

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

3 701 East Franklin Street, Suite 501
4 Richmond, Virginia 23219
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9 **Full Commission Meeting**

10 Tuesday, January 11, 2011

11 10:00 a.m.
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13 Hilton Garden Inn (Downtown)

14 501 East Broad Street

15 Richmond, Virginia 23219
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1 **APPEARANCES:**

- 2 The Honorable Terry G. Kilgore, Chairman
3 The Honorable Frank M. Ruff, Vice Chairman
4 Ms. Gayle F. Barts
5 The Honorable Kathy J. Byron
6 Mr. John R. Cannon
7 The Honorable James S. Cheng, Secretary of the Department
8 of Commerce and Trade
9 Mr. David R. Cundiff
10 Ms. Linda P. DiYorio
11 Mr. Burgess Hamlet
12 The Honorable Todd P. Haymore, Secretary of
13 Agriculture & Forestry
14 Mr. Jordon M. Jenkins, Jr.
15 The Honorable Joseph P. Johnson
16 The Honorable Daniel W. Marshall, III
17 The Honorable Donald Merricks
18 Mr. H. Ronnie Montgomery
19 The Honorable Harrison A. Moody
20 Ms. Connie L. Nyholm
21 Mr. Israel O'Quinn
22 The Honorable Edward Owens
23 The Honorable Phillip P. Puckett
24 Mr. David S. Redwine, DVM
25 Mr. Kenneth O. Reynolds

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

2 The Honorable W. Roscoe Reynolds
3 Mr. John Stallard
4 Ms. Cindy M. Thomas
5 The Honorable William C. Wampler, Jr.
6 The Honorable Thomas C. Wright, Jr.

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8 COMMISSION STAFF:

9 Mr. Neal Noyes, Executive Director
10 Mr. Ned Stephenson, Deputy Director
11 Mr. Timothy S. Pfohl, Grants Program Administration Manager
12 Ms. Stephanie S. Kim, Director of Finance
13 Ms. Stephanie S. Allman, Program Administrator
14 Ms. Sarah K. Capps - Grants Program Administrator,
15 Southside Virginia
16 Ms. Sara G. Williams - Grants Program Administrator,
17 Southwest Virginia
18 Ms. Suzette Patterson - Grants Office Manager
19 Ms. Michelle Brady - Executive Assistant

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22 COUNSEL FOR THE COMMISSION:

23 Mr. Francis N. Ferguson, Esq.

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1 DELEGATE KILGORE: Good morning, everyone.
2 I'm going to call the meeting of the Full Commission to order.
3 I know we've got weather and everything going on, but
4 hopefully our meeting won't be too long, so that people can get
5 on their way and have a safe trip home. For those staying for
6 the General Assembly, we get to stay around for a few extra
7 days this week. I'll ask Neal to call the roll.

8 MR. NOYES: Mr. Barnard?

9 MR. BARNARD: (No response.).

10 MR. NOYES: Ms. Barts?

11 MS. BARTS: Here.

12 MR. NOYES: Secretary Brown?

13 SECRETARY BROWN: (No response.)

14 MR. NOYES: Delegate Byron?

15 DELEGATE BYRON: Here.

16 MR. NOYES: Mr. Cannon?

17 MR. CANNON: Here.

18 MR. NOYES: Secretary Cheng?

19 SECRETARY CHENG: Here.

20 MR. NOYES: Mr. Cundiff?

21 MR. CUNDIFF: Here.

22 MR. NOYES: Ms. DiYorio?

23 MS. DIYORIO: Here.

24 MR. NOYES: Mr. Hamlet?

25 MR. HAMLET: Here.

1 MR. NOYES: Mr. Harwood?
2 MR. HARWOOD: (No response.)
3 MR. NOYES: Senator Hawkins?
4 SENATOR HAWKINS: (No response.)
5 MR. NOYES: Secretary Haymore?
6 SECRETARY HAYMORE: Here.
7 MR. NOYES: Mr. Jenkins?
8 MR. JENKINS: Here.
9 MR. NOYES: Delegate Johnson?
10 DELEGATE JOHNSON: Here.
11 MR. NOYES: Delegate Kilgore?
12 DELEGATE KILGORE: Here.
13 MR. NOYES: Delegate Marshall?
14 DELEGATE MARSHALL: Here.
15 MR. NOYES: Delegate Merricks?
16 MR. MERRICKS: Here.
17 MR. NOYES: Mr. Montgomery?
18 MR. MONTGOMERY: Here.
19 MR. NOYES: Mr. Moody?
20 MR. MOODY: Here.
21 MR. NOYES: Ms. Nyholm?
22 MS. NYHOLM: Here.
23 MR. NOYES: Mr. O'Quinn?
24 MR. O'QUINN: Here.
25 MR. NOYES: Mr. Owens?

