



1
2 Finance Committee and Long Range Planning Committee
3 Wednesday, July 2, 2003
4 11:00 a.m.
5 Shenandoah B
6 Hotel Roanoke and Conference Center
7 Roanoke, Virginia

8 **APPEARANCES**

9
10 Senator William C. Wampler, Jr.
11 Chairman

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13 Delegate Kathy J. Byron
14 Chairwoman

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16 Delegate Allen W. Dudley
17 Vice Chairman

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19 Senator Phillip P. Puckett

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21 Senator Frank M. Ruff

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23 The Honorable John M. Bennett
24 Secretary of Finance

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26 The Honorable Michael J. Schewel
27 Secretary of Commerce and Trade

28
29 Mr. Claude B. Owen, Jr.

30
31 Mr. Thomas W. Arthur

32
33 **APPEARANCE (cont'd)**

34
35 **Commission Staff**

36 Mary Cabell Sherrod
37 Manager of Communication and Committee Operations
38

1 Stephanie Wass
2 Director of Finance

3
4 Tim Pfohl
5 Grants Program Administration Manager

6
7 Attorney General's Office
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9 Anne Marie Cushmac
10 Senior Assistant Attorney General

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12 July 2, 2003
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15 SENATOR WAMPLER: Well, let's get started and I'll call the
16 meeting to order. My name is William Wampler and the agenda says I'm
17 Chairman, the Finance Committee Chairman. We're waiting on one member, Mr.
18 Owen to arrive and he should be here very shortly. Delegate Byron is Chair of
19 the Long Range Planning Committee. The Chair directed that the two committees
20 deliberate on the proposed budget and that's why we're gathered here today. The
21 goal of the meeting would be to have as close to an agreement as we can on a
22 draft budget for FY '04 to be submitted at the full Commission meeting next week
23 and Stephanie will help us move through those discussions. Before we go any
24 further Delegate Byron, do you have any comments you'd like to add?

25 DELEGATE BYRON: No, glad to be here today out in the rain
26 and glad to be here.

27 SENATOR WAMPLER: Do any of the other Committee
28 members have any comments at this point. A couple of observations from this
29 chair. I'm assuming that everyone has the information that Stephanie provided in
30 your folder. I think it's important to recognize that the projections for our
31 revenue in '04 have been reduced by something close to a third and that would be
32 on the conservative side. On the maximum side it would be more but that will
33 draw a couple of discussion points on whether we want to assume a \$51 million
34 dollar deposit for FY '04 or \$62 million and we'll go through those discussions
35 later. As we go through the subcategories that we have done, I asked Stephanie to
36 try to reconfigure her report to show us what we've done historically and what
37 staff has proposed that we reconsider. I notice three particular pinch points that
38 the full Commission may not feel comfortable with; those being indemnification,
39 regional economic development initiatives within our two regions. The third
40 point being how do we try to balance based on all the other functional areas that
41 we have. That's probably enough observations from the chair right now. If
42 there's no questions before we proceed, I'll ask Mary Cabell to call the role first.

43 MS. SHERROD: Mr. Arthur?

44 MR. ARTHUR: Here.

1 MS. SHERROD: Secretary Bennett?
2 SECRETARY BENNETT: Here.
3 MS. SHERROD: Vice Chairman Dudley?
4 DELEGATE DUDLEY: Here.
5 MS. SHERROD: Mr. Montgomery?
6 MR. MONTGOMERY: (No response).
7 MS. SHERROD: Senator Puckett?
8 SENATOR PUCKETT: Here.
9 MS. SHERROD: Mr. Owen?
10 MR. OWEN: Here.
11 MS. SHERROD: Senator Ruff?
12 SENATOR RUFF: Here.
13 MS. SHERROD: Secretary Schewel?
14 SECRETARY SCHEWEL: Here.
15 MS. SHERROD: Chairman Byron?
16 DELEGATE BYRON: Here.
17 MS. SHERROD: Chairman Wampler?
18 SENATOR WAMPLER: Here. Stephanie, how would you lead
19 this discussion?

20 MS. WASS: There's an explanation in your packets and we can
21 walk through it and then have a discussion on the budget. The first piece of
22 information on the left side is an email to you and that's several pages. The first
23 numbered page is the detailed budget with two scenarios what we'll call scenario
24 one and scenario two. The difference is one is based on revenues of \$54.5 million
25 and the other one is based on revenues of \$65 million. \$54.5 million is generally
26 thought to be the number that if we had securitized, that would have been our
27 annual revenue stream. The \$65 million dollar budget is if we budget the amount
28 that is anticipated to come in April with the regular MSA payment, then under
29 that to the right is what is added into the already approved administrative budget
30 from the left but on the right is the expenses for the managing director and
31 investments. Then from that you get the remaining funds available for
32 distribution for the various categories in the long-range plan. There's two
33 different scenarios for that.

34 Something that might be easier to understand is the next page,
35 which is a diagram of how the numbers were derived. There's two scenarios
36 included in this packet and that's basically the general distribution of the funds
37 after administration and the net revenues being divided up into the five categories
38 in the long range plan and then subdivided. Scenario one is the conservative
39 scenario with the lower revenue and scenario two is the maximum.

40 SECRETARY SCHEWEL: When you say they're divided, the
41 division below that revenue is based on what?

42 MS. WASS: The categories in the long-range plan are major
43 priority areas. The difference in how we've done it the past few years. That
44 scenario one and two and it's just a reminder that there was a long range-spending

1 plan as an attachment on that email.

2 The next item in your packet is information I prepared yesterday
3 which will help you compare from FY '01 to present how we allocated funds in
4 those categories like indemnification and economic development. You can see
5 what the historical allocations have been. You'll see scenario one and scenario
6 two which are the two scenarios we mailed to you.

7 Scenarios three and four are under the same two revenue scenarios.
8 Scenarios three and four show the funds that would be available in each of the
9 categories if the distributions were done the same way it was done in FY '04.

10 SENATOR WAMPLER: That would be our benchmark?

11 MS. WASS: Right. The same methodology that we did last year
12 and those would be the dollar amounts available under the two scenarios. I
13 attached the flow chart on how those funds would be distributed.

14 SENATOR WAMPLER: Let me make sure I'm on the same sheet
15 of music you are. If we wished to compare last years' expenditure, we'd take
16 your spreadsheet that has scenario three and four.

17 MS. WASS: Yes.

18 SENATOR WAMPLER: I hope everyone's caught up with us on
19 that particular point and we'll probably focus our discussion on that.

20 MS. WASS: The main difference between the first two scenarios
21 and the last two, what I emailed you one and two were divided up by purpose first
22 and then under each purpose it might have been divided regionally depending on
23 what it was by purpose and subcategories. Scenarios three and four as we've
24 done in the past is taking 35 percent off the top for things such as special projects,
25 deal closings, education. Then divided it by region. You divide it by region first
26 and then each region would decide how much is available for indemnification and
27 economic development. That's the difference in the first two scenarios versus the
28 last two. For reference I included in the packet the indemnification information
29 on how much is expected to be our remaining obligation assuming that quota
30 stays at today's levels, the Phase II payments continue to 2010 and then there's a
31 couple of reference pages.

32 SECRETARY SCHEWEL: Assuming there's no buyout?

33 MS. WASS: Right. The last page is Southside Economic
34 Development formula and allocation. Under scenarios one and two so you can
35 compare it with the prior three years, county-by-county allocations just for
36 reference.

37 SENATOR RUFF: Stephanie, on your \$64 million dollar figure,
38 how up to date is that based on?

39 MS. WASS: It's the most up to date number and it's actually
40 updated, that number is more updated than the Appropriation Act because when
41 we went through the securitization process global insight did a forecast, probably
42 within the March timeframe, it was up to the forecast actually using, that was
43 adjusted down there.

44 SENATOR RUFF: They've kept their ear to the ground pretty

1 closely on what's happened on a year-to-year basis?

