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2 **APPEARANCES:**

3 The Honorable Clarke N. Hogan, Chairman

4 The Honorable Robert S. Bloxom, Secretary of Agriculture and Forestry

5 The Honorable Kathy J. Byron

6 Ms. Linda P. DiYorio

7 Ms. Lynn Hammond, Deputy Secretary of Commerce &amp; Trade

8 Mr. L. Jackson Hite

9 Mr. Buddy Mayhew

10 The Honorable Edward Owens

11 Mr. Kenneth O. Reynolds

12 Mr. Bryant L. Stith

13 Mr. James C. Thompson

14 The Honorable William C. Wampler, Jr.

15

16 **COMMISSION STAFF:**

17 Mr. Neal Noyes, Executive Director

18 Mr. Ned Stephenson, Deputy Director

19 Mr. Timothy J. Pfohl, Grants Program Administration Manager

20 Ms. Britt Nelson, Manager of Program Assessments

21 Ms. Sarah Capps, Grants Coordinator - Southside Virginia

22 Ms. Sara Williams, Grants Coordinator - Southwest Virginia

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24 **OFFICE OF THE ATTORNEY GENERAL:**

25 Mr. Francis N. Ferguson, Deputy Attorney General, Counsel for the

1 Commission

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3 DELEGATE HOGAN: I'll call the meeting to order and ask  
4 Neal to call roll.

5 MR. NOYES: Secretary Bloxom?

6 SECRETARY BLOXOM: Here.

7 MR. NOYES: Delegate Byron?

8 DELEGATE BYRON: Here.

9 MR. NOYES: Ms. DiYorio?

10 MS. DIYORIO: Here.

11 MR. NOYES: Deputy Secretary Hammond?

12 DEPUTY SECRETARY HAMMOND: Here.

13 MR. NOYES: Mr. Harwood?

14 MR. HARWOOD: (No response.)

15 MR. NOYES: Mr. Hite?

16 MR. HITE: Here.

17 MR. NOYES: Delegate Hogan?

18 DELEGATE HOGAN: Here.

19 MR. NOYES: Mr. Mayhew?

20 MR. MAYHEW: Here.

21 MR. NOYES: Mr. Owens?

22 MR. OWENS: Here.

23 MR. NOYES: Mr. Reynolds?

24 MR. REYNOLDS: Here.

25 MR. NOYES: Mr. Stith?

1 MR. STITH: Here.

2 MR. NOYES: Mr. Thompson?

3 MR. THOMPSON: Here.

4 MR. NOYES: Senator Wampler?

5 SENATOR WAMPLER: Here.

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

7 DELEGATE HOGAN: Thank you, Mr. Noyes.

8 I just want to tell everybody in the audience, I don't think we're  
9 going to take any action here today, and to the extent we do, it'll be based on  
10 a recommendation to the full Commission. Before we launch ourselves  
11 down a path, we'll at least have the full Commission aware of what's going  
12 on. I have asked Ms. Povar to join us as a non-voting member, and I think  
13 she's got some things to say from VEDP that I think will be interesting.

14 I'll start this by saying that I think the task before us is rather  
15 large. What process do we set up to spend something approaching \$100  
16 million? Before you start throwing that kind of money around, it would  
17 probably be a good idea to find out what we're going to do with it and how  
18 are we going to make sure we don't waste it. I like to tell people that it's  
19 okay to be wrong, but when you're passing out money and you're often  
20 wrong, but it's not okay to be stupid wrong, which is to say that I hope we  
21 walk away from this process that as projects go through it, the ones that  
22 work out we'll feel good about, and the ones that don't work out we will at  
23 least have done a good job evaluating things. I just hope that's something  
24 that we can come up with. We'll start this and then let the folks who have  
25 comments talk. I see Senator Wampler has got a computer, and he has all

1 kinds of things on that.

2           What kind of projects do we fund? Do we fund pure research,  
3 or do we fund commercialization, or do we fund traditional economic  
4 development projects that are energy-based, or do we do a little bit of all  
5 three of those things? Do we do straight grants, or do we consider a loan  
6 component? Maybe more importantly, what kind of projects, or who do we  
7 want to contract with, who do we want to hire to evaluate these projects? I  
8 don't think there is anyone here or anyone on the Staff or on the Commission  
9 who, frankly, has the expertise, like battery technology. What else is  
10 available, things like that, we just don't know. It seems to me we need to be  
11 careful about handing out money and make sure that we have a good idea of  
12 what we're doing about that.

13           With that said, are there any comments from members of the  
14 Committee? All right. Liz, would you talk for just a second about what you  
15 see? For those of you who don't know, this is Ms. Elizabeth Povar, and she's  
16 with the Virginia Economic Development Partnership. What do you see as  
17 to what possibilities are available with this money, and how would you see it  
18 fitting in with the overall economic development job or task that you are  
19 certainly aware of, primarily?

20           MS. POVAR: Thank you. Thank you for the  
21 opportunity to sit with the Committee and the Commission, which has an  
22 awesome opportunity in front of you. I don't have any prepared remarks,  
23 just for brevity's sake and to give you a sense of how this opportunity can  
24 support Southside and Southwest in Virginia's economic development  
25 strategy. The clients we deal with today are going to be here for the next 20

1 to 50 years, who are clients who are invested in science and research. They  
2 are seeking locations where science and research is imbedded in the  
3 community and in the culture of that area.

4           The energy sector, I'm not telling you anything you don't know  
5 here. It is clearly of international importance, it's of national importance. It  
6 is one of the Governor's and General Assembly's focus areas. The  
7 Commission's ability to provide its tool that will enhance your region and  
8 ultimately create jobs and capital investment for your citizens in this sector  
9 is only enhanced by that broader global perspective and national and state  
10 perspective. The timing for your investment is right. What I would tell you  
11 is that in the near term and immediate future, because of the stimulus dollars,  
12 and Neal knows this, because we've talked about it, and I've actually  
13 conversed with him on occasion about some of these. We're seeing a lot of  
14 great technologies in the energy sector from start-up companies to well-  
15 established companies, but they're all seeking the stimulus dollars to be their  
16 savior, if you will, to allow investment to occur. Getting those projects and  
17 having the expertise available to understand what the technology is about  
18 and decide where the Commonwealth should and should not be a partner is a  
19 challenge. You alluded to that, Delegate Hogan. How do you, as your  
20 resource becomes available, how do you identify and decide which  
21 technologies are those that are going to be successful, and I think you have  
22 to think about it that way. We would view this in the Partnership as a  
23 strategic tool and under our control clearly, but a tool that can be used as  
24 part of Virginia's message in this sector. What we need to understand is how  
25 you want the dollars to be invested and where you see that they will produce

1 the best return for your communities. In return, I think, in your terms and  
2 our terms, that's jobs and capital investment at some point. Do you choose  
3 to start with the very early incubation, science and research? We have an  
4 excellent system of universities that are doing that now. Maybe that's not  
5 where these dollars should be spent. Do you choose to support established  
6 companies who are evolving into new products, and we have some  
7 traditional tools that fit there; maybe that's not where you want the dollars to  
8 be invested.

9           There is a gap, I think, nationally, in supporting  
10 commercialization of new technologies that have been data tested and are  
11 now moving into a little more production capacity, but there is no  
12 established framework or operational framework that we can find in the  
13 U. S. that's really good at supporting that particular area, and perhaps that's  
14 an area to look at.

15           If I had to sum it up for you, Delegate Hogan, it would be you  
16 have a strategic opportunity. You would have to consider sustainability, and  
17 at the end of the day I think these dollars need to be jobs and capital  
18 investment for the citizens in your communities.

19           DELEGATE HOGAN: Thank you. I appreciate  
20 it, and as we go along, certainly, if you have anything you'd like to share  
21 with us, we'd hope that you would. We certainly have questions for you.

22           I guess one of the first things, and Neal and I spent a little time  
23 talking about this. I'd like to advance an idea and see if people agree or don't  
24 agree with it. That is that we need to bring in some expertise to help  
25 evaluate these projects, because we do not have the expertise to do it. Does

1 anybody take exception to that? Does everybody agree with that statement,  
2 or do you have any comments or exceptions you might want to make?

3 SENATOR WAMPLER: I haven't seen the  
4 agenda in detail here. Maybe we could hear from the entities that propose to  
5 structure the way we examine and set up criteria.

6 DELEGATE HOGAN: I think that's one of the  
7 things we need to do today. We have these energy sectors to establish. I'm  
8 not convinced, based on what I know of them, that they have the expertise to  
9 evaluate the projects themselves. We can certainly hear from them, and  
10 that's probably a good idea.

11 SENATOR WAMPLER: I was just wondering if  
12 you have folks who can help us and that are here and could talk about it, and  
13 maybe they can help us and we can feed each other some ideas.

