins?

35 MR. JENKINS: Aye.

36 MR. CURRIN: Delegate Johnson?

37 DELEGATE JOHNSON: Aye.

38 MR. CURRIN: Mr. Mayhew?

39 MR. MAYHEW: Aye.

40 MR. CURRIN: Mr. Montgomery?

41 MR. MONTGOMERY: (No response.)

42 MR. CURRIN: Mr. Moody?

43 MR. MOODY: No.

44 MR. CURRIN: Mr. Owen?

1 MR. OWEN: Aye.
2 MR. CURRIN: Mr. Owens?
3 MR. OWENS: Aye.
4 MR. CURRIN: Senator Puckett?
5 SENATOR PUCKETT: Aye.
6 MR. CURRIN: Senator Ruff?
7 SENATOR RUFF: Aye.
8 MR. CURRIN: Secretary Schewel?
9 SECRETARY SCHEWEL: Aye.
10 MR. CURRIN: Mr. Stallard?
11 MR. STALLARD: Aye.
12 MR. CURRIN: Mr. Taylor:
13 MR. TAYLOR: Aye.
14 MR. CURRIN: Mr. Thompson?
15 MR. THOMPSON: Aye.
16 MR. CURRIN: Mr. Walker?
17 MR. WALKER: Aye.
18 MR. CURRIN: Senator Wampler?
19 SENATOR WAMPLER: Aye.
20 MR. CURRIN: Mr. West?
21 MR. WEST: (No response.)
22 MR. CURRIN: Delegate Wright?
23 DELEGATE WRIGHT: No.
24 MR. CURRIN: Mr. Vice Chairman?
25 DELEGATE KILGORE: Aye.
26 MR. CURRIN: Mr. Chairman?
27 SENATOR HAWKINS: Aye.
28 MR. CURRIN: The ayes are twenty-one, the nays are five.
29 SENATOR HAWKINS: The motion passes.
30 DELEGATE HOGAN: I have two motions, one is a
31 housekeeping motion. One is to move this thirty-eight nine seventy-seven point six six
32 seven to the 2006 Technology budget.
33 SENATOR HAWKINS: There is a motion to move the
34 monies we have just allocated to the Technology 2006 budget. That's the discussion we
35 have had to this point. Does everyone understand the motion? Is there a second? It's
36 been moved and seconded that the monies be allocated to the Technology Committee.
37 Any discussion?
38 SECRETARY SCHEWEL: Followed by a motion to move
39 money out?
40 DELEGATE HOGAN: Yes.
41 SENATOR HAWKINS: It's been moved and seconded, all
42 in favor say aye? (Ayes.) Opposed? (No response.)
43 DELEGATE HOGAN: One more motion. Now that we
44 have the forty million dollars from '05 and just moved to '06 so we can spend it, the

1 seventeen million dollars that was in the '06 budget is not going to be necessary, and it
2 would be better used in non-Technology related projects to come from Special Projects.
3 And that is a clarification of our discussion earlier. I'll make that motion.

4 SENATOR HAWKINS: Does everyone understand? The
5 '06 budget as it was originally formulated set aside sixteen million dollars for Technology
6 with the realization that we have securitized, to take forty million off the top and put it in
7 Technology. The monies that we are allocating now can be freed up for use in other
8 Economic Development projects. Everyone understand that? Any questions?

9 DELEGATE KILGORE: Mr. Chairman, is Clarke's motion
10 to move whatever we have allocated in Technology, move it into Special Projects,
11 whatever the number is?

12 DELEGATE HOGAN: That is correct, roughly seventeen
13 million.

14 MS. WASS: Seventeen million one hundred seventy
15 thousand.

16 SENATOR HAWKINS: Would you give us the exact
17 amount, Stephanie?

18 MS. WASS: Seventeen million one hundred seventy
19 thousand.

20 SENATOR HAWKINS: Seventeen million one hundred
21 seventy to Special Projects, does everybody understand the motion?

22 DELEGATE HOGAN: Clarification. There was
23 discussion before about whether that money would be subject to the tax laws or not
24 extended it to securitized money, which it is, and it will be subject to the tax
25 requirements.

