



1
2 **Southside Economic Development Committee**

3 Tuesday, September 9, 2003

4 10:30 AM

5 Reynolds Homestead

6 Critz, Virginia

7
8 **APPEARANCES:**

9 Thomas W. Arthur, Chairman
10 Senator Frank M. Ruff, Vice Chairman
11 The Honorable Kathy J. Byron
12 Mr. L. Jackson Hite
13 The Honorable Clarke N. Hogan
14 The Honorable Mary Sue Terry
15 The Honorable Gary D. Walker
16 Mr. Tucker C. Watkins
17 The Honorable Thomas C. Wright, Jr.
18

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20 **COMMISSION STAFF:**

21 Carthan F. Currin, III, Executive Director
22 Mary Cabell Sherrod, Manager of Communications and
23 Committee Operations
24 Tim Pfohl, Grants Program Administration Manager
25 Britt Nelson, Grants Program Administrator - Southside
26 Jerry Fouse, Grants Program Administrator - Southwest
27

28 **ATTORNEY GENERAL'S OFFICE:**

29 Stephanie Hamlett, Senior Assistant Attorney General
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31
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33 MR. ARTHUR: I want to call this meeting to order. Please take your seats. Ladies and
34 gentlemen, thank you for coming, this is an important meeting today because we've got to make some decisions
35 regarding funding for capital access. I thank you for getting here, this far up in the mountains, this early in the
36 morning, but it's a beautiful drive and a beautiful day.

37 I'd like to recognize Ms. Terry to introduce some people that are dignitaries here with us, if I may,
38 Ms. Terry?

39 MS. TERRY : Thank you, Mr. Chairman and members of the Commission, I would like to
40 yield to a resident of Critz who graduated from our school here and is the Chairman of the Board of

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

1 Supervisors, Charles Smith, and then after that, I'll follow up.

2 MR. SMITH: Thank you, Mr. Chairman and members of the Tobacco Commission and
3 others here. We welcome you to our county. We're proud of our county, and we're glad you chose to come here
4 today for your meeting. We hope you enjoy what you see, and it'll be educational to us to see what is available.
5 We hope that you take what we have to offer back and use it to leverage for our area here. Myself, being a
6 native of this county and born and raised within a mile of the Homestead and been here most all of my adult
7 life, so I have a special interest in this Critz Community and the Harden School.

8 We have come a long way over the years. As I said earlier, I've been here all my life and graduated
9 from the school just up the road here, half a mile. My wife is a graduate also from the school. We raised our
10 family, lived here and worked here our entire life. After my children graduated from the public school systems
11 and returned from college they chose to live and stay here in this community, which I'm very proud of that.

12 We thank you what you have done as far as monies helping us in this county, and we hope you will
13 continue to help support our needs and the people who are working so that they might offer opportunities to the
14 younger generation, our children and grandchildren that come along. Just keep in mind as you go through the
15 county and look at the need and what we hope can be achieved over the next few years that this little
16 Homestead in the community of Critz originated as a result of tobacco, the R. J. Reynolds people.

17 Thank you and welcome, and we hope you'll come again. Thank you.

18 MS. TERRY : Mr. Chairman and members of the Commission, I too want to welcome you
19 as a resident of Patrick County, and I too graduated along with Charles and Wayne Purcell, who will be here a
20 little later and make a presentation, as well as others here who graduated from Harden Academy.

21 I certainly appreciate the long distance, it's sort of the tail end of Southside, or the fountainhead of the
22 Southside. I prefer to be the fountainhead. We have here people from Patrick from our Board of Supervisors,
23 our County Administrator and also the Superintendent of Schools, who came to Patrick from Southside.

24 My task is to tell you briefly where you are now and how this place got to be, and I'll be brief. Right
25 now you're on seventeen hundred and seventeen acres. The mountain surrounding here is called "No Business
26 Mountain," because revenue collectors had no business coming here. I lived and grew up on one side of the
27 mountain, and Jerry Baliles grew up on the other. That ought to explain our personalities and how well you
28 think we got along.

29 Patrick had a population of roughly seventeen or eighteen thousand people at the turn of the century.
30 So did Fairfax, and there was a similar population. Our county has been a growing county and growing over
31 the last decade. We're sitting on the property which is the homestead of R. J. Reynolds, and as far as I know the
32 name most associated in the world with tobacco. There's many versions over time here, and it was decided to
33 have one place in the country which would be a place that would demonstrate what part tobacco played in our
34 heritage, and as you know, tobacco was used as a currency with the Indians and had a real role to play in our
35 history as we were evolving, and it's very interesting to know how people did this and where this all started.

36 Every building you see here was built by Ms. Reynolds. She was a woman that had a vision, and she
37 also created an endowment which substantially takes care of the services provided here. She was a woman with
38 an enormous vision. She not only gave money to this place, but she hired a special architect, and she provided
39 funds for Virginia Tech in the future that in addition if certain architecture or design or any of that needed to be
40 contracted for, and she wanted a special atmosphere here that would be conducive to people from Patrick but
41 also a place where scholars would come. She was interested in a variety of different issues and programs to be
42 developed here and was very interested in forestry. The first property she gave to Virginia Tech was seven
43 hundred acres with an established research facility with a house the forester lived in and bunk beds and guest
44 rooms for students to come. It's only an hour and fifteen minutes from Virginia Tech to here, and they would do

1 research.

2 How the place came to be is an interesting story. The Reynolds family sort of died off here, and back
3 in the late or mid '60's there was a Shetland pony living in the manor house. There was a woman in the
4 community who had played with the grandchildren, and she took a great interest in this area. She also was
5 particularly concerned about the homestead and couldn't understand why people let the homestead go down.

6 So in 1961 she wrote a two-and-a-half page letter to the Reynolds' in Richmond, a copy of which I have,
7 describing the homestead, single-space. This is a carbon paper copy. She felt that the Reynolds' in Virginia
8 would be the most likely prospect for development of the homestead, but they declined. She knew there was an
9 R. J. Reynolds heir around, and she didn't know how to locate this person. She scoured the newspapers and she
10 found Nancy Reynolds Vernon. That was based on a contribution of R. J. Reynolds to Wake Forest University,
11 so she pulled together a letter, and this is in 1967. In that letter she included a letter that she had corresponded
12 back in 1950, and she didn't want Ms. Reynolds to think that she was a crank. That letter was sent special
13 delivery to Wake Forest University in June of 1967. In October of 1967 a handwritten letter came from Ms.
14 Reynolds to this woman, who happened to be my mother, saying that she wanted to come down and visit the
15 homestead. She came down here, and my mother showed her the whole place, and it was in desperate shape.
16 She turned to my mother at the end of the conversation and she said, what's your angle. And, my mother said, I
17 don't have an angle, and my mother never did have an angle. I might have one, but my mother didn't. She said,
18 I don't understand why people that have means would let this place go down. The letter she wrote to her that
19 June was her Hail Mary. I just want to read to you the last paragraph of the letter that she wrote in June. It's
20 interesting that the first letter to the Reynolds was in December 1950, and she was thinking there might be some
21 Christmas spirit. What she said in the last paragraph: "I was graduated from our school here in Critz in 1930
22 and Longwood College in 1934. Most of the years since 1934 have been spent teaching, and most of the past
23 twenty years here at Critz." Every so often she would have a talking session, and she was referring to her
24 students. I'm paraphrasing now, "I bring in somewhere along the way to find out answers to any reasonable
25 questions regarding the student and I tell them the worst answer they can get is no, and then it may not be the
26 same answer. I do hope you realize my interest in the situation that once you pass the point there is no return.
27 Very sincerely."

28 After Ms. Reynolds came here she decided to purchase the property, and she approached the heirs in
29 North Carolina and purchased the property. Then she hired a curator to come here and spent a fortune on this
30 house, which you'll see, and they had to renovate, and it's now a National Historical Landmark.

31 Her next act was to convey after she had built the forestry center, to convey seven hundred and ten
32 acres to Virginia Tech for forest research. She's been supporting that and underwritten the budget for some
33 time. In 1980 there was a document prepared, and that was the time when she decided to convey the learning
34 center and homestead to Virginia Tech. She had a vision for this place, she was interested in astronomy, and she
35 also wanted this place to be a place where families could learn to appreciate what was here. She went from
36 soup to nuts.

