

Virginia Tobacco Indemnification and Community Revitalization Commission

Long Range Planning Task Force

Sunday, September 29, 2002 - 2:00 P.M.
Hotel Roanoke and Conference Center
Crystal Ballroom C/D
Roanoke, Virginia

Present

Dr. Thomas Morris, Co-Chairman
Charley Majors, Co-Chairman
Senator Charles R. Hawkins
Senator William C. Wampler, Jr.
Senator Frank M. Ruff
Senator Phillip Puckett
The Honorable Michael Schewel, Secretary of Commerce and Trade
Matt Erskine, Deputy Secretary of Commerce and Trade
The Honorable Allen Dudley
H. Ronnie Montgomery
Thomas W. Arthur

COMMISSION STAFF

Carthan F. Currin, III, Executive Director
Stephanie S. Wass, Director of Finance
Mary Cabell Sherrod, Special Assistant to the Commission
Hud Croasdale, eCorridors Project Coordinator

ATTORNEY GENERAL'S OFFICE

Anne Marie Cushmac, Senior Assistant Attorney General

ALSO PRESENT

Anne Moore, Virginia Tech
Glynn Loope, Commonwealth Advance, LLP
Neal Barber, Virginia Economic Development Partnership

**STRATEGIC PLANNING PRESENTATION
AND DISCUSSIONS**

MR. MAJORS: I'll call this meeting to order, I'm glad everybody has shown up this Sunday afternoon. I thank you all for coming. Tom and I

appreciate your willingness to be with us today and we'll be here the rest of this day and tomorrow. I hope everyone can be here for both today and tomorrow. I don't think we need to call the roll. I'll just let you, Carthan, mark who is present. We did get some minutes sent out, does anyone have any additions or corrections or modifications they want to make to the minutes? Does anyone have any comments regarding them? I'll take that to mean we'll consider them to be approved and we'll move onto the meat of our deliberations today. Let me first recognize the Chairman of the Tobacco Commission, Senator Hawkins. Senator Hawkins, we're glad to have you. We appreciate you being willing to spend some time with us today and I wanted to ask you if you have anything you'd like to say before we get started?

SENATOR HAWKINS: Well, I always have something I want to say. Let me start out by saying thank you all for coming here and I really appreciate it. Really appreciate the effort you all put in this, you and Tom both. I think it's an absolute necessity that we plan to use these monies the way that they were intended to be used for the long-term benefit of our area.

What I would like to say and some of this is a departure because we talked about a good many things that we deal with long term. Education, infrastructure and those things dealing with basic changes in the economy. Also how we match up opportunity grants and things of that type.

I'd like for us to start looking at another aspect of this that I find a growing concern of mine. As I drive through our areas, I notice we're not only losing jobs but we're losing ownership. By attracting companies into our area based on incentives, we very well could lose those same companies by someone else offering more incentives so we could be dealing with economic illusion by creating something that's not stable. If we could balance that out by creating some new generation of ownership of companies and the different type of companies and ownership and different types of enterprises that we had in the past. Historically, southern Virginia and western Virginia had been supported by a base industry that was basically owned locally be it banks, furniture, shoes, be it

whatever, there's a very large and local ownership in the Board room located locally. Therefore the decisions that were made would benefit the localities because the people who not only owned and served on the Boards of locally owned entities, understood the communities themselves and they were willing to ride out good times and bad times. Today we're transferring the ownership and also transferring our wealth out of the communities and into other areas. Virginia, not only our area of the state but the state as a whole is going through this transformation that I think we need to address.

Most of the banks and several very fine banks I might add, most of them are in North Carolina and headquartered there. If you look at shipyards, they're owned by California. Reynolds Metal is now owned in Canada, our large retail concerns were Virginia based and that was Thalhimers and Monroe, they're no longer Virginia owned. Most of the retail business is out of state as far as ownership. Therefore the constant transfer of wealth from Virginia into other areas, which is fine in itself and I'm not necessarily opposed to that, but I am concerned about the long term economic stability for our area.

If we plan to make a difference for the generations to come in our area of the state, we've got to figure out some way that we can develop the next generation of ownership in our areas and create long-term economic stability. Ownership not only brings with it economic stability but it creates wealth structure that you have to have in localities. Today we're not creating a wealth structure that we have to have to make sure that our economies are viable. If you look at historically what has taken place in the areas that I'm from, the companies that grew out of these areas invested back into the area with the money that they made. An example is Lane, Bassett, the Grants, not only were they creating a new wealth structure in place but the ownership there made a big difference. I was in discussion about this at some time and someone said well, ownership doesn't matter and I said yes, it does matter. You have companies that primarily bring into play CEOs and chief executive officers who come into the area on an interim basis to another appointment or another promotion. They are never there

long enough to develop roots in the community to understand what takes place. We have to have something to balance off the transitional nature of that economy to a more stable part of the economy, which should be locally owned. To do that, we need to figure out how we can use some of our monies for venture capital efforts to create a new generation of entrepreneurial ownership for new technologies that are coming out of our research and development institutions and by attracting people to come back in the areas and start businesses and growth from the ground up rather than trying to bring in an 800 pound gorilla incentive. Incentives are fine but I am concerned long term that the commitment to the localities, based on incentives that are being offered to someone else and once those are gone, they're gone.

Mr. Chairman, I am convinced that if we plan to offer each of our areas, we have to go back to the basics and figure out how we re-establish ownership, not only for mom and pop operations but for the medium and large size manufacturing, computer operations that people can be competitive in this century. Ownership is very important and I think it's something that we need to be dealing with. Thank you.

DR. MORRIS: I have one question and I understand the analysis and I hear the examples of ventured capital and there may be other ways that can be done. I'm aware that the current governor knows and in the last several years has done venture capital activities throughout the area. I'm not sure how successful that has been. I guess we might have to, if that's something we want to look at, we might have to ask for some reporting to find out what successes or failures there have been in that effort.

SENATOR HAWKINS: I think there has to be some sort of baseline working and I don't think anyone wants to give Carte Blanc ask for money and get it and start a business. But if you look at what has taken place in our areas early on, and our research universities today, there's a generation coming out of our schools that have ideas and have merit too and then that needs to be able to be merged and brought to flower. If you can plant those seeds in our

real communities and allow them to grow there and have their boardrooms there and the ownership there, I don't know how you can gauge the viability of each but there should be something in place to do that. I'm concerned that if this trend continues, we will be facing an economic situation that Virginia is not used to by not being able to control our own economic destiny. Even AOL today is in New York. We don't have anything that we have control over within the State of Virginia long term. So anything we can do to bring in some sort of balance, I think we need to do it.

DR. MORRIS: Just a follow up, if the other efforts have good results, you're not sure what the answer is but –

SENATOR HAWKINS: I don't think you're going to hit a homerun every time you do something, put these things out. Sometimes you have to walk away from it but I think that with the intellectual capabilities we have around the table, we should come up with some sort of baseline to make sure that we address some of the problems in order to try to keep a baseline in place. I'm concerned that particularly in our medium size cities and rural Southside Virginia, we have to do something to bring back the entrepreneurial ownership companies within those boundaries. We're not doing anything but just holding ground until another ship takes place. We have got to have ownership that's rooted in the community and commitments to those communities come out of investments made from the start and goes out to the community.

MR. MAJOR: When you talk about venture capital, there are different levels of venture capital. Organizations we have in southwest and Southside Virginia have not been, not the initial state of venture capital but more the second tier level. So we may have to be looking at other aspects of it.

SENATOR HAWKINS: There's another point to it and this is strictly philosophical and I probably shouldn't get into it. But if you look at the stability of the nation itself, it's built on the ability of small and medium sized farmer and the small merchant class and have a certain amount of independence. Today's economy is one that is shifting more with international ownership and the

payrolls are controlled outside of our borders of our nation and therefore payrolls are controlled outside of our borders of our state and nation. The ability for people to have some sort of control over their future becomes less and less on their own businesses and therefore the ability to say no to various things becomes weaker. The stability of the economy is what we have got to focus on and I'll stop there.

MR. MAJORS: This gives us a good starting point when we listen to these presentations and discussions. Hopefully they can give us some additional information. Does anyone else have any questions about the Senator's comments and about his remarks? Carthan, do you want to introduce our first speaker?

MR. CURRIN: I thank you Mr. Chairman, members of the task force, before we get into the presentations, it might be helpful and helpful to you all to see this chart before you. It talks about our future. I thought it was important that you know where we stood the past couple of years. It's pretty self-explanatory and I have a more detailed analysis of our projects. If you'd like to have that information, I'll get that to you.

MR. MAJORS: This is a snapshot of where we been and not necessarily where we're going. Where the trend is now because it's moving, it's a moving picture all the time.

MR. CURRIN: To date, the Commission has provided close to \$250 million in indemnification and economic development projects which, of course, are the two major focus areas.

From your last meeting and in your packets is the statistical data requested, it tells not one of the best stories but from unemployment rates to education that information is in your packets.

Mr. Chairman, our group presenter will be Mr. Robert Goldsmith with the Southwest Virginia People's, Incorporated in Abingdon, Virginia. He will be discussing an issue that his organization has been working on in Southwest Virginia and he'll give us his perspective on the region as a whole.

He'll give us a perspective on the region and the local level and some of the successes and some of the leverage that that organization has participated in. So at this point, Mr. Robert Goldsmith.

MR. MAJORS: Before you start, let me just say that at this point the way Tom and I had sort of talked about the way we'd handle this, we're asking each of you to make a short presentation then we'll have an opportunity to ask questions and hopefully then enter into some discussion with all of us, with all of you as well. As you make your presentation, we would like to have the opportunity, if someone raises a question, if someone raises a question from within the Task Force, we can interrupt you at that point and we'll try not to be totally disruptive of your presentation but we would like to be able to pursue that question as well. I think that will be helpful for us as we go forward. Yes, sir.

MR. GOLDSMITH: Thank you. Before I get started, I'd like to say, I want to touch on the community development initiatives that you're getting started in southwest Virginia a little bit later in my presentation and then we'll add that in. We'll work with what we're doing currently. First of all, I need to tell you a little bit about the organization that I'm working with and I think that'll shed some light on what we're talking about. And that basically will cover about everything that we do.

First of all, we're a non-profit agency and we're community based and our mission is to provide opportunities for low income people to improve their lives and lives of their family and the community. The approach we take in everything we do is a partnership. Our board structure and all of the programs that we operate is to bring together people from all different parts of the community to address whatever issues we're working on. A third of our board comes from local government and a third of the board comes from the clients that we serve, and a third of the Board comes from the private sector, education institutions, organizations, organizations such as a laborer. We tried to bring together in the board an organization that reflects the communities that we serve and brings together a lot of different perspectives that kind of underlines

everything that we do and reflects our philosophy to do things to people or for people and helps them do things that they want to do for themselves.

I think particularly interesting to me and something that I have supported and an idea that I've been impressed with all the way back to my days in college when studying economics. These projects they would come in and provide economic development for some third world country. They built these factories and paid people more than people in those areas have been making but what they found was they had dependable workers and they would work for a few hours a week and then they would go home and show up again. So they raised the wages a little bit and they found that they worked less. The reason for that is that they didn't understand the culture and the reason for all that is they found that in their culture they didn't need to live on the income they got as it went up or as it was higher, all they needed to live on was a certain amount and once they made that amount that they needed, they would stop working. And so it's very important to understand the culture of people. It's important to understand the culture of the area and it's important to understand the people you're trying to assist and their goals and help them obtain those.

Another thing you have to understand is that there's no silver bullet. There is no one thing that's going to solve all of our problems. If we had all the resources that we need for anything that we're trying to do that would not enable us to be successful and achieve our mission. To address one of those challenges and to avoid one of the other challenges and ignore the other is to waste effort and resources. When you talk about economic freedoms and opportunities and what it says is that there's an interaction between these things. You can develop these things by addressing several factors and if you don't address them, they work against each other; they have to work hand in hand. An example would be something like if you looked at Buchanan County, Dickinson County, Russell County, Washington County, City of Bristol. If you look at a place like Buchanan County, something like two-thirds of the households in Buchanan County receive some sort of social security benefit. They're either old

or they have some type of disability or health issues and there's almost no public transportation in the County. If you look at education, the education system there, it's not very many opportunities there and a lot of it is directed toward producing coal. If you do any economic development projects there, and you create a lot of jobs you'd have to reform the education system to help the workers and help people with transportation and improve the health facilities and develop some type of facilities for childcare so people could go to work everyday.

That's the approach we tried to take. We are a multi-purpose organization. We have about 35 programs ranging from childcare, childcare development, youth education programs, housing development programs, job training programs and economic development programs and it takes all of these things working together to really address the individual needs and it takes all of these things together to really make a difference in the lives of the community.

I want to focus mainly on the community economic development issue and I think that's mainly what you're interested in focusing on then you can redirect me, if not. A number of years ago I became convinced and as Senator Hawkins was saying, what he said is correct. That in order, we've missed the boat in this country when we think about poverty and when we think about low income and low income communities. We talk about the economic health of our country and our state and our regions. We talk about GMP and income where assets are really much more important. Income is what you need to get by on day-to-day and that meets your basic needs with that. In terms of changing the way that we think from the way that we obtain these assets makes the difference, that's different than just income.

About a dozen years ago, my organization first started working in the coalfields and we were first of all in Washington County. When we started working in the coalfield, we immediately saw we needed to get involved in job creation. We looked at the resources that were available for job creation in our region and what we found was that there were not a lot of resources available for people that wanted to start up and maintain and expand small businesses. Most of

our economic development initiatives had to do with our luring plants in of major corporations and developing the major employers rather than helping grow small businesses. So that's the approach we've taken trying to help grow small businesses. Our first initiative was micro enterprise development program. Over the course of the last eight years or so we've loaned out about \$4.5 million dollars creating 500 jobs in the region. These are all locally owned businesses and they're businesses that are not going to be moved across the state line or across the border to another county. They are going to stay where they are because the owners live in the community so they're not going to move.

DR. MORRIS: How did you get the money to do this?

MR. GOLDSMITH: Mainly from the government. I was talking to Neil Barber before we got started about being so dependent on government funding and it's a tenuous position to be in. Something like 85 percent of our funding comes from the federal government, federal and state government. When we have an economic downturn and when the state does not have resources available to put out, then it hurts us. I'm hoping to get a chance to talk to secretary Schewel here today about the potential impact on the budget cycle. It's a real scary situation to be in but I think that would be true no matter where you got your resources. What we try to do is diversify as much as possible. For economic development projects and for the micro enterprises projects; it comes from mainly two places. Community development block programs and from the small business administration. We started out with a housing and community development I think that was when Neil, we started out with some community development block grants and then got the enterprise program going and once we got established, then we would go to the, we went to the SPA and borrowed over \$4 million from the SPA and we lent it to entrepreneurs in the region.

SECRETARY SHEWEL: Would you describe that micro enterprise program in a little more detail? What kind of business enterprises did you end up with or did they tend to, what did they tend to do and what has been successful and what was not successful and why does it work or not work when it

doesn't work?

MR. GOLDSMITH: They type of business or the type that kind of, industrial classification is just as broad as you can think of. I have no idea how creative entrepreneurs in our region or before we got involved with them. We funded everything from convenience stores, a pallet factory, we funded, just last week, the development of a little machine that you pull around behind a tractor and you use it on the baseball field. Lots of service industries. Most of these are two and three person operations, we own nursing services.

SECRETARY SCHEWEL: What is the typical loan?

MR. GOLDSMITH: The typical loan right now approaches \$30,000. Our maximum up to this point has been \$35,000. The typical loan will tend to approach whatever the cap is. At one time the cap was \$25,000 and we were averaging about \$20,000. We see a need to raise that cap because a lot of businesses that we deal with that are not bankrolled, they can't go to a community bank and get a loan to start up a business because they need more than \$35,000. So we're attempting to get the funding to increase and be able to make loans above that \$35,000 cap.

SECRETARY SCHEWEL: Do you think someone who would need \$30,000, do you think that person would be bankable from a commercial bank, the transaction cost to make a \$30,000 loan would basically mean that they wouldn't get much of a hearing.

MR. GOLDSMITH: Some of both, we got a couple of bankers on our loan review committee and we ask them is this something that you would make a loan for and if they think it is, then we will not make the loan. Our resources are scarce and we want to direct our resources to places where other resources will not be available. If people can borrow from a bank, we try to not make those loans and let the bank do it. Part of the transaction costs, it takes the same amount of work to service a \$30,000 loan as a \$130,000 loan but part of it is that our agency's mission has to do with low income people and there's a lot of people we're working with, even our low income or all of them are low or

moderate income. Many of them have credit issues.

In terms of what works and does not work, I couldn't tell you that by industry but I can tell you that we try to do social work through loan funds that will not work. We take a very hard nose business approach to planning and managing this micro enterprise program. If people don't pay us, we go after them because if we don't do that, then it's going to be a grant program and not a loan program and we found out that works pretty well, that if you walk away from your loan, we go after people. We just don't let people do that. Since we do not let people walk away from our loans, we're not doing anyone a favor by making a loan that we don't believe that's going to be a good one. We get some collateral and we don't get a hundred percent collateral but we get some collateral for every loan. We do due diligence. On the loan applications we try to satisfy ourselves that they have the capability to repay the loan.

We did early on; we made some loans that we should have known better. If we have people that have no assets and are way in debt and their business projections don't appear realistic, then we turn those down. Because we wouldn't be doing them any favors by, we wouldn't be helping the community and we don't want these people to get in more debt for something they can't pay back later on.

SECRETARY SCHEWEL: You have to make a loan to borrow. Do you provide other support services to borrowers or do you tend to say, when you have a borrower make a loan we hope that they will make it?

MR. GOLDSMITH: We provide a lot of training and technical assistance before we make the loan. We have a class that we conduct throughout the region that's called business basis. Probably ninety percent of the people that take that class come forward with a loan application. We think that's been a big success. If we are persuading them not to go into business because they are not ready to do that, that's just as much helping them as going into business. We also provide a lot of technical assistance one on one with the businesses once they, after the class helping them put together a business plan to make the loan and then

after we make the loan when they're in business, I think one of the best things about the SPA micro loan program, we actually borrow the dollars from SPA and then they give us a quarter to pay for the technical assistance. That's basically how we afford to do that. A bank could not afford to do that kind of thing but it takes that intensive case management service to enable those businesses to be able to be successful.

At one time we had something called, we at one point had something called an incubator program and I'm not sure how successful that has really been. We were purchasing services for entrepreneurs and helping them get accounting services and legal services.

SENATOR HAWKINS: When you mentioned the business incubator, do you have access to the business incubator or do you always improvise?

MR. GOLDSMITH: There are other incubators in the area. Some of our clients use that but basically, they're out on their own scattered throughout the region and we help them and connect them with services but it's not in the business incubator kind of environment.

SENATOR HAWKINS: This rivalry between the two entities within the business incubator and those outside, which has the highest survival rate?

MR. GOLDSMITH: We really haven't done that kind of analysis Senator Hawkins but I don't think there's a substantial difference but we really haven't looked at that well enough for me to say with any kind of surety. The micro enterprise was our first initiative in terms of community development. What we found is that we were not reaching the needed population that we wanted to reach with that. Thinking about who we are and what our mission is, you had to be fairly well off to be ready to go into business like opening a store or going into a manufacturing type situation. You had to be fairly well off and fairly sophisticated and have things together pretty much. So we developed another initiative to help people who were not in that situation who had some capability to

market a product. We had a marketing program to market crafts made in our region throughout the country and throughout the world. We go to wholesale product shows and take samples with us and then come back with orders for the sample. The beauty of that product is that when somebody makes something, it's already sold and we have a few prototypes and if it's a good show, you can come back with a few thousand orders for several of those products and then be able to tell people produce these things when they're sold. That's really been a limited success and a few people have made a substantial amount of money but basically most of the producers have made small amounts of money and it's been supplemental rather than making something that you can support a family on.

DR. MORRIS: Do you know or if somebody else in this room know how many organizations do this same thing that you do throughout our region and have the experience and the network in place to do what you're doing?

MR. GOLDSMITH: I think in terms of Virginia and in terms of micro enterprise, there are –

MR. BARBER: There are not that many micro enterprise programs in Virginia or Southside and southwest. People, Incorporated is probably the primary one in the southwest.

MR. GOLDSMITH: As far as micro enterprise, I told you our service area was. For our community development, we work in all planning districts; one, two and three. There is a micro enterprise program next to the new river valley. I don't know of any in Southside.

MR. MAJORS: One is starting up, a business development center. I don't want to cut you off. We do need to make sure that we get an opportunity for everyone else to be heard. If you could finish your presentation in the next three or five minutes, we'll continue on with the discussion as we go on.

