

1 VIRGINIA TOBACCO INDEMNIFICATION & COMMUNITY REVITALIZATION
2 COMMISSION

3
4 **Long Range Planning Task Force**
5 Monday, September 30, 2002 – 9:00 a.m.
6 Hotel Roanoke & Conference Center
7 Crystal Ballroom C/D
8 Roanoke, Virginia

9 PRESENT

10 Dr. Thomas Morris, Co-Chairman
11 Charley Majors, Co-Chairman
12 Senator Charles R. Hawkins
13 Senator William C. Wampler, Jr.
14 Senator Frank M. Ruff
15 The Honorable Michael Schewel, Secretary of Commerce and Trade
16 The Honorable Allen W. Dudley
17 H. Ronnie Montgomery
18 Thomas W. Arthur

19
20 Commission Staff:

21 Carthan F. Currin, III, Executive Director
22 Stephanie S. Wass, Director of Finance
23 Mary Cabell Sherrod, Special Assistant to the Commission

24
25 Attorney General's Office:

26 Anne Marie Cushmac, Senior Assistant Attorney General

27
28 Also Present

29 Hudnall R. Croasdale, Virginia Polytechnic Institute and State University
30 Anne Moore, Virginia Polytechnic Institute and State University
31 Glynn Loope, Commonwealth Advance, LLP
32 Neal J. Barber, Virginia Economic Development Partnership Community
33 Assistance Director
34

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36 DR. MORRIS: Good morning, again, Charley and I appreciate
37 your willingness to give up a good part of Sunday and now it's Monday
38 to the discussion and effort to try to begin to get some focus in regard to
39 this project. I thought we had a good afternoon and good evening
40 session on Sunday. We'll follow the same format. This morning as
41 you look at your schedules you'll see that we are going to talk about
42 e58 and Scholarships and Education for the morning session and then

1 we'll break for lunch. We think it's very important that we come back
2 and spend some time, even though we've had an open discussion at the
3 end of each session, that each of the presenters to come back and have
4 some general discussion and see what areas of consensus we have at
5 this point. The timetable is fairly short if we're going to get something
6 to the Governor in a timely fashion. That is our goal.

7 So Carthan, if you'll get us started with our first speaker.

8 MR. CURRIN: Thank you Mr. Chairman, good
9 morning. We have on our agenda this morning a presentation from Mr.
10 Ben Davenport who is Chairman of the *e* Corridors Project one the
11 signature projects of the Commission. We have Mr. Jeff Crowder from
12 Virginia Tech who will bring us up to date on the *e* Corridors Project.

13 MR. DAVENPORT: I want to kind of give you a
14 thumbnail sketch. Many of you here have been involved in the
15 activities of the Tobacco Commission on how we have moved forward
16 with the signature project of the Tobacco Commission. Early on in our
17 thought processes about how can we do more to move our economy
18 forward in this area than anything else was a possibility of buying a
19 very low-cost broadband connection across the Southern Tier of
20 Virginia and today Jeff Crowder's going to talk about how that evolved.
21 We've gone through a number of different pieces of this.

22 Initially we focused a vision statement about, this by the way is
23 the *e*58 Subcommittee from the Tobacco Commission. It is composed
24 of a number of business people and other people from Southside and
25 Southwest Virginia.

26 We published a vision statement about what we thought all of
27 this should appear in the end. We chose in order to get away from the
28 RFP Process that the Tobacco Commission would act in the role of
29 being a banker that in fact what we encouraged different vendors and
30 different people to do from different organizations to do was to present
31 proposals about how perhaps this whole system could be done across

1 this area. And to that end, by the way we chose several people who had
2 different expertise in different areas of this fiber optic system and
3 technology to do an evaluation of proposals. We received thirteen odd
4 proposals I believe it was and immediately it was apparent that there
5 was a lack of

1 cohesiveness between this. In fact, if all of this was going to work in the
2 end a lot of proposals that dealt with different aspects but in the end we
3 were going to get something that really was something that would be a
4 vibrant system across the whole part of this state. We needed an overall
5 architecture that in fact would be something that would fit Southwest as
6 well as Southside and across the state.

7 To that end the Tobacco Commission decided to hire Virginia
8 Tech to create this architecture and they have been in the process of
9 drafting this and coming up with a total plan. In the end when this is
10 published which would be sometime hopefully in January. When that is
11 published then the idea is then we can put this out as something that we
12 would invite qualified vendors such as ODAC or other individual
13 providers of networks to put forth proposals on how in fact they would
14 request funds to implement different phases of this.

15 It was viewed that the Tobacco Commission would act in the role
16 of something like the World Bank where it would in fact make loans for
17 different pieces of the project or the total project in a way that no normal
18 bank would consider doing. Is something that could be done in a way
19 that the money would be put forward to make something a bankable deal
20 or make something work. Then in the end the Tobacco Commission
21 would receive money back based upon the usage of the system. As a for
22 instance if there was a system that is deployed such as being done right
23 now between Danville and the northern part of Pittsylvania County.
24 Let's say in that case the amount of money is \$2,000,000.00 to be used to
25 do this. Then when that system was in fact used then whatever revenue
26 that system generates, let's say it generates in a year \$100,000 in revenue
27 in a year then the idea was that the money would then come back to the
28 Commission. In the end the Commission would be gaining revenue back
29 that could be redeployed again into the banking system. While we think
30 the long haul piece is absolutely critical to have a good system and in fact
31 it's only going to be as good as the end use and that will be an ongoing

1 forever type of thing, to redeploy moneys to create more usage on the
2 system. So that's kind of a general overview. Jeff.

3 DR. MORRIS: I'm going to ask you a couple of questions
4 up front, would you tell us the state of the infrastructure at this point in
5 Southwest and Southside? Do you have that kind of information?

6 MR. CROWDER: We can talk about that generally.

7 DR. MORRIS: Do you have cost estimates as to the
8 amount of money that we could be talking about trying to make this
9 happen?

10 MR. CROWDER: I'm not prepared to share the cost stuff
11 with you today. I'll have to tell you that my boss planned to be here and he
12 is our Vice President of Information Systems but he got redirected to a very
13 critical session in Chicago. I am filling in for him here today. I'm going to
14 really focus on a very narrow piece of the *e* Corridors project right now.
15 We're working on the business case analysis, cost analysis and it's a major
16 component of the program we have under way. We have some very good
17 people working on that part of the picture.

18 MS. MOORE: Can you tell us when you might be able to
19 share that with us?

20 MR. CROWDER: I don't know Anne, there is an interim
21 report in January.

22 MR. CURRIN: We're
23 getting interim reports and we're going to get them before January.

24 MR. CROWDER: Every six to eight weeks we're
25 submitting interim reports on the way it is.

26 SECRETARY SCHEWEL: Do we have an Order of
27 Magnitude for this? Are we talking about \$70,000,000.00 or
28 \$300,000,000.00, \$50,000,000.00?

29 MR. DAVENPORT: In the beginning William can
30 probably address this. We had talked and there were a number of
31 ranges anywhere from \$60--100,000,000.00, probably on the lower
side. In fact as the design of the systems we can talk about, a lot of

1 it depends on how big the pipeline is that you're going to put across
2 and in fact whether it's going to be aerial or buried. Certainly
3 when you get to the mountains of Virginia they'll have to go aerial
4 you'll have a lot lower costs. Then, of course, after the long haul
5 fiber piece, how much are you going to put into the deployment of
6 this immediately into the communities?

7 Like Lenowisco has got an enormous agenda only limited by the
8 monies that it has to deploy the system across Southwest Virginia, Bristol
9 Utilities. A lot of it depends on, I'd love to see the Commission say they
10 would feel that in order to really get the best value for the dollar they
11 would entertain upwards of \$100,000,000.00 for the fence alone. The
12 quicker you deploy the "biggest bang" you're going to get for the return.

13 MR. CROWDER: That's right, when you talk about the
14 folks in the Washington D.C. area recently the cost of transport services,
15 since we've started the project the cost of transport services has dropped
16 dramatically and part of that cost reduction is due to some take up of the
17 type of technology we've been talking about. That's not being deployed
18 anywhere but in the Washington D.C. Metropolitan area as of today. So
19 speed is of the essence here. Just want to make you aware of the
20 competitiveness and the challenge is to find out how it's going to impact
21 the investment and that same type of infrastructure or better infrastructure
22 to leap frog the area of Southside and Southwest Virginia and that's what
23 we're talking about here.

24 MR. MAJORS: The final report you're going to make will
25 make recommendations on things like whether it be overhead or
26 underground?

27 MR. CROWDER: We'll talk about those issues and
28 aspects. One of the elements that we're interested in this morning is
29 finding ways to minimize the cost for implementation of the physical
30 network infrastructure. The fiber optic network infrastructure that needs
31 to be put in place. We're looking at techniques. These long haul fiber

1 networks that were built and now in neglect status between major urban
2 areas, the techniques, methods, the costs with building those is different
3 from the approach we're working on at Virginia Tech to minimize cost
4 on a per mile basis. Our intent is to explore the lowest possible cost
5 construction method and to achieve reliability by having lots of fiber and
6 lots of ways to get in and out of the community. In some cases they'll be
7 overhead and in some cases that will take advantage of the existing
8 conduit or existing rights of way to facilities but the idea is to minimize
9 those costs. We'll be talking about a range of techniques.

10 DR. MORRIS: I forgot to say that yesterday we actually
11 let people start their slide presentations before we started asking
12 questions. We already discussed this topic some so we're ready to go
13 right ahead.

14 MR. CROWDER: What I've got and I can tell this is
15 somewhat redundant for you folks because what I've got is a slide
16 presentation that talks about the 'why' primarily and the track record at
17 Virginia Tech and why we're engaged and so forth. Just to set everybody
18 on a level playing field I'll try to talk through this very quickly and won't
19 belabor what's here. You probably can read this slide and I have it in a
20 hand-out form but, the basic problems that we're trying to solve here is
21 that we contend that for any person, community or organization be
22 competitive in the information age you have to have the capacity of
23 reasonable cost to be a producer of network services, information systems
24 etc. Some of the broadband technology or practically all of the
25 broadband technology is being rolled out by the telecom sector at this
26 point really presumes that individuals would be the consumers of
27 information technology and not producers. If you do not have the
28 capability to be a producer then you don't have the ability to be an
29 entrepreneur in this society.

30 That's something that Grant County and you heard the
31 presentation of Grant County, Washington last night that their network is

1 a producer network. The thing I heard one of their representatives John
2 Ward say the first time I heard him speak that really caught my ear was
3 that if you have \$40 in your pocket in Grant County, Washington you
4 could be a service provider because anyone can connect for any purpose
5 and sell services. That's the power of the project they've got under way,
6 that's the access they're talking about. We believe that's where you have
7 to be if you want to play in this game. The problem is that accessible
8 fiber and network infrastructure is now as critical as water and sewer and
9 roads and anything else, any other critical infrastructure that communities
10 need. Yet people don't have access to suitable fiber in most communities
11 in this state and in the nation.

12 You hear about a fiber glut and you hear people say there's plenty
13 of fiber and fiber is everywhere and that's simply not true. If you're
14 talking about accessible fiber that's capable of supporting the type of
15 system they've got in Grant County, Washington.

16 There's a lot of fiber in place between Washington and Atlanta
17 and Washington and Raleigh and you can't get access to it in the middle.
18 The telecommunication companies have deployed fiber to support
19 telephone systems but it's not accessible, it's not the right type of fiber
20 and there's not really enough of it to support the fiber infrastructure we're
21 talking about. In fact, Verizon said as much in their proposal to the
22 Tobacco Commission in that first round of solicitation that they
23 submitted and essentially approved. It said we recognize the
24 infrastructure is not available and we're not going to be able to undertake
25 investments and make it available and that's Verizon talking. They came
26 close in that proposal.

27 By the way, as we've been working through this project at
28 Virginia Tech we've been very careful and we've really worked hard to
29 engage the private sector players. We had Verizon at Virginia Tech last
30 week with some people from their headquarters from New York and they
31 came down and we were talking to them about what we're talking about

1 and sharing with them the ideas that we have. They came down and
2 really gave us a pretty good presentation about their direction for
3 technology and it looked pretty good. The question back to them is “ok,
4 you guys are certainly fee stakeholder and we want you to be engaged in
5 the process”. The question is what would it take for Verizon to make that
6 type of network infrastructure available everywhere in the Tobacco
7 Commission region. You see a lot of chin rubbing when you ask that
8 question but they’re working through this process. Our intention is not to
9 pooh-pooh the telecom sector and we think it’s critical that they have to
10 be engaged in working with all of us in this process as we move forward.

11 I would say the approach needs to be channeled investment,
12 promote a new business model or wide-scale deployment of the type of
13 network infrastructure that we’re talking about. The private sector
14 engagement, private sector leadership is key but that’s going to require
15 some new thinking about how you handle the investment, who you allow
16 to invest in the communications infrastructure, and a whole array of
17 difficult policy regulatory issues, political issues and the whole thing,
18 that’s where all the problems are. So that’s how the *e* Corridors program
19 is working through this.

20 On this particular network thing I believe my information here is
21 out of date. I’m looking at the presentation that Mr. Williams gave last
22 evening and they got a lot more providers than this on their network. As
23 of a year or so ago here are the communication providers network. The
24 reason I put it up is because this caught my attention because of who their
25 service providers are and where they’re located. If you look at the
26 headquarters locations for the service providers that are delivering
27 Internet, telephone, cable, video services in that Grant County network
28 their headquarters are in towns that I’ve never heard of. My geography
29 of Washington State is not good. These towns are out of the way places
30 and they’re within the PUD served by Grant County Fiber. These are
31 entrepreneurs that have been able by the Grant County PUD and these

1 guys I guarantee you do not have their sites just set on their communities
2 they're interested in growing and become large-scale players. This
3 producer network is having an immediate affect in their communities to
4 enable them to do business this way.

5 Virginia Tech has a long history of working on large-scale
6 projects that are aimed at delivering advanced network services
7 particularly in the underserved communities of Virginia. Network
8 Virginia is a project I've done and I'm Director for Network Virginia
9 that's where I spend most of my attention and a very successful project.
10 Network Virginia is held up nationally as a model for how you can get
11 the most out of your telecommunications sector on the established
12 players. It's predicated on contracts with essentially every telephone
13 company in the state and provides Network Virginia services. At
14 Virginia Tech we hold contracts and we coordinate them on all service
15 providers you might have heard on these types of people but we do more
16 than we have to do to insure that things work. Today this network serves
17 about 1 and ½ million people throughout the state and people don't
18 realize the scale of this project. About 1 and ½ million people and almost
19 1,000 access statewide. It represents what you can do with the
20 telecommunication sector if you're willing to provide the leadership, play
21 ball and work hard. And we've gotten a good track record there.

22 The *e* Corridors Program is about what we have to do to
23 move beyond what you do with the established telecommunication
24 sector and we've learned that's important that we have to work with
25 those folks and that's not enough. We have learned that accessible
26 fiber is not available in today's environment with the real bust in
27 the telecommunication sector right now combined with new forms
28 of competition for their bread and butter services, the dial tone
29 services that they provided and we've got a lot of competition from
30 other sectors but so far in the telecom bust there's no way that they
31 could justify capital expenditures to go out and employ new

1 infrastructure in underserved areas that don't show an obvious need
2 and that affects the shareholder.

3 Now more than ever is critical by the way, the telecom sector bust
4 has not alleviated the problem that our communities face who need
5 access to the fiber. It's still true that EASMEN down in Kingsport has to
6 have diverse access with local fiber pads and high performance providers
7 to be able to stay in Kingsport. We all have recognized now that the
8 critical need for this fiber optic infrastructure. That has not been
9 alleviated by the recent downturn in economics but the downturn has
10 exacerbated the problem in sending investment. It turns up the notch a
11 little bit here and makes us work that much harder.

12 Our strategy at *e* Corridors by the way is to respond to
13 requests from communities who are trying to sort this out.
14 Communities recognize they have a big problem and as soon as they
15 try to figure out how to attack the problems they have they run into
16 just a whirlwind of problems, their technical issues obviously but
17 there are policy issues and regulatory issues, there are market
18 structure issues and a whole array of things and all sorts of things that
19 the community needs to get their arms around and begin to tackle
20 this. It's important that the communities in Virginia do this in a
21 coherent fashion so we don't have people going off in 35 different
22 directions. It's ok to have some diversity to try to find the best that's
23 attractive but if everybody does something completely different then
24 nothing will work together and we'll have a mess. We're willing to
25 work with those communities that ask us to and help them understand
26 the challenges and work through problems and develop a coherent
27 and viable strategic approach to the problems.

28 Just a couple of words about some of the components that you'll
29 hear us talk about and to give you a little background. The Geodesic
30 Network is a concept that we came up with at Virginia Tech. It is
31 about the issue of multiple nodes and the idea of arriving at the lowest

1 possible cost to employ the fiber optic infrastructure. By achieving
2 reliability and performance by having lots of different connections.
3 The idea is you have a fiber path coming into every community and out
4 of every community you'll have multiple paths heading off to other
5 communities. If you lose your connection or the Backhoe takes out
6 your fiber or a pole goes down or something you still got a connection,
7 at least one other connection to back that up so you don't have a
8 disruption in your service. You haven't lost anything by taking the
9 very lowest cost approach for the deployment of fiber and pick that up
10 by having additional routes of connectivity and that helps you get
11 coverage and helps you spread out how many people you can take in
12 the infrastructure that's put in place. That's the idea of the Geodesic
13 Network concept.