2 MS. WASS: Yes.

3 SENATOR RUPP: That's held pretty consistent?

4 MS. WASS: Yes, they adjust it for inflation and everything else.

5 SECRETARY BENNETT: We're entering a period where the
6 additional payments are through '03, the five-year payment, which has inflation,
7 built into it, the only risk on the initial payments were consumption. Now we're
8 into a period where you still have a consumption risk, which you've been bearing
9 all along and inflation is going to be a potential upside. Not large but there is now
10 a counterbalance to the consumption downside. For my purposes, 64.9 is much
11 closer to reality. The general fund share, we're going to be about a million light
12 of what the forecast was but that really is within the realm of grounding there, in
13 that magnitude.

14 SENATOR WAMPLER: It's probably appropriate at this point,
15 Secretary Schewel offered a suggestion and I think a fairly good suggestion. As
16 we try to put the budget together, we can present a budget that would reflect
17 perhaps 85 percent of the revenues realizing that 15 percent would be the buffer
18 or whatever percentage we feel comfortable with. We just shouldn't obligate
19 ourselves in a budget document and let the Commission know there is probably
20 15 percent in the balance still in play until we actually receive the deposit, which
21 is April of 2004. So, it becomes a little bit more difficult to manage the cash
22 flow.

23 SECRETARY SCHEWEL: Mr. Chairman, when we talk these
24 numbers, this net, 54/64, 54 would be the number that we would have gotten had
25 we securitized the '04 revenues. Securitizing including the '04 revenues. I don't
26 see any particular reason why given the fact that we have not securitized and are
27 not going to securitize the '04 revenues why we should be budgeting on the basis
28 of \$54 million and not on the basis of \$64 million or something reasonably close
29 or some relevant fraction of \$64 million. Even if part of the budget is set aside an
30 amount for a contingency, it seems to me that, I really don't see under these
31 circumstances what's the relevance for 54.

32 SENATOR WAMPLER: Short of a \$12 million dollar cash bond
33 in another state. I would not disagree and if other commission members want to
34 add their thoughts, it's just the uncertainty of one payment that we ought to pause
35 just a little bit and be cautious about the structure and obligating ourselves and
36 that's one person's view. I think the Secretary is correct, probably it'll be closer
37 to 64, Secretary Bennett's observation it'll be closer to 64.

38 SENATOR RUFF: Going back to the 15 percent, Secretary
39 Schewel, I missed what that came in.

40 SECRETARY SCHEWEL: What I would say Frank is that we
41 have or if you look at this chart, we have to choose which of these scenarios to
42 look at. There may be other scenarios we can choose from as well from this
43 sheet, which one to look at. I'm saying that from my point of view, I would think
44 we should dispense with scenario one and work from something like scenario

1 two. Maybe we don't want to obligate all 62.2 million of it. Maybe that should
2 be our starting point rather than 54 million. Whether we obligate 95 percent of
3 that or 98 percent of that or 85 percent of it is obviously a decision that has to be
4 made.

5 SENATOR RUFF: I would agree with you but William was
6 saying something about 15 percent. That's where I lost.

7 SENATOR WAMPLER: Figure out of the air.

8 SENATOR RUFF: That's fine.

9 SECRETARY BENNETT: Fifteen percent is the difference
10 between 54 and 64. The other thing as I look at these balance sheets, there's a
11 fairly large carryover from one year to the next. Grants pending and the
12 committees haven't met and the Commission hasn't formalized it. Now that
13 we've gone to a reimbursement cash flow, we're always going to be carrying
14 forward significant balances from one, which does three things. It is a hedge
15 against revenue risk. The second one you could decide as a policy to set some of
16 that aside to serve as a contingency or a reserve against revenue or if you want
17 can start building your endowment but as I look at it, it's a fairly significant
18 amount current year revenue.

19 SENATOR WAMPLER: Stephanie would like it if we decided
20 what figure we wanted to chose from.

21 DELEGATE DUDLEY: Mr. Chairman, I think the Secretary is
22 right. Most of that is committed money. I may be wrong but did we start out
23 spending money before we had it, we've always been ahead of the game as far as
24 spending versus allocations?

25 MS. WASS: To some degrees we do. Administrative expenses
26 start July 1 until we receive the MSA. We are technically spending money that
27 hasn't come in yet. We changed our grant cycles where we do not award money
28 until April so we know the revenue is in before we make grants. So we're really
29 okay. It's only when we award money in the fall that we are spending money
30 before we have it. We committed \$3.8 million dollars for scholarships for the fall
31 and that's going to be out of the '04 revenue. Technically, we're spending it
32 before we have the \$3.8 million dollars for scholarships.

33 DELEGATE DUDLEY: We're talking about money we would
34 receive next April?

35 MS. WASS: Yes.

36 DELEGATE DUDLEY: I think that's a good reason to reserve the
37 money. We're starting out anxious to do things and we've always spent before
38 we got the money.

39 MS. WASS: It's difficult to go through a year when your money
40 doesn't come in until the last quarter for any organization.

41 SENATOR RUFF: Mr. Chairman, if you're open for a motion to
42 get things going, I would say we set aside \$5 million dollars for a reserve and that
43 would give us –

44 SENATOR WAMPLER: I was going to say why don't we just, on

1 the dollar amount of \$60 million if that's what you were suggesting?

2 SENATOR RUFF: Yes.

3 SENATOR WAMPLER: This is not in the form of a motion that
4 we will have to vote on, is that a reasonable target to start our discussion from the
5 \$60 million dollars? Stephanie that will help if you go through your chart.

6 MS. WASS: All right.

7 SENATOR WAMPLER: Without objection we'll move from \$60
8 million dollars as a reference point to establish the '04 budget that in and of itself
9 is not an easy task to accomplish so, where does that leave us?

10 MS. WASS: You have \$2.7 million dollars in administrative
11 expenses, that you include the already approved budget and the additional cost of
12 the additional position.

13 SENATOR WAMPLER: Is there a general consensus around the
14 table that for purposes of discussion today, that we would carry the amount that
15 Stephanie has projected and realizing it's up to the full Commission to make a
16 determination as to whether those dollars would be transferred for that one
17 position. Mr. Owen, are you Chairman of the Search Committee?

18 MR. OWEN: Yes, sir.

19 SENATOR WAMPLER: What is your timeline very quickly,
20 where are we?

21 MR. OWEN: We have to make our report to the full Commission
22 next week and it is the recommendation of the Search Committee that we seek the
23 position of managing director of strategic investments. I think originally what
24 was projected for that salary was \$200,000.

25 MS. WASS: Yes, this is pro rated to September 1 as a start date.

26 MR. OWEN: Plus the apportioned benefits and other costs
27 associated with that. Additionally, there is the Search fee which probably,
28 including expenses, we estimated to be something around \$100,000.

29 MS. WASS: I think we put in there \$65,000 a portion of that was
30 already in the approved budget. So, it was about a \$100,000 thousand.

31 MR. OWEN: If the full Commission approves, we would execute
32 the letter of agreement with the Search Consultants after meeting with the Search
33 Committee and immediately after the meeting, those payments would be due in
34 thirds over the next three months less expenses. Then I think September 1st is a
35 very aggressive date, I think it would be closer to the first of the year myself.

36 SENATOR WAMPLER: For purposes of discussion this morning,
37 that tells us that the full Commission needs to decide if we move forward with
38 that when you make your presentation. Just to facilitate movement of the Finance
39 Committee / Long Range Planning Committee, let's include in our projected
40 budget realizing that it takes action of the full Commission. We'll just footnote it
41 and ultimately the Commission will decide.

42 SECRETARY SCHEWEL: Mr. Chairman, assuming that once
43 again my calculations, after administrative costs we start with the number \$57.3
44 million.

1 SENATOR WAMPLER: After administrative costs, yes. We've
2 gone through two subjects. It might take a little longer and that's good.

3 MS. WASS: I think it you take your spreadsheet by comparison
4 and look at historical budget allocations versus the four scenarios.

5 SENATOR WAMPLER: Closer to scenario number four less \$2
6 million dollars.

7 MS. WASS: I would look at scenarios two and four and drop out
8 one and three. Understanding those numbers would be slightly less. If you want
9 me to run these numbers. Number one, \$5 million less. I can do that.

