

1 **VIRGINIA TOBACCO INDEMNIFICATION**
2 **AND COMMUNITY REVITALIZATION COMMISSION**

3 701 East Franklin Street, Suite 501

4 Richmond, Virginia 23219

5
6 **Full Commission Meeting**

7 Thursday, November 9, 2006

8 10:00 a.m.

9
10 Latham Ballroom C

11 The Inn at Virginia Tech and Skelton Conference Center

12 Blacksburg, Virginia

13
14 **APPEARANCES:**

15 The Honorable Charles R. Hawkins, Chairman

16 The Honorable Terry G. Kilgore, Vice Chairman

17 Mr. Thomas W. Arthur

18 Mr. Stephen S. Banner

19 The Honorable Robert Bloxom, Secretary of Agriculture

20 Mr. Clarence D. Bryant, III

21 The Honorable Kathy J. Byron

22 Mr. Bernie K. Day

23 The Honorable Allen W. Dudley

24 Mr. Fred M. Fields

25 The Honorable Patrick Gottschalk, Secretary of the Department of

1 Commerce and Trade

2 Mr. Scott M. Harwood, Sr.

3 The Honorable Clarke N. Hogan

4 Mr. Jordan M. Jenkins, Jr.

5 Mr. Buddy Mayhew

6 Mr. H. Ronnie Montgomery

7 The Honorable Harrison A. Moody

8 Ms. Connie G. Nyholm

9 The Honorable Edward Owens

10 The Honorable Phillip P. Puckett

11 The Honorable Frank M. Ruff

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

15 Mr. John M. Stallard

16 Mr. Bryant L. Stith

17 Mr. James C. Thompson

18 The Honorable William C. Wampler

19 Ms. Evelyn Whitley, Director of Debt Management

20 The Honorable Thomas C. Wright, Jr.

21

22 **COMMISSION STAFF:**

23 Mr. Neal Noyes, Executive Director

24 Mr. Ned Stephenson, Director of Investments

25 Mr. Timothy Pfohl, Grants Program Administration Manager

1 Ms. Stephanie Wass, Director of Finance
2 Ms. Britt Nelson - Grants Coordinator, Southside Virginia
3 Ms. Sara Griffith - Grants Coordinator, Southwest Virginia
4

5 OFFICE OF THE ATTORNEY GENERAL:

6 Mr. Francis N. Ferguson, Deputy Attorney General,
7 Counsel for the Commission

8 SENATOR HAWKINS: Once again, good
9 morning to everyone. I would like to thank those who were here yesterday
10 for the retreat. I think we accomplished a great deal, I'm sorry for those that
11 weren't here, but I'd like to try it again. I thought it was really worth our
12 time, and everyone seemed to get something out of it.

13 We have some sub-committees in place, and they'll be working
14 on some suggestions that were made during the retreat, and those of you
15 who are on those will be notified. Thank you all for coming, and having
16 said that, Neal, would you call the roll?

17 MR. NOYES: Mr. Arthur?

18 MR. ARTHUR: Here.

19 MR. NOYES: Mr. Banner?

20 MR. BANNER: Here.

21 MR. NOYES: Secretary Bloxom?

22 SECRETARY BLOXOM: Here.

23 MR. NOYES: Mr. Bryant?

24 MR. BRYANT: Here.

25 MR. NOYES: Delegate Byron?

1 DELEGATE BYRON: Here.
2 MR. NOYES: Mr. Day?
3 MR. DAY: Here.
4 MR. NOYES: Delegate Dudley?
5 DELEGATE DUDLEY: Here.
6 MR. NOYES: Mr. Fields?
7 MR. FIELDS: Here.
8 MR. NOYES: Secretary Gottschalk?
9 SECRETARY GOTTSCHALK Here.
10 MR. NOYES: Mr. Harwood?
11 MR. HARWOOD: Here.
12 MR. NOYES: Senator Hawkins?
13 SENATOR HAWKINS: Here.
14 MR. NOYES: Mr. Hite?
15 MR. HITE: (No response.)
16 MR. NOYES: Delegate Hogan?
17 DELEGATE HOGAN: Here.
18 MR. NOYES: Mr. Jenkins?
19 MR. JENKINS: Here.
20 MR. NOYES: Delegate Johnson?
21 DELEGATE JOHNSON: (No response.)
22 MR. NOYES: Delegate Kilgore?
23 DELEGATE KILGORE: Here.
24 SENATOR HAWKINS: Once again, Delegate
25 Johnson has had some medical problems.

1 DELEGATE KILGORE: Please keep Delegate
2 Johnson in your thoughts and prayers over the next few weeks. I know he
3 had a follow-up this morning with one of his doctors for some cancer
4 treatment and had surgery last week, and it ended up being a longer surgery
5 than we thought would be necessary. Please keep him in your thoughts and
6 prayers over the next few weeks. He'll be going through treatment, so please
7 do that.

8 SENATOR HAWKINS: Yes, I think all of us
9 agree, and we'll keep him in our thoughts and prayers.

10 MR. DAY: Mr. Chairman, along those lines, I
11 think it would be appropriate if we passed a resolution expressing the sense
12 of the Commission that Joe Johnson get well and return immediately.