14 Multimedia service access point, this concept seems to confuse a
15 lot of people but it's fairly simple. The idea is that you need in every
16 community a meeting point, an exchange point in the community so that
17 the telephone company, the cable company and the Internet service
18 providers, new providers and entrepreneurs and people that have to gain
19 access to whatever infrastructure is in the community have a way to reach
20 the networks that are there and the networks that people are going to
21 build. It's just an exchange facility. If you don't have this in place then
22 your traffic, if you don't have a way to reach the entire market based
23 services that you want to deliver and your Internet traffic or other types
24 of traffic can't stay within your community because it has to be routed
25 out and come back in over expensive long haul and that's expensive. A
26 critical component and missing component has to be there.

27 SECRETARY SCHEWEL: I've got a question. I've got a
28 pipe with a lot of pipes and I've got that pipe and I come to a community
29 that's got one of these MSAP. Is it equivalent to a faucet or a pipe or is it
30 a two-way faucet on one pipe or is it something different?

1 MR. CROWDER: It's a distribution mechanism. You
2 have your big pipe coming in which is able to send water out to
3 everybody in that community. We have an MSAP in Blacksburg and it
4 has to be a voluntary thing and you can't force people to participate.
5 We've found that the Internet service provider in Blacksburg has elected
6 to connect to our MSAP so they can exchange traffic locally. It turns out
7 a large percentage of the traffic that they were getting clean out to their
8 providers was really destined for Virginia Tech or another apartment
9 building in town or something like that. They saved a lot of money by
10 connecting to a local chain and keeping all the traffic that wants to stay in
11 Blacksburg there. If somebody wants to come in and bring them a new
12 pipe into the community and reach all of those Internet service providers
13 who are there and depending on if those service providers can deliver that
14 service because this is Free Enterprise. They bring that one big pipe into
15 that MSAP facility and reach all the service providers. They don't have
16 to bring a separate pipe to each service provider in town. It has
17 implications with Public Rights of Way facilities and a whole array of
18 things trying to manage local resources.

19 MR. DAVENPORT: Let me add to that, it's kind of like a
20 pipeline that I ship my fuel oil over and I'd call up Houston and get a
21 shipment of product and transmit it across the pipeline for a fee and I
22 would look at the MSAP as something that's very user friendly. You're
23 able to hook into without a lot of problems to ship through there. That's
24 part of the Telecommunications Act and in reality that gives you the
25 ability to get into a simple hub that's been made very complicated and be
26 able to use that as a carrier. This idea is very much simplified. As you
27 saw in your presentation last night that they had like 13 Internet Providers
28 that had all that access, what we'd like to be able to do is Bristol has got
29 an Internet system that they want to provide in Danville and we have a
30 system that says ok, here's the length for this amount of money you'll be
31 able to offer the services in Danville or in some other part of this system.

1 The idea of the MSAP is very low cost access areas where you're able to
2 get into without a lot of problems.

3 MS. MOORE: Is somewhat like a port authority function
4 that serves as a – right now you have competitors who refuse to and this
5 allows them to come together and have a port authority without
6 everybody to--

7 MR. CROWDER: Which points out an interesting
8 challenge posed by this idea and that is who you trust. This looks like an
9 obvious problem, it looks like because the existing service providers want
10 to maintain a position and they can't for obvious reasons and because of
11 competition. This requires a new sort of business model and new
12 approach from the telecommunication sector and something like that of
13 the port authority.

14 MR. MAJORS : Jeff, can you talk for a moment about
15 why you have a fiber line running from Northern Virginia to Raleigh and
16 comes through Danville, why we just can't connect to it?

17 MR. CROWDER: Well, there's a number of reasons.
18 Before this economic downturn hit those routes coming from Northern
19 Virginia to Raleigh, if the service provider broke that in Danville and
20 allowed you to use it or connect to Northern Virginia then they
21 essentially stranded that piece of fiber, the rest of the fiber. They're
22 taking one pair of that fiber resource out and sold you a 200 mile section
23 of it and that means if they built 100 fibers nationwide and now two of
24 those are gone out of their entire national footprint and they want, the
25 customers they want are the people that are going to use that fiber over
26 much broader areas than just Danville. Even if you take all the way from
27 Raleigh to D.C. it still isn't a very attractive proposition to them.

28 Now we're finding people that are in Chapter 11 or 7 that there
29 are opportunities to secure those fiber assets now at a relatively low
30 cost and their just inner city. And you can take a hard look at those
31 opportunities but they're just inner city fibers. What we're finding is

1 that people building those were doing it 'willy-nilly', speed is
2 everything and are real problems in the physical plant that is out there
3 and the ownership. There are many opportunities at this point to pick
4 up some resources that can connect your region to metropolitan areas
5 but due diligence is critical and you have to take a good hard look and
6 know what you're talking about.

7 MR. MAJOR: Will use of the MSAP help in terms of the
8 break?

9 MR. CROWDER: If you can aggregate your traffic, what
10 the MSAP can do for you and you actually have to think about there's
11 multiple layers of this. The MSAP really is like a community resource.
12 If you tie a bunch of MSAP's together you have a larger aggregate point
13 and that helps you pay for the connection to D.C. and Raleigh and brings
14 cost down. By the way, that's part of the project I'm working on and I'm
15 focused on is the connections from the region out to the major tier one
16 cities Chicago, D.C., Philadelphia, Raleigh, Atlanta and there are good
17 prospects right now but just having that path in place you cannot connect
18 your communities to it.

19 SENATOR WAMPLER: In your models who owns that
20 MSAP?

21 MR. CROWDER: Well, from my perspective most likely
22 owners, the MSAP is really just a node on this Geodesic Fiber Optic
23 structure. So the MSAP as a carrier hotel function if you will, the
24 physical location of the MSAP probably makes the most sense for that
25 facility to be owned by whoever owns fiber optic network infrastructure.
26 That does not preclude the concept that somebody could propose to
27 establish a business or a non-profit entity to operate the MSAP's.

28 SENATOR WAMPLER: Where I'm heading with that
29 and I'm still trying to work it through my head, what is the appropriate
30 ownership of the MSAP? Do you want to give that to the industrial
31 development authority? If you want to make this system affordable is it

1 realistically affordable and I realize Mr. Davenport wants to make it all
2 bankable but let's talk about the MSAP and let's grant the dollars for that
3 to regional entities to where it is affordable and accessible to anyone who
4 has open access. That's kind of what I'm thinking of right now. When
5 you take the incremental costs of this e58 Project and buy it down to
6 where it's still affordable by the end of the day and this seems to me to be
7 one of the critical points where you're going to see the economic activity.
8 Maybe my theory is all flawed but I happen to think it has some merit.

9 MR. DAVENPORT: I think you're exactly right because
10 what you're trying to do is get down to the work of how it operates. If in
11 fact you don't have an entity that is centralized to operate at the lowest
12 possible cost you lose. But if in fact you don't have an entity that has the
13 ability to operate the system you lose. So at the end of the day we have
14 the option about who will operate the system. It will be limited to not a
15 lot of different entities. Dave Hudgins is here, ODEC is one who says
16 we'd like to perhaps be the one that operates the system and then they
17 would have to prove to you that they would operate it forever, and
18 forever at the lowest possible cost. Virginia Tech operates Network
19 Virginia and it has proven that it can operate a network.

20 Let's say in my area I made my industrial development authority
21 or the foundation that I'm part of Future Piedmont Foundation. In our
22 case we're going to hire Virginia Tech to act in an oversight role of the
23 way this system is operated. You have to have a viable entity that clearly
24 understands and knows how to do the actual operation of the system, has
25 that motive of doing it on a cost basis so all that's going to work itself
26 out.

27 SECRETARY SCHEWEL: In trying to look at this and
28 you've got the ISO models and some way of transmission function, is
29 similar to the guy running the transmission grid is owned by a variety of
30 people and you've got somebody to operate the grid, is not a question of

1 MR. CROWDER: Yes, there are actually for profit models out
2 there in the Internet world where people are building exchange facilities in
3 major urban areas and there are for profit companies that make their business
4 being a provider and facilities provider. You can build these but you have to
5 do it at the lowest possible cost and there are others.

6 SENATOR WAMPLER: I can't let you get away without
7 asking you this, if you were to deploy say in Danville with an MSAP
8 what is the range of dollars you'd be talking about?

9 MR. DAVENPORT: Well, the whole system would
10 involve 3 MSAP's \$2,000,000.00 actually less than \$3,000,000.00.

11 SENATOR WAMPLER: That's three points moving
12 North to South?

13 MR. DAVENPORT: Yes, that includes the fiber. Part of
14 the fiber is being buried and part of it is aerial including lighting –

15 SENATOR WAMPLER: What is that \$16-\$17,000.00 a
16 mile is that the estimate on the fiber?

17 MR. DAVENPORT: In that ballpark maybe. The cost for
18 the fiber itself and our most recent quote on is like \$1.84 for a foot of
19 fiber and that can go down. A lot of the reason why our system has cost
20 as much as it did is that we're not a – and we were denied access to
21 Virginia Power and Verizon while Mecklenburg Electric let us use their
22 poles and we had to bury the highway, VDOT right away who graciously
23 let us bury the line across theirs but we had early impediments that drove
24 our costs up.

25 MR. CROWDER: The typical numbers you find range
26 from like \$35 - \$55,000.00 per mile and in places where the person or the
27 company owns the fiber and the Rights of Way we heard numbers close
28 to \$10,000.00 a mile to employ the fiber optic. It can go up and I've
29 heard millions per mile if you have to go into downtown areas where
30 you've got historic trees and things like that and trolley tracks in cities
31 and that sort of thing. \$20 - \$30,000.00 per mile is a pretty good figure.

1 SENATOR HAWKINS: I'd like to make a comment on
2 this cost per mile. The concept of using the 58 Corridor or highway the
3 state provides along the corridor and that would allow us the most
4 economical price possible. When factoring in why you use the state
5 Right of Way does it still run the price that you quoted?

6 MR. CROWDER: That's a good question, bury the fiber
7 along the highway the cost is higher when you put it in the ground than
8 when you put it on the pole. The first time we explored the use of the
9 VDOT Right of Way, VDOT came back with the construction estimate of
10 burying it and it was considerably more. They were talking about using
11 concrete all along the entire path.

12 SENATOR HAWKINS: Dealing with VDOT and cost,
13 legislation was passed that said they should go ahead and get the conduit
14 in, if the conduit is there and exists when they build a highway what are
15 your costs?

16 MR. CROWDER: Now you're looking at the lowest.

17 SENATOR HAWKINS: That was the concept behind the
18 construction, putting in the conduit as you go along.

19 MR. DAVENPORT: That would be your lower cost.

20 MR. CROWDER: Real quick and I don't know if you can
21 see this or not but, don't use it for purposes not intended. This is not an
22 engineering design of the Geodesic Networking. This is conceptual
23 representation that we came up with to help the folks we were working
24 with to currently understand what we're talking about. This is essentially
25 what we're talking about in terms of a backbone network system
26 throughout, it's not a line across the state. This presumes at least one
27 mode in every county and every city in the Tobacco Commission
28 County's.

29 SENATOR HAWKINS: Dealing with a map, I was under the
30 impression that about the Atlantic cable tying into this at some point, the location

1 of that being moved down the 58 Corridor from the Northeast due to accessibility
2 of the grid.

3 MR. CROWDER: That still is.

4 SENATOR HAWKINS: If that's the case where would the
5 cable connect, in Norfolk?

6 MR. CROWDER: Wherever it would land, Virginia
7 Beach or Norfolk.

8 SENATOR HAWKINS: You're tying those sections in
9 the grid?

10 MR. CROWDER: Yes, you see those areas going out to
11 the Tobacco Region there will be connectivity to strategic points outside
12 of the Tobacco Commission Region and that would go to one of those
13 few points.

14 SENATOR HAWKINS: If you tie it into the Atlantic
15 cable and then tie into the Raleigh, Durham area and then to Charlotte
16 and then D.C. it gives us an advantage that would be unique or a time
17 frame?

18 MR. CROWDER: Yes.

19 SECRETARY SCHEWEL: The connectivity to D.C. and
20 Knoxville, is that something that exists. Is there connectivity to
21 Knoxville and Abington or is that part of the system that has to be laid as
22 well?

23 MR. CROWDER: There are fiber optic resources that do
24 exist between Bristol and Knoxville. I'm focusing on that particular path
25 in D.C. right now. Our own competitiveness as a research university is
26 seriously threatened right now because Virginia Tech is not along the
27 fiber paths that are being looked at for our new national research network
28 infrastructure. So we are very aggressively pursuing options to be able to
29 connect Virginia Tech to the D.C. area and the Oakridge National Lab's,
30 University of Tennessee in Knoxville and University of Virginia along

1 that path and these are all allied on our efforts thus far. I'm familiar with
2 that path.

3 SENATOR HAWKINS: Would this grid tie you all in,
4 into that area?

5 MR. CROWDER: It would help.

6 SENATOR HAWKINS: My understanding and not so
7 much the availability of cable but being able to connect the cable.

8 MR. CROWDER: That's exactly right.

9 SENATOR HAWKINS: Where are the connection points
10 on the main cable link?

11 MR. CROWDER: The one in Oakridge has a connection
12 point and actually passes through Blacksburg. I don't want to get too far
13 field on this discussion there we have some concerns about the fiber that
14 exists along that path. What we're looking at is the needs for day one 10
15 Gigabits per second connectivity and multiples of that and I'm presuming
16 80 Gigabits per second of connectivity, the fiber out there may not be
17 supporting what we want.

18 SENATOR HAWKINS: How many connection points do
19 you envision or concepts you have here with this grid?

20 MR. CROWDER: Essentially every one of those nodes
21 could potentially be connection points if there is long haul fiber passing
22 through them. There are routes and Williams is in trouble right now, you
23 have a route coming down through Danville and ATP has fiber in
24 Blacksburg but there is potential.

25 SENATOR HAWKINS: Williams connection is in
26 Greensboro, is that correct?

27 MR. CROWDER: We're looking at lots of existing fiber
28 paths. I'm looking at some of these in Chapter 11. We're looking very
29 hard at companies that are not. The game has changed, even AT&T
30 owns those long haul routes is willing to talk and they're certainly willing
31 to talk to you about leasing, that's not something they were interested in

1 talking about before and they'll be talking to you about loosing the fiber
2 if you can bring enough cable. So this aggregation allows us to bring
3 enough to the table to talk seriously.

4 SENATOR HAWKINS: Speaking about leasing part of
5 the cable access, if you have abundant access or availability of certain
6 cable you'd be able to enter into contracts with different vendors and
7 offer certain services.

8 MR. CROWDER: Yes.

9 SENATOR HAWKINS: Therefore the cost would depend
10 on the type of contract and services you're providing to that
11 particular public.

12 MR. CROWDER: Yes, it could be but if you have this
13 infrastructure in place someone could establish a service provider that
14 would do just that.

15 SENATOR HAWKINS: If it's a public private situation,
16 the ownership of the backbone itself would have to be a public ownership
17 that's leased to a private corporation?

18 MR. CROWDER: It can work that way, yes it doesn't
19 have to work that way. The critical factor there is that the infrastructure
20 be open so that if someone wanted to become a service provider they
21 could get access to the fiber to do that. It would not be limited so that
22 only the owner of the fiber optic infrastructure could be the service
23 provider.

24 SENATOR HAWKINS: Would the individual that leases
25 that part of the access at that part of the cable or –

26 MR. CROWDER: That would work in many different ways.
27 The owner of the fiber optic infrastructure would allow or offer, allow
28 people to lease, may also offer a wave link service where they will light the
29 fiber and hand to you and you would not have to worry about regeneration
30 facilities along the way but there are steps in between that you have to take.

1 SENATOR HAWKINS: What we're dealing with is a
2 combination of different types of agreements that could be reached from
3 public and private groups be it VDOT or the State or the other private
4 groups involved based on each connection that they would like to have
5 off the system. Would rent and pay royalties for that particular part of
6 the system?

7 MR. CROWDER: Right, by the way, there are services
8 that could be offered. Ben hit on that earlier. Whoever controls this and
9 manages this needs to be competent to do that.

10 DR. THOMAS: This conceptual presentation kind of
11 challenges the mindset here of the social scientists. You mentioned the
12 World Bank concept at the outset. Are we suggesting that one alternative
13 is that at various localities we'll make or will make application for these
14 loans so that we might not be doing the entire backbone network at once
15 but it'll be done based on the initiative that takes place at various
16 localities?

17 MR. DAVENPORT: Absolutely.

18 MR. CROWDER: That's really the work we're engaged
19 in here. Virginia Tech is not writing a proposal to deploy the system.
20 What we're trying to do is establish a framework so that if you have
21 proposals from multiple communities or whatever that you could assess
22 that concept and framework to be sure that it will work together we're on
23 the same page. You may also get proposals from people that are
24 suggesting that they will do whole thing or half of it or something in that
25 one shot. We're trying to provide you a context and a framework and
26 architecture that you can hold up against and say 'that makes sense'.

27 SECRETARY SCHEWEL: The only part you do is that
28 Danville and back, isn't that a little island? How does it link to the main
29 connection?

30 MR. CROWDER: Well, if that's all you did and that little
31 island could establish its own connection to urban areas but your right,

1 the power here and the strength here is if you do something broad based
2 that helps the entire region, it doesn't help one or two localities within the
3 region.

4 MR. DAVENPORT: This initially works from Virginia,
5 this initially goes from, that'll be the source of going out which is not
6 nearly the network that we desire long-term.

7 MS. MOORE: This shows the need to educate the
8 community and not just connecting to it. There's a lot of
9 misunderstanding in the communities about what they will get and not
10 just something for themselves. That's another piece of the pie when you
11 talk about that.

12 MR. MAJORS: There's really two parts to this thing, one
13 is to try to get connectivity across a full base of the
14 Commonwealth and the second is how in each area we build a
15 network, we sort of build this network?

