

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

3                   701 East Franklin Street, Suite 501  
4                   Richmond, Virginia 23219

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8                   **Research and Development Committee Meeting**

9                   Thursday, December 13, 2012

10                  1:00 o'clock p.m.

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14                  Hotel Roanoke & Conference Center  
15                  Roanoke, Virginia

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**CRANE-SNEAD & ASSOCIATES, INC.**  
4914 Fitzhugh Avenue, Suite 203  
Richmond, Virginia 23230  
Tel. No. (804) 355-4335  
Fax No. (804) 355-7922

1     APPEARANCES:

2     The Honorable Kathy J. Byron, Chairman

3     Ms. Cindy M. Thomas, Vice Chairman

4     Ms. Mary Rae Carter, Deputy Secretary

5         Department of Commerce and Trade for Rural Development

6     Mr. Burgess "Butch" H. Hamlet, III

7     The Honorable Daniel W. Marshall, III

8     Ms. Sandra F. Moss

9     The Honorable Edward Owens

10    Mr. Kenneth O. Reynolds

11    The Honorable Frank M. Ruff

12    The Honorable Ralph K. Smith

13    The Honorable Terry G. Kilgore, Chairman

14         Virginia Tobacco Indemnification and Community

15         Revitalization Commission

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18    COMMISSION STAFF:

19    Mr. Neal Noyes, Executive Director

20    Mr. Ned Stephenson, Deputy Executive Director

21    Mr. Timothy S. Pfohl, Grants Program Administration Director

22    Ms. Sarah K. Capps, Grants Coordinator - Southside Virginia

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1 December 13, 2012

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3 DELEGATE BYRON: Good afternoon, everyone. Thank  
4 you all for coming.

5 I'll start off by asking Neal to call the roll.

6 MR. NOYES: Yes, Delegate Byron. Delegate Byron.

7 DELEGATE BYRON: Here.

8 MR. NOYES: Senator Carrico will not be with us  
9 today.

10 Deputy Secretary Carter.

11 DEPUTY SECRETARY CARTER: Here.

12 MR. NOYES: Mr. Hamlet.

13 MR. HAMLET: Here.

14 MR. NOYES: Delegate Marshall.

15 DELEGATE MARSHALL: Here.

16 MR. NOYES: Ms. Moss.

17 MS. MOSS: Here.

18 MR. NOYES: Ms. Nyholm won't be with us today.

19 Mr. Owens.

20 MR. OWENS: Here.

21 MR. NOYES: Mr. Reynolds.

22 MR. REYNOLDS: Here.

23 MR. NOYES: Senator Ruff.

24 SENATOR RUFF: Here.

25 MR. NOYES: Senator Smith.

1 SENATOR SMITH: Here.

2 MR. NOYES: Ms. Thomas.

3 MS. THOMAS: Here.

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

5 DELEGATE BYRON: The minutes from 9-27 are on the  
6 website. Does anyone have any changes to the minutes?

7 SENATOR SMITH: Madam Chairman, a couple of  
8 things that are attributed to me, I don't remember that verbiage.  
9 Maybe it's just attributed to the wrong member.

10 MS. NOYES: I'll look at it. Let me know which things  
11 in particular. If there are changes, we can announce them at the  
12 next meeting as necessary.

13 DELEGATE BYRON: Does everyone else approve  
14 them? Say aye. (Ayes).

15 A couple of announcements I want to make. I was  
16 able to be in the legislative chambers to remind some of my  
17 community, some of the tobacco investments, in particular, that  
18 this committee has invested on behalf of the Tobacco  
19 Commission, and it's really rewarding to be able to look or reflect  
20 on to the business community and the effect on small and large  
21 businesses because of the success and growth of those  
22 companies.

23 Those of you that are not aware, we have had some  
24 things that are pretty outstanding. Recently in the news, B&W,  
25 regarding the nuclear reactor that's being designed and tested at

1 the Center for Advanced Engineering and Research, won a  
2 Department of Energy award, and the only one to receive that  
3 award out of all the applicants because of their ability to meet  
4 the goals of 2022 and to have the technology in place to handle  
5 what the Government is looking for in regard to the nuclear  
6 reactor. That was quite an impressive award to the county, the  
7 quantitative amount, not necessarily out there yet, but I can tell  
8 you I think that it's going to be in excess of \$500 million  
9 probably. We look forward to the job creation that's going to  
10 come from that and already doing certain things and having that  
11 in place to receive that and move forward with that. And that's  
12 something that will have a long-term effect on all of the region.

13 The other one I wanted to mention briefly was the  
14 money that we're investing through the R&D Committee, the  
15 company down in Danville that's going to the medical scientific  
16 stuff on the sequencing. There are some health care changes  
17 that are about to take place, and looking at the fact that they're  
18 going to take a 32 percent inaccurate diagnosis for cancer and  
19 bring that down to zero percent and be able to come out with  
20 better health care for folks that are being diagnosed with cancer  
21 and to have treatment at the right time or right diagnosis.

22 It's something that I don't think we can quantify in  
23 looking at what that'll do for the Danville area as the medical  
24 community starts to grow because of that. Those are just two of  
25 the things that immediately come to mind. There was one more

1 that I forgot until this morning, too many things on my mind.  
2 But this Committee and the leaders that have brought that to us  
3 are really to be commended for bringing those things in place.

4           Regarding the medical health science, they've still got  
5 jobs. Talking about focus and jobs with the economy and just  
6 because the election is over, it doesn't mean that that's changed.  
7 The whole point I was getting at, we have made a wonderful  
8 investment because of money we have been entrusted with in  
9 Southside, and yet the policies coming out of Washington are  
10 endangering this investment that we're making.

11           One of the things we referred to the other day in one  
12 of our committees was the EPA and some of the regulatory  
13 policies that are coming down on the megasites. The  
14 manufacturers just came out with a report that was incredible in  
15 the compliance cost that's put on the manufacturers in this next  
16 year in the State of Virginia. This is really concerning to see  
17 about how we're going to keep trying to make the business  
18 community strong and yet try to offset policies that are coming  
19 along and affect some of the things that we're putting in place.

20           So I think we're doing great things, and I think in the  
21 end we have to keep fighting for those things that will help  
22 businesses to prosper and make sure that we don't lose  
23 opportunities in the Southside because policies are keeping us  
24 from offering megasites bigger and better. I'm really proud of  
25 the work from all the members of the Tobacco Commission. I

1 just thought that was worth sharing with all the members.

2 We have a few more applications in front of us that  
3 we're going to take a look at, we can consider for the Southside  
4 and Southwest areas. We're going to get to look at some  
5 innovation that we can consider for the Southside and Southwest  
6 areas. What I talked to Neal about doing, one application to  
7 expedite things and also and more efficiently. I think maybe  
8 doing one applicant at a time and go through the application, and  
9 Neal can make his recommendation, and then if you have any  
10 questions, I'll ask for questions from Committee members, and if  
11 someone is here representing the applicant, they can come  
12 forward, and if there's any questions, to be able to answer  
13 them.

14 If the staff recommendation is good and there's no  
15 question, then I would suggest a very brief remark would be in  
16 the best interest, and we can move forward with the process of  
17 the applications.

18 MR. NOYES: Thank you, Madam Chairman. Seven  
19 applications were received by the deadline, October 26<sup>th</sup>. As  
20 directed by the Committee, the staff review emphasizes the  
21 development potentials in terms of private sector capital  
22 investment and jobs.

