

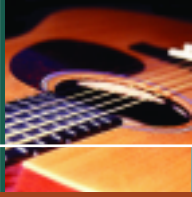
VIRGINIA TOBACCO Indemnification and Community Revitalization COMMISSION



ANNUAL REPORT

Fiscal Year 2007



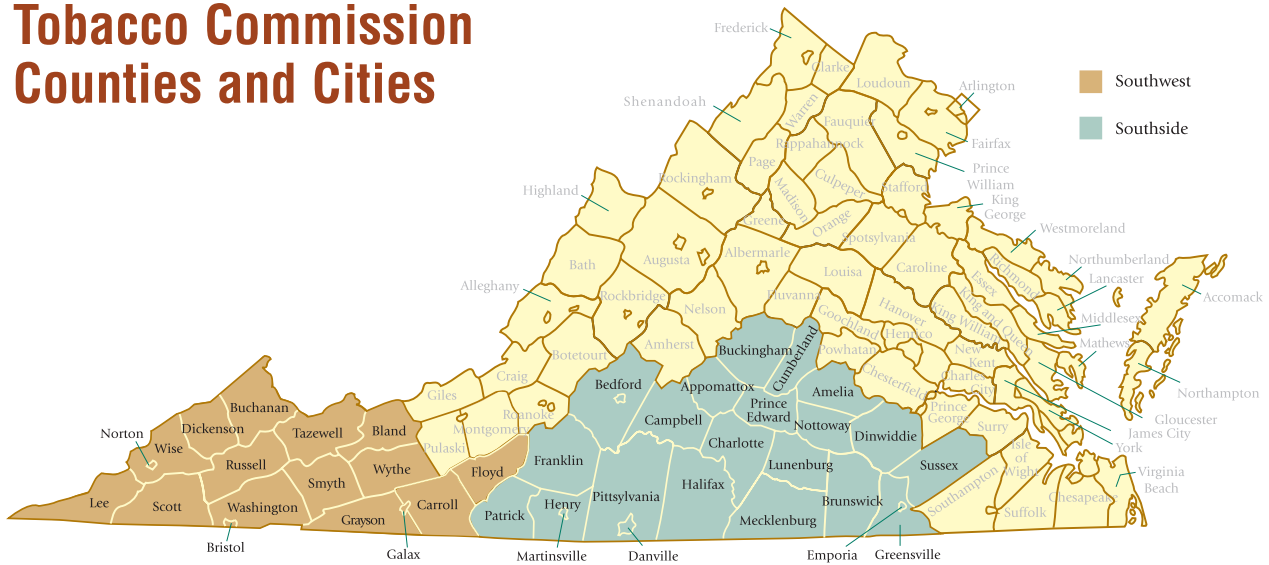


Our Mission

“The Commission is established for the purposes of determining the appropriate recipients of moneys in the Tobacco Indemnification and Community Revitalization Fund and causing distribution of such moneys for the purposes provided in this chapter, including using moneys in the Fund to (i) provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota and (ii) revitalize tobacco dependent communities.”

Section 3.1-1107, *Code of Virginia*

Tobacco Commission Counties and Cities



Danville Community College's Regional Center for Advanced Technology & Training (RCATT) was established with support from Education grants and is now located in a new facility in the region's Cyber Park. In the 2006-07 school year RCATT served 60 area companies by conducting assessments of nearly 1,800 prospective employees, and providing advanced manufacturing skills training for 3,700 students in topics such as robotics, polymers, prototyping and lean manufacturing.



The Honorable Charles R. Hawkins
Chairman

The Honorable Terry G. Kilgore
Vice Chairman

Neal E. Noyes
Executive Director



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Virginia Tobacco Indemnification and Community Revitalization Commission

701 E. Franklin Street, Suite 501 • Richmond, Virginia 23219

October 30, 2007

To the Governor and Members of the General Assembly of Virginia:

It is my privilege to present the enclosed report from the Virginia Tobacco Indemnification and Community Revitalization Commission for the year ending June 30, 2007. This report covers our eighth year of operation since the Commission was created by the 1999 General Assembly.