16 MR. CROWDER: Yes.

17 SENATOR HAWKINS: I'd like to ask a question Mr.
18 Chairman in dealing with that ownership and activity of the whole
19 process. Is it possible then that the Tobacco Commission itself could
20 own the main fiber and lease it out to individual companies and create a
21 cash flow to the Commission for an indefinite period of time?

22 MR. CROWDER: That's not a question for me.

23 MR. DAVENPORT: Anything's possible.

24 SENATOR HAWKINS: But put the ownership in and we
25 could enter into some sort of long term to guarantee 'X' amount of
26 money flowing to the Commission.

27 MR. DAVENPORT: Let me put it this way, I would think
28 that would be something you would not want to do unless you didn't
29 have any other option. But continuing on to tell you on e58 with some of
30 the things you're doing. We're already working trying to connect into a
31 research project. We're working with the Rural Commission in North

1 Carolina helping us figure a system that goes down and connects to that
2 hub which is a very viable hub which would be a tremendous benefit in
3 that the research University's down there working with those up here.
4 Part of this is that you end up creating an environment where, the work
5 force, if you go anywhere the hub is going, the people that are working
6 hard would be in their homes a lot. If you have this ability to have voice
7 video data communication links. Part of the problem in rural Virginia is
8 that we draw so many of our best and brightest people to other areas. We
9 want to have the population come back to this area and they should begin
10 to rebuild an intelligent community then a lot of things begin to happen.
11 The best community won't come here unless they have this ability to
12 have this link they've become spoiled where they live but if they're able
13 to live in a small town and have this link up then in fact, then you're
14 offering both worlds to them.

15 SENATOR HAWKINS: The institute we're building in
16 Danville and the University of Virginia and Southwest Virginia if they're
17 tied into this Geodesic and into the research triangle and Virginia Tech
18 that gives us a different dynamic than any other area that I know of. High
19 speed access for the general educational opportunities and for the
20 research components having Tech at two ends of the access to these high
21 speed connectors in the future with Virginia and Virginia Tech and
22 Danville.

23 MR. CROWDER: Those are strong points for these
24 institutes that we're building and cannot be competitive if they don't have
25 that kind of activity and that's why my boss went to Chicago today he's
26 fighting for Virginia Tech for access to new research and infrastructure.
27 If you're not connected to that infrastructure you will not be able to
28 attract key scientists and researchers and people that are really going to
29 be controlling the game.

30 SENATOR HAWKINS: Mr. Chairman, part of the thrust
31 behind the discussion of the e58 Project was to bring the rural localities

1 some research capability to be able to stabilize these communities.
2 Historically every area that we have witnessed that has had some sort of
3 stability and an economic situation has to have access to Interstate
4 highways, access to major research University's and a lot of these areas
5 have had none of that access. This just gives us some access that we need
6 and it's critical.

7 MR. MOORE: And that's entirely correct, if we don't
8 have that we won't attract people and we need to have the research. I
9 gave a talk in Danville last October for Community Group after a lot of
10 companies had emptied out of the research triangle area. We had
11 Danville and Pittsylvania County families had been down making a living
12 and most people came up for the talk. They basically said we would
13 come back to live if we had these kinds of facilities available and these
14 opportunities. It's a fact that people look for other places but they would
15 come back but they won't if there's no future here.

16 SECRETARY SCHEWEL: Whatever the order of
17 magnitude is, if there's an MSAP at one of those points. When you talk
18 about \$100,000,000.00 that's what we're talking about. What are we
19 talking about when you say on the order of magnitude numbers, are we
20 talking about something that's, are we looking at something different?

21 MR. DAVENPORT: Look at what you got from these
22 folks last night and they project putting in place \$133,000,000.00 by
23 2006. They say in total capital it'll be \$179,000,000.00. You're saying
24 \$46,000,000.00 more will be coming out of the private sector. We've
25 had the EPA come to us and look at what we're doing and say 'we'd
26 like to be a part of this and we'd like to do a project'. This money is
27 probably leveraged and you can get some private dollars. But you've
28 got to throw a number out. What you do is say 'ok, provided that the
29 Tobacco Commission securitize then our goal would be to allocate up
30 to \$100,000,000.00 provided that by the end of the day what you come
31 up with once you look at the overall architecture the fact that fits the

1 piece where you're heading in the end'. I think this validates the
2 \$100,000,000.00 figure as being something that potentially, what you
3 hope you could do is leverage it up to for \$150,000,000.00.

4 SECRETARY SCHEWEL: Let me ask you a slightly
5 different question. I'm simply saying when you talk about that number
6 that's what we're talking about for the deployment of that system to
7 South Hill to Jonesville and that kind of network Geodesic Mode with
8 various MSAP's scattered in the communities of Southern Virginia. Is
9 that what we're talking about when we talk about what the number is?

10 MR. DAVENPORT: Oh I've heard that, yes, that's a credible
11 number. In each one of those towns or each one of those MSAP's, let's say
12 Lenowisco comes to you and says 'we got the long haul fiber piece in place
13 and we'd like to deploy the system out to include industrial parks' and now
14 we have a separate project. I think the first thing to do is you look at the
15 overall infrastructure and you say 'if we have monies left over let's start
16 looking at how you deploy that', it's an endless thing. If you look at a rural
17 electric company they would like to deploy every place they could it's like a
18 rural electrical. The first thing you want to do is get a 'big bang' for your
19 buck. You want to build a business infrastructure so that a company wants to
20 locate in the area because of this system being in place. In the case of
21 Danville Electric they want to tie into our MSAP and deploy a fiber system
22 to the end user at home all over Danville that's perfect and you'd like to see
23 more of that done. Bristol Utilities wants to tie into our system to provide
24 them with another link to the Internet. They are in fact deploying fiber to
25 every customer that's on their system. The system is being deployed and in
26 some places there's more resources to do it than others.

27 DR. MORRIS: We've got about fifteen more minutes for
28 this discussion and there are some critical questions being asked but I
29 think the Commission has to come to terms with the magnitude of order.
30 Grant County it seems to me is not necessarily parallel and they put
31 everything above ground and seems to me it's a much smaller area

1 geographically than we're talking about here. But the Commission I
2 think in order to set priorities is going to have to get some feel as to the
3 magnitude of money that could be put into this kind of project and what
4 you would get out of it.

5 SENATOR HAWKINS: Mr. Chairman, I think one of the
6 things that we need to understand is that you put in place the business
7 infrastructure that is available to all of the population along this corridor,
8 each area then has to determine where they plan to put in their access
9 roads when building a Interstate highway or other access highways and
10 then businesses have to determine where they want to locate it to have an
11 access road. Our responsibility is the major backbone itself then let
12 communities decide how they plan to disburse within that population.

13 SENATOR WAMPLER: Mr. Chairman, I happen to have a
14 different view and Ben and I talked about this at length and I hope this
15 moves the presentation along but this model does not address fiber to the
16 home and fiber to business like Grant County does. Senator Hawkins is
17 correct you have to have a long haul piece but what is deficient in this
18 model is how you deploy something sooner rather than later. It has to be
19 fast, it has to be cheap which means you have to have competitors within
20 those markets that deliver services. We're turning that ship but we don't
21 have it yet. Very simply I'm interested in seeing what the *e* Corridors
22 project or plan or report will tell us with regard to how we're going to it.

23 SENATOR HAWKINS: Your electric cooperative could
24 have that potential –

25 SENATOR WAMPLER: I'd like to hear what Virginia
26 Tech has to say or plans to do with that.

27 MR. CROWDER: This is not intended to be a model to
28 supplant a model that provides fiber to the home, fiber to the business
29 or whatever. This represents an application of Geodesic Network
30 concept to span the entire Tobacco Commission Counties. If you
31 cannot get access to this infrastructure within the community via fiber

1 to the home project or whatever access. And if you can't get access
2 then this is a moot point and what we're saying is that for the benefit to
3 accrue to the entire region, for communities not to be left out by not
4 having access to the highway that we need to first take into account
5 what needs to be done throughout the entire region for backbone
6 network infrastructure to establish connectivity for every community.
7 And you're exactly right. What also needs to be taken into account
8 which is not represented on this model is the local access situation.
9 We're seeing that there are community's already stepping up to the
10 table to begin to tackle that part of the project Danville is one of them
11 or the City of Bristol and other places. To provide some coherence and
12 benefits throughout the region this is missing. It's actually relatively
13 easy to think about what you'd do for fiber in the home before
14 businesses. This is the part that is harder to understand who are the
15 players at the table here and this has to be done for the others to make
16 sense. It's not intended to supplant them and not a model per say that is
17 the be all and end all for the Tobacco Commission region just one
18 concept we have.

19 MR. MAJORS : At least two points. You've got at
20 least two parts. You've got the Tobacco and then you've got within each
21 area you've got a local access part, which maybe the Commission gets
22 involved in and provides some assistance or at least a model for how it
23 can be done. I understand this would be different than how Danville does
24 it or Bristol or whatever.

25 MS. MOORE: The point I'd like to make is that it's like
26 when each part is just divided up. It's like when Australia divided up
27 their country and they all built a different railroad. That was built at a
28 different gauge so none of the railroads are connected but you can't ride
29 through Australia on the same railroad. So the point is if you let each
30 community go after this without some standards and a notion of how it all
31 connects together there still will be isolated communities.

1 DR. THOMAS: I'll give you five minutes to summarize.

2 MR. CROWDER: Actually that was it for my
3 presentation other than to just put up a slide and talk about it but you've
4 already talked about it. The report is due in January, 2003 and we're
5 trying to look at the whole range of issues to provide a comprehensive
6 framework that will enable you to come up with a good strategy, be able
7 to assess input you're getting from other players. If you're addressing
8 business issues we are looking at local access and different alternative
9 issues and to the extent to provide some framework. We're talking to the
10 telecommunications industry and stakeholders and they're out there and
11 make sure they know what we're thinking about where we're going. At
12 the end of the day if what we do is influence the telecommunications
13 industry to not leave our region out then we've done quite a bit, we're
14 already having success along those lines. I'll give you my telephone
15 number and e-mail address if you'd like if you have further questions. I
16 can certainly help you get any question you have answered. We have a
17 large group of people in our *e* Corridors Project working on this and
18 people are focused on separate issues and be glad to help you.

19 DR. MORRIS: You want to yield your time to Senator
20 Hawkins?

21 MR. DAVENPORT: I apologize. If you don't have the
22 Interstate highway, I don't care what you connect to at home you can't in
23 fact ever gain anything. The hub for the long haul fiber has to be the
24 centerpiece and it will be deployed just like the Interstate highway system
25 has proven itself as to where it goes through and in fact the communities
26 have responded.

27 SENATOR HAWKINS: I think Mr. Williams had some
28 comments.

29 MR. WILLIAMS: Yes, I've got a couple of comments.
30 The network that Jeff was talking about is analogous to our Northwest
31 open access that we went over yesterday. With respect to costs that

1 network in Washington State cost \$27,000,000.00 for MSAP's. The fiber
2 between those points are released from EPA is an additional
3 \$1,000,000.00 a year just in operating cost. That will give you some
4 order of magnitude. If you're going to build the fiber \$50,000.00 a mile
5 underground and \$20,000.00 overhead and 9,000 miles we have conduit
6 that's all ready in place. It's a function of the numbers when you putting
7 that fiber in by the way of the cost I gave you. So that's the order of
8 magnitude cost. The operating cost to the network going in is going to be
9 about \$5,000,000.00 a year. The backbone fiber you were talking about
10 here in the Northwest Open Access Network in Washington State and the
11 fiber in the home is what we were talking about and that's
12 \$142,000,000.00 within the County of Grant to provide that fiber to the
13 home. Each one of those individual mode points is going to be an
14 interesting question about how you get to the home, you can do it in a
15 variety of ways. We chose to go directly to the home with the fiber in
16 Grant County and the other 16 PUD's that are members of the Northwest
17 Open Access Network there's a variety of different strategies people
18 figuring out how to get to the home, from wireless to use of existing
19 copper. You got to have both of those components and you're exactly
20 right. You've got to have that Interstate network. Then you have to have
21 that MSAP in the local area to the home. So I think I've heard a very
22 good presentation actually balances mine because you saw the backbone
23 network from the fiber to the home discussion in Grant County.

24 SECRETARY SCHEWEL: One point in the discussion I
25 don't understand or a lot of things. If the vision is to create a producer
26 network and you're talking about the wireless or copper to the home.
27 Can you obtain the speed and the capability from a producer point of
28 view with the way you go the last mile in a copper, wireless kind of
29 solution or you have to maintain, how can you be sure you maintain the
30 benefit of the big pipe for a producer, the last mile for the producer does

1 copper and wireless get you there or basically do you have a fiber
2 solution to get the benefit?

3 MR. CROWDER: From my perspective you need wire. A
4 copper wireless is good for what it can do but it will not enable a
5 producer network or anyone could be a cable TV provider. Let me just
6 give you an example. A good example is I was visiting with a computer
7 science corporation located in West Virginia and they have the same
8 problem how to have the connectivity. And they tried to use the
9 government contracts. One of the things and the type of activity they
10 need for a business there is fiber. One of the questions we were hitting
11 the guy with that was running the operation is how are you finding
12 employees for your business by running a big data center. He said 'well,
13 I go to the Chamber of Commerce and Rotary and I ask everybody what
14 the kids are doing'. He said I brought nine children home from Chicago
15 and other places that come home to work at the corporation. He's a
16 producer within a community and he's making a dent in the local
17 economy right now. He needs this intercommunity to tie him in to D.C.
18 or Chicago or wherever he needs to go and he can get there if there were
19 a mode in West Virginia for him to tie to.

20 SENATOR HAWKINS: Mr. Chairman, one comment I
21 think if we can link this corridor over to the North Atlantic and Eastern
22 Shore into the New Jersey cable it would give us some very good access
23 points.

24 DR. MORRIS: Are there any other questions for Mr.
25 Williams?

26 MR. WILLIAMS: I would agree with Jeff you do need the
27 fiber to the home and businesses.

28 DR. MORRIS: Thank you. We'll take a ten-minute
29 break.

30

1 MR. CURRIN: I want to introduce Dr. Rachel Fowlkes and Dr.
2 Barry Simmons, Dr. Rachel Fowlkes is from the Southwest Virginia
3 Higher Education Center and Dr. Barry Simmons is from Virginia Tech.
4 Both have been very helpful and instrumental in the Scholarship Funding
5 Programs that is taking place in Southwest Virginia and Southside
6 Virginia. You may recall the Commission granted the Scholarship
7 Program for the Southside and Southwest Virginia. So, if you'd like to
8 begin with your presentation.

9 DR. FOWLKES: Good morning, for those of you that saw
10 our presentation last week before the education subcommittee it's time for
11 you to take a break and get a cup of coffee, you won't have to sit through
12 this again although this time we've updated some of our information so it
13 won't be quite so boring for you. I'd like to introduce Christine Fields to
14 my left. Senator Wampler can tell you she does all the hard work for us at
15 the Education Center although I'm the Administrator of the program
16 Christine does the bulk of the work. You'll see the numbers we have 700
17 applicants from Southside Virginia and about the same number from
18 Southwest. Chris has probably talked to every one of those applicants at
19 least once on the telephone. It's been a very personal experience for us
20 working with these people. All the hard questions can be answered by
21 Chris.

22 We're going to give you a quick overview of what has happened so
23 far. The Southwest Program is in its second year and the Southside
24 Program is in its first year. As Administrator's of the Program we have
25 developed the application process, have reviewed the applications and
26 have awarded the scholarships to the students based on the criteria that
27 each of the groups from Southwest and Southside have determined what
28 the eligibility criteria are.

29 These are the criteria you see for the Southside scholarships. You
30 allocated 2.8 million dollars for the residents of Southside in 24 localities.
31 The criteria included a focus on education in the

1 K-12 education market. Everybody who applied for that scholarship has
2 to indicate on their application they intended to teach K-12 in Southside
3 Virginia. They have to attend a four-year institution and they were
4 eligible for up to \$4,000.00 in scholarship awards for that education
5 experience. The award was actually a grant/loan. The grant could be a
6 pure loan or a grant to the student if they agreed to come back to
7 Southside and teach in the K-12 community for a year. If they decided
8 not to do that then they had to repay that \$4,000.00 scholarship at 4%
9 interest. We had in Southside Virginia 700 eligible applicants for the
10 scholarships. All the applicants for a Southside scholarship had to sign a
11 promissory note that was developed by the AG's office, which they signed
12 their firstborn and all their worldly possessions, collateral if they didn't
13 repay the loan. Today we have received back from those 700 applicants
14 440 promissory notes saying they have accepted the scholarship are
15 planning to enroll in college. There's over 48 different college majors
16 even though they all promised their coming back to teach in the K-12
17 environment. They are attending 49 college institutions and University's
18 both in state and out of state. In addition to the 700 applicants that were
19 eligible 151 were not eligible and the reasons are listed in the folder.
20 They didn't meet one or all of the criteria we established for the
21 scholarships.

22 Here's a quick statistical breakdown of the eligible applicants.
23 This graph here shows by gender and race, you see by far the predominant
24 number of people that are applicants that were awarded the scholarships
25 are white females. Then you'll also see any other information along the
26 side.

27 The next slide shows the age group and I think in Southside this is
28 particularly interesting. You'll see that 64% are what I call traditional
29 college-age students 18 to 24 year old category. The other thing that's
30 very significant to you all in Southside is that 36% of all the others are
31 either location bound non-traditional students over the age of 25. In other

1 words these folks who are staying in the community are seeking a second
2 career in teacher education and they are career switchers or they are
3 already teaching but they don't have the proper credentials to complete or
4 to be a licensed teacher and they're completing those credentials. So I
5 think that's a very significant and interesting.

6 SECRETARY SCHEWEL: Let's say the average recipient
7 now what percent of that year's cost does the scholarship represent?

