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7 Long Range Planning Committee
8 Tuesday, March 22, 2005
9 9:30 a.m.

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12 Hotel Roanoke & Conference Center
13 Pocahontas Room
14 Roanoke, Virginia
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17 **APPEARANCES**

18 The Honorable Kathy J. Byron, Committee Chair
19 The Honorable Frank M. Ruff
20 The Honorable William C. Wampler, Jr.
21 The Honorable Allen W. Dudley
22 Mr. Thomas W. Arthur
23

24 **Commission Staff**

25
26 Mr. Ned Stephenson
27 Manager of Strategic Investments
28

29 Ms. Stephanie Wass
30 Director of Finance
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34 March 22, 2005
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37 DELEGATE BYRON: Alright, I'll call the meeting to order.
38 Would you call the role?

39 MR. STEPHENSON: Mr. Arthur?

40 MR. ARTHUR: Here.

41 MR. STEPHENSON: Secretary Bennett?

42 MR. BENNETT: (No response).

43 MR. STEPHENSON: Delegate Dudley?

44 DELEGATE DUDLEY: Here.

1 MR. STEPHENSON: Mr. Montgomery?

2 MR. MONTGOMERY: (No response).

3 MR. STEPHENSON: Senator Puckett?

4 SENATOR PUCKETT: (No response).

5 MR. STEPHENSON: Senator Ruff?

6 SENATOR RUFF: Here.

7 MR. STEPHENSON: Secretary Schewel?

8 MR. SCHEWEL: (No response).

9 MR. STEPHENSON: Senator Wampler?

10 SENATOR WAMPLER: Here.

11 MR. STEPHENSON: Vice Chairman Walker?

12 MR. WALKER: (No response).

13 MR. STEPHENSON: Chairman Byron?

14 DELEGATE BYRON: Here.

15 MR. STEPHENSON: We do not have a quorum madam
16 Chairman.

17 DELEGATE BYRON: Then we'll have a good healthy
18 discussion, make a recommendation before we get done today. When we were at
19 the Executive Committee meeting the other day, so this won't be new information
20 to us as to why we're meeting. Our goal today is to come out with a spending
21 plan that we can recommend to the Executive Committee for their approval to
22 recommend to the full Commission. Is that correct Ned?

23 MR. STEPHENSON: Yes, that's what we're hoping to do.

24 DELEGATE BYRON: I think we'll have a good open discussion.
25 My feeling is that since we're looking at securitization and seeing the different
26 scenarios that you presented last time at the Executive Committee meeting and the
27 huge amount of money that we have, it really isn't much different than when you
28 win the lottery and having a big chunk of money that we get an opportunity to
29 make a major decision on how we're going to spend it. Unless, if folks make a
30 bad decision then the money is gone and there's not anything they can do about it.
31 We want to look closely to how we're spending the money and spend it wisely
32 and our priorities as far as what we're spending the money on. As far as how
33 much money we want to safely protect for the years to come for further projects.
34 With that said, let's start looking at some figures. You've got a spending plan up
35 here. Just to refresh your memory, Delegate Dudley.

36 DELEGATE DUDLEY: We have in place a long-range plan that
37 has been adopted by the Commission. Are we redoing this whole plan with this
38 or what are we doing?

39 DELEGATE BYRON: I asked the same question. Today is not
40 going to be a decision on changing the long-range plan. However, the spending
41 plan that we're going to look at today is going to be entirely different. The last
42 long range plan dealt with tax exempt and taxable bonds and we're only dealing
43 with tax exempt bonds and its going to change our spending opportunities. So
44 what we're looking at is a different spending plan with the idea that, I would say

1 to the Chairman of the Commission that if we can come up with a tentative
2 approval on that, we'll then have to meet again and come up with a firm spending
3 plan for the Long Range Committee based on what the securitization actually
4 comes out to be. Since today we're still dealing with scenarios and numbers that
5 are before us based on 40, 50 or 60 percent securitization also looking and seeing
6 if we like what it shows as far as what we are spending our money on.

7 If you look at what they presented to us here and I'll remind you
8 that the endowment is suggested that the earnings are to be used a hundred
9 percent for economic development, corpus to be used for technology, five percent
10 maximum per year. MSA payments are used only for indemnification, education,
11 innovation and admin. Not to be used for technology and economic development.
12 I think it would be easier for us to get a feel for what our past spending plans are
13 as far as looking at last year's budget and doing a comparison to new figures in
14 place with the securitization at certain percentages. I think that would be a better
15 feel for us to know how much money is available. If we like the way that plan is
16 set up as far as what we believe, I think our biggest question is what are our
17 priorities going to be based on where we were when we got started eight years
18 ago and where we are today and how we spend our money and what we feel is our
19 priorities in the coming years. With that said, Ned or Stephanie, is there anything
20 you want to bring to our attention?

21 MR. STEPHENSON: I want to bring everybody up to speed and I
22 think this is a point of beginning for the Committee's work and we're here for you
23 all to move these things around as you may want to and to get to a spending plan.
24 I have one more little piece here that might be of interest for those of us that see
25 things graphically. Under this securitized world, we only have three funding
26 sources. One being the earnings, one the corpus and the other the MSA
27 payments. We just put these things in these buckets in part because some of them
28 have to be because of the nature of the tax-exempt bond. I'll tell you the line
29 between the restricted funds or tax-exempt funds and unrestricted funds are a little
30 bit cloudy. In the top two buckets on the graph, really and technically if you want
31 to, you can move things back and forth horizontally between those two. You
32 could do technology with endowment earning or economic with corpus if you
33 want to. With respect to the bottom bucket, a little bit of the education work that
34 you have done could be done with securitized dollars, however, the lions share
35 cannot. Your TROF activities, the lions share could probably be moved around.
36 There are some things you can move around within limits but this is more or less,
37 a point of beginning for you to tell us all what you want to do. It's a little obvious
38 but you're dealing with a lot of variables today unfortunately and these are some
39 of the things that we hope you can help us with. Most particularly, how much of
40 the MSA to sell off that's going to govern how this spending plan behaves, how
41 much of your corpus you want to invade, nothing at all, all the way up to what the
42 law allows. The endowment earnings rate is a wild card. Our plan needs to
43 contemplate other interest rate environments and we don't want to trap ourselves
44 in that. Also, the net endowment and I need to focus on the word net. After the

1 haircut and after the actual check we get in our account is not yet known and I've
2 got a wide range of areas that could actually be outside that range depending on
3 how much you want to sell off. You may only sell off 30 percent of what you
4 have and that's the size of the endowment. One last point and this is a little bit
5 minor but I feel I need to bring it up. The timing of the bond closure and the
6 funds withdrawal, there's some serious timing issues here. For instance, if you
7 have the corpus and you begin to invade it heavily and up front that impacts your
8 earnings heavily and up front. It may be that technology might make a
9 commitment but the money is still in the bank and it may be 8, 10, 12 months or
10 18 months before the money comes out so those earnings are still there
11 accumulating even though technology has made a commitment. The transition
12 from a hundred percent MSA world to a part securitized world, we've got a
13 budget transition and we've got to get from old to new so there are some timing
14 issues in there. Stephanie and I talked about it at length and we decided not to try
15 to bring that into discussion today numerically because it could be confusing but
16 you got to keep that in the back of you mind.

17 Future capital versus operating needs. To the extent you securitize,
18 you're going to box yourself in a little bit on doing some things you want to do.
19 Part of that is trying to take a look into the future and kind of deciding you want a
20 lot of capital infrastructure or do you want to have some latitude to do some
21 operating stuff and that will govern how much you sell off. What Stephanie is
22 going to do for you is to try to work with these numbers and give you some what
23 if options so you can wiggle this thing around and see what happens to it and try
24 to get satisfied as to where you want to be.