14 Neal, do you want to spend a couple of minutes, because maybe  
15 some of the Commission members, sort of telling the folks where we are  
16 today about these energy centers? Is everyone familiar with these energy  
17 centers?

18 MR. NOYES: All five are in design at this time.  
19 It looks like the earliest where construction will be completed is going to be  
20 at Bedford. Please correct me if I'm wrong, October of 2010, it looks like  
21 that's when that's going to open. All of them are in that general time frame,  
22 so 24 months from now all five will be up and operating. All of them have  
23 explored and some are pursuing current levels of certification. I think that's  
24 a fine thing. They're exploring opportunities with regard to the stimulus  
25 programs for additional funds that can get them there, beyond the funds that

1 we have already provided from the Commission. At this point, in talking to  
2 each of the five over the last 30 to 60 days, there is a consensus among the  
3 five centers that it is appropriate and very timely to have some support for  
4 operations so that they can start to contract for some expertise in identifying  
5 grant opportunities to have some staff that can coordinate on behalf of their  
6 respective boards construction activities.

7 Mr. Chairman, and members of the Committee, that is one issue  
8 today that this Committee can move forward with, or at least I'd make that a  
9 recommendation to the Committee, that each of the five be invited to submit  
10 applications for consideration at our July meeting, these funds are not  
11 available until July 1st from FY10, and go forward with that today.

12 DELEGATE HOGAN: We had conversations  
13 about operational dollars over a three-year period, and there have been  
14 numbers thrown out there, 600,000 and a million dollars per center. We're  
15 talking about \$325 million I'm assuming will come out of this pot of money.  
16 Neal has recommended it, and I think it's prudent to say that within reason  
17 how they would spend that money to hire staff and operate for the next two  
18 or three years. I think realistically the notion that any state support is  
19 available in '10 or '11 or '12 is probably unlikely. You wouldn't take  
20 exception to that, would you, William?

21 SENATOR WAMPLER: No.

22 DELEGATE HOGAN: So they've got to figure  
23 out a way to get through this start. It seems to me that we'd need these  
24 applications from them, and I'd leave that up to Staff, but I say at a  
25 minimum, and maybe the only concrete recommendation we should try to

1 take to the full Commission tomorrow is that those funds be approved for  
2 operations. That application can be pretty brief. I think it's true that all the  
3 funds will come out of the Commission on a reimbursement basis. I think  
4 that's true for this.

5 MR. NOYES: We can advance up to 20 percent as  
6 a matter of policy.

7 DELEGATE HOGAN: Is that in terms of  
8 housekeeping, do we want to ask them to? I can guarantee you that if we  
9 ask them how much money do they want, we'll spend up to a million dollars,  
10 every one will come in and say we probably need a million dollars. I think  
11 one of the questions, and we probably need to make a recommendation to  
12 the Commission tomorrow, what does that hundred need to be?

13 DELEGATE BYRON: Mr. Chairman, we're still  
14 pretty broad in our discussions talking about what we're doing here. It  
15 sounds like what we're talking about doing is investing in investments that  
16 we already have in place, ensure their success and operations, but for them  
17 to make an application, I would think since many of us are not aware of all  
18 five, where they are at in this process, some of them are going to be in  
19 different stages. Bedford is probably the first one. The application should  
20 have some kind of plan in place as to how they're going to spend the money,  
21 when they anticipate spending it, and continue along the progression of  
22 showing that they're talking about jobs and sustainability and other things  
23 and keep that mission in place.

24 DELEGATE HOGAN: Would you all be  
25 interested in about two minutes where you are? Do you want to start it?

1 DR. FOWLKES: I'm Rachel Fowlkes, Director of  
2 the Southwest Virginia Higher Education Center. We're in the process right  
3 now, or actually next week we will select a final architect for the design of  
4 the building, and we got preliminary designs this time last year in our initial  
5 proposal to the Tobacco Commission. We'll have an architect in place  
6 hopefully by the end of April, and shortly thereafter we plan to secure  
7 services of contractors so that we can get the project under way as quickly as  
8 possible. The architect and contractor will work together to finish the design  
9 of the building and bring it to approval by the AARB in another process that  
10 we have to go through with the state.

11 At the same time we're in the process of selecting a director for  
12 the R&D Center. We have a telephone interview scheduled for the first  
13 Monday and Tuesday of next week and final on-site visit the following  
14 week. So we will have a person on-board soon. The funding for that  
15 position is coming out of the Higher Ed Center operating budget. In order to  
16 add additional staff, which we feel is essential to taking this project forward,  
17 we'll need some operating money for sure. So we'd be one of the applicants  
18 for that.

19 During the winter months we have had a lot of activity taking  
20 place between our universities and the Higher Education Center and trying  
21 to gauge what the research opportunity would be. We are really encouraged  
22 by the number of projects that have come to our attention, both from UVA  
23 and Virginia Tech, interest from Oakridge National Lab that we'll hear more  
24 about today. I'm encouraged to think that our building, which we're calling  
25 Field Laboratory for that in-between, and you talked about the Valley of the

1 Shadow as many researchers call it, between the university campus and in-  
2 between where we can check out the theory and see if it's going to be  
3 commercially viable. That's where we see our niche, and we're moving  
4 forward with our partners right now. I'll be glad to answer any simple  
5 questions you might have.

6 DELEGATE HOGAN: Thank you.

7 MR. BAILEY: Good afternoon, I'm Bob Bailey,  
8 the Director of the Center for Advanced Engineering and Research, which is  
9 the Bedford Center. I'll address this in two categories. First, with the  
10 building itself, we have engaged an A and E firm that is finishing up this  
11 week programming statement. We have scheduled on May 8th an initial  
12 conceptual design meeting, following a week later with the process of  
13 interacting design and bringing together all the stakeholders and look at a  
14 variety of different options, and the goal is to walk out of that meeting on  
15 May 15th releasing the A and E firm to go off and do the actual schematics  
16 and heading on to the final design. Our plans are to break ground late  
17 summer or early fall of this year and get some site work done before winter  
18 sets in, with construction over the course of the year and opening the  
19 building around October of 2010.

20 On the research side we actually have had research work going  
21 on for the last two-plus years. Two high end areas, and one is in the nuclear  
22 energy industry, and the other is applications of wireless technologies to  
23 energies, specifically some smart grid ideas. At the current time we have a  
24 little over a million dollars worth of research going on, and 20 percent has  
25 been matched by private industry, and that's growing. Within that million

1 there is one program area that looks like it's going to be one of four areas  
2 that we'll focus on going forward. In fact, I have probably another 300 or  
3 400 thousand dollars worth of research that I can continue from that with  
4 some help out of here. I've got some matching for it, but it needs some  
5 follow-on to carry forward. Within those four areas, two of them are nuclear  
6 energy related, fluid dynamics and plant chemistry. A third is a combination  
7 of nuclear and wireless upon wireless technologies to control room and  
8 instrumentation. A fourth is in wireless technologies applied to smart grid.  
9 Two of the five fundamental technologies for smart grid work and  
10 communications, which we have as wireless and in sensors, which we have  
11 several companies focusing on that. So short term, and I try to stay away  
12 from the technical stuff, as much as I love it. Does anyone have any  
13 questions?

14 SENATOR WAMPLER: I understood a little bit  
15 more about Dr. Fowlkes' operation and what she proposes to do. My hunch  
16 is that your segment is, you don't have a lot of people who can help you with  
17 the nuclear component; the research is pretty narrow in scope. Is that an  
18 accurate statement?

19 MR. BAILEY: Not really, because the  
20 technologies that we're focusing on are not pure nuclear. We don't have a  
21 nuclear scientist, mechanical engineers, electrical engineers. Our focus has  
22 been in fluid dynamics and heat transfer, which is thermodynamics, and in  
23 the electrical side and in chemistry, applied chemistry materials.

24 SENATOR WAMPLER: In Abingdon we pretty  
25 well know what we want to try to capture in terms of research, and you

1 pretty well know what you want to do in your focus on those particular  
2 things you mentioned. Do you see the Tobacco Commission receiving  
3 applications and telling folks doing the research at your facility, do you see  
4 yourself as the gatekeeper of trying to determine what type of research is  
5 transacted at your facility?

6 MR. BAILEY: If I understand your question, we  
7 see research going on in our facility. We have master research agreements  
8 in place with three universities so far and continuing to talk to others. Our  
9 plan is to have, using those master research agreements, have faculty from  
10 those partner universities on the ground in the Bedford Center actually doing  
11 the research.

12 SENATOR WAMPLER: Do you see us as the  
13 payer for the research, or do you see us just funding or being the funding  
14 entity, or the Tobacco Commission as the entity that's going to try to  
15 determine how we put critical mass? It's not a trick question, I just don't  
16 know.