8 DR. FOWLKES: The non-traditional students are typically
9 not using the \$4,000.00 scholarship. And they're typically taking two
10 courses per semester and not in full-time programs because most of those
11 students are working and raising family. The ones that you see that are
12 traditional age students most of these people are using or will use in that
13 school year the whole \$4,000.00. The scholarship is the last award so if
14 they have other scholarships they are applied first then the Tobacco
15 Scholarship closes the gap between the final amount and what the other
16 scholarships cover. So in some cases they're getting the full \$4,000.00 or
17 they're getting a portion of it.

18 The next slide shows by locality in Southside where your students
19 are residing and you will see from this particular graph that there are areas
20 that are really taking advantage of the scholarship. In Halifax County for
21 example you all got the word out and scholarship applicants turned out in
22 force 115 people from Halifax County. In the opposite stream you see
23 Counties like Amelia who have very few people who have taken
24 advantage of this scholarship. This shows us where we need to work in
25 some of our high schools and other ways of getting the word out to some
26 of the other Counties like Buckingham.

27 The next couple of slides reflect the statistics from the Southwest
28 Program. The Southwest Program had \$1,000,000.00 for its recipients
29 and these criteria were quite different. Southwest folks must be from a
30 tobacco family. As most of you know there are many more growers in
31 Southwest Virginia than there are in Southside Virginia. The scholarship

1 was limited to growers, producers and quota holders and their dependents.
2 The maximum amount in the Southwest was \$1,000.00.

3 This year we added that all the recipients had to attend a career
4 workshop. We had eight career workshops and they had to attend one of
5 the workshops. These workshops were designed to help the students see
6 the job opportunities that are in Southwest Virginia. The job
7 opportunities are growing and expanding and the ones that would be good
8 for them to consider before they elected a major. The career workshop
9 was entitled 'Choosing Your Major With A Career In Mind'. All the
10 Southwest Virginia students are in four year schools in the
11 Commonwealth of Virginia.

12 The next slide shows the statistics about Southwest and in your
13 minds to compare these to numbers in Southside. We had 626 eligible
14 applicants and today 548 have accepted scholarships and have attended
15 one of the career workshops. They represent 78 different majors in 27
16 different colleges in the Commonwealth of Virginia. Again, like the
17 Southside group we've had about 157 who were not eligible because they
18 didn't meet some criteria.

19 The next slide gives you a quick overview of what we have tried to
20 accomplish in the career workshop. There was three goals in mind and one
21 was to let you know about the Tobacco Commission Scholarships, how the
22 funds were established and the goals that the Commission had in mind for
23 the scholarship recipients. Members of the Commission from the
24 Southwest attended and did a presentation to the recipients about a portion
25 of their scholarship that they needed to know. Then we spent another hour
26 with each of the scholarship recipients on career assessment. Each of them
27 took two career assessments, one a paper and pencil assessment and
28 another one on a computer that helped them see their own individual
29 strengths and weaknesses. Then the third portion or third hour of the
30 workshop we focused on business people from Southwest Virginia on
31 careers that were growth careers where job opportunities were likely to be

1 that are now and would likely be in the future. Across the bottom here
2 you'll see some of the different careers that we focused on.

3 You'll be interested to know that students came to the workshop
4 with arms folded and sat there in the chairs like you're doing right now
5 with a 'prove it to me' kind of attitudes. By the time they left they all were
6 coming up to us and saying 'this has been the best thing we've ever done
7 because we've learned a lot about ourselves and we had no idea that these
8 jobs were available in Southwest Virginia'. We tried to focus on things
9 that maybe would not be obvious to them. It was really a very good
10 experience, some of them were asking when they left next year if we have
11 the scholarship and if they were a scholarship recipient would they be able
12 to do this again, we'd be able to give them some more job opportunities
13 ideas because we're already thinking ahead about we might do that again.

14 Here are some quick statistics about recipients of the Southwest.
15 You'll see demographically that data is about the same with more females
16 than males have attended and received scholarships. If you look at the age
17 groups you'll see we have more non-traditional students involved in
18 scholarships in Southwest than we do older students. We have more
19 traditional age, age 18-24. Chris pointed out to me the reason we do is
20 that we have the word dependent in the criteria in the Southwest. So there
21 aren't very many dependents that are over the age of 25 and that's nice to
22 hear having just come from parents weekend at my son's college.

23 If you turn to the next page and look at the slide you'll see the
24 demographics of the Counties in Southwest Virginia and you'll see that
25 we do have like in Southside, have some areas that we need to work a
26 little bit harder in getting some of these students aware of this scholarship
27 program and taking advantage of this. In the Lee County we have 68 and
28 we think that's good for that County.

29 Now, last week we met with the Education Committee and many
30 asked the questions 'what's next, where do we go next with the
31 scholarships?' There are funds still remaining in Southside and

1 Southwest. We sent letters last week to all the scholarship recipients who
2 had not signed a promissory note in Southside encouraging them to let us
3 know by October 18th their intention on whether they're going to use the
4 scholarship or not. If they're not going to use it we'd like to have a
5 second round of Spring tuition for those that didn't take advantage of it in
6 the Fall. We'd like to start it as soon as possible so that the student's will
7 know before December they have been awarded this for the January
8 admission. You'll see here the information that we'd like to start that.

9 We'd like to do the same thing in the Burley region we'd like to
10 have everybody let us know so we can start awarding these scholarships
11 for the Spring semester for December so we'll have first come first serve
12 for the money that's left. We'd also like to lift the word dependent from
13 the criteria to allow tobacco families that have growers or quota holders
14 that are not dependent children take advantage. We think that will let
15 more people who are non-traditional age come back to college and use
16 these scholarship funds and that would be a healthy thing to do.

17 Then the last slide that's next. One of the things that we've done
18 in our office since we have completed the Fall program, we've automated
19 the application process now so that as the person who applies for the
20 scholarship that information goes directly into our database. That
21 probably does not impact you as much as it does our staff but that'll make
22 it a lot easier to track all of the applicants. We'd like to have a series of
23 workshops with the financial aid officers in all the colleges in the
24 Commonwealth, we'd have difficulty outside the Commonwealth. It's
25 been confusing for some of the colleges how the process works and we
26 feel like if we could sit down with them and walk through with some of
27 the financial aid officers they can do a better job of working with the
28 students on campus and making them aware of the scholarship
29 opportunities and get more people in that direction. Dr. Morris, I'm
30 willing to answer any questions.

1 SECRETARY SCHEWEL: If a person gets there they basically
2 promise that they will come back to Southside for instance and teach in
3 one of the 24 localities, correct?

4 DR. FOWLKES: Correct.

5 SECRETARY SCHEWEL: If they do they get forgiveness of the
6 debt?

7 DR. FOWLKES: Yes.

8 SECRETARY SCHEWEL: What if they don't?

9 DR. FOWLKES: They pay it back with 4% interest.

10 SECRETARY SCHEWEL: So there's not really a penalty
11 if you don't come back it's simply a benefit if you do?

12 DR. FOWLKES: That's correct.

13 MR. ARTHUR: Dr. Fowlkes, I think you and your
14 organization should be commended for the work that you've done here on
15 such very short notice to have to get it out. I think as an organization we
16 should feel quite proud of what we've done. I'd like to ask our Carthan if
17 we've done anything to a press release type of thing to let people know
18 what we're doing with some of this Tobacco Commission money because
19 I get that question quite often. This is something that is tangible and we
20 can put our finger on it right now, show what we're doing with some of
21 the tobacco money.

22 DR. FOWLKES: I agree with you and also in your folders are
23 statistics for Southside the yellow sheet and gold from the Southwest. This
24 shows the colleges where the students are attending and the number of
25 students. In Southside not only is it benefiting the students enrolled but it's
26 also a great way to put the colleges in the tobacco-growing region. For
27 example, in Southside Virginia Longwood College and Averett College are
28 the two big recipients of students receiving the scholarship money. Old
29 Dominion and Radford are third and fourth. Old Dominion by the way, these
30 are people who are non-traditional students and primarily in the Community
31 Colleges in Southside.

1 On the gold sheet you'll see colleges where students received the
2 Burley Scholarship Award. The number one recipient there is University
3 of Virginia College at Wise. The enrollment has been very beneficial to
4 that college and most of you know that are working with that institution.
5 The second largest recipient is Virginia Tech and the third largest is
6 Radford and Radford comes out on both sides and then Emory and Henry
7 College. I'm sure Dr. Morris would agree that the 64 scholarship
8 recipients are doing well in the college and I'm sure it means a lot to the
9 private institutions that have that number of students. I just think
10 communicating has helped this program.

11 SENATOR HAWKINS: Dealing with the scholarship
12 program, the money that goes to the private schools that is in addition to
13 the scholarship money?

14 SENATOR HAWKINS: I to want to compliment you,
15 you've done a very good job as everyone said. I got a lot of phone calls
16 over the last year or so and this subject always comes up. This is one of
17 the most positive things we have done. Every student and family I talk to
18 and when they call me back they really have glowing reports on how
19 they've been treated and how you and your staff have worked to meet
20 these goals. We thank you.

21 DR. FOWLKES: I do have one follow up comment. A
22 couple of weeks ago when we met with you in your office about talked
23 about students enrolled in non-traditional programs. After that
24 conversation I came back and we did some work with the public service.
25 Looking at communities across the Commonwealth and every single
26 County and Town and City. One of the things we looked at comparing
27 the 2000 census data with '99 census data. The percentage of adults in the
28 workforce over the age of 25 that have a four-year college degree or
29 better. We compared that with the per-capita income in state average.
30 The alarming thing when we did this is that 120 localities in the
31 Commonwealth of Virginia fall below the state average in the percentage

1 of adults over age 25 that have college degrees but they also fall below the
2 state per-capita income. When we looked at that across the board
3 communities where you have the highest percentage of population with a
4 college degree are typically communities where the per-capita income is
5 higher. It doesn't take a rocket scientist to figure out where the localities
6 are like Northern Virginia, around Richmond, the Tidewater area, a little
7 bit in the valley but not very much. So when you took out the six counties
8 in Northern Virginia and looked at it still left over 96 counties, cities that
9 don't meet that state average. It's interesting to me when you talk about
10 college-educated communities. I think that's where you see a lot of the
11 economy growing in the Commonwealth is around communities where
12 you have well-educated population. I think that's what the tobacco money
13 is trying to do strengthen these communities.

14 SECRETARY SCHEWEL: This is a question that lurks
15 behind us and it's a 'but for' question. Do we have a sense but for the
16 scholarships these kids would have gone to four-year colleges. I guess it's
17 a question, you don't have any thoughts about.

18 DR. FOWLKES: We don't have any statistical data to
19 answer that question. We do have a lot of information coming back on all
20 these forms. We have personal letters from many, many people and we
21 didn't solicit these letters. We've also had phone calls and Chris has
22 written down all the messages that we've gotten and the letters. Some
23 days we got 100 phone calls a day from people about the scholarships.
24 They were stating that 'if it weren't for the scholarships we would not be
25 in college right now'. I know that's not the case for 100% of the
26 applicants and I do know that but I can't tell you what the actual
27 percentage is. We're going to be tracking that in the future and we should
28 be able to figure that out. Barry has all this financial expertise and he'll
29 be figuring that out for us.

30 MS. FIELDS: The figures from Southside those will be a
31 lot larger than Southwest and that's just from feedback from people I've

1 talked to personally who have said “I wouldn’t be able to go for various
2 reasons if the scholarship wasn’t available”.

3 SECRETARY SCHEWEL: Chris, do you think that
4 number is high for the non-traditional students?

5 MS. FIELDS: That’s because those people or some of
6 them are trying to raise families and make ends meet and all those other
7 things. Some of these people don’t really know what they want to do but
8 when the scholarship opportunities came up they felt like teaching could
9 really make a difference.

10 SENATOR WAMPLER: I would have to concur with
11 Mr. Tom Arthur that your presentation this morning has validated the
12 commission’s belief that we should invest in education. Every one of
13 yesterday’s presentations concurred that access to higher education
14 rebuilding the economy. Put all that behind you now. I think you need
15 to prepare a one-page summary for us of where we need to target
16 additional dollars for a smaller subset of existing dollars. If Southside
17 believes there’s a need for teachers where else can you carve out
18 another 10% of scholarships whether it’s systems engineers? What is
19 missing in the economy, where is the cost of education precluding
20 students from enrolling in a certain degree or certain area of study?

21 Mr. Chairman, I think for purposes of the long-range plan we need
22 to take that to the full commission. We know we are getting base hits in
23 every application but I’m not sure we’re really focusing on what it is.

24 DR. FOWLKES: That’s a great question, if you look at
25 the back of these orange sheets where it lists all the majors that people
26 are taking. And this one is Southwest Virginia. It was restricted like
27 you have in the Southside but if you look at the majors you’ll see that’s
28 very diverse. I think what we’re trying to do is build a diverse
29 community that is not being focused just on one career segment. I
30 think that if you have, everyone is doing the furniture industry and then
31 if it goes south you’re left with a large workforce that’s not prepared to

1 do other things. So I think it's important you have diversity. There's
2 also things on here and Senator Wampler's absolutely right that
3 according to our speakers that we had at the workshop we're not
4 preparing people adequately to do. You'll see in Southwest we have 60
5 of our applicants that are declared education majors but there are a lot
6 of others also focusing on education. In the computer science area or
7 information science area we're very weak. That's the case also for
8 foreign languages there is no foreign language major at all on here.
9 Everything we've heard from our speakers is that we need to be
10 bilingual and it's very difficult to operate in the global market today
11 without that. There's not one person on here majoring in a foreign
12 language we know they're at least learning to speak English.

13 SENATOR WAMPLER: Mr. Chairman, that's exactly
14 what I'm asking Dr. Fowlkes to do. It's not that we want to reorient the
15 thinking about a liberal arts education but where is it that we need to
16 focus, is it on the graduate level when they pay off loans, from the
17 undergraduate level that says we will direct you toward a career path on
18 the graduate level. I'm not trying to move any of these 594 areas.

19 DR. FOWLKES: To help go further.

20 SENATOR HAWKINS: Building on what Senator
21 Wampler said I think we also need fair to say that we need to make sure
22 that we understand the basic needs of our community and anything
23 dealing with the healthcare aspect of our society of doctors or nurses or
24 those disciplines we need to help, we need to be aware of that and the
25 shortage in that.

26 DR. FOWLKES: All our career speakers have addressed
27 that, the growing number of job opportunities. Some of these are very hi-
28 tech that we have. There are many opportunities out here that are very hi-
29 tech and then there's those that are not.

30 SENATOR RUFF: In our education subcommittee
31 meeting we talked about those things and we'll be meeting and discussing

1 that later on in October as to whether in Southside we want to expand
2 those professions in other areas. I would like to think Rachel they did a
3 hard job, Dr. Barry Simmons was the MSAP. I suggest that we move in
4 some of these other categories even more in Southside. Many of the
5 people in Southside if they're not in the teacher preparation, if they're not
6 going to go back and teach in Southside we'll have to talk about criteria
7 that would attract people to either come and stay in the area who are not
8 necessarily in teacher preparation programs. Everything we heard
9 yesterday suggests that we need a whole new leadership structure
10 throughout Southside and Southwest Virginia. I think we'll have to
11 consider criteria that might include people from outside the region who
12 come to the region to get their degrees and many of whom are inclined to
13 stay in the region if in fact there is an incentive for them to do so and jobs
14 for them to do so. If this turns out to be a major focus of the commission
15 and a substantial amount of more money is put into it I think you can
16 broaden the category significantly and have a great impact.

17 DR. FOWLKES: When we've had career workshops all of
18 the speakers encouraged students to take advantage of any internships and
19 co-op experiences. People are more likely to stay in a place where
20 they've gotten their foot in the door. Maybe that's an area when you talk
21 about Senator Wampler, going another step with the scholarships. Keep
22 putting people in these co-operative experiences that are very helpful and
23 where someone shows an interest and there's an internship available
24 particularly in some of these segments that you need new workers for
25 things like IT, healthcare I think that would be very advantageous to
26 students as well as to business.

27 DR. MORRIS: I have no objection to Northern Virginians
28 who choose to come to our area to get their degree stay in our area and
29 work and that means you'd be giving money to Northern Virginians to do
30 that but I think it's an advantage to Southside and Southwest if that
31 happens. I'm not suggesting we give money to Northern Virginia.

1 SECRETARY SCHEWEL: In terms of if we were
2 starting theoretically in a perfect world it seems to me what we'd like to
3 do is give money that will have the most impact on the tobacco areas and
4 that's the basic concept. So therefore at least if we can give some money
5 to people that would not go to college were it not for the scholarships
6 otherwise is fine. Also theoretically encourages people to come back and
7 if they don't come back then don't hit them over the head but on the
8 other hand we don't want to spend the tobacco money for the next twenty
9 years doing that. I think you can at least make an argument that in an
10 area where 40% of the population over the age of 25 have not graduated
11 from high school that it is at least as important to focus on that 40% and
12 figure out a way to go forward and go back to school or encourage them
13 to go back because they failed in school the first time they went through.
14 Given the relative difficulties of getting someone in college to afford to
15 go to college as compared to someone that did not that has not graduated
16 from high school to go back and get a GED degree. At least it seems to
17 me that that is at least an equal claim on our resources.

18 SENATOR HAWKINS: We have dealt with that and we
19 have invested funds and money dealing with the GED program and trades
20 and education and community colleges access and the fact that the basic
21 population needs to have educational skills and those scholarships are
22 being awarded to people that want to take advantage and have access to
23 that. Those monies have been tripled and I believe it's 15 million dollars
24 has been set aside for the GED program, for apprenticeship programs, for
25 skill levels that'll take them into different disciplines and people that are
26 not necessarily college-oriented. We've tried to deal with that segment
27 first but that's the problem we face with an un-educated population. To
28 elevate those folks up to the level where they can gain this employment.