25 MS. WASS: In your packet you were given four different
26 scenarios and there are really an infinite number of scenarios but for purposes of
27 the discussion, we wanted to give you four on paper. As a starting point, scenario
28 A is what we had discussed in the Executive Committee meeting with securitizing
29 60 percent of the funds and withdrawing five percent per year for technology and
30 assuming an annual interest rate of four percent for earnings. That will give you
31 an idea of the annual amount available for technology for each of the funds that
32 you currently have. Just to give you a summary of what that looks like, this is a
33 sample but it will show you that money can be moved around between certain
34 funds but this is just showing you the difference in the past three years to what the
35 next three years might look like and you can see there is less money. So what we
36 need to do is try to figure out where the money is needed, where the priorities of
37 the Committee are and from this you can go back and look at the different
38 scenario.

39 DELEGATE BYRON: Let me interject here for a minute and then
40 we'll go to the discussion. A couple of things I think we need to look at and
41 everything is really as Senator Hawkins said, liquid or a variable because if you
42 look at the five percent scenario for technology that is basically or I guess we
43 need to decide at some point that we're going to agree to up the five percent of the
44 corpus but that doesn't mean as the scenario shows here, that for the next ten

1 years that we're actually going to spend down all the technology money. I tried to
2 get an answer on the technology issue and there's nothing firm, we've got the
3 same kind of liquid stuff when we're talking about how much more do we need.
4 That can be endless when you're talking about technology. A big part of our
5 decision is going to be how much is our investment going to be to get to where we
6 want to be technology wise. If that's our priority and we've already said that was
7 a priority because the Committee has been working. I know southwest is looking
8 for a big chunk of money next year from technology under our old scenario.
9 Technology is a given but the spending plan is not necessarily until we come up
10 with something that really defines how much we're going to spend on technology
11 or what we're going to be willing to spend. That number is flexible in that regard.
12 I guess this is basically a commitment to technology. Stephanie you also said that
13 there was fixed figures in there that we may not even think about any changes that
14 could be made and that is innovation and admin. No, administration and
15 indemnification. What was the third one? Oh, originally the economic
16 development figure and prior commitments of the three million. So those figures
17 aren't changeable. The areas that are changeable as far as how much money is
18 spent is education, innovation which is your TROF funds and what are some of
19 the others?

20 MS. WASS: Special projects, agribusiness and TROF.

21 DELEGATE BYRON: That's all part of innovation money.
22 When you stop to think about economic development funds, under the tax exempt
23 bonds, you have money that's going into capital there. It's really how people feel
24 about some changes to the budget that are going to take place by doing this.
25 Some of those changes are probably affected because of our change in priority of
26 how much we're spending. Anyone have any comments?

27 SENATOR RUFF: All these numbers are circulating in my mind
28 and I guess everyone's. We spent a year on the long-range plan and we assigned
29 certain percentages to various categories. It looks to me like it would be easier to
30 work with percentages rather than trying to start out with dollars and don't really
31 tie up anything, there's too many figures here.

32 MS. WASS: The percentages in the long range plan were based on
33 tax exempt and taxable proceeds so when you talk about twenty percent of the
34 proceeds for education, that works under a combined taxable and tax exempt issue
35 but because now we have to separate them out into this much for education, tax,
36 unrestricted use, it's a little different.

37 SENATOR RUFF: Didn't the original long-range plan deal with
38 numbers without any consideration for securitization?

39 MS. WASS: No, they were ranges that were mentioned but they
40 were pretty broad ranges and they were based on earnings of the tax-exempt and
41 taxable proceeds. It'll give you general guidelines.

42 DELEGATE BYRON: When you look at the corpus invasion, if
43 we determine that technology needs for the next three years are X or maybe the
44 same thing that Ned was talking about, a commitment to technology without

1 actually spending the money but we have that in our budget and still obtaining
2 interest and drop some of the corpus invasion, we're going to see a bigger return
3 on economic development money because your interest is accruing rather than
4 spending that money on a set figure every single year.

5 MR. STEPHENSON: Delegate Byron, as Stephanie said, there's a
6 number of ways of doing this but one idea that's not on the table is the notion of
7 having technology have access to the corpus or the front end for two or three
8 years at some level but then closing the door thereafter to try to get that front end
9 infrastructure up but not let them bleed the corpus forever. To the extent you do
10 that, those corpus dollars would be available later for you to do something else
11 with that you might want to do.

12 SENATOR RUFF: Do we have any guidelines as to what's on the
13 horizon for technology?

14 DELEGATE BYRON: I asked that question because I haven't
15 been updated as far as technology. I can't remember the last time we met.

16 MR. STEPHENSON: I can tell you Frank that in preparing the
17 budget for the year coming that the number you'll probably see in the budget will
18 be 20 million and that is for projects known or known needs in the next one year
19 but beyond that, no, sir, I don't think any of us have a grasp of what's coming.

20 SENATOR RUFF: What will the \$20 million dollars pay for?

21 MR. STEPHENSON: In a nutshell about \$13 or \$14 million
22 dollars worth of proposed projects in southwest and about \$6 million dollars to
23 finish up southside. Fourteen and six is twenty and that's very rough. That kind
24 of takes care of everybody right now.

25 SENATOR RUFF: The main points in the various locations?

26 MR. STEPHENSON: Known needs but certainly you must know
27 that the line continues to form at the door for more money as time goes on but
28 that's what we know about it now. You'll see a budget of about twenty in a
29 month or so.

30 MR. ARTHUR: William, does that \$14 million as far as you
31 know, do the last mile deal?

32 SENATOR WAMPLER: It does not, I think Ned is right. What
33 that does is complete the backbone and a significant portion of EDA funding and
34 allows us to draw down the max amount of EDA. There is a piece of that that is
35 the last mile areas where you have penetration. It addresses in part the last mile.
36 What we're talking about that's absent and I'd like to talk about this later Madam
37 Chairman, the concept of setting aside dollars that would be used as leverage for
38 last mile. We would not be first dollars, it would be a minority participant in a
39 joint venture where we would get private and public entities to invest for purposes
40 of last mile. If you had a local governing body that wishes to bring all schools on
41 line, then we would call that last mile application where you had a business or
42 group of businesses in an industrial park that wanted a pot. I think that's what we
43 envisioned but we need a gap-financing amount to close the last mile because
44 clearly we don't have enough money to do the last mile application. I am

1 confident that the \$14 or \$15 million dollar figure will cover the estimated cost of
2 completing a right sizeable backbone to southwest.

3 MR. ARTHUR: I got your point.

4 SENATOR WAMPLER: Madam Chairman, I was thinking about
5 this driving up this morning and since we adjourned last week. These will be
6 more variables to toss into the equation but it would seem to me that if you look at
7 the two regions that are immediate needs are different. I think Frank is right when
8 we talk about our long range plan is something that we already adopted and it's a
9 blueprint but I would suggest that maybe we're ready to spend dollars differently
10 than southside and I know you still have a challenge in trying to address the
11 formulary and how you're going to allocate dollars to the greater southside
12 region. I haven't come to a conclusion but it seems to me that we ought to present
13 two plans to the Executive Committee and ultimately the full Commission that
14 amounts up too. We have an idea what we wanted to spend the proceeds on and I
15 think it's probably greater than five percent corpus invasion. I would not be so
16 bold to go to southside and recommend that we draw down all 15 percent of
17 southside's allocation in terms of the invasion but if you just pick the number of
18 what would be allocable to southwest and if we can demonstrate the need of why
19 we need the dollars in year one and perhaps year two, in an amount greater than
20 what the staff is proposing, five percent. I think that's the consensus of the
21 members of the southwest region, that we'd want to be more aggressive than the
22 five percent. Before we get into a broader picture I thought maybe we ought to
23 talk about the region's needs and I bring that up for discussion and see what your
24 thoughts would be on that.

25 SENATOR RUFF: You're saying theoretically divide whatever
26 the number is or three hundred and some million and this is the southwest portion
27 and this is the southside's portion and then you would have a mechanism, say a
28 supermajority would say okay we're going to take more or less than five percent
29 or whatever the percent is.

30 SENATOR WAMPLER: An amount up to with the cap being 15
31 percent. I haven't talked to the staff about that but since last week we kind of
32 batted that around. There seemed to be one thought of trying to clearly define
33 goals of southwest region that might not be consistent at this point with southside.

