

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 Thursday, May 24, 2012

11 10:00 a.m.
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13 The Institute for Advanced Learning and Research
14 Danville, Virginia
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- 1 **APPEARANCES:**
- 2 The Honorable Terry G. Kilgore, Chairman
- 3 The Honorable Frank M. Ruff, Vice Chairman
- 4 Mr. Kenny F. Barnard
- 5 Ms. Gayle F. Barts
- 6 The Honorable Richard Brown - Secretary of Finance
- 7 The Honorable Kathy J. Byron
- 8 Mr. John R. Cannon
- 9 The Honorable Charles W. Carrico, Sr.
- 10 Ms. Mary Rae Carter - Deputy Secretary of the Department of
- 11 Commerce and Trade for Rural Development
- 12 Mr. David R. Cundiff
- 13 Ms. Linda P. DiYorio
- 14 Mr. Burgess Hamlet
- 15 Mr. Scott M. Harwood
- 16 Mr. Travis Hill - Deputy Secretary of the Virginia Department
- 17 of Agriculture & Consumer Services
- 18 The Honorable Joseph P. Johnson, Jr.
- 19 The Honorable Daniel W. Marshall, III
- 20 The Honorable Donald W. Merricks
- 21 Mr. H. Ronnie Montgomery
- 22 Ms. Sandra F. Moss
- 23 Ms. Connie Greene Nyholm
- 24 The Honorable Edward Owens
- 25 Dr. David S. Redwine, DVM

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

2 Mr. Kenneth O. Reynolds

3 The Honorable Ralph Smith

4 Mr. Robert Spiers

5 Mr. John Stallard

6 Ms. Cindy M. Thomas

7 Mr. Gary D. Walker

8 The Honorable Thomas C. Wright, Jr.

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10 COMMISSION STAFF:

11 Mr. Neal Noyes, Executive Director

12 Mr. Ned Stephenson, Deputy Director

13 Mr. Timothy S. Pfohl, Grants Program Administration
14 Manager

15 Ms. Stephanie S. Kim, Director of Finance

16 Ms. Sara G. Williams - Grants Program Administrator,
17 Southwest Virginia

18 Ms. Sarah K. Capps - Grants Program Administrator,
19 Southside Virginia

20 Ms. Carolyn Bringman - Staff Analyst

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1 DELEGATE KILGORE: I'll call the meeting to order.
2 We welcome you to our meeting, and this is a wonderful
3 building, as you can see. I do have some bad news. Senator
4 Wampler's father passed away, and in honor to William and
5 his service to the Tobacco Commission I'd ask for a moment of
6 silence. Thank you, all.

7 I'd ask our Executive Director to call the roll.

8 MR. NOYES: Mr. Barnard?

9 MR. BARNARD: Here.

10 MR. NOYES: Ms. Barts?

11 MS. BARTS: Here.

12 MR. NOYES: Secretary Brown?

13 SECRETARY BROWN: Here.

14 MR. NOYES: Delegate Byron?

15 DELEGATE BYRON: Here.

16 MR. NOYES: Mr. Cannon?

17 MR. CANNON: Here.

18 MR. NOYES: Senator Carrico?

19 SENATOR CARRICO: Here.

20 MR. NOYES: Mary Rae Carter?

21 MS. MARY RAE CARTER: Here.

22 MR. NOYES: Mr. Cundiff?

23 MR. CUNDIFF: Here.

24 MR. NOYES: Ms. DiYorio?

25 MS. DIYORIO: Here.

1 MR. NOYES: Mr. Hamlet?
2 MR. HAMLET: Here.
3 MR. NOYES: Mr. Harwood?
4 MR. HARWOOD: Here.
5 MR. NOYES: Deputy Secretary Hill?
6 DEPUTY SECRETARY HILL: Here.
7 MR. NOYES: Delegate Johnson?
8 DELEGATE JOHNSON: Here.
9 MR. NOYES: Delegate Kilgore?
10 DELEGATE KILGORE: Here.
11 MR. NOYES: Delegate Marshall?
12 DELEGATE MARSHALL: Here.
13 MR. NOYES: Delegate Merricks?
14 MR. MERRICKS: Here.
15 MR. NOYES: Mr. Montgomery?
16 MR. MONTGOMERY: Present.
17 MR. NOYES: Ms. Moss?
18 MS. MOSS: Here.
19 MR. NOYES: Ms. Nyholm?
20 MS. NYHOLM: Here.
21 MR. NOYES: Mr. O'Quinn is not here.
22 MR. NOYES: Mr. Owens?
23 MR. OWENS: Here.
24 MR. NOYES: Dr. Redwine?
25 DR. REDWINE: Here.

1 MR. NOYES: Mr. Kenneth Reynolds?

2 MR. REYNOLDS: Here.

3 MR. NOYES: Senator Ruff?

4 SENATOR RUFF: Here.

5 MR. NOYES: Senator Smith?

6 SENATOR SMITH: Here.

7 MR. NOYES: Mr. Spiers?

8 MR. SPIERS: Here.

9 MR. NOYES: Mr. Stallard?

10 MR. STALLARD: Here.

11 MR. NOYES: Senator Stanley?

12 SENATOR STANLEY: (No response.)

13 MR. NOYES: Ms. Thomas?

14 MS. THOMAS: Here.

15 MR. NOYES: Mr. Walker

16 MR. WALKER: Here.

17 MR. NOYES: Delegate Wright?

18 DELEGATE WRIGHT: Here.

19 MR. NOYES: You have a quorum, Mr. Chairman.

20 DELEGATE KILGORE: Thank you, Neal. I'm going
21 to call on Ned to introduce to you someone well-known to you.

22 MR. STEPHENSON: Thank you. It's my privilege to
23 introduce to you someone well-known to you, and that is Joe
24 Hines, who is with us today. He is a Southside Virginia man
25 and a professional engineer with the Timmons Group. Joe

1 has been at the table providing engineering and support for a
2 great many of the transactions that you are familiar with. In
3 particular, for recent mega-site efforts we called upon Joe's
4 talent and abilities, and he has been gracious enough to come
5 today and speak to you briefly about some of the challenges
6 that we all face in bringing mega-sites to fruition. So at this
7 time I'll call on Joe Hines.

