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**VIRGINIA TOBACCO INDEMNIFICATION
AND COMMUNITY REVITALIZATION COMMISSION**

701 East Franklin Street, Suite 501
Richmond, Virginia 23219

Executive Committee Meeting

Monday, April 13, 2015
2:00 P.M.

Crowne Plaza Hotel Downtown
Richmond, Virginia

CRANE-SNEAD & ASSOCIATES, INC.
4914 Fitzhugh Avenue, Suite 203
Henrico, Virginia 23230
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1 **APPEARANCES :**

2 The Honorable Terry G. Kilgore, Chairman

3 The Honorable Frank M. Ruff, Vice Chairman

4 The Honorable Kathy J. Byron

5 The Honorable Charles W. Carrico, Sr.

6 The Honorable Maurice Jones, Secretary of Commerce and
7 Trade

8 The Honorable Daniel W. Marshall, III

9 The Honorable Donald W. Merricks

10 The Honorable James W. Morefield

11 The Honorable Edward Owens

12 The Honorable Gary D. Walker

13 The Honorable Thomas C. Wright, Jr.

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1 **APPEARANCES (cont'd) :**

2 COMMISSION STAFF:

3 Mr. Timothy J. Pfohl - Interim Executive Director &
4 Grants Program Administration Manager

5 Mr. Ned Stephenson - Deputy Executive Director

6 Ms. Sarah K. Capps - Grants Program Administrator,
7 Southside Virginia

8 Ms. Carolyn Bringman - Performance Data Analyst

9 Ms. Stephanie S. Kim - Director of Finance

10 Ms. Stacey Richardson - Executive Assistant

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12 COUNSEL:

13 Elizabeth Myers

14 Assistant Attorney General

15 Richmond, Virginia 23219

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1 DELEGATE KILGORE: Welcome to today's
2 meeting. I'll ask Mr. Pfohl to call the roll.

3 MR. PFOHL: Delegate Byron called to say
4 she'd be a few minutes late. Senator Carrico?

5 SENATOR CARRICO: Here.

6 MR. PFOHL: Secretary Jones? He was
7 intending to be here. All right, he's here. Delegate
8 Kilgore?

9 DELEGATE KILGORE: Here.

10 MR. PFOHL: Delegate Marshall?

11 DELEGATE MARSHALL: Here.

12 MR. PFOHL: Mr. Merricks?

13 MR. MERRICKS: Here.

14 MR. PFOHL: Delegate Morefield?

15 DELEGATE MOREFIELD: Here.

16 MR. PFOHL: Mr. Owens?

17 MR. OWENS: Here.

18 MR. PFOHL: Dr. Redwine?

19 (No response)

20 MR. PFOHL: Senator Ruff?

21 SENATOR RUFF: Here.

22 MR. PFOHL: Mr. Walker?

23 MR. WALKER: Here.

24 MR. PFOHL: Delegate Wright?

25 DELEGATE WRIGHT: Here.

1 MR. PFOHL: You have a quorum, sir.

2 DELEGATE KILGORE: Do I have a motion that
3 we approve the 1/12/15 minutes?

4 SENATOR CARRICO: So moved.

5 DELEGATE KILGORE: We have a motion and a
6 second. All those in favor, say aye. (Ayes) Opposed?
7 (No response) The minutes are approved. All right. At
8 this time we're going to turn it over to Ned on the
9 TROF.

10 MR. STEPHENSON: Mr. Chairman, one of the
11 pieces of the new legislation that we're going to talk
12 about a little later calls for there to be a TROF policy
13 which you already had, and it calls for that to include
14 collection procedures for the TROFs that are in default.
15 Where you have actually approved those actions it has
16 not been formalized into a policy, and now it has been
17 and it's before you on the table. Being that we're
18 bringing this before you, there are one or two little
19 changes that I'd like to point out to you and make sure
20 the Committee is aware of.

21 Historically, the Tobacco Commission had limited
22 any one locality to three TROF approvals per year
23 without approval by the full Commission. That was done
24 in the early years to prevent larger, more aggressive
25 communities from running away with the resources so

1 that other smaller communities didn't have a chance.
2 Since the adoption of this policy, the formula that
3 governs the amount of money that is available, and that
4 has really rendered the three-deal limit unnecessary,
5 because the formula keeps the brakes on. Prior to the
6 formula, the localities could basically ask for anything
7 they wanted unrelated to the underlying fundamentals;
8 some of the award numbers were very big. Now that's all
9 gone away.

10 Now, I'm suggesting to the Committee that through
11 the policy we eliminate the three deals per year per
12 locality rule, simply have it governed by the formula.

13 SENATOR RUFF: Has that policy caused any
14 problems?

15 MR. STEPHENSON: It has never caused a
16 problem, because any time a locality had more than
17 three, it would always come to the Commission and always
18 got approved. Secondly, we have had very few occasions
19 in recent years where a community exceeded that number.
20 I can only think of one in the last two years where that
21 actually happened.

22 SENATOR RUFF: So Mr. Chairman, the
23 existing problem is not really a problem, then? We're
24 solving a problem here that doesn't exist.

25 MR. STEPHENSON: By memorializing it in

1 this policy. The reason is because as it stands now,
2 unless you approve this, the three-deal rule applies.

3 DELEGATE KILGORE: Where did that three-
4 deal rule come out of --

5 MR. STEPHENSON: It came out of, page two
6 "Approval of TROF Grants." There was a bullet in there
7 that restricted it to three deals per locality per year.

8 SENATOR RUFF: Mr. Chairman, I guess my
9 point or the question is, as we move forward we will be
10 taking less from the corpus, which means potentially
11 that every committee will make a request, and then that
12 puts us back into the same situation at the larger
13 counties and well-heeled development committees, and
14 IDAs and EDAs may have a distinct advantage over the
15 smaller counties. Therefore I would move that the three
16 limit continue as it exists.

17 DELEGATE WRIGHT: I'll second that.

18 DELEGATE KILGORE: I have a motion and a
19 second. I think the last one we had was a county that
20 came in, had four requests, whether that was Grayson
21 County, and they were approved.

22 MR. STEPHENSON: Yes.

23 DELEGATE KILGORE: But they had to come
24 before the full Committee. I have a motion and a second,
25 any further discussion on that, to put that in on page

1 two after the matching funds?

2 MR. STEPHENSON: We will reinsert that
3 bullet.

4 DELEGATE KILGORE: Any more discussion? All
5 those in favor, say aye. (Ayes) Opposed? (No response)

6 MR. STEPHENSON: Mr. Chairman, the next
7 material change, on page three wherein we have included
8 the repayment or clawback on these grants, and this
9 being the same set of rules that you approved in the
10 minutes, I believe that was one year ago in May in
11 Greenville County, I believe. So we have placed that
12 into the policy just as you approved it a year ago.

13 DELEGATE KILGORE: All right. Any questions
14 on that policy?

15 MR. STEPHENSON: The third and last
16 material change or entry, and this deserves your close
17 attention, and that is that this policy is written so as
18 to require matching funds on the TROF grants and on all
19 TROF grants that heretofore has not been required. This
20 is part of the new law that goes into effect July 1, so
21 we have incorporated that into this policy. You'll note
22 at the top of the policy this says this will only be
23 effective on July 1. If you look at the top of the first
24 page it says, "An effective date for this policy," so it
25 would not go into effect until July 1, assuming

1 of course, that the bill gets signed and goes into law.

2 Between now and July 1 there's no match
3 requirement.

4 DELEGATE KILGORE: For some reason I
5 thought the match only applied to economic development
6 funds coming from the Economic Development Committee,
7 not specifically targeted to TROF.

8 MR. STEPHENSON: On the table before you
9 each of you have a copy of the new law, and I'll direct
10 your attention to line 142 where it says, "Including a
11 grant from the Tobacco Region Opportunity Fund."

12 MR. PFOHL: The question is what
13 constitutes a match. Already getting at least a million
14 dollars in private capital investments along with other
15 state and local incentives. The new code language is not
16 specific in terms of what constitutes that match, so
17 that's a question for us to consider.

18 DELEGATE MARSHALL: Mr. Chairman, my local
19 economic development asked a question, and that is, is a
20 match in kind, so I think we need to be specific, so we
21 need to do that now.