17 MR. BAILEY: You certainly have that right. If  
18 you're writing the check, then you certainly have the right to say here's how  
19 we'd like to see the dollars spent. I can sit down with you and go into fairly  
20 technical detail on how we've identified or what our potential areas are and  
21 what we'd like to do and simply say we need some financial help and match  
22 some of the other revenue streams that we're pursuing. Is that a fair answer?

23 SENATOR WAMPLER: You would prefer we be  
24 the payer, once you determine the research that you're interested in.

25 MR. BAILEY: Yes.

1 MR. MAYHEW: Mr. Bailey, do you have a  
2 concept long-term what the payout or the results that could happen because  
3 of this research? Specifically, where is this? Is this joining a big pot of  
4 other people's research and at some point somebody in the country is going  
5 to benefit from it, or is it something that's going to have a more localized  
6 effect on the economy on jobs and this sort of thing here?

7 MR. BAILEY: More of a localized effect. We are  
8 an industry-led organization. As we've gone forward with this, one of the  
9 things that we've fought very hard to maintain is the industry control and to  
10 have universities and research organizations as a partner. We have a  
11 committee within our organization led by industry that is establishing what  
12 the research portfolio should be and what areas it would cover. It's coming  
13 from our local industry people and not from the universities.

14 DELEGATE HOGAN: You mentioned the smart  
15 grid technology, which is wonderful and I like it, and that will help  
16 everybody in the whole world. By that standard it will help people who live  
17 in the tobacco footprint as well. One of our questions is, do we put money  
18 in that, figuring it will help us and everyone else, which I think is what  
19 Buddy was referring to, or do we have a regional expectation of what you're  
20 doing that that technology will be developed and maintained, sold and built  
21 and operated in this area?

22 MR. BAILEY: I can speak only to the projects  
23 we've got on the board right now, which are driven not by universities but  
24 are driven by local companies that see an opportunity to leverage their  
25 expertise into new products and services. They need research capacity to

1 expand it beyond what their idea is to a serviceable product. They would  
2 then be selling across the country, and in fact one of them they would sell  
3 internationally, but it would be a regional company that would be driving the  
4 technology. Is that a fair answer?

5 DELEGATE HOGAN: Any other questions? Mr.  
6 Kennedy.

7 MR. LEIGHTLEY: Good afternoon, Liam  
8 Leightley from the Institute of Advanced Learning and Research in Danville.  
9 What we have done with regard to the energy sector is to complete a  
10 preliminary design. We have a location for the building, and what we want  
11 to do specifically with our program or research is to build on the current  
12 program which ag and forestry based programs sponsor and improvement,  
13 which would try to build on the tobacco ag footprint which the Institute  
14 resides in. We have started putting together a preliminary job description for  
15 a director, which would be the project manager for getting the building and  
16 the activities up and running. We're also speaking about a planning team.  
17 That planning team would look at the players in the center, which includes  
18 our research scientists, and we don't want to forget the socio-economic  
19 impact that we would have on the region. Then we would also build on our  
20 economic development work which we recently completed in identifying  
21 key areas for development in our region. One of those being what we  
22 described as planned biology, which would fit into improving feedstocks for  
23 conversion into renewable energy as chemicals. We've had initial  
24 discussions with industrial partners and more significant discussions with a  
25 partner to actually be housed in the center. That's pretty much where we are.

1                                   SENATOR WAMPLER: I'd ask you the same  
2 question. What do you see as the role of the Tobacco Commission in regard  
3 to your research?

4                                   MR. LEIGHTLEY: In terms of funding the  
5 research, we're thankful for any assistance they could provide to us. You  
6 could have a team to evaluate ideas that would be acceptable.

7                                   SENATOR WAMPLER: Do you see yourself as  
8 submitting applications to the Tobacco Commission and asking us to be the  
9 payer, or do you see us as the ones who determine or suggest what type of  
10 research ought to be done?

11                                  MR. LEIGHTLEY: Partly both. I think we'd like  
12 to think we could come up with significant ideas that we would want to  
13 pursue on behalf of the community and not necessarily come to the  
14 Commission and say, what should we do. We'd like to be more in a  
15 leadership role.

16                                  DELEGATE HOGAN: You talked about  
17 developing feedstocks. Do you think you have the ability internally to  
18 figure out if one of those projects has merit or not? I come to you and say  
19 I've got a great idea to do such and such, you've got to prove out this  
20 concept; will you get some Tobacco Commission funds from us for research  
21 to help fund it? Do you think you internally have the ability to evaluate  
22 whether that is technologically viable, and number two, likely to lead to  
23 economic activity in the region?

24                                  MR. LEIGHTLEY: Let me put it this way.  
25 Currently we could give you an educated comment of what we would like

1 when we have the center, to reside in the center and be able to answer that  
2 question.

3 DELEGATE HOGAN: Any questions?

4 MS. INGE: Good afternoon, members of the  
5 Committee, I'm Carol Inge, and I'm going to pass around a map that shows  
6 that we were just accepted in the State of Virginia as the 18th incubator,  
7 Virginia Clean Energy Business Incubator. We're the 18th one in the nation.  
8 We have a \$10 million building, and in Phase I we're building out 7,000  
9 square feet for the Riverstone Technology Park in Halifax. We have  
10 \$400,000 from a local industrial development authority, which is local  
11 investment, and the A and E firm starts in a couple of weeks. We have \$1.5  
12 million worth of modeling and simulation equipment very specific to the  
13 energy and the environment. We have a ribbon cutting planned for October  
14 1st. Our projected operating per year is \$700,000. We have 10 companies  
15 ready to move in the day we open, and we've already outgrown the 7,000  
16 square feet. One of the companies is a Fortune 500 company, called Petro  
17 Tech. They have 500 employees in the Commonwealth of Virginia, and  
18 they're going to double in four years. They are a major environmental  
19 energy company.

20 In addition to that, we have a small company that got  
21 capitalized just in the past two weeks by an Angel investor, and that's one of  
22 our first technologies. We have three grid technology, two large scales and  
23 one small. We have a BioMass Project feasibility study, which is just  
24 completed, that will save an employer, locally one of the largest employers,  
25 60 percent on that energy bill if they make that capital investment. We have

1 a host of other companies, including one from Charlottesville that is looking  
2 at our area, and we have the CEO of that company in the room today.

3 Now, the designation of the 18th incubator in the nation for  
4 Virginia means that we're tied in with the National Renewable Energy Lab,  
5 which is one of the major labs at the Department of Energy. The map I sent  
6 around to you shows Virginia is on the map now, and that means that we're  
7 tied in with the 94 graduate companies, 185 technology commercialized, 268  
8 million in capital raised by the companies, 200 million in revenue and 17  
9 million state money, 30 million in other leveraged funds, and the list goes  
10 on. If you go to our website you can see the 2008 statistics as to what the  
11 National Clean Energy Alliance is all about. So we are tied in with the DC  
12 Group, the Angel Group, and we're all about commercialization. If you were  
13 to ask me what is your focus about for profit and creating jobs in Southside  
14 Virginia in our building and in our region as well as the rest of Virginia. By  
15 being a state designated incubator we want to help other companies incubate  
16 in the far Southwest and Northern Virginia, but obviously with your dollars  
17 our focus is the Southside.

18 MR. MAYHEW: What is your e-mail or website?

19 MS. INGE: We'll get that to you. The National  
20 Alliance for Clean Energy Incubators, and it's part of NREL, the National  
21 Renewable Energy Lab. Our website is *virginiaenergynetwork.com*, and all  
22 this will be on there. The National Alliance is sending out the press release.

23 SENATOR WAMPLER: You're always at the  
24 cutting edge. It sounds to me like you don't need our assistance, and some of  
25 the other centers will be using our dollars trying to develop the theory and

1 the process, and you're much further than that in your operation center. Is  
2 that correct?

3 MS. INGE: I would say that's probably true.

4 SENATOR WAMPLER: You then are trying to  
5 move to the commercialization and monetize the research, so what would  
6 you use the dollars for?

7 MS. INGE: Let me give you a very clear example.  
8 I had a little company that has a couple of offices in Virginia, and that's  
9 Avid. They have an office in my building. They're in the aerospace  
10 industry. One of the things we're seeing is that aerospace engineers and  
11 other people like that are moving over to the energy side. They've taken  
12 what they've learned from the aerodynamics area with airplanes and applied  
13 it to small wind turbines. That small company did not have the capital, and  
14 we went to an Angel investor, and the Angel investor said, Carol, I don't  
15 want to be the first dollars in. I don't mind capitalizing Avid's technology,  
16 but I want to make sure that the model and the simulation is done so that  
17 when I spend a few hundred thousand dollars I can see that it will play out.  
18 So I would look at your dollars in that situation as the first dollars in,  
19 building a prototype and doing the modeling and simulation and proving to  
20 that Angel investor that it's going to work.