10 SENATOR WAMPLER: Let me start with indemnification and go
11 to scenario number four. The burley indemnification was \$10.5 million last year
12 and under that scenario it would be approximately \$8 million, which is maybe a
13 33 percent reduction from the previous year. I would look to the other burley
14 representatives. Senator Puckett, what would you think about the burley region
15 taking a 33 percent reduction and revenue would be reduced accordingly?

16 SENATOR PUCKETT: I really hadn't thought much about that
17 and I wouldn't like to take that reduction.

18 SENATOR WAMPLER: We will table burley for a moment and
19 move to flue-cured, that is an \$8 million dollar increase over '03.

20 SENATOR RUFF: Mr. Chairman, I can assure you we've heard
21 quite a bit when it dropped from \$24 to \$10. If we don't go up, we're in trouble.
22 I hope they understand now why we're down.

23 SECRETARY SCHEWEL: Mr. Chairman, moving from the
24 specifics to the general and recognizing the difficulties of the reduction in burley,
25 Stephanie alluded to the difference in the outcome between the columns of
26 scenario two and scenario four but the difference in using the long range planning
27 criteria and using the criteria that has been used in prior years. The long-range
28 plan says that indemnification should be between an estimated cash flow from \$1
29 to \$12 million dollars assuming some securitization. The point there is that
30 assuming \$1 to \$12 million dollars, our total revenue assumption was about 54 or
31 52, right?

32 MS. WASS: 54.

33 SECRETARY SCHEWEL: Recognizing there's \$5 million more
34 dollars, 6.3 in play here. My concern is that we went through a long process and a
35 lot of work on the long range plan and now we come to the first time to apply it
36 and we're saying let's go in a different direction and that concerns me. It then
37 raises another difficult issue. If you look at regional development and you look at
38 the Southside Economic Development Committee and that goes from \$25.7
39 million to \$13.6 million and Southwest goes up a little bit. The question is, if we
40 go in a different direction and indemnification, why not go the direction of the
41 Southside Economic Development and Southwest Economic Development and
42 before you know it, we've flown right pass the plan of having paid any attention
43 to it.

44 SENATOR WAMPLER: My response would be that until we

1 review every category and then subcategories within those areas, it would be an
2 interesting exercise to see where we think the need is and how close it is to the
3 long range plan, that's just an observation. For example, in telecommunications, I
4 would assume that no one wants to leave here without properly capitalizing our e
5 corridor activities. I think that's one of the most exciting things the Commission
6 is doing and the most immediate need for the seed capital. We'd have to adjust
7 that scenario for something other than zero. It might be \$5 million and it might be
8 something less. I understand your point Mike but to try to make the numbers flow
9 in some way, for telecommunications is there a general consensus that we want to
10 apply at least \$5 million this year?

11 MR. ARTHUR: I think it's absolutely necessary Senator
12 Wampler.

13 SENATOR WAMPLER: That would assume that we had carry
14 forward \$5 million or the \$4.5 million? That would give us roughly \$9.5 million
15 cash flow over the next or through April I guess, is that correct Stephanie?

16 MS. WASS: Yes, through April. It has to carry you through the
17 full year.

18 SENATOR WAMPLER: Dollars could be awarded in April, the
19 9.5?

20 MS. WASS: Yes.

21 SENATOR WAMPLER: For planning purposes, let's carry the \$5
22 million dollars under that category. With a very friendly objection rule, we'll
23 carry that and see where we go on the budget from there.

24 Let's look at education next. Historically 9.4. Stephanie tells us
25 that we have an obligation of \$3.8 million for scholarships to date?

26 MS. WASS: Yes.

27 SENATOR WAMPLER: The seven community colleges that we
28 have granted \$400,000 each would equate to \$2.8 million?

29 MS. WASS: Yes.

30 SENATOR WAMPLER: So if you added those two together
31 that's 6.6 and that scenario would yield 7.8.

32 DELEGATE DUDLEY: Is that scholarship commitments for this
33 fall Frank?

34 SENATOR RUFF: \$3.8 for this fall.

35 DELEGATE DUDLEY: We're talking about after next fall now,
36 right?

37 MS. WASS: This budget begins June 30th.

38 DELEGATE DUDLEY: You have to have the money prior to that
39 for the following year?

40 SENATOR RUFF: We're always going to be behind the curb
41 unless we drop one. One of the things we talked about in the committee was
42 expanding this to Southside and hopefully there would be interest in Southwest
43 for the medical fields and allied fields. All the communities that complained
44 about the lack of nurses and that type of service. I think it's very important we try

1 to match up the people or the folks that want to work with the jobs that are
2 existing today. So, I hope we won't cut it so tight one-way or the other. It may
3 have to come out of the Community College System.

4 MR. ARTHUR: Senator Ruff, the fact that you are expanding it
5 into the nursing field, right now all of the \$3 million dollars is not being allocated
6 at present, is it?

7 SENATOR RUFF: The deadline is right upon us so we don't
8 know, do you know the deadline?

9 MS. FIELDS: I'm with the Higher Education Center. The
10 deadline is June 30th and we're still receiving applications from Southside. At
11 this point, we don't know how much money will be used. I think it's July 15th
12 that we should know how much of the money will be needed for the scholarships.

13 MR. ARTHUR: I'm a big proponent of scholarships because I
14 worked with you on the Committee and you know that. We need to set aside a
15 reasonable sum for scholarships until the demand exceeds that requirement. You
16 can put it in any field you want to; nursing, engineering or what have you but just
17 because we want to add a different field doesn't mean that we'd have to increase
18 the funding.

19 SENATOR RUFF: We will live with whatever the Commission
20 tells us to do. The only point in raising that issue was making sure that the people
21 understood this. There is a direction that we would like to go and that would
22 mean greater scholarship money, which would mean less money to the
23 community colleges or some other configuration.

24 MR. ARTHUR: You're saying you could live with the six point
25 something million, maybe a little buffer there for something special.

26 SENATOR RUFF: The figure 7.8 matches up pretty much with
27 what William is calculating 3.8 for scholarships.

28 SENATOR WAMPLER: My concern is that if you did the
29 scholarships and you did the community colleges, it only leaves the Education
30 Committee with 1.2 million. What I don't want to happen is to have the same
31 amount we gave last year because I want to see innovation and I want to give a
32 creative, I want creativity. If our community colleges have the best idea on how
33 to help our tobacco growers I'd like them to make application in addition to what
34 we're doing or if one of our institutions of higher learning would have a better
35 idea, I'd like to have enough in the margin where Frank's subcommittee would
36 have an opportunity to make a meaningful impact. I think we talked about this
37 Senator Ruff.

38 SENATOR RUFF: Yes, from the very beginning and it's more
39 important for them to compete for that money rather than saying okay, where's
40 the checkbook.

41 SENATOR WAMPLER: The idea of scholarships at the basic
42 level whether it's four year or community college level, I think everybody agrees
43 with. The question is how much. I think if we did the \$3.8 for the four years and
44 the \$2.8 for the community colleges, that still on a tight budget gives you a \$1.2

1 million buffer for that creativity. So Chris, tell me if I miscalculated, the \$3.8
2 million for scholarships with the higher education center administrators for
3 Southwest and Southside.

4 MS. FIELDS: Yes.

5 SENATOR WAMPLER: If we did the \$400,000 for the seven
6 community colleges equating to \$2.8 then that takes us to 6.6. I think Stephanie
7 you're caring about \$7 million and gives you about a \$400,000 dollar balance.
8 We can always transfer funds should there be a need to do that.