22 DELEGATE KILGORE: Dollar for dollar match
23 from Non-Commission sources. So, I guess I'm really
24 asking a question of our counsel. If a company comes in
25 and invests 20 million dollars, and the TROF is one

1 million dollars and we're gonna give them TROF, would
2 the locality need that match without this company coming
3 in?

4 MS. MYERS: The company coming in with 20
5 million dollars, one million of that essentially counts?

6 DELEGATE KILGORE: Yes.

7 MS. MYERS: I believe so, yes.

8 DELEGATE KILGORE: That's what I thought.

9 DELEGATE MARSHALL: Let's slow down a
10 little bit. Would you explain that again? If the
11 commission puts a million dollars in TROF, so the
12 locality would have to put up a million dollars?

13 DETECTIVE KILGORE: Or the private sector.
14 That's when we were talking through the bill. As long as
15 the match, to get a million dollar TROF award, you'd
16 have to put in more, and Ned correct me if I'm wrong.
17 You'd have to put more than a million to get a million
18 dollar TROF.

19 MR. STEPHENSON: At least a million. Mr.
20 Chairman, I think it's important to note here that the
21 definition of matching funds is not yet defined, and
22 it's required for all grants. Between now and July 1,
23 staff needs to hammer out some fairly careful language,
24 because we're gonna have these questions all over the
25 place and not just with TROF. We limited this policy

1 simply to mirror the code, understanding that we need to
2 work out the details of matching and in kind
3 contributions.

4 DELEGATE KILGORE: Have you all had
5 discussions on it?

6 MR. STEPHENSON: We have had internal
7 discussions, but we're just not prepared to put that
8 before you today.

9 DELEGATE WRIGHT: On line 144, "No more
10 than 25 percent of the match in kind."

11 DELEGATE KILGORE: That answers your in
12 kind.

13 MR. MERRICKS: Now what was the intent, or
14 my original question was if they're getting a grant from
15 the Tobacco Commission for seven million dollars, is it
16 the intent that the locality match that million dollars,
17 and only 25 percent of the match could be in kind?

18 DELEGATE KILGORE: I think our intent when
19 we talked about it was that somebody has skin in the
20 game other than the Tobacco Commission. We wanted to
21 make sure somebody else was on the line other than us,
22 because we had so many of these applications come in,
23 asking the Tobacco Commission to fund 90 percent
24 of it, something like that.

25 SENATOR RUFF: I don't think that's the

1 problem-solve. You've got the live private industry
2 wants to invest money, really irrelevant to TROF, but
3 it'll be extremely relevant to economic development and
4 any other thing where we have allowed localities to use
5 for less-local match money.

6 MR. MERRICKS: There's a big difference, a
7 company investment and the locality investment, that's a
8 big difference. I think if it's the intent for the
9 locality to put skin in the game, that probably needs to
10 be spelled out somewhere.

11 DELEGATE MARSHALL: If you get Governor's
12 Opportunity Fund, does that count for a match also?

13 MS. MYERS: If I may, yes, the language
14 here, a non-commission source.

15 DELEGATE KILGORE: The Secretary is not
16 here to defend or add, and that's a discussion we had
17 with the Secretary, because we wanted to make sure that
18 somebody else was in the game other than us. Whether
19 that can be like in some instances, some of these VHC,
20 or the Appalachian Regional Commission or some other
21 county or whatever. I do agree, somebody else is going
22 to have to come up with some rules or something for us
23 to adopt in the May full-board meeting. Otherwise
24 we'll be having these questions come up all the time.

25 MR. STEPHENSON: Mr. Chairman, to further

1 confuse the matter, we often have a TROF application
2 where the applicant is going to make a private capital
3 investment of a million dollars. If we give them a TROF
4 award, to me what he's invested is our money. We have to
5 contemplate these things and get it so it works properly
6 with all of these issues.

7 DELEGATE WRIGHT: My concern is along the
8 same lines as Don, where it's the small localities that
9 have allocations of economic development, and I don't
10 see how our rules to match money. For instance if
11 they've got somebody coming to their locality and has
12 skin in the game, but not 50-50, and I'm not sure if
13 that's anything we can discuss, but I know if I start
14 hearing from my localities, and I'll hear from my
15 localities 'cause they don't know how they're gonna do
16 it.

17 SENATOR RUFF: We anticipated that problem
18 going through the legislation, that's why we inserted
19 line 145. However, matching less than 50 percent may be
20 considered by two-thirds majority of the Commission, so
21 those Counties truly struggling will not be kept away
22 from the table.

23 DELEGATE WRIGHT: I hope it works that way
24 in reality.

25 SENATOR RUFF: You know the

1 legislative process is give and take.

2 DELEGATE MARSHALL: I don't think it has
3 anything to do with the Southside allotment.

4 DELEGATE KILGORE: I think it was in one of
5 the earlier versions.

6 MR. STEPHENSON: I'm not aware that there's
7 any allocation or allotment process related to the TROF.

8 DELEGATE KILGORE: I think that was struck
9 out.

10 DELEGATE MARSHALL: We're getting
11 sidetracked. He's talking about TROF.

12 MR. STEPHENSON: The clause related to the
13 Southside allocation was stricken from the bill.

14 DELEGATE WRIGHT: That was one of the
15 concerns I still had.

16 MR. STEPHENSON: Mr. Chairman, in summary,
17 I understand we are to restore the three-deal per limit
18 rule to this policy, and otherwise it is before you for
19 your recommendation to the Commission in May.

20 SENATOR RUFF: I think apparently we need
21 to clarify under the TROF that matching money can come
22 from the private sector, just so there's no confusion.

23 DELEGATE KILGORE: I think that's something
24 the staff will have to in the TROF, wherever you want to
25 put that in in the TROF policy. You can put it right in

1 there under the approval of the TROF grant, capital
2 investment.

3 MR. STEPHENSON: I think the staff needs to
4 bring a carefully prepared definition of "match and in
5 kind" that covers all of these grants and as many of the
6 situations we can contemplate, and hope that is adequate
7 to cover any unusual situations.

8 DELEGATE KILGORE: Danny, can you work with
9 staff on that?

10 DELEGATE MARSHALL: Yes, may I also suggest
11 that we reach out to Economic Developers.

12 MR. STEPHENSON: Whatever rules you write,
13 they are very creative.

14 DELEGATE KILGORE: All right, next.

15 MR. STEPHENSON: I'm seeking a motion to
16 take this to the Commission. Or do you want to table it
17 until we define match?

18 DELEGATE KILGORE: Well I think we need to
19 define it, I don't want to vote on something that's not
20 clear.

21 MR. STEPHENSON: All right, we'll bring
22 that back.

23 DELEGATE WRIGHT: I think it needs to pass
24 by the attorneys.

25 DELEGATE KILGORE: I assume that's a given.

1 MR. PFOHL: Mr. Chairman, for clarification
2 for staff on this going forward, and if I could I think
3 there are two approaches that are possible here. One is
4 to simply say that private capital investment which
5 always far exceeds our TROF amount suffices as the
6 matching funds. The second approach would be that if we
7 put up 100,000 dollars of TROF that the locality has to
8 come up with 100,000 matching from GOF or local
9 incentive grants, and that'll get a little murky because
10 they give tax abatements and waivers and things like
11 that, and that's very hard to quantify.

12 DELEGATE MARSHALL: Let me just go back to
13 what's happened in Danville with several companies that
14 came to town and they got TROF funds, and then when they
15 were gonna put up X amount of dollars the money was
16 never there, I think maybe it was a sham to start with.
17 How do we know that they're legitimate?

18 MR. STEPHENSON: Delegate Marshall, that is
19 part of defining what counts as match, and if it's gonna
20 count it needs to be verified.

21 DELEGATE MARSHALL: Have you thought about
22 this?

23 MR. STEPHENSON: Very much.

24 DELEGATE MARSHALL: Do we verify it or does
25 the locality? How is this verified before they come

1 before us and make the application?

2 MR. STEPHENSON: I've thought through this
3 to some extent, and I'm probably a little tougher than
4 you might want. I want to see the cash on the table. If
5 there is matching money to come, I wanna see it on the
6 table.

