VIRGINIA TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION COMMISSION

701 East Franklin Street, Suite 501

Richmond, Virginia 23219

Long Range Plan Committee Meeting

Wednesday, November 8, 2006

12:00 p.m.

Solitude Meeting Room

Inn at Virginia Tech

Blacksburg, Virginia

APPEARANCES:

The Honorable Kathy J. Byron, Committee Chairman

Mr. Thomas W. Arthur

The Honorable Allen Dudley

The Honorable Frank M. Ruff

Ms. Evelyn Whitley

COMMISSION STAFF:

Mr. Neal Noyes, Executive Director

Mr. Ned Stephenson, Director of Strategic Investments

Mr. Timothy Pfohl, Grants Program Administration Manager

Ms. Britt Nelson, Grants Coordinator - Southside Virginia
Ms. Sarah Griffith, Grants Coordinator - Southwest Virginia
Ms. Stephanie Wass, Director of Finance

OFFICE OF THE ATTORNEY GENERAL
Mr. Francis N. Ferguson, Deputy Attorney General, Counsel for the Commission

DELEGATE BYRON: All right, welcome everybody, to our Long Range Plan Committee Meeting. I'll call the meeting to order.

Neal, would you call the roll, please?

MR. NOYES: Mr. Arthur?
MR. ARTHUR: Here.
MR. NOYES: Delegate Byron?
DELEGATE BYRON: Here.
MR. NOYES: Delegate Dudley?
DELEGATE DUDLEY: Here.
MR. NOYES: Secretary Gottschalk?
SECRETARY GOTTSCHALK: (No response.)
MR. NOYES: Mr. Montgomery?
MR. MONTGOMERY: (No response.)
MR. NOYES: Senator Puckett?
SENATOR PUCKETT: (No response.)
MR. NOYES: Senator Ruff?

SENATOR RUFF: Here.

MR. NOYES: Secretary Wagner?

SECRETARY WAGNER: (No response.)

MR. NOYES: Senator Wampler?

SENATOR WAMPLER: (No response.)

MR. NOYES: We have a quorum, Madam Chairman.

DELEGATE BYRON: We have a representative, Ms. Whitley, with us. Thank you.

Do we have a motion to approve the Minutes? I'm sure you all read through them.

SENATOR RUFF: I move we accept the Minutes.

MR. ARTHUR: Second.

DELEGATE BYRON: There is a motion and a second to approve the Minutes of our last meeting. All in favor? (Ayes.) Opposed? (No response.) All right.

Neal, would you like to bring us up to date on the revisions? I'll remind everyone that last time we met we approved the rationale and the objectives, correct?

MR. NOYES: There were a couple of objectives that did change as a result.

DELEGATE BYRON: We did not change the Mission, Vision or the Rationale. Do you want to go over any of the other changes that were made that we can focus on?

MR. NOYES: There were no changes to the

Indemnification, Objectives. Moving on to Page 3, under Building Technology Infrastructure, the changes involve the outcome measures and goals. The goals had been the number of business connections, and the Committee asked that be changed to a geographic goal. It now reads, "Increase access to affordable Broadband services by five percent annually." The measure is percentage increase year-over-year. There's nothing magic about five percent, and perhaps a low ball number, but I would remind the Committee that there are still backbone components that will need to be built, and available funds may be dedicated more to backbone than to last mile.

Under Building Human Infrastructure on Page 4, they were two changes in the Strategies section at the top of the page. The first is: "Establish and support quality workforce training/re-training programs." The addition there was retraining, and that was absent in the previous version. The last strategy was: "Establish and support programs for the professional development of instructors' credentials in critical vocations and in the use of technology." The issue there was that we needed to have strategy focus on credentials rather than trips that instructors might take to deliver papers or to attend conferences or some other purposes.

The Outcome Measure is changed, as is the goal. The Outcome Measure now reads: "Percentage successful completing GED and certified programs." The Goal is set at 100 percent completion.

The question has arisen among Staff, why set it at 100 percent. The answer is we need to see after a year or so what we're finding in terms of outcome, and these will then be adjusted. There is no reason to set it at 50

percent funding programs that deliver only at that level.

SENATOR RUFF: Assuming that a hundred percent who enter the program?

MR. NOYES: Correct.

SENATOR RUFF: I wonder if you might clarify a little more the phrase, "upon completion"?

MR. NOYES: We can do that.

SENATOR RUFF: It's nit-picking.

MR. NOYES: We can do that. There were no changes asked for by the Committee under Building Conditions for Innovation.

Then moving to Building Regional Development Capacity, there was one change under the Objectives, and that was: "Increase employment opportunities." That now appears in the Outcome Measure as the same percentage for goal attained. The goal was 3,000 new or retained private sector jobs within three years after the current funding cycle. We won't know for three years where we wound up. We could look back at the project, if that's what this Committee wishes to do, but it's specifically designed to be long-term.