37 This request for a proposal was submitted to the colleges and universities in the area. Virginia Tech
38 came forward with a proposal and a proposal that is still being realized, and it involves forestry, which was her
39 first love. It also involved a continuing education center. Ms. Reynolds thought real big, and one of the key
40 proposals from Virginia Tech that she accepted was she wanted this to be a place where scholars would come,
41 and Virginia Tech proposed that it would be the Nancy Susan Reynolds Conference Center and Nancy Susan
42 Reynolds Conference on the Quality of Life. She suggested the first topic. What she envisioned here was a
43 place that scholars would come and live here for a time and also to have published conferences that have an
44 impact globally based on discussing issue-by-issue global conferences.

1 The Homestead development continues to be a work in progress. You will hear, or you will have a
2 tour of the building, and you will be hearing as part of the conversation the impact that this forestry and the
3 study of it has had in this entire region.

4 The Advisory Board of the Homestead consists of four from the Reynolds family and four from the
5 community and is dedicated to the people of Critz and Patrick County and the surrounding counties. Franklin
6 County is one of the counties mentioned by name as a county along with Patrick. I know we have the President
7 of Ferrum College here this morning, and I think she'd be a good candidate for the Board.

8 So, thank you, very much, for being here and for allowing me to tell the story, and you can see what's
9 here and the success that folks here are still dedicated to along with the Virginia Tech people and what has been
10 done to achieve her vision in forestry and cultural affairs, which is a major contribution and contributions to the
11 big global issues and this, of course, is a regional endowed institute.

12 MR. ARTHUR: That's very informative, thank you for that informative insight into this
13 location. We have two speakers that will show us some information on forestry in the public session.

14 I'd like to take this opportunity, because I see that Senator Reynolds has just come in, and I want to
15 recognize Senator Reynolds and ask him if he has any comment.

16 SENATOR REYNOLDS: No, thank you, other than welcoming everyone here.

17 MR. ARTHUR: Thank you, sir. I'm going to ask Carthan to call the roll, and when you
18 answer to the roll, for the benefit of the people from Patrick that may not know any of us, tell them where you're
19 from.

20 MR. CURRIN: Mr. Bryant?

21 MR. BRYANT: (No response)

22 MR. CURRIN: Delegate Byron?

23 DELEGATE BYRON: Here. I'm a member of the House of Delegates, from Campbell
24 County and part of Bedford County.

25 MR. CURRIN: Mr. Hite?

26 MR. HITE: I'm Jack Hite, and I'm from Mecklenburg County. Ms. Latch, who is
27 Superintendent of Schools for the Mecklenburg County School System.

28 MR. CURRIN: Delegate Hogan?

29 DELEGATE HOGAN: Here, South Boston.

30 MR. CURRIN: Secretary Schewel?

31 SECRETARY SCHEWEL: (No response.)

32 MR. CURRIN: Mr. Taylor?

33 MR. TAYLOR: (No response.)

34 MR. CURRIN: Ms. Terry?

35 MS. TERRY : Here.

36 MR. CURRIN: Mr. Walker?

37 MR. WALKER: Here, I'm from Charlotte County, a member of the Board of Supervisors.
38 Before Ms. Latch worked in Mecklenburg, she worked in Charlotte County.

39 MR. CURRIN: Mr. Watkins?

40 MR. WATKINS: Here, I work for Senator Allen. I'm in Patrick County every other month,
41 and our school superintendent came from Patrick County.

42 MR. CURRIN: Delegate Wright?

43 DELEGATE WRIGHT: Here. I'm from Lunenburg County and represent the 61st District
44 in the House of Delegates.

1 MR. CURRIN: Vice-Chairman Ruff?

2 SENATOR RUFF: Here, from Mecklenburg County and represent in the Senate the area
3 from the North Carolina line up through Fluvanna.

4 MR. CURRIN: Mr. Chairman?

5 MR. ARTHUR: My name is Tom Arthur, and I'm from Pittsylvania County, and I'm a
6 citizen member of the Tobacco Commission and this committee.

7 Thank you, very much, all of you.

8 Do I hear a motion for approval of the Minutes of the last meeting?

9 SENATOR RUFF: So moved.

10 DELEGATE WRIGHT: Seconded.

11 MR. ARTHUR: It's been moved and seconded, any discussion? All in favor signify by
12 saying aye. (Ayes) Opposed, like sign. (No response.) The Minutes are approved.

13 We're going to get into our program here today. What we're here to talk about is entrepreneurship and
14 making funds available to people that may have a hard time getting the same at a bank. We have available to us
15 approximately two million dollars, not approximately, but two million dollars that we can put into this type of
16 fund. Our speaker here today is going to talk to us about the Virginia Small Business Loan Program. With that
17 we'll begin.

18 MR. CURRIN: Mr. Chairman and members of the Committee, I'd like to introduce Mr.
19 Scott Parsons with the Virginia Department of Business Assistance. The Commission staff has been working
20 with Mr. Parsons and the Department of Business Assistance, which is the sister state agency. They have a
21 wealth of experience in administering programs for the Commonwealth. It's the Staff's recommendation, and I
22 communicated with you a week or so ago, that we feel on the Staff's part that Mr. Parsons and his agency could
23 be very helpful and a very cost effective instrument to use our money and let him administer it in a way to get
24 these monies out to Southside Virginia.

25 Dr. Wayne Purcell should be here at some point this morning. He serves as one of the Staff members
26 of the Rural Prosperity Commission. That Commission recently reported capital access as one of the top
27 priorities for rural Virginia. I thought it would be helpful for the Committee to hear from Dr. Purcell when he
28 gets here.

29 Mr. Chairman, without further ado I'll let Mr. Parsons make his presentation this morning. We
30 appreciate very much you being here this morning.

31 MR. PARSONS: Thank you, Mr. Chairman and members of the Commission. I appreciate
32 the opportunity to be here today and to be in front of you and to tell you a little bit about the Virginia Small
33 Business Financing Authority as well as place some options in front of you and show you ways in which
34 perhaps you can help small businesses in your communities with their capital access needs.

35 I'm Scott Parsons, and I serve as Director of Financial Services with the Virginia Department of
36 Business Assistance. I also serve as Executive Director of the Virginia Small Business Financing Authority.
37 The Financing Authority, for those that may not be familiar with us, is the Commonwealth's mechanism for
38 lending money directly to small businesses throughout the State as well as to economic development and
39 industrial development authorities. All with a job creation benefit, because we are an arm of economic
40 development for the State.

41 We currently offer eight financing programs, and we have a variety of different target markets, and
42 two of which I'll talk to you about in a little more detail this morning. I'd like for you to know that the staff of
43 the Financing Authority, all of us are former commercial lending bankers in the private sector, for better or for
44 worse. What that means for the benefit of small businesses is that even when they're dealing with the State

1 from the financing perspective they will know that they have somebody that has loaned money to businesses
2 and is sensitive to their needs and understands things like cash flow and those kind of issues small businesses
3 face every day.

4 As I said, I've been asked to speak in front of you today to give you some sense of who we are as
5 well as what our programs can do, and hopefully by the end of the day you'll know that we've worked with your
6 Staff for quite some time, and hopefully then we can perhaps partner with you in helping you provide financing
7 programs for small businesses.

8 In your packet today I have included a couple of what we call fact sheets on two types of programs
9 that we offer. These are only two of the eight. One of those is the Virginia Capital Access Program, and some
10 of you are very aware of this program, and Dr. Purcell will speak about this as well, so I won't go into great
11 detail. Essentially what this program does is allow for a loan loss reserve pool to be created to assist banks that
12 are looking to do small business lending. We provide some match funding that is to match the feed that starts
13 the borrower, and that money is pooled at that bank and remains the funds of the State, but it's to be used to help
14 the bank offset any losses. The idea here is to design this program to mitigate risks for those businesses where
15 they cannot get access to capital through traditional means and where the bank sees one or two points missing,
16 then a lot of time they'll put the loan into this program knowing that it's a little higher risk, and hopefully they
17 do enough small business lending that they build up enough of a pool so then there's enough money to offset
18 any potential loss.