1 MR. OWENS: Here.

2 MR. NOYES: Senator Puckett?

3 SENATOR PUCKETT: Here.

4 MR. NOYES: Mr. Redwine?

5 MR. REDWINE: Here.

6 MR. NOYES: Mr. Kenneth Reynolds?

7 MR. REYNOLDS: Here.

8 MR. NOYES: Senator Reynolds?

9 SENATOR REYNOLDS: Here

10 MR. NOYES: Senator Ruff?

11 SENATOR RUFF: Here.

12 MR. NOYES: Mr. Stallard?

13 MR. STALLARD: Here.

14 MR. NOYES: Ms. Thomas?

15 MS. THOMAS: Here.

16 MR. NOYES: Senator Wampler?

17 SENATOR WAMPLER: Here.

18 MR. NOYES: Delegate Wright?

19 DELEGATE WRIGHT: Here.

20 MR. NOYES: Mr. Chairman, you have a quorum.

21 DELEGATE KILGORE: We have a new member with
22 us today, Don Merricks. Why don't you go ahead and
23 introduce yourself and tell us why you want to serve on this
24 Commission? I want to welcome you today. Tell the public
25 what area you represent.

1 MR. MERRICKS: I represent the 16th House
2 District, most of Pittsylvania County and part of Henry and
3 most of the City of Martinsville. I want to serve on this
4 Commission because you're the Chairman of it. (Applause)

5 DELEGATE KILGORE: Thank you. I saw another
6 legislator here, Bill Carrico. Bill, welcome to today's meeting,
7 and glad to have you.

8 Ladies and gentlemen, before we get started I want
9 to acknowledge and comment on the John Forbes situation.
10 The decision by the Tobacco Commission to approve and
11 disburse funds to the Literary Foundation was taken on very
12 early in the life of the Commission before the current
13 Committee and Staff processes were established, before we
14 had all these procedures in place before we disburse funds.
15 The existing practices offer us a substantial assurance that
16 repeat of such criminal activity is extremely unlikely. You also
17 have my further assurance that any allegations concerning
18 improper use of Tobacco Commission funds will receive
19 immediate attention by me and the Staff of the Commission. I
20 share with all my colleagues and our Staff, we strive to
21 improve the economic well-being of our citizens throughout the
22 footprint of the Commission. There is a sense of deep sense of
23 disappointment concerning the conviction of Mr. Forbes. This
24 does not define our work as a whole. In the Tobacco
25 Commission we make our decisions in the full view of the

1 public, with a public record of discussions and votes. We have
2 a court reporter at all our meetings to take the minutes. That
3 includes the sub-committees and the Full Commission.

4 We have significantly expanded our support and improving
5 our labor profile in our region by investing financial aid for
6 tuition increases and in addition to having the continuing
7 support for educational program development. This year we're
8 working for the non-credit workforce education training
9 provided by private sector partners. Our education program
10 alone has doubled over the last four years. We've initiated a
11 new megasite program budgeted at a hundred million dollars
12 and, in fact, we're going to be deciding on some of that in just
13 a few minutes.

14 We do these things in collaboration with a lot of other
15 state agencies. We're not the only funder of these projects.
16 We want to make sure that our public funds are used for
17 maximum impact for job creation and private sector
18 development. That's what our original charge was, and that is
19 to make sure we create jobs and investment in the tobacco
20 region.

21 We're also a year into the R&D program. Kathy, you've
22 done a great job with that, and we've got a hundred million
23 dollars with that, and we're focusing on making Virginia a
24 leader in alternative and sustainable energy innovation and
25 commercialization. We're in the process of winding down our

1 year-old research program initiative for our investment of \$41
2 million, and we were able to leverage more than 80 million in
3 ARRA funds, which we're seeking to fund along with other
4 local, state and federal funds.

5 One thing I'm really proud of is our investment of \$120
6 million in our optical fiber network, and that will set us apart
7 from other rural areas in the nation. We've seen employment
8 in private sector investment outcomes that would have been
9 impossible to reach had we not aggressively pursued the fiber
10 optic network in our region. We've been able to anticipate a lot
11 of results of that and our involvement in that.

12 Finally, our incentive programs often double the
13 Governor's Opportunity Fund for other state projects. We're
14 fully accountable and regularly enforce these things. We've
15 gone back a lot of times when folks have not stepped up to the
16 plate and created the jobs or investments, and we claw back
17 some of those dollars. In the last four years you have
18 supported your Staff, I don't know where Ned is, or supported
19 Ned in making sure of a lot of this data gathering, and when
20 we make these awards he has to go out and gather a lot of
21 data.

22 So, ladies and gentlemen, this is important, and the
23 decisions that we make here in this Commission also need to
24 be pointed out as you're talking to the press or you're talking
25 to your constituents out there, and we need to acknowledge

1 our goals. Our goals and your goal is to better our
2 opportunities in Southwest and Southside Virginia in the
3 footprint of the Tobacco Commission.

4 I just wanted to get that out to you before we start this
5 morning. Are there any comments? All right.

6 Do we have a motion to approve the 10-28-2010
7 Minutes? I have a motion and a second. All in favor say aye?
8 (Ayes.) Opposed? (No response.)

9 Next we'll hear from Stephanie.

10 MS. KIM: First I'd like to point out to you, if you
11 look in your book on page 52, this is from Kym at Barclays
12 Capital. This is an e-mail talking about some Moody's ratings
13 on the tobacco bonds, and it does not directly affect us. In her
14 e-mail she does talk about the 2010 MSA payment being
15 approximately 16 percent lower than the 2009 MSA payment.
16 A lot of this has to do with continuous cigarette consumption
17 decline. It doesn't affect us directly right now, because ours is
18 securitized. It does not affect our annual cash flow, but it
19 does mean that the projections may go farther out, currently
20 projected to be 2032, and if the MSA payment continues to be
21 lower than expected it may go farther out. The maturity date
22 is 2047, but the current projected maturity date is 2032; with
23 the continued decline in MSA it's possible it could be stretched
24 out.

