

VIRGINIA TOBACCO  
INDEMNIFICATION AND COMMUNITY  
REVITALIZATION COMMISSION

LONG RANGE PLANNING TASK FORCE

Friday, August 9, 2002  
1:00 p.m.

Hotel Roanoke & Conference Center  
Roanoke, Virginia

**Long Range Planning Task Force**

Dr. Thomas Morris, Co-Chairman

Mr. Charley Majors, Co-Chairman

Members:

The Honorable Charles R. Hawkins

The Honorable William C. Wampler, Jr.

The Honorable Michael Schewel, Secretary of Commerce and Trade

The Honorable John Bennett, Secretary of Finance

The Honorable Matt Erskine, Deputy Secretary for Commerce and Trade

H. Ronnie Montgomery

Thomas W. Arthur

Commission Staff:

Carthan F. Currin, III, Executive Director

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Mary Cabell Sherrod, Special Assistant to the Commission

Attorney General's Office:

Anne Marie Cushmac, Senior Assistant Attorney General

Kelly A. Ford, Investigator

DR. MORRIS: Good afternoon, I'm Tom Morris, and along with Charley Majors we've been asked to co-chair this group on the Long Range Planning Task Force. We'll let other people take care of the short range, and I guess there's are a lot of short range issues that are confronting the Commonwealth right now, but we've been asked to do something that perhaps we don't do enough on the state level, that is to look down the road. I think most everyone here knows everyone, and I see we have name tags and so forth. Nevertheless, let's go around the table briefly and introduce ourselves. I'm Tom Morris, and I'm President of Emory and Henry College.

MR. MONTGOMERY: I'm Ronnie Montgomery from Jonesville.

SECRETARY BENNETT: I'm John Bennett, and I'm Governor Warner's Secretary of Finance.

SECRETARY SCHEWEL: I'm Mike Schewel, Governor Warner's Secretary of Commerce and Trade.

SENATOR WAMPLER: I'm William Wampler, a member of the Senate of Virginia from Bristol.

DEPUTY SECRETARY ERSKINE: I'm Matt Erskine, I'm Deputy Secretary of Commerce and Trade.

MR. MAJORS: I'm Charley Majors, and I'm President of American National Bank in Danville.

MR. CURRIN: I'm Carthan Currin, Executive Director of the Virginia Tobacco Commission.

SENATOR HAWKINS: Charles Hawkins, member of the Senate of Virginia, Pittsylvania County.

MS. MOORE: I'm Anne Moore, Technology and Development with Virginia Tech.

MR. CROSSDALE: I'm Hud Croasdale with Virginia Tech.

MS. CUSHMAC: I'm your lawyer, Anne Marie Cushmac.

MR. ARTHUR: I'm Tom Arthur, Pittsylvania County, Citizen member of the Tobacco Commission.

MR. CURRIN: Mr. Chairman, if I may, Senator Puckett and Delegate Kilgore are not going to be here today, but I understand Delegate Dudley will be here today. You have a quorum, sir.

DR. MORRIS: Let us know when he comes in. Let me say by way of introduction, then I'll turn it over to Charley. We got to know each other and worked on

the tax study, State and Local Tax Structure Commission, a year and a half or so ago and spent fourteen months working on that task and found that to be very satisfying. The difference was that we were all unelected citizens, not elected officials of the Commonwealth, and we had a longer time frame to deal with the issues than evidently this task force does. We've been asked to come up with some guidelines and priorities and directions before the end of fall. So, I guess we've got ourselves about a three month time frame here to try to come to terms with some of these issues.

Charley and I spent a little time talking to a few members of the Task Force already, but we would tell you that we come to this with no answers, we come to it with no hard and fast plan as to how this should be done. We've been trying for about a month to get this initial gathering together, because we think it's very important to have an open session. Our view is that this particular session isn't going to take but a couple of hours to do what we need to do. We'll have an open session where everybody can get out on the table sort of what our understandings are of what we are to do and get some clarification about what has already been done and what commitments have been made. Then as we look ahead try to set up monthly Task Force meeting dates that we may or may not have to use. At this point in time we've made no decisions to bring any particular group or individuals in to meet with us and talk with us. That's something we might want to get into when we get to the open discussion. We hope this afternoon we can move fairly quickly through the first part of the agenda getting a perspective from a number of individuals and get as quickly as we possibly can to the open discussion, and then at that point we hope that we will have pretty well discussed where we are and where we're going.

MR. MAJORS: Thank you, Tom. I think Tom hit on the major points, and the thing that I would say to you is that he and I probably differ from the other members of the Task Force in that you're all members of the Tobacco Commission and we are not and we are new to all of this. We may be asking some questions because of that. You may say, you ought to know that and we don't so you'll just have to bear with us and hopefully that might provoke some discussion and invoke some good thinking at the same time. We will be going through that process. In fact, we've also been asking some questions along those lines, and Secretary Schewel has been asking some questions as well, sort of getting some background information that we have for you. I hope you'll get a chance to look at some of it that we have as well in the packet.

We do have a short time frame, so one of the things we'll be doing at the end will

be trying to establish meeting dates so we can keep this thing on track. It is important that we come to our conclusions and results in a timely manner, and time is of the essence with this Commission.

With that in mind I'm going to ask the Executive Director of the Tobacco Commission, Carthan Currin, to give a brief review of the Commission's activities.

MR. CURRIN: Thank you, Mr. Chairman, and Chairman Morris and members of the Task Force and ladies and gentlemen, good afternoon. I have before you a brief presentation of the activities of the Commission to date. This first slide will give you an overview of how the Commission has distributed its funds in the past. In the first year of operation the Commission voted to split its funds eighty percent to Tobacco Indemnification and twenty percent to economic development. After special projects under economic development the Commission decided to give seventy-three to Southside Virginia and twenty-seven percent to Southwest for regional projects.

This next slide is our current budget distribution. The Commission has moved to a regional split first with each region deciding on the splits between economic development and indemnification. More detailed information on past budget distributions were e-mailed to you a couple of days ago. And it's also been provided to you in your packets this afternoon.

The next slide, indemnification future obligations. I wanted to summarize major priorities. The Securitization Committee that Senator Wampler chaired last year discussed potential uses for securitization proceeds. The first piece is the Commission's remaining obligations to compensate the tobacco quota holders and growers for their losses. Our most recent analysis estimates that the Commission's sole remaining obligation to be thirty-eight point two million dollars. This best guess is based on some major assumptions, such as Phase II payments continuing at projected levels to 2010 and quota remaining at current levels. If the Phase II payments were to discontinue the Commission's obligations could be two hundred and sixty-one point five million dollars. However, if quota is further reduced our obligation could be greater. It could not exceed nine hundred and eighty-two point two million dollars, which is the total remaining assessed value of quota.

SECRETARY SCHEWEL: If the Phase II payments were to be discontinued or were to be reduced from the current level, that would be because of what?

MS. STEPHANIE WASS: They are similar to the MSA payments, there

are several factors that influence the exact amount so they could be reduced.

SECRETARY SCHEWEL: Like what? For example, if tobacco companies --

MS. STEPHANIE WASS: -- There maybe things like domestic consumption, inflation, a cigarette manufacturer goes out of business.

SECRETARY SCHEWEL: Recently I saw some figures and it may have been sent out to all the Commission members, and I don't know where I got it. It showed a decline in certain MSA revenues or Phase II revenues because of a shift in cigarette consumption and non-participating vendors of cigarettes, taxes, other things like that. I'm trying to get a sense of if we have a likelihood of the Phase II payments staying where they are.

MS. STEPHANIE WASS: I'm not sure, I don't if you got --

MS. CUSHMAC: -- I've dealt with the Phase II payments, but the MSA payments could fluctuate depending on the circumstances under the master settlement agreement come to bear. For example, having to do with shifting market share which you were raising before. If it's shown that the market share of the participating manufacturers, the original manufacturers would lessen, and then it would be a direct result of the master settlement agreement and the shares of the non-participating manufacturers increasing. There's a whole host of things that go on, and there's a lot of consistency and enforcement responsibilities with regard to the non-participating manufacturers are not taking place, and we're not using due diligence and a whole host of other things, and potentially those payments could lessen, but that's the payment under the MSA.

SENATOR HAWKINS: Those factors that we're dealing with are pretty much driven by the agreements that were signed and based on the domestic sale of cigarettes and the consumption therein. If cigarette sales continue to stay constant, the constancy of the payments would be the same, but if you have a downturn in the consumption of cigarettes the monies will follow the same track. There's another factor, too, that needs to be looked at and that is the federal buy out of all the pounds. If the federal government buys out the pounds the obligation ends.

MR. CURRIN: The Attorney General's Office has advised me that's the most that has taken place, but there may still be some obligations.