MR. GOLDSMITH: Let me finish up with a new initiative and talk about a new initiative that we're involved with which is a community development venture capital. We're going to make our first investment next month in a locally owned business. Actually they've been in business for about 8

or 10 years but really just on a development level and they're going to be in production. It's a company by the name of Pen Optics and they're going to produce a contact lens for people who have had cataract surgery and it will be in Abingdon and it will employ about 100 people. Initially they will be employing about 100 and then hopefully expand to about 300 later on. We're investing about \$350,000 into that, a pure equity investment. We've also leveraged \$1.75 million of equity investment from the equity fund in Oakridge, Tennessee. We are struggling to keep them in the area and I think we're going to be successful in keeping them in southwest Virginia and Tennessee and places like that across the line by putting together a government opportunity fund location for them to locate in southwest Virginia. This business will become the anchor for a business and technology park for the Town of Abingdon. I think when they first started thinking about their business and technology park, they were thinking of computers and the Internet and things like that and it looks like it's going to become a biotechnology park. The community hospital in Abingdon is looking at putting a biotechnology business there. This will be literally our first venture and it's always a good idea not to talk about things until after they've been a success rather than when they're still on the drawing board but this is something that we're excited about and if successful, it will help create some major assets for the area and create a lot of jobs that will be a living wage job and it will be a good job and a few benefits.

So I guess I will close with that and I'll be happy to answer any questions anyone has.

MR. MAJORS: Thank you. Unless someone has specific questions now, our next presenter represents another part of the United States and can give us some advice on programs that have worked, that have been found to be successful. Carthan, will you introduce our next speaker?

MR. CURRIN: Mr. Chairman, the next presenter for the Task Force will be Mr. Lewis Whitfield from Tupelo, Mississippi. Welcome Mr. Whitfield.

MR. WHITFIELD: I thank you, I appreciate it. I thank you very much for inviting me to be with you. I know this is and I appreciate you're being here right after lunch on Sunday afternoon. I'll try to keep my remarks short and hopefully stimulate some thought on your part about what works in your part of the country and what works from our experience. I have been a banker for 30 years. I see myself really more as a community investor of time and energy. I suspect one-third of my time over the past 30 years has been involved with this type of thing. I have been on the ground with a lot of these programs and projects.

I'd like to tell you that Tupelo's story is unique but it's not unique for what we have accomplished because a lot of communities have accomplished much more than Tupelo has thought about. The Tupelo story is unique simply because we have achieved excellent results with very limited resources facing somewhat seemingly insurmountable obstacles from time to time. In 1936 Tupelo was devastated by a tornado that wiped out 800 homes, killed 236 people and by the end of World War II, Tupelo was languishing in one of the poorest sections of the poorest state in our nation. It's still the poorest state in our nation. It's agricultural base is suffering. Other than a few low wage garment industries, employing chiefly women, there was no industry. The people in the community were undereducated and underemployed. The area had enjoyed no special advantages, no river, no university, no state capital, no fertile soil, not even a decent road.

Today, 57 years later, Tupelo stands as a model for community and economic development and it benefits from a strong and diverse economy. It's citizens enjoy a good quality of life.

Per capita income in Lee County, our home county, has risen from 52 percent of the national average in 1950 to 87 percent in the year 2000. Lee County's population is 76,000 and that includes Tupelo's 34,000. Lee County enjoys 18,000 industrial jobs and has total jobs of 57,000, so I think you can see we are the regional center. Tupelo is seventh in population in Mississippi but it's

fourth in retail sales and third in bank deposits. North Mississippi Medical Center Hospital is the largest hospital in America outside of a metropolitan area. It's 600 plus beds and 240 positions in a town of 34,000. Tupelo enjoys a professional symphony orchestra, an art museum, community theatre and a 9,500 seat coliseum that can draw top entertainment. Tupelo's story has been told on the front page of the Wall Street Journal, on national public radio. The National Civic League has named Tupelo an all American city three times. Tupelo has been named the model for community and economic development by the U.S. Department of Agriculture, the U.S. Chamber of Commerce, the Federal Reserve System.

SENATOR PUCKETT: What was your population in 1950 or so?

MR. WHITFIELD: About 8,000.

SENATOR PUCKETT: City and County?

MR. WHITFIELD: I'm not sure about the County. I'd say the County was probably 15,000. I'm going from memory. I'll see if I have better numbers than that. One of the positive lessons learned from this story, let's stop the bragging for a minute and see what worked and maybe what has not worked. I want to talk about seven factors that have worked. The first one to me is the most important and that's a totally, totally committed core leadership group that has been the driving force of everything that has been done in our area. This leadership group is characterized in several ways in my mind. At first I would say early champions, risk takers, opinion makers and opinion shakers. What I mean by that is early in the process when community development didn't mean anything, a couple of people stepped out with their fortunes and time and said we're going to make a commitment and make this a better place. That kind of spirit has carried over and we still see that today and we see a larger leadership group. We still see risk takers within that group. That risk taking is maybe higher risk than it was 50 years ago. This core leadership group has been dominated by private sector leaders and that's not to say from time to time public sector leaders are not part of the group. Typically the private sector leadership is the driving

force and they drive the engine in northeast Mississippi. Public sector, through a couple of organizations has worked closely with business interests to provide a unified course of action.

Another thing that has characterized this is the notion that local leaders must set local priorities. We don't chase every program that comes along. We want to set our own agenda and look at our own needs and get a better plan. If we can utilize something from outside, we do it but we believe that local people have to set the local priorities. I think this group has been characterized, and particularly the business people by having courage and strong involvement and public issues, like water supply and city government reorganization and education. I believe this group has believed and I strongly believe that if you're going to have sustained economic and community development, you need to have healthy organizations that do this. In other words, you've got to have something in place that can change and react to changes in the economies and in the community for those organizations whether it's one organization or ten have to be helped. I think this core leadership group has been confident that they can keep those organizations healthy and works to do that. I think this leadership group has been characterized by cooperation rather than narrow self-interests and competition.

I'll give you an example of that. In my home county there's six banks, 33 branches. We compete strongly for deposits. When it comes to public issues, we lay that aside and cooperate. I know of several counties that have lost industrial projects because two or three of the local banks want to go out and talk to them about the account before they even get there. That sort of competition has driven some of these people off. We'd rather see an industry come to town and have the other bank get the account because we know how important that is to the overall development of the economy.

MR. MONTGOMERY: Are they community banks or chain banks?

MR. WHITFIELD: We have two that are headquartered there.

One of the banks that is headquartered there is in the top 50 in the nation. It was the Bank of Tupelo 30 years ago and it's grown to a \$10 billion organization. Two of the biggest banks are locally and the rest of them are owned from outside the community.

Another thing that has characterized this group is the fact that it has recognized that this is a long-term project. There's not going to be any easy answers to us and there's no Santa Claus out there dangling money or anything else that's going to make us work through these problems and opportunities that we have.

Finally, I'd say that this leadership group is a model of courage, patience, persistence and dedication to the overall community excellence. There is great community pride and spirit

I think the second factor of the seven is the fact that we have a single economy, a single economic development organization. I'm talking about Lee County. We have a single economic development organization. Too many times I've seen counties, for example, on the Mississippi Gulf Coast with four or five Chambers of Commerce, economic development authorities, everything is fragmented and nothing is unified and there's no focus. We believe it's important, in our case, to have a Community Development Foundation, which is a combination of the Chamber and Economic Development Authority, the umbrella organization. It's driven again by the private sector but we have public sector members on the board by virtue of their positions and we work things out, public and private issues under the umbrella of the Community Development Foundation.

The third factor I'd say is that long-term success has been dependent on nurturing these effective organizations that I talked about a minute ago. To me there's several key organizations and some of the obvious ones are like the public school system, city or county government you would know instantly but there's the Community Development Foundation that's critical to our development.

Almost 50 years ago George McLean who was a publisher of the local paper went to the three banks at that time and called them together and said our Chamber of Commerce is not working, it's too narrow, let's eliminate that organization and get something broad based and that's how the Community Development Foundation was formed. Today it has almost 1000 members and a tremendous budget and a lot of industrial property. Create Foundation is another organization which is a community foundation and there are about three or four hundred of those across the country. This particular one happens to own the newspaper. George McLean left his newspaper to this community foundation and we get the main subsistence from the dividend from that paper. What this has done is foster the original cooperation. I'll talk specifically in that regard in a minute.

Leadership development and endowment building. Regional cooperation, leadership development and endowment building.

Then finally, northeast Mississippi, this is the parent company that's owned by the community and it owns that hospital that I described a minute ago and it also manages and it's headquartered in Tupelo and it also manages a total of six hospitals and 50 clinics in northeast Mississippi and northwest Alabama. Total revenue is approaching \$900 million and the net income is about \$45 million a year, which is plowed back into facilities and information system.

The fourth factor is developing a long-term plan but working on project-by-project basis. Every ten years the Community Development Foundation brings in an outside consulting firm and they look at the area and they look at particularly Tupelo and Lee County and also the northeast Mississippi area from a strategic viewpoint. They tell us where we are weak and what we need in the way of incubators, the types of industries we might attract for our transportation system. They look at a full outline of our situation. Then we take that study and determine what we think is relevant and then year by year we base our operational planning on that strategic model and we do it every ten years. I think the project-by-project basis is important because even though this is a long-

term process, you can get successes and particularly early successes and publicize those and celebrate those I think that builds more success. People tend to want to be part of that kind of pride and success.

The fifth factor is taking a regional approach to development whenever possible. I'm going to mention this weakness in a minute but if you're familiar with the commission on the future of the south, you know you are because you got one of the members coming today. We took the 15 or 16 counties in our primary marketing area and formed a commission on the future of northeast Mississippi. We pulled together one or two top leaders from that 15 or 16 counties and the staff pulled together all of the economic development statistics. We had outside research done about opinions and so forth and they're developing a program of action, a broadband access and I talked to someone here earlier about that, and we're working on that as one of the projects. That's been really critical because as a regional center, many of the surrounding counties including Tupelo and Lee County. This is an effort to break down those kind of barriers and really try to accomplish something from a regional standpoint.

Create Foundation was founded and it's something I think is pretty smart, something you might think about. We're going to go out to two or three counties a year and we're going to roll it out to all 15 or 16 counties in time, within four years or so. We're offering those counties a hundred thousand dollars if they raise \$200,000 locally. Form an endowment fund with the basis of \$300,000. We told them we don't want the funds stopped at \$300,000. We'd like you to build it as big as you'd like. Create Foundation will manage the money and you'll have a local board and you'll decide how you want the income spent in your county. You will recommend that to the Board of Create and Create will in effect, give you the income back. It's obviously got to be for worthwhile public purposes. I think you can understand what I'm saying there that this is a tangible way to say to those counties, look, your situation is unique. We know it is and we can't plan it from Tupelo, Mississippi but all we can do is to give you some resources and you'll have an endowment fund for you so you can use that income

and do what needs to be done and what you think is important in terms of building the community.

The sixth factor I'll mention is building an effective public and private partnership and I guess we can talk about this all day long.

Let me tell you a story that I think epitomizes this for us. In 1983 a group of parents assembled and they said look, the Tupelo schools have done a pretty good job and test scores are fair and when you look at the money being spent, you're doing a great job when you analyze that but could they do a much better job if we put some private money in the public school. So an association was formed for excellence in education. Over the past 20 years, it's put in about \$100,000 a year of private money in public schools. It's not just putting it in the budget but work with teachers and administrators who mutually agreed upon projects to benefit the school system. Buying computers might be one, sending teachers to further education, remedial work, there's been a host of projects that have been successful.

Two years after that in '85, one of the members of the Association said this is nice but couldn't we do a lot more. He convinced the community in effect to try and not compare ourselves with the State of Mississippi. Say look, we want one of the top ten public school districts in America and how can we get there. He convinced the city to put an extra \$2.5 million into schools to cut class size in English and Math in grades 7 through 12 and other things that were important. All the time, the expectations were rising for performance by the schools. The school administrator, you know what we really need now to do is fix our facility. The school district is growing and it's getting better. We said how much do you need and they said well, we really need \$17 million to build a new high school. Nobody's going to pass it because you need 60 percent. We said look, you tell us what you need and we'll get it and they said we need \$17 million. Then we passed a bond issue, the largest in the State of Mississippi schools at that time. \$17 million in the late '80s with 87 percent approval. As a result of that, the Ford Foundation awarded us one of the top ten awards for state

and local government initiatives for our public and private partnership in education. We took that money plus an anonymous gift and built an endowment and the income, which will be used for the Tupelo school. L.B. Hancock of Hancock Fabrics then donated more than 50 acres for a new high school, which has 12 buildings on it and looks like a college campus. He also donated \$3.5 million worth of property and the income from that built a center for the teachers and administrators to use to improve their skills.

Two or three years ago we passed another bond issue of \$30 million with 69 percent approval. We built three new buildings for high school and two elementary schools and completely renovated the rest of the schools.

DR. MORRIS: This was Lee County?

MR. WHITFIELD: Just Tupelo, there's two systems. Five of our schools have been named, they've been named by the U.S. Department of Education, the test results are up and we won academic honors, 17 years in a row in Mississippi and placed in the top half of the nation in that competition. We're not there yet and I'd be lying to you if I told you our schools are great, they are not but I think the expectations are high. I don't think we would have gotten to where we are today without the private involvement.

The seventh factor is continuing to build leadership ranks, to continue to emphasize education and training. We know the economy is changing so fast that the best thing to do is to get people a great basic education. This is what all the industrial say and all the business people say. Teach people to speak properly, write well, basic math, come to work on time, do all those basic things. Then be aware of the fact that you're going to be retrained four or five times in your lifetime. We're working on a basic education and also working through the University of Mississippi and a community college and another college to provide the training skills needed as well as a basic education.

What has not worked? What has not worked are ad hoc efforts that don't have a basic organization to sustain them. Years ago agriculture needed diversification and a local banker worked out a program to do that but there was

no organization to sustain that effort and it fiddled out after a year.

Another factor I talked about it earlier is I think there's too much jealousy. If you pick any geographic area of the country, any particular region of the country, you're going to find jealousy among people. We're jealous of Jackson, Mississippi and Memphis is jealous of New Orleans and New Orleans is jealous of New York and it goes on and on.

SENATOR HAWKINS: Is Tupelo part of Lee County?

MR. WHITFIELD: It's part of it and I realize Virginia is organized differently. This commission on the future of northeast Mississippi we think is an important mechanism for breaking down that jealousy and that envy and to try to develop meaningful programs and have everybody be a true partner at the table. Our public sector is not any better than anyone else's. It's been pretty spotty. As a matter of fact it's fairly good right now but again, I'm probably prejudice in saying this because I'm a member of the private sector but we believe the private sector leadership is the driving influence in whatever we can be able to achieve. If you waited on politicians and excuse me politicians that are present, I mean if you waited on politicians, you've got a long wait. Business people will tend to be more risk takers than politicians and that's been our experience and I'm sure that's not true in Virginia, Senator. That's been the experience in our area and I think it's important to realize that.

Our racial participation, our ability to integrate women meaningful into the established type organizations has not been good and I say we still have tokenism both ways. If you look at a typical board of an organization, whether it's a hospital, Create or whatever, you'll see some women and a few African Americans. Mainly you'll see people like me, white, middle aged, businessmen. While we have the resources that others do not and perhaps to get things accomplished faster, I think that the long-term health of our community we can do a much better job when it comes to that. Thank you.

MR. MAJORS: Questions.

SENATOR WAMPLER: If you look at the two regions that

produce the tobacco, their economies have not changed because, but there's two areas I'd like you to comment on. One would be such a workforce that relates to no high school diploma and not even a GED equivalency. Did you focus on that area or what did you do to make them marketable or match a skill set?

MR. WHITFIELD: I think the first step was try to get the men off unsuccessful farms and into meaningful industrial jobs. Remember I'm going back to 1950. We had people trying to farm these little farms that didn't have fertile soil so if we could get them into meaningful jobs, some men to go along with some of the industrial jobs for women then we could boost the economy and therefore have more money to put in the schools. And over time we could cycle up and the people that came in off the farm didn't have the skills to do anything but low wage jobs. Some of them could be trained and some had skills from military service. Over time as we got the industrial base, we got more tax base and therefore we could put more money into the school system to build up the skills necessary. The industrial development and community development along with education went hand in hand. We didn't step back and say look, we got an uneducated workforce and what we need to do is this or that. We started bringing in jobs first and then we could worry about the education.

SENATOR WAMPLER: I don't, I'll try not to give you a long dissertation on this one because it's rather open ended, however, the broadband in particularly the last mile application. How much emphasis do you all place on that and is it a competitive advantage in today's economy?

MR. WHITFIELD: We believe it's critical, we don't have it and we're working on it through this commission. Right now it's a \$10 million project. There's fibers strung but not lit. It's going to run through two universities, a \$10 million project that involves federal money if it's ever pulled off but yes, we think it's critical. As far as the last mile we haven't figured that one out yet.

SENATOR HAWKINS: Going back to your original statement, what advantages have you all found -, do you have any control over it?

MR. WHITFIELD: Actually we don't take any control of it but I'll tell you that it has been a wonderful thing. George McLean who came back and bought a bankrupt newspaper, this was back when newspaper's weren't popular and he wore a white shirt with an open collar and drove a white Chevrolet and black tires back in the '60s. The man did not care about material things. He turned down millions of dollars for the newspaper. He could have sold it very easily. He said no, the community needs to own their own newspaper. How can I accomplish it. The only way he could figure out to accomplish it is set up a community foundation. He accomplished two things that way. He gave people a way to give money to the community but the main thing he accomplished was that when he died, the stock in the newspaper was going to the fund and you could be sure that the money remained and he made sure the paper remained independent. He made us all sign pledges and like that. Obviously, we could sell it if we wanted to from the endowment standpoint we would be better off for it.

SENATOR HAWKINS: In order to change the attitude of the county and the city where are you all located, what part did the paper play in selling what you're trying to do?

MR. WHITFIELD: Absolutely critical today and yesterday. Critical, critical today, critical to yesterday and critical to tomorrow.

MR. LOOPE: How did the City of Tupelo and Lee County execute its business recruitment strategy for job creation and outside investment? What role did entrepreneurship play in your economic transformation?

MR. WHITFIELD: Initially it was a very crude effort and sort of word of mouth or go find somebody, do something that maybe had a little help from the railroad at one time. As it became more sophisticated and got into the computer age, we were able to target industries that these outside consultants said we were best to try to target. Today, for example, there's a big Nissan plant going in 170 miles south of us in Jackson. Toyota is looking at building a plant down in Alabama or northwest Mississippi. We've already picked up two suppliers from that county's efforts so we're focusing on that.

As far as entrepreneurs, we just kind of let them grow except the newspaper again had a subsidiary that built warehouses and this was back in the '60s. They were building these to try to build more revenue so the paper would always be independent and nobody could ever tell the editor or publisher what to do or what to say. They built these warehouses and in truth, they became independent. Today we're getting ready to build our first official incubator and we really still don't have a big strategy as far as entrepreneurship. However, we went through a little period and when the Senator mentioned this, I was thinking back. We found a professor from Rutgers University who happened to have a farm outside of Oxford, Mississippi and he wanted to come down once a month. He came down and then we formed two groups. He had an inventor society in Tupelo, Mississippi and a venture capital group. If anybody had an idea they could come and present it to the staff and the professor and if there was something there, he could help them along. In the venture capital group what they did was assemble people who could invest in projects and they helped people build business plans through the local community college and then those entrepreneurs would come before the panel and make a presentation. The panel didn't vote on whether they did it but if three of them wanted to do it, he just got with the guy afterwards. We had several businesses like that. The biggest entrepreneurship that happened in our area was really the furniture industry. A gentleman moved from Chicago and he moved 25 miles away and built a furniture company. While we had a number of people cycle through that, Nicky Holloman who lives in Tupelo and is now the CEO of Furniture International owns Lane and Thomasville, he and another guy formed Action Industries and 50 employees in the 70's. They sold to Lane and we got 4,000 employees in that industry. If you look through northeast Mississippi there's furniture entrepreneurs everywhere, that was a spin-off from that effort.

MR. MAJORS: In yellow, is this your area here in yellow?

MR. WHITFIELD: That primary area, it varies. If you're talking about retail or the hospital, that's kind of a generic northeastern Mississippi.

DR. MORRIS: You talked about jobs creation and education, can you kind of waive a value on that, that's what we're looking at. Creation of jobs versus this private public partnership, then tying it to the public schools.

MR. WHITFIELD: Most people when they come to Mississippi think we're all barefoot and stupid to begin with. We've got terrible international, it's hard to get people there in the first place. The first question that a potential employer ask our people is tell me about your education system. We got a pretty good story to tell. That's point one. I think point two is that every time we've gotten the community involved in putting time and money into public education and without stepping on the toes of administrators in terms of trying to tell them how to run the program we've been successful. It has been a true partnership. I think whether you have entrepreneurs or whether you're chasing smoke stacks, if you got an educated populous or workforce, you can do whatever you want to do. You'll either attract new businesses in or you grow them.