29 SECRETARY SCHEWEL: Can we get something on that?

30 SENATOR HAWKINS: Carthan, can we get that
31 information to everyone, very few people understand what we're dealing

1 with and we've dealt with that in a reasonable manner. We're trying to
2 work through some details with it and there's been several meetings I
3 understand with the community colleges and Frank can tell you more
4 about it because he's been more involved with education.

5 SENATOR RUFF: Time wise I don't think that the
6 Literary Foundation is quite as responsive as Barry or Rachel have been
7 but I think they're now on track and they're going to be promoting this as
8 we go into the particularly on the GED issue. The community college
9 issues I don't think they were prepared for September I think they will be
10 prepared for programs to start with later in the year so they'll be in good
11 shape by next year.

12 MR. MAJORS: With the GED program what are they
13 doing with that?

14 SENATOR RUFF: They're giving out grants to
15 organizations that are currently in the GED training business with
16 Danville working through the school systems.

17 DR. MORRIS: Are there any other questions, we want to
18 move on.

19 MR. ARTHUR : The only reason or the only
20 discipline that we have approached is the education and those few folks
21 coming back to teach because with the time frame we were faced with we
22 were told by Mrs. Fowlkes and them we needed to limit it to control it and
23 get it done. If we had other disciplines involved they couldn't set up the
24 control mechanism fast enough. So it is in the mill to expand these
25 disciplines and in fact we're insisting on it we'll be able to expand those
26 disciplines to other fields. How we control it is another matter that we've
27 got to come up with and we've got time this time. I think they've done a
28 wonderful job and this is one time that Senator Wampler's 100% correct
29 in suggesting that.

30 DR. MORRIS: That's the only time.

1 MR. ARTHUR: This is one time he was 100% in
2 suggesting Dr. Fowlkes and her organization do it. I also want to
3 compliment her and her staff.

4 DR. MORRIS: What we've heard and learned today has
5 been very helpful. From my perspective in terms of long range planning
6 and I see this as sort of a pretest that will put us in a better position to
7 make hard decisions on how we spend more money into this.

8 SENATOR HAWKINS: In this discussion and focusing on
9 the structure and how we can concentrate on scholarships and maybe
10 eliminate the GED vocational considerations and hopefully that's taken
11 care of long term but hopefully, I think we'll find out more about it
12 through these other programs.

13 MR. MAJORS: Is that an endowment or is that money that
14 is being spent over a short period of time?

15 MS. WASS: A portion of principle is being used.

16 MR. MAJORS: What kind of numbers?

17 MS. WASS: More like 5 million endowment matched
18 federal funds. I think the match is not more than that.

19 SENATOR RUFF: There is a formula that we made, I
20 think it was 3 million that was given to the literary foundation to use,
21 somewhat guarantee the loans that were made from that fund. In the
22 realm of education we don't know how well and some of the people were
23 not willing to make loans, some people just won't make the loans in a lot
24 of cases.

25 DR. MORRIS: The Tobacco Commission if it chooses
26 could put more in, could make a much more substantial endowment
27 than that to support these kind of programs.

28 SENATOR HAWKINS: We're defining an area that's
29 never been defined before. Everything we did was basically putting in
30 place a new set of criteria that we didn't have before and that's the
31 reason I'm so pleased that we're all willing to look at this long term.

1 We've actually brought a dream to fruition by the proper investment of
2 these monies long term and if not, we have understood the
3 responsibilities of the stewardship of this money and we are looking at
4 this long term as I said.

5 MR. MONTGOMERY: Mr. Chairman, what was the
6 rationale in the Southwest to limiting these monies to Virginia schools?

7 DR. FOWLKES: What was your rationale for doing that? I
8 think the rationale was you wanted to keep the money with the Virginia
9 colleges and the money coming from the Virginia Tobacco Commission
10 for settlement to the Virginia colleges. Virginia dollars you wanted to
11 keep in Virginia and to help stimulate the economy of Virginia. As you
12 know, there are a lot of students in Southwest Virginia who have attended
13 colleges in Tennessee and North Carolina, in West Virginia and I think
14 your thinking was you wanted to keep those dollars in the Commonwealth
15 of Virginia. Southside chose to go the other direction and I think you can
16 see the difference in the numbers of colleges, there's 49 colleges the
17 Southside students are attending. I think our numbers are something like
18 49 colleges. We actually had more students enrolled right now than they
19 do in Southside. This is our second year so it doesn't have anything to do
20 with in state or out of state. We stand at your pleasure what you want to
21 do or if you want to change that.

22 DR. MORRIS: Dr. Simmons.

23 DR. SIMMONS: Good morning everybody it's been
24 interesting listening to this. I come from a couple of different
25 perspectives on this. I became involved back in June working with
26 Senator Ruff and setting up the Southside program. But also from the
27 perspective that I am a native and still live in Southside Virginia a little
28 place called Baskerville, and not too far from South Hill. Up to about ten
29 years ago I also held a small tobacco allotment. My son is enrolled in
30 public school there so the future of Southside is very important to me
31 from that vantage point. Also as Director of Scholarships and Financial

1 Aid at Virginia Tech and the position in terms of policy and development
2 when it comes to financial aid.

3 In my presentation I've prepared a list of five questions that were
4 posed for this session. Much of what I will talk about Rachel has already
5 covered in terms of components of the Southside program but I'd like to
6 point out a couple of those to you in a little more depth. One question a
7 little bit earlier was 'what percentage or what portion of the students
8 tuition cost of education might this grant cover?' When we're
9 determining financial aid eligibility we don't look just at the tuition
10 generally and we look at the bigger scope of this. Of course, the student
11 will have books and supplies expenses as well as other incidental
12 expenses to that. This grant is proposed to cover up to \$4,000.00 a year of
13 tuition and fees only. For many of our students whether they're part time
14 or full time their cost of education for a full academic year even at state
15 institutions is going to be from \$13,000.00 a year on up when you look at
16 all the expenses they incur. This bill provides a significant impact upon
17 that cost of \$13,000.00 and therefore it's very helpful to bridge that gap. I
18 just wanted to answer that question that was asked a little bit earlier.

19 Another question that I've heard bantered about here this morning
20 and I've heard in previous conversations was if we are preparing teachers
21 with this money is there going to be the demand for the teachers in the
22 area. I went back and did a little bit of research on that and the most
23 recent figures '97 and '98 indicate that there's 1679 teaching positions in
24 the 24 Southside localities. We would be producing about 150 to 170
25 teachers per year so surely there is a demand there for teachers and that
26 should answer any questions there.

27 The question about the penalty or a nudge to come back to the area.
28 If you don't come back to the area it's four percent amortized over a ten-
29 year period of time is the interest rate. So while it's not a 'bang over the
30 head' it is an incentive to come back to the area. The thing to emphasize
31 here is that it does not have to be the area that they grew up in just one of

1 the twenty-four areas they need to come back to so there's plenty of choice
2 there.

3 The program has been developed with the wishes of the
4 commission and working with Senator Ruff and also working with people
5 from the State Department of Public Instruction as well as people from the
6 state on the Council of Higher Education as well as within the financial
7 aid community. As we need access to the financial aid community and
8 also President of the State Professional Association and we can seek
9 advice there.

10 How do we evaluate the program well, it's not six months old yet
11 so it's a little bit early to really do a substantial evaluation however, I
12 can't say that we've been very, very pleased with the response from the
13 students as well as the community. The response has been much greater
14 than I thought it would be so it's very pleasing to know that the program
15 is there and we've seen the figures that Rachel and Christine have
16 provided about those funds and have been put to good use.

17 We've heard a couple of times this morning about the short time
18 frame that we had and it was an extremely short time frame to put this
19 program in place but I would have to offer my compliments to Dr.
20 Fowlkes and Christine for all her hard work putting together and
21 answering all these questions and everything they did and they did a
22 wonderful job. As with any program this first year of existence there were
23 a few problems and we've worked on them and we got most of them
24 resolved.

25 One thing for future thinking in the immediate future as well as the
26 long-term future is that if we're going to make this as effective as possible
27 with the college growing population and we have to have access here.
28 You've got a very well defined time table that's in existence that you need
29 to somehow fit in to, dovetail into the time table and that has to do with
30 time for the students to make a college choice and then committing to that
31 college. The general admission application process to a four-year

1 institution should be somewhere right about now and that might be a little
2 earlier for some students but it begins about right now. Those decisions
3 generally go out in January and February but for new Freshman they have
4 to let the institution know by May 1 whether they're coming or not. To
5 make this program most effective we need to be in a position where we
6 can notify students of their eligibility for the Southwest or Southside grant
7 by April 1. Which means that we need a commitment funding from the
8 commission earlier than it has been so that we can get everything in place.
9 As Rachel noted there's some communities both in Southside and
10 Southwest that looks like they have not taken full advantage of the
11 program. We need to work with them and make sure that this information
12 does get out and we're networking throughout state professional
13 association as well as other things to make sure that they are aware of this.
14 The timing is very critical to make this as significant as possible and
15 assuring access as well as choice to students for the program.

16 SECRETARY SCHEWEL: When you talk about the
17 Southside Program, what percentage of the students returning to Southside
18 keeping the Grant money would you consider to be a success?

19 DR. SIMMONS: I would consider it to be successful
20 around 60%. You've got some and I've got some questions I'm going to
21 pose later on in here. In the educational curriculum some don't enter that,
22 they don't officially enter that curriculum until their junior year in college.
23 There's certain courses in the freshman and sophomore years, some of
24 those may decide that education is not for them. Then you're going to
25 have some that for whatever reason don't come back to the area but I
26 would think 60% would be a good figure for that.

27 SECRETARY SCHEWEL: I think 60% would be terrific
28 and I'd be very interested and see if we could achieve that high of a
29 return. I feel like people will use some economic rationale. I'm not all
30 sure they would come back or maybe a small percentage would but when
31 you compare for example the wage differential in Richmond compared to

1 Prince Edward or Lunenburg more than \$4,000.00 and I know your
2 incentive is to come to Richmond.

3 DR. FOWLKES: A certain percentage will already live
4 there and working there and probably are not going to leave. So a
5 significant percentage that we'll get back and I think that's great.

6 DR. SIMMONS: We're talking about the bigger picture
7 here with the *e* Corridor becoming more or we have more connectivity
8 there and will be more of a draw. A lot of people will commute from
9 these areas to Richmond and bring their dollars back into the area but can
10 we say it's an absolutely sure thing no, we cannot with any type of
11 program. There's some things here that we've got to show that the rural
12 areas of Virginia or Southside and Southwest yes, there is a rural area and
13 we have a lot of things here and a lot of investing is going on and you
14 know it's going to be a viable future. The educational incentives and the *e*
15 Corridor and all this is here and also you have to consider the quality of
16 life in these areas.

17 SENATOR RUFF: What percentage of seniors will we
18 start seeing results immediately?

19 DR. FOWLKES: We didn't bring that data with us but we
20 can get it for you cause when they filled out their applications we entered
21 whether in two or three years they'd be graduated so we can pull that
22 information up.

23 SENATOR RUFF: I just was going to make a point that
24 you don't have to wait four years to find out.

25 DR. SIMMONS: We need to fund it and the development
26 of some funding early on, we've got to do that. Then moving on here
27 we're in the final portion of this program now and we've worked on some
28 of these administrative things in the first year of putting all this together
29 it's been quite a task. But one of the major flaws that we've had and I'll
30 take 100% responsibility for that even though the Attorney Generals
31 Office assisted us in developing these promissory notes and there's no

1 forgiveness for that. We also need to plan if we're going to keep these
2 programs around. In three to five years we need to know if we're going to
3 have a sunset of these programs. We've heard a lot of very good things
4 here today about what these programs are doing but we need to consider
5 or we need to have a cold hard evaluation from three to five years of this
6 program and that needs to be within our overall plan. As a long range
7 planning task force you need to take that into consideration.

8 In conclusion I have a series of questions here that certainly
9 Rachel and myself will give you recommendations and then the decision
10 is up to the commission. There are some additional administrative details
11 that need attention. We've talked of tracking and adding other career
12 choices into the mix other than education. How do you track those and
13 what level of tracking are we going to do to ensure the level of integrity
14 and accountability, which you want to have in the program?

15 In these other fields we looked at will there be enough jobs to
16 satisfy the people that'll be coming out of school. We've heard mention
17 the expansion of health careers and social services and perhaps other areas
18 and technical areas. As we expand we've got to think of the
19 accountability option and how to track that and how seriously do we want
20 to track that, and that's a very important element.

21 With the teacher education as I mentioned, what level of
22 accountability do we want for that at the freshman sophomore levels, as
23 well as education in other areas? How close should we monitor that?

24 One other thing that we sort of danced around here, I'd really like
25 to see putting the Southside or Southwest or both in for financial aid.
26 Students would be, a loan forgiveness program for people who are not
27 necessarily from here. Then you have a certain portion of any educational
28 loans they may bring with them forgiven. This is done very commonly
29 now in law enforcement and in some other areas but I think it's something
30 that as we look at resources and ways to attract non-native people and that
31 can be very useful and successful.

1 Is the maximum annual award appropriate to Southside? Is
2 \$4,000.00 too little or too much? That's a question that we have asked
3 and I think it's pretty good. If you look at a midpoint evaluation we'll just
4 have to look at closely. Should the program be restricted to the
5 Baccalaureate level or the advanced level? Right now both of the
6 programs are wide open but you have to look at the funding that's
7 available and what the restrictions are but that's a wide open area. What I
8 think has turned out to be what's been great for the Southwest is the career
9 counseling sessions. In talking with Rachel we're going to open this up to
10 other curriculum whatever it is the fact that we have students knowing
11 what's available in the area and what they need to do in order to prepare
12 for that I think is critical. I think that's just an issue that has to be
13 followed.

14 What is the appropriate administrative vehicle for the program?
15 We talked about having the literacy commission working on GED and
16 we're working on the secondary and somewhere in this whole mix there
17 probably needs to be some means of preparation for current education. Is
18 it appropriate for us to keep looking for subcontractors or do we want to
19 have some structure within the commission itself for perhaps provide
20 some better oversight for all of these programs. I think that's something
21 the commission needs to look at so you don't go in too many different
22 directions and then there's too much monitoring to do. Are there common
23 elements between the Southside and Southwest programs that we really
24 want to look at? In some areas I think there are and in some areas when
25 you look at the demographics of the Southside region versus the
26 Southwest region. Nevertheless, there are some of these things we need to
27 look at as far as trying to look at goals of the commission. How long is
28 this commission going to be involved in this entire venture, five years,
29 twenty years, what? The more we know about that the better off we can
30 be.

1 The other thing we need to do that Rachel has talked about I
2 mentioned again is we need to publicize this. The question was asked
3 how many people are going to college because this made them go. I've
4 been doing this financial aid stuff for about thirty years, continues to
5 amaze me how little the public knows about availability of financial aid.
6 Admittedly financial aid is very, very complex having done it for thirty
7 years I still have things I don't know. And eligibility to an individual
8 especially a first time freshman in college is complex. Nevertheless there
9 is a lot of information out there but we still need to do more, perhaps a
10 bigger piece of the commission is to hold an education piece in the
11 Southwest and Southside letting the communities know not just what is
12 available for students but a way to finance their education and what's
13 available.

14 DR. MORRIS: Looking beyond the two programs that are
15 in place with substantial and additional resources we've put into this, is it
16 inconceivable that the two areas would be so connected that one might be
17 able to get loan forgiveness by taking a position in the other region? Either
18 one?

19 DR. SIMMONS: That certainly is a possibility.

20 DR. MORRIS: The tie in would be the two rural areas and
21 that we're trying to attract people.

22 DR. SIMMONS: I think there's an opportunity for us to do
23 that if that's the wishes of the commission.

24 SECRETARY SCHEWEL: These loans or actually their
25 grants, what do you pay back?

26 DR. SIMMONS: It's amortized over ten years at 4% and
27 your always talking about a minimum payment of maybe \$50.

28 SECRETARY SCHEWEL: In my mind or my question is
29 if they don't come back, will the interest go up and the maturity be
30 shortened. Something maybe that says we're making this loan for you to

1 come back if you come back it's free if you don't come back then you
2 adjust to the market situation.

3 DR. SIMMONS: You got a couple of factors there. You
4 don't want it to be prohibitive so that you kind of put the damper on
5 access. The other piece that I think people may not always come back
6 immediately to those communities. They might come back later on or
7 come back fifteen years, which is five years after they finish paying for
8 the loan. That's still good that we provided the student the access and
9 they've gotten their education, which is the commissions intent and would
10 increase their earning power. Shortening the term I would strongly advise
11 against but certainly there could be some adjustment made of the interest
12 rate. Starting off with like around 5%, actually it was cut to 4%.

13 SECRETARY SCHEWEL: I'm not saying you should
14 change the 4% but if they go to someplace like New York and make a
15 living should we still have it at 4%?

16 DR. SIMMONS: That's something that you might want to
17 address.

18 MR. MAJORS: What's the rate on a standard loan, the
19 going rate for student loans now?

20 DR. SIMMONS: The going rate for the Federal or the
21 Standard Loan Program is 336, Ms. Burge is our Assistant Director for
22 scholarships and I'd have to look to that to quote the current interest rate.
23 336-406.

24 MR. MAJORS: So this is in line with that?

25 DR. SIMMONS: Yes. In school I think it's three, when
26 they are paying it is four.

27 MS. WASS: The students in Southside they're not
28 qualified for the Federal Loan Program. What prevents us from lending,
29 if you have the Federal Loan and then us pay it off?

30 DR. SIMMONS: There's two questions there.

1 MS. WASS: Rather than us being in the loan business why
2 don't we let the Federal Financial Aid take care of the loan and then if
3 they come back into the region we help pay off their loan?