SENATOR HAWKINS: The vast amount that was lost.

MR. MAJORS: Could we get two things, could we get a very brief

summary and analysis on the Phase II payments that might be happening there so we would know what we need to be concerned about? And secondly, could we get a very brief outline about if there is a buy out, will we have a continuing obligation, so we know where we are?

SENATOR HAWKINS: You have to also remember that we're talking about securitization, and once we securitize we take all of that money out of harm's way, we lose the risk part of that.

MR. MAJORS: I'm talking about the risks on the Phase II payments.

SENATOR WAMPLER: I just want to make, Senator Hawkins is exactly right. Once the securitization takes place and the dollars are deposited that element of risk is gone. Secretary Bennett was whispering, inflation and consumption. That no longer becomes an element in the equation. The other point, and this has to do with policy considerations, and this is one of the internal discussions that we always have within the Commission. The reason we set a goal of a certain dollar amount per pound is because we realize that's just a snapshot of time. I believe, Carthan, it was 1998. That might not have been the best year for the Southwest burley producers, because we have taken rather significant reductions in '96 and '97 that was not adequately reflected in '98. So that's why we have a target, whether it's eight dollars or twelve dollars per pound.

It's simply that, a target or a guideline. We may decide to continue those payments as a policy consideration beyond that or shorten it up should there be a buy out. Senator Hawkins, I think that was it for --

SENATOR HAWKINS: -- You're on target.

MR. MAJORS: The twelve dollars, that's not a commitment to anyone?

SENATOR WAMPLER: It would be the best mathematical equation that we have for what indemnification was for the quota loss for the year '98 at that point in time.

SECRETARY BENNETT: Is there a commitment to indemnify regardless of what the ultimate obligation is?

SENATOR WAMPLER: Whoever has the votes to, that's the stage to indemnify the grower.

SENATOR HAWKINS: The charge that was given to us by the legislation, Secretary Bennett, remember it did not spell out all this so we had a lot of flexibility. The thing that we came up with was the formularies to meet these obligations is pretty much driven by decisions of the Commission. It's based on those decisions that

we are operating today, but of course, that could change as the situation changes.

MR. CURRIN: Now, special projects. This is issues like e58 as well as telecommunications, supporting the hard infrastructure, public utilities, those are the hard infrastructure. The Securitization Sub-committee recommended fifty to a hundred million dollars over the next five years for these types of projects. The hard infrastructure may require twenty to thirty million. Revolving loans maybe twenty-five to fifty million over the next ten years. Some of these costs may go into years beyond that, but most of the projects will probably need to be funded in the nearer term and build infrastructure needed and revitalize the two regions.

Next slide, another major area of concern is education. And this includes scholarships, work force training, projects that we have funded, like community colleges and capital projects. The Securitization Sub-committee recommended a range of twenty-five to fifty million dollars.

Deal closings have become a tool to the Commission to use to attract businesses to the region, create jobs, make capital investments and build bridges. These funds are designed to supplement the Governor's Opportunity Funds, not supplant them. It is an extra incentive to draw businesses looking at our two locations that the Commission is responsible for. Before you can see the amount of money that has been discussed with the Securitization Sub-committee.

The next slide is regional economic development, the priority where the grants have been. The Task Force will need to determine how much is needed to fund smaller and local projects to encourage economic development in the particular regions. This graph gives you an idea of how much the Commission has dedicated to the regional projects over the past couple of years.

I want to make sure that you are aware of a couple of long-term projects to which the Commission has committed itself. You may recall that the Commission approved two million dollars per year to the City of Danville, Pittsylvania County's allocation of debt service to the Institute for Advanced Learning and Research in Danville. This is scheduled for the next twelve years unless, of course, the debt is paid off sooner. The next one is not particularly long-term, but it still goes beyond this fiscal year, and that's the Crossroads Entrepreneurial Institute.

This next slide shows future cash flows. This shows what the Commission's annual cash flow would look like if it was securitized and withdraw ten percent of the principle annually. As you can see, in 2018 our annual budget would be eighteen point

six million dollars while our fiscal '03 budget is seventy-six point six million. After the bonds are paid off in 2019 the MSA revenue could or would come back to the Commission, and our cash flow would go back up. That's assuming a great deal, of course.

The next slide is future cash flows without the corpus being invaded. If the Commission were to not withdraw any funds and operate annually off interest earnings only this is what our cash flow would look like. It would earn approximately thirty-two million dollars a year interest and have a balance of six hundred and forty-five million even if the bonds have been paid off. The Task Force should go to a happy medium and keep as much of the principal intact to maintain future interest earnings while providing the cash flow needed to fund the Commission's priorities over the next ten years.

This next slide shows our distribution methodology and where the funds are being distributed. Here are some of the issues that this Task Force has been assigned to address over the next several months. Thank you for your attention.

MR. MAJORS: Thank you. At this point let me call on the Chairman of the Tobacco Commission, Senator Hawkins, to give us what you said was the charge. Senator?

SENATOR HAWKINS: It's difficult to start the discussion, because we're talking about a process that has not been done anywhere that I know of. Every other state that has used the tobacco monies are using them primarily for budgetary considerations rather than trying to invest in people and change the outcome of the economic condition in the regions. Virginia has taken a different course, and I think wisely so. If you look at the areas we're talking about, which is the tobacco producing counties, not only has tobacco become one of those institutes that's being challenged as being a viable marketplace, but at the same time we were hit by textiles, furniture, the coal industry, all declining.

We have an opportunity to take these monies and reinvent the economy by using the type of intellect around this table to come up with ideas to help stabilize our population and put in place the type of things that will give us an equal place at the table with the rest of the Commonwealth. I think that's very important to understand. If these monies were not available our localities would not have access to any new capital to invest in infrastructure that has to be upgraded.

So the charge of this Commission would be to come back with some sort of understanding of how you manage the amounts of monies that will be securitized to

guarantee a certain flow of monies into the basic hard infrastructure that has to be put in place to make us competitive in the region. Also, to help economic areas by allowing an educational component that has to be in place. Right now we're dealing with an educational component that has been pretty much geared to the farming community itself, but it needs to be extended beyond that. We need to make sure that scholarships are available for the whole population, particularly if you look at textile, furniture, coal, you need to have an availability of monies for long-term scholarships and improvements and opportunities there. We also have to make sure that once these students receive their degrees they come back home and to invest that capital that they have achieved. To do that we have to figure out how we have a combination possibly of grants as well as loans in various locations, and we would forgive the loans to us based on what they do such as teachers, doctors, nurses, or such fields that we are in need of. We could probably work along those lines to forgive those loans if they would come back and offer their services for the community.

But if you look at this long range, and I want us to stop looking at particular county lines or city lines long range and figure out how we can put the basic infrastructure in place, like an e58, that brings an opportunity to the entire region rather than to a particular county or city and look at this as a regional effort. We've got to put in place the pieces that would not take place without these monies and yet show the type of fundamental investment savvy, that we cannot waste it.

To do that we need to take an inventory of basically what we have and where we plan to be twenty years out and twenty-five years out. The main parts of that would be the telecommunication piece which we're working on, the educational component which we're working on, but try to put in place an opportunity to reinvent something that we're losing, and that is the ownership that is leaving our areas rapidly.

If you look at what's taken place, not only have we lost jobs, but we've lost ownership and control of things. If you look at the Lane's and the Bassett's and Dan River, all of our areas in the past is built around availability of creating a wealth structure originally, and that's been lost. Unless we can come up with some sort of method to create a new wealth structure by allowing new board rooms to develop in our area we're going to lose control of our future. By having the ability to create ownership and allowing ownership to develop in our communities is very important. That makes a big difference. Also, it provides for the investment out of those monies that are made in the community to stay there. The best example I can think of historically were the Grants in

Danville. The Grants were involved in the paper over there for generations, and they left the money in Danville. They were in Richmond, and that's where the money was. So we've got to bring back some ownership and we've got to create an entrepreneurial sort of attitude when it comes to creating new wealth structure. To do that I would think that working in partnership with universities, and particularly Tech, is to encourage those new ideas that come out of our research universities and come to our areas to invest that capital and that ability to be able to grow jobs into our region. And therefore, creates ownership board rooms there rather than someplace else.

If you look at what we have and where we plan to go I don't think there's any one thing we could do that would change our economy overnight or look in that direction. What I think we need to do is figure out how we can plant certain ideas of growth and prosperity that start the process of changing the overall attitude long-term. Short-term fixes are not what we need right now. We need to take this money and make it a long-term sort of investment in the area.

Everything today is figured toward formularies that we agreed to based on tobacco quotas and based on jobs. We're starting to look at it now by taking a larger percentage and using it for special projects rather than just having a regional or county or city outlook.