DR. THOMAS: Could we get additional information about the sorts of things that you all did in working with the public schools?

MR. WHITFIELD: Yes.

DR. MORRIS: I think that would be helpful. You're supplementing the public school budget by making certain opportunities available that wouldn't otherwise be?

MR. WHITFIELD: Yes.

SENATOR RUFF: When you talk about the schools, are you talking about the Tupelo schools?

MR. WHITFIELD: I was talking about the Tupelo schools and talking about 7,000 students and talking about Lee County and there are some other school systems so there's 13,000 students in Lee County. I wasn't referring to Lee County I was talking about Tupelo.

MR. ERSKINE: Mr. Chairman, given the importance of this core leadership group, what do you all do to identify the next generation, recruit them and help them to become involved?

MR. WHITFIELD: Excellent question. We had a traditional leadership program in place about 20 years ago. It was the same typical kind of leadership program when you picked younger people. They applied for the program and you picked 25 or so and gave them some basic training and leadership skills, communication, team building and assigned them a project. Broke it down in small groups and assigned projects in the public sector to work on. Then branch that out to an alumni group to follow on. That was successful for us for a few years and then it sort of petered out. We went through three or four years of reassessing the situation. The Create Foundation took over that opportunity. They looked at the center for creative leadership down in North Carolina and looked at several programs but it centered on the Covey Program and I was opposed to it at first but I think it was the right thing to do. The Coveys Program makes you focus on yourself as an individual. It's not team building necessarily. We put over a thousand people through the Covey Program. We sent people to the Covey Institute and we've had Steven Covey down. That's a good thing to do.

We have reinstated two programs and we got one that, an original program and an original leadership program and then we got one that focuses just on Tupelo and Lee County. It's the same kind of thing back through the traditional aspect of it. We're given skills and given some public policy, orientation. We're doing one thing a little differently; we're assigning each one of them to a community service organization for a year. They'll work with them either as a Board member or a layperson or volunteer to really get their teeth into public service.

MR. MAJORS: All right, we'll take a short break. No longer than ten minutes and then we'll reconvene. Thank you.

MR. CURRIN: We'd like to welcome Mr. Ed Williams from Grant County, Washington. He will be describing the economic initiatives in and around Grant County, welcome.

MR. WILLIAMS: Thank you, ok I'm going to take advantage of your

staff and Stephanie can run the PowerPoint presentation this afternoon. I just wanted to say thanks to the members of the commission ladies and gentleman for the privilege of being here. This turned out to be the weekend for folks from Grant County to be in Virginia for reasons I don't quite understand. I received an invitation originally from Ann Moore to speak to you and I have a Senior Design Engineer who has an invitation to visit the White House tomorrow and visiting with the Office of Technology Assessment and Science and one of those Agency's about what we're doing in Grant County with broadband technology and taking it to the home.

I think what we're going to talk about here is a little bit of a different model than what you have seen or what occurred so far because we didn't set out to do economic development. We set out to be a utility, I'm a utility executive and I work for a company called Grant County Public Utility District and I'll present a little bit about what that is and how that relates to our region. It will have some relevance to Virginia I'm sure because we are a highly rural area and sparsely populated and we'll get into that as we go along.

This is a picture of Grant County and we're located in the center of Washington State. Washington State is divided into a couple of parts. On the West side of the state is the part that most people are familiar with and it's the Seattle, Tacoma area where Bill Gates lives and Microsoft lives and Starbucks lives in that part of the world. On the other side of the state is where the Republicans live and it's highly rural. I live on the Republican side of the state. Grant County is pretty much in the center of the state as you can see from the map, we're about a 2 ½ - 3 hour drive from Seattle and in the other direction 2 hours away from Spokane we feature a lot of agricultural things.

I want to get into some of the things we're famous for and apples is one of the things we're famous for and Grant County grows a lot of apples. The next slide shows some of the dams we have on the Columbia River. Grant County is circled by the Columbia River and we own two large dams on the Columbia that's relevant to this discussion because those dams generate a lot of power and we

only use a small percentage of it. Not so small as it used to be, it's about 40%. The balance is sold off to other markets. A couple of years ago we were selling it to California and that was a wonderful thing to do. California was having blackouts and power, power prices were marvelous and we were bringing in lots of money and wondering what to do with it to some extent. That is somewhat coupled with what we ended up doing with broadband technology. The rest of the story is that within the Agency they decided to cap the power prices and we started to lose a bundle. It was great having lots of power on the upside and not so great on the downside. We're shelling out \$20 million a month or so right now getting and finding our way out of a long term power contract. Nonetheless we have large dams on the Columbia River.

There is a picture of the dams we have the Priest Rapids Dam and the Wanapum Dam and they're downstream from the Grand Coulee Dam but there's seven dams altogether on the Columbia beginning with Grand Coulee. Among some of the other things we do in Grant County is that we coordinate the power flow from the dams to various cities in the West. Portland to Seattle, to San Francisco so we have a fairly sophisticated dispatching center, which is also relevant to our high technology initiative.

The next picture shows the Cascade Mountains and Lake Shalan, which is just up the road from us a couple hours drive away. Washington State geography is very interesting on the East side. Grant County has a lot of stage brush and I wasn't sure what the attire would be today, at home it's t-shirts and shorts and I feel rather hot and sticky because I'm used to 12 inches of rainfall a year and about 10 % humidity. So this is a little different. North up through to the Cascades and I was in this area about four weeks ago. Flying into Roanoke was similar looking at the top of the Appalachian Trail and I would much rather actually be out there somewhere than here but that's ok and it's a pleasure to be here. This is very close to the Pacific Coast.

Grant County and let me give you some other statistics. Fairly large 2,777 square miles we have 300 plus days of sunshine and we have very cheap power

because of those dams. 1.8 cents was left over about two years ago and now it's about 3 cents per residential and the industrial rates are in that category. So there's affordable land the workforce that's available because we have a relatively high level of unemployment. The population is around 75,000 and median income about \$35,000.00 and the unemployment rate is relatively high and a number of families that are below the poverty line in Washington State. With that kind of square mileage and that kind of population density, the population density is something like 15 people per square mile something on that order. On average this is a very sparsely populated area. There are places in the County where you'll find five square miles with three people so the challenge in Grant County is geography.

We own and operate these four dams as I mentioned.

SECRETARY SCHEWEL: Do you own the Grand Coulee Dam?

MR. WILLIAMS: No, we own two other smaller dams and we'd love to own the Grand Coulee Dam and in fact we offered to buy it and we were turned down. It's not outside the idea of comprehension. There are several dams on the mid Columbia owned by various Federal Agencies beginning with the Grand Coulee. We own a lot of our transmission lines and distribution stations and we have over 500 employees we're the largest employer in the County.

A number of customers of the electric system, about 40,000 customers so we're probably a small to middle sized utility range but in the public power community owned area we're fairly large. The Grant PUD is a creature of the State of Washington. It is a public utility to a large extent but most of the laws the government calls municipals. It's a very large municipal in terms of as far as the geographic area. Not particularly large in terms of customers.

This was created in 1938 and in 1938 public utility districts were very popular in Washington State because the industrial utilities didn't want to serve the area it was very, very expensive. There's some really interesting analogs about fiber to the home and that last mile of broadband services today. The telephone companies today do not want to build that last mile of broadband

services. The investors in utilities then did not want to build that last mile of power services. They were charging \$20 thousand or \$30 thousand dollars per mile for the lines so the public utility district said we'll do it and we'll do it by all of us getting together and sacrificing somewhat in some parts of the County to subsidized building out in other places. Today we have sort of the same philosophy going on with broadband technology and broadband out to homes.

In year 2000 in Grant County cable TV service was fairly limited to the City limits. Outside the City limits you couldn't get very much. The cable TV you could get defined Seattle and Spokane stations as local channels and that's how everybody thinks about it because even though it is a two or three hour drive away that's kind of what you get. Telephone service was very limited and we had no competing local exchange carriers, no DSL available and still is not in a majority of Grant County. Some areas actually lack any kind of telephone service at all. I should mention that Qwest is our primary service and most of its local switches are up for sale. It's a good manipulation on the part of Qwest, they're offering you a switch for sale you don't have to upgrade the switch and so we know the game that Qwest is playing and we understand the game. When we actually took them up on it and said ok and when we said 'we'll buy them' they said 'no you can't'.

Internet service. About $\frac{3}{4}$ of the people have local access to Internet service providers and it was real slow and the rural telephone systems were not working terribly well. There was simply too much geography in Grant County. You just can't run a wireless Internet system that's spread all over Grant County and over a couple of thousand square miles and it just doesn't work. It works well in the metropolitan area and municipal areas but not sparsely populated areas.

In the year 2000 there was quite a bit of legislative discussion about whether PUD's could be in the telecommunications business. The issue here is that we were empowered to do electricity work and water but the law was silent on whether we could do telecommunications as our Attorney was telling us. We

said we had two choices and we could go to the legislature and get the law changed or we could just go do it and see what happens. So we ended up in quite a legislative battle in Washington State over whether utilities we could do telecommunication service of any kind. We were on one side and the other side was Verizon and Qwest and primarily Verizon. After a lot of haggling and end fighting we ended up with Senate Substitute Bill 6675 allowing us to be in the wholesale telecommunication business but not the retail telecommunications business. That's relevant to this discussion because what that does is force us now to be something of a public private partnership which wasn't really how we started out but where we ended up. In retrospect we think that's going to work out pretty well and I'll elaborate on this as I go along. Two years later we've run fiber to a lot of homes and businesses including schools, hospitals, court houses, police departments and some people that never had telephone services before. Some folks only had cell phone service and they had to get out of the house and go on top of the roof and this is a true story. They went up there with a cell phone and could call out and that was the only phone service they had. We turned out forcing some of the local incumbents to build telephone service to the areas that had not had it before because I think they were embarrassed. We got there with some of the fiber. These new businesses enabled there to be competition among the Internet service providers, the video cable companies and the telephone carriers.

Let me introduce you to our Zipp system.

SECRETARY SCHEWEL: I have a question, you said something about a wholesaler when you struck a deal with Verizon and so forth. Did you run fiber to the home and businesses, I wonder where the wholesale is?

MR. WILLIAMS: That was an original idea and we weren't sure that we wanted to be in the business of providing cable TV or providing telephone service, we didn't really come to any certain conclusion about that. We did feel that anyone who was going to run the fiber to the home and here's where the philosophy or different philosophy's get into the picture. Our vision in the rural

area is that it doesn't make a lot of sense for a cable company to come down and run a coaxial cable or the TV company come out and run the TV wires and then for somebody else to show up with some version of high-speed internet whether it's wireless or for satellite. It just didn't make a whole lot of sense. You could do this whole thing in one shot with today's technology and you can do it over fiber. Our vision of what we were going into here was an opportunity to bring a single connection to the house that would provide all these services in one shot and the technology today enables that to occur. I think one of the reasons we're getting a lot of attention is that we're probably the first to build out this large a system that does this. The technology enables us to do it or has for several years.

The related issue to that from the utilities standpoint was that we wanted to be at the house to do the utilities and we wanted to get there for automatic meter reading or demand site management and for communication with customer prime time day rates with a lot of interesting varieties with that and we wanted to communicate better with our customers. So there was two different philosophies that were working here. The business of wholesale and resale meant that we could not charge the customer in any way and we had no contact directly with the customer. All contact with the customers was at arms length through a service provider. What that creates for us is that we're sort of an Internet highway system. Some retail private provider has to get on board to provide telephone, cable TV and whatever other services such as high speed Internet services. Today we have something like fourteen different providers coming over the system. So this is where the economic development community piece begins to play out even though we really had no intention of doing community development and that was not our objective that's not what our primary objective. What's happened from that perspective is pretty good community development.

MR. MAJORS: You bill those providers?

MR. WILLIAMS: We bill, we only have actually about fifteen customers from our perspective. They have or let me give you some statistics. We have something like 3,000 subscribers and we call them subscribers because

they're not actually our customers, they're customers of the retail providers. We have 3,000 subscribers on our system today that's what we call an Open Access Fiber Network. Any private provider is enabled to be on the system to deliver services.

The next slide shows the fiber backbone. Really what this is a picture of our transmission system. What we've done and I should mention before I forget here, is that all this fiber is run overhead. We're not trying to put it underground, this runs overhead on poles. We're pretty good at poles and cross-arms and, we do all that sort of thing and we are utility people and that's what we do well. Since we own the poles we don't have to charge ourselves a contact charge. We run it on the pole and a lot of this is overhead and a lot of it runs in the back of our transmissions line system, which happens to run through most of the County. In a minute or two I'm going to show you another slide that shows how its connected all through the Northwest, the Power Association did the same thing a few years ago and a fiber network ran through their transmission poles which we have taken advantage of that system.

The next slide shows what we're doing in terms of speed to the house. What we have is the fastest broadband connection to the house anywhere in the country. It was connected to the house and I think that's what makes us particularly interesting for people like the Office of Science and Technology at the White House. When the telephone company talks about broadband services or DSL they're talking about some of the smaller dots up there. They're talking about here and here. Even the Internet is very fast but we're talking about what we have in the County is so fast that what you're seeing is the slow-ups on the backbone Internet. We actually serve a slow-down in Chicago because our stuff is really going fast.

That leads us to some very interesting results. For instance, Disney called us right after the first Harry Potter movie came out and they were upset because they said someone on your network is downloading Harry Potter movies and they're running it back on the Internet. They were running it on the Web and they said

'we know it's you because you can't do it anywhere else in the country'. They were right and we had to track down the person doing that and find out who it was. Those things continue to be sort of interesting side effects and things that I guess we haven't thought about in terms of how you handle the system so to speak.

Anne warned me she said 'don't go into the technical kind of things', but I have to go into a little bit of technical structure because it's unusual architecture. This is our architecture slide showing you how we do this. We build out a neighborhood at a time, the interesting thing about this build out is that you can build out a piece at a time and you don't have to do the whole thing at one time. Quite a bit of choices on how fast you build this out. We build at our first backbone and then secondly by neighborhood and we call the neighborhood HUB. For those of you that are technically oriented we're building out Cisco Internet Switch, high-speed Internet switch, the Cisco 4000 switch, then at the house and the connection to the customers home comes to a World Wide Packet an L22 device which converts the fiber at the house into telephone cable or Category 5 Internet connection to your computer or Category 5 Internet cable to your box sitting on top of the TV set. In a sense this is kind of an old cable system part of a build out when it comes to TV. You have a box on top of your television set. The interesting thing about the key component is that it turns the television set into a Web Browser. This is like Web TV based on that box on top of the television that interfaces with the fiber because the box of course, is a computer and the customer gets an opportunity to do Web Mail and some Web Browsing kind of things on the TV. It's very attractive to Senior Citizens because they don't want to learn all about the computers they're really interested in the Internet so that turns out to be an interesting sector of the market.

The next set of pictures shows some of the ways we do this and particularly overhead. This is showing some of the overhead. The previous slide showed that it is overhead construction and this shows some of the details of what we do in the neighborhood. Typically utility construction, people are out there

doing things on poles and putting some strings through boxes in the neighborhood, right of way easements for those things and it's a very typical sort of utility kinds of functions. This is the box that connects to the side of the house and that connects into the customer's home. The next picture shows you a box with the door open and shows some of the gory details inside the box. The yellow stuff is the fiber coming in and the blue stuff is the Category 5 cable going to the computer or television set or whatever at the customer's home. We have a company that delivers these to us. This is a typical installation site with the meter and all the equipment and what it takes to go to the house.

Then we have apartment installation and that's really more interesting because we have to make a decision about how much you allocate which customers and where but technically it's a little bit different about how you divide these things up and how you assign this and things like that. Hotel installation turned out to be a different treatment also and we had to get some special devices from the Worldwide Packets Company to distribute something to 50 hotel rooms or 100. It turned out that it worked very well and we're very pleased with how this has developed and turned out.

We also have a network operations center, which is directly analogous to our dispatch center because you have to manage where all these signals are going and what happens when you get congestion and this sort of thing. We developed our own network-operating center. We're in the process of marketing that center to other municipals and public utility districts around the Northwest so they can also take advantage of this investment. That turned out to be about a \$3 million investment, which surprised me. I told my boss it would be \$1.2 million. There's never an end with respect to some of the issues like software upgrades and some of those kinds of things. These are pictures that describe what we do as far as operating the network operations center.

The next picture shows what we do with the NOANET. This is the Northwest Open Access System. This is strictly PUD's. Seventeen PUD's got together to figure out a way to lease fiber from the power association that would

enable us to run a network all through the Northwest. The other dilemma you have in a rural area is how do you get interface to the Point of Presence. The Point of Presence in Washington State is Seattle, it has to be at the West End. Every City or region has it's own Point of Presence and I guess in Virginia it would be in Washington D.C. somewhere. You've got to be wherever that is. If you want to have direct connection to the backbone of the Internet it's got to be at that point. Our dilemma was how to get there without having to go through Qwest, Verizon, AT & T and they would all hold us up so to speak, in terms of the price of doing that. We finally solved it ourselves. We did that by sort of creating a specialized PUD for the purpose of running fiber and leasing it from the power association and get connected into Seattle.

The next picture shows a little more detail of how that works in the State of Washington. The red spots are fiber substations as you might expect. We also have regenerating stations in here. Network design for us and I think I talked about this and an important bullet here is the two conversions at the bottom of the page one is video and data converged on a single network. Education, medical work and play. The things that are interesting on this network is that the 3,000 subscribers on the network show that people are really interested in things like broadcasting local football games, showing City Council meetings, distance education from the local Junior College and that kind of thing. You have to get a critical mass going before you reach a point where that really plays out. There's a tremendous amount of talk about it and a lot of hype in the press about it. Our experience has been that for two years of build out how do we get to the point where it's reasonable to talk about doing it. You've got to get to an awful lot of places first before it becomes practical to do it. The service provider access on the next page talks about the Open Access philosophy, a number of Internet Service Providers, Video Providers etc. I expect this to continue to grow and change because some of them drop off and some come on quite a bit of turning going on in this area.

Here are some stats on the next page about Grant County PUD total customer base of 40,000, 2,974 customers currently using our Zipp Fiber System. The way we connect people to the house is that we ask them to apply for it. We run fiber and that'll be on your summary sheet, between 7,000 and 8,000 homes and businesses but we don't actually take it from the pole in front of the house to the house until we get an application and then at that time we run it to the house and we don't connect it to the customer until they say 'I want service from this provider'. If we just take it to anyone that says 'go ahead and hook it up' we don't know if they're going to be a customer or not. This is going to be a good lead in here to the cost of what all this is and how we get our money back.

The next slide shows what we call our Participation Index in the various neighborhoods and this is very businesslike. The point of which is to show when we started out we had an expectation of something like a 5% figure and we said it's going to take a while for this to grow. Then after that we upgraded it and we did some market survey studies and said 'well, maybe 25% is a reasonable number'. 25% take rate. Any marketing organization will tell you that's fairly phenomenal for a start-up organization. Our actual take rate is 36%. This has enabled us to modify our business plan and look at how this money is flowing and when we expect it to be paid back.

The next page shows the construction summary the meters passed, homes passed, customer lit, and the rate of connection at the moment is between 30 and 50 per week, it's averaging around 40 a week is our current rate.

The next slide is our business plan assumptions. Earlier there was a question about whereas the money coming from a very good question and very relevant to this discussion also. We had out of our previous sales to California and other people in the power market about \$10 million to invest in a project. We took that money two years ago we created a pilot in a couple of neighborhoods. We located a HUB set of switching gear and that was to the houses and we stepped back to see what would happen. We discovered that all of these people who have computers really want fast Internet and they're instantly signing up. So

we had a given 25% take rate right off the bat. From there we've had sort of a hard sell.

People have to get used to the idea of a telephone company with someone besides Qwest and they had to get used to the idea that cable TV didn't have to run over just the cable TV's cable, that it could run over fiber. Fiber brings about 200 channels plus another 50 music channels plus pay-per-view, plus video and there's a lot of interesting things that come over and the service provider wants to extract the maximum return on his investment. So he's really trying to gauge the customer from our standpoint. What we're really trying to foster is the number of video providers on the system and the number to telephone providers. We have one principal video provider today and one principal telephone provider. We'd like to see a couple of more in each one of those categories. Our average revenue-assumption is about \$30 per customer per month and we think it can vary upwards as time goes on and rise to \$40 per customer per month.