21 SENATOR WAMPLER: You're going to spend  
22 this on salaries and personnel costs.

23 MS. INGE: Partly.

24 SENATOR WAMPLER: Mostly?

25 MS. INGE: Well, no, operating for me means

1 staff, and it means lights and power, and it means modeling and simulation  
2 equipment makeup contract.

3 SENATOR WAMPLER: That's a big deal for us,  
4 between capital costs and personnel costs and what type of financing you're  
5 able to apply. You'll probably have more personnel costs.

6 DELEGATE HOGAN: I think what Carol is  
7 talking about is wind turbine. Some folks ought to think about that. I'm  
8 familiar with probably five different similar projects than this one based on  
9 small distributed wind turbines. Everybody has a little different angle to it.  
10 If I'm familiar with five, I'll bet you that there's 50. The question we've got  
11 to ask ourselves is, is this particular one more or less likely to be successful  
12 than the other one. I can tell you right now that I do not intend to be able to  
13 tell you I think I can pick which one is right. The answer is probably several  
14 of them would be. Whether this one is one that we want to put half a million  
15 dollars or a million dollars in it, directly or indirectly, or however we might  
16 structure it, is the real question. I can tell you we're going to get hit with  
17 those kinds of choices over and over again until we're out of money. I'm not  
18 trying to put you on the spot, Carol, but that to me is the task before us. I  
19 hear William saying maybe going in a slightly different direction, that's what  
20 I'm worried about, how do we pick amongst those that are available. At the  
21 end of the day the question is how do we value this, what are we trying to  
22 get. That's the thing I'm worried about, more than anything else.

23 MS. INGE: May I add to that Avid example that  
24 Angel investor is lining up a contract before we ever build that equipment.  
25 Part of the answer is where is the customer. They're going in the military,

1 they're meeting in the Pentagon. They're saying yes on the front lines of the  
2 war, and we need that particular type of technology. This particular  
3 technology which sits on top of the cell tower could create small KW power.  
4 One of the answers to the question is where is the customer. If you've got a  
5 customer, you've got the money. Thank you.

6 DELEGATE HOGAN: Any other questions?

7 MS. ADAMS: I'm Betty Adams, I'm the  
8 Executive Director of Southern Virginia Higher Ed Center. We are  
9 renovating an American Tobacco Warehouse using Tobacco Commission  
10 funds, where two progressive and innovative educational programs will go  
11 in, as well as an R&D center for energy efficiency. The building was given  
12 to us, and we have concluded meeting with the architect and developing the  
13 face plan. The bids for construction will occur in July, and we are  
14 anticipating the building will be operational and up and running in 2010.  
15 The group will include the high technology advanced manufacturing  
16 equipment that will be used in a wood science design and production  
17 program, which will also be run collaboratively with digital art and design  
18 program. The R&D energy efficiency piece comes in by allowing the  
19 manufacturers in our area, which there is a cluster of manufacturing  
20 industries, small to medium size, to be able to come to our facility and learn  
21 energy efficiency protocols and how to run their operation more efficiently.  
22 A conference center is included in the innovation center so that we can bring  
23 people in in groups. We'll also work individually with companies. So this is  
24 going to have a commercial impact.

25 I've been in this job three months, and the work done before me

1 was done by Ted Bennett, and we were fortunate to have a Tobacco  
2 Commission grant which allowed us to put the personnel in place. We have  
3 program coordinators for both the educational program and for the R&D  
4 center. We also have a good relationship and are working on collaborations  
5 with an international institution, the Galway Mayo Institute of Technology,  
6 and we have two of their students who are interns working with us right  
7 now. Virginia Tech is working closely with us and wants to collaborate on  
8 some grants, and good working relationships with our community colleges.  
9 I have my Director of Finance and Administration here, Patty Nelson. If you  
10 have questions about that that I can't answer, she will be able to.

11 DELEGATE HOGAN: Does anyone have any  
12 questions? That's what's going on right now in the next 18 to 24 months and  
13 working through some things. It seems to me we should try to take care of a  
14 piece of business. From an operational standpoint, tell these folks yes there  
15 will be money available, get together with Staff and make an application for  
16 operational dollars covering the next two or three years, and we'll have that  
17 to present at the July meeting. That seems to be a housekeeping chore, and  
18 that's what we probably need to do. I think they need some assurance they're  
19 going to have the cash to operate.

20 SENATOR WAMPLER: Is the Staff going to  
21 have a workshop with the five centers to date to discuss the operating  
22 dollars, or have they?

23 MR. NOYES: Senator, I've had individual  
24 conversations, there has not been a workshop.

25 SENATOR WAMPLER: As a general comment,

1 but just on the operating dollars, and you can expand it to the research later  
2 on. One of the problems we have had since day one is the Commission  
3 binding future Commissions with multi-year obligations, and we're still  
4 cleaning up some of that, I guess, Ned. My point would be is that if we  
5 determined a dollar amount in aggregate for all of the centers we ought to go  
6 ahead, and my terminology may be a different term, but escrow a balance  
7 that could be off the books at the end of that fiscal year and then reimburse  
8 according to the guidelines we place there. It's a little more tricky, I guess,  
9 when you use restricted dollars, and maybe it does or maybe it doesn't.

10 MR. NOYES: This would have to be unrestricted  
11 dollars.

12 SENATOR WAMPLER: That would be that  
13 point. I think we're well on the way, but I just want to make sure that all the  
14 people who represent those centers are in agreement with what we're going  
15 to do. I don't want to put a round peg in a square hole. I think it would be  
16 helpful to have a workshop along those lines.

17 DELEGATE HOGAN: I think the way we're  
18 funding this it will not be difficult not to bind future Commissions and take  
19 the money and grant it to them with restrictions and put it in escrow; then the  
20 future Commissions won't have this problem.

21 MR. MAYHEW: Somebody in defense of these  
22 five entities, and I think I'm saying this right now. In most of these cases the  
23 Commission went to them with the plans for the R&D a year ago, with the  
24 \$8 million apiece, and they obviously said, great, we'll take it. It seems like  
25 it's been from the top down in some cases, and maybe not in all. I think

1 we're going top down again on this. I'm wondering if there's some way it  
2 could be more of a bottom up and that these entities could come to us.  
3 These are the innovative ideas we have for taking this thing forward and  
4 making it relevant to the communities.

5           Secondly, that they not be duplicating research that's being  
6 done somewhere else or has been done, similar to what you mentioned about  
7 the wind turbines. I'm just wondering if there's some way that we could  
8 instead of, here's more money, do a good job, let them say, these are some  
9 ideas that we have, or creative ideas, and some ways that we can do things  
10 that will keep jobs in the area and that will not be, this research can go on  
11 and on and on, and the money gives out, we'll look for grants and then we'll,  
12 five years from now or ten years from now we'll look at what we did and  
13 say, where are the concrete results that came from all this. Goodness knows,  
14 I'd like to see all of this succeed, and I sincerely hope that whatever we  
15 decide to do with the R&D money we have, that it be used wisely. I think  
16 we all agree with that. These are just some thoughts that I had. If we could  
17 make it more specific to things you can put your hands on, like local jobs.  
18 When we use the term, research and development, let's use the development  
19 and not let it all be pure research, because this could go on and on forever.  
20 You can tie all the strings to it you want to, but when you start talking about  
21 research, when you get good ideas out there, we need to try to enforce how  
22 this money is being spent. When you go to some of these universities, it's  
23 not going to happen; it just goes on and on.

24           DELEGATE BYRON: Let me try to understand  
25 what we're being asked for. It's one thing to do the research. We've talked

1 about research and development, and then we're talking about some  
2 operational money. My recollection in the beginning of this was that some  
3 of the investments that were made, whether it was for the structure based on  
4 everything that we're doing and the way that we generally seem to operate  
5 with all of our grants, we had a cap on some things, like limiting operational  
6 funds. I understood a lot of them were going, once they got started, were  
7 going to utilize grants and other things to keep themselves going. I realize it  
8 may take more than that. It seems to me like we're talking about like a blank  
9 check here, or something. We need something that designates how far does  
10 this operational money take you. When is it needed, and how long is going  
11 to last? What's the plan for after that? How long are we going to be funding  
12 the operations?

13 DELEGATE KILGORE: We put this 40 million  
14 out there for these; I understand there's going to be money, or a piece of that  
15 R&D monies, that we're going to have available. I agree with what Buddy  
16 was saying. We've got to be aware that we don't set up an entitlement,  
17 because we may miss the next big thing out there in R&D by tying  
18 everything to five research projects. We may want to step back from that.  
19 They know we want to support them and do good things, but we want to  
20 make sure we don't miss the next thing.

21 DELEGATE HOGAN: I couldn't agree with you  
22 any more. We don't want to create a bureaucracy, we want to create jobs  
23 and wealth. We've been talking about how you sort that out and how you  
24 make it happen. Do you want to maybe describe the relationship that you  
25 have with Tech and UVA and the relationship with Rolls Royce? What does

1 that look like, or how do you put it together?