8 MR. HINES: My name is Joe Hines. I'm a principal
9 in the economic development practices of the Timmons Group,
10 just outside of Farmville, Virginia. I grew up on a family farm
11 there.

12 Today my comments will focus on mega-sites and the
13 Tobacco Commission and are you prospect ready, why you
14 need to be prospect ready, who is your target audience, how
15 do your sites rank, what your competition is doing, and
16 making the Commission competitive.

17 Why do you need to be prospect ready? First of all, first
18 and foremost, opportunities lost. A lot of you might not be
19 familiar that Caterpillar was looking for sites. They came back
20 from overseas to the United States in November, and they
21 hired a site selection consultant in November and started
22 looking at sites in December. We went through a process with
23 clients in Southampton County and a site was qualified, and it
24 was a site ready and pad ready to go. Unfortunately, another
25 prospect pulled the trigger before we could get the site ready

1 in Southampton, and Caterpillar chose that prospect.
2 However, the state ran out of sites. What this all boiled down
3 to was that Georgia was ready to go, and they started
4 construction in March or late February. It was a \$200 million
5 investment and 1,400 jobs. There was a regional impact of
6 2.4 billion, but Virginia lost, and we didn't have a site ready to
7 go.

8 Opportunities won. Amazon.com announced in
9 December, and that's in Dinwiddie and Chesterfield, 135
10 million investment, 1,550 jobs.

11 This is an overview of the sites that we have in the
12 tobacco region. We have three sites in Southwest and four in
13 Southside. You have a pretty good product mix. North
14 Carolina right now has no mega-sites identified when people
15 are looking for sites, but at the end of the day you've got a
16 front line position as far as mega-sites in terms of funding
17 these programs.

18 If you'll look at the size of these sites they range
19 anywhere from 125 acres in Southwest up to 3,500 acres in
20 the Danville/Pittsylvania area, so it's a diversified mix. Each
21 site is unique. One thing when you deal with a prospect,
22 essentially they have something unique about them that
23 makes a certain site fit what they're looking for.

24 Now, recent project decision timelines. Timeliness is
25 important because when a project shows up and there is

1 contact made, the announcement is getting shorter and
2 shorter and shorter. Ace Hardware was four months,
3 Backcountry.com was nine months, Rolls-Royce was nine
4 months, Amazon.com was five, and Caterpillar was three.
5 That's from the initial contact to the announcement.

6 So, as you're preparing a site, who is the target
7 audience? There are three items, number one is the
8 prospects, number two is the site selection consultants, and
9 three is the preferred developers. In the case of the Amazon
10 deal the developers come by and work out a long-term lease,
11 and their inroads are very much a good process for the site
12 selection. So all three have objectives that they look for at the
13 site.

14 Now, what are prospects looking for? One is the best
15 business decision. A lot of the searches revolve around
16 logistics and ability to get to the market. So you narrow down
17 the site and narrow down the region. Will the community fit
18 their needs and their family needs and do they feel
19 comfortable in the area? Those are very important aspects in
20 choosing a site. Then, curb appeal and sense of place. A
21 website is very important in this process, because people will
22 look at that before they even contact you about the site. So
23 your website is very important.

24 What are the site selection consultants looking for? The
25 site elimination process, which can be in the website, 80 to 90

1 percent of search completed prior to the first contact. This is
2 what we call due diligence. Easy to visualize and incentives.
3 People want to know what's going on.

4 What are the developers looking for? Elimination of
5 unknowns or risks, certainty of schedule, times are very
6 important. Control of development costs. The site and
7 development costs has some risks associated with it, and
8 anyone will tell you that a site in the footprint has got to be
9 very indulgent. So what are developers looking for?
10 Elimination of unknowns or risks. Anything that creates a
11 risk can eliminate you. If there is any risk at all, that is
12 something that will eliminate you very quickly. Certainty of
13 schedule, that speaks for itself. If there is anything like a Civil
14 War site, obviously there are many things to consider. Can
15 you get to your power, your gas, your rail? Control of
16 development costs and what site has the most risks
17 associated with it. One organization bought 300 tons of stone,
18 and their construction schedule was more important than the
19 cost of the stone. Then, how quickly can I start construction.

20 I'll go through these rather quickly. Have these items
21 been addressed? Cultural resources, environmental site
22 assessments, wetlands, utilities/service providers,
23 geotechnical/subsurface investigation, zoning,
24 ownership/property control, easements and encumbrances.
25 You have to eliminate your unknowns before they eliminate

1 you.

2 Certainty of schedule, fast-track permitting process,
3 cultural resource issues cleared, turn around for
4 environmental permits, utilities/service providers and how
5 quickly can construction start.

6 Control of development costs, your costs and the
7 prospect's costs. Can the prospect assess cost of
8 development? Additional infrastructure requirements and
9 cost of utilities/service providers. It's all about costs, risks
10 and time. In this case they bought 300 tons of stone and
11 there was an issue with soil, but their construction schedule
12 was more important than the cost of the stone.