Special projects in my mind is a growing side of our investment opportunity by special projects like the e58 and things that have a regional appeal. I think that's something we need to look at long-term and how we invest in that type of infrastructure.

There is a partnership there that we need to expand upon and understand fully that the Commonwealth plays a key part which they play, and how we can leverage the monies we have with the expertise that the Commonwealth brings to the table is important for us as well. We also have to recognize the diversity of the communities that we're trying to invest in from the coal fields to Mecklenburg County, Lunenburg County, Charlotte County and to the eastern tip of our charge. There's a great deal of difference in need and thrust. We need to make sure these communities are dealt with based on the unique qualities that they bring to the table. To do that I think we have to continue somewhat on a regional thrust when it comes to the coal fields and burley in Southside. There seems to be a pretty good division when it comes to the different types of opportunities that are needed for development. For instance, in the coal field region water is a crucial issue with them, and it's not quite as critical in the eastern part, those are things that have to be dealt with.

Ultimately if we can put in place a stable, long-term plan that shows that we have an understanding of the abilities of the Commission and limitations of the Commission to change the economic conditions of an entire area through key investments that would not take place in the private sector and would attract private investments we can probably do something that has not been done in my lifetime and has helped stabilize populations from having to move to find employment. I think it is a blessing and a curse as well I suppose that all this hit at one time. If this money were not available to us, and with the collapse of the textile industry and the furniture industry and the coal industry and tobacco industry, we would have nothing to offer except a ticket out of town. There'd be nothing we could do. These monies so far have allowed us to be able to invest in education and local improvements and job opportunities and helping match funds from the state through deal closings, and that has made some differences in some jobs, and we're continuing in that vein. I think deal closings is something that we need to look at.

Also, I think we need to look at how we have availability of investment capital, venture capital for people that want to invest in areas that do not have like a student out of college, need some sort of venture capital to make funds available for that. We have to make sure we're not wasting money but investing in ideas that have some stability.

Going back to the charge again, if we can bring together an educational piece that allows us to have access to a research university, long-term educational growth that attracts the intellectual capital that we need in the area to change the dynamics of that area I think it will serve all of the other areas as well. The best example I can give you today is what we're developing in Danville, which is an entirely new thrust for our educational partnership between Averett University, VPI and Danville Community College. So it's a true public/private partnership that will invest in the next level of telecommunications and the next level of infrastructure development when it comes to being able to transcend the economy to the next age itself. This is not the higher education center. The research center that will attract the type of jobs that hopefully will help us build this economy. We need to look at our areas and find out what areas need that type of investment to build that sort of partnership with the educational components in place both public and private. We need to go back and revisit what we do to stabilize the work force that's finding themselves looking for employment for short-term when jobs have disappeared through no fault of their own.

Please remember that our whole section of the state has been sacrificed on the altar of greater good through no fault of our own. Our jobs have left us, not because we

didn't do them well, but because we didn't do it as cheaply as some other countries, and that's something we need to understand. We produce probably some of the finest products in the world, but this is driven by price, and that has changed the dynamics of that, and they're not coming back. So what we're doing now is trying to put into place those things that allow us to regain the wealth structure which we have lost. These monies are crucial for that.

The State of Virginia has recognized that under the leadership of this administration and others we're beginning to have an understanding that a third of the counties in the state, which is about who we represent, have an opportunity to redefine their economies and stabilize the farm situations, that would not take place without these monies.

In closing, and I know I'm rambling a little bit, that's my nature and I apologize, but remember and look around at what other states have done. Other states have invested in the immediate emergency of their budget situations and have not looked beyond that for investing in people and jobs and the future. The monies that we have have been used to invest in people, and invested in communities to give opportunities to allow us to develop the tax structure that we need to pay back these monies to the state long-term. If we do not live up to that challenge we will lose an opportunity and our areas will continue to grow older and poorer. You cannot build an economic future on the aging population without any hope of bringing in new ideas, new thoughts and new directions in place.

So I would say to you the main charge is to understand that you have the unique opportunity to look at everything and develop a trust and a dialogue to create the type of understanding between our communities that has not existed before and put in place something that does not exist today by investing monies that have been derived from the master settlement agreement coming out of tobacco which has been uniquely the foundation of the Commonwealth for centuries that indeed these monies now will be able to be reinvested to create a new Commonwealth that will allow us to be competitive in this century.

It's not an easy task, and I don't think there's just one thing we can do to solve the problem, but we have to work together and I think everyone on the Commission understands this. We have to develop an understanding that it takes the ability to work with and compromise ideas to come up with a focus that meets the challenge. There's nothing in granite that I know of, it's still fluid, and we need to make sure that we do

meet these challenges. Thank you.

MR. MAJORS: Thank you, Senator Hawkins. I think what Tom and I sort of agreed to is that we'd hear all of this and then we'd have a discussion. If you have any specific questions that you need to ask the Senator at this point we'll entertain that, but this is just a general discussion, like I said, until we get into our open discussion. Does anyone have any specific questions?

DR. MORRIS: All right. Let's get into our agenda, then. Senator Wampler was kind enough to write Charley and me a letter last week to share some basic points. I think we all have a copy of that letter. If not we can circulate it around. Senator, I'd like you to talk to us a little bit about that.

SENATOR WAMPLER: I'd have to explain, Dr. Morris, a little bit why I was hesitant to introduce myself, because I realized I was sitting with Secretary Bennett and Secretary Schewel and Deputy Secretary Erskine, and we're all wearing the same uniform. I just want the record to reflect that I'm entirely part of the Warner administration, too.

SENATOR BENNETT: We can sign you up, if you'd like.

SENATOR WAMPLER: Also, a great, great nephew of a graduate of Emory & Henry College, my great uncle Luther McConnell, still be here to haunt us today. I'll try to be relatively brief and go over the points that I intend to make generally as I can and then at the appropriate time go into greater detail. The only thing I would try to emphasize a bit more than what Senator Hawkins did, and that is to say that the Tobacco Commission is comprised of thirty plus individuals, I guess, or thirty-one individuals. Trying to get them to come to an agreement or consensus on anything, particularly when you go a four hundred mile stretch, and I mean it sincerely, that's a very hard task to obtain critical mass. Quite frankly, I've been surprised how well we've worked together to this point. Senator Hawkins says that when everything is on the table, I would agree, that we ought to think creatively as to how we utilize the structure of this Task Force. I'll also say that the letter that I sent to two co-chairs more or less outlines what the Commission had agreed to as a principle or guideline. We wanted that primarily to move into the legislative session to say that there was a general agreement and that we were generally in agreement toward securitizing this process.

Having said that I'll rip through a couple of points. Carthan made most of my presentation in his bullet points in terms of dollar rankings and in functional areas we have identified. Just let me say this, if you securitize you eliminate the risk of those

payments evaporating because of consumption, inflation, and/or other litigation that we may or may not know about. So, that's the one reason I think the Governor signed the bill concurring with our analysis, and with his own analysis obviously, that securitization from a safety point of view is a good point.

What we're looking for once we securitize is a way to plan for the long term and to give this Commission structure rather than wondering what the budget will be from one year to the next. We can defend our actions on every allocation that we have made to date. And as Senator Hawkins says, I'm not sure that we have really done the best job we can because we don't know what our budget's going to look like over a longer period of time.

Secretary Schewel may laugh at this one, but we lack an operating agreement. We generally know how we want to spend the money, and by various sub-committee processes we've done that, but we still don't have the true structure of how we will use the securitized dollars. When I say guidelines, the last thing we need is more guidelines for the Commission, because I'm not sure we follow the ones we have now. Clearly when we can leverage other dollars, and we tried to do that with the Literacy Foundation, and we leveraged that to some extent. We're looking at state dollars and local dollars and federal bucks coming into the system. That's something that I think this Task Force should try to spend a considerable amount of time on, as to how we best leverage all other dollars.

Senator Hawkins is exactly right, because we will not have another opportunity to receive six hundred and fifty million dollars cash on the barrel head for a long time to come, and we'd better be able to leverage the best we can.

Let me go back to the two regions. The need in this county and the need in Smyth County is different, although it's still Southwest Virginia. The need in Henry County versus Mecklenburg also is very different, so we realize there has to be a degree of flexibility in how we try to divide accordingly.