2 MS. POVAR: One of the things I think we've  
3 heard from your center directors, first of all, there's an anchor project that  
4 could partner. The whole premise of the Commonwealth Center for  
5 Advanced Manufacturing was built around private sector partner investing in  
6 something that would create jobs and capital investment, in this case an  
7 engine plant in Prince George County. Again, it's tailored to needs and  
8 cutting-edge research, come to the table to produce new product line or be  
9 able to improve the products that they already have. They have a declined  
10 area of research needs. At their request we've brought to the table UVA and  
11 Virginia Tech to partner with them and develop a physical center, yes, but  
12 more than that, it'll be a center that requires Rolls Royce to invest dollars and  
13 the universities to invest dollars and requires the state to invest dollars. So  
14 there are three entities with dollar investments. There are measurables and  
15 deliverables. The first deliverable is Rolls Royce's dollars coming into this.  
16 The centers will have to have the universities enroll founding partners, kind  
17 of like the Bedford Center. There's a founding partner. There will be  
18 collaborative research conducted, proprietary research conducted. The end  
19 result of the research is to provide jobs and capital investments in Virginia  
20 for whoever those additional private sector partners are. Every private  
21 sector partner who invests in the Commonwealth Center for Advanced  
22 Manufacturing will have an entry fee. That entry fee will be used for both  
23 proprietary and generic research that's suitable. One of the challenges is  
24 defining what problem do you want to solve, the research need. That's  
25 where the two universities and Rolls Royce are right now. They're trying to

1 decide what is the problem we want to solve for our industry to make us  
2 continue to be competitive.

3 DELEGATE HOGAN: The Commonwealth  
4 Center for Advanced Manufacturing has a separate component that is strictly  
5 between Rolls Royce and the two universities, and it will include research  
6 that is conducted on campus at the two universities, and it's research done  
7 strictly for Rolls Royce and as a separate entity. The research will actually  
8 be conducted in a facility in Prince George County. The Memorandum of  
9 Agreement among the three parties, the four parties involved, is very  
10 extensive. There will be an agreement between the two universities and the  
11 company, driven by the company, as to what areas of research will be  
12 funded and then covered. It's very collaborative as to both the identification  
13 of the research, as well as the dollars.

14 DELEGATE HOGAN: Do you think that that  
15 model is capable of evaluating the kinds of things we've been talking about  
16 today?

17 MS. POVAR: If I were sitting in any of the three  
18 partners' shoes, I would tell you yes. Those three partners clearly have  
19 expectations and technical expertise the Commonwealth does not have. I  
20 believe part of their strength is they'll have other private sector companies  
21 involved, so it's really going to expand the research for this facility. They've  
22 really expanded and created almost an executive team composed of  
23 researchers that are not beholdng to a single company but that are beholdng  
24 to what the problem is they're trying to solve. So they have an in-house  
25 vetting committee, if that's what you want to call it. But I'd say it's a vetting

1 committee composed of a broad sector of industry experts.

2 MR. NOYES: We're really talking about three  
3 different activities here. One activity has to do initially with operations. In  
4 talking to Delegate Hogan I suggested 750,000 for each of the centers for a  
5 three-year period for operations cost to be formally approved at our July  
6 meeting, for each of those centers. That's one function. Not money beyond  
7 that for operations unless and until such time that it is decided we'd support  
8 some other activity and get them started. There'll be some needs they'll have  
9 very early in fiscal year '10.

10 The second piece is that that process that has to do with  
11 decisions that the Commission will make relative to applications for grant  
12 funds from the pool that we have now and expect to have standing in Fiscal  
13 Year '11 and '12; the total will be about \$100 million. There'll be an  
14 application process that a committee would make a recommendation to the  
15 full Commission, and that's where we find out about commercialization and  
16 jobs, private investment and the nature of the science and those sorts of  
17 things, completely separate from the operational piece on down the road at  
18 some point. What the Committee will be deciding are policy  
19 recommendations on what it is we want to see. Do we want to see basic  
20 research, or do we want to see fibers? There's probably a consensus on that  
21 already.

22 There's a third piece, and this is what I think the Chairman has  
23 been speaking to. Absent the expertise in-house to describe  
24 commercialization potential, describe the science, so that that committee  
25 when it hears an application can make an informed decision, what is the

1 mechanism that we wish to go forward with to get that expertise from  
2 outside the Commission? That's where we can lose focus of that.

3           These are really three separate scenarios, and they're connected,  
4 because it's all part of one major initiative, but they're separate issues, and I  
5 hope we're not confusing the different pieces.

6           DELEGATE HOGAN: In the name of simplicity,  
7 you're describing the things we have to deal with, and if we can dispense  
8 with the first one, and that being the operation dollars for these centers along  
9 the line of what you've talked about. If we started these centers then I think  
10 we've got some obligation to fund them. I'm somebody who thinks we ought  
11 to try to help them. Pretty quickly they're going to have to get in there and  
12 make their arguments for research money, along with what Buddy and Terry  
13 have said. I think they have the resources to go in there and compete. I  
14 certainly don't want to see a scenario where you have dollars going into  
15 centers, and no offense to the people here from the centers, that don't allow  
16 us to do other things.

17           MR. OWENS: You're asking us to make some  
18 kind of motion that we allow them to have some type of wrap-up money for  
19 the first three years?

20           DELEGATE HOGAN: I'm asking for a motion  
21 more or less to follow, and here's the proposal. That the Staff, together with  
22 the five centers, in the next 45 days come up with a proposal for this funding  
23 at some operational level over the next three years, or some dollar amount,  
24 and we would have that proposal in front of us when this Committee meets  
25 again, and we could make a solid recommendation to the Commission at the

1 July meeting. That would be the first chore, it seems to me. Whether it's  
2 600,000 or 750 or 1,000,000, let these folks get in these centers with Neal,  
3 and Staff can talk about that and make a proposal and take a look at it. I  
4 don't know what the right number is. They'll have to figure it out.

5 MR. MAYHEW: Just to justify it.

6 DELEGATE HOGAN: They'll have to justify it  
7 and see what they come up with. That would be one recommendation I'd  
8 like to make to the Committee tomorrow.

9 UNIDENTIFIED: I think we need some type of  
10 justification and implementation where these projects are and move forward.  
11 If we do the dollars.

12 DELEGATE HOGAN: What their capacity and  
13 sustainability is.

14 SENATOR WAMPLER: The House  
15 Appropriations, zero balance in the fourth year, and the declining numbers.

16 MR. OWENS: I don't know if we should leave it  
17 to the directors of the centers, but I think maybe somebody else on the  
18 Commission should decide and have a cap on it and then have them come  
19 and justify that cap.

20 DELEGATE HOGAN: Let's let them make a  
21 proposal, and we can decide which we're going to fund, how we'll fund it  
22 and how much. I'm like you, I want to see them justify the numbers. I'd like  
23 to see what they propose to spend. You're talking three to five million  
24 dollars of Commission money, or something approaching that. We can say  
25 we think 750 is a good number. Is that motion good enough?

1 MR. OWENS: Second.

2 DELEGATE HOGAN: There's a motion and a  
3 second. All in favor? (Ayes.) Opposed? (No response.)

4 MR. STEPHENSON: Mr. Chairman, I might  
5 suggest you fix the date of June 15th for these to be delivered to Staff so we  
6 can review them by July.

7 SENATOR WAMPLER: That's what I meant to  
8 say, Mr. Chairman.

9 DELEGATE HOGAN: I'd say we meet probably  
10 early in July and Mr. Stephenson's Staff review, followed by the Committee  
11 review, and have them ready for the July meeting.

12 DELEGATE HOGAN: Then we can cross that  
13 one off the list. Let's move on to the next subject that Neal bought up, which  
14 is pretty critical. To the extent we need a vetting process, there are some  
15 projects I think we can reject out of hand. We don't want to pay to vet every  
16 project that has applied to this Commission. It seems to me we could come  
17 up with a basic criteria that says if you apply for X amount we wouldn't be  
18 interested in that, and Neal would not move that project forward. I'm sure  
19 somebody could come back and get a review and change it, but in terms of  
20 managing those projects, Neal, do you want to speak to that?