First among our original statutory duties was the indemnification of tobacco farmers against the adverse effects of a decline in quota. I am pleased to report that in fiscal year 2007, we made available \$15.1 million to growers and quota holders, bringing the total to \$226.9 million, or 74% of the amount necessary to fully indemnify Virginia's tobacco farmers. The Commission remains committed to 100% indemnification by the year 2015, and is on-time and on-budget to reach this goal.

Second among our original statutory duties was the revitalization of tobacco-dependent communities. I am pleased to report that in fiscal year 2007 alone, the Commission has successfully invested over \$54.8 million into economic development projects in 34 counties and 7 cities in Virginia, bringing educational opportunities, jobs, and capital investment to the tobacco region that would not otherwise have been possible. Employment for citizens and a growing tax base continues to emerge as evidence of the diverse efforts of the Commission to help change an age-old economy.

On behalf of the Commission, I am grateful for your continued support and understanding of our mission and look forward to a continued partnership with you in bringing renewed prosperity to this area of the Commonwealth that we are privileged to serve.

Sincerely,

Charles R. Hawkins



Fund Descriptions / Priorities

Using proceeds from the annual Master Settlement Agreement and Tobacco Indemnification and Community Revitalization Endowment established from securitization proceeds, the Commission made available \$15.1 million for indemnification and awarded \$54.8 million for economic revitalization grants for the tobacco-growing region in fiscal year 2007. The revitalization aspect of the mission is accomplished through seven grant programs that make awards to local governments, government entities (such as Planning District Commissions and Industrial Development Authorities), and non-profit organizations. Awards are guided by the Commission's Strategic Plan, recommended by a standing Committee for each program, and monitored by Commission staff. The Plan's Funding Policies call for projects to maximize leveraging from applicants and other partner organizations, to give preference to projects that have regional participation, and to assist those projects that generate the most significant outcomes for the residents and localities in the tobacco region.

Regional Economic Development

Regional economic development funds for Southside and Southwest are designated for projects that will expand and diversify the economic base in the tobacco-dependent region, creating new employment opportunities and reducing dependence on tobacco-related activities. The funds are used to develop industrial sites, improve water and sewer infrastructure, establish training facilities, and develop tourism infrastructure. Southside localities and organizations received grants totaling \$19.8 million, and Southwest received grants totaling \$3.7 million.

Education

Education funds are awarded for various projects that will create a world-class workforce in the tobacco region, including scholarships, community college programs, workforce training, and vocational and adult education programs. Grants totaling \$13.6 million were awarded this fiscal year for educational projects, including \$2.8 million to the tobacco region's seven community colleges for continuing programs, and \$3.8 million in scholarships and loans for tobacco region residents who are attending four-year degree-granting institutions.

Technology

Technology grants are awarded to develop regional fiber-optic "backbone" networks that will provide open access to high-speed, redundant connectivity at an affordable cost to regional users. These networks will allow the tobacco region to grow businesses that require this connectivity and to more effectively market the region as a location for business development.

Grants totaling \$6.1 million were awarded to build infrastructure in the tobacco region.

Innovation

Innovation grants include three areas of funding: Special Projects, Tobacco Region Opportunity Fund (TROF), and Agribusiness.

Grants are awarded under the **Special Projects** fund for projects that benefit several localities within one region or have the potential to have a significant impact on the economy of the tobacco region as a whole. These funds are provided for projects such as research facilities and regional business development that impact the larger geographic area. Special projects totaling \$4.2 million were funded this fiscal year.

TROF was created to revitalize the economies of the tobacco region through incentive grants to companies that will create new jobs and bring new private capital investment of at least \$1 million to localities within the region. This fund is successfully assisting communities by diversifying their economic base and reducing dependency on tobacco-related employment. The Commission works closely with the Virginia Economic Development Partnership to leverage the Governor's Opportunity Fund. The Commission made \$6.1 in commitments to help attract 26 new companies, create 2,071 new jobs, and provide \$822.5 million in capital investment to the tobacco region.