13 SENATOR HAWKINS: Is there a second to the
14 motion?

15 MR. BANNER: Second.

16 SENATOR HAWKINS: It's been moved and
17 seconded, all those in favor say aye? (Ayes.) So moved.

18 MR. NOYES: Mr. Mayhew?

19 MR. MAYHEW: Here.

20 MR. NOYES: Mr. Montgomery?

21 MR. MONTGOMERY: Present.

22 MR. NOYES: Mr. Moody?

23 MR. MOODY: Here.

24 MR. NOYES: Ms. Nyholm?

25 MS. NYHOLM: Here.

1 MR. NOYES: Mr. Owens?
2 MR. OWENS: Here.
3 MR. NOYES: Senator Puckett?
4 SENATOR PUCKETT: Here.
5 MR. NOYES: Senator Ruff?
6 SENATOR RUFF: Here.
7 MR. NOYES: Mr. Stallard?
8 MR. STALLARD: Here.
9 MR. NOYES: Mr. Stith?
10 MR. STITH: Here.
11 MR. NOYES: Mr. Thompson?
12 MR. THOMPSON: Here.
13 MR. NOYES: Ms. Whitley for Secretary Wagner?
14 MS. WHITLEY: Here.
15 MR. NOYES: Senator Wampler?
16 SENATOR WAMPLER: Here.
17 MR. NOYES: Mr. West?
18 MR. WEST: (No response.)
19 MR. NOYES: Delegate Wright?
20 DELEGATE WRIGHT: Here.
21 MR. NOYES: We have a quorum, Mr. Chairman.
22 SENATOR HAWKINS: The next thing I'd like to
23 have is a motion to approve the Minutes of the July 27th meeting.
24 MS. NYHOLM: So moved.
25 SENATOR HAWKINS: It's been moved and

1 seconded. All those in favor say aye? (Ayes.) Opposed? (No response.)
2 The motion carries.

3 Next up is the Honorable Clarke Hogan, Technology
4 Committee report.

5 DELEGATE HOGAN: Mr. Chairman, I might
6 add that, and just as a note of comment, I one time bet Senator Wampler that
7 I could stay in my seat and keep quiet during the Governor's address, and I
8 did it, and he has never made good on that promise to pay that bet off, and
9 he suggested we have witnesses and we might have to have depositions, but
10 having said that, I never tried. I might ask Mr. Noyes if he would handle
11 these motions, because they're mostly housekeeping.

12 MR. NOYES: The Technology Committee met on
13 October 12 to consider three projects. The Committee voted to recommend
14 to the Commission \$202,300 to Bristol Virginia Utilities and \$114,000 for
15 Lenowisco and \$1 million for Mid-Atlantic Broadband Cooperative. The
16 Committee recommended those awards for these three projects.

17 DELEGATE HOGAN: Mr. Chairman, the first
18 two are left over from the last round that went to Southwest and are basically
19 clean-up items. If there are questions about them, we can answer them, but
20 that's what that amounted to.

21 I guess I'd go ahead and make a motion and move those now.
22 I'd ask you to approve those two in a block, Mr. Chairman.

23 SENATOR HAWKINS: Is there a second? All
24 right, we have a second. Any discussion that we move those two in a block?
25 All those in favor say aye? (Ayes.) Opposed? (No response.) Motion

1 carries.

2 DELEGATE HOGAN: The million dollars is to
3 fund a variety of last mile pilot projects in and around Southside. They hold
4 a fair amount of promise, and I think we've gotten fairly good responses
5 from them in the short term, and most of the members know the people, and
6 I would so move.

7 SENATOR HAWKINS: I understand Mid-
8 Atlantic Broadband has sent out their first invoice as a paying customer.

9 DELEGATE HOGAN: Mr. Chairman, maybe we
10 could ask Mr. Deriso to give us a quick report. I think maybe we've got
11 more than one. Tad is on his way to the mike.

12 SENATOR WAMPLER: Mr. Chairman, I would
13 second the motion.

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

16 DELEGATE HOGAN: How about two minutes,
17 and Tad can tell us where we are on this project.

18 SENATOR HAWKINS: This is very exciting, by
19 the way.

20 MR. DERISO: Mr. Chairman and members of the
21 Commission, I'm Tad Deriso, General Manager of Mid-Atlantic Broadband.
22 Just to give you a quick update, we completed the first two projects that
23 were funded by the Commission and the EDA. The south project is an EDA
24 project, and the north project we call the industrial project. Those projects
25 have been completed a hundred percent, all but testing and evaluations and

1 due diligence have been done, and handed over to MBC as of last week. We
2 are now in the process of getting a confirmation from the contractors that
3 have been paid, and we will release the retainage on the projects verifying
4 that the first two phases have been done.

5 For the Phase II dollars that were sent or awarded about a year
6 ago, we spent about half of that. I'm glad to report we're still expanding the
7 network. We have 26 private sector members. Those are the ISP's and
8 competitive exchange carriers, cable companies and all different sorts of
9 types that are using our network, and have about 30 different projects in the
10 works right now for various fiber extensions to those.

11 One of our most exciting projects is our long haul fiber network
12 that you helped us fund from Atlanta to Washington, D.C. We have lit those
13 fibers with very advanced equipment, and we have one customer right now
14 who is actually with me from Atlanta. We have 10 gigabit circuits from
15 Atlanta to Washington, D.C. lit on that service. We have many of our
16 members that are looking to get to a little place called Ashburn, Virginia.
17 There's a data center there. There are over 198 carriers and providers and
18 everyone else, it's basically the home of the Internet that's just outside of the
19 Dulles Airport. Mid-Atlantic Broadband has equipment physically located
20 in that area. We're able to interconnect with any carrier, any provider, most
21 importantly, helping our members in Southside and Southwest VA use that
22 connection to reduce Internet transport cost. We've seen existing costs for
23 Internet connectivity anywhere from 250 to 300 per megabit. Today with
24 some of the proposals and contracts we have, the price is now going down to
25 fifty dollars per megabit. There's a huge increase in the availability of

1 Broadband in Southside as well as Southwest. We're pretty excited about
2 that.

3 SENATOR HAWKINS: Thank you, I appreciate
4 that. Any questions? We have a motion before us, and it's been seconded,
5 for the funding of various projects on the last mile, a million dollars. Does
6 everyone understand the discussion? It's been moved and seconded. All
7 those in favor say aye? (Ayes.) Opposed? (No response.) The motion
8 carries.