23 The first project we assessed was Number 2639, Floyd  
24 County EDA - Biomedical Innovations, Phase II. The EDA is  
25 requesting \$837,286 for the second phase of applied research on

1 biosynthetic cellulose materials. Funding would be used by BC  
2 Genesis, Limited Liability Corporation, to expand applied research  
3 to focus on surgical mesh, surgical mesh applications, as a way  
4 to accelerate market entry. Our funds would mainly support  
5 personnel costs and the purchase of equipment that would be  
6 owned by the Floyd County EDA. Please note that the Budget  
7 Committee members have seen will be substantially modified if  
8 the R&D Committee agrees to repurpose monies awarded for  
9 Phase I in the amount of \$100,000 to enable BC Genesis to  
10 acquire certain IP that would reduce the animal studies  
11 components of both Phase I and Phase II projects. I recommend  
12 to the Committee that we allow this repurposing of \$100,000.

13 The staff learned of this late, a little after the  
14 application deadline. The Phase I award is \$700,000. And after  
15 some early stumbles concerning the eligibility of certain costs,  
16 the Phase I work has proceeded in a timely fashion more  
17 recently.

18 There are currently seven BC Genesis employees  
19 working in Floyd County. The current application anticipates  
20 adding six new employees for the R&D activities. At  
21 commercialization, plan to commence June 4 of 2014, the  
22 beneficiary expects employment to wrap up to 38 FTEs. Private  
23 capital investment is shown at \$23 million at commercialization.  
24 And the direct economic impact is estimated at \$50 million by  
25 2022.

1           The milestones and deliverables are clear. Matching  
2 funds for Phase II are expected from the Center for Innovative  
3 Technology, the National Science Foundation, the National  
4 Institutes of Health, and USDA Rural Development. Only the NIH  
5 funding has been secured at this time, and because our policy  
6 stipulates that no Commission monies are to be disbursed until  
7 all funds identified in an application are committed and available  
8 for project purposes, it appears that there is ample time for this  
9 Phase II request to be vetted. Staff recommends referral to  
10 VEDP for vetting.

11           DELEGATE BYRON: Any questions for Neal?

12           SENATOR RUFF: Madam Chairman, can we have a  
13 recap of what the Phase I is?

14           MR. NOYES: The Phase I is just the same cellulose  
15 materials, and it's focused on the development of sutures. In the  
16 time since that project was approved, BC Genesis has been in  
17 touch with corporations that have a stronger interest in the mesh  
18 and the sutures, a higher value thing. They proceeded just fine,  
19 there were some initial problems around some travel costs.  
20 Those expenses have all been resolved, and during Phase I,  
21 they're on schedule.

22           DELEGATE BYRON: Is there someone here that would  
23 like to speak this?

24           MS. MARTIN: I'll be glad to answer any questions.

25           SENATOR RUFF: Following up that thought process,

1 started out in one direction and then realized what the market  
2 was, you went in another direction, how do you know you're in  
3 the right direction now?

4 MS. MARTIN; The answer is that in Phase I, we're  
5 developing material which can have multiple products coming  
6 from. The platform we developed in Phase I has a potential for  
7 several products, which we've known all along. There is market  
8 pool now from a very substantial firm. That's why we have the  
9 study that is being done, and commercialization will be based on  
10 the market, information which will be submitted to VEDP during  
11 the vetting process. It's not unusual for an innovation firm to  
12 think they're going to have one product going to market and  
13 during that process learn that you have to adjust because of  
14 market conditions.

15 SENATOR RUFF: The first part, is that going to  
16 market, also?

17 MS. MARTIN: No, not at this time, and it could do it in  
18 the future. It seems to be more market driven. The initial  
19 product is going to be an \$8 product, and the surgical mesh is  
20 more like a \$600 or \$700 product, so we're trying to go to a  
21 premium product in the marketplace first. Anything you'd like to  
22 add?

23 UNIDENTIFIED: I'm an advisor to the company. With  
24 a startup and changing products, if you don't do it, something is  
25 wrong. Every company changes its products through the

1 workload or maybe market conditions. This is a typical step. BC  
2 Genesis is basically trying to develop this material, and the  
3 development applies to both products.

4 DELEGATE BYRON: Any questions?

5 MR. OWENS: Madam Chair, on this application, like  
6 most companies, they want to make money. I move that we  
7 accept the staff's recommendation.

8 DELEGATE BYRON: We have a motion and a second.  
9 All those in favor, say aye. (Ayes). Opposed? (No response).  
10 So we recommend this go to vetting.

11 MR. NOYES: Same project, Number 2640, One Care  
12 of Southwest Virginia, Incorporated. One Care of Southwest  
13 Virginia, Inc. is a 501C(3), requesting \$650,000 to enable Vatex  
14 Explorations LLC, an Illinois corporation, to conduct a behavioral  
15 trial that will enable the company to track individual patient  
16 access to medications. There is a working prototype of the  
17 blister-pack and wireless transmitter so that our funds would be  
18 used to generate algorithms from actual patient data necessary  
19 to complete the integration of product.

20 Members of the Committee considered a previous  
21 submission, Number 2513, which is essentially the same for this  
22 round, at your May 17<sup>th</sup>, 2012 meeting. Minutes are attached for  
23 your review. The application contemplates a second R&D request  
24 after the initial stage is complete in Q3 2014. Sixty new jobs are  
25 estimated, though private capital investment is small. Milestones

1 and deliverables are clear, and VateX Explorations Limited  
2 Liability Corporation has committed the necessary matching  
3 funds. Staff recommends referral to VEDP for vetting.

4 If you'll recall, this was a conversion project of the  
5 one you heard in May.

6 DELEGATE BYRON: Is there anything different in this  
7 application than the one we heard before?

8 MR. NOYES: In my review, and I went through this  
9 several times, it's essentially the same. And there may be some  
10 new things that I didn't pick up when I did my review, but it's  
11 fundamentally the same request.

12 MS. CARTER: I have a couple of questions. I recall  
13 the last time we looked at the application, the client was not in  
14 the footprint as I understood it.

15 MR. NOYES: It was in Radford, Virginia. The funds  
16 would be spent in the footprint.

17 MS. CARTER: As I recall, there was no manufacturing  
18 of the product would be done out of state?

19 MR. NOYES: I don't know if it was overseas, that's  
20 where the blister pack. If there's a change, I didn't identify it.

21 DELEGATE BYRON: If there's a representative, if  
22 you'd come forward and tell us what is different in this  
23 application from the last one.

24 MR. HARRIS: My name is Jim Harris, and I'm with  
25 VateX. I'd like to address the manufacturing issue. The

1 electronic units will never be available for sale, only for lease to  
2 the pharmacies. That's a very high tech portion of our  
3 technology, and we want to be completely in control of the  
4 evolution of the technology.

5 Our medical system is being actively gamed at a cost  
6 of no less than \$100 million per year. So this really is a spy-  
7 versus-spy operation. We have people that are making great  
8 primary income by gaining the medical system.

9 The manufacturing of the electronics, certainly the  
10 engineering will be done by us, and I cannot predict the future  
11 regarding where the manufacturing will be done. The  
12 consumables, however, made from Plastic Paper and Conducted,  
13 Inc.'s. could be made in the Commonwealth. One potential  
14 vendor is Meadwestvaco headquartered in Richmond, an  
15 international paper company and high performance packaging  
16 company.

17 We are an early stage R&D company. It's hard for us  
18 to commit to which vendors are the best, but I can certainly  
19 commit to IT Engineering and for Electronics Engineering to be  
20 conducted in the Commonwealth.

21 DELEGATE MARSHALL: Sir, you say Commonwealth.  
22 You didn't say what --

23 MR. HARRIS: -- At this point in time, Meadwestvaco  
24 does not have facilities that I know of in the footprint. There is  
25 an economic issue if resources for manufacturing paper goods

1 elsewhere, building new ones may or may not make economic  
2 sense. I would say the high value aspects are the IT  
3 Engineering. We will have an enormous clout and enormous IT  
4 responsibilities in order to implement this system. Also, the  
5 engineering and design of the electronics, those are all very, very  
6 high valued jobs. That's a headquarters issue and something  
7 that clearly would be conducted in the footprint.