26 SENATOR HAWKINS: I think there probably is some
27 flexibility, we'll have to look at that.

28 DELEGATE HOGAN: That chunk of money is allocated.

29 MR. OWEN: Mr. Chairman, my recollection is in coming
30 up with the budget we anticipated an invasion of corpus to the tune of about ten percent, I
31 think, of the corpus allocated to Southwest, four percent allocated to Southside. If we do
32 not reduce our budget for '06, given now that we've got that forty million from '05, we
33 will be predisposing ourselves to the invasion of the corpus again over and above the ten
34 percent.

35 SENATOR HAWKINS: I think that point is well taken.

36 MR. FERGUSON: Mr. Chairman, I'd just comment on
37 that. Part of that budget was based upon three hundred fifty million dollars in the
38 expectation of securitization. I don't know that it will necessarily reduce the money in
39 the budget otherwise.

40 MR. OWEN: I agree, but it will still require invasion of
41 that remaining three fifty of the corpus in order to have enough money to spend as much
42 as we're going to spend, plus forty million now allocated to Technology.

43 MS. WASS: It will require an invasion in FY06 to
44 approximately 17.17 million in order to fund this transfer of funds.

1 SENATOR HAWKINS: That is in anticipation that the
2 money is spent, I think what we're trying to do is clean the budget up and get the money
3 out of the budget into this, it's not saying we don't have it to put in the budget. If it is
4 there we're dealing with that budget.

5 SECRETARY SCHEWEL: Stephanie, are you saying then
6 that instead of doing what Delegate Hogan suggested, he said we're going to reduce the
7 '06 budget by 17.1 million, the money that is currently in the Technology budget, that we
8 are in essence replacing with the forty million we just transferred. Then if we said we're
9 not going to spend that money because our budget didn't contemplate that money being in
10 Special Projects anyway, then essentially we could avoid an invasion this particular
11 budget, we could avoid an invasion of the corpus in '06 by simply reducing our budget by
12 the amount that is currently set aside for Technology.

13 MS. WASS: Right.

14 DELEGATE HOGAN: The reason I make that motion is
15 that I think there are a variety of projects spread out over both regions that are what I
16 would consider pressing needs that are not Technology related. My experience has been
17 to lay in some of these businesses that are employing people, a significant number of
18 people in these jobs. Ultimately, once you work through all the numbers, some of those
19 deals will cost better than a million a piece, and we do not have the kind of resources, or
20 a lot of counties at all, some counties have a great deal of difficulty with this. If we put
21 this money into Special Projects, we put ourselves in a position where we can generate
22 several hundred jobs in a short term. I'm not aware of every county's situation, every
23 project going on, but I am aware that enough is going on in my general area to believe
24 that if we put this money there it is going to help us significantly in terms of job creation.

25 MR. WALKER: I'm sure Delegate Hogan has a better
26 grasp of this than I do, but on several occasions the Special Projects Committee has
27 stepped forward and transferred funds to other committees to the tune of millions of
28 dollars that we could have used for Special Projects when they were needed in other
29 places, and we transferred them willingly. We do need to have some of that money in
30 Special Projects.

31 DELEGATE KILGORE: If this money is transferred to
32 Special Projects, Special Projects meets and makes a recommendation, who has to
33 approve that?

34 SENATOR HAWKINS: It comes back to us, everything
35 comes back to the Commission. What concerns me is if we have to have a budget that is
36 built on anticipation of invasion of the corpus, the seventeen million came out of that
37 anticipation. If we do take the forty million, it will probably give us some sort of a
38 problem with the budget.

39 DELEGATE HOGAN: I don't think so, Mr. Chairman,
40 because that budget, that seventeen million and that three hundred and fifty, that extra
41 forty million, and because we got the extra forty million, this whole thing, that's how it
42 got stirred up.