9 SECRETARY BENNETT: Mr. Chairman, is the 5.8 carried
10 forward from the '03 all allocated in education?

11 MS. WASS: I don't think so.

12 SENATOR WAMPLER: The Secretary of Finance sweeps the
13 corners.

14 SECRETARY BENNETT: I'm usually operating with three
15 additional zeros.

16 SECRETARY SCHEWEL: I would argue that the \$11.5, not \$7.8
17 which is scenario two. I think my concern is similar to your concern. I don't
18 think all those things have come from the community colleges or the higher Ed. I
19 think some are going to be high school, GED. We did the Patrick County
20 Foundation and would have come out of this pot and that was basically GED.
21 We're going to have a workforce training for the teachers and the nursing and that
22 will be a little more clearly defined workforce training. It concerns me a little bit
23 that if we are looking at the 7.8 number and we already put 6.6 to these things
24 then we've limited our ability to finance other educational innovations. I think
25 the concept in the long-range plan and the concept behind allocating the kind of
26 money for building an infrastructure is incredibly important and should therefore
27 get a significant allocation of funding.

28 SENATOR WAMPLER: The short version of that is we need
29 more cash in that functional area. We know we have some balances we can carry
30 forward and we can't spend it all in one place. We do have an additional \$5
31 million dollars that we think may come and that can be allocated once the deposit
32 is made in April. That's just a thought. I think we'd have something close to \$7
33 to \$10 million dollars that will be at our discretion with the balance carried
34 forward. I don't know if you want to try to adjust from another category at this
35 point but I think your point is well taken and education needs more flexibility to
36 do the things it needs to do.

37 SECRETARY SCHEWEL: You're better and more experienced at
38 this than I am but I was thinking of let's work our way down to the bottom of the
39 list and find out where we are.

40 DELEGATE DUDLEY: Mr. Chairman, I'd offer an alternative and
41 I'm speaking about that \$9 million dollars in there.

42 SENATOR WAMPLER: That would give a little extra money.
43 Without objection let's and I assume you have a spreadsheet that's keeping us
44 afloat. Why don't you use that?

1 DELEGATE BYRON: If we already added the \$5 million for
2 technology and adding it into this –

3 SENATOR WAMPLER: Special projects cannot sustain \$10.7
4 million dollars is the short answer. We might as well go to special projects and
5 say that \$10.7 is way too much discretionary cash to have in that particular
6 account, unless there's another view from the Committee.

7 SENATOR RUFF: I think it's a good idea to have special projects
8 but everybody perceives that as a source for everything. If it gets rejected, it goes
9 to special projects.

10 SENATOR WAMPLER: Let's do that.

11 DELEGATE BYRON: The money we have in the committee, do
12 we have a total for that? What about Danville Technology?

13 MS. WASS: All of that's been taken out of the unobligated
14 balances April 30th. From April that's already been taken out. The future years.

15 DELEGATE BYRON: You have an estimated amount for the
16 future. Wasn't it like a million each year?

17 MS. WASS: Two million per year up to 16.

18 DELEGATE BYRON: If you take the \$2 million out of special
19 projects or out of Southside.

20 MS. WASS: If it comes out of Southside Economic Development,
21 Pittsylvania and Danville.

22 DELEGATE BYRON: But you're taking about future money that
23 is committed?

24 MS. WASS: Right, future year budgets.

25 DELEGATE BYRON: It's already out of this \$11 million and
26 carried forward?

27 MS. WASS: It would be included, right.

28 SECRETARY BENNETT: I don't know if it's been reduced. I
29 think what Delegate Byron is saying is we've got a number here, a nominal
30 number here and within that number there are allocations and that's not an
31 unobligated number. Some of it's earmarked for different things so when you're
32 trying to assess whether it is sufficient in there, you've got to get or know the
33 number and what's the obligation.

34 DELEGATE BYRON: You don't have any new money.

35 MS. WASS: Future years. So you can't take \$50 million it's
36 already been committed over this period of time.

37 DELEGATE BYRON: Can you do it by year?

38 MS. WASS: So when this unobligated, FY '03, the FY '03
39 payment that we already have taken out, in FY '04 it would be included in.

40 SECRETARY BENNETT: Can you walk us though and let us
41 know where there is commitment from the '04 revenue that is not shown?

42 MS. WASS: The ones that I'm aware of are \$2 million dollars per
43 year debt service from Southside Economic Development. From Pittsylvania and
44 Danville allocated formula allocations is \$1 million each from each locality. I

1 believe it's up to \$15 million depending on the debt service.

2 SENATOR WAMPLER: Danville under the maximum scenario
3 would receive \$1.47 and Pittsylvania \$3.3.

4 MS. WASS: Right.

5 SENATOR WAMPLER: Either under a conservative view they
6 would be able to meet their obligations.

7 MS. WASS: Right.

8 SECRETARY BENNETT: Are there other commitments against
9 this?

10 MR. ARTHUR: There's a letter of intent that we would fund this
11 as long as the funds were there.

12 SENATOR RUFF: Which was suppose to match what was
13 happening.

14 MR. ARTHUR: At the institute.

15 SENATOR WAMPLER: How much is that?

16 MR. ARTHUR: It was a three-year payout.

17 SENATOR WAMPLER: Tell me it's less than \$2 million dollars.

18 MR. ARTHUR: Yes.

19 SECRETARY SCHEWEL: Was it Charlotte last time?

20 MS. WASS: That has not been approved yet, I'm not sure how it's
21 structured. Is it coming out of \$6.9 million unobligated?

22 SECRETARY SCHEWEL: What about Russell County?

23 MS. WASS: That's a deal closing and that would come out of the
24 FY '04 deal closing, three hundred and thirty something. There's \$400,000 for
25 FY '04. Any other grant funding from other sources up to \$400,000 the
26 crossroads, which is coming out of special projects. \$333 thousand per year for
27 Russell for FY '04.

28 MR. OWEN: When did Special Projects approve something?

29 MS. WASS: One other special projects out of FY '04 commitment
30 was Washington County and that was at \$200,000 and a two-year commitment.

31 SENATOR WAMPLER: Let's round it out to a million. We
32 know we have a claim on a million dollars whichever pot you pull it from. It's
33 out of the innovation and she has it on her spreadsheet and it's a combination.

34 SECRETARY BENNETT: This seems to be the simplest way
35 because the \$2 million for Danville and Pittsylvania comes out of that formula
36 and that's not an earmark. That's a formula allocation. The only thing that leaves
37 us with other than this million that we just talked about was the education.
38 Everything else seems to be unencumbered.

39 SENATOR WAMPLER: Secretary Schewel tells us he needs for
40 his deal closings about \$4 million dollars, \$200,000 thousand more than last year
41 and some of that can be leveraged. Special projects I expect will hit the eraser
42 and move accordingly. Stephanie, why don't we plug in \$4 million just to match
43 what we did last year and right next to what you projected? We can transfer it all
44 to deal closings if we need to but it gives us more flexibility assuming it meets the

1 guidelines of deal closings which had minimum investment for capital and job
2 creation.

3 SECRETARY SCHEWEL: Let's look at this another way. It
4 seems to me based on the discussion we just had, we went through a very rough
5 sketch but what you're saying is that we think scenario two matches what we
6 want to do better than scenario four but for the indemnification. We move
7 education money up and move special projects down like scenario two does, we
8 move the TROF up more like scenario two and move technology up like scenario
9 two. We basically moved every category to be more like scenario two except for
10 probably indemnification. I wondered whether we could look at whether there's a
11 way to take scenario two and preserve the long range planning approach and for
12 lack of a better term, fiddle with scenario two and come up with an
13 indemnification scenario that would sound more satisfactory.

14 SENATOR WAMPLER: I think it's probably just a distinction
15 without, I think you're right with the exception of the indemnification piece and
16 rounding on a couple of other points. That assumes a \$62 million dollar
17 expenditure versus 57.

18 SECRETARY SCHEWEL: If you put the TROF at 4 almost two
19 of that five.

20 SECRETARY BENNETT: Basically what you're doing is looking
21 for money to get back 57.3 and plug in indemnification.

22 SENATOR WAMPLER: And trying to close the gap at \$14.8
23 versus \$26.4 for indemnification. \$14.8 being the total of scenario two and \$26.4
24 being the total of scenario four.