Now we've got a shift between this wholesale and retail thing. Where we're collecting that money is that we're charging the video provider or service provider or whoever it may be for a base fee for connection to the customer. That base fee comes back to us and he has on top of that whatever his operating costs are for his channel costs and operating costs and overhead. We need to get back at least \$30 per customer per month to have a reasonable business plan.

SENATOR WAMPLER: Can you slow down just a minute, \$30 per customer per month and that is to you? The utility company?

MR. WILLIAMS: Yes.

SENATOR WAMPLER: Your function is to provide the infrastructure and once it's lit whoever the telecommunication company is or provider the customer has to pay more than \$30 per month. Do you bill for the \$30?

MR. WILLIAMS: No, this is the point of contention in that legislative argument. Verizon said 'whatever you do we don't want you billing the customer' and we said 'why not we think it's all right for us to bill the

customer'. We're not going to be providing services because that'll be done with the service provider and we'd like to go through the infrastructure. For one thing it would guarantee to us the return. We have no guarantee of the \$30, it depends on the end customer and a combination of service. The end result is we cannot bill the customer.

MR. MAJORS: You're getting the cable and maybe \$10 with phone service that might be 'X' dollars?

MR. WILLIAMS: Actually it works out is \$15 for the Internet, \$25 for video and \$10 for phone. Somebody taking all three of those services is \$45 range and that's where we get the average of \$30.

MR. HUDGINS: What is the average customer bill that you write a check for?

MR. WILLIAMS: If you're taking all three services and taking it from us you're paying roughly \$72. If you're taking all three services and you're taking it from the traditional providers it's around \$90 therein lies our pitch if you will, to the end customer. We'll save you about \$20 a month on your combined bill for telephone, video and Internet.

MR. HUDGINS: How many customers sign up for all three?

MR. WILLIAMS: How many? Not very many today. 100% take Internet, roughly a third take video and the telephone service take is relatively low it's about 1/10th or maybe even less. Here's another part of this retail/wholesale thing, part of that is because of how the advertisers don't advertise. The telephone provider is located in a different community outside of Grant County actually and he's coming in over the fiber network. He doesn't really have the kind of interest in building up the community that some of the other service providers do so he really isn't advertising and we think he should do. There's a lot of jawboning that goes on here with these various providers and to do what we think they should do. They don't necessarily have to agree though because they're the ones that make the final decision. Resulting business plan. The advantage of being the electric utility we think in long terms and we think of 'big

dollars' because we are a very capital-intensive organization. It's not unusual for us to take 50 years to get payback on our electric system investment. The payback on the fiber system is roughly 20 years from the time we finish construction of the whole system. We're two years into the construction of the system at this time. Each year has cost us an average of about \$25 million so far. So we're \$50 million into the system and let's say we have \$100 million to go, about four years construction. None of that money is Federal money it's all come from Bond Sales or Surplus Power Sales. The majority of it would be from Bond Sales. We go to the Bond Market probably every year or every other year with a \$50 million to \$70 million Bond issue. This is not beyond the realm for us. Our annual budget is about \$200 million so we're spending 10% or 12% of our annual budget building fiber but we're not doing it with no expectation of return. We expect a return and this shows you how long it will take before we get positive about seven years and before we return the whole thing, about 27 years total today.

I might also add that there's a lot of Federal money and the Department of Agriculture has some wonderful loan rates concerning broadband to the home. The trouble is that when you start looking at all these Federal programs and you start looking at the details of these programs and there's a lot of cash. A lot of it is aimed at Tribal interest or a special purpose interests or libraries or one thing after another. There are so many restrictions on it that by the time you get to the end of it there's not really very much left for us because we want to do a general buildup to the community, we don't want to do it piecemeal but we want to do the whole thing.

DR. MORRIS: Let me ask a general question with regard to e58 on our program. Is there someone here that thinks they have the answers to e58 so we will ask the right questions?

SENATOR HAWKINS: Parts of it work and parts of it don't. I think some of the basic infrastructure that we're talking about is something that we certainly would like to look at and a combination right now. I don't think

there's any one correct answer at this point and I think it's a combination, a combination of underground wireless as well as other parts and also dealing with public/private partnership. There's a lot of things we can talk about, we've been talking about building the backbone itself.

MR. CROSSDALE: We've made an effort and sent some people out to the different areas maybe some 18 months ago. So we're very familiar in tracking it and had some interaction with people.

MR. MAJORS: One of the important things that is consistent with what you're doing is that if you open this up to let others be involved and not be a closed system which is what I think we discussed to have the fiber to have a lot of competition.

MR. CROSSDALE: Yes.

SENATOR WAMPLER: There are a lot of differences even in the concept stage of what e58 is doing compared to Grant County. We are woefully deficient in the Last Mile application. Until such time as we even try to decide how to close that loop we're not anywhere close to what Grant County is doing. It would be incumbent upon this or any new public entity whoever they may be but this is a great framework and make no mistake about it, we're still very far apart on how we're going to close the deal.

UNIDENTIFIED: You have your PUD but is there a stockholders or bondholders or is there a return expected?

MR. WILLIAMS: No, we're a community owned publicly owned organization and we have five commissioners who are elected by the local community.

UNIDENTIFIED: How critical is the backbone –

MR. WILLIAMS: I'm sorry, would you repeat that?

UNIDENTIFIED: How critical is the backbone, the line?

MR. WILLIAMS: The backbone, it's critical to the utility company. Some reasons we got it is because all the utilities are faced with the fact that the FCC is driving us off the microwave sites and the FCC said those are

going away. We're faced with the fact that we have because of the geography of the County 10 or 12 HUB's that have to change. So we were driven to the backbone fiber thing regardless of whether we went on to the homeowner. Our backbone network is an optical network that connects our generating plants to our dispatch center to our substations and we would have done that regardless of whether we went to the homes with the Last Mile piece.

SECRETARY SCHEWEL: I'm trying to, what are you trying to get at, if you didn't have a backbone what would you have?

UNIDENTIFIED: You'd be tied to the national carrier the local chain and then which means that they have pricing power over your, means that they've got control.

SECRETARY SCHEWEL: Essentially you're saying that to build your own system and you control your own destiny as compared to using the existing system?

UNIDENTIFIED: Exactly.

MR. WILLIAMS: Which goes back to what the utility does and how it does it, we cannot allow ourselves to be captive to anyone. We have to provide the services and we can't rely on cell phones, we can't rely on Qwest, we can't rely on anybody else's DSL and we have to have our own. So if there's a model here it's whether electric utilities generally, particularly municipal type utilities have a role to play in this business of building out high-tech infrastructure because we're obligated to do it one way or the other.

SENATOR WAMPLER: Is it a fair question to ask, would you have preferred to be one of the providers of the service?

MR. WILLIAMS: We hadn't really reached a conclusion and we're tending to say no, we didn't want to be in the cable TV business and we didn't want to argue over community morals. We didn't want to be in the telephone business because it's incredibly difficult to be in the telephone business and we really didn't understand it. The Internet business would have been fairly easy and we could have easily done that and that's about as far as we're prepared

to go but there's a lot of other people doing Internet service cause it's easy to get into the business.

MR. MAJORS: Is there anything you could say to us about underground or above ground?

MR. WILLIAMS: There's some important technical decisions that were made on this network and are different than anywhere else in the country. The decision we made was to jump over the short-term solutions. To me the short-term solutions are wireless, passive optical hyper fiber coaxial, all those are good solutions today and in my opinion they're going to be the solutions for the next ten years. We wanted to build a network that could do anything coming down the pike. High-definition TV, much more intensive graphical kind of things, video conferencing whatever it might be. We couldn't get there with any other solutions, and we couldn't assure ourselves we'd still be there five years from now and we didn't have to build this thing over again in four years.

SECRETARY SCHEWEL: I want to go back to a question because I don't understand it yet. If you are moving electricity and you are attempting to be different whether you're using PPA lines or whether you're using your own line but what you care about is the cost. But in terms of whether you own the line or not I don't know why you care and in fact the trend is toward generators not owning the transmission line, why is this different?

MR. WILLIAMS: Well, it's true and not true both at the same time. Let me talk about the electrical aspect first of all. When it's a regulated environment, which is the situation in Washington when the grid is separate from the end user. In Washington State we do not adopt the deregulation issue of any kind, referring to what's called a non-jurisdictional entity. We're not covered by their rule. Frankly we prefer to have ownership of our own transmission lines to be able to connect to our dams on the Columbia River and deliver our own power to our people under any circumstances. Y2K was an unusual circumstance that originally drove us to think about a backbone, our transmission network and how we would handle those things. We've always had our own radio system and our

own microwave system because you simply can't afford to rely on someone else's communications. It is not possible to operate an electric utility that way. If you have cell phones all go busy at once and then you can't talk to anyone. We always have to have this communication with our generating plants regardless. If you want to look at what's occurred you just have to look at California last year. You can talk about what's behind that, what drove all those things and whether that's a reasonable philosophy and all but we looked at it and said 'my gosh, we don't want to do that'.

SECRETARY SCHEWEL: I was trying to understand the technical questions. If I have a line from me to you and you're the guy that wants to service my broadband service and the line has the capacity and you control the capacity and there's no question on that. I'm trying to understand why you're not different as to whether you control the track or not?

MR. WILLIAMS: If we had a power association equivalent and the communication broke we'd probably be somewhat indifferent, we don't in the Northwest. What we have is people that are sort of antagonistic to the utilities doing certain things.

MR. MAJORS: It looks like you control the capacity and you're probably right at that point.

SECRETARY SCHEWEL: I really don't understand the technical stuff as much. We've got somebody's line and somebody's line and how does that make sense when you keep building new things instead of using the ones we've got and on the face of it that seems to be reasonable.

SENATOR HAWKINS: My understanding is that it's the availability of the service provider. There's a philosophy that certain things we build when they're needed and there's a good anticipated need for the services. When we're talking about building the backbone for the anticipated need doesn't always make business sense today and a lot of assumptions. Unless we build it it's not going to happen until they think it's time for it to be built which may never happen. To do that we're going to have to form some sort of understanding

with the private sectors and it has to be, it would have to be supplemented to a degree by the commission to make sure that they know that there's a competitive price that's available to us. Now we've been told that in certain localities these services that cannot be connected are available, high-speed connectors are available but at what price? Ten times higher than we had thought they would be. Trying to put something in place that would not take place when you need it to be competitive now and then if you'd rather wait then there's market saturation.

MR. WILLIAMS: The next slide shows some of the highlights of the business plan. The thing that really drives the business plan is the number of people on that system and the number of subscribers. The quicker you bring on subscribers the more successful you can be with the business plan and the quicker you get a positive cash flow. Those are the highlights of the business plan. It's a long-term plan because we're an electric utility, we think in long-term kind of issues.

The next slide shows what we're trying to do here and answer the question about how much of the interest rate could we sustain from the payback here and still have a reasonable business plan. This gets into a sensitivity analysis of what we should charge for the different assumptions for customers, how much money is coming back, how quickly it's coming back, what type of internal rate of return do we receive. You can see it ranges from about a 3.1% to 9.8%. Our bond monies cost about 5% so somewhere in the middle which is actually occurring on the system.

I think that probably has hit the highlights actually. There's some lesson learned issues and I'll just flip through these pretty quickly. A lot of technical things that we've learned doing this. In shifting through the business plan is really how rapidly we bring on the service providers, to how we deal with the service providers.

In summary we are going to influence changes through this process. It can only happen if you have complete 100% community support. If we had a large percentage of our customers in commission meetings complaining about this

system we would not be doing it. And it takes this kind of initiative. On the economic development side I feel like I'm a one-man economic development company. I hired 50 new employees to make this thing happen. We have 20 or 30 additional employees through contracting and building things in the system. There's a lot of money flowing into the community in bringing on these service providers. We've had some interesting spin-offs, which are rather hard to define. I know that there are some service providers and Web things going on out there because I see very high data that's going back through the Internet. I can't tell you how many people they're employing or what's happening but we see five or six or seven sustained megabyte per second data passed on a regular basis and bursts up to sixty or eighty or ninety megabytes per second so you know there's something happening over the network that will lead to some kind of economic development at some point. It's a little bit hard to put your finger on exactly what it is. Nonetheless from our standpoint we're building that successfully and we're meeting the business plan objectives and the folks are very delightful with it. My problem primarily today is I can't build this fast enough. At every commission meeting you have five or six people who say 'how come you did Joe's house and you didn't do my house' or 'when are you going to get there' and that kind of thing. So that's where we are today, thank you.

MR. MAJORS: Thank you very much.

MR. CURRIN: Our last presenter this afternoon will be Mr. Randy Arno who will address some recommendations from the commission, he's with the Weldon Cooper Center for Public Service, University of Virginia, welcome Randy.

MR. ARNO: Thank you very much. I'm employed by the University of Virginia Weldon Cooper Center for Public Service. We have the opportunity to partner with Virginia Tech and Dr. Wayne Purcell with the Department of Applied Economics at Virginia Tech is here with me today to help answer any particular questions and also help me when necessary. I'm very happy to be here. Many of you on this task force were also members of the Rural

Prosperity Commission and I hope you will join in at any time when you feel you need to.

I think the report from the Rural Prosperity Commission was distributed to you prior to this meeting. I'll try to summarize that activity of the Rural Prosperity Commission very quickly this afternoon. We borrowed the concept of the Rural Prosperity Commission, we borrowed it from North Carolina. I spent almost a year prior to its introduction in Virginia traveling around the State of North Carolina with the Rural Prosperity Commission learning how they were doing it, what they were coming up with and what pitfalls we wanted to avoid in bringing it to Virginia. Georgia has also established a similar organization and it is an ongoing effort. Virginia and North Carolina's used an ad hoc group. I want to point out that first of all the effort in North Carolina was put together by gubernatorial sanction that was not endorsed by the General Assembly. It's Chairman was Erskine Bowles and composed of lay citizens throughout North Carolina. There were previous Governors in North Carolina and Lieutenant Governors on their Prosperity Commission in North Carolina there were no elected officials.

In Virginia we chose to do it different in that of the 18-member commission ten were members of the Virginia General Assembly. Six Delegate House members and four Senate members. The commission was created in the 2000 session of the General Assembly and submitted a final report in the 2002 session of the General Assembly. The original legislative charge to the Rural Prosperity Commission was to undertake a total analysis of Virginia's rural economies and recommend flexible state policies, which combined with local efforts would help foster sustainable economic growth in Virginia's rural areas.

One thing I forgot to mention in my introduction of myself is that I am new to the academic community having only worked for the University of Virginia for the past seven years. My office is located in Southside Virginia in Danville at the Danville Community College Campus and I work for all communities throughout Southside Virginia. Prior to my employment with the

University of Virginia I spent 25 years as a County Administrator in Virginia and five years of that time outside of Virginia in Nebraska. I say that to you because my interest in the Rural Prosperity Commission was very, very personal and it came from the experience of trying to or having a responsibility of balancing a budget and meeting the demands of each of those communities every year for 25 years. Many of you know very many County Administrators from people in your community you'll know that in times of very difficult position. I thoroughly enjoyed the opportunity I had with the University of Virginia and working with folks from Virginia Tech to step back from the front line of County Administration but I have to tell you that on those front lines it's a lot more intense work to do than it is a few steps removed as I am today.

In its deliberations the Rural Prosperity Commission met throughout the Commonwealth and conducted six public hearings in various parts of the state. Prior to those public hearings they had pre-meetings in each Planning District Commission. They conducted those pre-meetings and tried to meet with every community within that Planning District Commission and within that area to be served were of that public hearing was going to be held.

The commission created two-target study subcommittee. One was on telecommunications and one was on the creation of a Rural Virginia Center. Obviously what the commission found was a growing diversion between two Virginians. One was large, suburban and urban and prosperous and one was rural and struggling demographically and economically. Economic differences between the present and rest of Virginia were increasingly more pronounced and were widening. What we found is that there were 95 counties in Virginia and of those counties 46 counties get back more revenue from the state than they send in. That's almost ½ of Virginia's Counties getting back more revenue from the state to support public programs in their locality than they send to Richmond. Another way to say that is that other 48 subsidized, the other 47 subsidized the revenue of the less affluent counties in the state.

Restoration and the economic and social vitality of the rural areas require comprehensive strategically targeted investment programs, there are no quick fixes and no silver bullet. The economic and social dilemma of our rural communities will take a long time to reach its present level of deterioration. The problem with being remote and rural will not self-correct if the free market economy is left to its own devices. The public sector and a new public/private partnership model must be the catalyst to stimulate the revitalization of the world economies and intervene when appropriate.

With the basic tenant the commission can embrace community empowerment. What that means for us is that each community has to create its own vision and make its own determination as to how to achieve that vision if that community has identified. The model of 'one size fits all' of government programs traditionally pursues does not work particularly in an area where there is much debate about what direction the community wants to move in. The commission felt very strongly that each community should be its own determinant of its future.

SECRETARY SCHEWEL: What does that mean?

MR. ARNO : What that means Mike is that the communities must identify for themselves what they want to do and where they want to be I'll give you a perfect example of that, when I was in Floyd County and I was there for the last eight years of my life and you couldn't find five people to agree on where they wanted to be five years from now. So there's a lot of important community building that –

SECRETARY SCHEWEL: I really have two questions, one of them had to do with the other part of the report. It basically said that there is as a result of other impacts identified in the report of the commission that there is leadership training and then the question is what is the capability of these communities to in fact identify and be able to carry out at the local level a community strategy, that's question number one. Question number two is that if

five people in Floyd County that can't agree which way they want to go, does that mean that they're never going to?

MR. ARNO: My own particular answer to that is that they will agree and not necessarily everybody will be in total agreement with what the plan is but there will be a consensus developed within the community and I believe this will work. From where I am now and after having been the County Administrator one of the things I failed to do I think as a County Administrator is work on building communities in places that I have been. I think I can say that very honestly because I was pushing paper and doing projects all the time and did not have the time to build coalitions and a vision in the community as County Administrator but I think that's a tremendously important effort to undergo.

SENATOR HAWKINS: May I expand a little bit on this? You have to understand that you have conflicting visions of what prosperity is. One, you have the immediate look at prosperity and building on that and that is not necessarily what a lot of people are identifying it by. It is a change. Rural prosperity we try to look at how each locality will be able to identify those things to make them unique and build on those things without necessarily forcing organizations in areas, which you did not have. If you look at the State of Virginia there are basically areas that are rural and bring with it a quality of life that you would lose with some sort of urbanization of the area. The Rural Prosperity Commission tried to recognize that and tried to understand that prosperity is therefore a whole new way and that agricultural interests in agriculture communities have the same right to prosper in these economies whether they be manufacturing or industrial. There has to be a real understanding of these needs. We could go back to the basic model and have the City being the center of the rural landscape with people who could live with those population centers surrounded by what we call the rural landscape but that's a traditional model in some parts of Virginia. Trying to force a traditional model in Northern Virginia does not lend itself to the rural agriculture county.

SECRETARY SCHEWEL: I have a question for you and it's an issue for us, which is a community that is lacking because of out-migration and economic distress and lack of community resources to have the leadership that is necessary to pull off the type of things that say Grant County did or counties in Virginia that have been more successful. My question is what do you do if there is not really much leadership, is that one of the issues?

SENATOR HAWKINS: We're starting to build on that now and Randy I apologize for interrupting. We have to understand that most of Virginia has outward migration since World War II. There's people that have been educated that left because of job opportunities or whatever. The age of the average farmer in the area I live is probably 50 or so, which means there's not a lot of younger people to take care of this. We have a high population of under educated people and there's a lack of basic education foundations. The upside of that is that we have recognized this before reaching the point of no return but you still have a basic intellectual stability and it's in these communities and it's there. Although it may be aging out. You have the ability now to make some of these decisions based on some people who live there who have made a commitment to the area and we can do that now. If we do I think we'll probably be able to stabilize the population drain. In our area of the state we're looking at all the components from farming to telecommunications to research at the new institute and be able to attract and have some migration back home. We cannot afford to lose another generation. We have not reached the point yet that there's no return from where we are. There's some other rural counties like Floyd. Floyd has had some new migration in population in the last 25 years. Basically there's been a group of people that are looking for artistic class to develop arts and crafts I don't know how to best describe that kind of business. They have moved in from other areas for a little different feel than people that grew up there, that's a different mix. We have to try to approach our population and understand the uniqueness of each particular county but also understand this commission is charged to making sure that this is a regional approach and not just Floyd County or Montgomery

County or Roanoke County but look at the overall area so it's not just like a single county. Looking at the overall region I don't think we've gone over the cliff yet but we're close.

DR. PURCELL: I just want to comment that part of this process of empowering local communities to get up and get some things done in developing that leadership. I think has to be there and I think that's part of this process and an important part of this process and that's what we're talking about.

MR. MAJORS: The question we have to deal with as a commission of deciding where we're going and where the commission has some consent and then do it someway.