43 SENATOR HAWKINS: The problem, Clarke, I think we're
44 talking about, we've got a second invasion of the corpus.

1 DELEGATE HOGAN: Mr. Chairman, I'd argue that it is
2 the same invasion of the corpus. There is no additional invasion, it's actually the same
3 invasion of the corpus that is going to happen in '06. There is no additional invasion of
4 the corpus in 2006, it's in addition to what we always contemplated when we approved
5 the budget.

6 SENATOR HAWKINS: The way I understand this is that
7 the Technology piece that we voted on, that's a windfall, that was money that we had not
8 anticipated. The seventeen million you're talking about in '06 was money that was
9 budgeted out of the original three fifty allocation. So what we're talking about is an
10 invasion of the corpus.

11 MR. OWEN: I would suggest that the reason that the
12 invasion of the corpus was budgeted next year was principally to have enough money to
13 do the Technology piece, and had we not used it for Technology I don't believe we would
14 have considered it as much an invasion of the corpus.

15 SENATOR HAWKINS: Clarke, as much as I see what you
16 want to do, we need, before we make that motion I think we need a budget so we can
17 have an understanding of exactly what we're doing. Before we do that budget I think we
18 have to have a complete understanding of what we're doing. I'm not sure I understand it
19 myself right now.

20 SENATOR WAMPLER: I have been trying to have a
21 Special Projects meeting for sixty days now, and we just didn't know what the budget
22 was. I for one don't feel like we ought to be awarding any monies until we know what
23 kind of revenue we have to capitalize ourself. So we're going to have a meeting a week
24 before the Full Commission meeting to review Technology; hopefully Special Projects
25 will meet that same day. We'll review whatever projects we have before us, and then
26 perhaps the Commission will have a better idea for other projects that are in the pipeline,
27 and we can come to the Full Commission the following week and say these are what we
28 believe the income needs are for that Committee to be, not only needed immediately, but
29 also the balance of the year. It may be less than seventeen, and it may be more, but we'll
30 have a better idea then. I think Delegate Hogan is right that there are plenty of needs in
31 both regions that have lots of merit. When you evaluate it you want to make sure that it
32 has a regional impact, and you have to spend significant dollars to do it, but I cannot tell
33 the Full Commission we have those immediate needs right now.

34 DELEGATE BYRON: If seventeen million is transferred
35 into Special Projects, will the region have an opportunity, knowing what our budget has
36 been in the past, to have presented projects before that Committee?

37 SENATOR HAWKINS: I've got a problem, I think that we,
38 and not acting on it today, but in fact two invasions of the corpus at the same meeting.

39 DELEGATE HOGAN: Mr. Chairman, point of order. It is
40 not invading the corpus twice at the same meeting. I think Frank will support me on that.
41 The only one we voted on right now is a 2005 invasion.

42 SENATOR HAWKINS: Out of the 2006 budget.

43 DELEGATE HOGAN: We transferred money to
44 housekeeping because 2005 is about over. We did not invade the corpus in, we invaded

1 the corpus in 2005. We contemplated, as far as our 2006 budget, corpus invasion one.
2 We're allowed to invade the corpus once a year. What I am laying out is that we're
3 invading the corpus once a year, it's not two invasions. As securitization moved through
4 it delayed Special Projects, Southside, months and months. I'm aware of other projects
5 that have been held up for months and months, and we need to act on them. Frankly, I
6 don't know the request from Special Projects, but I think it is more than the three million
7 dollars that they've got. If we don't do this, there are going to be a lot of projects that
8 have jobs related to them, and Economic Development is not going to be funded. All
9 we're doing is pushing things down the hill and hoping that something good happens at
10 some time in the future.