21 MR. NOYES: I had some conversations and  
22 suggestions with Delegate Hogan and with some other people on this  
23 Committee. This program, as it was discussed in January and has been  
24 discussed prior to that over quite a period of time, has looked to use our  
25 funds to leverage other funds from third or fourth or fifth parties, however

1 many parties you want to participate. It was suggested to Delegate Hogan  
2 that a one-to-one leverage be the minimum threshold where something  
3 would be entertained by the Committee, and that seems consistent with the  
4 discussions we had. We would not pay a half million dollars up-front with  
5 the expectation that at some future date there would be another half million  
6 dollars if something proved out. There would have to be \$4 million  
7 committed at point of application to the Commission right up-front. A one-  
8 to-one leverage. While that's not extreme, two-to-one would be better, and  
9 three-to-one would be better. There are some programs, particularly under  
10 the stimulus, that really do look for dollars-to-dollars, that this Committee  
11 may wish to consider. That was the suggestion I had in conversation with  
12 Delegate Hogan about some leveraging requirements and that promises a  
13 future return, and this is for applications to come in in that third piece, not  
14 vetting and not operations. They would have to demonstrate those were  
15 available at that point in order to pass the threshold and get in front of the  
16 Committee. A lot of projects are projects where somebody has a great idea,  
17 and there are hundreds and hundreds of those. Those that don't have the  
18 one-for-one leverage, this Committee would make that decision, simply  
19 return and say inconsistent with policy of the Tobacco Commission. That's  
20 just an example.

21 MR. OWENS: A minimum of one-to-one?

22 MR. NOYES: A minimum of one-to-one.

23 MR. OWENS: Project ego and leveraging with  
24 other projects the better leveraging you get the better off --

25 DELEGATE HOGAN: -- I think what we're

1 asking right now is if you get through the pinhole to be looked at, you have  
2 to have one-to-one.

3 MR. NOYES: The Committee may wish to  
4 consider that in a favorable light, but it would not be, I wouldn't return it.

5 DELEGATE HOGAN: If it's three-to-one that  
6 would go on, certainly a three-to-one, but what we're saying is what criteria  
7 can we establish that will keep us from having to evaluate hundreds and  
8 hundreds and hundreds of projects, and do we want to rule some out.

9 MR. MAYHEW: I don't believe we'll be getting  
10 hundreds of projects.

11 DELEGATE HOGAN: I've got a stack.

12 MR. NOYES: I can give you an example. We had  
13 one from North Carolina requesting 35 million from the Tobacco  
14 Commission with no match and just a promise down the road of good things  
15 for southern Virginia.

16 DELEGATE HOGAN: Do we want to put  
17 resources into evaluating that project? That's the question, and you have to  
18 answer it.

19 SENATOR WAMPLER: I don't know the answer  
20 to that. What role would the centers have submitting applications? Are they  
21 at the threshold or the gatekeeper? Do we accept applications from anyone,  
22 and then if we fund research in a particular community and the center doesn't  
23 want to host it, we have a problem. Buddy's point, it's best served from the  
24 bottom up. I don't want to violate that. I can see somebody coming in trying  
25 to create new research.

1 DELEGATE HOGAN: Here's a legitimate project,  
2 and I don't know if there are people here from ODU. They've been talking  
3 about, and Dr. Hatcher you can join in, if there is something I say you don't  
4 want me to say, just say so. They have a project right now where they'd like  
5 \$6 million from us and to match \$15 million from the Department of Energy  
6 to develop an algae-base biofuel technology. They proved it out in their labs  
7 and it works, and they want to take it to commercialization. If they want to  
8 do that in Brunswick County, the closest center to that is in South Boston.  
9 Any reason why you want to say, no, you need to go partners with centers to  
10 do this research. And I think the answer to that is no. I don't think we want  
11 to say that before you can even talk to us you've got to talk to one of these  
12 centers and then get in front of us with this project. I don't see why we want  
13 to do that with all the folks in the center. I don't think they have any better  
14 idea than anyone else about whether that's worth funding or not. That's a  
15 concrete example. Then the question is, who on the Staff can supervise that  
16 research in Brunswick County? We need to figure that out. I don't have the  
17 answer, but that's going to be one of the biggest challenges we have for  
18 accountability, and who's minding the store, and what's the benchmark.

19 MR. NOYES: That's part of the second piece. Liz  
20 and Delegate Hogan and Jeff had some discussion around. This piece that  
21 we're doing the initial vetting around clients and commercialization we have  
22 the continuing role of reporting back to the R&D Committee whether or not  
23 people are performing consistently with what they have told us when they  
24 asked us for funds.

25 Another piece is that if they're getting money from the

1 Department of Energy. We have someone that is looking pretty closely to  
2 make sure that they're doing what they're supposed to be doing. If there is  
3 that third party private sector or government that's doing it, then are other  
4 sets of eyes that will be watching to make sure that the promise is being  
5 accomplished.

6 MR. MAYHEW: What if we continue along the  
7 lines that we've done so far with our grant applications? This is just one  
8 more standing committee to meet in July and not try to foresee all the what-  
9 ifs and ands and how, just kind of get into it the first few months of the year  
10 and make changes as needed as we go along.

11 DELEGATE HOGAN: Maybe I can present an  
12 alternative. If we lay out an application form like we do for every other  
13 committee, we've got this pool of \$100 million for energy projects, there will  
14 be a stack of applications that will be unbelievable, and out of that I  
15 guarantee the first round will be more than \$100 million. We're already got  
16 that about now, and they're stacking up. I think we've got to come up with  
17 some kind of process to say, here are the kinds of things we're looking for,  
18 and then get some more people who have expertise, and we can say of those  
19 which ones have a reasonable chance of success. How do you think you  
20 would decide which one is worth funding or not worth funding? I know  
21 there's a coal project down in Southwest Virginia people are talking about.  
22 And Buddy, you're talking about the bio-oil, and then wind turbine. We've  
23 got \$350 million. That's what I'm saying we've got to figure out. What do  
24 you do with this \$35 million application from North Carolina? Before we  
25 throw it in the trash can, it's got to have a reasonable chance of success, and

1 we've got to give them some reason to do that. We just can't reject  
2 applications because we don't think they're any good.

3 MR. PFOHL: Mr. Chairman, the contacts we've  
4 had with the Grant Staff, a very significant percentage come from outside  
5 the tobacco region and outside Virginia, Northern Virginia and Tidewater.

6 DELEGATE HOGAN: Let's say that the  
7 University of Chicago says we've got the cutting edge, we'd like to build a  
8 smart building in Danville to prove that out and find out if this will work,  
9 and that will save 30 percent of your energy bill. Smart building technology.  
10 Are you going to say, no, you're with the University of Chicago and we  
11 can't talk to you? I don't think you want to do that.

12 DELEGATE BYRON: Is the intention first to  
13 have grants to our own Staff to ensure that they're completed and then pass it  
14 to the Research Committee and we can decide whether project is something  
15 that we want to do, like research and jobs and all those things, before we  
16 look at the total science?

17 DELEGATE HOGAN: Yes, I think you have to.  
18 Otherwise, I would suggest that they not evaluate the science. We've got to  
19 basically buy or tell our Staff, here are the applications you can move  
20 forward on, and here are the ones you can't, that we're not interested in.  
21 Otherwise, we'll be meeting every week and looking at applications.

22 MR. HITE: Why don't we ask our Staff to come  
23 up with or suggest things that think will work and present it to us, then we  
24 can decide. That's my motion.

25 DELEGATE HOGAN: Do we have a second? It's

1 been moved and seconded.

2 DELEGATE KILGORE: This is not just limited  
3 to energy.

4 DELEGATE HOGAN: I think with the mandate  
5 we have it is. Energy is a pretty broad subject, so I think it is.

6 MR. NOYES: The discussion in January allowed  
7 for research and development that contributes to revitalization beyond, the  
8 discussion was focused on bio-energy, and it's expanded beyond that to  
9 things that were not bio-energy. Still energy-related, and there was also  
10 mention of other programs and the federal stimulus. For example, health  
11 records. I recall specifically making mention of that. There are  
12 opportunities that fit with companies within our footprint. So energy has  
13 been the focus of it, but we allow in the vote of the Committee to let it go  
14 beyond bio-energy.

15 DELEGATE HOGAN: Let me try this as a way to  
16 solve that. Just coming up with a process to deal with these energy projects.  
17 If this Committee or Commission would allocate funds to other things, they  
18 can do that, but I don't know how to set up the vetting process.

19 DELEGATE KILGORE: The same process.

20 UNIDENTIFIED: A vetting process with Staff.

21 MR. MAYHEW: Would the Staff have to hire  
22 additional people with the expertise?

23 DEPUTY SECRETARY HAMMOND: I was  
24 going to say you need to go back to the leveraging idea, the total monies  
25 invested, if there are other sources in the project. I think that's where you

1 were headed.

2 SENATOR WAMPLER: I think there's a motion  
3 before us. If the maker of the motion will allow us to do so, I think we need  
4 to try to refine the motion and get a consensus that we can all agree to and  
5 roll that all together.

6 MR. HITE: I'll withdraw the motion.

7 SENATOR WAMPLER: It's not inclusive, but I  
8 think the Staff should work with our centers and have a workshop and try to  
9 refine the focus and the mission of the centers, and then we'd ask any of the  
10 applicants to try to follow the mission of the five centers we have created,  
11 and that leveraging is a very important part. This is something we really  
12 haven't talked about, but I think I sense in the comments, and that we would  
13 prefer to be the minority investor, not the majority investor in the venture.  
14 That we would have multiple-year commitments, that we would have  
15 performance measures based upon meeting those commitments. That we  
16 want the research to be in the community. The desire is to create the most  
17 economic impact within the footprint of Southwest and Southside. To try to  
18 align our resources with the centers as best we can.