7 DELEGATE MARSHALL: How do you define money
8 on the table, a suitcase full of cash?

9 MR. STEPHENSON: Similar to any other deal
10 one might close. If some party has an obligation in that
11 transaction they need to have certified funds, cashier's
12 checks, wire transfer, they have to have their money
13 available to the closing party and not, "I'll bring it
14 Monday," or, "I hope we'll get it next month," or, "I
15 have applied for it," none of that. It really depends on
16 how tough you wanna be.

17 MR. PFOHL: Mr. Chairman, you might
18 remember a year ago we adopted the TROF policies that
19 basically form the majority of this document in front of
20 you. One of the policy statements at that point, that we
21 now capture in all TROF grant agreements. That is that
22 you need to get the money up front, and if there's some
23 security instrument or a letter of credit we'll get it
24 on the back end. And maybe we need to make sure that
25 that is loud and clear in this TROF

1 policy. That's gotta be very clear. Delegate Marshall,
2 that was very specific to address the risk factor that
3 you're talking about.

4 DELEGATE KILGORE: If somebody comes in and
5 buys three million dollars' worth of computer equipment
6 or something --

7 MR. PFOHL: If the Commissioner of Revenue
8 recognizes that as taxable assets, then yes, that would
9 count.

10 SENATOR RUFF: Mr. Chairman, have you all
11 contemplated possibility of a reimbursement policy? In
12 other words, if they had a million dollar deal, we would
13 be reimbursed 500,000?

14 MR. PFOHL: No, we haven't considered that,
15 and we haven't gone down that path yet, because the TROF
16 award is a straight exchange of the grant funds for the
17 capital investment and the jobs, so we have not handled
18 that like a reimbursable grant.

19

20 NOTE: At this time Secretary Jones joins
21 the meeting.

22

23 SENATOR RUFF: I would suggest that's
24 something that you might consider and think about that
25 in the policy.

1 DELEGATE KILGORE: Mr. Secretary, we've
2 been talking about the TROF policy and a match with the
3 TROF. What we've done is look at some language that we
4 can adopt that may consider something up front.

5 MR. MERRICKS: This always goes back to the
6 intent. I think we need to spell out what the intent of
7 this legislation is. A match to me as a banker, to me
8 "match the dollar." It's like Ned said, you've got a
9 cashier's check or letter of credit, you've got a
10 briefcase full of cash. You've got something there to
11 show. I just think the way this is worded, if I'm
12 reading this it says, "Dollar for dollar match from non-
13 commission sources," that's a dollar for dollar match to
14 me. To me it's the intent, if it hurts the locality, and
15 there's a lot of sadness in this world, but. Like in
16 Danville, we've got three projects down there that never
17 did anything. If they had skin in the game up front
18 probably never would have gotten to that point.
19 Personally, I think that should have been the intent of
20 this legislation.

21 DELEGATE KILGORE: I think the intent of
22 the legislation was to see that dollar for dollar or the
23 assets, something on the ground that we can tangibly
24 touch.

25 SECRETARY JONES: On the intent I think

1 you're right about that. There was always the question
2 of making sure that we work with those localities where
3 was something that we could work with, that's where we
4 came up with the cost management. The idea was to get in
5 the game changes your due diligence.

6 MR. STEPHENSON: We will bring this back to
7 you in some written form, Mr. Chairman.

8 DELEGATE KILGORE: All right. And Delegate
9 Marshall will help go over that before.

10 DELEGATE MARSHALL: I would also suggest we
11 send it to the Secretary to make sure if there's any
12 changes needed.

13 MR. PFOHL: Mr. Chairman, we'll do the
14 budget discussion later. Now, thank you. On the screen
15 we have a PowerPoint, and Ned and I are going to walk
16 you through the significant changes in the legislation.
17 To reiterate, effective July 1st it amends 32.1-3100, and
18 that section of the code regarding the purpose and
19 activities of the Commission based on the bills that the
20 Chairman and Vice Chairman submitted this year and were
21 signed off on by the Governor.

22 The next slide, Ned. And humorously this has
23 generated about as much excitement as anything else in
24 the legislation. For years we've been a little bit
25 resistant to go in and suggesting changing

1 the name of the Commission. We completed the
2 indemnification activities three years ago, and since
3 there was a bill pending, can we possibly shorten the
4 name a little bit, so effective July 1 we will be known
5 at the Tobacco Region Revitalization Commission. The
6 next step, as I said the indemnification is complete.
7 The references to it are removed from the code, and so
8 now we basically have a little bit of rebranding,
9 printing and so forth to do with the Commission, and
10 we're gonna get a logo amended and update the website
11 and stationery and signage and web address and the
12 bylaws and so forth. As Senator Hanger said in one of
13 the Committee meetings, "You're not going to be TICR
14 anymore?" No, we're gonna be TIRC or TRRC, and we're
15 open for suggestions. Unless anybody wants to suggest
16 renaming it. The slide cites the line in the bill you
17 have before you so you can follow along, in line 64 to
18 74 addresses the size of the Commission. The bill
19 reduces the number of tobacco growers by one in
20 Southwest Virginia and retains three growers in
21 Southside and retains two growers in Southwest. Or any
22 of those seats could be filled by active farmers. That's
23 a significant change as well. In the upcoming months we
24 will have Mr. Reynolds's term limited, that reduces a
25 burley grower in Southwest. Kenny

1 Barnard is term-limited, and his seat will need to be
2 filled. David Cundiff sadly passed away last fall, his
3 seat will need to be filled. We're gonna need two
4 farmers from Southside. We have altered the Secretary of
5 the Commonwealth, who is responsible for those
6 appointments and made them aware that, and I jumped over
7 the citizen aspect, let me talk about that for a second.
8 It eliminates two citizen seats now Delegate Pillion
9 when he was elected to the House last year drops off.
10 Dr. Redwine is term-limited. No additional appointments
11 needed, but we've lost two Southwest members in our
12 representation. My communication with the Secretary of
13 the Commonwealth is please keep an eye on citizen
14 membership from Southwest Virginia so we maintain solid
15 representation.

16 DELEGATE KILGORE: I think Redwine came,
17 from the General Assembly.

18 MR. PFOHL: Any questions about the
19 membership? And that effectively reduces the size of the
20 Commission to 28.

21 DELEGATE KILGORE: Secretary Jones, maybe
22 you can all get with and try to work through some of
23 these problems, 'cause in the past what has happened is
24 we get to the fall meeting and not had the appointments
25 that we need.

1 SECRETARY JONES: Remind me, we have
2 some openings right now.

3 MR. PFOHL: We have one opening for Mr.
4 Cundiff's seat, and others terms expire June 30th. The
5 next slide, the experience requirement and new code
6 language says that 13 of the 28 members shall have
7 experience in business, economic development, investment
8 banking, finance on education. I don't know if we cover
9 bankers. Certainly I think we all know that I think our
10 next step is the Secretary of the Commonwealth has
11 responsibility for appointments and reappointments for
12 those terms expiring June 30th and beyond. I think the
13 ball is in the Secretary's court to make sure that any
14 additions will help us meet that 13 member threshold.

15 DELEGATE WRIGHT: That includes the
16 legislators as well, that have that category of
17 experience?

18 MR. PFOHL: It says 13 of the 28 members
19 shall have experience.

20 DELEGATE KILGORE: You've got experience in
21 business. Delegate Wright, so does Frank, I just thought
22 I'd mention that.

23 MR. PFOHL: At the risk of opening up
24 Pandora's Box, here we go with, "Matching Funds for All
25 Grants," lines 142 through 146. As we discussed earlier,

1 doing makes sense, but we need a set of conditions that
2 will allow us, and that's why the legislation
3 articulates, and that's our job.

4 DELEGATE WRIGHT: Did you have in mind the
5 staff bringing recommendations back along with other
6 recommendations?

7 SECRETARY JONES: That's what I would
8 encourage us to do.

9 DELEGATE WRIGHT: I think that would be
10 appropriate to do.

11 DELEGATE MARSHALL: I understand before I
12 got here this was put together so that TROF could react
13 while the Commission was not setting. I think there's a
14 problem, and there's gonna be some consequences here,
15 and if we don't have a board meeting coming up, we'd
16 probably have to have a lot more board meetings. If the
17 localities have something that's coming up, and they
18 have to come before two-thirds majority, they're
19 probably not going to want to wait three times a year
20 for a board meeting. Most of the time TROF, you pull the
21 trigger and it's the next day for action. We're gonna
22 have to be aware of that as far as timeliness.