34 MR. STEPHENSON: Let me see if I understand you correctly
35 Senator Wampler. The idea would be that if the corpus invasion was to be five
36 percent of whatever the number is, that southwest would have access to the corpus
37 within that number separate from southside depending on its individual needs, am
38 I hearing that correctly?

39 SENATOR WAMPLER: I would do it separately. I would say it
40 would be an internal accounting function where you set up southside's account
41 and a southwest account and whatever we draw down on the corpus, if southside
42 only drew down five percent a given year and southwest wished to do 15 percent.

43 MR. ARTHUR: That would be your percentage of the three
44 hundred fifty.

1 MS. WASS: That would be creating two endowments.

2 MR. ARTHUR: Yes, that would create two endowments, you
3 been doing it that way for a long time.

4 SENATOR WAMPLER: I really think for the long term try to
5 institutionalize, now we get into the subject of, we don't want bank accounts, we
6 have projects that are ready to go and we have a plan and we're ready to spend
7 dollars and while that has not been affirmed by all members of the southwest
8 committee, there's a sizable portion that believes that.

9 MR. STEPHENSON: The draw down speed might be a little
10 different.

11 SENATOR WAMPLER: Different between the regions and that's
12 why I suggest before we get too far down the road how you try to do it.

13 DELEGATE BYRON: Some of the problems I see with that in
14 dealing with generalities and not discussing it, the fact that we would have
15 basically two different Tobacco Commissions that you would have. You have
16 spending on the other side that is flexible coming into the corpus invasion and
17 into the economic development money, how would you separate that out from
18 MSA?

19 SENATOR WAMPLER: The MSA payments?

20 DELEGATE BYRON: Yes.

21 SENATOR WAMPLER: I think the way we do it today. We have
22 the indemnification requirements.

23 DELEGATE BYRON: If you chose to take up to 15 percent of the
24 endowment money for southwest projects, that endowment money is going to be
25 spent in coordination with the MSA money and some of the money will cross
26 over each other's lines if you follow me.

27 SENATOR WAMPLER: I don't understand that logic.

28 DELEGATE BYRON: How do you separate what southwest is
29 getting from southside when you're intermixing monies like that?

30 SENATOR WAMPLER: In the first place you wouldn't co-
31 mingle, you would have separate accounts.

32 DELEGATE BYRON: Across the board?

33 SENATOR WAMPLER: The second point I was going to offer
34 Madam Chairman, I think we have to have a discussion about our current
35 committee structure. I'm not sure the current committee structure works under a
36 securitized lump sum. Maybe it does and maybe it does not but I see some
37 challenges. I don't know that we need a special projects committee under the
38 securitized version. I still think we need an education committee clearly but I
39 think with what staff's recommending with the dollars going to economic
40 development it's another way of funding under a different structure.

41 SENATOR RUFF: I tend to agree with William that there are
42 some structure problems. If there seems to be one important project that's either
43 in southside or southwest and we say we have to have a supermajority to go into
44 this percentage of the corpus. One side or the other says no, we don't want to do

1 that because it takes our money. I think this may give some reasonable way of
2 getting past that situation. I tend to agree with William that our needs are now
3 and we should not be ignoring those needs in hopes that we can stretch the money
4 out. It's nice to have money for 20 years but we have people not working right
5 now that need the skills and opportunities to make a living.

6 MR. STEPHENSON: Can I work this out in my mind a little bit
7 for you just to make the math easy. Suppose the endowment was a hundred and
8 southside and southwest could spend down at different speeds. If southwest
9 stepped up and said okay, we've got a project and we need 15 percent of corpus.
10 They are going to spend from a hundred, 15 down to 85 and that event has
11 foreclosed southside.

12 SENATOR WAMPLER: I don't see it that way.

13 MS. WASS: He's saying create basically two different
14 endowments; one for southside and one for southwest and each has up to 15
15 percent and they'll spend up to 15 percent.

16 SENATOR WAMPLER: The operating agreement will still be
17 limited to 15 percent.

18 MR. STEPHENSON: Of your bucket?

19 MS. WASS: Yes.

20 MR. STEPHENSON: I've got it. The split could be however you
21 might want to divide that up. I understand. That would work under this. I think
22 that would work very well under this draft agreement, this draft plan that could be
23 accommodated.

24 SENATOR WAMPLER: I don't pretend to say southwest knows
25 what southside wants to do with the formulary and I quite frankly don't want to
26 get into the middle of that. We will recognize the wisdom of the region
27 accordingly. If you listen to the local economic development people, they are
28 ready to expand, have significant expansion with existing industries and very
29 frustrated with the pump not being primed as prospects come into the region of
30 the state. I think what this Commission has shown us we can spend right much
31 amount of dollars and have a significant investment in existing industries. That's
32 what we're hearing and we think we can add significant jobs. I think that's why it
33 makes sense to me that we keep our long range plan but we recognize the
34 diversity of the two regions and have a draw down schedule as to regions and
35 would like to have whatever meets their needs, whatever the best way to handle it.

36 MR. ARTHUR: What monies are you not getting now that would
37 keep you from doing this expansion?

38 SENATOR WAMPLER: The short answer is that right now we're
39 limited in the amounts in increments of hundreds of thousands of dollars. We
40 don't have a goal of saying we have \$5 million dollars in incentives that we wish
41 to put on the table for local businesses within the next 24 months because the
42 local developers are just bringing on projects by projects and there really is not a
43 focused effort to say this is a pot of money for existing businesses or new
44 businesses. I think if you put that incentive on, I think localities will do the

1 recruitment for their existing industries. That's the point of institutionalizing. I
2 think some want to securitize because then it will allow us to focus on projects
3 that there's a known quantity of money and right now we really don't know how
4 much money we have to allocate towards those.

5 SENATOR RUFF: What southside portion, what we've done in
6 technology so far is that following the rough formula similar to the rest of
7 everything we do? If we're talking about putting twice as much as southwest this
8 year as we are in southside.

9 MR. ARTHUR: That was a handshake deal developed over
10 several years.

11 MS. WASS: Actually FY '05 we'd be even.

12 MR. ARTHUR: After this year we're back to square one. They
13 gave up their last year for us.

14 MR. STEPHENSON: Catch up time.

15 DELEGATE BYRON: You thought about this on the way up
16 here?

17 SENATOR WAMPLER: Lot's of people support that.

18 MR. ARTHUR: I think there's some merit in what Senator
19 Wampler is saying, I don't really care how you spend your money. I'm looking at
20 southside now. He's interested in his area and really doesn't care how we do
21 ours. It would allow him perhaps in some cases to move more quickly, I'm not in
22 total disagreement and it's got some merit to it. That would change everything
23 we do and increase the overhead a hundred percent.

24 DELEGATE BYRON: How?

25 MR. ARTHUR: Bookkeeping and all that stuff will double.

26 MR. STEPHENSON: Not that bad.

27 MS. WASS: Already keep it that way.

28 DELEGATE BYRON: It's another column on the spreadsheet,
29 right?

30 MR. ARTHUR: It would be more than that I think.

31 SENATOR WAMPLER: Perhaps hire another administrative
32 position, at least a half of a position if not a full one trying to keep up.

33 MR. ARTHUR: We've already gone from 600,000 to two million.
34 So it would be a little bit more.

35 SENATOR WAMPLER: Reduction of the two million.

36 DELEGATE DUDLEY: It might make it a little bit easier for
37 William to spend all of his the first year.

38 SENATOR WAMPLER: That's not right.

39 MR. STEPHENSON: Senator Wampler, if the endowment was
40 carried in two buckets so to speak, southwest would spend one speed and
41 southside at another, would you envision that the economic development efforts
42 which under the model, live off of the earnings that that would also be split into
43 two buckets because to the extent that you spend down rapidly, you're eating your
44 future.

1 MR. ARTHUR: He's eating his economic development up.

2 MR. STEPHENSON: Would you contemplate that both needed to
3 be split so to speak?

4 SENATOR WAMPLER: Let me give you another example.
5 We're faced with another series of applications, some of which have a lot of merit
6 and some which don't move the ball down the field all that far. I think if we look
7 at the larger projects that have regional impacts and truly match that long range
8 goal plan, I think that's the wiser investment of dollars and that we'd get a better
9 return for.