13 Now, where does your site rank? We have a tier system
14 set up. Tier one is essentially raw land, willing seller, no
15 control. Tier two is site controlled, zoned/comp plan minimal
16 due diligence. Tier three has a master plan, estimated costs,
17 significant due diligence. Tier four is certifiable site,
18 infrastructure, property issues cleared. And tier five is ready
19 to construct, permits in hand. So you can see the difference
20 between tier three and tier four, but the most important thing,
21 it takes time and money to move up each tier, with each step.
22 The test for coming into tier four and tier five, in tier five you
23 have to be pad ready.

24 Now, you ask why is site rank important? When you go
25 to tier four anywhere from nine to eighteen months. Tier five

1 is anywhere from three to nine months, and then tiers four
2 and five significantly increase odds of success.

3 Being prospect ready gets results as in the Southampton
4 Turner Tract, tier five, 18 submissions by VEDP, Caterpillar
5 Finalist and Enviva announcement. Dinwiddie Commerce
6 Park, tier four, 11 submissions by VEDP and then the
7 Amazon.com announcement.

8 Now, you're talking about pretty significant investments
9 when you talk about mega-sites, anywhere from 500 million
10 and 500 jobs to 4.2 million and 400 jobs. When you look at
11 most of these sites they were in the tiers three and four range,
12 a lot of them certified and some of them working with Danville.
13 Virginia was in the hunt for Toyota and Volkswagen, and one
14 had to do with timing issues, and Toyota went to Mississippi
15 and Volkswagen went to Tennessee.

16 Also what is important is small and medium sites, that's
17 pretty standard anywhere from maybe 100 acres, 27 million,
18 and 70 jobs or another medium site 100 to 500 acres,
19 anywhere from 200 million, 1,400 jobs.

20 USA Today, "Auto plants roar into overdrive. Demand
21 drives overtime, hiring." The significance is that both
22 Volkswagen and Toyota, they could have been here, and
23 Volkswagen had 500 jobs working 20 hours a day six days a
24 week, and Toyota had more than 1,000 jobs. That's pretty
25 significant, and we did have an opportunity; we just didn't

1 have the time and weren't ready.

2 So what is your competition doing? I can tell you, as you
3 probably know, they're being very aggressive right now.
4 Georgia has a GRAD Development Program. They have
5 certified eight mega-sites and five certified sites sold. North
6 Carolina has 20 certified parks for the North Carolina
7 Department of Commerce. South Carolina has 35 certified
8 sites. Georgia has 21 certified GRAD sites. And Mississippi
9 has 16 certified sites, four certified sites sold. The Tennessee
10 Valley Authority has eight certified mega-sites, five certified
11 sites sold. And CSX is in the process and conditions with
12 seven certified mega-sites and pre-certifying sites for fast-
13 track industrial development, anywhere from 100 to 1,000
14 acres.

15 How do we make the Commission competitive? The
16 mega-site program is good for the Commission and Virginia. I
17 think you need to get as many sites to the tiers four and five
18 levels as soon as possible, and that will put you in competition
19 with everyone else. You've got to realize it takes time and
20 money to be competitive and these are long-term goals. Some
21 people that make these, it's a visionary thing. This is, as I
22 said, long-term. You need to be ready to move quickly if
23 you're a selected site. The time line is getting shorter and
24 shorter and shorter; you need to be aware of that. Curb
25 appeal and sense of community are very important.

1 So, at the end of the day you have to ask yourself, do I
2 want to be number one or do you want to come in second?

3 Thank you very much for your time. If I can answer any
4 questions I'll be happy to.

5 DELEGATE KILGORE: We appreciate your time,
6 and I think it would be helpful to the Commission members if
7 we could get a copy of your presentation. I think that would
8 be helpful to us.

9 SENATOR RUFF: Joe, you said 80 or 90 percent of
10 the search is completed prior to the first contact or before
11 anybody looks at a site. Have you looked at the sites in the
12 Tobacco Commission? How are they from your perspective?

13 MR. HINES: The sites look very well, and we have
14 the information available. The information that I have, but I
15 have to make sure that those are getting this information out.
16 Making the information available is very, very important. The
17 Commission has done a good job in setting up the website
18 with this.

19 DELEGATE KILGORE: Thank you, it's been very
20 informative. We appreciate all this information.

21 Ned.

22 MR. STEPHENSON: If I may for the moment, I
23 would like to ask for a show of hands from members of the
24 Commission of those of you who were not on the Commission
25 in 2005 when we securitized the first bonds. Would you raise

1 your hands? Thank you. We have more than a majority of the
2 Commission who were not present when the first
3 securitization happened, and that was in 2005, and there was
4 another one in 2007. We have with us today a gentleman by
5 the name of Steve Kantor. Steve is with First Southwest, and
6 First Southwest is a financial advisor who provides advice to
7 the Treasury Board in structuring the tobacco securitization
8 bonds. The Virginia bonds have been in the news a little bit
9 recently, and I thought because it's been a long time since
10 we've talked any and all about securitization that it would be
11 helpful to the members of the Commission to have Steve
12 speak to you.

13 He's traveled to Danville from New York this morning to
14 be with you, and I appreciate him being available to do that.
15 So, Steve, welcome to the Tobacco Commission.