23 SECRETARY JONES: I tell you the sort of
24 conditions of being able to reduce the match
25 requirement has been articulated by the board and

1 implemented by the staff, and I guess the question is
2 can we get that done. Otherwise you're right, you may
3 find that we will be, but I can guarantee that there
4 will be several opportunities for us to consider a
5 reduction in matching funds in order to do that.

6 MR. PFOHL: We'll come back to you in May
7 with some policy suggestions and try to make progress on
8 that. Now, the TROF policy we've already discussed, and
9 we'll have some revisions for you in May.

10 All right, "Financial Viability Manager" lines 149,
11 157. It now says, "Every grant requires a written report
12 and recommendations on financial viability, financial
13 feasibility, financial propriety of the proposed
14 project. "Next Steps" is we're looking for guidance from
15 executive on a path to implementation. Probably one of
16 the first steps is to define to our reasonable
17 satisfaction what financial viability, feasibility, and
18 propriety mean to us, and then make a determination
19 whether there needs to be a call for some outside
20 services, internal staffing, or what type of approach to
21 implement this and which would make more sense. We're
22 looking for your guidance.

23 DELEGATE MARSHALL: What are we trying to
24 say here, what's the intent?

25 SECRETARY JONES: The intent here was to

1 make sure whether we have an internal function or
2 external function. The intent was when we make an
3 economic development grant that we are taking a pretty
4 rigorous look at the ability of these grantees or
5 grants. There's no science or art, but have the ability
6 to succeed and that's really what the intent was.

7 DELEGATE MARSHALL: I think this paragraph
8 is going to change some of the applications that we get.

9 SECRETARY JONES: This is what I can tell
10 you, the financial model for a project will vary
11 depending on the project, some for profit, some for non-
12 profit. To me the issue is have we done a hard look at
13 the ability of whether there is a plausible narrative
14 for financial viability for the project. You're right,
15 it may actually deter some projects from coming before
16 us, I have to say I think that's a good thing. Because
17 it helps no one for us to be investing in projects where
18 there's no chance to do anything, financial viability.
19 The other piece I'm hoping it does, and it requires
20 folks who come before us to really take a hard look at
21 what their business plan is for the next decade.

22 SENATOR RUFF: Tim, can you go through the
23 process the committees go through when they receive an
24 application?

25 MR. PFOHL: How does the staff review it?

1 SENATOR RUFF: Yes.

2 MR. PFOHL: We look very closely at the
3 funding mechanism, the total funding picture for the
4 project. Are there adequate matching funds in addition
5 to ours, to make sure the project can get up and
6 running, we look at the anticipated outcomes very
7 closely to try to determine if we're gonna get the
8 academic credentials or job creation or the tourism
9 revenues that align with the strategic plan. We look at
10 some things that you'll also see and hear as far as the
11 accountability. Do they have a clear path to implement
12 their project, clear milestones and deliverables, so
13 forth. Every project goes through a scoring system to
14 consider all of those factors. They also have to have
15 the right qualified people to help implement the project
16 and so forth.

17 SENATOR RUFF: Who does that scoring?

18 MR. PFOHL: That's the internal staff
19 scoring.

20 SENATOR RUFF: Every member of the staff?

21 MR. PFOHL: The grants management staff as
22 needed with input. We're in touch with some folks from
23 VEDP on Friday about a project that's in their
24 bailiwick.

25 SENATOR RUFF: Not to get personal, but

1 what role does Ned have?

2 MR. STEPHENSON: Limited.

3 SENATOR RUFF: I guess my thought process,
4 if he is not one of the people that is evaluating
5 projects that various members of the staff evaluate,
6 rate, and make recommendations, then if they would give
7 them to Ned, and Ned being a former banker would have
8 basic skills and I think viability would include. Am I
9 wrong there?

10 MR. MERRICKS: Basically you are doing what
11 a commercial lender would be doing, you're underwriting
12 when you're looking at that. From my experience in
13 commercial banking people come to us and they want to go
14 into the business, they want the bank to go into the
15 business. What you have to do with somebody, Ned or
16 whoever else, to look at those and as far as the
17 underwriting, to see if they meet the standards of what
18 we're trying to do. If that's Ned that's great.

19 SECRETARY JONES: The only thing I would
20 add to that, whoever it is whether it's Ned or somebody
21 else should be someone who has an arm's length
22 transaction with the recommendation, I think that's what
23 you were alluding to. You don't want that person to have
24 an incentive to recommend, if you will, because you
25 want that person looking hard at is there a plausible

1 financial viability existing. That would be the intent.

2 MR. STEPHENSON: I think, Senator Ruff, the
3 big challenge I see in this code section, is we must all
4 first define the standards by which these grants are to
5 be measured, because without standards it's impossible
6 to give you a recommendation.

7 SECRETARY JONES: By standard, you mean a
8 risk?

9 MR. STEPHENSON: It's all about risk
10 assessment. And the standards are numerical, not
11 verbiage. And it's all numbers. If that means balance
12 sheets and income statements, the credit histories. It
13 gets into a lot of numbers to be able to make an
14 analysis, so we have to develop those standards,
15 regardless of who is doing the reviewing.

16 SENATOR RUFF: Don't most bankers come with
17 that background?

18 MR. STEPHENSON: Most bankers have the
19 standards that are established by their bank. They have
20 to adhere to those standards, and they're not free to do
21 what they think.

22 SENATOR RUFF: Under federal rules or
23 guidance, pretty much in a tight --

24 MR. STEPHENSON: -- What is that?

25 SENATOR RUFF: They're in a tight jacket,

1 far more than they were decade or two ago?

2 MR. STEPHENSON: That is true. My only
3 point is that we need to develop standards by which
4 these are evaluated.

5 MR. PFOHL: Ned and I have talked at some
6 length about using a numerical assessment system and
7 look at the risk factors, solvency factors of the
8 grantee and so forth, and I think we can put some things
9 together for you and bring it back to you in May to look
10 at, maybe the Secretary as well.

11 SENATOR RUFF: I would encourage you if
12 you're gonna do that, and if you see a scenario that Ned
13 may have a conflict, or it may be too big an operation
14 for him to believe that, or that there would be a
15 formula that could call in an outside entity to assist
16 in that process on a contract basis.

17 DELEGATE KILGORE: Also, some of our
18 strategic objectives in the healthcare field, that would
19 be hard to put a financial outcome or a financial
20 viability, and we'd have to try to figure that out or
21 get help.

22 DELEGATE MARSHALL: Does TROF have to
23 follow, I mean the GOF, does GOF have to follow this
24 same paragraph?

25 MR. PFOHL: Yes.

1 DELEGATE MARSHALL: So what is that model
2 as far as what we're calling financial management, is
3 that in house?

4 SECRETARY JONES: They have for the most
5 part, they use all in house unless there's a scenario
6 that we think we need an outside contract.

7 DELEGATE MARSHALL: A lot of the same time
8 that TROF has a, or GOF, would it make sense to look,
9 see if they are going to, let's not do it twice.

10 SECRETARY JONES: I think we're already
11 doing it.

12 MR. PFOHL: We have a separate process.
13 Many years ago we used the VDP return on investment.

14 SECRETARY JONES: I do think there's
15 opportunities for collaboration.

16 DELEGATE KILGORE: Let's move on.

17 MR. PFOHL: The "Next Step" discusses the
18 biennial strategic plan.

19 DELEGATE WRIGHT: Mr. Chairman, I have one
20 further question, and just to be clear, this includes
21 the grants applied for by localities from the
22 allocation?

23 SECRETARY JONES: Every grant. I think we
24 added in the word "certain" because to give us
25 the ability to say that there's some for which this does

1 not apply.