On the final page there are really no changes to the General Funding Policies. I would draw the Committee's attention to the three that are new. They were not in the 2003 Long Range Plan. "Priority should be given to projects that are regional (i.e. governance, direct financial participation or service area)." The main difference there is that some projects have service areas rather than direct financial participation for

governance or those that are applicable, that are indeed regional projects.

The next new one is: "Applicants should clearly describe the operational sustainability of the activity for which Commission financing is being requested."

Finally, "Applicants should describe the anticipated return on investment," whatever that is, and there is an example given here, "employment and wage outcomes, tax benefits, in relation to proposed Commission investments."

I mention those, not because they are changed from our last meeting, but rather because they are new from the 2003 Long Range Plan.

DELEGATE BYRON: Are they something you're going to incur in your application that you're not doing now?

MR. NOYES: It will be part of the application. The service area will come out in the application.

DELEGATE BYRON: Describing the operational sustainability, the activity and anticipated return on investment.

MR. NOYES: That would be part of the application process, and the Staff will note any recommendations as to what the applicant says. I'll ask the Staff if I missed anything. I think I covered all the bases from the last meeting.

SENATOR RUFF: Madam Chairman, on the third point down on the last page, it says, "Commission funds should not be used for operations costs." In the past we have funded some start-ups in the first year. Are we going to make a policy that we're not going to do that, or should we insert the word "continuing" operational costs?

MR. ARTHUR: We discussed that, and the priority had already been set, operating funds for the first year.

MR. NOYES: I recall the discussion at our last meeting. What I remember from that was that this would not preclude a Committee from making a recommendation to the Commission for providing operations funds.

MR. ARTHUR: It does not say will not, it says should not.

DELEGATE BYRON: However, by putting what Frank is saying, there will be a clear understanding about future operation costs.

MR. NOYES: Are you suggesting that we change it to say "for continuing operations"?

MR. ARTHUR: I think so, yes.

MS. WASS: I think at the last meeting during the discussion there was a time frame of one year. We were afraid people would start coming and asking for that in the first year, we were inviting people to start applying for at least that first year. That's why it was, originally it was in there and then taken out.

MR. NOYES: We did not include it because we thought it would be asking for trouble.

MR. ARTHUR: If we had continuing operations it makes the first year, you have to think about what you're saying. Didn't we agree that it should not, wouldn't preclude us from doing it?

MR. NOYES: It does not preclude you.

SENATOR RUFF: In that context I think it, I hate to see having exceptions.

MR. ARTHUR: Yes.

MR. NOYES: I think if we had the term "continuing," we would be fighting more.

DELEGATE BYRON: Are we concerned about using the word "discouraged"? I don't see that used anywhere. It could be, Commission funds are discouraged for operations and should not be used for continuing. Are we not using that for a reason?

SENATOR RUFF: You might be better off the way it is.

MR. ARTHUR: Do not draw attention to it.

DELEGATE BYRON: People will learn very quickly.

MR. NOYES: I think there will be a number of occasions when one or another Committee will be asked to look at operations costs for the first year, and no need to highlight it.

DELEGATE BYRON: Is this something we're talking about amending or reminding ourselves why we did that?

DELEGATE DUDLEY: Any way you word it you're doing the same thing. If you're looking at doing that, probably should say should not be used for operational costs, will not use for any operational costs, you're still leaving the door open.

MR. ARTHUR: There was a valid reason to use it at the Institute. The Legislature and the Governor, to provide operating

funds for it, we had to do it the first year.

DELEGATE BYRON: Is there any area you want to look back on, or are there any questions or amendments?

MR. ARTHUR: I think it's got what we talked about.

SENATOR RUFF: I would say that on Page 2, as far as the corpus being invaded, and I'm looking at the asterisk. As I recollect, this process should go no more than four percent if they had a super majority. Should that not be in this document?

DELEGATE BYRON: I understand what you're saying. Southside, because we didn't take the leverage ten percent that we could by region, is that what you're saying?

MR. NOYES: It takes a super majority of the Commission to undertake an invasion that exceeds four percent for Southside.

MS. WASS: The entire --

MR. STEPHENSON: -- I think the distinction is that the Code requires a super majority to go beyond ten percent, but the Commission may or may not want to further restrict itself. The Code says ten percent of the whole. This is what the Finance Committee agreed to about a year and a half ago when they did the securitization and the Commission wanted to impose upon itself, which it can undo with a vote.

DELEGATE BYRON: I'm not so certain that we agreed the whole Commission has to, a majority vote of the Commission was needed to change the four percent invasion by Southside.

MR. ARTHUR: I think you're right.

DELEGATE BYRON: We said this is what Southwest wants to do by making a full ten percent, and we were going to accept that as being sufficient, but if the same held true for our region, that if Southside decided at some point it wanted to raise that four percent to six percent or something like that, it was not going to take the majority of the full Commission to change that.