19 The benefits of the program are that it is efficient, easy for them to use, and it's literally a one-page
20 form that we designed to enroll a loan into a program. There are no restrictions on the type of business, but the
21 only restriction that we have is that there is no passive real estate investment put into it, and other than that the
22 bank can do what they like. Follow-up reporting is minimal.

23 That program has also enjoyed very high levels of private dollars and public dollars. Right now the
24 program historically has leveraged on average about thirty dollars to one in private dollars to public. Banks
25 typically will enroll a number of somewhat high dollar loans, the cap of two hundred and fifty thousand, some
26 banks put a larger amount. The leveraging is very good in this program.

27 The other program I'd like to mention, and also a fact sheet in your packet called VSBFA, and it's a
28 brand-new program for us and one that we're very excited about, and it's a direct loan program. We do both
29 direct lending as well as indirect. This program initially started in Southside and Southwest. I spent a great
30 deal of time talking to local economic developers as well as SBCT directors and chamber members about what
31 needs we were not providing. What I heard universally in talking to these folks was that there's a need for a
32 non-traditional direct loan program primarily to lend short-term working capital. That typically is the most
33 risky for lending for banks, very little collateral and often involves short-term assets and not a lot of value. We
34 took actually a third of our existing money, our direct loan money, and with the help of the U. S. Department of
35 Commerce, as well as the Board, created this program of VSBFA Direct. Governor Warner announced it a
36 couple of weeks ago, and I can tell you the need was correctly identified. I can tell you our phones have rung
37 off the hook, and in just two weeks we've got five deals that we are considering. I would say maybe three of
38 those look like they will be funded.

39 I mention these two programs just to offer options. Both programs have pros and cons associated
40 with them, as most things do. The capital access program leveraging is wonderful, and the efficiency is nice.
41 There's not as much control from the State perspective, because one of the beauties of the program is to try to
42 stay out of the bankers' hair and allow them to make loans where they see fit. We don't get involved in the
43 underwriting. All we're doing is administratively providing matching funds and help in the marketing.

44 The direct loan program leveraging is about half over time, it's a revolving loan fund where you lend

1 the money out and get it back. Our charge-offs have been very low in our direct loan program. We're running
2 about eleven percent. Most of that has to do with the textile industry. If you back down some of those loans,
3 we're running about four percent, which is very good for a government loan.

4 So, I offer both of those two you and what I would like to emphasize if you're considering a financial
5 program, whether it be capital access or direct loan, and these are your funds and this program you can make it
6 anything you like. Our programs currently are the way they are because it's either legislated to be that way by
7 the General Assembly, or in the case of our Federal money, there are rules associated with this program from the
8 U. S. Department of Commerce. You can make this program anything you want it to be. We have a lot of
9 flexibility within our staff both from a lending perspective as well as from the infrastructure that we've created
10 to be able to accommodate you in the way of things like reporting and billing. So, we've got a customized loan
11 accounting system so we can make it however you would like.

12 That's really, Mr. Chairman, all that I can say, and I thoroughly enjoyed working with this
13 Commission and your Staff in the past, and I'd like to be able to continue to do that on a more substantive basis
14 with any loan program that you feel like would best meet your needs.

15 MR. ARTHUR: How many banks in the Southside participate with you?

16 MR. PARSONS: All of the large banks and the multi-regional banks are members, so they
17 participate statewide. As far as the larger banks or as far as the Commission, since I came on board two years
18 ago our focus has been to try to market to the community banks, and our funding has been limited to that, but in
19 the past year we've had to stop the marketing program. We only have two community banks in Southside that
20 are currently signed up. One is the Bank of Southside Virginia, which mainly operates in the eastern part of
21 Southside. In the past month, Smith River Community Bank has signed up.

22 MR. ARTHUR: What's the minimum number to be able to make this a viable program?

23 MR. PARSONS: I'd say the minimum currently statewide without doing any marketing,
24 we spent about two hundred and sixty thousand last year in this program. The year before it was almost six
25 hundred thousand. One of the largest users is Wachovia, slowed down, because of their merger with First
26 Union, and did not pick up as we had hoped. A lot of the community banks we have not marketed because we
27 know there's not much money left and want to leave it for those banks that have been with us for a good while.

28 MR. ARTHUR: It's really the banks that bring you the clients?

29 MR. PARSONS: It is.

30 MR. ARTHUR: So you have to make it known.

31 MR. PARSONS: We market the program extensively, both to the banks as well as any
32 presentations that we're making to small business groups and economic developers. It's really a bank driven
33 program. They're the ones that are deciding what to loan, and some banks that we talked to told us the very
34 same thing. It does vary from bank to bank. Some banks it's just not their credit philosophy, for whatever
35 reason.

36 MR. ARTHUR: You're sounding like five hundred thousand.

37 MR. PARSONS: Five hundred thousand for just the Southside area would be an excellent
38 start.

39 DELEGATE HOGAN: Mr. Chairman, why don't you do this for passive real estate
40 investment?

41 MR. PARSONS: The idea being that when this program was created it was designed
42 primarily for job creation as an economic development tool. When the program was created and financing was
43 considered I feel like it was thought that this would not be much in the way of job creation associated with that
44 type of project, real estate perhaps. I guess at the time perhaps it was deemed a little more risky, and I don't

1 really know, I'm guessing. I don't really know the genesis of that.

2 MR. ARTHUR: Any other questions?

3 DELEGATE HOGAN: We don't know the genesis of why we're excluding the passive real
4 estate market, a lot of this has created jobs and this should be judged on a case-by-case basis. What if someone
5 comes forward with a proposal that will create jobs and then you're not going to make loans?

6 MR. ARTHUR: Define passive.

7 MR. PARSONS: Well, it's one where it's not a business that is operating in that particular
8 piece of real estate and it's for investment purposes. The owner is not operating the business, it could be a
9 business operated and have a third party. Delegate Hogan, the loan decision itself is not made by us, but it's
10 made by the bank. I wish I had a good answer for you, but right now I don't, and I don't know why it was
11 excluded at the time the program was created, but it was modeled after some other states, and I think that was
12 generally considered perhaps to be risky and not enough closely aligned to economic development purpose, and
13 that's just my guess.

14 SENATOR RUFF: Mr. Chairman, since I was on the Sub-Committee that was very much
15 involved, the Appropriations Committee, that was very much our goal is to create jobs in rural areas, and that's
16 really where it came from.

17 MR. WATKINS: Mr. Chairman, Southwest, the micro-banking, is there micro-banking in
18 Southside?

19 MR. PARSONS: I believe there are some micro-lenders that operate in Southside. Some
20 of those were funded by grants by the Virginia Housing Development and Virginia Enterprises. I know their
21 funding was cut back, some of the micro-loan programs lost funding, but I can't stand here and name them off to
22 you. I know there's one in Franklin County, I believe. Tim, are you aware of any others?

23 MR. PFOHL: The Dan River Business Development Center is one. By definition the
24 micro-lending program business has to have five or fewer employees, including the business owner. So you're
25 looking at a very narrow field for the type of companies that would be involved in this lending.

26 MR. ARTHUR: Mr. Parsons, how much is your overhead?

27 MR. PARSONS: For this program, I'd say for the most part, sir, we've got, the marketing
28 program extensively throughout the region and then an administrative reporting issue. I'd estimate that would
29 run ballpark, about forty thousand for a part-time person to handle the administration of it as well as to allow
30 both that person and some of the existing staff to market the program extensively. That's a guess on my part.
31 We run our direct loan program currently for the Department of Environmental Quality, and they provide us
32 with a full-time associate. They run that direct loan program with that person as well as marketing expenses
33 and supplies, runs about eighty thousand.

34 MR. ARTHUR: You're talking about if we make five hundred thousand dollars available
35 for the program, five hundred and fifty thousand to do the job?

36 MR. PARSONS: Yes, sir.

37 MR. CURRIN: Mr. Secretary, Secretary Schewel wanted me to convey to the Committee
38 his regrets he couldn't be here today, but that he very much would like the Committee to support the capital
39 access funding. He feels we can get a bigger bang for our buck.

40 MR. ARTHUR: I spoke to Secretary Schewel this week, and he also expressed that to me.

41 DELEGATE HOGAN: You're talking about the costs to run this program, is it the same
42 for the capital access versus the other, is it much less expensive on the administrative side?