8 DELEGATE BYRON: Did you say what the difference  
9 was between your application last time and this one?

10 MR. HARRIS: Little to nothing. We do have a  
11 substantial component of One Care members here. I guess the  
12 intent or goal is to demonstrate what a large problem this is for  
13 the entire Commonwealth to include the footprint.

14 MS. MALCOLM: I'm Sarah Malcolm, chair of One Care.  
15 I just wanted to say that from the perspective of One Care where  
16 we're comprised of 16 coalitions, and we work very, very  
17 diligently to combat prescription drug abuse. As you know, from  
18 President Obama, even to our own Governor McDonnell, that this  
19 is the type of thing not only in the Commonwealth and typically  
20 in the footprint, in the Tobacco Region. This occurs across the  
21 nation.

22 I see this as a very exciting opportunity for you as a  
23 Commission to make a national difference. This is the first  
24 technology that we have seen that'll be used in a clinical medical  
25 setting that'll be able to decrease diversion, to be able to track

1 where these controlled substances are being used, and to combat  
2 the problem. We have tried all kinds of things in drug monitoring  
3 programs and educational programs and it's time we need to get  
4 technology involved. We're very excited about the potential for  
5 this that would make Southwest Virginia a national impact with  
6 the resources that we can use to make it happen.

7 DELEGATE KILGORE: I can tell you this is a problem  
8 in the Southside and Southwest, not only for the medical aspect,  
9 but it's an issue involving the workforce. It's an issue all around.

10 DELEGATE BYRON: I'm not arguing the cause or the  
11 issue. It's certainly a very serious one, but I'm troubled a little  
12 bit with the criteria that we have set as a committee. Some of  
13 the criteria we have in front of our Committee, we rate our  
14 projects on. When you consider all the things involving the  
15 footprint, and I don't see that this is different from the last one.

16 MS. MALCOLM: I think you'll notice in our application  
17 we talk about economic impact that this will probably have  
18 besides the 60 jobs. We know now that people in Southwest  
19 Virginia can pass a drug test, and not only Southwest Virginia,  
20 but it's really across the Commonwealth. If we are able to be  
21 successful, we're going to reinvigorate the economics and our  
22 business system. That's the big issue in what we talked about in  
23 this business coming forward, and there's a problem with  
24 prescription drug use. I see this as a great opportunity on all  
25 fronts that you mentioned.

1           MR. OWENS: Did I hear you say that this is the same  
2 application we had in front of us last time?

3           MS. MALCOLM: Correct.

4           MR. OWENS: Well, what has changed to make you  
5 want to do something? The timing, the law, nothing has  
6 changed?

7           MS. MALCOLM: Because the data came out in the  
8 past year that we're not making any progress. And even  
9 President Obama all the way down. And we want to take action  
10 as a coalition that we are doing something about this, using this  
11 technology. We need to get our economic system back to work.

12           DELEGATE BYRON: Have you gone to the Federal  
13 Government for some funding or grant money?

14           MR. HARRIS: We're expecting grant funding from,  
15 both from NIH and from the Center for Medicaid and Medicare  
16 Services. This is one of the largest sources of health care fraud  
17 in our system, so the answer is yes. We are an early stage  
18 company, so we have no results to date, but it's clear to all that  
19 this problem is accelerating and must be addressed. So far as  
20 we know, we're the only technology company to be addressing  
21 this. At least for the time being, we will be the only technology  
22 company, because we think we have a very secure patent  
23 portfolio.

24           I'd also like to note that if we're successful in getting  
25 these matching funds, we will cite the business incubator in

1 Abingdon, and even initially, the jobs we offer are very well  
2 paying and high end engineering jobs. As the years pass, of  
3 course, the breadth of opportunity spreads, but in the beginning,  
4 this is R&D and medical engineering, IT engineering.

5 SENATOR SMITH: Where do you have a presence  
6 today on this project?

7 MR. HARRIS: We are a Virginia registered company,  
8 and the concept was actually incubated in Southwest Virginia,  
9 and I'm a former resident of Southwest Virginia, but because of  
10 the economic collapse, I had to move to Texas. Upon funding,  
11 we would bring the company back and site it in Abingdon. To be  
12 perfectly frank with you, we are fund raising for this company  
13 nationally. I personally would love to live again in Southwest  
14 Virginia, but we're focused on success and not convenience. This  
15 is a national health care emergency, and this is a real  
16 opportunity for the footprint to participate in a solution that has  
17 high credibility, which I think you'll find out if you haven't known.

18 SENATOR RUFF: Could you step us back through the  
19 process of what you actually have been doing?

20 MR. HARRIS: We are building a hybrid medical device  
21 and a health care IT system. The goal is to collect remote  
22 measures of medication use behavior and to use an algorithm,  
23 which we will build in Southwest Virginia to relate the remote  
24 measures to actual patient behavior. The goal is to separate the  
25 three basic behaviors that are associated with trafficking and

1 misuse of prescription medications. There are real patients, and  
2 that because there's so much fear in the medical system, are  
3 having great difficulty finding someone that will care for them  
4 properly.

5 On the other end of the spectrum, there are criminals  
6 that are gaming the medical system for medications because of  
7 addiction for profit. This is an extremely profitable enterprise, to  
8 traffic and game our medical system. In the middle is probably  
9 the most important contribution that is to see early indications  
10 of dependence or addiction in patients that are undergoing  
11 routine medical care. And this is a primary source of new  
12 addictions and is probably the most important contribution of the  
13 entire system.

14 SENATOR RUFF: That may be enough to justify it, but  
15 as long as there's big money in dealing with drugs, then you may  
16 stop one avenue, but you won't change what happens. If they're  
17 making big money by selling drugs, then they'll find another way  
18 of making money.

19 MR. HARRIS: If we don't de-industrialize the system,  
20 it'll further endanger our medical system. Trafficking in  
21 medications is so profitable that often people that were formerly  
22 in the illegitimate enterprises have moved over and the source is  
23 your medical system. You couldn't choose a more expensive  
24 industry to game than our medical system, and we must resolve  
25 this.

1                   SENATOR RUFF: I don't disagree with you on that, I  
2 was just wondering if you cover up one hole, I don't know that  
3 you're going to solve the problem.

4                   MS. THOMAS: For my clarification, is this a clinical  
5 problem?

6                   MR. HARRIS: The beta test. We need to relate  
7 remote measures of behavior and what the patients are actually  
8 doing, but it will now be submitted to FDA for scrutiny, and it will  
9 be used to make an algorithm, so whatever behavior we see will  
10 go into the algorithm.

11                   Clinical trials more typically are much more highly  
12 controlled, and there's a good outcome or a bad outcome. In our  
13 endeavor, we're just simply measuring behavior. So whatever  
14 behaviors we see are implemented into the algorithm.

15                   MS. THOMAS: Have you tried this in tests, have you  
16 run tests?

17                   MR. HARRIS: The environment that we found in  
18 Virginia not only in the footprint but statewide has been more  
19 friendly than any place that we've seen. I don't have a solid  
20 explanation for that, but it could be that people have been living  
21 with the degraded effects of this problem so long, they're so  
22 sick of the damage, that they're willing to participate in any  
23 credible idea. As far as the cooperative spirit, we've seen  
24 nothing like Virginia.

25                   MS. CARTER: Do you already have investors in your

1 project?

2 MR. HARRIS: We have some high net worth  
3 individuals in Florida, who have affected family members who  
4 have indicated that if we can show insurance company support,  
5 then they are highly likely to sign on.