Agribusiness grants are awarded to assist tobacco producers and the tobacco region's agricultural community in diversifying into new production opportunities and developing value-added enterprises. Six agribusiness projects received grants totaling \$1.3 million for programs and facilities.

Indemnification

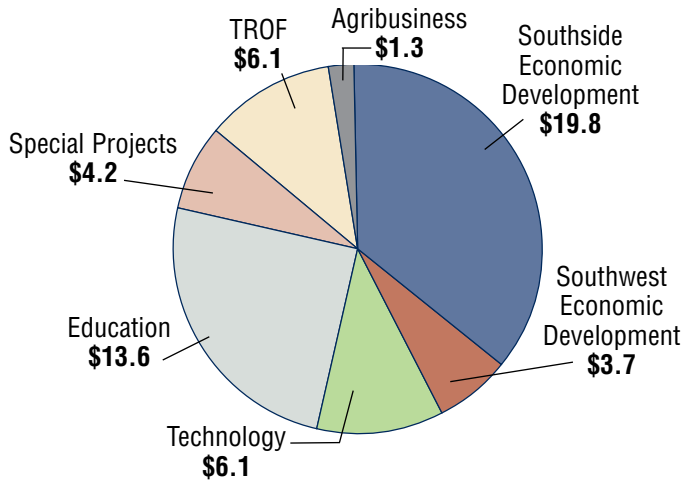
Total quota losses for a given year are calculated to be the difference between that year and the average quota for 1995-98. According to the *Code of Virginia*, the total value of quota in Virginia is estimated to be \$1.2 billion, and the Commission has adopted a rate of \$12 per pound to compensate for those losses (to be divided between producers and quota owners). Annually, the Commission determines an amount to be made available for indemnification of these losses. From its inception through the end of fiscal year 2007, the Commission has made available for indemnification \$226.9 million, leaving a remaining obligation of \$81.3 million for losses through 2002, the effective year of the federal tobacco quota buyout. Actual amounts paid are determined by verification forms submitted to the Commission by producers and quota owners.

Economic Revitalization Grant Awards



Fiscal Year 2007 Grant Awards

(in \$ millions)



Organization	Grant Amount
Project Description	

Agribusiness

Abingdon Feeder Cattle Association, Inc.	\$300,000
Southwest Region Value-Added Beef Initiative Expansion Project	
Appalachian Sustainable Development	300,000
Value-Added Infrastructure in Farm and Forest Products	
Blue Ridge Soil and Water Conservation District	300,000
Southside Value-Added Beef Initiative Expansion Project	
Campbell County	350,000
Central Virginia Value-Added Beef Initiative Expansion Project	
Halifax County Agricultural Development Office	50,000
Switchgrass: Utilization as a Forage and the Potential for "Green Energy"	
Scott County Cattle Association, Inc.	5,514
Beef Cattle Value-Added Marketing Utilizing Technology	
Total Agribusiness	\$1,305,514

Education

Appomattox County	\$250,000
Appomattox Workforce Development Center Phase II	
Central Virginia Community College Educational Foundation, Inc.	250,000
Dental Hygiene Careers	

Organization	Grant Amount
Project Description	

Central Virginia Community College Educational Foundation, Inc.	25,000
Tobacco Family Scholarships	
Central Virginia Community College Educational Foundation, Inc.	85,000
CISCO Careers & Workforce Development	
Central Virginia Community College Educational Foundation, Inc.	40,000
Distance Education to Region 2000 and Beyond	
Crater Regional Partnership	75,000
Skills Streams For Success: A Workforce Development Program	
Danville Community College	400,000
Equipment, Scholarships, Tutoring, and Training	
Danville Community College	320,000
Meeting the Challenge	
Greensville County	115,699
Southside Virginia Workforce Development Center	
Halifax County Industrial Development Authority	50,000
Nortel Learn It Center	
Institute for Advanced Learning and Research	1,500,000
Southside Partnership for Technology-enabled Education	
Mecklenburg County Business-Education Partnership, Inc.	8,800
GED and College Credit Work-Related Courses for Adults	
Mount Rogers Regional Adult Education Program	179,020
Southwest Virginia Regional RACE to GED Initiative	
Mountain Empire Community College	109,070
Addressing the Training Needs of Virginia's Coal Industry	
Mountain Empire Community College	400,000
Scholarships for Tobacco Families and AIMS Higher Scholars	
New College Institute	1,500,000
Southside Partnership for Technology-enabled Education	
Old Dominion University Educational Foundation	300,000
Community College Expansion - Teletechnet	