The one thing the Commission has had a hard time with, and it's not because we haven't tried, but it's because of a lack of good quality projects. Let me slow down and try to develop the picture for you. The idea is to keep the family farm in the family for another generation. It's hard to find ways to spend money that directly impacts the farm. Two good examples in Southwest would be organically grown produce, and those are solid base hits. It's a fairly complicated process to be a certified grower, and we're now actually selling our produce as far as Ukrop's Supermarkets in Richmond. We met our

mission there of being able to take the Tobacco Commission dollars, grow the economy and do it in the agricultural sector of that area. Aquaculture is another example in the Town of Saltville, where we've been able to leverage other dollars, and Virginia Tech has helped further that research and development and will make it commercially valid. Those are the two quantifiable points right now from Southwest. We have some other research items. That's where we see this securitization playing a big part if there is a way to get critical mass in some of these projects that we want to try to be successful at.

The last thing I would say before I go over my memo is that there's some dissension in the ranks when I make this point, but it's okay to try and fail with these dollars, we realize that the return on investment, and a lot of this is venture capital. There is a sense on the Commission that yes, we want to be successful in everything we do, but we also want to try to be creative and innovative, and to the extent that we are comfortable we don't mind writing off a few losses in the process. We've had to do that, too.

Let me, if I could, draw your attention to the memo. The director tried to sketch something out, and as usual I threw it away and started on my own. The five principles as follows, the biggest thing we have going right now, and I'll look through these quickly. High speed Internet connection, we have an e58 Committee that's doing a lot of the work, and we think that's a great investment and we don't know exactly how we're going to deploy this technology, but we happen to think that's one of the things that's going to bring us or have a competitive edge in the marketplace. The basic infrastructure, just as the Chairman said, it could be a vertical product, it could be an industrial park, it could be a shell building, technology park, water and sewer lines that not only help the residential customer base but as an anchor tenant you'd have an industrial park increased capacity that would allow expansion.

Revolving loans for small businesses. We actually received a briefing from the Virginia Small Business Financing Board, and that may work, but it also may be we want to look at our community action agencies to get into the small niches that a bank doesn't necessarily want to entertain as a customer, and the state may not want to get into the small nature of those, and that's just fine, and those might be too small, and I'm just using that as an analogy.

Work force development, and this is one where we really don't have a very clear idea of what we want to do. The community colleges have received a significant investment in trying to train the work force. Virginia Tech has been a significant

recipient of dollars, and other entities have too. I think there's a pretty strong sense among the members of the Commission that scholarships are something that there's a healthy appetite for. However, we want to continue that structure, and we may modify that over a period of time, but there's a very large appetite among the Commission members thinking that we need to do this accordingly.

I'll finish up my portion of the agenda by saying this, I wish we knew what skill sets we could invest our money in on the human capital side. The frustrating part, both Southside and Southwest have tried to recruit say an America On Line operations center or something beyond a call center to help this. We really don't know what skill sets they're looking for, and some of our community colleges are doing a great job in this area. Whether it's modulating through and becoming certified in Microsoft and Sysco, but that's one area that's deficient, and it may not be in terms of training and how we utilize our dollars. There's a fairly strong view on the Commission that this is something we want to spend significant time on.

So, Mr. Majors and Dr. Morris, in twelve minutes that's what I know about what the impact of securitization will be.

DR. MORRIS: That's very helpful, and thank you. As I said before, we're going to try to keep moving, are there any other questions or comments that people want to make?

SENATOR HAWKINS: Just let me say one thing about securitization. Securitization to me is the ability to understand that we have control of the money. If anyone thinks that the tobacco industry is a stable industry and flows with easy money and will continue for the next twenty or twenty-five years, really doesn't understand the market. I was in a warehouse this week, and tobacco was being baled the size that you could put on a cargo ship and move it fairly easy. The company was buying it under contract with the farmer, so they know what they're doing. They're buying a certain product for a certain price. How much pressure and how long they can stand the pressure on them today from various aspects of the community, with the law suits, fines, tax increases and all that is involved. It's a worldwide industry, and they could very well decide to move offshore. We could find ourselves in jeopardy when it comes to getting the money, and I cannot risk that. So I hope we'll come up with something that we can suggest to the Governor to go ahead and securitize and put the monies in escrow as we develop these sorts of plans that we need.

Every state now is looking at securitization as an option. The more states that

start securitizing the less market we'll have with what we have to sell. I would hate for us to miss this opportunity and in three or four years find ourselves looking at dwindling revenues just because we didn't act today. Securitization is the way to gain stability and keep the cash flow situation in the Commission. It's the only way that we can guarantee any sort of access to investment capital in the future. Not securitizing is gambling with monies that I don't think we have an option to gamble with.

DR. MORRIS: Going back to the bi-partisan row over here, maybe we ought to move along to the Secretary's perspective and march on towards the open discussion. Secretary Bennett.

SECRETARY BENNETT: I'm going to defer to Mike, this is his area more than mine.

SECRETARY SCHEWEL: First of all I just want to pass on that I spoke to Governor Warner about this meeting and the strategic planning issues earlier this week. I thought it would be useful to pass on his thoughts and some of the things that we discussed before. First of all, his principal concerns, I would describe them as procedural rather than substantive. I don't think he believes that he can substitute his judgment about what to do with this money for the judgment of this Commission. He thought it was very important that the Commission be armed with investment expertise. Not in terms of investing money for the yield on that money but in terms of grants it makes and the projects it invests in, and so forth. He thought particularly the venture capital type expertise combined with actual technology expertise is something that in terms of the Commission carrying out whatever it ultimately determines the direction it wants to go its ability to actually do that effectively and the way that it accomplishes its mission, that that skill set was very important.

The second thing that he expressed concern about was that the Commission would have guidelines, and I agree with a lot of what Senator Wampler says that we have a number of guidelines already. But that the Commission have guidelines to protect itself from becoming a giant GOF force.

SENATOR BENNETT: Governor's Opportunity Fund.

SENATOR SCHEWEL: So I think that's consistent with the views of the Commission as well.

The other point of concern to me, and I know it's of concern to the Governor as well, the question of infrastructure both physical and human is in many respects among the key long-term issues. Focusing for a minute on the human infrastructure. I've looked

at the numbers, and I'm sure many of you all have. If you look at the thirty-three counties and six cities from basically Brunswick County to Lee County along Route 58 and the various work force investment areas there, in every single jurisdiction at least thirty-five percent of the twenty-five year old population has not graduated from high school. At least thirty-five percent, and in one of the counties it was fifty-eight percent. I think if we don't face up to that issue, then a lot of the goals we seek to achieve will be unachievable. That's Mike talking, and it's also the Governor's concerns as well.

The last point I'd like to make is that in a way we have two distinct sets of issues. One of them is we've got eight jurisdictions in that area and in these two areas over ten percent unemployment, the high of fifteen and a half in Dickinson and eighteen point six in Martinsville. Those are pretty bad numbers all the way along. We've got problems that we have to deal with and try to help out today, how are we going to get them back to work and how are we going to make them viable members of the economic community and give them back their participation in the community. That's just one thing.

As much as I'd like to only talk about the long-term, I think if we don't recognize the significance of that immediate task and the way in which this Commission can help with that task, then I think we're making a mistake. On the other hand the bigger issue is what's going to happen in the long-term, what's going to happen with the children and what's going to happen with them down the road. I'll simply mention that I think these are sort of distinctive issue sets. They're related, but what we do today and to help with the immediate sort of prime problems that we've got and what we do long-term, so I guess that's the sum of my thinking.

SECRETARY BENNETT: Let me just talk about a couple of thoughts, and one, taking off my finance hat for a minute and sort of thinking how I'd approach this task if it were me. I'd think we'd all say the same thing, and that is that the fundamental task is to transform a regional economy. Twenty plus years ago when I was in graduate school studying we were doing a lot of economic development and regional economies. And at that time it had never been done successfully, as Senator Hawkins talked about. So I find myself asking what does it take to transform a regional economy. I don't have a good answer for you, but I think that's the central issue before us. Mike articulated some subsets. The essential question is how do you do it if there's no workable model that we can point to. Even if there were a workable model it's likely not to be translatable to this environment. At least as important, and maybe hand in hand with that, is how do you know if you're getting there as you're going along? I think we can allocate the money,

most of my experience is in budgetary, but I think it's likely that there's going to be more demand for even infrastructure or human capital than you can possibly satisfy, securitization or not, or securitization plus what you can normally expect from the state. So unless we're systematic and focused on what we're doing we risk diluting the impact to the point where over a generation we'll have relatively little impact.

When I look at this I try to say to myself what does it take to do what we're trying to do, how do we, literally I'm not sure how to describe that, but I hope that smarter people than I am can bring some weight to that. Secondly, as we're going along how do we know we're making progress? So that suggests some benchmarks and a fairly systematic and focused approach. As I said, there's not going to be enough money, six hundred and fifty, or I think in the latest interest rate environment, Morgan Stanley told me yesterday maybe six hundred and eighty million, and that's going to be a drop in the bucket once you start breaking it down to component elements.