2 MR. PFOHL: When we reconvene, we'll
3 propose a list of the types of projects that don't have
4 to go through this. All right, the biennial strategic
5 plan. The last update of the Commission bylaws which was
6 two or three years ago called for biennial strategic
7 plans. Over the last several months we have been engaged
8 with the Center for Rural Virginia, which has been
9 conducting facilitated work groups with stakeholders
10 across the entire tobacco region, and we're a little
11 overdue for updating the 2012 strategic plan, almost a
12 year overdue. The code now is going to require this.
13 Specifically will require the strategic plan with
14 specific priorities, specific goals, outcomes, key
15 economic indicators and input from that list of partner
16 agencies that you see there. The "Next Step's" guidance
17 on the process for updating the 2012 strategic plan
18 including creating a subcommittee of the Commission
19 which has been done in the last two planning updates,
20 designing the process for completing the gathering of
21 input from stakeholders, and potentially contracting for
22 some assistance in the development of this. Some of you
23 have been involved in the development of the strategic
24 plans over the last 16 years.

25 DELEGATE KILGORE: When are you going to

1 start this?

2 MR. PFOHL: We are due to receive the
3 Center for Rural Virginia report very soon. We'll have
4 to reconvene, and the question is whether you want to
5 nominate a subcommittee to take on this task.

6 DELEGATE KILGORE: Which subcommittee do
7 you think would be the best to fulfill this requirement,
8 Special Projects?

9 MR. PFOHL: There's a Long Range Planning
10 Committee which we used in the past that was retired,
11 but we can start that up again to handle this task.

12 DELEGATE KILGORE: Let's just start that up
13 again, I don't know if they have to meet before the May
14 meeting, but hopefully we could get a strategic plan
15 together between the May and September meeting.

16 MR. PFOHL: I think that's doable, and the
17 question will be do we stand down on making grant awards
18 while we do strategic planning?

19 DELEGATE KILGORE: I don't think you need
20 to do that.

21 DELEGATE WRIGHT: My question is is there
22 anything specifically in the legislation that we have to
23 do as far as the subcommittee or the committee
24 process as it currently is, or is this something we can
25 do ourselves? Under "Next Steps" it says, "Create a

1 subcommittee," but I was wondering is there anything in
2 the legislation that guides us?

3 DELEGATE KILGORE: We'll have to bring back
4 the former ad hoc committee, and we'll have to do some
5 research to see who was on that committee. If there's
6 anybody right now that wants to be on it, let me know.

7 SENATOR RUFF: To give you a little
8 insight, Christie should be here any day, and the doctor
9 has confined her to bed. If she's not out and about she
10 should be very soon.

11 MR. STEPHENSON: Mr. Chairman, my memory
12 tells me that the Long Range Planning Committee
13 membership is quite stale, I'm almost certain many have
14 gone off the board, or things have changed and it's
15 effectively disbanded, so if we're going to put that
16 back together we'll need to do an appointment of
17 membership, and I don't know if you want to do that
18 today.

19 DELEGATE KILGORE: Maybe we ought to send
20 an email out to all the members of the Commission, see
21 if anybody would like to serve on that subcommittee
22 first and then go from there.

23 MR. STEPHENSON: All right.

24 MR. PFOHL: Our goal is to have a
25 completed and updated strategic plan by the September

1 Commission meeting.

2 Next slide, "Public Online Database" lines 178-181.
3 "For all projects, database must show project goals, how
4 it fits strategic plan, expected and achieved outcomes,
5 and total life-to-date funding from Commission." Our
6 "Next Steps", we are well along in starting up a new
7 database with a vendor, Smart Symbol, that will host our
8 online application form, as well as all our financial
9 records and so forth. It's our expectation and belief
10 and hope that this'll be a far more robust system, and
11 Carolyn can probably talk to you in more detail about
12 that. Far more robust ability to be able to extract
13 specific deals from grant records that meet the
14 requirements of the code.

15 DELEGATE KILGORE: I think this'll be real
16 important. Folks that want to look at what we're doing,
17 be able to have access to that information, what we're
18 doing, I think this is very important, so let's make
19 sure we do this one right. Actually, we'll be telling
20 our story.

21 MR. MERRICKS: Will that include the terms
22 of the agreements, would that be proprietary? Sometimes
23 folks don't bother to do the research. Of course, some
24 of the research wasn't available for them to get
25 the information and it wasn't readily available. Will

1 this include the actual agreement?

2 MR. PFOHL: I think that second bullet in
3 the "Next Steps" speaks to that. We can go crazy
4 publishing more information than anyone could possibly
5 go through in a lifetime. Uploading all the information
6 from grants. Believe me, some of our grant files are two
7 to three feet thick as far as the paperwork.

8 MR. MERRICKS: The agreement shouldn't be
9 that much.

10 MR. PFOHL: The standard grant agreement is
11 just a few pages, changes very little from project to
12 project, filling in some names and numbers. The case Mr.
13 Merricks is talking about is the TROF project. Private
14 beneficiary-made statements about the Commission
15 requiring in the grant agreement, and they were not
16 accurate statements by any means. We did provide the
17 grant agreement ultimately through the newspaper, and
18 that's something we may have to talk to counsel about.
19 And I don't think there's anything particularly
20 confidential in it, in the TROF agreement once it's been
21 announced.

22 MS. MYERS: Unless there's a request in
23 writing before the agreement is even entered into that
24 it be classified confidential.

25 MR. MERRICKS: I would just say that

1 reporters are typically, sometimes they don't go the
2 extra mile to find out anything, and we need to make
3 sure what we have available so they can do what they
4 need to do so that we don't have this problem. In that
5 particular case, they have not published a retraction or
6 published anything to say, "By the way, we messed that
7 up. This is the way it's supposed to be." And I just
8 think we need to include the agreements if at all
9 possible.

10 DELEGATE MARSHALL: The Danville paper
11 said, "The Commission said all 120 jobs had to be
12 outside of a 120-mile radius of Danville." We could not
13 hire anyone within 120 miles of Danville.

14 MR. PFOHL: The reporter said that was the
15 private beneficiary's claim. Certainly we can upload
16 grant agreements. I think we'd like to come back to you
17 and say, "This is the data we recommend posting on
18 this," and then look them over.

19 Next slide, "Endowment Invasion Limits" lines 192-
20 196, and this is why we bumped the budget discussion
21 until after this portion of the meeting. The code now
22 requires that the Commission, "Limit endowment invasions
23 to fund our annual budget to six percent of the
24 available corpus in any fiscal year with a simple
25 majority vote," but it allows, and I think this is very

1 important. It allows the Commission to go up to a ten
2 percent endowment invasion in any fiscal year on a two-
3 thirds majority vote. The 15 percent endowment invasion
4 limit that the Commission has had since securitizing
5 back in '05-'07 is preserved, but now requires a three-
6 fourths vote. That was done very intentionally to
7 preserve that ability should we land a transformational
8 project like an original equipment manufacturer or
9 automobile assembly, and we would be a significant
10 contributor in that case.

11 DELEGATE KILGORE: That's exactly why that
12 was written in that way, and in that case we would
13 assume that would not be used, we hope it's used but we
14 would assume more than likely it would not be used for a
15 while, the ability is there though.

16 MR. PFOHL: "Next Steps", "The FY2016
17 budget will be adopted May 21," and you'll be hearing
18 about that, "And funded prior to invasion June 30." The
19 new code requirements will not be in effect when we
20 approve the invasion of the funds in the upcoming fiscal
21 year budget. The new code will take effect for any
22 additional invasions after July 1, 2015. Assuming the
23 stars are aligned and we get an auto assembly plant or
24 something like that in the FY2017 budget and future
25 years.

1 If there's nothing else, we'll move on. We'll move
2 on to a bit of a companion piece.

3 The next slide, "Accountability Matrix for Each
4 Project" lines 258-264. Specifically, "Each project
5 should state the return on investment, jobs, wages,
6 capital investment if it's an economic development
7 project. For scholarships, bachelor's degree,
8 credentials, jobs, and so forth. Healthcare outcomes,
9 agriculture and forestry, producer impacts, return on
10 investment." "Next Steps", "Staff will make revisions to
11 our online application forms. I would submit to you that
12 over the last few years we moved a great deal down the
13 road to require this kind of information in our outcomes
14 sections. I think with some tweaking, and some
15 improvement, and maybe some ROI calculations, and we're
16 working with some academic folks to help us to determine
17 the ROI calculations that we could even make further
18 improvement on that.