25 DELEGATE KILGORE: So then we made a good

1 decision when we securitized with the bond market. So these
2 have been downgraded?

3 MS. KIM: Yes. I also want to introduce you to the
4 Wells Fargo Optimal Service Group, and they're going to give
5 you a briefing and an update on the Endowment.

6 DELEGATE KILGORE: Thank you, Stephanie. This
7 is Mr. Lee?

8 MR. LEE: Yes. Thank you, and we appreciate the
9 work you all do on the Commission, and we appreciate your
10 having us here. We were actually in front of this group about
11 two years ago to the month. The logo on the left and our team
12 logo stays the same, and the logo on the right has changed
13 since the last time we were here two years ago. It's an
14 indication to me that we've been through quite a few years.
15 I'm sure I don't need to tell that to this group.

16 The group that is responsible as your consultant that
17 works with Treasury staff that's responsible for this portfolio in
18 addition with your staff here is based just down the road in
19 Williamsburg, and we've been doing this a long time in terms
20 of the consulting services that we provide. We think it's
21 important for this group to realize that we are not money
22 managers, we are not the ones that are selecting the bonds for
23 your Endowment portfolio. We are consultants, and we are to
24 help, and we are an objective third party, and you'll never see
25 any of the money managers with the Wells Fargo name in their

1 title, because our whole job is to be on your side of the table
2 and help select those managers.

3 We also do several other things, and one is to set the
4 investment policy statement, and that's really our guiding
5 document for what the managers can invest in. We help set
6 that and monitor that, and we help guide the asset allocation
7 process, the duration of the assets, what type of assets you go
8 into. We select the money managers and review that and
9 make changes and recommendations when that time comes.
10 We'll show you a couple of examples of that. Then we produce,
11 of course, quarterly performance reports, we inform the
12 Commission on how the investments are doing and monitor
13 that activity over time.

14 Up here on the top is the group that is directly
15 responsible for being your consultants, and that is the Optimal
16 Service Group. It's the same exact group that was here, with
17 the addition of one or two individuals from two years ago and
18 back nine or ten years ago, and the four highlighted are here
19 with us today. It's important to realize it's just not the
20 Optimal Service Group that you're consulting because we have
21 a lot of other people and you can't see the names, but the idea
22 being that in our home office in St. Louis we have a lot of
23 individuals that we call experts in different fields. We may call
24 upon them to verify some of the information that we have
25 specific questions about, may be unique questions and may be

1 unique questions in the municipal market or the taxable
2 market or taxable bonds or specific bonds that are in question.
3 We can go to these individuals for support.

4 Obviously, one of the objectives of the Endowment is to
5 conform with the regulations that are in place with the Code of
6 Virginia and the specific code to this Endowment. Of course,
7 that is to meet the annual cashflow needs of the Commission
8 so you can do your job and fund the different programs. We
9 want to be conservative but, of course, have optimal results. I
10 think this was displayed back in the 2008 environment. This
11 portfolio never had a negative year, including 2008, and the
12 portfolio was up two percent. Once again, two percent isn't a
13 great return, but if you can recall back to that environment in
14 2008 I know the Commission would be pleased to see that the
15 portfolio continued to generate a return, meeting all of these
16 objectives and maintaining high quality performing to the Code
17 and producing the highest return, given those restrictions.

18 I want to give you a quick review of 2009, which is on the
19 screen, and these are the capital market results and how do
20 we end the year in 2010, we've moved on here. You'll see the
21 yellow bars are some of the equity indices. You don't have
22 equity in your portfolio, but it's important to know what goes
23 on in different areas of the market. The blue are the different
24 fixed income indices, and then the red is the hedge fund
25 indices, and it's good to see how these results have backed up.

1 The nice thing to know is that 2010 was a nice positive year
2 coming off of 2009, which was an extremely solid year, and
3 then coming off of 2008. The year as a whole was very strong,
4 and some of the reasons for that more specifically is that the
5 macro economic data continued to improve in 2010 toward
6 year end. We started to see that sentiment improve in retail
7 sales and some of these other factors that came out, in
8 addition to some of the favorable legislation that came out
9 toward the end of the year, like the extension of the Bush tax
10 cut and some of those things, so a lot of that propelled the
11 market and you generated very solid returns. Small cap and
12 mid cap returns, smaller stocks did the best, and then
13 emerging markets. You can see here the emerging markets
14 were up about 19 percent. We think it's important for people
15 to realize that the U.S. is typically the leader coming out of a
16 global recession, and that was not the case in 2009 and 2010.
17 It's really not the developed world, but it's really a lot of the
18 emerging economies, like China, India and some of these other
19 countries in the emerging world. We think that's very
20 important for investors like yourselves to realize. It's not only
21 important to realize what the Fed is doing and what our
22 government is doing and what the capital markets here in the
23 U.S. are doing, but it's more and more important to realize
24 what is happening overseas, and not necessarily in Europe but
25 in a lot of these economies, a lot of these emerging economies.