43 MR. PARSONS: From the administrative side it's going to be about the same. There's
44 some underwriting involved in the direct loan program with the existing staff, but from the administrative

1 standpoint, hopefully, borrowing from the capital access program is greater than the direct loan program. The
2 focus shifts away from lending officer per se more to the administrative functions with this program.

3 DELEGATE BYRON: I'm trying to understand the administrative end of it. In the capital
4 access program it appears that a percentage of that goes to the loan reserve fund.

5 MR. PARSONS: That's correct.

6 DELEGATE BYRON: That's based on a percentage basis?

7 MR. PARSONS: It's a percentage of whatever fee the bank charges the borrower up front.
8 Currently the way the existing program works there's a three percent minimum and seven percent maximum, a
9 one-time up front fee that they would charge the borrower. That money goes into an account at that bank in the
10 name of the Small Business Financing, and then they notify us that match funds have been placed in the bank
11 and the loan is then enrolled and we provide a match of like amount into that program. They charge three
12 percent, and we put three percent of the loan amount up to two hundred and fifty thousand into that fund. If
13 they make a hundred thousand dollar loan and they charge five percent, then they'll put five thousand in the
14 borrower, and we will match that. In some cases in our program we will double match. This is to try to help the
15 community banks build their loan pool faster, and it's really open to any bank to help them build up a reserve
16 quicker. So for the first million dollars enrolled in the program we provide a double match. In that case the
17 borrower would put in five percent and we put in ten percent, and there's fifteen thousand dollars in that account
18 to offset any loan if that loan would go bad. That typically is not enough to get the bank too excited as far as
19 the margin of credit, fifteen thousand offsetting a hundred thousand, but the beauty of the program is that if you
20 make enough loans they continue to get the match, and in some cases a double match, and that loan pool grows.
21 Even when the loans pay off the pool remains as long as they're continuing to operate within the program and
22 provide loan funding. So if they do enough small business lending to build up a large enough pool, should one
23 of those loans go bad they may have enough to complete the offset of their losses.

24 SENATOR RUFF: Excuse me, but you said you rate loans from one to ten and the seven's
25 and eight's and nine's ultimately are going to be made by the bank and the only thing it does is move you down
26 one step or two. No banker is going to get into those low-ended ones, it just moves that margin a little further
27 away.

28 DELEGATE BYRON: My question is that if the bank is the one that determines the
29 capital access loan?

30 MR. PARSONS: Yes.

31 DELEGATE BYRON: Who sets the criteria for how many loans are going to be in each
32 area and when is it going to be maxed out and divided equally, or who does all that decision making?

33 MR. PARSONS: Currently the program is set up first come, first served, and this is a
34 statewide program. You can set it up and have different criteria. Our current program is first come, first served.

35 DELEGATE BYRON: Who decides if you put extra money into the reserve fund, who
36 makes that decision?

37 MR. PARSONS: When you say extra money, you mean the double match?

38 DELEGATE BYRON: Yes.

39 MR. PARSONS: That's part of the program as it was legislatively written. For the first
40 million dollars a bank would enroll in the program we provide a double match.

41 DELEGATE BYRON: We can write a program for this one?

42 MR. PARSONS: That's right, those details could be worked out.

43 DELEGATE BYRON: As far as the funding, there must be a way that we can look at the
44 percentage rather than just throwing out a figure?

1 MR. PARSONS: I guess you could. I'd say that part of the beauty of this program for the
2 banks is that there's very little in the way of constraints, there's very little that they have to monitor and keep up
3 with. While certainly it's within your purview to construct the program however you want it, the more you get
4 into putting constraints around, only so much in this area and only so much in that area, it's going to be more
5 difficult for the bank to keep up with, because many times they're going to transcend areas and in some cases
6 will be less likely to use the program.

7 MR. ARTHUR: We're primarily interested in Southside and not this county or that county.

8 DELEGATE BYRON: Right, I was just wondering how it worked and who did what.

9 MR. WALKER: Mr. Chairman, we have had in the past a good response and a partnership.
10 Is there any way that the Department of Business Assistance can partner with the Tobacco Commission where
11 we would supply money and you all supply the labor and be part of that partnership?

12 MR. PARSONS: That's certainly something we can negotiate, I'd have to talk to my boss.

13 MR. WALKER: We're all in this thing together.

14 MR. PARSONS: I would agree, it's just a matter of whether we'd have to add staff and
15 how that is done. I can tell you that in previous partnerships in the Department of Environmental Quality and
16 the Department of Social Services, we've been able to negotiate with a full or part-time person. I'm open to
17 anything.

18 MR. WALKER: Were those other entities that you spoke about, the Department of
19 Environmental Quality and so forth, were they spending taxpayer money?

20 MR. PARSONS: As far as I know, sir, the Department of Environmental Quality funds, I
21 think, comes from funds that they created from fines that were assessed to businesses that were out of
22 compliance. The Department of Social Services monies were federal grants; because we had some lending
23 expertise they asked us to use that money.

24 MR. ARTHUR: Any other questions?

25 MS. TERRY : Two questions. First of all, this has to do with the first come, first serve
26 basis. As I understand it you said that people from the Southside, and was it BB&T?

27 MR. PARSONS: That's the principal user statewide. I can't tell you how much they used
28 in Southside versus other parts of the state.

29 MS. TERRY : My question involves the smaller counties that might have BB&T or
30 community banks. Once you get to the million dollar mark, then it doubles?

31 MR. PARSONS: Well, they stop doubling at one million.

32 MS. TERRY : I was wondering about the smaller localities that have fewer people. Will
33 there be some operational bias that makes it more difficult for small banks to become part of this because they
34 might not be able to meet the threshold given the amount of money that's in the pot to loan out?

35 MR. PARSONS: I really couldn't answer that per se as to how the banks would react to
36 that. Some community banks that have looked at the program have said, yes. The way it's currently structured
37 we're not able to build up a loan loss reserve fast enough to make it worth our while. It depends on how much
38 you want to put into it, and you certainly have the flexibility. If you'd like to provide the double match that does
39 not stop after that first million or provide a triple match or something of this nature, whatever you're trying to
40 target that might help the community banks build up their loan loss reserve faster.

41 MS. TERRY : That's fewer loans?

42 MR. PARSONS: No, not fewer loans. Using the money that would be allocated quicker,
43 but then hopefully, the way the program is designed to work that once the bank gets comfortable with their loan
44 loss reserve then they're able to stretch a little bit more into the small business lending, because they know they

1 can build up the size of their pool.

2 MR. ARTHUR: One last question.

3 MS. TERRY : It has to do with the money that you've loaned out over the last two years.
4 We've had some tough times, and consumer spending is down. It now appears that that's turning around, so
5 folks may be interested in taking a risk and making an investment. So if we're on the verge of a turn-around in
6 the economy, what impact might you think that would have on what you might need next year as opposed to
7 what you needed the last two years when we've been down?

8 MR. PARSONS: I would hope it would pick up and pick up considerably, and that's with a
9 turn in the economy as well as our ability to market that program once we know there's funding. As I said, the
10 prior year we did almost six hundred thousand in match funding that we did, or that we put towards the
11 program. My hope is that at the tune of a half million dollars we would perhaps get through that in a year,
12 maybe less if things really turn on. I had proposed to Mr. Currin early on, when we look at this thing certainly
13 we can, and I'm not opposed to looking at it and seeing how much volume comes in and if it's not doing well
14 come back to you and say, I'm sorry, I thought it was a good idea but it's not. And we discontinue it if you like,
15 or that hopefully there's been so much demand that there's more money necessary and I can show you some
16 results from that and you're willing to put money into it.

17 DELEGATE BYRON: If the program goes great and you've got a lot of economic
18 possibilities and people creating jobs and doing great things with the money, my question is what is the length
19 of time that the loans are generally for as far as putting up some of the reserve that we invest? How long would
20 it take to start seeing that money growing and adding more loans to it? What's your average length?

21 MR. PARSONS: The average length of time on the loans is about four years on average.
22 The way the current program is structured that money stays in that account for as long as that bank participates
23 in making loans. Even though that one particular loan pays off, that fee does not come back, that match does
24 not come back to us, that stays with the bank and helps offset losses. Once the money goes into the account it
25 never comes back.