4 DR. SIMMONS: The question is there do we want to have
5 this forgiveness program and that would be totally on the backend on the
6 piece of the program. My understanding of the commission's wishes is
7 that we want to sort of act or give a little nudge and increase the access
8 issue and so from that it would necessarily do that.

9 MS. MOORE: In our continuing education, the adults, they
10 aren't always available for the Federal Loan.

11 DR. SIMMONS: As long as the students are half time and
12 in a recognized curriculum, go through the necessary paperwork then yes,
13 their eligible for loans. Many of them are part time and they have to have
14 time for the program. The other piece on the half time Federal Loan
15 Program is that, that is a loan and the incentive here is that you come back
16 and teach right now and expand their curriculum and that's an extra little
17 sweetheart there that brings people back into the area.

18 DR. MORRIS: We have to stay focused on the question of
19 are we trying to encourage people in these two regions to go anywhere for
20 a college degree and go anywhere in the world to work or are we trying to
21 encourage people from these two regions to get a college degree and more
22 education and to stay in the region?

23 DR. SIMMONS: My understanding of the commissions
24 wishes in the Southside program is that we want people to continue their
25 education and increase their education and come back into Southside and
26 Southwest and practice their arts there.

27 DR. MORRIS: I don't think we have the answers to all
28 those questions with just these two programs but I'm saying if we go
29 beyond it we're going to have to focus even more on those questions.

30 DR. FOWLKES: I think what Stephanie just said is a very
31 good approach and loan forgiveness. One of our concerns is what do we

1 do with our tracking, who's going to do that and who's going to keep up
2 with them? And that would certainly solve that problem if you do what
3 Stephanie suggested.

4 SENATOR RUFF: Mr. Chairman, the problem with that is
5 we have now psychologically tied them back to the region but if we do not
6 do anything until after they graduated they don't feel an obligation at all
7 to come back and that's the dilemma we'll have if we say 'ok it's out
8 there and you will not have to deal with it today' but now they think 'I've
9 made the commitment' and most people are receptive to go along with it.

10 DR. SIMMONS: This service commitment concept is not
11 new and it's been around for a while. Probably since '57 or '58 with
12 loans and something modeled after that. We actually can use some
13 commercial agencies if we want to do that by tracking that particular loan,
14 that service aspect, they can use a subcontractor to track that.

15 SECRETARY SCHEWEL: The question raised,
16 underlying assumptions of Stephanie's question. If your response to it is
17 that if in fact they can get Federal Loans and if these are of less dollars,
18 then presumably they shouldn't be going, right –

19 MS. FIELD: --No, the way the criteria's set up you can
20 choose to take this loan or the Federal loan.

21 DR. SIMMONS: Not the Federal Grants, they can replace
22 these loans if they want to, there is a maximum a student can receive in
23 financial aid. The \$13,000.00 figure I used earlier, once the combination
24 of everything including the Tobacco Commission money, Southwest or
25 Southside once they use that \$13,000.00 figure that's it there's got to be
26 some cuts or trimming some place.

27 SECRETARY SCHEWEL: But in fact they'd be harmless
28 dollars, right?

29 DR. FOWLKES: Let's say your bill is \$10,000.00 and the
30 Rotary Club gave you \$1,000.00 and Kiwanis gave you \$1,000.00 and
31 now you're down to \$8,000.00 then that's where the Tobacco

1 Commission would come in. If you had a scholarship to UVA, if they
2 gave you a Jefferson Scholarship that would pay everything you wouldn't
3 need the tobacco money.

4 SECRETARY SCHEWEL: Let's say you got a \$2,000.00
5 grant from some organization and then you'd be down to \$8,000.00 and
6 the Federal Loan is 4.6% or whatever –

7 DR. FOWLKES: You're speaking of a grant versus a
8 Loan. The Promissory Note is the same thing it's still a grant. If you
9 come back and want to teach and that's going to be forgiven but then if
10 you don't you have to pay that back and that becomes a loan.

11 DR. SIMMONS: That's tied back to the –

12 SECRETARY SCHEWEL: --My point is, we are at least
13 or it's an issue of whether it's a grant or a loan but essentially in a number
14 of cases we are providing grant money to students who would be able to
15 finance their education from federal loan programs?

16 DR. FOWLKES: It could be, yes. They still have to be
17 pay it off.

18 MR. MAJORS : If we did what Stephanie suggested
19 there'd be some tax consequences for them as well?

20 DR. SIMMONS: Yes, there would be. Anytime you give
21 out loan forgiveness there are tax consequences but there are some
22 positive consequences for paying off the loan.

23 DR. MORRIS: We're going to have to in the long run
24 broaden the career areas if you want to get people back to the region. On
25 the other hand there may be certain careers and I'm familiar with teacher
26 preparation, where we would say that is such an important area that we
27 might even have different criteria there or we can have loan forgiveness
28 for people outside the area who chose to come to one of these regions to
29 teach as an incentive for attracting people to apply in our area.

30 DR. SIMMONS: The other thing we need to be cautious
31 about in expanding our curriculum is to make sure that it is

1 administratively possible that we can track or that we're satisfied with the
2 level of accountability and that we accept in order to attract, you have to
3 be careful. As long as everybody goes in knowing that viewpoint that's
4 fine but as you broaden the curriculum more it's going to be more difficult
5 to track.

6 DR. MORRIS: This has been a good broad based
7 discussion. Any last comments before we break for lunch? Thank you
8 all, this has been a great effort.

9 DR. SIMMONS: There was a question earlier about the
10 class level in Southside. It looks like 18% of seniors right now and 25%
11 are juniors, you've got not quite half at the junior, to the end of the official
12 teacher curriculum. You've got graduates up there to.

13 MR. MAJORS: We will adjourn for lunch.

14
15 MR. CURRIN: Mr. Chairman, Dr. Zimmerman had a couple of
16 comments he'd like to make.

17 MR. ZIMMERMAN: Ok, I've been listening and it seems
18 so formal coming up here but there's two areas I'd like to talk about and
19 one is leveraging. You've got lots of money but lots of money doesn't
20 always make the difference, you could get more. Let's talk about the Title
21 VI and the new farm bill. There's a 200 million dollar Broadband
22 initiative. I think you have ample opportunity to take some of your money
23 and go get some of that money, why not? It is your money.

24 DR. MORRIS: What's that for?

25 DR. ZIMMERMAN: Rural projects, on the infrastructure
26 in particular. The second thing is that there's going to be a 60 million
27 dollar e Commerce extension service that's going to be run by the Land
28 Grant University. You may not be able to get any of that money what you
29 can do if you're first at the door you can probably get some of that to
30 happen in your area first so that should encourage you there.

1 SENATOR RUFF: All that goes to the Land Grant
2 Colleges?

3 DR. ZIMMERMAN: Yes, there's four Rural Development
4 Centers in the United States one's in Iowa, one's in Pennsylvania, one's in
5 Mississippi and one is in Oregon but that would be where you would go.
6 The third thing in the Rural Development Bill is something called Rural
7 Business Investment Company. It's modeled after the Small Business
8 Investment Company, that's been around for a long time. This time it'll
9 be administered by the Office of USDA Rural Development and that'll be
10 designated for rural areas and here's the best part of it. For every one-
11 dollar you put in they'll put three. If you come to the table with 2.5
12 million dollars as an example they'll give you 7.5 million for your
13 investment fund.

14 DR. MORRIS: What is that?

15 DR. ZIMMERMAN: It's the new Farm Bill, in
16 Washington right now this is kind of how, this is what's going on. The
17 question is how are we going to implement this now and getting in there I
18 think is going to be pretty important.

19 The final thing in the new Farm Bill is that, I don't know what it's
20 called but they're going to make \$100,000.00 available for strategic
21 planning for regions and that'll also be a matching basis. I think you
22 could take the money that you have and you can be on there and get into
23 that. Let's say you wanted to do Two Regional Strategy's or whatever it
24 might be, you could leverage your money pretty good.

25 Another thing I'd like to say is that I recently was in Washington
26 talking with UDA and really struggling with what to do with rural
27 development. They aren't happy with the way things have been going.
28 What they've done in the past is throwing \$50,000.00 here, \$20,000.00
29 there and they don't see any impact. I was talking with this
30 Undersecretary and he was telling me they'd really like to see some high-
31 impact projects, they're willing to go the full mile. Not \$500,000.00 here

1 or \$200,000.00 there but they'd like to do bigger investments to achieve
2 some results. I think that's a kind of a change for that agency. I think the
3 bottom line there is that this would be a new opportunity on the Federal
4 level that you could leverage your money on.

5 Secondarily I talked to Dr. Morris and Charley at lunch. When you look
6 at the importance of infrastructure, telecommunications infrastructure it's
7 a good thing to keep people that live there, keep the residents in mind.
8 Let's take another twist on that whole thing and that's the importance of
9 infrastructure. I could go on and on for this for hours but in the mid 90's
10 in the U.S. we began looking at these places in the Rocky Mountains and
11 the way we're going very rapidly and our society is very mobile. We
12 have some highly educated people who are investment bankers in New
13 York who have for instance homes in Jackson, Wyoming and they work
14 in Jackson three weeks out of the month and work one week in New York
15 City. We were finding more, and more of these places in the country.
16 Phil Burgess who lives in Maryland claimed the term "Bald Eagle" and
17 you may have heard about that. Individuals who can live anywhere and
18 work anywhere. We began to follow that whole process and we went to
19 these communities and started looking at what's happening. We
20 discovered it wasn't just "Bald Eagle's" but it was people that would
21 work anywhere and live anywhere. There's a book out right now called
22 the "Free Agent Nation" and I'd recommend it to you if you haven't read
23 it. Right now there's 28 million people in the United States, with
24 estimated incomes as high as 35 million who are Free Agents. I'm a Free
25 Agent, I have a home in North Dakota but I probably work in other
26 places 110 days a year. There's a lot of people whose vocation no longer
27 makes it necessary to live in one place and work in one place. The point
28 here is that when you look at the economic activity and how things
29 happen in an area it's not just the people that live there anymore but it's
30 the people who happen to circulate there and do things. These are people
31 with specialized skills and can work anywhere at anytime. There's more

1 ways that we found that people can work in places that a lot of activity
2 and a high quality of life and high amenities. When we first started
3 looking at this we found that these areas where there's new business
4 activity was taking place also traditionally known as 'tourist areas' and
5 they're much more than that now. There are places like coffee shops,
6 great restaurants, homes have been restored in downtown cities. We also
7 found that people were not moving there year round. People were
8 moving more than once a year and we just see more and more of this
9 activity as people circulate around the country.

10 To make a long story short I think part of your challenge is that if the
11 workforce and the economic activity is truly more fluid like that, how do
12 you make more of that to happen here. It's not going to be the traditional
13 activity where somebody owns a store or a farm or whatever it is, it's
14 going to be these people that are circulating much more rapidly and much
15 more frequently than ever before. Infrastructure is important to
16 accommodate that person, also is important to build skills that you have.

17 DR. MORRIS: Why do you live in North Dakota?

18 DR. ZIMMERMAN: I have a home in North Dakota because my
19 wife teaches at the University of North Dakota and I also grew up there
20 so I'm accustomed to the cold. I know a lot of people and I look at my
21 own family. There are three people in my immediate family that are Free
22 Agents. I have an uncle that lives in Colorado Springs and has a big
23 mobile home that he drives to Texas and works for Texas Instruments for
24 three months out of the year. There's just more and more of these people.
25 What you want to do is be able to get them here to live at least part time.
26 Also with the increasing longevity of the work force or of our lives
27 people don't retire anymore. They may quit doing what they're doing but
28 they're going to be doing something and they'll need a connection to
29 continue to work.

1 Those are my thoughts and feelings. I think you've got a great
2 opportunity to leverage your resources and also to think about how to get
3 economic activity here to the region. That's it, any questions?

4 MR. MONTGOMERY: How many of those Free Agents have
5 their own planes?

6 DR. ZIMMERMAN: Planes I don't know but you could speculate
7 those kind of people would have planes would also be more apt to sail
8 which is good for you, you have so many miles of waterfront. They're in
9 those activities that require a lot of participation.

10 MR. MAJORS: Do they like the mountains? You've got some
11 that with the geography we have in our area and some of the lifestyle
12 things that we have, recreation that we have.

13 DR. ZIMMERMAN: Joel Kotkin, he was the one I talked about
14 last night. He thinks that since 9-11 that more and more people are going
15 to be looking for what he called 'people communities'. Comfortable
16 places to live a feeling of security, hometown value and all those kinds of
17 things. For rural areas and particularly with recreation activities that
18 would be a good thing and good schools are very important.

19 DR. MORRIS: Thank you.

20 MR. MAJORS: I thought before we get started on some of the
21 other discussions we might see from the members of the taskforce, what
22 else you'd like to hear about or from whom you'd like to hear it at the
23 next meeting. We have for our next meeting former Governor Baliles on
24 the schedule and we think that could be the case. We've asked for some
25 additional information on the GED program, the Literacy Foundation
26 Program, we've got that. What else?

27 MR. WAMPLER: I would think two items and the first would be
28 at the request from Virginia Tech. I'm still concerned about the report, I
29 don't think this addresses some type of component to get fiber to homes
30 and businesses. Maybe Mr. Davenport needs to communicate back to the
31 chairs to say 'are we closer than 30 days of doing that' and that's one part

1 I think we're deficient in. The presentation for us to make
2 recommendations. The second point that I spoke briefly to last night and
3 that was on the Agricultural Application. How the Tobacco Commission
4 might be able to generate additional income on farms for a pure
5 Agricultural Application. I think we all appreciate the benefits of the
6 second income earner. I'm still concerned that we ought to have a long-
7 term task force recommendation concerning the tobacco-growing regions
8 and we need to address some of our time and effort towards agricultural
9 commodities that provide income to farms. I know that's easier said than
10 done but I think we need to address it.

11 DR. MORRIS: Virginia Tech and the connections to the home
12 that is the, the Tobacco Commission engaged Virginia Tech to do that.

13 SENATOR WAMPLER: Correct.

14 DR. MORRIS: You think this planning committee can
15 communicate directly to Virginia Tech or do you think we ought to go
16 through the full commission to do that?

17 SENATOR WAMPLER: I think perhaps the chairman of the
18 commission needs to communicate with Virginia Tech but I don't know
19 how this task force can adequately address the deployment of Broadband
20 unless we have at least a snapshot of what we think we can or cannot do.

21 DR. MORRIS: Or we can communicate that to Senator Hawkins
22 and ask that he do that.

23 SECRETARY SCHEWEL: There's one piece of information I
24 didn't understand and maybe others did. We've heard over and over
25 again the importance of entrepreneurial culture and we've heard from
26 people about what they're doing. I think the notion of creating more
27 entrepreneurial ventures is a very difficult notion and one that is
28 complicated and difficult. From my point of view I'd be interested in
29 hearing about what people have done with this because I'm not at all sure
30 I mean if everybody thinks about it, if you just create more
31 entrepreneurial culture that's very difficult.

1 SENATOR RUFF: Peter Clemmitt with the Bank of Southside
2 has used the Capital Access Program a lot and probably more than
3 anybody else together. He might be able to give us some guidance as to
4 what will work and what has worked with Capital Access.

5 MS. MOORE: We could also focus on David Birch in respect to
6 the entrepreneurial culture.

7 DR. MORRIS: At one time we talked about trying to get someone
8 to speak from the perspective of other countries like Ireland and Korea,
9 couldn't get anybody lined up for this meeting. Do any of those
10 experiences seem relevant at this point?

11 SENATOR WAMPLER: Those two could paint a pretty good
12 picture or road map as far as investment.

13 DR. MORRIS: Ireland, seems, I think Ireland would be about the
14 size of the two regions together. I guess that's an issue we couldn't get
15 anyone.

16 MR. CURRIN: They'd very much like to come and that's not a
17 problem but the timing. We'll double our efforts to see if we can do that.

18 MR. MAJORS : I know there was some discussion about
19 bringing in someone from additional futurist capital consultants. Is there
20 anybody else we feel we need to hear from?

21 MR. MONTGOMERY: From the standpoint of what Mr.
22 Simmons talked about, is there an expert that, I believe you mentioned
23 one Neil that's a Free Agent or second home type or retirement type.

24 MR. BARBER: The gentleman down at the University of
25 Mississippi he's done research in this area and I can't recall his name
26 right off the top of my head but I could find him and see if he's interested
27 in promoting retirement and second home type of situation tourism or
28 whatever.

29 DR. ZIMMERMAN: Joel Kotkin has knowledge of that and he'd
30 be good for that. There's a woman in Massachusetts Amy Zuckerman
31 and she's right now studying 110 areas of the United States and kind of

1 networking economies, she would be very good she's done some of that
2 work in rural areas.

3 DR. MORRIS: One of the things that Charley mentioned and
4 maybe getting a little bit ahead of ourselves but in terms of *e* Commerce I
5 think what we're getting from Virginia Tech is a fiscal infrastructure or
6 analysis but not a business plan. From what I've heard of the
7 Washington example is that they're still struggling with that business
8 plan part of it and getting them to push services and I don't know how we
9 go about getting them.

10 MR. MAJORS: I don't know if this task force needs to do that.
11 From my perspective the commission would be well advised, if the
12 commission is going to look at funding *e*58 to the kind of extent that
13 we're talking about of upwards of \$100,000,000.00 I think we would be
14 well advised to say to that task force get somebody working with you
15 who can help develop a business plan who can look at what the overall
16 structure needs to be and make some recommendations. I think that
17 would also lead into some of the things we're talking about like the last
18 mile and looking at how all that ties together. I think when you talk
19 about the technical aspect I don't see the business plan being developed.
20 I think that at least from my perspective that would be money well spent
21 if we're planning to spend the large sums that we're talking about.
22 Maybe that's not a recommendation that we put in here and I'm not sure
23 that we need to get somebody in to talk about the business plan but I
24 think they do. Ben and I had that discussion and we talked about one
25 group that does that. The interesting thing is that one of the guys that
26 would be the expert is exactly what you're talking about. He worked in
27 Chicago and now decided to move to North Carolina where he'd like to
28 spend more of his time would be the perfect example of what you're
29 talking about.