19 Next slide, "Application requirements requires
20 baseline figures," and we're doing that, "Explicit
21 outcome expectations," and we're already doing that,
22 "Outcome calculation methods," we're doing it, "Timing
23 of expected outcomes and deliverables," and we're most
24 of the way there on that, "Link to strategic plan," and
25 we'll get a new strategic plan, and we can tie that

1 to some of the application information fields that folks
2 have to fill out. I think we're well along the way on
3 the application requirements. "Next Steps", "Staff will
4 make revisions to online application forms for grants in
5 2016 and beyond. Any questions on that?

6 All right, "Grant Conditions." "Each project must
7 demonstrate how it addresses workforce indicators, how
8 it is consistent with the strategic plan, and have a
9 financial viability recommendation." We've discussed
10 most of that so far. I think some revisions will give us
11 some answers to what the new strategic plan looks like,
12 and what role the viability manager is, and we'll
13 incorporate that into our application forms, so we're
14 moving down parallel tracks with that. Any questions?

15 Lastly, here observing on the Revolving Loan Fund,
16 Stephanie Hamlet and Gene Bass from the Virginia
17 Resources Authority, and thank you for coming out today
18 and working with us in this aspect of it that was
19 fleshed out in the code. The new section requires the
20 creation of a loan fund for loans to local governments
21 for projects with "identifiable revenue streams". The
22 Revolving Loan Fund shall be funded up to 50
23 million dollars from endowment, appropriations, loan
24 repayments, investment income, and other. The Commission
25 shall direct the loan distribution, VRA will administer

1 the loans and the Commission selects eligible projects.
2 The staff would ask your indulgence as we work with the
3 VRA staff to come up with some recommendations for what
4 types of projects which would best fit into a revolving
5 loan scenario and loan terms and conditions, and then
6 come back in the May or September meetings with some
7 proposed program guidelines for the creation of a
8 Revolving Loan Fund.

9 Just to give you a little bit of background, this
10 is a task that VRA conducts on behalf of State
11 Department of Aviation, the DEQ Loan Fund, drinking
12 water for the Department of Health. This is a role that
13 they're familiar with and happy to be working with us on
14 that. Are there any questions?

15 DELEGATE BYRON: Yes. Will any of that
16 money be identified so it's not used for matching
17 anything else?

18 MR. PFOHL: Yes. That wraps up going
19 through the new legislation.

20 DELEGATE WRIGHT: On line 226 it talks
21 about distribution of the fund. 226, in dealing with the
22 indemnification. There's only two items I see listed we
23 can actually, and the existing language. Will we be
24 legal in using funds for purposes that are
25 currently used for that aren't actually covered between

1 246 and 253. It looks like all that's saying is that,
2 talks about research in cancer or stimulation of
3 economic growth and development. Are we expending any
4 funds currently for any other reason other than those
5 two?

6 DELEGATE KILGORE: I don't think so.
7 Economic growth and development, that covers a lot. I'm
8 sure we're not doing anything that wouldn't.

9 DELEGATE WRIGHT: Research and development,
10 I'm not saying any of that is wrong, but when questions
11 are asked about but if you approve grants for anything
12 else and normal grants.

13 DELEGATE KILGORE: I don't think it says
14 anything that ties our hands with R&D there, if I
15 understand your question.

16 DELEGATE MARSHALL: I would suggest that we
17 send this out to the rest of the board members, and it's
18 good information you should send it to everybody before
19 the meeting.

20 MR. PFOHL: We'll do that. All right, if
21 there's no further questions then we'll go into the
22 budget.

23 MS. KIM: In this proposed budget we have
24 sources of funding for our FY16 budget beginning July 1
25 of 17.4 million from interest earnings for the past

1 year, 9.4 million from a three percent corpus invasion,
2 and 21.4 million to carry forward. Most of that carry
3 forward is the money that was de-obligated from the King
4 School of Medicine Southwest or whatever. Some of it is
5 from other grants that have been de-obligated. Out of
6 those sources of funds, the intent was to use 2.26
7 million for administration and almost 43 million for
8 Economic Revitalization Program.

9 The administration is about 4.7 percent of the
10 total proposed budget. You'll notice it's about 50,000
11 less than FY15 and that's due mainly because of the
12 decrease in attorney fees we have had to pay last year.
13 It does include funding for a special advisor in the
14 Secretary's Office and the Financial Viability Manager
15 position.

16 DELEGATE KILGORE: It includes that?

17 MS. KIM: It does. Although we're not sure
18 how we're gonna fund that yet. Then it does include
19 244,000 for NSA Enforcement which is in the
20 Appropriation Act.

21 As far as program budgets, this is the summary of
22 where we're placing it, pretty level funding with the
23 prior year. The only thing we're adding is the Mega Site
24 Prospect Incentive Fund. Tim can explain that
25 better, but that is basically setting aside money in

1 case we have a major mega site project come forth.

2 In the endowment, we currently have a balance of
3 313.6 million. The eight percent corpus invasion that
4 you approved last May for the FY15 budget is part of
5 this budget, the invasion that'll take place in June. We
6 are proposing to do an additional three percent corpus
7 invasion this year to fund next fiscal year's budget. In
8 the past, the corpus invasion actually takes place in
9 June of the budget that we approve previous July. What
10 we're trying to do is get on the front end, where we
11 actually invade the corpus and the transfer is made in
12 June, that starts the year the following July 1. So
13 we're proposing a three percent corpus invasion, and
14 that would leave an ending balance on June 30th of 279
15 million. This is just a rough draft to show you the
16 trajectory of the endowment, assuming a six percent
17 corpus invasion hereafter. The investment earnings are
18 based upon each year from March to February, and we have
19 that number of 17.4 million, and that's part of what we
20 proposed in the budget. All the interest that is earned
21 on the general account is still kept by the general
22 fund, so we do not earn any interest on the general
23 account money. The TICR fund as of January 31st 211.6
24 million dollar balance, 153 million of this is already
25 granted and obligated, just has not been disbursed yet.

1 The fiscal year to day disbursements of 45.4 million.

2 The motions that we're asking for today, I'll tell
3 you late last week we did receive communications from
4 the Department of Agriculture who's our fiscal agent,
5 they handle the fiscal services and processing our
6 vouchers and travel reimbursements because we cannot act
7 directly, they serve as our fiscal agent. We have a
8 current MOU with them that's probably ten years old that
9 we're going to update, and they have requested an
10 increase of 10,000 dollars to 60,000 a year, and that is
11 not reflected in this budget. One of the things that we
12 would like to propose is that we increase the
13 administrative budget by 10,000 dollars from the general
14 account money that we have not allocated in the budget.
15 Then to make that amendment to the proposed budget and
16 approve that. Part of the motions that we would like
17 approved today also is the Special Advisor for Rural
18 Partnerships, and that's to fund the salary, fringe
19 benefits, travel expenses for that position. Then
20 approval for the additional three percent corpus
21 invasion.

22 The first motion would be recommend the Commission
23 pay salary, fringe benefits, travel expenses in FY2016
24 for Mary Rae Carter in her current capacity as Special
25 Advisor for Rural Partnerships, a cost not to

1 Exceed 170,000.

2 DELEGATE KILGORE: We have a motion and a
3 second to approve the Special Advisor position, and all
4 those in favor say aye. (Ayes) Opposed? (No response)

5 MR. PFOHL: Before we consider a motion to
6 adopt this budget, and if you would refer to the chart
7 here, the two-point, the version in your packet that you
8 received, and I want to talk about very specific
9 elements of this. First, in that middle column, the
10 estimated carry forward as of January 31st, we're
11 carrying some pretty significant balances in several of
12 these committees, and some of that will be reduced at
13 the May meeting where we make R&D awards, mega site
14 awards, and Southside Economic Development awards and so
15 forth.

16 The advance manufacturing line under Education, we
17 still have seven million of previously approved funds
18 for the three Centers of Excellence, and that'll go out
19 the door in the next year or so as they get into some
20 continuation funding, we did initial startup funding for
21 those centers, but they'll be coming back for further
22 needs for equipment, operating funds.