11 MR. HITE: Mr. Chairman, let them meet before that thirty
12 days and act on them.

13 SENATOR HAWKINS: Counsel, where are we?

14 MR. FERGUSON: I would agree that simply transferring
15 for budgetary purposes is not an invasion of the corpus. Secondly, over the top, I think it
16 is permissible to make that budget adjustment if you wish to. As far as invasion of the
17 corpus generally you're capped at a ten percent per annum. I don't know that that is a one
18 time a year thing, but aggregate can't be more than ten percent, fifteen percent with a two-
19 thirds vote. Mr. Owen was correct when he pointed this out earlier, yes, it would
20 contemplate an invasion of the corpus in order to get seventeen million into Special
21 Projects, because the budget had originally contemplated in '06 contemplated that
22 invasion. It's not required. The additional one previously contemplated would require
23 that. The only other point when Stephanie was talking about, I'm not here to advocate
24 how you spend money and when you spend it, but this is a tax-exempt bond issue. As
25 Stephanie points out, you can't sit on the money forever, you need to spend it at some
26 point. Now, do you have to take ten percent a year, I don't think so, and do you have to
27 spend all by a drop-dead date, no, but certainly at the end of bond life under the turbo
28 payment plan the bond is paid off in twelve or fourteen years. We can't sit on three
29 hundred ninety-million dollars at the end of that time and not expect some tax
30 consequences.

31 SENATOR HAWKINS: I think that clears up in my mind
32 about what we're doing. To go ahead and change the budget and move the seventeen
33 million in '06 under the understanding that Special Projects will review and report back to
34 the Full Commission as to what type of expenditures they would recommend. Then we'll
35 go over each and every one of those to see that they meet the criteria that we're talking
36 about, and then in fact move on. Any monies left over we can put wherever. I think we
37 can move ahead with this, but we need to be very cautious about that.

38 SECRETARY SCHEWEL: Mr. Chairman, I'm just a little
39 troubled about that. The budget in '06 based upon the amount we thought we were going
40 to have, that has changed. We know seventeen million of that that we originally budgeted
41 now is taken care of, accordingly we don't need it for purposes of the budget, or what we
42 budgeted it for. My only question is, if we would have known this at the beginning
43 would we have put the seventeen million in Special Projects, or would we put it in
44 Education or put it in Economic Development, what would we have done with it? I'm

1 just a little concerned, even though Special Projects is the most flexible, or are we putting
2 it out there. I'm just wondering whether it makes sense to step back, and we're not doing
3 anything irrevocable, even if we budget it we'll never get it unless we vote to next year
4 and then vote to spend it next year. I just wonder if we should step back and look at what
5 we've planned for the next year.

6 SENATOR HAWKINS: Mr. Secretary, I think probably
7 your point is well taken, but I think we do have time to make sure what we're doing is
8 prudent. The action we're taking today is going to give some flexibility to move ahead
9 with the discussion. I don't see where any harm will be done, with the understanding that
10 what Counsel said about obligations to the bonds we have sold, we need to make sure
11 that we can find something that we can invest in that is good for us, and it's probably a
12 good time to start the discussion. Anything we do today, any allocations, any budgetary
13 formularies or any monies spent or requested, the understanding is it takes the majority of
14 the Commission to vote approval, whether it's Special Projects, Education or Economic
15 Development, but this gives us some flexibility to do that. It gives more flexibility when
16 it comes to budgeting some monies that we need.

17 Any other questions?

18 MR. TAYLOR: Mr. Chairman, why can't it be put back in
19 the allocation?

20 SENATOR HAWKINS: They have to be non-taxable
21 investments, and you have to be careful with that. In the normal allocations and funding
22 we can use the allocation formula, but we have to weigh each project based on its own
23 merit, and it has to meet the standards of the bond issue.

24 MR. TAYLOR: Isn't the Technology money an allocation?

25 SENATOR HAWKINS: That is the criteria for the tax-
26 exempt status.

27 MR. OWENS: Mr. Chairman, Special Projects, any idea
28 what they're asking for now?

29 MR. PFOHL: Currently today the total value of the Special
30 Projects applications?

31 MR. OWENS: Yes.

32 MR. PFOHL: We're about the 5.5 million dollars that's
33 currently available, and right now we have almost the exact amount requested.