30 DR. MORRIS: I think not to act on that in some way is
31 going to leave the commission in January with the report from Tech

1 and still not have the answer for a lot of questions you're going to
2 need. Even if Senator Hawkins contacts them and asks them to look
3 into that more you're still going to have questions come January.

4 SENATOR RUFF: You can't look at the business plan before you
5 know what they're going to come up with.

6 MR. MAJORS: I think you can run somewhat parallel but, or at
7 least look at the model. Are there other topics or groups of people that
8 you think would benefit from the discussions and that would benefit us or
9 that we should be hearing from?

10 DELEGATE DUDLEY: We've talked an awful lot about how
11 business people have to step forward. That was one of the things I picked
12 up from yesterdays speakers it was always the business community has to
13 step forward to do this. I'm not sure we've actually heard from any
14 business people so far related to the business people in Southwest and
15 Southside. Maybe a representative or at least one from each District on
16 how to make things operate and operating manufacturing facilities and
17 how to run a business and what they can see they like and what they can
18 see they need also.

19 MR. CURRIN: Mr. Secretary, do you want me to pursue some of
20 those leads from Harvard, UVA?

21 SECRETARY SCHEWEL: I was told the guys objection is -- so I
22 thought it wouldn't be a good idea. He said he was doing pretty well so
23 we'd probably scratch him off.

24 MR. MAJORS: Let's go back to what Allen said. Your idea, are
25 you talking about a plant manager or talking about somebody that owns a
26 business?

27 DELEGATE DUDLEY: It could be an owner of a small
28 business or a manager of a large business but I think we need someone
29 that is actually in business in this area who can stand up and say 'here's
30 what we're looking at, here's what's helping my business or here's what
31 is hurting our business and here's some things that we think can be done

1 that will help businesses in general. Kind of put him on the spot. Then
2 from your perspective, just what do we need. A lot of this sounds like
3 these are things that are going to have to happen and we're not going to
4 be able to make it happen without the task force or the commission itself.
5 It's wide open, we can pick or choose home grown business or someone
6 that has a bigger concern.

7 DR. MORRIS: With regard to the two Congressman Charley and
8 I have talked to, as a courtesy I think we do need to have some contact
9 with them. We had invitations out but I guess they're doing more
10 resolutions or maybe running for re-election. If it's ok we'll try to
11 identify individuals and make contact with them to get whatever input
12 they might have to share and I think the chances of getting them to meet
13 with us is not very good we can pursue that as a courtesy and anticipate
14 they may very well be involved trying to leverage some of this money.

15 SENATOR WAMPLER: I don't know if it's worth trying to get
16 any Federal Agency that have equity contributions or new capital after
17 the Farm Bill is passed. Neil, do you know any of those folks?

18 MR. BARBER: A few of them.

19 SENATOR WAMPLER: I wonder how much benefit that
20 would be, they're a good dancing partner.

21 MR. CURRIN: That might be a good idea.

22 MR. BARBER: And the other one would be rural development.

23 SENATOR WAMPLER: It seems to me if we're going to try to
24 leverage some of this money we might have someone here to help
25 understand the need to us.

26 MR. BARBER: Mr. Chairman, when you talk about David Birch
27 there's another individual that's very similar and that is Michael Porter
28 from Harvard he's done some consulting work worldwide in that sort of
29 thing.

30 DR. MORRIS: How does the commission feel in terms of the
31 breast of discovery and exploration, time limit and the need to get some

1 sort of list of priorities before Thanksgiving. How do you weigh that,
2 should we put together some kind of or we can take some cues from you
3 all. We do have two additional meetings scheduled one would be at the
4 end of October and one would be the Monday before Thanksgiving.

5 SECRETARY SCHEWEL: What do we think our deliverables
6 are going to be. Do we think what we're going to aim for is something
7 that's based on the State of the Universe, state of tobacco areas in
8 Virginia, do we think these are the appropriate priorities' and that we
9 think here is the key strategy to achieve those priorities and how the
10 commission goes forth to carry it out and this is the direction. Or do we
11 think we're going to try to have more details in that in terms of what we
12 say because I think that probably on many of the key points not all of
13 them but on many of the key points and goals, I suspect we have a fairly
14 good consensus and based on what we've brought in the room today and
15 what we've heard over the last couple of days just in general, work that
16 was done previously for prioritization. So what I'm saying is I just am
17 wondering where we're going to end up. For example, if you think we're
18 going to say things that we think we should spend up to \$100,000,000.00
19 in broadband compared to spending \$200,000,000.00 or \$50,000,000.00,
20 that is going to require a degree of awareness of what the numbers are
21 and how it works and does that include the last mile in all of that. Are we
22 going to say that access to Broadband is the central element to all of our
23 prioritization in the tobacco areas and if the commission needs to pursue
24 that etc. etc., that's a different level of detail and we've got different
25 information on that. Where do you think we're going to end up?

26 MS. MOORE: I thought the first report you were going to go with
27 the Broadband recommendation and you're going to have a hard time
28 filling in some of these things and later you'll know what you want and
29 then fill in the answers.

30 SECRETARY SCHEWEL: This group or the commission filling
31 in answers later?

1 MS. MOORE: That's what I thought I heard because we
2 were on such a short fuse. SENATOR

3 WAMPLER: I have a theory that we need to be as detailed as possible
4 for the short term. I think we have a superior partner in the Governor in
5 this process. Not only is the commission going to receive this report but
6 the Governor will receive it and I'm more concerned how we finance the
7 project in the short term. Maybe we don't know all the answers for the
8 long term but in short term we better come up with some very hard
9 recommendations to jump-start the economy but that's not inconsistent
10 with what you said. I think we do need some rather detailed information
11 to present both to the commission and to the Governor so that we can get
12 on with our business and those items that are more complicated we could
13 do perhaps. I think we need to get on with it and do it as quickly as we
14 can. Tom, I guess that's your point how much in depth do we need.
15 Mike, I think we do and I agree with most of what's been said and the
16 goals that we implied.

17 MR. MAJORS : I guess as I look at these meetings and
18 there's two things that continue to bother me. One is that we seem to be
19 at an optimal time for securitization and we need to talk a little bit about
20 something you recommend even if you think we're going to say 'ok,
21 securitize and make some assumptions that are taxable and non taxable'
22 and escrow or put some restrictions on so we can take advantage of the
23 economy before everybody else does this and the market gets away from
24 us.

25 Secondly I guess is I've been listening to these things I'm wondering if
26 we couldn't agree that there are at least two areas we've heard from that
27 we're going to need large chunks of money for. We don't know maybe
28 how much but we know if we're going to do e58 we need a large chunk
29 of money that might even be some that we ultimately have to pay out in
30 big chunks as they go along. Then we've got the Scholarship Loan
31 Program. If the commission is going to continue that then the

1 commission probably should look at who you're going to endow that.
2 Then you've got the rest of the funds that and you say 'what are the
3 major things that we think the commission needs to be looking at' to fund
4 with that. I go back and say those include things like education because I
5 don't think you can do the scholarships, you've done education. We've
6 heard about Tupelo working with the schools and how they enhance
7 things. I don't think, you put five million dollars in the GED Program,
8 you've dealt with that program and there's got to be something there.
9 There are a lot of other educational things and we've got things like the
10 institute, which is going to be a life change for at least the Danville area.
11 Then you've got some of the other infrastructure issues you've got to
12 look at and then you've got Capital Access and job creation and you've
13 still got indemnification.

14 SENATOR WAMPLER: I think that's an easy one, we know
15 what the remaining balance is, if you're going to securitize that's a very
16 simple part of the equation.

17 MR. MAJORS: You know the potential extent of it, you don't
18 know what it might be, could be less.

19 SENATOR WAMPLER: I think we know the minimum liability
20 of \$38,000,000.00 is that the number?

21 DR. MORRIS: I guess I was looking forward to the question I
22 posed and I look forward to going through this and going through it in as
23 much depth as we can but also have as much detail as possible. I think if
24 we just stand up making recommendations that there's three big areas
25 with *e* Commerce and scholarships and job creation and some other areas
26 such as Agricultural Applications and leadership and so forth. Then we
27 haven't said a whole lot beyond what the commission was already
28 working on but I think we need to remember that all we're doing is
29 making recommendations. So we make recommendations about details
30 and the commission or Governor will say 'we don't agree with that', that
31 wouldn't hurt my feelings so much but I think we ought to give them as

1 much detail as we're capable of coming up with from what we're hearing
2 and based on the collective knowledge of this group.

3 SENATOR WAMPLER: We had a Southwest
4 Economic Development Committee meeting last week and
5 we pulled together people from our county and economic
6 developers and regional economic developers and our
7 planning district commissions and we identified the hard
8 infrastructure roughly of \$25,000,000.00 of industrial site
9 expansion, site acquisition all of the related infrastructure
10 that goes with that. That's the first scratch and it goes
11 beyond scratching the surface. I don't know that Southside
12 is in a position to have their regional plan before this group
13 but I know that we identified those particular amounts and
14 those are put together and that's not something that we have
15 to wait three years from now. Those are my ideas of how
16 you jump-start the regional economies. We can wait for that
17 cash to dribble out of the funding formulas but we think it's a
18 good opportunity. I might add that the Coal Field Economic
19 Development Authority will leverage those dollars and that's
20 the type of product that I think we need to deliver and shows
21 what we can be comfortable with as far as investments.

22 SECRETARY SCHEWEL: There's two activities, one says e58
23 and the commission has really given pro active and says we're going to
24 come up with an idea and program to do this. Then there's some things
25 that we're basically reacting the people in the committee say 'I want to
26 do this and I want to do that and I'm coming to you for a Grant to do it'.
27 In a sense my perception is that you have a harder time staying on track
28 in a reactive mode than when we're on a pro-active mode. I don't know
29 what the significance of that statement is other than I think to the extent
30 that we can define our objectives as precisely as possible and then go out
31 and do them rather than sort of being in a reactive mode, we are more

1 likely to achieve the kind of result that I think we want. I think we have a
2 higher likelihood of dribbling money away when we do it the other way.

3 DR. MORRIS: I guess I understood that was the reason that this
4 task force was set up. I guess my view would be that if we err we err
5 more on the side of being active and limiting the areas where the money
6 would be spent but do it in a sustained sort of way to try to make a major
7 impact. I don't know how the commission is going to get any cover from
8 getting away from the way things have been operating up until now
9 which is more reactive without something fairly definitive from this
10 group.

11 MR. BARBER: Mr. Chairman, you said there was some things
12 that people were in common agreement with. Would it be helpful to start
13 to identify what those things are and put them down on paper?

14 DR. MORRIS: Yes, sure, we can do that.

15 DR. PURCELL: Before we get away from that I'd just like to
16 make an observation. You started talking about getting some business
17 firms and somebody involved. I've been sitting here thinking and I can't
18 imagine who would be more appropriate to talk to about this than with
19 the Southern States, they probably have a retail store in every county
20 that's involved here or maybe more than one. I would think somebody
21 might want to talk to them and get them to move on this. As you go
22 through a business plan please get somebody involved in that planning
23 process that understands pricing. You've got to have some elasticity. If
24 you are an adult diabetic within limits you don't change your daily
25 dosage of insulin with price. I'm not suggesting that access to your
26 backbone Broadband IT Access is like insulin to a diabetic but business
27 firms that go on assumptions in these communities are going to have to
28 have it. I'm not suggesting that you've got them, I'm suggesting that you
29 have a pricing policy so that one, you invite people to get involved and
30 then they have a time after some success that they're generating then you
31 might look to recoup the pricing policy some of that initial investment

1 that you're making. Pricing policy is going to be important especially in
2 business and business application. I think part of Virginia Tech's
3 involvement in this area historically they put together a team to work on
4 this and they also have somebody in management that works with the
5 pricing policy and I think that's very important and an opportunity.

6 DR. MORRIS: I was interested in what Jess White said when he
7 talked about education and training as a building block. We also talked
8 about infrastructure and e Commerce infrastructure, we talked about the
9 entrepreneurial job creation, models which is different from the old
10 industrial models focused more on home grown industries and job
11 creation. Those were three of the five building blocks that the Tobacco
12 Commission came up with and they seem to track pretty closely with a
13 lot of our discussions as well as the leadership development piece which I
14 see as a smaller piece. The entrepreneurial job creation Randy, I would
15 draw a line at that point and leave a little room in case we want to add
16 something else those are the top of the line or top drawer Jess White
17 talked about in his presentation. When you go to leadership I wouldn't
18 put that in the same category with these three. I don't think we want to
19 spend that kind of money on leadership or management areas that we
20 would in those areas up there.

21 MS. MOORE: Leadership development in business is one thing
22 and then being able to use it and then when it comes to leadership in
23 communities that's another thing. But leadership in the community is
24 one thing but they might not know what businesses need as far as
25 leadership unless they're given the proper tools.

26 DR. MORRIS: Leadership development in the civic capacity is
27 what he was talking about the broader community concepts.

28 MR. BARBER: I'd like to pose a question to you. In your
29 discussions you talked about indemnification and agricultural
30 diversification. Is that an issue that rises to the importance to those top
31 three?

1 DR. MORRIS: I thought not.

2 SENATOR WAMPLER: I think indemnification is a given in any
3 equation and is a plus or minus in a certain range that we are to fund if
4 we are to securitize and it eliminates the variable equation or put the cash
5 flow to rest.

6 DR. MORRIS: You want to put that at the top indemnification,
7 it's an obligation.

8 SENATOR WAMPLER: The agricultural piece is one that I and I
9 don't know what the conclusion is but I think it's worthwhile to us to, it's
10 probably a longer term and something that we should address in our
11 report. I think that's the exercise we're going through right now.

12 SECRETARY SCHEWEL: I think it's an important issue that
13 we're doing and we are about to start an effort to identify agricultural
14 ways that we focus on and I think we need to focus on a couple of things.
15 In evaluating our products and self-perpetuating. Maybe one way of
16 starting this and getting this going and basically or maybe we should say
17 we think that the committee pursue those kinds of things such as this
18 initiative of identifying agricultural because of where it comes from and
19 coming from this area. I think it's an important part of our function.

20 SENATOR WAMPLER: For purposes of this discussion maybe
21 we can say agriculture value added for export I think that's what you just
22 told me.

23 SECRETARY SCHEWEL: Perhaps that would be for the
24 majority of the subjects.

25 DR. MORRIS: Below the line topic at this point.

26 SENATOR WAMPLER: I heard a lot of discussion yesterday
27 about the micro business and venture capital. I think that's significant
28 very much so and something we need to pay a lot of attention to.

29 MR. MAJORS: That's all in that third category.

30 MR. ARNO: Can we put access to capital under this?

1 SENATOR WAMPLER: I think that it's so important that we
2 need to set aside the dollars and make it available. I'm less thrilled at the
3 idea that we would be successful in entrepreneurial activity in the short
4 term. I think that's the long term goals, I think access to capital, I know
5 there is an immediate need for.

6 MR. MAJORS: How do you do entrepreneurial job creation
7 without access to capital. I agree but I'm saying that's an important
8 component of that one. If you break them up I'm not sure other than your
9 going to teach entrepreneurship what you're doing.

10 DR. MORRIS: What that's saying to me is that in our next
11 discussion we need to focus on getting greater clarity about what we're
12 talking about when you talk about entrepreneurial, job creation, access to
13 capital. It's a long ways away from creating industrial parks, which we
14 did a lot of. In terms of the top two *e* Commerce and infrastructure I've
15 heard enough about that to know that I don't understand it and probably
16 won't understand it for the next couple of months but it's good to have
17 that discussion. On the education scholarship piece I heard enough to
18 know we can clearly define something there that gets that and what we're
19 talking about. That third one entrepreneurial job creation still is pretty
20 nebulous for me. I bet if we went around the room everybody in here
21 would have a different definition for what it is we're talking about and
22 we've got to get much more clarity.

23 SECRETARY SCHEWEL: There are at least two models for job
24 creation. One of them is entrepreneurial activity home grown activity,
25 which presumably requires access to capital. Which then over time
26 hopefully generates employment opportunities. We can get into a
27 different version of that which version justifies helping people get
28 relocated. But there's a whole other thing, which is lack of deal closings.
29 The reason we do it is to help create jobs so that's another important part
30 of it.

1 MR. WAMPLER: Mr. Chairman, I believe so strongly in deal
2 closings, helping capitalize deal closing opportunities that that is an
3 above the line issue that we should do it.

4 MR. BARBER: Mr. Chairman, what I've heard in the last two
5 days is almost two sets of discussion. One is the longer term objective
6 and restructuring of the economy and almost a shorter term kind of thing,
7 an activity that we need to put in place today or tomorrow that are really
8 more short term kind of things. I don't know if separating them out in
9 terms of what I call longer term economic restructuring activity and short
10 term job creation and other short term objectives that that would be
11 helpful in terms of the way you structure.

12 DR. ZIMMERMAN: Mr. Chairman, if I may, all the
13 different things you've talked about are correct. What we find is that
14 as people develop things like revolving loan programs and other
15 things that region or government financing plans. I think what you
16 want to do is have sources available for that activity and expansion,
17 recruitment and all that but you really want to be careful about how
18 you handle your risk capital because that's the true gauge in the rural
19 area. You've got to identify what you have and you've got to
20 recognize there's going to be risks and losses no matter what you do
21 and that's a necessary part of creating activity. Make sure you have
22 the deal closing and the expansion but retain the risk capital part.