Economic Revitalization Grant Awards

Organization <i>Project Description</i>	Grant Amount	Organization <i>Project Description</i>	Grant Amount
Patrick Henry Community College Building a Competitive Workforce & Revitalizing the Community	400,000	Southside Economic Development	
South Central Area Health Education Center South Central Nurse Aide Program	80,000	Amelia County Amelia County Industrial Park - Bolo Road Extension	\$118,072
Southern Virginia Higher Education Center Southside Partnership for Technology-enabled Education	1,500,000	Bedford County Economic Development Authority New London Business & Technology Center	24,602
Southside Planning District Commission Lake Country Advanced Knowledge Center Expansion	175,000	Town of Blackstone Market Analysis for the Downtown Blackstone Revitalization	25,000
Southside Virginia Community College Foundation Degrees in Emergency Medical Services Technology and Fire Science Technology	200,000	Brunswick County Small Business Incubator Feasibility Study	31,500
Southside Virginia Community College Foundation Scholarships	125,000	Campbell County Seneca Commerce Park Virtual Building	60,000
Southside Virginia Community College Foundation Facility to House Practical Nursing Program in Prince Edward County	75,000	Campbell County Dearing Ford Business & Manufacturing Center Phase II	250,000
Southwest Virginia Community College CGI AMS Center of Excellence	67,806	Charlotte County Charlotte County Industrial Park/Heartland Business Park Grading	407,684
Southwest Virginia Community College Tobacco Outreach Scholarship Program	400,000	City of Danville Tobacco Warehouse District Revitalization/Klaff Brownfield Restoration	182,453
Southwest Virginia Community College Preparing Southwest Virginians for Competitive Employment	447,201	City of Danville The Institute for Advanced Learning and Research	3,750,000
Southwest Virginia Higher Education Center 2007-2008 Southside Virginia Loan Forgiveness Program	2,800,000	Dinwiddie County Squirrel Level Road - Heavy Industrial Site	100,000
Southwest Virginia Higher Education Center 2007-2008 Southwest Burley Tobacco Scholarship Program	1,000,000	Greenville County Southside Virginia Workforce Development Center	94,063
Tek.Xam Foundation, Inc. Tek.Xam Training and Assessment for Workforce Skill Development	131,200	Halifax County Industrial Development Authority Building One in Riverstone Technology Park	5,000,000
Virginia Highlands Community College Tobacco Scholarships & AIMS Higher Programs	400,000	Halifax Educational Foundation Expansion of Southern Virginia Higher Education Center Phase II	407,577
Washington County Public Library Rural Bridge To Literacy and Technology - Damascus	100,000	Town of Lawrenceville St. Paul's Sanitary Sewer Improvements Phase II	405,980
Washington County Public Library Rural Bridge to Literacy and Technology - Hayters Gap	50,000	Lunenburg County Lunenburg Primary School Asbestos Removal	78,462
Total Education	\$13,558,796	Lunenburg County Industrial Real Estate for Future Industrial Development	550,000