34 SENATOR HAWKINS: That gives us some flexibility.
35 Remember, any decisions we make today still will be guided by the vote of this
36 Commission if we decide to pull the trigger. This puts things in place so we can continue
37 any discussion and the flexibility we need.

38 Is there a motion?

39 DELEGATE HOGAN: Mr. Chairman, I'd make a motion
40 that we move the seventeen million that was allocated in this budget to Technology.

41 SENATOR HAWKINS: Is there a second? There is a
42 second.

43 MS. WASS: Clarification, of that 17.17 million have to
44 have a source of revenue, we have two endowments, what percentage?

1 DELEGATE HOGAN: I would amend that motion to say
2 that that money comes out of the securitized money. To answer the first question, it may
3 be applied proportionately.
4 MS. WASS: Proportionately seventy-three/twenty-seven.
5 DELEGATE HOGAN: Which is how the endowment is
6 split up.
7 SENATOR HAWKINS: All right, that's
8 telecommunication.
9 MR. OWEN: Mr. Chairman, there were different spend
10 rates on this Endowment. Southwest was going to spend ten percent of theirs and
11 Southside four percent to come to these numbers.
12 DELEGATE HOGAN: Point of clarification. Stephanie,
13 can you allocate the seventeen million that reflects Mr. Owen's point?
14 MS. WASS: Yes.
15 SENATOR HAWKINS: Let's recap, we're talking about
16 the '06 budget, July 1 year-to-date. We can get ahold of the budget that's being amended
17 and make changes if necessary to bring it back in some sort of understanding of what
18 we're dealing with right now.
19 It's been moved and seconded, any further discussion?
20 MR. OWENS: So the spend rate on the corpus is ten
21 percent, twenty-seven/seventy-three, four for Southside.
22 SENATOR HAWKINS: It is left up to us to change it, and
23 we can put this in place. Any further questions?
24 DELEGATE WRIGHT: I have one request. I'm not
25 opposed to the motion, but all the small communities that we earlier voted to try to help
26 by changing the method with the appropriation in Southside, have they been notified that
27 the seventeen million will be put in Special Projects? I'd like to see a press release to get
28 out this information and let them know that this money is going to be in Special Projects.
29 Send this information to each affected jurisdiction so that they can be aware of what
30 Special Projects money is available.
31 SENATOR HAWKINS: We don't do anything in the dark.
32 Each project is gauged on its own merit.
33 MR. CURRIN: We can do that.
34 SENATOR HAWKINS: It's been moved and seconded,
35 any further discussion? All right. All those in favor say aye? (Ayes.) Opposed? (No's.)
36 There are three no's.
37 All right, Mr. Arthur.
38 MR. ARTHUR: Mr. Chairman and ladies and gentlemen,
39 the Southside Economic Development Committee met this morning. The purpose of the
40 meeting was to discuss the formula. You are all aware that our Southside Economic
41 Development money is allocated by the formulary. There has been some concern for
42 quite some time that the smaller counties with little or no allocation relative to the larger
43 counties are being hurt badly, they cannot propose a major project, because they don't
44 have the money. So Southside Economic Development Committee met and discussed a

1 procedure using the allocation formula, and therefore not really changing the allocation,
2 but grouping a group of counties using .75 of the total allocation for Southside as a
3 cutoff, which is essentially this year a hundred thousand dollars. I hope you're looking at
4 this handout. Grouping all the counties with a hundred thousand or less into a group
5 which would make almost two hundred thousand dollars available to the several counties
6 that have met the threshold before. Our procedure was to set the cutoff this year at .75 of
7 the total allocation, which is a hundred thousand, and grouping those counties, allow
8 those counties a pot of money greater than their normal allocation. We determined that it
9 takes a vote of this Commission to change it, because it would be a change basically in
10 our procedure. So I move you accept the recommendations of the Committee that the
11 counties below .75 cutoff allowing us to group those and make available a pot of money
12 which they might do something with greater than what they would normally be able to
13 do.