1 That's something that we as your consultant are keeping a
2 close eye on.

3 Once again, the most important statistics for you are
4 here in blue. We did a different color for high yield, which are
5 junk bonds, and those are not in your portfolio but are part of
6 the fixed income market but don't pertain to your specific
7 portfolio. They did have a strong year but, of course, that's
8 lower quality and not allowed within your policy. You can see
9 the blue bars are lower than some of the equities indices. It
10 was a very strong return for the fixed income market. Your
11 portfolio had the second strongest return, 2009 being the
12 strongest return in the five-year time period or inception of
13 this portfolio, a very strong return. The bond market sold off
14 in December as investors got a little more confident in the
15 economy and sold out of fixed income and more and more into
16 equities and fixed income markets sold off. As a whole the
17 bond market is very positive, and yields on bonds actually
18 went down over the year. So, if we rewind back to this time
19 last year I don't think that many people thought that the
20 interest rate would go lower as opposed to going higher with all
21 the federal stimulus money and all the money pumped into the
22 economy. That was a little counter-intuitive to what we
23 expected, but definitely a nice tail wind for the portfolio and
24 some strong results.

25 We put this chart here just to show you that from the

1 bottom in 2009 right around the middle of March you can see
2 the cumulative return in the different markets. Once again,
3 you don't have exposure to all of these markets, but I think
4 investors have to realize that the 2009 and 2010 calendar year
5 has been a very strong return for the capital markets. We're
6 not back in a lot of different areas where we were at the
7 beginning of the financial crisis, but you can see fewer returns
8 to the tune of in the emerging market areas 142 percent. So
9 it's been quite a ride for the capital markets. It hasn't been
10 straight up, and we've got some bumps in the road the last two
11 years, but I think it's important for investors to realize that
12 we've had a nice climb back, and I think this affects our
13 outlook going forward.

14 We'll leave with you our outlook for 2011, for what it's
15 worth. It typically won't be bad, because that's exactly what
16 projections are, but we'll leave that with you for your
17 individual reading after we leave. In general, our outlook for
18 2011 is to have positive growth from an economic standpoint
19 to the tune of about three percent GDP. That's positive
20 growth, but it's not very robust, especially following a
21 recession. We think there are a lot of headwinds out there,
22 including unemployment and a few other factors. We believe
23 the economy will grow and it will be modest growth, and we
24 have it at about a two percent number until some of the
25 legislation that was passed in December by Congress went into

1 effect, and that pumped it up to about a three percent. We
2 think it added about a whole percent GDP in 2011. We think
3 the unemployment will come down some, but we think it will
4 remain high. We think inflation will pick up slightly, and we
5 don't think inflation will be a huge concern here in 2011, but
6 especially bond investors we want you to be aware that we do
7 expect interest rates to rise on the horizon. We need to be
8 mindful of that. Your portfolio, of course, is all fixed income,
9 and fixed income investments typically increase when interest
10 rates are rising.

11 We expect the stock market to be up but modest and
12 interest rates to move slightly higher, but not dramatically
13 from where they are today. On the fixed income side we give
14 you a couple of outlooks as to how we would position a
15 portfolio, and we will maintain all of this within the guidelines
16 of your investment policy statement, and then a couple of
17 recommendations for equities, and there is no equity in this
18 portfolio, but it's just for your information.

19 As far as your portfolio and how it stands today, you've
20 got two pieces to your portfolio. One is the tax-exempt part of
21 the portfolio, which must be invested in completely tax-exempt
22 investments, and that portfolio was just around \$330 million,
23 that part of the Endowment at the end of the calendar year
24 2010. You can see the managers that invest this portfolio.
25 We've highlighted here for you one change from the last time

1 we were here two years ago. We have replaced a manager that
2 had a difficult 2008, and they actually had the best 2009 in
3 the portfolio and a strong 2010, and right around November a
4 month or two ago we replaced them with income research and
5 management. Once again, I alluded to it at the beginning of
6 the presentation that we monitor the managers and will
7 recommend replacing managers when we see that's the best
8 thing for the portfolio, and this was one change we made in
9 2010. There won't be wholesale changes in the portfolio, but
10 where we see coming through the 2008 environment and into
11 2009 we really have to test the managers and see what's best
12 for the portfolio, and that's one change in the portfolio, but we
13 think the portfolio is well-positioned going forward.

14 On the taxable side of the portfolio these are investments
15 in bonds that are taxable, and you can see the portfolio was
16 right around 536 million at the end of the calendar year.
17 Since the last time we got together we also replaced one
18 manager on that side of the portfolio; Western Asset
19 Management out of California had some non-agency bonds in
20 the portfolio which are allowed but had a difficult 2008. We
21 replaced them actually back in 2009 with a firm out of Denver
22 called Denver Investments. One change in terms of managers
23 in 2009 and one change in 2010. The idea here is to show
24 that the portfolio is managed, continuously monitored and so
25 forth. Over the history of the program the portfolio has never

1 had a negative year, and it's made approximately more than
2 \$80 million in terms of investment gain over the life of the
3 program, so it continues to generate income and generate
4 gains for the Endowment over time.

5 Going forward we assure you that we will continue to
6 monitor the portfolio and make sure the cash needs are met
7 according to the Commission's requirements and make sure
8 the money managers stay in tune with the guidelines and
9 make sure the results are optimal. That is a review of how the
10 Endowment has done since the last time we were together. I'd
11 welcome any questions, and once again, we'll leave the outlook
12 for you.