16 MR. KANTOR: Thank you, Ned, and Mr. Chairman.
17 My name is Steve Kantor. I'm the managing director of First
18 Southwest Company, and we're a financial advising firm, and
19 we work for the Commonwealth with a number of different
20 credits. I've been working since back in 2005 and 2007
21 setting up the tobacco bonds. Many of you, I understand,
22 were not on the Commission at that time. I'll take a few
23 minutes to talk about that and give you a little bit of an
24 update about what's happening in the news since that time.

25 As you recall, back in the late '90s all the states and

1 tobacco companies signed what's called the Master Settlement
2 Agreement. Under that Agreement the states would receive
3 monies from the tobacco companies based on how many
4 cigarettes were sold at that time, and that was to last a very
5 long time. Many states, including Virginia, decided not to take
6 the risk of depending upon tobacco consumption, in this case
7 for the next 60 years, and decided that they would decrease
8 the risk. How much money would you give me today in order
9 to get revenue today and into the future? Virginia was one of
10 the states that did that; New York, Michigan, Illinois,
11 California, Arkansas and other states decided not to do that.
12 South Carolina and North Carolina did not.

13 One of the risks, we recommended Virginia because
14 Virginia is one of the very conservative states, number two you
15 would have use of the money and could use it for
16 development. Number three, the uncertainty about the
17 stream of revenue. So, with the help of the Secretary of the
18 Treasury Board we set up a separate corporation and
19 partnered with the State, which was designed totally to be able
20 to sell these tobacco bonds and eliminate any liabilities from
21 the Commonwealth and the Commission. So this separate
22 corporation is actually the owner of the liability, and they
23 would not sell the bonds. We sold in 2005 and 2007 \$400
24 million approximately of bonds in 2005 and over a billion
25 dollars in 2007. These bonds are scheduled to mature in

1 2047. So there are many, many more years that bonds are
2 outstanding and moving forward. The bonds were based
3 solely on investments based on certain assumptions. One was
4 that people would continue smoking cigarettes. Cigarette
5 consumption is not based on Virginia but on a national basis.
6 All the investors were well aware of this. We hired a
7 nationally recognized organization specializing in tobacco
8 consumption projections. They projected cigarette
9 consumption not only today but for the next four years. We
10 also assumed that you would earn investment earnings on the
11 bonds if you were holding them. Then, last but not least, we
12 made an assumption about disputed payment accounts. As
13 you are well aware, tobacco consumption has declined over a
14 period of time. The good news for investors is that we
15 projected a decline in tobacco consumption. The bad news for
16 investors, and I have a graph on page four of the presentation,
17 is that the amount of tobacco consumption has declined
18 greater than we originally thought or originally anticipated.
19 The blue line at the top is what we projected at the time of the
20 bond issue and the green are the current projections of
21 tobacco consumption, and you can see there is a difference.

22 What does that difference mean? It means that less
23 money is flowing through the MSA to the states. There is a
24 gap in that amount of money from what was projected,
25 currently projected forward. What does that mean to the

1 investors? It means to the investor that the bonds are not
2 going to pay off as quickly as we originally anticipated. It does
3 not mean that there is going to be a default, it just means
4 they're not going to be paid as quickly. We anticipated this
5 when we designed the bond issue. We know there is
6 fluctuation in tobacco consumption, and the investors were
7 well aware of it when they purchased the bonds. What does it
8 mean to this Commission? Nothing, because when you sold
9 this risk back in 2005 and 2007 you eliminated yourself from
10 that risk and you took a very conservative position. In effect,
11 there is nothing the Commission can do or could do about
12 tobacco consumption or the MSA, because you sold that risk
13 to someone else.

14 On page number five, a little bit about the three major
15 companies, Philip Morris, Reynolds and Lorillard and what the
16 projections are in terms of tobacco consumption. As you can
17 see, all three companies have projected cigarette consumption
18 is going to decline, and we have incorporated that into our
19 projections going forward.

20 A second factor which is not as well publicized, we
21 assumed an interest rate earning on the bonds. On page six I
22 show a little graph of what has happened to interest rates. As
23 most of you know, the market has declined in terms of the
24 interest rates, which for many people is not so good because
25 we expected to be able to earn a certain amount or percentage

1 on our bond holdings, and that has declined. The second
2 thing that has happened is that in Virginia's case we
3 negotiated a guaranteed rate of interest with a company
4 named Lehman Brothers, as some of you may know, and they
5 went out of business. There is currently litigation with
6 Lehman Brothers trying to recover the interest rate that we
7 would have gotten had they stayed in business. But in the
8 meantime these assets are earning less than we originally
9 projected. So the balance we anticipated for bond holders is
10 not as great as we assumed.

11 The third factor in terms of decline is the disputed
12 payment account. Under the MSA agreement each of the
13 tobacco companies are entitled to maintain a disputed
14 payment account and then have a discussion with an
15 arbitrator whether or not they are actually owed payments.
16 We know that payments have been made by the tobacco
17 companies but not available to bond holders. Over time the
18 disputed payment account is far greater than what the
19 nationally recognized consultants projected. So by the time
20 the payments are there they're not accessible to Virginia or the
21 bond holders.

22 On page eight you have the balances that are in the
23 disputed payment account. This year Virginia received \$117
24 million in their share, which was almost a two percent
25 increase even though tobacco consumption declined. The

1 disputed payment account has not been released. So our
2 timing has been a little bit off in terms of seed money and
3 passing money on to the investors.

4 You also know that there is litigation going forward with
5 the NPM adjustment arbitration status. There is a lot of
6 litigation involved concerning tobacco consumption, and the
7 answer is this litigation continues, and I believe it will take
8 years for this litigation to resolve, and no one really knows
9 how it's going to turn out or whether the tobacco companies
10 will pay more money.