14 SENATOR HAWKINS: My understanding is that, rather
15 than take an allocation of twenty or twenty-five or thirty thousand and not being able to
16 do much with it, they're going to be competing against a larger pot of money, based on
17 the credibility of the project.

18 MR. ARTHUR: That is correct, sir.

19 SENATOR HAWKINS: Does everyone understand the
20 request? Is there a second to the motion?

21 DELEGATE WRIGHT: Second.

22 SENATOR HAWKINS: All in favor say aye? (Ayes.)
23 Opposed? (Nos.) There are two no's.

24 Thank you all, its been a full day. There are several housekeeping matters
25 I want to take up. I'm going to request Carthan to find an engineering company that will
26 review the telecommunication project in Southside to make sure that we're on track with
27 what we're trying to accomplish, and someone that does not have any knowledge or
28 relationship with any of the people that have been contracted with, so they can give us a
29 neutral opinion, and to make sure that everyone knows what they're doing and to make
30 sure this is all tied together, particularly when we plug in Southside and Southwest
31 together. To do that I think we need an outside consultant.

32 MR. ARTHUR: Mr. Chairman, I'd like to ask that the
33 information as a result of this vote after all the counties meet in Southside, I'd like to ask
34 that as a result of this vote to have all the counties in Southside ready with their
35 proposals.

36 SENATOR HAWKINS: Make sure that everyone is
37 notified about the change in Special Projects.

38 MR. DAY: Mr. Chairman, old business. Can we get a
39 report from Staff on where we are as far as far as the audit is concerned?

40 SENATOR HAWKINS: We need to make sure these
41 reports are sent out timely to the members of the Commission and kept updated on where
42 things are taking place. Just make sure that all the members are informed what is going
43 on.

1 MR. CURRIN: The Staff will do that at the July meeting
2 and report on your request.

3 DELEGATE WRIGHT: Mr. Day touched on a point, the
4 auditors you're referring to are, that has to do with the grants that we have awarded? I
5 think it's very important.

6 SENATOR HAWKINS: We need to make sure we have an
7 understanding of those. The last thing is that I'm going to request that Mr. Owen, Mr.
8 Day, Secretary Schewel, Delegate Dudley get together and figure out, number one, how
9 we can make sure that these monies that we're entrusted with, that the corpus is not
10 invaded, to come up with some rules and regulations and guidelines. We need you to get
11 together and figure out some way to put together a budgetary oversight committee that
12 has some sort of filter in place that they can overlook things and make recommendations
13 and make sure our budget is in compliance. We need to have some sort of guidelines and
14 a regimen as far as the bonds. We have to make sure that we don't waste these monies
15 that are entrusted to us.

16 MR. DAY: Mr. Chairman, Mr. Ferguson said something
17 that caught my attention, as it always does. On the other one hand, we don't want to
18 spend that, on the other hand I heard Frank tell us we had to.

19 MR. FERGUSON: You have to at some point in time. The
20 money can't just sit there forever. It's got to be spent sometime.

21 MR. DAY: Is that a practical rule of thumb?

22 MS. HAMLETT: There is a practical rule of thumb, and I'd
23 have to ask a bond lawyer that does it everyday.

24 MR. DAY: That might be a worthwhile thing.

25 MR. FERGUSON: That we get outside bond counsel and
26 don't have an arbitrage.

27 SENATOR HAWKINS: That will be part of your charge,
28 Allen, if you all can work on that.

29 Anything else to come before the Committee? Thank you all, ladies and
30 gentlemen.

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32 PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **Virginia Tobacco Indemnification and Community Revitalization Commission Full Commission Meeting when held on Thursday, June 23, 2005 at 1:30 p.m. at the Hotel Roanoke and Conference Center, Roanoke, Virginia.**

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

Given under my hand this 1st day of July, 2005.

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

My Commission Expires: October 31, 2006.