

# Tobacco Indemnification and Community Revitalization Commission

Meeting of the Special Projects Committee  
July 12, 2000  
Chatham, VA

## Committee Members Present:

William Bennett  
Thomas Arthur  
Kathy Byron  
J. Carlton Courter  
John Forbes  
Gary Walker  
William Wampler

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Carthan Currin, Executive Director  
Isiah Hopkins, Commission Member  
Senator Hawkins, Commission Chairman

**Delegate William “Ted” Bennett** welcomed all in attendance. This being the initial meeting of the Special Projects Committee, Delegate Bennett introduced himself and asked all in attendance to do likewise. The only item on the agenda for this meeting concerned the request of Tobio L.L.C.

**Executive Director Carthan Currin** remarked that staff had been briefed on the request of Tobio L.L.C. He also noted that Tobio presents an intriguing and potentially exciting opportunity for both tobacco regions.

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**Presentation by Tobio L.L.C.**

On behalf of Tobio L.L.C., **Mr. Cook** expressed his appreciation towards the Special Projects Committee for the opportunity to present Tobio and CropTech to the committee members. Mr. Cook noted that Tobio offers a great opportunity to tobacco farmers and communities alike. Much has been said concerning alternative crops, Tobio views new generation tobacco (NGT) as the only viable alternative crop. Tobio is requesting \$8 million for the purposes of research and development costs. This request is over two years, whereby the Commission would fund \$4 million in the year 2000 and \$4 million in the year 2001. Tobio L.L.C. is asking for a low interest loan. Principal repayments should occur when Tobio becomes profitable, which by their projection will be in the year 2004. Until that time, Tobio asks to pay only the interest accrued on the loan. Time is of the essence. Tobio stated their belief that they have a two-year window of opportunity. Lack of funding is beginning to hinder their research. Therefore, funding assistance from the Commission would be of great help.

(Tobio L.L.C. provided Commissioners with a handout that contained their detailed proposal. For the remainder of their presentation, Tobio L.L.C. walked through their proposed agreement with the Commission.)

Questions are reflected as follows:

**Mr. Cook** was asked to give a concrete example clarifying the Intent to Source aspect of the agreement. **Brandon Price** remarked that Tobio does not see losing control of the source from any client as a likely possibility. As an example, there may be a company that wishes to grow its own tobacco. It is in the realm of possibility that a client would want to grow its own tobacco in its own way.

**Delegate Bennett** questioned whether or not CropTech would address their needs from regional vagaries, which have year round growing seasons. **Mr. Price** clarified that it is the intent of CropTech to source all of its needs through Tobio. It is conceivable that if the biomass needs exceed the capability of Virginia farmers to produce, one could imagine Tobio going outside of the state to meet such needs. Tobio would undertake such a decision. **Mr. Cook** mentioned again that it is not the intention of Tobio to pursue needs from outside Virginia.

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**Senator Wampler** questioned whether or not Tobio could generate its biomass needs from entities other than CropTech. **Mr. Cook** noted that Tobio is bound by a non-compete clause, which prevents it from generating its needs from other entities in a way that would compete with CropTech.

**Delegate Kilgore** questioned whether or not the small tobacco producers would be cut out because of the demand on the larger tobacco farms. **Mr. Cook** noted that farmers with small acreages will be involved in the process and will not be left out. Ideally, farmers with small acreages would farm high quality products that do not need large acreages.

**Senator Wampler** and **Delegate Bennett** both expressed their concerns involving Tobio using farms outside of the Commonwealth of Virginia. **Mr. Cook** noted that he believes Virginia farmers will provide for the demands of Tobio in the next four years. Therefore, outside assistance would not be needed.

**Fred Fields** asked if Tobio could state if Virginia farms would continue to be used in ten years. **Mr. Cook** noted that Tobio's first priority is to use Virginia farms and farmers. In ten years, if this venture is successful, and Virginia farmers cannot meet the needs of Tobio, Tobio would be forced to look elsewhere. However, Virginia farms and farmers are Tobio's main priority.

**Delegate Byron** expressed concern over some of the terms and conditions contained within Tobio's agreement. **Mr. Price** noted that the agreement in question is merely an umbrella agreement and not a definitive operating agreement. **Delegate Byron** further questioned if funds coming from the Commission would follow the same stipulations found in the agreement.

There was much discussion concerning how Tobio L.L.C. transacted their business in light of the fact that funding through the Commission would be with public funds. **Mr. Cook** was asked to clarify how a farmer becomes and member of Tobio in the years to come. A concern was expressed that if a farmer does not become a member during the initial offering, how can they become involved at a later date. **Mr. Cook** responded that Tobio's needs will come from Tobio members. When Tobio members are unable to fill these needs, Tobio will be forced to do another offering whereby non-Tobio members could become involved in the process 5, 10 years from now.