Let me put back on my finance hat for a minute, and that is what's going to flow from this decision on how you do this is how you structure the deal, because how you use the proceeds dictates how you sell the bonds that the Tobacco Settlement Financing Corporation is ultimately going to sell. A related issue to that is once you have the lump sum how are you going to invest the proceeds. They flow two to three, because how you structure the deal dictates how you can invest the proceeds, if it's indeed going to be an endowment. Treasury has done some preliminary work on guidelines for the Tobacco Settlement Financing Corporation and some other things, but those decisions about what you do with the proceeds dictates how you structure the deal, which dictates how your investment opportunities present themselves. If we were to pull the trigger today most flexible would be to do a hundred percent taxes, and you could do whatever you wanted, but that's not the most advantageous in terms of interest rates. So you begin from there. Morgan Stanley has done scenarios on fifty-fifty, but fifty-fifty is sort of an extrapolation. From my perspective A goes to B goes to C, how do you get there, how do you measure how you're going to get there, and how do you structure the deal to help you get there and then how you invest the proceeds is sort of the nuts and bolts kinds of issues that occur to me.

DR. MORRIS: What about endowments, how does that differ?

SECRETARY BENNETT: If you were to do a taxable sale of this, what you're selling is a stream of payments and you can invest it any way you want to. If you do a tax-exempt sale there are limitations on the use of the proceeds and limitations on

the use of the investment. For example on the tax-exempt, if you were to create a tax-exempt endowment, until you pay down enough of the debt to get above what the IRS would consider the use of tax-exempt debt, then you have limits on what you can use. You basically have to invest in non, in alternative minimum tax municipal bonds, which is a very low yield. I don't think we ought to worry about that. It flows from the issue of what are you going to do with the proceeds, which flows to how are you going to get, how are you going to transform a regional economy. You don't have to sell all at one time. You absolutely can. What combination flows from what are you going to do with the money?

MR. MAJORS: I go back to our charge here, I mean you raised some other issues here that I wonder is this group going to be involved in that, or are we looking at sort of setting the stage of what are going to do with the proceeds which derives from --

SECRETARY BENNETT: -- I wouldn't expect this group to decide, a lot of that is technical.

MR. MAJORS: I understand that.

SECRETARY BENNETT: I think the fundamental issue is how you're going to transform the economy does lead to what are you going to do with the money, which then leads to how are you going to invest the proceeds.

SENATOR HAWKINS: Which gets back to I think his part of the charge, which is how we work out these relationships with our localities that would use tax-exempt money. How we structure that sort of situation dealing with the things that would be tax-exempt, plus having the availability of the tax --

MR. MAJORS: -- Maybe it would be that part of the structure or the guidelines or the discipline that we're all talking about might be necessary because of that. We may need to include that in there to make sure that we can maximize, the amount we can sell it for and the --

SECRETARY BENNETT: -- That's why I asked in the first question how do we do this and how do we know. I think the other answers flow from the answer to that first question.

SENATOR HAWKINS: I think what Secretary Schewel brought up is something too that we have to understand. The need to have expert understanding of how these things are put into place that the Governor has articulated is something that this Commission should have access to as well. As Carthan restructures the Tobacco

Commission by bringing in place the people that we need to help make these decisions you all should have benefit of that as well. I don't think you can do this in isolation, and you have to have people that understand the market and come up with some innovative approach. We may have to bring people in from the outside to do that.

DR. MORRIS: Well, I'm encouraged by the fact that, and you invariably talk about education, and I think that's one of the major issues that confronts us as we start to put money in education, and that question is how much do we set aside to encourage people to stay, those that have college degrees to stay in the area or to come to the areas?

SENATOR HAWKINS: On education, let me say that I talked to some students the other week. If you're born poor and smart you can make it, but if you're born rich and stupid you can still make it if you want to. But if you're born stupid and poor you've got a real problem. So we've got to eliminate one of those two.

SECRETARY BENNETT: I guess I'll have to leave the room, then.

SECRETARY SCHEWEL: This could be off the record, and I'm now veering right off the cliff. I was thinking about some of the issues and one of the questions John raised about had this ever been done before, and I've been wracking my brain about where has it ever been done before, and two places come to mind, and one is Ireland and Korea. Where something very similar to this probably happened. They're not exactly analogous, but one of the questions that was raised, is there knowledge and experience out there that we should be learning from to get the experience of other people, and those two countries come to mind.

DR. MORRIS: I'll go to Ireland, you go to Korea.

SECRETARY SCHEWEL: The second thought, and this is by way of nothing, but also in a way raises the difficulty of what is the task that we're undertaking. If I could say to this Commission, which I can't, but if I could say to this Commission I'll take sixty million dollars a year each year for the next five years, and in return for that I'll give you a modern one thousand employee plant in South Hill, Danville, Carroll, Washington and Wise. Would it be a good trade, it might be. Even if we don't have any of the rest of the stuff, modern industry, it's not going to be shut down. We're just stringing right along the way, and we think that would be a good expenditure for this money. I think we could make a pretty good argument that would be a good expenditure of the money. My only point in saying that is that it's hard to figure out, because there are a lot of options, and it's hard to figure out what tasks you're going to do and at the

same time recognize things are going to change and what the opportunities are, and in fact may end up being somewhat different than what was planned to be, because we've got a lot of choices here and it's not going to be easy.

MR. MAJORS: We can throw that out for discussion. I want to go around the table, I'm assuming that again this Task Force was created on the assumption that we're going to securitize.

SENATOR HAWKINS: Right.

MR. MAJORS: I mean we're right with that, we can assume that, right? So our work is, we don't have to say do we want to securitize, because that's not an issue.

SENATOR HAWKINS: But I think the work of this Commission and the recommendations that facilitate the securitization process are on a more rapid course than probably, I think the Governor needs to have an understanding that we're doing this long-term stability. I don't blame him a bit, I think he's right in that. In order to do that we need to make sure that the recommendations we come up with have that sort of intellectual input from outside sources to give us the ability to make sure that when monies are invested that they're invested wisely. Of course, you'll miss some, but the overall impact is understood.

MR. MAJORS: I guess the second part of that is that we're in a very good environment in terms of securitizing right now, I think. I'm sensing that's one reason that we need to develop our plan, whether it's even an interim plan to get that securitization done before that market is gone.

SECRETARY BENNETT: The market evolves. There is suggestion that at some point reaches saturation, because people that buy these bonds are basically institutional investors and they're not mom and pop things. Wisconsin's credit is the same in all these deals, and the structure varies a little bit, but underlying credit does not. They're basically all A-level investment grade credit, but the underlying security for them is the indemnification payments. So the market saturation is one factor and the interest rates are another factor.

Now, this has basically been a three-year market. For the first three years up until now every year there's been innovation around the structure to improve its marketability, and there's been greater penetration to more and more investors. The question of how far that goes before you reach a saturation point is sort of a source of conjecture. Right now in this interest rate environment it's more attractive than it was six or eight months ago. There are more sales on the horizon, but it's not that you won't be able to sell, you'll pay a

premium.

MR. MAJORS: What you were saying is you were talking about six fifty, and today they're saying that it might be six eighty. We want to maximize that, obviously. I guess I'm raising that point to say do we need to be working along a parallel road here, or at least have someone advise us, do we need to be doing some interim planning. Whether it is what Charles said securitizing and escrowing in some way, does this group need to be involved in that or looking at that?

SECRETARY BENNETT: There are sort of two or three sets of things. There are administrative things that have to go on, that's under way right now. I've had the Treasury Staff working on that the last three or four weeks. At a certain point they'll reach a stopping point, those are the creation of the Tobacco Settlement Finance Corporation draft guidelines, the Governor's got to make some appointments. The Tobacco Settlement Finance Corporation that actually sells the debt. The Commonwealth or TICRC is ceding to that corporation its right to receive those revenues for a later period of time, but the settlement corporation does the actual sale of the debt. But if you were to sell it all you've got to take a blind shot about what your ultimate use is and then fit the uses into how you got the proceeds, or you've got to maximize your flexibility, which is not maximizing your money.

DR. MORRIS: In addition to market time we have to account for what we're doing here there are also a need for the timing of the overall Commission, the Governor's priorities and the General Assembly and the likelihood that somebody's going to try to come and get this money and use it for other purposes.

SENATOR WAMPLER: I would say that once the corporation is created the General Assembly and/or the executives are out of consideration for grabbing the cash. There's a right hard fire wall that exists.

SENATOR HAWKINS: That's true, but if the money is not securitized and it's left floating in limbo there may be a different attitude. The securitization part is something that helps keep things on track.

DR. MORRIS: That's January.

MR. CURRIN: The legislature comes back in January, but if we haven't done it by then I would say to you that some of our colleagues might have a different frame of mind.