6 I will also note that this is an extremely difficult time  
7 to build a business, and we are a very early stage company. Yet,  
8 what we're doing is a very, very large opportunity. There are  
9 greater than 500 million controlled prescriptions, prescriptions  
10 written for controlled substances in the U.S. per year, and we  
11 need a new standard of care, because what we have is too  
12 rudimentary, and it's harming patients.

13 DELEGATE BYRON: We have other applications, but  
14 the issue at hand certainly indicates value, the need for that. We  
15 don't have any further information now, and we're still looking at  
16 the committee's work in that regard.

17 Do you have a question, Ed?

18 MR. OWENS: Madam Chairman, with no change in  
19 the application, I'd move that we take no further action at this  
20 time.

21 SENATOR SMITH: Second.

22 MR. NOYES: What is the motion?

23 MR. OWENS: No further action to be taken.

24 DELEGATE KILGORE: I'm saying we wouldn't be  
25 losing anything sending it to VEDP, there are 60 jobs in

1 Southwest Virginia and considering the staff recommendation.

2 DELEGATE BYRON: I think just from the Committee  
3 members, and I certainly won't argue with the chair of the  
4 Commission.

5 DELEGATE MARSHALL: We made you chair.

6 DELEGATE BYRON: I think what I'm hearing from  
7 some of the members, just we've had this discussion about  
8 VEDP, and even though we hire them to review this, and we tried  
9 to do due diligence in our vetting ourselves to see if the criteria  
10 and other things we deal with are worthwhile for us to go  
11 through that process. But since we see no changes in the  
12 application, maybe that's where we're coming from.

13 It's up to the will of the Committee. We have a  
14 motion and a second. The motion and the second out there now  
15 is to take no further action. Any further discussion? All right,  
16 hearing nothing, we have a motion to take no further action at  
17 this time. Maybe when you get some matching or other monies  
18 or investors or something that does bring out substantive  
19 change, you can come back before us again. All in favor of the  
20 motion, say aye? (Ayes). Any opposed?

21 DELEGATE KILGORE: No.

22 DELEGATE BYRON: Thank you very much for coming.  
23 And if some other things change, then you can come back, you're  
24 welcome to come back.

25 MR. HARRIS: This is an opportunity for the

1 Commonwealth, we will not be back.

2 MR. NOYES: Project 2638, Pittsylvania County. After  
3 seven years and five separate awards totaling \$2.2 million spread  
4 across four different subcommittees, Pittsylvania County is  
5 requesting \$4 million to enable Piedmont BioProducts to  
6 construct and operate a 100-ton-per-day pilot refinery on  
7 property owned by the Town of Gretna.

8 Cellulosic feedstock materials, planned to be farm  
9 produced in Southern Virginia, are expected to yield value-added  
10 petroleum replacement products, as well as other commodities,  
11 such as fertilizer. This request is paired with an application from  
12 Pittsylvania County to the Southside Economic Development  
13 Committee that seeks \$1.33 million for site development at  
14 Gretna.

15 That project was considered earlier today, and the  
16 Committee recommended approval to the full Commission when  
17 we meet in January. The proposed pilot facility would employ 26  
18 persons directly, eight to ten additional contract jobs initially  
19 related to provision of feedstock, and, ultimately, as many as 80  
20 farm jobs associated with production of high value feedstock.  
21 This reflects the intent of this effort going back seven years.

22 A number of commissioners have had an opportunity  
23 to visit the ten-ton-per-day facility housed at Windy Hills Nursery  
24 in Gretna. The new project is a dramatic scale-up that would be  
25 replicable throughout the Tobacco Commission footprint. The

1 research element in the project relates to making technical  
2 modifications to the pyrolysis units. Applied research is already  
3 accomplished, except that there may well be opportunities to  
4 produce new products to meet market demand. Most of our  
5 financing will be used to acquire equipment that will be owned by  
6 the Town of Gretna and leased long-term to Piedmont  
7 BioProducts. The required matching funds are expected from a  
8 private sector business with affiliated operations in Southern  
9 Virginia that is committed to maintaining and enhancing the  
10 agricultural sector in the region.

11 Other than the opportunity for Piedmont BioProducts  
12 to benefit from detailed review of the business plan by third  
13 parties, staff believes that there is no compelling need for  
14 vetting. Accordingly, staff recommends a direct award of  
15 \$4 million to support the final commercialization of this promising  
16 initiative.

17 DELEGATE BYRON: Thank you. Do you wish to  
18 address this?

19 MR. MOSS: Yes, I'm Ken Moss. Thanks for the  
20 opportunity to be here. For anyone not familiar with the project,  
21 this is a scale-up of the, we've already had the demonstration  
22 plant. The opportunity to take this to the pilot level is really,  
23 really the impetus to spread this throughout the Tobacco Region.  
24 In our opinion and a lot of other folks' opinion, this is the single  
25 greatest opportunity for the farmers in the community and in the

1 Piedmont area where we're located, and not to mention where  
2 we're located geographically for the southern area population-  
3 wise. It's a good opportunity for our region to develop itself as a  
4 new industry.

5 This scale-up that we're doing here is an improvement  
6 on what we already have, and we have a considerable amount of  
7 upgraded products in the pipeline and some are held under a  
8 nondisclosure which I'm not at liberty to speak about specifically,  
9 only that this is the beginning of something that will be  
10 widespread throughout the region and elsewhere.

11 DELEGATE BYRON: Any questions?

12 MR. OWENS: When you wrap up at your peak, what  
13 is your capacity?

14 MR. MOSS: It's a 100 dry tons of commercial  
15 biomass, and that yields 13,000 gallons of bio-crude oil per day,  
16 15 tons of --

17 MR. OWENS: What radius for producers?

18 MR. MOSS: We're looking at 20 miles, maybe 25 at  
19 max. So for this, this is a community-based refinery model, and  
20 our goal would be to sell or get one of these in for every county  
21 depending on the size. If you look at the counties in the  
22 footprint in Virginia in general, it could be applied to every  
23 county. It's a scale version and very profitable and there are two  
24 other companies in the world working in this area. The  
25 technology is very expensive, large-scaled, one single location.

1           We've taken a holistic approach to the project. The  
2 jobs can be well paying jobs, \$50,000-a-year jobs. Our holistic  
3 approach is that everyone has to win in order for this to be a  
4 feasible project long-term.

5           SENATOR RUFF: Assuming everything goes well, how  
6 much will it cost to duplicate this?

7           MR. MOSS: Nine million for this current project,  
8 10 million considering the site itself, which is, but we think we  
9 can bring those costs down. Some of the costs we really have no  
10 control over that.

11           But the other component is the manufacturing  
12 component, and we'll be manufacturing the intellectual property  
13 and components in the footprint and we'll control that. With that  
14 being said, there's a considerable opportunity to bring those  
15 costs down. For all practical purposes, you're looking at around  
16 eight to nine to ten million per site, with a projected payback of  
17 about three years.

18           SENATOR SMITH: Madam Chair, I have not visited  
19 the site to bring me up to date a little bit. You say over seven  
20 years, 2.2 million, the awards have been received. First, can you  
21 tell me how much has been invested in addition to the 2.2 to  
22 date?

23           MR. MOSS: CIT has put about 100,000 in this, and  
24 these grants require a 20 percent match in most cases. So the  
25 estimate that we put in is somewhere around \$2.9 million total

1 dollars have gone into this, and a lot of which is in kind  
2 contributions. It's located on our piece of property that we have  
3 contributed. It's been a full-time job for myself and my wife for  
4 that matter for the last eight years. We consider this a \$2.9  
5 million total investment, including the \$2.2 million cash  
6 investment from the Commission.