13 DELEGATE KILGORE: Thank you. Does anyone
14 have any questions? Well, thank you very much.

15 Next we'll have the indemnification update.

16 MR. ROSENTHAL: Thank you, Mr. Chairman. The
17 2010 indemnification program payments into 2011, we
18 successfully concluded the vast majority of the 2010
19 indemnification program. We paid a little over 47,000 claims
20 totaling \$19 1/2 million during the 2010 Phase I program.
21 This represents 95 percent of the total available \$20.6 million
22 in the indemnification budget for 2010. We are currently
23 working with our mailing company, mailing the 2010 1099s to
24 our claimants, and those are on schedule for mailing the week
25 of January 17th.

1 Mr. Chairman, based on the previous comments, you'd
2 be pleased to know that Troutman Sanders successfully
3 completed its controlled audit with no exceptions recently. For
4 the 2011 program, we'd like to present the 2011 program
5 schedule for your consideration and approval. What we
6 propose is that between April 11th and April 13th we will mail
7 the verification forms to all growers and producers. I note that
8 the mailing will include information from quota owners that
9 the program will end in 2012. Between April 25 and April 28
10 we will have work sessions, as we have every year in Halifax,
11 Pittsylvania, Brunswick, Scott, Washington and Lee Counties
12 for the growers and producers who need assistance. On May
13 20th we propose that deadline for submission and verification
14 forms back to us. Between June 6th and June 10th we'll work
15 with VDACs on payments, and we expect payments to be
16 mailed from Treasury on June 13th to June 17th. The
17 schedule is similar to previous years, and we're mailing the
18 forms three weeks earlier, and we'll have work sessions as
19 well. We've kept the deadlines the same as previous times and
20 verification forms. We hope this will help our claimants to be
21 paid in the first round of payments. The payment schedule is
22 similar to previous years, and we expect round one payments
23 to go out around the same time as last year, which was June
24 15th, 2010. We expect your approval of May 20th as a
25 deadline for submission of verification forms.

1 DELEGATE KILGORE: Requesting approval of the
2 schedule?

3 MR. ROSENTHAL: Yes, sir.

4 DELEGATE KILGORE: I have a motion and a
5 second for approval of the schedule as laid out. Are there any
6 questions about the motion? Are you ready to vote? All in
7 favor say aye? (Ayes.) Opposed, no? (No response.)

8 MR. ROSENTHAL: Mr. Chairman, thank you, and
9 look forward to working with you for another year.

10 DELEGATE KILGORE: Next is the Agribusiness
11 Committee, which isn't on your agenda. I know that we have
12 some items to approve.

13 DELEGATE JOHNSON: Thank you, Mr. Chairman.
14 The members of the Agribusiness Committee met on December
15 14th in Roanoke to consider some requests, and you'll find
16 that starting on page number 28.

17 DELEGATE KILGORE: I appreciate that, Delegate
18 Johnson, and I'd ask that other members making a
19 presentation give us the page number so we can follow along.
20 We're on page 28.

21 DELEGATE JOHNSON: The requests were
22 considered, thirteen of those were approved. The ones that are
23 shown are the ones that were approved, thirteen of them
24 totaling \$3.1 million, and we get to spend \$3,071,257, leaving
25 a total of \$6,352 not spent. I'd move we approve the

1 recommendations of the Agribusiness Committee, approving
2 numbers 2274, 2256, 2253, 2244, 2259, 2262, 2254, 2243,
3 2258, 2263, 2251, 2261, and 2260. Those were the projects
4 that were approved. I move that we approve those. If there
5 are any questions, Tim Pfohl will attempt to answer them.

6 DELEGATE KILGORE: We have a motion and a
7 second to approve those in a block. Does anyone desire to
8 take one out of the block before we vote? All right, we have a
9 motion and a second. All those in favor say aye? (Ayes.)
10 Opposed, no? (No response.) The motion carries, and thank
11 you, Delegate Johnson, for your hard work.

12 DELEGATE JOHNSON: It's always a pleasure.

13 DELEGATE KILGORE: Now we'll hear from Senator
14 Puckett, Chairman of the Southwest Economic Development
15 Committee.

16 SENATOR PUCKETT: Thank you, Mr. Chairman.
17 The Southwest Economic Development Committee met this
18 morning and considered several time extensions on grants that
19 were previously approved and the re-purpose of the grants
20 that had been approved. There was a handout, and I don't
21 believe it's in your packet. We had a handout this morning
22 that we actually looked at all of these grants. There are three
23 items that need action from the Commission. The first of
24 those is the re-purpose grant for the Lee County IDA. There
25 was an error in the addition, and the figure really to re-

1 purpose the grant, \$476,000, and it's for machinery and
2 equipment purchases under new grant 2284. It's with
3 conditions I believe that track the TROF conditions as we give
4 out the money. I think that because of the nature of these
5 we'd better vote on them separately. I would move the
6 Commission that we approve the re-purpose of grant number
7 2284 as described.

8 DELEGATE KILGORE: We've got a motion and a
9 second for this particular project. Any discussion? All those
10 in favor say aye? (Ayes.) Opposed? (No response.)

11 SENATOR PUCKETT: The second re-purpose of
12 grant number 1368, 1426 and 1911, and combine these into
13 one re-purpose agreement concerning Gate City Clinch
14 Mountain Performing Arts Center. That doesn't have any
15 change as far as the money itself, all remaining balances and
16 conditions of the historic Gate City Theater, so we've combined
17 these grants into one. Those three grants that were out there
18 were all the same amounts and same conditions, and the same
19 conditions would apply. I'd move we approve that.