10 SENATOR RUFF: Get all the localities in one year.

11 DELEGATE DUDLEY: I was poking a little fun at Senator
12 Wampler but if you look at the scenario we have here and the areas that are under
13 the proposed securitized funds, it's spread out like he's talking about and
14 basically what we've got left on the other side of the non-securitized funds are the
15 things like all sharing equally anyway just like administration, indemnification
16 and I don't see where it's a big problem to do that.

17 DELEGATE BYRON: I was looking at the same thing.

18 SENATOR WAMPLER: I think the question is what do you do
19 with the remaining MSA or unsecuritized proceeds. Obviously indemnification
20 takes the first priority.

21 DELEGATE BYRON: Years from now we can reduce what's
22 happening with indemnification.

23 SENATOR WAMPLER: The only thing I see left is education and
24 to the extent whether we jettison special projects or what do we do? Do we set
25 aside dollars for mega projects that benefit both of the regions or do we have a
26 way to do that.

27 MS. WASS: My question to you is, would southside have any
28 regional economic development needs that would be operating?

29 MR. STEPHENSON: Sales, soft cost, things that are not hard
30 assets.

31 MS. WASS: Because under this scenario, it's all capital.

32 SENATOR WAMPLER: If you look at this local perspective, the
33 answer is yes historically.

34 MR. STEPHENSON: Ninety-eight, ninety-nine percent.

35 SENATOR WAMPLER: That would benefit the proceeds of the
36 bonds.

37 SENATOR RUFF: You perceive that would be the way in the
38 future, still all of the capital.

39 MR. STEPHENSON: Senator Ruff, if we believe that the MSA
40 payments are going to go away and that's what we're contemplating, then yes, the
41 only surviving dollars are securitized dollars and they can only be used for capital.

42 SENATOR WAMPLER: And interest earned is going to be used
43 for capital.

44 DELEGATE BYRON: There's a big chunk of money in separate

1 bank accounts all capital.

2 MR. STEPHENSON: There's really something I need to ask you
3 all to concentrate on and that is in this graph under this model. If you
4 contemplate the MSA payments going away, the two things at the top are the two
5 things that survive the process and the things on the bottom go away.

6 SENATOR WAMPLER: When you say away, you mean keeping
7 the function if payments are not made?

8 MR. STEPHENSON: If the MSA payments fail partially or
9 completely, the thing on the bottom bubble all goes away and the two things on
10 the top are the things that survive. I wanted to suggest that whatever we put in the
11 top two bubbles be the most important things that we do.

12 MS. WASS: We're restricted as to what we can put in the top two.
13 While indemnification might be a priority, it cannot go into one of those two.

14 DELEGATE BYRON: If the money for education in any way,
15 that's an area that unless our priorities change, economic development and
16 technology are the main capital expenditures we can identify in the last four or
17 five years.

18 MR. STEPHENSON: They are on this model if that's what you
19 want to do.

20 DELEGATE BYRON: If they make a difference in some of the
21 other type of expenditures that we've done for economic development that would
22 not be available except for under the MSA money.

23 MR. STEPHENSON: That's true and I want to be clear that under
24 innovation, their portion of the special project effort could survive in those top
25 two bubbles, capital projects but not all of them. A lot of your TROF activity
26 could continue and you could move that up but definitely indemnification,
27 education and administration would go away.

28 DELEGATE BYRON: You could look at innovation as being part
29 of your regional development funds.

30 MR. STEPHENSON: You could write that into economic
31 development.

32 DELEGATE BYRON: The regional economic development.

33 SENATOR WAMPLER: I'm a little worried about the cash flow.
34 I guess the way to answer that is that the remaining cash payments, how much
35 money, assuming you did 60 percent, how much cash continues to flow to the
36 commission?

37 MR. STEPHENSON: From all sources?

38 SENATOR WAMPLER: From the MSA cash payment.

39 MS. WASS: About 25 million.

40 SENATOR WAMPLER: So what then do you have allocated
41 toward indemnification under the current structure?

42 MS. WASS: Under the current structure I have the remaining
43 obligation after the buy out assuming that the final Phase II payment is not made
44 and we have our liability and basically \$137 million spread out over ten years at

1 13.7 million.
2 MR. STEPHENSON: Which will eat half of your MSA payment.
3 MS. WASS: That's for ten years and then after that we're done.
4 SENATOR WAMPLER: Do I have that on these? So the
5 indemnification has adjusted to 13.7 in education.
6 MS. WASS: - It's flexible.
7 MR. STEPHENSON: Stephanie chose that number.
8 SENATOR WAMPLER: That's fairly consistent with what we
9 have been doing in the past.
10 MS. WASS: No, it's been about eight or nine million.
11 DELEGATE BYRON: You're looking at 60 percent but if you
12 jump to 50 it goes up about six million.
13 SENATOR WAMPLER: In the regional is that -
14 MS. WASS: That's the prior commitment where southside is
15 paying debt service for long term commitments.
16 SENATOR WAMPLER: Is that taken off the top?
17 MS. WASS: No that's actually calculated, I added that in. I don't
18 know how it would be handled under the scenario you're talking about.
19 SENATOR WAMPLER: Innovation would be applicable to what
20 we know as special projects in the TROF? Which is what, a third of what it was?
21 MS. WASS: Right, it's been 8.5 to 20 million.
22 DELEGATE BYRON: Let's jump to the 50 percent.
23 MS. WASS: That's securitizing 50 percent.
24 SENATOR WAMPLER: I like that slide better than 60. It gives
25 more discretion with the cash flow. What do you give up on the differences, 300
26 million versus 350?
27 MS. WASS: Estimated, yes.
28 SENATOR WAMPLER: I'm not ready to call it right now but I
29 think I like the 50 percent model better for purposes of keeping cash flow to
30 education. Economic development, do you have a sample if it goes to 50 percent?
31 SENATOR RUFF: What's the percentage for Halifax County for
32 economic development money?
33 MS. WASS: In the formula?
34 SENATOR RUFF: The percentage of economic development
35 money that went to Halifax County.
36 MR. STEPHENSON: For those persons in the Commission that
37 truly believe the MSA is at risk, they are going to want to push for the higher
38 securitization level I think. Fifty is a good compromise but those persons will be
39 -
40 MS. WASS: Halifax is 17½ percent.
41 SENATOR RUFF: Pittsylvania gets what?
42 MS. WASS: Pittsylvania County 25 percent.
43 DELEGATE BYRON: Any other comments between 50 and 60?
44 It gives us some more flexibility.

1 SENATOR RUFF: Obviously if you have the same dollars, the
2 reality is if you don't know what we have, whatever we do is a gamble anyway,
3 whether it's 50/50, that's probably the better way and I said it the other day and I
4 think it's still correct.

5 MR. STEPHENSON: The 50/50 scenario that we're looking at
6 still includes a steady corpus invasion of five percent all the way through.

7 SENATOR RUFF: According to that chart.

8 MR. STEPHENSON: Right, I guess I'm saying that if you come
9 around to a 50/50, you might address yourself to the corpus invasion speed.

10 DELEGATE BYRON: Senator Wampler, you still like your
11 scenario separating the endowment?

12 SENATOR WAMPLER: 31.9 million of cashflow include interest
13 earned?

14 MS. WASS: The last column, I want to hear it from you.

15 SENATOR WAMPLER: That 31.9 would that be cash payments
16 from the MSA, the non-securitized portion?

17 MS. WASS: Yes, that amount will be less than a million so you're
18 not talking about significant dollars.

19 SENATOR WAMPLER: Rounding it to 32. Another way of
20 saying your annual budget for 2006 would be 64 million of cash if we did not
21 securitize.

22 MR. STEPHENSON: Yes that's pretty close to right.

23 MS. WASS: There might be a little bit added in there depending
24 on interest.

25 SENATOR WAMPLER: I wanted to make sure that the 31.9 is
26 free and clear of any restrictions to securitize transaction which is the answer.

27 MR. STEPHENSON: Roughly speaking you're giving up half of
28 your cashflow to get an endowment of approximately 300 and be careful with that
29 number because that might not be.