7 SENATOR SMITH: Madam Chairman, we, the County,  
8 who's put the other money in, the difference between 2.2 and  
9 2.9.

10 MR. MOSS: It's come through me personally, myself,  
11 mostly in kind.

12 SENATOR SMITH: Today, you're producing ten tons a  
13 day?

14 MR. MOSS: For commercial purposes, but it has that  
15 capability. The intent, this is a research and development site,  
16 not intended to be a commercial site.

17 SENATOR SMITH: Can you tell us how many days it  
18 has run at that ten-ton capacity?

19 MR. MOSS: I can tell you we produced about 2,000  
20 gallons of product, number of days, we've run like three days a  
21 week periodically five to six hours at a time. That's because  
22 we're not staffed to run 24-hour days.

23 SENATOR SMITH: You said earlier that a ton produces  
24 how much?

25 MR. MOSS: One ton produces 135 gallons if you're

1 using pinewood, if you're using pinewood. Pinewood is a  
2 feedstock.

3 SENATOR SMITH: You've produced a total of how  
4 much?

5 MR. MOSS: Roughly 2,000 gallons.

6 MR. OWENS: Madam Chair, the first question I think I  
7 heard you say is that, did you say you're willing to share the  
8 intellectual property with or would that be replicated in the  
9 footprint.

10 MR. MOSS: Piedmont BioProducts would retain  
11 ownership of the intellectual property, but it's a co-op the way  
12 the company is set up, meaning that we will share the ownership  
13 and profit from the refinery site with the locals. Fifteen percent  
14 profit sharing is built into the bylaws currently for a given site,  
15 the Gretna site will be the first site. That's in addition to the \$70  
16 per dry ton that's paid.

17 MR. OWENS: If somebody wanted to replicate that  
18 and they're going to keep it in the footprint, would you give them  
19 the ability to use your intellectual property, I mean the  
20 technology?

21 MR. MOSS: Right, we'll have to have some, we really  
22 haven't determined that, but there's some mechanism for  
23 payment to support a parent company, it's a franchise model  
24 basically is what we use.

25 MR. OWENS: This morning, the Southside Committee

1 did recommend to the full Commission granting approval of the 3  
2 million for the project.

3 DELEGATE BYRON: In addition to this.

4 MR. OWENS: Yes.

5 DELEGATE MARSHALL: I have a motion. Madam  
6 Chairman, I move that we support this \$4 million  
7 commercialization of this product, Number 2638.

8 MR. OWENS: Second.

9 DELEGATE BYRON: Any further discussions or  
10 comments? All in favor of the motion, say aye. (Ayes).  
11 Opposed? (No response). We recommend that to the full  
12 Commission.

13 MR. MOSS: You will be proud of this project, I  
14 promise you that.

15 DELEGATE BRYON: Thank you.

16 MR. NOYES: Project Number 2635, Scott County  
17 Economic Development Authority. The Scott County EDA is  
18 requesting \$2 million for Project Harvest, a start-up medical  
19 device initiative with Arkis, Limited Liability Corp. The company's  
20 objective is to patent hydrocephalus treatment improvements for  
21 profitable commercialization. There are four patents pending,  
22 two for surgical tools and two for implantable devices, and it is  
23 the value of the intellectual property that is offered as matching  
24 funds.

25 To my knowledge, this is the first time such an

1 approach has been suggested. Committee members will see that  
2 a hundred percent of the direct costs associated with this project  
3 are expected to be financed with Tobacco Commission funds.  
4 While Arkis has provided confirmation that there is considerable  
5 value that attaches to certain patent assets, and I have attached  
6 some material on that, please note that patents have not yet  
7 been formally issued.

8 In following up emails with the company, it is asserted  
9 that the Duffield-based Virginia operating company will  
10 immediately employ 12 people in the first year of business and  
11 22 jobs by 2015, and that these jobs will report to the Duffield  
12 office. A total of 33 jobs are anticipated by 2020. The  
13 application indicates zero private capital investment.

14 Staff believes there is a worthwhile opportunity to  
15 work with Arkis and the Scott County EDA to bring before you a  
16 viable application. By passing by this request, the beneficiary  
17 would gain time to secure funds for cost match, make further  
18 progress with regard to IP, complete registration of Arkis as a  
19 Commonwealth business, and perhaps reconfigure the application  
20 so that the 2015 applied R&D projects could go forward ahead of  
21 the second two activities, which are slated for after 2015. Staff  
22 recommends no further action at this time.

23 DELEGATE BYRON: Any questions from Committee  
24 members?

25 SENATOR RUFF: I move the staff's recommendation.

1 MR. OWENS: Second.

2 DELEGATE BYRON: All in favor of the motion, say  
3 aye. (Ayes). Opposed? (No response).

4 All right, next?

5 MR. NOYES: Number 2637, Southwest Virginia Higher  
6 Education Center Foundation. They are requesting \$2 million for  
7 applied research into the recovery of metallurgical coal from  
8 slurry impoundments in partnership with Alpha JV, Joint Venture,  
9 who will construct a ten-ton-per-hour dewatering facility in  
10 Southwest Virginia.

11 Research at this facility would focus on validating  
12 results from past bench and pilot testing and provide needed  
13 information for construction and operation of commercial scale  
14 dewatering facilities. Post-research, Alpha JV expects to expand  
15 the 10-ton plant to a 50-ton per hour facility, and will, as part of  
16 a grant agreement, commit to constructing a second like facility  
17 in the Tobacco footprint. Given that Alpha Natural Resources and  
18 other companies currently operate more than 20 coal preparation  
19 facilities within the Tobacco footprint, the potential impact is  
20 both obvious and considerable. Forty-three new jobs are  
21 estimated at the first dewatering facility with private capital  
22 investment of \$8 million.

23 Milestones and deliverables are crystal clear. Nearly  
24 all of the Tobacco Commission funds would be used for  
25 equipment that would be titled to the foundation and would

1 remain in Southwestern Virginia. The business plan appears  
2 sound. Staff recommends referral to VEDP for vetting.

3 DELEGATE BYRON: Any questions from the  
4 Committee?

5 DEPUTY SECRETARY CARTER: Did this come up  
6 before?

7 SENATOR RUFF: No.

8 DELEGATE MARSHALL: Madam Chairman, I move  
9 that we accept the staff's recommendation on Project Number  
10 2637 for referral to VEDP for vetting.

11 MR. REYNOLDS: I'll second that motion.

12 DELEGATE BYRON: We have a motion that we accept  
13 the staff's recommendation. All in favor, say aye. (Ayes).  
14 Opposed? (No response).

15 MR. NOYES: Members of the Committee, 2636, the  
16 University of Virginia. They are requesting \$2 million for  
17 development and testing of a prototype delivery vehicle that  
18 integrates established technologies for light vehicle production,  
19 electric power drive trains and battery to the electric grid.  
20 Fermata, Limited Liability Corporation, an early stage holding  
21 company, is the private sector partner, with Edison2,  
22 Incorporated, located in Campbell County, expected to do much  
23 of the prototype integration. While each of the technologies is  
24 proven, integrating them for market-scale demonstration is the  
25 overarching objective in this initiative.

1           Commercialization by Fermata, LLC involves lease  
2 agreements with large fleet operators, such as the U.S. Postal  
3 Service, that currently operates using aged gasoline-powered  
4 vehicles, and sale of electricity to the grid using stored power  
5 and out-of-service vehicles. Seven employees would work on  
6 this initiative during the prototype development stage, with 13  
7 pre-commercialization jobs within three years and the potential  
8 for 100-plus employees by year eight if vehicle adoption goes  
9 forward as described in the business plan (Note, please, that an  
10 updated business plan was received December 5, 2012 that  
11 describes more fully the vehicle grid component).