20 DELEGATE KILGORE: We have a motion and a
21 second from Senator Wampler. Any discussion? All those in
22 favor say aye? (Ayes.) Opposed? (No response.)

23 SENATOR PUCKETT: The last is a new grant that
24 we had approved with conditions. We held this grant over
25 before requesting that the Town of Nickelsville pursue other

1 funding options. We just learned last week that they had
2 received a community block grant award, and the Governor is
3 in the process of awarding that and signing it, and that hasn't
4 been completed. The condition you'll see is that upon signing
5 of the community block grant request the Tobacco
6 Commission would provide \$250,000 of funding to the
7 Community Multi-Use Medical Center facility, grant number
8 2112 in Nickelsville, Virginia. I would move that we approve
9 that.

10 DELEGATE KILGORE: We have a motion and a
11 second that we approve that grant. Any discussion? All those
12 in favor say aye? (Ayes.) Opposed? (No response.)

13 SENATOR PUCKETT: That completes my report,
14 thank you.

15 DELEGATE KILGORE: Next is Special Projects,
16 Senator Wampler.

17 SENATOR WAMPLER: Thank you, Mr. Chairman. The
18 Special Projects Committee met, and we had three action items
19 that we'll bring to the Full Commission, and I'll give a brief
20 update. I wish to say thank you to Delegate Byron for letting
21 me borrow her second pair of glasses so I can try to present
22 the report today.

23 I'd ask the Commission to turn to page eight first. The
24 Special Projects Committee met twice in its deliberations. The
25 subject of the first item on page eight is the recommendation

1 from the Special Projects Committee concerning seven grants
2 totaling \$20 million, and this is one of our signature projects
3 from the Full Commission, particularly from Special Projects.
4 You can see the seven projects that are referenced and the
5 corresponding dollar amounts.

6 Mr. Chairman, it would be my intention to go through
7 three items and take them up in a block, unless you want to
8 take them up separately.

9 The first item we would ask for approval on is the seven
10 megasites for industrial development projects that are
11 demonstrated on page eight totaling \$20 million.

12 DELEGATE KILGORE: Does anyone have any
13 questions on page eight concerning the megasite program?
14 Any comments?

15 SENATOR WAMPLER: Mr. Chairman, the next item
16 would be on page 17, I'd ask the members to go to page 17.
17 This is a grant that asks for a re-purposing or a re-scope of the
18 William King Regional Arts Center that had previously been
19 approved, and that's on page 18. I'm sorry, this is the CCAM,
20 and this has been a subject that has been before the Full
21 Commission for over a year, and it's been deliberated in
22 several committees. The issue before us this morning is not
23 the dollar amount, but rather how those dollars will be
24 awarded. To bring it into scope, the CCAM facility is in
25 support to finish the Commonwealth's commitment, 500

1 million investment and 500 direct jobs, the Commonwealth's
2 commitment, millions of dollars of investment and 500 direct
3 jobs for Rolls-Royce. Our investment will help the supply
4 chain within the footprint of the region. If you look at the
5 application I would remind you that what we're investing in
6 beyond the hard assets, and we'll be in a position to help with
7 the advanced manufacturing curriculum development. That
8 would be anywhere from as early as middle school to high
9 school juniors and seniors, and to be focused on 2+2
10 engineering career significant and the STEM program that
11 relates to the advanced manufacturing initiative. So Mr.
12 Chairman, that's what our investment does, and it helps with
13 the actual physical costs and helps provide a position that
14 would help us developing the workforce support CCAM.

15 Mr. Chairman, that took some effort to go through. That
16 is the best plan, we believe, we can support with our
17 investment in the Tobacco Commission. If there are any
18 questions on that, I would entertain those.

19 MR. NOYES: There is not any time contingency,
20 2.5 for physical assets, 1.5 for accommodation for a period of
21 three years, staff positions for employees or CCAM, and we can
22 get the advanced manufacturing curriculum and get the labor
23 profile for the Tobacco Commission focused on advanced
24 manufacturing careers.

25 SENATOR WAMPLER: Mr. Chairman, I would defer

1 to Secretary Cheng. I believe I have described the project that
2 you have continued to encourage.

3 SECRETARY CHENG: Absolutely. This would be
4 very important to the region, and the advanced manufacturing
5 efforts throughout the state are very important.

6 DELEGATE KILGORE: Any other questions from
7 members of the Commission?

8 SENATOR RUFF: Mr. Chairman, not a question but
9 a statement. One of the things we started working with Rolls-
10 Royce and other industries, we need to raise the level of the
11 workforce training in the Commonwealth. We think this is a
12 model for making that happen.

13 SENATOR WAMPLER: Mr. Chairman, if there are
14 no other questions concerning the \$4 million for CCAM, then I
15 would ask us to draw our attention to the re-purposing of the
16 William King Arts Center. These dollars were previously
17 approved, and they're asking for an opportunity to re-scope
18 the project, and the Committee recommended we approve that
19 request.

20 Those would be the three action items, and if there are no
21 other questions or comments on those, Mr. Chairman, I'd
22 move that we adopt those three items in a block.