9 Clarke, thank you.

10 Next up is Frank Ruff, Education Committee.

11 SENATOR RUFF: The Education is behind Tab
12 No. 2. The first motion I would make deals with the action that we took in
13 Galax on October 13th, which is found on the second and third pages. That
14 includes the \$400,000 for each of the community colleges, it includes the
15 competitive grants, it includes the scholarship and forgivable loan money
16 under the Education Scholarship Program. In addition, You have a separate
17 sheet that deals with the Greensville County/Emporia Southside Virginia
18 Workforce Development Center. This morning added to the total on Pages 2
19 and 3, and the total for that project is \$115,699. The motion is for those 29
20 projects and the two scholarship programs. I would move that \$8,990,990
21 be approved.

22 SENATOR HAWKINS: Is there a second?

23 MR. BANNER: Second.

24 SENATOR HAWKINS: It's been moved and
25 seconded that that motion be approved. Any discussion?

1 MR. DAY: Mr. Chairman, could we take the
2 scholarship component out of the block?

3 SENATOR HAWKINS: We certainly can. By
4 request to move that, Senator Ruff, you want to go ahead and make your
5 motion with the exclusion of that piece?

6 SENATOR RUFF: Motion then would be for the
7 29 different proposals, the community colleges plus the competitive grants.
8 I would move those be approved.

9 MR. BANNER: Second.

10 SENATOR HAWKINS: It's been moved and
11 seconded; does everyone understand the motion? This is the motion with
12 the exclusion of the scholarship piece for Southside, is that right, Bernie?

13 MR. DAY: Yes.

14 SENATOR HAWKINS: All those in favor say
15 aye? (Ayes.) Opposed? (No response.) Motion carries.

16 Senator Ruff.

17 SENATOR RUFF: Mr. Chairman, I understand
18 Mr. Day's request to not include the Scholarship Program, so I want to ask
19 that a motion for the Southwest Higher Ed Center, or the Scholarship
20 Program, be approved for \$1,000,000.

21 SENATOR HAWKINS: It's been moved and
22 seconded that we deal with the Southwest Scholarship Program, which
23 leaves the Southside open for discussion. Does everyone understand? Any
24 discussion? All those in favor say aye? (Ayes.) Opposed? (No response.)
25 Motion carries.

1 SENATOR RUFF: Mr. Chairman, Southside
2 Forgivable Loan Program, which has been funded with 2.8 million. I would
3 move that amount be approved, and then we can have other discussion on
4 other issues.

5 DELEGATE WRIGHT: Second.

6 SENATOR HAWKINS: We're dealing strictly
7 with the amount that's approved. It's been moved and seconded that 2.8
8 million dollars be approved in concept for money for scholarships for
9 Southside. Any questions? Any discussion? All those in favor say aye?
10 (Ayes.) Opposed? (No response.) Motion carries.

11 Senator Ruff.

12 SENATOR RUFF: We had a discussion of the
13 issues in Galax on the 13th of October, and then we had a follow-up
14 discussion on how to deal with the scholarship or for the Forgivable Loan
15 Program this morning. The Committee's recommendation was that we
16 change the policy that we've been having and turn the program over to be
17 administered by Sallie Mae. That proposal is the next to the last page under
18 Tab 2. There are certain issues that have come up. As the Forgivable Loan
19 process has matured, we have found that we are not getting the results that
20 we had hoped to and some people who don't feel obligated to pay what they
21 committed to pay back if they don't return to the area. We believe we have a
22 marketing issue. There are some schools that are doing a good job of telling
23 their high school seniors what's available. We believe Sallie Mae is much
24 better and more experienced at marketing a college education. We believe
25 that will be a plus from that perspective. The motion is for one year, for

1 2007-2008 academic year, that we negotiate and enter into a letter agreement
2 with Sallie Mae to administer this program for one year to test it.

3 SENATOR HAWKINS: Let me understand,
4 because I'm like a lot of people, this is fairly new to me. What we're doing is
5 a one-year trial to see if it works, and we only have a one-year obligation?

6 SENATOR RUFF: That is correct.

7 SENATOR HAWKINS: If it doesn't work we can
8 do something else?

9 SENATOR RUFF: That's correct.

10 SENATOR HAWKINS: It's my understanding the
11 failure rate on collecting the loans is pretty high. What is the percentage?

12 SENATOR RUFF: What we heard this morning is
13 57 percent. I think it would be fantastic if we didn't collect any of that
14 money. That would mean all those young people would be coming back to
15 Southside, and that was our goal of making this Forgivable Loan Program
16 available.

17 SENATOR HAWKINS: That's what we need to
18 make sure that we do that. Do you have a comment?

19 MR. DAY: Yes, sir, Mr. Chairman. The only
20 problem I have with that is that it's a two-sided coin. Not only will Sallie
21 Mae take on the role of debt collector, but Sallie Mae will become, in effect,
22 the gatekeeper to the applicants. The discussion this morning revealed that
23 Sallie Mae will make their decision based on the ability to repay. Things
24 like credit scores and credit checks, it seems to me that goes counter-
25 intuitive to what we want to do. We're going to make it harder for kids and

1 young adults to take advantage of these scholarships, rather than easier.
2 We're going to make it more restrictive. I had much rather make eligibility
3 for this program based on an SAT score than I had on a credit score.

4 I understand that a default rate of 57 percent is high. I don't
5 know how to address that, unless we just get out of the loan business, which
6 I think ultimately will be in our long-term best interest. I would much prefer
7 that Southside adopt a model like Southwest has adopted. With the
8 Chairman's permission, I would yield to Senator Puckett and ask him to
9 outline that policy.

10 SENATOR HAWKINS: I understand it's a
11 straight grant policy, where the grant is made and there is no anticipation of
12 repayment.

13 MR. DAY: That's right.

14 SENATOR HAWKINS: Senator Puckett.

15 SENATOR PUCKETT: Mr. Chairman, I think
16 he's outlined it very well. There's a strict amount that has been raised one
17 time. We started originally at \$1,000 available to any farm family, and there
18 were no limitations placed on it, and on a first-come/first-served basis if you
19 made application to it. We found that to work very well in Southwest.