Economic Revitalization Grant Awards



Organization <i>Project Description</i>	Grant Amount	Organization <i>Project Description</i>	Grant Amount
Martinsville-Henry County Economic Development Corporation Martinsville-Henry Shell Building	406,043	Southwest Economic Development	
Mecklenburg County Roanoke River Regional Wastewater Treatment Plant Expansion Project	1,306,317	Town of Abingdon Regional Farmers Market	\$80,000
Mecklenburg County Community Services Corp. The Lake Country Education and Enrichment Center	200,000	Bland County Bland County Commerce Park	200,000
Patrick County Board of Supervisors Mayo River Rail Trail Plan	10,000	Buchanan County Industrial Development Authority Lover's Gap Industrial Park Phase IIA Development	400,000
Patrick County Economic Development Authority Rich Creek Corporate Park Shell Building Build-out	300,000	Crossroads Regional Industrial Facility Authority Progress Park Sanitary Sewer Improvements	150,000
Pittsylvania County The Institute for Advanced Learning and Research	3,750,000	Fairview Citizens Corporation, Inc. Fairview School Community Center Improvements	25,000
Pittsylvania County Regional Industrial Park (Cane Creek Centre) Water System Improvements	1,598,801	Town of Fries Fries Cultural Heritage Village and Small Business Incubator	20,000
Town of Rocky Mount Cox Property Industrial and Transload Development Project	330,240	Town of Jonesville Cumberland Bowl RV Park and Campground	50,000
Town of Victoria Expansion of East Wastewater Treatment Plant	465,000	Lee County Industrial Development Authority Patriot Center Structural Renovations	237,500
Total Southside Economic Development	\$19,851,794	Lee County Industrial Development Authority Constitutional Oaks Speculative Building	425,000
		Lee County Public Service Authority Stickleyville Elementary School Water Extension	80,000



The Tobacco Region Opportunity Fund and Southwest Economic Development grants enabled the Lee County Industrial Development Authority to renovate the former VAMCO building in Pennington Gap so that Kavanaugh Consulting Group could create 200 call center positions there, serving corporate clients such as XM satellite radio.



Economic Revitalization Grant Awards

Organization <i>Project Description</i>	Grant Amount	Organization <i>Project Description</i>	Grant Amount
Marion Downtown Revitalization Association, Inc. The Marion Museum Complex	25,000	Special Projects	
Planning District I Behavioral Health Services Big Stone Gap Interagency Facility Feasibility Study	25,000	The Crooked Road, Virginia's Heritage Music Trail	\$228,697
Pro-Art Association, Inc. Performing Arts Center Sound & Lighting Equipment	50,000	Off the Beaten Path - Marketing The Crooked Road's Hidden Gems	
Russell County Industrial Development Authority Southwest Virginia Technology Development Center	975,000	City of Danville	909,735
Scott County Economic Development Authority Duffield Regional Technology Center	200,000	Old Belt # 1- Nanotechnology Products Manufacturing Center (multi-tenant)	
Smyth County Industrial Development TEDS, Inc. Data Center Expansion	229,430	Danville Museum of Fine Arts & History	75,000
Smyth-Washington Regional Industrial Facilities Authority (SWIFA) Dream It Do It Manufacturing Careers Campaign	100,000	Drive 58 Marketing Initiative	
Southwest Virginia Community Foundation, Inc. Gate City Performing Arts Center	150,000	Greensville County	286,942
Washington County KPS Capital Partners	275,000	Greensville-Emporia Mega Site OEM	
Total Southwest Economic Development	\$3,696,930	Lenowisco Planning District Commission	226,550
		Return to Roots	
		Lincoln Theatre, Inc.	175,000
		Song of the Mountains	
		Mount Rogers Planning District Commission	200,000
		Regional Water Authority Water Treatment Plant	
		Mount Rogers Regional Adult Education Program	57,502
		Program to Transition GED Recipients into Post-Secondary Education	
		National Council for the Traditional Arts	50,000
		Blue Ridge Music Center Planning and Development	
		Pittsylvania County	429,465
		Regional Water System Improvements - Phase II	



Grants from Education and Special Projects are funding programs and facilities at several locations where tobacco region residents are trained in less than two months to fill jobs driving container-carrying trucks between the Port of Virginia and area industries.

Southside Economic Development grants helped build a new, larger facility for the Franklin Center for Advanced Learning and Enterprise in downtown Rocky Mount. The Center offers workforce training and distance learning provided by a consortium of 13 partner agencies and institutions, and supported by Education grants.