SENATOR HAWKINS: If the commission is looking at some sort of long term plan look at the basic structure of the community and the diversity in this commission and start figuring out how we can compliment what's there by offering the basic incentives that allow people to generate the type of employment opportunities and investment capital they want to create in their home areas by some sort of process of developing capital and grants and loans. To do that you can look to our areas such as our research institute. You have graduates now that come from our areas who go out and start businesses. If we can bring them back and have the schools look at what they're doing and put them on a scale of 1 to 10 viability of this type of expertise coming back to localities and offer some capital to people who have nothing but their own dreams to put into place this would help stabilize our areas.

SECRETARY SCHEWEL: Should one of our strategies be the leadership at all? Should we fund leadership? I understand that's just another question, is that a necessary part?

SENATOR HAWKINS: It goes back to the different philosophies. Does history create great men or do great men create history, I don't know.

SECRETARY SCHEWEL: I'll go with the premise that great men create history.

DR. MORRIS: It's a great topic for dinner.

MR. ARNO : My experience as a local government official in five different localities convinced me that this is going to be primary given another vision. They have to step forward and they have to get control of an agenda in the community and hopefully move it forward. Whether it's school, governments, utilities wherever it happens to cross this community, someone has to take a leadership role.

DR. MORRIS: You have five minutes Randy.

MR. ARNO : Thank you. The commission identified basically five different areas in which they wanted to focus. One was a tier-tax incentive program, one was improving capital access in rural areas, one was on work force development, one was on telecommunication and the other one was on – industry. During the 2000 session of the General Assembly a tiered tax-credit incentive for employers to create jobs and apprenticeships and workforce training for employees who received their GED was carried over. It passed through the house but it failed and was held in the Senate because of the economic downturn we had and we're going to continue to pursue it. The addition of funds for the Commonwealths existing capital access funds of \$2.5 million that was unsuccessful this past year again because of the fiscal situation. We believe and I think Wayne will also speak to that sometime later that that money is designed to go to loans that are from the business people in the rural communities that otherwise they're not bankable even normal commercial access rate. The third program that was carried over was to create a Secretary of Agriculture and Forestry. The resolution encouraging the Virginia Community College system to offer additional non-credit workforce development programs at a time and place convenient with business and industry was passed during the session. Perhaps the commission's most successful legislative initiative is in the area of telecommunications. Additionally staff proposed to create a private non-profit 501C3 Foundation. This was to stimulate a high-speed broadband telecommunications network services in rural Virginia. The foundation would bring together the community, healthcare, business and industry and

telecommunication providers to evaluate the development and structure and to extend advanced telecommunications to rural Virginia. The commission amended its recommendation by assigning that function to CIT that's the Center on Innovative Technology. This recommendation was incorporated in House Joint Resolution 163 passed in 2002 reference CIT and the Virginia Secretary of Housing to study the needs for advancing affordable high-speed band networks throughout rural Virginia. The commissions second telecommunications initiative was House Bill 1021 attempting to ease previous legislation restrictions for 15 localities from providing telecommunications service. This Bill was subsequently incorporated into Senate Bill 2245 which was Senator Wampler's Bill which originally enabled local government or otherwise to offer telecommunications services to anyone in the Commonwealth that was certified by the State Corporation Commission as a competitive local exchange carrier. Senate Bill 245 was subsequently adopted by the House and the Senate and it permits Virginia localities to operate electrical systems to provide telecommunications services within or outside the boundaries. This is certified by the State Corporation Commission and some requirements on that.

The Rural Prosperity Commission was continued for an additional two years by the resolution and it was continued for the purpose of creating a Rural Virginia Center. There might be some question as to the need for a rural center and I can only give you two examples of why it is necessary to create a place where the rural localities can come together and reach a consensus and share their resources and ideas and reach a consensus on where to go in their individual localities what may transfer from other places. As the County Administrator for Floyd County a review of the Composite Index that were taken by the Secretary of Education and that was under Mr. Dykes when he was Secretary of Education. I was asked to participate on behalf of rural Virginia. The first meeting I went to there were probably 20 people in the room and most of the people in the room were from urban areas like Fairfax, Arlington and Richmond, Henrico, Chesterfield, Tidewater. All those people there had computers and were fairly

knowledgeable about the Composite Index and the way it worked and any modifications to the Composite Index. There's a need for a place for rural Virginians and the communities to come together and agree if there's going to be a change in the Composite Index or the transportation formula to bring that county current. And have the resources to decide what it's about and they're interest and that's the reason for the need for the Rural Virginia center. North Carolina has a rural center that's been in existence for fifteen years and it has brought a lot of hope and opportunity to rural citizens.

DR. MORRIS: Where is it?

MR. ARNO: In Raleigh. They have their own building in Raleigh it's a 501C3.

MR. MAJORS: Is the Rural Prosperity Commission active, is it an ongoing operation?

SENATOR HAWKINS: It's ongoing and we've got a couple of meetings.

MR. ARNO: We had one commission meeting to explore what's happening during in the last General Assembly session with regard to legislative initiative. The telecommunications committee has met and the Chairman is Steve Landus. Mr. Landus has appointed a rural center committee to be shared by Senator Frank Ruff.

SENATOR HAWKINS: At some point we'll probably have to coordinate efforts with Rural Prosperity to make sure that we don't overlap.

MR. MAJORS: It seems to me that certainly touches on a lot of things we're talking about.

SENATOR HAWKINS: I think with the telecommunication piece we're starting down the line and communications with Rural Prosperity and e58 we've just got to make sure we're not duplicating our efforts.

MR. ARNO: We have done that in the past and not only with Tobacco Commission but all the other organizations.

SENATOR HAWKINS: On issues of importance, yes.

MR. MAJORS: Are there any questions of Randy?

DR. MORRIS: There's four or five people around this table that are also on the Rural Virginia Prosperity Commission. In my mind I ask myself to the extent that the group is involved in Rural Prosperity sees the money that's available through the Tobacco Commission and simply monies that might do what the state ought to be doing but is not doing.

SENATOR HAWKINS: We don't see it anyway whatsoever. The monies that we've set aside for the needs with the Tobacco Commission are designed in my mind just for that. Monies that help us with the economic help to areas at the time that are not of our own making. If we try to subsidize normal state expenditures with what exists with the tobacco money outside our region then there's no amount of money that we would have that we could undertake that and that's not our charge. Our charge is from the coalfields to the tobacco areas all the way to the end of the tobacco producing counties and these monies have to be invested wisely in those communities. What we do as to recommendations should probably be built on the Rural Prosperity Commission to use as a model.

SENATOR RUFF: Mr. Chairman, we want to keep the rural communities together but if you start segregating Southwest and Southside then we wouldn't be doing what we're charged with.

SECRETARY SCHEWEL: If you look at this in reality is that the extent in our deliberations here we will and should get a lot of analytical work that the Rural Prosperity Commission has done, we'd be stupid not to look at that. On the other hand the likelihood of funding sources and availability of funding sources is such that some of those recommendations are going to be, seems like to me they would be implemented first with the Tobacco Commission.

SENATOR HAWKINS: You've got to understand the areas that we've given money to improve with the highest unemployment, higher out migration, the highest population with the least educational opportunities so these counties are actually the ones that have the most needs so all this comes together.

DR. MORRIS: I'm glad I asked that.

MR. MAJORS: Dr. Morris put on me the task today to giving the time for dinner and trying to keep this on pace but I do see where we've got 15 minutes in which we can ask questions of the four speakers that we had this afternoon. Let me open it up now to anyone who wants to go back particularly in light of what's been said. We've had two from Virginia and two from outside Virginia to talk about things that are going on. There's been some questions raised and we haven't had a chance to talk about.

SENATOR RUFF: What percentage or what part of your business percentage wise is the Internet business compared to electrical business?

MR. WILLIAMS: Well, two years ago it was zero and today it's 50 out of 500. I don't know how to answer that very clearly because the economic return from this building we're doing is around \$70,000.00 a month.

SENATOR RUFF: At this point what is the, at the break-even point what part of your revenue do you expect?

MR. WILLIAMS: Break-even is a long way away. When we get to the break-even point it'll be above \$15 million or \$20 million probably annually so it's going to be way down the road. Our annual return right now or return on revenue, it comes out to about \$75 million a year hopefully.

MR. MAJORS: We've got a couple of representatives here from counties, do you all want to ask anything or have additional comments?

MR. HUFF: I'm the Administrator from Franklin and maybe I should address this to Secretary Schewel. I had the pleasure of working with both Pittsylvania County and Franklin County over the last three years and Pittsylvania County as Mr. Majors knows was right with the private sectors involvement with the community and there was some difficulty with getting the government to pay for some of those initiatives. Franklin County was just the opposite. The governments at the table and you can't get the private sector to the table to do some of the leadership development ideas that we see at Tupelo and some of the other examples here today. My comment is that it's very much my opinion important to this commission to give a great deal of thought about the leadership

void. Part of the problem with Franklin County with the private sector as Senator Hawkins mentioned earlier, that we don't have a major employer in the county who has a home base in the county. Their corporate offices are elsewhere. NW Windows announced last week they're up for sale for the third time in ten years. All that's coming together and we can't get the private sector to the table in Franklin County and that's created a great deal of problems for us in doing any long range planning in terms of where we want to go as a community. It cannot be government driven when we can't get the private sector folks to the table. I'd like to see that be a big piece of work of this body.

MR. SCOTT MORRIS: I'm from Halifax County and I've come here, as a seventh or eighth week Virginian and some of these issues are real new to me. There's two things from my perspective. When I came to Virginia I met with both the business and political leadership and I come with a wide-open perspective but two things stick out to me. One is access and the other is vision. The need for access for all the communities in Southside and all these things we talked about like broadband, education, and everything across the board. If you don't have access and you can't create access at every level then there's no way. I'd say the same thing with vision. The situation in Halifax is that our primary industries are based not only out of our county but also out of the country. In terms of the number of European based companies or based in California. We don't have a lot of control and destiny of those companies. On the local level our ability to develop these visions by moving us forward is not good. One of the things we find that we've lost like textiles and tobacco and so we need to know where we're going and seems like we're going in a lot of different directions. I don't know that there's one single answer to all this but I think the exception is if we can get some access and ability or an opportunity to have this access as to have a clear vision and have the leadership and involvement as we go down the road. I hope my community will take that route and we can forge a new vision for ourselves. We also talked about local industries and having control over it but I've found that about 80% of my plant managers live in Raleigh-Durham. The

ability to get access to these people and the companies that aren't based here but these people don't even live here and that creates an instant problem for us. Those two things, access and vision and if we could create those at the local level then we should be able to do something.

MR. MAJORS: Lewis, can you talk to us a little about what is required from the private sector? What kind of commitment do you require from the private sector?

MR. WHITFIELD: You know, I've been sitting here listening to this and I think part of the question is when you get more successful what do you do? Everybody when you're successful wants to be part of it and I was kind of addressing that with some of the counties that don't show leadership at all. Once we got to a certain stage with companies coming in who took the position that this is our territory, we built it but we want you to come in and be a partner but we don't want you coming in and just employing our labor or, we want you to be a partner and that's very important. Many of them have come in have done that. We got a manufacturer where another community was offering incentives and we were able to explain to them and show them that the community was a better community for them to come in. I think it's nice to think of entrepreneurs in your area and all that but that's a real slow-growth long-term process and you hope it'll happen. I think in the rural south we're still kind of, even though manufacturing has gone away we're still trying to attract employers in the area. If you insist they become a working partner and you have them give back and you understand that at the front end then we've got people that would come and be part of the community. You have to convince them that this is the place for them to be and the quality of life goes along with that to.

MR. MAJORS: If we have someone new come into the community and we had a little meeting with them and we're happy to have you here and here are the expectations you better live up to them if you plan to be part of the community. That's not something that you can legislate and that's not

something you can pass a resolution about but its something that you can start working on.

DR. MORRIS: What else can you tell us about the ripple effect on the yellow marked counties around you. We have several HUB's in the two regions we're talking about but we have lots of counties.

MR. WHITFIELD: Around Tupelo we've got a lot of furniture but we've got available labor there and we saw entrepreneurs leaving Lee County and going out to other areas. The merchants saw people driving into Tupelo to shop and they saw some coming into work. We've seen some people leave but we're trying to reverse that process. We've got some industry that's an offshoot from other places but they need to be meaningful partners in the future of Northeastern Mississippi. Leadership efforts are very important and we are the regional center and so again, leadership is important. If you don't have that you're going to have an awful time.

DR. MORRIS: That sounds like something, this leadership is something you've just got to get into and keep up with it and –

MR. WHITFIELD: Yes.

MR. MAJORS: I think there's something you built up in and around Tupelo and now you are going and --

MR. WHITFIELD: --The Senator raised a point and I think the newspaper locally owned, I think it's been out there on the leading edge of promoting and gets people thinking more than anything else because that's the future and I think that's important and can really lead to good things.

SECRETARY SCHEWEL: To the extent, I think you said that Tupelo had 57,000 jobs or is it Lee County? Do people commute?

MR. WHITFIELD: Yes, they'll drive 50 miles to work but when they come into work they're going to shop and they're going to use the entertainment that's available and those type of things. But by the same token when people do this and come into Tupelo it hurts a little bit in the counties so we want the whole area to work together.

DR. MORRIS: A couple of observations that I would make about this afternoon's presentations. People incorporated is very important as we try to set priorities that wherever possible we use organizations and experience and networking that are already in place as opposed to starting from scratch. Part of our task ought to be finding ways to identify those sources or groups that are already making things happen. The other thing I would tell you that concerns me to continue through this process is that there's so many things we want to do and it reminds us I guess that the ultimate goal is to try to set some priorities. We talked about job creation and we talked about education and we talked about leadership and e Commerce, e58 and the Grant County presentation interests me a great deal. We've already made some commitments in that direction. I think it's incumbent upon this group to come to terms with that and find out what level of support we would like to make regarding e58.

MR. MAJORS: With that a couple of observations. One is that we've spent \$250 million so far and even if we securitize and get \$650 million or \$700 million to me that's not a lot of money when you start talking about these things. The thing I kept hearing today particularly from our out of state people, a sustained effort is what's necessary. You can't do it by putting a little money here and a little money over here and expect it to take off. Washington's talking about a 20-year payback and you've been working for 50 years on yours.

DR. MORRIS: How long have you been working on yours?

MR. WILLIAMS: About 2 and ½ years ago or 2 years we had a major build out effort. And 4 years to go. Overall it's a 6-year construction effort and 20 years after that to repay.

MR. WHITFIELD: You can waste a lot of your time and money on areas whereby if you went to countries and said what you wanted and showed the leadership and show how you want to do something you could build a lot of things. That's better than trying to spread money evenly over a wide area.

MR. MAJORS: We've had a good full session and we're going to break now.

DINNER BREAK

MR. MAJORS: All right, let's get started. We have four presentations this evening, and if you have any questions you can ask them, and then at the end we'll have a chance to ask questions or anything that comes up as these presentations take place.

Carthan, do you want to introduce Carol?

MR. CURRIN: Mr. Chairman, the information is in each of your packets. We're very pleased this evening to have the Deputy Director of the Southern Growth Policies Board with us from Chapel Hill, North Carolina. Carol, welcome to the Commonwealth, and we're ready for your presentation.

MS. CONWAY: You want me to go ahead?

MR. MAJORS: Sure, you're on.

MS. CONWAY: Well, after that terrific dinner I thought maybe I'd show some visual aids here to help you all stay awake. Let me give you a two-minute sketch of what Southern Growth Policies Board is, and it will give you some background for understanding the rest of the presentation.

The Southern Growth Policies Board is a thirty-year old organization started by the Governor of North Carolina. He took a trip to New York City and Newark and asked, what are you trying to do. So he went back and got some other people, some governors together and said, we don't want to create northern states in southern cities, and that's how the Southern Policies Board evolved. We have thirteen states plus Puerto Rico, and each of those jurisdictions has five people on our Board, the Governor, two citizens appointed by the Governor, including business people and representatives from the House and Senate. It is a very diverse, intentionally diverse Board. It's too big a Board to work with on a day-to-day basis, so we have an Executive Committee, which is one person from each of those states that do the oversight of the Board. The real work of the Board takes place in four councils. They're focused on what we believe are kind of the driver. Technology Council is fifteen years old, and we have the Southern Global Council, and we have a Council for the New Economy Work Force and a Council for Southern Communities, Technology Globalization Work Force in the development in the new economy. Each of those councils consists of two gubernatorial appointees from each

state and corporate and non-profit members. We've got about a hundred and twenty-five to a hundred and fifty gubernatorial appointees in our network that are involved with us on a day-to-day basis from all over the South. We consider that an incredible resource for us. You people can call on us and discuss what you need, okay.

Our mission is really to provide, or our overall mission is to help people equally in the South. Our mission is to connect up people and have fresh dialogue, new ideas, translate that at the grass roots level into action. We're always looking to mix up the dialogue and bust up the political lines, put people together and think in totally different ways. We have something called a Statement of Regional Objectives that guides our work, how we do an annual report that consists of, if you will, the collective wisdom of the South. It controls hundreds of people over here on a particular topic, for instance, on technology issues. We went to each of our states and held focus groups with a like cross-section of people and talked about the grass roots level, what is this issue, do you have any problems with it, what do you think, and that sort of thing. We took that and we had a retreat involving eighty people. We moved that to focus groups and surveys. As I say, this was a like cross-section of about eighty people. So by the end of it we got a clear pattern of opinions with the focus groups, and by the time we did this we had a pattern. What the groups end up with are goal statements for the South, and these might be relevant or irrelevant to you, but they are goal statements plus recommendations.

This technology one also included a number of benchmarks, and states themselves chose and identified what the benchmarks were. We don't tell them where to set their targets in those benchmark statements, but they decide it for themselves, and they have done that. This one focused on technology and the benchmark is behind it. We finished another one focusing on work force development. This is what I'll tell you a little bit about, because it gets into your, our philosophy, if you will, about economic development in the South. When we went back and looked at the birth rates between 1950 and 1980, our big success years, the South was rolling right along with the rest of the country. About 1980 things started to change, and we had real growth, and the South really was sailing along. We didn't have this inflation but real growth, annual growth was two percent versus essentially the same thing for the rest of the country. As a result today we

still as a region are lagging about eighteen percent behind per capita income from the rest of the country, and the areas that you're concerned about, rural areas, is even more severe. Our thoughts were in some sense that maybe we were too successful. A lot of our growth was from 1950 to 1980 and very successful. I think that may have presented to us a sense that this pattern was going to continue. This next slide is really to help you realize in the past decade the southern region lost four hundred thousand jobs net, but at the same time other regions of the country were gaining manufacturing jobs. So for instance, jobs that went to NAFTA, it wasn't so much that it went to Mexico, but they were shifting over to Texas, Nevada, Arizona. We saw large increases in manufacturing employment. So we were thinking we failed to respond adequately to the global economy. You could say that a lot of those changes were telegraphed to us way ahead of time and we didn't quite work it into our planning system. The jobs we lost paid much better than the jobs that we had. Some of the jobs or the demand for that kind of job grew a little bit, but for the past couple of decades we've been filling that gap by importing talent. The South is actually a region with very few eligible immigrants to fill jobs. We must have taken them out of Connecticut, New York, et cetera. They came in the area and had great talent and also good income earning potential, those that came. So in effect we were sort of satisfied with preparing our kids with the same educational system. We were earning all that income from recruitment, and we didn't really plow it back into our kids. In some sense we condemned our own kids to take lower level jobs in the new economy. That's terrible news in itself, but there's something new on the horizon. We're facing in a sense kind of a population crash, and it's a combination of the aging baby boomers, the lower birth rate, and it's a fact that the baby boomers are going to retire from the economy and there are not too many people coming behind them to fill that gap. That's a nationwide problem. It's a problem around the globe with industrial activities. In the South we're going to even be in worse shape. Where at least in the U. S. as a whole there'll be an increase in prime age workers eighteen to forty-four, the South is actually going to see a decline. The same story with kids. We have a much, much lower birth rate and number of children that'll be born between now and 2025.

SECRETARY SCHEWEL: Does that assume the same information that we've had historically, Virginia, they're saying that it's going to be a much younger population?

MS. CONWAY: That's right. These are statistical figures, and these were projections, and they did not have the results from the survey in 2000. That's one of the possibilities, and particularly since 1980, there will be a higher birth rate to build that up, the labor force that is. The National Chamber of Commerce is actively recognizing that Hispanics in their area will constitute about a quarter of the work force, so the Chamber of Commerce is very concerned that the children of immigrants will become successful, and they wouldn't be skilled enough to attract industry, because if those children of immigrants don't succeed then everything goes down the tubes. About twenty-seven percent of our population has an Associates Degree or better, versus a third for the rest of the country.