30 DELEGATE DUDLEY: Has the Virginia Tobacco Foundation
31 gotten 10 percent, are these looking at the securitized earnings?

32 MS. WASS: No.

33 DELEGATE DUDLEY: Is the administration looking at
34 securitizing any of the 40 percent?

35 MS. WASS: No, there's no legislation, there's none in place that
36 would allow them to do so. I think when we passed the securitization legislation,
37 it only applies to the Tobacco Commission.

38 DELEGATE DUDLEY: Nobody else seems to be that worried
39 about it.

40 MR. ARTHUR: How do you know they're not worried about it,
41 they don't have the magnitude of money that we're taking about.

42 DELEGATE DUDLEY: They get half of it.

43 MR. ARTHUR: Looking at the cash flow situation scenario,
44 scenario A or B I don't think we should go any lower than that under any

1 condition.

2 DELEGATE BYRON: Any lower than what, 50 percent?

3 MR. ARTHUR: Fifty percent.

4 DELEGATE BYRON: I would agree with that.

5 MR. ARTHUR: Fifty percent would be the absolute minimum.

6 MS. WASS: To securitize?

7 MR. ARTHUR: The maximum would be 50 percent as far as I'm
8 concerned, the other two you can throw out.

9 DELEGATE BYRON: What's going to be the determination
10 between 50 and 60 percent?

11 MS. WASS: Some felt it would be what the market would bear
12 but what they wanted to come up with was what was the maximum that we
13 wanted to securitize so they know what to go up to but if the market doesn't bear
14 that, they will bring it down.

15 DELEGATE BYRON: If the market bears it, does that mean they
16 still want it?

17 MR. STEPHENSON: I think the answer to that question is going
18 to be the by-product of the work of this committee today and if you should advise
19 the Commission that your spending plan recommends 50 percent securitization, I
20 think they are going to be guided by that. They sent the signal to the Treasurer
21 the other day no more than 60. You could live under that number if you wanted
22 to, but at some point the Commission's got to peg that number and say we're
23 going to stop at X and my sense is that's going to be borne out of this work here
24 today.

25 MR. ARTHUR: In your two endowment plans do you still
26 envision the full Commission having ultimate control?

27 SENATOR WAMPLER: They have.

28 MR. ARTHUR: I don't want to set southwest as a separate entity.

29 SENATOR WAMPLER: No, by statute we have to.

30 MR. ARTHUR: That may be, I don't know that.

31 DELEGATE BYRON: Is there anything that would prevent us
32 from doing that, is anyone aware of that?

33 MS. WASS: I don't think so, it's more of an accounting function
34 and we would have two separate costs, it would be one endowment as far as
35 everybody else is concerned, it would be internal.

36 DELEGATE BYRON: We're talking about the endowment now
37 and not the MSA.

38 MR. ARTHUR: I still have a problem with this drawing down on
39 the corpus too quickly. I'm not saying we don't draw it down because there may
40 be certainly applications where we need to go into the corpus in order to do it but
41 under ordinary conditions, straight-line five percent, I can't go along with that
42 without some type of super control over it.

43 DELEGATE BYRON: I tend to agree with it and I think we need,
44 I'm not sure if we need to decide, maybe we'll get some guidance. Can we do an

1 initial recommendation for something and then talk about having something more
2 firm in place for a technology spending plan.

3 MR. ARTHUR: We don't know where we stand on technology,
4 that's an ongoing open-ended thing and if you ask that question, you won't get an
5 answer because I've asked it several times.

6 SENATOR RUFF: There's a lot of money on the table.
7 Following up on what Tom said, I would say that we change that figure from five
8 percent to four percent with no, with a supermajority to get any percentage over
9 that.

10 MS. WASS: For how many years?

11 SENATOR RUFF: Supermajority for everything.

12 MS. WASS: Four percent all the way down the line?

13 SENATOR RUFF: Yes, then if we have a project that looks good
14 enough, then we put the money where it needs to be.

15 MR. ARTHUR: If we had an automobile manufacturing facility,
16 pour the money into that no matter what side it's from as far as I'm concerned
17 because that would be great for everybody otherwise keep tight control over that.
18 If you use it up too quickly, we don't have it when we need it.

19 MR. STEPHENSON: I'm missing a piece here. We talked about
20 having a different spend down speeds in two regions, but now we're back to
21 saying limit it at four percent.

22 DELEGATE BYRON: I'm talking about southside.

23 MR. STEPHENSON: The southside consensus would be four
24 percent speed?

25 MR. ARTHUR: Yes, not even that much if it's not needed.

26 MS. WASS: That's what your budget would look like for
27 southside.

28 DELEGATE BYRON: Wait a minute. Economic development
29 was 8.4 and then you're looking at monies that are for southside 7 million from
30 the MSA, you're talking about 15 million in economic development, is that
31 correct? Or am I looking at the wrong figures?

32 MS. WASS: What was it again?

33 MR. ARTHUR: That's already less than half of what we been
34 doing.

35 DELEGATE BYRON: You got three that you already committed
36 to. I wasn't looking at the right figures, you're looking at southside would get 7
37 million.

38 MS. WASS: What is the scenario you're looking at?

39 DELEGATE BYRON: I was looking at 50 percent and you have a
40 10 percent corpus invasion on that.

41 MS. WASS: And you're looking at what?

42 DELEGATE BYRON: How much is southside economic
43 development money that would be approximately what, six point something.

44 MS. WASS: If you take 73 percent of the endowment proceeds

1 and I don't know how you want to handle the three million prior commitments.

2 DELEGATE BYRON: You've already fixed the endowment?

3 MS. WASS: Right.

4 DELEGATE BYRON: Southside would be looking at what?

5 MR. STEPHENSON: I think what Stephanie was trying to do is
6 keep the \$3 million dollars on the southside side of the ledger.

7 MR. ARTHUR: That's the way it should be.

8 DELEGATE BYRON: The 8.3 plus no –

9 MR. STEPHENSON: I don't think so.

10 DELEGATE DUDLEY: Less three.

11 MS. WASS: You just can't subtract it out, that's coming from
12 unrestricted funds so probably the easiest way is to contemplate from MSA funds
13 how much more would go to southside. In other words, southside has three
14 million unrestricted MSA revenue for prior commitments. They can't use the
15 endowment proceeds. They have three million and I think the easiest way to
16 match another one million for southwest unrestricted funds to match up with the
17 three million that southside. You have to keep the unrestricted from the
18 restricted.

19 MR. STEPHENSON: You're saying that southside has already
20 spent their three.

21 MS. WASS: Out of the unrestricted funds, probably a million
22 needs to be set aside for southwest.

23 MR. STEPHENSON: To even it up.

24 DELEGATE BYRON: I don't know if it fits in.

25 MS. WASS: The budget will probably change a little bit.

26 SENATOR WAMPLER: We can round that off and get through it.

27 MS. WASS: Yes, just to give you an idea of what the southside
28 budget would look like.

29 DELEGATE DUDLEY: How long does the economic
30 development pot have to get before Danville, Halifax and Pittsylvania counties
31 drop the load?

32 MR. ARTHUR: If it comes from the unrestricted MSA, there's no
33 pot that we're talking about.

34 DELEGATE DUDLEY: It's coming out of economic
35 development money.

36 SENATOR RUFF: Those counties percentage.

37 MS. WASS: If you look at that formula, its somewhere around
38 nine million that brings them below.

39 MR. ARTHUR: Under past procedures 9 million?

40 MS. WASS: That figure is not included in this economic
41 development amount.

42 SENATOR RUFF: So the 11 million is covered but doesn't give
43 you much more to deal with.

44 MR. STEPHENSON: Help me on this point, we've talked about

1 different spend down speeds, you talked about four percent maybe being the right
2 number for southside. William, are you thinking that number for southwest might
3 be 15?

4 SENATOR WAMPLER: It could be. We think we can draw
5 down those dollars, hoping that the entire Commission could vote on this or the
6 plan doesn't make sense, the plan doesn't go forward. If my math is correct, that
7 five percent southwest, let me start at the beginning. We do 300 million, which is
8 the 50 percent level. You must have taken money off the top.