25 SECRETARY BENNETT: You got \$5 million to take out the pot
26 at 17. From the 62 is the bottom line down to 57.3.

27 SENATOR WAMPLER: Stephanie, tell us where we are on our
28 unobligated balances and special projects; \$5.5 million?

29 MS. WASS: \$5.6 million.

30 SENATOR WAMPLER: We know we have applications of what?

31 MS. WASS: \$10 or \$11 million.

32 SENATOR WAMPLER: Let's cut that in half and let's say that
33 we, \$2.25 and I don't know what the feeling of the committee or full Commission
34 is in special projects.

35 SENATOR RUFF: You're saying \$2.5?

36 MR. WAMPLER: Whatever, \$3 million, you fill in the blank. All
37 right, let's take the \$3 million out of special projects.

38 DELEGATE DUDLEY: Are we on scenario two or four?

39 SENATOR WAMPLER: We were on special projects on the
40 unobligated balance. We know we're oversubscribed by \$7 million dollars and
41 we can't fund all of them so let's take \$3 million out of special projects and apply
42 to the good.

43 DELEGATE DUDLEY: You're reducing this and carrying this
44 forward and you're spending a portion of that.

1 SENATOR WAMPLER: Delegate Dudley asked the question
2 what we're doing and we had a balance of \$5.6 million unobligated special
3 projects and we reduced \$3 million and applied that to whatever category of
4 funding that we want to and we're trying to solve indemnification.

5 SENATOR RUFF: If you're moving that \$3 million into the
6 budget, what kind of figure are you planning to have there in special projects?

7 SENATOR WAMPLER: I'll guess \$4 million dollars.

8 SENATOR RUFF: Of the \$3 million moving forward, are you
9 talking about \$1 million?

10 SENATOR WAMPLER: We have \$10 million dollars in requests
11 in special projects that needs to meet and I suspect that we will recommend
12 spending \$2.5.

13 SENATOR RUFF: I understand that but you're talking about
14 moving that \$3 million dollars forward into '04?

15 SENATOR WAMPLER: Into indemnification.

16 SENATOR RUFF: I'm assuming you're moving it forward to
17 special projects.

18 SENATOR WAMPLER: Either way. As Secretary Bennett says,
19 "cash is cash."

20 SECRETARY BENNETT: There's about 47 ways of doing it.

21 SENATOR RUFF: That gets back to the question, what is the '04
22 figure going to be for special projects?

23 SENATOR WAMPLER: \$4 million would be the amount to carry
24 and we can adjust that as we can any other. Did we actually spend those dollars?

25 MS. WASS: The funds haven't actually gone out, by the time the
26 money goes out, we're in FY '04 now. I don't think we'll need to capitalize it
27 again, just getting it started now. In future years though –

28 SENATOR WAMPLER: We don't have any applications pending
29 for a revolving loan from any of the two regions that I know of.

30 MS. WASS: We'll be going through the small business financing
31 authority.

32 SENATOR WAMPLER: Let's see how it goes for a year.

33 SENATOR RUFF: So you stay at zero?

34 SENATOR WAMPLER: Agribusiness, I think we need to do \$1.5
35 million. Whose on that?

36 MR. OWEN: We've met.

37 SENATOR WAMPLER: Let's keep it at \$1.5 and see how it goes.

38 SENATOR RUFF: That would be a new \$1.5. All the growers,
39 we can't figure out how to get this indemnification figure up, they're going to be
40 happier, which way?

41 SENATOR PUCKETT: As a grower, I'm happy with
42 indemnification.

43 SENATOR WAMPLER: I thought so. We can go other places
44 and take it too. I want to give us the ultimate flexibility. We have not been as

1 efficient in trying to help the growers and if there's a new way we need to have
2 the opportunity to help that portion of the economy and that's the only reason we
3 have it. Is Southside happy?

4 SENATOR RUFF: You're cutting it in half.

5 SENATOR WAMPLER: That's not entirely accurate but I'll lead
6 the discussion by saying Southwest should not have \$2.6 to \$5 million dollars. If
7 you look historically at '01 and '02, the amount for Southside Economic
8 Development was \$16.3 and \$18.7 and you all decided to reduce indemnification
9 and add it to economic development and pump it up to \$25 million so the closer
10 figure is \$16 or \$18 historically.

11 SENATOR RUFF: We didn't have any choice, we were meeting
12 the obligations.

13 SENATOR WAMPLER: What's the will of Southside on how
14 you propose to solve it?

15 DELEGATE DUDLEY: The amount available through the
16 Economic Development Committee is based on a percentage.

17 MS. WASS: In the past each region has determined how much for
18 economic development and how much for indemnification. In the past it was
19 whatever was left after indemnification for that particular region.

20 SENATOR RUFF: It was built around the formula of what was
21 necessary to fill the obligation of the growers.

22 DELEGATE DUDLEY: We're talking about a change now.

23 SECRETARY BENNETT: Stephanie, can you put in 17.7 and 8.7
24 and do a subtotal and tell us where we are? We're getting close. I assume we
25 were working for 26.4. Put that in your computing column and then do a running
26 total next to the 57.3. What you're missing is the 2.8 carried forward from special
27 projects and if you add that to the 57.3 that's your new number or cash that you're
28 after. 60.1 is really what's available. You carry forward 2.8 from special projects
29 from the '03 balances, to the 57.3 which is 62.2 minus the \$5 million Senator Ruff
30 talked about minus the 2.7. If you make that 63 million or whatever the correct
31 number is, now you've got a running total to match against the allocation. Cash
32 available versus allocations. Whatever was carried forward and we talked about
33 carrying forward from the '03 and special project.

34 MS. WASS: Like telecommunication has \$4.5 million.

35 SECRETARY BENNETT: Unless you're going to budget it again,
36 let's budget it and don't carry it forward. \$59.9, you've got \$10 million left and
37 that will give you a running total. You got \$10 million but at the end of this
38 exercise 57.3 plus whatever is carried forward unallocated, whether it's special
39 projects that's available right now and we're at 49.9. \$10.4 is what's still
40 available until we go back and adjust other categories.

41 SENATOR WAMPLER: 10.4 is what we have left.

42 SECRETARY BENNETT: Without adjusting something else.

43 SENATOR WAMPLER: Indemnification is carried the dollar
44 amount \$26.4. The question is the economic development piece.

1 SECRETARY BENNETT: That's where the rub comes and
2 adjusting the allocations you have to carry forward balances and your \$5 million
3 policy or adjusting the allocation the three things I see.

4 SECRETARY SCHEWEL: The \$17.7 and the 8.7, where do they
5 relate to the proposed budget, which is 78.2. The number you started with to get
6 to the 17.7 is 62.2. What's the relationship between that number and the totals.

7 MS. WASS: The 17.7 and the 8.7?

8 SECRETARY SCHEWEL: Your bottom line number last year
9 was 78.2. The bottom line number you derived as, you started there with 62.2.

10 MS. WASS: The difference is that basically FY '03 and that last
11 column you're looking at now, in FY '03 you split by region first and Southwest
12 wanted to put 80 percent of the money in indemnification and that's why there's
13 an amount for burley indemnification is a fairly high number. For Southside and
14 FY '03 a special case where only 9.8 being budgeted for flue-cured
15 indemnification but at the time of that budget, that was all the remaining
16 obligations for the flue-cured.

17 SENATOR RUFF: That's driven by a formula that is figuring out
18 what the Phase II payments were going to be and what the loss of quota is so that
19 you don't exceed the loss of quota amount but there was a major cut in December
20 after the budget was done, we need to be back up.

21 MS. WASS: Under scenario two you look at the difference of
22 \$11.4 versus \$3.4 million and that was based on the quota level between or the
23 percentage of quota between flue-cured and burley and that was set the very first
24 year that we distributed the indemnification payments. Flue-cured at 77.2 percent
25 quota and burley had 22.8.

26 SECRETARY SCHEWEL: It looks to me like the reduction in
27 funds, even assuming 62.2 rather than 57.2 or whatever the working number is. It
28 looks like to me from 78.2 to 62.2 you've got about a 26 percent reduction in
29 funding.

30 MS. WASS: We didn't fund technology.

31 SENATOR SCHEWEL: We got a 26 percent reduction in funding
32 and should our or how should that relate to what we do with indemnification, if
33 there should be any relationship?