Now, this shows you that in 2002 there'll be millions of jobs, fifty-six million jobs were held by qualified people with only a high school degree. In the next ten years that will not change that much, but there'll still be about fifty-six million jobs that will hire people with just a high school degree. Now, some training means people that went beyond high school but not seeking or not getting a degree. They may have gone to college and dropped out, and you'll see there's no real increase in those kind of jobs. When you look at income stream, people with just a year or two of college without a degree do little better than someone who dropped out or people with just a high school education. That degree is all-important, and those jobs will enable someone to earn significantly more. Who's going to work? The red line indicating labor that we're going to need in the country and the black line is our actual predicted supply. One of our major findings, if you will, that we will have to spend a lot of time focusing on finding spare talent and training, not just as a matter of social policy but kind of an economic emergency to the dislocated workers, the retiring, the disabled, women, immigrants, even offenders which are coming out of prisons in record numbers without any training. That's what that shows.

So our goals for, and I'm speaking of regional objectives, and there's nothing terribly exciting here, but the three recommendations are kind of interesting. Before we get into that there's some new definitions about things to talk about when you talk about work force. The work force family is not just employees, but their family is affected by everything that happens to them as well. That's going to bring up later some new ideas and new approaches on how to deal with work force issues. The climate of course is business people and people going for education and training, not the institutions themselves. The work force development starts in childhood, and not so much social policies or higher education policy, but it's something that involves everyone, because if you do define it as social policy, et cetera, you're really only involving and engaging a narrow set of people, because by and large there's not that many companies or people that are in any one of those, and there's no ownership, no accountability and no buy-in, and of course, no entrepreneur ownership. So the aim is to move families into upwardly mobile careers as kind of the goal.

So the three recommendations, one is to create a work force system and one that maximizes client control of the outcome. This report has twelve or more examples. The worst has already happened in the South where, it's not that the businesses control the system, it's that the system cooperates and works with them hand in hand to get something done. For instance, in Alabama there are these business alliances that work with the community colleges and other institutions and work forces to get what they say they need as opposed to just providing information, and say, here, come and take it if you wish. We have more information on the web site on that. The second one is to identify and develop under utilized sources of talent. You can't leave any stone unturned. These populations have different needs and different response mechanisms. You're going to have to think, well, do we want to pull every retiree who wants to work and needs to work back to the labor force after age sixty-five, what's the way for them to come back. You'll find people sixty-five working, and when they work like that after age sixty-five or retired they're doing jobs that they like. They have to be thinking about where is it and usually they will have very flexible work hours. Three is create a self-directed work force attitudes, learning habits, earning, you need to have more of that in order to make

wise career choices, and that gets down to things like the guidance counseling system. A lot of this is pretty important, counseling and guidance and problem solving. This can also help people with contacting businesses, and especially if they're not familiar with it, and it helps marketing, and that's where we're going. So we're working now on those type of practices, something like putting teachers into the business so we could have them work a time and that information would be on the web site in the next week or so. Just examples of how you bring relevancy back into education and more into the market phase.

What might you be able to do? Well, I could repeat the Tupelo story, and I could emphasize that story, but you need, people are what makes things go. I don't think you're mining that vein effectively. I think we need to bring our people together in ways that they have been brought together before if communities are really interested in building. They already have some tools for things like dialogue. We're doing one called, "Seeing the Future," which is a video workshop, and that's training. That introduces them to what's the basis for why you're working here, this kind of a pre-teaching planning exercise. Another one in the community is called, "Choosing your Future," and to have dialogue about what is it we want to become and how do we go about making it happen. This is kind of a visioning exercise that communities need, and it's a very grass roots level undertaking. Another thing is to create a culture of learning. Think about how much we celebrate about sporting events. An example is like in Puerto Rico when they became the national champs in a sport, those things. How about celebrating school, to make it cool to be academically gifted.

Three, support innovations and entrepreneurship. The second one is obvious, but the next one is supporting innovation and people. In West Virginia they started up a small innovation grant program where the work force investment board or someone at the local level can submit a proposal, and we want to do this a new way and a new way of approaching this, maybe approaching nursing shortages, for example. And then they have a little innovation grant that allows them the possibility to get the right people to the table and helps them buy time to find solutions themselves.

The next thing is perhaps making or teaching investment and becoming a comprehensive, ongoing strategic plan. I'm sure you understand that, but it needs to be based on information, and it needs to be based on data that is continuous and present, and it needs to be based on community dialogue between people themselves. I'm sure in Tupelo they have meetings constantly and dialogue constantly and not just once a year. That's all for that one.

SENATOR HAWKINS: Let's back up a minute. We're dealing with a population that basically is traditionally in place in the South. You're talking about transitioning people to different levels, what do you do with a population that's thirty-five to fifty-five that are unemployed with very little educational background to cope with that? How do you transition an economy overnight to be able to meet those social needs that are in place? What troubles me from everything I've heard tried to deal with, that we have in place, particularly in the South, a mentality that no matter how bad things were you could always get a job in the cotton mill or either go back home to the farm. Neither of those exist today, so the mentality, the history or the background and education being a primary goal necessary for families that's in place in most of the rural South. You've got to have a time frame involved before you can transition the population to an education mentality from a factory mentality. What do you do with that age group of people that are involved? The reason I asked that is that I got into a discussion one time with someone, give me an example anywhere in the world where the economy has been transitioned by leaving behind an entire block of population with very little options. They said England, because England used the colonies to transition jobs and so forth. They had a population that was trained to run a factory in the homeland and a certain amount of unemployment. My answer was but the social cost of that is taxes, a different structure, and socialism is not acceptable in Virginia or anywhere else in the South as something that we're willing to accept. How do you deal with a population that's undereducated, has few options, that historically has worked for what they have but find themselves out of work through no fault of their own as they approach today's economy? What do you do with that population?

MS. CONWAY: Well, that's one set of circumstances, but the idea of empowerment, if you are able to let them discover for themselves what needs to be done that's a whole lot more powerful.

SENATOR HAWKINS: Not to be argumentative, and I've probably talked too long in that regard, but it's not a question of trying to empower anyone by giving them certain grants, but you have to have some options in place when it comes to employment and you have to be able to offer them something to transition that does not exist today. When you have basic manufacturing jobs, such as textiles and furniture that has disappeared, the farming economy is certainly not one that you can count on long-term when you have a population that's not ready for the next level of telecommunication, whatever you're involved with, what do you do with that population that falls in between that thirty-five to fifty-five and have no options?

MS. CONWAY: One thing you might do, the thirty-five to fifty-five, I believe it's forty-five and older, there is training that is available, but you might pull the younger people and they might be pushed into a training cycle, but then the other group needs some kind of maintenance and training, and that becomes a matter of public policy. How are you going to provide them with some type of earning tax credit, like taking menial jobs? At least they have some work. I don't have an answer to that, but it could be that you're looking at different strategies for different parts of the population.

SENATOR HAWKINS: What bothers me is that we're turning to a dialogue that is foreign to most of the mentality of the American population. When you talk about having subsidized populations to be able to get to a certain point in their age bracket based on a different philosophy as opposed to the marketplace, how do you convince people that is the normal and accepted thing to do?

MS. CONWAY: I think you get back to the community dialogue and not just calling people together and talking about it, but you have certain programs that provide them with a basic instruction on what the economy is and getting them to do things. I would say that the Tupelo method and strategy is where you get people to talk and have dialogue on situations like that. For so many people the economic connotation seems so sophisticated, and that can translate into different terms for different people.

But in simple terms, let people discover for themselves based on discussions of what happens to them so they can take charge of their lives. Whatever it is you're up to in terms of providing scholarships for families, and it's a great idea, and I don't have an answer, but at least I know the right answer. I don't know that I have the right answers for the forty-five and older crowd, but I know one of the right answers is that they should invest in their families so they won't have to repeat the cycle of being caught by surprise.

SENATOR HAWKINS: The last part I'm trying to get across, the last time we went through major restructuring of the economy was after the depression, and we had a generation coming out of the depression and realizing what that meant and then coming out of World War II understanding the right of sacrifice. World War II, which I'm a product of that war being a child, we have never known anything but a continuation of upward mobility. When you reach a point that those upward mobility pieces that are in place for my generation are stagnant or either are declining, what do you do with an entire generation that's been raised thinking that things always are better? How do you adapt that mentality of the past to today's realities and try to come up with something that would provide a stable, social and economic condition until we transition, because I'm afraid if we're not very careful we're going to find ourselves creating an atmosphere that leads us to an unstable situation for the next ten or fifteen years.

MS. CONWAY: I don't think you want to lower expectations to the point where people think things can't get better, I think they can, but your point, or the question of how do you compensate for the change. It's clear to me that there's more than enough on the winning side to support transition, but that again becomes a public policy.

DR. MORRIS: Thank you, Carol. We're going to have to move ahead and, Senator, hopefully I will leave those questions on the floor as we move along.

SENATOR HAWKINS: I have to apologize, but I think it's something that all of us, particularly from the rural section of the state, are trying to transition the economy and come to grips with reality versus perception. I think we need to be able to distinguish between the two and be able to address the problems of this generation that it faces today, and the problems that this generation is facing today is unique for this time and place.

DR. MORRIS: Dr. White from the Appalachian Regional Commission. I appreciate the work that the Appalachian Regional Commission has done, Dr. Jesse White is with us, and we'll hear from you.

DR. WHITE: I appreciate the opportunity to be here. I always have some fear or trepidation about speaking after dinner, and I'm reminded of a story that the late Terry Sanford used to tell in that regard. Whenever he was asked to make an after dinner speech he was reminded that in ancient Rome in the days of the Coliseum when the Christians were fed to the lions a Christian gentleman was put in the Coliseum one day, and this hungry lion charged up to him and was about to eat him, and the Christian stepped aside and whispered something in the lion's ear and the lion screeched to a halt and slumped its shoulder down and went off back to his cage, and the Emperor said, I have to let you go, but you have to tell me how you managed to get out of this pickle and the Christian said, it was very simple, Emperor. I just told the lion he would be called upon for some after dinner remarks.

So thank you for staying awake. Carol is a long-time colleague of mine from our Policy Board days.

I'm pleased to be with you. I was appointed to serve on a Presidential Tobacco Commission and about three years ago came up with this proposal of the quota buy-out. I think it was the longest named commission in American history, and I have to look at it to remember the title, The President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production While Protecting the Public Health. I defy any of you to come up with a longer presidential commission than that. I learned a lot about tobacco that I really didn't know, and I learned a good bit about communities in the South, a lot of them in Appalachia that were dependent on tobacco income and were being stressed by the trends that were happening not so much to the tobacco companies but to the tobacco farmers. We learned that there are some five hundred and eighty-five counties in the country that produce tobacco, and if my memory serves me correctly there were ninety of those counties in which five percent, around five percent or more of the personal income came from tobacco. And we were trying to figure out what can be done to help these communities build a future. What was interesting about it to me was that it

was the same song but a different verse of what has happened in a lot of rural and small town American over the last hundred years, and the last fifty in particular. When you think about the fabric of this country and where rural and small town America started off and where we ended up you could almost entitle the play something like "From Independence and Self Sufficiency to Dependence and Weakness," and hopefully Chapter 3 or Act 3 of the play would be "Toward Rebuilding Sustainability."

For the first hundred years of this country we were basically rural and small town people. Mostly the farming enterprise sustained the economy, and there was a fabric of farming towns with small town merchants that served the farming enterprise. The big cities of the country were our port cities like New York, Charleston, New Orleans, other than that we were basically a country of farmers and small merchants, and the communities were fairly sustainable, fairly independent and fairly viable. Government policies always affected which communities and which people thrived. When you think about the history of certain Federal policies where the canals were built and where the subsidized railroads were built and later where the interstates were built, where the airports were built, where the ports were improved, of course now, where the information highway is going to be built. These infrastructures profoundly affected which communities and people thrived and which ones did not. There's some innovative Federal policy along the way. We hear about technology transfer today, but these mothers of all technology transfer programs was the Land Grant Act in 1863 which created the Land Grant Colleges.

I read some wag historian who commented that it took getting us recalcitrant Southerners out of the Congress in order to enact some progressive legislation like the Moral Act. Being from Mississippi I don't agree with that. This act created a system that generated the technology and then through cooperative extension transferred the technology through this vast fabric to farmers. It was like one of the most successful technology transfer programs in existence in the history of the world. But things started to change. In the latter part of the 1800's, of course, these industrial behemoths from the interior cities in the country started to develop places like Chicago, Detroit, Pittsburgh. One historian said Pittsburgh wasn't planned but they just woke up one morning and there

it was. You had the rivers and the natural resources and the steel industry emerged, and a lot of the economic activity began to be concentrated, and the new industrial behemoths began to emerge. In the first part of the century, but really after World War II, you began to see the acceleration of a number of trends that weakened this rural small town fabric. The first of these was that we were victims of our own success. Technology enterprise and farming had reduced the labor content from probably ninety percent of the country from the time of the Revolution to about one or two percent of the country today. Increased productivity reduced the labor content based on technology and we began to see this long-term decline in medium and small size farms and the decline of the so-called family farm.

You began to see in Appalachia once the railroads came in and coal could be transferred much more easily and efficiently that the land and resources started to be bought up quite often by outside interests. Much of the natural resources of the South and in Appalachia drifted away into the control of people who were not indigenous to the region.

The third thing that happened which started off as an innovative and successful policy but I argue is one that has some serious down sides as well, was when state governments got involved in economic development in a big way starting in the mid-'30's in my home state of Mississippi and spreading throughout the South. Basically, mounting an economic development policy at the state level that we call the industrial recruitment. The plan started with the BAWI plan in Mississippi in 1937 by former Governor Hugh White. The idea was to lure grant plants of manufacturing facilities that had begun to disperse outside of these industrial behemoths to get closer to their markets, lure these plants into our communities to provide jobs by a surplus labor force that had been displaced out of agriculture. We brought these plants to our communities with the promise of abundant, inexpensive labor, organized labor, abundant natural resources, low taxes and public subsidies quite often in the form of tax abatements and industrial bonds. This, in fact, did industrialize the rural and small town South. It created in our region a branch plant economy.

In Appalachia we have twice the national average of the manufacturing work force in branch plants as is the national average. If you stop and think about the consequences of that, it did create jobs, it created some prosperity, but once again, the control was not in the communities. The control was back at corporate headquarters. How many times have we seen the decision made in Seattle or Detroit or Chicago and now Singapore or Tokyo one day costing our community three hundred jobs when they woke up to find out about the plant closing. Even the industrial policies sort of reinforce this out migration of control, if you will.

MR. MONTGOMERY: Excuse me, we've never really had control, the South has really never had any control when it comes to this.

DR. WHITE: We've basically been a farming and small town merchant society. The economic destinies of our communities and people were much more controlled than they are now, or they were much more.

MR. MONTGOMERY: From the standpoint of the farming sector, I agree, but as far as manufacturing and industrial we never had control of that.

DR. WHITE: We never created but we brought it in, which is going to lead me to hopefully my solution points.

DR. MORRIS: Are you going to tell us how we can regain control?

DR. WHITE: I'm about to do that, rebuilding and sustainability. What we did at the ARC in 1994 was to take a look at all of these transitions, and again tobacco is another example of a declining sector of this traditional labor intensive manufacturing economy. As Carol well knows, and she's done so much work in this, that in the 1970's when the production process globalized as a result of increases in technology, communications and transportation. This is when we began to see the decline of our manufacturing employment, because if you have an industrial strategy based on cost advantages and mass production, which is what we had, that goes global, and suddenly you're not competing with cost structures in Detroit but you're competing with all sorts of third world countries' very low cost structures.

So a whole series of things, I think, weakened the fabric of our rural and small town people in this country and in these communities and their economic lives. Part of

the problem was we had not invested sufficiently in the infrastructure, and perhaps most seriously we had not invested enough in education, training, the human resource side of the equation, because the dirty little secret was if you wanted to keep them down on the farm and in the mines or at the sewing machine, you didn't particularly want educated people. When this new world crashed over us with technology and globalization began to write the script our people were inadequate to make these transitions.

We looked at this at the ARC, and we took a year to do the strategic planning process. We assessed the region, we knew the region had changed, knew the world had changed, and we came up with a new strategic plan that had what we called our five building blocks of economic development. The five building blocks you've got to work on in a serious way over a long period of time in order to rebuild sustainability. These five are our five goal areas.

The first one is, and these will come as no surprise to you. The first one is education and training. Investing in trying to make up for that deficit in our human resources investments for so long.

Secondly is physical infrastructure. In Appalachia that's still a big issue in most of our areas. We still have plenty of communities without clean drinking water, without sanitary sewage systems and without access to the interstate grill, which we're working on. We're building a three thousand mile highway system which is about eighty percent complete. When that is completed it will connect much of Appalachia to the interstate system.

Third is things I talked to Carol about when I walked down. The third is leadership development and civic capacity. In the old world it was the hierarchical model of leadership development in the South. A few movers and shakers at the top and a lot of followers at the bottom made things happened, but it doesn't work that way anymore. Leadership has got to be broad and deep in our community, and developing leaders from nontraditional sources is extremely important to helping our communities take charge of their futures. Equally important is helping build civic institutions that will over time provide a home, a forum, an institution for keeping these human energies organized over a period of time. It could be a community development foundation, it could be the local

planning and development district, a number of different instrumentalities, but there needs to be some organization for this civic energy.

The fourth building block or goal area is dynamic entrepreneurial local economies. This is where we try to address the issue of the Buffalo Industrial Recruitment model. We have been working at the ARC for five years now on entrepreneurship initiatives. What we're basically saying is that the old model of industrial recruitment did what it was supposed to do, but it also did not do a lot of things. The main thing it did not do was have a control locally, which had a lot of implications for leadership development and leadership staying put that doesn't really create wealth. The wealth goes back to the shareholders at headquarters. We believe we need to work on a new model of economic development that's a more home grown entrepreneurial general model of building businesses at home. The Fortune 500 started in garages somewhere, so why can't they start in our garages? One answer to that is that we haven't worked on it. We worked on bringing a plant to town model, but we have not worked enough on the indigenous business creation model. We've got five goals in our entrepreneurial initiative. One is access to venture and risk capital, and one is better technical assistance to small business start-ups, technology transfer and commercialization from local resources, more entrepreneurial education in our public schools.

Fifth, trying to network services to small business people in a more efficient way.

SECRETARY SCHEWEL: Is it working?

DR. WHITE: We think it is working.

SECRETARY SCHEWEL: This is an area I've talked to a lot of people about, and I don't mean to be flip about this, but I am serious about it. I'm learning that the best thing you can do for entrepreneurial is to go out there and recruit a lot of folks from Vietnam and Korea and China and Japan to come to our rural areas, because that's where the entrepreneurial come from. In New York City in 1923, or 1918, they didn't have entrepreneurial classes, they didn't have entrepreneurial training, and they had a zillion entrepreneurs, are we pushing the string?

DR. WHITE: I don't think so, and I say that for a couple of reasons. One, I would argue our education system in much of the South in most of my life it not having been designed to beat it out of the children, the students, and certainly wasn't encouraged. I think the culture you talk about in New York is a very different time in the culture. It was family, neighborhoods and traditions. I think we've had kind of a different view of economic development in the South for a long time. Again, part of this was formed on my part by growing up in Mississippi. There was always a strong feeling that the jobs were out there somewhere and we had to go get them. We had to get the plans out there or Senator Stennis would bring us an Air Force base or Senator Eastman or somebody was going to come save us. I think we would have had a passing mind-set for economic development, but this is a long-term proposition. I think getting entrepreneurial programs like Real Enterprises and Junior Achievement and a lot of them are out there in our public schools is important. It may plant a seed in a lot of young people that would not have been planted otherwise.

The second is a story I'd like to tell you of what happened in Knoxville, Tennessee when the Levi Strauss plant closed, I guess five or six years ago, and they laid off twenty-five hundred people. Levi Strauss is a pretty good corporate citizen, so they gave notice and they came in with resources to help the workers try to find other jobs. The state of Tennessee has a good record and high esteem, but there were a lot of people at the table. We came in with a very small one hundred thousand dollar grant that was aimed at those people who in talking to the counselors on the transition team, self-identified themselves when asked what do you want to do next, and that was I always dreamed of having my own business. There's a lot of people that way that had this dream of having their own business. They were mostly black women who worked in these plants that we worked with. It wasn't like those of us that come from traditional middle class families that dreamed about starting a business and go find the resources to do that. What we did with this hundred thousand dollar grant, took two hundred of these twenty-five hundred people and put them through one of two entrepreneurialship programs; one was at the Community College at Mississippi State, a little more advanced, one was a non-profit in downtown Knoxville, and gave them the basics of business and a little mini grant, which

was several hundred dollars to get started. I went back a year later to visit and a hundred of those people had their own businesses up and running. We had a press conference, and this lady had always wanted to run a bakery, and she went into business with her mother, and by this time she hired a couple of other people, and it was a going concern. These are not going to produce necessarily the next IBM, but you never know. I think if you give people the wherewithal that they will do things for themselves. So I really don't think it's pushing the string. I think it's a long, hard job that we're faced with.