Economic Revitalization Grant Awards



Organization <i>Project Description</i>	Grant Amount	Organization <i>Project Description</i>	Grant Amount
Region 2000 Institute Region 2000 Center for Advanced Engineering and Research - Phase III	395,000	TROF	
Town of South Boston Halifax County Service Authority	132,300	City of Bedford The Matrixx Group, Inc.	80,000
Southwest Virginia Higher Education Center Knowledge Based Workforce in Southwest and Southside Virginia	918,000	Campbell County Progress Printing	50,000
Virginia Polytechnic Institute and State University Resource Assessment for Bioenergy Production	162,977	Carroll County Results Galax, LLC	255,000
Total Special Projects	\$4,247,168	City of Emporia Steel Fab of Virginia, Inc.	50,000
Technology		Floyd County Arrow Truck Sales, Inc.	50,000
Bristol Virginia Utilities Installation of Backbone Fiber-Optic Infrastructure in Smyth and Washington Counties	\$202,230	Greensville County Oran Safety Glass	125,000
Bristol Virginia Utilities Installation of Backbone Fiber-Optic Infrastructure in the Town of Abingdon	400,000	Greensville County Quality Culvert	100,000
Bristol Virginia Utilities Installation of Backbone Fiber-Optic Infrastructure in Washington County	450,000	Lee County Industrial Development Authority KCG Call Centers, LLC	115,000
Bristol Virginia Utilities Installation of Backbone Fiber-Optic Infrastructure in the Town of Tazewell	400,000	Lee County Industrial Development Authority Kavanaugh Consulting Group	180,000
Lenowisco Inc. I Fiber Backbone Construction to Improve District's Geodesic Mesh	1,250,000	Town of Saltville Virginia Cobia Farms LLC	100,000
Lenowisco Planning District Commission Backbone Buildout for Lenowisco Inc./ Sunset Digital Communications	114,000	Town of Saltville United Salt Corporation	50,000
Mid-Atlantic Broadband Cooperative, Inc. Last-Mile Broadband Pilot Projects	1,000,000	Scott County Economic Development Authority Holston Medical Group	150,000
University of Virginia Deploying an Advanced Telehealth Network	750,000	Scott County Economic Development Authority Roger's Foam Corporation	100,000
Virginia Coalfield Coalition Southwest Virginia Fiber Optic Backbone Project	1,500,000	Smyth County Industrial Development Wellborn Cabinet, Inc.	75,000
Total Technology	\$6,066,230	Smyth-Washington Regional Industrial Facilities Authority (SWIFA) Gates Corporation	300,000
		Committed funds for projects not yet announced	4,325,000
		Total TROF	\$6,105,000
		Grand Total	\$54,831,432

Statement of Activities

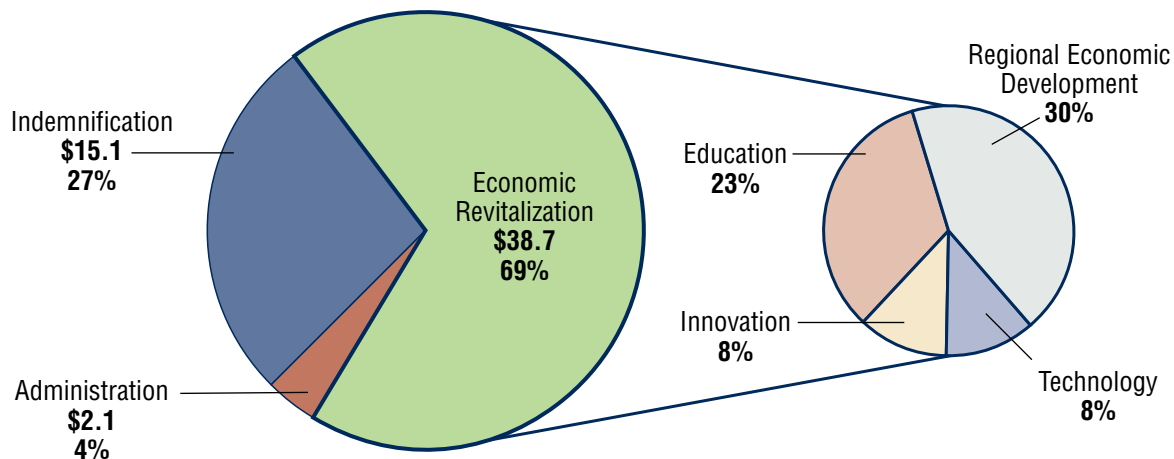
	FY07	FY06
REVENUES:		
Master settlement agreement payments	\$31,062,308	\$29,907,557
Proceeds from securitization	613,994,236	
Other income	1,288,367	60,554
Interest, dividends, and other investment income	23,019,504	12,550,659
Unrealized gain on investments held by the Treasurer	399,081	
Total revenues	\$669,763,496	\$42,518,770
EXPENDITURES:		
<u>Tobacco Settlement Expense</u>		
Administration	\$1,966,510	\$1,962,565
Indemnification payments	14,371,268	11,719,091
Community revitalization	51,464,203	62,170,893
Payments for securities lending transactions	793,432	629,706
Unrealized loss on investments		6,776,209
Depreciation	1,366	2,292
Total expenditures	\$68,596,779	\$83,260,756
OTHER FINANCING SOURCES (USES):		
Transfers In	154,202,435	31,670,000
Transfers Out	-154,202,435	-31,670,000
Total other financing sources (uses)	0	0
Change in net assets	601,166,717	-40,741,986
Net assets, July 1	437,094,896	477,836,882
Net assets, June 30	\$1,038,261,613	\$437,094,896