20 I'll be glad to answer any questions that anyone has.

21 SENATOR HAWKINS: The only problem,
22 Bernie, and just off the top of my head, the population we're dealing with
23 and the amount of money, the two and a half million dollars, we're trying to
24 offer as many scholarships as possible, and if we had strictly a grant
25 program in place we would be overwhelmed with applications. I'm not sure

1 how we could ever come close to addressing it.

2 Mr. Arthur.

3 MR. ARTHUR: Senator Puckett, you make it
4 available to farm families only and not available to the general population?

5 SENATOR PUCKETT: No, it is not. Farm
6 families only or related farm industry people, or I should say, tobacco
7 industry people.

8 MR. ARTHUR: Do we not make it available to
9 everybody in the Southside?

10 SENATOR RUFF: That is correct.

11 MR. ARTHUR: That seems to be a problem.

12 SENATOR HAWKINS: Ours is broader in scope
13 because of the population. If you look at the problems we're facing in
14 textiles, the problems we're facing in basic manufacturing, we have to have a
15 broader approach to try to deal with our population.

16 There is not a good answer, Barnie, I wish I had one. Please
17 continue.

18 MR. DAY: Mr. Chairman, I acknowledge that,
19 and I would agree that is a problem, but it seems to me the very people that
20 we should be helping first are the ones who will not necessarily qualify for a
21 conventional loan arrangement. To address your observation that people
22 would line up for the money, in my view that would be a good thing, not a
23 bad thing. These funds we hold as a Commission are only good, only
24 produce results when we spend them. They have no value sitting unspent.

25 SENATOR HAWKINS: No one can dispute that.

1 MR. MAYHEW: Mr. Chairman, I'd just like to
2 remind us that one of our original reasons for having this to start with, and
3 that was to bring people back to the communities that needed to retain
4 educated people and to add to the workforce there, which has been a
5 problem for a long time. People go off to school and never come back. This
6 is something the applicant would realize up-front before they made an
7 application, and hope that they would do it with the understanding that they
8 did want to come back, otherwise they'd have to repay the loan. This would
9 be an incentive, and I think has been an incentive in some cases to bring
10 people back to their communities to work off the loan so they wouldn't have
11 to repay it. I think that's a key point we need to keep in mind if that's what
12 the Commission still wants to do.

13 MR. ARTHUR: Mr. Day has a valid point about
14 the credit worthiness versus the educational worthiness. Is there any way
15 that Sallie Mae can address this, as opposed to somebody's credit
16 application. That's because very few students coming out of high school will
17 have credit, and they're not eligible.

18 SENATOR RUFF: Mr. Chairman, I think you'd
19 find usually that would be based on the parents' credit, because they have to
20 sign a lot of paperwork that's included. If we were to eliminate the issue of
21 creditworthiness, then we'd have to hold back a significant amount of money
22 for loan loss reserves. That would mean we would have to reduce the
23 amount of each scholarship, and I'm not sure that accomplishes a whole lot.

24 SENATOR HAWKINS: What type of reserve are
25 you talking about?

1 SENATOR RUFF: Ned, do we know how much
2 we'd have to hold back?

3 MR. DAY: Mr. Chairman, I might answer that
4 from a banker's perspective. It's 1.2 percent on each loan.

5 SENATOR HAWKINS: One point two --

6 MR. STEPHENSON: -- We're running default
7 rates in 50 percent range. I think, Mr. Day, it would take more than that. It
8 may approach dollar-for-dollar to induce Sallie Mae to make loans to
9 uncreditworthy prospects.

10 SENATOR HAWKINS: If we're trying something
11 for a year to see if it works, would it be possible for us to take some revenue
12 and set it aside as a reserve that we could have access to later on if we
13 needed it without interfering with the flow of scholarship monies? We set
14 aside money for indemnification, and we set aside monies for anticipated
15 problems. I don't want to interfere with people's applications for these
16 scholarships based on a credit score.

17 MR. DAY: Mr. Chairman, with all due respect,
18 that's exactly what we're fixing to vote on.

19 SENATOR RUFF: Mr. Chairman, to go back to
20 Mr. Day's original point of opening it up and who is going to be available for
21 it. We will effectively eliminate most if not all freshmen who are in the
22 most precarious position of getting into college, because the people at the
23 front of the line will be the rising sophomores and juniors that will know
24 they're in college, and they've been accepted, and they will be there on day
25 one, which is whatever day we set.

1 Then, the next group would be the early admittance group,
2 which according to UVA's statistics, and they're dropping that program
3 because that gives to the upper middle class rather than the average low
4 income student. The people that we would most want to help, the poorer
5 freshmen, will get left out of that equation completely, in all probability.

6 MR. DAY: Mr. Chairman, if I may offer a rebuttal
7 to my good friend Senator Ruff. It would seem to me that is preferable to in
8 effect getting our scholarship money first to those who need it the least, if
9 the criteria is creditworthiness.

10 MR. HARWOOD: Mr. Chairman, I'd like to add
11 that I agree with Mr. Day. I work in an industry that deals with credit
12 scores, and it's one of the most dysfunctional, unfair systems I know of.
13 There are a lot of errors in credit scores, and I think it totally goes against
14 what we're trying to accomplish with these young men and women trying to
15 go to college. I'd like to say that I'm in complete concurrence with him, and
16 I don't think this is the way to do it.

17 SECRETARY BLOXOM: Mr. Chairman, the
18 colleges I've been involved with, there is always a financial aid officer who
19 normally asks for an application. The application then goes to Princeton for
20 them to make a determination, whether it's grant money needed, loan money
21 needed, or whether you can actually put together a financial package,
22 including work/study. I don't know if there is some way we could tap into
23 that type of system so that we would be dealing with those students that have
24 the greatest need, either in a grant position or in a loan position. That would
25 sort of take care of some of these problems, and maybe one of the financial

1 officers at one of our institutions, even Tech, I'm sure, uses that system. I
2 think it's called the Princeton System, and that would give us a determination
3 about need and also some determination about grants.