23 DELEGATE KILGORE: It's been moved and
24 seconded that we adopt these three action items by the Special
25 Projects Committee. Let me also say thank you for your hard

1 work; you and the Special Projects Committee have met, and
2 it's very important for our mission. It's also important for
3 creating jobs in the tobacco region, and this will be a good
4 disbursement across the region, and these megasites are very
5 important, and working on these to meet challenges we have
6 in the future. I hope folks in the audience will realize that we
7 picked these localities, and I hope you all will step up to the
8 plate and help us all create jobs in our region.

9 DELEGATE BYRON: I'd just like to concur that
10 we're really spending a lot on investing in our region trying to
11 enhance it. This is certainly exciting; these opportunities will
12 be available for future generations in our area.

13 DELEGATE KILGORE: I also want to thank you for
14 the hard work on CCAM. That's been a while coming, but that
15 is certainly transformational for the whole region.

16 SECRETARY CHENG: Mr. Chairman, I think this
17 will send a great message, this CCAM, and this will send a
18 message throughout our state and the country and across the
19 Atlantic. They're all going to get the message, and hopefully
20 we'll have a lot more in the supply chain.

21 MR. MONTGOMERY: Concerning page 18, I'm on
22 the Barter Theater Board, so I'll have to personally recuse
23 myself.

24 DELEGATE KILGORE: We'll take that one out of
25 the block, then, and we'll vote separately on that.

1 SENATOR WAMPLER: Mr. Chairman, I would move
2 that items one and two, that being the megasites and CCAM,
3 be voted on in a block.

4 DELEGATE KILGORE: We have a motion and a
5 second. All those in favor of those two items say aye? (Ayes.)
6 Opposed? (No response.)

7 SENATOR WAMPLER: Mr. Chairman, on page 18
8 as previously described the re-purposing 445,000 for King
9 William Arts Center, I'd move adoption of the Staff
10 recommendation.

11 SENATOR PUCKETT: Second.

12 DELEGATE KILGORE: There's a motion and a
13 second. All those in favor? (Ayes.) Opposed? (No response.)

14 SENATOR WAMPLER: There is one last item of
15 business to bring before the Commission. That was to give the
16 Full Commission an update, and yesterday the Chairman
17 asked me to, as a result of the actions taken by Special
18 Projects Committee which met yesterday, the Chairman asked
19 me to brief the Full Commission on those actions. We directed
20 Staff to move forward with a request for proposal to begin the
21 process of the creation of a regional center towards a program
22 called EB5. You may recall we discussed this program at a
23 previous meeting, and with the creation of the EB5 program
24 we are asking for foreign investment to come to the
25 Commonwealth of Virginia, and the minimum threshold for

1 the investment is in the amount of \$500,000, and that
2 investment can be aggregated with other EB5 participants.
3 With each \$500,000 increments of financing we must have at
4 least ten jobs aggregated within five years, and those jobs are
5 within the footprint of the region. Those are U.S. jobs we're
6 creating with that foreign investment. We hope the Director
7 can move forward in the next 30 days with an RFP to begin to
8 get someone to go through this detailed process with the
9 federal government and create a regional center. We hope that
10 by summer we'll be in the business of helping our Governor
11 attract foreign investment to the Commonwealth within the
12 footprint. I don't believe we have to approve this, but with
13 your asking me to be brief, that's what I'm trying to do, is give
14 you an update where we are and what activity we're doing and
15 what direction we're going under that.

16 MR. NOYES: We'll make every effort to get the RFP,
17 consistent with the direction we received yesterday, out by the
18 end of this month.

19 DELEGATE KILGORE: I want to thank Secretary
20 Cheng for explaining this EB5 program and what happens now
21 with the foreign investments. So I appreciate your
22 presentation yesterday.

23 SENATOR WAMPLER: One last point for the Full
24 Commission. Mr. Secretary and the Governor will be on their
25 foreign trade mission this summer and fall, and we hope this

1 program is up and running, and we're able to have that as one
2 of the tools that we put in your tool box to take with you to try
3 to help create jobs for Virginia and in our case the footprint.

4 Mr. Chairman, that completes my report.

5 DELEGATE KILGORE: Thank you. Next is the R&D
6 Committee, Delegate Byron.

7 DELEGATE BYRON: I'll direct you to page 20 in our
8 book, and that shows the R&D Committee work through
9 October. The Committee has been working hard to go through
10 the application process, and not to mention the tremendous
11 amount of work that Staff has done to get us to that point to
12 go through the application review process, and also the great
13 amount of work our Staff has done through our attorney. We
14 don't have anything that has to be voted on. The Partnership
15 has four applications that are in the process of reviewing.
16 We've sent four more to them today, and we will consider all
17 eight of those when they come back from the Partnership at
18 our May meeting.

19 The deadline for new applications is April 8. I'd also like
20 to mention that some of those projects and some of the ones
21 that are important for the Commission, like the Center for
22 Advanced Engineering, we're going to have an opening soon. I
23 think it would be a great idea to have the Staff look at the
24 possibility for Commission members to go around, particularly
25 about the four research centers that we have, and to look at

1 some of our investments that have been made by the Tobacco
2 Commission. There is some great work that is being done. I
3 hope we can work on that in conjunction with our Full
4 Commission in May.