DR. MORRIS: Do you see it that way?

SENATOR WAMPLER: We need to go on with our business and do the

deal. If I could say another thing, and I don't know that I emphasized it heavily or enough. Indemnification remains a huge question. I don't know, I put in my memo to you maybe a hundred and fifty million dollars, and I just said what I believed to be the median and the low and high and somewhere in the middle. And, John, I guess that would be a taxable issue.

SECRETARY BENNETT: If you get into this cardinal principle that you've got to indemnify and you've got the worst side, then you're out of luck if you do the tax-exempt.

SENATOR WAMPLER: The point I was making is that you can always use the taxable proceeds for anything, the question is where do you get the most cash on the tax-exempt issue. I guess e58 would be a good example for tax-exempt.

SECRETARY BENNETT: Yes, that's a capital project, and that's easy to identify.

SENATOR WAMPLER: But the problem we have there is not being able to spend it quick enough.

SECRETARY BENNETT: If it were me I would not let the plan of finance be driven by timing issues, what makes sense to you drives the plan of finance because there's always ways of working around the financing structure, but you need to do the plan of finance first, and it sort of turns things on its head.

MR. MAJORS: Tom and I are talking about trying to have this group complete its work by December. Is that a reasonable time frame, or are we on a more condensed time frame?

SECRETARY BENNETT: I can't answer for the Commission, but I can tell you from a finance perspective that if we try and time the market we will inevitably lose. The rhetoric is around an uneven recovery, what we're doing then is trying to time interest rates. The saturation is really beyond our ability to forecast, so we're talking about interest rates here. We know the rhetoric is around an uneven recovery. You get as many down signals as up signals in the financial markets being the major question mark. Our revenues are not showing anything about a recovery and, in fact, they're softer now than they were six weeks ago. So now there's speculation is the Fed going to cut fifty more basis points. If they cut fifty more basis points in some time frame based on the softening economy, then your interest rate environment is improved. I can't predict, if I could predict interest rates I wouldn't be sitting here. I'd be one of those rich but stupid people that don't have to work. From my perspective it seems to me to put a plan in with

all deliberate speed that makes sense, and not be caught six months from now saying, gee, I wish I would have done this differently. SECRETARY SCHEWEL:

In my view I think we'll know a lot more in December than we know now in terms of where we are in our task. If we keep our nose to the grindstone and get a lot done, one of the things we may get done is a determination that some portion of this needs to continue further but that we develop some basic guidelines and some basic structure that enables us to generally move the ball forward, yet there's still some other things we want to look at. From my point of view certainly that does not create any extraordinary barriers as far as securitization. I don't see that as being necessarily a terrible outlook. We've got to remember we've got a hard task, and I think if we try to scrimp on getting the task done in the long run we will have done the Southside and Southwest communities a disservice.

SENATOR WAMPLER: Does it matter if we do on a timeline an issuance of six months and then eighteen months? Administrative fees would be the same?

SECRETARY BENNETT: It's all proportions, you do half of it now and then half, you pick your proportions and then you will pay one fraction. It's not like you pay ten million regardless of how large you securitize. Issuance expenses are basically a function of the size of the sale.

SENATOR WAMPLER: To go back to what Secretary Schewel said, and that is we do have a short-term challenge and that is to revitalize those areas that are really taking it on the chin. We don't need a twenty-four month work period. I'm trying to get current with your analysis. We've got some important matters that need to be taken care of in the very, very short-term, and the issuance, I don't know if Treasury can do it, assuming today we said we needed a hundred million taxable and fifty million non-taxable.

SECRETARY BENNETT: Once you do the initial work, the incremental work to do it for the second segment is relatively small. A lot of the work is creating the corporation and doing the guidelines and appoint the officials. Then with your underwriter you do your work on that particular structure, but a lot of that is boiler plate. We're basically chopping the path in the wilderness, but once the path is done, walking through it the second time is a lot quicker than the first time.

SENATOR HAWKINS: We have the fundamentals already in place, and we expand to meet the immediate needs. The telecommunication people, and I keep going back to something that's universal. There's been some comments that access is already at a certain point. The thing that bothers me is the cost of service compared to

other parts of the state. We start putting something in at a low cost and fast connection availability, and that helps starting down that road. So when we finish that piece out then we can work on some other components, and that kind of takes us to the next step.

DEPUTY SECRETARY ERSKINE: Do we have a sense that the deliverables are expected from this group? Is that something that should come out of this today, both short-term and long-term deliverables?

MR. MAJORS: I think that's what both Tom Morris and I are trying to understand and sort of see what the members of this Task Force see, as well as the Commission.

SENATOR WAMPLER: Let me jump on this point, it seems that, perhaps, maybe we want to think about short-term goals some time in October of a plan for the next twenty-four months that we know or we feel generally meets the guidelines that the Commission has generally approved. We might be able to ask Secretary of Finance Bennett to present a plan of how we go to the market. I think what I just outlined is a rather aggressive timeline, but also by the end of October we might be in a position to say we need fifty million for indemnification, and maybe we'll know what we're going to do with e58 by then and have an idea in the next twenty-four months what we need to spend. Our first crunch would be on a smaller scale than subsequent issues. That's just a thought and maybe that's deliverable. Maybe it's much more complicated than what I just stated.

DR. MORRIS: That's the kind of discussion we need to have.

SENATOR WAMPLER: As I said, maybe we find out it's unworkable, but maybe that'll get us off-center and move us on.

MS. MOORE: I'd like to make a comment that may or may not help. I've looked at these communities both in Virginia and across the country and other developing nations where they try to put in a type of communications pipeline, and I think it's pretty universal, the issues that we face putting that in. One thing that seemed to have worked for Ireland and seems to be working for Korea and some western states, the western states are trying to do this in a more condensed fashion. That is combining that with a focus on, it goes beyond just education and work force development. It is community development in relation to what these new telecommunication means to you. That has to be done in a short run, otherwise you have a very nice infrastructure but no one knows what to do with it. Many people are saying now that one of the reasons why we are having the dot com bust right now is because we've got a lot of infrastructure in place but

nobody knows what it meant to them. If no one knows how to implement this, then that sent us into what we call the new economy. What we have discovered when we worked in Danville and Pittsylvania County and when we visit Bristol or work with the people down there, also the Lenowisco district, there is a big piece that involves focusing community leadership as well as education institutions, and business and what these tools mean. A large piece of it is invested, but that's a real dilemma, I think, for this Commission, and what I think is the correct strategic approach, because a larger part of this is to try to prepare the community and help them understand. It has to happen in the next twelve to twenty-four months, and I definitely agree with Senator Wampler on that. It's also a very long-term.

For example, we have gone in and partnered with the Virginia Institute of Government and others trying to begin to get leadership principles that are in a new idiom. A part of that conversation is to help economic development understand that if they're going to change smokestacks, they're smokestacks have got a chip in them. That if you're trying to invite people to come back in your community, I was giving a talk for a group in Danville right after everyone had exited from the Research Triangle, and there were a lot of people sitting in the back row and an interesting group who had grown up in Pittsylvania County and worked there and some of those businesses had gone south in the dot com bust. They said I know what to do and I know how to come back here and make my business work here if you put in the infrastructure. We need more of that type of attitude in the community. It seems to me you've got the right pieces in here as outlined in Senator Wampler's letter, and you still need to focus on that, too. The focus is the new economy, but even for agriculture assistance, if agriculture was a chip, metaphorically speaking.

MR. CURRIN: Would you identify yourself for the record?

MS. MOORE: I'm Ann Moore with Virginia Tech.

MR. MAJORS: Sort of following up on that and the discussion about Ireland and Korea, would the Task Force like for us to get someone who can or who has done some studying on some of this?

DEPUTY SECRETARY ERSKINE: I was actually going to propose an idea to bring in an expert, a number of players. One person to facilitate the group or come to one or more sessions. I think those dimensions would be overall strategic planning, but someone who has expertise in establishing rural economic development. Also an understanding of strategy and effectiveness in disbursement of monies, whether

it be through working with foundations or other organizations that are in the practice of putting money to good social public use. Someone who can bring together those dimensions, and maybe somebody who has an understanding of models of where this has worked in Ireland or Korea to come in and work with us. I keep hearing this is a once in a lifetime opportunity. We don't know who has done this before, certainly in the United States. It seems like a prime opportunity to bring one or more of these experts in.

SENATOR HAWKINS: But to bring to, probably historically, an economic model for us to deal with. So I think that sort of thing is good for us to put together.

MR. CURRIN: Mr. Chairman, we could probably, each of us in economic development, in our office we could invite someone. We could get someone from that group to probably speak to us.