4 MR. JENKINS: I have a question. In the handout
5 under Tab 2, there, where it says Executive Summary and you've got "terms
6 to be administered by Sallie Mae." My question is, is this all or nothing, or
7 can you negotiate those terms? Can we establish the criteria for making the
8 loan and still have them administer it, or do they have to have full control?

9 SENATOR HAWKINS: I have no idea, but it's
10 our money, and we ought to have some control over it.

11 SENATOR RUFF: Mr. Chairman, I would think
12 Ned or Stephanie can probably answer that.

13 MR. STEPHENSON: They are negotiable with
14 Sallie Mae, to a point.

15 MR. JENKINS: Would that be a possible solution,
16 that we establish criteria for this loan and include some of these things we're
17 discussing?

18 MR. STEPHENSON: Sallie Mae has been willing
19 to allow us to establish those criteria, with the exception of the
20 creditworthiness, inasmuch as it is Sallie Mae's money being loaned, and
21 Sallie Mae will therefore control who they lend money to and who they will
22 not. They will not be lending Commission dollars.

23 MR. JENKINS: The credit rating is the deal
24 breaker?

25 MR. DAY: Mr. Chairman, I'm wondering if we

1 could have Mr. Stephenson's opinion and analysis perhaps on the long-term
2 advisability of us being in the loan business, period.

3 MR. STEPHENSON: I think it has been expressed
4 within the Education Committee on a couple of occasions that it is not
5 becoming to the Commission of the Tobacco Commission an image that it
6 wishes to portray to be viewed as a heavy-handed debt collector in the
7 communities which we serve. We stand today with a 56 or 57 percent
8 default rate on loans that we have made, and that's growing. It's not a
9 question of whether or not we want to be in the collection business to
10 enforce these contracts we've made or whether we want to change course
11 and lay that task off to another entity like Sallie Mae. If Sallie Mae lends
12 their own money based on their own credit standards and students fail on
13 that obligation, that's between Sallie Mae and the student, and the Tobacco
14 Commission is not the heavy-handed entity in that transaction. If the
15 Commission wishes to lend the money and not collect it back, then perhaps
16 we may consider simply granting a scholarship in the manner that the
17 Southwest group does.

18 SENATOR HAWKINS: The only problem with
19 opening it up is the population we're dealing with, with a broader population.
20 By the time we try to be fair in administering these scholarships they would
21 end up being so small that no one would have any benefit from it at all, and
22 that troubles me.

23 DELEGATE DUDLEY: Mr. Chairman, I'm
24 opposed to this for two reasons and intend to vote against it. We have a
25 default rate of 57 percent, and technically maybe that's so. What that means

1 according to the information I have, we sent out a letter, and they haven't
2 sent back a check yet, and that's not really a default. Most of these people, if
3 they're young people, the parents cosign the agreement with them. Ned, I
4 don't understand why we would not want to collect money that we entered
5 into in good faith and the other parties entered into. If it's time to collect that
6 money, we collect that money.

7 The second thing is the cost to the good student. You have a
8 good student that enters into this Sallie Mae program. They think we're
9 going to pay \$3,000 a year for their costs at school, and they go through
10 school four years and come back in our area, which we wanted, and work a
11 year. We pay \$3,000, but they already owe \$1,650 accrued interest on that
12 that they have to pay. We're not giving them a \$3,000 grant, we're giving
13 them a \$1,350 grant, which is coming back pretty close to what Mr. Day is
14 recommending.

15 SENATOR RUFF: Mr. Chairman, I think what
16 Secretary Bloxom is referring to is a program in which every college
17 requires every student to fill that federal form out, and that establishes
18 deadlines on grants or what-not. Our current program bypasses that and the
19 college financial aid program. Some students aren't even finding out about
20 that.

21 I think Delegate Dudley made some reasonable points, but I
22 want to go back to the issue Mr. Day was raising. I think it's somewhat of a
23 strong issue. Under the current terms we are charging prime plus three
24 percent to deal with the loan, so effectively eleven percent at this time. Most
25 of the people that go through the Sallie Mae program are going to get some

1 interest rate as low as eight percent prime to a higher rate. The folks that
2 cannot, or are not creditworthy, are going to have an extremely tough time
3 borrowing the rest of the money to pay to live in a dorm. Those students are
4 more likely going to be going to the community college. In each one of our
5 community colleges we have money set aside for those scholarships. I think
6 we're probably, to borrow Mr. Day's comment from earlier, we're swatting at
7 gnats here. I don't think there's going to be that many a factor.

8 SENATOR HAWKINS: The interest piece today
9 with the loans that we grant individuals, do we charge them interest on the
10 loan if they do not come back to the area?

11 SENATOR RUFF: Mr. Chairman, the interest
12 begins when the money goes out. If they come back there is no interest, but
13 if they do not come back the interest begins.

14 SENATOR HAWKINS: My understanding is that
15 Delegate Dudley said, the Sallie Mae group, that the interest would be there
16 regardless?

17 SENATOR RUFF: That is correct.

18 SENATOR HAWKINS: There is a difference
19 there of some monies that we've got to factor into the discussion.

20 SENATOR RUFF: Mr. Chairman, I think there
21 are alternatives that could occur in that process. If we have some money that
22 we collect from these past loans, we could credit those accounts in some
23 fashion as an additional credit, rather than 3,000.

24 DELEGATE WRIGHT: Mr. Chairman, I know it's
25 not your desire for this work to be discussed in this broad a term, and

1 something that the Education Committee may want to take another look at.
2 Maybe a consideration now is to refer this back to the Education Committee
3 to try to work out some of these problems that have been brought forward,
4 rather than try to do it under the confines of the Education Committee, rather
5 than trying to do it at this time.

6 SENATOR HAWKINS: It's time-sensitive, and
7 that is the problem.

8 DELEGATE DUDLEY: Mr. Chairman, I would
9 support that motion, and it was taken up in Committee this morning, and
10 they didn't want to continue it, so I don't know where that goes.