11 Most importantly for the state of Virginia the question is
12 how have the bonds been performing? On page 11 I give a
13 brief summary on how that actually has gone. Under the
14 current projections, and that assumes that tobacco
15 consumption declines, we suspect there will be sufficient
16 money to pay investors on the Virginia bonds until 2047, and
17 that's a long time. But under current projections we have
18 enough until maturity. I pointed out lots of things could
19 happen between then, but with these bonds you can be secure
20 in your investment; so far we have enough money projected
21 through 2047. The reason why we did that is because Virginia
22 took a very conservative approach as to how much money
23 we're going to leverage. There are other states that issued
24 bonds through the MSA and took a more aggressive approach,
25 and those bonds are in more substantial financial difficulty.

1 There is a lot of discussion about tobacco bonds in general;
2 each tobacco bond is different. Virginia investors took a very
3 conservative approach, so you have enough money to be paid
4 until 2047.

5 Mr. Chairman, I will welcome the opportunity to come
6 back in 2047, and we'll see what we can do about it.

7 DELEGATE KILGORE: I'm going to retire the year
8 before that.

9 MR. KANTOR: Lastly, let me give you a little bit of
10 an idea what you can expect going forward. Consumption
11 seems to change continually over time, and there'll be some
12 adjustments, but there is an expectation that there will be
13 some frustrations. There will be continued news publications
14 about tobacco bonds, generally around the middle of April,
15 because reports are made annually. So once a year tobacco
16 companies make suggestions and they get some publicity, and
17 then people talk about it and should go away very shortly.
18 The rating agencies, which include Standard & Poor's,
19 Moody's and Fitch ratings, they will continue to report based
20 on tobacco consumption, and once again once a year they'll
21 have some updated projections publicity from that. Last, but
22 not least, there'll be continued litigation both against and for
23 the tobacco companies and also about many provisions of the
24 Master Settlement Agreement.

25 I included some things in the back of the presentation.

1 That concludes my presentation. If there are any questions I'll
2 be glad to discuss those.

3 DELEGATE KILGORE: We appreciate all that
4 information and your comments, and thank you for coming.
5 All right, thank you very much.

6 Clark Lewis needs no introduction, Ned.

7 MR. LEWIS: Mr. Chairman and members of the
8 Commission, good morning. For those of you who don't know,
9 I'm Clark Lewis with Troutman Sanders with an update on the
10 2012 tobacco program.

11 We're off to a great start, and verification forms and
12 payments were mailed on April 12 and 13 of this year. The
13 additional deadline for the Commission was last Friday, May
14 18th. To date we've received approximately 45,700 claims,
15 which on average is about where we have been in the last
16 several years. We're very pleased with the responses. We
17 expect the first round of payments for the program to be
18 mailed to the Department of Treasury the week of June 11,
19 2012.

20 As you all know, this is the final year of the Phase I
21 program. We received a few calls on this, but for the most
22 part people have continued to express their appreciation and
23 understanding that the Indemnification obligation is coming to
24 an end.

25 At the January meeting the Commission voted in favor of

1 a resolution marking the end of the Indemnification program
2 June 30, 2012, the final deadline for the acceptance of
3 verification and payment forms and applications for payment.

4 At this time we would respectfully request that you again
5 reaffirm that the June 30, 2012 be the extended and final
6 deadline for the 2012 program year. We plan to make the
7 second round of payments in August. In the coming months
8 we will be working closely with the Commission Staff, Neal,
9 Ned and Stephanie, to establish procedures and internal
10 controls to wrap up the program in the final year. If you have
11 some very good ideas how we can ensure a smooth transition
12 we welcome all ideas to make sure that we have a smooth
13 transition to wrap up the Indemnification year.

14 Mr. Chairman, that's my motion to reaffirm the June 30,
15 2012 final deadline for the 2012 program year.

16 DELEGATE KILGORE: That's the motion.

17 MR. OWENS: Second.

18 DELEGATE KILGORE: All in favor say aye? (Ayes.)
19 Opposed? (No response.)

20 MR. LEWIS: Thank you.

21 DELEGATE KILGORE: Thank you, Clark, for the
22 great job you all have done over the years.

23 All right, Frank Ruff.

24 SENATOR RUFF: Mr. Chairman, the Executive
25 Committee met last week and yesterday, and I'll go through

1 those. The first one deals with the Indemnification policy on
2 page 8. Under current regulations, heirs for Indemnification,
3 our policy is not to do anything until everybody is notified and
4 give them the opportunity to give it out on a pro-rated basis.
5 If they deserve a quarter of it, they can get that. So I would
6 move that what is contained on page 8 be accepted.

7 DELEGATE KILGORE: We have a motion and a
8 second. All those in favor say aye? (Ayes.) Opposed? (No
9 response.)

10 SENATOR RUFF: Mr. Chairman, the next one deals
11 with Strategic Plan on pages 38 through 43, and it has taken
12 a couple of years to bring that plan current, and that has
13 occurred during the last several months. I hope everyone has
14 had a chance to look at it. I would move that that Strategic
15 Plan be accepted.

16 MR. OWENS: Second.

17 DELEGATE KILGORE: We have a motion and a
18 second. Any more discussion? All those in favor say aye?
19 (Ayes.) Opposed? (No response.) Motion is carried.