9 MS. WASS: No, if you take the 300 million, take 27 percent
10 southwest.

11 SENATOR WAMPLER: My math is wrong, anyway, the point
12 would be, 15 percent of 81 million is what?

13 MS. WASS: 12.2 you're earning four percent.

14 MR. STEPHENSON: In a given year 15 percent of 81 million.

15 SENATOR WAMPLER: The point is are we going to have \$12
16 million dollars worth of projects the first year, I'm not sure?

17 SENATOR RUFF: Wouldn't it be better to mirror it the way we
18 talked about doing southside? Say four percent and then a supermajority of
19 southwest to go over that amount.

20 SENATOR WAMPLER: I don't know what the difference
21 between four and five percent is.

22 SENATOR RUFF: I'm saying that to go to that 15 percent, you
23 want everybody's support in southwest to do that. You don't want to do it with a
24 simple majority, do you?

25 SENATOR WAMPLER: Correct.

26 SENATOR RUFF: So if you take the four or five percent, you still
27 want a supermajority to go over that.

28 SENATOR WAMPLER: Yes. Trying to be the spokesperson for
29 our region. I think we're more comfortable with a minimum of five.

30 MR. ARTHUR: If you went to 10 or 15 or whatever, you're not
31 limiting yourself to four percent, it's merely a guideline and you'd want to have
32 everybody on board if you're going to pull that money out of the corpus. At least
33 I would think.

34 DELEGATE BYRON: That doesn't mean you have to pull it out.

35 SENATOR RUFF: If it's in print, somebody's going to say we
36 have to spend it.

37 MR. ARTHUR: Only politicians do that.

38 SENATOR WAMPLER: I'll guarantee you the first 24 months we
39 will be aggressive. With the Coalfield Authority, we've got another entity there
40 ready to either partner up with other industries.

41 DELEGATE DUDLEY: Madam Chairman, under the
42 endowment, would trustees be named to administer that money or how would that
43 be set up?

44 MS. WASS: I believe the way it's set up is that the Treasury will

1 actually handle that. They will put out an RFP for a trustee to manage that and
2 those funds are kept separately. Currently our funds are held in the general
3 account and earns interest at the general account earnings. My understanding is
4 that the funds would be held separately.

5 DELEGATE DUDLEY: Going by Tom's scenario, the MSA
6 payments are going to stop. What happens to that endowment money or who
7 controls that?

8 MS. WASS: My guess is they probably would fall under a
9 secretary of commerce or trade and probably one of their agencies would
10 probably administer it.

11 DELEGATE DUDLEY: Wouldn't you have a two-thirds
12 majority? We can't come up with this, we can't use this for administrative type
13 things.

14 MS. WASS: Right.

15 MR. STEPHENSON: Right, cannot be used for administration but
16 I don't believe, as I understand it, the Commission, in other words your MSA has
17 stopped but you still own the endowment and your work continues on with that
18 endowment. Stephanie and I may have to do pro bono work to keep going.

19 DELEGATE DUDLEY: That will last a long time, won't it?

20 MR. STEPHENSON: The Commission does not cease, that's the
21 reason you're doing this so that you can go on.

22 MS. WASS: Your staff may be through the Secretary of
23 Commerce or Trade.

24 MR. STEPHENSON: You have your endowment and your work
25 continues is the way I understand it.

26 DELEGATE DUDLEY: All the Commission work right now is
27 funded through the MSA payments.

28 MR. STEPHENSON: Yes. If the MSA goes away completely –

29 MS. WASS: The administrative budget goes away.

30 MR. STEPHENSON: Not the whole budget, we still have the two
31 top circles up there and you still have, it's restricted, but you can still meet and
32 approve grants and keep going on a restricted basis.

33 SENATOR WAMPLER: Maybe we'd have to call the governor to
34 perhaps prime the pump a little bit for us to keep going.

35 DELEGATE DUDLEY: What is the consensus about that? How
36 the endowment money would be handled, a trustee?

37 DELEGATE BYRON: If the MSA came under jeopardy, a little
38 forewarning that we were heading toward that, we'd be able to come back as a
39 Commission with some changes. I don't see how that affects long term spending
40 because we can change some things that have to occur if need be.

41 MR. STEPHENSON: Yes, I think the spending plan is as Tom
42 said a guide. As conditions change you're not wed to it and you have the liberty
43 to change it around within the law.

44 DELEGATE DUDLEY: If we put a corpus invasion that is

1 modest and we have the ability to come back with a better plan that has things in
2 place that would help us to see if we should look at things differently. Right now
3 we're not looking at it as if we had projects in place, we been working on based
4 on a larger sum of money such as the technology issue that we determine. If we
5 have that money it does not mean we're going to spend it all or get some kind of
6 partnership plan that invites others, including southwest, they could be invited to
7 do that. Basically, can we come to an agreement on 50 percent? Does everyone
8 feel more comfortable with the 50 percent plan versus the 60 or 40.

9 MR. ARTHUR: I think our areas can live with the economic
10 development terms, we can live with 50 percent.

11 MS. WASS: Is that what you want to recommend?

12 MR. ARTHUR: Half life is seven years at 50 percent and the half
13 life of the corpus at 60 percent is five years so I think seven years would be a
14 reasonable time to look at half if we follow our recommended attack on the
15 corpus.

16 DELEGATE BYRON: Do we want to go to the max or leave the
17 flexibility?

18 SENATOR WAMPLER: Let me try this one.

19 MR. ARTHUR: I think the original five-percent.

20 SENATOR WAMPLER: Maybe what we recommend to Madam
21 Treasurer would be that we have a range between 50 and 60 percent and the
22 strongest recommendation would be to do 50 percent and explain to her that it's
23 to preserve cash to cover the use of the remaining MSA proceeds for things other
24 than tax exempt purposes but if we have to go to 60 percent to do the deal.

25 MR. ARTHUR: I don't think anywhere along they said we had to
26 go to 60 percent. That's only if the market accepts it.

27 SENATOR WAMPLER: If the market said we have to have 350
28 million to do the deal, which I doubt is the case.

29 MS. WASS: I think it's on the smaller side and that's why she
30 wanted to know what our maximum is and she would work down from there
31 rather than the other way around.

32 DELEGATE BYRON: Based on those rating figures we have, we
33 certainly don't want to go any lower if the market is not good.

34 SENATOR RUFF: I go back to what Senator Wampler said and
35 what Stephanie said, you still putting 50 or 60 percent on the table.

36 SENATOR WAMPLER: I would say 50 percent is the goal.

37 SENATOR RUFF: You confused me when you said that.

38 MR. STEPHENSON: I think the Executive Committee the other
39 day sent the signal that 60 percent as a ceiling to give them room to sort this out
40 later. What I'm hearing you saying is that we are converging on 50 as the number
41 we want to go with. The Treasurer may come back and say the market is open
42 and it'll take 80 but I'm hearing you say that's fine but 50 is what we're looking
43 for. She'll salute and say fine we'll do.

44 SENATOR WAMPLER: I would concur with that.

1 DELEGATE BYRON: Now, a spending plan, are we going to
2 recommend southwest separate themselves from southside and does Senator
3 Wampler want to bring that to the committee?

4 SENATOR WAMPLER: I'm sure the Executive Committee will
5 meet again. I think we're all on the Executive Committee, a recommendation
6 from here helps but if you want to defer that to the Executive Committee that's
7 fine.

8 DELEGATE BYRON: That way you'll have an opportunity to
9 talk to the other members and at the present time I don't think we see any
10 problem.

11 MR. ARTHUR: Senator Wampler has already talked to his
12 buddies. He hasn't talked to everybody. That'll give him time to get his ducks
13 lined up if that's what he wants to do.