11 Let me reemphasize the interest thing, Mr. Chairman. A
12 student that does exactly what we want them to do under the program right
13 now, goes to college four years and comes back and works in the
14 community, that's five years. Under our Forgivable Loan Program they owe
15 none of that money back of that first year's award, and that continues for the
16 next period of years. Under Sallie Mae they do exactly what they say they
17 will do, and they still owe five years of accrued interest on that first year's
18 money.

19 SENATOR HAWKINS: That isn't what we
20 intended to do. What is the last date we can deal with this?

21 MR. NOYES: The decision needs to be made by
22 January, by our meeting in January.

23 SENATOR HAWKINS: We meet January 9th.

24 SENATOR RUFF: Mr. Chairman, I would
25 withdraw my motion and make the motion that we table this, and the

1 Committee will meet.

2 MR. DAY: I'll second that motion, Mr. Chairman.

3 SENATOR HAWKINS: This is too important,
4 we're making haste with great caution. It's been moved and seconded that
5 this be postponed.

6 Senator Ruff, I want to thank you for your work, and this is
7 very important, and we've got to make some basic decisions on what we plan
8 to do. We need to make sure we know what we're doing.

9 SENATOR RUFF: Mr. Chairman, one final issue
10 to deal with. That is the ratifying and approving the Memorandum of
11 Understanding between the Southwest Virginia Higher Ed Center and the
12 Commission that was dated on October the 9th. That's the last page under
13 Tab 2, and that deals with what we owe the Southwest Higher Education
14 Center for administering this program.

15 SENATOR HAWKINS: Continuation of what
16 we've been doing?

17 SENATOR RUFF: Yes.

18 SENATOR HAWKINS: Does everyone
19 understand the motion?

20 Is there a second?

21 MR. BANNER: Second.

22 SENATOR HAWKINS: It's been moved and
23 seconded. Any discussion of the motion? All those in favor say aye?
24 (Ayes.) Opposed? (No response.) Motion carries. Thank you, Senator
25 Ruff, and if you would get together with the members and see if we can't

1 work out something that makes sense.

2 All right, Delegate Byron, you're up.

3 DELEGATE BYRON: The Long Range Plan
4 Committee met twice, and we had some very lengthy discussions, did a lot
5 of work on the Strategic Plan. Hopefully, you've read this in your book, and
6 I'm not going to go line-by-line, unless you want to take the time to do that.
7 I assume everyone has read it.

8 We have added outcome measures and goals which were not in
9 there before. We do have one minor change, it's on Page 4, dealing with
10 Building Human Infrastructure. The goal is to have 100 percent completion
11 of those entering the program. The Committee recommends we approve the
12 Strategic Plan dated November, 2006 as published with that Amendment.

13 SENATOR HAWKINS: You're offering an
14 amendment to your report?

15 DELEGATE BYRON: Yes.

16 SENATOR HAWKINS: Is there a second for the
17 adoption of the amendment?

18 SENATOR RUFF: Second.

19 SENATOR HAWKINS: It's been moved and
20 seconded that we adopt the report. Any discussion on the amendment? All
21 those in favor say aye? (Ayes.) Opposed? (No response.) The amendment
22 is adopted, so we have before us a motion that includes the Memorandum of
23 the Long Range Plan with the Amendment.

24 DELEGATE BYRON: The Committee
25 recommends that the updated Strategic Plan be approved.

1 SENATOR HAWKINS: I want to thank you for
2 your work, because this is a blueprint that we need to constantly update, and
3 you all did a good job.

4 Is there a second? It's been moved and seconded that the
5 motion be adopted as amended. Any discussion on the motion? All those in
6 favor say aye? (Ayes.) Opposed?

7 DELEGATE WRIGHT: No.

8 SENATOR HAWKINS: Record Delegate Wright,
9 no.

10 DELEGATE WRIGHT: My same concern, Mr.
11 Chairman.

12 SENATOR HAWKINS: Next up is the Southside
13 Economic Development Committee, Tom Arthur.

14 MR. ARTHUR: Thank you, Mr. Chairman. The
15 Southside Economic Development Committee met yesterday to address two
16 tabled requests. One was from Pittsylvania County and one from
17 Mecklenburg County.

18 Addressing Pittsylvania County first, they have withdrawn their
19 application, so there was no action taken on that.

20 Mecklenburg County, Roanoke River Regional Wastewater
21 Treatment Plant was tabled for the reason we needed to have an agreement
22 between the locality and the Town of South Hill and Roanoke River
23 Industrial Region. We put a condition upon it that our payment would be
24 conditioned upon further financing the localities have agreed to. We have a
25 letter or memorandum which basically says that.

1 The Committee is recommending 1,300,000 and change, which
2 is the balance of their allotment for the Roanoke River Regional Wastewater
3 Treatment Plant with the contingencies place on it, and the Committee
4 recommended approval.

5 SENATOR HAWKINS: Is there a second?

6 MR. HARWOOD: Second.

7 SENATOR HAWKINS: It's been moved and
8 seconded the report be adopted dealing with the allocation of money to the
9 wastewater treatment plant. Any discussion? All those in favor say aye?
10 (Ayes.) Opposed? (No response.) Motion carries.

11 Southwest Virginia Economic Development Committee,
12 Delegate Kilgore.

13 DELEGATE KILGORE: Thank you, Mr.
14 Chairman. We had a meeting this morning, and I believe you have it on
15 your desk.

16 SENATOR HAWKINS: Does everyone have a
17 copy? Southwest Economic Development Committee had a request for
18 \$80,000 for a water line for Stickleyville Elementary School, and it's an
19 emergency situation. They have had to provide the kids with water bottles.
20 Lenowisco has come up with \$80,000 we have allocated. We're going
21 through the process of getting a whole new water system to serve the entire
22 area there, but that's still in the further. We can get this from Scott County
23 down the mountain pretty fast for 80,000.