Have I said enough, or do you want me to carry on some more?

DR. MORRIS: Those five building blocks and healthcare.

DR. WHITE: That is a traditional area for the ARC to work in. We did a lot of work in our early years with healthcare, and it's still a problem in a lot of areas of the mountains.

I'll just conclude with one comment and that is, in addition to these areas that I've talked about, we're also very concerned about telecommunications. I know you all are doing some work in that and I really commend you for that. This is an infrastructure that we cannot afford to bypass like many have in the past. The interesting about telecommunications that strikes me that's different from prior infrastructures is how much it requires the rank and file of all of us to know how to use it. On the river systems and canals you had a small number of people that would have to know how to captain the boat and load the cargo and on the interstates the truck drivers and the cargo ports and the ships, the freight forwarders and so forth. It's one thing that strikes me about the telecommunication industry, and that infrastructure is that everybody that's going to be in that infrastructure has got to have some education on how to use it. That's kind of the piece we're looking at the ARC, more preparing our people to use it and how to use it.

I'll be glad to answer some questions.

MR. CURRIN: Mr. Chairman, our next speaker will be Dr. Delore Zimmerman, President and CEO of Praxis, Inc. a community and enterprise development firm that is recognized nationally for working with entrepreneurs, economic development and technology research organizations, to create enterprise opportunities in technology and information industries.

DR. ZIMMERMAN: How do you do? Mr. Chairman, and Members of the Board, good evening. I want to talk about a couple of things that our company does. Two things that were the work of communities and regions and states having to do with economic development and program development. Then we also over the years started to work more and more with management team technology companies. That's something that has emerged over and over again, and so we're responding to it. In addition to being part of the company that I own or a partner in also, and in my other activities I get to work throughout the western United States, sometimes I work in the east, like Pennsylvania, Florida.

I'm going to talk briefly about some of the trends that I think symbolize things that we're talking about. Some of them have the same problems you do, but we have one thing that's different. We have high out migration, high levels of education, very little economic opportunity. So, in that sense it's a little bit different.

So I told you about the company. I think it's important to understand that when you do these kind of things, in marketing they have something called the law of acceleration and build on trends. So we'll talk about some of them. Talking about transition, this shows that we've gone through several transitions. How many more can we go through? We've gone from the agricultural, the industrial and the information society, and now we're in something that people are calling the network society. In the network society I think what we can realize and understand today that it's an economy that's much more fluid and much more rapid than ever before. Work now flows to the technology and infrastructure and global information infrastructure.

When I'm sitting at my desk and I've got broadband going, it doesn't matter whether I'm talking to a guy in the next office, Marion, Virginia, or someone in Washington State. I work the same in any of those situations. Also, we find that trade flows between clusters of value-added in regional and global enterprise networks. We talk about the automotive industry in Georgia and how that, and moving into Texas and into Mexico, and that's nothing new. Tobacco was here, and small grain production was clustered in the Great Plains.

A third trend we need to be mindful of today is that financial and human capital flows very rapidly toward, as you'll see right here. So this is kind of a new dimension of human capital flows and financial capital flows. They flow in a very rapid fashion. The tangible results of that, you can see from 1890 on the agrarian economy is less than ten percent. I like to tell communities I work with in the Great Plains you're doing too darn good considering what is going on. Take a look at the transition right there in the 2001 and the 2002 era, where electronic jobs actually superseded industrial jobs. A lot of the industrial work is going overseas in Juarez, Mexico, for example, seven hundred thousand manufacturing jobs. That's more than the population of the State of North Dakota, and those are industrial jobs moving away.

We also find that information technology is proliferating through all industries, and that's why it's becoming so important, and that's why the electronic jobs are taking up a larger proportion of the economy. We've got IT using industries and IT producing industries. It's almost every industry, and even in agricultural you see global positioning systems, digital soil sampling, and all of these things are tied to software. We often think that agriculture is not information intense, but it's very information intense. So we've got all these tremendous changes, and unfortunately a lot of the IT employment we see around the country is concentrated and remains concentrated in urban areas. If you look at rural, which is in red and urban in blue, you'll find that the higher skilled IT jobs are predominantly urban and that low IT has a representative sample of, all IT jobs in rural areas are really much more predominant, so we need to work on that as well.

MR. BYERS: What do you consider low IT?

MR. ZIMMERMAN: Anything that would involve software development. An example would be more like call center work, customer service type of things. The other thing about the infrastructure is that it permits decentralization. People say you can do anything anywhere now, but you can't. That's because there's strong centralization tendencies with this technology. So we face some pretty fundamental challenges. On the economic side scale we're not big enough, proximity we're not close enough. If we're truly living in a network society we face problems of density, distance and terrain.

When you come right down to it, what is the problem in rural areas? We're in thin markets, and we have thin networks. Here's the reason why networks are important. The South Dakota Tech Summit last year, John Chambers from Cisco was there and he indicated that a five percent growth per year of productivity is evidenced by network connectivity. He had just come back from China where he was doing some advising work. The result is you can double the standard of income in ten years. This is very important if you're going to try to increase the standard of living of the population.

What I want to spend the rest of my time on tonight is talking about working rural models for success in the network society. We're going to talk about community technology centers and distributed IT work teams, regional equity investment funds and high performance community strategy initiatives. Community technology centers are rising around the world because people are coming to understand that they need to go to a central place where they can share or learn or have access to the latest technology. When we build a center like this what it does in the first instance it aggregates broadband demand so that the service providers bring it to one place. The community has an access point, job work space, space for small businesses, distance learning and worker training, telemedicine and all of these things, even daycare for workers. I'm going to show you a few examples of that. This is a rural city in North Dakota with a population of eight hundred. This is the oldest county in the United States, the largest percentage of people eighty-five years and older and the largest percentage of people over sixty-five years of age. The pressure is on because their population base is dying quickly. The community purchased this building and recruited a manager, they have a data processing center in there now and they employ forty people. They have a web media service that employs five. This is definitely an example of where community leadership is, and we've got to get into it. We've got into the new information technology jobs, and they did it.

Another little community, population five hundred and fifty in Maddock, North Dakota, the same thing, and they said they've got to do something, and they did it. They built this business and technology center that cost seven hundred and fifty thousand dollars, and it's community owned by a local development organization. They have leased office space, they have a training center, a computer cluster. When you go into

this building during the day there's people in that cluster all the time, including older people who are jabbing away on a computer and on the Internet doing this and that. It's pretty incredible when you get right down to it.

MR. BYERS: How many square feet?

DR. ZIMMERMAN: I think it's forty thousand square feet. They also determined that they needed a daycare center, because a lot of the entrepreneurs that wanted to go in here were women, and they needed a place to keep their children. It's a multi-purpose, multi-generation situation. It was a good idea.

Another place is in north central Washington, and this is a little more upscale and serving a different population. They're building a community technology center, and it'll be open in the spring or winter, and this is a pretty incredible place. It's going to have a fiber terminal there, some of it will be through the PUD as well. It's carrier redundant and work force education and training. It's also going to be a community access point where people can network. They're hoping it'll be a magnet for the IT business and professionals. I think the most important part about these community access technology centers is that place can always get the most advanced thing. Not everybody in the community can afford to do it. To do it here people can come in and learn about it, and they learn about it very rapidly because they're doing it together, community technology is a very good thing.

I just started working with this group, and this is called the RITE-Team. This is a group of seventy-five rural residents in South Dakota and Nebraska that are working with the University of South Dakota and learning programming, web service programming. We've been hired to market them as an out-sourcing team working with companies. We had this conference yesterday, and about a hundred more people showed up. It was incredible. Mostly they were women looking for a second income for the farm. They're doing this network and distributed worker. They'll be marketing this as an out-source. In a lot of these communities where people are living they're also thinking about community technology centers.

Now, I'll move on to capital. In North Dakota like many rural areas the government has a program for expanding capital, money for recruiting companies, there's

not much money available to start a small company. So what we decided to do was we were going to raise a million dollars. A million bucks might not seem a lot, but what we're going to do is only invest in early-stage expansion and expansion-stage companies with exciting ideas and high potential, whatever that means, but that's our goal. We're doing that because small and medium-size companies, they are the drivers of the economy. Seventy-five percent of all jobs are created by companies with four or fewer employees. Seventy percent of all high-tech companies have twenty or fewer employees. These are good candidates for rural areas, and they create most of the new jobs and have a high potential.

Now, we're focusing on technology companies, and we define that fairly broadly as any company that uses technology or information as part of its core business. It can be a process, a device, whatever it might be. Our first investment was a company that makes truck bed covers. You're thinking to yourself, technology, no way. They sell a lot of those on the Internet everyday. They don't manufacture anything, and they out-source everything. All their parts come in, and they're inscribed and numbered by laser. This company rocks, and these guys know what's going on. That's the kind of company we're looking for. We intend to make money on this, and we want to provide a reasonable rate of return to our investors, we want to retain investable capital in the region, that's our primary goal. We want to benefit the communities, of course, so we really rely on them a great deal. Our intent is to make twenty investments fifty thousand bucks, and we know we're going to lose on eighteen of them.

DEPUTY SECRETARY ERKSTEIN: Who provides the capital or the investment savvy for this?

DR. ZIMMERMAN: Our company does this.

DEPUTY SECRETARY ERKSTEIN: Do they have experience in investing capital and the kind of things that you need?

DR. ZIMMERMAN: The company, we do.

DEPUTY SECRETARY ERKSTEIN: Do they understand how the venture capital deals work?

DR. ZIMMERMAN: No, this is a very management intensive process. Most companies in rural areas don't understand equity investment, particularly don't understand where the money will go. We want our money to go to work, and we want it back in five years, so we are working with them, and it's a lot of work.

DR. MORRIS: I'm about four slides back. The company that has seventy-five percent of the jobs has four or fewer employees?

DR. ZIMMERMAN: Let's go back to this one.

DR. MORRIS: I'm not processing it.

DR. PURCELL: Eighty-six percent of the jobs in the Commonwealth are in firms with fewer than twenty folks.

DR. ZIMMERMAN: That's where the value is in the economy, when you get right down to it.

DEPUTY SECRETARY ERKSTEIN: If you measure that in terms of how much they are compared to the GNP or how does that measure up with, and when you talk about actual number of employees and you look at the economic impact of small businesses what does that look like?

DR. PURCELL: I don't know that I've seen anyone try to differentiate an impact, and it would probably be small versus large. It would have a different multiplier, I would think.

SECRETARY SCHEWEL: What did you say, Wayne?

DR. PURCELL: Eighty-six percent of all the jobs in the Commonwealth of Virginia employ fewer than twenty employees. That's the data line that we can get. I think those statistics are consistent, I really do.

SECRETARY SCHEWEL: I'm trying to process that.

DR. PURCELL: In rural counties in the Commonwealth it's ninety-five to ninety-six percent of all jobs employ fewer than twenty.

SECRETARY SCHEWEL: Fifty-six percent of the jobs are in companies with a hundred and fifty employees. Your number may very well be right, and I'm not saying you're wrong, but I'm not sure if this is entirely correct.

MR. MAJORS: Seventy-five percent of the jobs are in companies with four or fewer, you're saying it creates seventy-five percent of the jobs now, creating new jobs.

DR. ZIMMERMAN: Actually, just a couple of months ago for the first time in about twenty years there were more employees in large firms in the country than there are employees in small firms. The cutoff is five hundred.

MR. MAJORS: This is creating new jobs?

DR. ZIMMERMAN: Particularly in rural areas.

MS. MOORE: Can I add one more thing about rural areas and education? This is a woman named Golden, who is an Economic Historian at Harvard. She's reported in Harvard, and she's also reported in the *Wall Street Journal*. The results of her research is that every time there was a transition from one kind of economy to another, like agricultural and post-industrial and industrial to post-industrial, or information economy, one thing that she can tell you is that every time there's a need for more teaching and not less. It makes sense if you have people learning new stuff they have to be taught something new. It's over and over again the enormous need for education. If you look at the South you can see where they've had an enormous need for education across the board. Talking about the Land Grant institutions that was enough, and one of those data points, and it'll happen to be one again.

DR. ZIMMERMAN: If you read things by Lewis Pearlman, he says that seventy-five to eighty percent of all people's jobs is to learn, so that's significant. So getting back to what I was saying, this is a for-profit fund, and we have raised a million dollars, fifty memberships with a maximum of five for any one member. We structured it so you only have to pay two thousand bucks to get in, and everything else we do is capital - because a small fund like this you get twenty thousand, and it just sits there, and we didn't want this to happen. So we have high net worth individuals. Most of our investors are institutional investors, cooperative and publicly owned utilities and electrical cooperatives, investor owned utilities, corporations, community, state and national bank systems, they've helped us out. Development corporations, local and

government corporations have helped us out. What we're going to do is if we run out of a million bucks we're going to start another LLC, and that's a lot easier.

DEPUTY SECRETARY ERKSTEIN: When will you start getting your money back?

DR. ZIMMERMAN: Five to seven years. We make every deal with a regular, not a loan, we make them just like any regular investment. We want to try to get our money back in five years.

So, the final thing I want to talk about is something we developed called the High Performance Community Initiative. We developed this because communities throughout the west were coming to the center and saying what do we do, and we had some of those conversations earlier. People really don't know what the picture looks like. They came over to the Great Plains, and they knew they were building farms, and what kind of communities are we building now, and there's really no definition to them. We developed this to help communities in the enterprise, public and civic sector become fast, flexible, focused and networked, but the really underlying themes are entrepreneurialship, local ideas, using the knowledge you've got, developing capital and infrastructure. We have seven high-performance community strategies. The key one is civic leadership, if you don't have people that give a hoot about their community all of this is for naught. So that's the key. We focus on competitiveness and livability because quality of life is so important today to our people. I'll finish on that.

Here are the seven things we do, and I believe that pamphlet was handed out. There's a collection of two items for each of those, and we have to score the communities and see how they're doing. One of them is telecommuting, one is entrepreneurship, growth from within focusing on information and technology, we think that's critical. Industry clusters, because no business is a success by itself anymore. It takes a banking person that understands business, and it takes educational people, and it's a group process now. Networking is very important. Global outlook and then, of course, civic leadership and regional collaboration. This civic leadership thing, that's the American apple pie thing. It's that combination of enterprise and civic duty or civic action, and that differentiates us.

Before I forget I want to, I was talking to Joel Kotkin, who is the author of a book, *The New Geography*, and he published an article in the *Washington Post* that the problem with rural areas was really a dependency culture. Joel and I have been working in communities across the United States. Joel's take on what's really going on, the economy is really people-based, and companies will go to where the people are rather than where the talent is. The problem there is in the second paragraph is that people who have really become sophisticated, and they've been around the block, and they know what quality of life is, and they choose where they want to live, and that's where the companies are going to go as well. Joel's take, and I would agree with him, is that if you're going to be successful in the future you really have to build and cultivate the skills and people that you've got, and the entrepreneurial skills still work. That's the message I have today. Any questions?

DR. MORRIS: You seem to be saying that the answer is not bring people in, to work with the folks that are in the region.

DR. ZIMMERMAN: That's a large part of it, yes. I'm not against recruitment, and I think recruitment when it fits the economy is a good thing, but I think over the long run if you build the capabilities of the people and the companies that you've got it's going to make a difference. When I talk to people about moving they want to go where something is happening. They don't want to go where they have to create more, that's not a good thing for the balance sheet.

SENATOR HAWKINS: Mr. Chairman, I'd also underscore that, and the emphasis that I was trying to make, or the point I was trying to make and emphasize is that we have to understand that if we try to expand this economy and if we have to have an entire generation uprooted which was, and that's uncomfortable. As we try to relocate this population we need to have in mind that we have to reposition the entire economy and make sure we meet the needs of the people that were in place to build our economy and maintain the roots and identities to the areas we come from. Because the strength has always come out of the communities and families which historically are in place. As we try to redefine these economies we have to keep that historical perspective in mind. If not, we're going to lose it all. I think we can do that, but we have to understand we have

an entire culture that will be uprooting things that they are familiar with, and we have to be conscious of that.

MR. MAJORS: Any other questions? All right. Thank you, very much.

MR. CURRIN: Our last presenter this evening is Dr. Wayne Purcell from Virginia Tech, Coordinator of the Rural Economic Analyst Program, focusing on economics at Virginia Tech.

DR. PURCELL: Thank you. While I was sitting here I thought about some ideas, and also I thought a little bit about what I saw and heard, and I thought I could make a little contribution following up on some of these excellent presentations that we've heard this evening. So I got an idea using a little filter and running all these possibilities through as we think about them. I'm just going to walk you through them. It seems to me moving forward on two fronts, and I'm not going to read it to you, but I'll just expand on it a little bit. One, you're talking about activities and programs that have a measurable short run on economic activity and what contributes to longer run growth and development. Then, second, the actions and programs that contribute to an expanded and viable economic base and increased capacity in the long run. That's a significant amount of words, and I'm suggesting to you that it is possible to have strategies that'll leave deep tracks and short ones, because your critics are going to be looking to see what have you done, can you see the impact and can you see something tomorrow, but when you do the short-term programs I would hope you're also doing programs that contribute to an expanded capacity based on a long-term concept. I don't think those things are mutually exclusive, and I don't think it's impossible to do those. These are just two or three suggestions. There is evidence in the record that the use of short-term viability and increased quality of life and at the same time trying to contribute to that longer-run base of economic activity and the long-run strategy that would renovate and revitalize the local economy. I agree generally with that. I try not to read too much between the lines in suggesting that you look at that, because I think you were. Some short-term strategies that I think, for example, would meet that dual criteria of having an impact right away and also contributing to the long-term expanding capacity and work force training. A comment about what makes it more attractive if you're talking about relocation and

certainly expand your capacity to do some things from within in terms of growing locally owned businesses. Programs to boost telecommunications, I very much see a short-term and long-term component. If you're in the process of putting that capacity in place that community is going to look more attractive to anyone that's thinking about bringing in or growing a technology-based information base business in that community and investing in it. I also show up and down next what I think is critically important long-term.

The Capital Access Program that is dedicated to rural tobacco producing communities, one of the short ones is access to capital by existing small businesses wanting to expand. The Capital Access Program, we already have one in place in the state, can avoid spending or committing settlement dollars by encouraging banks to make the, I would add parenthetically, almost bankable loans that they're now turning down, and you've got lots of in this state that that is the case. To date the Small Business Financing Authority has loaned thirty-three dollars for every dollar that the Commonwealth has contributed to the Reserve Fund. This is not lending State's money and is not a guaranteed loan program. This is a program that facilitates and encourages the banks to make loans they're turning down now, not because it's not a good business plan. If you think of any one business that doesn't have collateral you're thinking about information technology. A computer is not collateral, it's not a building, it's not a machine and has no value. We've done research before any of this came along at Virginia Tech in my department, and it's clearly identified that we have small businesses all over rural Virginia being turned down in the hundred thousand dollar requests for reasons other than this reason. It's the high cost of the processing of the loan that we've already heard about, it's the lack of collateral. When you talk to banks, they will agree that is a problem for them, the higher cost dollar. If everybody in this room, everybody on the Long Range Planning Commission understood capital access and what it can do the way I think I understand it we would have already put a program in place. I'm just telling you to think about that and investigate it. At the state level the worst case and the weakest most conservative multiplier impact you can find anywhere has still returned twice as many dollars, adding state taxes, sale and income taxes, as the state would have to contribute to get a loan. It's the type of program or the sort of program I think that would

make those big tracks short-term, and it would get some increase right away and have a huge impact on the long term.

SECRETARY SCHEWEL: My agency is included in one of those things. The only small business program that we have, financial program we have, is the capital finance program that we have that's not under subscribed. All the other ones are basically oversubscribed, and all the other ones are under subscribed.

DR. PURCELL: This will build a reserve and barring paying penalties for, and that's why they don't use this and abuse the situation, and that's why the banks can't use this. Build a little reserve in the bank and encourage them to make those loans. But on a risk scale of one to ten everybody makes one through four and nobody makes seven, eight or nine. We need to get the fives and sixes. There's a lot of them out there, and there's a lot of opportunities. The one-page form per loan has to be filled out to get this program.

SECRETARY SCHEWEL: I would say to my legislative friends that that would be one of the things that would be worthwhile thinking about. This has nothing to do with the Tobacco Commission but taking an under utilized program and making it more flexible so we could get some of the moneys into that program that is currently oversubscribed.