23 Stephanie mentioned the mega site prospects. I want
24 to spend a minute with you to discuss this proposal.
25 This is something we noticed that some neighboring

1 states were doing, setting aside very significant
2 amounts of money as incentives for original equipment
3 manufacturers and auto assembly plants and so forth. We
4 have a very unique opportunity this year with the
5 recapture of the funds from the Southwest med school to
6 take a couple of approaches with this budget. Stephanie
7 talked about the fact that there's a 9.4 million or
8 three percent corpus invasion that's helping to fund the
9 upcoming fiscal year. That would include enough funds to
10 do this mega site prospect. Alternatively, if we did not
11 want to do the mega site prospect incentive fund we
12 could have little or no corpus invasion whatsoever and
13 just fund the upcoming year budget. I hate to throw too
14 many options at you, but we could preserve the corpus
15 virtually intact for another year if we choose not to
16 adopt this mega site prospect incentive fund.

17 DELEGATE KILGORE: If we came upon a
18 situation where we would not need the mega site
19 prospect, couldn't we always address that at the time?

20 DELEGATE MARSHALL: Yes, and if three
21 quarters --

22 DELEGATE KILGORE: This 15 percent, it
23 would only be two thirds.

24 MR. STEPHENSON: I think it's important to
25 note that your corpus invasion limit is 15

1 percent for the year. If you don't take that that
2 opportunity is forever lost. It's not like you can go
3 back and get that a couple of years from now. If you
4 don't get it by June 30th that window closes.

5 DELEGATE KILGORE: I see what you're
6 saying.

7 DELEGATE MARSHALL: The Mega Site Fund,
8 have we defined where that fund would go, what projects
9 would be able to receive this fund and what would not,
10 have we gotten that far?

11 MR. PFOHL: We have not gotten it all
12 flushed out, but the state code does define a mega
13 project and we probably want to rely on something like
14 that.

15 DELEGATE MARSHALL: At least 400 jobs.

16 MR. PFOHL: Yes, at least 400 jobs or 500.
17 What one county may think of as a mega project for
18 themselves might be 25 jobs, and we're not going to use
19 this money on something like that. We'd have to qualify
20 the thresholds. My suggestion would be that the Special
21 Projects Committee which does the mega site funding now
22 would have the ability to make a Committee
23 recommendation on this.

24 SENATOR RUFF: Late last summer or last
25 fall a discussion about a major manufacturing

1 situation gone, to even sit down at the table you're
2 talking about significantly higher than this. How does
3 that give us flexibility when it doesn't meet the
4 standards here to attract that industry?

5 MR. PFOHL: It gives us a head start on
6 building up enough that would get us in line.

7 SECRETARY JONES: You mean to have the
8 funds?

9 SENATOR RUFF: Going under what Ned said,
10 locked out going over the fifteen percent in that
11 particular year and we've said, "Ok, we can only draw
12 three percent this year," and then a good industry or a
13 good prospect comes along and we have to call a special
14 meeting, are we going to be able to come up with enough
15 cash to do what needs to be done?

16 SECRETARY JONES: I will tell you that
17 given the numbers you're talking about the Tobacco
18 Commission would be one investment and we would also
19 need money from, because these can be very costly, but
20 what we're finding in these and to be competitive in
21 what we need to show we can get a site ready quickly,
22 six months to a year, maybe longer than that. I think
23 that gives us a nice tool to market or give us the
24 ability to invest if an opportunity comes up. When you
25 consider the Tobacco Commission, Greenville

1 and two of the areas, but there's no question that in
2 the end we will need more than ten million dollars.

3 MR. PFOHL: Let me get into the issue of
4 timing. Since we securitized, we wait until the very end
5 of June to actually make that corpus invasion fund the
6 fiscal year that has just ended. To fund this current
7 fiscal year, '15 and '16, the eight percent you see in
8 the left column is funding the current fiscal year,
9 activation has not occurred yet, that'll occur in two
10 months. The three percent fund next year will also occur
11 by this June 30th. We can do an 11 percent invasion by
12 June 30th to fund the current fiscal year '15 and next
13 fiscal year and preserve the complete 15 percent ability
14 to invade at any time after July 1 of the next fiscal
15 year. So for purposes of this discussion we're talking
16 about ten million dollars plus, plus retaining the
17 ability to do a full 15 percent invasion if we so choose
18 at any time after July 1. Now we're talking about
19 putting serious money on the table.

20 DELEGATE WRIGHT: What you just said and
21 the Secretary said and what Ned said, I agree with that.

22 MR. MERRICKS: Did we not do 15 percent
23 this year? What's the difference with the money sitting
24 in this fund and some sitting somewhere else,
25 building the fund up, I don't know, I'm just asking.

1 MR. PFOHL: You're right, we absolutely
2 could do 15 percent invasion on June 30 to park more
3 money in here to put it somewhere else, and we're
4 balancing that against trying to preserve the endowment
5 as long as we can.

6 MR. MERRICKS: If we put it in that fund we
7 don't get any earnings off of that?

8 MS. KIM: We do, our money is invested by
9 the Treasury Board until it is actually disbursed, and
10 we take quarterly drawdowns from Treasury. Even the
11 grants that we've made, those funds are still invested
12 until the money is actually paid out.

13 SECRETARY JONES: You alluded to that there
14 was some interest money that is not coming back?

15 MS. KIM: Yes, the money which is in the
16 general account which is basically be the State Treasury
17 where the checks are written from, there's usually about
18 30 million in there, and we don't earn interest on that
19 money because of the Appropriation Act taking that
20 interest. Other than what's in that second account,
21 everything else is invested.

22 MR. MERRICKS: I'd like to ask a question,
23 Stephanie. We don't use a sweep where you really don't
24 keep anything in the safe, just sweep it in there?

25 MS. KIM: No, because of the way, although

1 Treasury might. Treasury invests all of our funds except
2 what's in the general account, and I think that when
3 Treasury invests in the general account I'm sure they do
4 some type of funding, but all of the funds for all of
5 the state agencies. They're doing that with all of the
6 state agencies' money and keeping the interest on that.

7 DELEGATE BYRON: My question is, and I
8 agree, I've heard the same comments about and the high
9 price of what these incentives are for the mega site
10 situation. But we vote on the corpus invasion which has
11 a requirement of three quarters or two thirds. Once that
12 money is into the Tobacco Commission then all that goes
13 away. So what can we do to stipulate that this money is
14 set aside for certain reasons so that it's not just
15 gobbled up by some future decision?

16 DELEGATE KILGORE: The incentive --

17 DELEGATE BYRON: -- But we transfer funds
18 from one fund to another.

19 DELEGATE MARSHALL: What Kathy is saying
20 that a simple majority vote. We could make this where
21 you have to have a two-thirds vote to take it out.

22 DELEGATE KILGORE: To do that internally.

23 SENATOR RUFF: I'd like to interrupt one
24 more time.

25 DELEGATE KILGORE: Go ahead.

1 SENATOR RUFF: Tell us about TROF.

2 MS. KIM: The TROF money, as far as being
3 budgeted?

4 SENATOR RUFF: For the last several years
5 you've had to transfer money into TROF to get through
6 the year.

7 MS. KIM: Yes.

8 SENATOR RUFF: What mechanism do we have to
9 fund that as those requests come up?

10 MS. KIM: I think it's the same as we've
11 done in the past. If there happens to be a lot of
12 requests for TROF and we don't have sufficient funding
13 in there we have transferred it either from our general
14 account or other funds to help cover some of the
15 requests. That account is very fluid because grants are
16 made and grants are rescinded constantly. So there may
17 be a time at one point in time where we may have a run
18 on TROF grants and requests and there isn't enough
19 funding in there so we may transfer money in.

20 SENATOR RUFF: Mr. Chairman, the reason I
21 asked that question is that if we tie our hands with a
22 super majority with existing funds, then how are we
23 gonna pay for TROF if there's a real need for money. I
24 think we have to be very careful, because TROF
25 money has been most effective in producing jobs.