MR. STEPHENSON: I think the intent of this sentence was to say that any corpus invasion requires a majority of the Commission vote, any corpus invasion. Southwest cannot by itself invade the corpus without the majority vote of the Commission.

DELEGATE BYRON: That's not what it's saying, what you're saying is not what it says.

MR. PFOHL: The issue of the region only being its share. The second part, any invasion, as Ned described, requires the majority vote.

SENATOR RUFF: It should be clearly understood, and I'm not sure that it is clearly understood without having two different statements.

DELEGATE BYRON: I'm not so certain that Southside, if it's the whole Southside region, decided to change the corpus, it had to be a recommendation from one of the committees. I think it really says a regional vote.

SENATOR RUFF: I don't know why we would do it, unless there was a major project that came up.

DELEGATE BYRON: That's the only thing you can use the corpus for, I'm sure we understand that. I'm sure someone can come up with the wording that will make that message you're trying to get across there that the corpus cannot be invaded unless it's a majority vote of the Commission. That's what Ned is trying to say. Not the share of the corpus, you're talking about over 10 percent, that requires the vote.

MR. STEPHENSON: This is all driven out of the concept of allocating the corpus 73/27 between the regions and allowing one region to operate at one speed and the other one to choose their own burn rate. One would have a more rapid burn rate. It's designed for the Southwest to do that, if they want to, with the majority vote of the Commission, and Southside could do what it chose to do.

DELEGATE BYRON: We have more dollars, and we said we also wanted to retain the ability to change that if something comes along.

MR. STEPHENSON: I don't see anything in this sentence that would hinder the Commission from doing what it needed to do when it's ready, on a majority vote of the Commission.

MR. FERGUSON: Madam Chairman, just an observation. I guess one thing that may be causing the difficulty here is that, to the extent this is a strategic plan, the specifics of it, particularly the decision that may or may not be changed at sometime in the future as to whether it will be four percent or ten percent or something in-between. Maybe it gives folks a pause because it appears to lock in something that you know could be changed in other ways. When I read it, it seemed to me

it was the kind of thing that ought to say, I thought the sentence was fine, and if some clarification was needed I thought it was that somewhere in there it's pointed out that these are currently adopted percentages that each group has chosen to allow for invasion of the corpus, and by implication then indicating those could be changed independent of the strategic plan. It could be modified to adopt those changes. It's really informational in the context that the strategic plan may not be part of the strategy itself. I don't know if that helps any.

DELEGATE BYRON: We had to vote on Southwest, too, so it's a majority.

MR. FERGUSON: That's absolutely true, and that's not going to change, no matter what you do here or somewhere else.

MR. NOYES: It was not intended to be something other than informational.

MR. STEPHENSON: Guidelines.

MR. FERGUSON: What I was trying to say is that a strategic plan is sort of a global way of looking at how you're going to proceed forward. When you get into specific numbers, unless you really want to be strategically bound by those numbers, then you're really, this is sort of, would the strategic plan change, for example, if Southside decides they want to invade up to six percent a year? I don't think so. So the point is you wouldn't want to necessarily have to go back and amend the strategic plan to reflect that if that were to happen. My point that some additional explanation, this is a matter of information; the current corpus invasion guidelines are set.

MR. STEPHENSON: It is a guideline.

MR. FERGUSON: Legally, as Ned and Tim pointed out, you can invade up to ten percent a year by majority vote of the Commission, and by a super majority of the Commission up to 15 percent. No amount of a strategic planning document is going to change that.

MR. ARTHUR: In that light I don't see anything wrong with the way it is.

DELEGATE BYRON: Does anyone have any more discussion on that, or something to say?

MR. NOYES: On Page 4, the goal in relationship to the Commission's GED certification: To add a hundred percent completion to those entering the program.

DELEGATE BYRON: Which would cover GED.

MR. NOYES: Those entering a program, we'll make that note.

DELEGATE BYRON: Any other changes or clarification needed?

SENATOR RUFF: I move we accept them as amended.

MR. ARTHUR: Second.

DELEGATE BYRON: All in favor of accepting the draft as amended? (Ayes.) Opposed? (No response.) The draft as amended.

MR. STEPHENSON: The document will be in the book that everyone has for tomorrow.

MR. NOYES: Make note of at that point where you ask for the motion.

DELEGATE BYRON: All right.

Any public comment?

All right, I thank everyone for doing an excellent job, and thank the staff.

Do we have a motion to adjourn? So moved, we're adjourned.

PROCEEDINGS CONCLUDED.

CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **Virginia Tobacco Indemnification and Community Revitalization Commission Long Range Plan Committee Meeting when held on Wednesday, November 8, 2006 at 12:00 p.m. in the Solitude Meeting Room, Inn at Virginia Tech, Blacksburg, Virginia**.

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

Given under my hand this 15th day of November, 2006.

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

1 My Commission Expires: October 31, 2010.