23 DR. MORRIS: Can we get agreement then that our next session
24 ought to focus a lot on that third area.

25 MR. SCOTT MORRIS: Mr. Chairman, a lot of what we're doing
26 impacts on these jobs and when we have job losses it's a very significant
27 factor and it creates a real problem as you know. Then you talk about
28 entrepreneurial activities and that takes a long time. We have to focus on
29 that surely and we've got to do it continuously to provide opportunities
30 and employment. But when you talk about an immediate impact and you
31 lose a job or jobs in one day the entrepreneurial side takes a long time to

1 develop to replace those jobs. So I think we have to focus on long term
2 jobs for the entire community in the aspect of making sure that we
3 develop those jobs and then keep those jobs here and keep growing.

4 MR. FLANNERY: Mr. Chairman, I'm Ron Flannery I've like to
5 make some brief comments. With respect to entrepreneurial development
6 and I'll bring you a little bit of experience from the field that I have.
7 We're really dealing with the short term and long-term development
8 activity as I said, with the entrepreneurial development I can bring you a
9 little friendly experience. We operate a 46,000 square foot business
10 incubator four or five years. Duffield is in the coalfields we have a
11 satellite in the city of Norton. In the coalfields the entrepreneurial culture
12 is not there yet. These incubators are doing ok but they're not doing what
13 we expect. If you go to New River you'll find more viable business
14 incubators and there's one at Abingdon. You're not going to find this is
15 going to be uniform throughout the area not the rural area, but that's just
16 an observation.

17 Another thing with respect to what I call other economic problems and
18 that's what I do and where I have the greatest degree of experience. I've
19 been doing it a long time. I think Senator Wampler's right on target to
20 maintain the deal closing fund. You are going to have to build additional
21 industrial sites, we don't have to call them industrial sites we can just call
22 them sites. We're going to have to be smarter and they're going to have
23 to be more strategically located. You don't just want to put the site in
24 every county and there might not be sufficient product in the right place
25 to market throughout the region you have to give that a consideration.
26 There's going to be a mix of the older strategy and the newer strategy but
27 I think you're heading in the right direction.

28 I'll tell you one thing and this is a tough thing to say about
29 leadership development. How can I phrase this, we have some good
30 leadership development programs in our region it's just that it seems to
31 me that you don't always have those that end up the true leaders, in the

1 true leadership positions and those that seek local elective office that are
2 always engaged in the leadership development programs. We don't
3 always have the best folks in the decision-making positions. I don't
4 know how you pull those things together in the same place and maybe
5 that's a problem throughout. Leadership development is a critical piece if
6 you don't have the best folks in decision-making positions it's hard to
7 move the ball down the field.

8 With respect to this Broadband I can give you some good experience on
9 that and examples. Senator Wampler and some others know that our
10 expense right now in putting the conduit in with the water line is about
11 \$15,000.00 a mile. Considerably cheaper than some figures you heard
12 here today. Absolutely you must put fiber in the home and you've got to
13 do that otherwise I think you're wasting money. If you put a big pipe in
14 and wait for AOL to come in I don't think that's going to happen. We're
15 putting fiber to the homes is a fundamental item that you just have to do.
16 Those are just some thoughts to flow in the mix you're headed in the
17 right direction and I commend you for that.

18 SENATOR WAMPLER: I would suggest and I think we all agree
19 to place this on paper. I think the employment of broadband is of such
20 substance that it ought to be separate. Infrastructure I think is what Mr.
21 Flannery was talking with regards to the site development and how we
22 provide those sites to Southside and Southwest. I think on infrastructure
23 we ought to focus more on the traditional sites. I bet we have, then if we
24 get Governor Baliles under oath next month he will tell us what his
25 \$1,000,000.00 per county in 1987 if it's still a unit today. I think we
26 ought to look at that success story because we didn't have the site, we're
27 still doing that today and that's my focus on infrastructure. But I think
28 we ought to fund the Broadband and infrastructure we can define that A,
29 B, C or D.

30 DR. MORRIS: Another dimension of this is that if we're going to
31 make recommendations for long term priorities for the two regions that

1 there will continue to be economic development in the two regions that
2 will dispense some of those funds. But we're trying to focus, which is
3 why I thought you might be above the line. We're trying to focus on a
4 limited number of priority areas that would be a sustainable and have
5 enough money to put into them to make a difference over a ten or twenty
6 year period of time. But there will continue to be other activities that
7 take place through the Regional Economic Development Committee and
8 that decision will be made when money is available and that will operate
9 pretty much the way it has up until now. We were asked to do something
10 that would try to move some of the funds or a significant amount of the
11 funds into other categories that would not necessarily be dispensed the
12 way that they have.

13 SECRETARY SCHEWEL: I don't know that I would concede
14 that point in the sense that I personally believe that it is a good long term
15 strategy for this organization to use a significant portion of its money for
16 deal closing activity. I think that's a sensible use of the money but I think
17 it's a useful discussion for this task force to think about what that means.
18 For example, we might say that given what our focus is we don't think
19 deal closing funds should be used for prospects that do not require or that
20 do not have at least 125% of the average wage for the area or that are for
21 things that have a technological aspect that we think will ultimately –
22 aspect. I'm not advocating for or against it but I think we could if we
23 agreed that the money could be used for deal closings that we might as a
24 practical matter in order to carry out the strategic goals that we want to
25 employ those deal closing funds in a way that furthers other strategies.
26 We might conclude otherwise, we've got people out of jobs and we got
27 10% unemployment. We've got an opportunity to put people back to
28 work and we need to do it and I think we can decide that also and there's
29 all sorts of things. But I think that it's appropriate for this committee to
30 discuss this issue.

1 SENATOR WAMPLER: I would remind the committee that to
2 ever get the full Tobacco Commission to agree on anything is a difficult
3 exercise. We've already agreed that it is the goal of the full commission
4 at our December meeting of allocating in the range of \$25,000,000.00 to
5 \$50,000,000.00 towards deal closings.

6 DR. MORRIS: Virginia Tech, that's where the commission is –

7 SENATOR WAMPLER:--I think with indemnification is also
8 important and that's a rather large percentage of our proceeds. It's one
9 you don't have to decide right away how Mr. Secretary but I think that
10 for purposes of the discussion I think it goes above the line that would
11 drive the economy for what the economy would look like over the next
12 ten years.

13 MR. MAJORS: You talk about \$25,000,000.00 to \$50,000,000.00
14 over some period of time?

15 SENATOR WAMPLER: We said about a five to ten year period.

16 MR. MAJORS: You're saying about 5 million a year.

17 SENATOR WAMPLER: The State's budget is \$20 million, from
18 \$12 million to \$20 million for GOF statewide and we really think this
19 gives us the competitive edge to work in conjunction with the Executive.

20 MR. MAJORS: Going back to what Tom said and follow up on
21 what Mike said. How much are we willing to say to the commission 'you
22 need to do this and you don't get much latitude except within the
23 parameters of this to the locality in terms of what this looks like'.

24 SECRETARY SCHEWEL: Part of my thinking and of course we
25 have to get people back to work. But let's say, here's another rational
26 approach to take among other things. We think a crucial deal closing
27 goal would be to find a, let's say we put \$10 million on the table and we
28 could get a high wage kind of automotive type supply business for
29 Danville. Put another \$10 million on the table and we can get a big
30 insurance company and office and a lot of data processing and a lot of
31 administrative stuff. Would it make sense to pay \$10 million here and

1 \$10 million there and then say ‘that’s all the money we’re going to give
2 you for the next two years for deal closings’, it might if they would meet
3 our criteria and achieve the kind of changes in the economy that we’re
4 looking for. I think there’s a lot of policy issues involved in deal
5 closings, would that be worthwhile to discuss.

6 MR. CURRIN: To the extent that it could work –

7 SECRETARY SCHEWEL: --Well, whether it’s insurance or not
8 suppose you said ‘look, we’ll pay you \$10 million to put that next 500
9 person expansion, when you expand you put that in Abingdon would that
10 be sensible? Maybe yes and maybe no but is that the kind of thing that is
11 worthwhile discussing?

12 SENATOR WAMPLER: I’ll say this now because if we compete
13 within the economic partnership on return on investment the low hanging
14 fruit is not in Southside and Southwest. The question becomes how
15 much more are we willing to pay in terms of an incentive to get
16 businesses to locate in our region and that’s why I feel so passionate
17 about capitalizing the deal closing fund where we are protected. If we
18 don’t we will continue lose opportunities.

19 SECRETARY SCHEWEL: Or do our homework or have low
20 wage low value –

21 DR. MORRIS: In terms of our task and Charley and I tried to say
22 this in the first meeting we need to be realistic about what it is that this
23 committee can recommend. If the commission has certain criteria or
24 priorities and if the deal closings and a certain amount of money that’s
25 been talked about and that’s where the commission is then perhaps we
26 need to acknowledge that but I don’t believe this committee will do the
27 commission much good if we give them a list of ten things and we say
28 ‘these will be good if you spent some money in these areas’ and they’ll
29 go back to doing what you’ve been doing within these ten areas. I do
30 think we ought to be realistic about the commitments that have already
31 been made. I don’t see anything here today that’s inconsistent with doing

1 the things we're talking about and the commitments that are already in
2 place and then coming up with a new set of priorities that would be
3 helpful to the commission as it goes forward with it's work, would that
4 actually be helpful?

5 MR. BARBER: One of the things that may be a factor in part of
6 this discussion is consideration of unique characteristics of the regions
7 whether it's the coalfields of Southwest Virginia or Mount Rogers or
8 Southside or Southwest, is there a distinction within those sub area
9 economy's that would require some changes or policies or a flexibility in
10 the policies that allows for those unique characteristics for the future.
11 Maybe you want to invest in a second home for retirement in Grayson
12 County or Carroll County or as you'd be doing something totally
13 different in the coalfields.

14 MR. MAJORS: Trying to go with what's been said so far. We
15 can say we've got a commitment to indemnification and we can try to
16 quantify what that is. We've got a commitment to deal closings and we
17 try to quantify where the commission is at this point. We've got a
18 commitment to the deployment of the Broadband and before we try to
19 quantify what that is. We've got a commitment to some sort of
20 scholarship and loan program and we've got to quantify how we're going
21 to deal with that and then we've got three or four areas that are critical
22 and we say to the commission we don't want you to ask, as more money
23 comes available we don't want you doling it out to localities based on
24 what they come in with without using that standard to measure it. Is that
25 moving us in the right direction?

26 DR. MORRIS: Allowing some amount of money for regional
27 development to operate in a more reactive position but that would not be
28 the dominant approach of the commission. Being politically realistic
29 there has to be some funds to deal with the reactive sorts of situations.
30 As I understood it what we were looking for or trying to find ways not to
31 have the lion's share of the money going out in a reactive way.

1 MR. ARNO: Where do I put deal closings, up here with
2 indemnification?

3 MR. MAJORS: It sounds to me like it's up there with
4 indemnification. You've got indemnification, you've got deal closings,
5 you've got broadband and we don't know the amount.

6 MR. ARTHUR: We really can't take the localities out like you
7 said and do some reactive things because if we do we lose their support.
8 I think we've got to keep them involved maybe not in the amount we're
9 doing now but we've got to keep funds there for the localities to feel like
10 they're involved in the process and in fact we're getting some good
11 returns, I know we have in Pittsylvania County and with the City of
12 Danville but let's not let all that go.

13 MR. MAJORS: I guess what I'm saying was that these are the
14 primary areas and if you look at those things being done in Danville and
15 Pittsylvania County they fall within those.

16 MR. ARTHUR: Well –

17 MR. MAJORS: But I think that the danger that we run is that as
18 the amount of indemnification goes down and the amount available for
19 economic development issues goes up it's not because the localities think
20 we've got 'X' dollars this year and we're going to get '2X' next year.
21 There needs to be a focus on some regional things and there needs to be a
22 focus on where they fit in these broad categories that the commission
23 would say are critical to the region.

24 SENATOR WAMPLER: I think we all agree with you, when the
25 commission restructures its organization the first of the year and the
26 functional areas being education, special projects and the Southwest
27 Southside Committees. Those are the main functional areas. I don't
28 know if everybody realizes that once we address the larger regional wide
29 funding the commission would be and certainly for the two regions –

30 MR. ARTHUR : --Yes.

1 SENATOR WAMPLER: I think we are moving in that direction
2 and I think the commission senses that.

3 SECRETARY SCHEWEL: One of the issues that appeals to me
4 is the question of regional approaches. I guess thinking through what
5 we're trying to put forward. When we're trying to assess what to do and
6 one of the things maybe we want to assess whatever we do and what we
7 think the goals of the commission are and the goals for the use of our
8 money maybe there's some other goals we think should be considered or
9 should we go regional approaches. I don't know to what extent we would
10 address those particular issues. I think of the things that I've seen the
11 commission do with respect to industrial parks or business parks or
12 what's been done in Pittsylvania or Danville or Washington County or
13 Smyth, I'm not sure that's a change, I think maybe there's a couple of
14 other principles like that that would be appropriate.

15 MR. FLANNERY: Mr. Chairman, I think Secretary Schewel
16 makes an excellent point and I'm in agreement with your philosophy that
17 the commission ought to be more proactive and less reactive. I think it
18 was in that spirit that Senator Wampler convened a small group of
19 regional people including myself and other people which is a work in
20 progress. \$25 million is exclusively regional projects. I think we had
21 some other side issues to discuss but those were for all things like three
22 jurisdictions that would require revenue sharing for instance. So this is a
23 requirement of that process and I think it's moving in the direction that
24 you and I spoke of so that's kind of where we're going. That list of \$25
25 million and I think the Senator included some things that are not really
26 infrastructure. There's some fiber allowed in some of the regional parks
27 that have already, is that kind of what you're looking for?

28 SECRETARY SCHEWEL: I was thinking more in terms of
29 concepts to use our money, some of the things that would have to be
30 worked out to sort of guide us.

1 MR. FLANNERY: We struggled with the same thing before and
2 we reacted and these proposals some of which were sound and some of
3 which were why are we looking at this. So this was kind of a change in
4 philosophy for us to come up. I called Senator Wampler and Delegate
5 Kilgore and Senator Puckett and said let's sit down and talk about this
6 because I know the Tobacco Commission is doing these things right now.

7 SECRETARY SCHEWEL: Another thing for me is that we've
8 got a number of elected officials on this commission and I see part of
9 what I think is a worthwhile goal for me to give them political cover
10 because it's got to be very tough if you're sitting there and people are
11 asking you for money and you've got money they are your constituents
12 and you turn them down. It's a lot easier to turn down if there's a well
13 defined policy everybody knows going in here's what we're doing and
14 here's why were doing it and here is the money priorities, we're going to
15 fund these things and not fund these things. Then it's a little easier to say
16 no and have some cover for saying that.

17 DR. MORRIS: I'm assuming in terms of principle that one was
18 set up rather than two and you work in Southwest and Charley work in
19 Southside because somebody wanted this group to wrestle with the extent
20 to which we're talking about one Southern region of Virginia rural and
21 small towns tobacco related and to the extent which there's two regions
22 here that have to have their own strategic goals dealing with those issues.
23 It seems to me that it might vary according to what the issues are but
24 obviously broadband we're talking about really one region. Another
25 thing I think we can try to sort out but I don't know that we can resolve it
26 but try to sort out what sort of issues that relate to one region and what
27 sort of issues relate to the two regions. If you don't wrestle with that
28 some then I don't think we're doing what we were asked to do. I don't
29 know how the commission feels. Does that help you out?

1 SECRETARY SCHEWEL: It seems to me that we've got more to
2 talk about, entrepreneurial and job creation, access capital, deal closings,
3 and all this stuff.

4 DR. MORRIS: Do you want to do some more of that in the next
5 session. When you start getting the two of us confused that means we're
6 doing the job, I think we need to work on this more.

7 DR. PURCELL: I would just reiterate that there are many
8 entrepreneurs already in business and are struggling for capital and so
9 there's a type of issue there that's separate from entrepreneurship
10 development. You've already got a lot of people out there that have
11 become entrepreneurs that need capital. It's not to say they can't be
12 related but I think they also can be separated.

13 DR. MORRIS: We don't have to stay till four.

14 MR. MAJORS: I think the other things that we talked about or we
15 need to talk about a little more and we'll get someone to bring us up to
16 date on the education and training area, there's more there.

17 SENATOR RUFF: I hope you invite John Forbes. I don't know if
18 you're going to take Allen Dudley's suggesting about local business
19 people but I would propose Tom Bowman who has been involved in
20 economic development and he knows what to look for and I think he's as
21 knowledgeable as anyone in Southside.

22 MR. MAJORS: Certainly look for a good resource, a
23 businessperson that has made a business decision located in the region
24 and I think Bill Crutchfield. He's a businessman located in
25 Charlottesville and he'll be glad to tell you what will work from a
26 businessman's point of view.

27 DR. MORRIS: Well, I think our next meeting will be the 28th of
28 October.

29 MR. MAJORS: The 28th of October which is a Monday, a full day
30 9-5. I'll remind you we have another meeting scheduled for the 25th of
31 November.

1 **PROCEEDINGS CONCLUDED**

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6 **CERTIFICATE OF THE COURT REPORTER**

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8
9 I, Medford W. Howard, was the court reporter who took down and
10 transcribed the **Minutes of the Tobacco Indemnification and**
11 **Community Revitalization Commission Public Meeting, Long-Range**
12 **Planning Task Force**, on Monday, September 30, 2002 at 9:00 a.m. at
13 the Hotel Roanoke and Conference Center in Roanoke, Virginia.
14

15
16
17 _____
18 Medford W. Howard
19 Registered Professional Reporter
20 Notary Public for the State of Virginia at Large
21

22
23
24 My Commission Expires: October 31, 2002.
25
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