19 Maybe I could have said something else, but those are the notes  
20 that I don't think are all that confusing.

21 DELEGATE KILGORE: You didn't mean that  
22 just for energy, did you?

23 SENATOR WAMPLER: That's what I've got in  
24 my notes.

25 DELEGATE BYRON: One other thing as far as

1 having a capital investment, that would stay within our communities?

2 DELEGATE HOGAN: That's the beginning of a  
3 motion, if we can get to that. I think I heard also that priority will be given  
4 to help creation, such as jobs and economic activity, in the footprint. We'll  
5 give a priority to projects that create wealth. In other words, a pure research  
6 project where somebody comes in and says we want to do some research on  
7 full fusion, that's probably not something we're crazy about, because what  
8 are the chances of that leading directly to jobs and wealth creation in the  
9 short term. Somebody will say that's a wonderful thing to have. I'm just  
10 using that as an example. That seems to be much more theoretical than  
11 wealth and job development right now.

12 MR. FERGUSON: What I've heard so far in  
13 Senator Wampler's motion and I heard from Mr. Hite, is that part of the  
14 mandate be that Staff work with the centers and come on with some  
15 gatekeeping criteria sent back to this Committee so they'll have some  
16 guidance to be able to whittle down the number of applicants, the ones that  
17 are maybe what's called garage projects, and as Neal said, the ones that are  
18 viable and ones from millions of dollars, you might have to say no on those,  
19 and that wouldn't be what the Commission would want to look at further.

20 SENATOR WAMPLER: Let me try it this way.  
21 We ask the Staff to work with the Centers to attempt to devise a mechanism  
22 to further refine the applications and number of applications.

23 DELEGATE KILGORE: You have to be careful  
24 when you work with the centers that they don't set the criteria to their  
25 benefit. I'm not saying they would, but you have to be careful.

1 DELEGATE HOGAN: Is there a consensus here,  
2 or is there anyone that does not agree that the centers should not be sole  
3 gatekeepers to these funds? Any comments?

4 SENATOR WAMPLER: I'm not ready to say that  
5 yet. I'd like to see what the work product is that Staff brings back to us. It  
6 may be too tight, and there may be creativity lost in research. You may have  
7 six focuses or areas that you don't know about; I'm not really there yet.

8 DELEGATE HOGAN: I'd look at any proposal  
9 anybody has, but I haven't heard anybody here say that the centers are the  
10 prime gatekeepers.

11 SENATOR WAMPLER: I would agree, but there  
12 may be a mismatch in a particular area that can be researched within the  
13 focus of the center.

14 DELEGATE HOGAN: The centers have been  
15 talking, and they might have some questions. It seems to me that in terms of  
16 the vetting process for these technologies, these centers were developed, all  
17 of them individually, and we don't want them to be redundant, because  
18 they're very expensive and complicated, but we should explore an entity to  
19 be used to vet these projects. Is that something people are comfortable with?

20 MR. NOYES: It seems to me that this Committee  
21 can move forward on that issue in terms of the relationship between VEDP  
22 and the universities today without, we will do it, Senator Wampler, and  
23 direct it to meet. None of the centers can leave.

24 DELEGATE HOGAN: Where I'm sort of going  
25 with this is, and I'd like to see if we can get a motion to ask VEDP. I

1 discussed this with our Staff together with Tech and UVA and maybe some  
2 other folks, to come back with a proposal sort of based around the role we  
3 can use in evaluating technology. So at our next meeting we will have the  
4 operation budget for the centers, and we'll have some proposals for us, what  
5 projects we're going to kick out ---- based on some of the criteria that we've  
6 talked about. We'll have at least a framework to look at and look at what's  
7 the right way to evaluate some of this complicated stuff.

8                                 SENATOR HAWKINS: We've got to make sure  
9 we have all the parties at the table.

10                                SENATOR WAMPLER: Mr. Chairman, I have  
11 great difficulty in letting the entities who are going to be the applicants be  
12 the ones who are vetting the applications. Conflicts will arise, and I have yet  
13 to hear anybody say they're going to resolve it with the vetting process.

14                                DELEGATE HOGAN: Why don't we give them  
15 an opportunity to try to answer that problem? We've just got to work  
16 together and try to solve the problems. I could make exactly the same  
17 argument, no matter who you put in the process of evaluating the centers,  
18 there's going to be potential conflict in evaluating these projects. If the  
19 center is doing the evaluation don't want research done at those centers,  
20 they've got their projects, and they're going to be pushing for them. If UVA  
21 is vetting and they've got a project they want to get funded, they're probably  
22 going to be for it, and there would be nobody to protect the expertise of the  
23 technology. By definition they're going to have a stake in that. I just think  
24 we have to set up something that deals with that. It's not going to be a  
25 perfect system, and we just have to realize that.

1 MR. NOYES: If I may, Mr. Chairman, and help  
2 me out on this. In our discussions, my understanding was that VEDP is  
3 going to work with UVA and Tech to establish a framework, but not that  
4 VEDP or UVA or Tech do the vetting. Those are two different things. It  
5 may be that that framework would allow for UVA or Virginia Tech to  
6 comment where their application is not being considered, because they have  
7 particular expertise. I don't think this is an insurmountable issue, as long as  
8 we have the private sector people looking at this as far as any licensing and  
9 things like that.

10 SENATOR WAMPLER: Liz, have you gone  
11 through this process with the Research Institute?

12 MS. POVAR: The closest thing we've gone  
13 through, the investors, private sector investing group and the research group,  
14 that would be closest.

15 SENATOR WAMPLER: Those institutions knew  
16 that they would be participating with the success of that project.

17 MS. POVAR: They do, yes.

18 SENATOR WAMPLER: We appreciate their help  
19 to that end, but how are you going to build a firewall around the vetting  
20 process when they're going to be applicants for the same pool of money?  
21 How do you come up with that?

22 MS. POVAR: Make a distinguishing factor, but I  
23 would go back to Neal's question. I think the conversations we've had, and  
24 they've been high level conversations, it would be if this group wanted a  
25 target to shoot at as to how a vetting process could work, we're happy to

1 work with the two universities and describe a process. That process does not  
2 necessarily mean that you are opting to say that they are the vetters. You're  
3 simply looking at a process that could give you a target to shoot at about  
4 how it could work. Does that help?

5 SENATOR WAMPLER: That's much more  
6 palatable in my mind. Having them sit at the table to determine vetting of  
7 the application. I can't get that.

8 MR. NOYES: That's in the context of the  
9 discussion with VEDP and even with Virginia Tech recently late yesterday  
10 afternoon. They're not going to vet their own stuff. We need their help,  
11 along with VEDP, in establishing that framework.

12 DELEGATE HOGAN: I don't know how you get  
13 around it.

14 MR. OWENS: Would it be wise if we had access  
15 to proposals? If you took the universities out of that mix and try to get an  
16 unbiased objective of where we're heading, I think that would be a wise  
17 investment for the Committee to make and get some expertise. You're  
18 talking about three to five million dollars for operations, and maybe we  
19 should have a small allotment in that area for consultants to come in and  
20 give us their perspective.

21 MR. MAYHEW: Are we going back to what  
22 William and Jack said? If we go back to already existing Staff, who I  
23 concede have done a fantastic job, and they're probably loaded up doing all  
24 they can do with their other duties, and not trying to put an insurmountable  
25 burden on them, but if somehow we could get some help as needed and still

1 kind of keep it within the house as we've been doing and see if it could be  
2 innovative as we go along.

3 DELEGATE HOGAN: I'm not opposed to hiring  
4 a consultant. I'm trying to think of what sort of consultant we would hire to  
5 do that, or who that person might be; that would take some time to try to  
6 figure out who that might be. We'd have to give that some thought to find  
7 the right kind of person. In response to what you're saying, Buddy, I think  
8 the technologies you're looking at are so varied and so technically  
9 complicated. When you're talking about getting advice on heat transfers and  
10 information on power plants, advanced turbine technology and things like  
11 that, there's just an awful lot you've got to know to make good judgments  
12 about those things. I think we're going to have to create some vetting  
13 process to get people that have specific information on a variety of topics.

14 DEPUTY SECRETARY HAMMOND: One thing  
15 we looked at was establishing a body with a couple of universities  
16 themselves. Every university not in that body might have something to say  
17 about it and how do we deal with the inclusion of them.

18 MS. POVAR: From a framework standpoint, this  
19 group has the ability to keep that fairly wide open, and the universities all  
20 have different areas of expertise. If they're applicants I would think that  
21 their vetting process would help you determine which of those applicants are  
22 most appropriate using your funds.