MR. NEAL BARBER: Could I make a suggestion along those same lines? My name is Neal Barber, Virginia Economic Development Partnership. The Appalachian Regional Commission has been making investments for about thirty-seven years in distressed areas. Some of those areas have been reborn and transformed. I believe that is a model within our own country that we can use and look at. Jesse White, the current Federal Co-Chairman of the Appalachian Regional Commission, has an extensive background both in the Appalachian Regional Commission but also in monitoring and evaluating progress that has been made. I offer him as an individual that might be of benefit to the Commission who has useful experience.

SENATOR HAWKINS: I think we also need to keep in mind and keep a focus that, especially if we're looking at how we redesign the economy, and that we do not need to lose our historical agricultural rural identify if we do. We don't need to turn into a Northern Virginia. We should be able to maintain the quality of life that we all want to maintain and just understand working with the population that we have to stabilize the population and stay competitive in this century. I think it would be very easy for us to go ahead and find out just what we need and sell off everything and we'd have the same impact as Northern Virginia. We don't need to go there. I think we can have the best of both worlds.

DR. MORRIS: Hearing this the thought I have is that we might end up asking that we commit two days in September, two working days, one of which would be to bring some people in to work on these particular topics. If we do it one day then you've got to come back and fine tune and continue to talk through that and one deals

with the education piece. Then the idea that we come back again in October and try to by that time come up with a twenty-four month set of guidelines. That would be three days to get us to that point, and I'm thinking out loud now. I'm suggesting, and Carthan has talked in terms of two committees. Charley and I dealt with a commission that stuck together, and that worked well for us, but I don't know what you all think here. What I'm putting on the table for discussion is that the Task Force stay together for purposes of the presentations.

SECRETARY SCHEWEL: Is the corollary to that that there would be a subsequent effort to go beyond twenty-four months?

DR. MORRIS: Yes. I was just trying to get a short-term and a long-term plan. I think if we're going to do something short-term, I agree with the Senator, do something by October rather than say let's do something short-term by December. Let's see if we can arrive at something by some time in October, and then we can take the next step after that.

SENATOR HAWKINS: I think it would be helpful to stay in one place for two days. It makes sense, because not only an exchange of ideas during the meetings but discussions after the meeting sometimes helps bring things into focus and while we are all together.

DR. MORRIS: To me it doesn't have to be two consecutive days, but it could be.

MR. MAJORS: You're not going to do it two days between now and October and get it done.

SECRETARY BENNETT: We're not going to do it in two hours here and there or three hours here and there and then get started all over again. We just started scratching the surface here today.

SECRETARY SCHEWEL: We can do it two consecutive days.

MR. MAJORS: The last time we found it would be helpful to be able to work and maybe even hear from people we want to hear from, whether it's experts or just public input, and then have a chance to assimilate that and talk about it and see where we want to go.

SECRETARY SCHEWEL: In terms of bringing in expertise, you and your colleagues know where there's a lot of experts, and in fact it may very well be you all among others that probably could help us identify some people.

DR. MORRIS: My expectation would be that if we decided to do

something like this we're not just going to work on these people and then send you a final schedule. We're going to get some information out and have a little back and forth about people that we're looking at and get your input on putting together the agenda, because I'm not interested, and I know you're not, in coming and spending a whole day and listening to a bunch of folks unless you think they're the right people focusing on the right issues.

SECRETARY BENNETT: I think it would be a good idea to send that information out in advance to that end. Carthan, I know you have, Mike talked about unemployment statistics by locality and education, could you compile all of that somewhere so that I can refresh my memory about all of that stuff?

MR. CURRIN: Yes.

SENATOR HAWKINS: If you look at those figures on out-migration and the populations it'll scare you to death.

SECRETARY BENNETT: From my perspective something that tells me more than anecdotally what's going on in those communities, I travel through them. But the same thing here two hours and then you're back somewhere else.

SENATOR WAMPLER: I've got to say one thing, John Bennett helped write the psychological profile that the Warner administration is operating off of.

SECRETARY BENNETT: I beg your pardon, that's the FBI profile that we're using.

SENATOR WAMPLER: I think that's exactly right, we do need a thorough examination of where we want to go and where we want to be. I guess for the short-term I want to make sure we don't get hung up on theory and we focus more on the practical application of what it is, even if it's in increments of ten or twenty-five percent of what we think the general guidelines to be. For example, tomorrow morning at 07:00 I brief my division commander, and not a bit of it will be theory, and it will all be what I've done and what I've planned to do and what I'm able to accomplish in the next twelve months. I think for the October work product that's what we need. This is the battle plan, and these are the missions that we need to accomplish and get it done. Then for the longer term we can continue to study and try to proceed from there. I think we're moving in the right direction. We've got to be able to decide what to spend our money on and how much increments by a date in October.

SECRETARY SCHEWEL: The thing that worries me is the lack of a model that we are familiar with. I think that should worry all of us. On the one hand we

may be venturing into new territory and we're going to become the model and someone will follow us. On the other hand there may be good models out there but we will just be kicking ourselves in the butt if we discover we're there and we did not take advantage of it.

SECRETARY BENNETT: The road map is in the door, and we don't know which door to pull it out of.

DR. MORRIS: I hear what both of you are saying.

MS. MOORE: There are pieces of the road maps in several doors right now. We can benefit from listening to some folks from Ireland. There's a community in Washington State that's moving in this general direction, but listening to some of these people I'm sure they can help us pull the pieces together. The other piece that Senator Hawkins articulated about so well is that, a lot of this is for ourselves, and the community help us with that process. That and focus on the next generation economy is the big picture here, and helping people understand what this means.

DR. MORRIS: What happened in Washington State, if you can get it?

MS. MOORE: I'll get it for you.

SENATOR HAWKINS: When you look at these models you have to understand the demographics that we're working in and the difference between probably the educational background as has been pointed out and other components. The model that's used in Washington State and the education level and different dynamics may work for them but may not work for us. We have a different sort of population and regional differences that we have to address. We need to make sure that we address the needs of the population we're dealing with. There's a unique population. There are areas in our district that we're dealing with that are still probably the most stable population, because most of the people there are born there and have grown up there, and their parents were there and their grandparents. It's a real stable region population-wise, and we have to deal with all these components, so it makes it unique.

DR. MORRIS: Certainly from what I'm hearing we're going to need to have, we're certainly going to need some theory and modeling, and we also need to be practical, too, in terms of what we're trying to do. I think we do have to have some presentations that would help us get something to look at, whether it be Washington. I hear what you're saying as well, this is not an economic theory exercise that we're going to do.

SENATOR HAWKINS: You must remember that in looking at this

region, basically these areas that we're talking about are manufacturing areas, and that's who we are, and we're not going to change that or even try. We want to build on that strength and find out what we can do to stabilize and build more of that sort of infrastructure in place when it comes to manufacturing. These are manufacturing jobs. We're not a high tech center, but we're a manufacturing center, and that needs to be looked at, too.

MR. MAJORS: I think one thing we need to keep in mind is a short-term plan, and we need to look at developing some system of monitoring the progress and success. So we can see are we on the right track and are we developing long-term plans as well, and then we've got some input into whether our model is working.

DEPUTY SECRETARY ERSKINE: Can we also look at maybe identifying leaders in the younger generation in these communities, because as it's been said around the table, we're losing good young people. We can talk about how we can define young people, but clearly we're going to need to rely on, not only for why we're doing what we're doing, but considering the next generation. If we don't involve them and have them engage in this process we may be losing an opportunity to do that. So I think that's an important step that we need to identify and reach out to some of the younger leadership in the community.

DR. MORRIS: We're going through right here today what the Commission has been going through for a long time. Without guidelines or priorities there's all sorts of great ways to spend this money.

DEPUTY SECRETARY ERSKINE: I'm saying in this process.

DR. MORRIS: I don't disagree with that. I guess what we're struggling for today is to see if we can get a framework that would allow us to plug these ideas into it as they come along, because there's so many different ways to do this. On the education piece it sounds like Southwest and Southside are doing it a little bit differently, and perhaps we do need to have a section or a time focus on the education piece, both for the children of tobacco farmers and the notion of trying to attract people to the area or keep college graduates in the area, some way in which loans could be dealt with.

SENATOR HAWKINS: Dealing with the education piece, Southwest and Southside have pretty much tried to do some of the same things. But we also entered into an agreement with the Literary Foundation that we invested large sums of money trying to make sure that there are educational components dealing with GED's, working with the community colleges, bringing in place the piece that we need to elevate the level of

education for those people that have dropped out of school. The community colleges are working on this. We had a meeting this morning dealing with the foundation of how we can get these scholarships in place to offer these opportunities. So we probably need to look at this foundation again.