A Special Projects grant is funding the construction of next generation pyrolysis units to demonstrate the conversion of wood chips and other plant material to bio-diesel crude oil.

Fiscal Year 2007 Budget

(in \$ millions)





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Southside grants have helped prepare Bedford County's New London Business & Technology Center to be the home of private companies and Region 2000's Center for Advanced Engineering & Research. CAER was established with Special Projects grant support.

A new regional tourism partnership called Southern Virginia on the Move was established with Special Projects grants that are funding marketing of the region to visitors at events such as the Jamestown 400th anniversary and on the web at www.travelsouthernva.com.

COMMISSION MEMBERS As of June 30, 2007

House of Delegates Members

The Honorable Kathy J. Byron	Lynchburg
The Honorable Allen W. Dudley	Rocky Mount
The Honorable Clarke N. Hogan	Keysville
The Honorable Joseph P. Johnson	Abingdon
The Honorable Terry G. Kilgore, <i>Vice-Chairman</i>	Gate City
The Honorable Thomas C. Wright, Jr.	Victoria

Senate Members

The Honorable Charles Hawkins, <i>Chairman</i>	Chatham
The Honorable Phillip Puckett	Lebanon
The Honorable Frank M. Ruff	Clarksville
The Honorable William Wampler, Jr.	Bristol

Secretary of Commerce and Trade

The Honorable Patrick O. Gottschalk	Richmond
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Secretary of Finance

The Honorable Jody Wagner	Richmond
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Secretary of Agriculture and Forestry

The Honorable Robert Bloxom	Richmond
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Active Flue-Cured Tobacco Producers

Mr. Clarence D. Bryant, III	Blairs
Mr. Buddy Mayhew	Blairs
Mr. Thomas E. West	Nathalie

Active Burley Tobacco Producers

Mr. Stephen S. Banner	Castlewood
Mr. Fred M. Fields	Pennington Gap
Mr. John M. Stallard	Nickelsville

Virginia Farm Bureau Federation Representative

Mr. Jordon M. Jenkins, Jr	Blackstone
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Citizens

Mr. Thomas Arthur	Blairs
The Honorable Bernie K. Day	Meadows of Dan
Mr. Scott M. Harwood, Sr.	Farmville
Mr. L. Jackson Hite	Clarksville
Ms. Minnie B. Lane	Altavista
Mr. H. Ronnie Montgomery	Jonesville
The Honorable Harrison A. Moody	Blackstone
Ms. Connie Lee Greene Nyholm	Alton
The Honorable Edward Owens	South Boston
Mr. Bryant L. Stith	Lawrenceville
Mr. James C. Thompson	Tazewell



Virginia Tobacco Indemnification and Community Revitalization Commission

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