23 DEPUTY SECRETARY HAMMOND: In  
24 determining what the vetting process is, I would think you would want to  
25 make it a little bit wider, rather than narrower, for that reason.

1 MS. POVAR: I would tell you that the time line  
2 you're working under, you're probably best served with a smaller group, and  
3 again recognizing the product they'll deliver to you rests in your hands as to  
4 whether or not it's valuable. A smaller group can give you a target that dose  
5 not exclude others but it simply allows you to achieve the time line you're  
6 under.

7 MR. HITE: Going back to my original motion and  
8 going back to the guidelines that we could propose and work with the Staff.

9 DELEGATE HOGAN: But I think we have to  
10 establish some guidelines to give them as to what we're looking for, rather  
11 than just turning them loose to come up with something.

12 DELEGATE BYRON: Does the Staff have any  
13 questions for us? Maybe they're watching us stumble over all of this, and  
14 they can do it, and they're ready to go.

15 SENATOR WAMPLER: Maybe to address your  
16 concern, I'll bet we can find enough volunteers from private sector and joint  
17 ventures and capitalists who would be happy to offer their services. It  
18 doesn't have to be from within the footprint. I think we have plenty of  
19 people in Virginia to help do that, and the Staff could recommend that back  
20 to us at our next meeting, what the proper mix of those would be to address  
21 those points.

22 DELEGATE HOGAN: Maybe we can try to  
23 address that. I think we could ask VEDP to work with and to address Ms.  
24 Hammond's comment about what effect UVA and Tech would have, it's not  
25 our job to keep them happy, number one. And, number two, whether people

1 like it or not, those are the higher tier research institutions we have in the  
2 state, and this is a research-driven process. If we broaden it too much, and  
3 maybe everybody would like to participate, but that doesn't mean we  
4 wouldn't have a process that's open to the other institutions that apply, and  
5 we could open it up to folks beyond the state. Maybe we could do that to  
6 address your comment. If we ask VEDP to work with some type of model  
7 and then open this up with our Staff, and also including private sector folks,  
8 and they could work with our Staff and notify us who those people are. I  
9 think we could get a decent structure in place relatively quickly.

10 MR. NOYES: If it suits the Committee, what I'd  
11 like to do is get Liz and others in VEDP, we could get a consultant authority  
12 and work like that and then direct some of these issues that have been raised  
13 here today and go in that direction, if that would be acceptable. Maybe Ms.  
14 Hammond and maybe Ned and myself, we could get an outside consultant,  
15 and VEDP could make a recommendation. We've already talked to a couple  
16 of them. We can work on that and report back in July.

17 DELEGATE HOGAN: All right. We need to get  
18 back to that motion, I believe, or, Ned, what do you have for us?

19 MR. STEPHENSON: Mr. Chairman, I applaud  
20 your efforts to find a process that will work for us, and I have a vision, and it  
21 may be a little bit rough, but I'll try to state it. I'm envisioning a three-screen  
22 process. Screen number one is the avalanche of applications has to pass  
23 muster with Staff as being within your mission. I think Staff understands  
24 your mission enough to screen them out, not science or not viability, but  
25 your mission.

1                   Screen number two would be when Staff takes a surviving  
2 application and refers them to the appropriate center, for the center to then  
3 decide the viability of the project, and if doesn't fit one of those centers, we  
4 would have another place or perhaps a partnership or university to send that  
5 application to vet the science and compliability.

6                   Then the final screen would be this group.

7                   DELEGATE HOGAN: Let me interrupt you just a  
8 second. Number one, I think is right, and number three I think by rule we  
9 have to do.

10                  \*\*MR. STEPHENSON: Right, help me with  
11 number two. Number two, that's something we'll have to settle here. I've  
12 heard a lot of good things from a lot of these folks, but the notion that the  
13 centers are going to be capable of screening projects is something that I don't  
14 think would pass.

15                  \*\*MR. STEPHENSON: I admit my model is  
16 rough, but Staff can screen as to mission, and my sense is the Committee  
17 could get comfortable with that. The second screen of science and viability,  
18 that Staff is not equipped to do.

19                  DELEGATE HOGAN: I don't think the centers  
20 are.

21                  MR. NOYES: I don't think the centers have a role  
22 in that.

23                  MR. STEPHENSON: Well, then, help us with that  
24 second.

25                  DELEGATE HOGAN: Let's walk through an

1 example. A project comes up about clean coal technology, and they talk to  
2 the center in Abingdon, and they say okay, make your proposal, and that  
3 proposal passes through the Staff, yes, that makes sense, and we kind of  
4 understand why this would work. Then at that point somebody who knows  
5 right much about whatever it is they're talking about needs to take a look at  
6 that, whoever that is. That's not to say somebody cannot apply independent  
7 of that center. Bring it to Staff, and if it passes Staff, it would show up here.  
8 I think from a practical standpoint a lot of applications will come through  
9 the center. I think that's good, and we want that to happen, but it's not  
10 necessarily essential for what we need to get done.

11 MR. STEPHENSON: I think the key here is the  
12 application comes to the Staff and fits within the mission, the Staff needs to  
13 know where then to send that application for it to be duly vetted before you  
14 see it.

15 DELEGATE HOGAN: That's what we're going to  
16 work out. I think that's really what Mr. Hite's motion is trying to do.

17 MR. REYNOLDS: We've talked about all kinds of  
18 scenarios, but I think it's worthwhile letting the Staff start out, let them do  
19 the screening to get us on track. The Staff knows our mission, let them take  
20 a look at these proposals and screen them and come back and bring a  
21 recommendation as to what they think would keep us on track of our  
22 mission. We've got a lot of proposals, and a lot of them are good, and we've  
23 got to have somebody to put it together, and I believe the Staff has a way of  
24 doing it.

25 DELEGATE BYRON: Just to help me understand

1 this. I understand in Southside we want to make sure that there are  
2 proposals and that we don't necessarily have to fit in the model like the  
3 centers that we have. We want to make sure we don't lose any funds. To a  
4 degree they're going to be vetted if they want to use the center as their  
5 research facility. They're going to need to vet through the centers, because  
6 we're not deciding what research centers do what. To some degree they are  
7 going through that process. If they plan on doing it, then it's going to be  
8 vetted to make sure that they will go through that.

9 DELEGATE HOGAN: Let me try to answer that  
10 question. The centers are going to try to help them, and they will or won't,  
11 based on whether that's within the center. I think that will solve itself. Some  
12 of these projects might be a better fit at another center.

13 DELEGATE BYRON: Should we not know what  
14 the center is doing, or if they don't want to assist them, then they come  
15 independently to us?

16 DELEGATE HOGAN: It depends. I don't know  
17 really how to solve that problem.

18 Now, do we have a clear idea where we are?

19 MR. HITE: I move that we have Neal and his  
20 Staff, with Liz Povar and others that may be necessary, to formulate  
21 administrative plans for this Committee to review at the next meeting.

22 DELEGATE HOGAN: We have a motion and a  
23 second. All in favor of that motion? (Ayes.) Opposed? (No response.)  
24 That goes along with the motion we made about the operation. We have two  
25 motions, one is the operation proposal, and the other one is the process, the

1 motion Mr. Hite just made. That's where we are as of today.

2 MR. MAYHEW: As a parting comment, I would  
3 like to think that we all kind of agree on, and that is just simply because  
4 we've got the money doesn't mean we have to spend it, certainly not spend it  
5 fast. I think we need to hold tight and let it go out when we feel really good  
6 about what we're fixing to do and try to make this go as far and do as much  
7 good as we can and stay away from these humongous big chunks of money  
8 that someone comes in and takes a half or two-thirds of it at one time. We  
9 have to be very prudent about spending this money.

10 DELEGATE HOGAN: Mr. Noyes.

11 MR. NOYES: I have some housekeeping matters.  
12 The reception is immediately following the Executive Committee Meeting  
13 down the hall.

14 DELEGATE HOGAN: Are there any public  
15 comments? All right, we're adjourned.

16

17 PROCEEDINGS CONCLUDED.

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21 CERTIFICATE OF THE COURT REPORTER

22

23 I, Medford W. Howard, Registered Professional  
24 Reporter and Notary Public for the State of Virginia at large, do hereby  
25 certify that I was the court reporter who took down and transcribed the

1 proceedings of the **Virginia Tobacco Indemnification and Community**  
2 **Revitalization Commission Research and Development Committee**  
3 **Meeting when held on Wednesday, April 22, 2009 at 1:00 p.m. at the**  
4 **Hotel Roanoke, Roanoke, Virginia.**

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

7 Given under my hand this day of May, 2009.

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Medford W. Howard

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Registered Professional Reporter

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19 My Commission Expires: October 31, 2010.

20 Notary Registration Number: 224566