34 MS. WASS: I think every category accordingly because of the
35 smaller total budget; I guess every category that you, was proportionately
36 reduced. Do you know what the number would be?

37 SECRETARY SCHEWEL: Maybe you've done that already.

38 MR. OWEN: Stephanie, going into this budget, we are fully
39 indemnified for what year quota losses?

40 MS. WASS: We're still working on '99 but we're factoring in the
41 Phase II payments that will continue annually until 2010. In our model we
42 basically lumped sum all of that into the future payments so we can figure out
43 how much we need and at what point we need to stop the payments. Even though
44 we're currently indemnifying the '99 database, I think on the second page of the

1 indemnification summary, you can see where we are toward the total. For flue-
2 cured we paid out \$311.

3 MR. OWEN: How much of that \$397 is for '99, 2000 or
4 whatever? I'm talking about a potential for a buyout or the base year for the
5 buyout and I think we want to be, I think we want to make sure we don't double
6 pay and then have the federal government come back in on top of it and pay again
7 unless we have a way to get it back.

8 MS. WASS: There's a couple of scenarios about the base years to
9 use. It could drastically change what our obligation is and whether the obligation
10 actually increases. Our assumptions are or we're assuming a base year or it will
11 be paid in 2010. If there is a buyout and Phase II does not continue and they use a
12 base year of 2002, we actually could be liable for that entire \$187 million for flue
13 and the \$4 million for burley, I think. Whereas right now, we're assuming a total
14 obligation of \$93.5 where the Phase II would continue. Depending on how the
15 legislation is structured, our obligations could increase short term.

16 SENATOR WAMPLER: We don't have a clue right now.
17 There's too many variables in the equation for us to say. If there's another
18 viewpoint with the collective subcommittees we should have our voice heard.
19 I've heard of buyouts for a long, long time. With regards to indemnification,
20 Phase II is a relatively large unknown. The legislation tells us we must indemnify
21 prospectively. Until a buyout occurs or Phase II is complete, we don't know what
22 further reductions are there. This spreadsheet Stephanie gives us is just a
23 snapshot in time and I guess that we can report that we're on track towards
24 indemnifying the two groups. Is there any further discussion? It's an important
25 point and it goes back to the discussion. Secretary Bennett tells us that we need to
26 solve for \$10 million dollars. The 60.3 reflects what Stephanie?

27 SECRETARY BENNETT: The \$60 million Senator Ruff, minus
28 the administration, 57.3 plus the carry forward and reduction in special projects
29 from '03, the unobligated \$5 million is held and it's not on there. Do you want to
30 put a footnote below that Stephanie. The \$10.4 and \$60.3 and that assumes a \$5
31 million reserve from the '04 revenue projections.

32 SENATOR WAMPLER: Assuming we would take the budget to
33 the full Commission and we say we have \$5 million that we think will be
34 maintained, how would you want to apply that? I don't know that we can do it to
35 indemnification.

36 SECRETARY SCHEWEL: I thought we needed that to capitalize
37 technology.

38 SECRETARY BENNETT: We've plugged in \$5 million, \$4.5
39 carried forward.

40 SENATOR WAMPLER: This is the difference between the 10
41 percent we're holding back. It's really a \$5 million dollar hole we're trying to
42 fill.

43 SECRETARY BENNETT: What you plugged in for Southside
44 and Southwest she can show you.

1 DELEGATE DUDLEY: Mr. Chairman, I think we need to plug
2 in, we have numbers there for indemnification the next fiscal year at this point.
3 That's what the 17.7 and 8.7 is.

4 MS. WASS: Yes.

5 DELEGATE DUDLEY: Have we completed everything now
6 except for the regional?

7 SENATOR WAMPLER: For purposes of discussion, scenario two
8 suggests \$18 million dollars and we think we're short.

9 SECRETARY BENNETT: That gives you 10 to spend and 18 to
10 be set aside.

11 SENATOR WAMPLER: Southwest is pretty easy to fix. What is
12 Southside going to do? There's a difference between \$5 million and \$3.1 million.

13 DELEGATE DUDLEY: Have you got the format that ought to
14 give us an automatic figure until we get down to what's available for the two
15 regions.

16 MS. WASS: Right. You want me to plug in what we've got so far
17 completed? That's what we have done and that would be the 11.8 and 2.2.

18 SECRETARY SCHEWEL: Could you run the scenario two and
19 the scenario four assuming 60.3 instead of 63.2.

20 DELEGATE DUDLEY: I wanted to follow this format and see
21 where we are. You could do it both ways.

22 MS. WASS: Do you want me to do it by region first or -

23 SECRETARY SCHEWEL: Do it both ways and we can see.

24 MS. WASS: Add \$3 million to this and then, you want me to plug
25 in the dollar amounts we've used so far?

26 SECRETARY SCHEWEL: Assuming the revenue is 60.3 and run
27 the formula.

28 MS. WASS: I'm having to go back and change the formula. I had
29 it to where you could decide or come out with a percentage but if you're giving
30 me dollar amounts I have to go backwards.

31 SECRETARY BENNETT: It wouldn't matter which way we were
32 asking.

33 DELEGATE DUDLEY: I'd like to keep on the same formula that
34 we had.

35 SECRETARY SCHEWEL: When we struggled to come up with a
36 long-range plan, it effectively changed the regional economic development. We
37 said, or we changed the formula or that would change the formula going forward.
38 I don't want to go back and revisit that.

39 DELEGATE DUDLEY: How does it change?

40 SECRETARY SCHEWEL: It gives you a number and it basically
41 says and then you get to 13.6 and 5.0 instead of 11.2 or 13.2. Basically here's a
42 number derived using the long-range plan. 13.6, 5.0 for regional development. I
43 guess my question is, I don't know if you want to revisit that if we struggled with
44 the plan in the first place.

1 MR. OWEN: It seems to me that the long-range plan contemplates
2 about 40 percent between indemnification and economic development. The
3 problem is we've been spending about two-thirds on those two so there's no way
4 that we can continue to spend a level on indemnification and economic
5 development and then do all this stuff in the middle that the long range plan
6 contemplates. Continue to contemplate over a hundred percent. On the long-
7 range plan you'd be talking about something like \$25 million dollars in total
8 between indemnification and economic development.

9 SENATOR SCHEWEL: For those purposes, economic
10 development, you're talking about the two economic development committees?

11 MR. OWENS: Yes.

12 MS. WASS: The percentage, have you calculated it or –

13 SENATOR RUFF: If I understood Mike's question, if we used the
14 percentages that we planned in the long-range plan, what would happen?

15 SENATOR WAMPLER: Then I think in scenario number one you
16 will see indemnification.

17 MS. WASS: Or even scenario two.

18 SENATOR WAMPLER: It's not a pretty sight on indemnification
19 if you want to see it. That's scenario two.

20 SECRETARY SCHEWEL: I was asking for scenario two and
21 scenario four. 60.3 same thing I got, I'm using it as a starting place. We can
22 work from not forcing any – take a percentage so we have some place to start.
23 That's what I was asking for, maybe somebody cares about that, it would be
24 helpful to me –

25 SENATOR WAMPLER: - That's what Secretary Schewel wants
26 to see right there.

27 SECRETARY SCHEWEL: That gives us 11.0.

28 SENATOR WAMPLER: That's right. If you use that formula,
29 \$11 million would go to Southside and \$3.3 to Southwest, is that what you're
30 looking for? That means Southwest gets \$2 million on indemnification, Senator
31 Puckett?

32 SENATOR PUCKETT: Right.

33 SECRETARY SCHEWEL: There's one possible way to deal with
34 it. Take our \$5 million dollars that we set aside and put it in the indemnification
35 pot, that's the only way to go.

36 SENATOR WAMPLER: Under this scenario?

37 SENATOR RUFF: Nothing will go from the law firm about
38 indemnification under –

39 SENATOR WAMPLER: I'd make a very strong recommendation
40 that we get our indemnification allocation correct before we do anything else. I
41 think that's a very dangerous precedent to set. If we have indemnification
42 payments in the equation.