MR. MAJORS: You said they invested funds, is that something that is done, or something that the Commission is thinking about doing?

SENATOR HAWKINS: It's done.

MR. MAJORS: So there's not other monies --

SENATOR HAWKINS: -- No, we set aside last meeting, I think it was about three and a half million dollars for scholarships, is that right for both areas?

SENATOR WAMPLER: For both regions, three point eight.

SENATOR HAWKINS: That's been with the higher education scholarship piece, and then we set aside five million dollars for the literary foundation that's already in place. They have put ten million with it, so that there's fifteen million of monies right now that are available for scholarships and for the GED, educational training, nursing, and that sort of thing. They met this morning with the community colleges trying to figure out how to get these scholarships rolling.

MR. MAJORS: So we need to hear about what that will do which might change the need for additional monies. We're not looking if we can fund additional things, is that right?

SENATOR HAWKINS: The literary piece might be finished.

SENATOR WAMPLER: The short answer is I don't know, and it's a good point. We know there's a tremendous appetite for scholarships. I'm not sure we can evaluate today and say that either region is doing the best they can with the dollars, but I think for this exercise we ought to set a goal of how much money we wish to endow and what our burn rate is. If it's ten years or if it's fifteen years to exhaust that endowment for purposes of scholarships to help transform the economy.

DR. MORRIS: I think we could have a presentation and put together summarizing what was just said and put some things in front of us, an hour or so segment to talk about what we've been doing and what the options are and what could be done to get all of that in front of us.

SENATOR HAWKINS: We identified early on several professions that we're in short supply of. Doctors, nurses, teachers, those vocations are the ones that we need to figure out to get people involved back in the communities. If you look in

particular at the medical piece, if you plan to build a community you have to have a support system in place, and the medical part is very important, particularly with an aging population.

SECRETARY SCHEWEL: One of the other pieces, I don't know how this fits in, but one of the things I was wondering about in looking at the securitization priority, for example, you're talking about a revolving loan fund. It has occurred to me that what we may be better off doing is giving a hundred twenty-five thousand dollar loans rather than one twenty-five, and those kind of issues, which is what kind of capital, under what type of circumstances and what kind of companies and what kind of circumstances. What really would work and what is likely to provide prospective entrepreneurs with things that enable them to go from not being able to do it to being able to do it. Rather than trying to come up with a series of half million dollar loans for a number of businesses. I raise that as another set of issues that if we are looking at, if we decide those are priorities we want to keep there's a whole set of complicated issues under them which at some point it seems to me we have to think about.

SENATOR HAWKINS: I think you're right on target on emphasizing that. It has always been my belief that to plan to bring back the type of capital into these communities that you need to work with the research universities in place. When people graduate and have high ideas about what they want to do to start some fledgling businesses, to have some support system in place to encourage them to come to communities to invest that capital. Small loans can sometimes do that, but also make sure that there is an understanding of business incubators that help them develop their businesses and grow within these communities. That would help us more than anything else bring that intellectual capital back to the community, rather than go to Washington State or California or Northern Virginia. You have to have a capital support system in place, an infrastructure that they can build these businesses in localities that need them.

MS. MOORE: To me there's also an education piece, and I don't think that's a lot of money when you consider the incentive to schools and public schools and community colleges and colleges to make sure there's a kind of development that's going on that integrates the technology into every area so people can do things and have an opportunity. People will come back and bring their children if there's opportunities and schools and that sort of thing. This kind of development along with the leadership you talked about earlier, and that just has to occur. There has to be something there of a human incentive to get people to come and to stay and things for the family and the

children to do. I don't think that's a big ticket item, because you've got institutions that are already involved in that, and you've got communities that are thinking about that as a bit of incentive.

DR. MORRIS: Anybody back here have a comment? As we suspected, we have a lot more questions than we do answers, but I feel as though we're making some progress here in this open discussion. Where are you with the idea of having the next meeting, a two-day meeting, something that might start at ten o'clock in the morning and go through early afternoon the next day, or we could have one day from nine to four and a week or so later or two weeks later another meeting from nine to four. You all will have to give us some feedback, and I guess that'll have to happen in September.

SENATOR HAWKINS: On a two-day meeting you don't lose the focus on what you're trying to do. If it works I think that would be a desirable way to do it.

SECRETARY BENNETT: I would agree, when people talk at us and then you get in that passive mode.

DR. MORRIS: We could start on a Sunday and Monday. Does anybody have an objection to meeting on Sunday? If we met on a Sunday we might start in early afternoon and go through late the following day. The fourteenth and fifteenth won't work, so let's look at what else is possible. What about twenty-two and twenty-three? If we do it then we've got to have some time before we come back in October. Where would it be?

SENATOR HAWKINS: Roanoke is sort of in the center of the geographic area.

MR. MONTGOMERY: Jonesville.

DR. MORRIS: We'll meet there one day. I'm thinking if we start in the afternoon we'd start like two o'clock in the afternoon. We'll keep in mind that we're not just going to have people talk at us but we'll have it broken up, and we'll have to talk among ourselves as we go along, or we're not going to get anywhere.

SECRETARY BENNETT: When you look at these experts, what I want to know is what works and what does not work and based on lifelong studies and not the theories of what makes regional economies, and we've already been through that course. If they say education is a generational thing and it's a long-term thing and infrastructure, you've got to have specifics and not just build it and they will come.

DR. MORRIS: I think we need to hear input in building the agenda. Carthan, maybe like a week from today if you could get something out to everyone on the

Task Force about the possibility for people to make presentations and as much information about them as you can get, then we'll get your feedback, and then we'll start trying to set up an agenda. I don't want to try to leave it up to the two of us. You're going to have people you would suggest and you may have heard, and you're going to say don't bring them, I've heard them and we can read the articles and that's all we need.

MR. MAJORS: I would suggest that we could get Anne.

MR. CURRIN: We have some other folks behind me, Anne and Hud and others, and they're involved.

SENATOR WAMPLER: I would feel pretty strongly about the regional Commission being part of that, and they can tell us what's been successful and what has not been.

MR. CURRIN: For Mike and Matt and we have some folks there and the institute out of Raleigh is prepared to help us as well.

DEPUTY SECRETARY ERSKINE: They have that appreciation for regional.

MR. CURRIN: They can tell us what works.

SENATOR WAMPLER: The Southwest Economic Development Committee has charged our local economic developers to come up with a list of what they believe their infrastructure needs to be. This might help you quantify in the short-term what a reasonable expenditure of funds could be and help you decide. They could come in at eight hundred billion dollars, but I think we can pare it down. Carthan, you may want to have one meeting before, around Labor Day, so we can reconcile that. I don't know if Southside wants to do the same thing. Do an assessment on what some of the infrastructure needs are.

SENATOR HAWKINS: There's a difference between the two, is that you all are using your money as a block grant. Ours is broken down community-to-community based on a formulary, and we had two different approaches.

SENATOR WAMPLER: That's not my point. My point is that I can come back and tell you that in the regional industrial park in Duffield we're out of land, and it'll cost X to develop the site and Y to build the product. That's what I think I can bring back to you a snapshot that might be helpful. It might be helpful for Southside to do the same thing, the Letterman Top Ten List of what it is that would make the biggest impact.

DR. MORRIS: Let's see if we can get a date in October for one day. I guess we could say the latter part of October, maybe the last two weeks of October.

SENATOR WAMPLER: I'm out from thirteen to twenty-three October.

DR. MORRIS: What about the last week in October?

MR. CURRIN: The twenty-eighth?

DR. MORRIS: All right. Let's do November.

MR. CURRIN: How about the eighteenth?

DR. MORRIS: What about December?

SENATOR WAMPLER: For the legislative members, in December we say it's open right now, but it collapses in a heartbeat, so we're kind of shooting in the dark for December.

MR. MAJORS: You mean it's hard to set it now.

SENATOR WAMPLER: Yes.

MR. CURRIN: When the Governor speaks to the money committees.

SENATOR WAMPLER: I think everybody and his brother is interested in that, and that dance card is pretty full.

MR. MAJORS: We've got September 22nd and 23rd, October 28th and November 25th.

DR. MORRIS: So within a week from today we'll get something to everyone giving you a basic suggestion of people that we would like to have. Can you all work on that time frame?

MR. CURRIN: Yes, sir.

DR. MORRIS: Then we want your response to it, and then we'll set the agenda up the following week.

SECRETARY SCHEWEL: If we could essentially formulate questions we want them to answer so we don't have people just getting up there and rambling on about their theories, but here's what we want to know, essentially what works and what does not work.

MR. MAJORS: We'll try to give them a time period.

DR. MORRIS: Anything else? We said two hours, and we're right on it.

PROCEEDINGS CONCLUDED.