24 The Committee met this morning and it was approved
25 unanimously to fund this with unrestricted funds, and I would so move.

1 SENATOR PUCKETT: Seconded.

2 SENATOR HAWKINS: It's been moved and
3 seconded that this money be adopted for the water line to the school. Any
4 discussion? All those in favor say aye? (Ayes.) Opposed? (No response.)
5 Motion carries.

6 Moving on, Executive Director's Report.

7 MR. NOYES: Thank you, sir. The Auditor of
8 Public Accounts completed the fiscal year 2006 Commission audit. No
9 material weaknesses were noted. Troutman Sanders reports that the initial
10 phase of the audit is nearly complete and that the process has been beneficial
11 and Phase 2 will be under way shortly.

12 The Commission's Annual Report has been published and
13 distributed. If any of you wish additional copies, please let the Staff know,
14 and we'll get them to you.

15 The megasite report will be available at the Commission
16 meeting on January 9th, and the Staff can arrange to have the contractor
17 present findings at that time, if you wish.

18 DELEGATE KILGORE: I think we should have
19 some presentation on that.

20 MR. NOYES: Very good, we'll have a
21 presentation at our meeting in January.

22 Upcoming meetings, the Executive Committee has asked to
23 meet after we adjourn from today's Commission meeting very briefly.

24 The Agriculture Committee will meet at 1:00 on December 7th
25 at Citizens in Floyd County.

1 Southside Economic Development Committee will meet on
2 January 8th at 3:00; the location of the meeting is still to be determined.

3 Thank you, very much.

4 SENATOR HAWKINS: Thank you. That
5 completes our agenda, except for public comments. Would anyone from the
6 public like to make any comments?

7 Oh, Mr. Mayhew, Buddy is going to give us an update on our
8 ongoing discussions about our bio-diesel project. Do you want to give us an
9 update as to where we are, Buddy?

10 MR. MAYHEW: I'm on the Oversight Committee
11 which Senator Hawkins appointed after our April meeting, at which time the
12 Special Projects Committee and the Commission itself had approved a 1.2
13 million dollar grant to Virginia Tech. It also involves the Institute for
14 Advanced Learning and Research to a lesser extent, and also Ken Moss at
15 Windy Acres Nursery in Pittsylvania County. He's going to be a major
16 player in this project, also.

17 The part I'm more familiar with and will try to bring you up to
18 date on is a small part of that moneywise, but I think it's a large part as far as
19 how successful this program is going to be ongoing. That is the purchase of
20 a two-ton per day pyrolysis plant that will actually convert cellulose
21 material, such as wood chips, switchgrass, poplar, chicken manure, and a
22 host of other things, if we wanted to adapt it into bio-oil. That's the first
23 stage of something having a lot more products brought from it, such as like
24 crude oil does.

25 The initial attempt here is to try to get proof of concept or a

1 prototype unit that will actually work, even though it's on a small scale, and
2 even though it's on a temporary basis. It's something that we can build on
3 and something that the brain power at Virginia Tech can come into play on
4 and improve it, hopefully. Then that will lead eventually and hopefully, and
5 when I say the word eventually I'm not talking about long-term, but in the
6 not-so-distance future, to an actual plant that would be owned by farmers in
7 the community and those that want to participate to bring in the feed stock,
8 whatever it happened to be. They would not only get paid for feed stock, but
9 whatever profit is derived from this bio-oil they would share in, rather than
10 some big company taking it over. It would also depend on the market for it.
11 Ken believes strongly that without too much expense heating systems that
12 now use propane could be relatively cheaply changed over to burn this bio-
13 oil, which is in a very crude form at that point. You can get a yield
14 somewhere in the neighborhood of 60 gallons per ton, dry ton weight, from
15 some of the research that's been done. Some money has been spent by the
16 Commission to do some due diligence.

17 Back in September, Tim Pfohl and I and Ken Moss, along with
18 a gentleman by the name of Dr. K. C. Das from the University of Georgia,
19 who is very familiar with this system of pyrolysis, was hired by the
20 Commission to give his professional opinion of just how good this
21 prospective unit is that we're trying to buy. So we took a trip down to
22 Mussel Shoals, Alabama and spent a day going and coming and seeing and
23 meeting with Phil Badger, who is the gentleman that's going to build it for
24 us. We saw a prototype unit that he had built a number of years ago that was
25 no longer functioning. He cannibalized it for parts, and it was sitting in a

1 shed. It did not present a very good image of what we're trying to do, but
2 after looking at it closely and hearing what he had to say about it and the
3 improvements he was going to make, we felt better about it. We also had
4 Dr. Das, who knew a lot more about it than any of us ever will. He spent
5 some time evaluating this thing and asking questions and wrote up a report
6 and presented it at a meeting that the Oversight Committee had back in
7 September, or maybe early October; a few of you were there. He answered
8 questions from the group, and he presented a pretty good overview of his
9 impression of what he saw and what he thought the capabilities were of this
10 unit we're trying to buy, and of the qualifications of Phil Badger to put it all
11 together for us.

12 For the relatively small amount of money, and I say that
13 respectfully, it's a 150 to 170 thousand for this unit to be delivered to us. He
14 felt like it was a project worth trying. We all realize it's not a sure thing, and
15 if it was, somebody else would already be doing it. We feel like we're on the
16 leading edge of something that could prove to be beneficial throughout
17 Southside and Southwest Virginia. If this thing proves out and the Virginia
18 Tech people get on board and work with us, I don't see any reason why a
19 year from now or a year and a half from now we couldn't be at a point where
20 the success of it is clear enough to the average person that might want to
21 become involved in it that they'd be willing to invest in it and move it
22 forward. If it works for one community, it can work for the other one and
23 throughout the whole area. It's on like a 50-mile radius. Obviously, you
24 can't haul feed stock like wood and hay long distances and you cannot also
25 justify hauling the finished product a long distance. It would be on a

1 regional basis, and we feel like there would be a market for this bio-diesel
2 oil to begin with, and then we could move forward from there for further
3 refinement and further product.