14 DELEGATE BYRON: You have to talk to Delegate Kilgore.

15 SENATOR WAMPLER: I talked to him this morning and he said
16 do it. I talked to him on the phone but I can get him out of court right now if we
17 need to. It's not a surprise, it might sound that way but it's our, I think we're
18 going to have a meeting I think on Monday the 4th of April, the southwest portion
19 of the Commission will get together. We're going to have a meeting to have our
20 regional and local economic development, Lenwisco Planning District is already
21 trying to crunch what they believe the immediate cash needs are. We'll have a
22 better picture of what we're trying to accomplish and the short term being 24
23 months, what we think our needs to be. Southwest could very well say we're
24 going to defer on the applications that are pending while we're trying to decide,
25 we would defer on the southwest's applications currently pending to see whether
26 we securitize or not and what the landscape holds. We may do that, that was the
27 discussion.

28 SENATOR RUFF: If you don't talk about the southwest and
29 southside to the Executive Committee, how are you going to talk about four
30 percent or five percent or 15 percent?

31 DELEGATE BYRON: Exactly, that would be a problem.

32 SENATOR WAMPLER: I'm not force feeding anything, this is an
33 overwhelming view of the southwest.

34 DELEGATE BYRON: If you look at Southwest and
35 understanding what their situation is and if you look at their figures which are a
36 much smaller piece of that endowment and it will take them a lot longer to build
37 up substantial funds if we keep on that low conservative figure to get to where
38 they want to be. I think it's difficult for all of us to come to an agreement on the
39 same feelings we have on the corpus between the two groups.

40 SENATOR RUFF: My suggestion is that we make this part of the
41 southwest, as William said, as part of this Committee's proposal. If somebody
42 doesn't like the idea, we can put it on the table and that way we can talk about it
43 and talk about the differences and convey this a little more openly at the
44 Committee meeting.

1 SENATOR WAMPLER: Let me put it in perspective. The five
2 percent level is four million for southwest. One of your counties is liable to eat
3 up all of that securitized proceed. We have a region, I guess about the same in
4 population we're trying to cover those immediate needs. We have people that
5 need work and that's why projects make sense. We can see a greater need for that
6 cash and it may be that we burn our cash at a much quicker rate than southside
7 does but that's going to be driven project by project and the full Commission can
8 make that determination.

9 MR. ARTHUR: Just don't come back and pop over into our side.

10 SENATOR WAMPLER: I don't think I ever have Tom and I
11 value that wisdom.

12 DELEGATE BYRON: Let's recap what we've talked about.

13 SENATOR RUFF: The southwest position is that they want to be
14 able to withdraw at a different rate than southside and then if southside wants to
15 withdraw and southside is choosing to withdraw at four percent with a
16 supermajority and they could withdraw up to 15 percent with a supermajority.

17 DELEGATE BYRON: That's the figure we all have to come to an
18 agreement on.

19 SENATOR RUFF: Fifteen percent of the maximum, is that
20 correct?

21 MR. STEPHENSON: You got to be careful, fifteen is the
22 maximum in aggregate but if southwest did 15 percent of their piece of the ledger,
23 that would not aggregate to 15 percent of the whole.

24 MS. WASS: If each side did 15 percent that's fine.

25 SENATOR RUFF: As long as we didn't go over 15 percent.

26 MR. STEPHENSON: Right, but if southside is doing four and
27 southwest is doing 15 and when you do the math and sum it up, it may only be
28 eight percent of the corpus. Keep an eye on this fact that a simple majority vote
29 for ten percent by code and a supermajority vote for 15 by code, if you both are
30 really drawing these funds down and you slip over the aggregate 10 percent line,
31 the code requires then a supermajority to do that.

32 MS. WASS: Internally if you want to restrict the Commission and
33 it's spending policies and decide, you have a supermajority for a smaller
34 percentage you can.

35 SENATOR RUFF: If we talk about over four percent, are we
36 talking about the southside economic development or the entire southside portion
37 of the Commission.

38 MR. STEPHENSON: Good question.

39 MR. ARTHUR: Are you talking about technology or economic
40 development. In the draw down we've been talking about technology only. That
41 doesn't take Southside's Economic Development Committee to approve, that's
42 something on the full Commission I guess.

43 MR. STEPHENSON: I think you're right.

44 SENATOR RUFF: The full southside part.

1 DELEGATE BYRON: You can really get confusing if you want
2 to here. Technology and economic development right now are specified as
3 economic development from earnings but you could flip sides and actually have it
4 the other way around. It's really what we establish as being priority, whichever
5 has the most impact. You could come out with any scenario. You could have
6 four percent going to technology and one percent economic development and the
7 earnings to economic development, all different spending plans.

8 MR. ARTHUR: Madam Chairman, to actually tell you the truth
9 out of all southside right now, I'll bet you there's not six good economic
10 development projects in the works. I'd call them trash and it's time we start
11 calling them trash and not fund them anymore.

12 SENATOR RUFF: Stephanie, the two figures you have up there,
13 what do they represent or what percent are they representing?

14 MS. WASS: This column is the endowment balance times the
15 percentage of corpus invasion you want to take out. That whole column is
16 technology, only on corpus invasion. The economic development piece is
17 dependent on the endowment balance, that's why technology pulls out more
18 money and economic development will have less money. Economic development
19 is based solely on interest earnings on the endowment.

20 SENATOR RUFF: That's really irrelevant, you've already put this
21 in this column here. It could be 17 million and divide it as we choose.

22 MS. WASS: Yes.

23 MR. STEPHENSON: The actions of the Technology Committee
24 could cripple the Economic Committee.

25 MS. WASS: You could move this around.

26 MR. ARTHUR: There could be some money out of economic
27 development that could be transferred to technology because projects are not good
28 enough to fund. I don't understand why the economic development people are
29 not doing better. Maybe it's not out there, I don't know. We're not getting the
30 help from the state.

31 MR. STEPHENSON: William just asked me a question. I said
32 earlier you're probably going to see a proposed budget figure of 20 million for
33 technology. That was all conceived in a non-securitized world. That \$20 million
34 dollars is coming from an MSA payment a year from now.

35 SENATOR WAMPLER: April of '06, five.

36 MR. STEPHENSON: If we securitize and we close these bonds
37 right now, half of that check a year from now is gone, that's what I meant by
38 these timing issues are so important. The Technology Committee's appetite for
39 \$20 million dollars worth of work, under a securitized world they've got to live
40 off of four percent of the corpus or 15 or whatever it is you want to do. What you
41 might agree to let them have and that would be a lot less than 20.

42 MR. ARTHUR: The \$20 million dollars is not all up front though,
43 that's projected over the years.

44 MR. STEPHENSON: That's true but I think I'm right in saying

1 that probably this April or May the Technology Committee will want to meet and
2 make the promises to those projects. My sense is they ought not to make
3 promises unless they have the money to do them.

4 DELEGATE BYRON: Under the 50 percent scenario, you have
5 extra money for education and extra money for innovation so there are other
6 dollars in the cash flow plus if we have a plan in place, you can actually see where
7 the dollars are going and you should be able to get a majority of those or you
8 shouldn't be doing it.

9 MR. STEPHENSON: I'm saying there are some timing issues as
10 we transition through this thing and keep an eye on that.

11 MS. WASS: Under securitization for technology and economic
12 development, the theory is we could have our money at the beginning of the fiscal
13 year rather than in the last quarter of the fiscal year. There is that one year
14 transition that we'll have to deal with.

15 SENATOR WAMPLER: Is it safe to say then that if you have that
16 \$20 million dollar figure based on cash payments from the MSA and securitized
17 half, your technology budget is cut in half. If we have 20 million in obligations,
18 that would be 10 million from the various regions.

19 MR. STEPHENSON: It makes sense because half of that check is
20 gone.

21 SENATOR WAMPLER: I thought that was it, I just wanted to
22 make sure.

23 DELEGATE BYRON: The question then for southside is four
24 percent.

25 MR. ARTHUR: That's fine by me.

26 SENATOR RUFF: What you're doing is that you're not invading
27 the corpus, the true corpus, you're taking the interest and then saying
28 supermajority has to agree with anything other than that.

29 SENATOR WAMPLER: Madam Chairman, I'm not an attorney
30 but it seems to me you all are going down a path that is the internal function of the
31 Commission in terms of changing bylaws for lack of a better word, of the
32 Commission. The statute says a max of 15 by supermajority.

33 MR. STEPHENSON: Ten on simple, 15 on super.

34 SENATOR WAMPLER: You're imposing a restriction greater
35 than the law. You might want to ask Mr. Ferguson and he can tell us.