20 SENATOR RUFF: Next we dealt with what we're
21 going to draw from the Endowment. The motion is:

22 “Resolved, that the Commission hereby requests that for
23 the fiscal year ending June 30, 2013, the Treasury Board of
24 Virginia pay from the Endowment to the Fund a sum equal to
25 10 percent of the Endowment value as of February 28, 2013,

1 that the said payment be made not later than June 30, 2013,
2 and that the amount so paid NOT be subject to Restrictions.”

3 During the last couple of years we've drawn 15 percent
4 down and we don't want that amount to go down. We want to
5 have a good budget this year, so 10 percent is the amount.

6 DELEGATE KILGORE: We had discussions on that
7 in the Executive Committee, a lot. We have a motion and a
8 second. Any further discussion? All those in favor say aye?
9 (Ayes.) Opposed? (No response.) Motion carries.

10 SENATOR RUFF: Mr. Chairman, the next three
11 deal with the Attorney General's office, in-house dealing with
12 our legal needs, and in the course of the last year we've had to
13 make some changes. They do not believe they have the
14 capacity with their work load.

15 “Be it resolved, that the Commission requests that the
16 Office of the Attorney General procure legal services to the
17 Commission under a retainer of the Office of the Attorney
18 General's choosing.”

19 DELEGATE KILGORE: That was discussed in the
20 Executive Committee at the last two meetings.

21 SENATOR RUFF: That's the motion.

22 DELEGATE MARSHALL: Second.

23 DELEGATE KILGORE: Any discussion on that?
24 That means we have a firm representing us so that when we
25 conduct certain transactions and need legal counsel, then

1 we'll have somebody who can help us.

2 MS. CARTER: Will we have general counsel with
3 the firm?

4 DELEGATE KILGORE: Designated by counsel. Any
5 more discussion? We have a motion and a second. All those
6 in favor say aye? (Ayes.) Opposed? (No response.)

7 SENATOR RUFF: Mr. Chairman, the next one deals
8 with the issue that Mr. Kantor talked about, arbitration.

9 “Resolved, that the Commission shall continue to pay
10 invoices received from Kaufman and Canoles that are
11 approved by the Office of the Attorney General for legal
12 services rendered to the Commonwealth. Such payments
13 shall be charged against the \$1 million authorized by the
14 Commission for this purpose on January 12, 2010 until such
15 authorization is depleted, and thereafter shall be limited to
16 \$350,000.00.”

17 Last year the Attorney General's Office did not have the
18 resources to pay the arbitrator to deal with that settlement
19 issue. We felt that we were getting a chunk of that money and
20 did not successfully arbitrate it, so we made a commitment a
21 year and a half ago to put a million dollars toward that; this is
22 another 350,000.

23 DELEGATE KILGORE: Any discussion? We have a
24 motion.

25 MR. OWENS: Second.

1 DELEGATE KILGORE? Any other discussion? All
2 those in favor of the motion, let it be known by saying aye?
3 (Ayes.) Opposed? (Three noes.)

4 SENATOR RUFF: The next one is that the
5 Committee recommends approval of the FY 2013 budget on
6 page 87, with one amendment to transfer \$320,000.00 from
7 General Account to Administrative for legal fees related to the
8 MSA arbitration.

9 DELEGATE KILGORE: That's 350,000 addition to
10 Administration?

11 SENATOR RUFF: Yes. I so move.

12 DELEGATE KILGORE: To approve the budget and
13 that transfer. We have a motion --

14 MS. MOSS: Second.

15 DELEGATE KILGORE: Any other discussion on the
16 budget? All those in favor say aye? (Ayes.) Opposed?

17 DELEGATE WRIGHT: No.

18 SENATOR RUFF: Finally, Mr. Chairman, pages 13
19 through 20, the Committee recommends approval of a \$10
20 million grant as described by the draft Incentive Agreement on
21 page 13, subject to final edits by Commission Staff that we
22 have to make.

23 This is the agreement in which the Tobacco Commission
24 invests in the pipeline running from Pittsylvania County to
25 Brunswick County and all the permits and for the regulators

1 and for construction of the Dominion Power Plant in
2 Brunswick County. In addition to that, vastly expands the
3 capability for communities within that region to have access to
4 natural gas when they approach industry mega-sites to come
5 to the area as well as some towns along the way that would
6 like to get that gas. I would so move.

7 DELEGATE KILGORE: We have a motion and a
8 second. Any discussion?

9 MR. OWENS: Have we had counsel review that?

10 DELEGATE KILGORE: Have we had legal counsel
11 look over this agreement?

12 SENATOR RUFF: Yes, sir.

13 DELEGATE KILGORE: All in favor say aye? (Ayes.)
14 Opposed? (No response.)

15 SENATOR RUFF: Mr. Chairman, that concludes the
16 work of the Executive Committee.

17 DELEGATE KILGORE: Thank you, Senator Ruff.

18 Now we'll hear from Delegate Byron, R&D.

19 DELEGATE BYRON: Mr. Chairman, we don't have
20 anything in front of the Commission. The Committee met last
21 week and we sent four applications to VEDP, the Partnership,
22 for their review as the policy dictates. We've scheduled a
23 policy work session for the Committee on June the 8th. That's
24 June 8, 10:30 at the Hotel Roanoke. It's a review session to
25 look at things and do what we need to get ready for the next

1 applications. Today the Committee has approved 21 grants of
2 over \$39 million.