4 I'll make one other comment. What little I've learned, which is
5 just a little bit, but I'll try to explain very briefly what pyrolysis entails. You
6 take finely chipped wood particles or some other cellulose material and feed
7 it through this piece of equipment that carries the temperature to 500 degrees
8 centigrade in like a half a second to one second. The faster you do it, the
9 more efficient the outcome is. In return you get, or in the absence of oxygen
10 you get black oil material, which is like crude oil in its color and
11 consistency. You also get a byproduct called char, which is a fine black
12 powder similar to what charcoal is made out of, and then you get, I think, a
13 little bit of ash. What happens is that when it's heated to this terrifically high
14 temperature it vaporizes, and the vapor is then condensed and cooled very
15 rapidly for this liquid to form, and it has different compartments for the
16 different components to be separated out into, such as the liquid and the
17 char, et cetera. Of course, the piece of equipment that accomplishes all this
18 is complicated, and there are a lot of parts to it. It's hard to explain, but that's
19 just, in a nutshell, a little bit of what we're doing.

20 Dr. Das, who came up and met with us in South Boston, had
21 some favorable comments to make. He admitted that this thing holds a lot of
22 promise, and he couldn't find any real reason why we couldn't move forward
23 with it and hope for some good outcomes. We have to go into it with our
24 eyes open, knowing that despite everybody's best efforts it may or may not
25 prove out what we want it to be, but certainly worth a chance, with the

1 dependence on foreign oil that we now have. We're all aware of the
2 problems related to that. The new emphasis the federal government is
3 putting on new sources of energy I think the time is right now, and we're on
4 the leading edge of it, in this area, at least. I'm sure there's a lot of work
5 going on all over the country that we don't even know about. At least we've
6 got a foot in the door here. This unit is being contracted over right now. We
7 finally got, we're ready to go ahead and move with it, and the Commission's
8 money is ready to be released when things line up right.

9 The contract, as far as I know, is in its final stages. The
10 gentleman building it for us, Phil Badger, has released a preliminary contract
11 spelling out in great detail what he's going to provide, and a lot of necessary
12 information. Hopefully he can get started building it soon and expect to
13 have it maybe by spring. He's saying five months, give or take, then
14 hopefully by next spring we'll have something good to report to you.

15 SENATOR HAWKINS: This has great potential,
16 and it's something that we've tried to deal with, and it could really help all
17 the farmers with an alternative source of income. Alternative fuel sources
18 are something that we really could deal with. Brazil started 20 years ago,
19 and now they're at 98 percent self-sufficient. We've got to do something to
20 stop importing all this oil, and we need to do it.

21 Senator Wampler.

22 SENATOR WAMPLER: Mr. Chairman, thank
23 you. I will not trespass on your time much. My comments are not about
24 fiber optics or waste water and water projects, but rather to get to a part
25 where I think this Commission always has difficulty in. That is finding good

1 agriculturally based expenditures with our dollars. I've learned more it goes
2 to beef cattle and grazing, and more specifically, intensive grazing on grass.
3 I've learned of a group in Southwest that's very interest in this. I've also
4 learned that Virginia Tech has some of the leading and cutting technology
5 on this.

6 Mr. Chairman, what I'd like to do, and I haven't talked to Staff
7 about this, but this is something that we ought to pursue, at least in concept,
8 as to what we can do to further it. I know Mr. Banner has great knowledge
9 of it, as does Mr. Montgomery, and I'd like to pull those guys out of the
10 dugout and help this non-farmer with that. I think we could bring something
11 back in the springtime, perhaps some recommendations, particularly how we
12 can add value to our product, rather than shipping it out of the region.
13 Buddy's comments were very good, I thought, as to how we can influence
14 the economy on the farm. This may be a small amount, but I think it's
15 important to some of the folks, and it appears there's leadership at the local
16 level. I'd just like us to proceed with it, and that's why I trespassed on your
17 time to bring that point up, Mr. Chairman.

18 SENATOR HAWKINS: The Agriculture
19 Committee is going to look at it. C. D. and the Committee can look at it.

20 MR. DAY: Mr. Chairman, Mr. Mayhew describes
21 a process, and it sounds to me a lot like making liquor. On that note, I think
22 we'll all be for it.

23 SENATOR HAWKINS: That's a comment that
24 I'm just going to keep my mouth shut. Thank you very much.

25 MR. NOYES: I need to add one housekeeping

1 matter. I'd like to invite a motion that the grantee of record for grant #1090,
2 and that's a bio-energy project, be changed from Virginia Tech Foundation,
3 Inc. to Virginia Polytechnic Institute and State University Office of
4 Sponsored Programs, Jerzey Novak, Project Leader, and that the grantee of
5 record for grant #1100 (Southern Piedmont Lab) be changed from Virginia
6 FAIRS to Virginia Polytechnic Institute and State University Office of
7 Sponsored Programs, Carol Wilkinson, Project Leader.

8 So move.

9 SENATOR HAWKINS: It's been moved and
10 seconded. Does everyone understand that motion?

11 MR. NOYES: These are approved grants, these
12 were the original applicants, and we invited, or we requested the change, and
13 we're now asking that we go back to the initial applicants for these awards.

14 SENATOR HAWKINS: Any discussion? They
15 are technical amendments. All those in favor say aye? (Ayes.) Opposed?

16 DELEGATE WRIGHT: No.

17 Senator Hawkins: Any public comment?

18 Buddy, thank you for your report, and I think this has a lot of
19 promise.

20 We're going to have an Executive Committee Meeting
21 immediately upstairs.

22 All right, is there any comment? Going once, going twice,
23 we're adjourned.

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25 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, November 9, 2006 at 10:00 a.m. in the Latham Ballroom C at The Inn at Virginia Tech and Skelton Conference Center, 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 15th day of November, 2006.

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

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4 My Commission Expires: October 31, 2010.