12           Staff wants to point out that assembly of the vehicle is  
13 not promised within the Tobacco footprint, though Fermata, LLC  
14 would expect to source components to the extent practicable.  
15 And there are preliminary discussions with investors to explore  
16 locating a manufacturing operation within the Tobacco  
17 Commission footprint. This may become clearer prior to the  
18 Commission meeting in May.

19           Costs are appropriately shared between the Tobacco  
20 Commission and Fermata, LLC, with most Tobacco Commission  
21 funds used for personnel and contractual expenses. Milestones  
22 and deliverables, which continue through Q4 2014, are clear, and  
23 the revised business plan appears viable. Staff recommends  
24 referral to the VEDP for vetting.

25           DELEGATE BYRON: I'd like to make a few comments

1 myself. I met with the applicant of this, and there were concerns  
2 already voiced to me with regard to a previous application that  
3 we had from a similar applicant for Edison2 that did not receive  
4 the high rating from the commercialization side from VEDP when  
5 it went to vetting. There were some issues or questions. There  
6 was a question that we weren't doing the same thing.

7 This is a rather unique application and different than  
8 others that we had in the past. Certainly the commercialization  
9 is not in the footprint, but the ownership would remain there and  
10 cars would be back there for a leasing operation, would be in the  
11 district or in the region. That makes it kind of unique, the story  
12 behind it, and I find it kind of intriguing, maybe explore a little  
13 more what some of the connections are, certainly the applicant  
14 has done a lot of work going out and establishing contacts.

15 We do have some questions I'm expecting from the  
16 Committee from discussions. I'll ask you not to take too long.  
17 We're just looking at whether or not it's going to vetting. We  
18 need to be out of this room at a certain time. Remember your  
19 questions, we're not making a final decision unless we feel it  
20 should go forward to be looked at closer by our folks at VEDP.

21 I'll start with Delegate Marshall.

22 DELEGATE MARSHALL: I appreciate you asking me to  
23 keep my question short. The model there, you don't know who's  
24 going to build the car at this time. What this business model is  
25 about is leasing of these vehicles to whoever wants to lease

1     them, but the leasing company will be based in Campbell County,  
2     so that'll create some direct jobs, and that's basically what we're  
3     trying to do.

4             UNIDENTIFIED: That's more or less correct. In  
5     addition to that, we'll commercialize it and we're asking help to  
6     help fund the prototype and then we'll leverage to several  
7     different business applications. One is obviously the leasing, and  
8     the revenue stream is good, but will also be involving the grid  
9     component. I can explain how that works and this market and  
10    the business plan. That's kind of an unusual thing.

11            Supporting both of those are revenue streams. That's  
12    what is important to us. We're going to talk about that later and  
13    where they're made, not where these jobs come from. The  
14    vehicle and components, it's leveraging the vehicles through the  
15    leasing grid will help create jobs.

16            DELEGATE MARSHALL: What does the vehicle cost?

17            MR. SLUTZKY: Very good question, I'll try to be  
18    distinct in my answer. Our business plan anticipates that the  
19    vehicle with all costs into manufacture without subsidies, about  
20    \$33,000. There are several thousand dollars' worth of subsidies  
21    that'll be available to us , tax credits from the Federal  
22    Government. There are also some that'll be brought forward in  
23    the market, zero emission vehicles from large vehicle  
24    manufacturers, we're hoping 54.8 miles per gallon, and that's a  
25    huge benefit in the future. So there'll be market credits, and

1 there's also a couple more.

2 For our business plan to work, we need to keep the  
3 vehicle cost like \$33,000. What Mr. Noyes alluded to originally  
4 intended, and still are planning on, development of the  
5 prototype. However, another group has come or approached us  
6 through the Tobacco Commission. Then we were contacted by  
7 another party interested in doing similar things, not the back-in  
8 revenues, talking about working with the Post Office, not like  
9 what we planned to sell the Post Office. If we do, we might  
10 make this in the Tobacco footprint.

11 There are a couple of things here that are a little bit  
12 not yet resolved, but we have a Plan A, which is described in the  
13 business plan, to manufacture and develop a prototype and all  
14 the jobs associated with leveraging the vehicle occur in the  
15 footprint. When I say all of them, we are talking about 20,000  
16 vehicles per year production, get up to 100,000 vehicles after a  
17 few years. We think we can reach 20,000 vehicles, around 24  
18 jobs would result, and those will be in the footprint, most at our  
19 headquarters.

20 DELEGATE BYRON: Briefly, tell us about the, and I  
21 realize that's just one use, the Postal Service, and the fleet is  
22 about to expire, how many would that break out to be?

23 UNIDENTIFIED: Our business model anticipates or at  
24 the moment, let's assume there's no Post Office, we think we can  
25 get a sizeable percentage of the 279,000 vehicles that are

1 available, we were told that last year, 279,000, and light delivery  
2 vehicles, we think we can obtain a pretty good market share, and  
3 their vehicles would be relatively inexpensive.

4 In the case of the Post Office, it's a unique opportunity  
5 that, that's part of what motivated us. The Post Office 30 years  
6 ago realized their vehicles were expiring pretty regularly, so they  
7 put out an RFP, and they wanted to develop long-life vehicles,  
8 would last anywhere from 20 to 24 years, and it did. Time is up.  
9 Postal vehicles are now reaching about 25 years of age, and  
10 every year, they age more. Most of those vehicles are between  
11 20 and 24 years old, and it's costing the U.S. Postal Service  
12 \$5,600 per vehicle per year to meet those costs. Just like  
13 \$3,000 per vehicle per year, they don't get very good mileage.  
14 The Post office needs to replace their fleet, and the GAO has  
15 asked the Post Office the cost to replace their fleet. There's a lot  
16 of dialogue in Washington about this, but the problem is it would  
17 take about \$5 billion, I'm told, for the Post Office to replace their  
18 fleet with replacement vehicles.

19 What we're offering to do is important because we're  
20 not offering to sell the vehicles to anyone, but we'll lease it to  
21 them. And this is a good opportunity. That fleet is 146,000  
22 vehicles.

23 DEPUTY SECRETARY CARTER: Why is the University  
24 of Virginia, why is this through the University of Virginia?

25 MR. SLUTZKY: I have two hats on. One is that I'm a

1 research associates professor in the Engineering School at the  
2 University of Virginia, and I work with students to convert the  
3 vehicles, and that's partly how I got to understand electric  
4 vehicles and commerce. So I learned if we come to the Tobacco  
5 Commission and asked for a grant, you preferred that it come  
6 through the University or nonprofit. The University believes that  
7 maybe it's a misunderstanding on my part, but the University  
8 itself has a large commitment to helping develop jobs and  
9 economic base in Virginia. So we thought we'd run it as a  
10 University project. Most of the work will be done outside the  
11 University.

12 MR. NOYES: Both this and the next application that  
13 you hear probably should have been joint applications from the  
14 political subdivision within the footprint and the University of  
15 Virginia. I met with both of the gentlemen you see before you  
16 concerning both of these applications, and I've been in touch  
17 with Campbell County and Nottoway County, and they are  
18 supportive and they're in the process and they're in the room  
19 now and it may be at the point of decision we'll have agreements  
20 that directly involve those political subdivisions.

21 MR. SLUTZKY: I'll be very happy to do it that way.

22 MR. NOYES: Some of the costs associated with this  
23 may be as appropriate for the Southern Virginia Economic  
24 Development Committee, and we'll be working on that during the  
25 next several months and looking into that.

1                   DEPUTY SECRETARY CARTER: The \$2 million that  
2 you're asking for here in costs appropriately shared between the  
3 Tobacco Commission and your LLC with most of the Tobacco  
4 Commission funds used for personnel and contractual expenses.  
5 What is that?