3 That concludes my report.

4 DELEGATE KILGORE: Thank you, Delegate Byron.
5 Delegate Marshall.

6 DELEGATE MARSHALL: Thank you, Mr.
7 Chairman. The Special Projects Committee met this morning
8 at 8:00 and we approved one motion that needed to come
9 before us, and that's on page 49 of your books. The motion is
10 the Committee moves the approval of revisions to grant
11 number 2083 in favor of VCU in accord with the revised
12 application on page 49. And that's a revision of the grant. We
13 approved some grant funds several years ago, and they just
14 put it back up into, it's just not new, is what I'm saying. I'd
15 so move.

16 DELEGATE KILGORE: It's been moved and
17 seconded. Any discussion? All in favor say aye? (Ayes.)
18 Opposed? (No response.)

19 All right, Mr. Owens, Southside Economic Development.

20 MR. OWENS: Thank you, Mr. Chairman. Page 71
21 of your booklets, on May 15th Southside Economic
22 Development Committee met in South Boston at the
23 Education Center and we reviewed 12 applications. We have a
24 recommendation on nine of them, page 31. If there is no
25 objection I'd like to move that we approve the

1 recommendations in a block.

2 DELEGATE KILGORE: If you would look at those
3 and see if anybody has any item on here you want to take out
4 of the block. If not, we have a motion and a second. Any
5 more discussion? I'm sure you all took time to go through all
6 of these.

7 MR. OWENS: Very thoroughly.

8 DELEGATE KILGORE: All those in favor say aye?
9 (Ayes.) Opposed? (No response.)

10 MR. OWENS: That's my report.

11 DELEGATE KILGORE: Thank you.

12 David Redwine, Southwest Economic Development
13 Committee.

14 DR. REDWINE: Thank you, Mr. Chairman.
15 Southwest Economic Development Committee met yesterday
16 afternoon. If you would turn to page 80 in your booklets. We
17 had several items to consider yesterday. The first item, there
18 are two separate items for the full Commission to consider
19 today, the first of which is grant number 2539 to the Virginia
20 Coalfield Coalition for \$6 million effective July 1st, 2012. This
21 is a grant that needed to be expedited in order to get it in. It's
22 a very important project, and the Committee considered that
23 at length.

24 I would make a motion today that the Commission would
25 approve 2539 for \$6 million.

1 DELEGATE JOHNSON: Second.

2 DELEGATE KILGORE: What does this do for a lot
3 of the counties in Southwest Virginia?

4 DR. REDWINE: This entire project will cover five or
5 six or more counties, and they're very rural, to implement 4G
6 technology which is Broadband, which is extremely efficient
7 and much needed in that area. We think it will impact the
8 economy in the region.

9 DELEGATE KILGORE: The contract between
10 Verizon and the Coalfield Coalition had to be operational by
11 October 1st?

12 DR. REDWINE: Yes.

13 DELEGATE KILGORE: I have a motion and a
14 second. Any more discussion?

15 MR. MONTGOMERY: Mr. Chairman, I will abstain.

16 DELEGATE KILGORE: Mr. Montgomery abstains.
17 All those in favor say aye? (Ayes.) Opposed? (No response.)

18 DR. REDWINE: The second item today involves
19 grant 1958 and involves King's College. We heard significant
20 discussion yesterday in a report involving King's and the
21 King's Medical School. After the discussion and reports the
22 Committee recommended that the grant be amenable to
23 reimbursement of up to \$1 million of expenses, and under
24 these conditions the expenses are approved by Staff. They're
25 in the restrictions imposed by the bond indenture, and they're

1 presented to Staff for reimbursement not later than 12-31-
2 2012. These expenses are up-front; reimbursement should
3 allow this project to go a little bit further and allow them to
4 move further into their project and hopefully get some
5 concrete information back to us. We instructed them we'd like
6 to have this report back to us on the status of the project by
7 12-31-12, which we'll be taking a hard look at it at the
8 January meeting. The Committee recommended this \$1
9 million balance of expenses under those restrictions, and I'll
10 make that motion.

11 DELEGATE JOHNSON: Mr. Chairman, that's not
12 the grant for one million that --

13 DELEGATE KILGORE: -- It's part of the previous
14 grant; it's not new dollars, but it's part of the previous grant
15 we made in 2009.

16 Ned, is that right?

17 MR. STEPHENSON: Yes, sir.

18 DR. REDWINE: Not to exceed \$1 million.

19 DELEGATE BYRON: Can we get an overview of
20 where we're at with the college? Is this the building or
21 expenses, or where are we?

22 DELEGATE KILGORE: We had an update
23 yesterday. There is a new King's College team, involving the
24 School of Medicine involving the minority or the Virginia
25 Corporation, minority King's College, and we have four

1 members of the 12 member board now, and it's set up a lot
2 different. They're going through the process involving
3 accreditation, and there's a \$25,000 cost for that. They're also
4 making a nationwide search for a dean for this school.
5 They've made a lot of changes.

6 MR. NOYES: They're not under construction yet.

7 DELEGATE KILGORE: We have a motion and a
8 second, and in clarifying Delegate Johnson's question, it's not
9 to exceed one million.

10 So we have a motion and a second. All in favor say aye?
11 (Ayes.) Opposed? (No response.)

12 DR. REDWINE: There are a few small items, but
13 other than that, that concludes my report. We did have a few
14 changes, and we transferred some around and we de-obligated
15 some.

16 DELEGATE KILGORE: You got back some money
17 yesterday.

18 DR. REDWINE: Yes. Those who wish to apply at the
19 next round in Southwest, that's very important. We spent
20 some money, but we recouped a lot of money and have that
21 available for the next round.