36 MR. ARTHUR: I understand what you're saying, imposing a
37 restriction, it's not really a restriction, it's a guideline.

38 SENATOR WAMPLER: It's an operating agreement, I would call
39 it in my business but I think we've set out by statute which I suspect is superior to
40 what the bylaws are of the Commission.

41 MR. STEPHENSON: I'll see that that question is properly
42 answered.

43 SENATOR WAMPLER: It's no big deal, you can footnote that so
44 we don't step on ourselves. We'll make a recommendation to the Executive

1 Committee, we have to answer these questions so we don't have to retreat.

2 SENATOR RUFF: I can see the law saying maximum, I'm not
3 saying, I don't see where it says we have to spend more than we want to spend.

4 MR. STEPHENSON: They would not let you restrict yourselves.
5 At the risk of being redundant Madam Chairman, would you permit me to recap
6 where we are.

7 DELEGATE BYRON: Yes.

8 MR. STEPHENSON: That we contemplate a 50/50 securitization
9 level, that we contemplate different spend down speeds of the corpus for the two
10 regions, in particular, no more than four percent for Southside Virginia and no
11 more than 15 percent for Southwest Virginia and that that corpus split be made
12 along the 73/27 line we have historically used. Further that the economic
13 development earnings be similarly split so that each regions spend down speed
14 affects that region's economic development earnings. Have I said that correctly?

15 DELEGATE BYRON: You talking about the MSA split for
16 economic development, are you referring to that?

17 MR. STEPHENSON: I'm referring to the earnings on the corpus
18 that are designated for economic development work so that if one region spends
19 down rapidly, their earnings will come down commensurate with their spend
20 down speed.

21 DELEGATE BYRON: They're going to have their own budget.

22 MR. STEPHENSON: Is that understood? I want to go further to
23 say I'm going in new territory now. Here's the way I see this playing out. We
24 don't have a quorum today so I don't think we can vote but what I see happening
25 is that staff will rap up the work you've all done today and have it ready to
26 present to the Executive Committee as a result of your work and what we just
27 said. My sense is that the Executive Committee will probably buy your work and
28 they will communicate that to the treasurer and tell her what it is they want to do
29 and ultimately this will make it's way to the Commission table for approval.
30 However, possibly not in time for the bonding process. The bonding process is
31 moving very fast and we may not get to the Commission table with all of this.
32 The treasurer is going to pull some triggers I think based on the advice of this
33 committee to the Executive Committee onto the treasurer. That's the way I see it
34 playing out.

35 MS. WASS: The full Commission will need to meet before the
36 final figures are pulled.

37 MR. STEPHENSON: To bless everything and that may be a
38 called meeting at the moment it is meeting.

39 SENATOR WAMPLER: Do we have to do that by statute, I don't
40 think so.

41 MR. STEPHENSON: Let me back up, it is the Governor's
42 prerogative to make this happen. He doesn't have to ask your permission. As I
43 understand it, he's seeking your signal as to what your desire is. To that extent, I
44 don't know if you want it to go to the full Commission to get their consensus.

1 SENATOR WAMPLER: Yes, if we have the time to do that.

2 MR. STEPHENSON: That's the way I see it playing out. My
3 feeling is that staff will today condense this work that you've done so that the
4 next time that you see it in front of the Executive Committee it looks like what we
5 just stated here earlier, and that's what's going to be on the wall as the work of
6 your Long Range Planning Committee.

7 DELEGATE BYRON: You're going to set out the southwest and
8 southside and I have a question about the working capital and the sample budget.
9 Where did you get the split, are they from what we've used in the past or
10 education, innovation. You have cost of education and technology not included.

11 MS. WASS: On this page the only columns that can be
12 manipulated are education and innovation, however you want to split the monies
13 between those two. We've had to factor in a little bit for southwest economic
14 development because of the regional economic developments.

15 DELEGATE BYRON: It should reflect whatever we have.

16 MR. STEPHENSON: Stephanie, would you put that graph back
17 up? I'm wanting to suggest that the work of this committee go no further than
18 what we've just stated about how this will work but that we not attempt to budget
19 money in that bottom circle for each bucket. We're budgeting stuff way out into
20 the future and we're saying the MSA payments will be available to you whenever
21 you might choose to use it.

22 DELEGATE BYRON: As long as we understand that's a sample
23 budget and not something that we thoroughly agreed upon.

24 MR. STEPHENSON: I think the emphasis is on the word sample
25 budget and this is not a budget for the future.

26 SENATOR WAMPLER: I would say that with the 50 percent
27 scenario, I think we can recommend to the Executive Committee that we have
28 dollars that are close to education and innovation that reflect our historical
29 patterns of allocations.

30 MS. WASS: Currently it's allocated 60 percent of the remaining
31 funds to education and 40 percent to innovation.

32 SENATOR RUFF: We've used that last figure and not in a
33 category, if not, we need to move those figures for southside in that middle
34 economic development column. If you're not going to use that, the last line is
35 what I'm talking about. Instead of talking about education and innovation and
36 economic development, maybe just using that final figure.

37 SENATOR WAMPLER: Frank, let me offer another thought. I
38 think the Commission needs to hear that indemnification takes claim to the dollars
39 available for that and that's our statutory guideline. I think we have fiduciary
40 responsibility to tell the people that it's just a friendly suggestion, I don't think
41 we've ever breezed past that point.

42 SENATOR RUFF: For the rest of the other columns.

43 DELEGATE BYRON: A lot of people have asked about it, I don't
44 think it's going to make that much difference. We need to give them a little bit of

1 a picture of where the monies could go but not saying we've decided the budget.

2 SENATOR RUFF: When people see numbers printed they tend to
3 think that's what it is and we're going to have in the future half of that.

4 MR. STEPHENSON: I think it is important to say that \$32 million
5 dollars and this committee has studied numerically how that could play out and it
6 aligns with what we think is acceptable but actually putting the numbers up and
7 saying education will get four million.

8 DELEGATE BYRON: The administration and indemnification
9 and your commitment, everybody wants to know.

10 MS. WASS: I don't think the commitments can be combined. If
11 you take these three columns and sum up the numbers and put community
12 revitalization.

13 MR. STEPHENSON: To be backed up later.

14 MS. WASS: As the budgets are approved each year.

15 DELEGATE BYRON: With everyone understanding that's the
16 past commitments and they are reflected in those figures.

17 MS. WASS: We handled that through the budget process.

18 DELEGATE BYRON: All right, I believe we've solved all these
19 problems.

20 MR. STEPHENSON: Better than I had hoped for, this is good.

21 DELEGATE BYRON: Understanding that we've still got a lot
22 more to go and this is really giving a recommendation on the securitization issue
23 and the concept of the endowment and going forward, we'll talk about capital
24 expenditures later.

25 MR. STEPHENSON: Madam Chair, I'd like to write this up this
26 afternoon and pass it to you to get your nod that what we've written is exactly
27 what we said we were going to do. From that point it'll get spread.

28 DELEGATE BYRON: That's fine, and you can distribute it to
29 everyone.

30 MR. STEPHENSON: And if anything's wrong, speak before it
31 goes out.

32 SENATOR RUFF: Do we have any idea when the Executive
33 Committee is going to act on this?

34 MR. STEPHENSON: The date of April 5 was suggested but that
35 seems to be sliding at this point because of Jody's work. I think the best answer is
36 it'll be called when the moment is.

37 MR. ARTHUR: Madam Chairman, I move we adjourn.

38 DELEGATE BYRON: All right, we're adjourned.
39 PROCEEDINGS CONCLUDED

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44 CERTIFICATE OF THE COURT REPORTER

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I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the Long Range Planning Committee meeting when held on Tuesday, March 22, 2005 at 9:30 a.m. at the Hotel Roanoke and Conference Center, Pocahontas Room in Roanoke, Virginia.

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

Given under my hand this 30th day of March 2005.

Medford W. Howard
Registered Professional Reporter
Notary Public for the State of Virginia at Large
MY COMMISSION EXPIRES: October 31, 2006