5 DELEGATE KILGORE: That's a good idea.

6 DELEGATE BYRON: That's the end of my report.

7 DELEGATE KILGORE: Is the deadline for your
8 applications May 12th?

9 DELEGATE BYRON: April 8th is the deadline on
10 new applications, and we will meet on May 12th.

11 DELEGATE KILGORE: Thank you. Next we'll hear
12 from Southside.

13 MR. OWENS: The Southside Economic
14 Development Committee met this morning at eight o'clock to
15 consider one application from Halifax County IDA for
16 \$1,052,158 to establish a research center (C-CARE), and the
17 Staff is recommending that award. So, I would move that we
18 follow that Staff recommendation of the Committee.

19 DELEGATE KILGORE: We have a motion and a
20 second. Any discussion or any questions of Mr. Owens? All in
21 favor say aye? (Ayes.) Opposed? (No response.)

22 MR. OWENS: That was very short.

23 DELEGATE KILGORE: Next we have the Executive
24 Committee, Senator Ruff.

25 SENATOR RUFF: Thank you, Mr. Chairman. We

1 met yesterday afternoon, there is only one action we need to
2 take. That is a transfer of \$5 million from R&D to the TROF
3 fund from the rest of the fiscal year.

4 DELEGATE KILGORE: Also advised Kathy we
5 would direct the Executive Director to put that money back in
6 R&D.

7 MR. NOYES: That's the understanding, Senator
8 Ruff.

9 DELEGATE KILGORE: You're making a motion to
10 transfer \$5 million from R&D to TROF.

11 SENATOR RUFF: Yes.

12 DELEGATE KILGORE: The reason for it is that our
13 job creation and deal closing, the funds that we have, it's
14 always good to get that money for creating jobs. There is a
15 motion and a second. Any more discussion? All in favor say
16 aye? (Ayes.) Opposed? (No response.)

17 Neal.

18 MR. NOYES: Thank you, Mr. Chairman. I have
19 three matters. After this session I will be in touch with the
20 legislative members of the Commission; there are
21 appointments, and terms are expiring June 30th. There are
22 some appointments, some are known as free-picks on the part
23 of the Governor, and others are from lists supplied by the
24 legislative members of the Commission. I just want to alert
25 you to that, and we'll doing that in March, so as you conclude

1 your activities here in Richmond the end of February, that
2 would be good.

3 The reserve program, we have a number of pending
4 applications, and there are limited funds available. The Staff
5 will begin processing applications received prior to the cut-off
6 date the end of October, and we'll begin to process those later
7 this week into next week. We expect that will exhaust the
8 existing balance fairly rapidly.

9 Finally, the Chair has directed that I provide a monthly
10 newsletter or an update to the membership of the
11 Commission. I will be sending that out electronically, and the
12 Staff has begun working on how that might be formatted. If
13 you would please e-mail me if there are particular items that
14 you wish to see in this monthly newsletter, I will make every
15 effort to incorporate them in the monthly newsletter. It
16 probably will get there a week or so into the next month as we
17 add up, for example, disbursements. If there are things after
18 you get the first one that you would prefer not to see in the
19 second one, please let me know. We'll be happy to delete
20 those. We'll try to work with you to try to get something on a
21 monthly basis that will meet your needs.

22 Finally, for non-legislative members of the Commission,
23 your financial disclosure forms were due yesterday at
24 midnight, but they are due this Friday, so please give them to
25 Staff and work with Stephanie to make sure she has those,

1 and she needs them. I don't want to hear from the Secretary
2 of the Commonwealth that people aren't doing what they're
3 supposed to be doing.

4 Box lunches are outside the room. Thank you, Mr.
5 Chairman.

6 DELEGATE KILGORE: We've made a lot of grants
7 here today, a lot of investment, and the only way the
8 community would know that is if we get the word out. So I
9 would encourage everyone to get that word out to the public
10 about what we're doing with the Commission money and
11 whether we're investing in megasites and re-purposing grants
12 and things of that nature, we've got to get that word out about
13 what we're doing here on the Commission, how we're trying to
14 revitalize the economy in our regions. So please get the word
15 out about what we're doing.

16 I know the weather today out there is a little bit suspect,
17 and I hope everyone has a safe trip home. Please leave your
18 travel vouchers on your desk.

19 Now, does anyone from the public have any comment
20 today?

21 DELEGATE JOHNSON: I would like to thank Mr.
22 Clark Lewis and his staff for keeping the farmers happy.
23 Secondly, I want to thank the Commission's Director and his
24 Staff who are doing a tremendous job for the Commission. We
25 just don't know how much work they do overtime in order to

1 keep things going. I know Michelle works overtime, and we
2 appreciate that so very much. So from all of us, we appreciate
3 the work you do, and thank you very much.

4 DELEGATE KILGORE: All right, I think that's all we
5 have to come before the Commission at this time, and as they
6 used to close Hill Street Blues, "Be careful out there."

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PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

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I, Medford W. Howard, Registered Professional

1 Reporter and Notary Public for the State of Virginia at large, do
2 hereby certify that I was the court reporter who took down and
3 transcribed the proceedings of the **Virginia Tobacco**
4 **Indemnification and Community Revitalization**
5 **Commission Full Commission Meeting when held on**
6 **Tuesday, January 11, 2011 at 10:00 a.m. at the Hilton**
7 **Garden Inn (Downtown), 501 East Broad Street, Richmond,**
8 **Virginia.**

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

11 Given under my hand this day of January, 2011.

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20 My Commission Expires: October 31, 2014.

21 Notary Registration Number: 224566