26 DELEGATE BYRON: But it becomes available for more loans.

27 MR. PARSONS: Right.

28 DELEGATE BYRON: But every year wouldn't that be available for additional loans?

29 MR. PARSONS: Well, if I'm not mistaken, the pool is there to offset losses, so it really
30 depends on the bank's appetite as to how much risk they want to take further on versus how small the pool is.
31 There's no time frame that they look at that says this money will last us X amount of time. It's purely a matter
32 of today they have twenty thousand in the account and they make enough loans, tomorrow they have a hundred
33 thousand, next year they have a half a million in the account.

34 MR. ARTHUR: Senator Ruff has a question, and then we need to move on.

35 SENATOR RUFF: There seems to be some concern about the reasonable issue, and I just
36 want to address it. It depends on how aggressive the bank is. The Bank of Southside Virginia was fairly
37 aggressive in the beginning, and that's why they developed a nice pool, and they put it into expanding shops,
38 garages, things like that. The reason BB&T has been active is that North Carolina was developing a program
39 after Virginia did, but BB&T was watching North Carolina well enough to understand that it was a good
40 program, and they told their managers, get out and use the program. I don't think we've seen that kind of
41 activity from some of the larger banks.

42 MR. WATKINS: We have two economic developers here, and I'm curious to ask them how
43 much demand they see, Mike and Scott.

44 MR. SCOTT MORRIS: I would say with the local banks the problem we're having is that

1 these kinds of banks, these kinds of loans are kind of marginal. They're kind of in the middle. We tend to get
2 more loans. The marginal piece of assurance is not the reason that the bank wants to lend them money. We
3 don't have a large enough volume, which would be my biggest concern. It takes a large volume to get a loan at
4 the bank and be competitive. I would be concerned. The problem as I see it is being competitive. My concern
5 is getting enough volume to get results to encourage banks to keep on doing it.

6 My other concern is that if the reserves stay at different banks, there is no return on them. In normal
7 situations the money comes back in to be lended out again. In the Southside with a little bit of reserve across
8 the area, if you have two or three banks that have a big reserve, you'd probably be better off than having a little
9 reserve at a lot of places.

10 I'm Scott Morris with Halifax County.

11 MR. BURNETT: I'm Mike Burnett, Economic Developer for Patrick County. I'd pretty
12 much echo what Scott said. In my experience we haven't had a lot of demand in that marginal area. Ours tend
13 to be a loan from the bank, they're going to fall below the criteria that you all are looking for.

14 MR. ARTHUR: Thank you.

15 MR. PARSONS: Mr. Chairman, just to follow up on what these two gentlemen said.
16 That's why we offered the direct loan program, and the two programs complement each other. Some bank
17 would choose not to use the program, and from what we heard from local economic developers the direct loan
18 program is a nice complement to the existing program that we have. That's why we offer both, and frankly, if
19 there's enough money there, I'd recommend both.

20 MR. ARTHUR: Thank you, very much, Mr. Parsons.

21 Delegate Wright?

22 DELEGATE WRIGHT: I have a question to ask concerning a meeting I was in last week,
23 and I had a phone call this morning on the way here from an economic developer. What I want to know is, and
24 this question is to you. If the Tobacco Commission put in a million dollars either to the direct loan program or
25 the capital access program or both, say a small business wants to make a loan and goes to the economic
26 developer or the local bank, exactly what kind of time under each program is there, so I'll be clear in my mind
27 how it works?

28 MR. PARSONS: Through the capital access program currently, and we'll talk to the small
29 business person, if they have a banker that they have identified that they're working with, we will offer and on a
30 joint basis talk to that banker about the program. Maybe a bank's already enrolled, or it may not be. If it's not
31 then we need to start the process. We'll serve as a conduit to try to get that transaction to happen. The loan
32 decision does belong to the bank, and we have no say in that. From a direct loan standpoint they work with us
33 very closely, because in that program we do provide the underwriting and have final say on the loan approval.
34 It's working with us, and we underwrite much like a bank would, the understanding is that we're there to do the
35 financing. That means that typically they're looking to deals that they may not look at, they might have a tighter
36 cash flow or may not have the collateral, but we're going to underwrite it and make our best judgment as to the
37 ability to repay and give them a yes or no answer. Does that answer your question?

38 MR. ARTHUR: Thank you, very much, Mr. Parsons.

39 Now we have Dr. Wayne Purcell from Virginia Tech, he couldn't make is so Randy Arno will make
40 the presentation.

41 On behalf of the Committee, let's restrain our conversation among ourselves so we can conclude our
42 business and get out of here.

43 MR. ARNO: Thank you very much, Mr. Chairman and members of the Committee. My
44 name is Randy Arno, and I work for UVA's Cooper Center for Public Service, and for the last four years I've

1 served with Wayne, Dr. Purcell, and a number of his colleagues with Virginia Tech as staff to the Rural Virginia
2 Prosperity Commission. The Commission consists of eighteen members created from the General Assembly in
3 1999. We had essentially five or six recommendations that were submitted to the 2002 Session of the General
4 Assembly. One was to increase the amount being appropriated by the General Assembly by two million dollars,
5 the Small Business Financing Authority for the small loan program that they operate. It was targeted, or that
6 amount was supposed to be targeted, to distressed localities.

7 Wayne Purcell has been an advocate of this program for years and years, and he knows much more
8 about the program than I do. It's modeled after the Michigan program, and I know you've worked very closely
9 with Wayne. We were unsuccessful that year, as you all may recall, the General Assembly was very pressed for
10 funds in that session of the General Assembly, so that additional allocation was not approved by the General
11 Assembly. However, there was language included in the budget to the effect that the Small Business Financing
12 Authority would try to find a way and increase their efforts in getting small business loans into the rural
13 distressed localities.

14 The concept of the distressed localities did not get approved in the legislation but the Rural
15 Prosperity Commission continues to exist. We have four recommendations that we're pursuing in the upcoming
16 General Assembly session, one of which is the capital access program, and to get more funds for capital access,
17 this very program. Senator Ruff's comment is that this program is designed to get capital more accessible to the
18 small business people in rural distressed localities.

19 So, thank you, very much.

20 MR. ARTHUR: Does anybody have a question of Randy? If not, I thank you for coming
21 and speaking to us.

22 We've reached the point now where we've got to make a decision as to whether or not we're going to
23 support this program. As a summation you need to know what monies are available. Mr. Director, can you tell
24 us what monies are available to us, please?

25 MR. CURRIN: I'll refer that to Mr. Pfohl.

26 MR. ARTHUR: Referring to Tim Pfohl.

27 MR. PFOHL: Mr. Chairman, the FY '03 Budget for the Commission has about two million
28 dollars for small business financing. At the April meeting the Commission allocated a million dollars to the
29 Southwest Small Business Financing Program, being administered by People, Incorporated out of Abingdon.
30 The Commission referred the remaining million dollars to your Committee for consideration to small business
31 financing options in Southside. So, you've got a million dollars from the FY '03 Budget that was set aside for
32 small business financing.

33 MR. ARTHUR: That is specifically set aside?

34 MR. PFOHL: Yes.

35 MR. ARTHUR: We're not overlooking the one million dollars set aside, that is possible?

36 MR. PFOHL: That's right.

37 MR. ARTHUR: Do I hear a motion as to whether or not we proceed forward with this
38 financing?

39 SENATOR RUFF: Mr. Chairman.

40 MR. ARTHUR: Senator Ruff.

41 SENATOR RUFF: Mr. Chairman, I would make a motion that we do move forward. From
42 what the economic developers have said there is some interest in direct loan money, so I think there should be a
43 divide. We need to be able to finance some of these projects. If we take X amount of dollars and put it into the
44 capital access program it can create quick volume loans, but at the same time we need to keep some money that

1 can be used direct. So, Mr. Chairman, I'd make a motion that we put in five hundred thousand into the capital
2 access program, with an additional maximum of fifty thousand dollars for the administration of that and put the
3 balance into a direct loan program.

4 MR. ARTHUR: You put four hundred and fifty thousand into the direct loan program?

5 SENATOR RUFF: Five hundred thousand.

6 MR. ARTHUR: In the capital access?

7 SENATOR RUFF: Yes.

8 MR. ARTHUR: Fifty thousand for administration, up to, that's four hundred and fifty
9 thousand left, and you're talking about putting that into the direct loan program.