DR. PURCELL: Enough said, take a look at it and get in touch with me, and my contact information is on the second page, if you want to. Among the long-term strategies, I think the investment you've already made in biotechnology and technology is certainly one of our long-term things I think you need to do. Virginia needs to get out of the commodity business and get more into high value production of foodstuffs, et cetera. As several speakers have said today, we're going to have a hard time competing in business with many other countries of the world that work for ten percent of what our minimum wage is, and that's difficult to do, and so I commend that, and I think it's an important thing to do.

Long-range investments like educational infrastructure, pay attention to that, and I encourage that. Not only higher education in the work force and the infrastructure but also in K through 12. That's one of those things we've got to do long-term and then turn

that corner and back up and remind you that adult education in the work force is tangible and the training has the chance of leaving deep tracks in the short-term. Education is a long-term thing. If you wait on improving K through 12 in rural Virginia, this Commission will not have to worry about it, because you won't be here. It's a long-time event, and it's something you have to do. You can't allow that not to happen, in my opinion.

Investing in the telecommunications infrastructure, put that down again. One of the things that the next paragraph on the next page says. It says one of the things that we have to understand in these rural communities is that a rural community has to have something that somebody in the global economy wants. If you don't have anything, it could be a skill, it could be a work ethic, it could be a tourism opportunity, it could be scenery, it could be lots of things, but you've got to understand that the marketplace responds in terms of what somebody is willing to pay for it. So it's very important that we appreciate that and recognize it over time. To recognize that over time, we need to get ourselves in a better position. We've got to get out of the commodity business and unskilled labor is a commodity. We can't compete in the soybean business in the Commonwealth of Virginia, because Brazil can grow it cheaper. So in a global economy we have to understand that our prices are being forced down to the cost of the producer, and it's not ours anymore. It's not us with soybeans, and it's not us in unskilled labor. We can't live with that, and we've got to change that.

I'm really suggesting that you think about the short-term programmatic possibilities and look at your priorities. Short-term programmatic possibilities would leave deep tracks right away, and we really need those, because somebody is going to be looking and see if there's any evidence that you've done anything. They're also compatible with long-term needs, boosting capacities in jobs that respond, and that's what it's all about. Then that whole other parallel track, long-term investments that boost that long-term capacity. Thank you, very much.

SENATOR WAMPLER: Uncharacteristic of my personality, I've been very quiet and listening tonight to all the presentations. If there was a broadband referee he would put the yellow hankie on me several times for trying to deploy broadband. It's

not a criticism of other presenters, but I have not heard how we can possibly impact the farm and its income with some dollars that we have with this Commission. I've kind of looked at you tonight as our resident expert. How can we help the small family farms?

DR. PURCELL: You have to step back and ask yourself what is it that you want. Of the forty-one thousand farms in the Commonwealth of Virginia given the recent census figures, eleven hundred of them sell fifty percent of the farm products. Twenty-two hundred of them sell sixty-nine percent of the farm products. I'd ask you, what do the other thirty-five or thirty-eight thousand farms do? What they are is these very families that we're so concerned about in the community. They're part-time, weekend, et cetera. They are the social guts of the rural community. So not only do we need to work on the opportunity to improve their position and the capacity of farmers, but I'm suggesting we put our money on something that starts to get you out of the community business. It's very important that we recognize the very best thing we can do for those families. That's exactly what I'm saying, try to make sure that the good high quality jobs are in the community so they can make a living on the farm, and that's exactly what they're going to have to do. They've already done it. You have to sell over a hundred thousand dollars before you start making an average in any part of the country. You have to get over a quarter of a million dollars in annual sales before you make an average of about a third of a family's income. You have to get up to five hundred thousand dollars annual sales before you average making a living on the farm. So the rural community is in this altogether. Farming is an important and vibrant part of the community. I think what we need to understand is that we need strategies, priorities and programs that enhance that entire community, and in the process we're going to really help those farms.

SENATOR WAMPLER: I do not disagree with anything you said, and the small farms that I represent, and they may put out a small tobacco crop, but the point is for this Task Force to report a long-range plan. We're being silent on the agricultural component. I think we do both of our regions a disservice. There is no silver bullet that will solve a new market that will bring the revenues in to replace the losses from the sale

of tobacco. I think maybe we need to slow down just a notch. I'm thinking of the family farms and maybe how as part of our recommendation we don't lose those folks.

SENATOR HAWKINS: Mr. Chairman, if you go back and look at the chart that was handed out on the money that we've invested in biotechnology and maybe some of the answers to stabilize these family farms in the future, I think we have made legitimate investments in different technologies to help the family farms, and that's something we should continue to do. I agree with Senator Wampler that there's nothing more important than maintaining the rural identity of the areas that we represent.

DR. PURCELL: Maybe you didn't get one of them that I mentioned, because I said in there that we need a program that starts moving us out of the commodity business in farming. If we can quit growing a commodity crop and have a product that has an impact on nutrition and health, then it's not a commodity, but we can't do that overnight.

MR. MAJORS: You're also saying that the farmers, a lot of us know are wanting to work shift work at some plant that we don't have any longer, we've got to find something else for them to do.

DR. PURCELL: I'm saying that those farm families need to stay at that house on that acreage, and that's the urgency, and that's why you moved early on to identify the indemnification part, which I agree totally with. There's nothing wrong with having a community made up of several hundred part-time farmers. You've got lots of them, and we need to not only encourage that side of the revenue flow but we need to have something going on in the community that's vibrant and growing.

DR. ZIMMERMAN: Something we have in North Dakota that may be tied to what Dr. Purcell is saying, is Capital Access Program. We have something called the Ag Products Utilization Commission. They meet quarterly and consider applications for money for feasibility studies, marketing plans, business plans just for new value-added products. That's been pretty successful.

MS. CONWAY: One concept of support and innovation and there's a family farm in Alabama who's growing corn and decided to make popcorn and sell it

overseas. That has expanded, and that is something that has generated a lot of opportunities in that situation.

SENATOR HAWKINS: We've been producing corn here for generations.

MR. LOOPE: I have a question for Jess. In the course of your travels can you identify two or three regions in Appalachia or the South more specifically that is truly in the process of transforming their economy through entrepreneurship? In those other regions, what are the top two or three characteristics that are making them more successful than the rest of us?

DR. WHITE: Like I said, we're in the early phases of this initiative, and I think the payoff will be down the road, but even prior to this initiative there are some areas that have done some really good work building on their institutions. I'm thinking of the Tupelo area, and I guess you may have had a presentation on that earlier today, and that's a good example. The Mussel Shoals region of Alabama is a good example. It's capitalizing on substantial Federal investment still using business incubators, articulating programs between community college and the University of Northern Alabama where they're doing a degree in entrepreneurship. In the bowels of Appalachian Kentucky, there's the Kentucky Highlands Investment Corporation, which is kind of the granddaddy of these developmental venture capital funds that has done a lot toward creating jobs and companies in that part of Kentucky, and it's based out of London, Kentucky.

Athens, Ohio is another interesting example where they're trying to finally put together all the pieces of this entrepreneurship puzzle. In the new markets initiative, the developmental venture capital fund competition that they have, one of the winners was the Medino Fund. It's headquartered in Athens. These ultimately become about thirty-five million dollar venture capital funds. They're based on the Kentucky Highlands model where they have sort of a double bottom line. Traditional venture capitalists want thirty-five to forty percent rate of return, and these funds, your fund is looking for twelve to fifteen percent, it's an economic development component as well. They've got the venture capital fund, and they've got the Ohio University there.

We have just put money in helping to create a high technology incubator on campus so businesses will now have a place to be birthed and will have access to capital.

When you see a place like Athens put in place these different ingredients of this entrepreneurial puzzle.

In New York State there's been some very interesting work, and I don't want to reiterate what you said here about the whole cluster approach in creating a ceramics cluster. It's kind of based between Corning, which has the good fortune of having Corning Corporation in this little village, and Alfred University. There is a ceramics incubator there in Corning. There's a lot of activity going on in the region that is trying to create these more indigenous home-grown economic bases.

On our web site at the ARC we have a lot of information on these communities that are doing well.

SECRETARY SCHEWEL: Is there one in Virginia that's being replicated, the one in Blacksburg?

MS. MOORE: What I was going to say, and not to beat a dead horse, but David Birch at MIT has done studies on entrepreneurship and has data going back to 1920. One of the things that's always in an entrepreneur cluster is education, everywhere it shows that across the country.

SENATOR PUCKETT: Dr. Purcell, I know there's thirty some thousand part-time farmers, what would their average age be?

DR. PURCELL: I don't have that separated out, but the average age of farmers in the state is about fifty-nine years. We had two hundred acres as the average size farm, but it's about in that age group.

MR. MONTGOMERY: Wouldn't it be safe to say that most of those part-time farmers are of retirement age?

DR. PURCELL: They're getting close to it.

MR. MONTGOMERY: Yes. Once they get to retirement there's not going to be that many, less than maybe two percent but --

DR. PURCELL: Somebody said earlier concerning the projected information technology, that's true, and that's a huge success story. I don't care whether it's Isle of Wight or wherever you want to measure it, agriculture in this country is swamped in long-term as opposed to any other sector of the economy. What that means

is that people know that agriculture is good to two percent of the people and they want to weigh the importance of agricultural activity, about fifteen percent of the jobs in the Commonwealth and about twelve percent of the economic activity if you look at the impact on it. It's significant. Virginia's agriculture is in the top fifteen of all the states, top five in broilers or turkeys, top ten in broilers and top fifteen in dairy, so agriculture is very important to the state. It's still the case, like everything else, everything is getting more Wal-Mart, and everything is getting bigger. We have few very large farms, large farms being ten to fifteen thousand acres. They don't own it all, or they lease part of it.

SENATOR HAWKINS: When you start talking about the average age, you must remember that these farms will change hands, and how we deal with that inheritance part and maintaining stability of the ownership of the farms for the next generation will probably define who you are, and that'll be an unusual situation for us.

DR. PURCELL: Virginia Tech has done a lot in this generation transfer. The planning process that goes on concerning access. I'm not one that's so concerned that when the farmer retires that no one will take that up, that's not the way that the marketplace works. If there's an opportunity there for a young, aggressive farmer to come in and combine two or three or four, and they do it, and I bet you know some that already doing it.

MR. MAJORS: Other questions or comments?

DEPUTY SECRETARY ERKSTEIN: Are you saying that good models out there are states or communities that are doing a good job of value-added agriculture?

DR. PURCELL: It takes money and it takes entrepreneurship. It takes an understanding of a new transition and some other things. One of the things that's been going on there for about five years and I've been heavily involved in it is a University initiative that will be working on food, nutrition and health. The idea is to find foodstuffs to meet targeted nutrition and that will have an impact on disease. We think that's the way we should start moving and involve the entire University, and the Bioinformatics is usually part of that. I've talked to folks and they thought it would take six years in a regular process to mark and identify to get an attribute in barley that she wanted contributed to foodstuffs. That could be done at the technology center now in six hours.

That's an example of what super charging can be done with that huge, sophisticated computerized ability to manage and advance biology. It can have a huge impact on us. That's really a change, six years to six hours.

DR. WHITE: I don't know if you're about to wrap it up or not, but I'd like to commend to the Commission or those of you that haven't seen the report that we did that has a very long name. Not so much the section on, quote, Buy-out Proposals, not so much the section on the FDA Regulations, but the section on Economic Development in this report. It may have some interesting ideas. I think, Carthan, you probably got a copy of it.

MR. CURRIN: We'll get copies.

DR. WHITE: Particularly the idea of creating a modestly funded but hopefully powerful and permanent technical assistance capacity to help these communities work out their futures and trying to find funds to fund them.

MR. MONTGOMERY: Mr. Whitfield, you say you had a lot of furniture in your area, how are you going to replace the jobs that are going to be lost?

MR. WHITFIELD: We're concerned about that long term, and in my judgment that's a real concern to us. That was the first real entrepreneurship that we had. A large company came down from Chicago, entrepreneurs came from that. We are worried about the farm impact. The bottom line is that we're going to invest in education, get our people to the best standards that they can be in terms of all the basic skills. We're going to continue to retrain them in technology and in the economic changes. If those jobs leave us we've got to have the leadership and the community development organization and train the work force there to be able to change jobs. I don't think there's any way to know if we replace that, but if we have our people in good shape we can just step ahead.

DR. WHITE: You have that regional hospital, that's one thing years ago that they recognized, and I think they employ something like five thousand or four thousand people. It's the largest hospital outside of a metropolitan area in the country. That was through a community development foundation, and that was in the plans way, way back.

MS. CONWAY: These two regions that you're serving have been so designated by global trade, I would caution that you not write off the local commerce as the solution. In other words, it's so painful to discuss it that you don't even consider it, because I think that when you combine it with the innovation I think the people in Mississippi are capable that there's plenty of opportunities the chains are going to take out some furniture business, but they're also going to buy stuff from us. We need to find out what they can produce.

DR. MORRIS: Dr. Zimmerman, I like these strategies, but as I look back over them it gives me a sense of how successful they can be. The high performance community strategy, capital funding, what records do you have of that?

DR. ZIMMERMAN: We've done it in fifteen states at different levels. Some communities are really hot into it. By that I mean the leadership has grasped onto it as organizing principles and do everything right. That's a big part of it, some communities just don't do that. I'd say in some communities it's been very successful, and others have dropped it because again, it's the leadership that needs to be sustained, interested in keeping the ball going. Did that answer your question?

SECRETARY SCHEWEL: Two of our speakers described a community building process, and what struck me in the Tupelo example is the way it was described, we're exactly opposite, which is to say leadership from the top, and you said in that respect you thought that was not a failure but not conclusive. On the other hand it seemed like one of the strengths of your approach, one of the bases of success was a strong core top leadership was then able to implement. You all suggested that was not the way to go. I guess my question would be, I can point to success of that approach, give me a success of your approach?

DR. WHITE: I don't think there's that much difference. Sure, you had George Maclain, but what we found out in leadership you'll always identify what we call spark plugs, and they don't have to be a George Maclain, but they're spark plugs in the community, and they will rise up and take a leadership role. The truth of the matter is even George Maclain as a driving force he had a very intensive vision of much, much more than any other Southerners had in the 1940's and '50's. You can go back to Ole

Miss for thirty years and tell the South was integrating in the '50's. He had a very inclusive, labor had to be at the table, Chamber of Commerce was not enough, you needed education, you needed labor and you needed business. So I don't think there is a conflict.

MR. WHITFIELD: I think there might be a little confusion. Today, if you look at established organizations in our area you still don't see many blacks or women, and that's not intentional, but I think it's just a problem that we've had and we're moving in the other direction. I think what Dr. White said is correct, we had one driving force first. He tried to involve people in leadership and programs, and the quality programs that we put in have tried to reach out and tried to get more women and more African Americans and more professionals in leadership positions. So we're trying to constantly broaden our base and increase our leadership. We're disappointed that some of our organizations still have token representation.

DR. MORRIS: We have some of those things or challenges here.

MR. BYERS: May I speak? There's a recurring theme about leadership for communities. Some years ago in the early '90's there were some problems in the General Assembly from Southwest Virginia. I was told the most important thing was cooperative extension, and the reason was that the community development had some bad leadership programs in our local community. We had some budget cuts in the mid-'90's and the attention was directed not to do this kind of work, more particularly the agriculture. I don't know anyone who thinks that agriculture in its current state is going to save the rural area. We have extension offices in every county. I think the extensions could play a major role in helping to do some of this leadership development and training in the counties, but I think there'd have to be some strong signals from the General Assembly that extension was welcome to do this sort of thing and not just concentrate on pure agricultural functions. Dr. Purcell may agree or disagree.

DR. PURCELL: A lot of those leadership programs, as you well know, used to be run out of the Department of, the leadership, Preston Marshall. He had the Kellogg grants and a lot of funding from accommodations for leadership programs for many years, and we lost it all.

DR. MORRIS: Why?

DR. PURCELL: We don't have any budget support and no personnel to move them. The first round of cuts we went through took seven of twenty-five, and now you're looking at another one.

MR. BYERS: There was a program called Community Resource and Development, that was written out of the Appropriations Act.

DR. PURCELL: That would have been the early '90's. I think it's gone away, but it was specifically in there.

DEPUTY SECRETARY ERKSTEIN: There's a distinction between developing leaders, I think there's also identifying and recruiting leaders. There's leaders out there that may not be in the state but we have identified that we need to have people step up to the plate in addition to developing future leaders.

DR. PURCELL: There are leaders out there that do not know that they are leaders. That's very important. If you don't recognize that it'll come back on your door.

SENATOR HAWKINS: If you go out today and look at what we've done for the Jaycees and look at the age of people involved. The young people are not getting involved at the basic level that your leadership flows from, the Jaycees, Lions, Rotary. All of these groups are aging out. When I go to them and look around sometimes I'm the youngest one in the crowd, and that tells you something. I think it's a problem that goes beyond just rural Virginia and the rural South. How do you find the next generation of leadership? No matter where you go it's the same problem. The young people are not getting involved in the basic level, and they need to, to be leaders of the people in the future.

MS. CONWAY: The Heritage Foundation speaks about leaders in the community. I think what we're talking about here are kind of traditional leaders. There's also leaders at the local level without really formally identifying them. I think there's a lot of success stories out there. There is something you could implement here. I know in North Carolina what they did was they identified natural leaders in the communities. These are coaches, hairdressers, people that kids go to already for advice. They take

those people and run them through all kinds of training. They run them through programs on how to communicate and things like that, and this has worked pretty well.

SENATOR HAWKINS: Historically, living in the rural South you were brought up understanding that there is responsibility and you had to adhere to it, and leadership is one of them. That was the culture at one time, but that culture is no longer there. We have to develop a new culture arrangement to be able to bring people into that track. It's going to be a tremendous challenge to try to do that. Just going out and recruiting is going to be somewhat difficult. There has to be some mechanism for a flow which is not in place today.

DR. ZIMMERMAN: If you look at why young people don't get involved, it's because they don't feel they can make a difference. This is a classic editorial in the *Bismarck Tribune*. It says, Bill Gates with a grownup American coyote will still be waiting his turn. That's true, he would be.

MS. MOORE: Senator Hawkins, the leadership training you've been doing, the kind of leadership training across the state at the request of some folks in the Dan River region, they decided to build a leadership institute just for that region. They had the same problem when I first went in there. Nobody volunteered, and they didn't seem to be able to recruit anyone, but some of the people who were involved in trying to get this going actually went out and sought people and talked to them. This is a very labor-intensive way to get it started. The first group got together and worked very nicely and they had a very nice leadership training that put them in touch with a lot of the issues that we've been talking about tonight. I understand we're getting ready to go out and recruit the next round. It's certainly labor intense, and we don't have an automatic mechanism.

SENATOR HAWKINS: Leadership Southside is one of the things that was in place down my way and worked very well. But it's a different culture thinking about how to bring leadership into place. I think it has to be developed, but we have to do things differently than we've done in the past to try to get across that the old models we always dealt with historically no longer apply to this situation. We have to be able to deal with things in a different sort of way, because there's different attitudes in the past.

We have a mobile society that is driven by population and that is constantly changing because of the ability to move from job to job. You no longer have the stability of the community to foster the type of leadership that we historically had coming out of the South.

MS. MOORE: I couldn't agree with you more, and just to follow up. We've gone to a couple of other parts of the state and asked if we could try to identify the folks that would be part of this leadership training. So far we have not managed to figure out how to do it yet.

DR. WHITE: Let me suggest that the Commission take a look at the Rensselaer Institute in New York state, which has a leadership model that we've used a lot at the ARC. We put our Appalachian Community Learning Project through it, and we put about eighty communities through it. They have a little different approach. Their theory is that you don't talk about leadership in the abstract but you find a group of people in a little community that is stirred up about something, and then you sort of tap into that and organize that and go through this leadership training, and it's been very, very successful, particularly in small or more isolated communities that do not have access to the more traditional leadership programs.

SECRETARY SCHEWEL: Maybe we could do this, we could surreptitiously sponsor a controversial issue --

MR. MAJORS: I think it's time we started wrapping up here. I would comment briefly that Jess White's first four building blocks, education and training, physical infrastructure, leadership and development and civic capacity and entrepreneurship, that seems to be along the lines of what we're talking about, and that'll be helpful to us as we move ahead. Tomorrow morning we'll start at nine o'clock promptly here. Are there any other comments? All right, we'll break then.

PROCEEDINGS CONCLUDED

CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, was the court reporter who took down and transcribed the **Minutes of the Tobacco Indemnification and Community Revitalization Commission Public Meeting, Long Range Planning Task Force, on Sunday, September 29th, 2002 from 2:00 p.m. until 9:00 p.m. at the Hotel Roanoke and Conference Center in Roanoke, Virginia.**

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

My Commission Expires: October 31, 2006