22 DELEGATE KILGORE: Neal, you're up.

23 MR. NOYES: I want you to be aware the Staff has
24 made very significant progress. We've been working on this
25 for the last couple of years, and we're getting close to being

1 able to publish the outcome analysis on what we want. We're
2 deeply appreciative of the cooperation we're getting from past
3 grantees, and they're reporting to us on what actually
4 happened on some of the older projects.

5 The second matter, within about an hour ago I've been
6 asked to make arrangements for representatives from CCAM
7 to make a presentation to the Board at our September
8 meeting. That's something to look forward to.

9 Thank you, Mr. Chairman.

10 DELEGATE KILGORE: Do we have any public
11 comment? Anybody else who would like to address the
12 Board?

13 MR. MEAD: Mr. Chairman and ladies and
14 gentlemen of the Board. My name is John Mead. I'm CEO of
15 Master Gage and Tool Company in Danville. Our company
16 has been in business for 26 years providing services to
17 manufacturing companies throughout Virginia and the
18 Southeast. My purpose for being here today is to ask your
19 consideration for the funding of the expansion of the Precision
20 Machine Technology Program at the Danville Community
21 College. Because of the scope of our business we're in
22 constant contact with manufacturing companies. You're
23 aware our country has suffered significant decline in
24 manufacturing. I can tell you that those of us who have
25 survived are doing very well today. I think you heard what

1 was reported earlier this morning, some of the strong statistics
2 that are occurring to companies that are doing manufacturing.
3 I can tell you from my personal experience that one of the
4 important limiting factors is the inability or lack of skills of the
5 work force. We regularly hear from customers as to their need
6 for more skilled machinists. As recently as last week I was
7 meeting a customer in Alexandria, and his company is a
8 precision machine shop providing manufacturing components
9 for a government entity. He was discussing the fact that he
10 needed more skilled machinists to meet the needs of his
11 customers. I described the Machine Technology Program at
12 Danville Community College, and he immediately requested
13 contact information for people here. His comment was there
14 is nothing available in this region.

15 I'd like to also give you another example of the strengths
16 and reputation of the current in the career opportunities that
17 Danville Community College Precision Machine Technology
18 Program has provided graduates to manufacturing companies
19 in the region. I can go back 25 years ago, and I remember
20 meeting with management of Newport News Shipbuilding, and
21 as soon as this man recognized the fact that I was from
22 Danville he said, I was a graduate of the Danville Precision
23 Machine Technology Program in 1950, and I consider that to
24 be an important component in my career here at Newport
25 News Shipbuilding.

1 One organization in North Carolina, which is 45 minutes
2 from here, and they're currently involved in a \$30 million
3 expansion program to launch a new program for General
4 Motors. One of the members of the engineering team for this
5 new product is a 2002 graduate of the Danville Community
6 College Precision Machine Technology Program and a resident
7 of Halifax County. This young man is responsible for \$3 1/2
8 million worth of machine tool purchases in the
9 implementation of this program.

10 These are the kinds of skills and career opportunities
11 that this program is providing these people in the region.
12 From what I understand there is no program available other
13 than what's available here at Danville Community College
14 anywhere in the State of Virginia. I'm told today Danville
15 community College has 43 applicants for the semester and
16 only able to take 25.

17 So, I'm before you this morning asking you for your
18 consideration for the program to expand this program so we
19 can meet these kinds of needs I just talked about. Danville
20 Community College has prepared a preliminary outline of a
21 plan that will be available here, and I thank you very much for
22 your time. If there are any questions I'll be glad to answer
23 them.

24 DELEGATE MARSHALL: Mr. Chairman, if I may. I
25 appreciate your coming up, Mr. Mead. This program is

1 available at Danville in the community college, and they're
2 graduating 25 people a year. Every one of those has gotten a
3 job. All of these are \$50,000-plus jobs upon completion of
4 school. As I understand it there is a waiting list of almost 40
5 people, so they could place 250 people. So we have a program
6 here at Danville Community College that is really working. We
7 need to figure out how we can help them by increasing that by
8 at least two-fold. I would encourage anyone to go over and
9 take a look at it, but this is a very good program, as you've
10 heard from Mr. Mead.

11 DELEGATE KILGORE: Thank you very much for
12 that information. Is there anyone else? All right.

13 We have to approve the Minutes. All those in favor of the
14 Minutes say aye? (Ayes.)

15 All right. Any more comments?

16 DELEGATE MERRICKS: I'd just add to what Danny
17 said. During the last two weeks I've been traveling in
18 Mississippi and Alabama and Georgia. I happened to see an
19 ad in Alabama, a guy that has 30 jobs and talked about
20 needing skilled workers and mentioned the fact that everybody
21 wants a corner office, nobody wants to build the corner office.
22 The problem is for skilled labor. He also mentioned the fact
23 that -- and there's some truth to that. I would echo what
24 Danny says about the machine shop program here in Danville.
25 I think we've got a great opportunity to create a pipeline like

1 for Rolls-Royce and that type of thing in training those skilled
2 workers.

3 DELEGATE KILGORE: All right. Our next
4 Commission meeting date is Thursday, September 25, 2012,
5 place to be determined. We'll look forward to hearing about
6 where that will be.

7 Lunch will be served for the Commission members, and
8 the VCU tours will start here at 12:00 in this room.

9 Do I have a motion that we adjourn? We're adjourned.

10

11 PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

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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, May 24, 2012 at 10:00 a.m. at the Institute for Advanced Learning, Danville, 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 4th day of June, 2012.

Medford W. Howard

Registered Professional Reporter

Notary Public for the State of Virginia at Large

My Commission Expires: October 31, 2014.

Notary Registration Number: 224566