43 SENATOR RUFF: We've been approving economic development
44 grants and that's when?

1 MS. WASS: April.

2 SENATOR RUFF: That's usually the same timeframe?

3 MS. WASS: Yes.

4 MR. OWEN: You were talking about communities earlier and
5 what their allocation is so they know how much they can apply for.

6 SENATOR WAMPLER: Yes, that's right.

7 SENATOR RUFF: Can we tell them that, given the two figures
8 one the minimum and two, which we believe will be the figures, Southside and
9 Southwest, we can do that.

10 SENATOR WAMPLER: That's your call and whatever you feel
11 comfortable in doing. Southwest is pretty easy.

12 SENATOR RUFF: I think that might work well for us and it will
13 make the people making decisions to set priorities a little tighter.

14 SENATOR WAMPLER: Are you suggesting we go back to the
15 spreadsheet and let Stephanie plug in what we know we have to spend, I think
16 that's what you're suggesting we do. What do we have left with those dollars?

17 MS. WASS: 10.4.

18 SENATOR WAMPLER: We could divided that by region. 73 and
19 27. Have we violated the principle of hold harmless, Danville, Pittsylvania and
20 Halifax accordingly?

21 MR. OWEN: Southside at least \$10 million dollars and maybe a
22 little more and then Danville.

23 SENATOR WAMPLER: Frank, what did you propose to tell the
24 locality?

25 SENATOR RUFF: That we would have a guaranteed figured from
26 the figures that we thought would be available.

27 SENATOR WAMPLER: The difference being \$5 million dollars?

28 SENATOR RUFF: Yes.

29 MR. WAMPLER: We can go about this for three hours and make
30 us go through the exercise and start at line number one go down and adjust dollar
31 amounts if you want to.

32 SECRETARY SCHEWEL: I've got concerns about this so let me
33 give you a very rough way of looking at it. If you took the indemnification
34 numbers, take those numbers out of column 4, take indemnification and regional
35 development from column 4, my calculation gives me 40.4 million. Take the
36 same figures from scenario two, long-range plan and those figures total 37.4.
37 There's a \$3 million dollar difference.

38 SECRETARY BENNETT: Except there's \$2 million more
39 allocated.

40 SECRETARY SCHEWEL: What I was trying to say or you would
41 essentially take indemnification and the regional economic development figures
42 from scenario four and essentially leave all the numbers in between the way
43 they're set up in scenario two we could accept that the fact that there's \$3 million
44 short. The question then becomes have we kept that \$2 million figure already

1 where we adjusted for special projects, and TROF. Pick up \$1.6 there and maybe
2 pick up \$2.5 on education. Then with a few little adjustments, you can pretty
3 much get your number. Your indemnification at the higher level you have your
4 regional development in accordance with the last formula that you had before and
5 then everything in between.

6 SENATOR WAMPLER: What were the two-dollar amounts for
7 Southside and Southwest?

8 SECRETARY SCHEWEL: I'm looking at this chart and you've
9 got to adjust it by a \$2 million dollar difference but for the whole picture, you
10 would adjust 11.8 and 2.2 which is the formula numbers that you got based on last
11 years formula. You reduce it by whatever that percent is, four percent or
12 something. It's a pretty close amount.

13 SECRETARY BENNETT: I'm not sure what you're doing.

14 MS. WASS: You're reducing the regional piece by a percentage
15 and then \$3.2 million short.

16 SENATOR RUFF: On the indemnification we've got two
17 scenarios and two-dollar amounts. What is the legal responsibility we have to
18 meet?

19 MS. WASS: As far as payment rates?

20 SENATOR RUFF: In the past we've tried to meet the standard by
21 calculation and here we're not because we're using different scenarios.

22 MS. WASS: There is no mandate on how, the only mandate is \$12
23 per pound can compensate them. There's no mandate as far as timeframe or what
24 the burley gets paid versus flue-cured.

25 SENATOR RUFF: For calculation purposes, let's drop flue-cured
26 \$14.7.

27 SECRETARY SCHEWEL: Let me run you through some
28 numbers, 59.6.

29 SENATOR RUFF: Would you finish that before you start on that?
30 If you take the \$3 million on top and brought it to the bottom, that's 14? You take
31 the \$3 million at the top and bring the \$3 million down, would that be \$14
32 million?

33 MS. WASS: But then you'd still be \$3 million short.

34 SENATOR RUFF: At least that puts us in some category or
35 percentage.

36 SECRETARY SCHEWEL: Assuming for a starting point with
37 indemnification and assuming 62.2 even though it's not quite right, and you show
38 indemnification 17.7 Southside and Southwest 18.7 and zero for technology – oh,
39 all right. Scratch everything I just said.

40 SENATOR WAMPLER: What I understood just happened then,
41 Southside's proposal to balance it from their indemnification piece to their
42 economic development piece.

43 SENATOR RUFF: That was my thought.

44 DELEGATE DUDLEY: Two things come to mind, this is an

1 increase of about 50 percent in the indemnification payments to Southside, which
2 I think probably they need. If we get that economic development part down to
3 where Danville and Pittsylvania is not quite as close, if we get them down to
4 where they can't meet the payments for the research center, we'll have a real
5 problem.

6 MS. WASS: That's \$10 million basically.

7 MR. ARTHUR: It had to be at least \$10 million.

8 SENATOR WAMPLER: Does that answer everybody's questions
9 with the allocation under this column?

10 SECRETARY SCHEWEL: 17.7 for Southside indemnification,
11 8.7 Southwest, 5.5 technology and 9 for education, 4 for TROF, 4.70 for
12 revolving loan and 1.5 agribusiness, 11.8 for Southside Economic Development,
13 2.2 for Southwest Economic Development and that's 65.1. You get to 65.1 by
14 taking and adding in and the reason you have 65.1 million is that you've added in
15 the \$3 million carryover plus the \$5 million that we set aside, is that correct?
16 That balances at least. It keeps indemnification the same.

17 SENATOR WAMPLER: It doesn't keep indemnification the
18 same, Southwest takes a 1.8 reduction.

19 SECRETARY SCHEWEL: It gives indemnification the same.

20 SENATOR WAMPLER: I understand.

21 SECRETARY SCHEWEL: Having said that, I don't think it
22 should be the same and I think we ought to go to the long range plan and try to
23 come up with something that works for everyone and solves the biggest problems.

24 SENATOR WAMPLER: The question is if we don't receive the
25 whole \$65 million, I think at the beginning we decided we'd only solve \$60
26 million.

27 MR. ARTHUR: Mr. Chairman, under the figures that I've run
28 here, it seems the long range plan economic development was 30 percent and on
29 \$60 million that runs to \$12.9 million for Southside and that covers what we got
30 to do and I feel basically we should use the long range plan. I didn't change
31 anything else, just using the long-range plan to figure it in which we agreed that
32 would be 30 percent.

33 SENATOR RUFF: Would you run that by me again Tom?

34 MR. ARTHUR: I used the \$60 million dollars, which is the figure
35 we came up with. On the long-range plan it's stipulated. The long-range plan
36 under economic development. I'll be back with the figure.

37 SENATOR WAMPLER: Do we use 65 or 60 or what's your
38 opinion?

39 SECRETARY BENNETT: My honest opinion William is that I
40 think you've got more flexibility, \$5 million is 8 percent and I think that's been
41 real conservative. The two risks, up to now, you, you're making assumptions and
42 that only goes one way. We're going to get a little kicker on inflation, not much,
43 but a little bit. That really mitigates consumption. If somebody doesn't pay, it's a
44 whole new ballgame but the Philip Morris thing was a financial market and they

1 paid and we got what we were going to get there. That combined with carrying
2 forward because of the new reimbursement policy, I think \$5 million is being real
3 conservative. So I think you've got some flexibility. If you want to do 5 or 8
4 that's not going to make you whole but I might do 5 percent hold back.

5 MR. WAMPLER: 62.5 million. What does the rest of the
6 Committee think?

7 DELEGATE DUDLEY: Is there any earnings or projected revenue
8 already?

9 MS. WASS: This figure?

10 SECRETARY BENNETT: Assuming there's a yield.

11 MS. WASS: Yes, historically the quarterly return. I estimated
12 under scenario two a million dollars and assuming that the fourth quarter interest.