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**Senator Hawkins** asked if Tobio could hold some of its stock back in the initial offering in light of this rather than issuing 100 percent of its stock.

**Mr. Price** noted that as an L.L.C. Tobio does not have a limit on its stock. Because of this, Tobio could offer more stock three or four years from now. There is no restriction on future stock, however a disadvantage to offering stock at a later date concerns lessening the value of the stock.

**Mr. Price** continued to give Tobio's presentation.

**Senator Hawkins** asked if the price of the grown product would reflect the scarcity of the acreage involved i.e. would a product grown within an acre be more expensive than one grown from one hundred acres. **Mr. Price** noted that such a case would not necessarily be true. That would have to be determined on a product by product basis. Senator Hawkins further asked if small farmers, who specialized in certain products, could make as much profit as those farmers with acres and acres of farmland based on selectivity of the product. Mr. Price noted that a farmer's profit on an acre of tobacco would not highly depend on the nature of the ultimate product.

There was much discussion concerning how much profit the farmers would receive and likewise what this profit would be based on. **Senator Wampler** asked how the farmer's would be paid if this venture is profitable. As shareholders that own Tobio, will farmers be paid baseline prices or, if profitable, would they be paid differently? **Mr. Price** noted two ways in which farmers will participate in profits. First, it is not true to say that farmers will be paid what they currently receive for an acre of tobacco because the cost structure is different to the grower. It is possible that initially, the cost for growing NGT tobacco will be higher than current prices, but the profits will be better in turn. Second, it is the hope that Tobio and CropTech would co-invest in the needed processing facilities. To the extent that such an agreement happens, investors in Tobio will share in the profits of the processed products resultant from these facilities.

Upon **Senator Hawkins's** inquiry, **Mr. Price** noted that the Tobio Board would determine how much the farmers would be paid for their tobacco.

There was much discussion concerning the importance of paying attention to the affects of profits on farmers. Farmers need to be able to make enough profit whereby the need and desire to continue farming will still be there. After many inquiries, **Mr. Cook** stated that Tobio is researching how much to pay farmers for their tobacco. Payments should be based on no less than present conditions.

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**Delegate Bennett** noted the importance of noting the stage at which Tobio L.L.C. and CropTech are at currently. Because it's in the early stages, it's important to remember that additional research is yet to be done. The Commission has the opportunity to provide suggestions for additional research.

**Senator Wampler** asked **Mr. Price** to clarify eligibility requirements for Tobio members. The two main criterion include 1)being a resident of Virginia and 2)having experience in tobacco production.

**Mr. Price** continued with a dual presentation with CropTech.

**Delegate Bennett** asked when Tobio and CropTech would need their funding. **Executive Director Currin** asked for the minimum amount also. **Mr. Price** remarked that funding of close to \$1.5 million over the next couple of months would enable Tobio and CropTech to make it till January 2001.

It was asked of **Mr. Cook** to provide quarterly cash flow statements whereby the Commission would know how best to provide for Tobio and CropTech's needs. Mr. Cook agreed. It was also asked of Tobio and CropTech to provide cash flow projections through 2004. These reports are to be provided to the central office and to **Executive Director Currin's** attention.

-Break for Lunch-

**Motion made to recess into a closed meeting for the purpose of (1) consultation and discussion regarding the investing of public funds where competition or bargaining is involved and where the interests of the government may be adversely affected by initially making these discussions public; (2) for consultation with legal counsel regarding legal aspects and liability associated with such investments. This is permitted by § 2.1-344 (A) and § 2.1-344 (s)(7) of the Virginia Freedom of Information Act.**

**Motion made for the certification of the closed meeting**  
**Certification read by Executive Director Currin**  
**(text of certification attached)**

**Roll Call Vote**

**8 ayes**

**0 nays**

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**Delegate Bennett** noted that potential powerful impact of Tobio and CropTech's joint venture. Their proposal could greatly help the small, medium, and large farms across Southside and Southwest Virginia. However, before a recommendation can be made, there are items that need discussion. First, the Special Projects Committee needs a cash flow statement on a monthly basis from both Tobio and CropTech. This would better allow the Commission to know when and how much funding the joint venture would need. Also, the Special Projects Committee needs to consult legal counsel on certain issues relating to such cash flow statements.

**Senator Wampler** noted that he believes it is the universal desire of all in attendance to get Tobio and CropTech's product to the markets first. In order for the Commission to act in a timely matter, so to must Tobio and CropTech in providing the Commission with such statements.

**Delegate Bennett** adjourned the meeting of the Special Projects Committee.

-Meeting Adjourned-