10 SENATOR RUFF: Yes, four hundred and fifty thousand into direct loan, that's my motion.

11 MR. ARTHUR: Does everyone understand the motion? Do I have a second?

12 DELEGATE WRIGHT: Second.

13 MR. ARTHUR: It's been moved and seconded, any discussion? Ms. Terry.

14 MS. TERRY : Since the loans were for distressed areas, would it be possible, Mr.
15 Chairman, for us to come up with some definition which localities would be considered distressed based on
16 employment figures, because some of those localities are more distressed than others.

17 MR. ARTHUR: Ms. Terry, I feel like this money is all of Southside's, and the entire
18 Southside is distressed, in my opinion. I don't know if anyone else has a comment on that or not.

19 DELEGATE HOGAN: I second that comment.

20 MR. ARTHUR: You second the comment. Any more discussion?

21 Delegate Hogan.

22 DELEGATE HOGAN: Would Senator Ruff consider an amendment? It seems to me, I
23 know a little bit about EDA and the way they're funded, and over the last year or two some of the loan programs
24 they have. I'd like to see if we can't negotiate, seems like to me fifty percent to handle one million dollars or
25 five percent of one million dollars is a far greater ratio than a commercial bank. I'd like to see if we can get it
26 done for less than that. I'd like to have a proposal back in detail why they can't.

27 SENATOR RUFF: Mr. Chairman, if I can respond. I used the term up to fifty thousand
28 dollars. That would give them the ability to negotiate, but the greatest problem in the State's program since July
29 1st of '97 is that there's no one out there to market this program to the small banks. They've gotten word of it.
30 Two years ago Peter Clement from the Bank of Southside made a presentation and there was a banker on the
31 Rural Prosperity Commission that didn't even understand the program. So there's a real need to have someone
32 out there talking about it. Whether we deputize ourselves and have us talk about it or we get a professional to
33 do it, it needs to be done, and that may work to some extent, but I think that needs to be calculated into the
34 process.

35 DELEGATE HOGAN: Mr. Chairman?

36 MR. ARTHUR: Delegate Hogan.

37 DELEGATE HOGAN: That's a point well made, but what would be the process to direct
38 Carthan and the Staff to bring a proposal before us the next time, and we can approve it.

39 MR. ARTHUR: We're not going to approve it right now, what we're talking about is
40 moving ahead with the Staff, and they can negotiate with these people and try to bring a proposal back at the
41 October meeting. Do you have a problem with that?

42 DELEGATE HOGAN: No.

43 MR. ARTHUR: Any further discussion?

44 MR. WATKINS: There's obviously got to be some operating expenses under the direct

1 program, also?

2 MR. ARTHUR: There will be, and he can come back with us, the Staff can give us a
3 recommendation at the October meeting in which we can vote it up or down.

4 MS. TERRY : Mr. Chairman?

5 MR. ARTHUR: Ms. Terry.

6 MS. TERRY : As part of that recommendation, might it be possible that if the program
7 passes at the October meeting that we have a sufficient time period before we receive the applications to make
8 sure that every bank in Southside gets the full information?

9 MR. ARTHUR: Yes. I think you'll find it's not going to be used as much as we hope it
10 should. Any other comments? No further discussion?

11 Roll call, please.

12 MR. CURRIN: Mr. Bryant?

13 MR. BRYANT: (No response.)

14 MR. CURRIN: Delegate Byron?

15 DELEGATE BYRON: Yes.

16 MR. CURRIN: Mr. Hite?

17 MR. HITE: Yes.

18 MR. CURRIN: Delegate Hogan?

19 DELEGATE HOGAN: Aye.

20 MR. CURRIN: Secretary Schewel?

21 SECRETARY SCHEWEL: (No response.)

22 MR. CURRIN: Mr. Taylor?

23 MR. TAYLOR: (No response.)

24 MR. CURRIN: Ms. Terry?

25 MS. TERRY : Aye.

26 MR. CURRIN: Mr. Walker?

27 MR. WALKER: Aye.

28 MR. CURRIN: Mr. Watkins?

29 MR. WATKINS: Aye.

30 MR. CURRIN: Delegate Wright?

31 DELEGATE WRIGHT: Yes.

32 MR. CURRIN: Mr. Vice-Chairman?

33 SENATOR RUFF: Aye.

34 MR. CURRIN: Mr. Chairman?

35 MR. ARTHUR: Aye. So we have gone into a situation here where we're going to provide
36 capital access from the one million dollars set aside, not out of Southside but from the full Commission, and we
37 have not touched the million dollars that we have on set aside. Does everyone fully understand that?

38 We're going into the public comment section, and we have some people here from Patrick County
39 that would like to give us a talk on the forestry. He's going to give us a five or ten-minute presentation on
40 forestry and what's going on here in Patrick County. So, I'd ask you to give him your attention, please.

41 MS. TERRY : Mr. Trobaugh will give us a presentation on forestry here, and he lives here
42 on the site, and what's going on with the forestry in general. Thank you.

43 MR. TROBAUGH: I'm going to talk to you a little bit about the Forestry Research Center
44 here at the Reynolds Homestead. My name is John Trobaugh, and I work for Virginia Tech, and my job consists

1 really of three different functions. One is to provide Christmas tree extension support for the Christmas tree
2 industry in the State of Virginia, conduct forestry research for Virginia Tech and also Superintendent of the
3 Forestry Research Center. I manage the seven hundred acres of property here, plus the research facility that we
4 have right next door.

5 The research facility consists of the residence, which is where I live, we have a two-bedroom
6 apartment for graduate students who live there as they're doing their research. This summer we had a student
7 from Portugal that spent the summer there conducting research.

8 We have the greenhouses that are attached to the facility, and the greenhouses were built about thirty
9 years ago and were state-of-the-art at that time but are a little bit dated at this point in time.

10 In the downstairs lower level we have office space and laboratory facilities where we're conducting
11 research.

12 A little bit about my past. Prior to working for Virginia Tech, I worked for Georgia Pacific for about
13 thirteen years. I had a job managing a container nursery facility in Oregon. This facility produced about ten
14 million seedlings a year. As you can see here, these are some of the new greenhouses that we built, and I'll talk
15 about the expansion there in just a moment. These greenhouses are the current state-of-the-art greenhouses for
16 the industry. They have retractable roofs and retractable side walls, so as the temperature starts to increase
17 during the day the side walls will go up and then the roof will start to open so you get air circulation in the
18 facility. I came to that facility in 1996, and we had a hundred and ninety thousand square feet of greenhouses,
19 which is basically this block here of houses. Then we built this block of houses, which was thirty-five thousand
20 square feet. This is where the previous picture was taken, and you can see that the roof is open on this
21 retractable greenhouse here. In 2000 we built an additional thirty-five thousand square feet of housing, a
22 packing shed and a break room for the crew. In 2001 we built an additional fifty-five thousand square feet of
23 greenhouses. When I finished up there we had three hundred and fifteen thousand square feet, or a little over
24 seven acres under roof, producing ten million seedlings a year, and this is the largest single facility for a
25 seedling nursery production in North America. That's in the United States, and there is one larger in Canada.
26 The product we're producing is containerized seedlings, and these are grown in Styrofoam blocks, which is
27 about eight cubic inches of soil and fifteen cubic inches of soil and twenty cubic feet of soil. We grow about ten
28 million of these seedlings each year, and the expansion was made possible because of the research that we were
29 doing in establishing fertilization. We would incorporate a slow-release fertilizer in this container medium
30 which would be shipped out into the field and provide field fertilization for up to two years in the after out
31 planting. There was such a high customer demand for that product that we were able to fill the greenhouses and
32 turned away a million seedling order last year because the demand exceeded our ability to supply the customers.
33

34 This shows some of the field research. Three years in the field and four years from seed, and this is
35 the control seedlings, which is what the market was used to growing. About four years they are this size, and
36 these are shooting to the sky. The companies wanted the product that we were producing, which fueled the
37 investment in the additional greenhouses.

38 What I'm most interested in is the development of state-of-the-art greenhouses here at the Reynolds
39 Homestead so that we can develop the same technology for use here in Virginia. About a month ago I gave a
40 presentation at the Virginia Christmas Tree Growers Association, and they were extremely interested in this
41 technology and were interested in providing some of the funding for that. That research could be transferred
42 into the commercial greenhouse production.