13 SECRETARY BENNETT: It's been budgeted that way, yes. You
14 all get a composite yield but the daily rate is probably in the 2-6 range and the
15 composite range for the whole general account is something like five. It was in
16 the 5 and 6 range last time I looked. The way interest rates are and Stephanie is
17 using historical, that's probably close.

18 MS. WASS: To give you an idea of FY '03, you had \$1.2 million
19 for the first three quarters.

20 MR. OWEN: Looking at all the things that have been talked about
21 here, I think column K is about as close as you're going to get. I think column N
22 hurts the economic development for Southside by giving more to indemnification.
23 Given our limited resources, I think the increase from 9.8 to 14.7 is about all we
24 can afford to do.

25 SENATOR WAMPLER: Senator Puckett, what do you think we
26 need to do for Southwest 10.5 versus 8.7 and I think we'll have some difficulty
27 with that. I don't know where the middle, maybe we can adjust that accordingly.

28 DELEGATE DUDLEY: I don't think they'll have any more
29 difficulty than we might have had in 24.5 to 9.8.

30 SENATOR WAMPLER: We don't seem to have that accruing to
31 the region like you all did. You took it off of your indemnification and then to
32 economic development in Southside. If you went from 24 in indemnification to
33 9.8 there's a co-relation under regional development and economic development.
34 You spent your own money in a different way.

35 MR. OWEN: Mr. Chairman, if you look at the indemnification
36 and economic development totals together, I think you'll get that 73/27 split.
37 That's been historical.

38 SENATOR WAMPLER: If we're at 10.5 and we go to 8.7.

39 MR. OWEN: Economic development and indemnification
40 combined you're at 10.8. Southside is at 29.1, which I think is the same as it was
41 last year, 73/27.

42 MS. WASS: Percentage wise if you add flue-cured
43 indemnification with Southside economic development for FY '03, compared
44 with the burley FY '03 and indemnification and Southside Economic

1 Development, Southside received 72.8 percent out of all the pots. Under the
2 scenario in column K, it's \$29.1 million for Southside, which is 72.9 percent.
3 Percentage wise the regions are the same and it's just how you divide it between
4 economic development and indemnification.

5 SENATOR RUFF: That major cut we got phone calls but I don't
6 think you get 10 percent cut, I'm not sure you'd get much.

7 SENATOR WAMPLER: It's a footnote from Southwest and you
8 have to gain consensus in your region and bring that to the attention of the long-
9 range committee.

10 SECRETARY SCHEWEL: It's my thought that the reduction in
11 indemnification is less on a percentage basis than a reduction in the total. Our
12 total revenue has gone down about 26 percent and the indemnification payments
13 on burley have gone down less than that so basically Southwest folks are gaining
14 a larger total percentage of the revenue for burley indemnification.

15 SENATOR WAMPLER: Are we anywhere close to making a
16 recommendation that we would adopt column K?

17 SENATOR RUFF: Before you do that, what is the final figure
18 we're working with?

19 SENATOR WAMPLER: \$63.5 with another 2 million.

20 SENATOR RUFF: Moving from the 5 to the 8 eight percent.

21 DELEGATE DUDLEY: We're short \$3.2 million.

22 MS. WASS: We're taking it out of that \$5 million that originally
23 was identified as a reserve.

24 SENATOR RUFF: I would agree as long as we have a footnote in
25 there assuming all revenue would come in as projected.

26 MR. ARTHUR: Yes.

27 SENATOR RUFF: I think we need to say that because
28 expectations can be too high.

29 MR. OWENS: It also needs to be noted that all we can do with
30 technology and the long-range outlook that Virginia Tech had completed and the
31 Commission was going to fund technology, Southside and Southwest. No way
32 can we do that, it would be a small bite out of the apple with the resources we
33 have. You'll have some sort of de minimus individual projects that people will be
34 doing in various communities but we will not be broad banding Southside and
35 Southwest for a major leapfrog that was contemplated.

36 SECRETARY SCHEWEL: I believe that the actual number of '04
37 is 9, 9.5.

38 MR. OWENS: Yes, some of it has already been allocated for these
39 projects to come back before the whole Commission. You have 2 ½ or 3 million
40 in these kind of pilot projects.

41 SECRETARY BENNETT: If you find yourself uncomfortable
42 with the level of unallocated money, as you fund unallocated money, funds from
43 '03, you can always allocate them next April but you can stay at a balance,
44 whatever your comfort level is.

1 SENATOR WAMPLER: I want the Committee to know we didn't
2 fall off the cabbage truck coming here. The Secretary of Finance knows we have
3 unobligated balances.

4 SECRETARY BENNETT: I'm here helping you put the budget
5 up as opposed to other purposes.

6 SENATOR WAMPLER: Thank you. Column K, would anyone
7 like to make a motion?

8 MR. ARTHUR: Mr. Chairman, I move we accept column K as a
9 budget to recommend for approval to the full Commission.

10 SENATOR PUCKETT: Second.

11 SENATOR WAMPLER: It's been moved and seconded and
12 Delegate Byron with your concurrence, we will not only will the Finance
13 Committee vote but also the Long Range Planning Committee will vote as one.

14 DELEGATE BYRON: That's fine.

15 SENATOR WAMPLER: Without objection then and without
16 further discussion the motion before the subcommittees is that column K
17 presented by the spreadsheet be adopted. All in favor signify by saying aye
18 (ayes). Opposed (no response). The ayes have it and that motion is carried. And
19 that will be presented. Stephanie, can you get that to us tomorrow?

20 MS. WASS: Yes.

21 SENATOR WAMPLER: And with the widest dissemination to
22 the balance of the Commission by Thursday. You can coordinate it through the
23 Chair. I would encourage the widest dissemination possible.

24 MS. SHERROD: As soon as we can get all the packets out for the
25 full Commission tomorrow or Monday at the latest. It'll get out to everybody.

26 SENATOR WAMPLER: I think the guidance from this
27 Committee would be an action item. We heard from our peers on the
28 Commission they don't get the information in a timely manner. I would
29 encourage the executive director to disseminate as soon as he can this particular
30 item for discussion.

31 MS. SHERROD: Everything else is ready so as soon as this is
32 ready, we'll send it out.

33 SENATOR WAMPLER: Any other matters to come before the
34 Committee? Anybody from the audience. Now is the time for public comment.
35 If anyone desires to do so. Hearing none and seeing none, is there any other
36 business to come before the Committees?

37 MR. OWEN: I have a question about the annual report. I share
38 the compliments I've heard about it and the timing of it, why does it take this
39 long?

40 MS. WASS: One reason is the timing of the audit and we were
41 scheduled later by the APA for this year. It just took longer this year. This year's
42 audit is going to be starting tomorrow. It should be done the latter part of the
43 summer I believe.

44 MR. OWEN: If you're going to the trouble and extent of a report

1 like this, it might be more timely.

2 SENATOR WAMPLER: Any other comments?

3 DELEGATE DUDLEY: I move that we adjourn.

4 SENATOR WAMPLER: It's been moved and seconded that we
5 adjourn. All those in favor signify by saying aye (ayes). Opposed (No response).
6 We are adjourned.

7 PROCEEDINGS CONCLUDED

8 CERTIFICATE OF THE COURT REPORTER

9
10
11 I, Medford W. Howard, Registered Professional Reporter and
12 Notary Public for the State of Virginia at large, do hereby certify that I was the
13 court reporter who took down and transcribed the proceedings of the Finance
14 Committee and Long Range Planning Committee when held on Wednesday, July
15 2, 2003 at 11:00 a.m. in the Shenandoah B, Hotel Roanoke and Conference
16 Center, Roanoke, Virginia.

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

19 Given under my hand this 27th day of July, 2003.

20
21
22
23 _____
24 Medford W. Howard

25 Registered Professional Reporter

26 Notary Public for the State of Virginia at Large

MY COMMISSION EXPIRES: October 31, 2006