6                   MR. SLUTZKY: We're in the process of raising  
7 \$3 million to match up with, actually \$4 million, to match up with  
8 the \$4 million from the Tobacco Commission. What we'll do with  
9 that money is develop a prototype vehicle, and we'll also hire a  
10 few people towards commercialization. Most of this tier financing  
11 will be used to create the vehicle, and then we can in turn  
12 leverage create most of the jobs, which is the commercialization  
13 jobs.

14                  DEPUTY SECRETARY CARTER: So it would be used for  
15 engineering?

16                  MR. SLUTZKY: Yes. Some of the work planned for  
17 Edison2, but they're also going to be subcontracting out to shops  
18 in the Campbell County area that, like metal fabrication, and  
19 some of those things. Some of the money will trickle down into  
20 other businesses inside the footprint, but we intend to have all  
21 that work occur inside the footprint. There'll be various  
22 opportunities.

23                  MR. NOYES: Since the application was received.

24                  MR. SLUTZKY: Right. I'll tell you that my capital  
25 investors are very intrigued about the opportunities.

1           DEPUTY SECRETARY CARTER: From the prototype,  
2 how long will that take to build the prototype?

3           MR. SLUTZKY: Actually, each of the two potential  
4 creators of the prototype anticipate about, and including Edison2,  
5 anticipate about a 15-month design cycle, so you'll have a  
6 physical vehicle that works, it's not perfect for manufacturing just  
7 yet. So there's a second tier, if you will, of the prototype  
8 development that's reflected in our business plan. The total  
9 period of time between today, when we have our capital base,  
10 and have a vehicle that has been assembled and crash tested  
11 and has all the certifications required by the Federal Government  
12 satisfied and the vehicle has been designed for manufacturing,  
13 you could say that's about 24 months. It was mentioned there  
14 isn't a prototype, and that's true because each of these two  
15 companies will be leveraging existing prototype work.

16           The Edison2 vehicle, if I recall, you're working off an  
17 engineering design, one was \$5 million, there's competition  
18 worldwide. That's sort of a background for these ideas, a very  
19 light aspect of the vehicle, which we think is critical. I'm a little  
20 puzzled because they took great pride in the fact that virtually  
21 every vehicle that was competed against was electric. The  
22 vehicle at one time a million dollar prize was not, it was gasoline-  
23 powered. It was gas. And the question is can it perform  
24 dramatically well?

25           So why would we be going just the other way and

1 building what was a good idea making a good engine that's a  
2 proven engine with superior results, why would you take that out  
3 and spend 15 months putting together an electric vehicle to put  
4 it in that vehicle? If you didn't have any interest in revenue  
5 sharing and the vehicle grid probably would have explored that  
6 option. The Edison2 folks with a little bit of pride and bragging  
7 rights, we don't need electric, but they do realize electric makes  
8 sense, they're going in that direction, as well.

9           The reason their vehicle did so well wasn't because,  
10 but the whole thing was because of the very light design they  
11 brought to the table. We're looking for a very light design  
12 applications to be put in the Postal vehicle and we can make it  
13 less expensive to operate.

14           A significant revenue screen for us is not just leasing  
15 the vehicles, but it's selling electrons to the power grid when  
16 they need them and you can't do that with, you need to have lots  
17 of battery packs, you need to have a lot of battery packs so you  
18 can achieve the scale that you need to utilize. You need a  
19 minimum of one megawatt of power and you need 67 to get one  
20 megawatt of power. When you aggregate potentially 146,000 or  
21 more electric vehicle battery packs, you have a very compelling  
22 economic proposition to grid or to sell them power. That is a  
23 significant second revenue stream in the business plan. In order  
24 to make it work, the vehicle needs to be very light, so we  
25 dedicate as much of that pack as possible.

1 MR. OWENS: Madam Chairman, I'm going to move  
2 the staff recommendation refer it to VEDP for vetting.

3 DELEGATE MARSHALL: Second.

4 DELEGATE BYRON: We have a motion and a second to  
5 accept the staff's recommendation to send it for vetting. All in  
6 favor, say aye. (Ayes). Opposed?

7 SENATOR SMITH: No. I'd like to add that I'm very  
8 impressed with what Edison2 has done, but I'm very  
9 disappointed that because of popularity of electronics, and it's  
10 not saying against or anything they've done, because I am very  
11 much a fan of the company and spending it on electronics  
12 because it's just plain fashionable.

13 MR. NOYES: Project Number 2634, the University of  
14 Virginia is requesting \$2 million to support prototype  
15 development (two) by Evo Motors LLC of "ultra-premium high  
16 performance BEV sports car (S-class)" vehicles. The target  
17 market, as described in the business plan, is the U.S. Mid-  
18 Atlantic. As discussed in the application, prototypes would  
19 primarily use existing after-market components, some of which  
20 are easily sourced within the Tobacco Commission footprint,  
21 while the research focus would be on battery storage and chaise  
22 development.

23 Evo Motors makes the case that physical prototypes  
24 that are to be tested, in cooperation with the National Tire  
25 Research Center and VIR, are the critical next step after

1 modeling and simulation to advance toward manufacturing.  
2 Commercial manufacturing is planned for the Tobacco  
3 Commission footprint. Seven R&D jobs are contemplated during  
4 the pre-commercialization Phase I, and approximately 100 new  
5 jobs are estimated when commercialization begins.

6 The budget demonstrates cost sharing through  
7 Q4 2014 (i.e., misprint on timeline) and a fuller explanation of  
8 how monies would be applied for Phase I and Phase II is needed.  
9 Please note that much of the match is "in-kind" from Solid Box,  
10 Incorporated that would need to be carefully documented with  
11 invoices. The business plan appears viable. The timeline and  
12 deliverables are clear and verifiable.

13 While staff has no issue with the requested amount,  
14 which is within guidelines, the Committee must consider the  
15 advisability of new construction on land leased for just the  
16 research and development period. Staff recommends that Evo  
17 Motors make every attempt to locate an existing publicly-owned  
18 building for the research and development period, even if facility  
19 modifications are needed. This could take place during VEDP  
20 vetting, and there may be budget adjustments ahead of  
21 Commission action in May. Staff recommends referral to the  
22 VEDP for vetting.

23 Now, I would add, members of the Committee, that I  
24 heard yesterday the county executive of Nottoway County would  
25 accept responsibility for a building which is to be built as

1 described in the application, but they're willing to do that. And  
2 that came in well after this was written.

3 The issue I have is that it's still on leased property,  
4 publicly-owned buildings on leased property, but I think this is a  
5 manageable issue and we can get together with the  
6 representatives, with Evo Motors ahead of any decision this  
7 Committee might make.

8 MR. PFOHL: Neal, point of clarification. Buckingham  
9 County.

10 MR. NOYES: I'm sorry, Buckingham, not Nottoway.

11 SENATOR RUFF: Ms. Chairman or Neal, I think it's  
12 important that if we move forward that be part of the agreement.

13 MR. NOYES: The Economic Development program for  
14 building construction, acquisition of property, if there's not  
15 already property.

16 DELEGATE BYRON: Are there any questions? Anyone  
17 have any comments?

18 DELEGATE MARSHALL: The vehicle you're proposing  
19 to build is a sports car?

20 UNIDENTIFIED: Yes.

21 DELEGATE MARSHALL: So this company, is it Striker?

22 MR. ESTERHAY: It's a sports car at the current time.  
23 I'm not familiar with that particular company.

24 DELEGATE MARSHALL: Are they looking for an  
25 outside investor that's been in business for three or four years?

1 They can't sell enough vehicles that they're still looking for an  
2 outside investor? I guess my question is what's the difference  
3 between what they're making and what you're going to make and  
4 that car is about 100,000 thousand bucks? What does your car  
5 cost?