43 There's a company up in Canada called PRT, up in British Columbia, and they are a very large
44 commercial production, and they have expressed an interest in developing a greenhouse facility in this region of

1 the United States, but primarily focused on the Christmas tree industry. In order to do this production, it takes
2 quite a bit of technical expertise, and those folks have that expertise. They are interested in building a facility in
3 this part of the United States, PRT, which is Pacific Resource Technology, and I have contact information for
4 them. They started in Canada when the Canadian government started to privatize a nursery program, and the
5 Canadian government put their nursery up for bid, and PRT bought all eleven of them. Their production is in
6 the range of a hundred and forty million seedlings, and they're a big producer.

7 When we built expansion projects for Georgia Pacific I put together the economic proposal within the
8 company. The rule of thumb we were using is about ten dollars per square foot of greenhouse space. We were
9 looking for a return on investment of about twenty-seven percent. If we were growing the Styro 2, which is a
10 small seedling transplant, we would sell them to our customers for a hundred and ten dollars per thousand
11 seedlings, and our cost of production would be about forty dollars. So we were able with our profit to pay off
12 the capital investment in three years, and then the twenty year time frame that I did a cash flow on it, the other
13 seventeen years the loan was paid off, and the capital investment is paid off. With that Georgia Pacific gave us
14 the money to build the greenhouses until we ran out and we didn't have any more ground to build any more, and
15 we wanted to build as many as we could. The demand exceeded our ability to supply, and we turned away a
16 million seedling orders last year. In that industry there was a tremendous demand for that product, and that's a
17 tremendous return on investment.

18 For this type of operation here locally I would see this feeding into the Christmas tree industry.
19 They're interested in the research in nutritional fertilization. Part of my problem is that as we develop the
20 research I don't have the commercial operation to deliver them the product in order for them to plant the
21 Christmas trees. They would have to go to a container nursery or up in Canada, because there is not a
22 comparable facility locally. They're very interested because of this fertilization program without any additional
23 cost. The only cost, about five dollars per thousand seedlings, so it's about two dollars and fifty cents an acre to
24 get this huge fertilizer start, and it's extremely economical, which is why there's such high demand for it.

25 Another industry that we could spin into would be the timber industry. The picture of the Pine
26 Plantation is from right across the street, and that's a thirty-five year old pine plantation, and I just sold twelve
27 acres of that pine plantation for about two thousand five hundred per acre of standing timber. I'm just selling
28 the timber and not the land. About twenty-five hundred per acre, thirty-five year old standing pine. With the
29 research and technology we'd be able to shorten that rotation time and do it in a shorter period of time. Besides
30 the technical problems with this presentation, I'm done.

31 MR. ARTHUR: Anyone have any questions?

32 MR. WATKINS: What is the closest production facility?

33 MR. TROBAUGH: The closest facility is in the south, International Forest Seed
34 Company, and they have a fairly large facility in the Gulf States area. I don't know of any large production
35 facility anywhere on the East Coast.

36 MR. WATKINS: Where do these people buy their seeds?

37 MR. TROBAUGH: Primarily from nurseries, but that's more like field farming, and they
38 can produce seedlings at a much lower cost than a greenhouse container facility. That's why the foresters in the
39 South like the less expensive seedlings. Loblolly pine would be about thirty dollars per thousand. A
40 containerized seedling that we were selling out there would be about three hundred per thousand. The
41 Christmas tree industry pays about a thousand dollars per thousand seedlings. If I can produce them for three
42 hundred dollars a thousand and sell them for a thousand dollars a thousand, there's a huge profit and an
43 excellent return on investment for greenhouses. When I first talked to the Christmas tree industry and saw the
44 prices they were paying my first reaction, maybe I should get into my own private greenhouses.

1 MR. WATKINS: You don't think you'd be competitive with the bare root?

2 MR. TROBAUGH: It would be difficult for the forestry side except for companies that are
3 moving toward very intensive bio-technology type of forestry. You'd be looking for a very intensive short
4 rotation course. I think the best way to deliver that product is in a container with fertilizer rather than the bare
5 root seedling. There's a company looking at that possibility, and I think the containerized seedling is the best
6 delivery method for that type of production.

7 Oregon has fairly mild winters, and they're actually similar to here, and that was one concern PRT
8 had. They were looking at eastern Tennessee, and they were concerned about the heating costs there. When I
9 mentioned where I was located the first thing out of their mouth was, it would be lower heating costs. So, it
10 depends on what you're using. The greenhouses are very efficient, and they're better than the old glass houses
11 in retaining heat. We found instead of two years we could get by with one as far as circulating fans. So, we
12 were extremely efficient. Oregon has pretty mild winters.

13 MR. WATKINS: What percent of your operating costs
14 are devoted to that?

15 MR. TROBAUGH: I'd have to go back and look at the budget.

16 MR. ARTHUR: Thank you, very much, we appreciate it.

17 Let's come back with the Committee for a new piece of business I have forgotten to take up. I'd like
18 to have a motion to authorize me to direct the Staff to allow us to have a second round of economic
19 development proposals to notify all economic development in every county that we will entertain proposals at
20 the next meeting in October.

21 DELEGATE WRIGHT: I so move.

22 SENATOR RUFF: I'll second it.

23 DELEGATE HOGAN: Can I add a caveat in there, Mr. Chairman?

24 MR. ARTHUR: It might be out of order, unless you want to make a substitute motion.
25 Everybody needs to understand that this is an unspent '03 balance from the counties' allocations and we will
26 have everybody notified shortly. All in favor signify by saying aye. (Ayes.) Opposed like sign. (No response.)

27 Is there any more discussion?

28 MR. HITE: Mr. Chairman, can you go through that presentation for what?

29 MR. ARTHUR: To authorize the Staff to notify all economic developers in each county
30 that we are going to entertain economic development proposals for the unspent balance of each county's
31 allocation for '03 at the October meeting.

32 DELEGATE HOGAN: Mr. Chairman, I assume you're going to have another Southside
33 Economic Development meeting before the full Commission meeting where we will take up those proposals?

34 MR. ARTHUR: Yes, these proposals will be taken up before the next meeting in October,
35 which is out in Wise County. They'll get them to us and we'll have a meeting prior to that meeting, at that
36 meeting so that we can do them. Does everybody understand what we're doing? There's a lot of counties with
37 unspent allocations, and that money is really wasted if it, economic development money in the bank is doing no
38 good.

39 All in favor signify by saying aye. (Ayes.) All opposed. (No response.)

40 We've got one more presenter.

41 MS. TERRY : Mr. Chairman, we've got the economic director here from Patrick County,
42 and for some time now the county has been looking at how it might invest. So his presentation dovetails with
43 the forestry presentation, and we're trying to capitalize on this resource. So I'd ask Mr. Burnett to speak.

44 MR. ARTHUR: Thank you. Mr. Burnett?

1 MR. BURNETT: Thank you, Mike Burnett, Economic Development, Patrick County. Let
2 me just take five minutes of your time so I can give you a little more information on Patrick County. I'm sure
3 you know about Patrick County, and you see our applications from time to time. A lot of times you don't get
4 down into the numbers of it. I want to give you some information on Patrick County's demographics and its
5 economy and then talk about what we're doing.

6 General topography and location of Patrick County. As you all know we are the fountainhead for
7 Southside as well as Southwest. Everything starts and ends in Patrick County for the Tobacco Commission. We
8 are well situated as a rural locality, and we're just a little over an hour from Blacksburg, Roanoke, Danville,
9 Greensboro. We utilize those cities a great deal. If any of you came in from the west you know this very well.
10 The eastern portion of the county, which we are in now is characterized as level and gently rolling terrain, while
11 the western portion is where the Blue Ridge Mountains start. We consider it the gateway to the Blue Ridge
12 Mountains of Virginia. It's one of our slogans here in Patrick County. Because of this terrain difference we
13 actually have two separate communities in Patrick County. That offers a lot of opportunities but also offers a lot
14 of limitations.

15 General Demographics of Patrick County. We have nineteen thousand four hundred and seven
16 people, forty point two citizens per square mile, and that makes us a very rural community. We actually rank
17 seventy-third out of ninety-five counties in Virginia on population density. That shows you what we face here.
18 Our population is aging and due to the influx of retirees and the loss of young people. The Virginia average or
19 median age is around thirty-five, and our average is forty years of age, and that is statistically significant.