1 MR. PFOHL: We are recommending or
2 suggesting that we park some money, 3.2 million in the
3 general account that could be used at the Commission's
4 discretion either to replenish the TROF or setting aside
5 some money for the VRA Revolving Loan Fund. So we've
6 been trying to build in a little flexibility there.

7 MR. WALKER: When the money was
8 securitized, isn't that returning a much better rate
9 than if we take it out? And you said Treasury invested
10 it?

11 MS. KIM: If we invaded the corpus by seven
12 percent the money would stay invested in Treasury, they
13 don't take it out. It's really a journal entry of moving
14 it from this account to that account.

15 MR. WALKER: So it would be earning the
16 same as the bonds?

17 MS. KIM: Yes.

18 DELEGATE KILGORE: Where were we?

19 MS. KIM: I guess the issue came up about
20 whether to do a full seven percent corpus invasion the
21 current fiscal year or whether to keep it at the
22 proposed three percent. Either way would require a two-
23 thirds vote of the Commission, because it's above ten
24 percent which requires a super majority.

25 DELEGATE KILGORE: Oh, I see, eight plus --

1 MS. KIM: -- We already approved the eight
2 percent last year and we're asking for an additional
3 three percent this year, so it's a matter of whether you
4 want to do it three percent or seven percent or
5 somewhere in between.

6 SECRETARY JONES: Are we talking about the
7 current fiscal year?

8 MS. KIM: Yes. When we approved the corpus
9 invasion last May for the current year's budget,
10 Treasury did not make that transfer until this coming
11 June. So we were getting our money in the last month of
12 the fiscal year. We're trying to turn that around and
13 get our money before the fiscal year starts, which is
14 why we're saying let's invade the corpus an additional
15 amount for this fiscal year to fund next year's budget.

16 SECRETARY JONES: In addition to the carry
17 forward?

18 MS. KIM: That's what we brought up.

19 DELEGATE KILGORE: 21 million dollars the
20 Southwest moved.

21 DELEGATE MARSHALL: It was Special
22 Projects, we let you borrow it.

23 MR. MERRICKS: The reason I mentioned it,
24 21 million carryover, 10 million of that for this fund
25 and three percent, why not put more in there, that would

1 be the last time we could do that, doesn't matter to me
2 one way or the other, but it's not like you're moving it
3 from here to here.

4 MR. OWENS: What about the Revolving Loan
5 Fund in the budget?

6 MS. KIM: We have not budgeted a specific
7 amount set aside for the Revolving Loan Fund. It would
8 be up to the Commission if you decided to fund it.

9 MR. PFOHL: Got some money in the general
10 account that could begin to satisfy that. When we have
11 some program guidelines we'll bring it back to you.

12 MR. OWENS: If you shortchange it now then
13 you'd have to go back --

14 MS. KIM: -- That would be the argument for
15 invading it more.

16 MR. PFOHL: Mr. Chairman, we have the
17 luxury of a little bit of time, so if you want to come
18 back and have a final vote on the budget in May.

19 DELEGATE KILGORE: Well, we had an
20 opportunity in Southwest for economic development,
21 whereas Economic Development Southwest Virginia would
22 then pay half and trying to find deals for that area,
23 and I certainly would like to keep open opportunity in
24 Southwest, I don't know what the ask would be with
25 VCITA.

1 MR. WALKER: Then we'd come back in May.

2 DELEGATE MARSHALL: When we come back in
3 May carry forward, January 31st of this year, they would
4 be updated?

5 MS. KIM: Yes. By then we should at least
6 have recommendations and give us a better idea of the
7 grants and what the balances would be.

8 MR. PFOHL: In May we will be doing
9 Research and Development and we've got six proposals
10 that are coming out of venting, we'll be doing Southside
11 Economic Development and Competitive Education 19
12 proposals and Mega Site 6 proposals, so we'll have a
13 busy month.

14 SECRETARY JONES: What about broadband?

15 DELEGATE KILGORE: Economic Development.

16 MR. PFOHL: We had a technology committee.

17 MR. OWENS: We used to have a line item for
18 broadband.

19 DELEGATE KILGORE: Stephanie, can you get
20 us a little bit more information between now and then
21 and maybe send this out to all the members?

22

23 MS. KIM: You mean for the higher corpus
24 invasion or what?

25 DELEGATE KILGORE: Maybe present the two

1 scenarios, is that possible?

2 MS. KIM: Yes. I do need a motion if we
3 could take care of the Department of Agriculture Fiscal
4 Services to recommend to the Commission to authorize the
5 Executive Director for Fiscal Services at a cost of
6 60,000 per year. And the Executive Director needs
7 authorization.

8 DELEGATE KILGORE: I have a motion and a
9 second.

10 SENATOR RUFF: I would amend it to say
11 55,000 instead of 60,000.

12 MS. KIM: The Department of Agriculture is
13 our agent, and they process all of the vouchers, and
14 they want to increase their contract or their MOU to
15 60,000.

16 DELEGATE KILGORE: Frank says give them
17 5,000 more.

18 MS. KIM: Do you want to talk to them?

19 SENATOR RUFF: I amended that to 55,000.

20 DELEGATE KILGORE: Do you accept that
21 amendment to 55,000?

22 SECRETARY JONES: I suppose so.

23 DELEGATE KILGORE: We have an amendment to
24 or substitute motion to 55,000. Do I have a second on
25 that? I've got a second. Any more discussion? All those

1 in favor say aye. (Ayes) Opposed? (Unidentified -- no)

2 MR. PFOHL: As you see in your email
3 correspondence, probably over the last two or three
4 weeks we were alerted by a grantee that some fraud took
5 place with Commission funds. Specifically, two former
6 employees of Bristol Virginia Utilities have pleaded
7 guilty to federal charges, and I won't go into all the
8 details, but I can certainly answer some questions
9 because I've been forwarding information to all of you.
10 These two former vice presidents were in cahoots with a
11 couple of contractors and they've done literally tens of
12 millions of dollars' worth of work for BVU, not only in
13 BVU's service area but also in the Cumberland Plateau in
14 the footprint where they were the builder and operator
15 of the CPC system. All of the folks involved in it to
16 our knowledge have plead guilty, and there will be
17 sentencing and full restitution by June 18th. The
18 Commission has been assured by the new CEO of Bristol
19 Utilities that we will have full repayment of all grant
20 funds. They have the unfortunate task of going through
21 more than 60,000 invoices going back to 2006 to
22 determine what extent it was our money versus surplus
23 revenue. They got the Federal Economic Development
24 Administration involved and money in the very early
25 days. To make a long story short, this is just for your

1 information, and we're in frequent contact with BVU. We
2 have not spoken to the federal investigative authorities
3 at all, and they apparently got everything they needed
4 out of BVU records and they haven't come to us at all.
5 We have been assured there will be full repayment of the
6 grant funds, but we don't know how much it'll be, and
7 that may happen this summer after the sentencing and
8 then restitution. Any questions on that?

9 A second quick update, tomorrow morning the State
10 Office of the Inspector General has requested a meeting
11 with us, and they are going to begin a follow-up study
12 of the report that was published a little over a year
13 ago after a year's worth of work with their team. They
14 tell us basically just to take a look at how many steps
15 and recommendations we implemented from that report, and
16 we will be keeping you posted. That's all I have.

17 DELEGATE KILGORE: Are there any more
18 comments or any comments from the public? If there's no
19 public comment, then I think the next Executive
20 Committee Meeting will be in May before our May full-
21 board meeting, maybe the evening before.

22 MR. PFOHL: May 20th. That'll be at the new
23 college, a building in which the Commission invested
24 five million dollars and another million-and-a-half for
25 advance manufacturing.

1 DELEGATE KILGORE: I have a motion that we
2 adjourn. All right. We're adjourned.

3

4 PROCEEDINGS CONCLUDED

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CERTIFICATE OF THE COURT REPORTER

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 Virginia Tobacco Indemnification and Community Revitalization Commission Executive Committee Meeting when held on Monday, April 13, 2015 at 2 o'clock P.M. at the Crowne Plaza Hotel Downtown Richmond, Virginia.

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

Given under my hand this 27th day of April, 2015.

Medford W. Howard

Registered Professional Reporter

Notary Public for the State of Virginia at Large

My Commission Expires: October 31, 2018.