6 MR. ESTERHAY: The vehicle which we propose to  
7 build is really classified as Roadster, that retails near \$100,000.  
8 That vehicle completely sold out. All the production for the first  
9 vehicle never delivered to the customer. The vehicle was no  
10 longer available for sale in the United States because it didn't  
11 meet the 2012 airbag safety standards, but then moved on to  
12 manufacture the Model S sedan. The vehicle that Evo Motors is  
13 proposing to build is very similar to the Roadster. In fact, the  
14 customers now, that purchased that sports car have no option.

15 DELEGATE MARSHALL: Where are you going to build  
16 the car?

17 MR. ESTERHAY: This is an all-electric sports car, not  
18 a hybrid, so that's one important distinction. This will be a  
19 competitive market years ahead, and there's a market for more  
20 than one vehicle in this class. I'm told there are no sports cars  
21 available. We've hired a manufacturer, so we don't have any  
22 concerns that the market is too small for our vehicle.

23 If, on the other hand, I understand, before there's a  
24 global manufacturer, it's a very relevant concern. All this is  
25 discussed in our business plan in more detail.

1 DELEGATE MARSHALL: What does the car sell for?

2 MR. ESTERHAY: The car will be priced competitively  
3 with other ultra-premium sports cars in the market. At this  
4 stage, we're talking about building two prototypes. It's difficult  
5 to answer that question precisely. However, I can say it will be  
6 competitive, it'll be competitive when other vehicles of its class is  
7 considered competitive on a commercial basis.

8 DELEGATE BYRON: Any more questions?

9 UNIDENTIFIED: I'd also add that in our application  
10 there's an important educational component which does make it  
11 necessary for us to partner with UVA versus another sponsor.  
12 Our vendor is making available a course of instruction free at  
13 UVA for UVA students and in Buckingham County, we want to  
14 expose them to the technology.

15 One of the reasons we're interested in locating in the  
16 footprint of Buckingham County, it's close enough to the  
17 University of Virginia, students at the University of Virginia that  
18 will be collaborating on the research with us and close enough for  
19 trips to our facility and at the same time have students from  
20 Buckingham County. That is an educational advantage in our  
21 view.

22 DEPUTY SECRETARY CARTER: Do any of these faculty  
23 members go to UVA?

24 UNIDENTIFIED: No, the Tobacco Commission funding  
25 will all be spent in the footprint for activities. There is additional

1 funding for UVA, but those funds or those dollars will not be paid  
2 for by the Commission.

3 DELEGATE BYRON: Any further discussion?

4 SENATOR RUFF: Ms. Chairman, I move that we send  
5 this to vetting.

6 SENATOR OWENS: Second.

7 DELEGATE BYRON: Any further discussion? All those  
8 in favor, say aye? (Ayes). Opposed? (No response).

9 I believe that's the last one?

10 MR. NOYES: Yes, that completes my presentation.

11 MR. STEPHENSON; Earlier this year, your Committee  
12 substantially changed the terms that it wanted included in your  
13 Research and Development grant agreements. Your staff drafted  
14 those terms into a new agreement and submitted it for legal  
15 review, which has not been accomplished yet. The point of my  
16 telling you all that is to say that the applications that you  
17 approved in September, there were two, and another one today,  
18 while approved, are standing still within the Commission awaiting  
19 legal review of the grant agreement. I just need to bring you up  
20 to date on the status of that agreement.

21 I understand there's a continued effort with the  
22 Attorney General's Office to provide counsel to the Commission.  
23 Perhaps Neal can update us on the status of that conversation.

24 DELEGATE BYRON: I spoke to you a couple of days  
25 ago and you assured me that we were attempting to solve that

1 problem.

2 MR. NOYES: Senator Ruff, I'll refer that to.

3 SENATOR RUFF: About 10 or 12 days ago, the  
4 Chairman and I went to visit the Chief Deputy and talked about  
5 the problem we have. Their reluctance to move forward and  
6 going back over the same ground, they said something about  
7 hiring someone and we said no. After we clarified some  
8 problems, we believed to be important, they concluded that they  
9 would take the two top bids from the RFP, one to do it on an  
10 hourly basis and the other one an annual basis. They asked each  
11 one of them to convert that into a per hour charge and what it  
12 was on an annual basis and then they would present those to us.  
13 And they've indicated it'll happen pretty quickly, the information  
14 will come to them and then we'll make a decision which way to  
15 go. Both of them are very good law firms and good faith in both  
16 of them and we can make a decision then. They fully understand  
17 we wanted to do something before our next meeting or before  
18 the January meeting.

19 DELEGATE BYRON: Perhaps you and the Chair can  
20 express the concern that we have. We don't know what the  
21 January situation may bring or what our options are by January.

22 SENATOR RUFF: I'm sure that without any motion to  
23 pass until after we've had that meeting.

24 DELEGATE BYRON: Any more comments?

25 I understand there is a draft on a workforce study is

1 available.

2 MR. NOYES: I think Stacy is having that printed  
3 today. We'll send it out to the members of the Education  
4 Committee.

5 MS. RICHARDSON: I can do it by email tomorrow.

6 MR. NOYES: That'll be included in the briefing books  
7 for the meeting in January, which all members it'll be available  
8 to.

9 DELEGATE BYRON: You know, we authorize funding.  
10 I'd like to read this information before we discuss it.

11 MR. NOYES: It has not been distributed yet other  
12 than the plan to send it out to the Education Committee, we're  
13 putting it in the Commissioner's Board books.

14 SENATOR RUFF: Workforce Education.

15 MR. NOYES: We have a committee meeting scheduled  
16 for January 7<sup>th</sup>, and then we can weigh in on the study. Any  
17 member of the board is welcome to attend that.

18 The Board of C-Cam is our grantee. UVA is the  
19 grantee on behalf of C-Cam and considering the studies  
20 submitted by the Boston Consulting Group on December 17<sup>th</sup>.

21 DELEGATE BYRON: The subcommittee means it's  
22 authorized and part of the discussion, I'd like to see it as soon as  
23 it's available.

24 DEPUTY SECRETARY CARTER: I would, as well.

25 DELEGATE MARSHALL: Me, too.

1 MR. NOYES: The Executive Summary is 43 pages.

2 DELEGATE BYRON: All right. If there's no further  
3 comments, is there anyone in the public that would like to speak?  
4 Is there any public comment or anyone in the audience would  
5 like to speak, you want to make a brief remark?

6 MR. BAILEY: I'm Bob Bailey, Executive Director of  
7 CAER. I'd like to offer a brief public word of appreciation for this  
8 Committee and the Commission. Delegate Byron made reference  
9 to the award that B&W received. This is a significant award of a  
10 half million dollars to the program. One of the criteria for being  
11 successful is that we have reactor technology that can be  
12 commercialized. The presence of the R&D facility in Bedford  
13 County and the test facility in Bedford County plays a significant  
14 factor. On behalf of the county, I'd like to thank this Committee  
15 and the Commission for your vision for the future. Thank you.

16 DELEGATE BYRON: All right, thank you.  
17 If there's no one else, then we'll adjourn.

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20 **PROCEEDINGS CONCLUDED.**

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**CERTIFICATE OF THE COURT REPORTER**

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at Large, do hereby certify that I was the Court Reporter who took down and transcribed the proceedings of the **Virginia Tobacco Indemnification and Community Revitalization Commission, Research and Development Committee Meeting**, when held on Thursday, December 13, 2012, at 1:00 o'clock p.m., at the Hotel Roanoke & Conference Center, Roanoke, 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 24<sup>th</sup> day of December, 2012.

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

MY COMMISSION EXPIRES: October 31, 2014.