20 Our current unemployment rate, as you can see in the newspaper in front of you, is fourteen point
21 four percent. We're now the third highest in the State of Virginia. This entire region is going through that. In
22 Patrick County we've lost eight hundred jobs due to closings since 1997. That's not including any downsizing
23 without closings, that hasn't included any closings in Martinsville, Henry County, Surrey County, North
24 Carolina or the surrounding areas where we have had a lot of citizens that went to that area or those areas to
25 work.

26 We've had heavy reliance on manufacturing. Thirty-nine percent of our employment is
27 manufacturing, and that's extremely high compared to the State average. That puts more problems on us when
28 there's problems in the manufacturing industry.

29 Our forecasted income is eighteen thousand five hundred, and the Virginia average is a little over
30 thirty-one thousand. So that's a big difference there, one of the things that dovetails into the unemployment and
31 eight hundred jobs lost. We have nine thousand people in our workforce and four thousand of which travel
32 outside of Patrick County. When you came into Patrick County it takes a while to get outside of Patrick County.
33 So, those people are driving quite a ways if they can find work. We have about eighteen hundred people
34 traveling through Henry County, and you all know what's going on there, and eleven hundred people go to Mt.
35 Airy, North Carolina. We're looking at almost three thousand people going to two areas right now other than in
36 Virginia. We've gotten hit a little bit sooner than others. We're going to take more hits in areas outside of our
37 own.

38 Some local economy threats that are going on right now, and we have to look at continued expansion
39 of local trade agreements, and that will close additional plants in Patrick County as well in the region, and
40 hopefully we're all ready for that. We have an uncertain future in textiles, tobacco, furniture, and we have a
41 dependence on those same industries, and that's a bad combination. The continuous loss of college educated
42 citizens impacts us. We are unprepared for a lot of the skilled positions out there right now, and we know the
43 national economy is not doing well, so we don't have a large number of companies looking, but the ones that are
44 looking are looking for skilled positions, and we're not prepared for that. We have heavy dependence on labor-

1 intensive manufacturing.

2 The opportunities we see, and we're being very optimistic, and we do have a willingness of the
3 workforce to be trained. So many people in Patrick County for generations have said we don't need college
4 educations, we don't need to be retrained, because we can go to a furniture manufacturing facility or tobacco or
5 textiles, and that's no longer an option, and it's forcing people to get retrained in order to upgrade their skills.
6 That's something that's positive for us in the long term. We have available resources for retraining, including
7 the Patrick Henry Community College, does a great job on a lot of that. We have a top-notch school system
8 here in Patrick County. Unlike a lot of communities where you see there's a split in the business community
9 and citizens of the community about the need for growth and not for growth, in Patrick County both the citizens
10 and the businesses totally support job infusion to move our economy. We have progressive and aggressive
11 economic development leaders. As you'll see when we go to the industrial park, we have been working on a
12 foundation to build this, and it's nearing completion. We have not had sites and not had buildings and
13 infrastructure, and we're now trying to get close to be in the game here. All the new sites, buildings and
14 infrastructure are set up to not only handle some of the types of businesses that have been here before but are
15 actually able to accommodate a new economic basis. A good example of that is the Sonet Ring that the
16 Commission funded to give us some redundance in our telecommunications.

17 Just to let you know some efforts that we are putting forth here. Our development project and our
18 park includes the extension of water and sewer lines, access roads, a thirty-eight acre site with a shell building,
19 and Sonet Ring. You will see most of that today. We have just completed a target industry study that can help
20 us identify better industries that we can get into. We're near completion on a workforce development study that
21 will help us combine the two together, a targeted work study and workforce study. The targeted industries say
22 we actually asked for industries that are not here now and may not be ready. The workforce development study
23 is going to show us not only what we have but how we can train people to be ready for the industries which we
24 hope to attract soon.

25 Water and sewer line along the four-lane Route 58 is another project we're working on to increase
26 retail services and tourism. We just received an enterprise zone designation in Patrick County.

27 We're working very hard, and our Chamber of Commerce has worked hard on increasing tourism.
28 Right now we're looking for the first time in our history to spend significant dollars toward tourism marketing
29 which we hope will increase a large tourism industry here.

30 We have built the Patrick Henry Community College and Patrick campus in Stuart to provide
31 training. We've gotten money from the Commission as well as other agencies to do distance learning so they
32 can be trained anywhere in Patrick County.

33 We're hoping to expand Route 58 to four lanes up to I-77, and we're pushing for that quite a bit.

34 We have the Patrick Community Foundation, Patrick Henry Education Foundation, which you all
35 have supported in the past.

36 We feel like we're doing some aggressive things in Patrick County and feel like we're ready to move
37 to the next step. We hope we can have continued support from the Commission.

38 One item that we are going to be bringing up in the second round of economic development projects,
39 we're looking at a project that would be located here at the Homestead to put in a three-part project that would
40 include a research facility for forest products and an entrepreneurship center that would allow us to take the
41 research we're doing there and commercialize it to create jobs as well as a workforce center that would allow us
42 to train people for those new types of jobs. It's something totally different for Patrick County, but in another
43 way it's something that we have done for a long time and done it very well.

44 I want to thank you all for coming and appreciate your time.

1 MR. ARTHUR: Thank you, Mark, we appreciate your presentation. That shows that
2 Patrick County has the same problems that all the rest of us do.

3 Does that conclude public comments? Does anyone have anything they want to say to the
4 Committee?

5 Ms. Terry would like to extend an invitation to serve dinner, she's going to serve dinner tonight at her
6 house.

7 MS. TERRY : Thank you. Some of you may know that there is a resort called Prime
8 Land, and it's owned by one of the wealthiest men in the world. It consists of ten thousand acres. It's a hunting
9 preserve for folks flying in from around the world to hunt, and there's also housing there. They have a twenty
10 million dollar world class golf course. A representative from Prime Land is supposed to be here. If the
11 Commission would like to have one of its meetings, full Commission meetings there, I'm sure that that would
12 be very welcome.

13 MS. HUGHES : I am from Prime Land, we are a fourteen thousand acre resort, we have a
14 number of cabins and chalets that vary in size, and that's a total of ninety-four rooms. We just added fifteen
15 hundred square feet to our conference center, and that gives us two conference centers that can be operated at
16 one time. We are already a world-class golf course. We offer a variety of activities, including horseback riding,
17 tennis, and we have two different restaurants.

18 MR. ARTHUR: I understand you are inviting us to meet there?

19 MS. HUGHES: Yes.

20 MR. ARTHUR: We'll certainly give this to the people that plan our meetings, and maybe
21 we can have a full Commission meeting up there.

22 MS. HUGHES: We would appreciate that.

23 MR. ARTHUR: Thank you, very much for coming and for your invitation.

24 We also have an invitation now to tour the Reynolds Homestead, followed by our lunch. Do I hear a
25 motion to adjourn?

26 DELEGATE WRIGHT: So moved.

27 MS. TERRY : If I could just introduce the Reynolds Homestead Director, Carolyn Beale.

28 MR. ARTHUR: I'd also like to recognize Mr. John E. Dooley, who's a Vice Provost for
29 Outreach Industrial Affairs at Virginia Tech.

30 MR. DOOLEY: Thank you for inviting me and Ms. Terry for inviting me to be here at this
31 meeting. We can pledge our continued support for your activity, and it's a good partnership with the Virginia
32 Tobacco Commission and Virginia Tech.

33 MR. ARTHUR: Thank you, Dr. Dooley.

34 Any further discussion? Meeting is adjourned.

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38 PROCEEDINGS CONCLUDED.

39
40 CERTIFICATE OF THE COURT REPORTER

41
42
43
44 I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State

1 of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the
2 proceedings of the **Southside Economic Development Committee Meeting when held on Tuesday,**
3 **September 9, 2003 at 10:30 a.m. at the Reynolds Homestead, Critz, Virginia.**

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

6 Given under my hand this 19th day of September, 2003.

7
8
9
10
11 _____
12 Medford W. Howard
13 Registered Professional Reporter
14 Notary Public for the State of Virginia at Large
15
16
17

18 My Commission Expires: October 31, 2006.